

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 5.2.1: Airport charging principles

METHODS OF COLLECTING PASSENGER SERVICE CHARGES

(Presented by the Secretariat)

SUMMARY

This paper addresses policy and practical guidance provided by ICAO with regard to methods of collecting passenger service charges, focussing in particular on facilitation aspects. Suggested action is at paragraph 5.1.

1. Background

1.1 Passenger service charges continue to grow in significance in airport finances. However, the direct collection of such charges from the passenger rather than through the airline has been causing facilitation problems, particularly at airports experiencing terminal capacity congestion. The potential for such problems is likely to accelerate in the future as traffic increases, and greater efforts need to be taken towards increasing terminal efficiency by speeding the flow of traffic. Against this background there is a need to determine if current guidance provided by ICAO in this area is adequate.

2. Policy and practical guidance provided by ICAO on passenger service charges

2.1 ICAO policy on passenger service charges is expressed in paragraph 19 of the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*¹ (Doc 9082/5) as follows:

“19. The Council reaffirms that passenger-service charges are not objectionable in principle and recognizes that the revenue accrued from such charges is essential to the economy of a significant number of airports. There are however practical objections to the collection of passenger-service charges directly from the passenger, especially at large airports, and the

¹ Proposed by the Secretariat in ANSCConf-WP/4 to be retitled *ICAO Policies on Charges for Airports and Air Navigation Services*.

difficulties associated with that mode of collection will become more and more acute with the continuing growth of passenger traffic and the increasing number of high-capacity aircraft operated, especially at busy terminal buildings during peak hours. Methods to alleviate these difficulties have been found and are implemented at a number of airports, and the Council considers that these could serve as useful guides to other airports experiencing similar difficulties. The Council also emphasizes the need for consultations between airport authorities and airlines at the local level, with a view to alleviating collection problems. More specifically, the Council considers that where the collection of a passenger-service charge directly from passengers at an airport gives rise to facilitation problems, this charge should be levied on the airlines where practicable.”

2.2 With regard to levying the passenger service charge on the airline, the ICAO *Airport Economics Manual* (Doc 9562) advises in paragraph 5.36:

“This method has eliminated facilitation problems that have arisen as a result of passenger service charges being collected directly from the passengers. It has also reduced the costs of collection to airports and improved control and audit of the revenues due from these charges. However, direct collection from the passengers of the charge enables the airport to immediately receive the amounts collected. It also does not require the airport to give prior notice to, and consult with the airlines as otherwise recommended in the Council Statements”.

2.3 In 1995, the Eleventh Session of the Facilitation Division (FAL/11) expanded the related Recommended Practice in paragraph 6.4 of Annex 9 - Facilitation, which now reads as follows:

“6.4 Recommended Practice.—Where a passenger service charge is levied at an international airport and its collection from passengers gives rise to facilitation problems, this charge should be levied, where practicable, following consultation and advance notice, on the airlines which should in turn recover the charge from passengers in such a way that the necessity for additional queuing at the airport is avoided”.

3. Developments in collection methods

3.1 A survey based on the ICAO *Manual of Airport and Air Navigation Facility Tariffs* (Doc 7100, 1999 Edition) and supplemented by other sources, indicates that passenger service charges or other passenger related charges were levied at major airports in 171 of the 176 Contracting States for which data were available, compared with 145 out of 156 States in a 1990 survey carried out prior to the 1991 Conference on Airport and Route Facility Management (CARFM). As was the case in the 1990 survey, the methods of collection used fall broadly into two categories, that is levying the charges directly on passengers, and levying the charges on airlines.

3.2 In 1999 passenger service charges were levied directly on passengers in 92 States, compared with 93 in 1990, while the charges were levied on the airlines in 82 States in 1999, compared with 55 in 1990. The two sets of figures include States where charges were levied both on passengers at departure and on airlines at arrival (three States both in 1999 and 1990). These figures clearly indicate that recent emphasis of States has been on levying passenger services charges on airlines.

3.3 Pursuant to a recommendation adopted by the European Civil Aviation Conference (ECAC) in 1970 (see Appendix), which remains applicable, all States in Europe levy passenger services charges on airlines (about half of the States in the world levying the charges on airlines are located there). This approach

to collection is applied in a majority of States in the Caribbean, while in Africa and the Middle East, slightly less than half of the States apply this approach. In other regions the most common practice is to levy these charges directly on passengers.

3.4 The actual level of passenger service charge varies from State to State, and sometimes from airport to airport within a given State. Slightly more than half of the States levying these charges confine them to international passengers, and about a third of the States vary the level of charges on international passengers depending on their nationality, destination, or airport of departure. Where charges are levied on both international and domestic passengers, charges on the latter are usually much lower, but it is not possible to determine whether or not this only reflect differences in the lower costs of providing airport facilities to domestic as opposed to international passengers.

4. **Conclusion**

4.1 The number of States levying passenger service charges on the airlines is growing rapidly while the number of those collecting directly from the passenger remains static. The principal reason for this contrast is the facilitation problems to which collection directly from the passengers gives rise. In view of the reported developments and the ever-growing potential for facilitation problems, the Conference may wish to consider strengthening ICAO policy regarding avoidance of the collection of passenger service charges directly from the passenger at airports. As illustrated by the text of paragraph 19 of Doc 9082/5 and the ECAC recommendation, this is a complex subject, potentially involving additional administrative tasks and concerns by the airlines, particularly if the charge is included in the air fare (and, for example, like other new costs becoming commissionable when a ticket is purchased through a travel agent). At the same time, the concept of avoidance is highly desirable and the streamlining of procedures as well as modern technology can offer solutions. The Conference may therefore consider simply adopting a recommendation (to be reflected in Doc 9082 and Annex 9) to the effect that the collection of passenger services charges directly and separately from passengers at airports should be avoided. Consequent upon such a recommendation more comprehensive and detailed practical guidance could be developed, for example, in a revision of the *Airport Economics Manual* (Doc 9562).

4.2 In any event, based on the conclusions of the FAL/11 Division, the text in paragraph 19 in Doc 9082/5 could be improved by realigning it with the revised Recommended Practice in para 6.4 of Annex 9. This could be done, for example, by adding the following sentence at the end of paragraph 19: “The airlines should in turn recover the charge from the passengers in such a way that the necessity for additional queuing at the airport is avoided.”

4.3 At the same time, the statement in the first sentence of paragraph 19 of Doc 9082/5 that the Council “reaffirms that passenger service charges are not objectionable in principle” appears out of date considering that such charges are fully cost justifiable, and which, moreover, are levied in 171 ICAO Contracting States. The Secretariat therefore suggests this consideration be deleted from Doc 9082.

5. **Action by the Conference**

5.1 The Conference is invited to note this paper and:

- (i) decide on a recommendation to the Council on the avoidance of the collection of passenger service charges directly and separately from passengers at airports, as discussed in paragraph 4.1 above; and
- (ii) recommend to the Council changes to Doc 9082 as described in paragraphs 4.2 and 4.3 above.

APPENDIX

7TH TRIENNIAL SESSION OF THE EUROPEAN CIVIL AVIATION CONFERENCE (1970)

RECOMMENDATION NO. 1

METHOD FOR THE COLLECTION OF PASSENGER SERVICE CHARGES

WHEREAS the Committee of Ministers of the Council of Europe recommended on 22 September 1967 that the collection of passenger service charges from the passenger should be avoided;

WHEREAS in May 1968 the ICAO Facilitation Division equally concluded the desirability of such a step;

WHEREAS the system of collecting charges directly from passengers at airports is a source of inconvenience to passengers and poses facilitation difficulties;

WHEREAS it appears now desirable and may become indispensable in a few years for separate collection of charges from passengers to be abolished, taking into account the development of air traffic in coming years and having particularly in mind the introduction of high-capacity aircraft;

WHEREAS the legal and regulatory aspects of the problems considered as well as the rate at which airport costs are recovered, are a matter of each State and cannot be handled by ECAC;

WHEREAS it is desirable that Member States, in implementing that recommendation, follow uniform practices regarding the cost and accountancy aspects of the collection of passenger service charges; and

WHEREAS it appears that such uniform practices could be adopted with the co-operation of airlines through a machinery which would be simpler, more rational and more convenient to air travellers than the present system.

THE CONFERENCE RECOMMENDS

- 1) that any charge based on the number of passengers on board should be invoiced directly to the particular airline, which should be permitted to recover this additional cost from the passenger in so far as possible when establishing new tariffs;
- 2) that the new method adopted should not bring in any new documentary requirement for the assessment of charges other than the existing documentation regarding the number of passengers;
- 3) that, other things remaining equal, the conversion to the new method should not in itself give rise to any revenues over and above those previously produced by the passenger service charge;
- 4) that joint action be taken by airlines in respect of fares with a view to implementation of the new methods;
- 5) that, subject to the regulations adopted by certain States, the implementation of the new methods, together with any tariff/surcharge changes required to accommodate them should take account of both the forthcoming introduction of high-capacity aircraft and the IATA Traffic Conference periods, and that, in view of these two facts, 1 April 1971 be held the most suitable date;
- 6) that each State advise as soon as possible its IATA member airline(s) of the new method it considers introducing;
- 7) that the number of the departing passengers should be taken as the basis for assessment;
- 8) that all passengers on scheduled and non-scheduled international air services should be included in the basis of assessment with the following exceptions:
 - a) children under two years;
 - b) passengers in through transit (without change of aircraft or flight number);
 - c) transfer passengers who do not leave the direct transit areas save when special local or technical circumstances beyond the control of passengers necessitate this;
 - d) airline personnel on duty travelling on free tickets.
- 9) that all passengers on executive aircraft, taxi flights, etc., should be included in the basis of assessment irrespective of the weight of the aircraft, providing they actually utilize the services of the airport terminal and the flights in question are international;

- 10) that where the charge is not assessed, or is assessed at a different level, in respect of a certain category of passengers (e.g. those on domestic flights) airport authorities should ensure that the costs of the facilities to which the charge relates are determined on an equitable basis, so that no users shall be burdened with costs not properly allocable to them according to sound accounting principles;
- 11) that, for the purpose of calculating the basis of assessment, civil aviation administrations should use the document currently filled in by airlines for reporting the number of passengers, subject to it being amended as necessary in consultation with the airlines to include all the information needed; and
- 12) that, when passengers for whom an exemption is claimed are not readily distinguishable on the basis of existing airline documentation, they should be included in the first instance by airport authorities when invoicing the operator, and a subsequent refund should be made on the basis of additional information submitted by the operator.

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