

## “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 2016, the ICAO Assembly adopted a global Carbon Offsetting and Reduction Scheme for International Aviation (CORSA). Under CORSA, aircraft operators will be required to purchase offsets, or “emission units”, for the growth in CO<sub>2</sub> emissions above 2020 levels covered by the scheme.

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. The implementation of CORSA obviates the need for existing and new economic measures to be applied to international aviation emissions on a regional or national basis and all international flights should be subject exclusively to CORSA. While domestic flights are beyond the scope of the global market-based measure (GMBM), any market-based measures applicable to domestic flights should be aligned and made compatible with the GMBM. Such an alignment would avoid regulatory fragmentation, reduce the administrative burden for operators and Governments, and minimize potential market distortions.

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.

### 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.

<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.

## 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 39th session of the ICAO Assembly reiterated that market-based measures should not be duplicative and international aviation CO<sub>2</sub> emissions should be accounted for only once. ICAO Assembly Resolution 39-3 also stipulates that CORSIA is to be the market-based measure applying to CO<sub>2</sub> emissions from international aviation. Therefore, any carbon pricing instrument applied to international flights would be incompatible with the agreement reached at the last ICAO Assembly.
- 4 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”.
- 5 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.
- 6 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 2016, airlines and their customers are forecast to generate an estimated \$118 billion in tax revenues for governments. That's the equivalent of 45% of the industry's GVA (Gross Value Added, which is the firm-level equivalent to GDP).
- 7 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.
- 8 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)