

## EU & Dutch Perspective on Level Playing Field in Aviation Security

Author: Jolanta Rekiel (MSc.)

About the author: Jolanta Rekiel is a transport economist and a consultant. Her expertise focuses on transport policy & strategy. Security in air transport is of her special interest. Jolanta works as a consultant at Ecorys Nederland BV and is affiliated with the University of Amsterdam where she conducts research on passenger perspectives and costs & benefits of airport security. Jolanta is an editor at the Airlines Magazine, an e-magazine that enables interaction between the industry and academics active in aviation.

All views presented in this contribution are strictly personal and may not represent the view of Ecorys.

### *Introduction*

Security in aviation has been a widely discussed topic since the events of 9/11 and it has been recently analysed from the point of view of level playing field concept. The national governments in the European Union have been in charge of ensuring security of citizens and often the passengers. Since a few years, however, the security threats scenarios have changed and diversified throughout the world. The terrorists find more elaborate and unpredictable ways to disrupt aviation operations. In order to ensure high levels of security, the governments impose new security measures and procedures. As a consequence, the costs associated with ensuring high security levels at European airports have been increasing in the last years.

The level playing field concept envisages enabling equal conditions for development of the industry. Aviation security is core responsibility of a state. Each state can provide the security services itself or it can delegate such a responsibility to the airport. The costs associated with security are not transparent at the European level. Additionally, the funding schemes applied in different Member States are not the same and are often unclear. In some countries, the aviation security costs are partly born by the governments, while in others the “user pays principle” is applied. As a result, a comparison of financing schemes and costs associated with security in different Member States remains a challenge.

The current discussion paper provides an insight into the transparency and level of security charges and presents its development over time. The paper discusses to what extent is a level playing field available at Dutch and European level. It provides a review of the initiatives taken on the EU level aiming at ensuring a level playing field in the aviation security domain, with respect to aviation security charges in particular. Additionally, it presents the positions of various stakeholders in aviation on methods of financing of aviation security. Finally, a set of recommendation on the EU and on the Dutch level are proposed to ensure level playing field in aviation security.

## *1) What is the role of aviation security charges for the Dutch and European aviation industry/airport?*

Schiphol being one of the largest airports in Europe and the largest one in the Netherlands handles approximately 50 mln passengers a year. Due to its size and economic importance, the efficiency of airport operations is crucial, including aviation security. Ten years after 9/11 the aviation industry is impacted by not only increasing fuel prices and environmental compensation but also by the increased costs of security. Before 9/11 the overall security costs borne by the airlines and passengers constituted 5-8% of the operating costs of the airlines while nowadays they are at the level of 32-35%. Following the regulation 2030/2002, the industry had to meet specific security requirements. As a consequence, the security charges at Schiphol airport increased by 43% between years 2003 and 2007 (SEO, 2008). The security charges increased in this period also at other European airports (largest increase in Brussels & Zurich, moderate increase in Paris Charles de Gaulle, Frankfurt and Madrid). According to SEO, the security charges and taxes form a considerable part of the total revenues at major European airports (Amsterdam Schiphol 27%, Brussels 28%, Paris Charles de Gaulle 24%, Frankfurt 24%, Munich 24%, Zurich 25%). At Madrid Barajas airport this share is considerably lower and in 2007 was at the level of 7% while at the London airports there is no separate security charge or tax.

Large hub airports, such as Schiphol have a large share of transfer passengers. Efficient operations, including security checks, are therefore crucial for airport competitiveness. The limited information available on security costs at different airports and challenges in comparing them make it difficult to assess the efficiency of security services at European airports. The efficiency of security services can affect Minimum Connection Times. As over 40% of passengers at Schiphol airport are transfer passengers while 41,5% of overall baggage handled at Schiphol is transfer baggage, the efficiency of security services should be considered an important factor for the airport development.

## *2) What are the financing schemes of aviation security in Europe and in the Netherlands and to what extent are the security costs transparent?*

Who bears the costs of security? "Tax payer" versus "user pays principle"

The analysis of detailed costs of security in Europe are also somehow neglected in the existing literature. Two studies conducted by consultants (Irish Aviation Authority & Aviasolutions, 2004), (SEO, 2008) have concluded that the users of the European air transport system are the main funder of aviation security (airlines, air passengers, cargo shippers). Costs of security are mainly related to airport security services to screen passengers and cargo. These can be divided into two main cost categories: staff costs and costs for infrastructure and equipment. Both the industry (IACA, 2008) and the European Parliament have expressed opinions that terrorism targets society and governments, not airlines. They call for implementation of the "tax payer" rule which implies that it is security is financed from state budgets. They are in favour of decreasing the costs of security born by the users and ensuring the contributions from the States at least for the parts of the costs of more stringent measures that exceed the EU minimum requirements. Currently, however, in most European countries the "user pays principle" is applied. The security costs initially borne by the airports are transferred to the users, first the airlines and finally passengers by including them in the final ticket

prices. There are two main types of revenues applicable to this principle. The first one is in a form of a tax levied by the government. The second one is a security charge or fee collected by airports. Both forms are used at various European airports.

#### Transparency of security costs and consultation of the level of security charges

Aviation security, either provided by state or the airport, needs to be financed. In the past the security costs were incurred in the overall passenger charge. The regulation 2320/2002 intended to produce harmonized approach to airport security in the European Union. It did not, however, specify how the aviation security should be financed. In principle, the revenues obtained from a tax levied by the state, a fee for services or a charge are used to finance aviation security. The charges can be imposed on the airlines, passengers and cargo shippers. Despite the separation of security levies from other costs, their transparency is rather limited. The financing of security for air transport differs between the Member States and between airports. In most countries it is the industry and users that pay for the costs of security (SH&E International Air Transport Consultancy, 2005). In Spain, however, the state provides some financial support to financing aviation security. At many airports, the security costs are included in the overall passenger charge and/or landing charge. As a consequence, the security costs are not transparent in most of the EU Member States, while they can be considered transparent in the Netherlands.

Another important issue related to the transparency of security costs is the consultation of the level of security charges. Currently security taxes or charges are more often a result of a direct decision by the government or an airport and less often they are subject to consultation with the users. It is important that such consultations take place and that users can be involved in the decision process.

#### Profits and cost-relatedness

According to the EC “financing aviation security activities, be it through public financing or through charges levied on the users, must (...) be strictly limited to compensating for the costs to which they give rise” (EC, 2009). This implies that any overcompensation for aviation security services should fall within the scope of the rules of the Member States and it could be considered as State aid. However, only few Member States have relevant legislation prohibiting making profits on provision of aviation security services resulting from the legal obligation to ensure aviation security (EC, 2009). In fact, a concern exists that some airports might not respect this principle. Additionally, most Member States do not have procedures in place that would enable the users to scrutinize the security charges or security costs. Schiphol is the only airport (out of the ones taken into account in the mentioned EC study) where a security service charge is intended to recover all security costs and the overcompensation for security services is prohibited in the Netherlands. On the other hand, while the cost-relatedness rule applies and companies providing security services are not allowed to gain profits, this does not provide direct incentives for provision of security services in a very efficient way. As there is limited information on the effectiveness of security services, it is difficult to assess whether the cost-relatedness rule has an impact on the efficiency of security services.

### *3) To what extent is a level playing field in terms of security available at the European level?*

According to the European Parliament the differences between the aviation security in various Member States may distort the European aviation market. These may relate to both the different levels of public financing of security or additional measures imposed by selected countries. Different Member States do not provide the same amount of public financing for aviation security (Irish Aviation Authority & Aviasolutions, 2004), (EC, 2009). Most of the countries finance only a small share of the costs associated with aviation security while few provide large shares from public budgets.

#### Competition between airports & airlines

According to the Community guidelines on financing of airports (EC, 2005), the competition between airports can be assessed by comparing factors such as type of airport services, clients concerned, population, economic activity, congestion, accessibility as well as the level of charges for use of airport infrastructure and services. Security may affect the level of competition between the airports but the expected impact is rather limited due to the high importance of other factors. The impact is expected to be smallest for the large hub airports where many other factors play a much more important role and the overall security costs, despite being large in total, are borne by even larger number of users. The security costs at smaller, regional airports may in theory have a larger impact on the competition between the airports.

The US government supports its national airlines in financing of hardened cockpit door while providing an impact on the level playing field of non-US carriers flying to and from the US. This support is considered, however, to have a limited impact on the level playing field of Dutch air transport. The costs of screening of passengers traveling to the US from Schiphol are spread over all airlines even if they do not fly to the US (SH&E International Air Transport Consultancy, 2005). The study by SH&E revealed that the total charges for security are above average for Origin and Destination passengers but below average for transfer passengers. A comparison between various security areas was done by the same consultants and it has led to conclusions that the differences between the EU countries (and taking into account the US) have either very limited or no impact on the overall competitiveness of the Dutch air transport industry.

Competition between the airlines maybe, in theory, distorted by different security levies. The impact of such levies is, however, rather small. In consequence, the potential distortion of the competition between the airlines due to the differences in security levies among Member States is very small.

#### Potential cost savings

The security costs are not transparent to the users of aviation security services, that is to the airlines, passengers and cargo shippers (EC, 2009). Airports belonging to different member states located in the same border region with overlapping catchment areas may be affected in the airport choice of the passenger if the security charging system differs substantially. The cases for this are, however, unknown. The EC report refers to the answers received from various Member States which argued that increased transparency of security costs could lead to increased effectiveness of security services and, as a result, effect in the decrease of overall security related costs. It is clear that the existing national procedures in different Member States do not guarantee such a transparency. It is unclear, however, by how much potential cost savings could be achieved. This issues needs further research.

#### *4) How do recent security developments influence the level playing field discussion for security?*

In 2007 and 2008 a public consultation was held by the European Commission on financing of aviation security. As a consequence of these consultations, a study was conducted by the EC and a Report from the Commission on financing aviation security was published (EC, 2009). The report concluded that while the aviation security is in principle a state responsibility, the security measures should not be financed only publicly. More transparency of security costs is needed and a further research was proposed. Finally, the report concludes that a legislative initiative would be developed based on an impact assessment conducted. In March 2009 a Directive on airport charges was published in the OJ of the EU (EC, 2009b). The main objectives of this directive are improving transparency of costs and charges, prohibiting discrimination between users, establishing consultation mechanisms, helping settlements of disputes. The Directive sets common principles for the levying of airport charges at Community airports. It omits security charges. The report from the Commission on financing aviation security published in February 2009 concluded that the systems for recovery of aviation security costs are regulated on the national level and are not always transparent to the users. Additionally, it was concluded that the users are often not consulted before charges are set or amended at various EU airports. In May 2009 a proposal for a Directive on aviation security charges was published (EC, 2009c). The proposal for the Directive set common principles for the levying of security charges at the airports of the European Community. The proposed Directive, however, did not address the issue of public funding of aviation security. The basic principles of the proposed Directive were:

- the Member States shall ensure that security charges do not discriminate between airport users or air passengers,
- the airport managers should have access to all necessary information on the costs of providing aviation security services,
- the information on the components of the all security charges levied at airports should be transparent,
- the level of charges will be set to recover the security related costs only.

The proposed Directive was heavily discussed with Member States and various stakeholders. The Airport Operators Association in the United Kingdom (AOA UK), has claimed that the Directive would not create a level playing field across EU airports due to differing levels and systems of security applied (AOA UK, 2009). They have also criticized the Commission's impact assessment and claimed it was "fundamentally flawed and did not take true account of the burdens imposed by the Directive". Finally, the AOA UK claimed the service levels are not taken into account when discussing the system for charges. On the other hand, the Association of European Airlines (AEA) has expressed an opinion about the proposed Directive and referred to it as a "positive step towards reducing aviation security costs" (AEA, 2009). According to AEA, the principles of transparency cost-relatedness and consultation with airport users the security charges would contribute to more clarity on the current discrepancies and lead to creation of a more cost-effective system (expected outcomes could contribute to 10% cost savings). In September 2009, a Joint Industry Position paper was published

(ERA, 2009) on the website of the European Regions Airline Association. The paper represented joint views of the AEA, EEA, ELFAA, ERA, IACA and IATA. The industry claimed that:

- the aviation industry should not bear the security costs alone
- the Directive on aviation security charges should mirror the Directive on airport charges
- the specificity of security systems should also be taken into account
- any security rule should be subject to an impact assessment

Most of the Member States have applied minimum security measures required by the EU regulation. Some, however, apply more stringent measures, i.e. the United Kingdom, France and Germany. As opposed to the opinion presented by the industry, some Member States believe that the requirement to conduct an impact assessment of aviation security charges prior to putting in place security measures more stringent than required by the EU law, might limit the country's possibilities to put more stringent security measures swiftly in place.

Initially, it was planned that the Directive would be published in the EU Official Journal in 2010. Member States and the industry cannot agree on the common criteria to determine costs of aviation security. The proposed Directive on aviation security charges has not been published until today.

The security measures introduced at various airports are resulting from decisions taken by governments and subsequently airports. The costs and the benefits of such measures, however, are rarely assessed. According to (Anderson, 2006) we do not know much about the costs and the benefits of security. There is only a limited number of studies that analyse the economic impacts and cost effectiveness of aviation security in Europe. There are only few national studies in this field (Akhtar, 2010), (UK Department for Transport, 2010) and an impact assessment on European level (EC, 2011). There is no Cost Benefit Analysis of the security measures and the overall system conducted so far for Europe. Taking into account the discussion on Directive on security charges as well as limited transparency of costs related to aviation security, further research is needed to assess the costs and the benefits of aviation security measures in the European Union.

### *5) What government action would be needed to level the playing field.*

#### Conclusions & remaining challenges

The new role of governments is not designed to intervene in airline economic decisions but it rather contributes to long-term structural change in the aviation security (Bailey, 2002). The financing of security costs in Europe differs per country to country, its transparency, however, is rather limited. The information on the security charges applied and their cost-relatedness is also scarce. The Dutch aviation is the most transparent one in Europe when it comes to security charges. The assessment of the impacts of the costs of security measures applied as well as the assessment of the efficiency of security in comparison with its costs remains, however, a challenge. As the information on security costs as well as the financing schemes is not fully transparent on the European level, the level playing field in the aviation security may be distorted. There are many other factors, however, that play a more important role in the airport and airline competition, the differences in security costs and

financing schemes should not be in principle discriminatory. The competition between the airports and between the airlines is not significantly impacted by differences in the levels of security levies in various Member States. They should be, however, transparent to ensure the limited or no competition distortion.

Further research is needed in order to assess the efficiency of security services and financing schemes in Europe. The following recommendations result from the analysis done:

#### Recommendations on the EU level

- Further harmonization of financing of aviation security across Member States
- Increase of transparency of security related costs
- Need for CBA of aviation security measures on European level
- Analysis of the impacts of providing financial support to financing more stringent security measures in the European Member States that apply measures on top of the minimum requirements following the regulation 2320/2002
- Review the possibilities for the cost-savings from aviation security while taking into account the relevant level of quality and user-friendliness of aviation security services in Europe

#### Recommendations on the Dutch level

- Analysis of the efficiency of security services at Schiphol and recommendations on how security services with respect to passengers, baggage and cargo handling as well as border control can be done more efficiently, such an analysis should also explore the possibilities for the cost-savings from aviation security while taking into account the relevant level of quality and user-friendliness of aviation security services
- Analysis of the level playing field in view of potential change of the Dutch policy on financing aviation security where costs are fully borne by users
- Analysis of the impacts of providing financial support to financing more stringent security measures in the Netherlands (as opposed to the minimum requirements as applied following the regulation 2320/2002)

## Bibliography

AEA. (2009). <http://files.aea.be/News/News120509.pdf> .

Akhtar, J. B. (2010). Assessing security measures reducing terrorist risk: inverse ex post cost-benefit and cost-effectiveness analyses of Norwegian airports and seaports. *Journal of Transportation Security* , 3:179-195.

Anderson, T. (2006). Terror may be at bay at port; shipping hubs too vulnerable. The Daily News of Los Angeles.

AOA UK. (2009). <http://www.aoa.org.uk> .

Bailey, E. E. (2002). Aviation Policy: Past and Present. *Southern Economic Journal*, Vol. 69, No. 1.

EC. (2005, 12 9). Community guidelines on financing of airports and start-up aid to airlines departing from regional airports. *OJ C 312*. Brussels.

- EC. (2009, 2 2). Report from the Commission on financing aviation security. *COM(2009) 30 final*. Brussels.
- EC. (2009b, 3 14). Directive 2009/12/EC of the European Parliament and of the Council of 11 March 2009 on airport charges. *14.3.2009, OJ L 70/11*. Brussels.
- EC. (2009c). Proposal for a Directive of the European Parliament and of the Council on aviation security charges .
- EC. (2011). Impact assessment on the possible use of security scanners at EU airports.
- ERA. (2009). [http://www.eraa.org/docman/cat\\_view/86-issues/88-security/337-security-financing-](http://www.eraa.org/docman/cat_view/86-issues/88-security/337-security-financing-) .
- IACA. (2008). IACA Position Paper on Aviation Security Funding . Brussels.
- IATA. (2012). [www.iata.org](http://www.iata.org).
- Irish Aviation Authority & Aviasolutions. (2004, September). Study on Civil Aviation Security Financing.
- Jacobson, e. a. (2009). Designing for flexibility in aviation security systems. *J Transp Secur*, 2:1–8.
- SEO. (2008). *Benchmark for airport charges and governmental taxes*. Amsterdam: Commissioned by the Dutch Directorate General for Transport and Civil Aviation.
- SH&E International Air Transport Consultancy. (2005, March). Benchmark security and border control . London.
- UK Department for Transport. (2010). Impact Assessment on the use of security scanners at UK airports.