



European Federation for
TRANSPORT and ENVIRONMENT

T&E position on aviation ticket taxes to fund development aid

T&E, Brussels, February 2006

Foreword

T&E is an environmental organisation, and therefore do not take a position on international development and aid policies.

This position paper has been published in response to enquiries from stakeholders and the media about the potential for environmental benefits resulting from the French government's proposed "airline-ticket solidarity tax" which will be introduced in July 2006 to raise development funds.

For a full explanation of T&E's position on measures to reduce the climate impact of aviation, please see our position paper written together with other NGOs and published in June 2005: http://www.t-e.nu/docs/Positionpapers/2005/2005-06_joint_position_paper_aviation_climate_policy.pdf

Background

Since January 2005, several governments around the world have debated the introduction of ticket taxes on aviation to fund development goals. The idea was floated by President Chirac at the World Economic Forum in Davos in January 2005, and subsequently discussed at meetings of EU Finance Ministers and at the Gleneagles summit on Africa and climate change in July 2005.

On 23 November 2005 the French Council of Ministers decided to support the idea and on 22 December the French parliament gave their approval. The tax will be introduced from 1 July 2006. Fees for domestic and intra-EU travel will be €1 (economy class), €10 (business/first class) and on international trips €4 and 40 respectively. The tax applies to passengers leaving France. Transfer passengers are exempt. Double rates will be applied for return flights.

In addition, the UK government has also announced that it will use a part of the revenue from its Air Passenger Duty (€1.4b) for development purposes.

Chile has introduced an €2 tax for flights leaving from Santiago airport, giving some €4m per year in revenue.

Other countries are expected to announce similar plans at a conference being held in Paris from 28 February 2006.

Summary of T&E's position

T&E is strongly in favour of taxes on aviation tickets, such a tax can contribute to the objectives of sustainable development. The benefits can be described under three headings:

- Environmental: it lowers the environmental impact of aviation by slowing down the growth of demand for air travel;
- Economic: it contributes to a fairer tax system particularly because international aviation tickets are currently exempt from value added tax (VAT).
- Social: the tax will be used for development purposes and will be paid by the richest segment of society – those that fly;

Environmental sustainability

Although the tax is just related to the individual passenger rather than the environmental impact of aviation, the environmental impact of a ticket tax will certainly be positive.

The size of the effect obviously depends on the size of the tax. For the example of the French tax, it seems reasonable to assume that the tax will increase the average air fare by approximately 1 per cent. Most models point to a price elasticity of air travel of approximately -1 i.e. a 1% higher price implies a 1% lower demand. Under these assumptions, the emissions of greenhouse gases, local air pollutants and noise would be reduced by 1 per cent.

From an environmental perspective another benefit is that there is a small degree of differentiation in both the French and British schemes - in that international flights are charged more, and these are generally longer and hence more damaging.

It should be borne in mind however that the growth rate of the industry amounts to 4 to 5 per cent per year. The impact of the tax would therefore be a relatively small and temporary slowdown of the growth of air travel and its associated environmental impacts.

The ticket tax is therefore no more than a small element of a package of measures that are necessary to get the environmental impact of the sector under control.

There are no economic or legal obstacles to the introduction of a ticket tax and such a policy would not conflict with inclusion of aviation in the EU Emissions Trading System (EU-ETS), or taxation of kerosene. All such options can be implemented perfectly in parallel, reinforce each other, and contribute to sustainable development.

Finally, it is important to note that the tax will not only benefit developing countries through direct financial support but also through the indirect benefits of reduced climate change which is generally acknowledged to hit developing countries harder.

Economic sustainability

In the discussion on ticket taxes, it is important to realize that aviation is a sector that has always enjoyed unfair fiscal privileges at the cost of the environment, other economic and transport sectors, and ultimately of consumers. Although the aviation sector is maturing rapidly and has become much more of an everyday mode of transport, the sector still enjoys nine different forms of direct and indirect support (CE Delft, 2002):

- 1 VAT exemption on international tickets;
- 2 fuel tax exemption. The Netherlands were on 1 January 2005 the first EU country to introduce a €0.21/l tax for its - few - domestic flights. Road pays some €0.65/l on average in the EU;
- 3 direct and indirect support for aircraft manufacturing. The Airbus/Boeing case is now subject to WTO investigation. Both sides accuse each other of granting dozens of billions of aid;

- 4 support for investments in airport infrastructure. On 6 September 2005 the Commission issued rules legalizing 30-50% support for start-up costs of new or more frequent routes from airports up to 5m passengers;
- 5 tax-free sales for flights from and to the EU. Duty free sales were abolished for intra-EU flights as of 1 July 1999;
- 6 duty-free sales on board of aircraft;
- 7 corporate tax exemptions for airports;
- 8 real estate tax exemptions for airports;
- 9 ground costs exemptions for airports;

These exemptions are not justified for economic or environmental reasons. Aviation is by far the most climate-impact-intensive mode of transport.

For these reasons T&E has always been a vigorous supporter of ending the tax exemptions on air travel. The ticket tax contributes to this aim.

Social sustainability

T&E is an environmental, not a development NGO, so we do not take a position on whether an aviation tax is a suitable instrument for raising development funds. Our support for a tax on aviation does not depend on it being used for development. Other ways of using the revenue (lowering other taxes, filling budget deficits, or funding environmental projects) can be beneficial too.

Representatives of the industry argue '*The problems of the developing world are serious. But the solution is not to tax the industry that is at the backbone of global tourism. Making travel more expensive will do more harm than good in the developing world.*' (Bisignani, IATA, 12 April 2005)

These claims do not hold water. According to official EUROCONTROL figures, just 0.7% of flights departing European airports have Africa as their destination, most of the tax revenues will therefore come from traffic that is not bound for Africa.

It should also be borne in mind that it will be the well-off that bear the brunt of the costs. Although it is often claimed that low-fares airlines have brought affordable air travel to a wider public, a survey by the British Civil Aviation Authority (CAA) in 2005 found that the richest quarter of society accounts for more than half of all flights operated by budget airlines with the poorest quarter of society taking just 10%. Interestingly this contrasts with charitable giving, where amongst households who donate, the poorest fifth of society give on average 3% of their household expenditure while the richest 20% give just 0.7% (Walker and Pharoah, 2002).

In addition, the existing British and planned French taxes are framed in such a way that business and first class travellers pay significantly more than economy or 'tourist' class travellers.

For further information:

Jos Dings
European Federation for Transport and Environment (T&E)

Tel: +32 2 502 9909
Website: www.t-e.nu
Email: info@t-e.nu