

Alaska State Jet Fuel Tax Exemption for International Flights

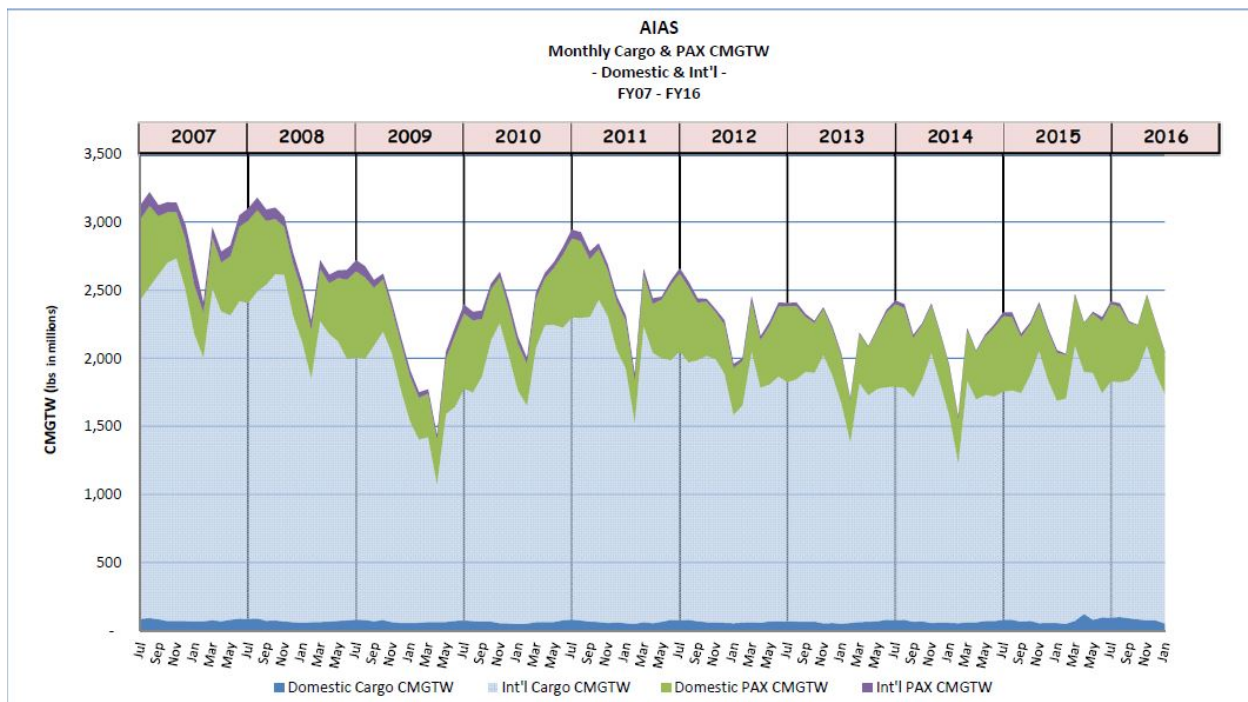
Since 1957 the motor fuel tax in Alaska has included a separate rate for jet fuel, with an original rate of \$0.015 per gallon. The tax rate for jet fuel has since been increased twice; first to \$0.025 in 1968 and again in 1994 to its current rate of \$0.032. The international flight fuel tax exclusion is a critical element to the success of the Alaska International Airport System (AIAS) and remains in use today.

The tax exemption for jet fuel used in foreign commerce provides Ted Stevens Anchorage International (ANC) and Fairbanks International (FAI) airports a competitive advantage in attracting and retaining international cargo flights. Location is a key factor in Alaska's competitiveness in the trans-pacific air cargo market. There are no other airports that provide mid-point servicing stops between the US and Asia. However, there are several factors that pressure air carriers to explore other options which require AIAS to maintain competitive rates and fees.

Most air carriers today have aircraft capable of overflying Alaska. The reason air carriers stop in Alaska is because it is more profitable. How profitable the stop is and how soon new technology in aircraft performance will overcome the profit margin is air carrier specific and information that is typically not shared outside of the company. Although the exact impact of the exemption on profit margins is not known, any cost increase puts negative pressure on the bottom line. FedEx, for instance, has reduced its flights to ANC in the past several years by using a B777 aircraft to fly direct from northern Japan to Memphis. Should the Alaska jet fuel exemption for foreign flights be removed, FedEx could possibly decrease operations in Alaska in favor of their Japan operations.

Air cargo carriers typically operate with a small profit margin or at a loss in some circumstances. The record profits reported in the airline industry recently have been primarily passenger airlines. China Airlines, for example, recently reported increases in their passenger business and a loss in their air cargo business. China Airlines and similar companies could shift their business models to reflect the most profitable operation. For example, there is a world-wide pilot shortage and air carriers must decide where to use their limited pilot resources. Filling passenger operations and leaving cargo operations short is the most logical and easiest decision to make. Any cost increases in Alaska puts negative pressure on companies' resource decisions and could result in fewer cargo flights to Alaska.

Global markets and conditions have large and direct impacts on international air commerce. The recent slowing of China's economy has resulted in lower cargo volumes transiting Alaska. The volatility of the market since 2007 is reflected in the following AIAS graph. The graph depicts total aircraft weight, which is a good revenue indicator since landing fees are based on aircraft weight.



The light blue area on the graph shows cargo traffic fluctuations which match U.S. and Asian market trends. The 2009 recession is evident, as is the slow economic decline from 2011 to 2014. AIAS manages changing market conditions by working closely with air carriers to establish rates and fees that economically make sense for AIAS and air carriers. This has been an excellent business model for AIAS, as all cargo carriers that operate in the trans-pacific theater operate in Alaska and all new entrants in the market have included Alaska in their route structures.

The purple area in the above graph depicts international passenger aircraft weight. The loss of international passenger service over the past 10 years was due to overflight of Alaska after the opening of Russian airspace; a service stop in Alaska was no longer profitable. Although this particular factor could not be compensated for by any AIAS financial scheme, it is a clear indicator of what might happen if cargo aircraft overflights increase.

Other airports compete for Alaska's business, but they have only been successful when offering strong incentive packages. These incentives have a limited duration and have had a relatively minor effect on drawing business away from Alaska. Should the tax exemption for fuel used in foreign flights be lifted, Alaska's competing airports would gain significant ground. It is reported by several air carriers that jet fuel at ANC is already five to ten cents more expensive on average than our west coast competitors. The typical refueling of a B747-8 at ANC is 26,414 gallons of jet fuel; taxed at a rate of \$0.10 that amounts to \$2,641.40 per aircraft. That would be the equivalent of raising the landing fee for those aircraft by 219%. Previous landing fee increases of as little as 10% have involved significant concern from air carriers.

The tables below show a comparison of some common airport fees for a B747-8 technical stop at ANC and select west coast competitors and recent changes from 2013 to 2016.

Cost Per Landing B747-8 (CY2013)

	Anchorage	Seattle	Portland	Vancouver
*Aircraft Weight (pounds):	987,000	675,000	675,000	987,000
Fuel Upload (gallons):	26,414	26,414	26,414	26,414
Fuel Flowage Charge (US\$):	\$713.18	N/A	N/A	N/A
Landing Charge (US\$):	\$2,191.14	\$2,126.25	\$2,180.25	\$2,447.76
2 Hour Parking Charge (US\$):	\$154.28	\$100.00	\$0.00	\$0.00
Total:	\$3,058.60	\$2,226.25	\$2,180.25	\$2,447.76

Cost per Landing B747-8 (CY2016)

	Anchorage	Seattle	Portland	Vancouver
*Aircraft Weight (pounds):	987,000	675,000	675,000	987,000
Fuel Upload (gallons):	26,414	26,414	26,414	26,414
Fuel Flowage Charge (US\$):	\$713.18	N/A	N/A	N/A
Landing Charge (US\$):	\$2,497.11	\$2,409.75	\$2,362.50	\$1,652.00
2 Hour Parking Charge (US\$):	\$164.02	\$100.00	\$0.00	\$0.00
Total:	\$3,374.31	\$2,509.75	\$2,362.50	\$1,652.00

*Anchorage and Vancouver use maximum takeoff weight to calculate landing fees, while Seattle and Portland use maximum landing weight.

Landing fee changes 2013 to 2016:

- Anchorage increased from \$2.22 to \$2.53 per 1,000 pounds maximum takeoff weight
- Seattle increased from \$3.15 to \$3.57 per 1,000 pounds of maximum landing weight
- Portland increased from \$3.23 to \$3.50 per 1,000 pounds of maximum landing weight
- Vancouver decreased from \$1.86USD to \$1.67USD per 1,000 pounds of maximum takeoff weight

Parking Fees:

- The parking fee at Anchorage is for up to 4 hours
- The parking fee for Seattle is \$100 for a technical stop of up to 2 hours
- The parking fee at Portland is \$0 for up to 2 hours
- The parking fee for Vancouver is \$0 up to 6 hours

Note: the exchange rate US to Canadian dollars was about 1:1 in 2013 and in Feb 2016 was 0.75:1, making a tech stop in Canada more competitive from a cost perspective.