

Tax Aviation Stay Grounded Why wait?

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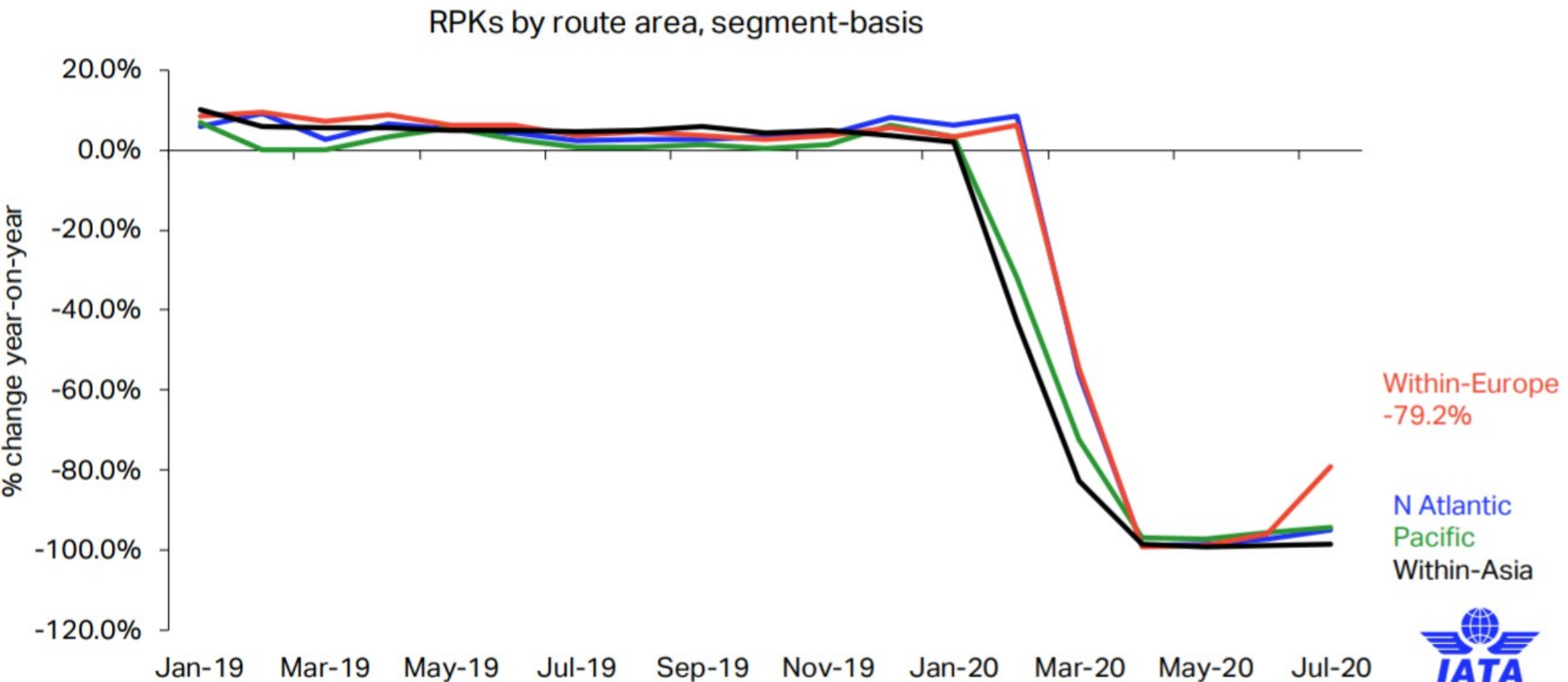


International aviation hardly exists today

Brian Pearce, IATA Chief Economist 15 Sept 2020

International air travel still catastrophically low

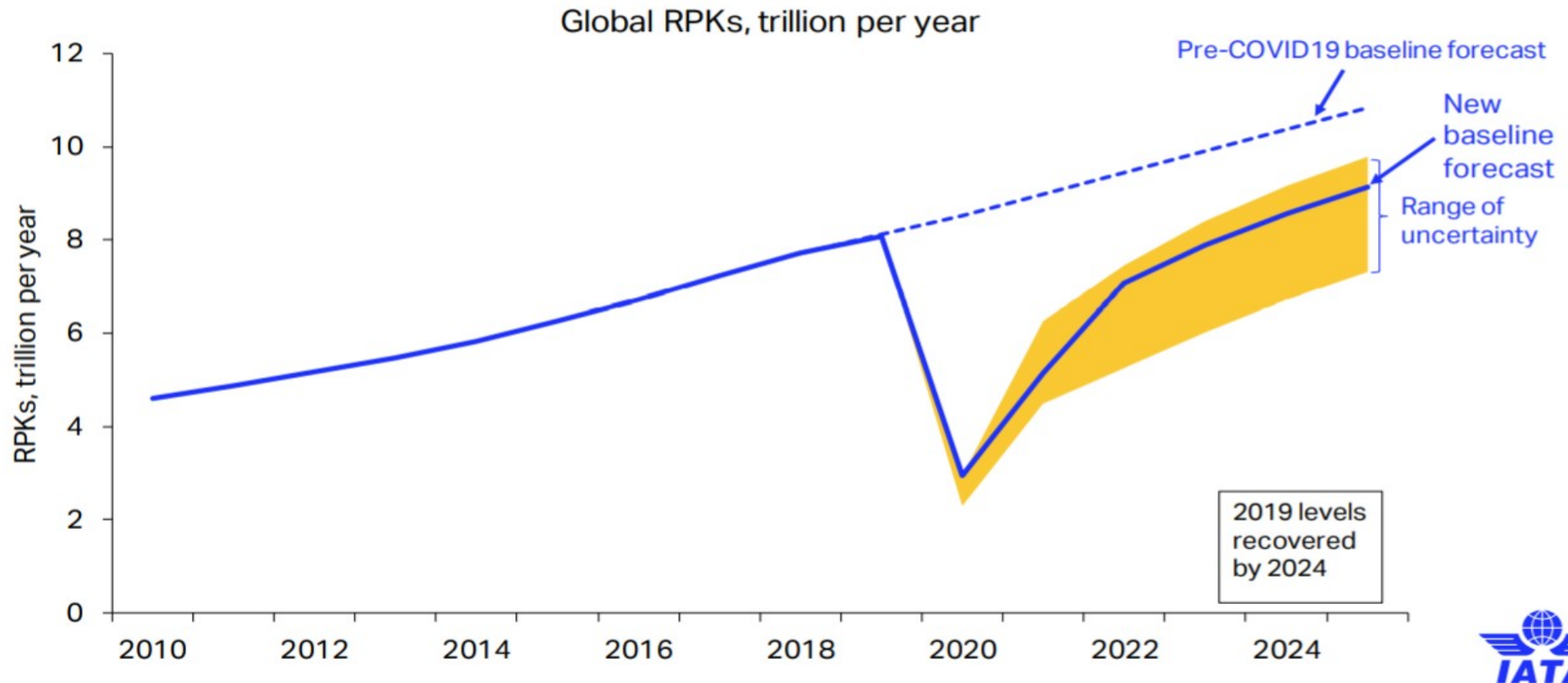
Outside of a very few, most international markets remain down 95%



Full recovery by 2024/5? Depends on vaccine

Discard past assumptions about airline growth, airport expansion etc

Long-term revenue loss requires a lot of restructuring
Relative to pre-crisis plans, revenues far lower for longer than expected

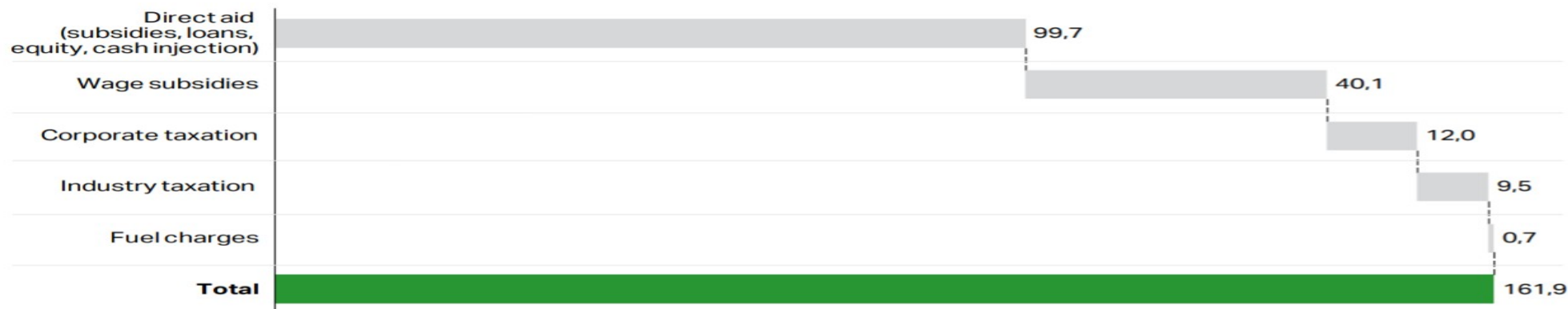


Count on more bailouts? Or bankruptcy rescues?

Airlines being kept on life support

\$160bn aid from government and another \$20bn from suppliers

Government aid made available to airlines due to COVID-19, by type (USD bn)



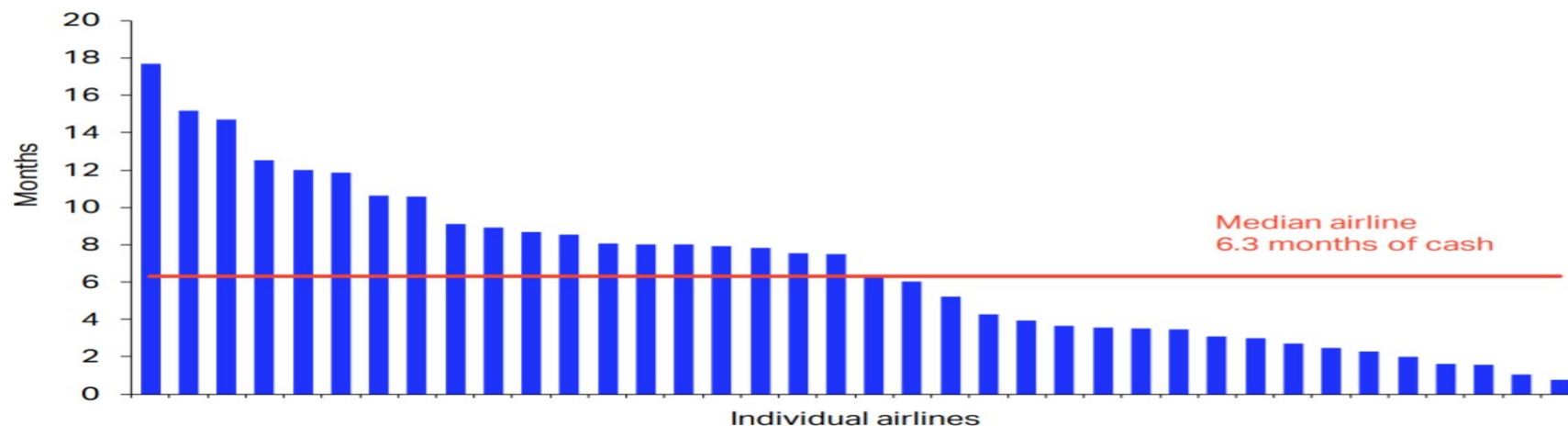
Source: IATA Economics using public information and data from SRS Analyser, DDS, FlightRadar 24, TTBS, ACIC, Platts, Airline



Median airline will not last by the time demand recovers

Dramatic restructuring of costs required to get cash flows positive

2020 Q2 cash + cash equivalents / 2020 Q2 cash burn



Source: IATA Economics using data from the Airline Analyst



What's the future of Aviation?

Now that degrowth has finally arrived!

- Carriers will disappear/merge/restructure
- The next 6 months (winter season) will be brutal
- Recovery/growth will be painful & slow
- Only domestic China aviation is near recovery -20%
- Airlines must dramatically restructure/downsize
- Bailouts wont last forever
- Fleet growth forecasts to 2030 sharply down
- Revenue way behind capacity = breakeven % is higher
- Which means fares only going one way – UP!
- Airports are all on life support. Forget expansion
- EU's air traffic system in financial meltdown

Every airline/country for themselves!

Bailouts per seat.

LH \$372. AF/KL \$334

AZ \$394. SQ \$574!

OAG Sept 2020

Top 10 Airlines by State Support			
Airline	State support (USD m)	Seats	State support per seat
Lufthansa Group	\$12,057	23,631,296	\$372
Air France-KLM	\$11,650	34,841,151	\$334
Singapore Airlines	\$8,700	6,613,702	\$1,315
American Airlines	\$5,800	111,687,961	\$52
Delta Air Lines	\$5,400	91,514,966	\$59
United Airlines	\$5,000	70,661,989	\$71
Cathay Pacific	\$3,900	6,791,720	\$574
Alitalia (*tentative)	\$3,540	8,990,605	\$394
Southwest Airlines	\$3,300	107,721,372	\$31
ANA Holdings	\$3,250	40,478,335	\$80

Real issue now is future airline business models/pricing

- Start adding in external cost recovery (taxes) now
- And progressively increase. Boil the frog slowly
- Reject the idea that taxation has to wait until BAU returns
- IATA now realises that handouts are coming to an end
- Downsizing means “smaller is more beautiful”
- Smaller, leaner = less flight options and **higher fares**
- So there's room now for environmental taxation/pricing
- Previously frenzied growth/competition was the obstacle

CORSIA and ETS

- CORSIA will have no effect for years
- International/domestic split now 10/90%. Was 60/40%
- States are the Regulators now. Not ICAO
- Exclude CORSIA from intra EU = ETS “clean cut” option
- & extra EU - longhaul ticket taxes instead – UK APD level.
- Green Deal ETS; free allowances = windfall profits
- 2012 “stop the clock” eliminated possible carbon leakage
- Abolishing free allowances is righting a wrong.
- Reform = an ETS carbon floor price = aviation fuel taxation
- Reform = fix the Brexit hole; ETS coverage reduces 31+%
- Impose ETS on flights to the UK from 2021 if no linking
- Reform = tighten aviation LRF for 55% 2030 reduction

Start taxing aviation now!

- EU decided 20 years ago to tax aviation fuel
- Spain/Ireland nixed that at 2002 Ecofin
- Commission 1997; tax fuel bilaterally. No action!
- Green Deal ETD review. Superfluous. Just more delay
 - Sucks ambition from 2019 Finance Minister's call
- EU Council; no to Brexit fuel tax exemption. Boris wants!
 - push Commission/Germany, EU states, Whitehall
- UK considering carbon tax on aviation!!
 - Support the UK Consultation on aviation carbon tax
- UK warned; ETS or carbon tax on EU flights Jan 2021
 - Where are the NGOs on all this?

International Practice

- 43+ countries tax domestic aviation fuel.
Not EU

US, Japan, Brazil, India, Saudi, Ethiopia, Kenya etc

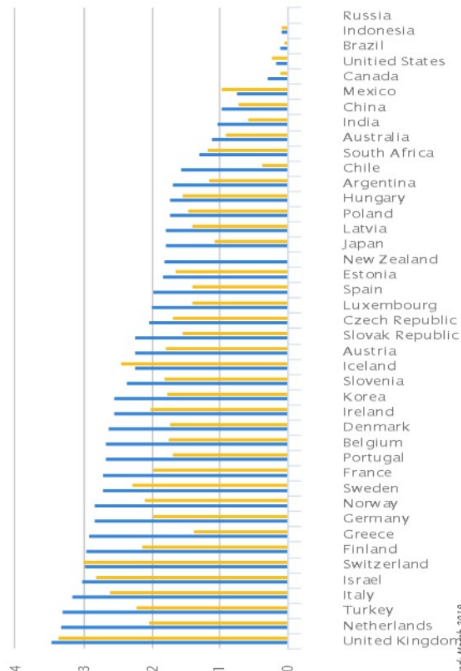
- Many many countries have aviation ticket

✓ Gasoline (road use) \$/gal
✓ Diesel (road use) \$/gal

India now has the highest taxes on fuel in the world!

That means every litre of petrol in Delhi that currently retails at Rs 71.26 includes taxes of Rs 49.42 while for every litre of diesel at Rs 69.39 it is Rs 48.09. Taxes now comprise over 69 per cent of the pump price of the two fuels

May 07, 2020, 07:26 IST



Why exempt aviation if road fuel is taxed?

FFL - frequent flyer levy

- Tax each flight/passenger first
- Levy can come later
- Examine legal issues/feasibility

Homework

Taxing Aviation Fuel in Europe; Back to the Future. 2020

[https://
www.transportenvironment.org/sites/te/files/publications/2020_06_Study_for_TE_Taxing_aviation_fuel_final.PDF](https://www.transportenvironment.org/sites/te/files/publications/2020_06_Study_for_TE_Taxing_aviation_fuel_final.PDF)

Taxes in the field of aviation and their impact. 2019

[https://op.europa.eu/en/publication-detail/-/
publication/0b1c6cdd-88d3-11e9-9369-01aa75ed71a1](https://op.europa.eu/en/publication-detail/-/publication/0b1c6cdd-88d3-11e9-9369-01aa75ed71a1)

A study on Aviation Ticket Taxes. 2018

<https://www.ce.nl/en/publications/2208/a-study-on-aviation-ticket-taxes>

EC Consultation on ETS CORSIA IIA 2020

[https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12494-
Revision-of-the-EU-Emission-Trading-System-Directive-concerning-aviation-/
F547050](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12494-Revision-of-the-EU-Emission-Trading-System-Directive-concerning-aviation-/F547050)

UK Consultation on aviation carbon pricing. Till 29 Sept

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/att
achment_data/file/902737/Carbon_Emissions_Tax_-_consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902737/Carbon_Emissions_Tax_-_consultation.pdf)