

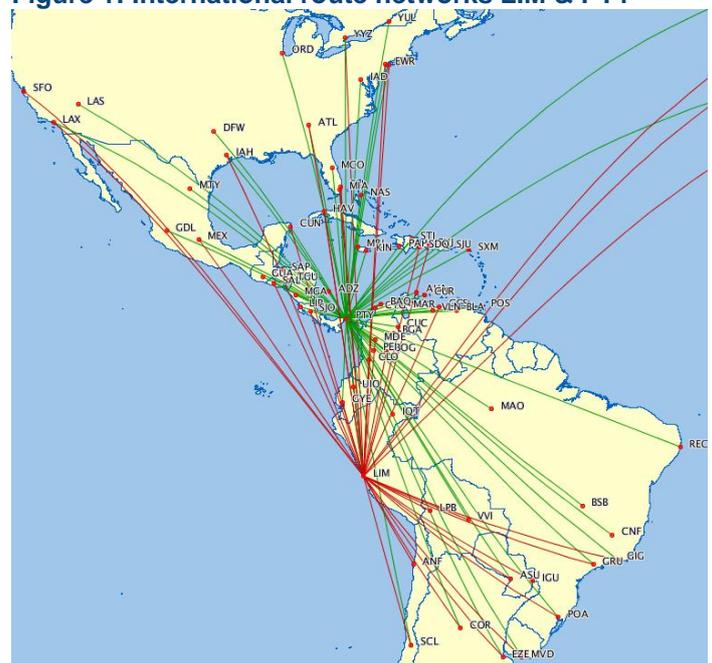
# IATA ECONOMIC BRIEFING

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## THE IMPACT OF AN INTERNATIONAL TRANSFER PASSENGER CHARGE IN PERU

- Jorge Chávez International Airport in Lima is a connecting point for many passengers travelling between North & South America as well as within the South American continent, as can be seen from the red route lines on Figure 1.
- As outlined in Table 1 below, the imposition of a USD31 charge per international transfer passenger at Jorge Chávez would increase the round-trip cost of travel for these travelers by an average 5%.

Figure 1: International route networks LIM & PTY



Source: SRSAnalysers

International transfer passenger travel cost	2011
Average return cost of travel via Peru, USD	1,242
Additional transfer pax charges, USD*	62
Increase in cost of travel	5.0%

\*assumes transfer via Peru on return leg

Table 1. Sources: Pax-IS (airfare), airline websites (surcharges)

- Connecting via the hub in Lima is not the only option available to transfer passengers. For example, many of the same journeys could be arranged by connecting at the Tocumen hub in Panama, as can be seen from the green route lines in Figure 1. If faced with similar end-to-end journey times via different connecting points, passengers are likely to choose the cheaper option. As such these transfer passengers will be very sensitive to changes in travel cost.
- Given this high sensitivity, a 5% rise in travel cost via the Lima hub could lead to a fall in transfer passenger demand in the range of 15-20%, as outlined in Table 2.

International transfer passenger travel demand	Low	High
Increase in cost of travel	5%	5%
Price elasticity of transfer passenger demand	-3	-4
% fall in passenger numbers due increased cost	-15%	-20%

Table 2. Sources: Elasticities derived from M. Kouwenhoven, E. Kroes, J. Veldhuis, "Forecasting the impact of a ticket tax in the Netherlands", published by Association for European Transport and contributors, 2008.

- There is limited quantitative data available on the price sensitivity of transfer passengers. For this analysis two scenarios based on lower and higher assumed price sensitivities have been assessed. These price sensitivities have been derived from demand impact analysis done on transfer passenger charge proposals in the Netherlands and are representative of what could be expected for the Peruvian transfer passenger market.
- A fall in demand of this magnitude would result in approximately 190,000 to 260,000 fewer international transfer passengers connecting at Jose Chávez each year. This reduced level of demand would negatively impact airline and airport operators located in Peru, as well as their supply chains.

- Transfer passengers flowing through the Lima hub play an important part in ensuring the economic viability of routes connecting Peru to international destinations. The fall in transfer passenger numbers may make some of these routes uneconomic, forcing their closure. This would negatively affect Peru's connectivity to international markets, hurting tourism, business and trade activity.
- Table 3 summarizes the combined impact to the Peruvian economy flowing from the fall in transfer traffic. The industry's overall contribution to GDP would fall by USD 17-23 million and 1,200-1,600 jobs would be at risk. In addition to these GDP and employment impacts, the sector's existing contribution to public finances would fall by USD 14-18 million, negating half of the USD 32-34 million revenues raised from the transfer charge.

<b>Impact on economy, 2011 base</b>	Low	High
Reduced contribution to GDP, USD million	-17	-23
Reduction in employment, jobs	-1,168	-1,558
Reduction in annual contribution to public finances, USD million	-14	-18

*Table 3. Source: Input-Output model built for IATA by Oxford Economics*