

## “Green” Taxes

**Taxing air transport has no positive impact on the environment but brings a detrimental effect on jobs, competitiveness and the economy.**

### SITUATION

Environmental issues are at the top of the aviation industry’s agenda, alongside safety and security. The aviation industry recognizes the need to address the global challenges of climate change and has adopted a set of ambitious targets to mitigate CO<sub>2</sub> emissions from air transport, including the following:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;
- A cap on net aviation CO<sub>2</sub> emissions from 2020 (carbon-neutral growth); and
- A reduction in net aviation CO<sub>2</sub> of 50% by 2050, relative to 2005 levels.

In addition to its climate change action, the industry is also engaged in efforts to mitigate its impacts on the local environment and is working with competent authorities to find tailor-made measures to address noise and air quality problems at airports.

### IATA POSITION

IATA strongly opposes any form of national or regional environmental scheme that would result in double and extra-territorial taxation of aviation’s emissions as this would negatively affect the economy. Any market-based measure (MBM) applied to aviation must be global in scope, preserve fair competition, and take account of different types and levels of operator activity. The safe, orderly and efficient functioning of today’s air transport system relies on a high degree of uniformity in regulations, standards and procedures. The use of unilateral measures undermines this foundation.

Furthermore, in accordance with ICAO’s Policies on Charges for Airports and Air Navigation Services (ICAO Doc 9082), any noise- or local air quality-related levy should be levied only at airports experiencing noise or local air quality problems, be in the form of a charge rather than a tax<sup>1</sup>, and be designed to recover no more than the costs applied to their alleviation or prevention.

<sup>1</sup>ICAO policies make a distinction between a charge and a tax, in that a charge is a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation, and a tax is a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis.

### WHO IS NEGATIVELY IMPACTED BY AN ENVIRONMENTAL TAX?

A wide cross-section of the economy is impacted by the imposition of an environment tax, including: 1) passengers; 2) airlines; 3) the broader tourism sector; and 4) governments/revenue authorities.

In general, air travel has a high price elasticity of demand (i.e., is highly sensitive to changes in price). The imposition of an additional form of taxation on the price of air travel, in addition to the existing taxes, fees and charges already levied in many jurisdictions, means the overall demand for air travel is negatively impacted.

The impact of an environmental tax on the aforementioned groups includes the following:

- **Passengers** – may choose not to travel as a result of the price increase, may substitute other means of travel for air travel (i.e., train, automobile, etc.) or may attempt to divert air travel to a jurisdiction where such a tax has not been levied, all of which reduces productivity and may result in displacing environmental problems to other locations.
- **Airlines** – are negatively affected due to the decline in passenger revenue and/or their inability to recover such a tax from passengers, which limits their ability to invest in newer, cleaner and quieter equipment and technology.
- **The Tourism Sector** – is negatively affected as a decline in air passenger volumes leads to decreased demand for their goods and services, resulting in a negative impact on GDP.
- **Governments/Revenue Authorities** – may not necessarily benefit from the imposition of such a tax. The price elastic nature of air travel means that the proportional increase in tax revenue derived from an environmental tax may be outweighed by the greater proportional decrease in the quantity of air travel and the resulting reduction in revenue from lost travelers’ spending as well as uncollected fees, charges and taxes.

Consequently, while the overall goal of an environmental tax is laudable, its distortionary effect on jobs and the economy, while at the same time not incentivising the development or use of newer and greener technology, makes it an ineffective policy choice.

## FURTHER RATIONALE AGAINST AN ENVIRONMENTAL TAX

- 1 As a tax, the income generated from the imposition of an environmental tax is general revenue to a government, whereby it can be used to fund any variety of public sector programs and initiatives. Therefore, no direct link exists between the revenues raised from such a tax and actual measures aimed at mitigating the impact of aviation on the environment. In fact, by taking away funds from airlines, this weakens the ability of the sector to dedicate resources to such measures.
- 2 The effectiveness of levies as incentives for the introduction of cleaner and quieter aircraft is doubtful. Experience, for example, shows that the removal of noisy aircraft from operations has been similar at airports with high noise charges and at airports with no such charges. In practice, fleet choices are indeed driven by the normal fleet renewal process and other considerations such as capacity and fuel efficiency.
- 3 The imposition of an environmental tax is contrary to the *Policies on Taxation in the Field of International Air Transport* contained in ICAO Document 8632, which states that “each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate ... all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers”.
- 4 The imposition of environmental taxes is contrary to ICAO’s Council Resolution on Environmental Charges and Taxes<sup>2</sup>, which states that environmental levies should have no fiscal aims, should be related to costs of mitigating the environmental impacts of aircraft, and should not discriminate against air transport compared to other modes of transport.
- 5 Airport and air navigation charges paid by airlines for the infrastructure they use represent some 14% of the overall cost of air transport worldwide and are therefore a significant expense to the airlines. In 2012, airlines and passengers are estimated to have paid at least USD 92.3 billion for use of airport and air navigation infrastructure globally.
- 6 A number of states levy passenger taxes on air tickets over and above infrastructure charges. These taxes have no equivalent for other modes of transport and are discriminatory since singling out air transport is ultimately detrimental to the aviation industry and the global economy.
- 7 By 2032, if forecasts are accurate, there will be over 6.5 billion passengers and aviation will support 103 million jobs and USD 5.8 trillion in economic activity. Taxation measures (such as an environmental tax) that increase the cost of air travel will have a negative impact on these forecasts and the resulting global economic benefits that aviation would otherwise deliver.

<sup>2</sup> Available at [www.icao.int/environmental-protection/Pages/Taxes.aspx](http://www.icao.int/environmental-protection/Pages/Taxes.aspx)