



Fact Sheet

“Green” Taxes

Environmental issues are at the top of the aviation industry’s agenda, alongside safety and security. The aviation industry recognizes the need to address its impacts at the local and global levels. In particular, it has adopted a set of ambitious targets to mitigate CO₂ emissions from air transport:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020
- A cap on net aviation CO₂ emissions from 2020 (carbon-neutral growth)
- A reduction in net aviation CO₂ of 50% by 2050, relative to 2005 levels

Current Initiatives

- **Global:** In 2016, the International Civil Aviation (ICAO) Assembly adopted a global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Under CORSIA, aircraft operators will be required to purchase offsets, or “emission units”, for the increase in CO₂ emissions above 2020 levels covered by the scheme.
- **Local:** In addition to its climate change action, 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.

The rationale against “Green Taxes”

- **Environmental taxes are contrary to ICAO policies:** the Policies on Taxation in the Field of International Air Transport contained in ICAO Document 8632 states that “each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate...taxes levied directly on passengers or shippers.”
- **The imposition of environmental taxes is contrary to ICAO’s Council Resolution on Environmental Charges and Taxes,** which states that environmental levies should have no fiscal aims, should be related to costs of mitigating the environmental impact of aircraft, and should not discriminate against air transport compared to other modes of transport.

- **The effectiveness of levies as incentives for cleaner/ quieter aircraft is doubtful:** For example, the removal of noisy aircraft from operations has been similar at airports with high noise charges and at airports with no such charges.
- **Avoiding “double-taxation”:** 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 negatively affects the economy. In addition, the implementation of CORSIA obviates the need for existing and new carbon pricing instruments to be applied to international aviation emissions on a regional or national basis and all international flights should be subject exclusively to CORSIA.
- **Domestic measures:** 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.
- **Noise- or air quality-related levies:** 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, and be designed to recover no more than the costs applied to their alleviation or prevention.

Who is Negatively Impacted by an Environmental Tax?

Overall demand implications: 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.

A wide cross-section of the economy is impacted by the imposition of an environment tax, including:

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| Passengers | May divert air travel to a jurisdiction where such a tax has not been levied In turn, this may reduce productivity and result in displacing environmental problems to other locations |
| Airlines | Negatively affected due to the decline in passenger revenue and/ or their inability to recover such a tax from passengers In turn, this limits the ability of airlines to invest in newer, cleaner and quieter equipment and technology |
| The Economy | Negatively affected as a decline in air passenger volumes leads to decreased demand for goods and services, resulting in a negative impact on GDP |
| Governments/Revenue Authorities | May be counterproductive due to price elastic nature of air travel As a result, 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 |

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