



The environmental taxation of aviation

**Memorandum by the World Development Movement to
the Conservative party**

11 June 2007

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Introduction

The World Development Movement (WDM) campaigns to tackle the root causes of poverty. With our partners around the world, we win positive change for the world's poorest people. We believe that charity is not enough. We lobby governments and companies to change policies that keep people poor. WDM is a democratic membership organisation of individuals and local groups.

Climate change is a justice issue. It has overwhelmingly been caused by the richest countries and people in the world, yet it is the poorest who will suffer first and suffer most from its effects. WDM welcomes the Conservative party's acknowledgment that the growth in emissions from UK aviation has to be reduced, and the important role of taxation in achieving this goal.

The UK government has rightly stated that its goal must be to prevent what has become known as 'dangerous climate change'; in other words preventing average global temperatures from rising more than 2°C on pre-industrial levels.¹ This 2°C threshold is widely regarded as a point beyond which the impacts of climate change, particularly on the poorest people in the world, will become truly catastrophic.

The May 2007 IPCC summary report on mitigation outlined that for the average global temperature increase to be kept to 2.0°C-2.4°C requires stabilisation at 445-490ppm of CO₂eq in the atmosphere. This in turn requires global yearly emissions to be reduced by 50 to 85 per cent by 2050.² Because the UK emits more than double the worldwide average CO₂ per person, the UK has to reduce emissions by between 80 and 90 per cent by 2050, on current levels. This translates into a 40 per cent cut by 2020.

The UK government's draft climate bill sets a target of reducing CO₂ emissions by between 26 to 32 per cent on 1990 levels by 2020 and 60 per cent on 1990 levels by 2050.³ However, the draft bill fails to include CO₂ emissions from international transport or non-CO₂ emissions from aviation or the other five Kyoto greenhouse gases.

The government is currently supporting a massive expansion in UK aviation, with a planned doubling of air passengers between 2002 and 2020, and a doubling of air freight between 2002 and 2010. The government's aviation white paper supports new runways at Edinburgh, Birmingham International,ⁱ Stansted and Heathrow airports. In addition, the government's white paper supports other airport expansion measures, such as new terminals or longer runways, at a total of 24 different airports in the UKⁱⁱ.⁴

The Tyndall Centre for Climate Change has predicted that unless the government's policy changes on aviation expansion, CO₂ emissions from UK

ⁱ It looks likely that the second runway at Birmingham will be ruled out for at least the next 25 years in the Birmingham Airport's Master Plan to be launched in the summer of 2007.

ⁱⁱ Edinburgh, Glasgow International, Glasgow Prestwick, Aberdeen, Dundee, Inverness, Cardiff International, Belfast International, Manchester, Liverpool John Lennon, Blackpool, Carlisle, Newcastle, Teesside International, Leeds-Bradford International, Birmingham International, East Midlands, Bristol International, Bournemouth International, Exeter International, Stansted, Heathrow, Gatwick, Luton.

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aviation will have more than doubled by 2030 and trebled by 2050.⁵ WDM has estimated that even if the UK government achieves its targets for reducing CO₂ emissions (excluding international transport) by 60 per cent by 2050, the UK's actual contribution to climate change will have fallen by just 8 per cent by 2020 and 17 per cent by 2050.⁶

It will be impossible for the UK to significantly reduce its contribution to climate change if the growth in aviation is allowed to continue. The UK government must act to introduce proper environmental taxes on aviation, and scrap its plans for airport expansion.

1. What is the correct balance between international and national action to address the environmental impacts of aviation?

There is no balance to be struck for UK government decisions between national and international action. National action on tackling UK aviation's contribution to climate change will enhance the possibilities for international action on aviation.

In an ideal world, international agreement would be reached on an equitable agreement to reduce global greenhouse gas emissions by between 50 and 85 per cent by 2050. All of aviation's contributions to climate change would be recognised within this agreement, and consequently international action would be taken to tackle aviation emissions, such as implementing a global tax on aviation fuel.

The absence of such an idealised situation means that the UK government has to take the action necessary to deal with UK emissions from aviation, which will help promote international action on aviation. Aviation already accounts for 12.4 per cent of the UK's contribution to climate change (6.3 per cent of UK CO₂), more than cars (9.3 per cent), home heating (11.1 per cent) or manufacturing and construction (11.3 per cent).⁷

The UK is also a major player in the international aviation industry. One estimate is that the UK has more international flights than any other country in the world, including the US.⁸ The UK is the third largest producer of aviation emissions in the world, after the US and Japan; both of which have much higher population's and economies than the UK.ⁱⁱⁱ Aviation makes up a greater share of the UK's contribution to climate change than of any other major economy (see Table 1).

ⁱⁱⁱ Population: US 295.4 million, Japan 127.9 million, UK 59.5 million. GDP = US \$11,712 billion, Japan \$4,623 billion, UK \$2,124 billion.

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Table 1. Aviation emissions by country^{iv, 9}

Country	Aviation CO ₂ emissions in 2004 (million tonnes)	Aviation's share of country's CO ₂ emissions (per cent)	Aviation's share of country's contribution to climate change (per cent)
UK	35.5	6.1	12
France	24.1	5.9	11
Netherlands	12.5	4.7	9
US	261.8	4.4	8
Spain	15.5	4.3	8
Australia	15.1	3.9	7
Canada	20.7	3.5	7
Japan	36.3	2.9	5
Germany	24.5	2.8	5
Italy	12.1	2.5	5

In light of the above, it is important that the UK take a lead internationally by going beyond the Kyoto protocol and including international transport CO₂ emissions within its targets and reporting in the draft climate bill. In addition it should also include non-CO₂ impacts of aviation on global warming.

In our correspondence with the government on this issue, the government has argued it is excluding aviation from the climate bill as aviation is not in the Kyoto protocol and there is no international agreement on how to attribute aviation emissions by country.¹⁰

The weight of recent evidence on climate change suggests that the Kyoto Protocol, which after all is ten years old, has to be seen as a minimum on which to build rather than as defining the maximum limits of action. Governments often see international treaties as setting a baseline rather than a top line for policy and there is no reason to view Kyoto as any different. A comprehensive approach to addressing climate change requires the UK's share of aviation emissions to be identified, monitored and reduced. Including these emissions in the proposed climate bill is an important first step. Even though no international scheme currently exists, the UK could demonstrate how aviation emissions can be monitored, attributed and their growth curbed.

Logical approaches to attributing aviation emissions to particular countries do exist and WDM argues it makes sense to use one of them now and take the necessary action to curb emissions growth. The exact approach could of course be modified to fit any future post-Kyoto agreement that included aviation, but waiting until 2012 or beyond for such an international deal to be done is a high risk strategy given the continuing growth of the aviation sector.

There are also domestic imperatives for tackling the growth in aviation emissions. The government has the choice to curb the growth in the aviation

^{iv} Figures are only available for UNFCCC Annex-1 countries. China and India are also in the ten largest economies in the world, but it is fair to say that China and India's aviation emissions as a share of their contribution to climate change are well below that of most rich countries.

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industry. Delaying action on aviation will only make it more difficult both politically and practically as the UK will be in the position of needing to reduce emissions from an expanded and even more economically (and politically) significant aviation industry. Proposing measures now that will mean jobs are created in other sectors but few in aviation is surely better, and politically more palatable, than having to propose measures in the future that will require potential job losses in aviation.

2. Is there an immediate case for charging fuel duty and/or VAT on domestic flights?

Yes. There are no constraints on the UK introducing fuel duty on domestic flights. As fuel duty is directly related to emissions, it should be used as the main environmental tax where possible. Whilst the absence of VAT on domestic flights is also an anomaly, in order to tackle climate change, it makes more sense to introduce fuel duty at a higher rate and no VAT, than a mixture of fuel duty and VAT.

Domestic flights currently emit 6 million tonnes of CO₂eq;¹¹ 0.8 per cent of the UK's contribution to climate change.¹² However, this is not to say that such effects are insignificant. Reductions in the UK's contribution to climate change will only happen through government policies to reduce emissions across all sectors which contribute to climate change. As the government is proposing measures in areas which have lower emissions than domestic aviation, there is no reason for the government not to introduce a tax on domestic aviation fuel.

For instance, it is estimated that if every incandescent lightbulb in the UK were switched to energy saving, it would save 0.8 million tonnes of CO₂ each year;¹³ the equivalent of 13 per cent of domestic aviation's contribution to climate change. This does not mean that incandescent lightbulbs should not be banned, but that the government would be right to introduce measures to limit emissions in all sectors, regardless of a particular sector's share of the UK's contribution to climate change. Realistically, emission reduction targets for the UK will only be reached through a combination of effort across all sectors of the economy.

A domestic fuel tax is also a necessary requirement for the UK government to show the international leadership required to argue for EU and international taxes on fuel.

Furthermore, there are other possibilities for introducing fuel taxes beyond the UK. In 2003, a European Commissions Directive created the possibility for consenting EU member states to introduce bilateral fuel taxes on all flights between two member states.¹⁴ As outlined in the Conservative party consultation document, the Netherlands has already introduced a fuel tax on domestic flights. If the UK also introduced a fuel tax on domestic flights, it may be possible to get an agreement on a fuel tax on all flights between the UK and the Netherlands. Other member states such as Sweden and Germany may be willing to join such a scheme, as might non-EU member states such as Norway. Over time, the formation of an international regime for the taxation

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of aviation fuel may be possible. But to begin this process, the UK first has to introduce a fuel tax on domestic flights.

In comparison with permits and trading schemes, taxes are administratively easier to implement, less susceptible to company lobbying, and less volatile to large fluctuations in prices. The Financial Times has said: "While short-term politics favour markets, taxes would be better in the long term, because industry needs certainty for investments years hence. A government committing to painful taxes signals the seriousness of its intentions."¹⁵

3. Is there a case for replacing Air Passenger Duty with a per-flight tax based more closely on actual carbon emissions?

Yes. In order to provide the aviation industry with an economic incentive to limit emissions through managerial and technical changes, and to ensure public support for environmental taxation on aviation, taxes should be as closely related to emissions as possible.

As mentioned above, the best way to do this is through taxation on fuel. Unfortunately, there are currently international legal problems to introducing fuel taxes on most flights. A second-best option where fuel taxes are not possible is probably a tax on flights. This would tax air freight, and provide an incentive to airlines to fill planes. It would also charge effectively a higher rate of tax on passengers taking up more room in business and first class.

A tax on flights should also look to take account of the actual emissions of a plane, based on the distance of the flight and the efficiency of the plane. This will give the aviation industry an economic incentive to use more efficient planes and develop more efficient technologies. It will also ensure that taxation to restrict demand is levied where it will be most effective – on flights that have the greatest emissions.

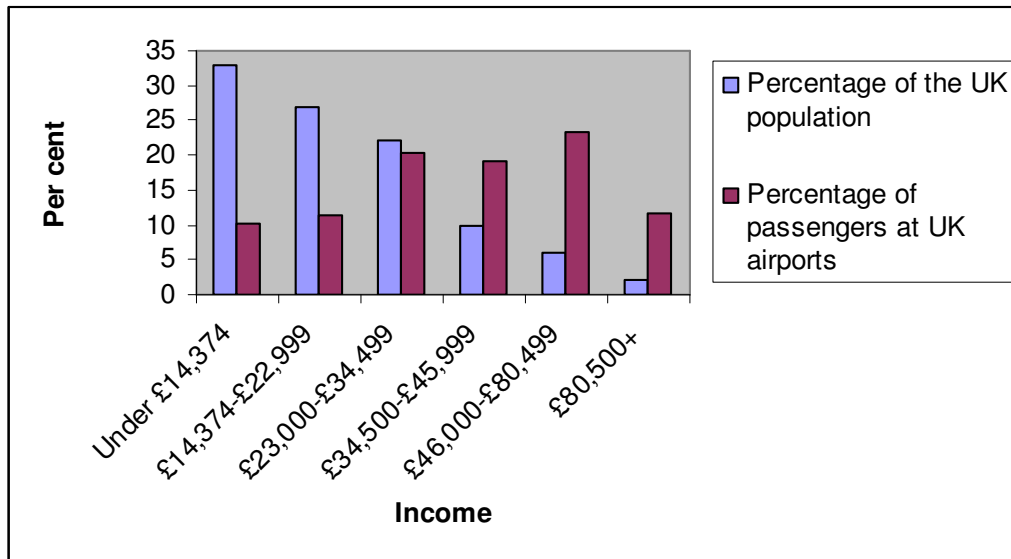
4. If some element of per-passenger taxation is maintained, is there a case for introducing some form of annual 'Green Air Miles Allowance' so that people who fly more frequently pay at a higher rate?

WDM welcomes the Conservative party's desire for social justice in its policies on aviation taxation. However, we suggest that a Green Air Miles Allowance is not the best way to ensure that this happens.

Social justice implications of taxation

Any increase in tax on aviation would be progressive. Flying is an activity dominated by more wealthy people. The richest 18 per cent of the UK population are responsible for 54 per cent of flights, whilst the poorest 18 per cent are responsible for just 5 per cent.¹⁶ This means that the support and effective subsidies the UK government provides to the aviation industry are going primarily to richer people. By not paying tax on fuel and VAT, air passengers from the richest 18 per cent of the population receive an effective subsidy of £5.6 billion a year whilst air travellers from the poorest 18 per cent of the population receive just £0.5 billion.

Graph 3. Income of UK air passengers in contrast with income of UK population¹⁷



It is commonly perceived that the recent growth in flying has been due to people on lower incomes taking advantage of cheaper air fares. This misconception is repeated in the Conservative party consultation document when it says, “One of the positive developments of recent years has been the democratisation of air travel, with an increasing proportion of the population able to afford holidays abroad.”

However, there is evidence that this is not actually the case. In recent years, the number of people flying from low income groups has actually *fallen*. Whilst the costs of air travel have fallen, other holiday costs have risen, preventing people on the lowest incomes taking advantage of lower air fares.

The growth in flying over the past few years has been due to rich people flying more, whilst those on the lowest incomes are actually flying *less*. In 2000, over 8 million leisure trips were taken from UK airports by passengers earning less than £14,374 a year. In 2004, the same group of people flew less, with just over 7 million trips. In contrast, people earning over £28,750 a year made 28.8 million leisure trips in 2000, and this rose to 36.5 million in 2004.¹⁸

Problems of a Green Air Miles Allowance

As mentioned above and in the Conservative party consultation document, the best way to tax flying would be a tax on fuel or flights rather than on passengers. The consultation document does not make clear how a Green Air Miles Allowance which taxes passengers could work alongside a proper environmental tax. WDM argues that taxes on fuel or flights should be introduced as these are most closely related to emissions.

Offering support to people on low incomes to go on holiday is a positive principle. However, tying support to requiring people to go on holiday by plane limits their freedom of choice. A Green Air Miles Allowance would be an

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effective subsidy for short-haul holiday flights. A better way to increase the access of low income households to holidays would be through direct support through the benefits system to low income households, who would then have the freedom of choice on how to use that support.

5. What other steps are needed in order to reduce the growth in aviation emissions?

Of greatest importance beyond an effective regime of taxation is for the government to scrap plans for airport expansion. If the UK genuinely wants to reduce its contribution to climate change, it makes no sense to build more runways and expand the capacity of airports.

As mentioned above, the UK government also has to properly include aviation within all its targets and reporting on the UK's emissions.

WDM urges the Conservative party to adopt the following policies:

- Include all aviation CO₂ and non-CO₂ emissions within the climate change bill
- Scrap plans for airport expansion
- Introduce a fuel tax on all domestic UK flights
- Introduce a tax on flights on all UK international flights.

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