



WORKING PAPER

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND
AIR NAVIGATION SERVICES**

Montréal, 15 to 20 September 2008

Agenda Item 2: Specific issues related to airport economics and management

2.2: Cost basis for charges

2.3: Cost allocation and charging systems

**COST BASIS, COST ALLOCATION AND
CHARGING SYSTEMS**

(Presented by Airports Council International (ACI))

SUMMARY

Airports require flexible charging systems to respond to the dynamics of the aviation industry and the needs of airport users. Raising the level of cost-relatedness of charges simplifies the charging system and introduces a commercial element in setting charges. Appropriate safeguards may be necessary to protect non-discrimination and transparency, but should not reach as far as requiring agreement on charges between providers and users. Passenger service charges are related to the cost of processing the passenger at the airport. Their definition and application should allow maximum flexibility to promote commercial approaches in provider/user relationships.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 Airports offer a variety of services they charge their users for including runways, aircraft stands, boarding bridges, terminals, security, and other services. Depending on the kind of service provided, charges are either aircraft related or passenger related. These charges are collected on a per aircraft and per passenger basis respectively.

1.2 Instead of charging for each service category separately, an airport may prefer to integrate various charges into one single charge derived from a single cost basis. Additionally, airports may define costs related to processing passengers in varying degrees which may lead to a shift from per aircraft to per passenger charging.

¹ Language versions are provided by ACI.

2. DISCUSSION

2.1 Airport charges have evolved as an important commercial tool to attract new aircraft operators or new air services. It is in the interest of airports and aircraft operators to simplify the structure of charges and not itemize every single service the airport provides and charge and account for separately. Paragraph 26 v) of Doc 9082 encourages the principle of a single cost basis for landing and take-off charges. This principle should be considered for application at the airport level, particularly at smaller and medium sized airports.

2.2 ICAO policy requires airport user charges to be cost-related and allows for a reasonable rate of return on those charges. As a result, there is only limited scope for airports to compete on the actual level of charges. It is therefore all the more important that airports are given the flexibility to modulate their charges for the benefit of an efficient use of the airport facilities and in the interest of aircraft operators who prefer low aircraft related charges to minimize their fixed cost.

2.3 Passenger Service Charges should be related to the overall cost of processing the passenger at the entire airport, not only for the use of specific facilities. Whereas passenger and aircraft related charges would remain cost-related, enhanced flexibility within and between the individual cost bases is desirable to offset a certain degree of risk for the aircraft operator by making his cost more variable. The airport will benefit by keeping air services that might otherwise be suspended, or by obtaining new services that might otherwise not be introduced.

2.4 User consultation can be one safeguard against discrimination as a potential result from elevated levels of cost-relatedness. The principles of user consultation apply in that consultations are different from negotiations and do not require an agreement between the parties. Reaching agreement with all parties may be impossible to achieve and might thus withhold the benefits of increased flexibility from the airport and its users.

3. CONCLUSIONS

3.1 From the foregoing discussion, the following conclusions may be drawn:

- a) States may consider the application of the principle of cost-relatedness at the airport level rather than at the individual charge level allowing the airport provider, after consultation with all users, to use a single cost basis covering multiple services and charges.
- b) States should allow airport operators more flexibility in defining the cost basis of passenger service charges away from a strict airside/ landside to a more functional, process based approach.
- c) ICAO should amend Doc 9082 to cater for the added flexibility regarding the use of a single cost basis and to broaden the scope of the passenger service charge.

4. PROPOSED AMENDMENTS OF POLICIES

4.1 In accordance with conclusion c) of paragraph 3.1, it is proposed to amend sub-paragraph 23 viii) and to add a first new sentence to paragraph 28 of Doc 9082 as follows:

Airport Charging Systems

23. *The Council recommends that charging systems...*

viii) Maximum flexibility should be maintained in the application of all charging methods to ~~permit introduction of improved techniques as they are developed~~ cater for new commercial approaches as they are developed, accompanied with safeguards, as appropriate, regarding consultation with all parties concerned, as well as the scope of application of such charging methods.

Passenger Service Charges

28. *Without prejudice to paragraph 23 viii), the Council recommends that passenger service charges should be related to the cost of passenger processing, including the cost of security services attributable thereto (unless security services are charged for separately). The Council recognizes that the revenue...*

5. ACTION BY THE CONFERENCE

5.1 The Conference is invited to:

- a) review and adopt the conclusions in paragraph 3.1; and
- b) review and endorse the proposed amendments of Doc 9082 in paragraph 4.1.

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