IN-DEPTH

International Tax Governance

Trends and implications for the international air transport industry

May 2026

Several organizations simultaneously serve as fora for States to elaborate rules and regulations regarding international tax cooperation. This includes ICAO, whose principles on the taxation of aviation have been widely adopted for many decades. However, multiple recent developments and initiatives could threaten these principles. That could not only have a significant impact on the global air transport network and its airlines - it could also lead to double taxation, profound administrative complexity, and impair GDP growth. What the system of international tax governance must achieve is to fill in the gaps between its existing structural elements, and build clear lanes and bridges between them.

Contents

List of tables

List of figures

List of charts

Executive summary

International tax governance is undergoing profound change. For over half a century, taxing rights over the income of cross-border businesses have been allocated primarily through bilateral tax treaties based on the OECD and UN Model Tax Conventions, with the prevention of double taxation and its harmful consequences as a central objective. Article 8 of the Model Tax Conventions and ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632) have long upheld that profits from international air transport should be taxed exclusively in the airline's State of residence or effective management. Preserving this framework is essential to avoid multiple taxation, maintain fair competition, and sustain the global connectivity on which trade, tourism, and economic development depend. Stronger coordination between the OECD and various UN bodies, including ICAO, is required, in addition to taking steps to reinforce the legal status of ICAO's long-standing taxation principles.

This is urgent at the present point in time, because international tax governance is evolving toward a more complex and increasingly multilateral architecture. Initiatives have emerged, such as OECD/G20 BEPS project of the Inclusive Framework of the OECD, revisions to some provisions of the UN Model Tax Convention have been made, and negotiations are underway regarding a UN Framework Convention on International Tax Cooperation which is expected to be binding on ratifying States. While these developments aim to strengthen global tax cooperation, they also risk increasing fragmentation, legal uncertainty, and compliance burdens. A stark example of that is the 2025 revision of Article 8 of the UN Model Tax Convention that introduced source-based taxation as the preferred principle, with residence-based taxation being a secondary option. This poses a challenge of particular significance for air transport, because airlines operate integrated global networks across multiple jurisdictions.

The initiatives often seek to improve fairness, inclusiveness, and effectiveness in the realm of global tax cooperation - all very important goals. However, the current system of global tax governance does not include mechanisms to prevent overlapping rules, conflicting interpretations, and greater administrative complexity, nor does it guarantee appropriate consideration of the very different operational realities faced by specific sectors and industries.

International air transport is uniquely multi-jurisdictional, and the ideal operating environment would be one that gives all countries equal opportunity to benefit from air transport's contribution to peace and prosperity. Preserving stable, equitable, and administrable tax frameworks consistent with ICAO's Policies on Taxation in the Field of International Air Transport (ICAO Doc 8632), including residence-based taxation, is essential. Any and all departures from such harmonization will skew and impair the global network because aircraft, crew, and revenues span borders continuously. Air transport services exhibit a high degree of operational fungibility, specifically regarding capacity allocation and revenue generation, which weakens the logic of assigning revenue or income strictly by geographic source and complicates the attribution of taxing rights under source-based taxation:

- Aircraft and capacity are mobile and re-deployable – a plane can serve different routes or jurisdictions with little structural change

- Revenue and income are not strongly tied to a single "source" location, – unlike a factory, there is no clear fixed place of production

- Network effects dominate – value depends on the global network, making individual segments less economically separable

The need to preserve coherent and administrable tax rules for air transport is not as a favor to airlines and their shareholders – it is a matter of strategic importance for the global economy. Both ICAO, as the United Nations specialized agency for international civil aviation, and IATA, must be given a formal role in international tax

forums, coordination among governments must be enhanced, there must be explicit carve-outs for sectors that are already governed by internationally agreed frameworks, and the legal status of ICAO's taxation principles must be strengthened. Together, these measures would help ensure that international tax reform supports rather than undermines global air transport connectivity, and allows all people to benefit equally from the improved living standards it brings

1. Introduction

Taxing rights over individual and business income originate from the States' sovereign authority to tax under domestic law. When such rights are negotiated, defined, or limited between two or more nations, the issue becomes one of "international tax governance".[1]

Historically, this matter has been structured around bilateral tax treaties that have upheld the primacy of residence-based taxation. In recent times, States have become more active in international tax governance, prompted by the rise of multinational enterprises (MNEs) operating across multiple jurisdictions, with the digitalization of the economy as a prominent driver. Countries have perceived imbalances in the distribution of taxing rights related to MNEs' profit shifting (moving profits to low-tax jurisdictions), which, in turn, can cause base erosion (lower taxable income in a high-tax country). Such concerns have sparked collaborations among countries, such as the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and have spurred expanding initiatives within the United Nations system aimed at strengthening the inclusivity and legitimacy of global tax norm development.

As a result of such developments, the international tax system, understood as the body of rules that allocate taxing rights between States regarding cross-border income, has evolved from an architecture anchored in bilateral conventions modeled on the OECD and UN Model Tax conventions toward a tentatively more coordinated set of arrangements that include multilateral treaties (such as the BEPS Multilateral Instrument) and soft-law standards developed in international fora. The institutions, norms, and processes that shape the system, taken together, constitute international tax governance, which has correspondingly become more pluralist, with the OECD/G20 Inclusive Framework, the UN Tax Committee, and other bodies operating in parallel rather than in a settled hierarchy.

The proliferation of standards, instruments, and negotiating fora introduces the risk of normative overlaps, interpretative divergence, and increased compliance burdens. For industries whose business models depend upon the coordinated exercise of taxing jurisdiction across multiple States, legal certainty and coherence remain indispensable. This is true for the air transport industry in particular, where policy fragmentation poses an existential threat to the global network – a concern that informed the design of the Chicago Convention.[2]

Airlines operate across jurisdictions under a framework of bilateral air services agreements, the multilateral architecture of the Chicago Convention, and bilateral double taxation agreements that allocate taxing rights between two States parties to each agreement. The taxation of their international air transport profits has long relied on the principle that such profits should be taxed exclusively in the State of effective management of the airline, with reciprocal exemption serving as the practical mechanism for its implementation.[3] As the global representative body for airlines, the International Air Transport Association (IATA)[4] participates in international tax policy processes to safeguard this foundational arrangement and to promote administrable, predictable, and economically coherent outcomes.

This paper analyzes the evolution of international tax governance, the institutional dynamics shaping current reform trajectories, recent initiatives, and the implications for the international air transport industry and other globally mobile industries. It also suggests avenues for strengthening the current fragmented system to safeguard the effectiveness and sustainability of international tax governance.

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[1] For the purposes of this paper, "international tax governance" refers to the set of institutions, rules, norms, and processes that govern interactions among national tax systems with respect to cross-border activity. The term has no formal institutional definition. This working concept follows Dietsch and Rixen, Global Tax Governance: What Is Wrong With It and How to Fix It (ECPR Press, 2016), as reproduced in I.J. Mosquera Valderrama, "Global Tax Governance" in F. Haase and G. Kofler (eds), The Oxford Handbook of International Tax Law (OUP, 2021). It is consistent with the framing adopted in T. Dagan and A. Pirlot, "Global tax governance: taking stock of the past and looking forward" (2025) 27 Journal of International Economic Law 591, and with the regime complex framing in K. Kuhn, L. Cadzow, F. Heitmüller, M. Hearson and T. Randriamanalina, The International Tax Regime Complex: Understanding Change in Global Tax Governance, ICTD Working Paper 212 (2024).

[2] The Convention on International Civil Aviation, also known as the Chicago Convention, established the International Civil Aviation Organization (ICAO), and was signed on 7 December 1944.

[3] This principle is reflected in ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632, 3rd Edition, 2000), Clause 2, and was historically embodied in Article 8 of both the OECD Model and the UN Model Tax Conventions. The 2025 revision of Article 8 of the UN Model introduces source State taxation as an alternative, departing from this long standing principle, and is discussed further below.

[4] IATA was founded in April 1945. It is the trade association of the world's airlines, representing approximately 370 carriers that account for around 85% of global scheduled air traffic.

2. Evolution of international tax governance: from bilateralism toward multilateral coordination?

The international tax system governing cross-border economic activity today has its origins in the early twentieth century. In 1923, four economists (Bruins, Einaudi, Seligman, and Stamp) submitted their Report on Double Taxation[5] to the League of Nations (the League), which provided the analytical foundation for the subsequent bilateral treaty network. The report articulated the distinction between "residence" and "source" as the two principal bases for allocating taxing rights between States, concepts that continue to structure international tax law today.

Building on this foundation, the League published the first model bilateral conventions in 1928, followed by the Mexico Draft (1943) and the London Draft (1946). These served as precursors to the network of bilateral Double Taxation Agreements (DTAs) that States began concluding in earnest after World War II. These agreements allocate taxing rights between residence and source States and aim to reduce tax barriers that can impede international economic activity. The standardization of DTA language has been shaped primarily by model conventions developed by the Organisation for Economic Co-operation and Development (OECD), whose first draft Convention was published in 1963, and by the United Nations (UN), which published its own Model in 1980, with particular influence on treaties involving developing countries.

Economic globalization and the rise of multinational enterprises operating through networks of subsidiaries across multiple jurisdictions have, however, exposed limitations in the bilateral DTA framework. By design, DTAs are negotiated between pairs of States and are not well-suited to address situations in which economic activity spans numerous jurisdictions simultaneously. Moreover, they allocate taxing rights largely over business profits on the basis of physical presence, through the "permanent establishment" concept.[6] The digitalization of the economy has challenged this approach by enabling business models that generate substantial revenue in a jurisdiction without triggering that threshold.

These developments have prompted a range of multilateral responses. The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, launched in 2013, has been the principal multilateral response to profit shifting, base erosion, and mismatches between national tax regimes; its Inclusive Framework, established in 2016, brings together 148 jurisdictions. The UN Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee) has continued to develop and update the UN Model, including amendments reflecting the concerns of developing countries regarding the allocation of taxing rights. More recently, a growing number of States, particularly developing countries, have called for a more inclusive institutional framework for international tax cooperation, culminating in the ongoing United Nations negotiations for a Framework Convention on International Tax Cooperation.[7]

[5] Gijsbert W.J. Bruins, Luigi Einaudi, Edwin R.A. Seligman, and Josiah C. Stamp, *Report on Double Taxation*, League of Nations Doc. E.F.S.73.F.19, 5 April 1923. For a comprehensive history, see Sunita Jogarajan, *Double Taxation and the League of Nations* (Cambridge: CUP 2018).
[6] A permanent establishment is broadly a fixed place of business through which an enterprise carries on its activities in another State, such as a branch, office, factory, or workshop, as well as certain construction sites and dependent agents. The concept is set out in Article 5 of the OECD and UN Model Tax Conventions, supplemented by their Commentaries. Where a permanent establishment exists, Article 7 permits the State in which it is situated to tax the business profits attributable to that permanent establishment, with the residence State required to provide relief from double taxation under Article 23A or 23B.
[7] See Tsilly Dagan and Alice Pirlot, 'Global Tax Governance: Taking Stock of the Past and Looking Forward' (2025) 27 Journal of International Economic Law 591. On the launch of the BEPS project, see OECD, *Addressing Base Erosion and Profit Shifting* (Paris: OECD 2013). Membership figure for the Inclusive Framework as of December 2025: see the OECD list of members of the OECD/G20 Inclusive Framework on BEPS, updated 5 December 2025.

2.1. The OECD Model Tax Convention and the UN Model Double Taxation Convention: templates for the prevention of double taxation

The OECD Model Tax Convention on Income and on Capital (OECD Model Tax Convention)[8] and the UN Model Double Taxation Convention between Developed and Developing Countries (UN Model Tax Convention)[9] are the primary templates for bilateral Double Taxation Agreements. They serve as guidance rather than prescriptive rules, as States retain the discretion to depart from them in negotiating bilateral DTAs. They are similar in structure but differ in policy orientation and allocation of taxing rights.

The OECD Model Tax Convention

The OECD has long been identified as the dominant technical standard-setter in global tax governance. Its Model Tax Convention, first issued in draft form in 1963 and as a full Model in 1977, with periodic updates since, has become the principal benchmark for negotiation and interpretation of bilateral tax treaties among more than 3,000 treaties worldwide. The OECD Model Tax Convention promotes residence-based taxation, limiting source-State taxing rights. Its provisions cover residence, permanent establishment (PE), allocation of income (business profits, dividends, interest, royalties, capital gains), methods to eliminate double taxation, and administrative mechanisms such as the Mutual Agreement Procedure (MAP) and information exchange. The Model's stated goals are to provide tax certainty, eliminate double taxation, and thereby facilitate cross-border investment.[10]

Notably, Article 8 provides that profits from the operation of ships or aircraft in international traffic are taxable only in a single State (prior to 2017, the State where the place of effective management is located and, post-2017, the State of residence).[11] This rule prevents the same shipping or airline company from being taxed in every country it operates in during international transport. In practice, it means that only one State has exclusive taxing rights over the profits arising from its international transport activities, even if the vessels or aircraft travel through or earn income in other countries. The provision has long been regarded as a cornerstone ensuring legal certainty and avoiding double taxation across multiple jurisdictions.

The UN Model Tax Convention

In 1980, the UN published its first UN Model Tax Convention to provide a framework specifically tailored to the needs of developing countries. The Model was the work of the Ad Hoc Group of Experts on Tax Treaties between Developed and Developing Countries, established by ECOSOC in 1967, based on the observation that the OECD Model favoured residence-State taxation and therefore the taxing rights of capital-exporting countries.[12] As such, the UN Model Tax Convention emphasizes source-based taxation to preserve the tax base of capital-importing countries. It expands source-State taxing rights, broadens the definition of PE (e.g., service PEs), and allows higher withholding taxes on dividends, interest, royalties, and certain capital gains. Its structure largely mirrors the OECD Model but is intended to reflect developmental priorities.[13]

Notably, Article 8 of the UN Model Tax Convention governs the taxation of profits from the operation of ships and aircraft in international traffic, analogously to Article 8 of the OECD Model Tax Convention. Traditionally, similarly to the OECD Model Tax Convention, it allocated exclusive taxing rights to the enterprise's State of residence, meaning that profits from international shipping or air transport were taxable only in that State.[14] However, reflecting the interests of developing

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[8] OECD, 2017

[9] UN, United Nations Model Double Taxation Convention between Developed and Developing Countries (2021 update) (United Nations, New York, 2021).

[10] OECD, 2017

[11] In the OECD Model prior to the 2017 update, and ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632), the rule allocated exclusive taxing rights to the State where the enterprise's *place of effective management* is located. The 2017 Update to the OECD Model Tax Convention, adopted by the OECD Council on 21 November 2017, revised Article 8(1) to allocate exclusive taxing rights to the State of which the enterprise is a *resident*.

[12] ECOSOC Resolution 1273 (XLIII) of 4 August 1967, establishing the Ad Hoc Group of Experts on Tax Treaties between Developed and Developing Countries; the Group was composed of 25 members from 15 developing and 10 developed countries, serving in their personal capacity. The Model was preceded by the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries (1979). The Group was renamed the Ad Hoc Group of Experts on International Cooperation in Tax Matters in 1980 and the Committee of Experts on International Cooperation in Tax Matters in 2004 (the current UN Tax Committee).

[13] UN, 2017, UNCTAD, 2016

(source) countries, the 2025 revision of the UN Model, , endorsed by ECOSOC on 10 June 2025, introduced source-State taxation as the preferred model (Alternative A), with the historical residence-State rule retained as Alternative B.

In practice, many treaties blend the two approaches, with the OECD Model Tax Convention serving as the principal template and UN Model variations adopted to varying degrees, depending on the relative negotiating power of the States involved.

2.2. Beyond the model taxation conventions: institutional fragmentation and reform dynamics in international tax governance

Beyond these widely recognized templates, the OECD and the UN continue to play a central role in developing standards and legal instruments that shape the international tax system.

OECD instruments

Historically, the OECD has been the primary driver of multilateral soft law instruments, offering guidance, recommendations, and model conventions that, while non-binding, exert significant normative influence over both developed and developing economies. Besides the Model Tax Convention, the OECD has shaped international tax norms and administrative practices through its Transfer Pricing Guidelines, and the BEPS Project.[15] This project, endorsed politically by the G20,[16] produced 15 actions to tackle tax avoidance, improve the coherence of international tax rules, and enhance transparency, marking a shift from bilateralism toward a coordinated multilateral approach.

The BEPS process marked an institutional evolution within the OECD. Traditionally perceived by some commentators as a relatively closed "club" of mainly high-income economies, the organization expanded its role as a global standard-setting forum by creating the OECD/G20 Inclusive Framework on BEPS. Established in 2016, the Inclusive Framework brings together 148 jurisdictions, a substantial majority of which are developing countries,[17] allowing them to participate on an equal footing in the implementation and further development of BEPS standards. While the relative influence of OECD members continues to be debated, the Inclusive Framework represents a significant step toward greater inclusiveness and legitimacy in international tax governance by incorporating a much broader range of jurisdictions into the rulemaking and peer-review processes of the OECD. A key innovation in this context is the BEPS Multilateral Instrument (MLI),[18] which allows countries to modify existing bilateral tax treaties simultaneously to incorporate BEPS measures without full renegotiation of each treaty.

United Nations governance and coordination

UN Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee)

Meanwhile, the UN has pursued a complementary but distinct path. Under the auspices of the United Nations Economic and Social Council (ECOSOC), the UN established an expert body whose mandate includes, *inter alia*, the periodic revision of the UN Model Tax Convention. This body, the Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee), provides technical expertise and develops advisory standards, with a particular emphasis on the concerns of developing countries, and thereby contributes to broader multilateral engagement in international tax matters.

The UN Tax Committee is composed of 25 members[19] serving in their personal expert capacity, rather than as representatives of the State that nominated them. Only these members hold voting rights within the UN Tax Committee.

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[15] BEPS Multilateral Instrument | OECD

[16] The G20 endorsed the BEPS Action Plan in July and September 2013 and has continued to endorse subsequent BEPS outputs, including the Two-Pillar Solution agreed by the OECD/G20 Inclusive Framework on BEPS in October 2021. Pillar Two of that Solution introduces a 15 percent global minimum tax for large multinational enterprises.

[17] List of Members of the OECD/G20 Inclusive Framework on BEPS, updated 5 December 2025, available at https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/inclusive-framework-on-beps-composition.pdf.

[18] Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS MLI), 7 June 2017.

[19] For the period 2025-2029, new members were recently nominated by UN member states and appointed by the UN Secretary General. For more details, see https://financing.desa.un.org/sites/default/files/2026-02/n2520322.pdf). Members are selected based on their recognized competence and practical experience in international tax matters, with attention to equitable geographical representation and diversity of tax systems. It typically includes senior officials from national tax administrations, academics, judges, and private-sector specialists. The UN Department of Economic and Social Affairs (UN DESA), which is

Other stakeholders attending the public meetings of the Committee – including all UN Member States, international organizations, academia, and civil society – participate as observers and do not hold voting rights.

Because its members act as independent experts rather than government delegates, the UN Tax Committee operates primarily as a technical advisory body rather than an intergovernmental negotiating forum. Its outputs are adopted by the Committee members themselves and subsequently transmitted to ECOSOC for consideration, typically in the form of non-binding recommendations. Consequently, UN Member States participating in the Committee's public sessions do not have the authority formally to block the adoption of the Committee's recommendations, even where they express strong reservations during the discussions.

UN Economic and Social Council (ECOSOC)

Considering that the UN Tax Committee is a subsidiary body of the ECOSOC,[20] one of the UN's six principal organs (alongside the UN General Assembly, the UN Security Council, the UN Secretariat, the International Court of Justice, and the UN Trusteeship Council), its institutional positioning carries several significant implications:

- Development Mandate: ECOSOC is the principal UN organ responsible for economic and social policy coordination, including sustainable development and financing for development. Locating the Tax Committee under ECOSOC embeds tax cooperation within a broader development framework, linking taxation to domestic resource mobilization, inequality reduction, and the Sustainable Development Goals (SDGs).

- Political Oversight and Legitimacy: Although the UN Tax Committee members serve in their personal expert capacity, ECOSOC provides intergovernmental oversight and a channel through which tax matters can be elevated to the General Assembly. This enhances the political visibility and normative legitimacy of UN tax initiatives, especially for developing countries seeking a more inclusive forum than the OECD - though a countervailing challenge is that, without alignment of capital-exporting countries, the implementation of multilateral agreements may present practical challenges.

- Normative Pathways: Through ECOSOC and the General Assembly, UN tax discussions can evolve from technical model-building toward formal intergovernmental negotiations, including the possibility of multilateral legal instruments.

Intergovernmental Negotiating Committee (INC) on tax cooperation

The General Assembly may also establish ad hoc intergovernmental committees outside of ECOSOC to tackle specific issues. For instance, in December 2024, the General Assembly decided to establish the Intergovernmental Negotiating Committee on the United Nations Framework Convention on International Tax Cooperation,[21] with a mandate to develop a framework convention and protocols to promote a fairer and more inclusive global tax system. Further details are provided in Box 4.

Box 1. The ECOSOC in the UN system

ECOSOC conducts its work in segments, special meetings and forums, and through 5 regional commissions, 8 functional commissions, 9 expert bodies, standing committees, and other related bodies. The Council is in formal relationship with 17 UN specialized agencies, including ICAO (International Civil Aviation Organization), and receives reports from other UN entities working in economic, social, health and related fields. As an example of the kind of formal relationship ECOSOC can have with UN specialized agencies, ICAO has the right to participate in the meetings of the UN Tax Committee, which operates under the auspices of ECOSOC. The Council decides or co-decides on the composition of other entities. Numerous intergovernmental organizations with observer status and around 5,000 NGOs are in relationship with ECOSOC (Chart 1).

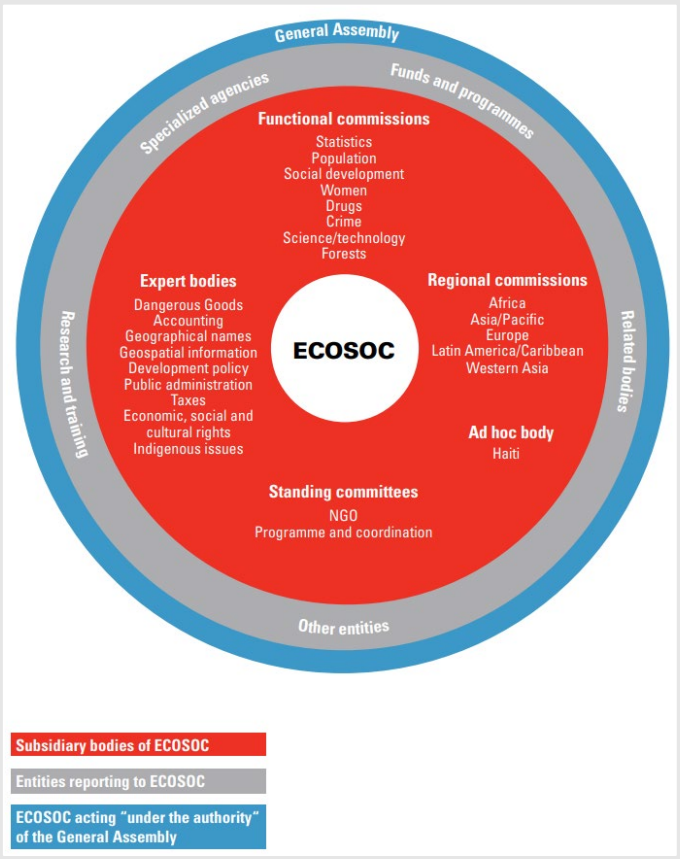
Box 1: The ECOSOC in the UN system

part of the UN Secretariat, serves as secretariat for the UN Tax Committee. See: United Nations appoints Committee of Experts on International Cooperation in Tax Matters - United Nations Sustainable Development

[20] The ECOSOC Handbook: A practical guide to the United Nations Economic and Social Council", FDFA, Bern, 2021. Available at ECOSOC_Handbook_Switzerland Final.pdf

[21] UN General Assembly Resolution 79/235 of 24 December 2024, building on Resolution 78/230 of December 2023 which initiated the process.

Chart 1: ECOSOC in its context



Source: The ECOSOC Handbook: A practical guide to the United Nations Economic and Social Council", FDFA, Bern, 2021.

Chart 1: ECOSOC in its context

UN International Civil Aviation Organization (ICAO)

The International Civil Aviation Organization (ICAO), a specialized agency of the United Nations, has, since its establishment in 1944, provided the principal international framework within which States have sought to coordinate the taxation of international air transport.[22] Over more than eighty years, this effort has produced a coherent, globally recognized body of recommended practices that reflects hard-won consensus among UN Member States on the fiscal treatment of a uniquely mobile, capital-intensive, and operationally integrated global industry.

The Chicago Convention[23] established the framework within which States cooperate on international civil aviation, including through ICAO. While the Convention does not contain provisions on income taxation of airlines, ICAO has, through its work since 1951, developed a coherent tax policy that rests on the operational reality of international air transport.[24] It recognized that airlines operate across jurisdictions, that aircraft and crew are routinely present in multiple countries in a single operating day, and that imposing source-based or destination-based taxation at each point of transit or service delivery would render commercially viable international aviation virtually impossible. The insight that the operational reality of aviation is fundamentally incompatible with conventional source-based tax logic remains the bedrock of ICAO's approach to taxation today.

[22] ICAO was brought into the UN system through a relationship agreement concluded in 1947. As a specialized agency, ICAO cooperates with the United Nations and reports, in accordance with the UN framework for specialized agencies, to the Economic and Social Council (ECOSOC). The next section describes the nature of the relationship between ICAO and ECOSOC in more detail.

[23] Convention on International Civil Aviation, December 1944. Available at Convention on International Civil Aviation, 1944

[24] This proposition reflects the substantive position taken in ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632, 3rd Edition, 2000), Foreword paragraphs 11 and 12, and in the IATA materials on the taxation of international air transport profits.

ICAO's 193 Member States are bound, under Article 38 of the Chicago Convention, to comply with ICAO's Standards or to notify any departure from them.[25] Recommended Practices are not subject to the same notification obligation, and Council policy documents, including those on taxation, are not binding in the same legal sense but carry significant normative weight as the expression of State consensus reached within ICAO. ICAO's tax policy is most authoritatively set out in its Policies on Taxation in the Field of International Air Transport (ICAO Doc 8632)[26], the consolidated reference document for aviation-specific tax policy. ICAO Doc 8632 is notable not only for its substantive recommendations but for its methodology, as it carefully distinguishes between taxes (general government revenue measures) and charges (levies tied to specific aviation services).

ICAO's framework has produced genuine and significant outcomes. Many bilateral Air Services Agreements (ASAs) adopted between States follow ICAO's Template Air Services Agreement (TASA), Article 14 of which allocates exclusive taxing rights over international air transport profits to the State where the designated airline's place of effective management is situated.[27] These agreements, combined with bilateral Double Taxation Agreements (DTAs), many of which incorporate rules allocating exclusive taxing rights over international air transport profits to the State of effective management or residence of the airline, have, in most cases, successfully prevented the multiple taxation of airline profits.

Until recently, the provisions in both the OECD and the UN Model Tax Conventions, enshrined in Article 8 (International Shipping and Air Transport), allocated exclusive taxing rights over airline profits on a residence basis (historically expressed in earlier editions as taxation in the State where the place of effective management of the airline is situated), consistent with the primary principle of ICAO Doc 8632. This was a concrete and currently underappreciated achievement: aviation-specific operational realities shaped general international tax law, not merely sector-specific agreements. However, the 2025 revision of the UN Model Tax Convention has restructured Article 8: source-State taxation is now the preferred model (Alternative A) for international air transport, departing from the previously applied residence-based rule; the historical residence-based rule is retained as Alternative B. This shift toward source-based taxation illustrates the broader challenges of fragmentation in international tax coordination, which can arise even within a single international organization such as the United Nations.

Although ICAO is the UN specialized agency responsible for international policy setting in the field of international civil aviation, its relationship with other bodies engaged in international tax matters remains complex. The following section explores these challenges in greater detail.

Box 2. ICAO's Policies on Taxation in the Field of International Air Transport (ICAO Doc 8632)

ICAO Doc 8632[28] is a consolidated Council policy document, first published in 1966 and most recently issued in its Third Edition in 2000 (approved by the ICAO Council on 24 February 1999), that provides recommendations to States and international operators on taxation affecting international aviation (Table 1). The document distinguishes between user charges (levies tied to specific aviation services) and taxes (general government revenue measures), and recommends that States minimize, exempt, or eliminate discriminatory or multiple taxation that could hinder international air transport.

Box 2: ICAO's Policies on Taxation in the Field of International Air Transport (ICAO Doc 8632)

[25] Chicago Convention, 7 December 1944, Article 38, requiring Contracting States to notify ICAO of any differences between their national regulations or practices and the international Standards adopted under the Convention.
[26] ICAO, ICAO's Policies on Taxation in the Field of International Air Transport, Doc 8632, Third Edition, 2000, available at https://www.icao.int/sites/default/files/2025-02/8632_cons_en.pdf.
[27] ICAO Template Air Services Agreement (TASA), Article 14, reproduced in ICAO, Policy and Guidance Material on the Economic Regulation of International Air Transport (Doc 9587, 4th Edition), available at https://www.icao.int/sustainability/pages/Doc9511.aspx.
[28] ICAO's Policies on Taxation in the Field of International Air Transport, Doc 8632, Third Edition, 2000. Available at H:\WP51\Taxation-Doc8632\DOC8632\3rd edition-2000\THIRD EDITION.wpd

Table 1: ICAO Doc 8632, recommended key practices and objectives

	Recommended practices	Objective(s)
Airline Income and Profits	- Tax airlines primarily in their state of residence (effective management). - Provide reciprocal exemptions for foreign airlines operating internationally. - Align with bilateral Air Services Agreements and double taxation treaties. - Avoid source-based taxation in transit or destination states.	Prevent double or multiple taxation, reduce administrative burden, maintain fair competition.
Fuel, Lubricants, and Technical Supplies	- Exempt fuel, lubricants, and technical supplies loaded for international flights from taxes and duties. - Distinguish taxes (general revenue) from charges (service cost). - Avoid double levies when crossing borders.	Reduce operational costs, promote efficiency, and ensure fair treatment of all airlines.
Sale, Use, and Passenger Services	- Minimize or exempt taxes on ticket sales, air waybills, and passenger fees for international flights. - Apply zero-rating or exemption for VAT/sales tax on international air transport services.	Maintain affordability, prevent tax-induced barriers to international travel.
Charges versus Taxes	- User charges must reflect actual cost of services (e.g., navigation, airport use, security). - Charges should be transparent, non-discriminatory, and cost-based. - Taxes should not interfere with international operations.	Ensure predictability, transparency, and efficiency while funding necessary aviation services.
Policy Principles	- Promote economic efficiency by avoiding fiscal barriers. - Encourage international coordination among States. - Maintain predictability and fairness for airlines.	Support stable, sustainable, and globally connected aviation.

Table 1: ICAO Doc 8632, recommended key practices and objectives

2.3. Networked multilateralism and institutional fragmentation in international tax governance

The relationship between ECOSOC and the UN Specialized agencies (including ICAO) consists of the former providing a formal platform for inter-agency dialogue, reporting, and normative alignment, though its coordinating authority over specialized agencies remains structurally limited. Relationship agreements under Articles 57 and 63 of the UN Charter[29] do not establish hierarchical control; rather, they institutionalize consultation, information exchange, and recommendations. As a result, collaboration within the UN system tends to be horizontal – theoretically occurring directly between agencies - rather than vertically directed by ECOSOC.

The experience of ICAO illustrates this dynamic clearly. ICAO does not receive operational directives from ECOSOC regarding its regulatory agenda. Instead, coordination emerges through inter-agency working groups, memoranda of

[29] Charter of the United Nations, 26 June 1945. Available at Charter of the United Nations — Repertory of Practice of United Nations Organs — Codification Division Publications

understanding, joint technical panels, and participation in system-wide mechanisms such as the UN Chief Executives Board. In practice, ICAO's engagement with bodies such as the World Health Organization (WHO) during global health crises is negotiated issue by issue rather than mandated through ECOSOC oversight.

This horizontalism reflects a foundational design choice in the UN system: specialized agencies were created as legally autonomous organizations governed by their own constituent instruments, budgets, and membership procedures. In ICAO's case, the Chicago Convention establishes an independent decision-making structure centered on the ICAO Assembly and the ICAO Council. ECOSOC's role is therefore, in theory, primarily facilitative - promoting information sharing, policy coherence, and alignment with broader UN objectives such as the Sustainable Development Goals - rather than directive.

The relationship between ECOSOC and ICAO highlights several strengths of the UN's decentralized, horizontally networked institutional architecture. Autonomy enables ICAO to function as a highly specialized community, insulating technical aviation standard-setting from broader political bargaining and promoting efficient, expertise-driven regulation. Decentralization also accommodates State sovereignty concerns, particularly salient in air transport given its links to national security and territorial control, thereby strengthening both compliance with ICAO standards and the system's legitimacy. Moreover, functional differentiation allows ICAO to cultivate deep sectoral competence while engaging flexibly with other regimes through issue-specific collaboration rather than centralized oversight.

At the same time, this structure generates important constraints that create risks for policy misalignment. Overlapping mandates contribute to institutional fragmentation and regime complexity. Because the ECOSOC lacks enforcement authority, it cannot compel policy alignment, limiting systemic coherence. As an illustration, ICAO has the right to participate in UN Tax Committee processes as a member organization, pursuant to Article 57 of the UN Charter and ICAO's 1947 relationship agreement with the UN. However, ICAO's effective inclusion in the work of UN tax-related bodies remains, to date, limited and non-automatic, while UN tax bodies have limited familiarity with aviation-specific global tax frameworks and recommended practices and are not formally required to take them into account. This may point to the need for a broader recognition of the importance of systematically integrating ICAO into relevant UN processes, as well as ensuring adequate institutional resourcing within ICAO to support such engagement. Horizontal coordination also entails negotiation costs and can slow integrated responses to cross-sectoral issues, while decentralization may dilute accountability when policy outcomes fall short.

From an institutional design perspective, it exemplifies "networked multilateralism": a system that maximizes technical specialization and State acceptance but constrains centralized steering and unified policy direction within the broader UN framework.

A further important set of actors in international tax governance are the International Monetary Fund (IMF) and the World Bank, whose roles are distinct from, yet closely interconnected with, those of the OECD and the United Nations system. Unlike the OECD, which develops detailed international tax standards, or the UN Tax Committee, which elaborates alternative normative models under ECOSOC oversight, the IMF and the World Bank contribute primarily through macro-economic surveillance, fiscal capacity-building, and technical assistance in tax policy and administration.

The IMF's role is characterized by its integration of tax policy advice within broader macro-economic frameworks and, in certain cases, within its lending operations. Its policy recommendations are sometimes embedded in program conditionality - i.e., the requirement that borrowing countries implement agreed reforms as a condition for accessing financial support - which gives the IMF significant leverage in shaping domestic fiscal and tax policies, including decisions on revenue mobilization, tax administration, and alignment with international tax standards.

The World Bank plays a complementary, though institutionally distinct, role. It is particularly active in supporting developing countries through long-term capacity-building, technical assistance, and advisory work on domestic resource mobilization and tax system design. Its influence is exercised primarily through project-based support, analytical tools, and development partnerships, often in coordination with the IMF and other organizations, rather than through the same form of macro-economic conditionality.

Together, the IMF and the World Bank form part of a broader ecosystem of international tax governance in which standard-setting, policy advice, and implementation support are distributed across multiple actors, reflecting both functional specialization and the increasing complexity of global fiscal coordination.

3. From model conventions to a potentially binding international tax architecture

In recent years, there has been a growing political intention, especially among developing economies, to move beyond advisory standards toward the creation of legally binding instruments. This ambition has materialized in the negotiations under the Intergovernmental Negotiating Committee on the UN Framework Convention on International Tax Cooperation (UN Framework Convention),[30] which seeks to establish a robust framework for international tax cooperation that includes legal obligations rather than solely relying on soft-law guidance. The emergence of this initiative signals a shift toward a more pluralistic and legally structured international tax order, as well as the intensifying debate about the architecture of global tax governance, including outside of the UN system. It signals several structural tensions:

- Inclusivity versus efficiency: The OECD process is often seen as technically sophisticated and relatively agile, yet the perception of limited representativeness persists, despite recent efforts to broaden participation through the Inclusive Framework. The UN process is more universal but potentially slower and more politicized.
- Soft law versus hard law: Much of OECD tax governance operates through soft-law instruments (model conventions, guidelines, peer review mechanisms). A UN Framework Convention could move toward a treaty-based, legally binding multilateral regime.
- Distributional conflict: Much of the debate ultimately centers on reallocating taxing rights in a globalized and digitalized economy, especially between developed and developing states.

The resulting pluralism reflects deeper distributive conflicts over the allocation of taxing rights, as well as competing visions of legitimacy in global economic governance.

This complexity is further compounded at the regional level. In the European Union, for example, international tax standards are translated into binding regional law through directives and Court of Justice jurisprudence, alongside the bilateral Double Taxation Conventions concluded by Member States[31] creating an additional governance layer that interacts with global norms. This layered architecture blends technical expertise from organizations such as the OECD and the UN with political coordination through bodies such as the G20 and the EU, collectively shaping the normative and practical contours of national tax policy.

3.1. Core principles of international tax governance

In this complex governance landscape, several core principles continue to underpin international tax law and policy. The following principles represent an analytical distillation of recurring concepts reflected across international tax instruments and policy discussions. They are notably embedded in widely used frameworks such as the OECD and UN Model Tax Conventions, the BEPS Multilateral Instrument (MLI), and Inclusive Framework commitments, and remain central to ongoing discussions among States, international organizations, private sector actors, and academia (Table 2).

[32] Tax certainty and policy implementation | OECD
[32] Tax certainty and policy implementation | OECD

Table 2. Core principles of international tax governance

Avoidance of Double Taxation	Preventing multiple taxation of the same income remains a core objective, achieved through treaty relief, exemptions, or tax credits. Notably, it is a central objective of DTAs, the OECD, and UN Model Conventions to allocate taxing rights so as to prevent multiple taxation on the same income.
Tax Certainty and Predictability	Businesses require clear and stable tax rules to support long-term investment and cross-border operations.[32]
Neutrality and Non-Discrimination	Tax systems should not distort international competition or favor domestic over foreign economic activity, in line with non-discrimination provisions in model conventions.[33]
Administrative Feasibility	Rules must be administrable by tax authorities and practicable for taxpayers; this is reflected in the OECD's focus on administrative cooperation tools and dispute resolution.[34]
Fair Allocation of Taxing Rights	There is ongoing debate regarding how profits should be shared between source and residence jurisdictions, heightened by digitalization and mobility of intangible assets. OECD/G20 Pillar One and UN concerns over source rights exemplify this debate.

Table 2: Core principles of international tax governance

3.2. Contemporary reform initiatives

OECD/G20 BEPS and BEPS 2.0

The BEPS Project marked a shift from addressing double taxation to combating double non-taxation. The longstanding principles applicable to international taxation are largely based on the concept of physical presence. Digital business models changed this nexus, and the OECD identified three critical phenomena facilitated by digitalization (scale without mass, reliance on intangible assets, and centrality of data), which pose serious challenges to elements of the foundations of the global tax system.

To address the possibility of multinationals shifting profits from high-tax to low-tax jurisdictions, the G20 proposed to the OECD the creation of a global tax framework, the Anti-Base Erosion and Profit Shifting (BEPS), comprising 15 Actions.

OECD/G20 BEPS impacts international air transport, among many other sectors and industries. The objective is to combat tax avoidance strategies that exploit gaps and mismatches in international tax rules to shift profits to low- or no-tax jurisdictions, thereby eroding countries' tax bases.

The OECD/G20 BEPS program has led to the development of the two-pillar solution (sometimes labeled BEPS 2.0). Of these, Pillar Two has been adopted by a large number of countries as of 2024, while the future of Pillar One remains uncertain:

- Pillar Two proposes a global minimum effective corporate tax rate of 15% on MNE profits in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below that rate. In summary, Pillar Two seeks to put a floor under corporate income tax rates.
  Pillar Two will require that all "constituent (local) entities" of an international airline group in a particular jurisdiction determine their effective tax rate using defined rules (the so-called GloBE Model Rules) and data specific to that

[32] Tax certainty and policy implementation | OECD
[33] For instance, Article 24 of the UN Model Tax Convention
[34] Tax certainty and policy implementation | OECD

local entity. Where that local entity's effective tax rate is less than 15%, a series of rules come into effect to ensure that the minimum tax rate is applied, subject to a substance carveout (the Substance-Based Income Exclusion, or SBIE). These rules are intended to be implemented as part of a common approach and incorporated into domestic legislation.

- The proposed Pillar One (Amount A) applies to large MNEs with global revenues exceeding EUR 20 billion and a profitability threshold of at least 10%, measured as profit before tax relative to revenue.[35] Under this framework, a portion of the MNE's global taxable income is reallocated to the jurisdictions where revenues are generated (so-called "market jurisdictions"), rather than remaining fully taxed in jurisdictions where the enterprise's physical presence, employees, or capital are located. Airlines that fall within this scope would be required to allocate 25% of "excess profits" (i.e., profits above 10% of global revenues) to the countries from and to which the airline has economic activities outside its country of effective management. Pillar One consists of Amount A, which covers the reallocation of residual profits to market jurisdictions, and Amount B, which provides a simplified approach to applying the arm's length principle to routine intra-group transactions, complementing Amount A by addressing transfer pricing in a simpler manner.

These initiatives represent a move toward greater multilateral coordination, but they also increase complexity and compliance obligations for multinational groups.

Box 3. Industry methodology for mobile assets and employees in the calculation of SBIE

Under the OECD's Pillar Two Global Anti-Base Erosion (GloBE) Rules, the Substance-Based Income Exclusion (SBIE) operation allows multinational enterprises to exclude a portion of income linked to substantive economic activities in a jurisdiction through eligible payroll costs and tangible assets. The OECD Administrative Guidance issued in July 2023 provides direction on the treatment of Interjurisdictional

Assets and Employees, allowing for the inclusion of Eligible Payroll Costs and/or the carrying value of Eligible Tangible Assets when employees or assets are physically present in a Constituent Entity (CE) jurisdiction for more than 50% of the time.

For the international air transport industry, tracking the physical location of aircraft and crew is practically unfeasible. Airlines' eligible tangible assets, primarily aircraft, represent the largest component of their SBIE, and crew salaries represent a very significant component of the payroll costs. A large share of these assets and employees operate across multiple jurisdictions, reflecting the global nature of modern airline operations.

The 2023 Guidance acknowledged that further consideration may be given to simplified allocation mechanisms for industries with substantial cross-jurisdictional assets and employees, a situation exemplified by airlines.

In this context, IATA and its members support the implementation of the Voyages Method as a practical, fair, and harmonized approach for the air transport industry, while preserving the framework's underlying principles and integrity.

- The Voyages Method allocates carrying value and payroll costs associated with pools of Eligible Tangible Assets and Employees to a specific CE jurisdiction based on the proportion of voyages.
- A voyage is defined as an occurrence of transportation of passengers or cargo from one place to another. The allocation formula would identify the number of voyages from and to a CE jurisdiction relative to the total voyages (i.e., number of flights) conducted by the multinational enterprise (MNE) within a given year.
- Pools of Eligible Assets are understood to comprise similar assets that the CE can track separately based on aircraft type designator per ICAO Document 8643.

Box 3: Industry methodology for mobile assets and employees in the calculation of SBIE

[35] Overview - Multilateral Convention of Amount A of Pillar One

United Nations-led developments

The United Nations' work toward creating a United Nations Framework Convention on International Tax Cooperation (UN Framework Convention) not only highlights a key tension in international tax governance - balancing equity and revenue needs with administrative practicality and economic neutrality – but could also have important implications for airlines. It may affect the taxation of airline profits, including the treatment of corporate income and related issues such as withholding taxes, which are currently addressed under Article 8 of the UN Model Convention. More broadly, if international air transport is brought within the Convention's scope on terms that depart from existing ICAO frameworks, the result is likely to be reduced tax certainty and an increased risk of multiple taxation of airline profits.

Box 4. United Nations Framework Convention on International Tax Cooperation

In December 2024, the UN General Assembly approved the Terms of Reference (ToR) for the future UN Framework Convention, and the Intergovernmental Negotiating Committee (INC) on the UN Framework Convention was established to draft the Convention and two early protocols: Protocol 1 on the taxation of cross-border services in a digitalized economy, and Protocol 2 on prevention and resolution of tax disputes. While environmental taxation has not finally been chosen as a priority area for this second early protocol, it is a potential future topic ("tax cooperation on environmental challenges").

The INC operates as an intergovernmental negotiating body, distinct from the UN Tax Committee's expert-driven advisory role under ECOSOC, and is mandated to negotiate a potentially binding multilateral instrument, following a specific decision-making process:

- the Committee shall exhaust every effort in good faith to reach consensus on all matters of substance while considering the available timeframe for negotiations
- when the Chair, upon recommendation of the Bureau, informs the Committee that all efforts to reach consensus have been exhausted, decisions on matters of substance relating to the framework convention shall be taken by a simple majority of members present and voting, while decisions on matters of substance relating to a protocol shall be taken by a two-thirds majority of members present and voting; and
- if the question arises as to whether a matter is one of substance or procedure, the Chair shall rule on the question, and any appeal of the ruling shall be decided by the Committee by a simple majority of members present and voting.

The Intergovernmental Negotiating Committee agreed to invite relevant non-governmental organizations, civil society organizations, academic institutions, the private sector, and other stakeholders to engage.

The INC is expected to convene three times annually, with the final text due for submission to the UN General Assembly by September 2027. The timelines for approval of the Framework Convention have been announced by the UN as follows:

- 2025-2027: Intergovernmental negotiating committee to draft a convention and two protocols
- September 2027: Final text submission to General Assembly (82nd session)
- 2027: Vote on finalized treaty (two-thirds majority required for adoption)

These ongoing negotiations illustrate the increasing prevalence of policy debates around specific business models, especially highly digitalized, consumer-facing MNEs. Unlike such models, aircraft operators do not "sell into" markets in a way that aligns easily with source-based taxation principles. Instead, they operate as highly integrated networks across jurisdictions, where value creation cannot be meaningfully disaggregated along traditional source or market lines. As a result, the approaches developed to address digitalization challenges risk being conceptually misaligned when applied to international air transport.

Air transport is genuinely sui generis. An aircraft generating income simultaneously over the high seas, across multiple jurisdictions, burning fuel uplifted in one country to serve passengers and cargo originating in several other countries, is not analogous to a digital platform or a manufacturing subsidiary.

In this context, insufficient consideration of existing internationally agreed frameworks - such as ICAO's Doc 8632 on the taxation of international air transport - may lead to normative inconsistencies across legal regimes. Such inconsistencies could undermine the coherence of international tax law (both at the level of soft and hard law), create overlapping or conflicting taxing rights, and increase the likelihood of double or multiple taxation. It may also weaken legal and tax certainty for operators, undermine the effective coordination between sector-specific international norms and best practices and broader multilateral tax instruments, and thereby affect the stability and proper functioning of the international air transport system.

Box 4: United Nations Framework Convention on International Tax Cooperation

4. Implications for globally mobile industries

Globally mobile industries are uniquely exposed to the increasing fragmentation of tax policy against the background of ongoing reform initiatives. Reforms under the OECD/G20 Inclusive Framework and parallel UN processes aim to achieve several stated goals, including better aligning taxing rights with economic substance and a fairer allocation of taxing rights. Yet, in practice, they also introduce overlapping claims, divergent interpretations, and increasing administrative demands. For sectors whose business models inherently span jurisdictions, these dynamics are not abstract policy concerns but immediate threats to ongoing operations.

Air transport is among industries for which the fragmentation of tax policy is most structurally damaging, for reasons that go to the heart of what aviation is - uniquely trans-jurisdictional by nature. Airlines function across a web of national systems, each applying distinct rules to income allocation, reporting, and compliance. Two airlines flying the same route between the same cities but domiciled in different countries may face entirely different effective tax burdens – not because their operations differ, but because their home states happen to have different bilateral treaty networks. This violates the most basic principle of tax neutrality: that the tax system should not determine who wins a competitive market.

Additionally, unlike other industries, where taxation may shift production or trade patterns, distortions in air transport are amplified and propagated through networks. A measure affecting a single route can reduce feeder traffic, weaken hub efficiency, and increase costs across interconnected services. Moreover, air transport generates positive spillovers by connecting people, markets, and nations; when these are undermined, the underlying connectivity of the global economy is impaired. The loss extends well beyond airlines, their suppliers and customers, and influences trade, industries such as tourism, and wider regional development. The economic losses associated with diminished connectivity may outweigh the incremental fiscal gains derived from fragmented tax claims.

Against this backdrop, ICAO has long promoted convergence through its taxation policies. The ICAO principles have not been developed as a favor to airlines, but to enable global civil aviation to play its full part in promoting peace and prosperity for all. The principle of exclusive taxation by the State of effective management of the airline, as enshrined in Doc 8632, seeks to reduce distortions by assigning taxing rights in a way that better aligns with operational reality. In doing so, it offers a more determinate and administrable solution to what would otherwise be an intractable problem of allocating tax rights across globally integrated networks. The principles it captures reduce uncertainty and administrative complexity while preserving neutrality. Historical precedents, such as the coordinated exemption of aviation fuel from taxation,[36] demonstrate that coherent international rules can eliminate inefficiencies arising not from tax levels themselves but from inconsistency in their application.

However, ICAO's taxation instruments - most notably in Doc 8632 – are not enshrined in treaty law. This creates a structural imbalance: widely accepted sector-specific principles risk being superseded by new and potentially binding global tax rules.

This disconnect manifests in several ways:

- First, the gradual shift toward expanded source-based taxation risks fragmenting what has historically been treated as unified income streams. In air transport, where revenues derive from integrated global networks rather than discrete local activities, such fragmentation complicates profit allocation across routes, leasing structures, and alliances. This not only raises compliance costs but also leads to inefficiencies.

[36] Article 24 of the Chicago Convention, 7 December 1944, reinforced by ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632, 3rd Edition, 2000).

- Second, the administrative burden has grown markedly. Airlines risk having to navigate layered reporting obligations - such as Country-by-Country Reporting and global minimum tax regimes - implemented unevenly across jurisdictions. The lack of harmonization requires parallel filings, continuous monitoring of regulatory changes, and increased exposure to audit risk. These pressures can influence commercial decisions, including network design and market entry.

- Third, the risk of double or multiple taxation persists despite efforts at coordination. Divergent domestic applications of international standards, combined with the absence of a single forum reconciling inclusivity with technical and sectoral expertise, create conditions for overlapping tax claims. For globally mobile activities, this uncertainty can directly affect pricing, investment strategies, and route viability.

The current trajectory of international tax reform risks not only harming airlines but degrading the infrastructure of the global economy if sector-specific considerations are not adequately integrated. Uncoordinated policy changes - whether through treaty revisions, unilateral measures, or new multilateral instruments - can cumulatively degrade global connectivity. The consequences are not confined to industry stakeholders; they affect the broader functioning of the global economy, particularly where connectivity is most fragile yet most valuable.

A more effective approach does not require uniform tax rates or the abandonment of the principle of tax sovereignty. Rather, it calls for greater alignment across existing frameworks, ensuring that general tax principles and sectoral realities are mutually reinforcing. The foundational elements of global tax governance are already in place. What remains is to connect them in a way that preserves administrability, supports fair competition, and sustains the networks on which international economic integration depends.

In sum, the structural elements of global tax governance exist. What is missing are clear lanes and bridges between them.

5. International tax governance 2.0

Taxation can play a central role in economic development in all countries, but distortionary taxation thwarts it. Fiscal systems can finance public goods – infrastructure, education, health, and the rule of law – without which development is impossible - while also facilitating equitable outcomes. However, tax systems must achieve these goals while preserving investment, trade, and entrepreneurial dynamism through which development happens. The fragmented international tax architecture today has already resulted in sub-optimal outcomes for many sectors and risks creating further inefficiencies. Air transport is the industry in which such fragmentation is most structurally damaging. In international air transport, the product is physical connectivity, as opposed to "borderless" digital connectivity, and the product is trans-jurisdictional by definition. Only purely domestic air transport is not trans-jurisdictional and hence lies outside the purview of ICAO and international tax governance. This is not a tax-planning choice, but an operational reality.

Against this backdrop, preserving stable, equitable, and administrable tax frameworks consistent with ICAO's Policies on Taxation in the Field of International Air Transport (ICAO Doc 8632) is essential. The near-term steps that could and should be taken to achieve this goal are as follows:

- ICAO, as the United Nations specialized agency for international civil aviation, should actively participate in all policy fora addressing matters relevant to international air transport, with its voice accorded appropriate institutional authority and technical weight, ensuring alignment with established aviation taxation principles, including ICAO Doc 8632. This should notably include structured involvement in the work of:

    - The UN. The INC and relevant subcommittees of the UN Tax Committee of Experts address matters directly relevant to aviation. For example, the environmental tax subcommittee of the UN Tax Committee of Experts considers developing guidance on the taxation of aviation emissions - a field that directly intersects with, and risks conflicting with, ICAO's existing policies and recommended practices on both taxation and environmental sustainability in international aviation.

    - The OECD. Specifically, formal status should be granted to ICAO within bodies such as the OECD/G20 Inclusive Framework and relevant OECD Working Parties involved in tax matters. Observer status at the

OECD/G20 Inclusive Framework is currently granted to multilateral organizations such as the IMF and the World Bank Group, and, at a minimum, should be extended to ICAO.[37]

- ICAO Contracting States should pursue coordinated diplomatic engagement to affirm the continued application of the principles set out in ICAO Doc 8632 across the relevant UN fora. Such engagement should focus on ensuring that ongoing and future negotiations on the UN Framework Convention and its protocols do not diverge from the sector-specific frameworks established within ICAO, and on preserving continuity and legal certainty for international air transport. This must be accompanied by enhanced inter-ministerial coordination at the national level - particularly between finance, transport, and foreign affairs authorities - to ensure that States' positions across all parallel UN fora are consistent with the position they uphold within ICAO. Without such coordination, there is a significant risk of fragmented policy approaches, in which commitments made in tax negotiations could conflict with obligations and policy positions maintained within ICAO, ultimately weakening both legal certainty and the effectiveness of global aviation governance.

- States attending the INC should explicitly acknowledge, during the upcoming negotiation session in August 2026, the continued relevance and authority of ICAO Assembly Resolutions A42-22 and A42-26 (dated October 2025), which reaffirm the long-standing principles governing the taxation of international air transport set out in ICAO Doc 8632. Such acknowledgment would help ensure that ongoing negotiations on a potential UN Framework Convention (both under the INC process and at the UN Tax Committee) do not inadvertently diverge from, or undermine, the sector-specific consensus carefully developed by 193 States within ICAO. At the same time, this recognition must be accompanied by enhanced inter-ministerial coordination identified above. Such acknowledgement could take the form of:

    - Individual interventions of States' representatives attending the INC - including the representatives of States for which the aviation sector is critical for business dynamism and development.

    - A joint statement of States and other parties at the INC, affirming their continued application of the principles set out in ICAO Doc 8632, irrespective of the outcome of negotiations on the UN Framework Convention and its protocol. It would ensure continuity and legal certainty for the industry and minimize the risks of divergent UN provisions concerning global civil aviation activity.

- ICAO Contracting States should strengthen the language of the ICAO Template Air Services Agreement (TASA) to ensure the effective incorporation of ICAO Doc 8632 principles into bilateral air service agreements. Importantly, Article 14 should be reinforced to confirm that income and profits derived by airlines from international air transport operations are taxed only in the State where the place of effective management of the airline is situated. The TASA should also explicitly say that taxation should not unduly burden international air services, thereby preventing double taxation and ensuring a level playing field for international operations.

- A formal legal opinion should be commissioned to examine the legal exposure that may arise where States, as parties to bilateral DTAs and to bilateral ASAs that incorporate income tax provisions consistent with ICAO's TASA, apply source-based taxation to international air transport. The Chicago Convention itself does not address income tax, but the interaction between unilateral source-based measures and these bilateral treaty commitments, together with the policy expectations established within ICAO through Doc 8632 and successive Assembly resolutions, may support claims under existing dispute-resolution mechanisms or provide grounds for coordinated diplomatic action among Contracting States.

- IATA, as the industry's principal representative body, should systematically be granted formal observer status in relevant technical working groups to provide operational expertise and data-driven input – for instance, within the UN Tax Committee of Experts subcommittees. Such an arrangement would significantly strengthen the technical grounding, sectoral coherence, and implementation of international tax policy, while safeguarding the stability and predictability of the global air transport system that underpins trade, tourism, and economic development.

Looking further ahead and recognizing States' reluctance to cede taxing rights in the context of fiscal sovereignty concerns and broader political and institutional constraints, it is imperative to outline what a coherent future architecture of

[37] See p.60 of the October 2021 OECD Report "Developing Countries and the OECD/G20 Inclusive Framework on BEPS. Available at https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/10/developing-countries-and-the-oecd-g20-inclusive-framework-on-beps_971ab5fe/170270aa-en.pdf

international tax governance could entail. With a view to ensuring robust and coherent global tax governance, the following changes would help safeguard the stability and predictability of the global air transport system in the long term:

1. If a multilateral tax instrument is endorsed, ensure sectoral carve-outs for industries already governed by internationally agreed frameworks

In the same spirit as World Trade Organization procedures that preserve sector-specific regimes when developing specialized agreements, any multilateral, cross-industry legal instrument should explicitly recognize and exclude from its scope sectors already governed by internationally agreed tax frameworks.

In the context of the upcoming UN Framework Convention and its two protocols, this could be addressed through a clear exclusion clause for international air transport within the Convention's scope. Such an approach would be consistent with the Intergovernmental Negotiating Committee's current mandate. It would preserve the existing rules applicable to the industry - notably ICAO Doc 8632 - as well as the broader framework of bilateral double taxation agreements and air services agreements, thereby maintaining the residence-based principle while allowing the Convention to achieve its objectives.

2. The creation of a standing body coordinating technical expertise across international organizations and sectoral bodies

A standing cross-agency body would help ensure consistency of the technical expertise which informs policy discussions at the OECD and the UN. Such expertise, which often resides in the respective secretariats of these bodies, could be formally coordinated and extended to include ICAO sector-specific expertise.

This could expand on existing efforts to ensure consistency of tax policy advice coming from multilateral organizations. The Platform for Collaboration on Tax (PCT) - a joint initiative of the IMF, OECD, UN, and World Bank – was launched in 2016 to strengthen international tax coordination and support capacity development in developing countries. Its outputs to date, however, have focused on capacity-building and toolkits rather than on the systematic integration of sector-specific international regimes, particularly in areas such as international air transport, which are already governed by established frameworks under the auspices of ICAO, including ICAO Doc 8632.

To enhance coherence in global tax governance, this body, as development of the PCT or as an entirely new body, could include structured consultation mechanisms with relevant UN specialized agencies when sector-specific issues arise, alongside a formal requirement for policy proposals at the UN and OECD levels to be submitted for assessment of compatibility with existing international frameworks. Introducing such a requirement for highly networked industries would further ensure that tax guidance adequately reflects economic realities, including the role of aviation in enabling innovation, trade, tourism, investment, and broader development outcomes. Such refinements would strengthen the legitimacy and effectiveness of international tax cooperation while safeguarding the integrity of established sectoral regimes and ensuring policy coherence across the multilateral system.

3. Elevating ICAO taxation principles to binding status

The Chicago Convention established in its preamble that international air transport services should be *"operated soundly and economically"*.[38] Article 44(d) gives concrete effect to this purpose by mandating ICAO with the substantive objective of meeting *"the needs of the peoples of the world for safe, regular, efficient and economical air transport"*.[39] These provisions place the economical operation of the international air transport system squarely within the Convention's substantive mandate. At the Sixth Worldwide Air Transport Conference in 2013, States reaffirmed this assessment by recommending for ICAO to "*in cooperation with States, continue to consider additional ways and means by which to enhance the status of its policies for the sustainable economic development of the air transport system, and should assess the value of a possible new Annex to the Chicago Convention on sustainable economic development of air transport, or other acceptable solutions.*"[40]

[38] Chicago Convention, 7 December 1944, Preamble. The Preamble articulates the Convention's object and purpose, which, under established principles of treaty interpretation, informs the meaning and reach of every provision of the treaty. See also the Vienna Convention on the Law of Treaties, 23 May 1969, Article 31(2), which provides that the context for the interpretation of a treaty includes its preamble.
[39] Chicago Convention, 7 December 1944, Article 44(d).
[40] ICAO, Sixth Worldwide Air Transport Conference, Sustainability of Air Transport, doc 10009, 2013. Available at ATConf6_10009.pdf

Avoiding distortionary taxation and the multiple taxation of airline profits is integral to ensuring the economical operation of international air transport. ICAO Doc 8632 addresses this issue by recommending residence-based taxation (the exclusive taxation of airline profits in the State of effective management of the airline) and by prohibiting multiple taxation of aviation income. These principles, which the Council first adopted in 1966, and the Contracting States have endorsed through successive Assembly resolutions over six decades, are settled within ICAO and represent the consensus position of the global aviation regulatory community. However, ICAO's policies on taxation have since been increasingly challenged and undermined.

ICAO and its Contracting States should now actively build on the 2013 mandate and pursue the recommendations of the Sixth Worldwide Air Transport Conference, with a view to enhancing the legal status of ICAO's policies on the sustainable economic development of international air transport, including its core principles on taxation. The two routes expressly contemplated in the 2013 mandate – inclusion in a new Annex to the Chicago Convention or other acceptable solutions – are both available. [41] Enhanced legal status for ICAO's policies through either route would protect them from risks of displacement because of unilateral actions in other international tax governance fora.

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These topics will remain at the forefront of the air transport industry's priorities through 2027 and beyond and will influence its nature well into the next decade. This will, in turn, affect economic development. The global aviation taxation regime is not just a matter of fairness between States or efficiency for airlines. It is a matter of whether the extraordinary development potential of air transport, which the empirical literature documents,[42] is enabled, or whether it is quietly foreclosed by the accumulation of fiscal friction at the margins of a fragile global network.

[41] Existing practice, such as the Standard and Recommended Practices (SARPs) framework under Article 37, demonstrates that the Covnention's provisions have been applied beyond narrowly technical matters. Annex 16, Volume IV, establishes the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), the world's first global market-based measure to address CO2 emissions from any single sector. CORSIA imposes substantive regulatory obligations on aeroplane operators with significant economic effects, which ICAO has expressly recognised in its periodic review of CORSIA's design elements. CORSIA shows that the SARPs framework can carry obligations whose substance is regulatory and whose effects are economic, and that Article 38 of the Convention applies to the resulting Standards in the same way as to Standards on technical subjects.

[42] See Felipe Campante and David Yanagizawa-Drott, "Long-Range Growth: Economic Development in the Global Network of Air Links", Quarterly Journal of Economics, 2018, and Tassew Dufera Tolcha et. al., "Effects of African aviation liberalization on economic freedom, air connectivity and related economic consequences", Transport Policy, 2021, for instance.