

IATA ECONOMIC BRIEFING

JUNE 2013

THE ECONOMIC BENEFITS OF ABOLISHING THE PASSENGER MOVEMENT CHARGE IN AUSTRALIA

- As outlined in Table 1 below, the abolition of the AUD 55 Passenger Movement Charge levied on international departures would decrease the cost of international travel to/from Australia by approximately 3.5%.

Impact on cost of travel	per return journey
Average return international airfare (incl fuel surcharge est.), AUD	1,511
Passenger movement charge, AUD per departure	55
Total travel cost, AUD	1,566
Decrease in travel cost if PMC abolished	-3.5%

Table 1. Sources: Pax-IS (airfare), airline websites (surcharges)

- A reduced overall cost of travel for passengers will – all else remaining constant – incentivize increased travel. We estimate that a 3.5% fall in travel cost would drive an increase in passenger traffic of around 2.5% annually, as shown in Table 2. This increase is equivalent to approximately three-quarters of a million international passenger movements each year (an arrival or departure).

Impact on international passenger volumes	annually
Decrease in travel cost for international passengers	-3.5%
Elasticity of demand*	-0.7
Increase in international passenger traffic, %	2.5%

* Oxford Economics modelling based on Intervistas/IATA study "Air Travel Demand", 2006. Available at www.iata.org/economics

Table 2.

- This increased demand for air transport will positively impact the airline and airport operators serving the Australian market. This impact will also ripple out through the broader economy along the air transport supply chain, through the tourism sector and via increased wage spending from industry employees on goods and services they consume privately.
- Table 3 summarizes this combined benefit to the Australian economy flowing from the increase in international passenger traffic. The industry's overall contribution to GDP would rise by AUD 1.7 billion and an additional 17,000 jobs would be supported¹.

Impact on economy	annual benefit
Additional annual contribution to GDP, AUD billion	1.7
Additional employment, thousands of jobs	17

Table 3. Source: Input-Output model built for IATA by Oxford Economics

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¹ Estimating GDP benefits using the input-output tables assumes a 'counterfactual' economy with unemployed resources, so all jobs and GDP created by PMC abolition are additional and do not crowd out existing employment. We consider this a valid assumption given OECD estimates of a GDP output gap of 1.5% in 2013 and 1.6% in 2014 <http://stats.oecd.org/Index.aspx?QueryId=48222>.