Economic effect of increases in taxes & charges
Jamaica, October 7th – 9th 2014
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

Source: IATA Economics (Sept.2014)
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**

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

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

Values in USD

<table>
<thead>
<tr>
<th>Service</th>
<th>2013</th>
<th>2003</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Pax Enplaning Fee</td>
<td>39.00</td>
<td>22.50</td>
<td>+73%</td>
</tr>
<tr>
<td>Transfer</td>
<td>3.00*</td>
<td>6.00</td>
<td>+100%</td>
</tr>
<tr>
<td>ATC</td>
<td>4.00</td>
<td>2.67</td>
<td>+50%</td>
</tr>
<tr>
<td>Landing Fee</td>
<td>1.60</td>
<td>3.20</td>
<td>+100%</td>
</tr>
</tbody>
</table>

*An intermediary increase between 2003 and 2013.*

Such increases directly lead 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:

**On regional flights**

- **+16%**
  Increase on avg. regional ticket fares

- **10 x**
  More impacted

- **- 96,000**
  regional pax

**On long haul flights**

- **+1.6%**
  Increase on avg. long haul international ticket fares

- **- 6,400**
  long haul pax

- **- 1,000**
  potential jobs in the island

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

\[ 3.2 \times Is \text{ digging 3 holes to fill 1} \]

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:

- Airport or Government’s need to increase income in the short term
- Increase of taxes and/or charges within the air transport industry
- Reduction of Airport / Government’s income (long term)
- Decrease of air traffic
- Increase of overall cost of traveling

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

Source: IATA Economics (Sept.2014)
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.
Economic effect of increases in taxes & charges
Jamaica, October 7th – 9th 2014

Albert Kluyver
CEO – InselAir
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.

Source: IATA’s paper on Cross Subsidization.
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.

Sources: CAPA, and media news.
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: *

<table>
<thead>
<tr>
<th></th>
<th>PAX ENPLANING FEE (US$/pax)</th>
<th>ACFT LANDING FEE (US$/ton)</th>
<th>PARKING FEE Maneuvering area (US$/ton/h)</th>
<th>CONNECTION FEE (US$/pax)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DOM (INT)</td>
<td>DOM (INT)</td>
<td>DOM (INT)</td>
<td>DOM (INT)</td>
</tr>
<tr>
<td>For main airports</td>
<td>9.42 (32.63)</td>
<td>2.95 (7.87)</td>
<td>0.58 (1.57)</td>
<td>3.06 (3.06)</td>
</tr>
<tr>
<td>Proportion: DOM/INT</td>
<td>-71%</td>
<td>-63%</td>
<td>-63%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>AIRPORT &amp; NAVIGATION FEES TAN (US$/weight factor/km)</th>
<th>AIRPORT &amp; NAVIGATION FEES TAT APP (US$/weight factor)</th>
<th>AIRPORT &amp; NAVIGATION FEES TAT ADR (US$/weight factor)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DOM (INT)</td>
<td>DOM (INT)</td>
<td>DOM (INT)</td>
</tr>
<tr>
<td>For main airports</td>
<td>0.28 (0.25)</td>
<td>63.11 (70.87)</td>
<td>101.24 (113.69)</td>
</tr>
<tr>
<td>Proportion: DOM/INT</td>
<td>14%</td>
<td>-11%</td>
<td>-11%</td>
</tr>
</tbody>
</table>

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

Navigation fees:

TAN: Fee for the use of Comunications and Assistance to in Route Aerial Navigation..
TAT APP: Fee for the use of Comunications and Radio-Assistance to Aerial Navigation in Approach Control Area.
TAT ADR: Fee for the use of Comunications and Radio-Assistance to Aerial Navigation in Airport Control Area.

Source: Infraero (Aug.2014)
Curacao needs to improve its competitiveness.

Average charges per passenger departing: CUR vs. AUA
Values in USD

- **International Pax Enplaning Fee + CUTE**: CUR - 40, AUA - 34.25, + 16.8%
- **Transfer**: CUR - 6, AUA - 3, + 100%
- **ATC**: CUR - 4, AUA - 0
- **Landing Fee**: CUR - 3.2, AUA - 2.74, + 16.8%