



# Cross Subsidization

Airlines and their passengers should not have to pay for facilities and services they do not use.

## SITUATION

Airlines and passengers are sometimes required to pay artificially higher charges in order to fund the cost of facilities and services used by other aviation and/or non-aviation stakeholders. This means that those airlines and stakeholders who benefit from the cross-subsidies are not paying their fair share of the cost.

Cross subsidization takes place between:

- **Airports:** higher charges at a given airport used to fund facilities and services or artificially lower the charges at another airport (through airport networks and/or systems) mean that airlines using a given airport are subsidizing traffic to/from other airports. Also, higher charges for facilities and services for international traffic than those for the same facilities and services provided to domestic traffic mean that international airlines and international passengers are subsidizing domestic routes.
- **Air navigation services:** unnecessarily higher en-route charges that cover terminal navigation costs mean that airlines overflying a territory are subsidizing the costs related to airlines landing in that territory. Non-site-specific terminal navigation charges also mean that airlines landing at major airports are subsidizing the costs of providing terminal navigation services at smaller airports. Other examples are meteorology and search and rescue services, paid for by commercial airlines but also used by other aviation and non-aviation users.
- **Air navigation services providers (ANSPs) and airports:** higher air navigation service charges used to fund airport ground activities mean that airlines overflying a territory are paying for airport facilities in that country, even though they are not using them.
- **Airports/ANSPs and other modes of transport:** higher airport or air navigation service charges used to fund other modes of transport, such as rail connections from the airport to the city, mean that airlines are cross-subsidizing public transport or any other mode of transportation.

In most cases, these cross-subsidies take the form of higher charges for international air traffic and passengers, which are unfairly forced to financially support lower charges for domestic air traffic and domestic passengers.

## IATA POSITION

IATA does not support cross subsidization of charges. It leads to airlines and their passengers subsidizing other airlines and their passengers. All airlines should pay their fair share of the costs for facilities and services they use and the cost allocation of facilities and services must be fair, non-discriminatory, transparent and subject to consultation.

Cross-subsidies breach ICAO's policies on charges, which state that user charges should be cost-related, users should not be charged for facilities they do not use and that only the cost of those facilities and services used by international air services should be included in their charges<sup>1</sup>. These policies and the key charging principle of cost-relatedness must be fully complied with.

## KEY REASONS WHY THERE SHOULD BE NO CROSS SUBSIDIZATION OF CHARGES

1. Charges that include cross-subsidies are not cost-related which is contrary to ICAO's policies. They may also discriminate between users of aeronautical facilities according to their nationality, which is prohibited by the Convention on International Civil Aviation.
2. Cross-subsidies distort competition, as one group of airline users is subsidizing another group of airlines engaged in similar air operations.
3. Airlines and their passengers are paying for facilities and services they do not need, do not use, and from which they do not benefit.
4. Charges should be airport specific: this is the only way to establish a sound cost base for charges and maintain the link between costs and the price paid.
5. Cross-subsidies hinder cost reduction and cost efficiency.

<sup>1</sup> ICAO Doc 9082 (ninth edition), paragraphs 2 ii) and 2 iii) of Section II and paragraph 3 ii) of Section III refer.