

AEF response to HMRC and HMT consultation on a Carbon Emissions Tax



29 September 2020

The Aviation Environment Federation (AEF) campaigns on aviation's impacts, for people and the environment. We have limited our comments to consideration of how a UK Carbon Emissions Tax could apply to aviation activities. In July 2019 we submitted comments on the 'Future of UK Carbon pricing' consultation*.

* <https://www.aef.org.uk/2019/07/15/aef-response-to-governments-consultation-on-the-future-of-uk-carbon-pricing/>

Section 3 – Broadening the scope of a Carbon Emissions Tax

Section 3 of the consultation seeks views on how, in the years after 2021, a Carbon Emissions Tax could drive decarbonisation in sectors other than those that would be subject to the tax at the time of its introduction.

AEF supports carbon pricing as part of a package of measures needed to achieve emissions reductions in the aviation sector. Market forces alone will not deliver the necessary carbon mitigation technologies or the sustainable low-carbon fuels that are required for net zero aviation. Aviation carbon prices will need to increase significantly to drive change at the pace required to meet our commitments under the Paris Agreement and our own domestic targets under the Climate Change Act. Other measures, including new domestic policy, will be needed in parallel.

The Government appears to assume that aviation emissions will be subject to a significant carbon price. The latest Department for Transport's demand and CO₂ forecasts for aviation, published in 2017 before the downturn in traffic due to the pandemic, applies the BEIS cost of carbon. In the absence of a carbon price, UK aviation emissions would be 10% higher in 2050. Policy mechanisms to deliver this carbon price, however, are lacking.

Domestic and intra-EU flights arriving and departing from UK airports are currently covered by the EU's emissions trading system (ETS) until the 31st December 2020. International flights departing the UK are also subject to the offsetting requirements of ICAO's CORSIA scheme, although the recent revision to its baseline means that airlines are unlikely to have any offsetting obligation for several years to come (until traffic exceeds 2019 levels). In the event that the UK does not develop its own emissions trading system, there is a risk that UK

aviation will not be subject to any carbon pricing from 1 January 2020. This would be a backward step, and send the wrong message when Government is trying to encourage the radical in-sector reductions as promoted by the recently created Jet Zero Council and Net Zero Transport Board.

We therefore support the option to broaden Carbon Emissions Tax to include the sector, and are disappointed that this will only be considered for aviation from the end of 2021. We are aware that the industry may argue that such a tax is a fuel tax by proxy and prohibited by bilateral air service agreements. However, we believe these obstacles could be addressed by considering the following actions:

1. Seek to remove barriers to the imposition of fuel taxation on domestic and intra-EU flights. At present, the UK appears to be supporting the continuation of fuel tax exemptions, evident in the draft text of the air service agreement being negotiated with the EU¹. Amending the language to allow the UK and the EU, on the basis of mutual agreement, to levy a tax would remove any legal objection to future carbon pricing related to the carbon content of the fuel used.
2. Seek a formulation for the Carbon Emission Tax (CET) that is not directly proportional to fuel burn, such as an aircraft performance metric or the ICAO CO2 standard as a benchmark. The European Aviation Safety Agency (EASA) is currently developing an eco-labelling system which could provide a suitable basis for aircraft differentiation based on environmental performance.
3. Exempt aviation from the CET, but apply other taxes to maintain effective carbon pricing. In a recent briefing co-authored by AEF², environmental NGOs expressed their support for higher aviation taxes to ensure the sector pays a fair contribution towards public finances (including helping to fund the green recovery) and to limit demand to help meet climate targets. The briefing argued:

“Despite the fact that flying is a highly polluting activity undertaken largely by those on higher incomes, it has always been very lightly taxed, being exempt from both fuel duty, and VAT on tickets. The Air Passenger Duty rate paid by 78% of air travellers (£13) has increased only £3 since 1997, and, adjusting for inflation, has fallen in real terms. If aviation paid the same level of duty and VAT on its fuel as motorists currently do on theirs revenue for the Chancellor would increase to over £11billion a year compared to the £3.8billion that APD raises today.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/886011/DRAFT_Air_Transport_Agreement.pdf

² <https://www.aef.org.uk/uploads/2020/06/Building-back-better-aviation-.docx.pdf>

There are sound business, social and environmental reasons for taxing aviation more in future, to help fund the large-scale public investment needed as part of the green recovery. Low taxes have acted as an indirect subsidy to aviation, artificially boosting its rate of growth. As noted by Fatih Birol from the IEA, aviation represents just 1% of the global economy but 8% of global oil use. In the UK, aviation emissions were, pre-crisis, forecast to exceed the maximum level that the CCC considers compatible with net zero, even without taking account of the sector's non-CO2 impacts. Flights from UK airports are overwhelmingly discretionary leisure travel by UK households in the top half of the income spectrum. The 15% of the UK population who fly frequently are responsible for 70% of all of our flights, with the 1% most frequent flyers accounting for close to a fifth of all flights by English residents.

Higher taxes, equitably levied, on flights from the UK would help both to reduce demand and to put the sector on a trajectory compatible with net zero. There are numerous taxes which could be combined to achieve this including:

- A frequent flier or air miles levy, which would be the most equitable instrument
- VAT on plane tickets
- Introducing excise duty on aviation kerosene
- Raising Air Passenger Duty

Low oil prices have reduced operating costs so the argument for raising taxes as the recovery builds is particularly strong.”

AEF sent our own briefing to the Treasury in July, arguing for APD to be retained and increased³. Calls for higher taxes on aviation have since been made by both the UK climate assembly (which aimed to be the voice of the public) and from the Zero Carbon Commission⁴.

³ <https://www.aef.org.uk/2020/07/07/suspending-air-passenger-duty-would-undermine-green-recovery/>

⁴ <https://www.zeroc.org.uk/the-commission>