

<b>CIVIL AVIATION SECURITY FINANCING STUDY</b>	<b>F</b>
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## Appendix F – Security operating results by State

A brief description of the main features of each State's operating position for 2002 is outlined below.

### Austria

#### Funding

Revenue is generated from State taxes only. At all Austrian airports, the security tax is fixed at €2.18 per passenger with the current level having remained unchanged since 1996. It was reported that discussions relating to raising the security tax have been held.

Vienna airport advised security revenues although no security charges appear to be levied. Austrian airports advise that part of security taxation income is shared with airports in order to fund some security activities undertaken by the airports directly.

For the purposes of the estimation in this report, only taxation income is raised. This is estimated at €34.1m in 2002.

#### Expenditure

The Ministry of Transport advised that security expenditure across all Austria airports totalled €32.7m in 2002, an average cost of €2.09 per passenger. Even though the 2 out of 3 responding Austria airports (including Vienna) reported some security related expenditure, it was assumed that these costs are included within the total State security expenditure.

#### Operating result

Overall it would appear that the State recorded a small surplus of €0.09 per passenger in 2002.

#### Comment

It was assumed that airport expenditure reported by responding airports is included within the overall State security burden. If not, airports may be funding (to some extent) the provision of security measures from other sources (e.g. traffic charges, commercial revenues, etc).

### Belgium

#### Funding

The Belgian CAA introduced a security tax in December 2001. This tax is the lowest of all 18 States at €0.15 per departing passenger. Regional authorities are responsible for funding the provision of security at the regional airports (i.e. Antwerp, Charleroi, Liege and Ostend). The taxation income is estimated to be €1.2m during 2002.

Brussels Airport is the only airport in Belgium that levies a specific security charge. This charge varied between originating (€4.11 per departing passenger) and transfer traffic (€3.94 per passenger); however, it was subsequently standardised at €6.00 per departing passenger

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applicable to all passengers in September 2003. These charges generated an estimated €29m in which equates to an average of €1.80 per passenger in 2002.

The combined Belgian weighted average income per passenger was €1.87.

### **Expenditure**

The Belgian CAA advised that security expenditure at Antwerp and Ostend airports (Flemish region) totalled €2.7m in 2002. For the other two regional airports, Charleroi reported expenditure of €0.3m. No data was available for Liege. The estimated State cost per passenger was estimated at €0.17 per passenger.

Security expenditure which is mainly driven by BIAC (Brussels Airport) totalled €31.2m in 2002. The estimated expenditure for all Belgium airports generated an average airport cost of €1.94 per passenger. This led to a combined weighted State and airport expenditure of €2.11 per passenger.

### **Operating result**

Both the State and airports recorded deficits, with shortfalls of €0.09 and €0.14 per passenger respectively. The combined funding gap was €0.23 per passenger.

### **Comment**

Belgium is classified under the centralised model for comparison purposes, as the regional authorities are responsible for funding security at regional airports. However, the main airport company BIAC (Brussels) provides and funds screening activities themselves.

The provision of security at Brussels and the regional airports (under the responsibility of the regional authorities) recorded deficits during 2002. As such, the funding of the small State deficit would have to be met from general taxes, and the funding of the BIAC (Brussels) deficit would have to come from other revenue sources. This is likely to be the reason behind the increase in security charges from September 2003.

## **Denmark**

### **Funding**

There are no specific State taxes levied to fund aviation security activities. The Danish CAA confirmed in its submission that no Danish airport currently levies a security charge. Airport security is provided and funded by the airports themselves. Security expenditure is recovered through aeronautical charges (i.e. landing fees, passenger service charge, etc). The main Danish airport, Copenhagen, is subject to economic regulation. Whilst no security related income was provided by Copenhagen airport, the assumption is that security costs would have been considered by the regulator when setting the maximum level of charges.

### **Expenditure**

Danish airports, mainly driven by Copenhagen airport, are estimated to have average security costs of €1.08 per passenger with no funding provided by the State.

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### **Operating result**

As there is no specific aviation security revenue, the security expenditure translates into a funding deficit that equates to €1.08 per passenger. However, it is important to note that Copenhagen airport recovers security related expenditure through other traffic charges under its economic regulatory mechanism.

### **Comment**

The Ministry of Transport advised that it approved an increase of 10.1% to Copenhagen's passenger charge in April 2004 to offset increases in security related operational expenditure as a direct result of Regulation No. 2320/2002 implementation. This equates to a rise of €1.27 (DKK 9.49) per originating departing passenger over the 2003 published charges.<sup>1</sup>

## **Finland**

### **Funding**

There were no State taxes being levied to fund aviation security in Finland in 2002. The Finnish CAA, which runs the majority of commercial airports, introduced an airport security charge of €2.71 per departing passenger applicable in January 2003. As such, no security related revenue was generated in 2002 and all security activities were funded through other airport charges (i.e. passenger charges).

For regional airports outside the control of the CAA, the provision of security is its responsibility of the local authorities.

### **Expenditure**

The CAA advised that the security related expenditure for all its airports totalled €7.2m which equates to €0.55 per passenger in 2002.

### **Operating result**

With no specific security related revenues, the Finish airport recorded an operating deficit equal to its expenditure (€7.2m or €0.55 per passenger).

### **Commentary**

The Finish CAA advised that traffic charges set on a network basis rather than on an individual airport basis. This could lead to cross subsidies between the larger and smaller airports across the network.

<sup>1</sup> As outlined on Copenhagen Airport' Tariff Regulations for 2003-2005

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## France

### Funding

Although the French authorities do not levy specific security related taxes, a proportion of the Civil Aviation Tax (CAT) is allocated to fund security related measures such as training and equipment. The CAT is levied upon all departing passengers and two different levels are applied whether on travelling within EU or to a non-EU destination.

According to the French DGAC, the amount of CAT income dedicated to fund security in 2002 totalled €62m or €0.51 per passenger across all French airports. This represented around 22% of total CAT income.

French airports also levy separate security charges. These have risen considerably since 2001. For example, from 2002 to 2003 the charges at Aéroports de Paris have increased from €2.73 to €8.05 per departing passenger, at Lyon the increase has been from €2.59 to €8.00 per departing passenger, and at Nice from €3.75 to €6.48 per departing passenger. The estimated weighted average for all French airports was €1.38 per passenger in 2002.

Combined, the State and airport revenues were estimated at €1.90 per passenger.

### Expenditure

The allocation of taxation income to fund security related activities by the French DGAC totalled €62m, an average of €0.51 per passenger. The estimated security expenditure for French airports was €247m which equates to €2.04 per passenger.

The total average State and airport expenditure was €2.56 per passenger in 2002.

### Operating result

Due to the breakeven State position, the operating result in 2002 was driven by the responding airport performance. It would appear that French airports record a security deficit of €0.66 per passenger.

### Comment

The main French airport operator, Aéroports de Paris, reported a significant operating deficit for security in 2002 (€0.68 per passenger), which contributed to an increase in security charges in 2003.

## Germany

### Funding

The majority of German aviation security revenue (98% in 2002) was generated from security taxes levied by the Federal Border Police or the regional authorities.

Security taxes are set on an airport basis and reviewed annually based on the expenditure recorded by the airport during the previous year. As a result, security taxes vary widely amongst airports ranging from €3.56 (lowest) and €10.00 (highest) at Zweibrücken and Saarbrücken respectively.

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The Federal Ministry of Interior advised that security taxation income totalled €287m in 2002, an average of €3.07 per passenger.

Some German airports levy a separate security charge, although the level of the charge is considerably lower than the security tax imposed by the State. These charges are aimed at recovering additional security measures arising since 11 September 2001 which are not remunerated through the security tax. From the responses received, charges range from €0.17 to €0.40 per departing passenger at Frankfurt and Munich airports respectively. The average airport charge is estimated at €0.07 per passenger for all German passengers.

The combined weighted income from State and airport averaged €3.13 per passenger in 2002.

### **Expenditure**

The Federal Ministry of Interior advised that total State security related expenditure was €333m in 2002 which comprised €287m funded through security taxes plus another €46m for inspection and surveillance activities funded through general taxation (i.e. grants and subsidies). This level of expenditure equates to €3.56 per passenger, the second highest across 18 States (after Luxembourg).

From responding German airports, it is assumed a further expenditure of €52.1m or €0.56 per passenger. The total combined (State plus airports) average cost per passenger was €4.11 per passenger.

### **Operating result**

The negative cost-revenue relationship at both State and airport level leads to an overall combined funding gap of €92m in 2002 which equates to a deficit of €0.98 per passenger.

### **Comment**

German carriers have mounted a legal challenge claiming that some security additional measures are of a national security nature and should therefore be recovered from public funding (general taxation). The Federal Administration Court of Germany recently ruled that the aviation security taxes were raised without effective legal basis in 2002 and therefore these must be refunded to air carriers<sup>2</sup>. The court ordered that €85m should be refunded to carriers which mean that the State only raised a net income of €202m in 2002 or €2.16 per passenger representing a lost income of circa 30%.

## **Greece**

### **Funding**

There is no specific tax to fund civil aviation security in Greece although the Hellenic CAA confirmed that part of the proceeds from the Airport Development Tax (ADT) are allocated to fund the provision of security activities at regional airports. The ADT was introduced in April 2001 and is levied on all passengers travelling from Greece to any other EU and non-EU destination.

However, the Hellenic CAA was unable to provide any data to enable estimation of the total tax income or the proportion of ADT that goes to fund security related activities in Greece.

<sup>2</sup> As notified by Germany's Ministry of Interior (BMI).

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It is understood that Athens Airport (AIA) is the only Greek airport responsible for funding and providing its own aviation security. The estimated income for the airport's security charge averaged €0.65 per passenger in 2002.

#### **Expenditure**

Athens airport was the only airport reporting security related expenditure with average expenditure of €1.66 per passenger in 2002.

#### **Operating result**

Athens airport recorded a funding gap of €1.01 per passenger which suggests that the airport has been funding the provision of security through other income sources. Security charges were increased in 2003. Athens airport is also subject to pricing regulation whereby the expenditure on all activities is taken into consideration when setting its overall traffic charges.

#### **Comment**

The information provided reflects the situation at Athens airport rather than at the State level. Due to the lack of revenue and expenditure information for those airports operated by the Hellenic CAA, it has not been possible to produce an estimate for Greece as a whole.

## **Iceland**

#### **Funding**

The Icelandic CAA has levied a security tax on international passengers departing from Keflavik airport since 1994. The tax was extended to all airports from 1 September 2003. The average tax per passenger was estimated at €0.72 per passenger.

The Icelandic CAA is also responsible for running the main commercial airports. There is no separate airport security charges levied at these airports.

#### **Expenditure**

All costs are also borne by the State with a reported weighted average cost of €0.13 per passenger.

#### **Operating result**

With the average per passenger State taxation exceeding State expenditure, it would appear that Iceland generated an operating surplus of around €0.59 per passenger in 2002.

#### **Comment**

The security tax applicable to all international departing passengers was recently raised from ISK 300 (€3.48 per passenger) to ISK 620 (€7.15) in order to offset increasing security expenditure.

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## **Ireland**

### **Funding**

There is no security tax in Ireland. Aer Rianta, the operator of Dublin, Shannon and Cork airports, introduced a security charges that vary by airport in 2002.

Aer Rianta's security charges were €1.90 per departing passenger at Dublin and €2.55 at both Shannon and Cork airports. These charges are set within an overall economic regulatory price cap for the 3 airports. Smaller regional airports such as Kerry advised that no specific security charges were levied.

The average across all Irish airports was estimated at €1.87 per passenger.

### **Expenditure**

All expenditure was funded by the airports with an estimated cost of €1.74 per passenger.

### **Operating result**

Irish airports were estimated to generate a small security surplus of €0.12 per passenger in 2002.

### **Comment**

This surplus is primarily driven by Aer Rianta airports, although unlike other regulated airports, Aer Rianta has a separate security charge. It is important to note that whilst Aer Rianta recorded a small surplus in security activities during 2002, they also reported an overall under-recovery of €0.75 per passenger in relation to their maximum allowable charge per passenger (price cap).

## **Italy**

### **Funding**

Security revenues are generated via taxes only. These were gradually introduced across all Italian airports between March and September 2000. The tax is divided into two components: one for passenger screening and other for baggage screening. The State compensates airports undertaking security activities by sharing part of the taxation proceeds with them. The net proportion of the security tax for the State averaged €0.94 in 2002.

The average revenues for the airports (from a share of State taxes) were €1.26 per passenger.

The average total passenger funding equated to €2.19 in 2002.

### **Expenditure**

It was assumed that State security expenditure is in line with the income generated through taxation. State expenditure was estimated at €0.94 per passenger.

However, estimated airport security expenditure was higher at an average of €1.53 per passenger. The total security cost per passenger was estimated at €2.47 per passenger.

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### **Operating result**

With State taxes offsetting State expenditure, the overall result is driven by the airport performance. Italian airports are estimated to have had a funding gap of €0.27 per passenger. Bearing in mind that the main funding is through taxes only, it would appear that airports finance the funding gap from other revenue sources.

## **Luxembourg**

### **Funding**

There is no specific State security tax, with all revenue generated from an airport security charge of €0.25 per passenger. The CAA operates Luxembourg airport.

### **Expenditure**

There are significant State costs allied to a low traffic throughput, which equates to an estimated cost of €8.87 per passenger, the highest for the 18 States.

### **Operating result**

The substantial difference between revenues and costs generates a large funding gap which equates to an average deficit of €8.62 per passenger.

### **Comment**

With the large deficit on a per passenger basis, the Luxembourg State would have to fund the deficit from general taxes.

## **Netherlands**

### **Funding**

The Royal Port Police carried out passenger and baggage screening activities up to 1 April 2003, when these responsibilities were transferred to the airports as outlined on the new Dutch Airports Act. Until transfer of responsibilities, the Ministry of Justice, responsible for aviation security in the Netherlands, had levied a security tax on passengers.

Before it was discontinued, the security tax was €5.35 per originating departing passenger at all Dutch airports. These taxes were subsequently replaced by airport charges to cover the additional cost of security provided by the airports. The estimated average State tax per passenger in 2002 was €1.28 (the reduced result driven by the high numbers of transferring passengers at Amsterdam).

However, airports had introduced security related charges before the transfer of responsibilities. These were aimed at funding the rising security expenditure that airports would be faced with ahead of the added responsibilities. For example, Schiphol airport introduced a new security charge in April 2002 to fund significant terminal redevelopment works associated with security. The security charge in 2002 was €4.40 per originating departing passenger (this has increased to €10.85 in 2003 after the transfer of screening responsibilities from the State to the airport). Schiphol also levied a different security charge to transferring passengers that is significantly lower (€1.60).



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Regional airports such as Rotterdam and Eindhoven in 2002 had introduced security taxes of €8.30 and €8.79 per departing passenger respectively. The average airport charge was estimated at €1.26 per passenger in 2002.

The combination of security taxes and charges averaged €2.55 per passenger in 2002, the second highest amongst the 18 States (after Germany).

### **Expenditure**

The Dutch authorities reported an average security unit cost of €1.35 per passenger in 2002; while the security cost for Dutch airports was estimated to have averaged €1.23 per passenger.

The combined security cost was estimated on €2.57 per passenger.

### **Operating result**

The State seemed to have posted a short deficit of €0.06 per passenger, while Dutch airports a small surplus of €0.03 per passenger. The net deficit is estimated in €0.03 which represents almost a break even (estimated overall deficit of €1.2m).

### **Comment**

Amsterdam Schiphol airport recorded a surplus (€1.2m) from security activities in 2002 mainly due to better than forecast traffic throughputs (passengers). Management took this surplus into consideration when setting revised charges that were effective from 01 April 2003.<sup>3</sup>

## **Norway**

### **Funding**

There were neither security taxes nor airport charges applicable in 2002. However, Avinor, the Norwegian airport authority, raised its passenger service charge by €1.21 (NOK 10.00) per departing passenger in January 2003 to adjust for increasing security costs.

As the security related increase in airport charges was introduced in 2003, no security revenue is estimated for 2002.

### **Expenditure**

It is estimated that the average security airport security cost was €0.25 per passenger across all of the airports operated by Avinor.

### **Operating result**

With no income, the airport security unit cost equates to a security deficit of €0.25 per passenger.

### **Comment**

It would appear that Avinor had been financing the deficit from security activities until January 2003, when passenger service charges (PSC) were raised to offset increasing security costs.

<sup>3</sup> Schiphol Group Annual Report for 2002.

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The Norwegian authorities also advised that a new security charge of €5.26 (NOK 42.00) per departing passenger was introduced by Avinor in June 2004.

## Portugal

### Funding

A security tax was first introduced in Portugal in March 1991. The tax varies depending on the destination of the passenger (either inside or outside of the EU). The proceeds from the taxation income are shared between different stakeholders (60% to the Ministry of Interior, 27.5% to the Portuguese CAA and 12.5% to the airports). The average State tax attributable to the State was estimated at €1.21 per passenger.

The average charge which was attributable to the airports was estimated at €0.15 per passenger.

### Expenditure

Estimated State expenditure marginally exceeded revenues at €1.22 per passenger. The Portuguese airport authority's (ANA) airports record an estimated security expenditure of €0.29 per passenger. The combined security unit cost was €1.51 per passenger.

### Operating result

Both the State and the airports would appear to have had funding deficits for security of €0.02 and €0.14 respectively in 2002, leading to an overall deficit of €0.16 per passenger. It could therefore be assumed that both stakeholders financed security from general taxes and other airport charges respectively.

## Spain

### Funding

Although the Spanish government does not levy a specific security tax, it receives 50% of the security revenues generated by Aena, the State owned airport authority. The security charge income is shared between the Ministry of Interior (responsible for the Civil Guard and National Police forces) and Aena.

The security charge is driven by the type of flight (scheduled or charter) as well as the destination (mainland to island, intra-island services, others). As the security charge is split in equal proportions, the State and airport operator both received an average of €0.27 per passenger each in 2002.

### Expenditure

In the absence of any expenditure information, it was assumed that expenditure equals taxation income. Aena did not provide any financial data therefore expenditure for Spanish airports is based on the average unit cost for airports under the centralised model.

### Operating result

While State revenues are assumed to match expenditure, airports were projected to have a funding gap. Using the average unit cost for other European centralised airports, this deficit would have been in the region of €1.01 per passenger.

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### Comment

The usage of the European centralised airport cost unit may provide misleading results for the real position of Aena in terms of security funding.

## Sweden

### Funding

No security taxes were levied in Sweden. The Swedish CAA (LFV), which is responsible for national civil aviation security matters, provides security at 19 Swedish airports. The charge, which is paid by carriers on a departing passenger basis, varies according to the departure point, particularly for the main airports. The security charge may also vary depending on the passenger's destination (domestic or international). The estimated average airport charge in 2002 was €0.98 per passenger.

### Expenditure

The cost for providing aviation security is borne by the CAA with an estimated unit cost of €0.93 in 2002.

### Operating result

The revenues and expenditure generated a small operating surplus of €0.04 per passenger in 2002.

### Comment

In common with a number of States, Swedish airport charges have risen considerably since 2001. From 2001 to 2003 the charges at Stockholm-Arlanda increased from €1.13 to €3.28, whilst at other airports the average increase was from €1.19 to €4.91 per passenger.

The Swedish LFV recently advised that in spite of recent increases in security charges, they recorded an overall funding deficit of €11.2m or €0.52 per passenger during 2003<sup>4</sup>.

## Switzerland

### Funding

Switzerland levies no specific security taxes. Although security is paid for through airport charges at major airports, regional authorities fund security at the smaller airports. The regional police forces are responsible for provision of key security measures across Swiss airports.

Zurich airport levies different security charges that vary for originating and transferring passengers. Charges were €4.77 and €4.09 respectively in 2002. Information on security charges at other Swiss airports was not available. The estimated weighted average passenger charge was €1.53 per passenger.

<sup>4</sup> Swedish CAA (LFV) security results for 2003: revenues of €46.5m versus costs of €57.7m.

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### **Expenditure**

The State contributed to security expenditure, equating to €0.26 per passenger. The vast majority of cost is therefore borne by the airports, with an estimated average cost of €3.63 per passenger in 2002.

The combined State and airport cost was €3.89 per passenger. This ranks as the third highest security unit expenditure for the 18 States.

### **Operating result**

With no State income, the State expenditure translates into a funding gap of €0.26 per passenger. Airports are estimated to post a significant shortfall in revenues, with an estimated average airport deficit of €2.10 per passenger, the highest amongst the airport's weighted average for the 18 States.

The combined State and airport funding deficit totalled €2.36 per passenger, the second highest per passenger deficit for the 18 States.

## **United Kingdom**

### **Funding**

The UK has no specific security tax. The airport charges position varies according to the airport operator. The main operator, BAA, with 7 airports does not levy separate security charges; security activities are funded through normal traffic charges (i.e. landing fees and passenger service charges). The 3 London airports (Heathrow, Gatwick and Stansted) are subject to economic regulation with the charges set at a level to reflect all costs, including security. It could therefore be argued that the allowable aeronautical charges recover (to some extent) the cost of security within the regulatory mechanism.

Other operators such as Manchester Airport Group (Manchester, East Midlands, Humberside and Bournemouth airports) and TBI (Luton, Belfast International and Cardiff airports) levy separate security charges. Manchester airport is also subject to economic regulation and as such security related costs are included within the overall economic regulatory price cap for the airport.

The estimated total specific airport revenue from charges was €0.43 per passenger.

### **Expenditure**

Whilst BAA's airports do not levy any specific security charges, they did report substantial security related expenditure. Overall, the UK's airports' expenditure was an estimated average of €2.27 per passenger in 2002.

### **Operating result**

The UK airports deficit equated to €1.84 per passenger, driven primarily by the main London airports not levying a specific security charge.

### **Comment**

Based on the information provided, the UK airports appeared to have a substantial deficit of €1.84 per passenger in 2002.

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However, BAA's 3 London airports (Heathrow, Gatwick and Stansted) are subject to economic regulation with security related costs included within an overall economic regulatory price cap for the 3 airports. Therefore security expenditure is taken into consideration when setting the allowable charges for these airports. On the basis that the London airport expenditure is recovered (to some extent) from the allowable charges, the overall UK net deficit could reduce from €351m to around €50m or €0.27 per passenger in 2002.