



IATA

Agenda

- Economic benefits of air transport
- Benefits of aviation - Philippines
- Sensitivity of passengers to changes in travel cost
- Consideration of taxation: Denmark
- Consideration of taxation: Philippines

2

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Economic benefits of air transport

Three ways of looking at benefits from air transport

1. Jobs, GDP and tax revenue supported
2. Consumer benefits
3. Benefits from improved air transport links

3

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Value of Air Transport - Philippines

4

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Aviation important for tourism in Philippines

- Air transport is critical for global business and tourism
- Over 98% of foreign visitors arrive by air

5

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Philippines – Aviation Jobs & GDP

Jobs

Total contribution to employment 2.5%

Category	Headcount (000)
Tourism	751
Induced	35
Indirect	11
Direct	1

Source: IATA, ACI, Oxford Economics


GDP

Total contribution to GDP 2.4%

Category	PHP Billions
Tourism	156.7
Induced	8.7
Indirect	3.7
Direct	1.6

Source: IATA, ACI, Oxford Economics

6



Consumer Benefits

- In 2009 27 million passengers and 596,000 tons of freight traveled to, from and within the Philippines
- Value placed on services likely exceeds expenditure
- Benefit to travelers is estimated to be around:
 - 575 billion PHP (of which 298 billion PHP is for Philippine residents)
- Estimated benefit to shippers
 - 34 billion PHP (of which 17 billion PHP for Philippine shippers)


7



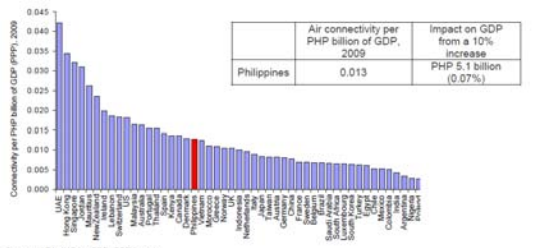
Benefits of Air Transport Links

- Improves productivity
- Facilitates foreign direct investment
- Promotes agile business models

8



Philippine connectivity by comparison



	Air connectivity per PHP billion of GDP, 2009	Impact on GDP from a 10% increase
Philippines	0.013	PHP 5.1 billion (0.07%)

9



Contribution to Philippine tax

	PHP billion	PHP billion
Taxes on Aviation Sector's GVA		
-Corporation tax	1.9	
-Income and SS	5.0	
Travel tax, alien head tax and VAT	17	
Aviation Sector's direct tax contribution		23.9
Tax Generated through indirect and induced impacts		2.5
Total tax attributable to aviation sector's economic footprint 26.4 PHP billion		

10



Taxes impact travel costs

- Taxes on any component of travel will result in an increase in travel costs – eventually costs passed through to consumer
- Increases in travel costs will result in decrease in traffic
- Decrease in traffic can be explained by:
 - Passengers not traveling
 - Passengers traveling to another location

11




Sensitivities of passengers differ

- Sensitivities of passengers to changes in price will differ depending on the market

In general:

- Short-haul passengers tend to be more sensitive to changes in price vs. long-haul
- Leisure passengers tend to be more sensitive to changes in price vs. business

12



Denmark abandoned economically damaging passenger tax

- Proposed DKK75 tax would have added 3% to average travel costs, far more for domestic passengers
- IATA analysis showed that:
 - Over 328,000 tourists & passengers would have been lost
 - GDP would have been DKK 586 million lower
 - 1,400 jobs would have been lost
 - Other tax receipts would have been DKK 238 million lower

1 USD ≈ 5.5 DKK ; 1 DKK ≈ 7.75 PHP

13



Philippines should abandon economically damaging taxes

- Previous IATA analysis-elimination the Common Carrier Tax (CCT) and Gross Philippine Billings (GPB) would:
 - lower the total cost of int. passenger travel by 2.5%
 - increase int. arrivals and departure in the Philippines by 1.9%
 - Potential gain USD 38-78 million from increase in tourism
 - Lower cargo transport costs-boost export earning USD 1 billion

14



Summary

- Aviation important for Philippine economy
- Taxes on travel related activities increase travel costs
- Leisure passengers are generally most sensitive to changes in travel costs
- Philippines – abolishing CCT and GPB will reduce travel costs and boost traffic–positive impacts on the economy

15




**Convergence of Tourism and Aviation Policies:
Case of the Philippines**

**Destination APEC 2020: A Conference on
Enhancing Tourism and Air Transport Connectivity
in the Asia-Pacific Region**
Sofitel Philippine Plaza
Manila, Philippines
28 February 2012

Felix J. Cruz
Chairman, Board of Airlines Representatives

OUTLINE

1. Background
2. Aviation and the Tourism Value Chain
3. Convergence Agenda
 - a. Constraints to Tourism Growth
 - b. Recent Initiatives
 - c. Moving Forward


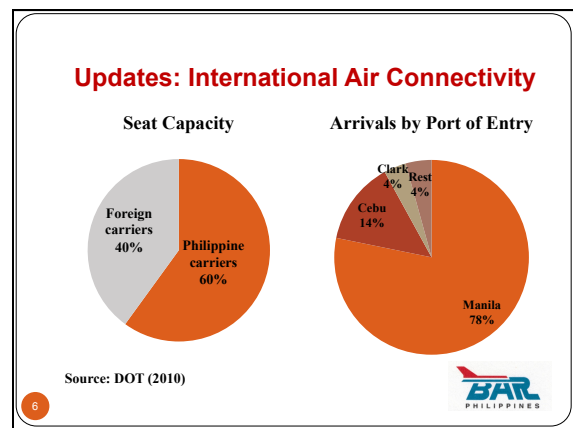
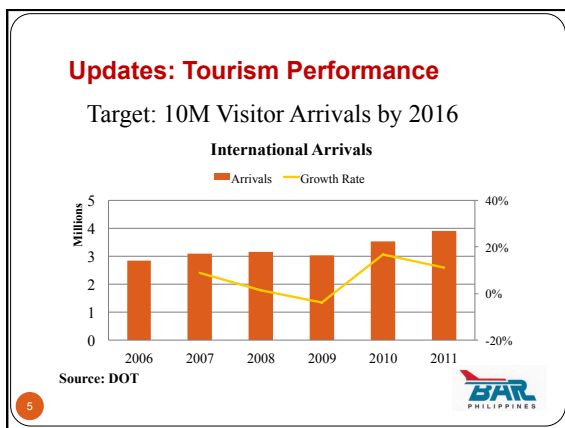


Organization



Objectives of BAR

- To provide a forum for the discussion of problems and matters of interest
- To assist its members jointly to formulate policies and procedures
- To make representation on matters of common concern

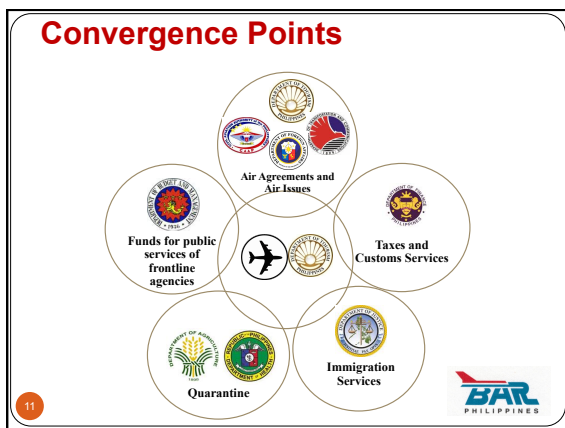
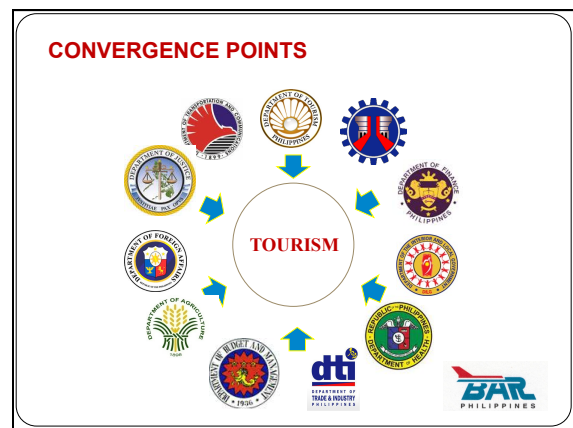
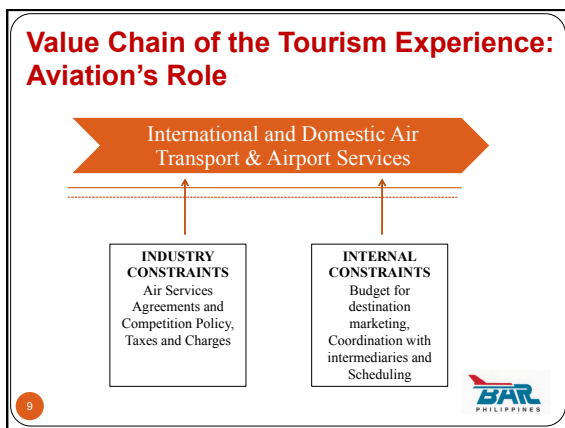
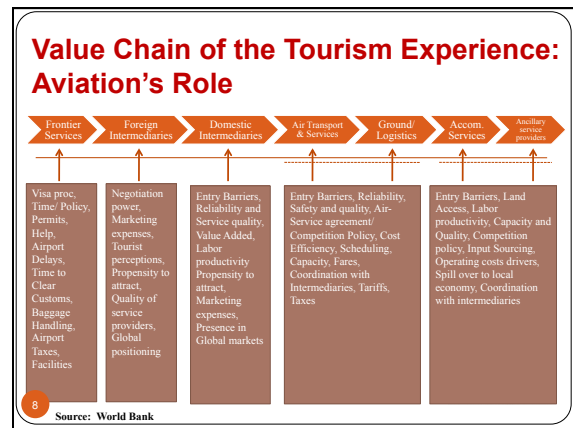



Connectivity to long haul markets

YEAR	Incoming flights from Europe per week	Incoming flights from US per week
2001	22	24
2011	7	16

2011	Thailand	Philippines	Singapore
USA	35	44	63
Germany	35	-	33
France	14	-	14
Netherlands	18	-	14
United Kingdom	34	-	59

7 Source: OAG



- ### Air Service Agreement/Competition Policy
- DOTC through CAB
 - Implementation of the secondary gateway development policy
 - The ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services
 - unlimited 3rd, 4th and 5th freedom traffic rights
- 12

Aviation Tax Policy in the Philippines

- Foreign airlines pay 3% Common Carriers Tax (CCT) and 2.5% Gross Philippine Billings (GPB)(1.5% for those with bilateral tax treaties) based on their global flown revenues for the ex-Philippines portion of the trip regardless of the place of issuance or payment.
 - Unfavorable investment environment
 - Makes Philippines as the most expensive destination relative to the quality of infrastructure in Asia
 - Makes it easy for airlines to place or shift investments elsewhere
- BAR's appeal
 - Repeal of the CCT
 - Grant of reciprocal exemptions for GPB
- Department of Finance (DOF) interposes no objection to the repeal of the 3% common carriers tax

13

Airport Related Concerns

- Infrastructure Upgrade
 - NAIA modernization and decongestion
 - Development of secondary gateways
- Costs of Services by Government Agencies
 - Overtime fees, meals & transportation allowances
 - Adequate budget to operate 24-7, 3 shifts basis
- DOF and Bureau of Customs
 - New administrative order: Implementation of 24-7 international airports and seaports

14



Moving Forward

- Our tourism department is a very pro-active partner in the convergence agenda.
- DOT and DPWH
 - Prioritization of tourism road infrastructure across 16 regions of the Philippines
- DOT and DILG
 - Implement sections on shared responsibilities under Tourism Act
- BAR supports the tourism department in leading the way for the Philippines to become more globally connected

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16

Thank you very much!

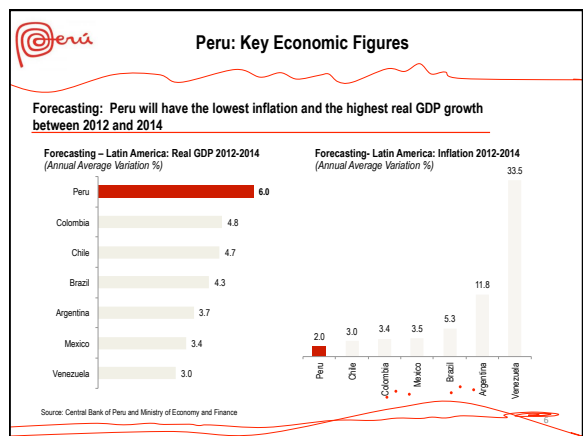
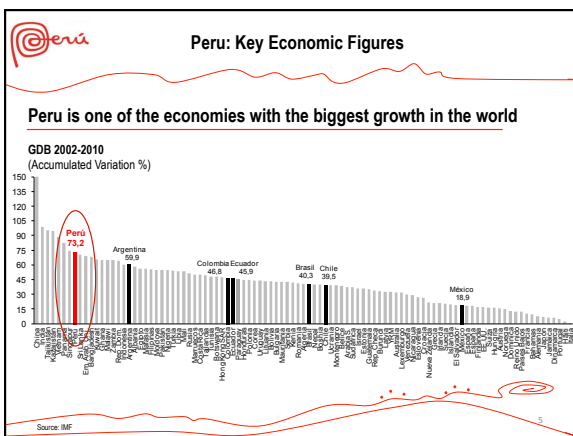
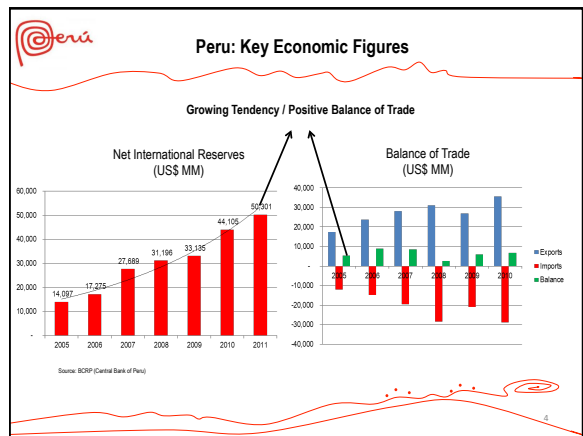
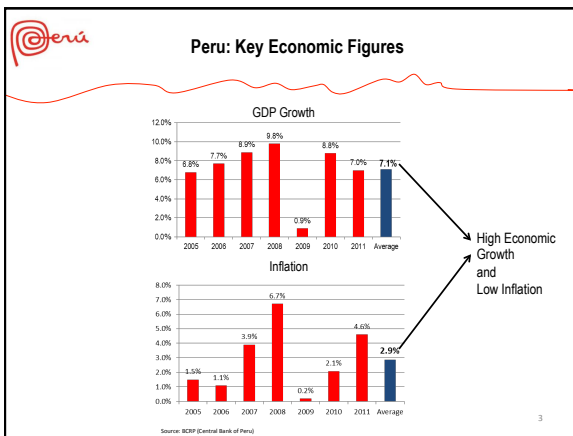


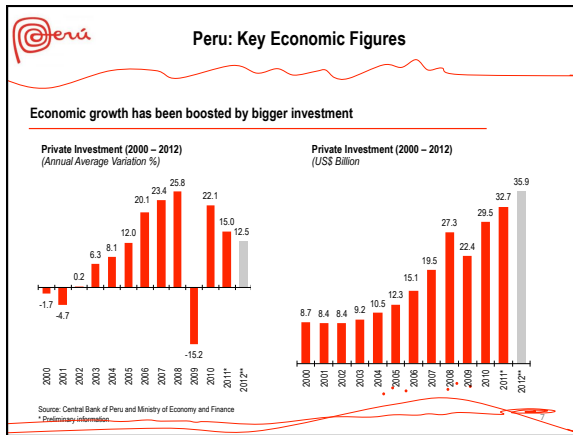
CONVERGENCE OF TOURISM AND AIR CONNECTIVITY POLICIES IN PERU



Jessica Soto Huayta
National Director of Tourism Development

Macroeconomic Indicators



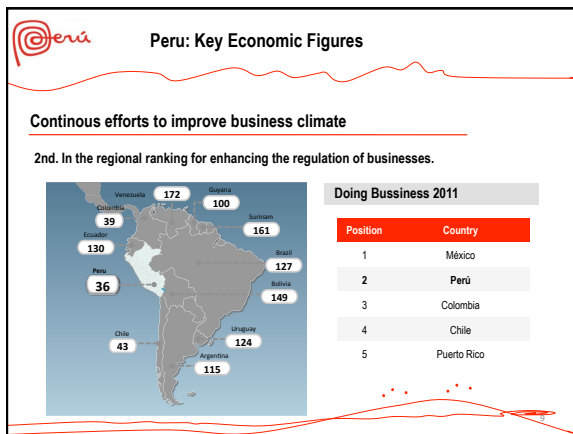


Peru: Key Economic Figures

Peru offers investors a transparent, stable & friendly legal framework

- Non discriminatory treatment: Foreign investors receive the same treatment as local investors.
- Unrestrictive access to most economic sectors*.
- Free transfer of capital.
- Free competition.
- Guarantee for Private Property.
- Freedom to purchase stocks from locals.
- Freedom to access internal and external credit.
- Freedom to pay royalties.
- Network of investments agreements and member of ICSID and MIGA.
- Peru participates in the Investment Committee of the Organisation for Economic Co-operation and Development (OECD) –It promotes the implementation of the Guidelines for Multinational Enterprises.

*Investments that require authorization: Located within 50km in the frontier line and those destined to arms, ammunitions and explosive. Likewise, a principal local partner for investments in radio and television as well as in air transport is required.



Peru: Key Economic Figures

Free Trade Agreements

14 Trade Agreements already operating (effective since 2009, 2010 & 2011)

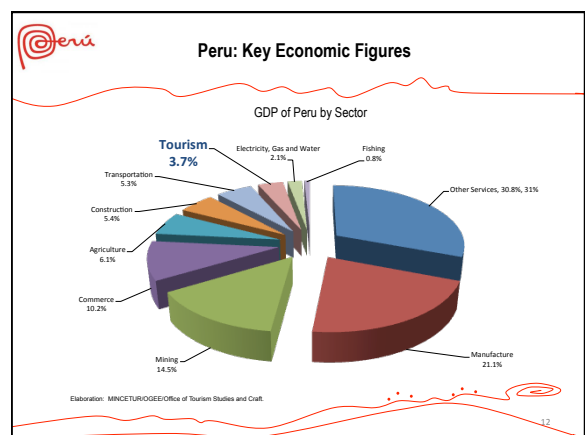
- USA
- China
- South Korea
- Canada
- Mexico
- Chile
- Thailand
- Singapore
- APEC
- MERCOSUR (Argentina, Brasil, Uruguay & Paraguay)
- Andean Community (Bolivia, Colombia, Ecuador & Peru)
- WTO
- Cuba

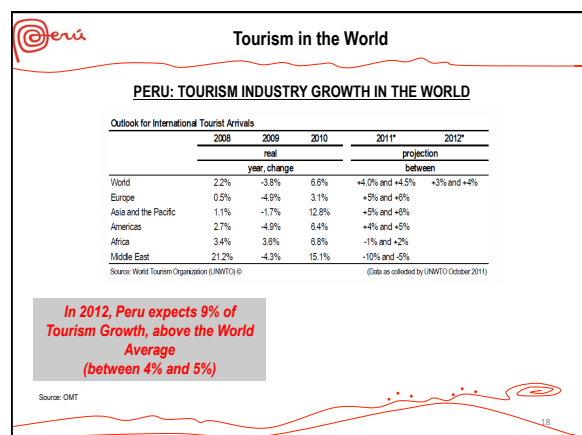
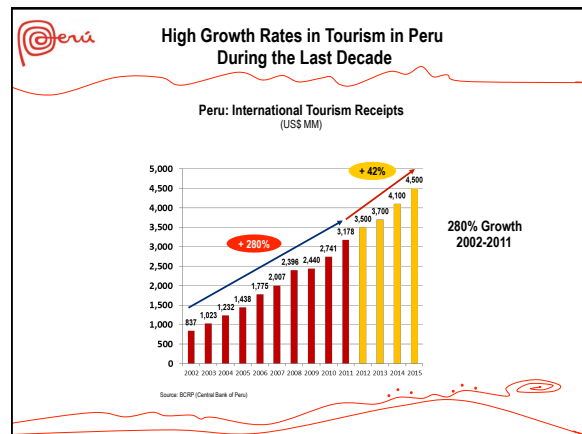
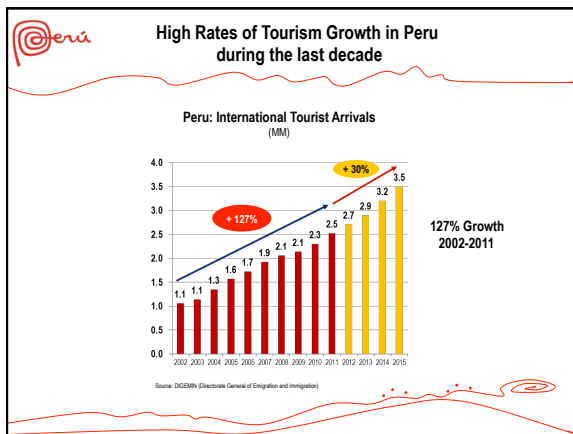
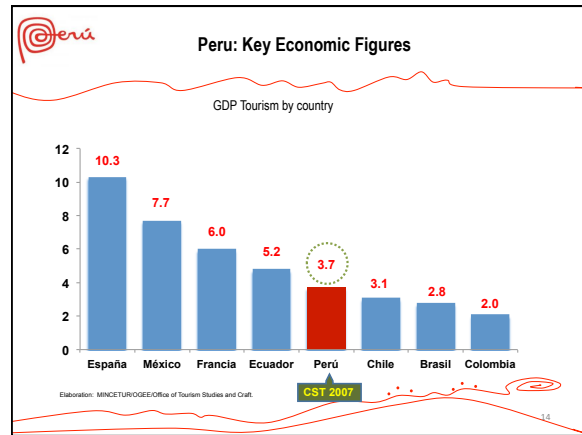
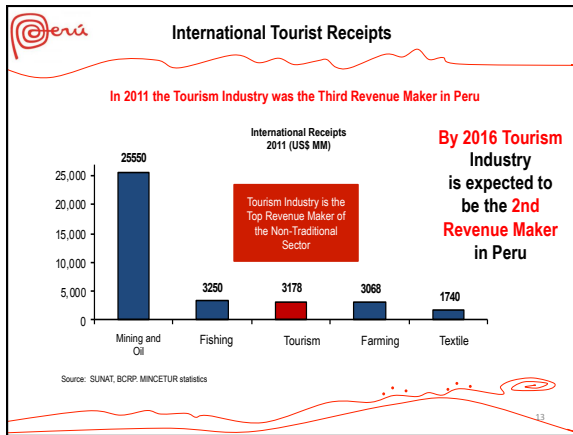
In 2012, 6 Free Trade Agreements will come into operation (signed 2011)

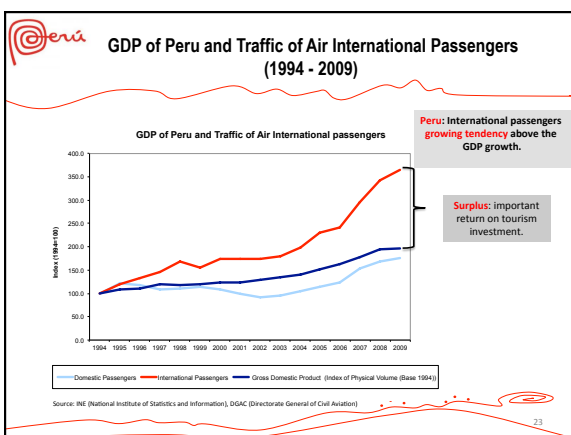
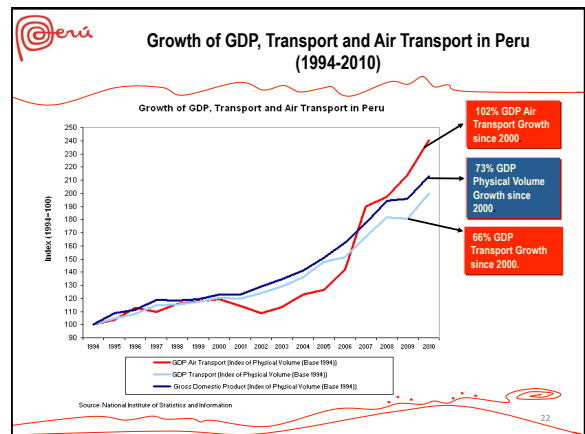
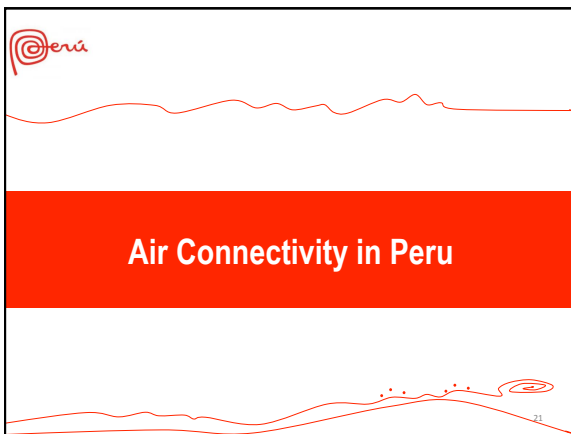
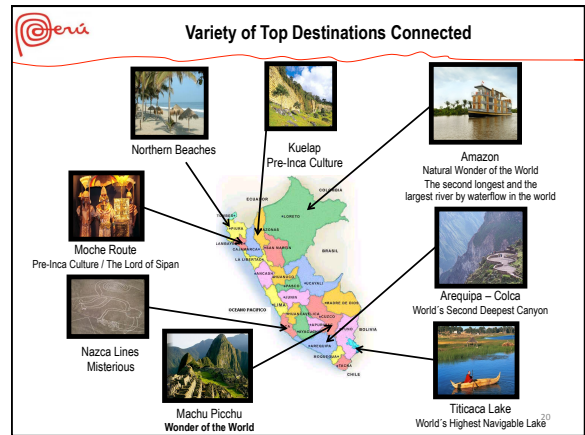
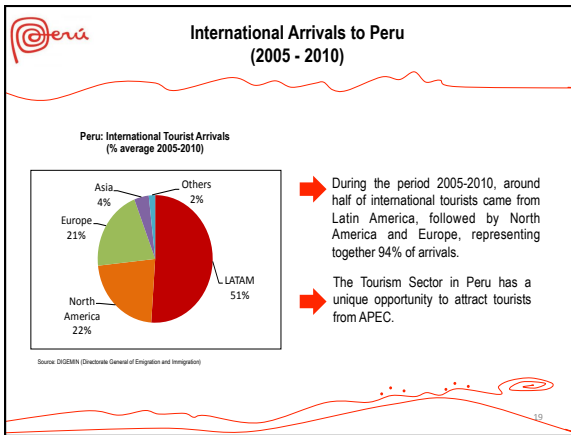
- Japan
- European Union
- Costa Rica
- Panama
- Guatemala
- EFTA (already operating with Iceland, Switzerland & Liechtenstein. Pending operation: Norway)

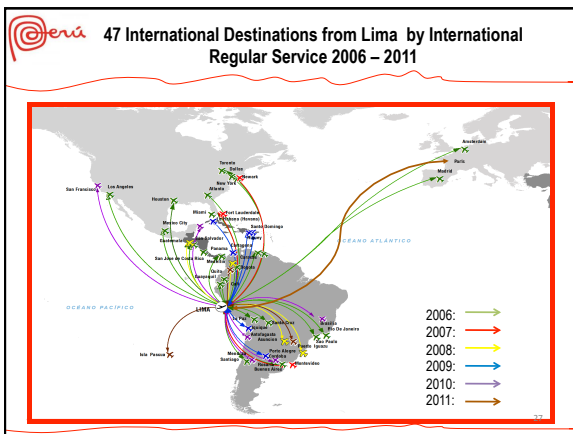
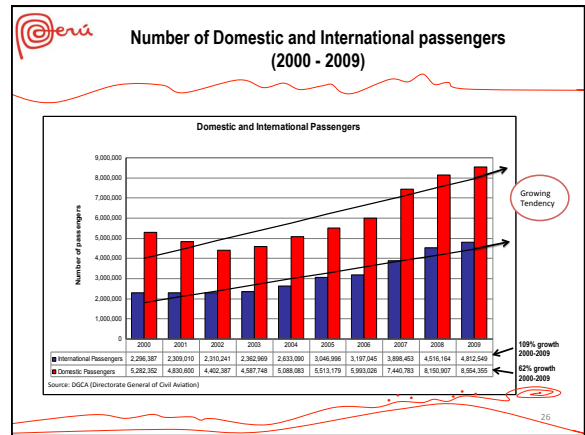
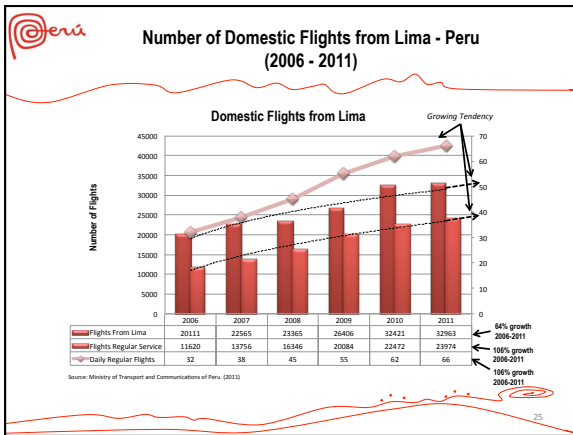
Peru: Key Economic Figures

Tourism Indicators









Investments and Policies to Foster Air Connectivity in Peru

Best Airport in South America 2011: Jorge Chavez International Airport

For the third consecutive year, Jorge Chavez International Airport (Lima) was branded as **The Best Airport in South America 2011** by Skytrax Research, a prestigious London-based market research consulting firm specialized in the airline and air transport industry.

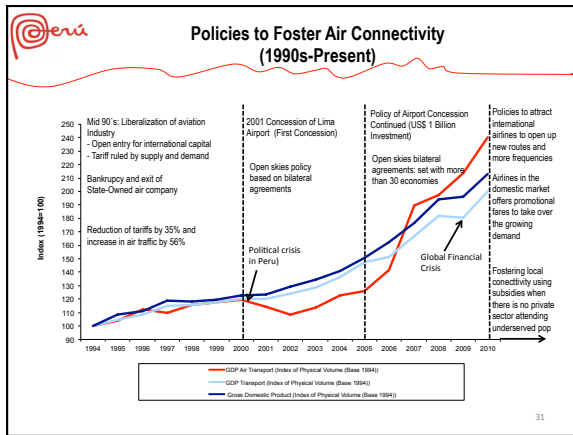
Airports Situation

Public/Private Investment in Peruvian Airports:
18 airports were concessioned

- Airport Network**
 - International Airport Jorge Chavez**
Lima Airport Partners has invested US\$ 250.3 MM. Plans to invest \$1,000 MM
 - Airports Concessioned - 1st Pack**
Aeropuertos del Perú has invested US\$ 62 MM. Remaining investment of US\$165 MM
 - Airports Concessioned - 2nd Pack**
Aeropuertos Andinos del Perú is going to invest US\$ 48 MM until the next 3 years

Outcomes: Better Services, Infrastructure and Security. Growing Quality

11 international airports
10 Peruvian regions exceeding 1,000,000 people



Cooperation Agreement

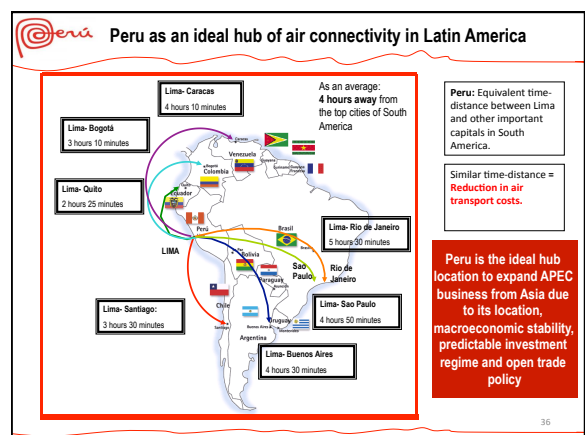
Objective:
To develop the tourism sector in PERU, by generating a bigger supply of commercial air services by promoting and encouraging the operation of airlines that opens new international routes or establishes more frequencies to and from the International Airport Jorge Chavez, in Lima, PERU.

Packages

Package 1	Package 2	Package 3
<p>Airline operating additional international frequencies on a route or pre-existing international destination.</p> <p>Benefit:</p> <p>LAP: 6 months 100% discount on landing and takeoff</p> <p>CORPAC: 90% discount on fares charges by the transportation authority</p>	<p>Airline operating additional international frequencies that represents a new international route with a direct connection to the International Airport Jorge Chavez in Lima</p> <p>Benefit:</p> <p>LAP: 12 months 100% discount on landing and takeoff and</p> <p>CORPAC: 90% discount on fares charges y the transportation authority</p>	<p>Airline operating additional international frequencies that represents a new international route with a direct connection from Europe, North America or Asia to the International Airport Jorge Chavez in Lima.</p> <p>Benefit:</p> <p>LAP: 24 months 100% discount on landing and takeoff</p> <p>CORPAC: 90% discount on fare by authority.</p> <p>PROMPERU: Through a special agreement, will implement a two year - promotion plan of Peru as a destiny in the market of origin & complement for US\$ 1 million (each year)</p>

Challenges & Opportunities

- ### CHALLENGES
- We need more air services from international airlines if we want to reach 3.5 million international tourist by 2015.
 - We do also need to bring more competition into the domestic market: There are only four (04) airlines transporting domestic passengers. There is also the need to open up new internal routes: opportunity to open 31 new regional routes.
 - We need to care about airport infrastructure.
 - We need alignment of policies between transportation and tourism sector.







New Zealand's international air linkages and economic development

Ross Clapcott
Ministry of Economic Development
Destination APEC 2020
Enhancing Tourism and Air Connectivity in the Asia Pacific Region

Economic Development
Māori ōhanga

NZ Case Study

An introduction to Ministry of Economic Development (MED) led work to strengthen NZ's international air linkages

- Broad economic development focus
- Sharpening coordination and aligning priorities all government levers
- Tourism as 'means' as well as 'ends'

Economic Development
Māori ōhanga

Background

Tourism as an export earner
After ten years+ of relatively stable tourism and air linkage growth...

- Disrupted by oil price spikes
- Heavily impacted by the global financial crisis
- Rapid changes in the aviation industry – business models and technological change

NZ's air linkages do more than just enable tourism exports

- Access to markets for business
- High value freight
- Investment – inward and outward
- Link to innovation and competitiveness

Economic Development
Māori ōhanga

International air links are not simply a pipeline for tourists, they connect New Zealand to the global economy...

For a country that is arguably the most geographically isolated developed economy in the world.

Economic Development
Māori ōhanga

Distance matters for economic growth

- 'The world is not flat'
- The OECD estimates that "New Zealand's distance to markets reduces its GDP per capita by about 10%"
- Distance disproportionately constrains growth in knowledge-intensive, high value-added activities
- Face to face contact is vital for business opportunity and innovation
- Distance is an economic, not just a geographical, concept

Economic Development
Māori ōhanga

Basic rationale

- NZ is not going to significantly lift economic growth domestically - Internationalised economic activity is critical
- Overcoming distance constraints means NZ policies *and their implementation* have to be better than competitors - not just as good
- The increasing importance of face to face contact and need for connectivity to and from global cities increases the critical role for international air linkages

Economic Development
Māori ōhanga

Government's role?

Government has a range of levers to support the private sector – poor settings or poor implementation will make a large difference

- Air services regulation - MOT
- Border management – DOL, Customs, MAF
- Safety and security – CAA, AVSEC
- Trade promotion – NZTE
- Tourism promotion – TNZ
- International education promotion – EDNZ
- Investment – Investment NZ
- Trade negotiation and representation – MFAT
- High Level Relationships - Ministers



First phases of MED work

- Coordinating Government agencies
 - Priority route monitoring
 - Clearing house for regular information and analysis on priority routes
- Establishment of a network of key agencies to act on key risks quickly
- Identifying current and potential role of government
- Information provision and deepening knowledge
- Identification of medium to longer term route and network risks and opportunities



Current MED focus

- Where is growth coming from – now/future
 - Are there air linkages constraints?
 - Are these within government's purview?
- Are there opportunities going begging?
 - Are these transparent to the private sector?
 - Are there support roles for government?
- MED Coordination of other agencies around these questions is improving agencies response to the private sector and highlighting potential proactive work
- Coordination plans for medium term actions for a range of markets linked to NZ Inc. strategies – China, US, India, Brazil, Middle East, Asean markets



Key issues in sharpening government's focus on international air linkages

- Networked system – can't be oversimplified
- Fast moving – requires flexible dynamic systems
- Focus on growth in connectivity is about strengthening current links as well as seeking new connectivity
- The international aviation market is workably competitive but with varying (sometimes significant) levels of government intervention
- Poor valuing methodologies for air linkages
- Other jurisdictions are proactive and competitive

