

Aviation and Tourism Policy in the Long Term

Colm McCarthy

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Climate Change Will Drive EU Policy Changes

- Reforms in EU aviation policy since the mid-1980s have driven dramatic changes in the aviation industry.
- The results include success for Irish airlines and a boost to tourism.
- But the industry has had a charmed life – no excise duty on jet kerosene (or on marine bunkers) and no VAT on airline tickets.
- This favourable period is over. Governments are imposing national ticket taxes and the Commission is pushing an EU-wide carbon tax.

The Kerosene Tax Proposal

The Commission believes that a carbon tax, at about 33 cent per litre, should apply to jet kerosene. Several governments, not including the Irish government, support the proposal.

The tax, which would take years to agree and more years to phase in, would add 10 to 12% to airfares in Europe.

The removal of the VAT exemption, should it be agreed later, would bring the overall ticket price increase to over 30%, but with today's ticket taxes scrapped.

The Impact of the Tax Changes

- Ireland has no ticket taxes, so no offset on flights originating here.
- The tax increases could take a decade to full implementation. Intra-Europe flights could come first with a longer timescale for agreement on long-haul flights.
- A 30% increase in fares would cut traffic by about the same figure – the price elasticity is believed to be about -1.
- Phased introduction could mean zero growth for a decade rather than an abrupt decline.

Impact on Airlines and Tourism

- Short-haul budget airlines are most vulnerable – the proportionate increase will be larger.
- The impact on leisure travel could be greatest for the frequency of short-stay trips. Fewer trips but longer average stay.
- City breaks could suffer more than longer holidays.
- Long-haul and business travel likely to be less affected.

EU Policy on Airports

- Policy review due in 2022.
- Airline subsidies are policed by the Commission, but subsidies are permitted to airports below 5 million pax.
- There is a perception that Europe has too many small airports, including many close together and below scale to break even.
- The Commission could seek to reduce the 5 million exemption but there is political imperative to subsidise remote airports, eg northern Sweden, Greek islands.

Scepticism about Industry Initiatives

- Industry initiatives (eg the CORSIA programme) are not seen as a serious alternative to policy change. Ditto for marine sector.
- Very difficult for European governments to sustain climate policy impositions (carbon taxes, emission regulation) if aviation gets a free pass.
- Technological solutions are unlikely in aviation (electric airplanes, hydrogen fuel) in time for the energy transition.

What are the Implications?

- There is a shortage of capacity at some European airports at current traffic volumes.
- But expansions designed to cater for a continuation of recent rapid growth are more problematic.
- Tourism development, and tourism promotion, will need to factor in possible changes in traffic composition.