

The Norwegian Aviation Fuel Tax

Presentation at the
Workshop on Reducing Greenhouse Gas
Emissions from Aviation

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Overview of the presentation

- Background
- The Norwegian aviation tax history
- The introduction of a CO₂ tax
- The opposition against the tax
- How the opposition was overcome
- What could eventually have stopped it?
- Environmental and cost impacts of the tax
- Some potential lessons for other countries

Background

- OECD's Joint Meetings of Tax and Environment Experts have for several years worked on 'the political economy of environmentally related taxes'.
- The work has *i.a.* consisted of in-depth studies of taxes with potential negative sectoral competitiveness impacts that actually have been implemented.
 - The Climate Change Levy in UK
 - The Swiss road use fee for heavy goods vehicles
 - The Dutch MINAS accounting system for nutrients in agriculture
 - The Norwegian tax on fuels used in domestic aviation.
- The latter report was prepared by the Norwegian consultancy firm ECON analyse.

A long history of aviation taxes



The CO₂ fuel tax on aviation

- Introduced in 1999 as part of a Green Tax Reform
 - General CO₂ tax of about 12.5 Euro per tonne
 - Also on aviation for all flights
 - Compensation measures for many sectors – for aviation through a reduced seat tax
- The Parliament rejected the CO₂ tax for industry – but agreed to it for aviation
 - Had to be removed later in 1999 for international flights because it violated bilateral aviation agreements.

The opposition against the CO₂ tax

- There had previously been fierce opposition against the seat and passenger taxes
 - Both from airlines, Parliament and the public
- Only airlines oppose(d) the CO₂ tax
 - Feared that it would not be fully compensated
 - Feared distorted competition between airlines
 - Feared conflict with ICAO rules and the EU

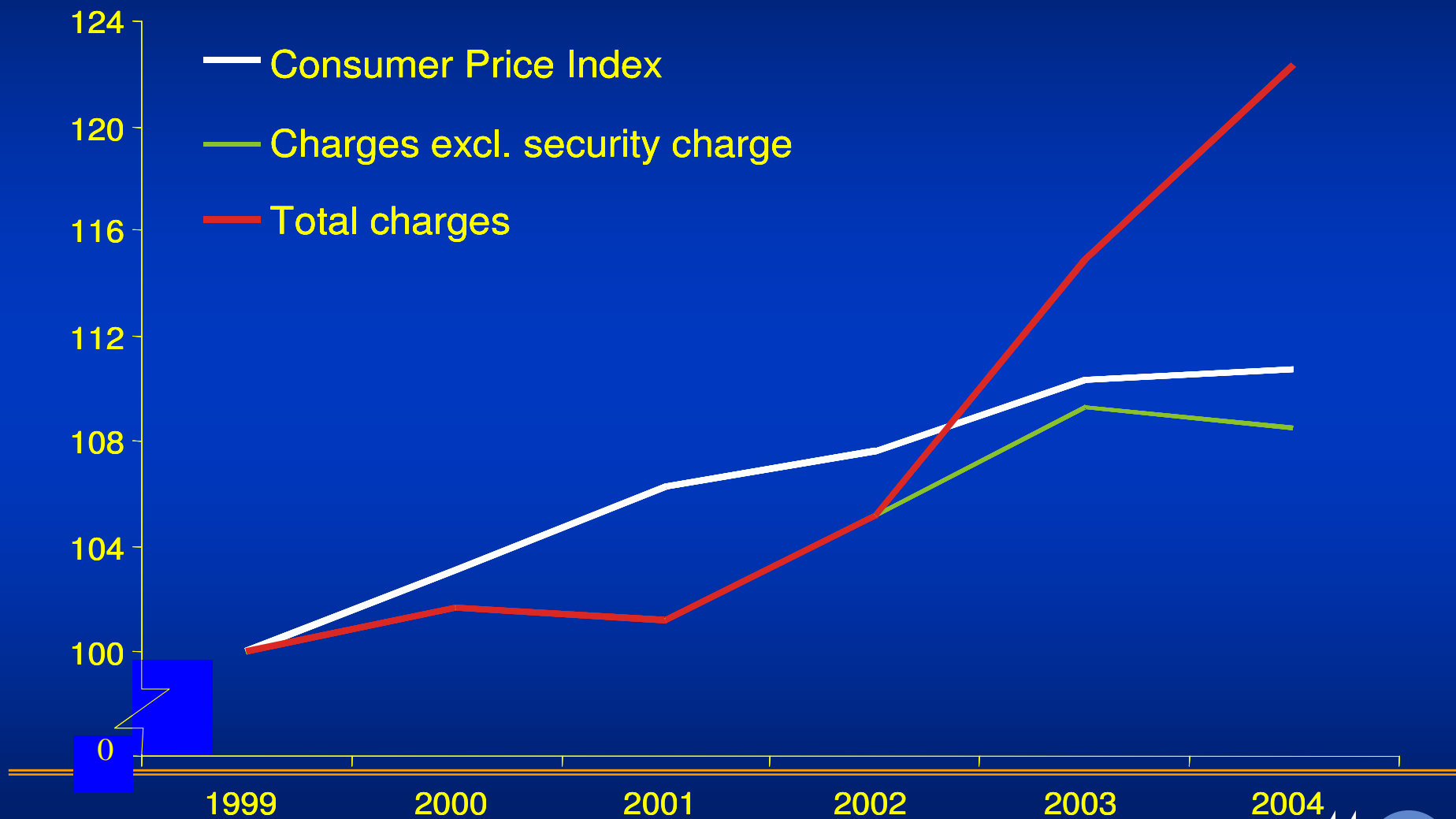
How the opposition was overcome

- The airlines did not get much public attention
 - Overshadowed in Parliament by consequences for energy intensive industries
 - Broad agreement that CO₂ taxes should be used where appropriate
 - And the aviation tax was compensated for!
- A stakeholder commission found that the CO₂ tax cause some competitive distortions
 - But no changes were made to the tax because of this
- The CO₂ tax was later approved by ESA

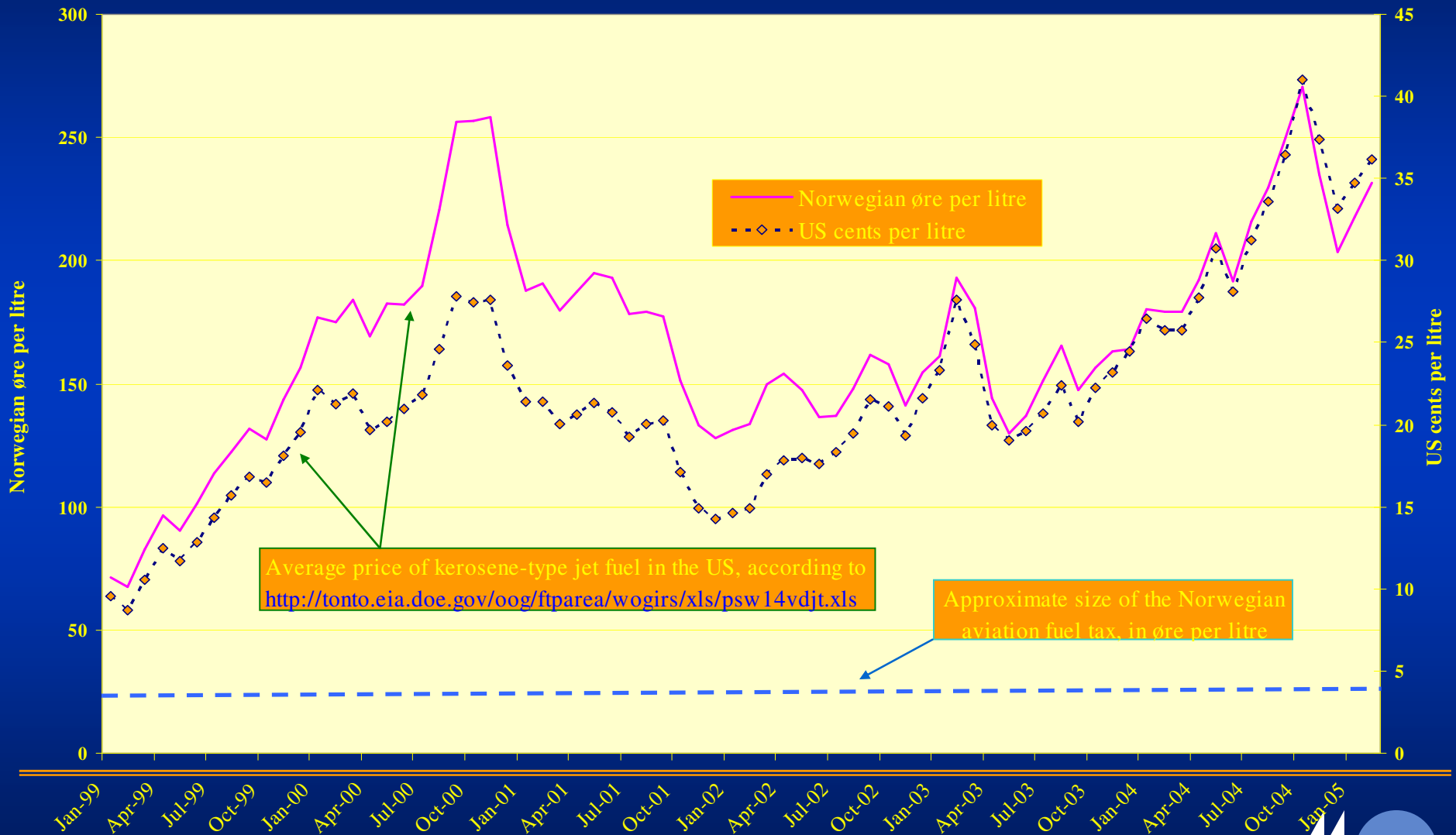
What could have stopped the tax?

- International commitments
 - Not in compliance with the then EU Mineral Oil Directive
 - But Norway is not an EU member...
 - and a new directive now allows for aviation fuel taxes
- Also ICAO rules could have been an obstacle
 - But not for an entirely domestic tax
- Lack of compensatory measures could (perhaps) also have stopped it

Cost impacts of the tax



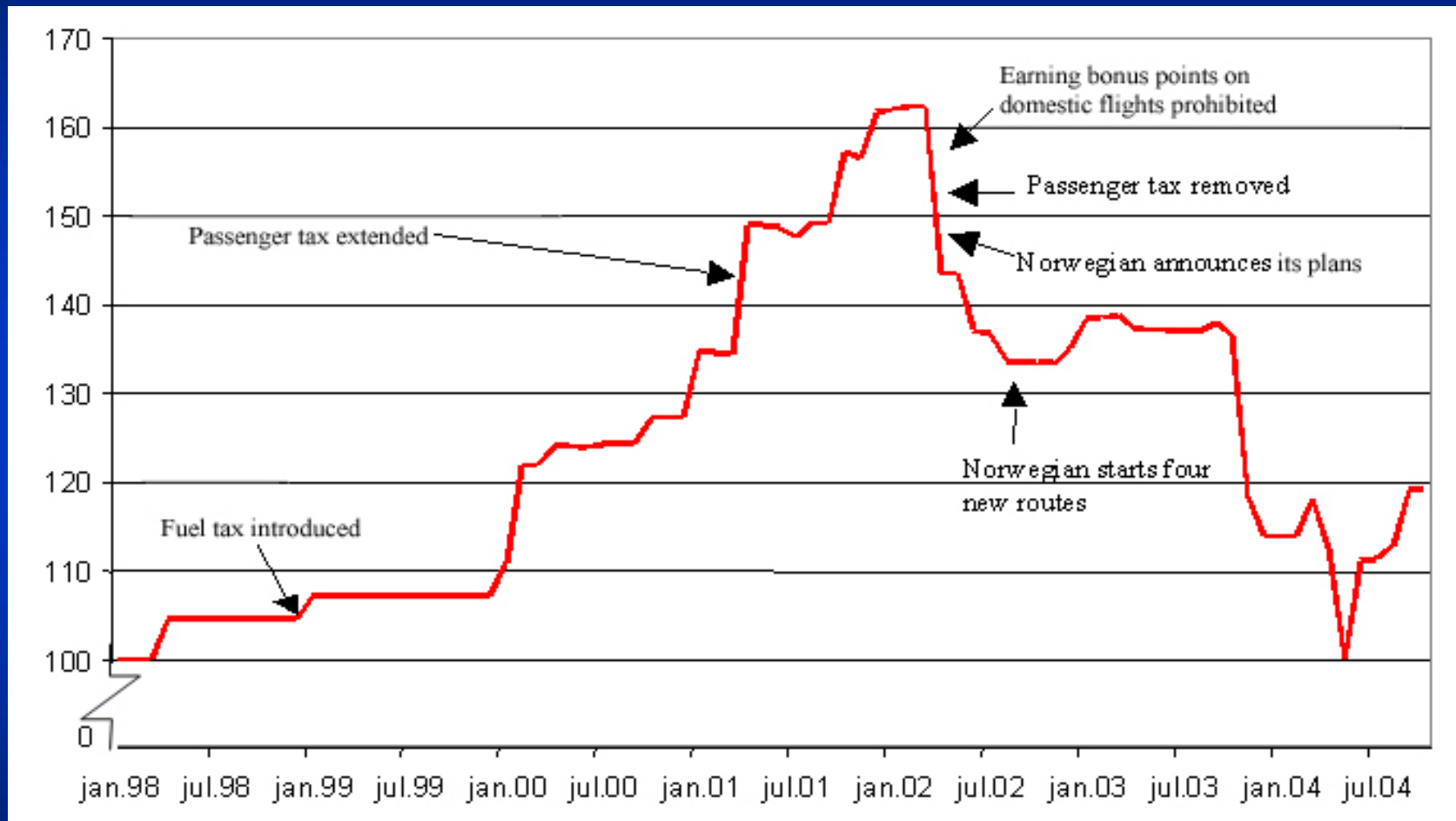
Low tax rate compared to fuel prices



Average price of kerosene-type jet fuel in the US, according to <http://tonto.eia.doe.gov/oog/ftparea/wogirs/xls/psw14vdjt.xls>

Approximate size of the Norwegian aviation fuel tax, in øre per litre

Some effects on ticket prices, hardly effects on demand



Environmental impacts

- Likely too low tax rate to have had any impacts
 - Little or no effect on demand for air travel
 - Little or no effects on operational measures to reduce fuel use
 - No effects on new aircraft design
- Little increase in tanking abroad
 - Costs of tanking abroad, and tax level is low
 - Most planes dedicated to domestic routes
 - Redirection only for tanking unlikely

Lessons for other countries – int. flights

- A fuel tax on international aviation must be coordinated
 - Still very difficult because bilateral air service agreements must be renegotiated
 - Recycling of tax revenue an alternative
- Emissions trading a more plausible option for international flights
 - Free allocation of allowances could avoid various problems
 - And easier accepted by stakeholders

Lessons for other countries – dom. flights

- Fuel tax on domestic flights is an option
 - Should be part of a broader tax reform
 - Should be carefully considered to avoid tanking abroad
 - Could start with a relatively low rate
 - Could reduce other levies/duties on air traffic
 - Possibly redistribute the proceeds
- Easier to implement a seat or passenger tax?
 - But more local resistance should be expected

More information

- The report prepared by ECON analyse will soon be available for free at www.oecd.org/env/taxes.
- A new publication on ‘The Political Economy of Environmentally Related Taxes’ will be issued in 2006.
- Lots of information on instruments used for environmental policy can be found at www.oecd.org/env/policies/database.