



United States Department of Agriculture  
Animal and Plant Health Inspection Service  
Agriculture Quarantine and Inspection (AQI) Program

Assessment of AQI Air Passenger Fee Basis



September 21, 2011

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## Introduction

The United States Department of Agriculture (USDA) Animal Plant Health and Inspection Service (APHIS) Agricultural Quarantine and Inspection Program (AQI) protects America's animal and plant resources from agricultural pests and diseases. To fund the program, international airline passengers (except those specifically exempted) are required to pay a fee to cover costs related to AQI inspection. Today, the air passenger fees fund approximately 80% (~\$400 million per year) of the AQI program. Other conveyances such as cargo vessels, trucking, and railroads provide the balance of the AQI revenue. International airline passenger fees are collected when the airline ticket is sold. After the fee is collected, it is the responsibility of the airline carriers to remit the fees to APHIS on a quarterly basis. There are two different remittance methods in use as follows:

- **Ticket Sales Method:** Under this method, carriers remit fees to APHIS one month after the end of the quarter in which the ticket is sold. If the passenger receives a refund for the ticket, the fee is credited in the quarter that the credit occurs. The ticket sales method is the currently prescribed remittance method. The large domestic and foreign airlines, which sell 65% - 70% of international passenger tickets, use the ticket sales method, so a large majority of the agriculture fees are remitted using this method. CBP audits this method and there is an estimated overall error rate of less than 1% for the largest airlines.
- **Passengers Flown Method:** Under this method, fees are remitted to APHIS one month after the end of the quarter in which the passenger travels, irrespective of when the airline received the cash for the ticket. The passengers flown method is not the currently prescribed remittance method, but is used by many medium and small foreign carriers because it is a common basis for taxes and fees outside of the United States. For this reason, foreign airlines often use this method for remitting AQI fees, even though it is not the method prescribed by APHIS. Approximately 30% of the agriculture fees are remitted using this method. CBP does not audit this method, except for domestic charter flights.

Regardless of the remittance method, the airlines collect the fees when the ticket is sold.

## Statement of Task

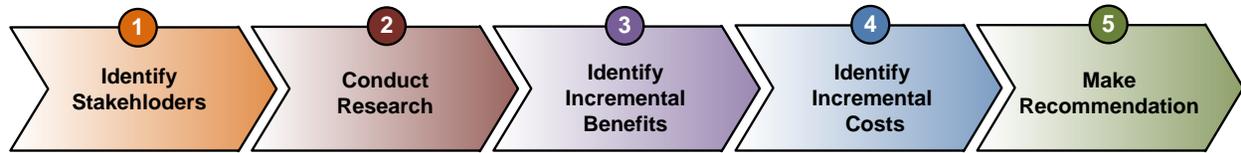
The objective of Grant Thornton's task is to "determine if the international airline passenger user fee should be charged based on passengers flown rather than on ticket sales" and to identify the impacts on the airline industry, passengers, the review function at CBP (Airline Passenger Information System (APIS)), and on the Federal government." In other words, we were asked to evaluate the pros and cons of moving all airlines currently using a ticket sales method to the passengers flown method, and make an ultimate recommendation on whether or not this is worth undertaking.

## Recommendation

We do not recommend that APHIS change the prescribed remittance method from ticket sales to passengers flown. Our research and analysis indicates there is no incremental benefit to the airline industry, passengers, the review function at CBP, or for the Federal government, in changing the current method. The facts and analysis supporting our recommendation are provided in the remainder of this document.

## Approach

The figure below shows the methodology we used to perform this assessment.



### Identify stakeholders

We identified the following stakeholders who would potentially be affected by any change in the process for collecting the AQI air passenger fee.

Stakeholder	Role
APHIS	Responsible for collecting and accounting for AQI passenger fees.
CBP	Office of Regulatory Audt – responsible for audits airlines for compliance with remittance. Budget Office
Airline Industry – Air Transport Association of America (ATA), International Air Transport Association (IATA)	Associations represent their member firms in the air carrier industry. In addition, IATA operates a clearinghouse for the interlining system (discussed later in this document).
Passengers	Pay the air passenger fee when purchasing an international airline ticket.

### Conduct Research

We gathered information from the following sources:

- We interviewed or obtained information from representatives from the stakeholders (except air passengers) to gain a clear understanding of the benefits, costs and other impacts anticipated in moving to the passengers flown method.
- We reviewed a number of documents for additional information, including GAO Report GAO-07-1131 *Federal User Fees: Key Aspects of International Air Passenger Inspection Fees Should Be Addressed Regardless of Whether Fees Are Consolidated*.

### Define Benefits

We interviewed the stakeholders in Table 1 (except air passengers) to gain a clear understanding of the benefits anticipated in moving to the passengers flown method. We supplemented this with

advice from our staff knowledgeable in Federal accounting principles. There were three potential benefits which we were unable to fully substantiate. These potential benefits and our findings are:

- **Elimination of ticket sales post-remittance audit costs.** There was a perception that CBP already easily receives the necessary, accurate information (i.e., passenger counts and/or manifests) for determining and auditing the amount of fees that would be remitted under the passengers flown method, thereby eliminating the need for post-remittance audits conducted for the ticket sales method. However, our research indicates that CBP does not have easy access to accurate data for auditing fees remitted under the passengers flown method:
  - A CBP budget office representative indicated that, based on previous research, obtaining passenger count and/or manifest information from their program systems is complicated and could be costly.
  - ATA stated that manifests are not always accurate due to last minute changes in flight arrangements. Also, manifests are archived in a matter of days after each flight and obtaining the manifests for auditing purposes at a later time would require additional effort for the airlines being audited.

Audit costs are approximately \$1,000,000 per year, which includes auditing airlines for the customs, immigration and agriculture fees. This is approximately 0.25% of air passenger fee revenue, which is considered immaterial. Furthermore, CBP would continue to audit the ticket sales method for customs and immigration fees, so post-remittance costs could not be entirely eliminated.

- **Improved ability to calculate airline liability within a given quarter.** Collecting the fees when the passenger travels mitigates the risk associated with tickets sold but not yet used. In the ticket sales method, if an airline went bankrupt, or had a large number of unused tickets that were credited back to passengers, for whatever reason, APHIS could feasibly get negative revenues in a period since the cash was already collected in a previous period. This would not occur in the passengers flown method. That said, this would not impact the overall fees that would be collected in the long run. It simply could cause a short-term unanticipated impact. This risk can be managed through evaluating the risk and establishing any reserves, if necessary, for unused tickets.
- **Improved fee accuracy.** The passengers flown method is not currently audited, and therefore, we cannot determine the extent to which it would improve accuracy. Audit of the ticket sales method indicates very low error rates for the larger airlines, which collect and remit a large majority of the air passenger fees.

In summary, we were unable to identify through our document review and interviews, any substantive benefits to moving toward the passengers flown method.

### Define Impacts and Costs

- The airlines use the “interlining” system to reimburse each other for fares. For example, if a passenger purchases a ticket from ABC Airlines but a portion of the trip is on DEF Airlines, then ABC Airlines reimburses DEF Airlines the appropriate amount for that segment. Interlining transactions are processed through one of several clearinghouses used by the airline industry. The interlining process is set up for fare reimbursements but cannot currently

support reimbursement for fees without making changes to separately account for the fees (e.g., separate general ledger account or transaction codes). Since interlining is performed through several clearinghouses, all of them would have to be revised to support the passengers flown method.

- The airlines have not estimated their cost for the collection, accounting and remittance of the AQI fees. However, the GAO report previously mentioned included information regarding the airline industry's cost to collect and remit the FAA's passenger facility charges (PFC), which are assessed for particular airports to fund facility improvements. The FAA reimburses airlines for their cost of collecting and remitting the PFC, which has been estimated at \$0.11 per ticket, which includes credit card fees. While we were not able to make a detailed comparison between the two fees, this should provide a reasonable estimate of the cost to the airline industry for collecting and remitting the AQI fee. Assuming approximately 80 million passengers, this would result in a total cost of approximately \$8.8M across all airlines. However, because airlines remit collected fees on a quarterly basis, they are able to earn interest on the collected fees until they are remitted to APHIS. This is referred to as the "interest float" and allows the airlines to offset some of the cost of collecting and remitting the air passenger fees. Assuming the interest float covers 38% of their costs (as stated in the GAO report previously referenced), the net cost to the airlines would be approximately \$5.5M.
- There would be a transition cost to airlines to move from the ticket sales to passengers flown method, particularly for the large carriers that currently use the ticket sales method. For carriers that currently use the passengers flown method, there would still be some transition cost (e.g., reimbursement of fees through interlining and appropriately accounting for exempt passengers). We were unable to obtain any information regarding the transition costs for moving to the passengers flown method or the ongoing costs to the airlines for passengers flown compared to ticket sales.
- If the AQI fee changed to the passengers flown method, CBP would still need to conduct ticket sales audits for the customs and immigration fees. As a result, there would be additional cost to CBP because they would need to perform audits using different methods and sets of data. Airlines would also have additional cost because they would need to provide information/samples for both methods.
- In addition, the airlines and CBP auditors would need to identify passengers who are exempt from paying the fee. Only some of the airlines currently have the capability to identify fee-exempt passengers, which would make the audit more difficult. Airlines that do not currently identify exempt passengers would need to modify their systems to do so.

### **Make Recommendation**

Given there are no substantiated benefits, but there would be incremental costs, to moving to the passengers flown method, we do not recommend moving the AQI passenger fee to the passengers flown method. We recommend that the AQI program maintain the current ticket sales method for auditing air passenger fees. This recommendation is based on the following key summary points:

- The passengers flown method is not as simple as it first appears, and it is possible it would result in additional cost to the government given the difficulty in obtaining information from the CBP systems.

- Airlines already bear the cost for collecting and remitting the AQI fees. Moving to a passengers flown method would involve additional transition cost for the airlines.
- The linkage to the fee consolidation issue is important. If AQI moved to the passengers flown method and the customs and immigration fees remained on the ticket sales method, there would be additional complexity and cost for the airlines and CBP to audit air passenger remittances. In addition, GAO recommended having a single set of airline recordkeeping requirements for airlines across the three fees.

## Assumptions

1. Airline industry association representatives could not quantify the cost to the industry associated with each method, so cost had to be considered qualitatively. We found some information on cost for a fee charged by the Federal Aviation Administration (FAA) which provided some insight on the industry costs for collecting, processing and remitting the fees.
2. Assessing the methods for air passenger fee remittance is not related to the amount of the fee.
3. We did not assess the advantages and disadvantages of consolidating the AQI, customs and immigration fees.
4. As previously stated, if only the AQI air passenger fee changes to the passenger-flown based collection process, then two systems would be required (more costs for both the government and airlines).