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IATA POSITION ON TOURISM TAX IN NEW ZEALAND

The International Air Transport Association (IATA) has prepared this position paper after reports in the local media emerged that a proposed Tourism Tax on international visitors to New Zealand is currently being considered.

IATA is a global trade association for airlines representing some 281 airlines accounting for 83% of total global air traffic. Air New Zealand and other major scheduled airlines operating to the three major international airports in New Zealand are members of IATA.

IATA promotes safe, regular and economical air transport for the benefit of the peoples of the world, the fostering of air commerce, and the adherence to international regulations and standards on taxation. IATA's Charter also commits it to cooperate with other international organizations, including the International Civil Aviation Organization (ICAO) and the United Nations.

Background

Tourism plays a significant part in international trade, and international air transport has made an enormous contribution to this development. Improved airline services and the availability of attractive air fares to the travelling public have been important factors. By assisting in the development of tourism, airlines can make an important contribution to the local economy. As the economic benefits from tourism accrue to the wider economy, levying a discriminatory Tourism Tax on an enabling sector like aviation is an ineffective and ill-conceived policy choice. Unlike the proposed Tourism Tax that seeks to penalize one particular sector (i.e. aviation), government funding of tourism and tourism-related initiatives should be achieved through less distortionary means (e.g. through general government revenues). The IATA position on Tourism Tax can be found in **Appendix 1**.

With respect to the proposal for the Tourism Tax, there are several pressing issues that IATA wishes to bring to your attention:

Contradictions with Accepted International Principles

IATA strongly opposes any form of tax or fee where the resulting revenue is not reinvested in aviation services and/or infrastructure and is merely meant to increase general government revenues. The imposition of the Tourism Tax would directly contradict accepted policies on taxation published by the International Civil Aviation Organization (ICAO), a specialized agency of the United Nations. In this respect, New Zealand, as a signatory nation to the Convention on



International Civil Aviation (Chicago Convention) and a Contracting State of ICAO, is obliged to adhere to the following:

- Article 15 of the Chicago Convention which states that: *“No fees, dues or other charges shall be imposed by any contracting States in respect solely of the right of transit over or entry into or exit from its territory of an aircraft of a contracting State or persons or property thereon”*.
- Policies on Taxation in the Field of International Air Transport contained in ICAO Document 8632¹, which states that *“each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate ... all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers”*.

Moreover, we note that one of the stated purposes of the proposed Tourism Tax is to fund broad-based environmental initiatives, including enhancing and protecting the environment as well as environmental conservation. As such, the revenue generated from the tax does not appear to be directly allocated towards alleviating, preventing or mitigating demonstrated environmental damages caused by air transport. This is at odds with the principles that underlie all of ICAO’s policies regarding environmental levies, as prescribed and reiterated in several Resolutions and Policy documents, including Assembly Resolution A39-12, Council Resolution on Environmental Charges and Taxes³, Council Resolution on Taxation of International Air Transport⁴ and ICAO’s Policies on Charges for Airports and Air Navigation Services (ICAO Doc 9082)⁵.

On 6 October 2016, the 39th session of ICAO adopted a Resolution on a Global Market-Based Measure scheme, with overwhelming support from ICAO’s Member States. The scheme established by ICAO is a global carbon offsetting mechanism, called CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). The ICAO Assembly Resolution stipulates that CORSIA is to be the sole market-based measure applying to CO₂ emissions from international aviation. The Preamble of ICAO Resolution A39-3 reiterates that market-based measures should not be duplicative and international aviation CO₂ emissions should be accounted for only once. Paragraph 19 stipulates that CORSIA *“is to be the market-based measure applying to CO₂ emissions from international aviation”*.

Without adherence to the various ICAO principles outlined above, international aviation would become financially overburdened by excessive and unjust taxation, which in turn would significantly limit the economic and social benefits generated by air transport. As such, the significant contribution of the aviation, travel and tourism sector to the New Zealand economy should be supported and nurtured, not hindered by excessive government taxation that would limit its growth and development.

¹ Available at: http://www.icao.int/publications/Documents/8632_3ed_en.pdf

² Available at: <http://www.icao.int/Meetings/a38/Pages/resolutions.aspx>

³ Available at: <http://www.icao.int/environmental-protection/Pages/Taxes.aspx>

⁴ Available at: <http://www.icao.int/publications/pages/publication.aspx?docnum=8632>

⁵ Available at: <http://www.icao.int/publications/pages/publication.aspx?docnum=9082>



Proposed Exemption for New Zealand Citizens & Residents

It is our understanding that, under the current proposal, New Zealand citizens and residents are to be exempt from the tax. In this regard, it is important to note that citizenship and residency exemptions cannot be automated for pricing and ticketing purposes by airlines. This is due to the fact that the related data elements that are necessary for automation are non-standard in the Passenger Name Record (PNR), which is the record that contains personal information and itinerary details of a passenger in the airline's database. Even if included, the respective data elements are not transferred from the selling/ticketing carrier to the transporting carrier (e.g., on code share flights where a passenger flies on multiple airlines) to be able to efficiently account for these exemptions on travel to New Zealand.

As such, citizenship- and residency-based exemptions would need to be processed manually and could only be afforded by the airline if the passenger provides sufficient supporting documentation to ensure compliance. This presents a significant administrative burden for carriers, which, along with the financial expense, should not be borne by airlines.

IATA would therefore suggest that, if a tax were introduced, the New Zealand authorities take direct responsibility for collecting the tax upon arrival or departure in order to ensure that the tax is accurately levied and collected from passengers, and that the applicable exemptions are granted.

Passenger Demand & Economic Considerations

Air transport, and in particular international air travel, is highly sensitive to changes in price. Imposing a new discriminatory tax on air passengers would undoubtedly have a negative impact on passenger demand, which, in turn, would have negative consequences for the economy of New Zealand. With airlines struggling to regain profitability, the imposition of a new tax on air passengers would be detrimental to the industry's recovery and to the continued growth of air passenger volumes in the region. For routes or flights which are marginally profitable, even a small increase in travel costs may result in the flight no longer being economically viable and cause an airline to cease operations and reallocate its aircraft assets to other profitable opportunities.

According to the World Travel and Tourism Council (WTTC), the total contribution of the travel and tourism sector to the GDP of New Zealand was NZD 45.5bn (USD 31.8bn) or 17.5% of total GDP in 2016, which is forecasted to rise by 2.8% per year to NZD 61.5bn (USD 43.0bn), 18.2% of GDP in 2027. The sector's total contribution to employment in New Zealand was 583,500 jobs (or 23.6% of total employment) in 2016. By 2027, travel and tourism is forecasted to support 712,000 jobs (26.7% of total employment), an increase of 2.5% per year over the period.⁶ New Zealand needs to ensure that its aviation sector remains competitive in order to benefit from and not jeopardize this forecasted growth.

As mentioned in the previous section, only the New Zealand authorities would have a consolidated view on the number of travellers impacted by such a tax. However, using data from IATA's Passenger Intelligence Services (PaxIS) database, IATA estimates that the impact on passenger demand resulting from the implementation of the proposed tax on international

⁶ Available at <http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/>



passengers could be a reduction of 78,000 passengers per annum.⁷ The associated and wider negative economic impact could amount to NZD 100mn in terms of lower GDP, with 1,200 fewer jobs resulting from the tax.

Recommendation

In light of the above, we respectfully request that the New Zealand authorities actively reconsider the decision to impose the Tourism Tax and to use alternative revenue resources to raise funds. The Tourism Tax should not be imposed on international tourists that are directly involved in supporting and enabling tourism. Airlines should not be burdened by additional costs, as they are one of the largest contributors to a country's tourism development.

A handwritten signature in blue ink that reads "Vinoop Goel".

Vinoop Goel
Regional Director
Member & External Relations
Airport, Passenger, Cargo & Security

Appendix 1: Tourism Tax

⁷ Based on Pax_IS data, it was determined that 60% of total international traffic to/from New Zealand is from outside the country. As such, 60% of total international passengers were deemed to be foreign, non-New Zealand citizens/residents for purposes of our analysis.

Appendix 1 Tourism Tax

Imposing taxes to finance activities other than airport or aeronautical services has a huge impact on a country's aviation and tourism industry.

Tourism and aviation taxes are counterproductive. In many cases, the revenue raised from such taxes is far outweighed by the economic benefits that are foregone as a result of reduced demand for air travel.

Generally, governments increase tariffs or taxes on a given product – such as tobacco – when they intend to dissuade its consumption, not promote it. It is paramount to keep in mind this basic principle when evaluating such tax proposals by States.

IATA POSITION

IATA is totally opposed to any form of fee that does not reinvest the revenue in the aviation industry. Such a fee is in contradiction of ICAO principles. Any government decision leading to an increase of the costs of air travel imposes a new barrier to the development of the aviation and tourism industries.

KEY REASONS WHY TOURISM TAX SHOULD NOT BE LEVIED

- ICAO principles do not support any taxes on aviation that do not generate funds that will be put back into aviation related activities.
- Increased aviation may result in unprofitable routes and reduced frequencies for destinations to, from or within a country.
- Taxes on aviation will reduce the wider economic benefits available from aviation, resulting in a negative impact on economic growth and overall government revenue bases.
- Taxes on aviation charges will negatively impact tourism, an industry that is essential to the economy of many countries.
- Taxes that are only applied to aviation are discriminatory and have an adverse effect on the air transport industry, a key engine for economic development.

KEY ELEMENTS TO TAKE INTO CONSIDERATION BEFORE INCREASING COSTS TO PASSENGERS

- 1 Air travel is increasingly sensitive to price, due to the Internet, no frills competition and centralised corporate purchasing power.
- 2 The rise of corporate buying and the increased transparency of price have led to more price sensitivity for business travel.
- 3 Several studies demonstrate that amongst all travellers, tourists travellers are most sensitive to price and will therefore experience the greatest decrease in demand if there is a cost increase. For example, a price increase of 10% is estimated to generate a decline of 15% in the number of leisure passengers travelling.
- 4 When a new tax on aviation is introduced it will be transferred to the price of the ticket. As a result, the demand will be significantly impacted. Even if the revenue of these taxes is allocated towards tourism promotion overseas, the result of these campaigns would be offset by a real reduction in the number of tourists actually visiting the country.