

Taxes hammering Africa's aviation

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22 Apr 2013

Government policies towards aviation in Africa tend to see it as an "elite" product, rather than as a critical component of the continent's economic infrastructure.



As a result the aviation sector is heavily taxed - often in violation of International Civil Aviation Organisation's principles which prohibit the taxation of jet fuel for international operations, the International Air Transport Association (IATA) says.

The increasing cost of jet fuel has contributed to the demise of some African airlines in recent times. In SA in particular, budget airlines have struggled to stay in flight in part because of rising fuel costs. Low-cost carriers Velvet Sky and 1time are the two most recent airlines to close down.

Addressing members of the Cape Town press club last week ahead of the IATA annual general meeting which begins in June in Cape Town, Tony Tyler, the director-general and chief executive of IATA, said that buying aviation fuel in Africa is about 21% more expensive than the global average.

"That is a huge cost burden. On average, fuel is about a third of an airline's cost structure. In Africa fuel accounts for 44% of costs. Much of the problem is driven by policies and regulations," Tyler said.

He said on top of this, the money collected in taxes on the industry's fuel bill is not reinvested to support aviation.

"So we have infrastructure problems. Supply disruptions are frequent. And the cost to use the infrastructure is among the highest that airlines face when compared with other regions," he said.

Last year, 1time's former business rescue practitioner, Gerhard Holtzhausen, blamed the Airports Company SA (Acsa), 1time's largest creditor, for the airline's collapse. 1time owed Acsa about R147m at the time.

In November last year, Acsa acknowledged that its tariffs were high and said that for three years after 2015 they would drop by about 13% per year. The company admitted to Parliament that SA's airport tariffs were among the 10 highest in the

world.

Tyler said aviation was a tough business and that it was amazing that airlines expected to make any money at all this year.

"This year we estimate that airlines will turn a combined profit of about US\$10.6bn. That sounds like a lot. But on expected revenues of US\$671bn it's a net profit of just 1.6%," he said.

"The performance of the African industry parallels the global trend. For 2013 we expect the continent's airlines to earn about US\$100m in profits. And that equates to an earnings before interest and taxes of just 1%," said Tyler.

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