

# AIR TRANSPORT TAXES, FEES AND CHARGES

## A CHALLENGE IN DEVELOPING COUNTRIES

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Fourth  
ICAO/McGill  
Pre-  
Assembly  
Symposium

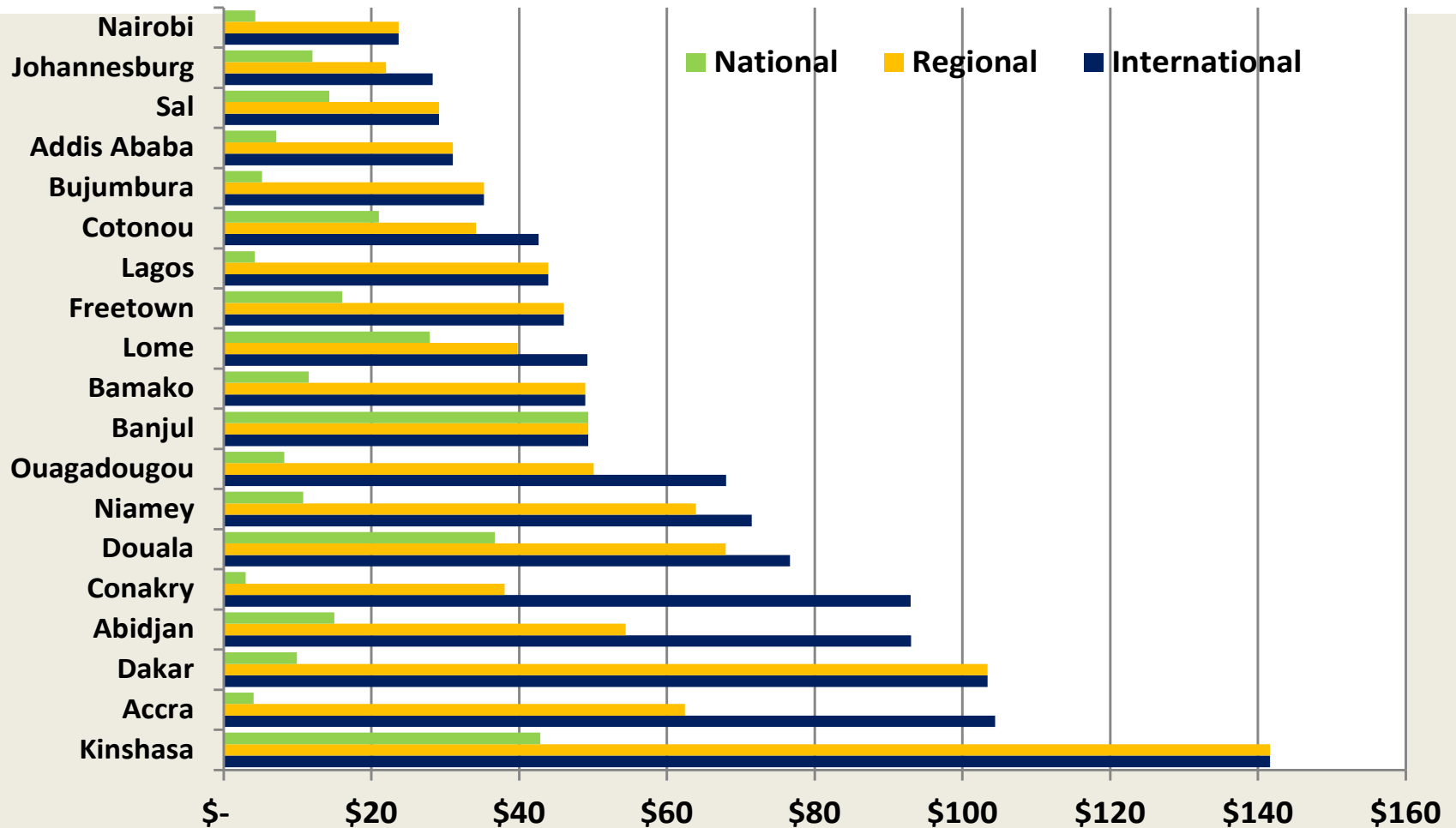
Montreal, 22  
September  
2013

# OUTLINE

- 1 The Problem – Air Transport Fees**
- 2 The Analysis – Airport Economics in Latin America**
- 3 The Bad Examples – Lack of Governance**
- 4 How to address the issue – Aspects of Regulation**

# THE PROBLEM - AIR TRANSPORT FEES

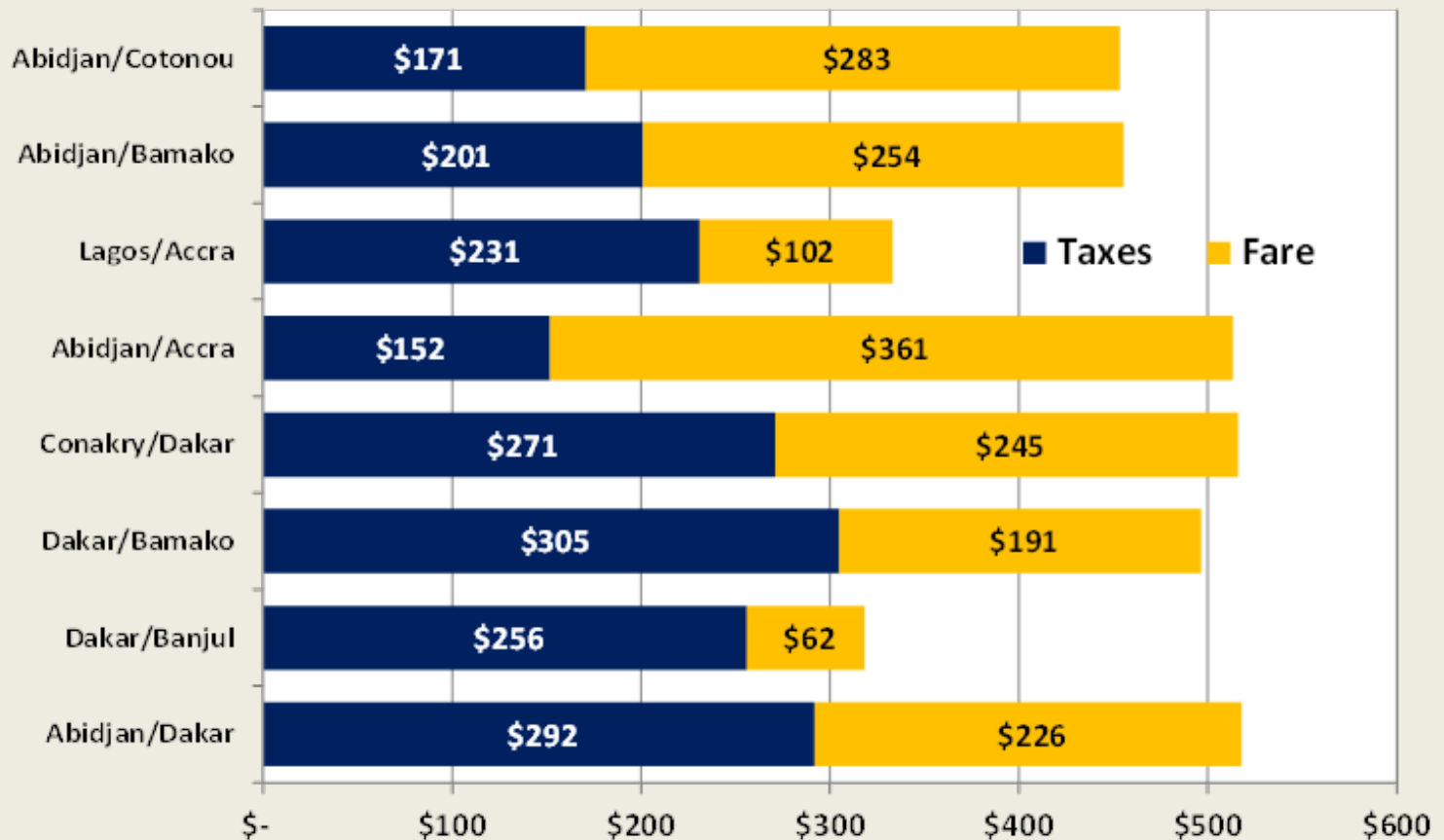
## AIRPORT CHARGES PER PASSENGER \*



\* Using Airbus A319 with 80 passengers on board

Source: ACI, Airport Database

# THE PROBLEM - AIR TRANSPORT FEES LOWEST ECONOMY FARE FOR KEY ON ROUTES (2102)



Source: Senegal Airlines, Arik Air and Air Cote d'Ivoire

# AN ANALYSIS OF AIRPORTS FEES

## AIRPORT ECONOMICS IN LATIN AMERICA

Comprehensive study of how the airports in the LAC region have evolved during the period of transition in the late 1990ies:

- Are Latin American airports technically efficient? How has efficiency evolved?
- How has the level and structure of airport tariffs changed in recent years?
- How do independent regulators compare with government agencies in accountability, transparency, and autonomy?



DIRECTIONS IN DEVELOPMENT  
Infrastructure

Airport Economics in Latin  
America and the Caribbean  
*Benchmarking, Regulation, and Pricing*

Tomás Sebastián

THE WORLD BANK

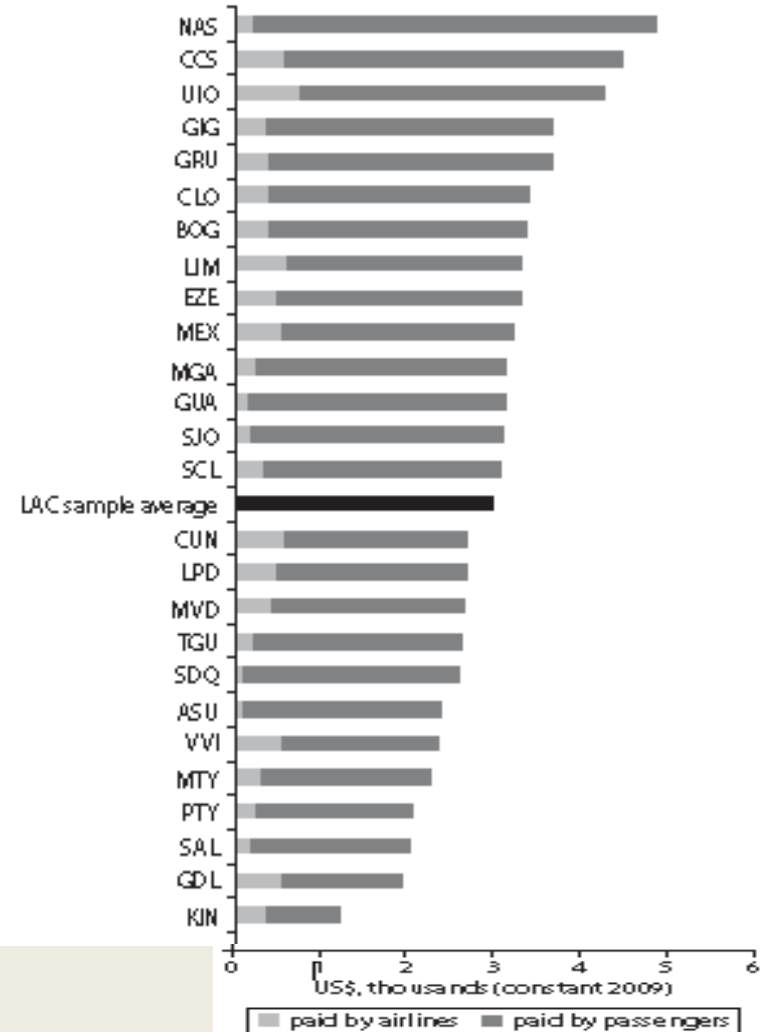
**Free download:** <http://www.ppiaf.org/sites/ppiaf.org/files/publication/Airport-economics-LAC-benchmarking-regulation-pricing.pdf>

# THE ANALYSIS OF AIRPORTS FEES

## AIRPORT ECONOMICS IN LATIN AMERICA

Who is charged how much where? Example of turnaround cost of an Airbus A320:

- Turnaround cost fluctuate fivefold between \$1000 to \$5000
- Passengers are charge directly 80 to 90 percent of cost
- Large airports with more traffic are benefitting from economics of scale – however, charges remain relatively high

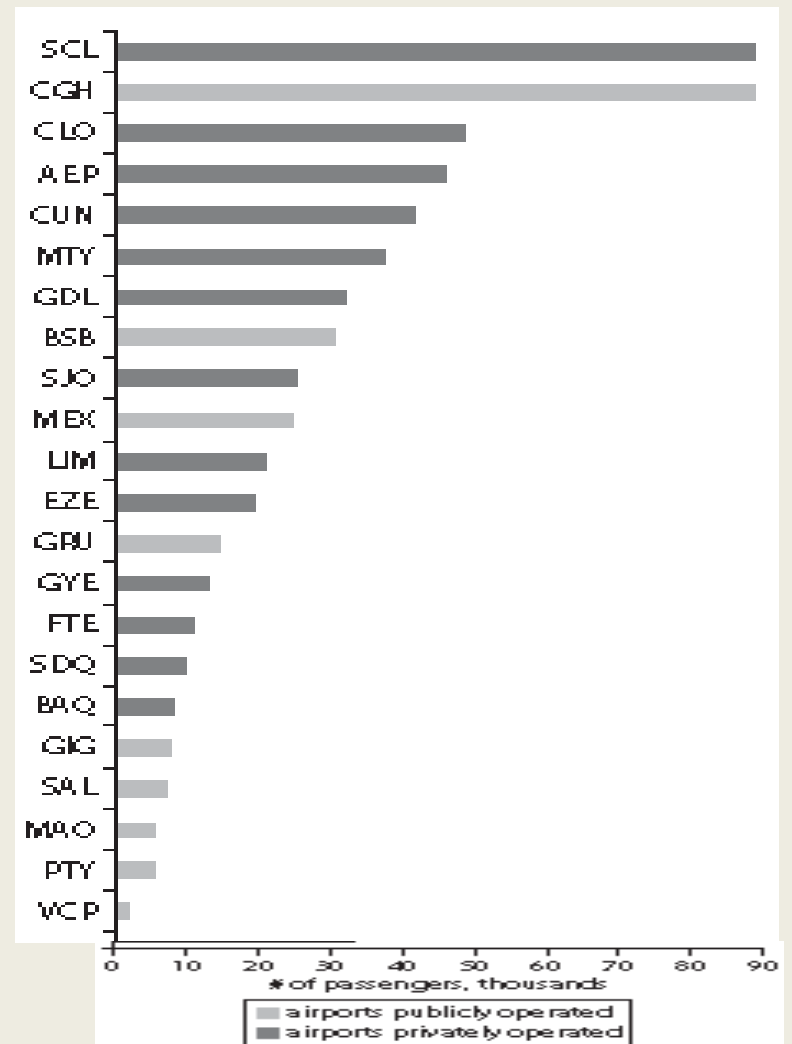


# THE ANALYSIS OF AIRPORTS FEES

## AIRPORT ECONOMICS IN LATIN AMERICA

How efficient are private versus public airports? A look at the number of passengers per airport employee:

- Large fluctuation between large and small airports
- Public airports seem less efficient (less passengers per airport employee)
- But there are good examples of efficient public airports

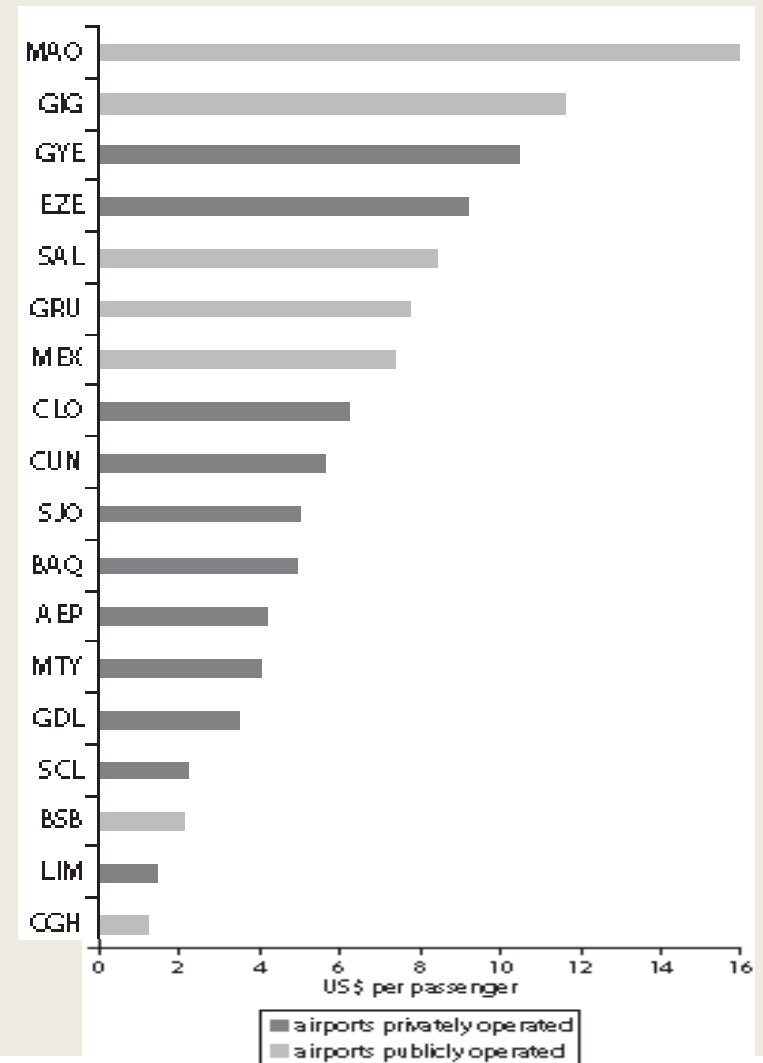


# THE ANALYSIS OF AIRPORTS FEES

## AIRPORT ECONOMICS IN LATIN AMERICA

How profitable are private versus public airports? A look at the operating cost per passengers:

- Public airports generally are less profitable (higher operating cost per passengers)
- Higher number of passengers does not always lead to better profitability in neither, private and public airports



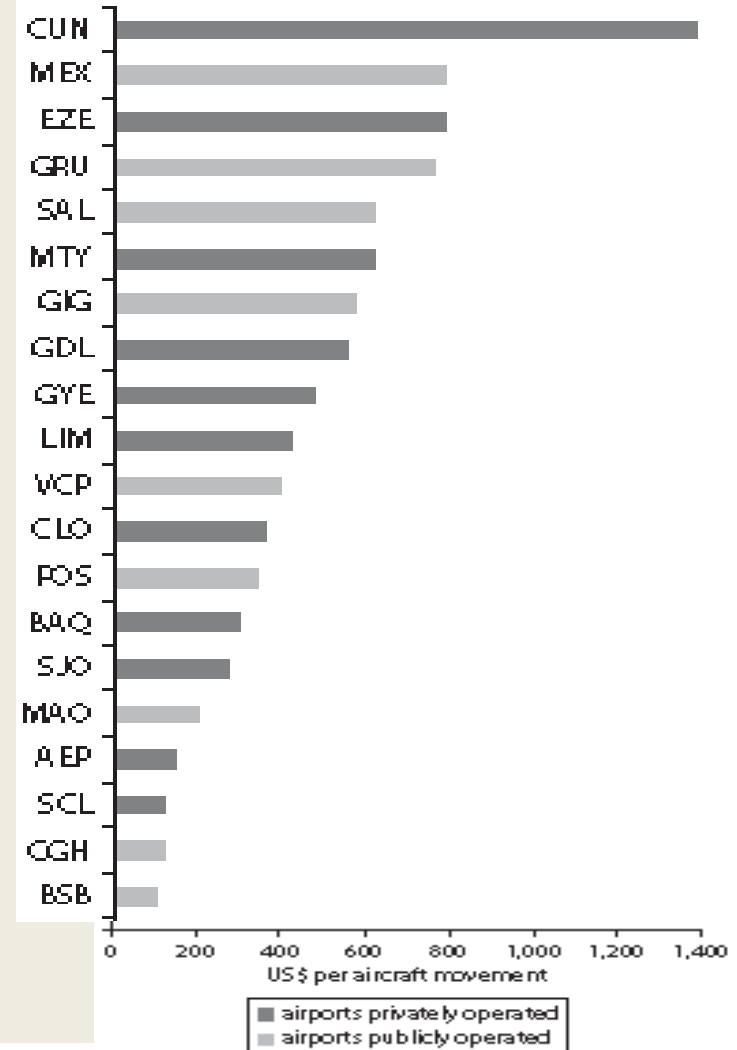


# THE ANALYSIS OF AIRPORTS FEES

## AIRPORT ECONOMICS IN LATIN AMERICA

How expensive are private versus public airports? A look at aeronautical revenue per aircraft movement :

- No clear picture on revenue difference between private versus public airports
- Higher number of passengers leads to higher revenues per aircraft, but type of aircraft might be larger



# AIR TRANSPORT FEES – GOVERNANCE

## OVERFLIGHT FEES AS NATIONAL INCOME

### Example: Central Asian Country

- ➔ Poor country, which suffered war and occupation for decades
- ➔ 40,000 over-flights per year, but only procedural ATC provided
- ➔ ATC Income of \$40 million is most important source for foreign currency and single largest sector in the country by GDP impact
- **Not one dollar goes to the aviation sector, airports, ATC, or to finance the Civil Aviation Authority of the country**



Note: Picture was not taken in the country described

# AIR TRANSPORT FEES – GOVERNANCE

## HIDDEN SUBSIDIES TO NATIONAL CARRIER

### Example: Poor Middle Eastern Country

- ➔ Poor country, which suffered from civil war and unrest for decades
- ➔ Large state-owned airline operating an ageing fleet, being overstaffed and inefficient, resulting in huge losses
- ➔ In average, the carrier suffers from about \$50 million negative cash flow every year
- ➔ Published air traffic control income suggests for about \$50 million unaccounted income given current level of service
- **Income from foreign carriers paid into IATA accounts is directly used to pay for ATC expenses of the national carrier**



Note: Picture was not taken in the carrier described

# AIR TRANSPORT FEES – GOVERNANCE

## EMBEZZLEMENT OF INCOME

### Example: Small Caribbean Island State

- ✈️ Poor country, which suffered natural disasters and political unrest
- ✈️ One major international airport with about one million passengers
- ✈️ Passenger tax of \$25 generate about \$25 million per year, but \$20 million are unaccounted for
- ✈️ Complex scheme of additional embezzlement discovered
- **Embezzled is money used to finance political party, personal travel of officials and their families, and goes directly to airport executives and government officials**



Note: Picture was not taken in the country described

# HOW TO ADDRESS THE ISSUE

## ASPECTS OF REGULATION

Air Transport charges must be regulated, be it by a public or private regulator. The following aspects need to be considered to ensure best possible governance of the sector:

<i>Aspects</i>	<i>Autonomy of decision making</i>	<i>Transparency</i>	<i>Accountability</i>	<i>Quality of bureaucracy</i>
<b>Components</b>	<ul style="list-style-type: none"> <li>- Regulatory powers (e.g., tariffs, quality of service)</li> <li>- Status of agency</li> <li>- Procedures to appoint/remove board members</li> <li>- Budget sources</li> </ul>	<ul style="list-style-type: none"> <li>- Civic engagement in rule making</li> <li>- Consultations</li> <li>- Publication of agency's decisions</li> <li>- E-government</li> <li>- Registry of board meetings and decisions</li> <li>- Publication of job vacancies</li> </ul>	<ul style="list-style-type: none"> <li>- Appeals of agency's decisions</li> <li>- Effects of consultations</li> <li>- Evaluation of agency's performance</li> <li>- Accountability instrument</li> <li>- Performance instrument</li> </ul>	<ul style="list-style-type: none"> <li>- Structure of staff positions within the agency</li> <li>- Educational levels of agency's staff</li> <li>- Publication of vacancies</li> </ul>