

MIT Global Airline Industry Program
Industry Advisory Board/Airline Industry Consortium Joint Meeting
October 25, 2007

Aviation Infrastructure Costs

Prof. Joakim Karlsson (Daniel Webster College)

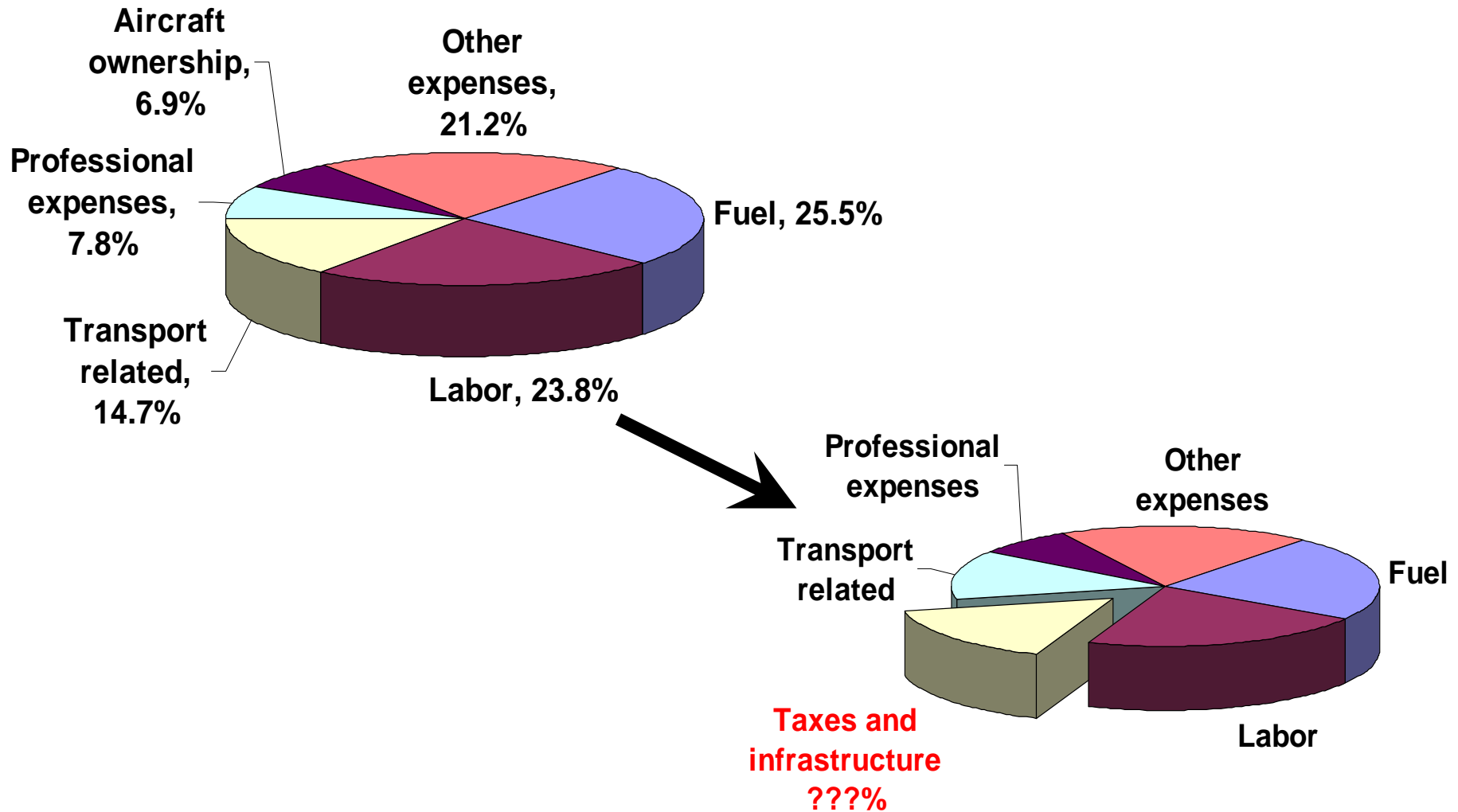
Prof. Amedeo R. Odoni (MIT)

Ms. Megan Gaudet (MIT)






Motivation

- Concerns about aviation infrastructure costs
- Changing aviation tax structures
 - Ongoing debate over reauthorization of U.S. trust fund taxes
 - 13 countries to impose new taxes to promote U.N. Millennium Development Goals
- Goal:
 - Quantify the total share of airline costs used for air transportation and security infrastructure
 - Provide insights into the nature of these costs

Changing conventional wisdom



Battle of the user groups

- **ATA**  **smarts skies**
a blueprint for the future
 - Fair, equitable, and simple user charges
 - Link system use with system costs
 - Base charges on level of infrastructure use
-    
 - Time-proven aviation tax system works
 - Airlines drive cost of the ATC system
 - A user fee on any segment of aviation will inevitably lead to user fees for all

Methodology

- Survey distributed to ATA member carriers
 - Direct expenditures on infrastructure
 - Taxes and fees paid by pax and carriers
 - CY 2004 data
 - Received survey results for 10 carriers
 - Mix of passenger and cargo carriers
 - Make up 55% of industry-wide operating costs
- Scaled up survey data using activity levels
- Reported receipts (public sources)

Survey structure

Item	Category	U.S. levy	Foreign levy
1000	Airport costs	✓	✓
2000	Air navigation charges	✗	✓
3000	Security costs	✓	✓
4000	Taxes and fees paid to U.S. entities (excluding PFCs and security fees)	✓	✗
5000	Taxes and fees paid to foreign entities	✗	✓

Survey results

- Infrastructure costs for 10 carriers
 - \$13.58 billion
 - 15.2-16.3% of carriers' total costs
- Activity levels represented by sample (share of all U.S. carriers):

	Ops	Pax	Cargo
Domestic	33.8%	55.7%	37.9%
International	34.6%	63.0%	36.6%

Analysis using public sources

- Sources
 - FAA Form 5100-127, *Operating and Financial Summary*
 - FAA AATF receipts
 - Other FAA sources
 - BTS
 - DHS Office of Inspector General
 - ATA
- Cover 86% of total infrastructure costs

Results

- Estimates based on public sources augmented by survey results, as necessary
- Infrastructure costs for all U.S. carriers:
 - \$22.77 billion
 - \$13.34 billion (58.6%) paid in taxes and fees
 - 15.3% of carriers' total costs (including taxes)
 - Consistent with results from 10-carrier sample

Summary of infrastructure costs

Item	Category	Costs (millions)	Share
1000	Airport costs	\$9,509	41.8%
2000	Air navigation charges	\$708	3.1%
3000	Security costs	\$2,305	10.1%
4000	Taxes and fees paid to U.S. entities (excluding PFCs and security fees)	\$9,896	43.5%
5000	Taxes and fees paid to foreign entities	\$349	1.5%
	Total infrastructure costs	\$22,767	100.0%
	Total industry expenses (incl. taxes)	\$149,291	15.3%

Conclusions

- Airlines and users spent \$23 billion on infrastructure and security in CY 2004
- This accounts for 15-16% of total industry costs
- 63% of such costs are paid through taxes and fees
- These costs make up the third largest cost category in the U.S., after fuel and labor

Questions?



CY 2004 Infrastructure Costs: U.S. Major and National Airlines (System wide)			
		Units: 2004 U.S. Dollars	
Code	Description	U.S. levy	Foreign levy
1000	Airport costs	\$0	\$0
1100	Landing fees		
1200	Leases, rents, amortization, and depreciation (on-airport only)	\$0	\$0
1210	Passenger terminals		
1211	FIS charges (if separate)		
1212	CUTE charges (if separate)		
1213	Apron fees		
1214	Remain overnight fees		
1220	Cargo facilities		
1230	Maintenance facilities		
1240	GSE/other support facilities		
1250	Fuel farms		
1260	Reservation centers		
1270	Other on-airport facilities		
1300	Debt service	\$0	\$0
1310	Special facility bonds (on-airport facilities) [if not included in 1100 or 1200 series above]		
1320	All other bonds and debt (on-airport facilities) [if not included in 1100 or 1200 series above]		
1400	Other on-airport capital expenses (including self-funded)		
1500	Passenger facility charges (max \$4.50 per airport for first two enplanements in each direction)		N/A
1600	Insurance of airport-related property (non-aircraft)		
2000	Air navigation charges	N/A	

CY 2004 Infrastructure Costs: U.S. Major and National Airlines (System wide)			
		Units: 2004 U.S. Dollars	
Code	Description	U.S. levy	Foreign levy
3000	Security costs	\$0	\$0
3100	Security personnel and contractors (passenger terminals only)		
3200	Federal security service fee (\$2.50 per segment for first two enplanements in each direction)		N/A
3300	Air carrier security fee (per carrier, based on CY 2000 screening costs)		N/A
4000	Taxes and fees paid to U.S. government entities	\$0	N/A
4100	Taxes and fees on domestic flights	\$0	N/A
4110	Federal ticket tax (7.5% of base fare, including domestic portion on AK/HI/Mexico/Canada)		N/A
4120	Federal segment tax (\$3.10 per segment)		N/A
4130	Jet fuel tax (commercial use) (4.3 cents per gallon)		N/A
4140	Leaking underground storage tank fuel tax (0.1 cents per gallon)		N/A
4150	Cargo waybill tax (6.5% of domestic freight waybill)		N/A
4160	Frequent flyer tax (7.5% of sale of right to award frequent flyer miles to third parties)		N/A
4200	Taxes and fees on international flights	\$0	N/A
4210	International arrival tax (\$13.70 per arriving passenger at a U.S. airport or \$6.90 for AK/HI)		N/A
4220	International departure tax (\$13.70 per departing passenger at a U.S. airport or \$6.90 for AK/HI)		N/A
4230	Immigration user fee (\$7 per arriving passenger at a U.S. airport)		N/A
4240	Customs user fee (\$5 per arriving passenger at a U.S. airport)		N/A
4250	Animal and plant health inspection service passenger fee (\$3.10 per arriving passenger at a U.S. airport)		N/A
4260	Animal and plant health inspection service aircraft fee (\$65.25 per arriving international aircraft)		N/A
5000	Taxes and fees paid to foreign entities for infrastructure and security	N/A	