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ECONOMIC DEVELOPMENT



# Setting the Scene: Impact of Levies on Air Transport Sustainability

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**IATS/4**  
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Doc 7300/9



**Convention on  
International Civil Aviation**

**Convention relative à  
l'aviation civile internationale**

**Convenio sobre  
Aviación Civil Internacional**

**Конвенция о международной  
гражданской авиации**

This document supersedes Doc 7300/8.  
Le présent document annule et remplace le Doc 7300/8.  
Este documento reemplaza el Doc 7300/8.  
Настоящий документ заменяет Doc 7300/8.

Ninth Edition – Neuvième édition – Novena edición – Издание девятое — 2006

International Civil Aviation Organization  
Organisation de l'aviation civile internationale  
Organización de Aviación Civil Internacional  
Международная организация гражданской авиации

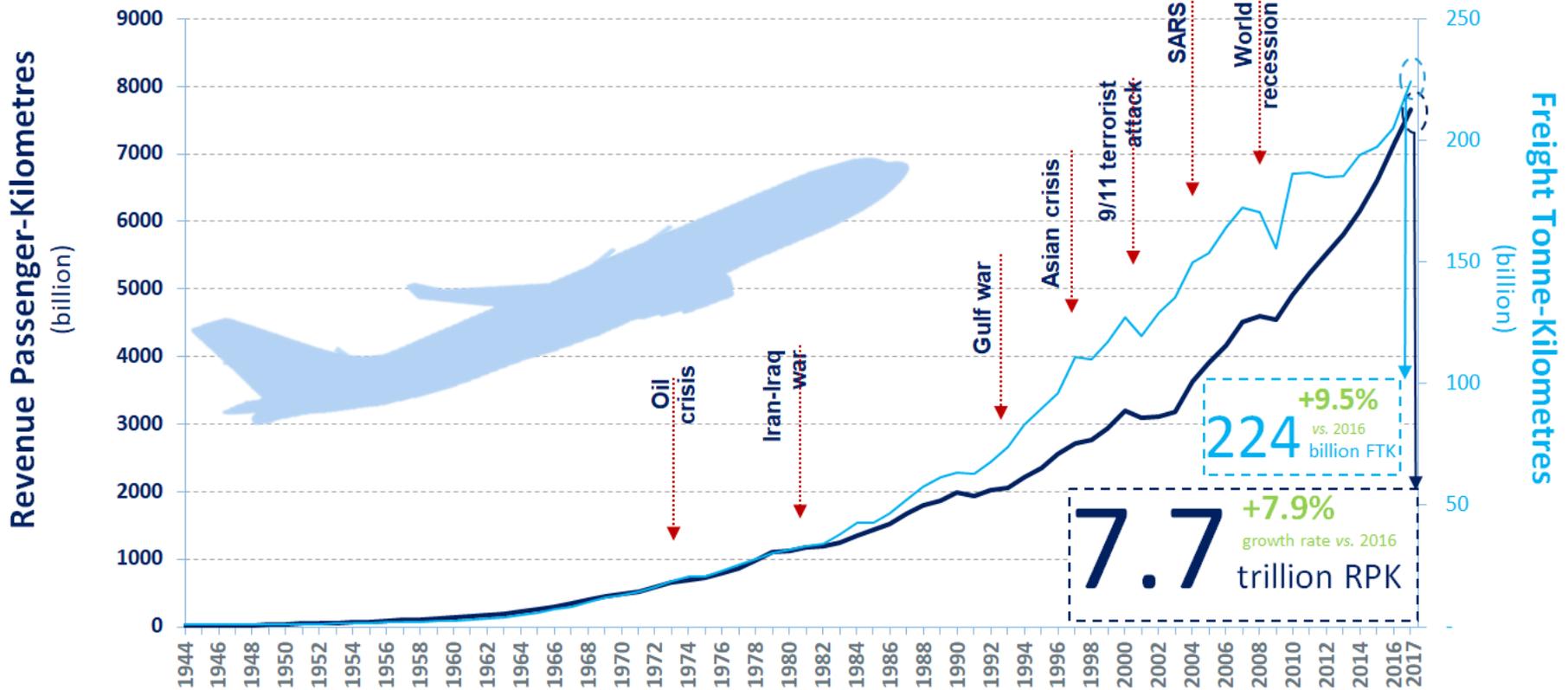
## Preamble

.....

THEREFORE, the undersigned governments having agreed on certain principles and arrangements in order that international civil aviation may be developed in a safe and orderly manner and that international air transport services may be established on the basis of equality of opportunity and operated **soundly and economically;**



# Growth of air transport in 2017

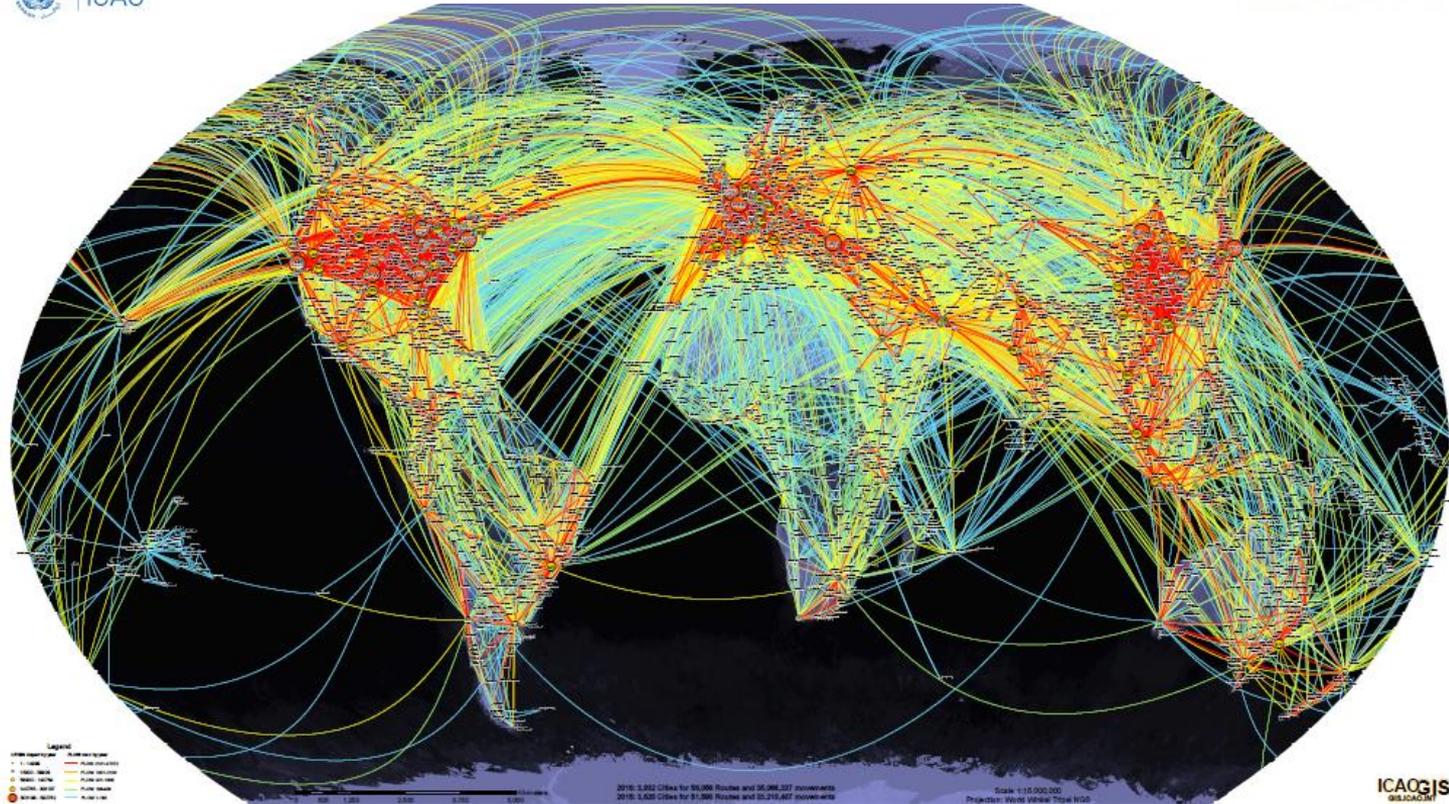


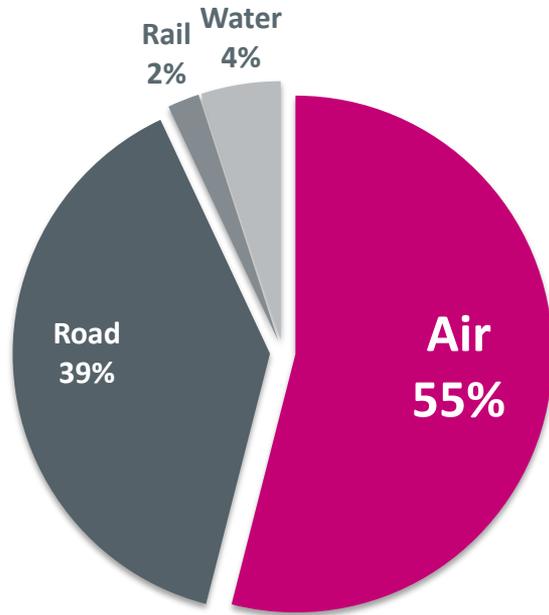


- **4.1 billion passengers** *[which will double in 2035]*
- **37 million aircraft departures**
- **56 million freight tonnes carried**
- **Over 1 400 scheduled airlines**
- **More than 26 000 aircraft**
- **More than 3 900 airports**
- **173 air navigation centres**
- **290,000 pilots\* and 82,000 air traffic controllers**

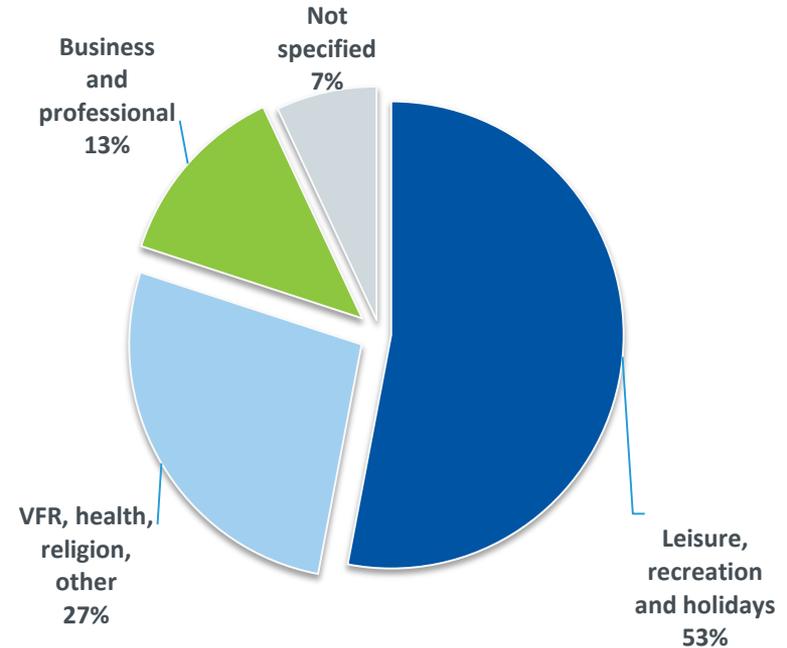


More Info: <http://gis.icao.int>



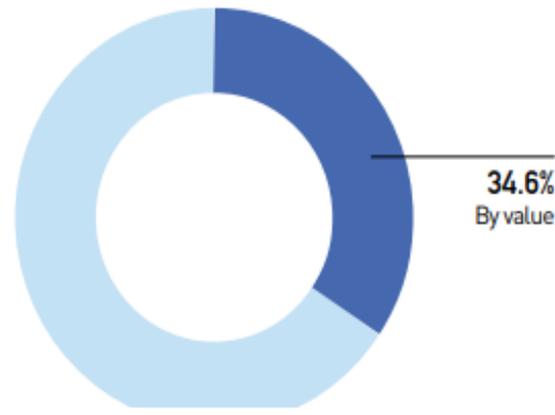
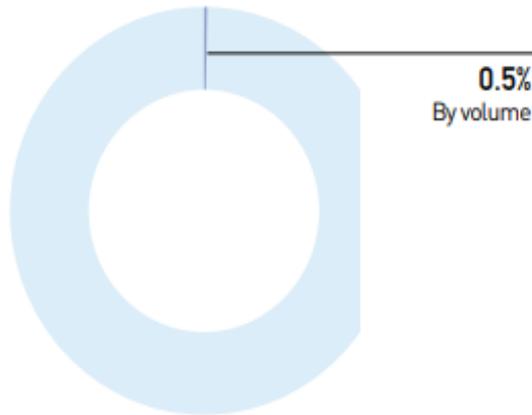


Inbound tourism by mode of transport 2017



Inbound tourism by purpose of visit 2017

## Air freight, as a proportion of global trade, by volume and by value, 2017

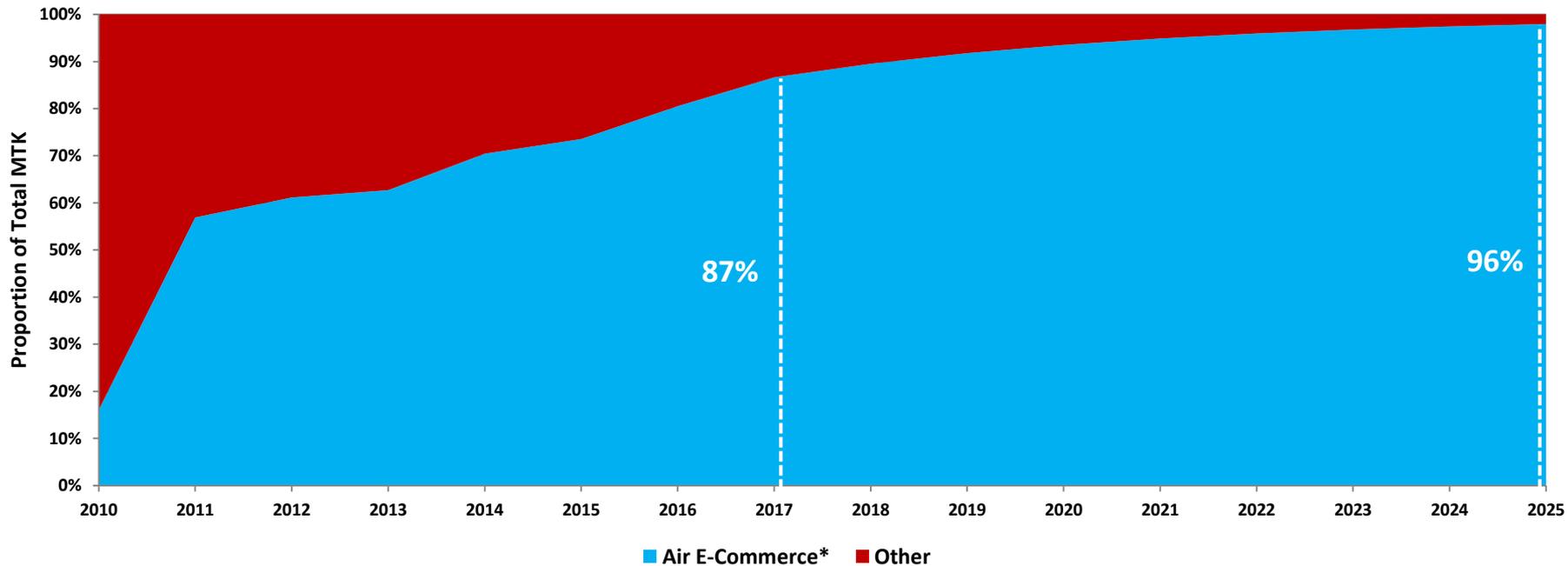


# 35%

**Air transport carries around 35% of world trade by value and less than 1% by volume<sup>25</sup>**

**\$6 trillion** worth of goods was transported internationally by air in 2017

### International Mail Tonnes Kilometres (MTK) breakdown



- E-commerce share of MTKs grew from 16% to 87% between 2010 and 2017 and is estimated to grow to 96% by 2025



# Levies (Taxes and Charges) in Air Transport



## Article 15 - Airport and similar charges



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### ☐ Three basic principles:

- Apply uniform conditions for using airports and air navigation facilities/services
- No discrimination in charges
- No charge solely for the right to overfly, enter or exit



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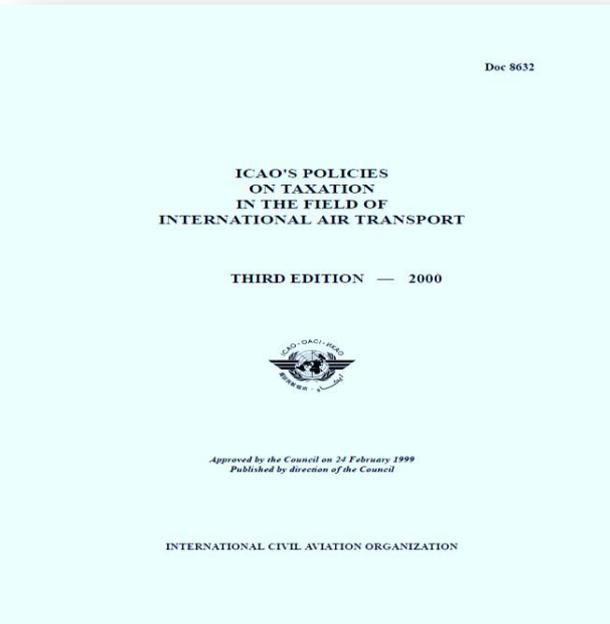
## Article 24 – Customs Duty

### ❑ Exempts from Custom Duty:

- Fuel, Lubricants, Spare parts, regular equipment and aircraft stores on board an aircraft
- Spare parts and equipment imported into the territory of a contracting States for incorporation in or use on an aircraft of another contracting states engaged in international air navigation.

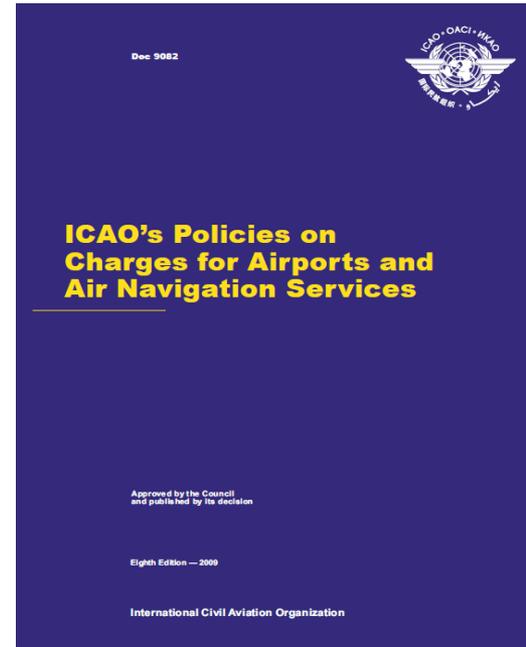


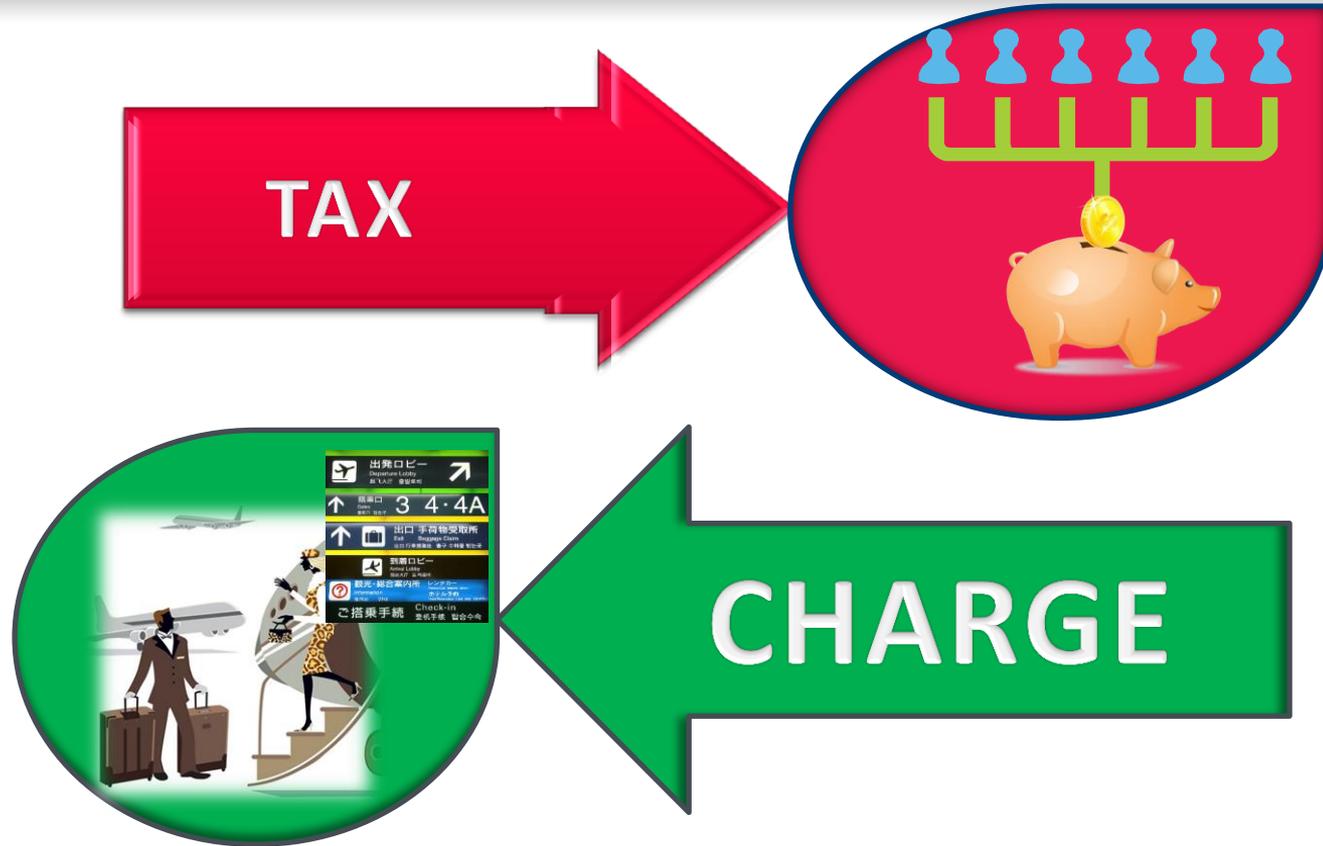
- Avoid discrimination
- Consider economic contributions
- Reduce taxes to fullest extent



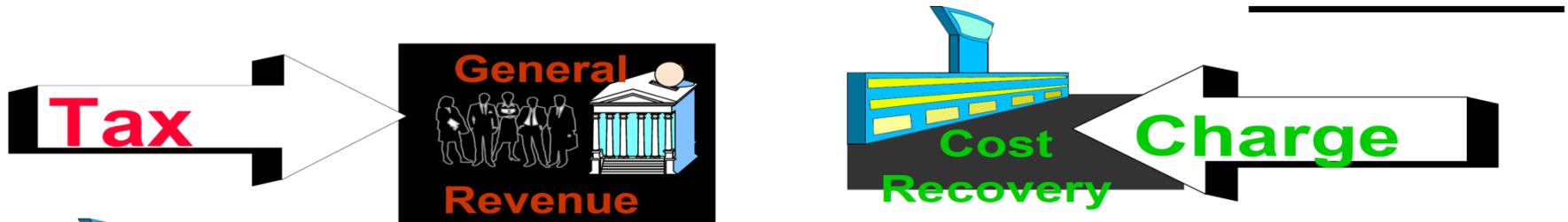
[Doc 8632](#)

[Doc 9082](#)





- ❑ A **tax** is a levy that is designed to raise national or local government revenues, **which are generally not applied to civil aviation in their entirety or on a cost-specific basis.**
- ❑ A **charge** is a levy that is designed and applied **specifically to recover the costs** of providing facilities and services for civil aviation.



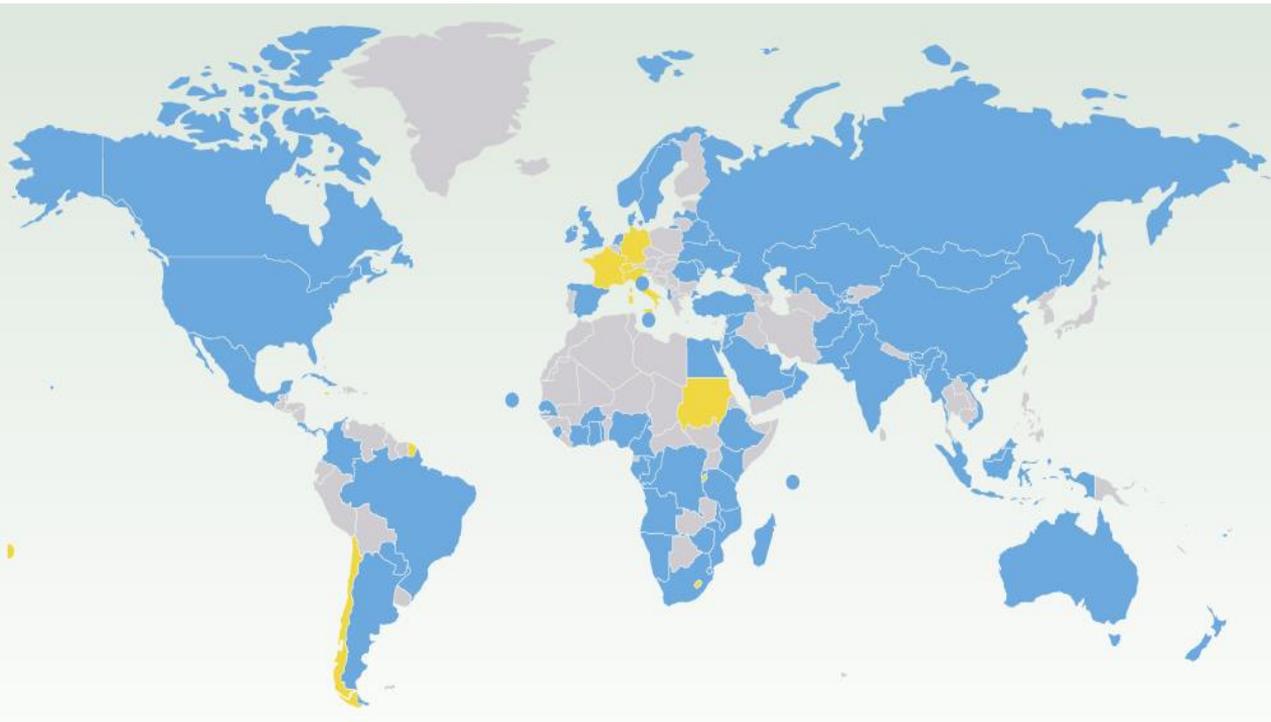


- States to exempt fuel, lubricants and other consumable technical supplies **taken** on board from taxation (based on reciprocity)
- States to limit taxation of **income of airlines and of aircraft** and other movable property to the State where the airline has its fiscal domicile (based on reciprocity)
- States to reduce taxation on the **sale or use of international air transport**
- **Capetown Convention**



## Status Map

### Convention on International Interests for Mobile Equipment (Cape Town, 2001)



Globally

**79 Parties and 28 Signatures**

Asia

**19 Parties/Signatures**

Signature



Entry into force





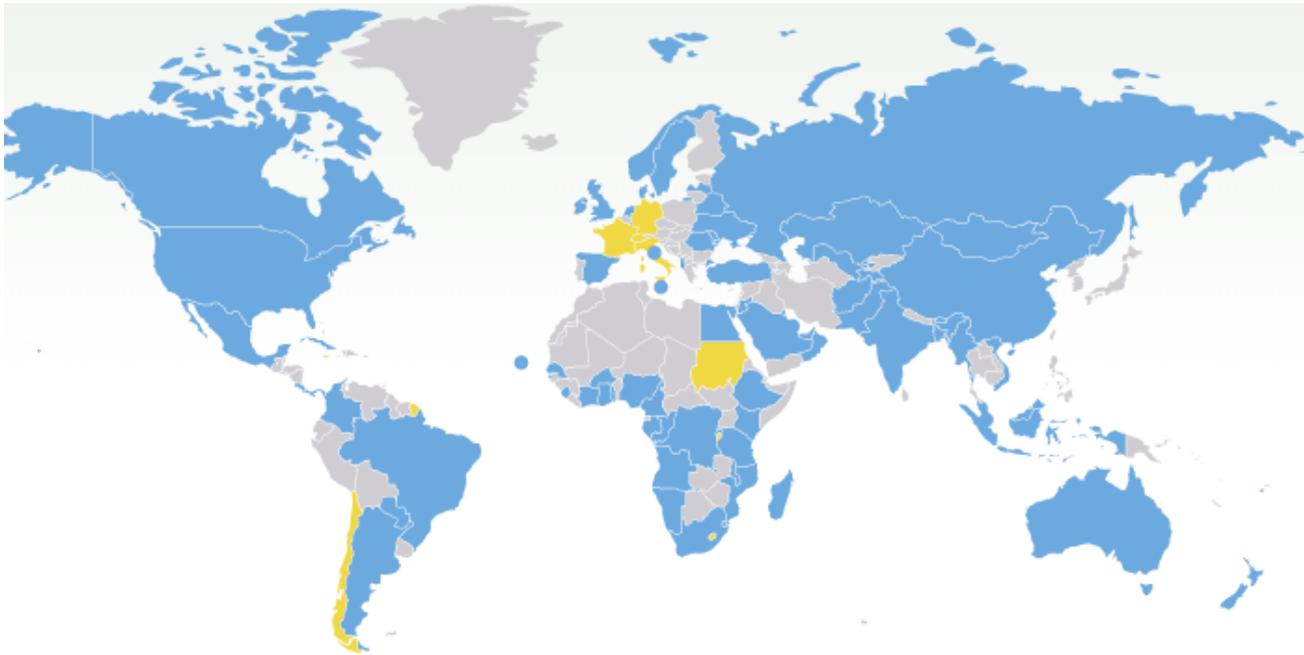
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# Protocol to the Cape Town Convention

## Status Map

Protocol to the Convention on International Interests in mobile Equipment on matters specific to Aircraft Equipment (Cape Town, 2001)



Globally

**76 Parties and 27 Signatures**

Asia

**17 Parties/Signatures**

- ❑ States should put into their national legislation, regulations or policies these four key charging principles:
  - ➔ non-discrimination,
  - ➔ cost-relatedness,
  - ➔ transparency and
  - ➔ consultation with users
  
- ❑ The overarching objective of user charges shall be the recovery of costs, given the need for a reasonable return on assets after depreciation



- ✈ Growing proliferation of taxes on international air transport beyond the scope of ICAO policies including various taxes on passenger and cargo, tourism taxes, Value Added Tax and Sales Tax on jet fuel, security and environmental taxes, etc.
- ✈ Excessive taxation on international air transport for the sole purpose of generating States revenues, as such taxes are not used to improve the air transport system.



- ✈ Continuous lack of transparency and discriminatory practices against air transport vis-à-vis other modes of transport in the imposition and collection of taxes.
- ✈ Excessive and unjust taxation constitutes obstacle to the development and expansion of international travel, trade, tourism and the national economy.

- ✈ In 2018, airlines and their customers are forecast to generate USD 136 billion in tax revenues globally
  - Increase of approximately 7.8% over 2017
  - Equivalent of 45% of the industry's Gross Value Added (GVA)
  
- ✈ Passenger demand for air travel is highly price elastic
  - In many instances, a 10% increase in price leads to a reduction in demand of up to 15% . .



- ➔ In order to address the negative consequences of inefficient taxation, ICAO Template Air Services Agreements (TASA) contains two provisions that address taxation, including:
  - Article 13 on customs duties and indirect taxation; and
  - Article 14 on direct (profit-based) taxation.
  
- ➔ The overall negative impact of Taxation outweighs the so call benefits derived from the revenue they generate.



### ❑ **The provisions of Doc 9082 - ICAO's Policies on Charges for Airports and Air Navigation Services:**

*“Taxes on the sale or use of international air transport are at odds with modern trends towards liberalizing and reducing barriers to trade in goods and services, since such taxes may have the same effect or impact as tariffs on imports or exports”.*

*“Each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate as soon as its economic conditions permit 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”.*



**□ The provisions of Doc 9082- *ICAO’s Policies on Charges for Airports and Air Navigation Services state that:***

“Charges should be determined on the basis of sound accounting principles and be in conformity with Article 15 of the Convention on International Civil Aviation and other principles in the present policies”

“Charges should not be imposed in such a way as to discourage the use of facilities and services necessary for safety”

“The charges must be non-discriminatory”.



**❑ The provisions of Doc 8632 - *ICAO's Policies on Taxation in the Field of International Air Transport* state that:**

*“Taxes on the sale or use of international air transport are at odds with modern trends towards liberalizing and reducing barriers to trade in goods and services, since such taxes may have the same effect or impact as tariffs on imports or exports”.*

*“Each Contracting State shall reduce to the fullest practicable extent and make plans to eliminate as soon as its economic conditions permit 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”.*



Doc 9181



## Manual on Air Navigation Services Economics

Approved by the Secretary General  
and published under his authority

Fifth Edition — 2013

International Civil Aviation Organization

- **1. ICAO's policies on charges and States' responsibilities**
- **2. Ownership, control and governance of air navigation services providers**
- **3. International cooperation**
- **4. Air navigation services economic and financial management**
- **5. The process of setting air navigation services charges**
- **6. Financing air navigation services infrastructure**



Doc 9562



## Airport Economics Manual

Approved by the Secretary General  
and published under his authority

Third Edition — 2013

International Civil Aviation Organization

- **1. ICAO's Policies on Charges and States' Responsibilities**
- **2. Ownership, control and governance of airports**
- **3. Airport economic and financial management**
- **4. The process of setting airport charges**
- **5. Development and management of non-aeronautical activities**
- **6. Financing airport infrastructure**



- *Doc 8632 - ICAO's Policies on Taxation in the Field of International Air Transport;*
- *Doc 9082 - ICAO's Policies on Charges for Airports and Air Navigation Services,*
- *Doc 9161 - Manual on Air Navigation Services Economics*
- *Doc 9562 – Airport Economics Manual*
- *Doc 9793 - the Convention on International Interests in Mobile Equipment*
- *Doc 9794 - the Protocol on Matters specific to Aircraft Equipment*

*are available at* <https://www.icao.int/publications/Pages/doc-series.aspx>

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- How do we encourage Member States to comply with ICAO policies on taxation?
- How do we convince the policy makers especially those responsible for taxation, of the negative impact of excessive taxation on air transport?
- How do we ensure that the taxes collected in aviation are substantially used to improve the air transport system?
- How do we ensure that the end-users have the relevant information?
- Do we have specific issues for travel and tourism vs Air cargo and e-commerce ?



→ **Montreal – Toronto - Seoul – Toronto - Montreal**

→ Montreal – Toronto – Seoul on Westjet and Korean Air

Taxes: KRW 56700XT 22500CA 1400XG 500RC 2700XQ 3500SQ 26100SQ

Carrier imposed fees: KRW 2200YQ 130200YR

→ Seoul – Toronto – Montreal on Air Canada

Taxes: KRW 61200YQ 28000BP 500RC 3500SQ

\* The BP tax includes International PSC (Incheon/Gimpo airport KRW 17000, other airports KRW 12000), Departure tax KRW 10000 and Global Disease Eradication Fund KRW 1000



## → Bangkok – Seoul – Bangkok on Korean Air

### Taxes:

KRW 28000BP 1300E7 1300EP 600G8 600G8 25300TS

\* The BP tax includes International PSC (Incheon/Gimpo airport KRW 17000, other airports KRW 12000, Departure tax KRW 10000 and Global Disease Eradication Fund 1000

Carrier imposed fees: KRW 2200YQ 57800YR



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UNITING AVIATION

NO COUNTRY LEFT BEHIND



**감사합니다**

**Thank You, Merci, Gracias**

**Спасибо, Spasiba**

**شكرا, Shukran**

**谢谢, Sie Sie**