



# Fact sheet: taxes & the environment

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

## Addressing aviation's impacts

Environmental issues are at the top of the aviation industry's agenda, alongside safety and security. The aviation industry has adopted a set of ambitious targets to mitigate CO<sub>2</sub> emissions from air transport:

- 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)
- A reduction in net aviation CO<sub>2</sub> of 50% by 2050, relative to 2005 levels

In 2016, the International Civil Aviation Organization (ICAO) adopted a global carbon pricing instrument for international aviation (the Carbon Offsetting and Reduction Scheme for International Aviation or CORSIA). Under CORSIA, airlines are required to compensate the increase in CO<sub>2</sub> emissions above 2020 levels covered by the scheme. It is forecast that CORSIA will mitigate over 2.5 billion tonnes of CO<sub>2</sub> and generate at least USD 40 billion in climate finance between 2021 and 2035.

The aviation sector is committed to advances in technology, operations and infrastructure to continue to reduce the sector's environmental impact. Airlines have been replacing old aircraft with new quieter and more efficient models – over 15,000 since 2009 at a cost of USD1 trillion. The industry is also engaged in efforts to mitigate its impact on the local environment and is working with authorities, airports, local communities and other stakeholders to identify tailor-made measures to address noise and air quality problems at airports.

Rather than taxing passengers and airlines, Governments need to support multilateral efforts to address aviation's emissions, including CORSIA. Governments must also support investment in research in new technologies and the transition of air transport towards sustainable aviation fuels.

## Taxes are not an effective solution

Experience shows that the effectiveness of levies as incentives for cleaner/quieter aircraft is doubtful. No government that introduced a ticket tax has been able to demonstrate that such tax reduced CO<sub>2</sub> emissions. Furthermore, the removal of noisy and more less efficient aircraft from operations has been as fast at airports with environmental levies as at airports with no such levies.

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

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

## The real impacts of taxation

Taxes have negative impacts on the environment, passengers and the economy.

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

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

Airlines will lose their competitiveness if they lose customers to competitors based in other countries. Taxes levied at an individual state level therefore distort competition, often to the detriment of the home carrier of the given state, which is most exposed to the tax burden.

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

Governments may also lose revenues if the increase in tax rate is offset by the decrease in the volume of air travel and the indirect effects of reduction in revenue from lost travelers' spending as well as uncollected fees, charges and taxes.