

# Recommendations on the impact of the EC's fiscal harmonization programme on the air transport sector

(20 November 1991)

## Introduction

On 30 April 1991, the enlarged Bureau of the Joint Committee on Civil Aviation decided to produce an internal report on the social and economic impact of the combined fiscal harmonization measures in the European Community on the air transport sector. This report was prepared jointly by experts representing employers and workers in this sector, taking due account of the progress of the fiscal proposals as described by DG XXI at a later meeting on 12 September 1991.

## Conclusions

(a) The fiscal harmonization measures described above will lead to an increase of at least 9 to 13% in ticket prices on scheduled routes and 14 to 19% on charter routes, while the cost of holidays will go up by between 5 and 7% depending on the VAT rate that will be imposed. This is contrary to the established objective of reducing the price of intra-Community travel and will cancel out any benefit arising from the completion of the internal market.

(b) A price increase of this magnitude will lead to a reduction of about 7.5% on average in air traffic in the Community. This is contrary to the established objective of bringing the Community closer together by means of improved transport links.

(c) Approximately 1 million tourists will divert to non-EC destinations. This will mainly reduce tourism demand in the traditional destinations of Greece, Spain and Portugal and will run counter to the established objective of helping the Community's

poor countries to reduce economic disparities.

(d) Provincial airports and services will probably be harder hit by these measures. This is contrary to the Community's objective of reducing regional disparities.

(e) At least 50 000 airline jobs will probably be lost if air traffic declines by 7.5% within the Community. There will be further job losses in ancillary services (e.g. engineering, catering, duty-free). Tourism-related employment will suffer an additional loss of 100 000 jobs.

## Recommendations

The Joint Committee on Civil Aviation therefore recommends that:

(a) The Commission and the Member States' governments agree to a transitional period for intra-Community tax-free sales, until such time as VAT and excise rates and procedures in the Community have been harmonized. (This proposal has been overtaken by events.)

(b) The Commission and the Member States' governments agree to a transitional period with a zero VAT rate on air transport, until such time as VAT rates and procedures in the Community have been fully harmonized. (This proposal has been overtaken by events.)

(c) The Commission and the Member States' governments consider the administrative problems connected with the possible imposition of VAT on air transport, by laying down simple VAT rules that are easy

to handle both for transport operators and in ancillary services.

(d) The Commission and the Member States' governments take into consideration the difficulties caused by the changes to

frontier arrangements in airports and provide the airport authorities in good time with clear opinions and adequate information on what these arrangements should be.

