

# The Effect of Charges and Taxes on the Wider Economy

**Airlines strongly oppose the use of charges and taxes for revenue-raising purposes. Charges should reflect cost-recovery principles while taxes require a strong economic justification.**

Excessive or new taxes and charges on the airline industry do have an economic cost. The airline industry – and the global connections it provides – creates substantial value for its customers, stakeholders and the wider economy. Higher taxes and charges can damage or restrict this value – to the long-term cost of all parties.

## SITUATION

The airline industry can be seen as an easy-target for new taxes, sometimes with no direct relation to the industry itself (e.g. Solidarity Tax). At the same time, insufficient regulation or competitive pressure can lead to excessive airport and ANSP charges, above the level that can be justified by the level of cost incurred and/or the quality of service provided.

## IATA POSITION

Taxes and charges do have a significant economic cost – not just for airline users but also for the wider economy. As such, the imposition and level of charges and taxes must be economically justified. If governments consider constraining or taxing air transport for policy reasons (e.g. environmental), they must note that they could also be sacrificing the economic development benefits that the industry creates.

Even marginally small changes can have a significant impact on the wider economic value created by the airline industry. In many cases, lower taxes and charges would be of more direct benefit, boosting both airport and ANSP revenues and wider economic benefits due to higher traffic levels<sup>1</sup>.

## KEY CONSIDERATIONS

- 1** Air transport is a vital component for economic development and growth. It creates significant value for its users and other stakeholders – including governments. But it also generates substantial wider economic benefits by allowing firms to be more productive and efficient and by encouraging higher investment<sup>2</sup>. Unjustified taxes and charges place these benefits at risk.
- 2** Marginally small changes can still have a significant economic impact. The high sensitivity of airline passengers to the price of a ticket is widely documented<sup>3</sup>. The price elasticity of short-haul leisure passengers has previously been estimated at 1.5 (i.e. traffic will increase by 15% if prices fall 10%). However, this is probably the lower bound of a potential range in markets that are liberalised and/or face strong price-competition from no-frills airlines.
- 3** Using the example of Toronto airport demonstrates that lower taxes and charges can be both financially and economically optimal. A proposal to reduce the crown rents by 30% (a revenue loss of \$CAN 58 million) is estimated to produce a 2.2% increase in the number of passenger arrivals, with the following benefits for the Ontario economy:
  - Tax revenues would rise \$CAN 62 million a year
  - Business revenues would be boosted by \$CAN 300 million a year
  - An extra 3,000 jobs would be created
  - Wage income would rise by \$CAN 80 million a year
- 4** IATA and the airline industry should be consulted before any proposals for any new charges, taxes or increases. The information required includes an impact assessment on industry costs, traffic levels and overall economic benefits.

<sup>1</sup> See examples under the 3rd key consideration

<sup>2</sup> IATA Economics Briefing 2006 – Airline Network Benefits

<sup>3</sup> For example Button KJ (April 2005) 'The Taxation of Air Transportation' and Gillen et al (2002) 'Air Travel Demand Elasticities: Concepts, Issues and Measurement', Department of Finance, Ottawa.