



19 June 2008

Alex Wilson
Research Officer
Senate Standing Committee on Legal and Constitutional Affairs

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Dear Alex

This submission reflects the views of International Air Transport Association (IATA) regarding the proposed increase in the Passenger Movement Charge (PMC). IATA's mission is to represent, lead and serve the airline industry and brings together 240 member airlines whose flights account for 94% of all international scheduled air traffic. IATA's comments are from an international perspective and are based on the requirements of, and practices in, international civil aviation.

IATA is totally opposed to the increase in PMC given the critical financial situation of the airline industry. As you are probably aware, the airline industry is going through an unprecedented crisis due to the rising fuel costs. The leaders of the world's airlines met at the IATA Annual General Meeting in Istanbul in early June 2008 and discussed the urgent crisis that is being driven by record oil prices and the slowdown in the global economy. Over the last six years, airlines have cut non-fuel unit costs by 18% and distribution costs by 25%; they have also improved fuel efficiency by 19% and there has also been a notable increase in labour productivity. But these achievements have been completely overshadowed by an additional jet fuel cost burden of US\$ 99 billion that IATA Member airlines expect to face over the next 12 months. A total of 24 airlines have ceased operations or entered into bankruptcy protection in the last five months. Many more will not survive unless we can work together to reduce the overall cost burden.

All stakeholders in aviation now face the dual impact of skyrocketing oil prices at US\$ 130 per barrel and the weakening global economy. Every \$1 increase in oil prices adds US\$ 1.6 billion to the global airline fuel bill. We are now predicting that the airline industry will make losses of US\$ 2.3 billion this year because of sustained high oil prices. But these losses would worsen to a huge US\$ 6.1 billion if oil prices stay at \$135 per barrel for the remainder of 2008.

These extraordinary times call for extraordinary measures. Airlines will continue to drive hard for more cost reductions and cost efficiencies within areas they can control but there is limited scope for further incremental savings. Airlines are an engine for the global economy. The global economic contribution of aviation is an estimated USD 3,560 billion, equivalent to 7.5% of World Gross Domestic Product, generating a total of 32 million jobs (ATAG 2008). For this reason, failures in the airline industry will send economic shockwaves throughout the world. Whilst airlines are presently in the front line of this perfect storm, the impact of stagnating or even declining traffic will be felt very quickly by airports, air navigation service providers and Governments. A concerted effort by all parties is now required.

With this in mind, the world's airline leaders have published the Istanbul Declaration, a copy of which is attached to this letter. You will see that the Istanbul Declaration seeks urgent attention in six specific areas, including greater cost efficiency from our industry partners.



Thus, this is not the appropriate time to impose an additional \$459.3million 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.

There are other reasons why IATA is totally opposed to an increase in the PMC. IATA's position is that the proposed increase lacks justification and has not followed due consultation process with the airlines. The Director General & CEO of IATA had written to the Attorney-General in this regard on 26 May 2008. A copy of the letter is also attached for your information and the key messages are outlined below.

- 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.
- We also urge the Australian Government to consider the impact of increased aviation costs 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. Studies have shown that a 10% increase in cost of travel can lead upto a 15% reduction in travel demand.
- As a member of the 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 PMC is in direct contravention of ICAO policies. There have been no consultations with airlines on the proposed increase. Nor has there been any information provided on the cost of the security initiatives that have been stated as the justification for the increased PMC. As you may be aware, the cost base for the existing PMC has been long disputed by airlines.

Thus, IATA urges the Australian government to abolish the current PMC and enter into consultations with the airlines on any justified cost recovery mechanisms for the future. The abolishment 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,

Vinoop Goel
International Air Transport Association

Encl. Copy of Istanbul Declaration
Copy of IATA DG & CEO letter to Attorney-General



Istanbul Resolution

The leaders of the world's airlines met in Istanbul on 2-3 June 2008.

They were pleased to report a new record level of safety performance.

They were proud to announce the full roll-out of electronic ticketing.

Airlines achieved modest profits for the first time since September 11.

Yet this was no time for celebration.

Record oil prices are now driving airlines into uncharted territory. At the fuel prices currently predicted by the forward price curve, IATA airlines could face an additional financial burden of USD 99 billion over the next 12 months compared to 2007. A total of 24 airlines have ceased operations or entered into bankruptcy protection in the last five months. Many more will not survive.

Over the last six years, airlines have cut non-fuel unit costs by 18% and distribution costs by 25%; they have also improved fuel efficiency by 19% and there has also been a notable increase in labour productivity.

All these efforts are meaningless in the face of a tripling of oil prices since 2006, with a two-fold increase in the last year alone. There is limited scope for airlines to lower their costs further. A concerted effort is now required.

This is not simply an airline crisis. Airlines are an engine for global prosperity and failure amongst them would send shockwaves throughout the world economy.

Extraordinary times call for extraordinary measures.

The CEOs of the world's airlines therefore call on governments and the entire industry value chain to show leadership and responsibility in this time of crisis.

- Governments must eliminate archaic rules that prevent airlines from restructuring across borders.
- In view of existing fees and charges, governments must refrain from imposing multiple and additional punitive taxes and other measures that will only deepen the crisis.
- State service providers must invest to modernise air transport infrastructure urgently, eliminating wasteful fuel consumption and emissions.
- Business partners, in particular monopoly service providers, must become as efficient as airlines are now. If not, regulators must restrain their appetite with tougher regulation.
- Labour unions must refrain from making irresponsible claims and join the effort to secure jobs in aviation and indeed in other industries.
- In the interest of the global economy and the flying public, we urge authorities to enforce the integrity of markets so that the cost of energy reflects its true value.



Giovanni Bisignani
Director General & CEO

26 May 2008

The Hon Robert McClelland MP
Attorney-General
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Minister,

I would like to bring to your attention an issue of grave concern for airlines operating international services to Australia. I refer to the 2008-9 Budget announcement that the Passenger Movement Charge (PMC) applicable to departing international passengers will be increased from \$38 to \$47 effective 1 July 2008.

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.

We also urge the Australian Government to consider the impact of increased aviation costs 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.

As a member of the 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 PMC is in direct contravention of ICAO policies. There have been no consultations with airlines on the proposed increase. Nor has there been any information provided on the cost of the security initiatives that have been stated as the justification for the increased PMC. As you may be aware, the cost base for the existing PMC has been long disputed by airlines.

The short deadline for the introduction of the increased PMC will result in an even greater net cost to airlines as tickets have already been sold for travel after 1 July 2008. All of those forward sold tickets will have included the pre-existing charge, rather than the increased charge. This could result in millions of dollars in revenue shortfall for airlines.

International Air Transport Association

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I request your urgent intervention please to ensure the following:

1. Deferment in implementation date of the increased PMC
2. Consultations with industry to develop an agreed PMC rate
3. Adequate transition time (at least 6 months) to allow for modifications to airline systems and advance ticketing

We look forward to your early response.

Sincerely

CC

Mr Roberto Kobeh, President, ICAO

The Hon Wayne Swan MP, Treasurer

The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government

The Hon Martin Ferguson MP, Minister for Resources and Energy and Tourism