

# Impact of Levies on Air Transport Sustainability

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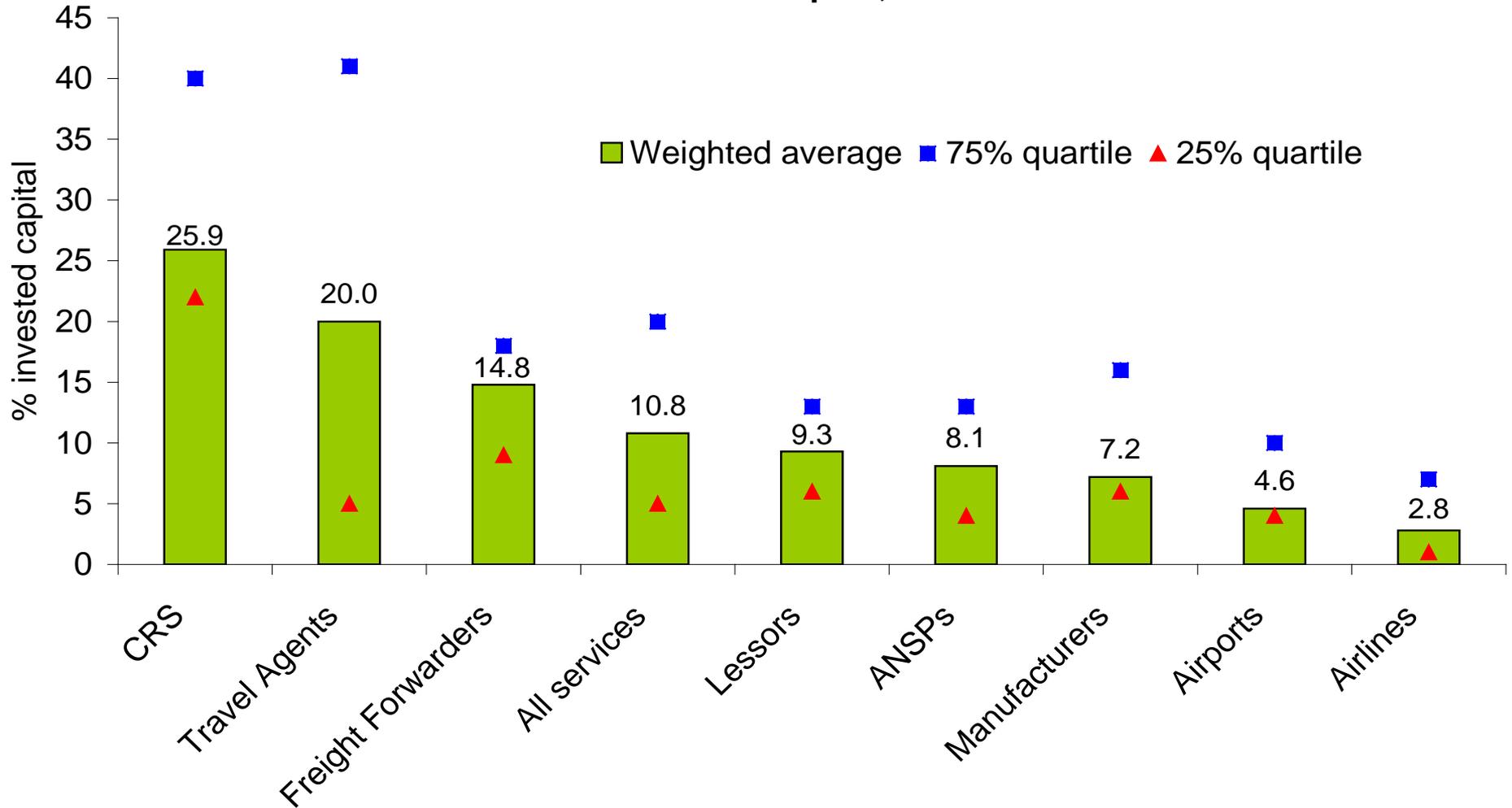
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# Vocabulary

- Sustainability: Financial sustainability
- Levies: Taxes, airport fees, ...
  - Not: airline charges for fuel, baggage, etc.
- Air Transport: the air transport value chain

# Profits in the Value Chain

Return on invested capital, 2002-2009



Source: McKinsey & Company for IATA

# Capital Invested

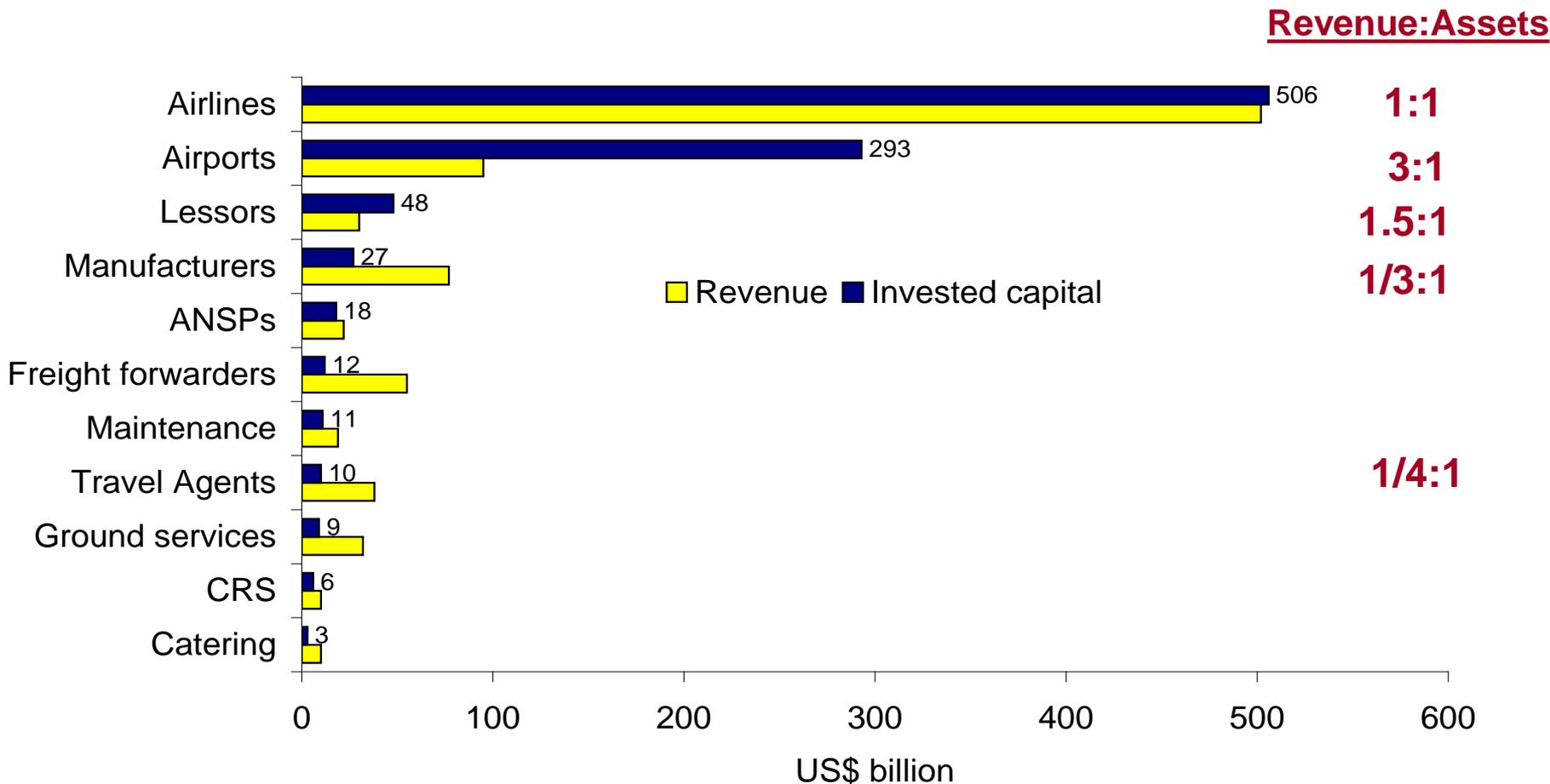
- Airlines: \$500b
- Airports: \$308b
- Leasing: \$48b
- Manufacturer \$27b
- AirNav: \$23b



- Source: IATA presentation based on McKinsey Value Chain model

# Capital is mostly in airlines and airports

Invested capital and revenue by sector, 2009



# The Issue

## **IATA has documented the low return to airlines in the value chain**

- There are high returns, especially in the distribution part of the chain
- If airlines fail in the value chain, the whole value chain suffers/fails

## **Challenge is that airlines are a competitive sector, with limited market power**

- Tendency to marginal cost pricing
- Market power is needed to cover fixed costs

# What does economics say about impact of levies

- With perfectly inelastic supply, any fee/tax increase fully passed through to consumer
  - For aviation, this is not true, even in the very short run
  - On average, only 80% short term capacity utilisation
- Elasticity of demand also factor in pass through
  - Our paper for IATA showed the appropriate elasticity depends on the question
    - Flight vs flight: extremely high elasticity
    - Carrier to carrier: elastic
    - National, unitary to slightly inelastic

# What does economics say about impact of levies

- Hence levies are partially absorbed by airlines

This does not help airline sustainability

# Canada Impact Example

- We compared Canada 'fiscal burden' vs US
  - 10% of average ticket price
- Impact
  - 15k direct jobs (33k total)
  - \$2b in econ output (\$3.8b in total)

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