



Tax Exemption on Jet Fuel

International exemption must be maintained on jet fuel used in international travel.

Tax exemptions and international aviation

The Chicago Convention, signed in 1944, and subsequent international agreements to establish the framework for the international air transport system to function effectively have recognized the need to exempt jet fuel from taxation.

The decision to exempt jet fuel is based on the recognition by States that the situation of international air transport is unique in the field of taxation. Unlike other types of businesses that operate across national borders, airlines rely on the use of aircraft that carry and consume large amounts of fuel between various tax jurisdictions, with a considerable percentage of these operations occurring outside of any tax jurisdiction (i.e. over the high seas) or across multiple jurisdictions.

Governments also recognized that taxation would act as an obstacle to the development of air transport, which plays a key role in international cooperation and the development of nations around the world.

Preserving the key role of aviation for our societies

The considerations that led States to exempt jet fuel used in international aviation from taxation are as relevant today as they were in 1944.

The year 2020 brought an unprecedented challenge to the airline industry in the form of closed borders, strict travel restrictions, and depressed public confidence in travel – all effects of the devastating COVID-19 pandemic. Passenger traffic declined by 66% compared with 2019 – eight times faster than during the 12 months following the 9/11 attacks – considered to be the most severe aviation crisis prior to 2020.

Airlines are united with the global effort to stop a virus that is overwhelming our healthcare systems and threatening lives. Airlines have repatriated people to their home countries and are delivering life-saving vaccines and medical equipment to the frontlines of the battle against COVID-19.

In this crisis, airlines and their partners are focused on remaining in business, protecting the jobs of the 10.2 million people directly employed by aviation, and providing relief for the countless more that rely on the sector.

The priority for all must be to avoid a long-lasting global recession and soften the immediate impact on local livelihoods as much as possible. Aviation is a conduit for the global economy, supporting over \$2.7 trillion in world economic activity (3.6% of global gross domestic product), and will be instrumental in supporting the recovery from the COVID-19 crisis.

Recent proposals to increase the taxation of air transport, through taxes on jet fuel or other types of taxes, could not come at a worse time. Such measures would only serve to further inhibit the movement of people and goods between regions and undermine the role of aviation, and the global connectivity it enables, as a catalyst for supporting swift economic recovery. New or additional taxation would also disproportionately affect those communities and households most severely impacted by the economic crisis by reducing accessibility to affordable air travel.

Taxes and emissions

The taxation of jet fuel is often presented as a solution to decarbonize air transport. Unfortunately, this misguided vision only serves to distract from more sustainable and effective measures.

Experience shows that the effectiveness of taxation as a mechanism to incentivize decarbonization is at best negligible. Taxes do not result in accelerated fleet renewal, the introduction of cleaner technologies, or more widespread deployment of sustainable fuels. In practice, taxes often achieve the opposite effect by reducing or delaying the financial capacity of airlines to invest in solutions that are proven to achieve long-term emissions reductions.

To date, governments that have introduced taxes under the premise of reducing emissions from aviation have been unable to demonstrate that they have achieved the intended CO₂ reductions and rarely (if ever) have the revenues been used to support investments that would help mitigate or reduce future emissions in the aviation sector.

It is important to note that the taxation of jet fuel would also apply on top of existing carbon pricing instruments, in particular CORSIA. In this context, taxation is the least effective carbon pricing measure as it does not come with any guarantee or assurance that payments made will result in any verifiable emissions reductions.

Some additional figures and information on fuel taxation

- The exemption of jet fuel used in international flights from taxation has been a long-standing principle of the International Civil Aviation Organization (ICAO). This principle is reflected in Article 24 of the Convention on International Civil Aviation, 1944 (Chicago Convention) and in ICAO's Policies on Taxes in the Field of International Air Transport (Doc 8632). It is also detailed in Article 13 of the ICAO template Air Services Agreement (ASA) and has become a standard provision included in bilateral ASAs.
- Article 14 of the EU Energy Taxation Directive already allows EU member states to bilaterally agree to waive the exemption of taxation on jet fuel for their airlines. Such waiver would however not apply to airlines from other States, creating an important risk of market distortions. Amending the Energy Taxation Directive would not address this as non-European airlines would still continue to be exempted from jet fuel taxation under air services agreements passed between the EU, its member states and third countries.
- A 2020 Report from EUROCONTROL reached the conclusion that "there is little evidence that taxing aviation per se leads to lower CO₂ emissions; nor do raising fuel prices or ticket prices reduce CO₂ emissions."
- Experience shows that taxation of air travel does not translate into lower CO₂ emissions. In its 2020 report, EUROCONTROL observes that "despite having the highest rate of taxation on air travel in Europe, CO₂ emissions continue to increase in the UK." Similarly, despite the introduction of a departure tax on 1 January 2011 in Germany, CO₂ emissions increased by 4.2% that year. Likewise, although Italy increased departure taxes by almost 40% on 1 January 2016, its CO₂ emissions increased by 5.2% that year, while traffic from Italy fell by just 1.4%.