

CPC Report on Airlines' Taxes, Fees, Charges, and Surcharges



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1. Summary

1.1 Abstract

The purpose of this project was to examine the taxes, fees and charges levied by airlines on their passengers and determine any potential damage to the collective economic interests of European consumers. The main objective of the project was to determine how transparent these taxes, fees and charges were and to help identify any practices that could potentially mislead consumers.

1.2 Executive Summary

Under the auspices of the Consumer Protection and Cooperation Regulation – and building on previous investigations performed by individual national consumer protection authorities in Europe surrounding the area of air fares and ticketing – 11 European countries agreed to participate in a 2008/2009 Common Activity looking at the Taxes, Fees and Charges airlines were charging their passengers.

The investigations that were conducted in relation to this Common Activity involved an examination of 281 flights and contact with 34 airports and 24 airlines. These investigations and contacts form the basis for the conclusions reached in this report.

A number of important features came to light early in the investigation. For example, Taxes, Fees and Charges were broadly divisible into two categories: those imposed on a per passenger basis and directly traceable to third parties such as airports and governments; and those unavoidable charges which were determined and/or levied by the airlines themselves, such as booking fees. However, a lack of clarity in how this information is presented to consumers has the potential to mislead them into transactional decisions they would not have otherwise made.

The report also addresses the related issue of the right of the consumer to a refund of certain taxes, fees and charges when they cancel a flight.

A lack of clarity again comes to the fore with another key finding of the investigation: airlines and airports tend to use different terms to describe the same thing. Even worse for the consumer, when the terminology used by some airlines does correspond, they can often have widely different definitions for the same word or phrase.

This report draws several conclusions and makes concrete recommendations going forward. It recommends simplifying terminology to end the needless confusion between airline, airport and consumer. It recommends simplifying and standardising the basic structure of the price as presented to the consumer, as well as simplifying the legal requirements on airlines as to what information they need to supply to consumers. It also recommends that the right to a refund of all airport fees and government charges which are not due if a consumer cancels a flight be clearly established in EU legislation.

From an administrative side, the report goes on to suggest three possible action points to enable the 29 member Consumer Protection and Cooperation network in Europe to work more closely together in their approach to the airlines sector.

The practical knowledge gained by the participants during the course of the Common Activity has fostered a new understanding of the airline industry within the respective consumer authorities. As such, the completion of this report represents a starting point for increased consumer protection cooperation across Europe, clearer guidelines for airlines on how to present air fares to consumers and, most importantly, more transparent transactions for consumers purchasing flights.

2. Introduction

2.1 Background

In the information on air fares provided to consumers on websites or tickets most airlines divide the price of air transport into two or more elements. First there is the basic air fare and then there are various taxes, fees, charges and surcharges ("TFCs"). Under European law all elements must be correctly specified and the total price must be displayed.

There are significant differences in the types and amounts of TFCs added to the basic air fare by different airlines on similar flights, i.e. at the same time and between the same airports. These differences can potentially mislead consumers who may believe that the additional TFCs added to the air fare are unavoidable and uniform charges imposed by third parties, notably airports and governments. Furthermore, consumers' ability to compare air fares can be reduced when TFCs are applied and calculated differently among airlines.

In 2008 a project group with participants from 11 European consumer protection authorities was established to look further into airlines use of TFCs. A key issue for the project group to examine was the reason for airlines diverging application of TFCs on similar flights.

The main objective of the project was to ensure that airlines calculate TFCs in a transparent and consistent manner, and thus avoiding misleading consumers. To reach this objective, the project group investigated which types of TFCs are used by airlines, how these are calculated and whether this information corresponds with information given by third parties, in particular airports. The project group also assessed whether the information on TFCs provided by airlines is in line with European legislation. The results of our investigations are compiled in this report.

The project is partly funded by the European Commission through article 8 of Decision 1926/2006/EC which establishes a programme for community action in the field of consumer policy. The project is one of several common activities carried out in 2008-2009 under Regulation 2006/2004/EC on cooperation between national authorities responsible for the enforcement of consumer protection laws.

The following EU/EEA authorities have participated in the project:

Civil Aviation Office (Poland)
Consumer Protection Board of Estonia
The Czech Trade Inspectorate
The Danish Consumer Ombudsman
Directorate General Enforcement and Mediation of the Federal Public Service for Economy, SME's, Self-Employed and Energy (Belgium)
The Icelandic Consumer Agency
The National Consumer Agency (Ireland)
The National Institute of Consumption (Spain)
The Norwegian Consumer Ombudsman (project leader)
The Office of Competition and Consumer Protection (Poland)
The Swedish Consumer Agency

2.2 Airline costs and pricing policies

Airlines face a complex structure of operational costs and charges imposed by various airport and government authorities.

Operational costs include, for instance, financing and maintenance of aircraft, sale and distribution of tickets, flight crew salaries, fuel, ground handling, passenger services and administration.

Charges imposed by airport and government authorities include, for instance, charges for air navigation services, airport charges¹ and government taxes. Some of the charges imposed by authorities are levied per passenger and are not due unless the passenger actually travels. Other charges are calculated on the basis of the weight of the aircraft, distance travelled etc. and are due even if the aircraft does not carry any passengers. Charges levied by airport or government authorities per passenger are generally the same for all airlines, while other charges, such as landing charges, vary depending on the particular air carrier's purchasing power.

Consumers are also facing a complex price structure when purchasing airline tickets. As mentioned above, most airlines divide the air fare into a basic air fare and various additional TFCs. Furthermore, a range of services are not included in the air fare and are paid separately, for example food and beverages, luggage and manual check-in.

To illustrate this, the price information given to consumers from one of the surveyed airlines is provided below:

Pricing	
Going Out (Web Fare)	
1 Adult @ 249.00 NOK	249.00 NOK
Taxes/Fees details	199.71 NOK
1 x (Web Check in)	50.00 NOK
Total Cost of Flight	498.71 NOK
Excluding handling fee (if applicable)	

Pricing	
Oslo (Torp) (TRF) to London Stansted (STN)	448.71 NOK
Fees, Services and Travel Insurance	
1 x (1 Checked in Bag)	100.00 NOK
1 x (Baby Equipment)	100.00 NOK
1 x (Sports Equipment)	300.00 NOK
1 x (Web Check in)	50.00 NOK
1 x (Mobile Text)	10.00 NOK
Total Payment Amount	1,008.71 NOK
Excluding handling fee	

Windows Internet Explorer

Here is a breakdown of the taxes and fees that apply to your purchase.

Coming Back (Regular Fare):		
146.00 NOK	Tax and Fees	
53.71 NOK	Insurance/Wheelchair Levy/Aviation Insurance	
199.71 NOK	Total Taxes	

OK

Figure 1: Example of price information provided to consumers

¹ Airport charges which are not passenger related can also be described as operational costs.

Over the last ten years airlines have increasingly recovered costs related to air travel either through separate taxes, fees and charges specified on the tickets or by selling what was previously included in the basic air fare as additional services (i.e. luggage). This development has made it more difficult for consumers to know exactly what they have to pay when purchasing airline tickets.

3. Methodology

The project group started its work in September 2008. To investigate the calculation and use of TFCs on airline tickets the project group gathered information from airlines, airports, civil aviation authorities and various other sources.

The airlines and airports were selected due to their country of establishment and presumed significance for European consumers. Firstly, major airports and airlines within each project participant's jurisdiction were identified. Secondly, the project participants identified air carriers and airports based in other European countries but whose importance made it necessary to include them in these investigations.

The project covered the following 24 EU/EEA carriers:

Aer Arann	Iceland Express
Aer Lingus	KLM
Air Berlin	Lufthansa
Aireuropa	Malmö Aviation
Air France	Norwegian
Austrian Airlines	Polish Airlines LOT
British Airways	Ryanair
Brussels Airlines	SAS
Czech Airlines	Skyways
Estonian Air	Spanair
Iberia	Travel Service/Smart Wings
Icelandair	Vueling

Data was gathered from these airlines by searching their websites at the end of November and the beginning of December 2008. The project participants checked 15 flights for each airline on routes between airports covered in the project.² After the online sweep, letters were sent to the airlines asking for detailed information on the TFCs mentioned on the surveyed websites. The project group asked the airlines to provide information on the types of costs included in the TFCs, the size of the different price elements, how they calculate the different elements and the rationale for specifying supplementary charges and not including them in the basic air fare.

The following airlines chose not to respond to our inquiries:

Aer Arann, Aer Lingus, Air Berlin, Air France, Iberia, Skyways, Vueling.

To assess whether data provided by airlines was correct, the project group also collected information on airport charges from a number of European airports. The project covered the following 34 EU/EEA airports:

Arlanda	Landvetter
Barcelona	London City
Berlin	Kraków

² The number of flights checked was fewer for some of the airlines. The project covered a total of 281 flights.

Billund	Madrid
Bromma	Malaga
Brussel	Gardermoen
Brussel South	Palma de Mallorca
Copenhagen	Prague
Cork	Rygge
Charles de Gaulle	Schiphol
Dublin	Shannon
Frankfurt-Hahn	Stansted
Frankfurt International	Stockholm-Skavsta
Gardermoen	Tallinn
Gatwick	Tegel
Gran Canaria	Torp
Heathrow	Warsaw
Katowice	Vienna
Keflavik	Visby

Data was gathered both by contacting the airports directly, checking their websites and using the IATA List of Ticket and Airport Taxes and Fees of March 2008 ("IATA Tax List").³ Letters asking for detailed information on the types and calculation of airport charges were sent in late November and early December 2008.

All information gathered through online sweeps and replies from airlines and airports were compiled in a database. This exercise allowed comparing data from different sources, identifying discrepancies and further analysing airlines' use of TFCs on an aggregate level.

Not all airlines and airports covered by the project collaborated sufficiently to make the database complete. The information was complete in relation to about half the flights and about 62% of airports. The data received nevertheless provided a robust backdrop to the assessment and analysis of airlines' use of TFCs.

³ An earlier version of the IATA Tax List is available at <http://www.iata.org/NR/rdonlyres/ADA886D9-A23F-4878-965C-8DBDCACDAEBF/37401/SampITaxlist.pdf>

4. Community legislation

4.1 Introduction

Both Regulation 1008/2008 on common rules for the operation of air services in the Community and Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market (“the UCP Directive”) regulate airlines price information. This section sets out the relevant provisions and provides a further specification of the requirements for airlines indication of prices in the context of this report.

4.2 Article 23 (1) of Regulation 1008/2008

4.2.1. General

Pursuant to Article 23 (1) of Regulation 1008/2008, each air carrier – when operating from an airport located in the territory of a Member State – has to indicate the final price of the flight ticket, including the applicable conditions for air services. This Regulation has been in force since 1 November 2008.

Article 23 (1) of the Regulation provides that the final price should be indicated from the beginning of the booking process. In addition a detailed breakdown of the price elements should be specified provided they have been added to the air fare:

- (a) air fare or air rate;
- (b) taxes;
- (c) airport charges; and
- (d) other charges, surcharges or fees, such as those related to security or fuel.

The article also stipulates that any optional price supplements shall be communicated in a clear, transparent and unambiguous way at the start of the booking process and their acceptance by the customer should be made on an ‘opt-in’ basis.

4.2.2 Implications for airlines price information

Article 23 (1) of the Regulation requires that:

1. The total price is clear at all times of the booking process. The price first advertised on a website or other types of media should be the final amount the consumer will have to pay including all TFCs which are unavoidable and foreseeable at the time of publication.
2. All taxes, fees and charges added to the basic air fare should be specified individually and a breakdown, as mentioned above, should be provided. For those airlines adding TFCs to the basic airfare, the different charges must be clearly distinguished. All TFCs cannot be presented in a lump sum without specifying the different price elements.

4.3 Articles 5-7 of the Unfair Commercial Practices Directive

4.3.1 General

The UCP Directive protects consumers’ economic interests from unfair commercial practices. It contains a general prohibition on unfair commercial practices and

describes two main categories of unfair commercial practices in more detail: misleading commercial practices and aggressive commercial practices.

Article 5 of the Directive specifies that practices are to be considered unfair if they are contrary to the requirements of professional diligence and materially distort or are likely to materially distort the economic behaviour of a consumer, i.e. preventing a consumer from making an informed choice.

According to Article 6 an action is misleading, when it contains false information or in any way deceives or is likely to deceive the average consumer in relation to a number of elements, including the price or the manner in which the price is calculated, or the existence of a specific price advantage, cf. Article 6 (1) (d).

Article 7 provides that omissions should be regarded as misleading when they do not provide material information that the average consumer needs to make a purchase decision or if a trader provides the information in an unclear and ambiguous way. Moreover, Article 7(4) (c) stipulates that in the case of an invitation to purchase the price of the product or service inclusive of taxes must be provided.

A commercial practice is only misleading if the action or omission cause a consumer to take a transactional decision that he/she would not have taken otherwise, cf. Article 6 (1) and 7 (1).

4.3.2 Implications for airlines price information

According to the UCP Directive, failure to provide consumers with clear, appropriate and complete information relating to the price and any other cost associated with the provision of a service may constitute an unfair practice. Under the Directive, airlines must provide consumers with the information they need in a timely and clear manner in order to make an informed choice. This information includes prices and all unavoidable taxes, fees, charges and surcharges.

In line with Article 6 of the UCP Directive and particularly point (1) (d), which refers to the presentation of the price of the product or service or the manner in which it is calculated, the following actions can be regarded as misleading:

1. incorrect calculation of fees and taxes in the price of the flight ticket;
2. presenting costs which are contributing to the air carriers' general income as taxes and fees imposed by other bodies.

According to Article 7 of the Directive the following actions by airlines can be regarded as misleading omissions:

1. the final price of the flight ticket does not include all the unavoidable taxes, charges and fees which are to be paid by the consumer (e.g. booking fee or fuel surcharge);
2. no clear and easily accessible information on the refundability of charges, fees and taxes, cf. article 7(2).

In conclusion, according to European law, clear information about the final price of a service should be provided from the beginning of the reservation process. All taxes and fees should be correctly named so as not to mislead the consumer by implying that charges imposed by the airline are in fact imposed by other bodies (e.g. airports or governments). It is also a requirement that all fees should be correctly calculated.

Finally, the airline should make it clear which costs will be reimbursed in case of the non-use of a flight ticket.

5. Taxes, fees, charges and surcharges

5.1. Introduction

Because of the various terms used by airlines and airports to describe the different charges applicable to air transport, certain key expressions need to be defined at the outset.

For the purpose of this report, taxes, fees, charges and surcharges ("TFCs") means all unavoidable price elements which are specified and separated from the general air fare in the information given to passengers.

This includes government taxes and airport charges, but also various obligatory fees the airlines set themselves, i.e. booking fees, fuel charges, and insurance charges.

TFCs, as defined in this report, do not include fees for specific optional services, i.e. food, beverages, seat reservations, cancellation insurance or luggage. Certain airlines charge passengers for additional services which are in fact unavoidable. These charges, which can include for example credit card fees, are covered by the report.

In this report TFCs are divided into two main categories. The first category is taxes, charges and fees imposed on passengers by airports and public authorities. These charges are listed in the IATA Tax List and include, for instance, passenger and security charges. This category of charges is further analysed in section 5.3.

The second category is fees calculated by the airlines themselves, such as fuel charges and booking fees. This category also includes charges by governments or airport authorities which are not specifically levied on a per passenger basis, such as landing fees and air navigation charges. Some airlines do estimate the amount each passenger must pay for these charges and adds them to the TFCs. This category of charges is further analysed in section 5.4.

5.2. General findings

5.2.1 Analysis of taxes, fees, charges and surcharges

All airlines surveyed in this report divide the air fare into a basic air fare and various additional taxes, fees, charges and surcharges in the price information provided to consumers. Some of the airlines divide the TFCs into different categories, e.g. taxes and charges applied by authorities, booking fees and fuel charges, while others only present a lump sum which includes all TFCs.

The 281 flights surveyed in the project had a total ticket price of €86,002.72. €17,559.52 or 20.5 percent of the total air fare where various TFCs.

In the information provided to passengers, the airlines use a variety of terms to describe the same types of charges. Furthermore, some airlines use the same terms to describe different charges. This makes it difficult to give a precise breakdown of the different TFCs. In this section of the report, the different TFCs are divided into subcategories to give a sense of the different price elements encountered in the project.

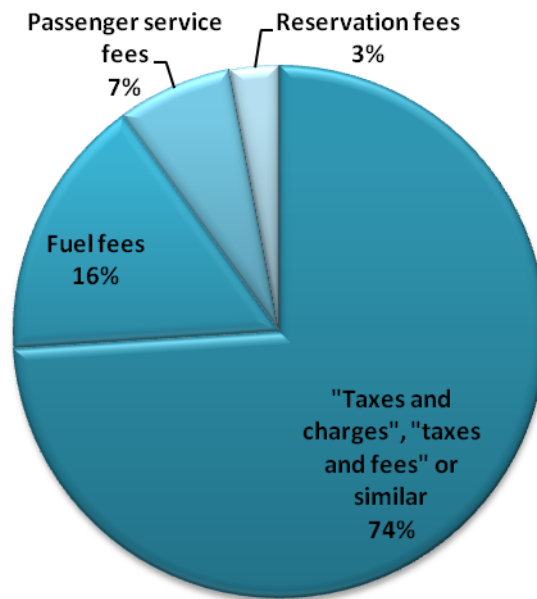


Figure 2: Types of taxes, fees and charges on airline tickets

The principal part of the TFCs are described by the surveyed airlines as "taxes and charges", "taxes and fees" or similar (74 percent of all TFCs). For some airlines this includes only passenger related taxes and charges levied by airport authorities and governments. Other airlines also include different surcharges in this category.

The second largest type of TFCs are fuel charges (16 percent of all TFCs). However, a number of airlines include fuel charges under the term "taxes and charges" in the price information given to passengers.

The third and fourth largest types of TFCs are passenger service charges (7 percent of all TFCs) and reservation fees (3 percent of all TFCs) respectively. For a complete list of all the different charges and terminology used by the airlines included in the project, see 5.3.2 and 5.4.

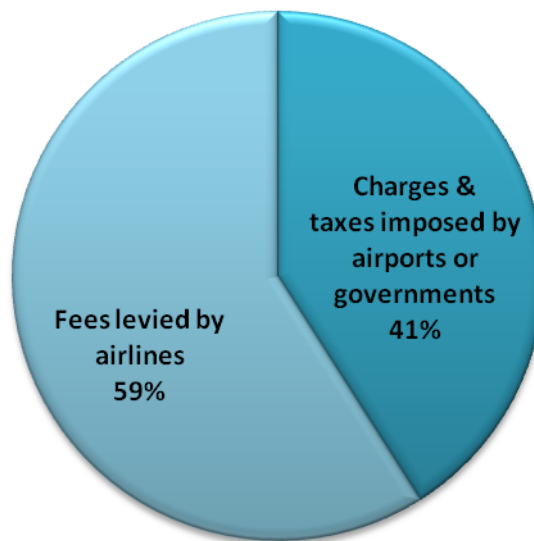


Figure 3: Charges and taxes imposed on passengers by airports or government authorities vs. fees levied by airlines

On average only 41 percent of TFCs levied on flight tickets were actually charged by airports or government authorities. The rest of the charges were levied by the airlines to cover various operational costs.

About 88 percent of the TFCs levied by airlines were fuel charges. This means that on average almost 52 percent of the total TFCs that passengers were charged were actually fuel charges levied by airlines.

In absolute numbers a passenger pays almost €30 per ticket for TFCs that are not airport charges or government taxes.

5.2.2 Refundability

A majority of the airlines checked do refund TFCs imposed on passengers by airports and government authorities if the ticket is unused, since these TFCs are only payable to airports or governments if the passenger actually travels. With the exception of one airline, other TFCs (for example fuel charges or booking fees) are not refunded unless a flexible fare ticket is purchased. Most airlines demand an administration fee for refunding TFCs.

5.2.3 TFCs on return flights compared to one way flights

For a majority of the surveyed airlines the TFCs are not the same for return flights as for two corresponding one way tickets between the same airports.

Generally, the TFCs imposed by airports and government authorities are the same - however the other TFCs differ. The reason for this seems to be that certain TFCs are only charged per booking and not per flight. Also, TFCs set by airlines, for

instance fuel charges, vary for some of the surveyed airlines depending on whether the ticket purchased is two one way tickets or a return ticket.

5.3 Taxes and charges imposed on passengers by airports or other authorities

5.3.1 Introduction

There are a number of different taxes and charges imposed on passengers by airport authorities and governments that are collected by airlines. IATA has compiled all these charges in a regularly updated document called the IATA List of Ticket and Airport Taxes and Fees, c.f. section 3. This section of the report provides a list of the different terms used to describe these levies and compares information on the size of these charges collected from airlines and airports.

5.3.2 Terminology

There are no uniform terms used to identify taxes and charges imposed on passengers by airports and government authorities. Different airlines use different terms to identify the same types of charges. In addition, airlines include different costs under the same terms. While some airlines only include passenger imposed airport charges and government taxes under the term "taxes and charges", others include, for instance, fuel charges or air navigation charges.

The airlines and airports surveyed used different variations of the following terms to describe taxes and charges levied by airports or other authorities:

<i>Airports</i>	<i>Airlines</i>
Passenger security charge	Taxes and charges
Passenger terminal use charge	Taxes and fees
Passenger service charge	Passenger service charge
Passenger service and security charge	Security charge
Noise isolation charge	Noise isolation charge
Airport tax	Flight charge
Air passenger duty	Air passenger duty
Passenger charge	Passenger fee
PRM charge	Wheelchair levy
Security service charge	
Embarkation tax	
Tower charge	
Terminal charge	
Airport handling charge	

5.3.3 Comparison of information provided by airlines, airports and IATA

Information gathered from airlines has been compared with the information gathered from the airports and the IATA Tax List to identify possible discrepancies.

Even though the terminology differs, the detailed break down of TFCs provided by airlines largely corresponds with information provided by the airports. Airlines often charge their passengers in other currencies than the airport fees and minor variations in the information gathered can be attributed to currency fluctuations.

In some cases, however, the passenger imposed TFCs clearly do not correspond with information provided by airports – for example, one airline levies a higher wheelchair levy than the Passenger with Reduced Mobility (PRM) charge imposed by the airports. Furthermore, there are some discrepancies between the information included on the airlines websites and the information provided upon direct contact.

Since some airlines did not provide sufficient information on the composition of the different elements of the TFCs, it was not possible to cross-check whether the information provided by the airlines was in accordance with the information provided by airports and the IATA Tax List.

5.4 Findings in relation to other types of taxes, fees, charges and surcharges

5.4.1 Introduction

As mentioned above, the project participants asked the surveyed airlines to provide information on the types of costs included in the TFCs, methods of calculating the different elements and the rationale for adding them supplementary charges and not including them in the cost of the basic air fare. The following section sets out all the elements included in the TFCs which are set by the surveyed airlines. This includes all airport and government charges which are not levied per passenger but are included in the TFCs.

5.4.2 Fuel charge

Most airlines levy a supplementary fuel charge separate from the basic air fare. Airlines stated in their replies that the fuel charge was introduced in 2004 to cover the rising cost of fuel. After the recent fall in oil prices, most airlines have reduced their fuel charges. Some airlines have altogether abolished fuel charges and currently include the price of fuel in the basic air fare. As seen in section 5.2.1, a substantial part of the ticket price still covers high fuel costs.

One airline stated that the introduction of a fuel charge as a separate fee was done for marketing reasons to show consumers why the cost of air travel is increasing. Another airline held that the reason for separating fuel charges and other charges from the basic air fare was to make it easier to adjust the ticket prices when costs change. Only the supplementary fuel charges need to be amended when oil prices increase and not the price of the relevant air fares.

The amount of the fee varies among the surveyed airlines. Some airlines state in their replies that the fuel charge is calculated by dividing the extraordinary fuel costs by an estimated number of passengers. Others set the level after a comparison with the fuel charges set by their main competitors.

5.4.3 Booking fee/service fee/ticket issuing charge

Some airlines stated in their reply that the reason for introducing a booking fee is to cover a portion of the expenses incurred in maintaining an online booking

facility. One airline said that a booking fee was added to allow travel agents to make a profit as they do not have to pay this fee. Another airline stated that the fee was introduced because it is general practice in the airline industry to recover this operational cost through a separate fee and not through the basic air fare.

The size of the fee varies between the surveyed airlines. One airline stated in their reply that the fee is calculated based on the costs of reservation, charging the payment, issuing the ticket and issuing the invoice.

5.4.4 Insurance

Due to the increased insurance costs following the events of 11th September 2001 some airlines have introduced an insurance charge.

The amount of the fee varies among the surveyed airlines. Information on how this fee is calculated could not be provided by any of the airlines in question.

5.4.5 Security

In addition to the security charges imposed by airports, cf. 5.3. certain airlines also add their own security fees as a separate charge on the ticket. The fee is said to cover some of the increased security costs following the events of 11th September 2001.

The amount of the fee varies between the surveyed airlines. Information on how this fee is calculated could not be provided by any of the airlines in question.

5.4.6 VAT

VAT is generally not applicable on international flights. On domestic flights the applicable VAT varies depending on the tax rates set nationally. VAT is calculated as a percentage of the final price.

5.4.7 Air traffic control

Airport authorities, air navigation service providers and EUROCONTROL (the European organisation for the safety of air navigation) charge airlines for air navigation services. These charges are calculated depending on the weight of the aircraft, the distance travelled and the different unit rates of charge in different states. Most airlines include the costs of these services in the basic air fare. One airline, however, includes some of the cost of these services in the category taxes and fees.

Information on the amount of the fee or how it is calculated was not provided by the airline.

5.4.8 Other charges

One airline includes war premium, environmental taxes, landing charges, over flight charges and charges for the use of the airport outside usual service hours as a part of the TFCs.

Information on the amount of these fees or how they are calculated was not provided by the airline.

6. Analysis of airlines use of taxes, fees, charges and surcharges

The surveyed airlines add a wide range of different supplementary taxes, fees, charges and surcharges to the basic air fare. There is no consistency among airlines on the types of TFCs charged to consumers. In addition, the terminology used to describe TFCs varies among airlines and does not correspond with the terminology used by airports.

A number of the surveyed airlines include different TFCs in a lump sum called "taxes and charges" or similarly. A precise break down of the different price elements contained in the TFCs is rarely provided online.

Upon direct contact, several of the airlines had significant difficulties in giving a precise account of the size of the various TFCs added to the surveyed flights. Although most airlines provided some information on the different price elements, the information was in many cases inaccurate and incomplete. Some of the airlines surveyed stated that it was impossible to provide precise information on the size of the different TFCs on particular flights. In addition, one airline provided information that differed to the information presented by the same airline online.

From a passenger viewpoint, the use of supplementary TFCs is likely to indicate that these charges are unavoidable, imposed by third parties and similar for all airlines. This is not the case. Operational costs such as costs related to fuel, booking or aircraft insurance, are frequently added to the price and labelled as taxes and charges.

Including operational costs in a separate charge hides the fact that these costs constitute a standard part of the general costs of operating an airline and vary among airlines depending on the chosen business strategy. While some airlines have for instance hedged their exposure to fluctuating fuel prices by entering into long term contracts, others have not. Adding a fuel charge to the basic air fare gives an airline that has made the wrong bet the opportunity to conceal its increased operational costs.

Adding a charge also indicates to the consumer that it relates to a particular expense. In their response to our inquiries, airlines stated that TFCs cover some of the extra expenses incurred. A majority of airlines had difficulties in providing information on the calculation of TFCs that these same airlines had set themselves. This is understandable since it would be difficult, if not impossible, to give exact information on how much of the ticket price covers expenses of maintaining an internet booking facility, extra costs of fuel due to exorbitant oil prices, extra security and insurance costs due to the events of 11 September 2001 etc. If any calculation of costs has been done it seems that TFCs are roughly estimated and at any rate only cover a portion of the expenses they relate to. Based on the information provided by airlines, it was not possible for the project group to assess whether the TFCs are used exclusively to meet the costs they relate to or are additional airline profit.

Furthermore, it is questionable whether the TFCs actually cover extra costs. It seems, for instance, counterintuitive that online booking of tickets have increased airlines costs. On the contrary, the expectation is that online bookings should be more cost efficient than traditional methods of booking, i.e. by telephone or in person. Other industries, for instance retail banking, have taken this into account and abolished fees for consumers using their online facilities.

Including operational costs in a separate charge also makes the cost of flying seem lower and the tickets seem cheaper for the consumer. This may give airlines with high supplementary charges an unfair competitive advantage.

Clearly indicating the total price at all times mitigates this problem to a certain extent. Nevertheless, the use of unaccountable TFCs set freely by the airlines themselves does reduce price transparency and may cause confusion when passengers are comparing prices.

As seen above, passengers are generally entitled to receive a refund of the passenger imposed airport and government charges even for non-flexible air fare. Other charges, such as booking fees and fuel charges, are generally not refunded. Since many airlines do not clearly indicate in the price information provided to consumers what elements of the supplementary charges are imposed on passengers by airports or governments and which are set by the airlines themselves, it is difficult for consumers to know the exact size of a refund if the ticket is not used.

Some airlines state that adding supplementary charges makes it easier to change the price of different booking classes when operational costs are increasing, while other airlines held that the supplementary charges are added simply because it is a general practice in the industry.

7. Conclusions and recommendations

7.1 Introduction

As seen in this report, the pricing of airline tickets to consumers has become increasingly opaque and complex. The project group firmly believes that the various taxes, fees, charges and surcharges added to the basic air fare by airlines need to be made more transparent to ensure a competitive market based on the efficiency of the operators and not on misleading commercial practices.

In this section of the report, the project group sets out a number of standards and principles which should be met in airlines pricing policies and their application of TFCs. The conclusions and recommendations are based on the findings from our investigations.

7.2 Conclusions

7.2.1 Correct break down of prices

Many of the airlines surveyed did not provide the break down of prices required under Article 23 of Regulation 1008/2008. Some airlines did not separate taxes from the airport charges while others presented all TFCs as a lump sum, including, for instance, fuel charges. Furthermore, one airline did not provide correct information on the size of the airport fees and government charges.

To be in accordance with Article 23, government taxes and airport charges must be:

- clearly distinguished from other charges and
- correspond with the actual amounts levied by airports and governments.

The Regulation had been in force for only a few weeks when the project group conducted the sweep. However, the project group did a new search in June and July 2009 and quite a few of the airlines are still not providing price information in accordance with Article 23.

As noted in section 6 of this report, incorrect specification of the different price elements makes it difficult for passengers to know exactly how much they are entitled to in a refund in case of not using an air ticket. It also hides the true nature of the majority of TFCs, i.e. that they cover operational expenses and are not government taxes or airport charges.

Optional services – for example food/beverages, seat reservations, insurance or luggage – have not been scrutinized in this project. Some of these services are in fact unavoidable and consequently must be correctly specified and included in the total price pursuant to Regulation 1008/2008 Article 23. For instance, if all methods of payment available to the consumer require the payment of an additional fee – for example a charge for using a credit card to pay for an air fare – the fee is not unavoidable and the cheapest option must be included in the air fare at all times.

7.2.2 Correct and accurate terminology

Airlines typically use terms such as “taxes and charges” to describe TFCs added to the basic air fare. The terms used indicate that the TFCs are government or airport levied charges and not fees set freely by the airlines themselves. However, as seen in section 6, in addition to government and airport charges, airlines add a number of different operational costs to the TFCs.

Hiding the real costs of flying by labelling operational costs as “taxes and charges” or similar can mislead consumers as it makes the basic air fare seem cheaper. Consumers may believe that “taxes and charges” are uniform and similar for all airlines and this can lead the consumer to concentrate on the basic air fare when comparing prices. As a consequence, inflating TFCs can falsely attract consumers to buy seemingly cheaper tickets.

Providing false or otherwise misleading information which is likely to cause a consumer to take a transactional decision he/she would otherwise not have done, is contrary to the Unfair Commercial Practices Directive Article 6.

7.3 Recommendations

7.3.1 Simplify the terminology

The project group believes that the current plethora of terminology used to describe TFCs can jeopardize consumers’ ability to make an informed choice. As described above, airlines and airports are currently using different terms to describe the same types of TFCs.

In the IATA Tax List the key terms taxes, charges and fees have been defined as:

- TAX: An impost for raising revenue for the general treasury and which will be used for general public purposes.
- CHARGE: An impost for raising revenue for specific aviation related facilities or services.
- FEE: Another name for “Tax” or “Charge” depending upon what the revenue is used for as defined above.⁴

Building on these definitions the project group believes that price indication on flight tickets should be accurately presented by:

- using the term “tax” to describe government taxes levied per passenger,
- the term “charge” to describe airport charges levied per passenger by the airport, and
- the term “fee” which is not precisely defined in the IATA tax list, to describe all other costs which are not included in the above-mentioned definitions.

One of the reasons for the inconsistent use of terms is believed to be because of the diversity in taxes and charges applicable in different countries, regions and airports. Airports invoice airlines for taxes and charges who subsequently charge passengers this amount using other terms.

⁴ Taxes and charges are similarly defined in ICAO Doc 9082 point 3 (http://www.icao.int/icao/net/dcs/9082/9082_cons_en.pdf)

In order to facilitate greater transparency, the project group recommends that airlines and airports review the current terminology and adopt a more accurate and harmonised language when describing the different taxes and charges.

7.3.2 Simplify airlines price information

The project group believes that simplifying and standardising the price information provided to passengers will be beneficial both for passengers and airlines. It will increase price transparency, contribute to fair competition, and reduce airlines administration costs by simplifying complex price structures. Variations in the use and calculations of TFCs do not seem to give any added value to either the industry or the consumer.

Detailed information on exactly what the price covers is of little or no use to the passenger. The passenger only needs information on the total price and the size of the refund for unused tickets, i.e. airport charges and government taxes imposed on passengers, cf. 5.2.2. To ensure transparency for both consumers and regulatory bodies it is important that the different airport charges and government taxes imposed per passenger is specified in the ticket price. Other price information is however generally superfluous for the passenger.

Giving detailed information on TFCs is particularly problematic when the information provided is imprecise or incorrect. Hiding the real costs of flying by artificially inflating taxes and charges may make the air fare seem lower than it actually is and can mislead consumers.

Furthermore, it seems that maintaining a complex system of TFCs is of little use for the airline industry. Some airlines explicitly state that the different TFCs are simply added because it is a general business practice. Others claim that the TFCs are added to make it easier to change prices for all booking classes and routes when operational costs increase. Having systems which make it possible to amend prices across all booking classes should be feasible without providing excess and potentially confusing information to passengers.

The project group therefore recommends that all air fares should be comprised of the following elements: the basic air fare, airport charges and government taxes which are levied per passenger and the total price. All other unavoidable TFCs should be included in the basic air fare.

Further fees should only be added to the ticket price provided these are genuine optional fees and not mandatory costs all passengers are obliged to pay, cf. section 7.2.1.

7.3.3 Simplify legal requirements

Regulation 1008/2008 Article 23 currently allows air carriers to divide the price of air tickets into different parts. Under the present wording of Article 23 (1) (d) airlines are allowed to separate various operational costs and present them as separate charges. As noted above in section 6, airlines set these charges themselves. The project group believes that airlines can potentially mislead consumers by inflating these charges and thus making the basic air rate seem cheap, cf. section 7.2.2.

Furthermore, air tickets are increasingly purchased through the internet and the amount of information received when shopping online is substantial. To prevent important features of an air fare from becoming lost in an excess of information, the information provided should therefore be limited to the information necessary for consumers to make an informed purchase decision. The only information which is genuinely useful for the consumer at the time of purchase is the size of the refundable charges for unused tickets, i.e. airport charges and government taxes imposed on passengers, and the total ticket price.

The project group therefore recommends that Community law should only allow and require airlines to specify the total price and airport charges and government taxes levied per departing passenger. This will increase price transparency by providing consumers with necessary, but not superfluous, price information and give efficient airlines a competitive advantage.

7.3.4 A right to refund of taxes and charges

Airports and governments impose taxes and charges per departing passenger. These levies are collected by the airlines on behalf of the authorities and are not due unless the passenger actually travels. Not refunding them to the passengers who do not travel gives airlines an unjustified income.

The project group consequently recommends that passengers travelling in Europe should have a clear legal right to be refunded all airport fees and government charges which are not due. If the ticket for air transport is not used we believe that passengers should be entitled to repayment of all prepaid taxes and charges imposed on passengers by airports and governments and collected by airlines.

Any expenses the air carrier may have in returning taxes and charges can be covered by an administration fee. This fee should not exceed reasonable costs.

7.4 Follow up

The authorities participating in this project have gained in depth knowledge on the use of TFCs on airline tickets. This knowledge has allowed us to make some reasoned recommendations facilitating both fair competition between airlines and consumer protection. In the course of the project certain issues which require further action have also been identified. On this basis, the project group suggests the following possible action points:

1. The CPC-network should come to a common understanding on the conclusions and recommendations provided in this report.
2. The CPC-network should subsequently adopt a plan to enforce current legislation and to carry out the recommendations set forth in this report.
3. The European Commission should take appropriate steps to ensure that Community legal requirements regarding airlines price information are simplified and take into account consumer needs.