



The  
**voice** of the  
world's **airports**

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# Modernizing global policy frameworks on airport charges

Patrick Lucas – Vice President and Chief Economist

ACI World

March 13th, 2023





***“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”***

*Milton Friedman, Nobel Laureate in Economic Sciences*



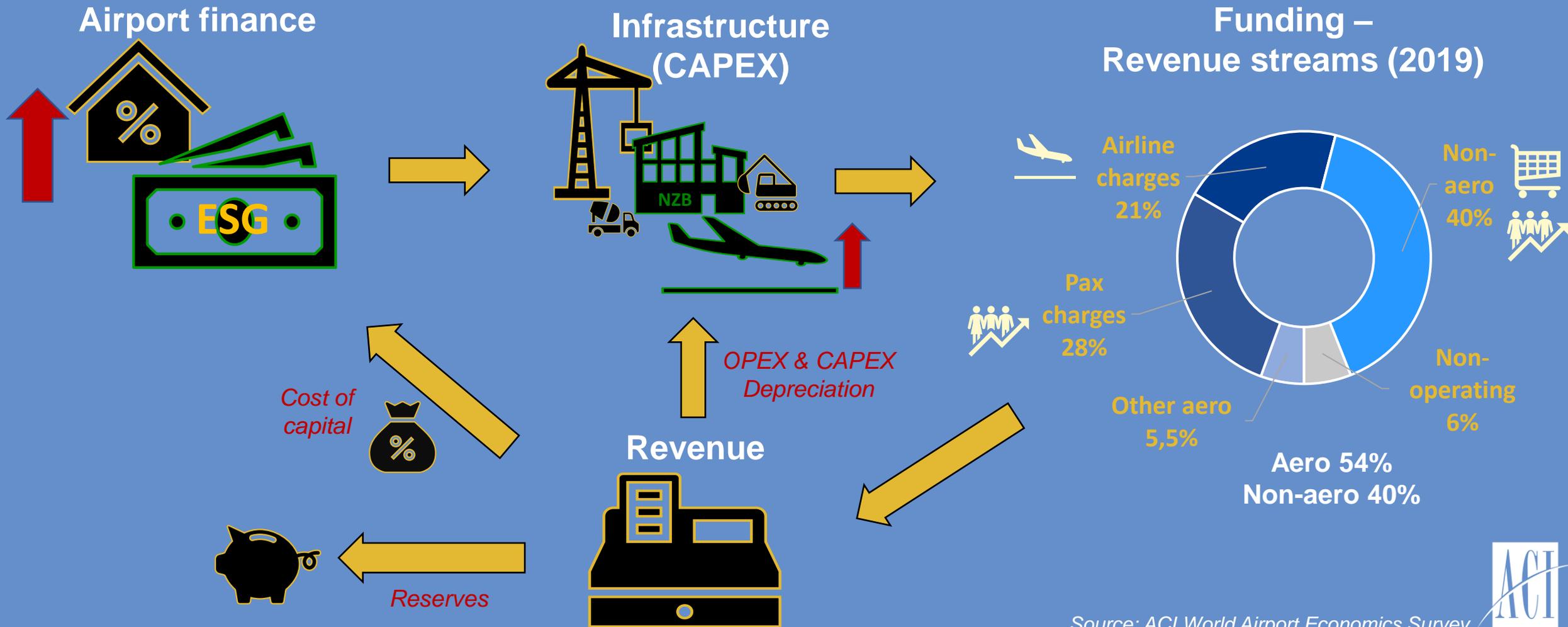


# Presentation Roadmap – 5 Short stories in airport economics

1. Economics of airports amidst the pandemic and recovery
  2. Assessing the global competitive landscape – airports and airlines
  3. Modernizing regulatory frameworks on airport charges – Why?
  4. Debunking the myths on airport charges
  5. The African case – charges versus taxes
- Concluding thoughts

# Financing airport development

The simplified airport infrastructure development cycle



# Global airport revenues

## Impact of the pandemic across revenue channels

2019



**Aero: 5.7% 10-year CAGR**  
**Non-aero: 4.8% 10-year CAGR**

2020

### Non-aero revenues

**Retail concessions -63%**

- Middle East and Asia-Pacific most affected regions



**Property and real estate income smaller decline -12%**



### Aero revenues

**Passenger charges -65%**

- Europe, Middle East and Asia-Pacific most affected regions

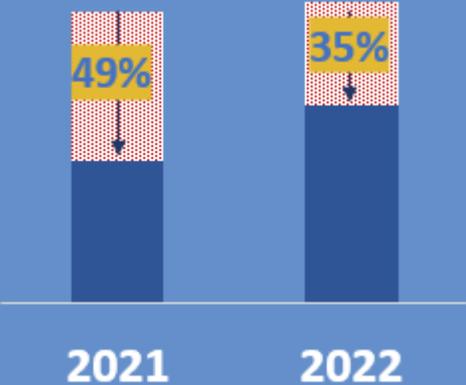


**Landing charges -42%**



2021-2022

Combined losses of **148 billion USD '21-22\***

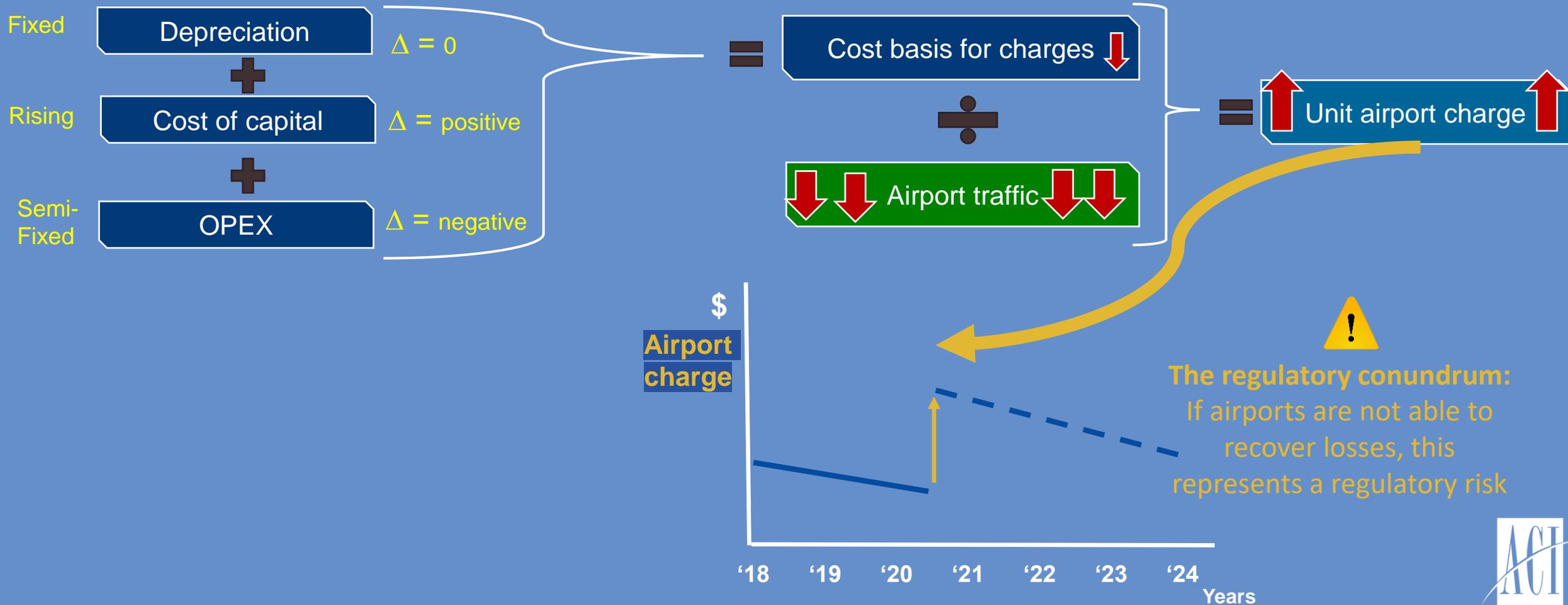


*\*losses as compared to pre-COVID-19 projected baseline*



# COVID-19 and regulated airport charges

The classical model of economic regulation – From business as usual...to unusual



# Risk and black swans

Structural change or temporary glitch in the cost of capital?

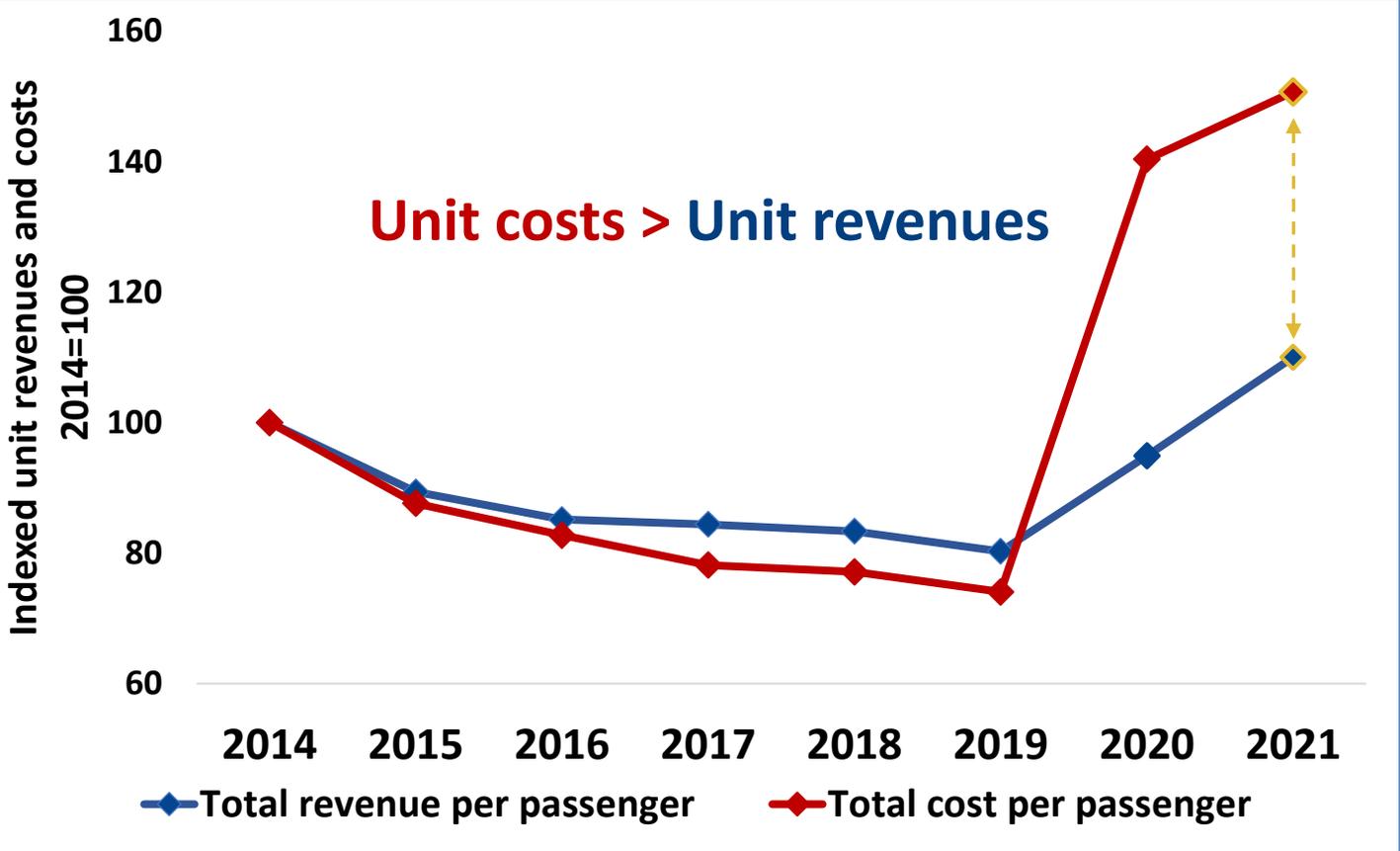
Double digit  
Debt to EBITDA ratios



Asset Betas /  
Risk premium



Cost of capital –  
WACC

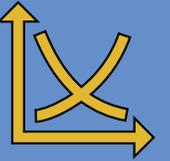


Source: ACI World Airport Economics Survey time series (2014-2021)

# Impact of COVID-19

The top three most pressing issues regarding economic regulation and airport charges

— Inability to adjust prices rapidly and in a flexible manner;



— Hindering needed future investments due to inadequate revenues;



— Challenges in attracting new financing (debt and equity).





# Assessing the global competitive landscape – airports and airlines

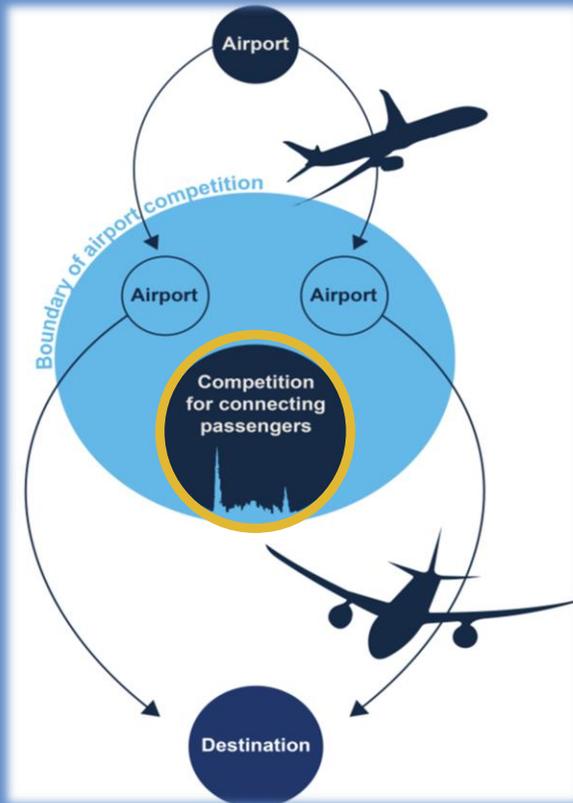
# The reality: Airport competition has intensified

Aeronautical side of the business –

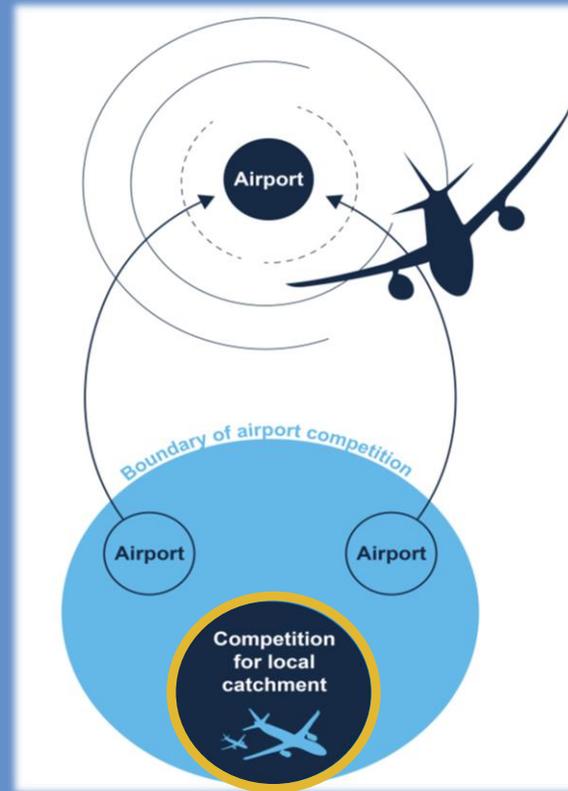
Competition between airports for airline services on new and existing routes



Competition between airports for connecting passengers



Competition for passengers in local catchment



Modal competition

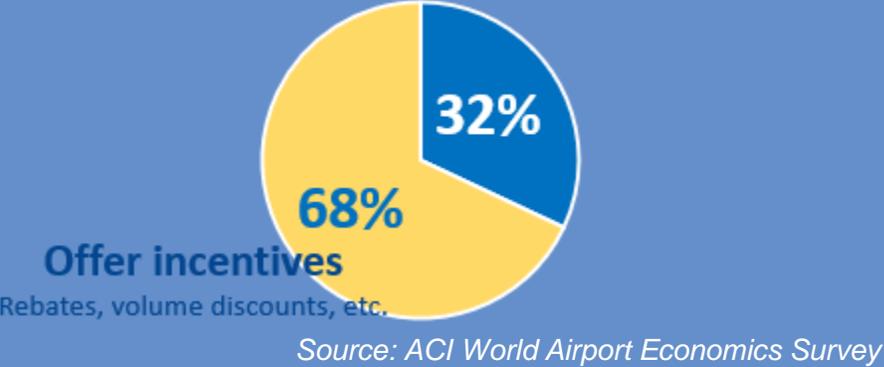


Air cargo competition and Short-and medium-haul for pax

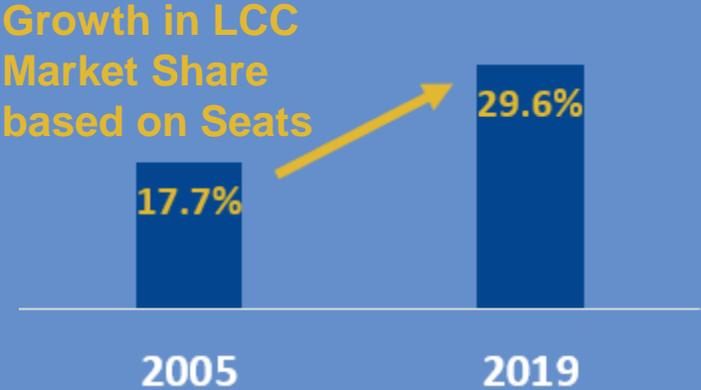
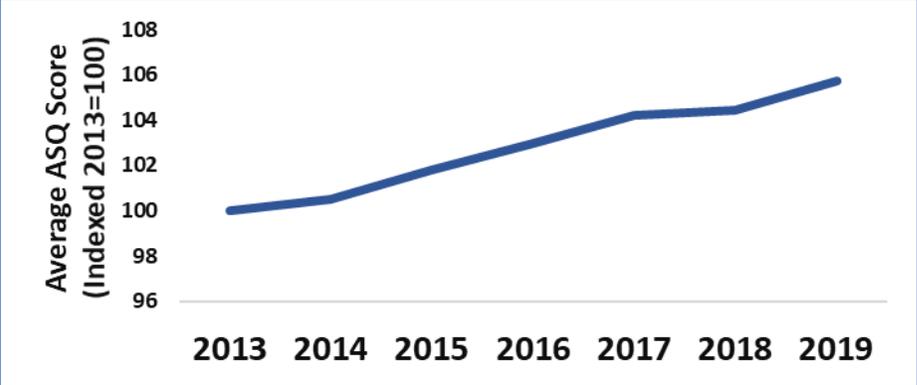
# Competing for passengers and airlines

Airlines have significant buyer power in many markets

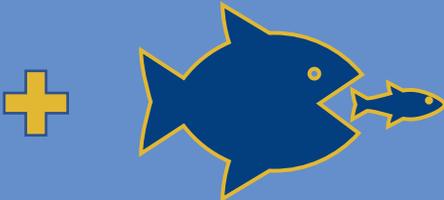
## Competing for AIRLINES - % of airports offering incentives



## Competing for PASSENGERS – Growth in Airport Service Quality (ASQ)



Airline industry consolidation



=

Shifts in the airport-airline relationship



Source: InterVISTAS Analysis of Innovata Schedules Data via Diio

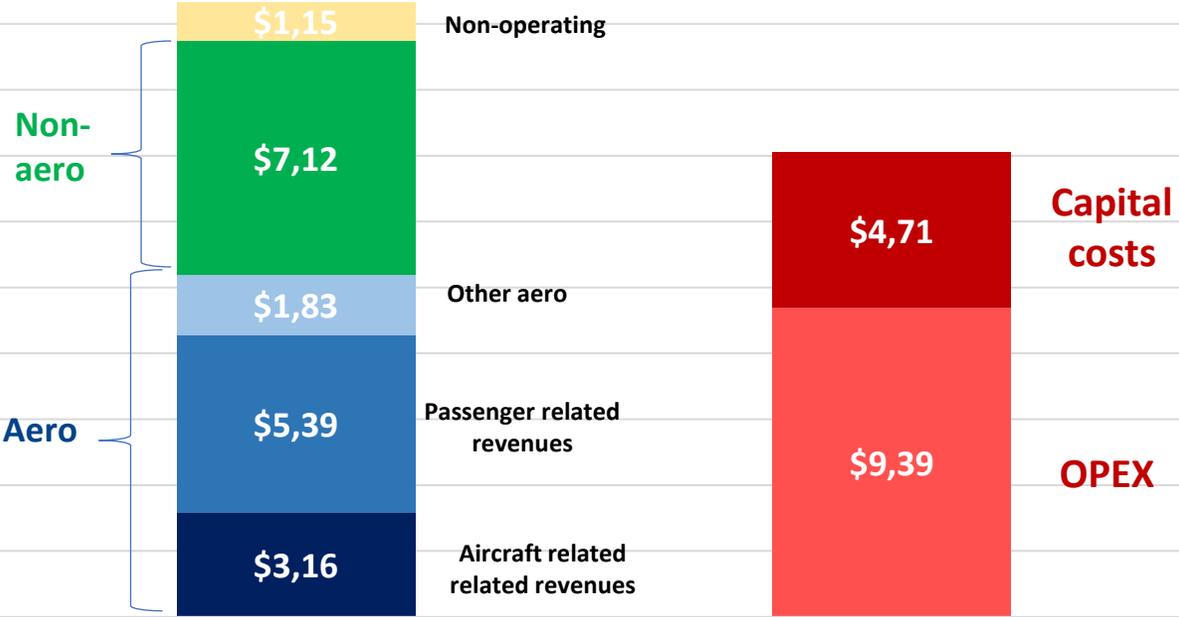


# Unit airport revenues and costs

Impact of the pandemic across the airport business

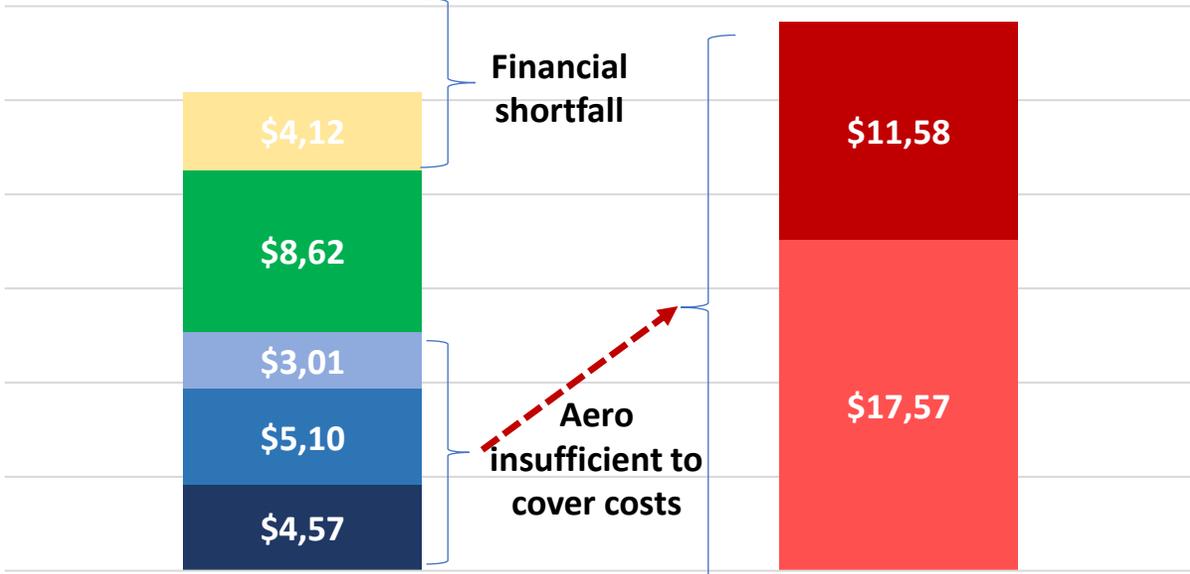
**2019**

(in the black)



**2021**

(in the red)



Source: ACI World Airport Economics Survey



73% of revenues come from passengers or non-aeronautical sources

# The reality: Airport competition has intensified

Non-aeronautical – the double-edged sword of technological disruption



Non-aero revenue per pax



Source: ACI World



amazon



Alibaba.com

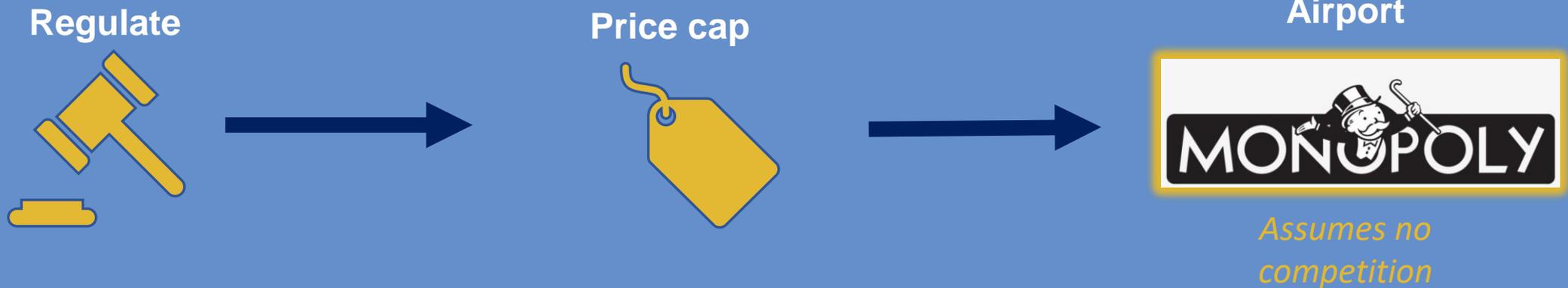
Uber

# The conventional wisdom

Over application of economic regulation across the globe?



erroneous assumptions built into many regulatory frameworks



**Unintended consequences:**  
Hindering infrastructure development and the socio-economic multiplier



# Modernizing global frameworks on airport charges

Ensuring the efficient use of infrastructure for the benefit of the traveling public



# Why modernize?

## Doc 9082 – ICAO's policies on airport charges

### A drastically changed industry

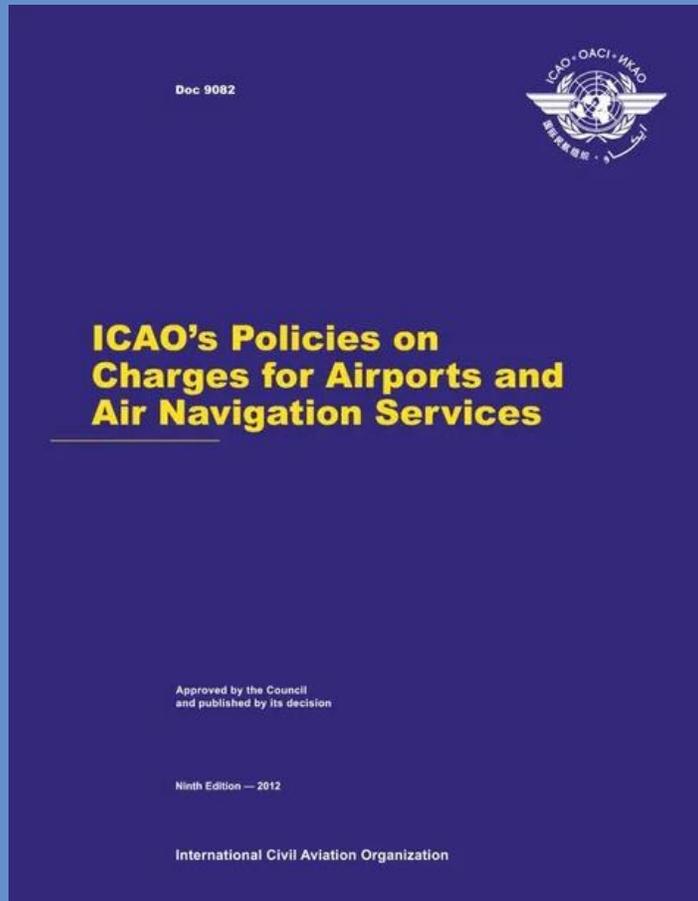
- Last minor review of doc 9082 was prior to the Global Financial Crisis;

### Airports

- Corporatization or privatization
- New approaches to pricing and economic oversight
- Commercialization and customer experience
- Increased airport competition
- Infrastructure bottlenecks
- Decarbonization

### Airlines

- Deregulation and privatization
- Alliances and consolidation
- Rise of the LCCs
- Changes in aircraft technology/economics
- Dynamic demand elasticity pricing
- Energy transition and decarbonization

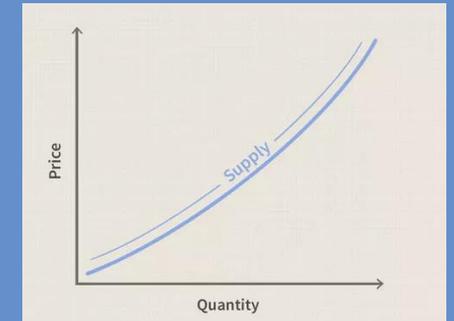


# Airport charges defined

What is and what should be?

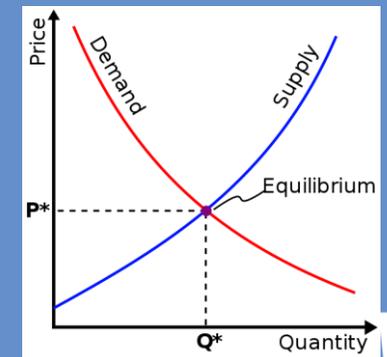
## What is – An exclusive focus on cost recovery (supply side)

- The **International Civil Aviation Organization (ICAO)** defines an airport charge as “a levy that is designed and applied specifically to recover the costs of providing facilities and civil aviation services,” including the operating expenses and costs related to capital investments to build and maintain airport infrastructure.



## What should be – prices that consider the interaction of demand and supply

- Airport charges should reflect not only **market supply (cost)** but also **demand elements**, especially price signals for efficient use of airport resources.
- Charges should provide incentives for:
  - ✓ prioritizing uses of existing capacity,
  - ✓ for signalling when the market needs and is able to pay for additional capacity,
  - ✓ to mitigate external impacts such as noise and environmental considerations, and
  - ✓ for increasing connectivity and socio-economic gains via incentives.

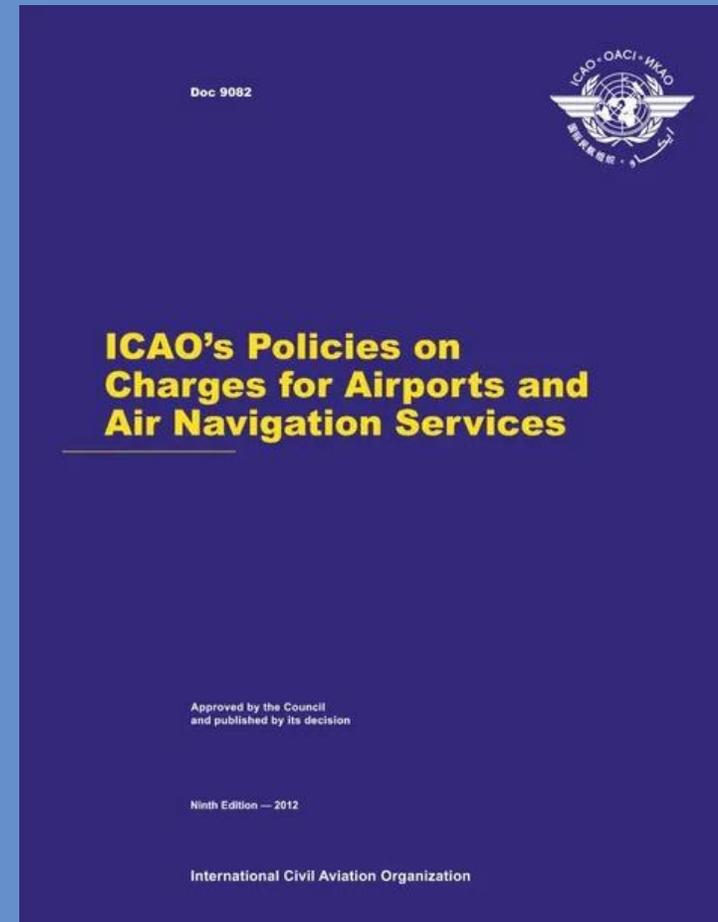


# Modernizing global policy frameworks on airport charges

Ensuring the efficient use of infrastructure for the benefit of the traveling public



**InterVISTAS**  
a company of Royal HaskoningDHV



# Australian case

## Competition and light-handed oversight



Light-handed

versus

Intrusive price regulation



- Australia's government removed the price cap regulation remaining at Australian airports in May 2002, recognizing that the market had effective competition
- Successive reviews by the Australian Government Productivity Commission in 2006, 2011 and 2019 have shown that the system delivers good market outcomes



# Revisions Doc 9082 – Policies on Charges

## ICAO's Airport Economics Panel



AEP-ANSEP/8

### International Civil Aviation Organization

AIRPORT ECONOMICS PANEL (AEP)  
AND  
AIR NAVIGATION SERVICES ECONOMICS PANEL (ANSEP)

EIGHTH JOINT MEETING (AEP-ANSEP/8)

Virtual, 29 November to 3 December 2021

REPORT

1. Greater focus on consumers/passengers
2. Economic oversight – Consideration for competitive landscape and light-handed approaches whilst balancing safeguards for users
3. Non-aeronautical development and accounting
4. Symmetrical consultation among aircraft operators and airports
5. Pre-funding projects in consideration of climate change goals and energy transition
6. Market-responsiveness:
  - ✓ Incentive tools to increase connectivity;
  - ✓ Commercial agreements that permit better risk sharing mechanisms;
  - ✓ Price differentiation for efficient use of infrastructure and emission reduction;
  - ✓ Unbundled vs. bundled charging schemes
7. Black swan events – Economic oversight has a role in allowing for the reclamation of unrecovered costs following an exceptional circumstance (for price regulated airports)

- Consumer focus
- Proportionality in regulation
- Price flexibility for efficient use of infrastructure and connectivity
- Better risk-sharing mechanisms

# Debunking some myths on airport charges



# Debunking the myths

Eliminating the noise based on hard facts



**Myth #1: Airport charges have risen over time**



**Myth #2: Airport charges have a big impact on consumers (airfares)**



**Myth #3: Heavy-handed regulation is required to cap charges and protect consumers**



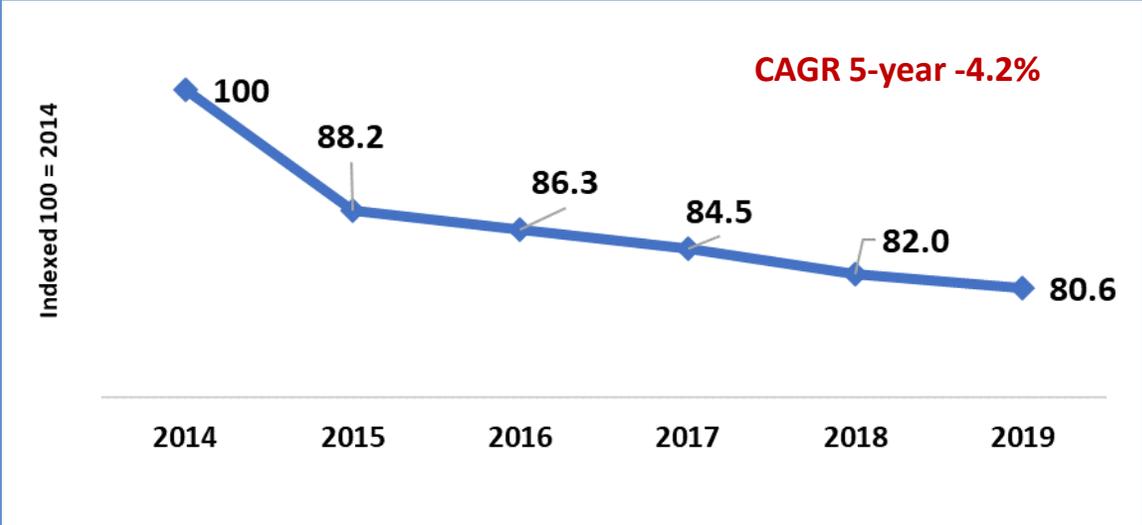
***"Without data you're just another person with an opinion."***

Edward Deming, Statistician



# Myth #1: Airport charges have risen over time

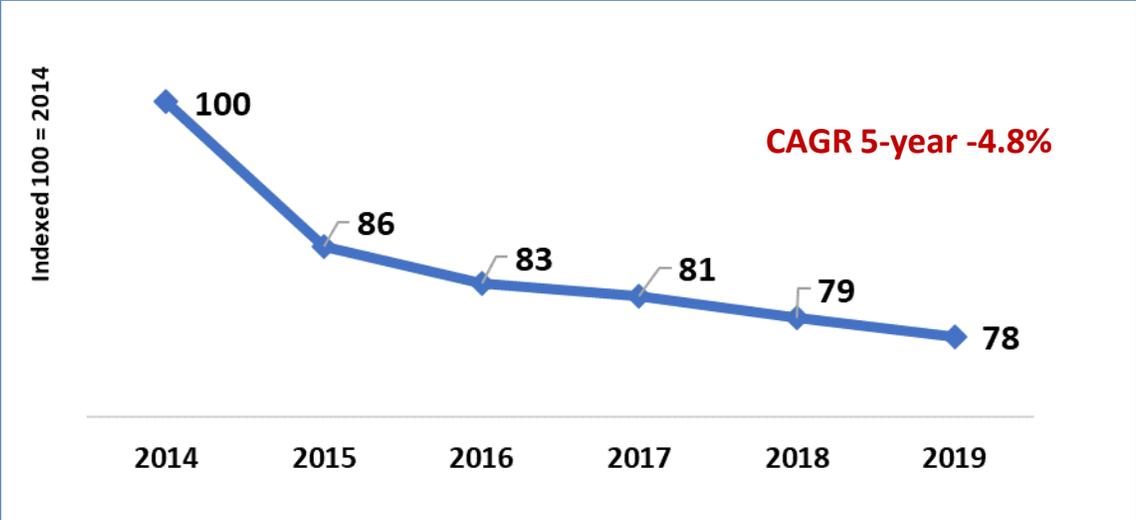
Unit revenues from airport charges indexed to inflation (2014 – 2019)



Aero revenue per pax

~20% real decline in unit revenues related to charges '14 – '19

Landing charge revenue per pax



Source: ACI World Airport Economics data (n=655) set using International Monetary Fund country level inflation rates,



# Myth #2: Airport charges have a big impact on consumers

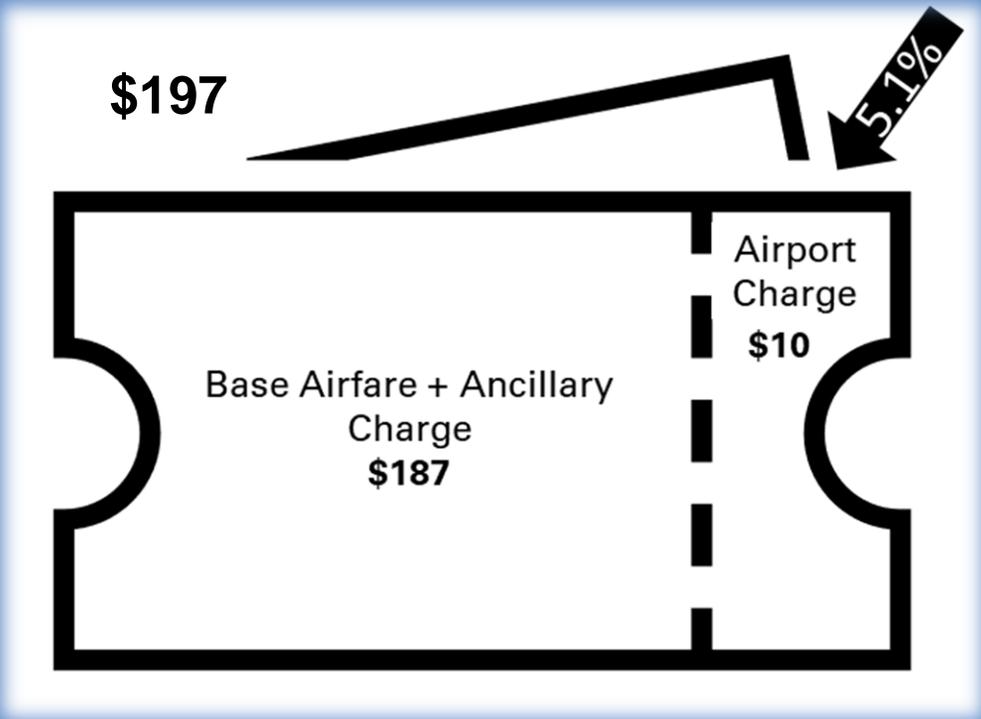
## Airport charges as a % of airline costs and airfares

IATA User charges\* as % of total airline costs



Source: ACI World adapted from IATA WATS 2016, 2017, 2018, 2019, 2020, 2021, 2022  
 \*As defined in IATA WATS, the data presented are drawn from a sample of airlines with financial years ending in 2021 (n=120), 2020 (n=126), 2019 (n=109), 2018 (n=132), 2017 (n=125), 2016 (n=120) and 2015 (n=110). The sample sizes generally reflect traditional/legacy airlines only.  
 User charges consists of both of Air traffic control (ATC) charges and airport charges

All airport charges represent a small % of airfares passenger and airline charges



Source: InterVISTAS Analysis of Sabre MIDT Airfare Data, Ancillary Revenue Data from IdeaWorks, and ACI World Economics Data.

ICAO User charges as % of total costs International scheduled services

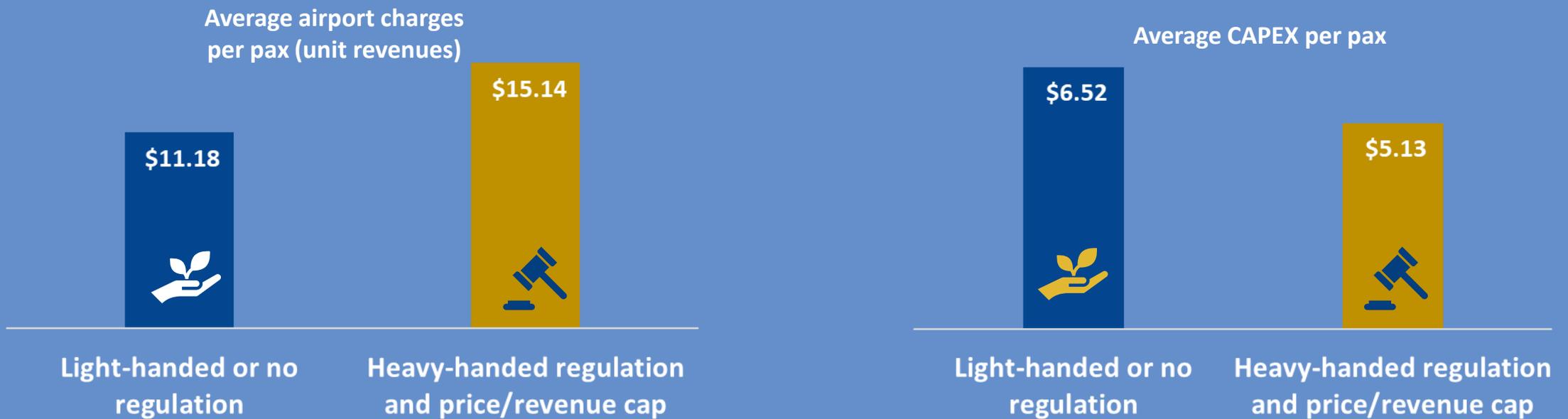


Source: ICAO



# Myth #3: Heavy-handed regulation is required to cap charges and protect consumers

Charges and CAPEX spend per pax (USD 2014 – 2019)



Source: InterVISTAS Analysis of ACI World Economics Data

***“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”***

Milton Friedman, Nobel Laureate in Economic Sciences



**The African case –  
charges versus taxes  
and boosting  
connectivity**

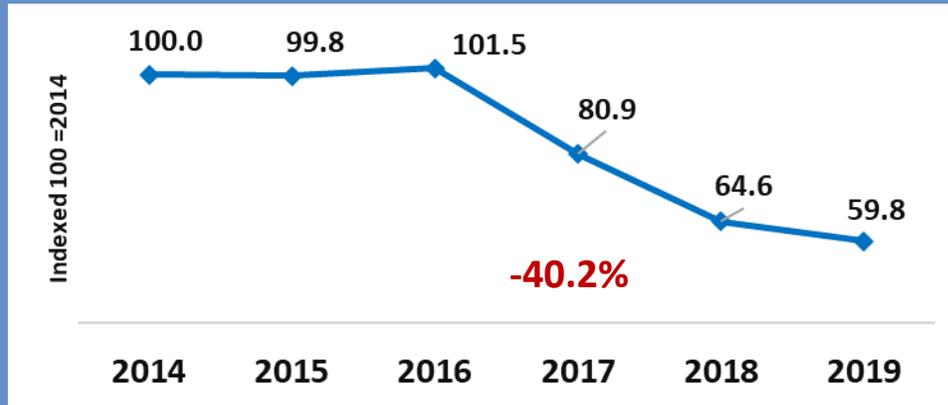




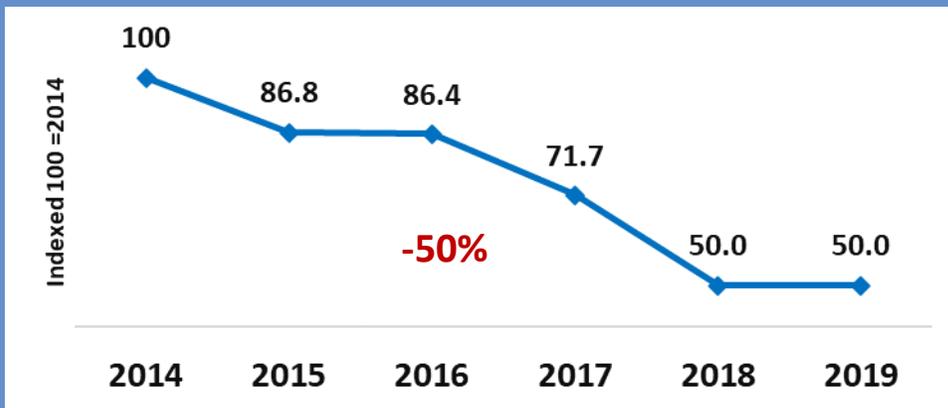
# Airport charges in Africa

Unit revenues in decline and a small % of airline costs

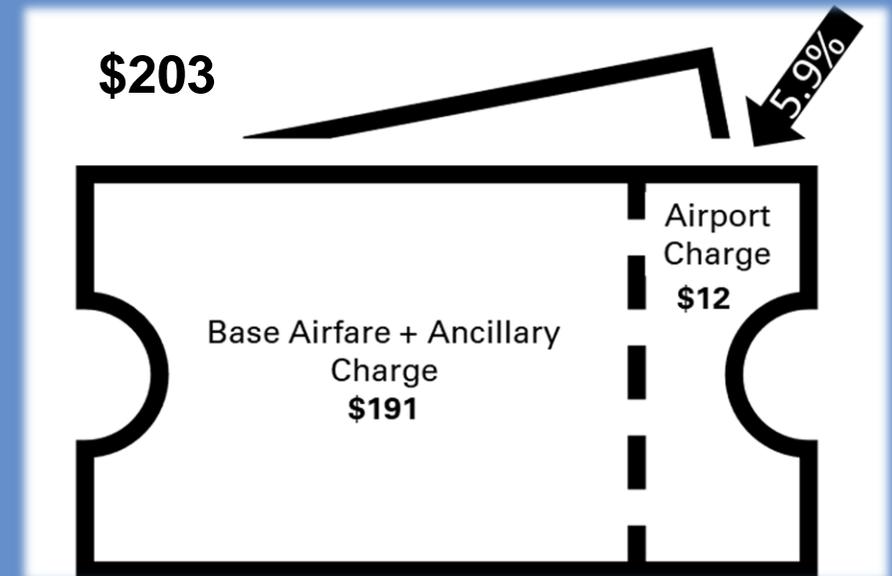
Passenger related charges revenue *per pax*



Landing charge revenue *per pax*



All airport charges represent a small % of airfares passenger and airline charges



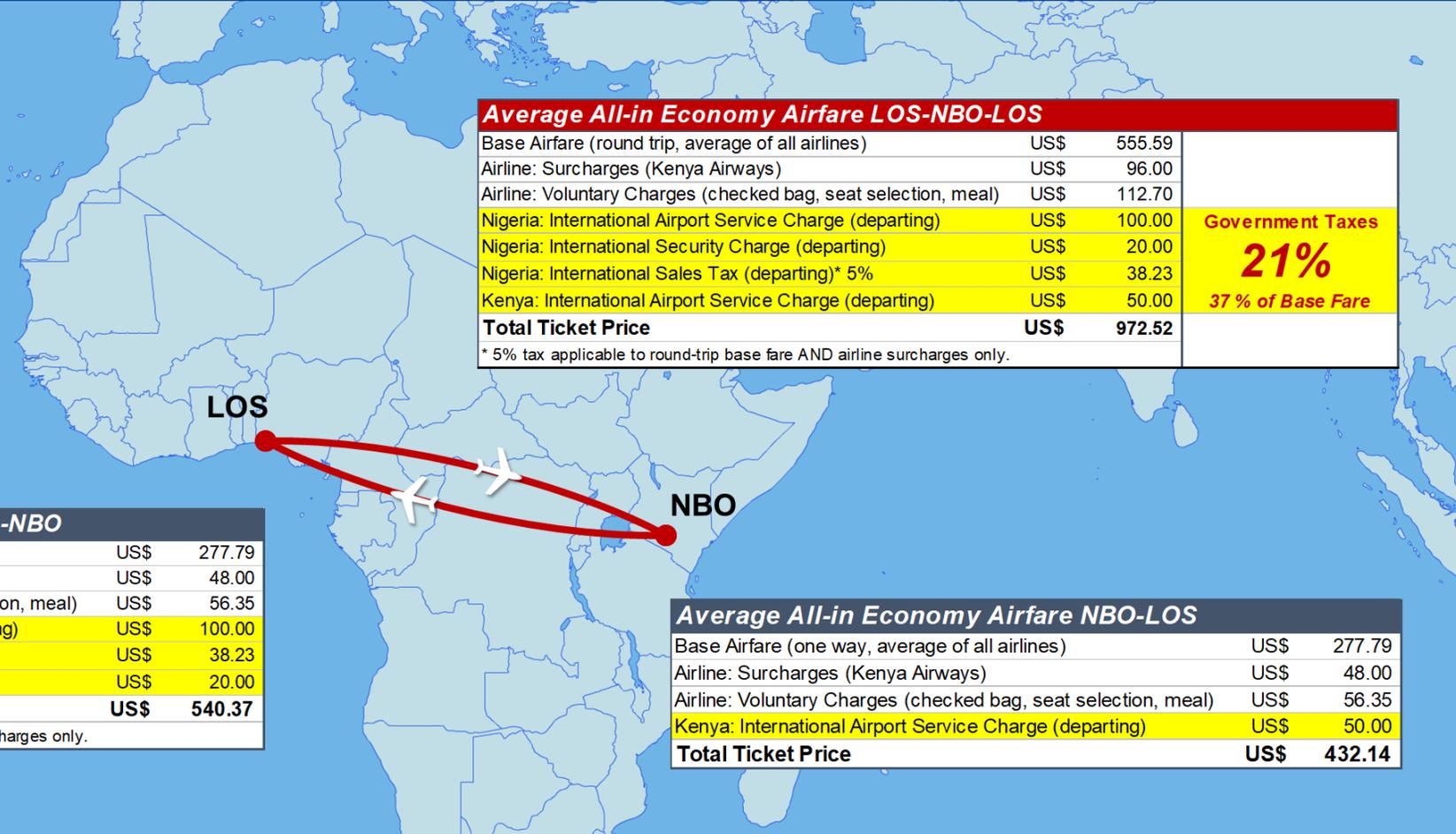
Source: InterVISTAS Analysis of Sabre MIDT Airfare Data, Ancillary Revenue Data from IdeaWorks, and ACI World Economics Data.

# Airport charges and taxes as percent of base airfare with airline ancillary charges

## African example: LOS-NBO

### Intra-Africa All-in Airfare LOS-NBO-LOS

Yellow highlight indicates charges that are remitted to government bodies



Average All-in Economy Airfare LOS-NBO-LOS		
Base Airfare (round trip, average of all airlines)	US\$	555.59
Airline: Surcharges (Kenya Airways)	US\$	96.00
Airline: Voluntary Charges (checked bag, seat selection, meal)	US\$	112.70
Nigeria: International Airport Service Charge (departing)	US\$	100.00
Nigeria: International Security Charge (departing)	US\$	20.00
Nigeria: International Sales Tax (departing)* 5%	US\$	38.23
Kenya: International Airport Service Charge (departing)	US\$	50.00
<b>Total Ticket Price</b>	<b>US\$</b>	<b>972.52</b>

\* 5% tax applicable to round-trip base fare AND airline surcharges only.

**Government Taxes**  
**21%**  
37 % of Base Fare

Average All-in Economy Airfare LOS-NBO		
Base Airfare (one way, average of all airlines)	US\$	277.79
Airline: Surcharges (Kenya Airways)	US\$	48.00
Airline: Voluntary Charges (checked bag, seat selection, meal)	US\$	56.35
Nigeria: International Airport Service Charge (departing)	US\$	100.00
Nigeria: International Sales Tax (departing)* 5%	US\$	38.23
Nigeria: International Security Charge (departing)	US\$	20.00
<b>Total Ticket Price</b>	<b>US\$</b>	<b>540.37</b>

\* 5% tax applicable to round-trip base fare AND airline surcharges only.

Average All-in Economy Airfare NBO-LOS		
Base Airfare (one way, average of all airlines)	US\$	277.79
Airline: Surcharges (Kenya Airways)	US\$	48.00
Airline: Voluntary Charges (checked bag, seat selection, meal)	US\$	56.35
Kenya: International Airport Service Charge (departing)	US\$	50.00
<b>Total Ticket Price</b>	<b>US\$</b>	<b>432.14</b>

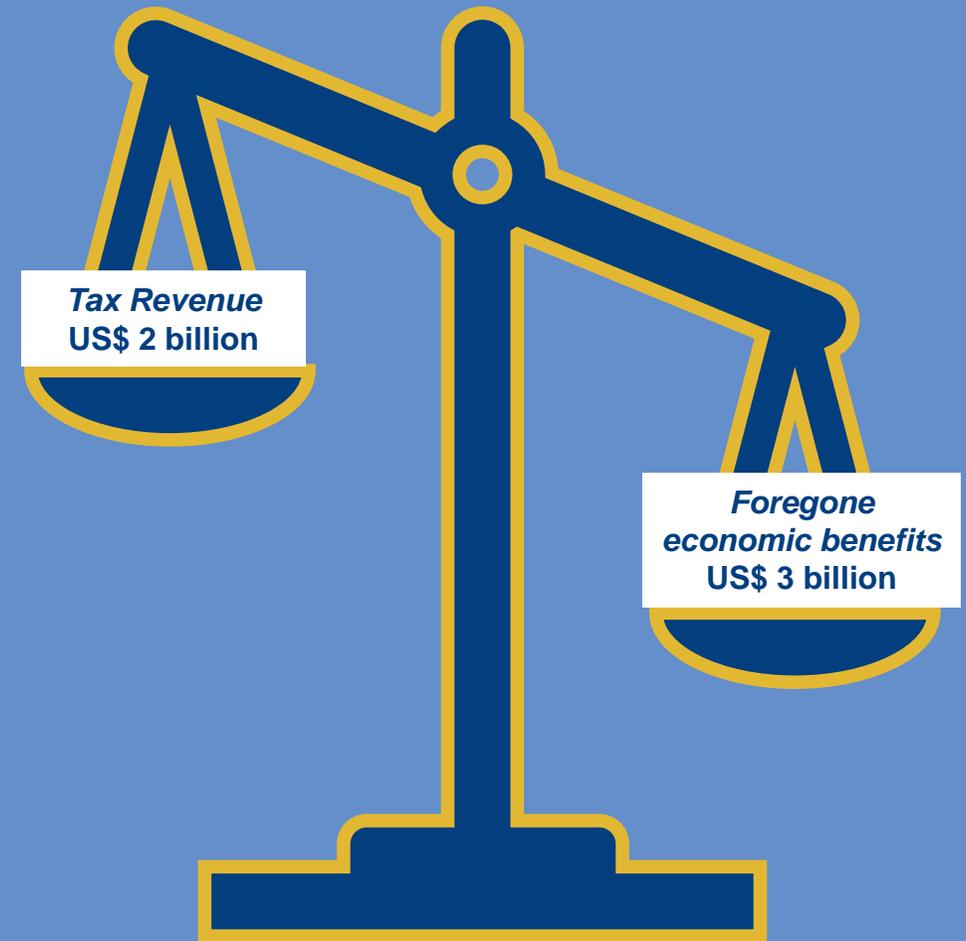
Source: InterVISTAS analysis; Updated from ACI World Policy Brief (2020) Taxation of International Air Transport and Airports: Economic benefits and costs  
 NB The international airport service charge in Nigeria and Kenya of US\$ 50 is classified as government tax due to the fact that the substantial share of proceeds is transferred back to the government. This way, the levy which is labelled as a charge is in fact a hybrid of a tax and charge, where the share of a cost-based charge within the single levy is disproportionately smaller than the tax component. Charges and taxes have been updated to 2021



# Policy levers to stimulate Demand

Removing pax-based taxes — Unleash the full socio-economic benefits of aviation

- Estimated revenue from taxes on air transport and levied on airline tickets in **Africa is \$2 billion**
- Reducing or eliminating tourism taxes can result in higher national well-being by stimulating tourism. The increased spending by these tourists will generate higher employment and GDP and potentially offsetting or exceeding taxation revenues.



# Policy levers to stimulate Demand

Removing pax-based taxes — Unleash the full socio-economic benefits of aviation

Based on estimated price elasticities – Removal of taxes would increase traffic by 10% for Africa



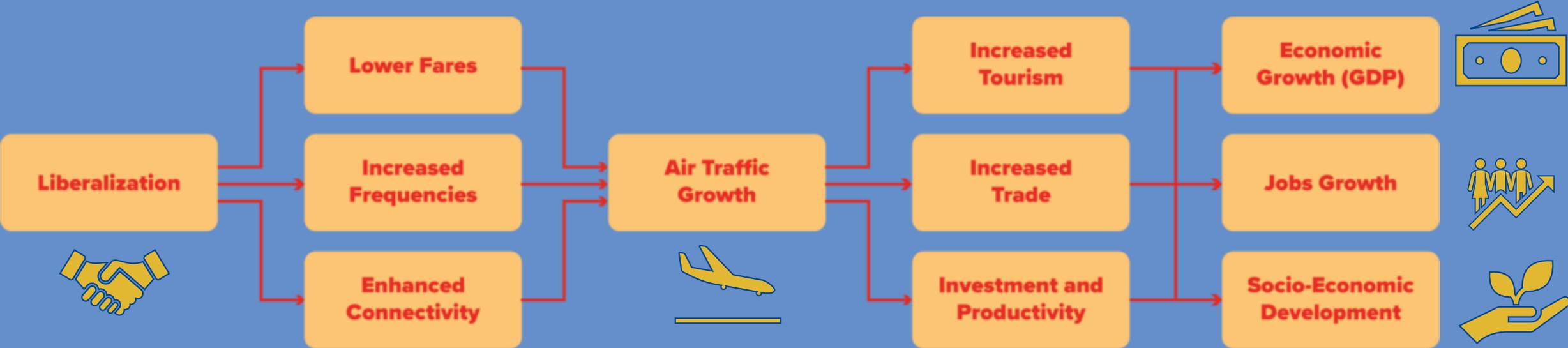
Impact of tax removal	Tax revenues (US\$ billions)	Foregone Employment (Jobs - thousands)	Foregone GDP (US\$ billions)
Africa	<b>US\$ -2</b>	<b>500</b>	<b>3</b>

Source: ACI World; InterVISTAS analysis



# Liberalisation of air services

Induces both airport and airline competition



Source: IATA; InterVISTAS – Continental Study on the Benefits of the Single African Air Transport Market (SAATM) (2021)

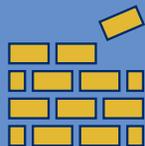
# Summary and the way forward



# Summary

## Key facts on the state of play regarding airport charges

- ✚ **Airports/airlines changed dramatically since charges policy was instituted in 1940s**
  - Increased privatization, deregulation and liberalization
  - Increased airport competition; Growth of LCCs, Airline consolidation
  - Treating airports as businesses in their own right
- ✚ **Airport charges per pax have been declining in recent years**
  - on a per pax basis, declined 20% in real terms between 2014 and 2019
- ✚ **Airport charges are still a small share of average ticket price**
- ✚ **Heavy handed regulation (price cap) of airport charges is not associated with lower charges**
- ✚ **African case – Taxes and liberalization are levers to stimulate demand, connectivity and competition**

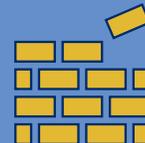


# Consumers at the center

Crafting policies that deliver benefits to the traveling public

## Important role of economic oversight:

- ┆ Ensuring that airport charges and pricing are based on market signals guaranteeing the most efficient use of infrastructure for the traveling public;
- ┆ Monitoring competition – Cost-benefit analysis of regulation;
- ┆ Incentivizing innovation and aviation’s decarbonization;
- ┆ Fostering investment in infrastructure for socio-economic gains;
- ┆ Promoting commercial agreements that facilitate airport-airline risk sharing.



Thank you

In collaboration with:

InterVISTAS

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With the support of:

