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NORWEGIAN AIR PASSENGER TAX

The International Air Transport Association (IATA) is a global trade association, representing approximately 260 airline members across the world and accounting for 83% of total global air traffic. Our members include approximately 26 airlines operating air services to/from Norway.

Further to our letters to both the Norwegian Minister of Finance and Minister of Transport and Communications dated 2 December 2015, we continue to reiterate our strong protest to the implementation of the inefficient Air Passenger Tax. As such, we direct your attention to the negative impact the Air Passenger Tax will have on the Norwegian economy, the unfair treatment of the air transport industry compared to other modes of transport, as well as the fact that such forms of taxation are highly inefficient and contradict accepted standards and principles.

This notwithstanding, IATA is committed to assisting its member airlines with their tax compliance obligations and is grateful for the opportunity to submit comments in relation to the Consultation Paper – Amendment of the Excise Duty Regulations – Air Passenger Tax. Our specific comments are attached in Appendix 1 for your consideration.

Importance of Aviation to the Norwegian Economy

At the outset, it is important to consider the significant importance of the aviation, travel and tourism sector to the Norwegian economy. According to the World Travel and Tourism Council (WTTC), the total direct and indirect contribution of the travel and tourism sector represented 7.1% of GDP, 10.1% of total employment and 3.8% of total investment in 2014.\(^1\)

Over the next decade to 2025, the travel and tourism sector’s contribution to Norwegian GDP and total investment is forecasted to increase by 2.3% per year and 1.9% per year, respectively.\(^2\)

Impact of the Air Passenger Tax

Based on an economic analysis we have conducted, the imposition of the NOK 80 tax on departing passengers would lead to a forecasted reduction in overall demand for domestic and international air travel by approximately five percent, which is equivalent to a reduction of 1.28 million passenger journeys on an annual basis. However, this figure does not take into consideration the negative impact associated with the potential reduction in air services or the full-scale relocation of air operations that may occur due to the imposition of the Air Passenger Tax.

\(^1\) Available at: http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/

\(^2\) Ibid
As such, the significant contribution of the aviation, travel and tourism sector to the Norwegian economy should be supported and nurtured, not hindered by excessive government taxation that is contrary to accepted international norms.

**International Obligations & Efficient Taxation**

It is our understanding that the basis of the Air Passenger Tax is to raise general government revenues and is not directly related to the cost of providing aviation or aviation-related services and/or infrastructure in Norway. We must bring to your attention our belief that this proposed tax would contradict the Convention on International Civil Aviation (also known as the Chicago Convention), as well as the Policies on Taxation in the Field of International Air Transport set forth by the International Civil Aviation Organization (ICAO), the UN specialized agency for international air transport.

Specifically, the implementation of the passenger tax would be contrary to the Policies on Taxation in the Field of International Air Transport contained in ICAO Document 8632\(^3\), 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".

Norway, as a Contracting State of ICAO and a signatory country to the Chicago Convention, should seek to adhere to these accepted standards and principles.

It is worthy to note that, in addition to the proposed tax, and as acknowledged in the *Consultation Paper* "Airlines which use Norwegian airports also pay four different levies to Avinor to cover the costs of using the airport. These charges should therefore be considered as payment for a service..." Thus, airlines and their passengers pay for 100% of infrastructure costs through airport and ATC charges. Consequently, the operators and users of air transport are already remitting more than their fair share in tax to the government.

Given that the demand for domestic and international air travel is highly sensitive to changes in price (i.e., highly price elastic), levying an additional tax in the amount of NOK 80, as well as VAT on the tax for domestic air travel, will have a negative effect on Norway's aviation sector and its overall economy. The resulting decline in air passenger volumes would lead not only to a direct reduction in economic output for the aviation sector, but would further impact the demand for tourism-related goods and services, resulting in a negative impact on Norwegian GDP, employment and investment.

Similar taxes in Germany and the UK have proven to be extremely inefficient and harmful to their respective economies. Instead, Norwegian authorities are encouraged to look at the Netherlands and Ireland as examples of territories that abolished similar taxes and experienced significant economic benefits as a result.

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\(^3\) Available at: [http://www.icao.int/publications/Documents/8632_3ed_en.pdf](http://www.icao.int/publications/Documents/8632_3ed_en.pdf)
Transparent and Inclusive Consultation Process

Additionally, it is alarming that the Norwegian Government did not undertake any form of advanced industry consultation process with respect to the nature, scope, applicable rate and exemptions associated with the Air Passenger Tax, nor the proposed timeline for its implementation. This is counter to every regulatory best practice and out of character for Norway, which is known to have a reputation of good governance.

In this respect, a transparent and constructive industry consultation process should have been launched by the Norwegian Government prior to enacting legislation to implement the Air Passenger Tax. Such a consultation would have permitted a determination of the overall economic impact of the tax, as well as a consideration of the aviation sector’s concerns with the implementation, administration and complex system programming required.

It appears that the main objective associated with the Air Passenger Tax is the reduction of the environmental impact of air transport. However, the cost-effectiveness of the tax as an environmental measure is highly questionable, especially considering that CO₂ emissions from Norwegian air transport are already addressed through other measures, including a CO₂ tax on domestic flights and the fact that CO₂ emissions from intra-European flights are subject to EU-ETS.

In light of the above, we continue to request that the Norwegian Government actively reconsiders the decision to implement the Air Passenger Tax, and urgently launches an independent evaluation of the impact of this kind of taxation. Pending the completion and outcome of this evaluation, we ask that you refrain from imposing such a tax and highly encourage the current measure to be postponed. We request that you consider and address the important comments raised in relation to the Consultation Paper – Amendment of the Excise Duty Regulations – Air Passenger Tax in Appendix 1 attached herein.

IATA appreciates the opportunity to submit these comments and would be happy to meet to discuss this matter in greater detail with you.

Yours sincerely,

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