



16 June 2015

Mr Tatafu Moeaki
Chief Executive Officer for Finance and National Planning
Ministry of Finance and National Planning
Government of Tonga
P.O. Box 87
Tungi Colonade
Taufa'ahau Road
Tonga

Dear Mr Tatafu Moeaki,

STAKEHOLDER CONSULTATION : PROPOSED ADDITIONAL DEPARTURE TAX

The International Air Transport Association (IATA) welcomes the opportunity to work with its members, industry stakeholders and the Government of Tonga to bring the benefits of aviation to the country's economy and society. IATA is a global trade association for airlines representing over 250 airline members and accounting for 84% of total global air traffic. Our members include Air New Zealand, Fiji Airways and Virgin Australia that operate services to Tonga.

We refer to your Stakeholder Consultation letter of 28 May 2015 and the subsequent meeting held on 2 June 2015 to discuss the proposed additional USD 100 departure tax on international travel which is currently under consideration by the Ministry of Finance and National Planning.

It is our understanding that the basis for this departure tax is to assist with the design and funding of the 2019 Pacific Games to be held in Tonga. Unfortunately, we must bring to your attention 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 ICAO.

The Chicago Convention sets forth the principles agreed upon by nations in order to facilitate international aviation service and promote cooperation among nations. One of the fundamental principles under Article 15¹ was to not burden aviation with fees intended to generate levies for local government. Rather, fees charged to aviation are to be associated with services provided to support aviation such as to provide airport services. Specifically, Article 15 of the Chicago Convention 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."

¹ Available at: <http://www.icao.int/publications/Pages/doc7300.aspx>



In addition, the imposition of a departure tax would be contrary to the Policies on Taxation in the Field of International Air Transport contained in the ICAO Document 8632², 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”.

In this respect, we would like to draw your attention to the fact that Tonga currently imposes two separate levies with respect to international air transport and specifically on international passenger departures, including: 1) The Security Levy and Airport Development Charge; and 2) The Safety Levy. While these levies appear consistent with the services provided to support aviation (under Article 15), the combined total of the levies amounts to a considerable TOP 65 (approximately USD 30) per departing passenger. Consequently, departing international passengers are already paying for the aviation services they utilize.

Moreover, given the demand for international air travel is highly sensitive to changes in price (i.e., highly price elastic), imposing a further tax on passengers would have a negative effect on Tonga’s aviation sector and its overall economy. As the proposed departure tax of USD 100 would represent an increase to the average fare for a one-way ticket departing from Tonga (excluding other taxes, charges and fees and based on 2014 data) of approximately 30%, this would have a significant and negative result on the number of international visitors traveling to Tonga and locals choosing to travel abroad. The decline in air passenger volumes would subsequently lead to decreased demand for local tourism-related goods and services, resulting in a negative impact on Tonga’s economy.

Specifically related to the funding of the 2019 Pacific Games, and due to the high price elasticity of demand for air travel, the tax revenue derived by the Government of Tonga from the proposed departure tax may be outweighed by the greater proportional decrease in the quantity of international air travel and the resulting reduction in revenue from lost travelers’ spending as well as uncollected charges and taxes. As such, the imposition of the departure tax on international travel could unintentionally harm the Tongan economy, while at the same time fail to generate the forecasted revenues required to fund the 2019 Pacific Games.

In light of the above, we request the Ministry of Finance and National Planning not to proceed with the proposed departure tax on international travel and instead consider alternative and less distortionary measures to fund the Pacific Games.

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

Yours sincerely,



Ian Lorigan
Area Manager South West Pacific

² http://www.icao.int/publications/Documents/8632_3ed_en.pdf