



**International Chamber of Commerce**

*The world business organization*

## **Policy statement**

### **Taxes on international aviation: a 1997 update**

Commission on Air Transport, 9 May 1997

#### **Introduction**

In 1992, the ICC approved a policy statement "Taxes on International Aviation: The Business Traveller's View", which expressed serious concern about the proliferation of taxes imposed on airlines and users. The statement contained a number of recommendations and concluded that "high taxes on airlines and airline tickets are incompatible with the freer movement of goods and services and have the twin effects of increasing travel costs and reducing demand".

Despite similar expressions of concern by the ICC, the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA), the World Travel & Tourism Council (WTTC) and individual airlines, the tendency by governments to levy more and more taxes on air transport has not diminished. In fact it has accelerated; the 1992 ICC statement pointed out that IATA had isolated some 650 individual air transport taxes in around 200 countries. In early 1996, the same IATA list contained a total of 1,087 entries for taxes and fees. A survey conducted by the WTTC in late 1996 showed that of 52 destinations surveyed, some 38% had raised taxes on travellers in the preceding six months, and 85% of those tax increases involved air passenger levies.

Because the financial and regulatory environment has considerably changed since the ICC last spoke out on the subject, the ICC Air Transport Commission feels compelled to restate and reinforce the points it made in its 1992 paper.

It should be noted that concession charges for the use of air transport facilities do not fall within the purview of this paper. But others - including stamp taxes, ticket taxes and the like - are forms of compulsory contributions to the support of governments, the receipts for which are not used for air transport-related services. In addition, proposals being discussed in the EU to impose VAT on airline tickets and a tax on kerosene, though not the focus of this paper, are also highly troubling and will impact on the European air transport industry's competitiveness.

#### **Recent developments in aviation taxation**

The taxes imposed on air transport in the last few years have been notable for their severity. Following are a few prominent examples:

- In November 1994, the United Kingdom imposed an Air Passenger Duty (APD) charged on each airline departing from a UK airport, a duty which rises to £10 on 1 November 1997. Airlines, in turn, may collect the tax from their passengers. There is no pretence that the funds collected will be used for purposes other than to reduce the general budget deficit;
- Lithuania, in March 1995, imposed an 18% value-added tax on incoming tourists, which resulted in the cancellation of a number of tour groups which would have visited the country;
- Norway, in 1995, legislated a 116% increase per passenger in the Norwegian Transportation Tax, which was increased in both 1996 and 1997;
- In January 1995, the Swiss Government imposed a VAT of 6.5% on Swiss domestic flights and on the domestic legs of international flights;

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- The Greek Government imposed a US\$ 25 tax on airline tickets for passengers departing from Greek airports;
- Australia increased its charge for departing airline passengers from AUS\$ 20 to AUS\$ 27;
- The US now has five different taxes and fees on airline passenger: a 10% tax on wholly domestic tickets; a US\$ 6.50 transportation tax on international tickets; arrival and inspection fees of US\$ 5 for Customs inspection; US\$ 6 for immigration inspection; and US\$ 1.45 for Department of Agriculture inspection.

These are but a few examples of the hundreds of new taxes levied since the last ICC report was published. Moreover, there are proposals from prominent international sources who wish to increase the aviation tax burden even more to support environmental or intergovernmental organizations. In January 1996, for example, the then Secretary General of the United Nations called for a light international tax on airline tickets to give the UN financial independence.

Clearly, government authorities, and some special interest groups still labour under the misguided belief that air transport is reserved for a chosen elite; in fact, it is the fundamental mode of long-distance transport for many people worldwide, and a necessity for modern national economies. The discrimination against air transport is reinforced in certain countries - such as Switzerland, for example - where a portion of airline taxes is used to subsidize rail networks, a clear case of cross-subsidy disadvantaging a crucial mode of transport.

### **The new financial and regulatory framework**

At the time of the 1992 ICC paper, the world's airlines, handicapped by the Gulf War and recession, had suffered two years of heavy losses, totalling several billion dollars. Presently, the financial outlook for the industry is considerably brighter: the recovery that began in 1994 has gathered force, with 1996 and 1997 shaping up as record years for airline profits.

At the same time, the political and regulatory climate has also experienced major change during the last four years. The first major phase of European liberalization, which began on 1 January 1993, put in place a regime without major constraints on capacity, market access and pricing.

The distinctions between EU charter and scheduled airlines were essentially removed; new open skies agreements have been signed between the US and nine European countries; and full European cabotage came into force in April 1997.

In other markets, there has been increased liberalization as well - in Canada, Australia, New Zealand, the Indian sub-continent, for example.

Some proponents of more taxes on airlines and passengers use the financial recovery as the basis for seeking to impose new taxes on aviation. Their argument is that such charges only amount to a fraction of airline profits, and that they have wide-ranging benefits for the general population.

The ICC rejects this view. In the first place, the airline industry is notoriously cyclical, and periods of high profitability are often followed by severe recession. Second, even at low levels of taxation, the impact on charges on air transport can be substantial; an independent study by Avmark International concludes that a 10% increase in the cost of airline tickets causes a 6.6% loss in traffic.

But perhaps the most important reason to oppose new taxes is that such taxes run counter to liberalizing trends in world commerce. Since the 1992 ICC paper was published, the Uruguay Round on Trade Negotiations has been concluded, resulting in lower tariffs on goods and a liberalization of trade in services for more than 150 countries. While on the one hand tariffs have been reduced, on the other new aviation taxes have been imposed, which work much the same way as tariffs in increasing the price of air transport services. Indeed, governments, while lowering or removing tariffs on traded goods, have replaced them by new taxes on the international movement of persons. Passengers, no less than goods, represent exports and imports, and government action to increase the prices paid by passengers creates a distorting effect on world commerce and travel.

New taxes also run counter to trends in the regulatory environment. At the same time liberalization and greater competition have taken hold in several regions - with the aim of offering more choice and lower prices to passengers - new aviation taxes are inevitably being passed on to users in the form of higher ticket prices. Moreover, because many tax levies are fixed charges, they impact heavily on the passenger supposedly benefiting from discount fares and on the airlines, such as charter carriers, which seek to provide lower-price travel.

Clearly, the situation is getting out of hand. It is time to reverse the tendency to heavier taxation on airlines and passengers and to recognize that the benefits that all economies obtain from air travel will be seriously reduced if present trends continue.

Recognizing the gravity of the problem, the ICC would like to restate the recommendations it made in 1992:

## Recommendations

1. The ICC distinguishes between charges/user fees and taxes, noting that taxes are levied to finance general government expenditures. The ICC recognizes that some limited charges on airline tickets, particularly those directed to improving the air transport infrastructure, may be justified. The ICC urges, however, that these charges be reduced to the fullest practicable extent. High charges on airlines and airline tickets are incompatible with the freer movement of goods and services and have the twin effects of increasing travel costs and reducing mobility.
2. The ICC calls for the elimination of all airline ticket taxes not strictly related to air transport needs. As examples of the unjustified taxes now imposed on airline tickets, the ICC cites the following, which do not constitute an exhaustive list:
  - The ICC maintains that no government should use airline taxes as a means of reducing its budget deficit.
  - Funds to support programmes in other fields - such as those to prevent agricultural diseases, for other health purposes or to reduce illegal immigration - should be supported out of general revenues and not by taxes on airline tickets.
  - Taxes imposed for airport and airline security, though they have an air transport component, present a special case. The ICC believes that security is a state concern, since the state, not airlines or users, is the target of terrorism. Accordingly, funds to provide security should also be taken out of general revenues, not out of special taxes on airlines and users.

3. The ICC expresses special concern over taxes which appear to work at cross purposes to the objectives they are supposed to achieve. Airline ticket taxes imposed to fund the promotion of tourism, for example, have the effect of discouraging people from travelling - a clear contradiction between the aim of the legislation and its consequences.
4. The ICC deplores the actions of individual government units within states to impose their own taxes on international air transport. Taxes on international air transport, if imposed, should be the sole responsibility of the central government. Any local add-ons are in violation of the spirit, if not the letter, of bilateral agreements.
5. The ICC urges that any taxes levied on airline tickets be transparent to the user - either by the inclusion of a slip in the ticket package indicating the source and amount of the tax, or through some other means devised by airlines and governments in consultation with each other.
6. In cases in which taxes nevertheless have to be collected, the ICC recommends that all governments eliminate the practice of collecting taxes from users at airports. This practice causes confusion and delay and has a particularly detrimental effect on the business traveller who may be hurrying to catch his flight.

The ICC will continue to work with passengers, airlines and interested aviation organizations to bring to light the fiscal burdens imposed on the industry and to urge that present air transport taxation policies be overhauled.

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