



CPMR General Assembly

Energy & Transport Session: “Decarbonisation, Fit for 55, State Aid (De Minimis Rule): Challenges and Opportunities for Islands

Joseph Borg

Wednesday 22 February 2023

Guiding question:

*As a network of insular Chambers of Commerce and Industries, INSULEUR has released a statement where it underlines that while being fully committed to the objective of decarbonization set by the Fit for 55 Package, the revision of the Energy Tax Directive would disproportionately affect islands. **What would be the main impacts of this measure, and how could this regulation be better adapted to mitigate or resolve those negative effects?***

The statement which you are referring to accompanied a position paper which was presented during the INSULEUR General Assembly held in the Gran Canaria on the 30th November of last year. This concern was again echoed during the Ecofin meeting of the 6th December. Our position was also included in the position paper of Eurochambres issued on the 9th January of this year where it is stated that the:

Increase in Transport Costs have a higher disproportional impact on citizens and businesses located in peripheral member states, island states and islands regions, with an adverse impact on economic and social cohesion in the EU (2023, p. 1).

The Fit for 55 package is very vast¹ and the proposed articles 14 and 15 of the Energy Tax Directive, which are advocating for the removal of the tax exemption on aviation and maritime fuel, is only a part of it.

But what has the European Commission proposed? The European Commission proposed that:

¹ European Council of the European Union, *Fit for 55* (online) : <https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/> [accessed 21 February 2022].

- Kerosene which is used as fuel in the aviation industry, and heavy fuel oil which is used in the maritime industry will no longer be fully exempt from energy taxation for intra-EU voyages in the EU; and that
- Over a period of ten years, the minimum tax rates for these fuels will gradually increase while sustainable fuels for these sectors will benefit from a minimum rate of zero to foster their uptake.

But what are we saying as an organisation?

First of all we are saying that **we support the long term objectives of the EU's Green Deal and the major policy revamp it is ushering enabling the achievement of the EU's climate targets.** And within this context the "Fit for 55" package should be seen as an acceleration of the EU's decarbonisation efforts.

However in our position we also highlighted that the difficulties faced by islands are the result of permanent conditions which make them exclusively dependent on maritime and air transport, facing higher transportation costs when compared to the mainland. These structural issues or impediments however, also have other effects which shape the economy of our islands. Island economies lack economic diversification, a fact which was brought to the fore by the COVID-19 pandemic. In fact they are most often dependent on the tourism sector which is the main driver of island economies.

The discriminatory effects of the European Commission's proposals can be summarised as follows:

- Revoking the tax exemption on aviation and maritime fuel will increase the fuel costs of air and maritime carriers for EU travel. This will contribute to the reduction of the demand for air travel among passengers to EU islands having a significant negative impact on EU islands², economies and competitiveness, given their dependency on tourism.

² The OXERA report highlights that "Assessment of the Impact of the Fit for 55 Policies on Airports commissioned by ACI Europe also warns that "as demand for direct intra-EU flights will be predominantly impacted compared to direct extra-EU flights, the EU's regional and secondary airports are bound to be most affected – hurting in particular regions highly dependent upon the tourism industry".

- These proposals will also limit the freedom of movement of people living on islands as they do not have access to alternative forms of transport such as road and rail.
- While the proposals being put forward by the European Commission have the objective of accelerating the transition in the aviation and maritime industry, it is a fact that in the aviation industry “the pace of investment in facilities to produce “green hydrogen” and sustainable aviation fuel”³ is still lagging behind. Also for certain biofuel replacements for heavy fuel oil in the maritime sector the technology is still being developed. While for short distances battery-electric ships, and hydrogen fuel are being seen as alternatives, these still need to be included in the respective port infrastructures. This means that the revoking of the current exemption will not be accelerating developments in the respective sector, but simply leading to a hike in prices.
- Islands are still reeling from the effects of the COVID-19 pandemic. Airline connectivity in many islands has not been restored to pre-pandemic level. The supply chain through maritime links has also been affected badly. These proposals will therefore have a detrimental effect on the post COVID recovery on islands.
- It must also be said that the proposed taxation on aviation fuels will also imply that European destinations will become less competitive when compared to other non-EU destinations. This will mean that the proposed taxation by the European Commission will have a discriminatory effect on European destinations, when compared to their counterparts outside of the European Union. This will be more so for islands which depend completely on aviation for their incoming tourists.

But what is INSULEUR proposing?

- INSULEUR is calling for further incentives for air and maritime carriers to shift towards more sustainable technologies and fuels, to ensure that the shift can take place in line with the technological developments and the adequate supply of sustainable fuels.

³ Jasper Jolly, *Airbus boss warns of delay in decarbonizing airline industry*, in *The Guardian* (online) : <https://www.theguardian.com/business/2022/nov/30/airbus-boss-warn-delay-decarbonising-airline-industry-hydrogen-sustainable-aviation-fuel> [accessed 2 December].

- Given the importance of the aviation and maritime sectors it must also be ensured that important EU funds related to research and innovation (such as in the case of Horizon 2020 funds) are dedicated to these sectors.

Pushing ahead with the reforms being proposed in the revision of the Energy Tax Directive as regards aviation and maritime fuel will fuel further regional disparities between islands and the mainland, without addressing the structural actions required in the airline and maritime industries.
