

**60th CONFERENCE OF
DIRECTORS GENERAL OF CIVIL AVIATION
ASIA AND PACIFIC REGIONS**

*Sendai, Japan
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AGENDA ITEM [6]: ECONOMIC DEVELOPMENT
 OF AIR TRANSPORT

BARRIERS TO AIR TRAVEL FOR CONSUMERS

(Presented by Airports Council International and International Air Transport Association)

SUMMARY

To reap the full socio-economic benefits of air transport and to facilitate the contribution of airports and the broader aviation ecosystem in achieving the Sustainable Development Goals (SDGs), burdensome political and economic barriers need to be removed. These barriers continue to persist in many jurisdictions, which hinder mobility, impose costs on consumers of air transport and stifle the positive economic multiplier of aviation. These barriers include, among others, 1. discriminatory and distortionary taxes levied on aviation, 2. High concession fees to operate airport infrastructure and 3. Burdensome visa and entry requirements.

1. BACKGROUND

1.1 According to the Air Transport Action Group's (ATAG) 2024 edition of *Aviation: Benefits Beyond Borders*, aviation supports some 86.5 million jobs worldwide today, contributing 3.9% of global economic activity, transporting a third of world trade by value, enabling 58% of tourist arrivals and connecting people all over the planet.

1.2 Aviation also has an essential role in achieving the UN Sustainable Development Goals (SDGs). The SDGs represent a call for action by all countries to promote prosperity while protecting the planet by 2030. These are captured across 17 goals. SDGs recognize that ending poverty must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection. For airports in particular, SDGs #8 (decent work and economic growth), #9 (industry, innovation, and infrastructure), and #13 (climate action) have become central focuses of capital planning and the energy transition for the broader aviation ecosystem.

1.3 In addition to rising income levels across the globe, another key driver in the growth of passenger traffic has been a continuous decline in the price of travel. Spanning multiple decades, air travel costs have decreased by almost 75% since the 1950s. The decline is linked to several factors such as advances in aircraft technologies and efficiencies in service delivery. Equally important, the deregulation of the aviation market in the 1980s and ongoing liberalization of air transport paved the way for increased choice, competition and connectivity, which has ultimately benefitted passengers by reducing the overall cost of air transport.

1.4 To reap the full socio-economic benefits of air transport and to facilitate the contribution of airports and the broader aviation ecosystem in achieving the SDGs, burdensome political and economic barriers need to be removed. These barriers continue to persist in many jurisdictions, which hinder mobility and impose costs on consumers of air transport. The positive economic multiplier – the direct, indirect and catalytic impacts – of aviation is further stifled. These barriers include, among others, 1. discriminatory and distortionary taxes levied on aviation, 2. Exorbitant concession fees to operate airport infrastructure and 3. Burdensome visa and entry requirements.

2. DISCUSSION

2.1 AIRLINE AND AIRPORT COSTS

a) Airports are capital-intensive investments and infrastructure operators face many high fixed costs. This includes the cost of constructing fixed assets, and the cost of financing infrastructure. As traffic levels increase over time, unit costs should decrease thanks to economies of scale. Similarly, like airports, many airline costs are fixed or semi-fixed. Airlines are “price takers” on certain major items in that they have very little or no bargaining power on those input prices. An example of this is aircraft fuel and oil, among others, where prices are largely dictated by global markets. Fuel and oil could make up as much 30% of airlines' operating expenses especially on international scheduled traffic

b) In consideration of these financial constraints, minimizing the exogenous costs and barriers that are imposed by government on aviation stakeholders will ultimately translate into lower costs for the traveling public.

2.2 AIR TRAVEL AND HIGH TAXATION

- a) International air transport is heavily taxed. Some States use one or more taxes on airline tickets to generate revenues that have the same effect or impact as tariffs on imports or exports. The means of generating such revenues are economically inefficient and reduces national welfare. As the end-users of air transport, namely passengers, make their purchasing decision based on the all-in airfare, onerous taxes push the price up and therefore suppress air transport demand.
- b) Based on an ACI Study, *Policy Brief: Taxation of international air transport and airports – Economic benefits and costs*, estimated revenue from taxes levied on airline tickets was \$90 billion on a global scale. The \$90 billion tax burden suppresses approximately 760 million passengers globally, as well as 2.2 million direct aviation and aviation-related jobs. The \$90 billion burden suppresses \$93 billion in direct GDP contribution.
- c) Extending the economic impact beyond the direct dimension, and considering aviation-indirect, induced and tourism-catalytic dimensions, the total macroeconomic impact of removing the tax burden on air transport increases to a total of 5.2 million jobs and over \$180 billion in global GDP. As such, the foregone economic benefits exceed tax receipts from passenger-based taxes by a factor of two.
- d) An important distinction should also be made between charges and taxes, given that the two are often conflated, but fundamentally different in terms of purpose and contribution to air transport. As outlined in ICAO's Policies on Charges for Airports and Air Navigation Services (doc 9082), a *“charge is a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation, and 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.*
- e) In line with ICAO's Policies on Taxation in the Field of International Air transport (doc 8632), there should be a non-discriminatory application of taxation. No taxes should be imposed solely on aviation. These policies state 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”*. While the sovereign right of governments to impose taxes is recognized, taxes that are uniquely imposed on air transport or discriminate in favour of other modes of transport contradict ICAO's Policies.

2.3 INFRASTRUCTURE COSTS AND HIGH CONCESSION FEES

- a) The large capital outlay and the complexities involved in planning, getting approvals, and constructing new airport infrastructure means that there is level of risk associated with the long-time horizon of these investments. That is, capital investments are lumpy over the short term whereas cash flows and an expected return on invested capital are only perceived over the longer term. In addition to these capital costs, in certain jurisdictions, especially where there is private sector involvement, airport operators are often required to pay a fee to governments for the right to occupy land and/or to operate. The fee may vary based on percentage of the revenues that airports generate but there is typically always a minimum amount that must be paid irrespectively. Thus, at a minimum, these concession fee payments represent a fixed cost to airport operators.
- b) While financial pressures on governments often make them keen to monetize their strategic airport assets, an excessive fee paid to granting bodies represents an additional cost to airport operators. Because of the cost recovery mechanisms in regulatory frameworks that are based on the user pay principle, significant concession fee costs have important implications on users of infrastructure.

c) Lease or concession fee payments to governments amount to as much as 23% of the overall airport costs on average. It is as much as 30% for airports with private stakes as compared to 15% for government owned and operated entities. Many of the world's largest hubs in places like Asia-Pacific, South America and the Middle East have concession fee payment that represent more than 50% of total operating expenses. A balance needs to be struck between 1. lowering the cost of travel for the traveling public and increased connectivity versus 2. government objectives to monetize airport assets so as to alleviate financial pressures.

2.4 RESTRICTIVE VISA REQUIREMENTS

a) According to data from the United Nations World Tourism Organization, 47% of the world's population is required to obtain a traditional visa prior to travelling¹.

b) The International Air Transport Association (IATA) and Airports Council International (ACI) support a shift away from complex visa and travel authorization frameworks toward interactive digital solutions. This transition not only enhances security but also aims to eliminate barriers to travel.

c) The digitization of visa processes offers significant advantages in the efficiency of administrative procedures while maintaining overall border security. This modernization positively impacts the customer experience by reducing or eliminating pre-trip clearance times and wait times at airports upon arrival. As application processes become simpler, more tourists are able to access specific destinations, thereby increasing tourism revenue and contributing to economic growth.

d) It is essential to acknowledge that the decision to impose visa or travel authorization requirements rests with individual states. While maintaining secure borders is paramount, there exist opportunities to modernize many visa acquisition processes.

e) Increasingly, states are recognizing the unnecessary obstacles that rigid visa requirements create. However, a number of jurisdictions still maintain stringent visa policies for international travel, which can significantly hinder travel, tourism and aviation. Such barriers may limit economic progress and job creation in the countries that would otherwise benefit from increased income from tourist expenditures, capital investment, government spending in support of tourism activities, supply chain effects, and induced contribution, including spending by those directly or indirectly employed by travel and tourism.

f) Several states have made strides by adopting electronic visas, or e-visas, which represent a positive advancement in streamlining travel processes. E-visas has served as effective tools for governments, allowing for improved border management and facilitating seamless mobility for both tourists and business travelers.

g) Nevertheless, some jurisdictions have yet to incorporate these digital technologies into their border control systems. The online application process can integrate advanced security measures, including biometric data collection and automated background checks, thereby enhancing the identification of potential security threats more efficiently than traditional methods.²

3. ACTIONS BY THE CONFERENCE

¹ UN Tourism reports openness is back to pre-pandemic levels (UNWTO, 2024)

² Why Tourists Need E-Visas More than Ever (IATA, 2024)

3.1 The Conference is invited to:

a) Urge States to reaffirm ICAO's Resolutions and Policies on Taxation in the Field of International Air Transport (Doc 8632) within their jurisdictions and to invite all appropriate national authorities to take account of Document 8632;

b) Encourage States to consider the financial viability of airport operators and the broader role of aviation in economic connectivity when determining concession fees (i.e. royalties). Transparent consultation with airport operators can help ensure that such fees are sustainable and aligned with the long-term provision of infrastructure.

c) Encourage States to simplify visa requirements by embracing digital technologies through the issuance of e-Visas to facilitate the seamless flow of travellers

– END –

Executive Summary for consideration for inclusion in the Conference Report

BARRIERS TO AIR TRAVEL FOR CONSUMERS

The combination of barriers and onerous costs imposed on air transport hinder its development and the resultant socio-economic benefits that are generated for local communities and the broader economy. In summary:

a) Taxation should not suppress the economic benefits of aviation by arbitrarily raising the price passengers pay on tickets. Taxes of this nature should also not discriminate against air transport in favour of other modes of transport.

b) States should streamline visa requirements by embracing digital technologies through the issuance of e-Visas to facilitate the seamless flow of travellers.

c) While financial pressures on governments make them disposed towards monetizing airport assets in certain jurisdictions, they should consider the critical role airports and aviation play in connecting any region to the global economy. Raising the costs to airport operators with inflated concession fees (i.e. royalties) inevitably has an impact on users of infrastructure. As outlined in doc 9082, *"users shall ultimately bear their full and fair share of the cost of providing the airport."*

