

**ITALY'S UPCOMING 'STABILITY LAW': A UNIQUE OPPORTUNITY TO SUPPORT THE COUNTRY'S  
ECONOMY BY LIFTING TAXES ON AIR TRANSPORT**

**SUMMARY**

This paper sets out a position for the upcoming Italian Stability Law which the Government shall submit to the Italian Parliament by 15 October 2016.

By adopting an evidence-based approach A4E wants to highlight that air transport is an enabler of economic activity and that removing unreasonable passenger taxes would stimulate more economic activity and jobs by creating the right regulatory environment.

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*Airlines for Europe (A4E) is Europe's new and largest airline association, based in Brussels. Launched in January 2016, the association consists of Aegean, airBaltic, Air France KLM, easyJet, Finnair, Icelandair, International Airlines Group (IAG), Jet2.com, Lufthansa Group, Norwegian, Ryanair, TAP Portugal and Volotea, and plans to grow further. With more than 550 million passengers on board each year, A4E members account for more than 70 per cent of the continent's journeys, operating more than 2,700 airplanes and generating more than EUR 100 billion in annual turnover.*

## INTRODUCTION

With its recent decision to suspend the increase of the €2.50 passenger tax (“addizionale comunale”) until 31 December 2016, the Italian Government clearly decided to position itself in favour of the tourism, economy and job growth. This temporary suspension is welcomed by airlines and the tourism industry alike. However, **the additional €2.5 tax needs to be scrapped beyond 2016, together with the entire tax.**

Indeed, A4E strongly supports the permanent removal of the addizionale comunale during the discussion of the Stability Law. Had the government not decided to temporarily lift the additional €2.5, the country could have lost at least 1 million passengers discouraged by higher ticket prices. A4E estimates that this would have put at least 1,000 jobs at risk.

With the upcoming Stability Law, the Government has the possibility to go one step further and remove all unnecessary taxes on passengers. The “addizionale comunale” amounts to €9 per departing passenger in all Italian airports except for Ciampino and Fiumicino where it amounts to €10. **Removing the “addizionale comunale” would lead to lower air fares and therefore a higher number of passengers, economic growth and jobs.**

## AIR TRANSPORT IS A KEY ENABLER OF ITALIAN ECONOMIC ACTIVITY

A recent study demonstrates that the air sector is a significant enabler of economic activity all around Europe. Evidence<sup>1</sup> suggests that the aviation industry enables €1 trillion of economic activity across the EU. The civil aviation sector itself now accounts for 1.5 % of EU GDP. The liberalisation of air transport in the EU is estimated to have boosted EU GDP by as much as 4.0 %. Increased air transport leads to more travel, more investment, more trade and ultimately increased job and growth.

If one considers that travel and tourism directly supports approximately 5% of the Italy’s total employment and contributes indirectly to around 12% of employment, an increase in tourism numbers, supported by a removal of the current taxes on air travel, would help create more jobs, bring more growth as well as contain the current Italian unemployment rate, which is 11.4 %.

Tourism’s contribution to the Italian GDP, heavily underpinned by air transport, is currently at 4.2% and has the potential to grow further, if only the Government adopts the right decisions. According to the UN World Tourism Organisation, France and Spain are the world’s 1<sup>st</sup> and 3<sup>rd</sup> most popular tourist destinations, while Italy ranks 5<sup>th</sup>. Taxes in France and Spain are significantly lower than in Italy.

## AMPLE EVIDENCE IN EUROPE OF AIR TRAVEL TAXES’ DETRIMENTAL EFFECT

In Europe, there are several examples which support the lifting of air travel taxes. Positive effects have been observed in Ireland where by removing the aviation tax, the number of Northern Ireland residents flying from Dublin increased by 52% in the first year.

In the Netherlands, the government had the foresight to abolish its aviation tax after just one year after its implementation in 2008 because of the detrimental effect its tax was having on the wider economy. There is clear evidence that the tax led to a significant drop in the number of passengers using Dutch airports<sup>2</sup>. Similarly, Scotland is cutting the Air Passenger Duty (APD) by 50%, because the tax implies an annual £200 million loss in tourism expenditure alone.

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<sup>1</sup> Measuring the economic contribution of air travel in the EU, Frontier Economics, 2015

<sup>2</sup> The economic impact of Air Passenger Duty, PwC, 2013

Conversely, the Norwegian Government decided last summer to introduce an air transportation tax equivalent to NOK 10/€8.5, on departing passengers for both domestic and international flights. This is now having a harmful impact on Norway's economy and its airline industry. Namely, the tax is reducing the overall demand for air transport by 5%, which roughly equals to 1.28 million passengers, according to A4E's estimates.

Finally, analysis of the benefits of removing the passenger tax in the UK shows that the additional sources of Government revenue, primarily from increased trade, investment and productivity would outweigh the lost revenue from removing the tax<sup>3</sup>. So not only would removal of the tax be good for growth and jobs, it would also improve the fiscal position.

**Taxing air passengers hurts growth and jobs, and limits the social value passengers receive from aviation. It is particularly damaging in a country such as Italy which has a significant tourism sector.**

**A4E therefore asks the Italian Government to consider the long-term impact on the country's economic activity and to support growth and jobs, as well as the tourism sector, by removing the "addizionale comunale".**

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<sup>3</sup> The economic impact of Air Passenger Duty, PwC, 2013