



02 December 2015

Ms. Siv Jensen  
Minister of Finance  
Norwegian Ministry of Finance  
Akersgata 40  
Postboks 8008 Dep, 0030  
Oslo, Norway

Dear Ms. Jensen,

### **NORWEGIAN AIR TRANSPORTATION 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.

I am writing to you with respect to the recent announcement from the Norwegian Government that an air transportation tax equivalent to NOK 80 on departing passengers on both domestic and international flights in Norway is to be implemented effective 1 April 2016. Further, we understand that this tax is to be subject to Norwegian VAT at a rate of eight percent for domestic flights.

The imposition of such a tax would negatively impact on the Norwegian aviation sector and the broader economy by reducing the overall demand for air travel by 5% and output by an estimated NOK1.4bn.

In this regard, on behalf of our members and their customers, I would like to hereby strongly protest against this unexpected measure and bring to your attention several issues with respect to this proposal.

### **Importance of Aviation to the Norwegian Economy**

At the outset, it is important to consider the significant importance 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 to Norwegian GDP was NOK 224.6bn in 2014 (or 7.1% of GDP), which is forecasted to rise by 1.9% in 2015, and to increase by 2.3% per year, on average, from 2015-2025 to NOK 286.8bn (or 7.4% of GDP) in 2025.<sup>1</sup>

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<sup>1</sup> Available at: <http://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/>



Further, the sector's total direct and indirect contribution to employment in Norway was 266,500 jobs in 2014 (or 10.1% of total employment) in 2014, which is expected to rise by 0.2% in 2015 to 267,000 jobs and will roughly maintain this level of total employment over the next decade to 2025.<sup>2</sup>

In terms of total investment, the sector contributed to NOK 28.6bn in 2014 (or 3.8% of total investment). While the travel and tourism sector's contribution is expected to fall by 3.3% in 2015 (due to declining global commodity prices), but is expected to rise by 1.9% per year, on average, over the next ten years to NOK 33.2bn in 2025 (or 3.4% of total).<sup>3</sup>

Moreover, Avinor AS estimates that of the total number of tourists that visit Norway, 34% arrive by air. Once in Norway, tourists spend an approximate NOK 14bn per year on goods and services.<sup>4</sup>

Aviation is also an enabling sector to the oil and gas industry in Norway, the most significant industry in terms of its contribution to total Norwegian GDP. In this respect, approximately 13% of all domestic flights are connected with the oil and gas sector.<sup>5</sup> Avinor further notes that due to the geography of Norway and the dispersion of its population, aviation is "of great importance to regional growth and accessibility to regional centres."<sup>6</sup>

### **Direct Impact of the Air Transportation Tax**

Based on an economic analysis we have conducted, the imposition of the NOK 80 tax on departing passengers would have the following negative impacts on the Norwegian aviation sector and the broader economy, including:

- With respect to both domestic and international air travel, the tax is forecasted to reduce overall demand for air travel by approximately five percent, which is equivalent to a reduction of 1.28 million passenger journeys on an annual basis; and
- The tax would lead to a reduction in the direct output of the aviation sector by an estimated NOK 947mn, with the combined direct and indirect economic impact amounting to an estimated NOK 1.4bn reduction in output.

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.

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

<sup>3</sup> *Ibid*

<sup>4</sup> Available at: <https://avinor.no/globalassets/konsern/om-oss/finansiell-informasjon/gjeldsfinansiering/presentasjoner/investor-presentation-avinor-2015.pdf>

<sup>5</sup> *Ibid*

<sup>6</sup> *Ibid*



## **International Obligations & Efficient Taxation**

It is our understanding that the basis of the air transportation 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<sup>7</sup>, 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, Norway currently imposes several other taxes, charges and fees with respect to air transport. At present, Norway imposes a CO<sub>2</sub> tax on domestic flights, CO<sub>2</sub> emissions from intra-European flights are subject to EU-ETS, and Norway levies VAT on domestic air transport. Moreover, 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 paying for the services they utilize and remitting more than their fair share in tax receipts 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 will have a negative effect on Norway's aviation sector and its overall economy. The resulting decline in air passenger volumes as noted above 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 total Norwegian GDP, employment, investment and tourism levels that would have otherwise been realized.

Additionally, it is alarming that the Norwegian Government did not undertake any form of industry consultation process with respect to the nature, scope, applicable rate and exemptions associated with the air transportation 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.

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<sup>7</sup> Available at: [http://www.icao.int/publications/Documents/8632\\_3ed\\_en.pdf](http://www.icao.int/publications/Documents/8632_3ed_en.pdf)



In this respect, a transparent and constructive industry consultation process should have been launched by the Norwegian Ministry of Finance in order to determine the overall economic impact of the proposed tax, as well as to consider the aviation sector's concerns with the implementation and administration of the tax.

The declared objective for the introduction of the tax seems to be 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 CO<sub>2</sub> emissions from Norwegian air transport are already addressed through other measures and that for the majority of air travel within Norway, there is no other alternative means of transport, particularly to more remote regions in northern Norway. In light of the above, we request that the Ministry of Finance actively reconsiders the decision to implement the tax recently announced, and urgently launch an independent evaluation of the impact of this kind of taxation. Pending the completion and outcome of this evaluation, which would likely be in 2016, we ask that you refrain from imposing such a tax and highly encourage the current measure to be postponed.

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,

A handwritten signature in black ink, appearing to read "Rafael Schwartzman".

Rafael Schwartzman  
Regional Vice President, Europe, IATA

cc. Mr. Ketil Solvik-Olsen, Norwegian Minister of Transport and Communications

Mr. Rickard Gustafsson, President and CEO, SAS

Mr. Stein Nilsen, CEO, Widerøe

Mr. Raimonds Gruntins, Area Manager, Nordic and Baltic, IATA

Ms. Charlotte Fantoli, Assistant Director, Industry Taxation, IATA