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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

Agenda Item 2.5: Financing and cost recovery of security measures

SOLUTIONS FOR SECURITY FINANCING AND COST-RECOVERY

(Presented by the International Air Transport Association (IATA))

SUMMARY

ICAO Policies on Charges include relevant recommendations for States on how security costs should be recovered at airports. IATA agrees with the ICAO Secretariat's WP/11 that the main problem is one of implementation, especially as regards certain specific State functions like policing, or the need for transparency and cost-relatedness in security charges. In principle, however, national defence and funding of measures, which aim to protect society at large remain a fundamental responsibility of States. Monitoring of the allocation of security costs between public and private entities should be determined within independent supervisory bodies created in each State.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 The air transport industry in many parts of the world is confronted with an unprecedented crisis, which might re-shape the Industry and air transport. While the price of oil is largely to blame for much of the current crisis, seven years of uncoordinated, non-harmonized, costly and often unnecessary security regulations have strongly contributed to the current problems. Inconsistent application and development of security programmes around the world create competitive distortions. In addition, airlines are further penalized by shouldering the burden of security costs. The current situation determines the need for specific cost accounting. This is therefore an appropriate time to review the situation of security funding.

1.2 WP/11 by the ICAO Secretariat recognizes that the existing policies for the cost recovery of security measures are still adequate, and recommends that States ensure that these policies are fully implemented in order to harmonize cost recovery among States and regions.

2. DISCUSSION

2.1 States Inherent Responsibility for Anti-Terrorist Security Costs

2.1.1 Aviation security has been primarily aimed at protecting aviation against the threat posed by global terrorism, which targets States as an entity. This makes the provision of security a primary State responsibility.

2.1.2 Airlines believe that in principle, the cost of all measures specifically related to counter terrorism should be borne by States through general taxation. Passengers and crew members are entitled to government protection in the air as they are on the ground. The aviation industry has consistently supported the call for more government contribution towards aviation security financing.

2.1.3 Where costs are shared between government and private entities, this should be done in a transparent and non-discriminatory manner. States should collaborate with the industry and aggressively develop an appropriate combination of financial incentives to reward development and deployment of aviation security measures.

2.2 Cost-Sharing between Public and Private Entities

2.2.1 WP/11 and *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) mention that "civil aviation should not be charged for any costs that would be incurred by more general security functions performed by States such as general policing, intelligence gathering and national security." IATA fully supports this statement. Policing costs are a specific concern, as certain States charge the industry and passengers for the full budget of airport police. Salaries of these civil servants are paid for by taxes imposed on society at large, including passengers, airports and airlines. Policing charges at airports can thus amount to unfair dual taxation.

2.2.2 In addition to general policing, intelligence gathering and national security, IATA proposes to add the following security costs to be paid by governments:

2.2.2.1 *Security Equipment:* Research and Development into technology to improve the protection of passengers and cargo, including the specifications, testing and certification of equipment for deployment and use by the aviation industry;

2.2.2.2 *Risk and impact assessments* before new measures are introduced, including a cost-benefit analysis, in full consultation with the aviation industry.

2.3 Security Charges at Airports

2.3.1 Doc 9082, referred to in WP/11, lists a series of fundamental principles which should be applied for cost-recovery: i) Consultation before the application of costs; ii) Fair and equitable cost-recovery from users; iii) Cost-relatedness; iv) States responsibility for general security functions (see 2.2.1); v) Non-discrimination; vi) Allocation of costs; and vii) Separate identification of security costs.

2.3.2 In terms of implementation, IATA believes that transparency is a particular problem in several parts of the world. Security charges are rarely identified separately in the airport charges breakdown received by air carriers; which makes cost-relatedness difficult to ensure.

2.3.3 Additional principles should be added to the principles contained in Doc. 9082. Security provision should be subject to the same economic oversight/regulation as airports through an independent economic regulator to ensure:

- a) *cost-efficiency* of security measures; and
- b) *cost sharing* between all users, including airlines, passengers, airports, concessionaires and retailers.

3. CONCLUSION

3.1 In each country, security providers should be subject to economic oversight/regulation. A neutral, independent body should regularly review the cost basis and charges, and ensure a level-playing field (between the State, industry stakeholders and passengers, between national/foreign stakeholders, etc).

3.2 Security providers at airports, where airlines or passengers directly pay for the costs involved, should also comply with the principles contained in Doc 9082 in the airports they serve.

3.3 Where security is paid for by passengers or airlines, States should maximise their efforts in providing assistance to keep costs at a minimum through low taxes, grants or other incentives.

4. PROPOSED AMENDMENT OF POLICIES

4.1 We recommend the following text to replace paragraph 29 of Doc 9082 (shown in a track-change mode):

Security charges

29. The Council notes that States are responsible for ensuring the implementation of adequate security measures at airports pursuant to the provisions of ICAO Annex 17 — Security to the Convention on International Civil Aviation and that they may delegate the task of providing individual security functions to such agencies as airport entities, air carriers and local police. The Council also notes that States may determine in which circumstances and the extent to which the costs involved in providing security facilities and services should be borne by the State, the airport entities or other responsible agencies. With reference to the recovery of security costs from the users, the Council recommends that the following general principles be applied:

i) Consultations should take place before any security costs are assumed by airports, air carriers or other entities.

ii) The entities concerned may recover the costs of security measures at airports from the users in a fair and equitable manner, subject to consultation.

iii) Any charges or transfers of security costs should be directly related to the costs of providing the security services concerned and should be designed to recover no more than the relevant costs involved.

iv) Civil aviation should not be charged for any costs that would be incurred for more general security functions performed by States such as general policing, intelligence gathering, ~~and~~ national security, security equipment and risk-impact assessments.

v) No discrimination should be exercised between the various categories of users when charging for the level of security provided. Additional costs incurred for extra levels of security provided regularly on request to certain users may also be charged to these users.

vi) When the costs of security at airports are recovered through charges, the method used should be discretionary, but such charges should be based on the number of passengers. Security costs allocable to airport tenants may be recovered through rentals or other charges.

vii) Charges may be levied either as additions to other existing charges or in the form of separate charges but should be subject to separate identification of costs and appropriate explanation.

viii) Security providers should be subject to the same economic oversight/regulation as the airport.

ix) Security measures should be cost-efficient.

x) The cost of securing airports should be shared by all users, including airlines, passengers, airports, concessionaires and retailers.

5. ACTION BY THE CONFERENCE

5.1 The Conference is invited to:

- a) support the creation of a Working Group comprised of government and industry, aimed at developing the principles and basis for national aviation security spending supervisory bodies; and
- b) review and endorse the proposed modifications to Doc 9082, as listed in paragraph 4.1.

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