



**Copa Airlines** ®

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October 8th, 2014 – Montego Bay, Jamaica

Presentation for:

ICAO Regional Air Transport Conference

The Impact of Taxation on Air Transport's Development

# The Impact of Taxation on Air Transport's Development



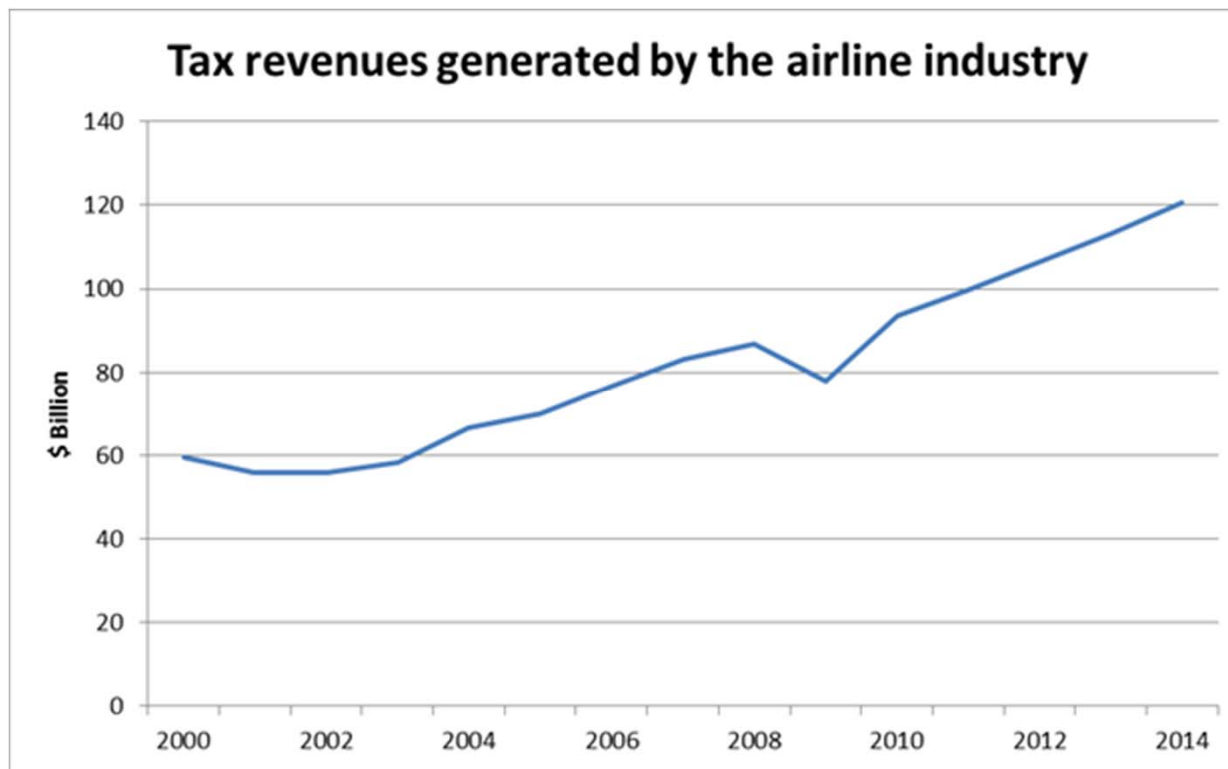
## Taxes & Charges – An Increasing Burden

- Constant increase of:
  - Taxes levied on aviation, which are designed to raise national or local government revenues
  - Airport and ATC charges, which recover the costs of providing facilities and services for civil aviation.

# The Impact of Taxation on Air Transport's Development



## Taxes & Charges – An Increasing Burden



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## Taxes & Charges – An Increasing Burden

- Global tax increase of US \$15 billion in the past two years

Worldwide Airline Industry	2012	2013	2014
Tax revenues, \$billion	106	113	121
% Change over year	6.6%	6.4%	6.7%
% Gross Value Added (GVA)	50.2%	50.3%	50.3%

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## The effect of a lower tax burden and cost efficient charges:

- Lower the cost of travel
- Generates higher traffic

**For Airlines:** Direct financial benefit

**For Airports:** Traffic growth

**For States:**

- Jobs (direct & indirect), income from taxes → growth
- Higher connectivity, lower costs → investment → growth

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## Airport and ATC charges in context

- USD 92 billion worldwide for 2011
- 14.5% of the total of air transport costs
- User charges are an important element in airline's cost bases

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## Global Governance on user charges

- ICAO Chicago Convention:
  - No discrimination between nationalities
  - No charges for the right to overfly
  
- ICAO's Policies on Charges - 9<sup>th</sup> edition (Doc 9082)
  - 4 key charging principles to protect users:
    1. User Consultation
    2. Transparency
    3. Cost Relatedness
    4. Non-discrimination

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## Charging principles in the Americas?

### 1. User Consultation:

- Lack of meaningful dialogue – e.g. UIO Airport
- Need of clear processes – e.g. Colombian Airports

### 2. Transparency:

- Lack of cost breakdown – e.g. BOG airport Fuel concession fee

### 3. Cost Relatedness:

- Unclear revenue / funding allocations, concession fees – e.g. all concession in Brazil are not cost related

### 4. Non-discrimination:

- Discriminatory charges are common – e.g. Domestic and International departures fees – very common in the region



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## Key elements of a good Consultation:

- A good description of the proposals/plans and the impact on users
- Major investments supported by proper cost benefit analysis
- Consultation information is provided in advance
- Feedback from users taken into account during consultation and decisions
- Airline users engaged throughout the entire consultation & implementation process
- Decision on the new level of charges are published in advance

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## Key elements to improve Transparency:

- Adequate financial information:
  - Operating cost
  - Capital Expenditure
  - Revenues
  - Traffic
  - Asset allocation practices
  
- With explanations of the main cost drivers

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## Cost relatedness:

- There needs to be a clear link between costs and charges

- ICAO Doc 9082 “building blocks”:

Aeronautical charges = Depreciation

+ operating costs

+ cost of capital

- non-aeronautical contribution

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## Non-discrimination:

- No charges discrimination between different groups of users
  - Airport charges varies between International vs. Domestic air transport.

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## Conclusion:

- All airlines should pay their fair share of the cost for the facilities and services they use.
- Charges should be set in consultation with the airlines and their representative organizations, they should be transparently justified and related to the cost of providing airport and air navigation facilities and services, and they should not discriminate between airlines.
- Taxes have a direct impact on passenger traffic.
  - High taxes → drop in passenger traffic



¡MUCHAS GRACIAS!