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ICAO: UNITING AVIATION ON CLIMATE CHANGE

# ICAO Colloquium on Aviation and Climate Change

## Levies: taxes & charges

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## Levies – a tax or a charge?

*ICAO policies make a conceptual distinction between a charge and a tax —*

*“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” ||*



## CAEP work 1998 - 2001

CAEP 5 WG5 and FESG focused on three options for levies:

- a fuel (or en-route emissions) tax with revenue going to the national treasury;
- a revenue neutral aircraft efficiency charge, and;
- an en-route emissions charge with revenues returned to the aviation sector.



# CAEP work 1998 - 2001

## Key findings:

Fuel tax: relatively straightforward to administer; raises significant legal issues concerning existing bilateral agreements and ICAO policies; raises issues concerning the impact of tankering.

Revenue neutral aircraft efficiency charge: consistent with existing ICAO policy; could be administered in association with existing en-route charges (where they existed) to achieve a revenue neutral outcome.

En-route emissions charge: consistent with existing ICAO policy - provided the revenues were used to mitigate the environmental impact from emissions; could also build on existing en-route charges; issues relating to appropriate distribution of revenues, and equity and competitiveness.



# ICAO Policy on Taxes

ICAO's *Policies on Taxation in the Field of International Air Transport (Doc 8632)*, which recommends *inter alia* the reciprocal exemption from all taxes levied on fuel taken on board by aircraft in connection with international air services, a policy implemented in practice through bilateral air services agreements, and also calls on Contracting States to the fullest practicable extent to reduce or eliminate taxes related to the sale or use of international air transport;



# Resolution A36-22 Appendix L

1. *Encourages Contracting States and the Council to adopt measures consistent with the framework outlined below:*
  - a) Emission-related charges and taxes
    - 1) *Affirms* the continuing validity of Council's Resolution of 9 December 1996 regarding emission-related levies; (Council strongly recommends that any such levies be in the form of charges rather than taxes, and that the funds collected should be applied in the first instance to mitigating the environmental impact of aircraft engine emissions)
    - 2) *Recognizes* that existing ICAO guidance is not sufficient at present to implement greenhouse gas emissions charges internationally, although implementation of such charges by mutual agreement of States members of a regional economic integration organization on operators of those States is not precluded; and
    - 3) *Urges* Contracting States to refrain from unilateral implementation of greenhouse gas emissions charges;



## Why support for levies?

- The absence of duty on fuel for international aviation is very “visible” to the public / politicians
- Consistent with objective of fully internalising costs
- Sends a price signal to further improve efficiencies
- Raises awareness





# Advantages of levies

- Administratively simple
- Can be introduced quickly
- Relatively low transaction costs, often collected through existing sales systems





# Discussions on adaptation finance

Discussions within UNFCCC started at COP 14 with a proposal from the Maldives, on behalf of the Least Developed Countries (LDCs), for a levy to raise money for adaptation:

- \$6 on an economy class ticket
- \$62 for premium class ticket
- Could raise \$8-10 Billion annually
- Levy proposed at a level that would not affect demand significantly and therefore have minimal tourism impact.



# Discussions on adaptation finance

No formal proposal to date but “bunker finance” still seen by many as a valuable, reliable and equitable source of finance, either through a levy or an ETS with auctioning.

High-level Advisory Group on Climate Finance (AGF) looking at ways to raise \$100 billion annually to help developing countries with adaptation costs.



# Issues

Is primary motivation to raise money for climate finance or to address international aviation (and maritime) emissions?

- a flat levy would provide no incentives, and unless set very high, would have little impact on emissions
- ETS schemes or hybrid charging/offsetting offer ability to do both

Would the introduction of a levy take away momentum to tackle emissions from aviation, or would it encourage the transition to “smarter” market-based measures?



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**Thank you**

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