

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

Airneth workshop on Demystifying level playing field in aviation

By Jolanta Rekiel

The Hague, 5 April 2012



Table of contents

1. Introduction
2. Aviation security related costs
3. Funding schemes
4. Transparency of costs
5. Profits and cost-relatedness
6. Efficiency of security services
7. Potential cost savings
8. Attempts to introduce changes
9. Conclusions and remaining challenges

Introduction

- Aviation security is core responsibility of State
- National governments in the European Union in charge of ensuring security of citizens and passengers
- Security threats scenarios changed and diversified
- Governments impose new security measures and procedures
- Security related costs have increased

Security related costs types

- 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.
- Users of the European air transport system are the main funder of aviation security (airlines, air passengers, cargo shippers).



Level of security costs

Security charges and taxes as % of the total revenues at major European airports

- Amsterdam Schiphol 27%,
- Brussels 28%,
- Paris Charles de Gaulle 24%,
- Frankfurt 24%,
- Munich 24%,
- Zurich 25%,

- Madrid Barajas 7%,
- at the London airports there is no separate security charge or tax.

Source: (SEO, 2008)

Level of security costs

- Before 9/11 the overall security costs borne by the airlines and passengers constituted 5-8% of the operating costs of the airlines
- nowadays 32-35% (ACI)
- security charges at Schiphol airport increased by 43% between years 2003 and 2007 (SEO, 2008).
- also other European airports
 - largest increase in Brussels & Zurich,
 - moderate increase in Paris Charles de Gaulle, Frankfurt and Madrid

Funding schemes – tax payer funding scheme

- Not the same and often unclear
 - different levels of public financing of security
 - additional measures imposed by selected countries.
- In some countries, the aviation security costs are partly born by the governments,
 - only a small share of the costs associated with aviation security
 - large shares from public budgets

“User pays principle”

- In others the “user pays principle” is applied.
- Costs of security covered through:
 - taxes levied by the government
 - security charges or fees collected by airports.

Both forms are used at various European airports.

- Comparison of financing schemes and costs associated with security in different Member States remains a challenge

Transparency of security costs & consultation

- 2030/2002 => separation of security levies from other costs, but costs transparency is rather limited.
- Financing of security for air transport differs between the Member States and between airports, for example in Spain the state provides financial support
- At many airports security costs are included in the overall passenger charge and/or landing charge.
- Users often not involved in the decision process

=> the security costs are not transparent in most of the EU Member States, but the Netherlands.

Profits and cost-relatedness

- “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).
- No overcompensation for aviation security services should be allowed and could be considered as State aid.
- Only few Member States have relevant legislation in place
- Most Member States do not have procedures in place that would enable the users to scrutinize the security charges or security costs, the Netherlands is exception

Efficiency of security services

- The efficiency of security services can affect Minimum Connection Times.
- Over 40% of passengers at Schiphol airport are transfer passengers while 41,5% of overall baggage handled at Schiphol is transfer baggage (Schiphol, 2011)
- However, cost-relatedness rule does not provide direct incentives for provision of security services in a very efficient way.
- Limited information on the efficiency of security services
=> difficult to assess to what extent the cost-relatedness rule has an impact on the efficiency of security services.

Potential cost savings

- 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.
- 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).

Source: AEA, 2009

Attempts to introduce changes

- In 2007 and 2008 a public consultation was held by the European Commission on financing of aviation security.
- Report from the Commission on financing aviation security was published (EC, 2009).
- March 2009 - Directive on airport charges published, the main objectives:
 - improving transparency of costs and charges,
 - prohibiting discrimination between users,
 - establishing consultation mechanisms,
 - helping settlements of disputes.

It omits security charges.

Source: (EC, 2009b)

Attempts to introduce changes

- May 2009 - proposal for a Directive on aviation security charges was published, main issues:
 - set common principles for the levying of security charges at the airports of the European Community, but
 - did not address the issue of public funding of aviation security.

Source:
EC, 2009c



Attempts to introduce changes

- Heavily discussed with Member States and various stakeholders
- In September 2009, a Joint Industry Position paper was published:
 - 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

The proposed Directive on aviation security charges has not been published until today.

Source: (ERA, 2009)

Conclusions and 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, its transparency is rather limited.
- The Dutch aviation is the most transparent one in Europe.
- 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.

Conclusions and remaining challenges

- Information on security costs and on financing schemes is not fully transparent => the level playing field in the aviation security may be distorted.
- There are many other factors 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 transparent to ensure the limited or no competition distortion.

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 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 aviation security in the Netherlands in view of the policy of the Dutch government
- 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)

Sources

- 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- .
- IACA. (2008). IACA Position Paper on Aviation Security Funding . Brussels.
- IATA. (2012). 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.

Questions?

Thank you!

Contact details:

Jolanta Rekiel
jolanta.rekiel@ecorys.com
J.M.Rekiel@uva.nl

