



## **Climate Change Legislation: An Aviation Perspective**

### **The Association**

The Cargo Airline Association is the nationwide voice of the all-cargo air carrier industry. U.S. air carrier members are ABX Air, Atlas Air, Capital Cargo, FedEx Express, Kalitta Air and UPS Airlines. As a key segment of the air transportation industry, the all-cargo carriers recognize the growing importance of addressing the industry's contribution to global climate change. At the same time, especially in a time of global economic uncertainty, any environmental action should take care not to impair the ability to compete in the worldwide marketplace.

### **Background**

The nation's aviation community plays a pivotal role in maintaining United States leadership in world trade. Indeed, the industry represents approximately 5.6% of the U.S. Gross Domestic Product (GDP); contributes over \$1.2 trillion annually to the U.S. economy and is responsible for approximately 11 million jobs.<sup>1</sup> In addition to these economic facts, the industry has been in the forefront of addressing environmental issues associated with our operations. To a large extent, of course, the environmental record of the entire aviation community is a result of a search for greater fuel efficiency in an era of generally rising fuel prices. Nevertheless, the environmental benefits of this quest for fuel efficiency cannot be overlooked. For example:

- Emissions from aircraft now account for less than 3% of the total U.S. Greenhouse Gas emissions.<sup>2</sup>
- Over the past 40 years, fuel efficiency has improved by over 70%<sup>3</sup> and, compared to 2000, in 2007 the U.S. commercial airlines consumed 3% **less** fuel while transporting over 20% **more** passengers and cargo.

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<sup>1</sup> FAA, *The Economic Impact of Civil Aviation on the U.S. Economy* (October 2008). This report is available at:  
[http://www.faa.gov/about/office\\_org/headquarters\\_offices/ato/media/2008\\_Economic\\_Impact\\_Report\\_web.pdf](http://www.faa.gov/about/office_org/headquarters_offices/ato/media/2008_Economic_Impact_Report_web.pdf)

<sup>2</sup> This figure includes all segments of U.S. aviation, including commercial aviation, general aviation and the military. See, *Inventory of Greenhouse Emissions and Sinks: 1990-2006*, U.S. Environmental Protection Agency (April 15, 2008).

<sup>3</sup> International Civil Aviation Organization, *Environmental Report 2007*, page 107.

In these respects, aviation is unique and the record of the industry, as well its future commitment to fuel efficiency, should be taken into account in determining what role aviation should play in the legislative climate change debate. Put somewhat differently, in fashioning climate change legislation, one size may not fit all, and aviation should be considered in the context of its environmental record and its operational needs.

### **Addressing the Future**

While these accomplishments are significant, the all-cargo carriers recognize that more must be done to meet the environmental challenges of the future. Many of the necessary improvements will come from advances in technology and the implementation of FAA airspace modernization initiatives. This process requires the cooperation of all parties to the aviation environmental debate – industry, Congress and the Administration. Accordingly, an FAA Reauthorization bill in this Congress becomes an environmental imperative. The substantive provisions of all versions of FAA Reauthorization contain significant environmental initiatives that require both authorization and funding – including a joint industry/government initiative to develop, test and certify alternative aviation fuels that may well be the most promising way of addressing aviation emissions in the future. In addition, FAA Reauthorization will help to advance the move toward the airspace system of the future. This system will permit more direct flight paths, more efficient landing trajectories and better use of movements on the airport surface. In turn, all of these results will save fuel and reduce emissions that contribute to global warming. In the longer term, a new generation of aircraft and aircraft engines being developed by industry and NASA will further help reduce aviation’s environmental footprint.

### **“Cap and Trade” and its Potential Impact on the Aviation Industry**

How does all this activity impact the aviation industry? Simply stated, the entire aviation industry is extremely capital intensive and any legislation that imposes significant additional costs on an industry already suffering in today’s economy will reduce the industry’s ability to make the investments necessary to modernize both aircraft fleets and avionics. Unfortunately, some of the initiatives now being advanced for dealing with global climate change will have this negative effect. Specifically, elements in both Congress and the Administration have proposed a cap and trade regime that potentially will have a severe dampening effect on aviation’s global competitiveness. While details in these proposals may differ slightly, they all appear to impose an “upstream” tax on aviation, with the industry forced to buy carbon credits from fuel producers who will pay the fees directly (or in a secondary market that will undoubtedly emerge). At least for aviation, this method of attempting to deal with global climate change is extremely problematical. Some of the obvious downsides of such a cap and trade system are:

- As noted above, such a system will, in effect, impose a significant additional tax burden on an already heavily taxed industry.

- These taxes will inhibit the ability of the industry to make the capital expenditures necessary to take advantage of a modernized airspace system – a system that will provide significant environmental benefits.
- As currently written, these proposals will potentially funnel monies collected to a variety of programs – none of which have any relation to aviation or modernization of the aviation system.
- The bureaucracy necessary to administer any cap and trade program will siphon off a significant portion of any funds collected.
- A cap and trade system is subject to market manipulation.<sup>4</sup>

### **Potential Alternatives to “Cap and Trade”**

Faced with these facts and potential pitfalls, is there another way for aviation to meet its environmental responsibilities, while, at the same time, remaining competitive in the world marketplace? We believe that there is. Rather than being subjected to a cap and trade system, a tailored **revenue-neutral carbon tax** for the commercial airline industry appears to make more sense.<sup>5</sup> Under such a system, for example, the commercial airline industry could be further directly taxed on its use of aviation fuel (the source of pollutants contributing to global climate change),<sup>6</sup> with these levies offset by a corresponding decrease in the existing excise taxes paid by the airlines.<sup>7</sup> Such a scheme would provide a powerful incentive to modernize aircraft fleets, while, at the same time, retain the same overall level of industry taxation.<sup>8</sup> In addition, the funds collected could be used to assist in the effort to convert the nation’s air traffic system into one based upon satellite technology rather than the existing reliance on decades-old ground-based radar. And, since such taxes would be collected at the pump, virtually 100% of the proceeds could be used on aviation programs that benefit the environment.<sup>9</sup> As noted by the non-partisan Congressional Budget Office (CBO), “A tax on emissions would be the most efficient incentive-based option for reducing emissions and could be relatively easy to implement.”<sup>10</sup>

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<sup>4</sup> See, for example, op ed piece by Rep. Peter DeFazio in the January 27, 2009, edition of the *Oregonian*.

<sup>5</sup> If a cap and trade system is enacted, however, with respect to aviation it should contain “safety valve” provisions to protect carriers if the price of oil escalates past a predetermined level and funds collected should be transferred to the Aviation Trust Fund for use in system modernization.

<sup>6</sup> Commercial airlines currently pay a fuel tax of 4.3 cents per gallon.

<sup>7</sup> The existing excise tax on air cargo is a 6.25% airway bill levy.

<sup>8</sup> We recognize that the carbon tax possibility set forth herein is not the only way of structuring such a revenue neutral levy. Other methods of achieving this end have been suggested by various parties to the global climate change debate. Each of these other proposals should be analyzed for their merits and their impact on U.S global competitiveness.

<sup>9</sup> Other, ancillary, issues that should be included in the discussion of aviation’s place in the global warming debate include (1) the role of the International Civil Aviation Organization (ICAO) and its ongoing attempts to establish international standards for aircraft emissions that relate to climate change and (2) the need for any federal action in this area to preempt any state and local action that would result in a patchwork quilt of regulations on an industry that operates nationwide.

<sup>10</sup> See, *Policy Options for Reducing CO2 Emissions*, Congressional Budget Office, February 2008.

## **Conclusion**

The challenge of addressing global warming, while at the same time remaining competitive in the international marketplace, is perhaps one of the most difficult balancing acts that commercial airlines currently face. On the one hand, we must be able to meet the demands of businesses throughout the world. On the other hand, in planning to meet the requirements of our customers, there must be an environmental overlay on all corporate decision-making. On the government side, we understand the reasons that legislation is being considered to ensure that global climate change is addressed – and addressed as expeditiously as possible. But that legislation must take care not to cripple an industry that is necessary for economic recovery and that has a long-standing record of environmental sensitivity.

The concepts advanced herein are admittedly broad overviews and the details of any final plans to address global climate change will require significant further debate of the issues. However, in formulating this debate, the Cargo Airline Association urges that the concept of revenue neutral carbon taxes, instead of a cap and trade system, be an integral part of the discussion.

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