IATA

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PASSENGER MOVEMENT CHARGE AMENDMENT BILL 2012

This submission reflects the views of International Air Transport Association (IATA) regarding the Passenger Movement Charge Amendment Bill 2012. IATA is an international trade body, created over 60 years ago by a group of airlines. Today, IATA represents some 240 airlines comprising 84% of total air traffic. The organization also represents, leads and serves the airline industry in general. IATA's comments are from an international perspective and are based on the requirements of, and practices in, international civil aviation.

Air transport is a major contributor to global economic prosperity. Aviation provides the only rapid worldwide transportation network, which makes it essential for global business and tourism. The most important economic benefit generated by air transport is the value generated for its consumers, passengers and shippers. To quantify this, IATA commissioned studies by Oxford Economics, to demonstrate to governments the catalytic impact of a healthy aviation sector on national economies. According to their Australian report, the aviation sector supports 312,000 highly productive jobs and contributes AUD 32 billion (2.6%) to the Australian GDP. In addition, there are a further 495,000 people employed and AUD 43.7 billion in benefits through the catalytic (tourism) effects of aviation.

IATA is totally opposed to the increase in PMC for a number of reasons including:

- Border protection and security are government responsibilities. Aviation security is no different from national security and just as national security is funded from general revenues so should aviation security be funded. It is simply unfair to push the burden on airlines and their passengers when it is states and their policies that are the targets of terrorist actions.

- As a member of the International Civil Aviation Organization (ICAO) Council, Australia has a duty to ensure that ICAO policies are followed both in letter and spirit. Yet the lack of transparency and consultation on the proposals to increase the PMC is in direct contravention of ICAO policies. There have been no consultations with airlines on the proposed increase and as you may be aware, the cost base for the existing PMC has been long disputed by airlines.

- Aviation is a critical pillar of tourism in Australia and there is a fundamental flaw in taxing aviation to promote tourism. Studies have shown that a 10% increase in cost of travel can lead upto a 15% reduction in travel demand. Increased aviation costs can have a devastating impact on tourism, travel and the overall economy. Australia competes with other countries, such as New Zealand for inbound tourism and inward investment and this tax will inevitably hurt travel to Australia.

- Imposing a higher PMC can result in increased prices faced by consumers and lead to insulating inefficient sectors from competition. The Australian domestic tourism market and consumers of domestic tourism services would likely be impacted. Such a measure would also create deadweight loss due to a loss of allocative efficiency. Welfare will be reduced through higher prices and restricted consumer choice.

- The proposed increase is likely to impact Australia's competitiveness and make it even more difficult to position itself as an exporter of services to the greater Asia-Pacific region. The increase in the PMC runs counter to Australia's stated objective to promote exports of services as indicated in the *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity* and reinforced through public statements of Honorable Ministers Bob Carr and Craig Emerson. The PMC and the increase make it more costly for Australia to integrate with the fast-growing Asia-Pacific region.

- Analysis by IATA shows that there will also be significant immediate negative impacts from the increase in the PMC to the Australian economy. For the calendar year following the increase we estimate the following impacts:

    i. <u>Direct</u>: reduction of $45 million in GDP; a loss of more than 500 jobs, and reduced tax receipt of about $17 million
    ii. <u>Indirect and induced</u>: reduction of $65 million in GDP, a loss of about 600 jobs and reduced receipts of about $15 million
    iii. <u>Tourism</u>: reduction of $225 million in GDP; a loss of 2600 jobs, and lower tax receipts by $53 million.

  In total we estimate that the increase will result to GDP being lower by about $335 million, loss in jobs of 3700 and other tax receipts being lower by $85 million. In addition, we estimate that there will be a loss to consumer surplus of over $200 million as well as negative impacts in wage income in the Australian economy.

- The aviation industry is going through a challenging phase due to the weakness in many global economies and the high prices of jet fuel. IATA estimates an overall profit of USD 3 billion globally representing net profitability of a meagre 0.5%. This is not sustainable and any increased aviation costs can seriously impact the viability of many airlines and routes.

Thus, this is not the appropriate time to impose an additional $610 million burden on the airline industry over the next 4 years. Rather, the Australian government needs to contribute meaningfully to this concerted effort to generate cost reductions and greater cost efficiency – a decrease or abolishment of the PMC needs to be contemplated instead of an increase.

In conclusion, IATA urges the House to defeat the Passenger Movement Charge Amendment Bill 2012 and recommend consultations with the airlines and other stakeholders on appropriate and justifiable level of PMC for the future. A reduction of the PMC will provide a much needed impetus to the airline, tourism and related economies in Australia. IATA hopes that the Australian government will take these views into account and is willing and able to assist in any follow-up that is required in this regard.

Sincerely,

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