What if Germany's "green" flight tax were transferred to the UN Green Climate Fund? A proposal

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Proposal Summary:
The German government could meet the financial commitments it made in Cancun in December 2010, and seize the global political high ground in climate finance and policy, by transferring the €1.0 - €1.5 billion in expected annual revenue from Germany's "Green Flight Tax" to the UN Green Climate Fund. This flight tax, which entered into force in early 2011, is (so far) not 'green' in any significant way, because the revenue from the tax simply flows into the general revenue account of the Federal Government. Transferring this revenue to the UN Climate Fund would enable Germany to pressure other industrial nations to levy a similar flight tax for the benefit of the UN Climate Fund, thus leveraging a small German investment into a large international contribution. A first-mover advantage could also strengthen Germany's ability to play an important role in establishing guidelines and accountability procedures for how UN Climate Fund money will be administered and spent.

Advantages:
By announcing that it will transfer the revenues of its Green Flight Tax to the UN Green Climate Fund, the federal government would gain the moral authority to put other nations under political pressure to impose similar green flight taxes on behalf of the UN climate fund. This could enable €1.0 - €1.5 billion in German airline tax revenues to be leveraged into €15 to €30 billion in annual green development funds from several industrialized countries. This represents an extraordinarily efficient leverage ratio – a large development finance impact for a small German investment.

As a side effect, the imposition of an equivalent green flight tax in other European countries would counter the objections of Germany's air travel industry to Germany's green flight tax. Germany's flight sector considers itself disadvantaged by the tax, relative to competitors in neighboring countries that currently do not levy such a tax.

Objections:
The only disadvantage of transferring the revenues of Germany's "Green" Flight Tax to the UN Climate Fund is that the German tax authorities will have correspondingly less money available for domestic purposes. However, the current and foreseeable economic and fiscal situation in Germany is far better, as of mid-2011, than the Ministry of Finance was expecting in early 2010, when the Green Flight Tax was in planning. Overall tax revenues of the federal government for the period 2011-2013 will be an estimated €150 billion higher than was projected in the federal budget of 2010. Clearly, Germany can afford to invest the €1.0 - €1.5 billion annual revenues from the Green Flight Tax for international green development purposes.

Moreover, by establishing a first-mover advantage and seizing the moral high ground, Germany will improve the image and influence of the Federal Republic in climate policy, which may well have positive effects on Germany's climate-relevant technology exports.

Theoretical basis:
Payment of CO_2 offsets is presently a voluntary choice for individual air travel passengers. This situation is grossly inconsistent with fundamental economic principles. Negative side effects of economic processes (‘negative externalities’) should be ‘internalised’ as consistently and uniformly as possible, through compensatory measures financed on a user-fees basis. To prevent free riders, these user fees must be mandatory. Climate impact offset payments should therefore be mandatory for all air travellers, and they should be invested in technological measures that will, taken together, fully offset the climate-forcing and social impacts of greenhouse gas emissions from the air travel sector.

The German government has sold its new flight tax as "green", but (so far) the revenues have been directed into the general revenue account of the Federal Government. The size of the flight tax is not sufficient to have a significant influence on consumers’ travel plans or transportation choices; in economic parlance, its ‘price elasticity of demand effects’ are negligible. Hence, the “green” flight tax is actually not green at all, and its designation as such is, to put it bluntly, false advertising. Citizens understand this – it has been widely reported in German media – and their cynicism about government is deepened by this misrepresentation. It is a safe bet that taxpayers will be much happier to pay a “green” flight tax that actually is spent on a green investment programme.

The economic principles are clear: For the flight tax to be truly ‘green’, it would either have to be so high that it would cause a major reduction in demand for air travel – a proposition which is both politically untenable and socially undesirable; or the tax must be used to finance a green investment programme sufficiently large in technical scope to offset the climate impacts of air travel emissions. As it stands, the flight tax does neither of these things. It is just another tax.

Moreover, it is well understood that greenhouse gases already in the atmosphere today (in part due to past emissions from the air travel sector) are resulting in climate change impacts that will hit citizens in the poorest countries of the Global South especially hard, even though Global South countries have emitted comparatively small amounts of greenhouse gases in the past. It is therefore also consistent with principles of economics and natural justice that funds and technologies for climate-change adaptation should be collected from industrialised nations for investment in less-developed countries.

Accordingly, the German government could improve its domestic credibility with taxpayers, do justice to fundamental economic principles, and enhance its global influence in climate policy, by transferring the revenues from the German Green Flight Tax to the UN Green Climate Fund, or to another special vehicle (such as a Global Green Development Programme managed within a German or European regulatory framework). This Green Fund should be held accountable for results, in the sense that it will be responsible for implementation of compensatory measures that should, taken together, hold the global climate harmless by fully offsetting the climate impacts of the European air travel sector.

Note, also, that levying such a tax does not interfere with the additional requirement for Europe's air travel industry to be included within the EU-ETS (the EU's Emissions Trading Scheme). The functions and purposes of the two mechanisms are very different: One (the ETS) will require the European airline industry to gradually reduce or offset its emissions, as carbon budgets are constrained over time. The other (the Green Flight Tax), if allocated to a Global Green Fund, is aimed at providing the financial resources for developing countries to get on a low-carbon green development path, rather than emulating the carbon-intensive development path followed by nations that industrialised in the 19th and 20th centuries. These are largely non-overlapping mechanisms, in geographic, technical and financial terms.

Conclusions:
Currently, negotiations at the UN Climate Green Fund are moving very slowly, and hope that major progress will occur before Durban is fading. The German federal government has an extraordinary opportunity to seize the moral and political high ground on global climate finance and policy. Germany can take the first crucial step by transferring its Green Flight Tax revenues into the UN Green Climate Fund, and use the political capital and credibility gained by this first-mover advantage to insist on administrative and accountability measures designed to ensure the monies raised are well spent on technical measures that achieve real results.

Shifting less-developed countries onto a low-carbon development path is a necessary outcome if dangerous climate changes are to be avoided. This outcome is profoundly in the interests of Germany and Europe, yet few developing countries are likely to choose clean-tech over cheaper brown-tech without technical and financial assistance from the industrialised North. Germany is the most financially sound and economically vibrant nation in the industrialised North, and is making increasingly strong commitments to a green-technology transition. Now is the right time for Germany to assert leadership and make the first move in establishing a global climate finance mechanism.

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