

Fundraising flights: a levy on international air travel for adaptation

Adapting to climate change will not be cheap: it will cost an estimated tens of billions of dollars each year. But where will the money come from? The UN climate negotiations have set up dedicated funds for the task but domestic politics have resulted in insufficient, variable and unreliable contributions from governments. An innovative adaptation levy on international air travel could help fill the gap. A small charge to individual travellers would raise up to US\$10 billion a year. The levy, which follows the 'polluter pays' principle, could be implemented very quickly and at minimal cost and would go a long way to raising sums that could make a significant difference.

Policy pointers

- **Without a clear source** of financing, UN climate funds risk losing credibility, damaging trust in international negotiations and holding up urgent action on climate change.
- **Innovative climate change** finance mechanisms that operate at a supranational level can avoid the problems faced by both private and public sources of money.
- **The International Air** Passenger Adaptation Levy (IAPAL) is one such mechanism that would raise an estimated US\$8–10 billion each year to support developing countries adapt to climate change.
- **This levy is predictable,** equitable, has minimum impact on the aviation industry and could be quickly implemented at little cost.

Climate funds

The climate change negotiations set up under the auspices of the UN Framework Convention on Climate Change (UNFCCC) have agreed to establish several funds to support countries in both mitigating their emissions and adapting to the effects of climate change. These funds include the Special Climate Change Fund, the Least Developed Countries Fund and the Adaptation Fund.

There has been considerable discussion on how to manage these funds, but significantly less on where the money will come from. The UNFCCC Conference of Parties (COP) 'invites' countries to transfer adequate finance for mitigation and adaptation to these funds. But countries have not rushed to respond and the amount of money pledged and transferred by countries so far falls significantly short — by about two orders of magnitude — of the levels thought to be needed.

How to finance responses to climate change is high on the agenda for discussions at the 17th COP to be held

in Durban, South Africa, later this year. We cannot avoid the issue of where to find the money for climate funds for much longer. If we do, these funds risk becoming 'placebo funds' — existing largely only in name and with small and intermittent flows of finance passing through them.

Sources of finance

Money for climate funds are expected to come from three different sources:

- private finance, contributed or lent by private companies;
- public finance, transferred from nation states, that is, from governments; and
- 'innovative' finance, which includes instruments that have not been used before and are neither public nor private in the traditional sense.

Raising enough money from any of these sources is no easy task. Private financing is difficult because climate change requires both immediate and long-

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term responses, the outcomes of which are highly uncertain. Private finance markets and institutions have great difficulties in accurately assessing the risk of climate change investments and therefore in estimating the expected return. This means that there

are insufficient incentives for the private sector to provide adequate financing for climate change action.

An alternative to private financing is public financing from national governments — but this faces political barriers. The climate change

funds assume that developed countries will contribute money for distribution to poorer countries that cannot easily tackle climate change with their own resources. But developed country voters often expect the money they pay in taxes to be spent on goods and services that benefit them directly. They generally don't like to see 'their' taxes being transferred to other countries. This makes it very hard for democratically elected governments in the developed world to justify climate finance contributions to their voters and to adequately contribute using public money. This is known as the 'domestic revenue problem'.

Innovative climate change finance looks to avoid the problems faced by both private and public sources by creating new instruments that extract money to tackle climate change directly from the global economy,

often at a supranational level to avoid the money being 'owned' by a nation state or private company.

International Air Passenger Adaptation Levy

Several suggestions for potential innovative finance for global public goods, such as development and climate change adaptation, have already been made (see Other sources of innovative finance).

One in particular that deserves more attention is an International Air Passenger Adaptation Levy (IAPAL) to support the Adaptation Fund. This proposal was put forward in 2008 at the 14th COP by the Maldives on behalf of the Least Developed Countries group.² The group proposed charging a levy of US\$6 on each international air passenger travelling in economy class, and US\$62 on each passenger travelling in business or first class. It suggested that all airlines should charge the levies at point of ticket sale and be reimbursed for any administrative costs incurred. The group estimated that an IAPAL could raise US\$8 billion to US\$10 billion each year.

It is not only the quantity but also the quality of this potential funding that is attractive. It meets many of the criteria used to assess climate finance mechanisms (see Table). It is new and additional funding over and above existing sources. It is also to a large extent predictable because volumes of air travel do not vary significantly from year to year. The financial crisis in 2009 caused the sharpest annual drop in passenger numbers in aviation history, and even that amounted to a less than 10 per cent reduction.

IAPAL is appropriate because it follows the 'polluter pays' principle. It raises money from those who contribute to climate change (through aviation emissions) and transfers it to those who suffer most from climate change impacts. It is also equitable in that it raises money from people who, being wealthy enough to travel by aeroplane, are also wealthy enough to help support the poor adapt to climate change. This could be seen as an expression of 'common but differentiated responsibility', albeit on an individual, rather than national, level.

Some developing countries are concerned that increasing the price of air travel will stop people flying and reduce revenues from tourism. But international passenger flights are an inelastic good. This means that changing the price has a relatively small impact on demand. A levy at the level proposed by the Least Developed Countries group is expected to reduce demand for flights by approximately 0.5 per cent — an order of magnitude less than the predicted annual growth for aviation, which is about 5 per cent. Any fall

Other sources of innovative finance¹

A levy on international air travellers is not the only potential source of innovative finance revenue. A UN report in 2004 suggested that all of the following could also be used to raise additional funds to meet development goals.

Financial transactions tax. A very small tax on a very large number of financial transactions could raise significant amounts of money without distorting markets. The most practical option would be a tax on foreign exchange transactions.

Arms trade tax. This would put a tax on both domestic and international transfers of the seven types of heavy conventional arms covered by the UN Arms Register. This would include tanks, combat aircraft and warships but not small arms in the first instance.

Special Drawing Rights (SDR). SDR are the form of credit issued by the International Monetary Fund. One option for raising money could be expanding the ways in which countries can use SDR to include development.

Credit card spending. Credit card holders might voluntarily agree that an additional proportion of the money they spend on their cards be used to support development. The advantage of this approach is that it does not require international agreement. But how popular such cards might be remains unknown.

Table. Criteria for assessing climate finance mechanisms³

Climate finance mechanisms should be:	
New and additional	The money raised should be over and above what would otherwise be transferred. In particular, climate change money should be additional to overseas development assistance, rather than a repackaging of existing commitments.
Predictable	Tackling climate change requires long-term action. Financing flows should be reliable and should not vary significantly year on year with economic and political cycles.
Appropriate	How much individuals and countries contribute to addressing climate change should be aligned with both the extent to which their actions have caused climate change and the extent to which they have benefited from historical and ongoing greenhouse gas emissions.
Equitable	Financial flows should be fair both in terms of ability to pay and climate change vulnerability. This is an expression of the ‘common but differentiated responsibilities’ enshrined in the UNFCCC.
Adequate	Money raised must be enough to do the job. Adapting to climate change will cost an estimated tens of billions of dollars each year. Existing multilateral flows are in the order of hundreds of million — approximately a hundred times less than the sum needed.

in demand from implementing IAPAL is therefore not a threat to development.

We know that taxing air passengers can be both cost-effective and logistically feasible. It has already been introduced (although not to raise climate funds) by several developed countries including France, Germany, the United Kingdom and the United States. The United Kingdom raises approximately US\$3 billion every year through its Air Passenger Duty. It is the most efficient of all taxes collected in the country, costing in administration just 0.04 per cent of the revenue raised.

Finally IAPAL would be implemented internationally, which would not impact the competitiveness between airlines as all carriers and their passengers would be treated equally.

Countering critics

IAPAL does have its critics. The airline industry, for example, opposes its introduction and, in a letter to the head of the US climate negotiating team, the Air Transport Association of America (ATA) described IAPAL as an “exorbitant tax to fund climate change adaptation measures in developing countries.”⁴ This description cannot be disputed, other than in the debatable characterisation of the levy as exorbitant.

But the ATA’s letter goes on to argue against IAPAL on the grounds that it would be ineffective at mitigating emissions. This is true but misses the point that IAPAL is not intended as a mitigation measure but a

financing mechanism for adaptation. By disregarding IAPAL’s effectiveness at transferring resources from those who pollute to those who need to adapt to the effects of that pollution, the ATA misrepresent the levy’s primary aim.

The broader aviation sector claims that it is being unfairly targeted over other sectors. But IAPAL does not target airlines but air passengers — airlines are expected to pass the full price of the levy onto passengers, leaving their margins unaffected.

Airlines and air passengers have not been arbitrarily targeted — flying creates significant greenhouse gas emissions, for which they should morally hold some responsibility. As previously noted, IAPAL can be seen as an expression of the polluter pays principal.

Implementing IAPAL will require a body to collect and manage the levy. The International Civil Aviation Organisation could play this role, although they are generally opposed to additional taxes on aviation. Whoever the task falls to, it is essential that they be given the authority to collect the levy by the COP and that individual countries ratify this agreement and write it into national law.

If universal agreement in the COP cannot be reached, it may be appropriate to lobby individual governments to introduce national levies to fund adaptation. A similar approach has already been taken in Chile, France, Madagascar, Mauritius, Niger and the Republic of Korea, who all now use a levy on air tickets to raise funds to combat HIV/AIDS, malaria and tuberculosis in

developing countries. However, this kind of country by country approach reintroduces the domestic revenue problem that IAPAL looks to avoid, and could potentially distort the international aviation market.

Time is of the essence

Effective climate change financing mechanisms should consider one other quality beyond being new and additional, predictable, appropriate, equitable and adequate. This is that instruments should also be timely. Money to adapt to the impacts of climate change is needed now and unless the climate change funds can find it quickly they will lose credibility, damage trust within the UNFCCC negotiations and hold up urgent and required action on climate change.

'Best case' ideals must often be scaled back when faced with practical and political realities. Insisting on perfect financing mechanisms guarantees that no mechanisms are ever implemented.

IAPAL has several qualities that could make it an effective innovative financing instrument. Once agreed to, it can also be implemented very quickly

and at minimal cost. Critics should be challenged to suggest alternative tools that both meet the assessment criteria and can be implemented relatively simply and quickly.

In 2004, the Geneva Declaration's Technical Group on Innovative Financing Mechanisms for funding development concluded: "The international community cannot afford a wait-and-see attitude. Additional resources will not be created spontaneously, and failure to accept this premise only aggravates the current gap between agreed commitments and the necessary financing."

The same is true when it comes to adequately resourcing adaptation to climate change. The urgency to implement finance mechanisms that work must not be underestimated. IAPAL seems a potential 'quick win' on climate change financing and should be pursued without delay.

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Notes

■ ¹ Quadripartite Group on innovative mechanisms for financing development. 2004. *Report of the Technical Group on Innovative Financial Mechanisms*. See www.cbd.int/doc/external/countries/brazil-fin-report-2004-en.pdf ■ ² UNFCCC. 2008. *International Air Passenger Adaptation Levy: A proposal by the Maldives on behalf of the Group of Least Developed Countries within the Bali Action Plan*. See www.unfccc.int/files/kyoto_protocol/application/pdf/maldivesadaptation131208.pdf ■ ³ Müller, B. 2008. *International Adaptation Finance: the need for an Innovative Approach*. Oxford Institute for Energy Studies, Oxford. ■ ⁴ Air Transport Association of America (ATA). 2009. *ATA Requests U.S. Opposition to Unfair Climate Change Tax on Airlines*. ATA, Washington. See www.airlines.org/PublicPolicy/ATALetters/Pages/letters_10-29-09.aspx

Further Reading

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