

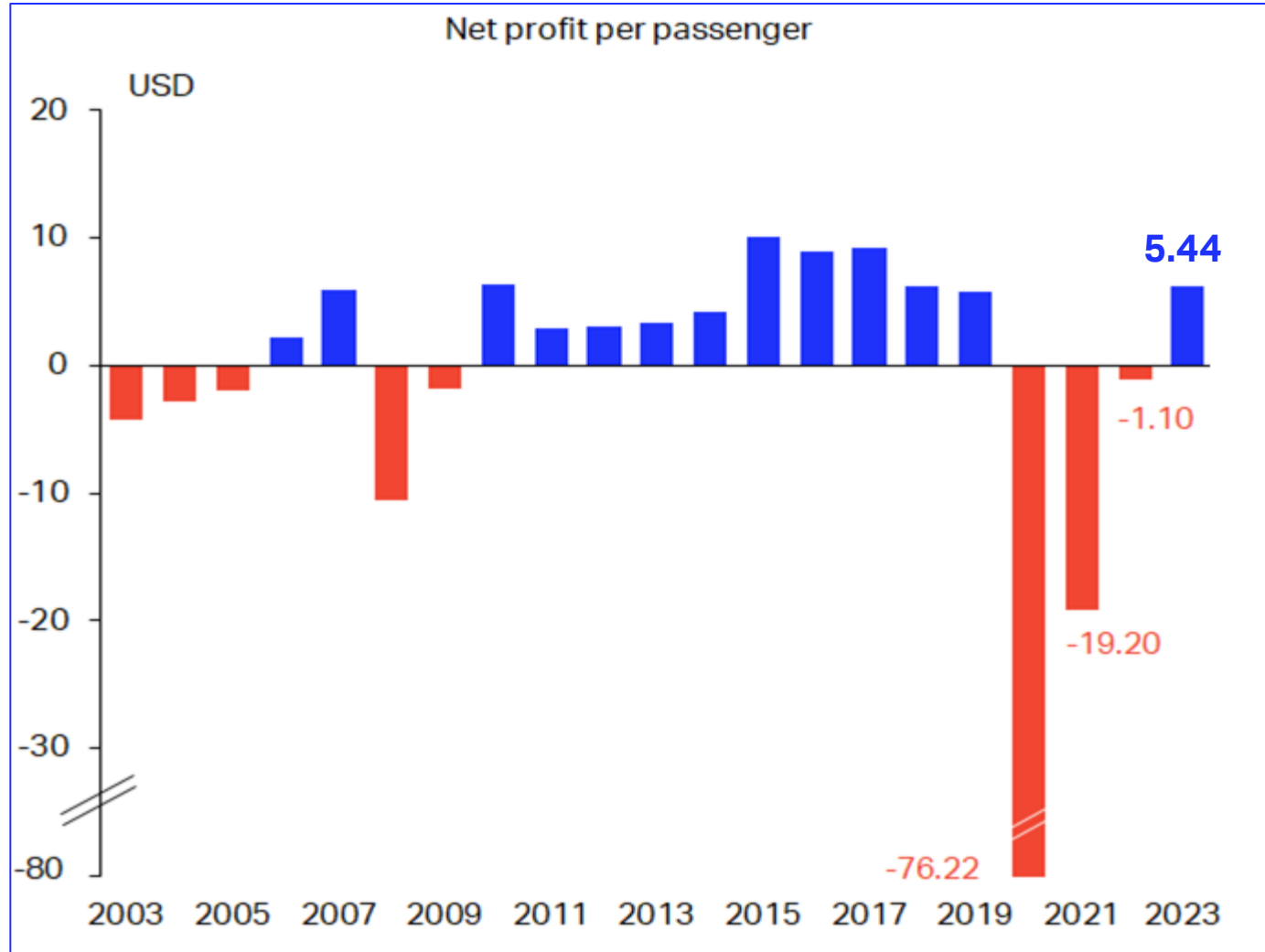
Charges & Taxes from the Airline Perspective

Guillermo Rodriguez

Airport and ANSP Charges Manager



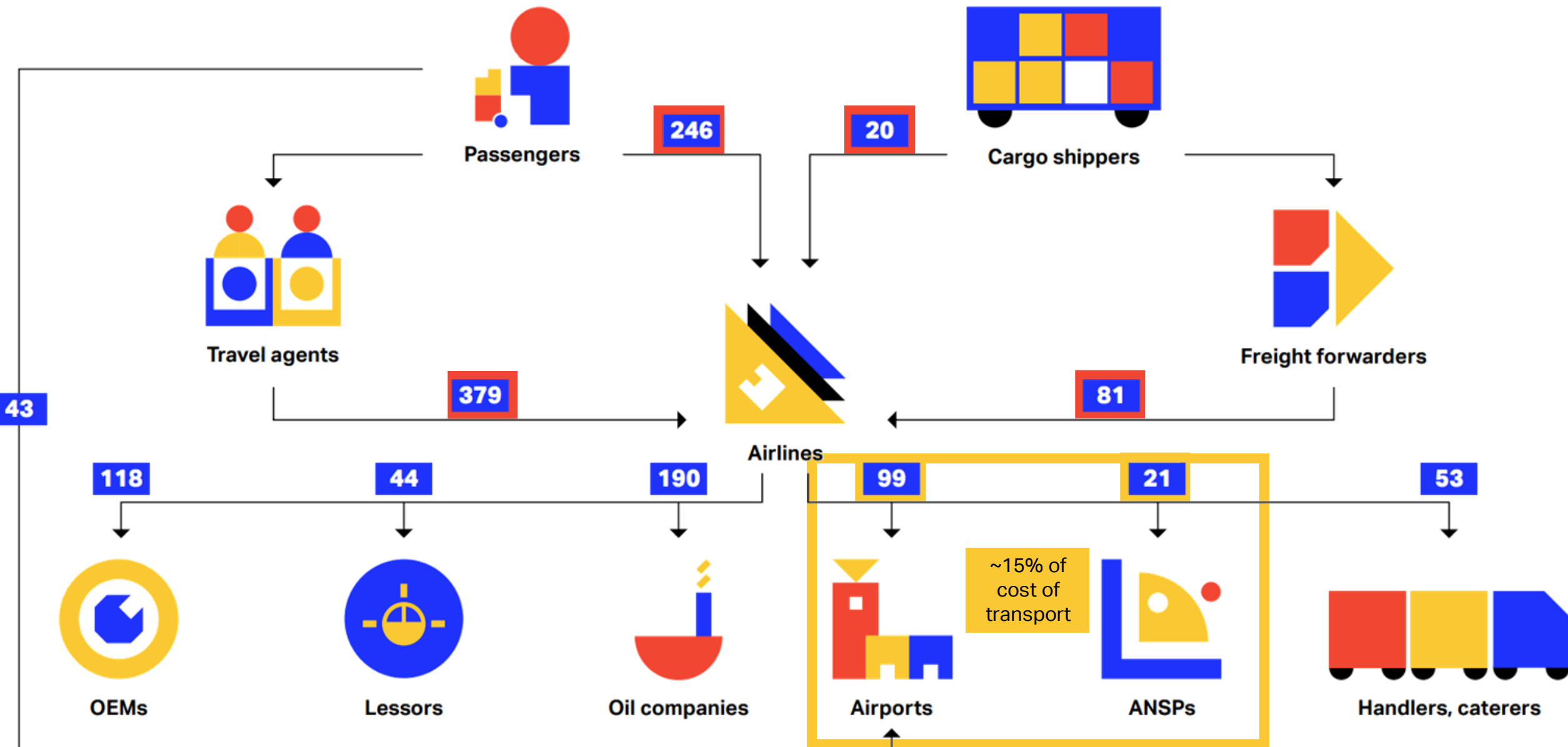
Airline financial performance - revenue per passenger



Industry financial recovery has exceeded expectations in 2023

Airline revenues
USD 896 BILLION

Airlines' net profits equate to
USD 5.44 per passenger



Illustrative flow of revenues within the aviation value chain

Indicative revenue flows within the aviation sector, 2019, USD Billions

Source: McKinsey



Between 2018-2023, airlines paid

\$380b

in passenger based taxes and
charges alone



Industry Context

- The airline market is very competitive, and margins are very low
- Progress has led to significant drops in unit costs, but much of this has gone towards paying for airport and ATC infrastructure, as well as taxes
- Imposing taxes on aviation only prevents airlines from investing to meet business climate objectives, hurts GDP and kills jobs
- Airports do not compete, nor do ANSPs, and in many parts of the Americas, air travel is the only practical mode of transportation so governments should ensure it is affordable and competitive
- Appropriate independent economic regulation helps to protect consumers from abuse, including poorly executed privatization processes



Global Challenges

- Taxes, fees, and charges can make up to 50% of the total ticket price
- The high level of taxes and charges in some countries prevents them from fully unlocking the economic benefits that air transport can bring in today's globalized society
- The money collected is not entirely reinvested in the industry, which can lead to a lack of improvement in the quality of the services provided
- Some countries are evaluating tax increases or imposing new taxes, which may further increase the cost of travel
- Green taxes as a growing threat, which can result in higher ticket prices
- Governments in the region generally do not realize that taxation leads to discouraged travel, which limits connectivity
- Travel demand very elastic





Air travel should not be reserved for the privileged

Travel connects people, businesses and governments

4 June 2024





Connectivity is the key factor

- Aviation plays a crucial role today. The connectivity by air is a key factor for the competitive position of countries in Latin America and the Caribbean, its regions and cities
- A better connectivity minimizes travel costs for passengers, businesses and shippers
- Connectivity generates economies growth, stimulates productivity, trade, and foreign direct investment
- Airports and civil airspace users support many jobs in the economies of the region



ICAO's charges considerations

- Charges are defined and applied to recover the costs of providing facilities and services for civil aviation
- Balance between the interests of airports, ANSPs, airlines and passengers
- ICAO's charges principles: Non-discrimination, cost-relatedness, transparency and consultation into regulation of policies
- All charges and fees should be transport-based
- Cost should be properly allocated
- Accurate accounting and control of charges and allocation



ICAO's taxes considerations

- Consider the industry's contributions to the local economy and the implications of excessive tax increases.
- Avoid discrimination
- Reduce taxes as much as possible

IATA positions:

- IATA promotes adherence to ICAO's recommended guidelines in the implementation of charges, as defined in Doc 9082, which include Consultation, Transparency, Cost Relatedness and Non-Discriminatory practices
- IATA opposes any form of tax or fee where the resulting revenue is not reinvested in the aviation industry and is merely meant to increase general government revenues
- IATA promotes adherence to ICAO's Policies on Taxation in the Field of International Air Transport, as defined in Doc 8632.
- The high level of taxes and charges in some countries prevents them from fully unlocking the economic benefits that air transport can bring in today's globalized society



IATA's position:

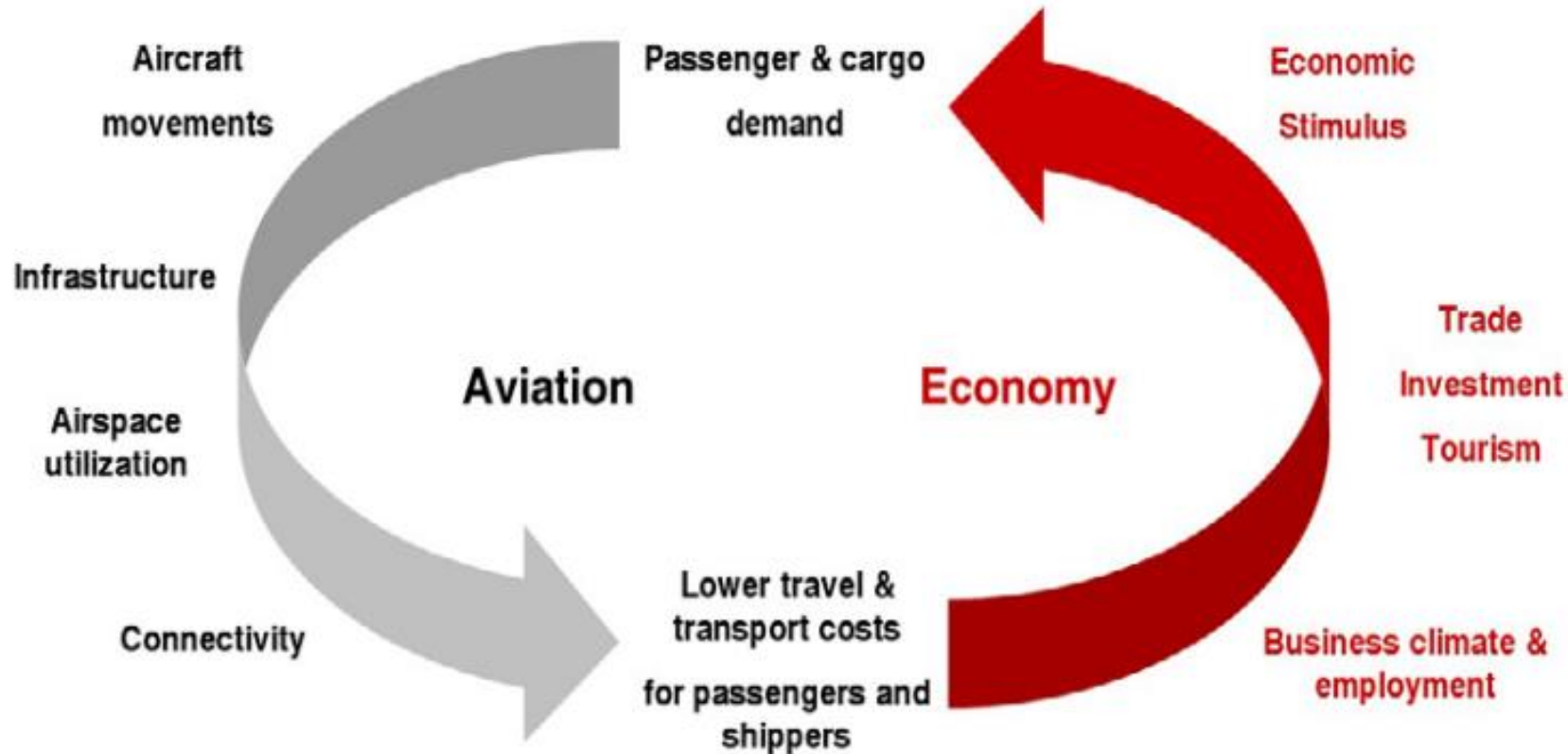
➤ IATA's Best Practices on Airline Passenger Ticket Taxes, Fees and Charges (TFCs).

1. All TFCs should be transport-based	7. The refund of, previously remitted, sales- based TFCs should not be the responsibility of airlines
2. TFCs should always be implemented with a future effective date	8. TFCs should respect standard billing processes (differentiate between taxes and charges)
3. The introduction of, or changes to, TFCs should be notified in advance (at least, 4 months).	9. Standard payment/ remittance processes should be respected
4. TFC application rules should follow industry standards	10. A dispute period should be allowed
5. There should be no tax on or within a Tax	11. A waiver of interest/ penalties should be allowed
6. Exemptions from TFCs should follow industry standards	12. Minimum data retention requirements should be clear and aligned with existing legislation





Virtuous Circle of connectivity grown and economic growth



Airlines & Passengers seek

- Airports & airspaces run as efficiently as possible
- Investments that meet market needs – not those of the concessionaire or architect – and are good value for money
- For those airports who earn returns on capital – ensure those returns are reasonable
- Transparency, dialogue, consultation, no discrimination
- Private sector participation that drives user costs down – not up





Appropriate
independent
economic regulation
protects consumers
from excessive
charges

Key aspects

1. Establish a regulator

- Independent of the airports and the State
- With sufficient resources (manpower and financial)
- Empowered (including powers over concession agreements)
 - Quality of Service, Investments, Efficient Operating Expenses, Power to set Charges






2. Ensure ICAO policies are respected

- Transparency, Consultation, Cost-relatedness, Non-Discrimination

3. Adapt regulation as needed based on market power

Dealing with market failure: Appropriate Regulation

Form of Regulation (levels of regulatory intervention)

No regulation	No regulator or regulation		39 %
Price monitoring	No regulatory involvement, but prices are constantly monitored in case abuse is found ("threat of regulation")		4 %
Consultation/Appeals/Fallback	Charges process is dealt through a consultation/negotiation process. Regulatory intervention only "triggered" in case of an appeal or failure of negotiations. The scope of intervention can be limited (i.e. checking transparency, cost relatedness, etc) or wide-reaching (i.e. defining prices)		17 %
Incentive based (i.e. price cap)	A maximum level of charges expressed either globally (yield) or tariff specific. Meant to incentivise outperformance (e.g. if costs are lower than the assumed cap, the operator keeps that outperformance).		17 %
Rate of return	The overall level of charges is defined so that the operator earns a return over a longer period. This return may be fixed or slightly variable, however under/over-recoveries are generally compensated. (May be akin to "cost plus")		23 %

Source: IATA Airport Regulation database. Sample 422 airports that accounts for 74% global traffic (2019)



Key: Strong, Independent Regulator Checklist

- Does the regulator have a mandate to protect users/consumers?
- Does the regulator have powers to regulate all aspects of a regulated firm, including prices, quality, investments and the list of regulated activities?
- Does the regulator can investigate and sanction regulated companies?
- Is the regulator functionally independent from the State?
- Is the regulator sufficiently staffed (number and competence)?
- Is there an appeal/legal challenge possible for regulatory decisions?

What does an airline association know about economic regulation?

- IATA's team engages with more than 80 countries/airports every year on charges-related matters
- IATA can share knowledge on systems in many countries of the world and is called on as a subject matter expert
- In many cases, IATA is involved in the detailed design reviews of infrastructure and the financial evaluation of provider proposals, unparalleled by any organization globally

Recent success story:

- Kingdom of Saudi Arabia's decision to corporatize & privatize airports
- IATA played a key role in helping set up the right economic regulation framework

Latin American concessions often at odds with ICAO policies

- Predetermination of charges
- Predetermination of investments
- Limited consultation & transparency
- Cross subsidization
- Excessive concession fees

Examples of charges issues

- Discriminatory airport charges, e.g., El Salvador: USD\$1.000 per passenger for transfer from Africa/India
- Differences in charges for international and domestic flights, e.g.: Argentina, Ecuador, Colombia, etc.
- Airports with bilateral negotiations or benefits to certain airlines that generate difference in charges for other operators, e.g. Quito Airport
- Threats of peak pricing charges, e.g. Toronto
- Intentions for reduced charges for group of countries. e.g. : CAN
- Imposition of charges unrelated to the costs of the services provided, e.g. Overflight charges in BAHAMAS
- Lack of consultation meetings, e.g. DECEA in Brazil
- Purely informative "consultations" with previously adopted decisions
- ²² TUAS AICM include payment of TEXCOCO Project bonds

Examples of good practices in charges

- Consultation processes in Curacao and Bonaire
- Consultation process for air navigation services in Peru
- Consultation process for air navigation services with NAV CANADA
- Charges billing process by COCESNA
- Improvement of the airport concession charges process in Mexico
- Consultation process with AERIS for adjustments to charges associated with the extension of the concession contract in SJO
- Work with the DGAC in Chile to review the airport concession model and the flows of revenues to propose improvement opportunities to the Minister of Public Works
- ANAC plan in coordination with IATA to identify infrastructure and charges best practices in EUROPE

Aviation Taxes: Tax Policy highlights

- Passenger Ticket Taxes
- Carbon pricing initiatives
- United Nations' initiatives
- Conclusion: Tax Policy Considerations



Consequences of high level of Taxes:

- Demand for air travel is highly sensitive to changes in prices
- GDP and tourism are negatively impacted by reduction of demand
- TFCs need a holistic view, not to be seen in isolation
- Cost of enplanement is a driver of airlines' decision to serve markets
- TFCs result in diversion of visitors to neighboring jurisdictions that don't impose (or impose fewer) TFCs
- The decline in demand is further compounded by lower-than-expected government tax revenue due to diverted travel

Carbon pricing initiatives

- On 9 December 1996, ICAO established its position against any environmental taxes on air transport, highlighting that **environmental levies should not be driven by fiscal aims but designed to recover the costs of alleviating or preventing environmental problems** – a view that IATA shares.
- The “green” taxes trend:
 - Several Governments introduced taxes under the premise of reducing emissions from aviation but were unable to demonstrate achieving the intended CO2 reductions.
 - Rarely (if ever) have the revenues been used to support investments that would help mitigate or reduce future emissions in the aviation sector.

United Nations initiatives



1. UN Model Convention – Article 8 – Corporate Income Tax

What is the proposal?

To **abandon the residence-based taxation** (i.e., airlines being taxed in their country of registry) and **adopt to a source-based taxation** (i.e., airlines are subject to corporate income taxes in all jurisdictions where revenue is generated).

Why does it matter?

Because airlines' ability to conduct their international air transport operations relies on the consensus in favour of exclusively residence-based taxation of income from international air traffic.

What can ICAO do?

ICAO, as a UN agency, should address the UN Tax Committee (proposing to change article 8), and reinforce that Doc. 8632 was approved by ICAO and should be respected. IATA has attended all public sessions of the UN TC, opposing to this proposal and asking for ICAO's presence in such discussions.





UN initiatives

2. UN Framework Convention – Proposals on **Corporate Income Taxes** and **Carbon Taxes**

What is the proposal?

Express intentions to include air transport in the UN Framework Convention, a multilateral agreement biding to signatory States.

Why does it matter?

It is a fundamental change that expressly disregards what was approved at ICAO. These proposals go **against the Chicago Convention, the ICAO Doc 8632, and CORSIA as the only environmental market-based measure to address aviation CO2.**

What can ICAO do?

In our views, ICAO should 1) interact with the Ad Hoc Committee looking at the UN Framework Convention and reiterate ICAO's policies; 2) appoint dedicated resources to global tax initiatives to follow these matters. 3) continue to be recognized by the UN as the exclusive body dealing with all aviation matters, including taxation.





Benefits of lowering taxes and charges:

- Lower fares as airlines are expected to pass on tax and fees reductions to passengers in the long term
- Connectivity growth (more routes, more frequencies), resulting in more flexibility for passengers and shorter travel times
- Wider economic benefits, created by agglomeration and productivity impacts, but also additional jobs created in the economy



What is needed to reduce gaps:

- See the full picture to evaluate sensitivity and risks associated with the increase or imposition of new charges and taxes
- Promote effective and independent regulation of the operation
- Review and define structures of the consultation processes and the adequate delivery of prior information by airlines, airports and ANSPs
- Inform airlines and IATA as soon as an airport and/or ANSP has a potential development and/or charges adjustment plan. **AVOID SURPRISES**
- Opposition to creation and increase of taxes
- Promote industry growth with teamwork



Available IATA Resources

IATA Website

- www.iata.org/taxation
 - <https://www.iata.org/en/programs/ops-infra/airport-infrastructure/airport-charges/>
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Thank you

xxx@iata.org

www.iata.org

