



**WORKING PAPER**

**TENTH SESSION OF THE STATISTICS DIVISION**

**Montréal, 23 to 27 November 2009**

**Agenda Item 3: Air carrier financial data**

**IMPACT OF REPORTING OF AIR CARRIER FINANCIAL DATA ON  
TRAFFIC FORECASTS - SURCHARGES**

(Presented by the Secretariat)

**SUMMARY**

Fuel surcharges are increasingly becoming a significant factor in the operating revenues of an air carrier. Non standardized reporting and accounting of fuel surcharges have the potential to impact the analytical and forecasting activities of ICAO. Hence the Fourteenth Meeting of the Statistics Panel (STAP/14) recommended appropriate amendments to the current reporting form EF to include fuel and similar surcharges in the reporting instructions associated with form EF to clearly define under which item fuel and other surcharges should be reported.

Action by the conference is in paragraph 5.

**1. INTRODUCTION**

1.1 This paper deals with the non-standardized reporting rules of financial items in the income statement of the air carriers and the impact it may have on the analysis and forecasting activities of ICAO.

**2. FUEL SURCHARGES**

2.1 By definition, a surcharge is an additional amount added to the usual cost of a product. In the event of high fuel price increases, air carriers usually introduce a fuel surcharge to counterbalance rise in their fuel costs. These surcharges are an amount paid by the air carrier customer, in addition to the quoted air fare, and they can be quite significant, as during the last oil crisis of the first half of 2008, they were ranging from 10 to 25 per cent of the usual fare charged by the air carrier. Therefore, it is important to know how these surcharges are shown in the air carriers profit and loss statements, and more specifically in the data submitted to ICAO when reported as air carriers financial data in Form EF.

2.2 Moreover, considering that these surcharges could also be revoked by the air carriers when the fuel prices are declining, the initial accounting treatment will also be impacted by the periods during which the fuel surcharge has been revoked.

### 2.3 **General accounting treatment for fuel surcharge**

2.3.1 The method of accounting as prescribed in national accounting standards vary from State to State. However, internationally adopted accounting standards like the International Financial Reporting Standards (IFRS)<sup>1</sup> and the U.S. Generally Accepted Accounting Principles (GAAP) require that surcharges should be part of the operating revenues. By definition, surcharges are operating revenues that are matched by an increase in the costs of operations, which are in this case the air carriers fuel costs. Considering the substantial global amounts of these fuel surcharges, internationally adopted accounting standards do not permit the netting of these surcharges with the fuel costs. Hence, the fuel costs have to be reported without being reduced by the corresponding amount of the fuel surcharges, which means that fuel surcharges need to be reflected as operating revenues and not as non-operating revenues.

2.3.2 Even under the broad category of operating revenues, there is still potential ambiguity for the air carriers on the classification of fuel surcharges.

## 3. **OTHER SURCHARGES**

3.1 In addition to fuel surcharges, other surcharges can be applied, such as baggage surcharge linked, for instance, to fuel price increase (as it was recorded during the last oil crisis in 2008), or even insurance surcharges that were applied during specific times, such as during the Iraq war in 1991 or after the 11 September 2001 attacks.

3.2 While the baggage surcharges are classified under the item “excess baggage”, it is more difficult to classify the insurance surcharge or any other type of surcharge that could be implemented under special circumstances.

## 4. **IMPACT ON KEY INDICATORS AND FUTURE FORECASTS DUE TO DIFFERENCES IN REPORTING**

4.1 Different methods in accounting or reporting fuel surcharges have the potential to impact passenger revenues and operating yields as well as unit costs as seen in the table below. These, in turn, distort analytical results and benchmarking across carriers in each State or in each Region.

<b>Accounted as</b>	<b>Will Impact</b>	<b>Will Change</b>
Non-operating item	Operating and passenger revenues	Operating and passenger yields
Reduction in fuel costs	Operating costs, operating and passenger revenues	Unit costs, operating and passenger yields
Separately under other revenues as part of operating revenues	Passenger revenues	Passenger yields

<sup>1</sup> More specifically the related IFRS standard: International Accounting Standard (IAS 18) which deals with the Recognition of Revenues.

4.2 For statistical reporting purposes, Form EF defines passenger revenues as “*all revenues earned from the transportation of passengers on scheduled flights, after the deduction of applicable discounts and rebates and interline prorated through-tariff*”.

4.3 There is no clear indication for the carriers on how to report monies related to fuel or other surcharges received from the passengers, which means that each carrier will follow its accounting rules. This lack of instruction could affect the traffic forecasts. The key independent variables in most passenger traffic forecast models, the economic parameter (usually the GDP), the ticket price, represented as a proxy by the passenger yield, can be another important driver. Thus, major fluctuations in yields, as it appeared during the last oil crisis in 2008, will definitely impact the price elasticity and hence the forecast output.

4.4 It is therefore suggested that appropriate reporting instructions on accounting of surcharges be added to the current instructions on passenger revenues specified in the ICAO financial data reporting Form EF. Since fuel surcharges represent a price adjustment, it could be recommended that air carriers should include them with passenger revenues, regardless of the fact that they may be accounted for under a special operating revenue account.

4.5 *Recommendation of the Fourteenth Meeting of the Statistics Panel (STAP/14-13)*. The Panel recommended appropriate amendments to the current reporting form EF to include fuel and similar surcharges in Form EF.

## 5. ACTION BY THE DIVISION

5.1 The division is invited to recommend that the current reporting instructions for passenger revenues appearing in Form EF under Items 1.1 and 2.1 be amended as follows:

- a) *Passenger (Item 1.1)*. Include all revenues earned from the transportation of passengers on scheduled flights, after the deduction of applicable discounts and rebates and interline prorated through-tariffs. In the case of promotional offers (i.e. “two-for-one”), the gross passenger revenue for both tickets is to be charged with the applicable discount so as to reflect the net revenue of the value of one ticket. For passengers travelling on tickets issued in exchange for frequent-flyer points, a nil revenue is to be entered. Also include monies collected from air passengers on surcharges of fuel and other surcharges that results in revenues retained by the air carrier i.e. where the carrier does not have the obligation to pass on the amounts so collected to the government or any other entity.
- b) *Passenger and excess baggage (Item 2.1)*. Include gross revenues derived from the air transportation of passengers and excess baggage on non-scheduled flights. Also include monies collected from air passengers on surcharges of fuel and other surcharges that results in revenues retained by the air carrier i.e. where the carrier does not have the obligation to pass on the amounts so collected to the government or any other entity.

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