



WORKING PAPER

WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

SIXTH MEETING

Montréal, 18 to 22 March 2013

Agenda Item 2: Examination of key issues and related regulatory framework

Agenda Item 2.6: Taxation of and other levies on international air transport

GOVERNMENT POLICIES AND THEIR ECONOMIC IMPACT ON AIRLINES

(Presented by Bahrain on behalf of the Arab Civil
Aviation Commission (ACAC²))

EXECUTIVE SUMMARY

This working paper deals with the financial burdens imposed on airlines as a result of taxes and charges levied by Contracting States, and their impact on the air transport industry.

Action: The Conference is invited to agree to the recommendations presented in paragraph 4.

References: ATConf/6 reference material is available at www.icao.int/meetings/atconf6.

1. INTRODUCTION

1.1 Among the fundamentals of the air transport industry is the worldwide consensus on its importance and role in the development of any nation. However, despite the economic benefits derived from activities directly or indirectly related to air transport, this sector is being milked like a cash cow to collect funds, as stated by the former Director General and Chief Executive Officer of the International Air Transport Association (IATA).

2. DISCUSSION

2.1 The rate of return on capital in the air transport industry is among the lowest compared to other business sectors, despite IATA's role in rationalizing costs for airlines through innovative initiatives such as Simplifying the Business programme (StB), which helped in saving billions of dollars, and the efforts made by the airlines themselves to reduce expenses.

¹ Arabic version provided by Bahrain.

² Algeria, Bahrain, Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Sudan, Tunisia, United Arab Emirates and Yemen.

2.2 A quick look at the different price components in a travel ticket gives a clear idea about the new financial burdens imposed on air transport. The multiple taxes and charges are often higher than the price of the ticket, despite the fact that most of those levies are unrelated to the development of the sector or to the modernization of its infrastructure.

2.3 Those taxes and charges have an adverse impact on the demand for air travel, as they disproportionately increase the total price of tickets.

2.4 Other constraints are starting to materialize and trigger widespread objections, as they are inconsistent with the provisions of the 1944 Chicago Convention. They are manifested in the financial repercussions of the Emissions Trading Scheme (ETS), which gave rise to extensive debates.

2.5 In addition, airlines are required to modernize their fleets to achieve the emission reduction targets, in accordance with the plan endorsed by the International Civil Aviation Organization (ICAO) and IATA. Purchasing new aircraft and modern engines with a great potential for lower fuel consumption and emission reduction represents a huge investment for airlines.

2.6 Also, security measures to counter emerging threats will entail additional costs for airlines.

2.7 Some States have also increased charges on air navigation services to cope with increases in salaries, which lead to higher costs.

2.8 Adherence to strict safety standards also entails additional costs that must be neither neglected nor removed.

2.9 There are other issues that have direct financial repercussions on airlines, that cannot be addressed in detail in this paper. The above are only illustrations to clarify the issue and the purpose of this paper.

3. CONCLUSION

3.1 Preserving the air transport industry and attracting investments to this sector require ensuring a reasonable return on the capital invested. Airlines are willing to incur the costs related to the products and services they offer, like any other business sector, but would be reluctant to accept financial burdens that are not related to air transport. The ultimate objective is to enable the industry to grow and contribute to the development process, especially in developing countries, and offer all categories of passengers reasonable prices. This objective would be achieved if taxes and charges imposed by some States and passed on to passengers are reduced. Such levies exceed, in many cases, the price of the ticket itself. Occasionally, in times of fierce competition, some airlines only charge the equivalent of taxes and charges. It should be stressed that reducing those charges would allow an increase in prices and thus reasonable rates of return.

4. RECOMMENDATIONS

4.1 The Conference is invited to:

- a) urge States to examine the impact of taxes on airlines and passengers and take serious measures to reduce the charges imposed on air travel;

- b) urge States to consult with all stakeholders when considering imposing new taxes;
- c) urge States to adhere to the principles of ICAO's *Policies on Taxation in the Field of International Air Transport* (Doc 8632); and
- d) encourage ICAO and IATA to undertake an evaluation of the status of taxes and charges imposed on air travel and their impact on the industry.

— END —