



Taxing aviation fuel

Standard Note: SN00523
Last updated: 2 October 2012
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Section: Business & Transport Section

At present, although road fuel is charged excise duty, which represents a substantial proportion of the pump price paid by motorists, aviation kerosene (AVTUR) which is used in jet engines is *exempt* from this tax.

Many commentators have argued that this is an indefensible anomaly, given that aviation accounts for a growing share of greenhouse gas emissions. However, there are several obstacles to taxing aviation fuel. First, it is probable that unilateral moves by the UK to impose duty on this category of fuel would be counterproductive, and contrary to EU law. Second, it is likely that even an EU-wide agreement on taxing this fuel would have a limited effect. Imposing duty on all flights - not just 'domestic' ones within the EU - would pose the threat of "tankering": carriers filling their aircraft as full as possible whenever they landed outside the EU to avoid paying tax, *increasing* the level of aviation emissions. Finally, the tax-exemption of aviation fuel is also subject to long-standing international agreements, and although there have been some moves to amend these, progress has been very slow.

In its white paper on aviation published in December 2003, the Labour Government argued that bringing aviation within the EU emissions trading scheme represented the most effective response to the growth in emissions.¹ In December 2007 Member States agreed that aviation would come into the scheme from 2012,² and the current Government has endorsed this approach.³

This note looks at the debate on using tax to control aviation emissions, and the obstacles to introducing excise duty on aviation fuel.

¹ *The future of air transport*, Cm 6046 December 2003 para 3.40

² Further details are given in *EU ETS: Including Aviation*, Library standard note SN5533, 23 May 2012

³ For example, see HM Treasury, *Reform of Air Passenger Duty: a consultation*, March 2011 para 3.9

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1 The international ban on taxing aviation fuel

In the last few years there have been increasing concerns about the strong growth in air transport, the associated rise in carbon emissions from aviation, and the impact this is having on climate change. In 2007 the Department for Transport published a consultation paper on this issue, which noted a number of reasons why the impact of aviation on climate change was of particular importance (***emphasis added***):

1.9 Aviation's climate change impacts are of particular interest for a number of reasons:

- The industry has seen strong growth in demand that is set to continue;
- Aviation has a range of environmental impacts that are recognised by Government and therefore accounted for in transport appraisals. Climate change effects are generally the most significant environmental impact for this sector;
- Its climate change impacts are greater than those of the carbon dioxide emitted alone; and
- ***Air transport is not taxed through VAT on tickets or fuel duty,⁴ and there are no clear external cost signals being given through taxation.*** Nor is there currently a price signal through emissions trading.⁵

In 2009 the Department published updated forecasts of passenger demand and CO₂ emissions, which anticipated emissions from domestic and international flights accounting for 20.6% of total UK carbon emissions in 2050.⁶ Clearly for many these trends make a compelling case for charging excise duty on aviation fuel, though it has long been tax-free under international agreement.

The 1944 Convention of International Civil Aviation – the ‘Chicago Convention’ – establishes the legal framework for international civil aviation. Most of the nations of the world, including the EU Member States, are parties to this treaty, and its provisions form binding international

⁴ In the case of aviation turbine fuel used by larger aircraft ... duty is charged on aviation gasoline.

⁵ DfT, *Consultation on the emissions cost assessment*, August 2007, p10. For a general discussion of this issue see, *Aviation and climate change*, Library Research paper 08/08, 24 January 2009

⁶ DfT, *UK air passenger demand and CO₂ forecasts*, January 2009 (Annex K). For more details see, *Air transport statistics*, Library standard note SN3760, 4 July 2011 pp 12-14.

law. The Convention led to the creation of the International Civil Aviation Organisation (ICAO), which maintains it – and the text of this agreement is available on ICAO’s site.⁷

Article 24 of the Convention requires all contracting states not to charge duty on aviation fuel already on board any aircraft that has arrived in their territory from another contracting state. Further to this, the exemption of airlines from national taxes and customs duties on a range of aviation-related goods, including parts, stores and fuel is a standard element of the network of bilateral ‘Air Service Agreements’ (ASAs) between individual countries.⁸

Without any international agreement on taxing fuel, it is highly likely that moves to impose duty on international flights, either at a domestic or European level, would encourage ‘tankering’: carriers filling their aircraft as full as possible whenever they landed outside the EU to avoid paying tax. Clearly this would be entirely counterproductive. Aircraft would be travelling further than necessary to fill up in low-tax jurisdictions; in addition they would be burning up more fuel when carrying the extra weight of a full fuel tank.⁹

In 2000 the European Commission published a report on taxing aviation fuel, noting that it would be possible for countries to renegotiate existing air service agreements “to remove the exemption for fuel supplied on the territory of the contracting parties [but] ... this could be a lengthy and cumbersome process.”¹⁰ In a second report in 2005 the Commission argued, “the wider application of energy taxes to aviation cannot be relied upon as the key pillar of a strategy to combat the climate change impact of aviation”:

It has been common practice for aircraft fuel for international flights to be exempted from all taxes - a policy originally established to promote civil aviation during its infancy. The legally binding exemptions are found in the bilateral air service agreements (ASAs).¹¹ Avoiding discrimination against EU carriers could therefore be difficult on routes where non-EU carriers have traffic rights and continue to enjoy tax exemptions under the relevant ASAs.¹² In this context, the judgments delivered on 5 November 2002 by the Court of Justice of the European Communities in the “Open Skies” cases¹³ are significant. They triggered a comprehensive reform of the EU’s external aviation relations.

As part of this process, more than 200 ASAs between EU Member States and non-EU countries have already been amended to open the possibility of taxing fuel supplied to EU and non-EU carriers on an equal basis. However, while this process must and will continue, it will inevitably take time to complete. In view of this specificity of the aviation sector, the wider application of energy taxes to aviation cannot be relied upon as the

⁷ <http://www.icao.int/publications/Pages/doc7300.aspx>

⁸ For more details see, Michael Keen & John Strand, “Indirect Taxes on International Aviation”, *Fiscal Studies*, vol 28 no.1 2007 (pp6-7); and, HM Treasury/Dept for Transport, *Aviation and the environment: using economic instruments*, March 2003 (p10).

⁹ The issue is discussed at some length in a report published by the OECD: Laurie Michaelis, *Special issues in carbon/energy taxation: carbon charges on aviation fuels*, March 1997.

¹⁰ European Commission, *Taxation of aviation fuel*, COM(2000) 110 final 2 March 2000 p4. A Community Resolution of 9 June 1997 had asked the Commission to study the environmental and economic effects in Europe of a tax on aviation fuel (HC Deb 15 December 1998 c436W).

¹¹ Contrary to common perception, the 1944 Chicago Convention only precludes taxation of aircraft fuel in transit, a provision which can be seen simply as a safeguard against double taxation.

¹² These regulate traffic rights and other issues relating to international air services.

¹³ In which the Commission had brought actions against eight Member States regarding bilateral ASAs signed with the USA.

key pillar of a strategy to combat the climate change impact of aviation in the short and medium term. It has therefore not been further assessed in the present context.¹⁴

In July 1998 the Labour Government stated it would “pursue in ICAO the potential for environmental levies and to press for removal of the exemption from tax on aviation fuel, to encourage fuel efficiency,”¹⁵ and in June 2000 European Finance Ministers agreed that the EU “should pursue negotiations on the international taxation of aviation fuel in the forum of the ICAO.”¹⁶ The issue was raised at the ICAO’s 33rd Assembly in 2001, at which, apparently, “the overwhelming majority of States spoke out against the introduction of a tax on aviation fuel.”¹⁷ At the organisation’s 36th Assembly in 2007, a new group was set up to agree, in its words, “an aggressive ICAO Programme of Action on International Aviation and Climate Change,” though no mention was made of tax.¹⁸ Similarly the organisation’s current strategy for the ‘sustainable development of air transport’ does not discuss taxation.¹⁹

2 Taxing fuels : the EU rules

In October 1992 Member States agreed a series of provisions to harmonise excise duties across the EU, to underpin the efficient operation of the Single European Market, launched on 1 January 1993. In the case of excise duties on mineral oils, the relevant directives were directive 92/82/EEC, which established the minimum rates of duty that Member States could charge, and its companion directive 92/81/EEC which defined those oils to be charged duty. In October 2003 both directives were replaced by directive 2003/96/EC of 27 October 2003, known as the ‘Energy Products Directive’ (EPD).

Article 8(1) of the directive 92/81/EEC provided for aviation kerosene used by commercial aircraft to be duty-free, though Member States were given the option to limit the scope of this exemption to supplies of jet fuel.²⁰ The provision is retained in article 14(1)(b) of the EPD: Member States are to exempt “energy products supplied for use as fuel for the purpose of air navigation other than in private pleasure-flying.” In this context, private pleasure-flying is defined to be “the use of an aircraft by its owner or the natural or legal person who enjoys its use either through hire or through any other means, for other than commercial purposes and in particular other than for the carriage of passengers or goods or for the supply of services for consideration or for the purposes of public authorities.”

The 1992 directive allowed for a variety of reduced rates in individual countries, and these derogations were carried over into the EPD on a *temporary* basis. As a consequence aviation fuel used for private pleasure flying in this country has either been free of duty (aviation kerosene) or a lower rate of duty (aviation gasoline, or AVGAS).²¹ These

¹⁴ *Reducing the Climate Change Impact of Aviation* COM(2005) 459 final 27 September 2005 pp 6-7

¹⁵ *A New Deal for Transport*, Cm 3950 July 1998 p 126

¹⁶ HC Deb 14 November 2000 cc 626-7W. The issue was the subject of a short debate in the Lords at this time (HL Deb 19 October 2000 cc 1194-6).

¹⁷ HC Deb 28 October 2003 c 134W. see also, Environmental Audit Committee, *Third report: Pre-Budget Report 2008*, 16 March 2009 HC 202 2008-09 para 52; *Fourth special report*, 8 June 2009 HC 563 2008-09 p9

¹⁸ ICAO press notice PIO10/07, 28 September 2007

¹⁹ <http://www.icao.int/Sustainability/Pages/default.aspx>

²⁰ This point was confirmed in HC Deb 21 November 1995 cc 47-48W

²¹ AVGAS, as it is known, is used mainly in small piston-engined aircraft. AVTUR is used in jets and turbo-prop aircraft. Helicopters use both types of fuel. This derogation was provided under article 8(4) of 92/81/EEC & article 1(12) of 92/510/EEC – and then transposed into article 18(1) & para 15 to Annex II of 2003/96/EC.

derogations expired on 31 December 2006, and fuel used in private pleasure flying has had to pay the full rate of duty since 1 November 2008.²²

In November 1996 the European Commission reviewed this agreement and recommended that the exemption of aviation kerosene be abolished, as soon as the international situation allowed duty to be charged on all carriers including those from *third* countries.²³ In its report on taxing aviation fuel published in 2000, mentioned above, the Commission concluded “it would not be practicable or desirable for the Community as a whole to introduce taxation of aircraft fuel targeting exclusively intra-Community flights operated by Community air carriers at the present time.”²⁴

The 1996 review of the mineral oils directive had proposed that Member States be permitted to levy tax on fuel for national flights pending the abolition of this exemption. Provision is now made in the EPD for Member States to do this if they so wish: article 14(2) of 2003/96/EC allows countries to limit the exemption “to international and intra-Community transport” or where they have “entered into a bilateral agreement with another Member State.” Prior to its adoption the Labour Government declared it had no interest in using this option,²⁵ though some countries charge duty on domestic flights, as noted in a paper by the Commission in April 2005 on potential sources of revenue for development:

On aviation, one possibility is a tax on kerosene used for intra-Community and domestic flights. Several countries are currently already taxing aviation fuel used for domestic flights, like for instance the Netherlands (€200 / 1000 litres), Japan (€239 / 1000 l), the US (€6 / 1000 l at federal level, plus taxes at State level of up to €24 / 1000 l). A tax level of €330 per 1000 litres, which corresponds to the Community minimum rate for diesel and kerosene in 2010 according to the Energy Tax Directive,²⁶ would raise around €6 to 7 billion per year depending on the assumed price elasticity of demand for air travel.²⁷

In July 2006 the Environmental Audit Committee published a report on options to reduce emissions from the transport sector, and argued that the UK should use this provision to apply duty to domestic flights:

The Government has the power to increase taxes on domestic flights: it should do so, and as soon as possible. It should further work to conclude bilateral agreements with European partners to levy additional taxes on flights between them. Revenue generated as a result could be put towards investment in improving rail services, including high speed rail links, and to accelerating the development and introduction of more energy efficient aircraft designs.²⁸

²² For details of these changes see, HM Revenue & Customs Brief 50/08, 6 October 2008. A similar derogation allowing the use of rebated fuel in private pleasure boating was also withdrawn at this time.

²³ EC Cons Doc 11452/96, 19 November 1996

²⁴ COM(2000) 110 final 2 March 2000 p5

²⁵ HC Deb 4 April 2000 cc 459-460W

²⁶ Directive 2003/96/EC (OJ L283 of 31.10.2003, p. 51, as last amended by Directive 2004/75/EC (OJ L 157 of 30.04.2004, p. 100).

²⁷ European Commission, *New Sources of Financing for Development: A Review of Options - Commission staff working paper*, SEC(2005) 467, 5 April 2005 pp 13-14. However, Member States do not appear to have taken up the option of taxing fuel on intra-EC flights by mutual agreement (“Why not tax jet fuel?”, *EuroPolitics* no.3773, 16 June 2009).

²⁸ *Ninth report: Reducing carbon emissions from transport*, 7 August 2006 HC 981 2005-06 para132

In its response to the report, the Labour Government opposed such a move, on the grounds that it would have little effect on the underlying problem:

Whilst it is legally possible to impose fuel tax on domestic services, this would only cover a small part of the market and would adversely affect outlying regions. The risk is that ... it would lead to market and environmental distortions, such as the carrying of extra fuel to avoid tax, which would lead to increased emissions. A unilateral approach to aviation fuel tax would therefore not be effective.

It went on to argue, that although the UK had been renegotiating air service agreements with individual countries, this would not provide an effective method of controlling emissions for the foreseeable future:

For the last 18 months, whenever we meet another country to negotiate a new bilateral air services agreement, or changes to an existing one, the UK (as with other EU member states) has sought to introduce an exception to this provision that would allow the UK to apply fuel taxes (on a non-discriminatory basis) for intra-EU flights should we wish to do so. So far we have succeeded in around 30 cases. However, as the European Commission noted in their communication on aviation and climate change, it is difficult to avoid discrimination as long as some carriers continue to enjoy tax exemptions under air services agreements. As the process of renegotiating these bilateral agreements will inevitably take time, application of energy taxes to aviation cannot be relied upon as the key pillar of a strategy to combat the climate change impact of aviation in the short and medium term.²⁹

Given these obstacles, the question of how much money might be raised by aviation fuel may seem academic, though an estimate was given in answer to a PQ in 2008:

Norman Baker: To ask the Chancellor of the Exchequer if he will estimate the annual revenue to the Exchequer which would arise from extending the present rate of road fuel duty applicable to unleaded petrol that is not ultra-low sulphur or sulphur-free to aviation fuel (a) without and (b) with value added tax added to the duty.

Angela Eagle: Approximately 16 billion litres of aviation turbine fuel (Avtur), which is used in jet and turboprop aircraft, was consumed in the UK in 2006. Imposing duty at the current rate for unleaded petrol of 53.65 pence per litre would imply revenue of approximately £8.5 billion, although actual revenue would be likely to be lower than this because of behavioural responses from airlines and passengers. However, imposing duty on the commercial use of Avtur for international flights would be contrary to our international obligations, although aviation gasoline, which is used in piston-engined aircraft, is already subject to fuel duty.

HM Revenue and Customs does not hold sufficient information with which to make an estimate of any additional VAT revenue that could arise. However, under the normal rules of the tax, any VAT charged can be reclaimed by a VAT registered airline or other business to the extent that it relates to their taxable business activities.³⁰

²⁹ *Twelfth report*, 4 December 2006 HC 1718 2005-06 pp37-8

³⁰ HC Deb 10 June 2008 cc177-8W

3 Proposals for reform

3.1 The Royal Commission on Environmental Pollution

In November 2002 the Labour Government indicated that it would discuss the potential use of economic instruments to improve aviation's environmental impact with the industry, before setting out its plans in a forthcoming white paper on aviation.³¹ As an input to the white paper, the Royal Commission on Environmental Pollution published a report on the environmental effects of air transport at this time. It proposed a Europe-wide emissions charge as an alternative to taxing fuel, given that unilateral action would be unsuccessful and international agreement was unlikely:

5.8 Renegotiation of the Chicago Convention and the subordinate bilateral agreements would be an enormous task and would be unlikely to achieve a consensus on global action. Therefore, there is a risk that unilateral action by a body such as the UK or even the EU could easily be circumvented by the ready availability of cheaper, tax-free fuel outside the EU.

5.9 Instead of a fuel tax, therefore, a better way of addressing the market distortion would be a Europe-wide emissions charge, which airports would be required to levy on all aircraft, passenger or freight, taking-off from or landing at European airports. The charge would be differentiated between aircraft types and loads and the distance travelled over Europe, or over the ocean to the point mid-way to the nearest country in the direction of the flight, to reflect their estimated emissions.

5.10 Some at least of this emissions charge would be likely to be passed on by the airlines to passengers in the form of a rise in ticket prices. The availability of cheap air transport currently enjoyed by the public is a very recent phenomenon. It is not a traditional 'right' in any sense. An increase in ticket price would act to reduce demand below what it would otherwise be, especially for short-haul flights. Similarly the growth in air freight would be restrained.

5.11 Putting a credible financial value on the environmental problems associated with air transport has proved difficult. There have been many attempts to do so and estimates have ranged from a few pounds on the cost of a ticket to several hundred pounds. The government has suggested that environmental costs of around £3 per passenger on short-haul operations and £20 per passenger on long-haul aircraft³² would be appropriate, although the estimates that formed the basis for these figures are illustrative and subject to high levels of uncertainty. A tax set at this level would have a negligible effect on the numbers who would actually travel, and would be easily outstripped by the projected growth in passenger numbers. This, though, does not justify inaction. If the same argument were applied to other sectors it would undermine carbon dioxide reduction efforts across the economy.

5.12 Calculations of the financial value of the environmental costs of air transport are in any case not sufficiently robust to act as the basis for deciding the level of the emissions charge to be set. It is likely that, to have a significant effect on demand, the level of the charge would need to be substantial, though this would depend to some extent on the transport substitutes that were available, especially for short-haul flights.

³¹ *Pre-Budget Report Cm 5664 November 2002 para 7.47*

³² DETR, *Valuing the external costs of aviation*, December 2000 paras 22-23

5.13 The Institute of Public Policy Research will suggest in a forthcoming report that a tax of £35 on a single ticket would go some way towards removing the discrepancy of treatment between aviation and motor fuel.³³ The emissions charge could be set at an initial rate to achieve this kind of increase in ticket price for European flights. Moreover, a charge that impinged appreciably on the ticket price, and was identified on the ticket as a climate protection charge, could be a valuable signal to the travelling public, heightening public awareness of the environmental damage caused by air transport and associated activities.³⁴

In an interview with the *Times* in February 2003, the then Transport Secretary, Alistair Darling, commented that the Commission's remedy to the sector's environmental impact "was to try to price people off planes. I think they might have some difficulty selling that proposition."³⁵ Similarly, the then Prime Minister Tony Blair argued that "no politician facing ... a potential election ... would vote to end cheap air travel" when he appeared before the Liaison Committee in 2005.³⁶ Nevertheless the Environmental Audit Committee supported the idea of an emissions charge, in a report on aviation published in July 2003:

Although it may not be possible to tax fuel directly, various other European states have introduced emissions charges or other forms of tax, subject to some limitations. Switzerland, for example, applies a carbon tax to domestic flights ... Sweden has introduced an emissions charge, while Norway has replaced its passenger levy by a National Aviation Green Tax levied on carbon emissions. In addition, many EU member states charge VAT on domestic air fares ... [and] Germany is considering extending VAT to cover international flights insofar as they relate to its domestic airspace.³⁷ We also note that in March 2003 the EC agreed the "Community Framework for the Taxation of Energy Products" which specifically allows member states to tax aviation fuel for national use.

Various organisations have pointed out that the existing UK tax on aviation—Air Passenger Duty—is levied at too low a rate and is in any case a poorly designed environmental tax. There is scope for the Government to introduce more effective forms of tax or charge on a domestic basis. This is particularly the case for domestic UK flights, where there is a need to promote a modal shift to rail in order to address the particularly damaging environmental effects of short-haul flights which the RCEP identified. While we accept that domestic measures can only have limited effect, they are worth exploring. They would also demonstrate the commitment of the UK to addressing these issues at an international level.

We recommend that the Government replaces the current Air Passenger Duty³⁸ with an emissions charge levied on flights and which is clearly displayed on travel documentation. This should be set initially at a level which will raise £1.5 billion a year, but be subject to an annual escalator so that revenue will increase over time. In addition, it should consider the case for introducing VAT on ticket

³³ Institute of Public Policy Research, *Sustainable development in aviation*, (in preparation). [The IPPR published an interim report in August 2001, and a final report – *The Sky's the Limit: policies for sustainable aviation* – in May 2003.]

³⁴ Royal Commission on Environmental Pollution, *The environmental effects of civil aircraft in flight: special report*, November 2002 pp 31-33.

³⁵ "Minister rejects call for green tax on air travel", *Times*, 12 February 2003

³⁶ Liaison Committee, *Oral Evidence given by Rt Hon Tony Blair MP 8 February 2005*, 24 March 2005 HC 318-I 2004-05 Qs 133-4

³⁷ [Apparently this plan was blocked by the Bundesrat in 2003: HC Deb 5 July 2004 c 601W.]

³⁸ [Air passenger duty (APD) is charged on all passenger flights from UK airports – and it is a long-standing criticism of the tax that it provides little incentive for passenger or airlines to reduce emissions. For details see, *Air passenger duty : recent debates & reform*, Library standard note SN/BT/5094, 19 September 2012.]

sales for domestic flights within the UK and set out the results in the next Pre-Budget Report.³⁹

The Labour Government's response to the Committee's report coincided with the publication of the *Future of Air Transport* white paper in December 2003; in rejecting the Committee's recommendation the Government argued that international and European rules made this proposal infeasible:

Action on the taxation of international aviation is framed by a number of international agreements. For example, Directive 92/81/EEC, on harmonising mineral oil excise duty structures, exempted air carriers from payment of excise duties on mineral oils supplied for use as fuel within the EU: this effectively amounts to a ban on taxes on fuel consumption. Exceptions can now be made under the Energy Products Directive (2003/96/EC), which supersedes 92/81/EEC, but only for domestic flights or where bilateral agreements between Member States allow ... In addition, the UK is also bound by the Chicago Convention and a series of bilateral agreements with international partners. As the Government has made clear [in Chapter 3 of the white paper – which is discussed below], it is keen to explore measures better to incentivise environmentally responsible action amongst airlines, consistent with these domestic and international laws. To support progress at international level and to ensure that the UK makes an early start in establishing a sustainable growth path for aviation, the Government will look further at the practicality of introducing measures in this area.⁴⁰

3.2 The Future of Air Transport white paper

In the *Pre-Budget Report* in November 2002 the Labour Government stated that it would “discuss with stakeholders the most effective economic instruments for ensuring that the industry is encouraged to take account of, and where appropriate reduce, its contribution to global warming, local air and noise pollution”, prior to the publication of its white paper on aviation.⁴¹ To this end it published a discussion paper in March 2003, which provided estimates of aviation's environmental costs in terms of climate change, local air quality and noise, translating these costs into monetary values where possible.

On the issue of climate change, the report “estimated the climate change costs associated with aviation, using an illustrative value for the cost of carbon of £70 per tonne (rising by £1 per year in real terms). The cost of carbon emissions associated with UK passenger aircraft was estimated at £1.4 billion in 2000, rising to over £4 billion in 2030.”⁴² One of the questions posed by the paper was, “would it be preferable to aim for long-term international agreement, which would have the greatest environmental benefits; or should domestic measures be pursued in the short term, even if they may have a more limited impact and have other effects on, for example, competitiveness? Would action at EU level be preferable?”⁴³ In this context, two interesting points were made by a workshop run by the Department involving all the stakeholder groups involved in this exercise:

³⁹ *Ninth report: Budget 2003 and aviation*, 29 July 2003 HC 672 2002-03 paras 74-77

⁴⁰ Cm 6063 December 2003 p7

⁴¹ Cm 5664 November 2002 para 7.47

⁴² Cm 6046 December 2003 p31

⁴³ HM Treasury & DfT, *Aviation and the environment: using economic instruments*, March 2003 p15

- Agreement that action at an international level was preferable. Some support for the view that action at an EU or domestic level was an important precursor to action at an international level.
- Belief that progress in the International Civil Aviation Organisation (ICAO) would be too slow to tackle aviation's environmental impacts in the near term.⁴⁴

On 16 December 2003 the then Transport Secretary Alistair Darling presented the white paper to the House. In his statement he noted that the expansion of air travel had brought substantial benefits to people's lives and the UK economy but that this needed to be balanced "against the serious environmental impact of air travel, particularly the growing contribution of aircraft emissions to climate change, and the significant impact that airports can have on those living nearby." As a consequence the white paper included proposals to bring aviation within the EU Greenhouse Gas Emissions Trading Scheme (the EU ETS).⁴⁵ An extract from the white paper is reproduced below:

3.38 There are reductions [in greenhouse gas emissions] that can be made by the aviation industry. Fuel efficiency gains arising from fleet replacement and technology improvements will make a contribution to reducing CO₂ emissions. Research targets agreed by the Advisory Council for Aeronautical Research in Europe suggest that a 50 per cent reduction in CO₂ production by 2020 can be achieved, which compares well with other sectors. However there is no viable alternative currently visible to kerosene as an aviation fuel. We have long recognised that the global exemption of aviation kerosene from fuel tax is anomalous, but a unilateral approach to aviation fuel tax would not be effective in the light of international legal constraints.

3.39 The Government therefore believes that the best way of ensuring that aviation contributes towards the goal of climate stabilisation would be through a well-designed emissions trading regime. For an international industry, an international trading regime is the best solution. We are pressing for the development and implementation through ICAO of such a regime, consistent with the request to ICAO from the UN Climate Change Convention for action on aviation emissions. The ICAO Assembly has already endorsed the development of an open emissions trading system for international aviation.

3.40 A greenhouse gas trading scheme is fast developing in Europe. We intend to press for the inclusion of intra-EU air services in the forthcoming EU emissions trading scheme, and to make this a priority for the UK Presidency of the EU in 2005, with a view to aviation joining the scheme from 2008, or as soon as possible thereafter. The possible elements of such a scheme are described in Annex B to this White Paper.⁴⁶

The white paper listed some other "emissions-reducing actions for which the Government will press":

- adoption by airports, airlines and air traffic controllers – including EUROCONTROL – of working practices that minimise the impact of their activities on climate change;
- research and development by aerospace manufacturers of new technologies to reduce the climate change impact of future fleets; and

⁴⁴ DfT, *Aviation and the environment: using economic instruments: key points made by stakeholders at discussion workshops*, September 2003 p3

⁴⁵ HC Deb 16 December 2003 c 1433

⁴⁶ *The future of air transport*, Cm 6046 December 2003 p 40

- voluntary action by airlines, airports and aerospace companies to control greenhouse gas emissions and develop sustainability strategies. Such action should include emissions reporting and targets at a company level.⁴⁷

It went on to state that these initiatives might not “provide a total solution”:

In view of this, the Government will continue to explore and discuss options for the use of other economic instruments for tackling aviation’s greenhouse gas emissions, building on the work in the March 2003 report *Aviation and the environment: using economic instruments* ... We reserve the right to act alone or bilaterally with like-minded partners if progress towards agreements at an international level proves too slow. As a matter of principle, any additional action to tackle the environmental impacts of aviation will take full account of the effects on the competitiveness of UK aviation and the impact on consumers.⁴⁸

4 Recent developments

In the 2005 Budget the Labour Government confirmed that, in its view, “a well-designed emissions trading scheme is potentially the most cost-effective way of ensuring that aviation contributes to global climate stabilisation” and that it was “committed to aviation joining the EU ETS from 2008, or as soon as possible thereafter.”⁴⁹ In September 2005 the European Commission published a report on the impact of aviation on climate change, cited above.⁵⁰ As the European Scrutiny Committee found, the Commission was of the opinion that, “the most promising way forward [seems to be] ... including aviation within the Community’s emissions trading scheme”:

[The Commission] sees the most promising ways of addressing climate impact as being emissions trading (which sets a limit on total emissions from a group of entities, and lets the market determine the costs for each tonne emitted) and emissions charges (which set the cost per tonne of emissions, but then let the entities concerned determine the extent to which emissions are reduced in response).

It says that, if these two approaches were applied to the aviation sector in isolation, their effect in terms of environmental effectiveness and economic efficiency would in principle be the same, but it notes that emissions trading has been used by the Community⁵¹ since 1 January 2005 for tackling climate change, and that many are considering extending this beyond national level, and delegating it to company level. Since the wider the scheme’s coverage, the lower the costs of achieving a given reduction in emission levels, the Commission says that the economic costs of achieving the same environmental goal for aviation would be lower using this approach than under emissions charging. It also believes that the potential for the wider application of emissions trading would be greater, since it is a key feature of the Kyoto Protocol and has been explicitly endorsed by the ICAO, whereas emissions charging has proved to be contentious at international level.⁵²

⁴⁷ Cm 6046 December 2003 para 3.41

⁴⁸ Cm 6046 December 2003 paras 3.42-3

⁴⁹ HC 372 March 2005 para 7.54

⁵⁰ COM(2005) 459 final 27 September 2005

⁵¹ Under Directive 2003/87/EC

⁵² *Eighth Report*, 14 November 2005 HC 34-viii 2005-06 p 5

In December 2007 Member States formally agreed to this measure, and legislation to this effect was agreed the following year.⁵³

No further proposals have been made at a European level for taxing aviation fuel, and the present Government has given no indication that it would consider removing the exemption unilaterally.⁵⁴ More generally the Coalition Government has taken the same position as its Labour predecessor on the best approach to controlling aviation emissions:

In the longer-term, if we are to succeed in limiting global emissions from aviation, industry and government must work together to develop efficient, market-based mechanisms for incentivising long-term investment in low-carbon technologies and the proper incorporation of environmental costs in the market pricing of air transportation. In this respect, the Government believes that the EU Emission Trading System (ETS) should be the principal mechanism for delivering on its goals for reducing the global CO₂ emissions impact of aviation.⁵⁵

⁵³ Directive 2008/101/EC of 19 November 2008

⁵⁴ For example, see HC Deb 12 September 2011 cc1041-2W

⁵⁵ [Reform of Air Passenger Duty: a consultation](#), March 2011 para 3.9