



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 the Secretariat)

SUMMARY

This paper discusses two emerging issues with respect to airport cost allocation and charging systems, i.e. using a single cost basis to cover a basket of charges and charging users on a per-passenger basis. Concerns have been raised about their consistency with the principles set out in *ICAO's Policies on Airports and Air Navigation Services Charges* (Doc 9082). The paper concludes that, under appropriate safeguards, cost-relatedness of airport charges could be applied at another level than what is the practice today. This added flexibility would allow airport operators to modulate charges derived from a single cost basis or a few cost bases. It is also concluded that the option to recover aircraft-related costs through passenger-based charges should be considered with great caution because of the impact on cost-relatedness, transparency and consumer protection. In that context, certain amendments of Doc 9082 are proposed.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 Airport operators have developed various kinds of cost allocation methods and charging systems, according to the regulatory requirements, business needs and specific circumstances. Many of those methods and systems are consistent with the principles set out in *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) such as cost-relatedness in the setting of charges, non-discrimination in the application of charges, transparency in the cost basis for charges, consultation with users, and no cross-subsidization between services. However, some of the new methods and systems being applied by airport operators may not be consistent with some of these principles.

1.2 This paper discusses two emerging issues: a) using a single cost basis to cover several or a “basket” of charges; and b) charging users on a per-passenger basis by recovering aircraft-related costs through passenger-based charges. It also reviews the current relevant text of Doc 9082.

2. DISCUSSION

2.1 Paragraph 22 of Doc 9082 states that the proportion of costs allocable to various categories of users should be determined on an equitable basis, so that no users shall be burdened with costs not properly allocable to them according to sound accounting principles. Elaborating on the policies, the *Airport Economics Manual* (Doc 9562) provides a detailed discussion on establishing the cost basis for individual charges, both with respect to aeronautical and non-aeronautical activities. The guidance on cost allocation should apply regardless of whether an airport has adopted a single or dual till approach in setting charges.

Single cost basis for different charges

2.2 Traditionally, once the costs attributed to civil air traffic have been determined, they are allocated into cost bases for individual charges. In this way, each charge is derived from a specific cost basis. Doc 9562 describes possible cost bases for 11 different types of charges.

2.3 In recent years, a different approach has emerged, by which airport operators are using a single cost basis or a small number of cost bases for different charges purposes instead of establishing different cost bases for each type of charge. Although there is no particular policy on this issue in Doc 9082, airport operators may establish broader cost bases for charging purposes, as noted in Doc 9562.

2.4 Paragraphs 4.31 and 4.32 of Doc 9562 conclude that the range of costs which make up the cost basis for individual charges on air traffic will depend on the number of types of charges the airport levies; accordingly, the fewer the charges, the broader the cost basis will be for each charge. For example, the cost basis for landing charges may cover the cost of runways and taxiways and their associated lighting, ramp parking stands, fire-fighting and ambulance services, air traffic control, meteorological services, security services, and ground access facilities and services.

2.5 The idea of using one cost basis to cover a basket of charges raises the issue of the level at which it is appropriate to consider the cost-relatedness of airport charges. If cost-relatedness was to be applied to an airport at another level than what is currently practiced, then the airport operator could establish a block of cost bases for different charges purposes. This possibility would give airport operators, in particular small- and medium-sized airports, a tool to modulate the charges covered by the cost bases in order to support the desired development of their airports. With a view to facilitating a more commercialized approach in setting airport charges and to simplify the charging system, States may consider raising the level at which cost-relatedness is established for an airport.

2.6 This added flexibility may, in turn, cause concerns regarding transparency and discrimination in the application of charges. Such flexibility should therefore be accompanied by appropriate safeguards, for example: the limitation of the application of enlarged cost bases to airports with homogeneous services used by homogeneous users, consultation and, to the extent possible, agreements with users before any decision is taken on their implementation.

2.7 In order to cater for this added flexibility in cost-relatedness, sub-paragraph 23 viii) of Doc 9082 should be amended. Currently this sub-paragraph addresses the flexibility in the application of charging methods but such flexibility is allowed only “to permit introduction of improved techniques as

they are developed”. It would therefore be appropriate to add some text about the safeguards required to accompany this new charging method in order for it to remain consistent with ICAO’s policies.

Passenger-based charges

2.8 Doc 9562 explicitly notes that an allocation system should be designed to associate costs with those users that most directly consume the services in question. For example, passenger service charges should generally be limited to the cost related to the processing of passengers in the passenger terminal, to related security services (if not charged for separately), and to the cost of ground access facilities and services attributable to passenger terminal access. To the extent that aerobridge costs are not included in the cost basis attributed to aircraft operators, these costs can also be included in the passenger service charges.

2.9 At some airports, aircraft-related costs are now incorporated in passenger charges. Passengers are therefore required to pay for these costs, which have historically been allocated to aircraft operators, through some form of a passenger charge. Such a practice raises concerns regarding, *inter alia*, the principles of transparency and cost-relatedness. Airside costs are driven by aircraft operations and are only indirectly related to the actual number of passengers through aircraft size. Allocating airside costs on a per-passenger basis and then passing the costs on to the passengers through passenger charges creates therefore a cross-subsidization from passengers to aircraft operators, reduces transparency in the allocation of costs to the various users and is not in line with the principle of cost-relatedness of charges. Shifting large portions of aircraft-related costs to passengers may also raise concerns in relation with the protection of consumer interests. Compared with aircraft operators, passengers are more diverse and are not organized to provide a similar form of participation in the consultation process. Furthermore, from an airport perspective, recovering airside costs from passengers could raise some uncertainty as to the flow of revenue to be expected. This is because the level of revenue would depend directly on the volume of passenger traffic, which can fluctuate more than the number of aircraft movements.

2.10 Because of the concerns described above, the shift of aircraft-related costs to a passenger-based charge should be considered with great caution. In any event, in order to ensure that the existing passenger service charges are well defined and limited to services provided in and around terminal buildings (landside facilities and services), paragraph 28 of Doc 9082 should be expanded with a description of the costs which would normally be included.

3. CONCLUSIONS

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

- a) States may consider applying the principle of cost-relatedness of airport charges at an airport level rather than at an individual charge level so that airport operators can use a single cost basis to cover a basket of charges. This flexibility should be accompanied by appropriate safeguards regarding, for example, consultation with users and the scope of application.
- b) States should take a cautious approach to charging schemes, including various forms of passenger-based charges, that reduce transparency and cost-relatedness of charges.
- c) ICAO should amend Doc 9082 to cater for the added flexibility regarding the use of a single cost basis and to provide a description of the costs that should be included in the passenger service charges.

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 and agreement from all parties concerned, as well as the scope of application of such charging methods.*

Passenger service charges

28. *The Council recommends that passenger service charges should be based on the cost of passenger terminal facilities that are attributable to passenger processing, including the cost of security services attributable thereto (unless security services are charged for separately), and the cost of ground access facilities and services attributable to passenger terminal access. To the extent that aerobridge costs are not included in the cost basis attributed to aircraft operators, these costs can also be included in the passenger service charges. The Council recognizes that the revenue accrued from passenger service charges is essential to the economy of a significant number of airports. Frequently, however,*

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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