**Aviation Taxation Burden: An Examination of Caribbean SIDS**

Aviation Taxation Burden: An examination of Caribbean SIDS

As the region recognises that tourism and trade are vehicles for building resilient island economies and accept the unique characteristics, challenges and vulnerabilities of Small Island Developing States (SIDS), which are washed by the Caribbean Sea, the improvement of connectivity within the sub-region is a topic at the forefront of proponents of development through cooperation and strengthened ties. As “the world’s most tourism-dependent region” (Caribbean Tourism Organisation 2016), the Caribbean has benefitted considerably from air transport in terms of its contribution to the regional Gross Domestic Product (GDP), creating over US$4 billion and approximately 300,000 jobs through tourism (Caribbean Development Bank, 2015). Trade relations are also supported by regional connectivity as it stimulates economic growth in part because it enables the country to attract business investment and human capital – by lessening travel times, increasing business opportunities and efficiency, and creating better transport linkages to enable seamless flows of persons, goods and services across borders.

The aviation industry has created value and benefits for its passengers, businesses and governments whilst operating in the face of various external shocks – including disasters, economic downturns and volatile fuel prices – with escalating operating costs more often than not, passed on to the end user. Compounding this existing scenario on the intra-regional island traveller is the use of charges and taxes for revenue generating purposes to meet infrastructural, operational and other costs. IATA (2016) emphasizes that “unwarranted or excessive taxation on international air transport has a negative impact on economic and social development” and has further elaborated on the counter-productive effect of increasing air taxes on the regional aviation sector, specifying that “each dollar of ticket tax could lead to over 40,000 fewer foreign passengers” when “taking the islands as a whole” (Seon 2014).

At the regional level, burdensome aviation taxation is evinced within Caribbean SIDS in instances whereby a levy of Value Added Tax (VAT) was applied on international air travel in the form of double taxation (IATA, 2015); or where departure tax was increased recently by 150%, from US$14 to US$35 (Silvera, 2016). Research by the Caribbean Development Bank (CDB) (2015), the Inter-

American Development Bank (IDB) (2015) as well as the Caribbean Tourism Organisation (CTO) (2016) also reveals that increasing government taxes and fees on regional air transport is adversely affecting the development of the industry. The World Tourism Organisation (UNWTO), considers that travel taxes should be scrutinized objectively to avoid excessive burdens on travellers with a view to reducing taxes that have a negative impact on travel and, hence, on tourism and trade development.

There has also been the emergence of an inverse relationship, due to taxation, between the cost of air travel and distance within the region as typically, “a clear linear relationship [exists] between distance travelled and airfares [and as such]; the longer the flight, the more expensive it should be” (Nicholson, 2016). Corollary to this statement, intra-Caribbean airfares should essentially be lower in price than their extra-regional counterparts. However, considering that intra-regional air traffic among Caribbean SIDS accounts for a mere 9% of the total air traffic within the region (Briceño-Garmendia et al, 2015), taxation on short-haul intra-Caribbean air travel is found to be “among the highest in the world, surpassed only by the Pacific region” (Nicholson 2016), which has translated into higher ticket prices for end users.

Research into taxation trends for intra-regional flights among Caribbean SIDS for those extra-regional flights originating from outside of the region demonstrates that the average amount of taxes and fees included in the full fare of a given intra-regional flight is weighted approximately 13 times heavier per nautical mile travelled than for its extra-regional counterpart – although the distance travelled on intra-regional flights is, on average, 11 times shorter. Similar research indicates that on average, the base fare for a short-haul intra-regional flight, which excludes taxes and fees, costs an average of 4.8 times more per nautical mile than an extra-regional flight; this subsequently corroborates the position put forth of the existence of a distortionary market as it relates to air travel prices, due to significant aviation taxation, within the island chain.

These figures give insight to the fact that there are fundamental structural problems with the regional aviation industry reflected by the predominance of high airfares despite covering short distances within the region. Given the important symbiotic relationship between GDP growth and air transport, to cement the success of dependent and related industries, it is critical that the air transport sector within the region is not starved of demand. However, due to current scenarios coupled with low disposable income within the intra-Caribbean region, the cost and hassle of travelling intra-regionally has largely become non-discretionary. It is with this shrinking reality that the region must develop strategic methods of facilitating the growth of the air transport industry given its instrumental economic impact on related industries and services.

In light of the foregoing, regional efforts have been made over the years to redress operational inefficiencies with the aim of enhancing intra-Caribbean air connectivity. These include strides made by the Organisation of Eastern Caribbean States (OECS) to improve intra-OECS air travel through the development of an OECS Multilateral Air Services Agreement (MASA), the identification of inhibiting intra-regional travel factors in a recent study, as well as corresponding recommendations to overcome the latter. The creation of the Aviation Task Force under the CTO represents another important regional effort towards addressing not only the economic and legal aspects of Caribbean aviation, but also safety, security, and customer satisfaction issues.

The current ratio expressed between aviation taxes to base fares presents a continued opportunity for regional civil aviation authorities to monitor, harmonise and enforce taxation measures. There is a need to ensure that the application of aviation taxation measures satisfactorily reflects its economic and social implications for the benefit of the air transport industry and its related infrastructure. Furthermore, continued cooperation between Caribbean airport authorities and global air transport organisations such as IATA and the International Civil Aviation Organisation

(ICAO), with a view to facilitate the implementation of best practices and the enforcement of industry standards for the safe, secure, economic and efficient operation of regional airlines. Additionally, considering that air travel consumers are the ones that ultimately feel the effects of high intra-regional taxes, it is crucial that airline information regarding taxes becomes more transparent in order to facilitate better-informed end-user decisions.

Increasing intra-regional connectivity and mobility via air transport represents an opportunity to unify and transcend barriers across Caribbean SIDS. While aviation taxation is necessary in terms of financing airport operations, it is crucial for key stakeholders to recognise that operational inefficiencies constitute a major hindrance to a more effective, affordable and sustainable travel experience.

Conclusively, there exists an opportunity to treat with current aviation taxation trends among Caribbean island states, towards the promotion of the sustained growth of the intra-regional air travel industry, by raising and adhering to aviation recommendations and standards in conjunction with harmonising airport efficiency

Nnyeka Prescod is the Advisor and Rachael Robinson is the Research Assistant of the Directorate of Transport and Disaster Risk Reduction of the Association of Caribbean States. Any comments or feedback should be submitted to feedback@acs-aec.org