



Agenda Item 4A: Initiatives for the Development and sustainability of air transport in the Region

THE INDUSTRY POSITION ON ENVIRONMENTAL TAXES

(Presented by the International Air Transport Association (IATA))

SUMMARY

This paper aims to draw attention to intended efforts by states to limit or reduce aircraft engine emissions by imposing taxes and levies, and with the fears and expected negative effects of such actions on airline operators, particularly those in developing countries and the local economy.

Taxation on international aviation should be limited to what is contained in ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632). The propagation of taxes outside the scope of Doc 8632 is harmful to the economic and social well-being of States that impose such taxes on worldwide economic growth and the sustainable development of the aviation industry.

Action: The meeting is invited to:

- a) urge Member States that intend to levy taxes on emissions emanating from aircraft engines to reconsider this matter and rather support the energy transition of aviation towards cleaner fuels;
- b) urge Member States to adhere to ICAO's policies on taxation and ensure its recommendations are followed by all relevant taxing authorities within those States;
- c) enhance the awareness of ICAO's policies and guidance material and promote their implementation;
- d) urge the Member States to avoid imposing any unjustified or discriminatory taxes on international aviation, and reduce or eliminate any such existing taxes, as they have a negative effect on the competitiveness of the aviation industry and impact States' national economies;
- e) encourage Member States' ministries of civil aviation or transport to update their counterparts in charge of taxation, in particular finance ministries, on the details and reasoning behind ICAO's policies on taxation; and
- f) urge Member States to perform a cost-benefit analysis for existing taxes beyond the scope of ICAO's Policies on Taxation to determine the net impact of aviation taxes on economic growth and social well-being as well as the impact on the industry.

References:

- Chicago Convention of 1944
- Doc 8632, ICAO's Policies on Taxation in the Field of International Air Transport

ICAO Strategic Objectives:

This working paper relates to Strategic Objective - *Environmental Protection*.

1. Introduction

1.1 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 CO₂ emissions from air transport, including the following:

1.2 ▪ An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;

1.3 ▪ A cap on net aviation CO₂ emissions from 2020 (carbon-neutral growth); and

1.4 ▪ Achieve net zero emissions by 2050.

1.5 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 CO₂ emissions above 2020 levels covered by the scheme.

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

1.7 To this effect, the sector is also committed to advances in technology, including the use of Sustainable Aviation Fuels (SAF), as well as improvements in operational efficiencies and airport and airspace infrastructure to continue to reduce the sector's environmental impact. Airlines have been replacing older aircraft with new, more fuel-efficient, and quieter models – over 15,000 since 2009 at the cost of USD 1 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.

1.8 Rather than taxing passengers and airlines, governments need to support multilateral efforts to address aviation emissions, including CORSA. Governments must also promote investments in research, new technologies, and the transition of air transport toward SAF.

2. Regional Taxation Developments

2.1 In recent years, a significant increase in unjustified and discriminatory taxes has been witnessed by the industry. However, there have also been several examples where States have recognized the detrimental effects taxes can have on economic development and concluded that it is best to withdraw them because studies show that the net gain from the imposition of the tax was outweighed by the losses in tourism due to the resulting increase of operating costs for airlines, airports that were passed onto consumers.

2.2 Several States have imposed air passenger taxes but are portrayed as environmental levies. These so-called "green" taxes are blunt instruments intended to generate revenues but do not deliver any environmental benefit.

3. Taxes are not an Effective Solution

3.1 Experience has demonstrated that the imposition of taxes does not result in cleaner/quieter aircraft. No government that introduced a ticket tax has been able to demonstrate that the imposition of a tax resulted in reduced CO₂ emissions. Furthermore, the removal of less efficient and noisier aircraft from operations has been as fast at airports with environmental taxes as at airports with no such taxes.

3.2 These taxes are also contrary to the international commitments of States. ICAO State members have agreed to reduce taxes levied directly on passengers or shippers. They have also committed to not applying 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 taxes should not be driven by purely fiscal aims but designed to recover the costs of alleviating or preventing environmental problems.

4. The Real Impact of Taxation

4.1 Taxes have a negative impact on the environment, passengers, and the economy. Unless demonstrated, a carbon tax does not guarantee a beneficial investment back to the environment or the aviation industry.

4.2 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.

4.3 Passengers will be more heavily taxed or opt for longer journeys - resulting in more emissions – on the ground at airports where no such taxes are levied.

4.4 It will affect airline competitiveness if an airline loses customers to competitors based in other countries where less or no taxes are imposed. Taxes levied at an individual State or regional level, therefore, distort competition, often to the detriment of the home carriers of the given territories, which are most exposed to the additional tax burden.

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

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

5. Action by the Meeting

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- b) urge Member States to adhere to ICAO's policies on taxation and ensure its recommendations are followed by all relevant taxing authorities within those States;
- c) enhance the awareness of existing ICAO policies and guidance material and promote their implementation;
- d) urge the Member States to avoid imposing any unjustified or discriminatory taxes on international aviation, and reduce or eliminate any such existing taxes, as they have a negative effect on the competitiveness of the aviation industry and impact States' national economies;

- e) encourage Member States' ministries of civil aviation or transport to update their counterparts in charge of taxation, in particular finance ministries, on the details and reasoning behind ICAO's policies on taxation; and
- f) urge Member States to perform a cost-benefit analysis for existing taxes beyond the scope of ICAO's Policies on Taxation to determine the net impact of aviation taxes on economic growth and social well-being as well as the impact on the industry.

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