

Section 1

INTRODUCTION

September 2004



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Glossary

List of participating stakeholders

State	Government Body (responsible for security)		Airports	No. airports	Carriers
Austria	BMVIT	Ministry of Transport	Flughafen Vienna Graz		Austrian Airlines (<i>n</i>)
Belgium	DGAC	Civil Aviation Administration	BIAC/Brussels International Airport Charleroi Bruxelles Sud		
Denmark	SLV TRM	Civil Aviation Administration Ministry of Transport	Københavns Lufthavne A/S		SAS (1) (<i>n</i>) Cimber Air (<i>r</i>)
Finland	FCAA	Civil Aviation Administration	FCAA	25	Finnair (<i>n</i>) Air Botnia (2) (<i>r</i>)
France	DGAC	Civil Aviation Administration	Aéroports de Paris Aéroport Toulon - Hyères	2	
Germany	BMVBW BMI	Ministry of Transport Ministry of Interior	Fraport		Lufthansa (<i>n</i>) Eurowings (<i>r</i>) Air Berlin (<i>c</i>)
Greece	HCAA	Civil Aviation Administration	AIA/Athens International Airport		Aegean Airlines (<i>r</i>)
Iceland	ICAA	Civil Aviation Administration			
Ireland	DOT	Ministry of Transport	Aer Rianta Kerry	3	Aer Lingus (<i>n</i>) Aer Arann Express (<i>r</i>)
Italy	ENAC	Civil Aviation Administration	ADR/Aeroporti di Roma SAGAT/Aeroporto di Torino AdF/Aeroporti di Firenze	2	Azzurra Air (<i>r</i>)
Luxembourg	DAC	Civil Aviation Administration			Cargolux (<i>f</i>)
Netherlands	MINJUS MINVENW	Ministry of Justice Ministry of Transport	Schiphol/Amsterdam Rotterdam Eindhoven		KLM (<i>n</i>)
Norway	MOT	Ministry of Transport	Avinor	45	
Portugal	INAC	Civil Aviation Administration	ANA	2	TAP Air Portugal (<i>n</i>) PGA Portugaláia (<i>r</i>)
Spain	DGAC	Civil Aviation Administration	Aena	3	Iberia (<i>n</i>) Spanair (<i>n</i>) Air Nostrum (<i>r</i>)
Sweden	LFV	Civil Aviation Administration	LFV/Luftfartsverket	19	Skyways (<i>r</i>)
Switzerland	FOCA	Civil Aviation Administration	Zurich Unique		Swiss Air Lines (<i>n</i>)
UK	DFT	Ministry of Transport	BAA Newcastle Blackpool	7	British Airways (<i>n</i>) bmi British Midland (<i>n</i>) Air 2000 (3) (<i>c</i>) Britannia Airways (<i>c</i>) easyJet (<i>nfc</i>)

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Key: (n) network carrier; (r) regional carrier; (c) charter carrier; (nfc) no-frills carrier; (f) freight carrier

Notes: (1) Scandinavian Airlines' response covered Denmark, Norway and Sweden; (2) rebranded as Blue One;
(3) rebranded as First Choice Airways

Participating trade associations

Organisation	Name	Sector represented
ACI Europe	Airport Council International – Europe	Airports
AEA	Association of European Airlines	Network carriers
EEA	European Express Association	Express carriers/integrators
ERAA	European Region Airlines Association	Regional carriers
IACA	International Air Carrier Association	Charter carriers

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1 Study context

The prime purpose of this study is to give information on the ways that aviation security is financed in the European Union, with a view to identifying structural differences. Consequently, it would be erroneous to use the contents of the study to make subjective comparisons between security costs and taxes, charges and surcharges levied by the Member States, airports and air carriers respectively. It should be noted that the study does not seek to benchmark the revenue and cost units per passenger or tonne of air cargo between airports or carriers. Indeed, it is to be expected that in a European Union with different levels of taxation, different average wages, different levels of cost of living that there will be differences in costs between and even within countries for the same services at different airports.

In light of the above, the study is a snapshot of the situation regarding the financing of aviation security in the Member States during 2002. No assumptions are made as to whether 2002 was a typical year for the financing of security.

Systems for levying security charges may have changed during this period and, in particular, thereafter. Wherever possible footnotes, have sought to highlight this.

In addition, some administrations may have levied higher than necessary charges in 2002 and subsequently refunded moneys and/or revised charges in 2003. This information cannot be contained in a study which focuses on 2002 and consequently may lead to the misleading impression that some entities made profits from security taxes or charges, either in 2002 or over longer timeframes.

It is recognised that a study covering two or more years may have reduced the effects of one-off actions, deferred and mid-term revisions of levels of charges. However, since the trigger for the study was the impact of security costs post 11 September 2001, then historic data for 2001 or earlier are of little value. The alternative – studying costs in both 2002 and 2003 – would have meant that the report would have taken twice as long to prepare.

It should also be stressed that all the information contained in the study regarding national authorities, airports and air carriers is based on information that was given voluntarily. Their willingness to act in a transparent manner is to be applauded. It was not part of the work to evaluate the accuracy of such data.

In conclusion, the level of taxes, charges and surcharges as well as the security related expenditure referred to in the report were valid during 2002 and may now have changed over time. However, the purpose of the study is to highlight the various approaches taken to finance aviation security. This information is still pertinent and it, not the level of charges at individual airports or by individual carriers, will be the basis for any Commission communication on the subject.

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2 Introduction

The European Commission (the Commission) has a requirement for information and analysis to enable development of legislation at the European Union (EU) level to govern transparency and harmonisation of the application of aviation security measures, with particular regard to their financing.

2.1 Background to the study

The threat to civil aviation comprises unlawful interference, such as hijacking of aircraft, sabotage of aircraft and airports, and terrorist attack. The difference between sabotage at airports and terrorist attack is that the former is primarily intended to cause damage whilst the latter is directed against people. Where the motivation is political, incidents may involve a combination of two or more types of attack.

The first recorded aircraft hijacking incident occurred in the 1930's. The incidence of terrorist activities against aviation increased dramatically in the 1960s and 1970s. This is discussed in detail in Section 2.

The first effective aircraft hijacking counter-measures were introduced in 1970 and resulted in a slight decline in the number of incidents. However, it was not until 1973, when airlines started to introduce 100% passenger and cabin baggage searches that the number of incidents dropped significantly. From this time reconnaissance to test and discover weaknesses in airport security became commonplace.

On 20 December 1988, Pan Am flight 103 was blown up over Lockerbie in Scotland. This tragic single act of terrorism was the catalyst for major change in national aviation security programmes with the phased introduction of 100% hold baggage screening in a number of European States.

Following the events of 11 September 2001, the respective European Heads of State and Government, the President of the European Parliament, the President of the Commission and the High Representative responsible for the common foreign and security policy, agreed that the EU must take urgent decisions to respond to the new challenges facing it.

On 11 October 2001, the Commission forwarded to the Council and to the European Parliament a proposal for its Regulation (EC) No 2320 / 2002 (the Regulation). This proposal had, as its basis, the key security measures set out in the European Civil Aviation Conference (ECAC) Document 30. Various amendments were made to the Regulation prior to its adoption on 16 December 2002. This Regulation came into force on 19 January 2003.

In its communication of 10th October 2001 on the economic impact of terrorist attacks, the Commission stated that it would positively consider public financing to compensate for expenditure on additional security measures, which were a major concern of airports and air carriers.

The interinstitutional declaration in October 2002 accompanying the Regulation reiterated the determination of the European Parliament, the Council and the European Commission to continue to strengthen the quality of aviation security systems in the Community.

Regulation (EC) No 2320 / 2002 is restricted to establishing the security commitments of the Member States as opposed to possible rules on funding of such measures. The EU rules on State aid would still apply to the financing of aviation security.

Through this study, the Commission is ready to look at the funding issue from a broader perspective. This could include the need for greater harmonisation in the area of financing expenditure on aviation

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security, avoiding distortion of competition and, if necessary, after carrying out detailed studies, bringing forward legislative proposals.

2.2 Objectives

The primary objective of this study is to address the concerns raised regarding funding of additional aviation security measures through the provision of accurate information on the financing of existing aviation security measures. This will help to determine if specific EU legislation to promote harmonisation of financing methods is necessary or desirable.

The primary objectives of the study can be summarised as:

1. Providing the Commission with accurate information on the current status of financing of civil aviation security measures within the 18 States (15 EU States plus Iceland, Norway and Switzerland).
2. Contributing to an objective decision on whether or not specific legislation at the EU level to promote harmonisation of methods of financing is necessary or desirable.

2.3 Scope

The study examines the costs of aviation security at a range of airports within 18 European States (15 EU States plus Iceland, Norway and Switzerland) as well as the levels of security taxes and charges levied by the States and by airports.

The prospective accession States were not considered in the study, as they are not obliged to adopt the legislation (Regulation (EC) No. 2320/2002) at this time.

The tasks undertaken as part of the study were:

- Examination of the existing administrative organisation of aviation security in the 18 States to determine which security services are provided by:
 - National authorities (police, national guard, army, etc).
 - Regional or local authorities (police forces).
 - Airport companies (where airports hire and train their own security staff).
 - Private companies (through outsourcing of security activities to the private sector).
- Analysis of the current methods of funding civil aviation security in the European States (i.e. taxes, charges, carrier surcharges, fees, etc). Particular focus was placed on how responsibilities are shared between public authorities, airport companies and air carriers, and how security expenses are financed.
- Assessment of differences in the approach to aviation security provision and financing, highlighting the reasons for such architecture and identifying the potential risks of market distortion.
- Estimation of the order of magnitude of the additional costs of the aviation security measures that:

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- Were introduced after 11 September 2001.
- Arise from new EU legislation (Regulation (EC) No 2320/2002) in terms of staff, equipment and potential changes in airport layout.
- The study also examines the funding of aviation security in the United States (US). The Commission believes that it is important to understand the approach that the US authorities have taken to the funding of new aviation security measures. Particular attention is given to the new organisation outlined in the Air Transportation Security Act enacted on 19 November 2001; the establishment of the Transportation Security Administration (TSA) and the funding mechanisms being made available by the US Government to help airports and airlines meet aviation security standards.

2.4 Methodology

The approach to carrying out the study had a number of stages. For the States examined, the study attempts to:

1. Understand the existing aviation security administrative structure in the study States - *who does what?*
2. Understand the current aviation security funding methods – *who pays for what?*
3. Understand the revenues generated from aviation security taxes and charges
4. Provide detailed data analysis
5. Put forward key conclusions

2.4.1 Consultation with stakeholders

The study was conducted through widespread consultation with key stakeholders in the European aviation industry including:

- **State representatives** with responsibility for aviation security in the 18 States
- **Carriers:** members of the following carrier associations:
 - Association of European Airlines (AEA)
 - European Regional Airlines Association (ERA)
 - International Air Carrier Association (IACA) representing charter airlines
 - European Express Association (EEA) representing the integrators
 - A number of low cost (or no frills) carriers
- **Airports:** a representative sample of large, medium and small airports across the 18 States.

The study included a broad consultation exercise with industry stakeholders including 18 State representatives, 41 airport groups or companies (large, medium and small size), 42 carriers (scheduled, charter, regional, no frills operators, freight and express air carriers/integrators).

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A detailed questionnaire was developed to provide a framework for stakeholders to provide information. The questionnaire was divided into two main areas:

- Qualitative sections: National Aviation Security Programme (NASP) requirements, impacts post 9/11 and from the EC Regulation, etc.
- Quantitative: financial inputs on taxes, charges, surcharges, security revenues and expenditure.

Stakeholder organisations including ACI Europe (airports), AEA, ERA, IACA and EEA (carriers)¹ provided assistance with the distribution of the questionnaires to the various stakeholders and subsequent follow up of queries. The overall response for the stakeholders was circa 75% as illustrated in the figure below.

Figure 1-1: Stakeholder consultation summary

Stakeholder group	Number of contacts made	Number of responses received	Number of responses not received
States	18	18	0
Airports	41	31	10
Carriers	42	29	13
AEA Members	21	16	5
ERA Members	14	9	5
IACA Members	5	3	2
Low-cost	2	1	1
Freight carriers*	6	2	4
Total	107	80	27

Key: (*) The freight carrier category includes freight, express carriers and integrators.

Note: Freight forwarders were not included within the stakeholder consultation.

It should be noted that the term airline and carrier have been used interchangeably throughout this report.

A number of airline and airport stakeholders declined to take part in the study. Air France was the only network carrier to decline participation.

2.4.2 Briefings with stakeholder representatives

Briefings were held with the following organisations:

- ACI Europe (Airports Council International).
- AEA (Association of European Airlines).
- ERA (European Regional Airlines Association).

¹ ACI Airports Council International; AEA Association of European Airlines; ERA Association of European Regional Airlines; IACA International Air Carriers Association; EEA European Express Association.

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The objective of these briefings was to:

- Provide an understanding of what the Commission wished to achieve from the study;
- Outline the approach which would be followed to deliver the study;
- Gain buy-in and support from the organisations to assist with the successful delivery of the study.

An interim draft report of the study was distributed and comments received. Where appropriate, these comments were integrated into the final text of this report.

2.4.3 Presentation of study findings

A presentation of the study's key findings was made to SAGAS members (stakeholders' representatives) in Brussels on 12th July 2004.

The majority of the participants generally welcomed and endorsed the study's findings, however some stakeholders raised concerns primarily relating to the estimation of security income and expenditure for 2002.

Subsequently, a number of stakeholders provided comments and/or revised financial inputs for inclusion in the final report. These include feedback from the following stakeholders: Aer Rianta (Ireland); the Ministries of Transport of Denmark, the Netherlands and Norway; and the Civil Aviation Administrations of Sweden (LFV) and Switzerland (FOCA). Whilst French representatives attending the meeting on 12th July 2004 had a query on the proportion of the French CAT (Civil Aviation Tax), no further information could be obtained from the French authorities to clarify this issue despite repeated attempts.

2.5 Timeline

The table below summarises the key output milestones for this study.

Figure 1-2: Aviation security financing study timetable

Output	Time Lead	Date
Kick-off meeting		10 April 2003
Interim report	3.5 months	21 July 2003
Draft final report	8 months	9 December 2003
Final report	12 months	2 April 2004
Final presentation – SAGAS members	15 months	12 July 2004
Revised final report		Mid September 2004

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2.6 Quality of responses

The financial information in the report is based solely on the responses from the States, airports and carriers. The use of this information in the report has been checked and verified by the various participants of the study.

The financial information provided by the participants enabled high-level analysis of security related revenues and expenditure at a State, airport and carrier level. The information provided did not allow analysis of the revenues and expenditure associated with particular security activities such as passenger search, hold baggage screening (HBS), etc.

The process of requesting, expediting and analysing responses from the various stakeholders proved to be extremely time consuming. The quality and variability of information returned was very mixed.

Initial deadlines were agreed with the European Commission, AEA and ACI for the issuing and return of the detailed questionnaires to the State security representatives, airlines and airports. The majority of responses were either late, incomplete or both. A number of revised deadlines were set but despite repeated efforts to ensure receipt of completed responses, these deadlines were invariably missed. This resulted in the flow of information being very piecemeal and inefficient to analyse. Much of the information provided was subject to queries being raised with the information having to be revised and resubmitted.

To get the best possible representative sample of information from the stakeholders, responses were being accepted up to the end of November 2003 when the draft final report was due to be submitted to the Commission.

Where information was incomplete, additional sources (such as the IATA Charges Manual and ACI) were used to complete the analysis for the 18 States. Any estimates or assumptions made are identified in the report.

Figure 1-3: Information deadlines

Organisation	Number of parties contacted	Date Distributed	Due date	Received on time	Received After the Interim report	Not Received
State security representatives	18	16 May 2003	6 June 2003	6	12	0
Airports	41	12 June 2003	23 Sep 2003	15	16	10
AEA carriers	21	13 June 2003	Initial date 30 June 2003 <i>Deferred to 6 and then 28 July 2003</i>			
			Questionnaire, Sections A-C 6 July 2003	10	6	5
			Questionnaire, Sections D – E 28 July 2003	9	7	5
ERA carriers	14	19 June 2003	7 July 2003	4	5	5
IACA carriers	5	1 July 2003	28 July 2003	1	2	2

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Organisation	Number of parties contacted	Date Distributed	Due date	Received on time	Received After the Interim report	Not Received
Low cost carriers	2	18 Sep 2003	30 Sep 2003	0	1	1
Air freight(*)	8	18 Sep 2003	10 Oct 2003	0	2	6

Note: (*) freight carriers include express carriers/integrators

Following the SAGAS meeting on 12th July 2004, a number of stakeholders provided further or amended data for 2002. Where possible, this data has been incorporated into the final report.

It was clear from the ongoing failure of the key stakeholders to meet agreed deadlines for submission of information that the required information was not available in a readily assembled format. Stakeholder management information systems would not appear to be structured in a way to collect data relating to aviation security across the majority of stakeholder organisations.

2.7 Structure of the report

The report begins in **Section 2** with an examination of the background and evolution of aviation terrorism and security and looks at key legislation and measures introduced over the last 30 years in an attempt to combat the threats.

Section 3 examines the structure of each State's national aviation security programme (NASP) outlining the respective aviation security and regulatory responsibilities for the 18 States in the study. The report identifies the party or parties responsible for the provision and supervision of each of the components of the Regulation.

Section 4 analyses the operational and capital costs related to the provision of aviation security in the 18 States.

Section 5 analyses the various security taxes and charges levied on customers in each of the 18 States. Where possible it highlights the range of taxes and charges levies, on a country by country basis. The ultimate funder for each aspect of the aviation security requirements e.g. State, passenger, airport, airline, is also identified.

Section 6 brings together the costs incurred and revenues received by the different stakeholders (i.e. States, airports and air carriers) in each of the States. It highlights potential competition issues that arose during the course of the analysis. An analysis of the security related taxes and charges versus the average airfares in each market complete this section.

Section 7 reviews the development, organisation and funding of the post 11 September 2001 aviation security structure in the US. This section outlines the overall levels of funding for aviation security activities in the US as well as the respective levels of funding for airports and carriers.

Section 8 compares and contrasts the key aspects of European aviation security policy and funding with those of the US.

Conclusions of the study are outlined in **Section 9**.

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There are a number of **appendices** to the report, which contain detailed information and further background on a range of topics. These appendices are:

Appendix A – Survey Responses Log

Appendix B – A Chronology of Aviation Terrorism

Appendix C – The US Air Transportation Security Act (ATSA) - Key Characteristics

Appendix D – Transportation Security Agency (TSA) – Progress Since Inception

Appendix E – Consolidated State and Responding Airport Financial Results

Appendix F – Security Operating Results by State

Appendix G – Air Fares versus Security Taxes and Charges

Appendix H – Glossary of Terms