



**Economic effect of increases in
taxes & charges**

Jamaica, October 7th – 9th 2014

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Air transport is key to the Caribbean:



67%

of tourists in the Caribbean arrive by air transport

Aviation industry , its supply chain and supporting tourism contribute to:

7.2%

of local GDP

5.7%

of the jobs in the region

Effect of taxes & charges: Passenger charges (PFC, ATC & Landing), two-way.

Example 1 (10/14/2013):

Ticket St. Maarten – Antigua

Total ticket price USD 366.50 (incl. taxes & charges)

Tax & Charges = USD 140.50, or **38% of Tariff = Taxes and Charges**

Example 2 (10/14/2013):

Ticket Curacao – Aruba

Total ticket price USD 181.25 (incl. taxes & charges)

Tax & Charges = USD 70.25, or **39% of Tariff = Taxes and Charges**

Example 3 (10/15/2013):

Santo Domingo – San Juan

Total ticket price USD 322.70 (incl. taxes & charges)

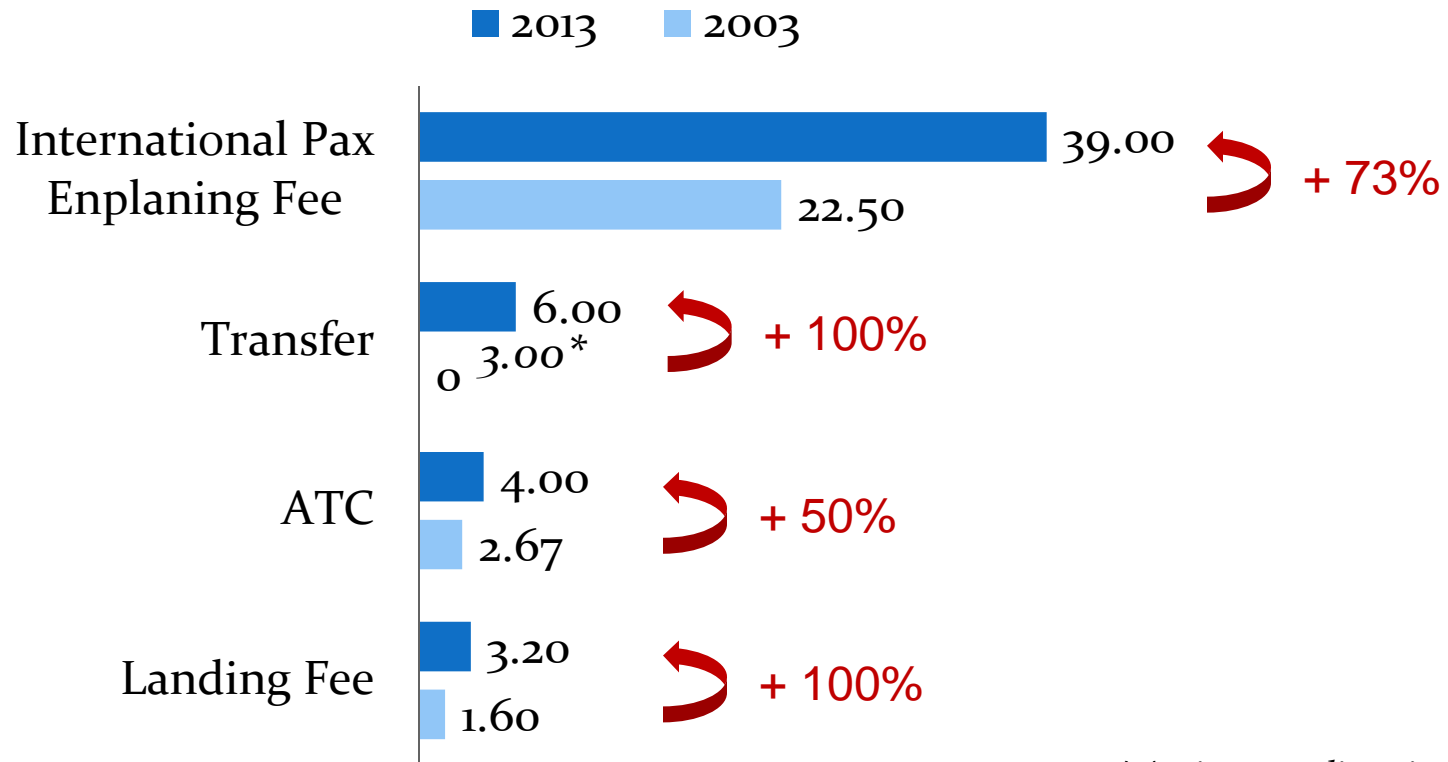
Tax & Charges = 152.70, or **47% of Tariff = Taxes and Charges**



Curacao has been more competitive in the past, but charges significantly increased.

Average charges per passenger departing: Curacao, 2013 vs. 2003

Values in USD



* An intermediary increase between 2003 and 2013.

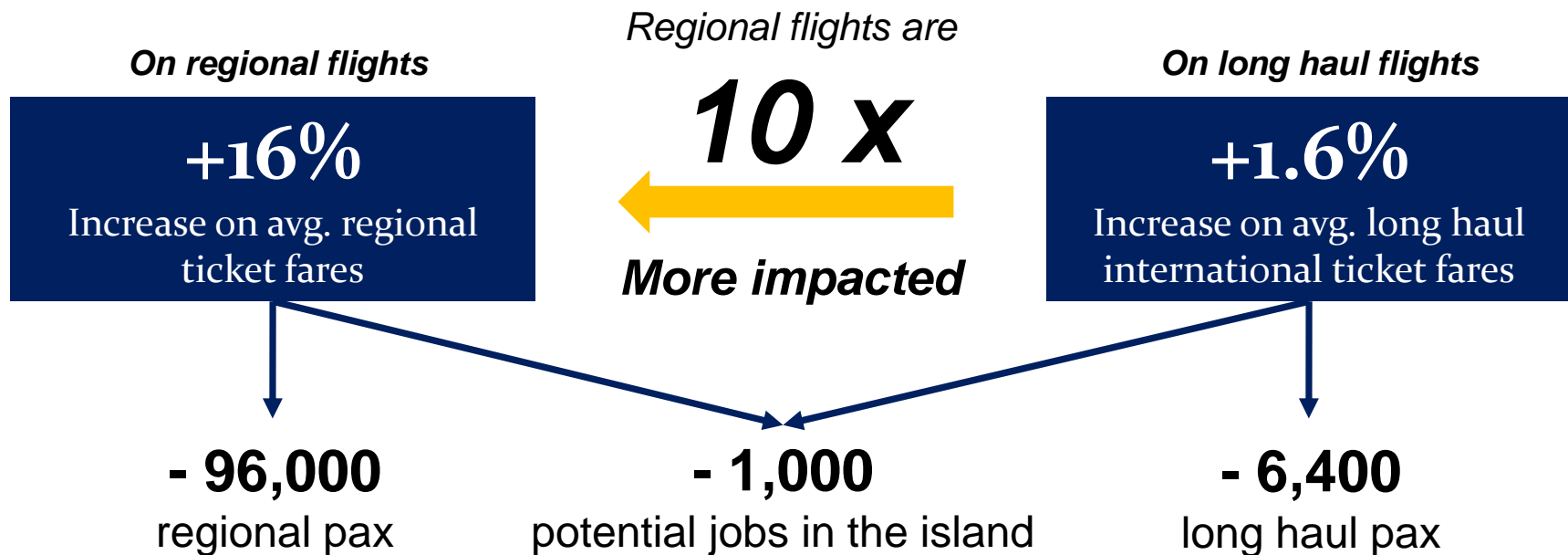
Such increases directly leads to reduction of air traffic flows

The example of Curaçao.

From 2003 to 2013:

75%
Overall increase of taxes & charges
(per pax basis)

Leaded to:



Price elasticity to demand is, in average, ± -1 .

Each arriving passenger contributes with approximately USD 500 to the local economy.

GDP contribution offsets immediate Governmental gains from fees increases.

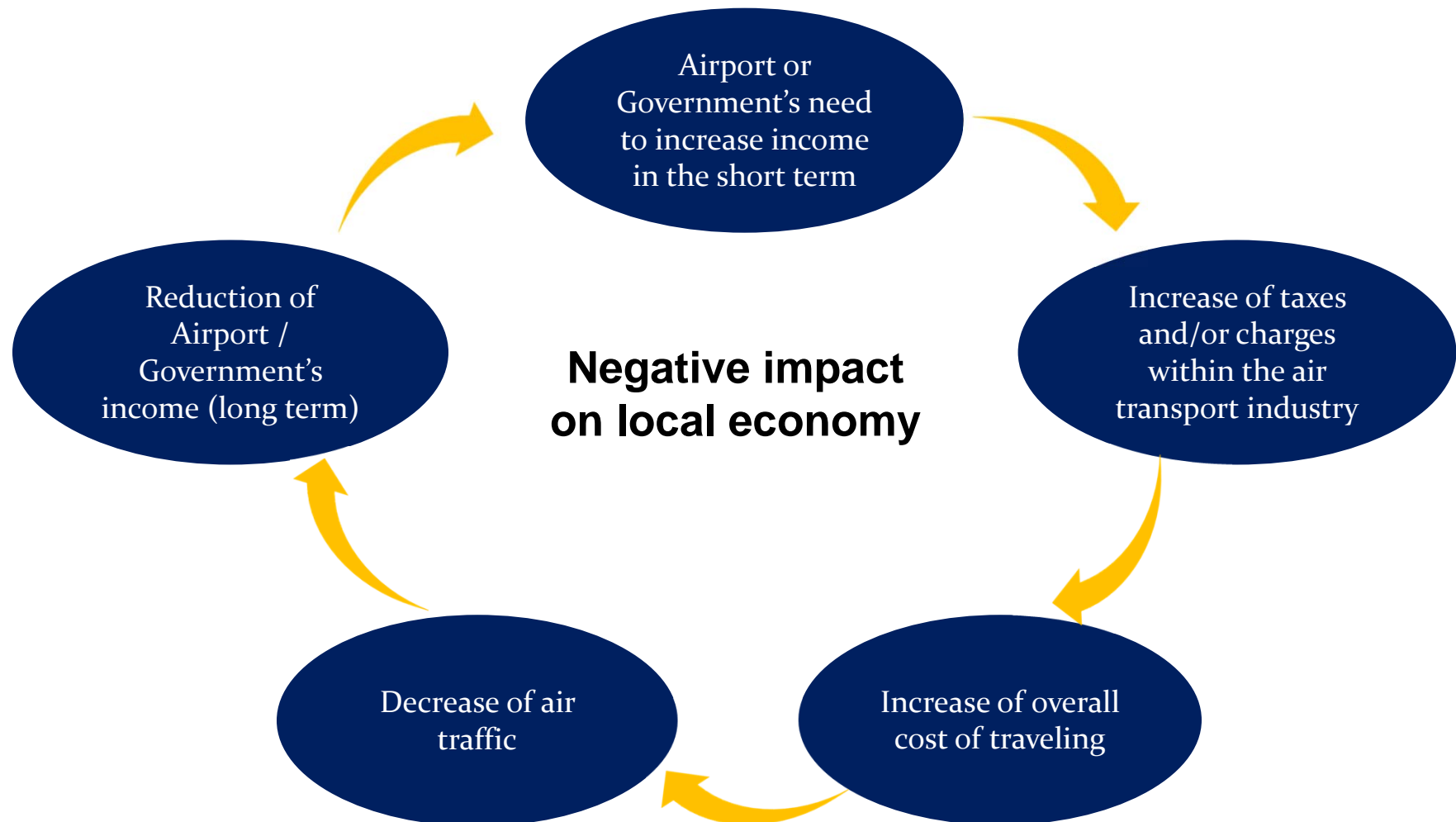
The contribution of the missed passengers arriving in Curacao (USD 51 million) to the local economy is

3.2 X

Is digging 3 holes to fill 1

higher than the added revenue related to the increases of direct and indirect fees imposed (USD 15.9 million)

A “vicious circle” negatively impacting local economy:



Cost of travel for the passenger includes: ticket + taxes + charges

Excess taxation deeply impacts the cost of traveling and make the Caribbean islands less competitive.

IATA Economics, 2014

Taking the islands as a whole...

... each **\$1** of tax added to the air ticket can lead to:

- 40,000

foreign arrivals

- \$20 mi

of tourist expenditure

- 1,200

jobs

- 95,000

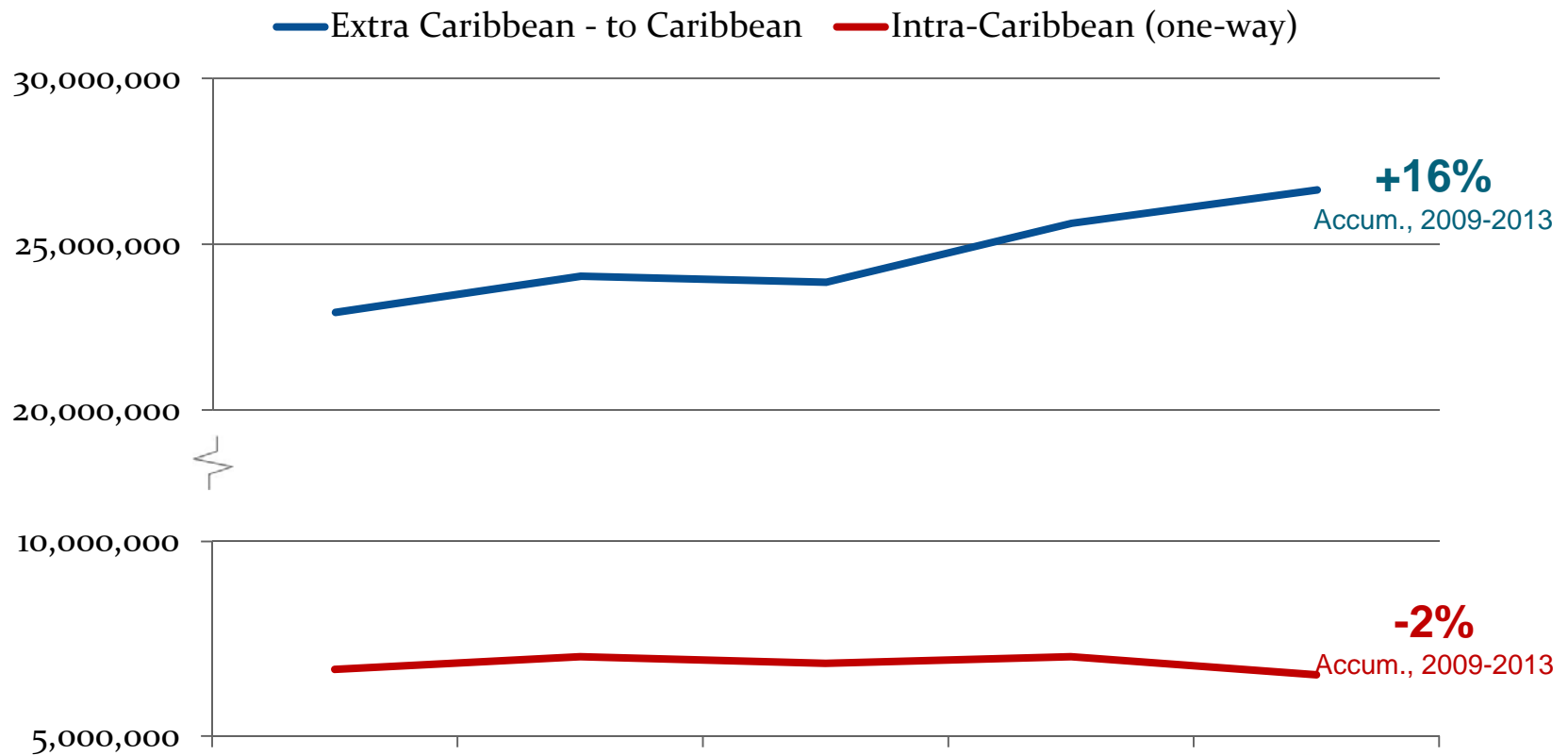
Inter-island passengers

Intra-Caribbean capacity has been decreasing within the past years.

Evolution of Seats Offer: Intra-Caribbean vs. Other Regions to Caribbean

Total of aircraft seats, one-way

All passenger services, direct flights



Sources: InselAir analysis, OAG (Aug2014)



Final remarks

- 1. Make ICAO and IATA's recommendations mandatory** regarding transparent consultations.
- 2. Make ICAO and IATA's recommendations mandatory** regarding cross subsidy while taxes and charges to be cost-related.
- 3. Introduce lower charges and taxes for inter island traffic in the Caribbean** as is the case with most large economic blocks to reverse the downward trend in inter-island traffic within the region.



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Back up slides – will not be used since time presentation is short

Key reasons why there should not be cross subsidization, as per IATA's statement on the matter:

1. Charges will not be cost-related and therefore **not meet ICAO Policies**;
2. It is **anti-competitive**, as one group of airline users will subsidize another group;
3. This leads to a **distortion of competition** and an imbalance of the level playing field;
4. Airlines and their passengers are paying for facilities and services **they do not use and do not benefit from**;
5. The link between **costs and the price paid is lost**;
6. Charges should be **site specific**;
7. It does not encourage **cost reduction and cost efficiency**.

Case of Ireland:

Recently, Ireland waived the EUR 3.00 travel tax...



... and Ryanair immediately responded by increasing airlift to Ireland with 1 million seats.



In 2009, the travel tax had topped EUR 10 per departing passenger, and it was responsible for the:

- loss of 3,000 jobs;
- Reduction of 1.2 million departing passengers.

Urgent actions must be addressed towards the reduction of fees for regional passengers.

The Brazilian example (stimulation of regional passengers):



Airport related fees for major Brazilian airports operated by Infraero: *

	PAX ENPLANING FEE (US\$/pax)		ACFT LANDING FEE (US\$/ton)		PARKING FEE Manouvering area (US\$/ton/h)		CONNECTION FEE (US\$/pax)	
	DOM	INT	DOM	INT	DOM	INT	DOM	INT
For main airports	9.42	32.63	2.95	7.87	0.58	1.57	3.06	3.06
<i>Proportion: DOM/INT</i>	-71%		-63%		-63%		0%	

Airport/navigation related fees for all major Brazilian airports: *

	AIRPORT & NAVIGATION FEES TAN (US\$/weight factor/km)		AIRPORT & NAVIGATION FEES TAT APP (US\$/weight factor)		AIRPORT & NAVIGATION FEES TAT ADR (US\$/weight factor)	
	DOM	INT	DOM	INT	DOM	INT
For main airports	0.28	0.25	63.11	70.87	101.24	113.69
<i>Proportion: DOM/INT</i>	14%		-11%		-11%	

* Exchange rate as of September 11th, 2014: 1 USD = 2.29 BRL

Source: Infraero (Aug.2014)

Navigation fees:

TAN: Fee for the use of Communications and Assistance to in Route Aerial Navigation..

TAT APP: Fee for the use of Communications and Radio-Assistance to Aerial Navigation in Approach Control Area.

TAT ADR: Fee for the use of Communications and Radio-Assistance to Aerial Navigation in Airport Control Area.



Curacao needs to improve its competitiveness.

Average charges per passenger departing: CUR vs. AUA

Values in USD

