



23 November 2018

YB Tuan Lim Guan Eng  
Minister of Finance  
Ministry of Finance Malaysia  
No. 5 Persiaran Perdana Presint 2  
Federal Government Administrative Centre  
62592 WP Putrajaya  
Malaysia.

### **MALAYSIA AIR PASSENGER DEPARTURE LEVY**

Dear YB Tuan Lim Guan Eng,

The International Air Transport Association (IATA) is a global trade association for airlines representing over 290 airline members and accounting for 82% of total global air traffic. Our members include Malaysia Airlines, Malindo Air, Singapore Airlines, Silk Air, All Nippon Airways, Garuda Indonesia, Qatar Airways, Etihad Airways, Emirates, Thai Airways, KLM Royal Dutch Airlines, Air China, China Eastern, amongst many others, which operate services to/from Malaysia.

Per the Malaysia Budget 2019 and the Budget Speech on 2 November 2018, we note that the Government of Malaysia has indicated its intention to introduce an Air Passenger Departure Levy on departing international passengers effective 1 June 2019 on the basis of a two-tier rate structure, including: 1) MYR 20 per departing passenger to ASEAN Member States; and 2) MYR 40 per departing passenger to all other international destinations.

With respect to the proposed introduction of the Air Passenger Departure Levy, there are several pressing issues that I wish to bring to your attention and which are detailed below for your kind consideration.

#### **Contradictions with Accepted International Principles**

The imposition of the Air Passenger Departure Levy 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, Malaysia, 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, including:

1. Article 15 of the Chicago Convention which states that: "No fees, dues or other charges shall be imposed by any contracting State in respect solely of the right of transit over or entry into or exit from its territory of any aircraft of a contracting State or persons or property thereon".
2. *Policies on Taxation in the Field of International Air Transport* contained in ICAO Document 8632<sup>1</sup>, which states that "each Contracting State shall reduce to the fullest practicable extent and make

---

<sup>1</sup> Available at: [http://www.icao.int/publications/Documents/8632\\_3ed\\_en.pdf](http://www.icao.int/publications/Documents/8632_3ed_en.pdf)



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".

It is noteworthy that, in addition to the proposed Levy, Malaysia currently imposes several taxes and charges on passengers traveling by air, including: 1) the Passenger Service and Security Charge on domestic and international air transport; 2) the Regulatory Service Charge on domestic and international air transport; and 3) the Service Tax on domestic air transport.

Specific to international air transport from Malaysia, each departing passenger currently already pays a total of MYR 74 in aviation charges. However, with the imposition of the Air Passenger Departure Levy, the amount of charges and taxes paid by each departing international passenger from Malaysia would increase to a total of MYR 94 to ASEAN destinations and to a total of MYR 114 to all other international destinations. Air passengers are already paying for the aviation services they utilize and should not be forced to remit more than their fair share in tax receipts with the introduction of the Levy.

Moreover, the proposed Air Passenger Departure Levy should be analysed in the context of the broader tax environment facing the tourism sector. Malaysia already introduced the Tourism Tax in September 2017 on accommodations provided to foreign tourists at a rate of MYR 10 per room night. As a significant number of foreign tourists travel to/from Malaysia by air, the imposition of the proposed Air Passenger Departure Levy would be duplicative and subject only tourists traveling by air (and not other modes of transport) to unfair and inefficient double taxation.

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 and explored in detail below.

### **Passenger Demand & Economic Considerations**

Air transport is an enabling sector, where international air travel in particular is highly sensitive to changes in price. Imposing a new discriminatory tax on air passengers will undoubtedly have a negative impact on passenger demand, which in turn will have negative consequences for the economy of Malaysia.

In terms of the importance of the aviation sector to the Malaysian economy, according to a recent study prepared by the Air Transport Action Group (ATAG) – a non-profit organization which promotes the sustainable development of global aviation – in 2017, a total of 51.9 million passengers departed from airports in Malaysia, which supported a total of 450,000 jobs and contributed a total of USD 10.1 billion to Malaysia's Gross Domestic Product (GDP).<sup>2</sup> Overall, the tourism sector, which is significantly supported by air transport, contributed 13.4% to Malaysia's total GDP in 2017.<sup>3</sup>

In the context of the broader tourism industry, and as presented in Exhibit 1 below, the growth in tourist arrivals to Malaysia over the past five years has been stagnant, with tourist arrivals by air declining in 2016 and 2017 relative to the preceding three years.

---

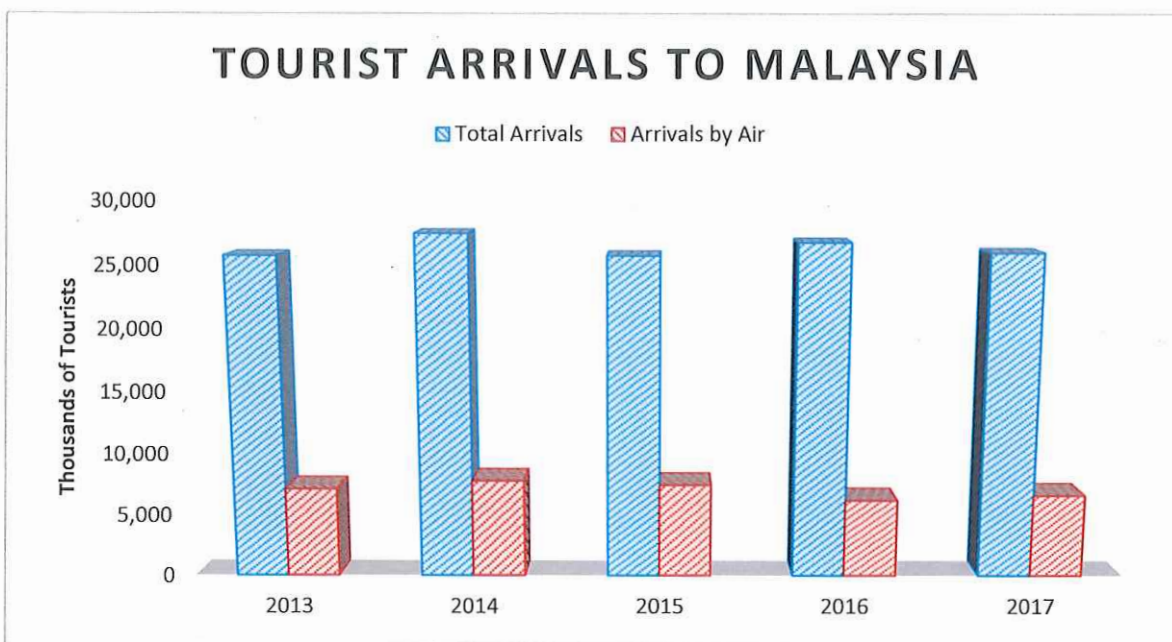
<sup>2</sup> Source: [https://aviationbenefits.org/media/166344/abbb18\\_full-report\\_web.pdf](https://aviationbenefits.org/media/166344/abbb18_full-report_web.pdf)

<sup>3</sup> Source: [https://aviationbenefits.org/media/166344/abbb18\\_full-report\\_web.pdf](https://aviationbenefits.org/media/166344/abbb18_full-report_web.pdf)





Exhibit 1<sup>4</sup>  
Tourist Arrivals to Malaysia, in thousands  
2013-2017



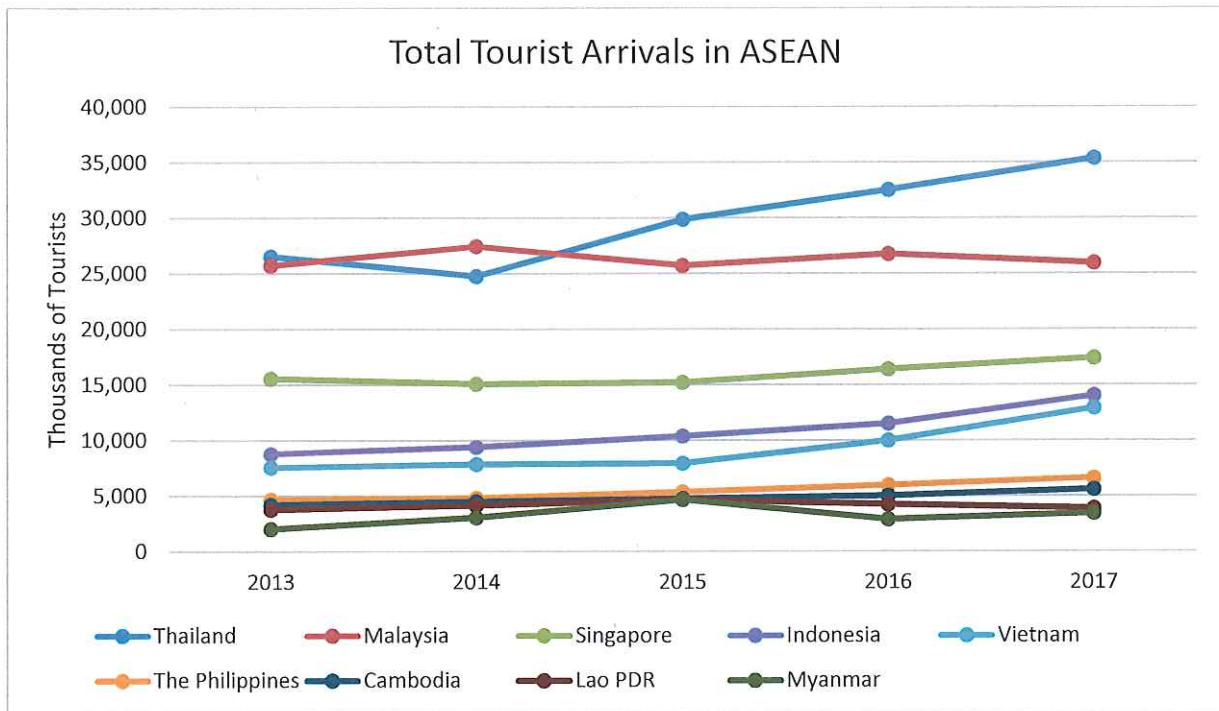
On a relative basis and when examining the growth in tourist arrivals in neighbouring countries in the region, Malaysia's performance over the 2013-2017 is equally worrying. As indicated in Exhibit 2, most other ASEAN Member States experienced a significant growth in tourist arrivals over the period, with Vietnam, Indonesia, and Thailand recording compound annual growth rates (CAGR) of 11.3%, 9.8%, and 5.9%, respectively. By contrast, Malaysia recorded a CAGR in tourist arrivals of just 0.2% over the 2013-2017 period.

It is clear that even before the increase in the cost of air travel that would result from the Air Passenger Departure Levy, Malaysia has been struggling to attract tourists. The imposition of the Levy would only exacerbate this issue and further erode Malaysia's competitiveness as a tourist destination in the region to the detriment of its economy.

<sup>4</sup> Source: UN World Tourism Organization (<https://www.e-unwto.org/toc/unwtotfb/current>)



**Exhibit 2<sup>5</sup>**  
**Tourist Arrivals to ASEAN Member States, in thousands**  
**2013-2017**



With respect to the direct economic impact of the Air Passenger Departure Levy and based on our analysis, the imposition of the two-tier Levy (i.e., MYR 20 per passenger for ASEAN destinations, MYR 40 per passenger for all other international destinations) has the potential to reduce the number of passengers departing Malaysia by air by up to 835,000 per year, leading to a decrease in GDP of up to USD 419 million and a reduction of up to 5,300 jobs. These negative impacts, while significant and costly to the Malaysian economy, can be avoided if the Levy is repealed.

In light of the above, we respectfully request that the Government of Malaysia actively reconsiders its decision and does not proceed with imposing the Air Passenger Departure Levy.

<sup>5</sup> Source: UN World Tourism Organization (<https://www.e-unwto.org/toc/unwtotfb/current>)



On behalf of the airline industry, IATA appreciates the opportunity provided to submit these comments to you and thanks you for your attention to this important issue. We would be happy to meet with you or your representatives to discuss this matter in greater detail.

Yours sincerely,

Conrad Clifford  
Regional Vice President  
Asia-Pacific

cc YB Anthony Loke Siew Fook, Minister of Transport, Ministry of Transport, Malaysia  
YB Datuk Mohamaddin bin Ketapi, Minister of Tourism, Arts and Culture, Ministry of Tourism, Arts and Culture, Malaysia  
Mr. Vinoop Goel, Regional Director, Airports and External Relations, Asia Pacific, IATA  
Ms. Charlotte Fantoli, Assistant Director, Industry Taxation, IATA  
Mr. Azhar Azahari, Area Manager, Malaysia, Bangladesh, Sri Lanka, Brunei, Maldives, IATA

International Air Transport Association  
80 Pasir Panjang Road #20-81  
Mapletree Business City  
Singapore 117372  
Tel: +65 6499 2512  
Fax: +65 6499 9718