

The Dutch Aviation Tax; lessons for Germany ?

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Introduction.

The Dutch aviation tax was introduced on July 1st 2008 and abolished exactly one year later. A unique “social experiment”. This opens an opportunity for regional scientists to investigate the behavior of all actors involved: Travelers, Airlines, Airports, The Travel Industry and others. Both in the Netherlands and in neighboring Germany and Belgium, all actors tried to make the best out of the Dutch Ticket Tax.

This presentation gives some preliminary results of an ongoing research. A comparison is made with the aviation taxation in other countries such as the Air Passenger Duty in the UK and schemes that have failed or were successful in Sweden, Denmark, Malta, Ireland, France and Belgium. Even the EU ponders levying taxes directly; a Tax on aviation is one of the possibilities. Germany has recently joined the list of countries that want to introduce a Ticket Tax. What can be learned from the Dutch experience with the ticket tax ?

1. History

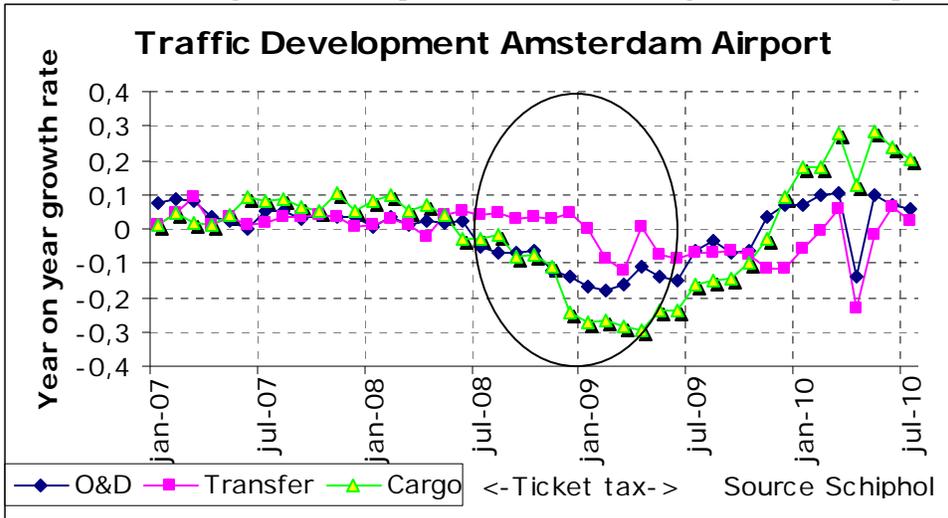
The Dutch Ticket Tax was enforced between the 1st of July 2008 and the 1st of July 2009. It was introduced by a new, environmentally-minded government which saw the Ticket Tax as both a good way to temper the unrestrained growth of the aviation sector and especially to utilize another source of income. The desired revenue, 350 M Euro's, was included in the coalition agreement and an implementation that least harmed the economy was attempted to be found. The original 25 Euro per ticket was abandoned for that reason and replaced with a distance-related fee that did not apply to transferring passengers. Freight-traffic was exempt too. The ticket tax amounted to 11,25 Euro for flights within the EU or for distances no longer than 2500km, for flights beyond that distance the tariff was 45 Euro. The tax measure was levied on passengers departing from the Netherlands. The flight tax was resisted strongly by the KLM and Schiphol, and later by travel agencies and the tourist sector (Hotels in Amsterdam) when they started noticing the adverse effects of the tax.

2. Some data

We use the term ‘some data’ because the discussed results are part of an ongoing research project at the KiM Institute for Transport Policy Analysis.

Passengers.

The passenger and cargo data from the main Dutch airport (Schiphol) is displayed in figure 1. A drop in the amount of Origin-Destination-passengers can be seen at Schiphol,

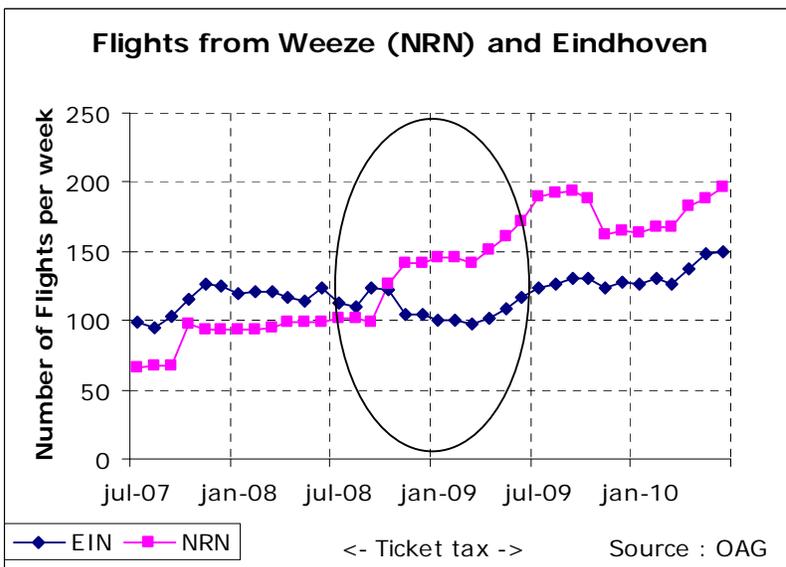


directly after the introduction of the Ticket Tax in July 2008. But there is no noticeable effect on the number of transfer passengers (who did not need to pay the Ticket Tax), at least until December, when the effects of the global financial crisis started to play a part. In the figure the effects of the crisis on the freight sector, which were not burdened by the Ticket Tax, can be seen.

Airlines & Airports

A number of German airlines, such as Air Berlin, responded to the Ticket Tax by advertising in Dutch newspapers and using other various methods to make the Dutch public aware of the advantages of traveling from German airports. In principle, this will lead to a higher utilization-grade of airplanes and it also creates opportunities to expand the number of destinations and market share. More supply at Weeze (NRN) or Düsseldorf is detrimental to Dutch airports, but also to other nearby German airports.

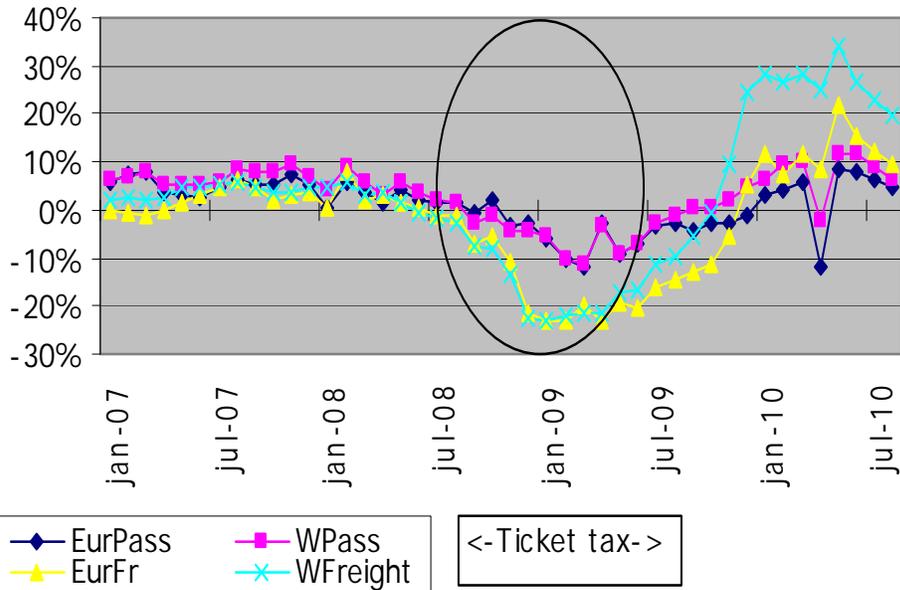
Figure 2 shows the number of flights from Weeze (NRN) and the nearby Eindhoven Airport. The trend for NRN clearly deviates from the Dutch airport from October 2008,



three month after the introduction of the Ticket Tax in the Netherlands. This expansion in the number of flights is probably helped by de Dutch Tax. But the basic reason is the end of a juridical battle against the operating license of the airport, which enables Ryanair to further expand their operations from Airport Weeze.

On the Dutch side KLM stopped its 3-flights a day connection from Maastricht-Aachen airport to Amsterdam. Instead it promoted Düsseldorf-Amsterdam as feeder for its intercontinental flights¹.

**Fig 3 IATA airtraffic development
year-on-year growth 2007-2010
Europe and World; Passengers & Freight**



In addition to the Ticket tax, the effects of the financial crisis play a role, which accounted for a drop in freight traffic from June 2008 and a drop in passenger numbers from September onwards. In figure 3 the monthly development of freight- and passenger growth/decline is displayed for all airports in Europe and the World respectively. It is interesting that the effects of the crisis were first felt in the cargo sector. Furthermore Europe is lagging behind in the recovery from the crisis. In April 2010 the effects of the ash clouds of the Eyjafjallajökull can be observed.

Travel agencies and the tourist sector

At first the Dutch tourist sector organized a large protest against the Tax (Stop de Vakantiebelasting = Stop the holiday tax). But the coalition maintained its course.

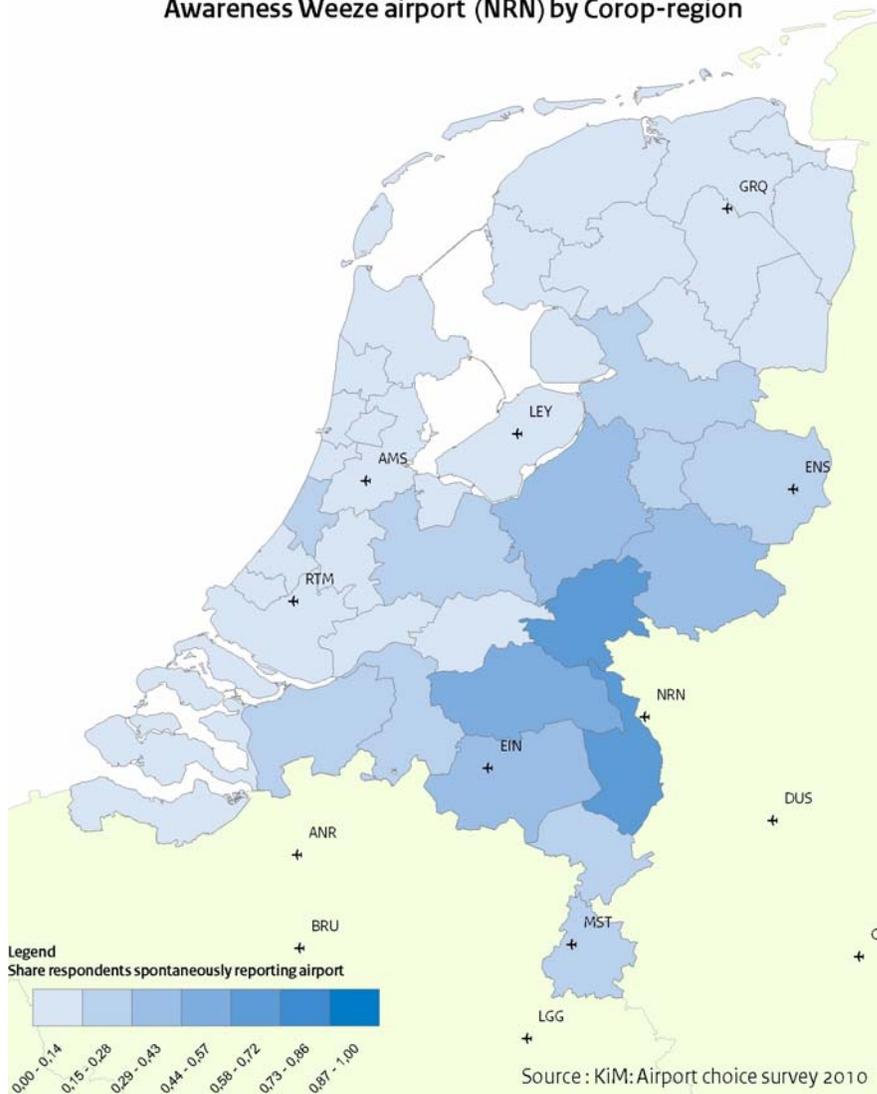
All this publicity made it clear to the public that it was advantageous to travel from German and Belgian airports! The awareness of competing German airports (especially Weeze) grew as is shown in the map on the next page.

Several travel operators bought seats on airlines that operated from Germany in particular. This was explicitly pointed out in travel brochures and on the Internet. Online Air travel sites that cater for Dutch passengers offer Belgian and German airports as a standard alternative. Bus services were set up to German And Belgian airports, and while most were unsuccessful, a solid pattern of bus lines still exists today at Weeze.



¹ Maastricht Airport Press report dd 15 august 2008.

Awareness Weeze airport (NRN) by Corop-region



3. Some explanations

Traditional models of airport choice (for instance Hess et al 2007, Pels et al 2001) find

- Supply of destinations,
- Vicinity (Travel Costs) and
- Ticket-Price

as most important reasons for airport choice.

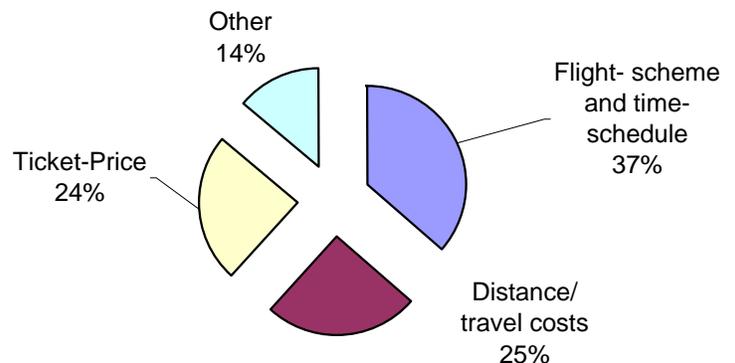
Our own findings are in line with this as is shown in figure 4, based on a panel Survey with 3003 respondents. 86% of the travelers mention one of these three factors as decisive for their airport choice.

These traditional models work on the assumption that the traveler possesses a perfect knowledge and displays a rational behavior. Both assumptions are shown to be untrue in practice. (Tiemeijer cs, 2009).

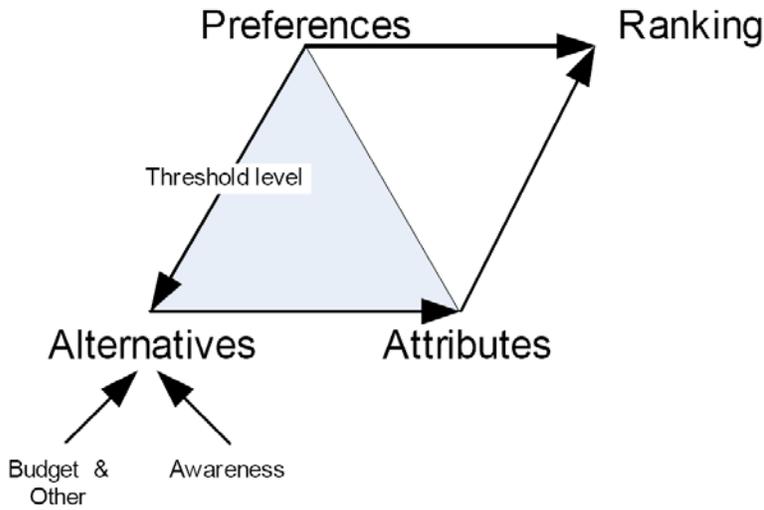
There is imperfect knowledge as proven by the decision set of potential travellers in the KiM-survey on airport choice. A relatively new airport at the German side of the border (The former UK-airbase Niederrhein near Weeze close to the Dutch region North-Limburg) is at its inception not generally known in the Netherlands. In 2010 the KiM airport choice survey measured the awareness of the airport, displayed in the map above.

Bounded rationality (Simon,1982, Kahneman, 2003) can be observed in some people's reaction on taxation in internet

Fig 4 Decisive factors for airport choice
Source: KiM Airport Choice Survey 2010



comment sections. To avoid unjustified taxes they pay more for extra travel than they avoid in tax.

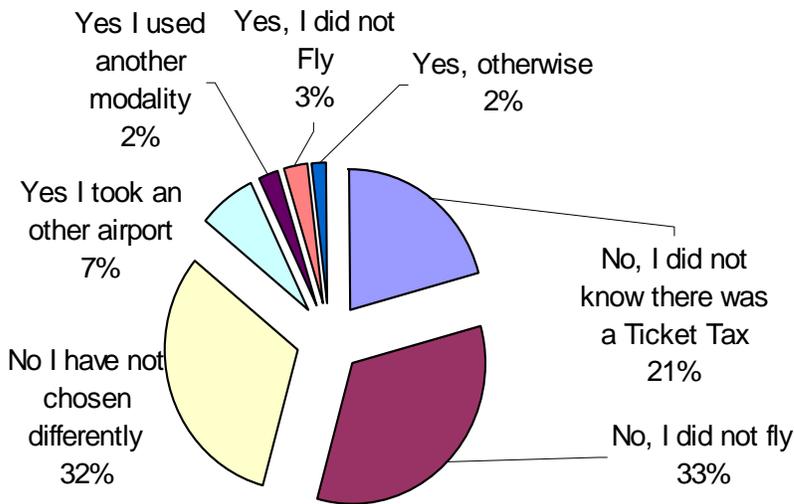


Scheme 1: Airport Choice Modelling (Steverink, 2010)

Steverink (2010) studied the decision making process of airport choice and points out the crucial role of the awareness of an airport. Unknown airports (like a former military base) are not considered. He has developed a model where the transfer of information about airports is modeled in System Dynamics (Forrester, 1992). Main mechanisms are

- Personal experience,
- Word of mouth from other travelers and
- Advertisement by Airlines, airports, travel agencies and others.

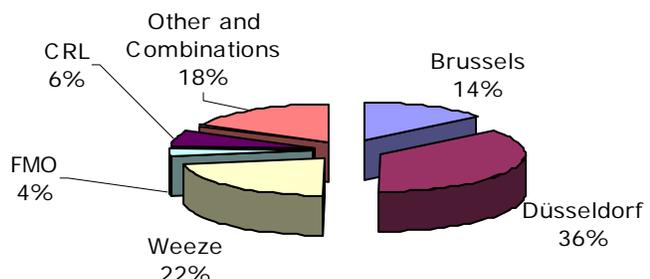
Fig 6 Did the tax influence your choice?
Total YES : 14%



In the KiM Airport Choice Survey 2010 people were asked whether their Airport choice was influenced by the ticket tax and by the abolishment of the tax. 21% of the respondents were unaware of the Ticket Tax. This is another example of bounded rationality (imperfect information). Figure 6 illustrates the answers of the respondents.

Figure 7 indicates which airport the respondents who took another airport chose.

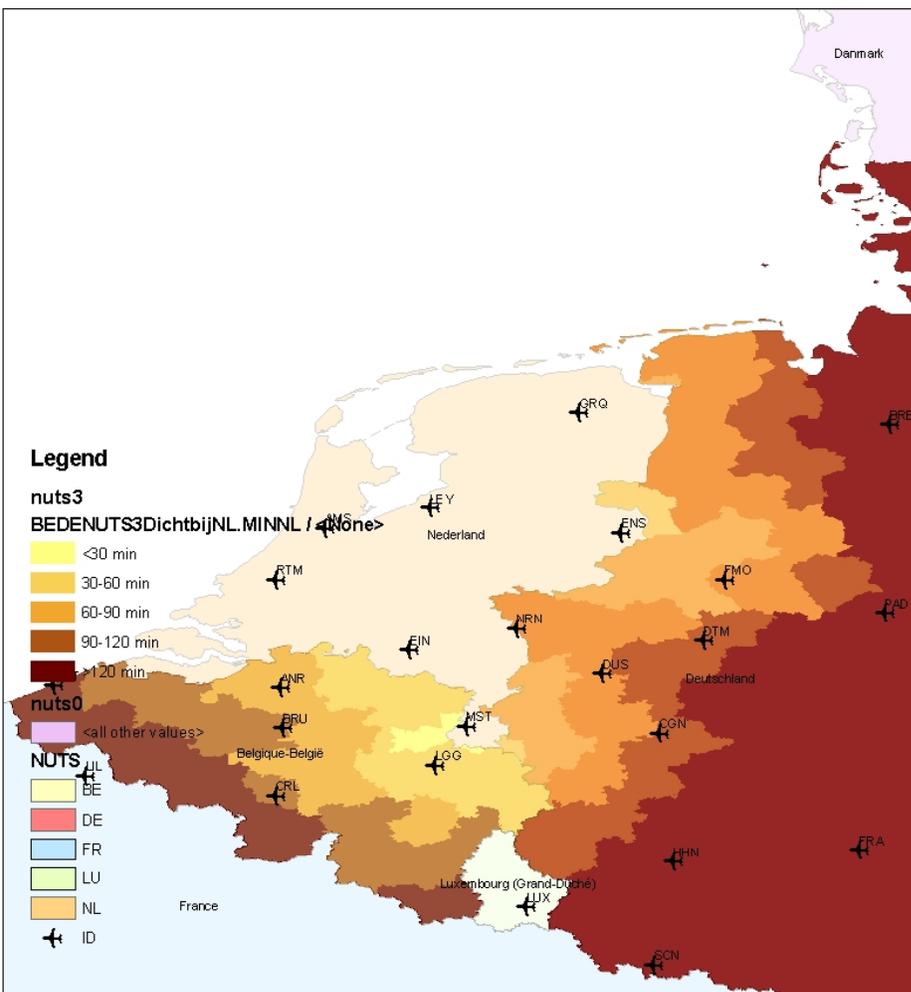
Fig 7 Other Airport Chosen



Invloedsgebied Nederlandse Vliegvelden in Duitsland en België



4. Accessibility of Dutch airports for German citizens.



In Germany around 2,4 million people live closer to a Dutch Airport than to a German airport. In the North a strip from Emden to Bentheim where Groningen and Twente airport are closer. However, Groningen airport is not very close to the German border and Twente airport is today not operational, but plans for a new start-up are being developed.

Most relevant is a strip near Aachen, where Maastricht-Aachen airport is closest. Maastricht has a good connectivity to Germany and even today the cheap Ryanair flights are attracting many German travelers (30%). It can be expected that this share will rise when the German tickettax will be operational.

The effects of the German Tickettax will be much larger if the airlines provide more services

in the Dutch border airports. Thomas Winkelmann, the boss of Germanwings, have been visiting Maastricht-Aachen airport on September 14 and told the press: “*Germanwings hatte angekündigt, bei Einführung einer deutschen Flugsteuer ausländische grenznahe Flughäfen in die Überlegungen um ihre künftigen Flugpläne einzubeziehen.*”². More diversions from German airports can be expected.

The German Tickettax will also have influence on one million Dutch travelers who have chosen for Düsseldorf, partly because of the Dutch Tickettax. Part of them will use Schiphol again for their intercontinental destinations.

This is further elaborated in the contribution of Grimme and Veldhuis for these Infradays.³

² Germanwings pressemitteilung dd 14 sept 2010.

³ Wolfgang Grimme and Jan Veldhuis, Impact of the planned Air Passenger Duty in Germany, Infraday 8 – 10 October 2010, Berlin.

5. Other countries

The Netherlands was neither the first nor the last to introduce a Ticket Tax.

The *UK* introduced an APD (Air Passenger Duty Tax) back in 1994. The tax was gradually raised and differentiated towards distance. At this moment the tax is 11 Pounds for a short haul flight (< 2000 miles) and 55 Pounds for a long haul flight (>6000 miles). From November 2010 the rates will be lifted to 12 – 85 Pounds. Non-economy tickets pay the double.

France also has such a tax since July 2006, it is only 1 Euro inside Europe and 4 Euro outside the EU. The rate for non-economy is tenfold. The destination of the money is determined by law; the millennium target for poor countries (UNITAID). In France there is no opposition to the *Taxe de Solidarité sur les billets d'avion* worth mentioning.

Malta too introduced a Departure Tax of 23 Euro. One that did not apply to its own citizens. This was in contravention to EU rules however, so it was changed to 12 Euro for every outbound passenger. The Ticket Tax was cut in 2008.

The *Danish* had a ticket tax that, like in the Netherlands, was quickly withdrawn due to the adverse effects on the economy and the tourism sector in particular. The tax was repealed in 2007, mainly due to the syphoning of passengers to the Swedish airports Malmö and Göteborg.

Curiously enough, the *Swedish* government attempted to get a Departure Tax through parliament in that same period (2006). The procedures followed the usual pattern: Ryanair threatens to leave, the tourism sector complains, the unions are against the proposal and a strike of the personnel on Göteborg and Malmö-airport looms. This puts the socialist Swedish government under heavy pressure. The socialists lose their majority at the elections and the new government shelves the Ticket Tax.

After the Dutch, the deficit-burdened *Belgian* government came in October 2008 with proposals for a Ticket Tax. The plans were heavily attacked. The Ticket Tax never made it to parliament.

Ireland followed in 2009 with a tax of 2 Euro for Intra-Ireland Flights and 10 Euro for European Flights. Ryanair withdrew airplanes from Irish Airports.

The *German* government introduces a major overhaul of national finances in May 2010. A part of this *Sparpaket* is a ticket tax. It is also being sold as an eco-surcharge. After some initial skirmishes the proposal is 8 Euro for European flights, 25 for mid-range flight and 45 for the long haul. No taxes on Freight or Transfers. The proposals will be voted in parliament, maybe the results are clear during these Infradays in Berlin.

The *EU* ponders levying taxes directly. The EU's Budget Commissioner, Janusz Lewandowski, will present some options for direct EU taxes in September 2010. Taxes on aviation, financial transactions and CO₂ emission permits are all possibilities.

In order to mitigate the climate impacts of aviation, the European Union has introduced legislation to include aviation in the EU emissions trading scheme (Directive 2008/101/EC about EU ETS). From 2012/2013 airlines should pay for their CO₂-emissions. American airlines have brought the case to the European Court of Justice. The ICAO assembly might adopt a policy on climate change at October 8th 2010, which will constitute the first and to date only globally-harmonized agreement from a sector for addressing its CO₂ emissions. IATA urges ICAO to reach such an agreement. Otherwise *“the industry would be faced with a growing patchwork of conflicting and overlapping measures. For example, against global opposition, Europe would have to try to move forward with its unilateral emissions trading scheme”*. (IATA, press-statement 29 sept 2010). The outcome of this debate, and hence the European ETS, is as yet undecided.

6. Some personal speculative previsions about the German Ticket Tax.

The German Ticket Tax is adopted as part of a wider set of austerity measures. The Ticket Tax will be introduced in January, but some effects may already be noticeable before as travelers and airlines anticipate.

The potential for lost business is particularly big along the borders where there are nearby airports that can easily expand to provide an alternative for ticket tax-weary Germans. In the low-cost segment those are the many regional airports such as Mülhausen, Maastricht and Salzburg. In the Intercontinental segment there is Zürich that can lure away South-Germans from Munich. In addition to that, Amsterdam-Schiphol could win back passengers that have chosen Dusseldorf over AMS during the Dutch Ticket Tax-period.

Whether **German** passengers will start using Dutch airports in great numbers or not do so due to cultural differences, is a point of discussion. On the one hand research published by the German Chamber of Commerce in Dusseldorf showed a significant cultural difference between businessmen in Germany and the Netherlands. They were asked whether it is important the airport they use is located in their respective countries. In The Netherlands 85% of the respondents indicated that the location in the own country is not important. Only 25% of German respondents found the location in the own country not important.

On the other hand we have the observation that the cheap Ryanair-flights from Maastricht-Aachen airport attract 30% of their passengers from Germany.

As time progresses and German airports lose business to foreign airports the realization may dawn that the disadvantages outweigh the advantages. What will happen then?

The only countries that have successfully introduced a lasting Ticket Tax are the UK, who have cautiously increased the tax-rate and who do not have to fear passengers voting

with their feet by using the expensive channel tunnel. Ireland is looking to follow the same path, despite the severe consequences from Ryanair. France keeps their rates low, has a politically popular destination for the money set by law and their major airports have no significant competing alternative airports within a 3 hour radius.

Will the *luftverkehrsabgabe* bridge the time-gap to the introduction of the inclusion of aviation in the European Trading System for CO₂ ? May be.

But the ETS is far from sure given the international opposition.

That might give room for a European Tickettax. The history shows that the continental European countries that have attempted a Ticket Tax would have had more success if they had done so together. At present the constant (fear of) passengers walking away to foreign airports has forced governments to either cancel plans for a Ticket Tax or to repeal shortly after introduction.

And there remains a strong, permanent pressure from environmental and fiscal considerations to also subject the aviation sector to 'normal' taxes.

Given the repulsion for direct taxation for the European Union it would be a miracle if all EU-countries would agree on a binding EU-wide Ticket Tax.

But to my own personal opinion that would however be the most sensible option when inclusion of air traffic in the ETS is deserted or postponed

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