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EXECUTIVE COMMITTEE

Agenda Item 17: Environmental protection

TAXATION OF AIRCRAFT FUEL AND EMISSIONS TRADING

(Presented by Bahrain and Egypt on behalf of Members of the Arab Civil Aviation Commission (ACAC))

EXECUTIVE SUMMARY

This paper discusses taxation of aircraft fuel and emissions trading. In light of this paper and in order to preserve the continuity of air transport operations, while guaranteeing an active participation from developing countries in the industry according to ICAO's Strategic Objectives and the recommendations of the Air Transport Conferences in 1994 and 2003, the Arab Civil Aviation Commission Members invite the Assembly to consider the following action.

Action: The Assembly is invited to:

- convene an International Conference under the auspices of ICAO to explore measures to reduce the adverse impact of civil aviation on the environment;
- urge member States to refrain from imposing taxes on aircraft fuel;
- urge member States that imposed taxes to reconsider their position so as to reduce the burden on airlines; and
- urge ICAO to act promptly to develop clear and precise controls and guidelines regarding an emissions trading scheme so as not to hinder the progress of air transport or restrict the participation of airlines from developing countries in the air transport industry.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective C (<i>Environmental Protection - Minimize the adverse effect of global civil aviation on the environment</i>).
<i>Financial implications:</i>	Not applicable
<i>References:</i>	

1. INTRODUCTION

1.1 After the Fourth Air Transport Conference held in 1994, many developments took place in the field of air transport liberalization, particularly with the Conference highlighting the need to ensure an effective participation for developing countries in the international air transport industry. Subsequently, the Fifth Air Transport Conference held in 2003 also adopted that same goal. Then, ICAO's Strategic Objectives were adopted for the period 2005-2010 stressing the need for the continuity of aviation operations as well as strengthening the elements of security, safety and efficiency while minimizing the negative impact of civil aviation on the environment.

1.2 In this context, many developing countries opted for liberalization policies on the bilateral, regional or multilateral levels to guarantee an effective participation in international regulatory developments and removed all regulatory restrictions that hinder the participation of airlines. This has led to an important and tangible development in global traffic and tourism movements. These countries did not expect however to see new kinds of restrictions and challenges facing their airlines as some States have imposed new taxes on aircraft fuel, reaching sometimes a higher value than the fuel itself. These taxes were imposed at a time when airlines were already facing the burden of higher fuel prices in the last few years as the fuel bill reached on certain occasions 26% of total operational costs, reaching 112 billion dollars in 2006. Moreover, the European Council of Ministers for Environment took a decision to include civil aviation in the European Emissions Trading Scheme which will apply to European operators as of 2008 and foreign ones from the beginning of 2012.

2. DISCUSSION

2.1 States that imposed taxes on aircraft fuel justify this action by arguing that it helps protect the environment from aircraft engine emissions. We would like to point out in this paper what has been highlighted by IATA on many occasions and its scientifically accurate review of the problem, reporting that the contribution of air transport to environmental CO₂ pollution is estimated at 2% and that its member airlines have made considerable efforts and large investments to acquire new modern aircraft for tens of billions of dollars. These efforts have led to a 70% increase in fuel efficiency, and the civil aircraft that have been ordered and yet to be delivered will help reduce aircraft emissions by 25% by 2020. On the other hand, on the basis of the important role to be played by airlines in the economic development of all countries in the world and considering that this industry is the engine for economic development, growth in trade and tourism as well as a means of bringing people together on the social and cultural levels, it must receive the same treatment like other modes of transportation, as there have been no similar taxes imposed on railroads, land transport or maritime transport.

2.2 Moreover, the countries that imposed such taxes on airlines, reaching in certain cases 1 billion UK pounds, have they used these revenues to plant trees or implement projects to improve the environment and reduce the risks of global warming? Or is it just a way to collect funds and find sources of revenue for their treasuries, while reducing the opportunities of airlines from the developing world to access their markets, notwithstanding the open skies agreements which call for the removal of regulatory restrictions.

2.3 In that same context, the financial situation of airlines has started to improve after the accumulated losses evaluated at 41 billion dollars during the past few years. Airlines have returned to

profitability and IATA expects that profits in 2007 will reach 5 billion dollars. This amount however is still insufficient to encourage investments and to reach an acceptable rate of return for funds invested in the sector. To achieve the desirable result, it is necessary for States to support airlines in their efforts to improve their financial situation, particularly at a time when fuel prices are increasing. They should not impose an extra burden through such taxes. They must also find appropriate and effective methods to reduce the impact of air transport on environment and at the same time allow airlines to renew their fleets, which of course will have a positive impact on environmental protection and minimize any adverse effect.

2.4 The Emissions Trading Scheme will also have a considerable negative impact on both national and foreign airlines, particularly in the absence of any mechanism, guidelines or controls to protect the airlines and specially if the revenues collected were not used in the field of environmental protection. Other States and regions might also adopt a similar approach based on the principle of reciprocity. This will in turn have a considerable negative impact on the development and growth of air transport and will make it unable to keep up with the economic development of the world. It will also hinder the involvement of and interaction between the peoples of the world as such burdens and financial costs will be transferred to the air transport services consumer in the form of higher fares.

3. APPROPRIATE AND EFFECTIVE METHODS TO PROTECT THE ENVIRONMENT

3.1 Environmental protection is a concern for the Arab countries just as it is an international one. Consequently, the Arab Group believes that ICAO should be the only forum where the necessary guidelines are developed for a coherent and effective international civil aviation emissions trading scheme. ICAO's decisions in this respect must be complied with by all contracting States of ICAO.

3.2 We believe that imposing taxes or charges on fuel is not the optimal solution to reduce emissions from aircraft engines. It is rather an option that would increase the burden on airlines and make them unable to modernize their fleets, which will only lead to compounding the problem. Moreover, indicators show that there is a tangible growth in air transport and that the markets in Asia and the Middle East are very promising as growth has reached double digits. What then is the optimal solution?

3.3 The real solution lies in policies that allow airlines to acquire better and more fuel efficient civil aircraft, while exploring and replanning air routes so as to reduce flight times. IATA has made commendable efforts in many regions of the world in this direction and achieved very positive results. New air traffic control improvements made it possible to reduce delays for flights on the ground or in the air. It is clear that these improvements make it possible to appropriately tackle the problem, as statistics show that savings estimated at 13.5 billion dollars could be made. This will in turn help improve the financial performance of airlines and protect the environment at the same time.

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