To Whom It May Concern,

Ref.: "HT 2635": Consultation on the draft Guidelines on State aid to airports and airlines

I am a Member of the European Parliament representing South East England and a member of the European Parliament’s Transport Committee. I am writing to respond to the consultation on new state aid rules for airports and airlines.

While I welcome the aim to reduce the amount of taxpayers’ money that goes to airports and airlines, I am concerned that the proposed guidelines do not go far enough. Under the proposals, small airports will continue to receive massive subsidies, which will enable them to offer services at lower prices, allowing low-cost airlines to benefit indirectly from taxpayer subsidy.

I believe that the EU should move as quickly as possible towards ending all state support for the aviation industry, except in the case of very isolated regions, where support can be provided under a Public Service Obligation.

Propping up the aviation industry through state subsidies is completely unjustified and makes a mockery of the efforts of the EU, Member States and EU citizens to reduce greenhouse gas emissions. Just this week, Lord Stern, the former World Bank chief economist and author of the landmark 2006 report on the costs of climate change, said that the European Union should set a goal to halve emissions from 1990 to 2030, rather than to reduce them by 40% as has been proposed.¹

Not only is aviation the most climate-damaging form of transport, the noise, air pollution and traffic associated with flying have negative health and social impacts on millions of people across Europe.

In this response I will set out some of my key concerns regarding the Commission’s proposed guidelines. I also fully support the conclusions and recommendations in Transport & Environment’s document, State Aid for Airports & Airlines.²

² Transport & Environment, State Aid for Airports & Airlines, September 2013
**Direct and indirect subsidies**

Transport & Environment estimates that under the proposals, Europe’s aviation industry would continue to receive around €3 billion a year in direct subsidies. States would continue to disproportionately subsidise smaller airports, which are almost exclusively used by low-fares airlines.

The direct subsidies are complemented by even larger tax exemptions, recently estimated by CE Delft\(^3\) at €30-42 billion every year. According to CE Delft, €32 billion a year is lost due to airlines’ exemption from paying fuel taxes, and another €7 billion because of VAT exemptions on international flight tickets. Transport & Environment’s Aoife O’Leary likened international airlines to “flying tax havens, inexplicably exempted from paying the basic EU taxes every EU citizen and company is obliged to.”

The message has been reinforced by a senior UN official. Writing in the *China Daily*, Achim Steiner, director of the UN Environment Programme, said airline tax breaks “give air transport an unfair advantage over rail and road, and offers less incentive to aircraft designers and operators to accelerate a transition to ever-more fuel-efficient planes.”\(^4\) The IMF too considers that aviation is under-taxed.\(^5\)

Transport and Environment estimate that the €3bn state aid results in fares being around 2% lower than they would otherwise be – and aviation emissions around 2% higher, working out at an additional 3 million tonnes of CO\(_2\).\(^6\)

**Aviation and climate change**

The extra travel generated by subsidies causes more air traffic, increasing the contribution of the aviation sector to climate change. Aviation is the most carbon-intensive form of travel, responsible for about 5% of global warming emissions.\(^7\)

By 2020, global international aviation emissions are projected to be around 70% higher than in 2005 even if fuel efficiency improves by 2% per year. The International Civil Aviation Authority (ICAO) forecasts that by 2050 they could grow by a further 300-700%.\(^8\) It seems unlikely that the EU Emissions Trading System (EU ETS) will lead to serious reductions in emissions from aviation in the immediate future. The aviation industry will continue to be able to buy permits rather than having to reduce their emissions. It is also widely acknowledged that the EU ETS currently has far too many permits available for it to function effectively. Therefore relying on it to bring about the emissions cuts needed is extremely short-sighted, and other measures, such as the ending of subsidies, are also needed.

Continuing to subsidise the aviation industry therefore conflicts with the Commission’s White Paper target to reduce transport greenhouse gas emissions by 60% in 2050 relative to 1990 levels; a 70% reduction from today. Urgent measures are instead needed to reduce flying.

**Negative social impacts**

As well as the negative environmental impacts associated with increased aviation, extra flights also mean more noise, more air pollution and more traffic, affecting the quality of life of residents living around airports.

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3 Marisa Korteland and Jasper Faber, *Estimated revenues of VAT and fuel tax on aviation*, CE Delft, July 2013


6 Transport & Environment *op cit*


Furthermore, contrary to the argument put forward by the aviation industry that cheaper flights democratise the use of air travel by allowing the poor to fly, and to fly more often, studies show that air travel continues to be dominated by the affluent.

For example, according to a survey carried out by the CIA in the UK, the richest 10% of the population make most of the flights. At Stansted, a UK airport dominated by low-cost airlines, the average household income of UK leisure passengers is more than a third higher than the national average. Whilst cheap flights have enabled more people overall to fly – across all socio-economic groups and income brackets – it is clear that the main effect has been to enable, and indeed encourage, the affluent to fly more often.\(^9\)

Providing state subsidies for aviation is therefore unlikely to bring about social benefits to those EU citizens most in need of state support, and indeed will cause further negative impacts on the health and well-being of those living near to airports.

**Sustainable transport and improved connectivity**

Rather than propping up the most damaging form of transport, state aid should be used to actively encourage more sustainable methods of attaining the mobility and connectivity we seek.

Surface rail could replace flying for many journeys. 45% of all flights in Europe are 500km or less. At London’s Heathrow Airport, 25% of flights are to and from domestic or near-Europe airports. If we had a rail service that was up to standard and affordable, these journeys could be made by train. Investments to improve rail services and reduce fares would be a far better use of public money than supporting aviation.

Improved connectivity is one of the aims of the revised guidelines. If improved connectivity justifies state aid, this can also be achieved by investment in telecommunications infrastructure that enables high quality personal contact without the financial, time and environmental costs of physical travel.

**The proposed guidelines**

**Infrastructure aid:** The Commission proposes to vary the percentage of total infrastructure cost that can be subsidised between 0% and 75% depending on airport size. The smaller the airport, the higher the proportion of aid it is allowed to receive. I urge a phase-out of all infrastructure aid.

**Operating aid for airports:** The Commission proposes to make operating aid legal for a transitional period of 10 years and to retrospectively allow all past instances of illegal operating aid. The proposed guidelines say that existing operating aid needs to be reduced by 10% a year, but there is no prohibition on new grants during this time and no requirement that new aid grants must be reduced year on year. I urge that limits should be placed on the total aid, new and existing, and that more stringent requirements be required for assessing business cases for the granting of support, which should be given in the form of loans rather than grants.

**Start-up aid for airlines:** The Commission proposes that start-up aid should only be allowed for a two-year period and only up to 50% of costs. I welcome this tightening but feel strongly that direct state aid to airlines should not be allowed (except in some particular cases in very isolated regions as set out in the Transport & Environment report).

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Conclusion

The review of guidelines is a missed opportunity for ending the damaging subsides given to the aviation industry both directly, and indirectly by allowing their exemption from fuel tax and VAT which are applied to all other industries. I am particularly concerned that the guidelines are based on the view that supporting airports is necessary, when there are economic, social and environmental reasons why this is not the case. There are far better ways to help the economies of poorer areas.

I believe that all subsidies to the aviation industry should be phased out as quickly, robustly and transparently as possible.

Yours sincerely,