

'Climate shame hits the European aviation sector'

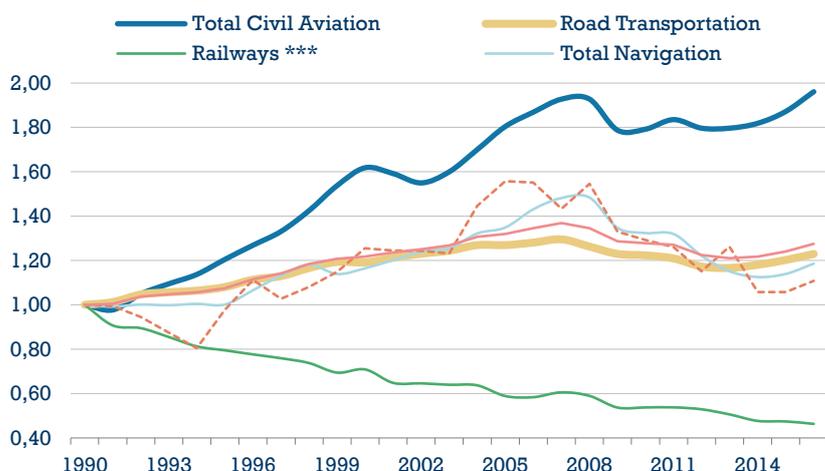
'Increased environmental awareness among passengers could put up to 20% of European domestic air traffic at risk. Trains are the climate champions of the transportation sector!'

The aviation sector is currently responsible for more than 2.4% of global CO2 emissions. According to IATA (International Air Transport Association), the sector will emit 925 million tonnes in 2019; an increase of 2.7% versus a 5% increase in passenger numbers. In Europe, aircraft are currently responsible for roughly 3.5% of Europe's CO2 emissions. These figures actually underestimate the sector's contribution to global warming, because they only refer to direct aircraft emissions. According to the European Federation for Transport and Environment, the climate impact of aviation is at least twice the size of CO2 emissions alone, due to the effect of NOx and water vapour at a great height in the atmosphere.

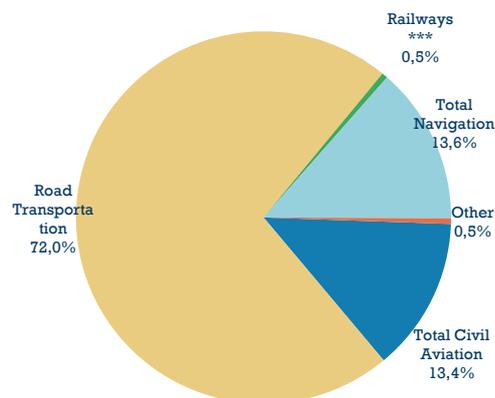


The real problem is the growth. Aviation is growing at an average of 5% per year. Transport is Europe's biggest climate problem, accounting for 27% of European greenhouse gas emissions. CO2 emissions from aviation rose 4.9% in Europe last year, while emissions from all other forms of transport fell by 3.9%. In the past five years, CO2 emissions from European aviation have risen by 26.3% – far more than any other source of emissions in the EU. Emissions from the aviation sector in Europe have even doubled since 1990.

CO2 Emissions from Transport by Mode: EU-28



Share by Mode in Transport CO2 Emissions EU-28



And there is currently no obvious low-carbon technology to reduce CO2 emissions as opposed to cars or power generation. The use of biofuels for aircraft that airline management teams boast about is a drop in the ocean. Last year, biofuels for aircraft accounted for approximately 0.1% of the fuel consumed.

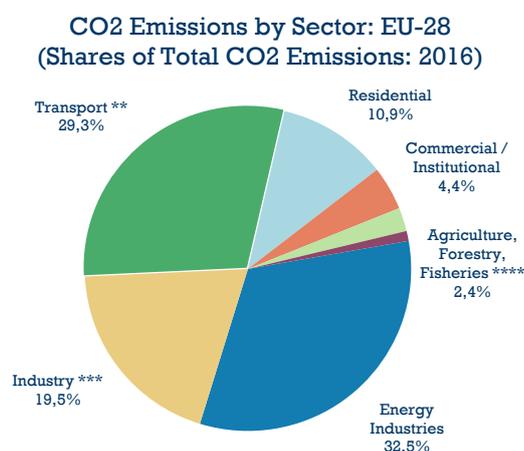
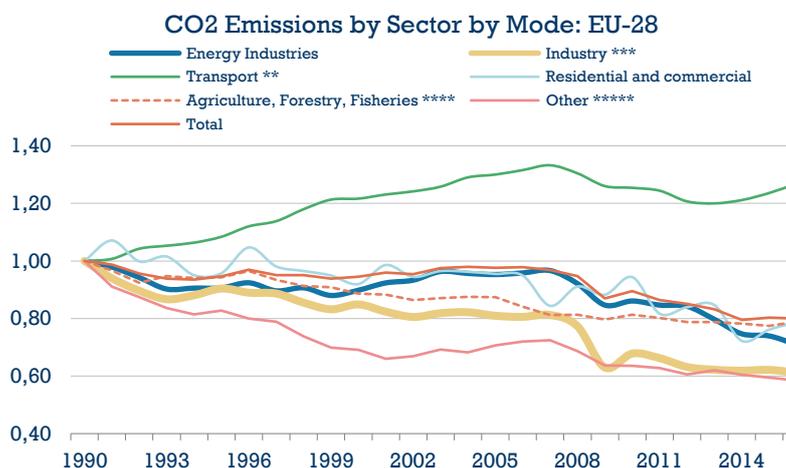
The aviation sector's ecological footprint represents a risk in terms of both reputation (the impact of 'flight shame' and climate anxiety) which can weigh on passenger growth in the future and of regulatory pressure (taxes and higher CO2 duties). The term 'flight shame' originated in Sweden and appeared at the end of 2017 when world-class athlete Björn Ferry announced that he would no longer travel by aeroplane. This has had quite a large negative impact on passenger numbers in Sweden. For example, traffic at Swedish airports decreased by 4% in 2019.

Several large companies undertake to become carbon-neutral in the next decade. Some companies focus specifically on reducing travel emissions. PWC, for example, acknowledges business travel as the main source of carbon emissions and aims to reduce total carbon emissions by 40% by 2022. SAP Concur, one of the largest business travel agencies, already shows the carbon footprint in their reservation system, which includes an option for customers to select the travel mode so that companies can reduce/calculate the CO2 emissions from their business trips.

Environmental taxes

The sector's current efforts are viewed as insufficient to meet the climate targets, as a result of which the sector is becoming a target for further environmental taxes. Under the Chicago Convention on International Civil Aviation, no taxes or duties are levied on kerosene. We think there is a strong likelihood, however, that additional fiscal pressure will be applied to the airlines in the shape of additional climate taxes on plane tickets. Belgium and eight other European Member States have called on Ursula von der Leyen's new European Commission to draw up a European regulation that should lead to pricing that more accurately reflects the cost of pollution.

Germany is at the vanguard and has already announced a package of climate measures. In September, the German government announced that air passenger tax would be increased as part of its climate plan. With the revenues from the higher air passenger tax, Germany intends to reduce VAT on train journeys from 19% to 7%. A CO2 tax on air tickets has also been introduced in France. We are convinced that more countries will follow.



CO2 price sky-high

Due to the sharp rise in CO2 prices, the cost price of CO2 emissions has already increased significantly since 2018. In 2018, when the CO2 price was still low, the cost price remained a fairly limited 200 million euros. In 2018, the invoice already amounted to roughly 600 million euros. If the price of emission rights were to increase further to 45 euros, the cost price for the sector could quickly rise to 2 to 3 billion euros by 2025.

Conclusion

We consider rising environmental costs and increased customer awareness to be one of the biggest challenges facing European airlines in the next decade, and believe that over 20% of European air traffic

will be at risk of being replaced by rail journeys for journeys under 600 km, since the cost and time of travelling by high-speed train are similar to those of ultra-short-haul flights. In addition, the CO2 emissions per passenger are around 20 times less than with an aeroplane. By increasing environmental taxes on airline tickets and reducing VAT on rail travel and making extra investments, the price difference between rail and air transport can be tilted in favour of rail travel.

In addition, low-cost railway companies are now also translating the Ryanair and EasyJet business model into rail transport. We now see low-cost railway companies (such as Ouigo, Izy, etc.) being set up all over Europe. In addition, considerable investments are also being made in the rail sector and many high-speed rail projects are in the pipeline in the coming years, which means the range of destinations is also expanding.

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