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Restoring Connectivity

The policy choices governments must deploy to help airlines invest in growth

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What is going on with air connectivity?

Passenger numbers have increased above pre-COVID levels

But overall route numbers are **down** by 0.3%

All regions down except Middle East. Europe has lost 750 routes, 62% of all route losses

Changing travel patterns, fleet mix/supply chain problems, part of the story.

But unhelpful government policies also play a major role

Region	Routes 2019	Routes 2025
Africa	3,909	3,879
AsPac	19,832	19,787
Europe	23,184	22,434
M. East	2,485	2,528
N. Am	16,555	16,383
LatAm	4,109	3,961
TOTAL	70,174	68,972



Something interesting – and potentially worrying – is happening with air connectivity. In the years 2015-2019 route growth expanded at 3% per year, with total numbers of routes peaking at 70,174. But the pandemic has proved to be a watershed. Since the 2020-21 collapse, passenger numbers have recovered and surpassed pre-pandemic levels, but route numbers have not.

It's a complicated picture. Airline business strategies and changing passenger travel habits may account for some of the trend. The supply chain crisis, which has prevented airlines from deploying new aircraft they had expected to get delivered, may also be part of the story. , but on pure numbers of routes, we have lost 1202 since the 2019 peak. And the biggest loser is Europe: it has shed 750 routes, 62% of all the lost routes. While the reasons for this are complex, there can be no denying the significance. For those routes that have not been recovered, that might mean a community no longer connected. Consequently, jobs and economic prosperity are reduced. Social and educational opportunities lost.

The story behind the headline numbers is that connectivity outside of the major hubs and centers of demand cannot be taken for granted. It is perhaps not a crisis of connectivity yet...but it may become so if governments don't take steps to help airlines restore their competitiveness and the financial viability of thinner routes.

What governments can do to lighten the load

Reduce...

- Excessive regulation
- Fiscal burden, particularly passenger taxes

Fix...

- Capacity constraints
- Data rules



So what recommendations would we have for governments to lighten the load and give air transport maximum chance to grow?

In short, governments should aim to reduce excessive regulation and the fiscal burden – particularly passenger taxes. And fix the issues with capacity constraints and data protection rules.

Excessive regulatory burdens

Europe

- Negotiations on a sensible reform of EU261 are off course
- Compensation thresholds must move to at least 4 hours
- Current cost of €8bn could rise to €15bn. Disastrous for connectivity & competitiveness

Latin America

- 113 regulatory proposals negative for aviation
- Proposals in Colombia, Peru, Chile and Brazil
- Brazil litigation is notorious. 1 claim per 227 pax in Brazil compared to 1/1.2 million in the U.S.



Excessive regulation is a growing burden on the industry. In many parts of the world, regulation is going out of control. I will focus on two regions: Europe and Latin America.

The EU has been trying to reform its 261 passenger rights rules for years. It now costs EUR8bn a year, and is doing nothing to incentivize performance improvements in key parts of the aviation system, most notably, Air Traffic Control. A sensible reform put forward by the Commission was weakened by the EU states, but still was an improvement on where we are at the moment. But the process has been hijacked by elements in the EU parliament who understand nothing of the challenges facing the airline sector both financially and operationally.

An example of this failing process is the vital issue of compensation thresholds. These are currently set at 3 hours, a timeframe that makes no operational sense and which leads to airlines cancelling flights that might otherwise be replaced. The Commission proposed moving the threshold to 5 hours. The EU states watered this down to 4 hours. The Parliament is insisting on no change to three hours. So after years of debate and failure, we could be back where we were – only on a trajectory for EU261 to cost up to EUR15 bn. A bad reform would be even worse than no reform

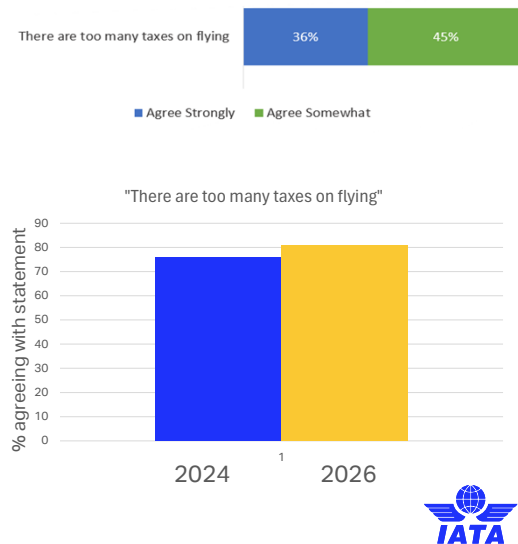
at all. If we cannot see any improvements, we would prefer to see the status quo retained until a more sensible proposal is agreed.

Latin America is also heading down the wrong path. We are tracking around 150 regulatory proposals, of which 113 are negative for aviation. They include fare caps in Colombia, free seat selection and ticket transferability in Peru, and discussions around free bags in Chile and Brazil. Brazil is also litigation heaven for air passenger lawyers. There is a petty claim for every 227 passengers in this country. In the US it is 1 for every 1.2 million passengers.

Our polling of passengers shows that what people want is to get to their destination 'better late than never' when flights are disrupted. This means giving passengers clear information and sensible rebooking options. Compensation is not the key priority for them. Similarly, for issues around cabin bags and seat selection, the principle of consumer choice should be paramount, giving people the maximum options for the kind of flight they wish to pay for.

\$60.4bn in aviation taxes – and no public support

- The public increasingly agree that flying is overtaxed
- Some Governments have concluded ticket taxes hold back connectivity
- The taxation of aviation globally should follow ICAO guidance
- Residence-based taxation must be retained. Opening the door to double taxation would hinder investment in connectivity.



Taxes are undoubtedly a drag on aviation growth and connectivity. More than \$60 billion is collected annually from airlines.

Firstly, it's important to note that the flying public are increasingly skeptical about aviation taxation. When independent polling company Savanta asked passengers what they thought, 81% agreed that there are too many taxes on flying. And that number has increased since the question was asked in 2024.

When it comes to national passenger taxes, some governments are recognizing that these aren't just unpopular – they are also economically counter-productive. The Swedish government completely abolished its passenger tax almost a year ago. The German government have announced a partial rollback of its ticket tax. But other countries are not so fortunate: the Dutch, for example, intend to push ahead with a further rise in aviation taxes next year. That would seem shortsighted when Dutch aviation connectivity has performed poorly since the pandemic. Here in Brazil, we continue to engage with the government on proposed 26.5% VAT charge on tickets, which could reduce demand up to 30%.

The French government has increased its so called 'Solidarity Tax' - which a report

for the French transport ministry admitted had reduced market share for French carriers. Rather than alter course, the government have doubled down, trying to persuade developing economies to apply a tax to premium-class travelers. This would be a disaster for those economies, and it goes against ICAO guidance on international aviation taxation.

We are seeing a more serious challenge to ICAO policies in the UN Tax Committee and the UN Framework Convention on Tax. Throughout aviation history, the convention is that taxes are paid in the home state of an airline on all the worldwide revenue made by that airline. This simple and effective model – enshrined in ICAO policies and bilateral agreements – is now being challenged at the UN as part of a general push to change the way corporations are taxed. If this change were to happen, it would create a confusion of overlapping tax regimes, leading to double taxation and inefficiency.

Higher aviation taxes raise fares and weaken route economics, especially in price-sensitive and regional markets. Airlines may cut frequencies or redeploy aircraft, reducing access, tourism, and resilience. Airlines want to pay what is correct, but governments should be careful about killing the golden goose of air connectivity.

Capacity constraints: airport and airspace isn't keeping pace



- Governments should adhere to the Balanced Approach to noise, rather than restricting flights.
- Governments should uphold the Worldwide Airport Slot Guidelines, the gold standard for managing slot constrained airports.
- Airspace reforms to unlock capacity & performance are being held back by politics, not technical obstacles.



Capacity constraints are a factor in some parts of the world. Airport infrastructure development has not kept pace with demand growth. More and more airports are becoming slot-constrained, and in some cases, airports are being held back by governments.

Airport access

When airports can absorb demand, airlines can add routes, increase frequencies, and restore disrupted service. At constrained hubs, scarce capacity suppresses growth and limits competition. At Amsterdam Schiphol, **despite the latest figures showing that noise objectives are being met, the government is still seeking to constrain the airport.** The flight cap at Schiphol has been set at 478,000. Last year the airport saw 477,552 flights so it is perilously close to the limit.

At its peak, the airport served nearly 500,000 movements, so the potential of the airport will be curtailed by the restriction.

The Balanced Approach is the accepted global standard for managing noise issues. And it is enshrined in European law and international treaties. Governments should fully adhere to the BA and only look at operational restrictions as a last

resort, once other mitigation measures have been used.

Slot rules harmonization

IATA estimates passenger demand will double by 2050. Ideally, new airport capacity would be created to meet this demand. But this is unlikely, which will mean that the current number of 216 Level-3 slot coordinated airports will increase substantially. The Worldwide Airport Slot Guidelines ensure that the coordination and distribution of slots is done transparently and fairly. The rules create the right balance between using airport capacity efficiently, enabling airlines to build reliable schedules, while also giving opportunities for access to new operators.

During the current fuel price spike, the industry has requested temporary slot relief. This helps airlines retain future access without operating inefficient flights, supporting recovery and more rational network rebuilding.

Airspace efficiency

We've consistently called for a meaningful reform of airspace in the EU. Airspace inefficiency has led to ATM delays doubling in the last decade. This is a political challenge, not a technical one. It is individual states' relationships with their national ANSPs that is holding back reform.

Fragmented global privacy rules

1. Lead to legal uncertainty, operational complexity and potentially service limitations.
2. Conflicting legal requirements (e.g. GDPR)
3. Restrictions on PNR Data flows
4. The complexity of dual data flows between industry and governments should be recognized



Regulatory fragmentation is a risk to air connectivity. Governments should align policy with ICAO principles



Fragmented global data protection regimes create major complexity

Airlines must comply with **160+ different privacy laws**, often applying simultaneously to a single journey—leading to legal uncertainty, operational complexity, and potential service limitations. While it is true that privacy laws apply to all industries, aviation is unique in physically transporting billions of passengers across borders and for that to happen personal data needs to be shared while ensuring compliance with data protection laws. Greater regulatory consistency and coordination is needed, with governments recognizing aviation’s unique characteristics when designing data protection frameworks. We recognize this will take time.

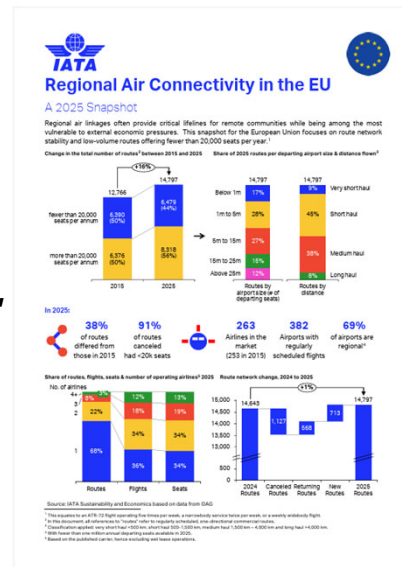
One of the issues relates to international data transfers. Some laws limit transfer of data, while others require the same data to be shared, creating compliance conflicts. For example, governments globally require PNR data for security and counter-terrorism in accordance with ICAO’s Standards and Recommended Practices and a UN Security Council Resolution. The EU requires a specific bilateral agreement for its carriers to send PNR data to third countries while at the same time requiring airlines in those third countries to send PNR data when flying

to and from the EU. There are 77 countries that require PNR but only a handful have agreements with the EU, leaving airlines caught between legal obligations and even facing financial penalties or other sanctions. That's why we're asking the EU to accelerate the negotiation of bilateral agreements or move to a more multilateral approach.

Left unchecked it is quite possible that the complexity and legal risks of complying with privacy laws that conflict and have extraterritorial application become so great that it ultimately affects connectivity. ICAO has recognized the complex issues and has convened a group to study the topic and to develop recommendations. One practical outcome that IATA would like to see is for ICAO to issue guidance material that governments can use to help them understand the specificities of aviation so that these can be considered when they develop or amend privacy legislation. IATA is an active participant in this important group.

Connectivity matters

- Economies increasingly rely on air connectivity for trade, tourism, and employment. And connectivity is flatlining.
- Tackling the 'Big 4' of over-regulation, taxes, capacity constraints, and data privacy restrictions, will help connectivity to grow.
- See IATA's regional air connectivity reports for more information.



Why connectivity matters

Air connectivity enables access to markets, driving trade, tourism, investment, and labor mobility. It is vital for islands, and economies relying on tourism, exports, or services. The failure to recover routes since the 2019 peak should concern governments everywhere. This presentation has outlined some actions governments should take to remedy the problem.

If you are interested to look at air connectivity at country level, IATA have created one-pager connectivity studies for 120 countries. They not only detail the numbers of routes gained or lost, but routes by departing airport size and distance flown, and also the number of airlines operating on those routes.

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