Taxes & the environment
Fact Sheet

In recent years, there has been an increasing trend, particularly within Europe, to tax passengers and airlines for the environmental impact of air travel. While the stated goal of such taxation is laudable, it has proven to be an ineffective policy choice as it negatively impacts passengers, other airline customers, jobs, and the economy, without incentivizing newer and greener technology.

Addressing aviation’s impacts
Environmental issues are at the top of the aviation industry’s agenda, alongside safety and security. The aviation industry has adopted a set of ambitious targets to mitigate CO₂ emissions from air transport:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020 (between 2009-2019 the annual improvement has been over 2%)
- To stabilize the level of international aviation emissions from 2021 at 85% of 2019 emissions level
- To achieve net zero emissions by 2050

In 2016, the International Civil Aviation Organization (ICAO) adopted a global carbon offsetting mechanism for international aviation: the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Originally, the CORSIA baseline – from which airline offsetting requirements under the agreement are calculated – was agreed to be an average of 2019 and 2020 emissions. However, in 2020 the COVID-19 crisis caused a precipitous drop in demand for air transport of more than half compared with 2019. As a result, the CORSIA baseline would have been significantly reduced, imposing an unexpected and severe economic burden on an already extremely weakened airline industry and contravening the spirit of the CORSIA framework agreed in 2016. Therefore, in June 2020, the ICAO Council agreed to use 2019 emissions only as CORSIA’s baseline for the period of 2021-2023. Most recently, at its 41st Assembly, ICAO set 85% of 2019 emissions as CORSIA’s baseline from 2024 until the end of the scheme in 2035.

IATA now forecasts that, as airlines gradually recover from COVID-19, by applying the newly agreed baseline, CORSIA will mitigate more than 1.7 billion tonnes of CO₂ over its lifespan until 2035. The new baseline also strengthens the ambition level of the scheme as compared to the original target. ICAO member States also consolidated the consensus that CORSIA should be the only global market-based measure for international aviation emissions, as opposed to a patchwork of regional and national measures to address emissions from international aviation.

The aviation sector is committed to advances in technology, including the use of Sustainable Aviation Fuels (SAF), as well as in operations and infrastructure to continue to reduce the sector’s environmental impact. Airlines have been replacing old aircraft with new, more fuel efficient and quieter models – over 15,000 since 2009 at a cost of USD 1 trillion. The industry is also engaged in efforts to mitigate its impact on the local environment and is working with authorities, airports, local communities, and other stakeholders to identify tailor-made measures to address noise and air quality problems at airports.
Rather than taxing passengers and airlines, governments need to support multilateral efforts to address aviation’s emissions, including CORSIA. Governments must also promote investment in research in new technologies and the transition of air transport towards SAF.

**Taxes are not an effective solution**

Experience shows that the effectiveness of levies as incentives for cleaner/quieter aircraft is doubtful. No government that introduced a ticket tax has been able to demonstrate that such a tax reduced CO₂ emissions. Furthermore, the removal of less efficient and noisier aircraft from operations has been as fast at airports with environmental levies as at airports with no such levies.

The vast majority of green taxes that are applied or being considered are imposed on top of existing carbon pricing instruments. For example, the ticket tax proposals in European Union countries would be in addition to the EU ETS and CORSIA, which already put a price on carbon.

These taxes are also contrary to the international commitments of States. In ICAO, States have agreed to reduce taxes levied directly on passengers or shippers. They have also committed to not apply duplicative carbon pricing instruments to international aviation, recognizing that a multilateral approach is more effective in the long-term than individual State measures. They also agreed that environmental levies should not be driven by fiscal aims but designed to recover the costs of alleviating or preventing environmental problems.

**The real impacts of taxation**

Taxes have negative impacts on the environment, passengers and the economy. Unless proven, a carbon tax does not guarantee a beneficial return back to the environment or the aviation industry.

The financial impact of a tax on airlines will limit their ability to invest in newer, cleaner and quieter aircraft and technology, delaying fleet renewal and the associated environmental benefits.

Passengers will be more heavily taxed or opt for longer journeys - resulting in more emissions - through airports where no such taxes are levied.

Airlines will lose their competitiveness if they lose customers to competitors based in other countries. Taxes levied at an individual State or regional level, therefore, distort competition, often to the detriment of the home carriers of the given territories, which are most exposed to the additional tax burden.

The local economy is negatively affected as a decline in air passenger volumes leads to decreased tourism and business travel, and lower demand for goods and services, resulting in a negative impact on GDP.

Governments may also lose revenues if the increase in tax revenues is offset by the decrease in the volume of air travel and the indirect effects of reduction in revenue from lost travelers’ spending as well as uncollected fees, charges and taxes, in addition to the loss of indirect and induced economic benefits from aviation.