



SECONOMICS

Financing Security in the Aviation Industry

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SECONOMICS Project

❑ Synthesize

- ❑ **Sociological, economic & security science** into usable, concrete and actionable knowledge for policy makers and social planners responsible for citizen's security.

❑ Explore

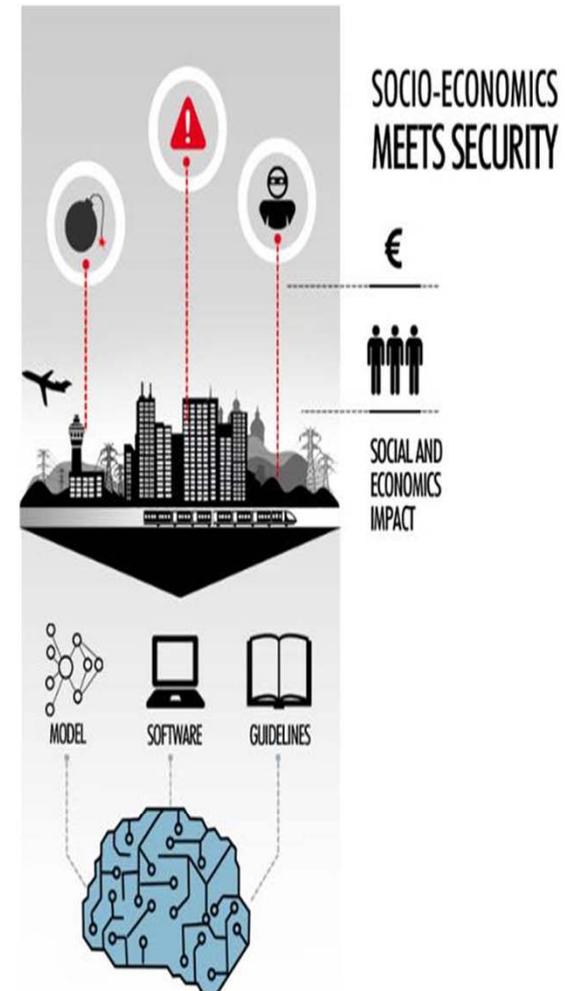
- ❑ Challenges of pan-European coordination in security outcomes.

❑ Develop

- ❑ Models of security problems in a technological and socio-economic context.

❑ Apply

- ❑ Risk assessments and analysis of the social context to develop optimal policies.





Agenda

- Objectives and Approach
- Background Information
- Administrative Structure of European Aviation Related Security
- Financing Mechanisms
- Financing Issues



OBJECTIVES AND APPROACH



Objectives and Approach

- ❑ Provide the detailed information on:
 - ❑ **Security administrative structure** of the European Aviation Industry.
 - ❑ The current **financing mechanisms** used in the European aviation industry .
 - ❑ **Issues in financing** the security-related expenditure.
- ❑ Approach:
 - ❑ Compares two different aviation security administrative structures: **WHO DOES WHAT?**
 - ❑ Illustrates different security funding mechanisms: **WHO PAYS FOR WHAT?**



BACKGROUND INFORMATION



Background Information

- ❑ The terrorists attacks of September 11 2001 in the US had a profound impact on the European aviation sector.
- ❑ Strong measures became essential to address the threats posed by international terrorism and to restore public confidence in the aviation sector.
- ❑ The European Union introduced new rules on aviation security to establish harmonized basic standards for aviation security and to strengthen the quality of aviation security systems in the community.

Background Information (Cont'd)

- ❑ These new rules on aviation security obviously **required significant investments** in infrastructure, technical equipment and human resources at most European airports.
- ❑ Security costs in European airports now represent up to **35% of overall airport operating costs** in 2009 (it was 5% to 8% prior to the 911 events), along with **41% of airport staff employed in security-related activities.**
- ❑ The main cost for aviation security is airport security services to screen passengers and cargo, which usually has two main components: **staff costs and costs for infrastructure and equipment.**



Background Information (Cont'd)

- ❑ This raised the important question in relation to its **funding aspects**, since it required additional spending on security.

Accordingly, many forms of security taxes and charges levied on airlines, passengers and freight operators have been introduced.



ADMINISTRATIVE STRUCTURE

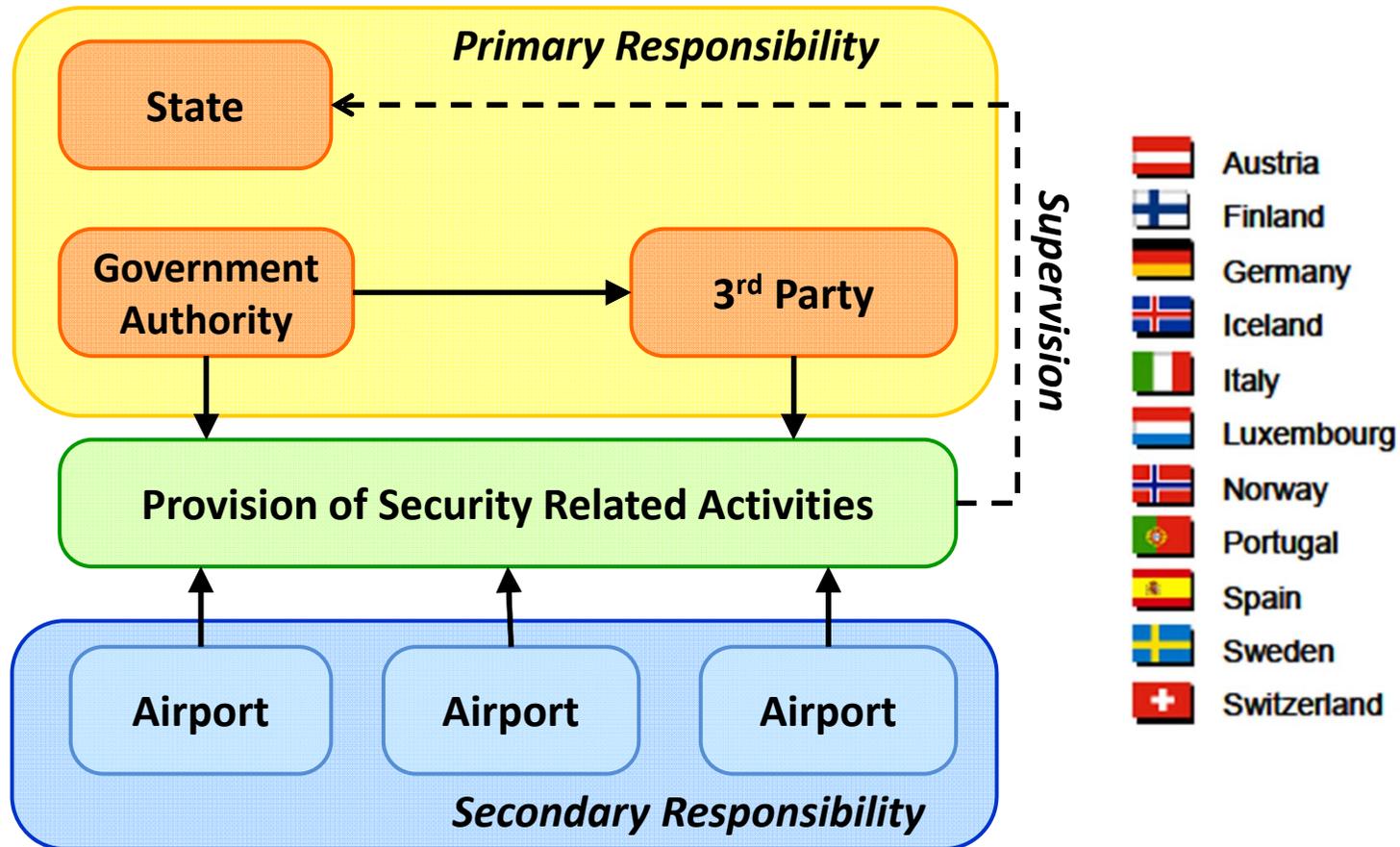
Centralized Model vs. Decentralized Model

Security Administrative Structure

- ❑ Two basic administrative structures for the provision of aviation security related activities in Europe
 - ❑ **Centralized Model:** The responsibility for the main security activities are primarily on a government body of the State (e.g., Civil Aviation Authority (CAA), Ministry of Transport and police force)
 - ❑ **Decentralized Model:** The main security activities are provided by the airport authorities under the supervision of the relevant authority (normally the CAA). These activities could either be provided by the airport directly or outsourced to a third party.

Security Administrative Structure (Cont'd)

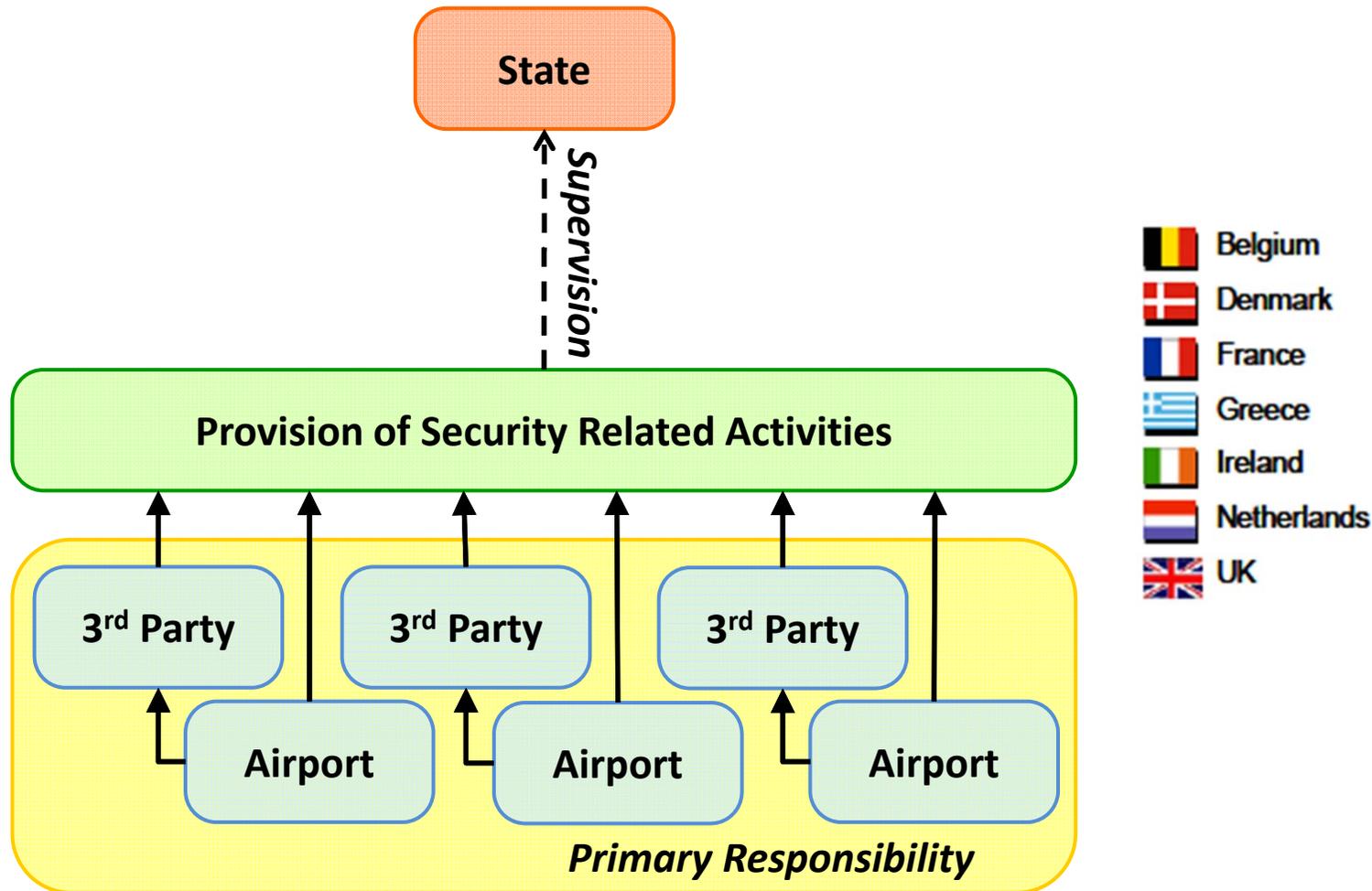
☐ Centralized Model



Adopted from "Study on Civil Aviation Security Financing", Irish Aviation Authority (2004)

Security Administrative Structure (Cont'd)

□ Decentralized Model





FINANCING MECHANISMS

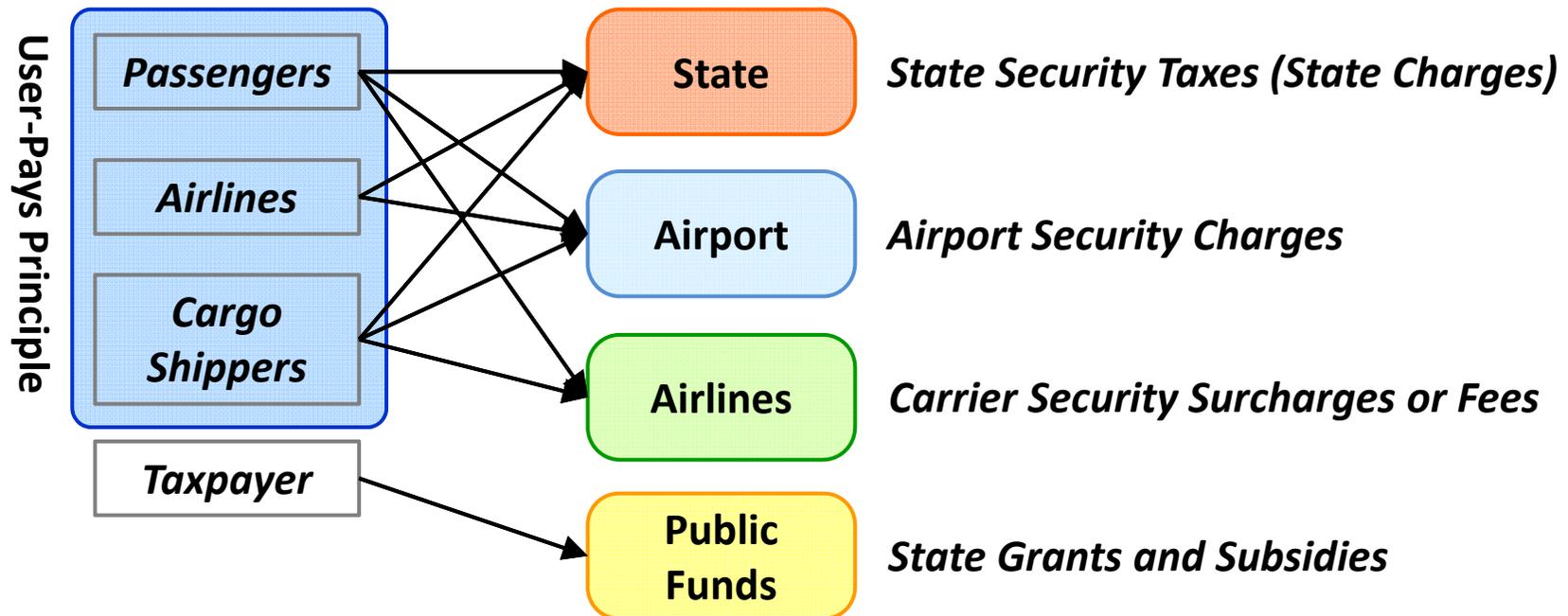


Before and After September 11

- ❑ Before 2001, security costs were a **negligible part of total airline cost**. Security costs were often a component of the passenger charge that airports levy to cover the cost of terminals.
- ❑ However, with increased security costs after 2001, it became more common to **separate security levies from airport charges**.
- ❑ To finance airport security services, the airport or the State started to levy a **tax, a fee or a charge** on airlines, passengers and cargo shippers.

Main Mechanisms

- There are mainly **four mechanisms** that are currently being used to fund aviation security activities within Europe:



State Security Taxes

- Various States levy aviation security taxes from passengers.
- These taxes are normally levied on a **per departing passenger basis**.
- In order to **offset the additional expenditure** from new regulations and the implementation of new improved security measures, State security taxes have generally increased.

Do you know how much a passenger pay for Security Taxes?

- Average of € 2.2 per departing passenger (2003)
- 50% discount for children

Airport Security Charges

- Airports across the European States levy security related charges.
- Airport charges are normally levied on a **departing passenger basis**.
- Airport charges are used to fund:
 - Staff, police and outsourcing
 - Insurance, maintenance and depreciation
- The level of airport charges varies widely from airport to airport.

Do you know how much a passenger pay for Airport Charges?

- About € 0.2 to € 11 per departing passenger (2003)
- 50% discount for children

Carrier Security Surcharges

- Some carriers merely collect the State taxes and airport charges imposed by the governments and airports.
- Carriers currently imposing security surcharges charge from: All passengers or airfreight, or both.
- Security surcharges are used to fund:
 - Staff
 - Security training and insurance
 - Surveillance expenditure.

Do you know how much a passenger pay for Surcharges?

- About € 1.6 to € 8.00 per passenger (2003)
- No discount for children

State Grants and Subsidies

- Since most of the Member States use “**User-Pays Principle**”, public funding is not widely used in the Member States.
- However, for some States and airports that do not levy any specific security related charges, the cost of security provision is funded from public funds.
- In addition, some of security measures are **partially or fully financed from public funds**. For example, some Member States are funding the provision of key security measures such as:
 - Passenger and baggage screening at regional airports (Belgium and Greece)
 - Additional security measures being imposed (Germany).



Additional Points Needed to be Mentioned

- It is clear that security related expenditure at the airport is **primarily financed by the users** through State taxes and airport security charges.
- Where revenues from specific State security taxes and airport security charges are insufficient to meet State expenditure, funding is sometimes provided by the general taxpayer in that State.
- The balance of funding between the user and the general taxpayer in each State is **weighted heavily towards funding by the user.**



FINANCING ISSUES

Pervasive Deficit

- ❑ For airports, it is estimated that approximately **80% of costs are fixed**. Airports have to bear these costs regardless of the number of passengers they have.
- ❑ A significant proportion of these **costs are driven by regulatory requirements** (safety and security) rather than the traffic volumes.
- ❑ They can't escape many of the costs, and at the same time don't have the passenger numbers to spread the impact.
- ❑ This means that **smaller airports will always have higher costs on a per passenger basis** compared to their larger peers.
- ❑ Security taxes and charges generally tend to recover between 70% and 100% of the costs, and **do not fully meet the costs**.



Tradeoffs of Administrative Structures

Centralized States

- The majority of security related revenue is derived from **State security taxes**.
- State taxes is set to **recoup any State expenditure incurred**. Therefore, the majority of any deficit or surplus is the responsibility of the State.

Decentralized States

- The majority of income is derived from **airport security charges**.
- The airports bear the majority of the deficits.



Tradeoffs of Administrative Structures (Cont'd)

- ❑ **State deficit with the decentralized model is lower** than the centralized model deficit. This reflects the reduced role taken by the States compared to those under the centralized model.
- ❑ **The airports in the centralized model States have a lower deficit** compared to the airports in the decentralized model States.



Lack of Public Funds

- ❑ Problem of user-pays principle.
- ❑ Since security measures are aimed at protecting not only aircraft and their passengers, but also society as a whole, States might need to help cover for security costs incurred.
- ❑ According to the European Parliament:
"Need to prevent the whole cost of increased aviation security being imposed on air passengers, cargo shippers and airlines. "



Lack of Public Funds (Cont'd)

- ❑ Airports and air carriers are of the view that there should be more government intervention in the financing of additional security measures.
- ❑ The aviation industry contends that European aviation does not have a level play field compared to their counterparts in the US where significant federal funds have been and continue to be invested in aviation security measures.
- ❑ They argue that “the provision of security is one of the core functions of the State. Member States should pay the costs of more stringent measures exceeding EU requirements from public budgets, at least in part”.



Competition Issue

- ❑ Airports and air carriers argue that aviation is at a disadvantage in comparison with financing security in other transport modes and that this negatively impacts the competitiveness of the European aviation sector.
- ❑ The levies usually do not cover the costs of measures imposed directly on airlines or the additional operational costs these measures may cause for airlines.
- ❑ The cost of national security measures that go beyond the EU common regime is especially high and is distortive of competition between European airports.



Transparency Issue

- There is no clear picture of either the levels of charges made on an airport-by-airport bases, nor how this money is actually spent, as the responsibilities for the security measures differ from State to State and even from airport to airport.
- While **security charges should be used exclusively to meet security costs**, the transparency has not been ensured yet.



Transparency Issue (Cont'd)

- ❑ In general, a charge, unlike a tax, is levied **in return for a service provided to the user**. The level of the charges should therefore **correspond to the cost of providing this service**.
- ❑ In the same way, revenues from security charges should only cover the total cost of aviation security services.
- ❑ Financing aviation security activities must therefore be strictly limited to compensating for the costs to which they give rise.



Proportion of Charges on Air Fares

- ❑ An increase in passenger security costs through additional State taxation and airport charges is likely to have a **dampening effect on passenger demand**.
- ❑ The impact of security taxes and charges on the long-haul routes **represents less than 1%**.
- ❑ For intra-European travel, the combination of security taxes and airport charges **represents between 1% and 2%** of the average fare.



Proportion of Charges on Air Fares (Cont'd)

- ❑ For domestic routes, security levies **represent between 3% and 6% of the cost**, which is significantly higher than those averaged by intra-European or long-haul routes.
- ❑ Although there is no evidence that security taxes and airport charges represent a deterrent to air travel demand, these could **represent a significant proportional cost for passengers particularly when travelling on domestic routes.**



Questions?

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<http://www.seconomicsproject.eu>