



20 December 2017

IATA POSITION ON DEPARTURE/TOURISM TAXES IN JAPAN

Following reported discussions on a potential imposition of a Departure/Tourism tax in Japan, the International Air Transport Association (IATA) has prepared this position paper.

IATA is a global trade association for airlines representing some 278 airlines accounting for 83% of total global air traffic. Most of the major scheduled airlines operating to Japan include Japan Airlines, All Nippon Airways and Nippon Cargo Airlines 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. IATA's Charter also commits it to cooperate with other international organizations, including the International Civil Aviation Organization (ICAO) and the United Nations.

1. 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 and foreign trade, 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. 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 and 2 respectively**.

With respect to any proposals for the Departure and/or Tourism Tax, there are two pressing issues that IATA wishes to bring to your attention:

2. Contradictions with Accepted International Principles

IATA strongly opposes any form of tax or fee where the resulting revenue is not reinvested in the aviation industry 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, Japan, 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"*.

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



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.

In addition, the following key reasons as to why the Tourism Tax should not be levied are detailed below for your kind consideration:

- Taxes on accommodation will reduce the overall demand for air travel, which, as a result of the multiplier effect, can negatively impact tourism and Gross Domestic Product (GDP), which in turn can adversely impact government tax receipts.
- As the economic benefits from tourism accrue to the wider economy, levying a discriminatory Tourism Tax on an enabling sector is an ineffective and ill-conceived policy choice. Government funding of tourism and tourism-related initiatives should be achieved through less distortionary means (e.g. through general government revenues).

3. 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 will undoubtedly have a negative impact on passenger demand, which, in turn, will have negative consequences for the economy of Japan. 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. Examples of taxes withdrawal due to their negative economic impacts include the Irish Air Transport Tax and the Netherlands Air Passenger Departure Tax.

According to the World Travel and Tourism Council (WTTC), the total contribution of the travel and tourism sector to the GDP of Japan was JPY37,326.9bn (USD343.2bn) or 7.4% of GDP in 2016 and the sector's total contribution to employment in Japan was 4,474,000 jobs (or 6.9% of total employment) in 2016.²

Air passenger traffic growth in Asia Pacific is predicted to outpace that of both Europe and North America up to at least 2034, rising to a total of 4.3 billion passengers.³ Japan needs to ensure that Japanese aviation remains competitive in order to benefit from and not jeopardize this forecasted growth. Implementing this tax will very likely have a negative impact on the growth in tourist volumes, which currently is predicted to attract 40 million visitors by 2020 to Japan and 60 million by 2030.

² Available at <http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/>

³ InterVISTAS: Asia Pacific Commercial Air Transport: Current and Future Economic Benefits



4. Recommendation

In light of the above, we respectfully request that the Japanese authorities actively reconsider the decision to impose the Tourism Tax and to use alternative revenue resources to raise funds. At an absolute minimum, the Tourism Tax should not be imposed on those persons 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". The signature is written in a cursive style and is underlined with a single horizontal stroke.

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

Appendix 1: Tourism Tax
Appendix 2: Solidarity Tax
Appendix 3: ICAO Principles

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.

Appendix 2 Solidarity Tax

Airlines and their passengers should not have to pay for social programmes that are not related to airport and aeronautical services.

SITUATION

An example of discrimination against the air transport industry was introduced by the French government on 1 July 2006 with a “solidarity” tax on air travel to support aid to developing countries. France’s President Chirac at a World Economic Forum meeting in 2005 first introduced the concept of a tax on airline tickets to generate aid for developing nations.

In February 2006, the French government invited over 100 countries to a ministerial conference in Paris in an attempt to persuade them to follow this initiative.

A limited number of countries are likely to follow the lead set by France whilst other countries are opposed to the solidarity tax. The Council of Economics and Finance Ministers of the European Union (ECOFIN) considered and ultimately rejected the idea of implementing such a tax on a EU-wide basis. Even the African Union has publicly expressed its opposition to the concept.

IATA POSITION

Airlines and their passengers should not pay for states’ funding of social programmes. Besides the fact that this is fundamentally wrong, the air industry having to absorb more taxes means that it will have fewer resources to invest in growth and remain financially stable.

With airlines struggling to regain profitability since 2001 the last thing needed is to be hit with discriminatory taxes that treat air travel as a sin, akin to alcohol and tobacco. In some regions, taxes now account for up to 26% of the cost of a USD 200 ticket. IATA is strongly against these tax initiatives.

KEY REASONS WHY SOLIDARITY TAX SHOULD NOT BE IMPOSED

- 1 ICAO Policies do not support any taxes on aviation, including on the sale and use of international air transport¹.
- 2 This initiative is based on the erroneous assumption that air transport is a luxury item only enjoyed by a privileged few. Air transport, however, is the world’s only form of global mass transit. Over 2 billion people travel by air each year and not all of them are wealthy.
- 3 This initiative ignores the active and substantial contribution that air transport already makes to economic development. It connects people and businesses to the global economy. It facilitates improved inward investment and productivity in industries that have nothing to do with air transport.
- 4 Whilst aviation is the largest single contributor to economic development through tourism, passenger demand is very sensitive to the price of tickets. Typically, a 10% rise in price will reduce demand by 15%.
- 5 Imposing such a tax would discourage passenger traffic and inhibit the air transport industry’s ability to drive economic development to its full potential, thereby negatively affecting the countries implementing the tax and moreover the very countries that are intended to benefit from such a tax.
- 6 In many cases, the administrative costs associated with collecting and reconciling the proposed new tax may outweigh the intended benefits.

¹ ICAO Doc 8632



Appendix 3 ICAO Principles

EXTRACT OF ARTICLE 15 OF THE CHICAGO CONVENTION

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".

EXTRACT OF ICAO DOCUMENT 8632

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".

NB: The full Supplement can be found at http://www.icao.int/publications/Documents/8632_3ed_en.pdf

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.

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