The Second ICAO Meeting on the Sustainable Development of Air Transport in Africa

SESSION 5 – AIRPORT AND AIR NAVIGATION SERVICES ECONOMICS AND MANAGEMENT

1. HOW CAN STATES ENGAGE THE PRIVATE SECTOR AND DEVELOPMENT ASSISTANCE INSTITUTIONS FOR AVIATION INFRASTRUCTURE DEVELOPMENT?

- Over the years states have involved private partnerships in order to free up state funds for alternative uses. The efficiency and effectiveness of a country's air transport system encourages investment by business, which fosters growth and job creation; hence most states are keen on engaging the private sector.
- The evolving nature of the aviation industry demands new transformations in and better performance from the air transport infrastructure; and the private sector has an important role to play

- ACI encourages the participation of the private sector in aviation infrastructure development. We encourage private Partnerships in the different forms that are available and we engage our members to adopt this practice. According to the ICAO Economics manual, Private participation/involvement has basically four different forms: management contract, lease (which is sometimes called concession), transfer of minority ownership, and private sector ownership and/or operation of parts of the activities of an airport (including PPP schemes).
- The airport operators have to take a leading role in promoting these systems to the states, airlines and other potential aviation stakeholders.

ACI findings:

- Market size matters for private investment. Private investment flows to airports with high throughput or potential of high throughput:
- Out of the world's top 100 busiest airports for passenger throughput, 46% have some form of private sector participation (handling 54% of global passenger traffic);
- 38% of airports out of the world's top 500 have private sector participation;
- 41% of global airport traffic is held by airports that are managed and/or financed by private stakeholders;
- Concession contracts are the most common model (41%), followed by freeholds (24%), listed airports (23%), and management contracts (8%) regarding the types of private sector involvement;

ACI Policy Recommendations

- ACI does not prescribe any specific type of ownership model. In short, airports should be permitted to operate under a range of ownership models. The type of ownership and any participation of private capital vary from airport to airport depending on local circumstances. Ownership models should be such that it allows the airport operator at any individual airport or for a group or network of airports flexibility in operating its business to achieve a reasonable return on investment and to manage risks. There is no “one size fits all” approach for airports, irrespective of their ownership models.

2. HOW CAN NON-ECONOMICALLY VIABLE AIRPORTS BE SUPPORTED WITHOUT INTRODUCING MARKET DISTORTIONS? ?

- According to the discussions of ICAO'S Airports Economic Panel, In certain States and regions, economically non-viable airports sometimes serve as part of an integrated air transport network and/or as alternate airports for emergencies.
- One of the solutions to overcome difficulties in providing and maintaining economically non-viable airports deemed necessary as part of an integrated air transport network for safety, security and socio-economic reasons is to resort to external sources of financing. There are various sources of external funding that can be adopted for supporting non-economically viable airports, Such as:

- Cross – subsidization or Direct government subsidies: The State is to decide on how best structure this long-term funding commitment or the appropriate charging system which must be consistent with ICAO’s four charging principles of: transparency, non-discriminatory, cost-relatedness, and user consultation. ICAO’s Doc 9562 prescribe~~s~~ that “an equilibrium should be sought between the interests of airports and users, specifically including those of current and future end-users; and that in cases where cross subsidization within a national network is applied, full transparency is necessary.
- International Co-operation: An alternative approach to providing financial support to economically non-viable airports is through international cooperation.

- The application of the Essential Service and Tourism Development Route (ESTDR) scheme, which was developed jointly by ICAO and the World Tourism Organization could be an additional solution to support the management of such airports. Under this scheme, subsidies will be provided to airlines instead of airports with very clear socio-economic objectives and through a competitive tendering/bidding system having clearly-defined transparent criteria.
- Tax relief for airports and airlines: Airlines and air service providers are heavily taxed by some states. The Airlines transfer the cost to the passengers and customers, resulting in the high cost of tickets. Airports that are expensive to passengers are economically non-viable. States that seek to enhance the economic viability of their airports may consider giving tax incentives to airports.

3. WHAT ARE THE METHODOLOGIES USED TO EVALUATE THE RETURN ON INVESTMENTS, ASSOCIATED RISKS AND UNCERTAINTY IN MAKING AN INVESTMENT DECISION?

- The Return on Invested Capital (ROIC) is a robust measure of profitability because it considers the effective management of total revenues and total costs for a fiscal year as well as invested capital. Return on capital invested measures the payment that both debt and equity holders would receive for providing capital; while taking into account the risks and uncertainty involved.
- For airports, according to the 2014 ACI Economics survey, the global return on invested capital for the industry as a whole was 6.3%, advanced economies 5.6% and Emerging & developing economies at 9.9%.

- The return on invested capital methodology is best used with the weighted average cost of capital methodology (WACC). When these two methodologies are compared it shows the full story of financial performance and efficiency.
- The weighted cost of capital essentially shows the opportunity cost of an alternative investment with similar risk profile. In other words, the weighted cost of capital is the “expected return” while the return on capital invested is the “actual return”. Therefore if the return on capital invested exceeds the weighted cost of capital then the investment can be said to be economically profitable. But if the return on capital invested is less that the weighted cost of capital then there is an indication of economic loss.
- Previous industry studies have estimated the weighted average cost of capital to be between 6% and 8%, so every investor should be aiming at making a return on capital invested of over 8% in order to make economic gains.

4. HOW CAN ICAO ASSIST STATES IN DESIGNING AND IMPLEMENTING FUNDING AND FINANCING MECHANISMS COMPLYING WITH THE ICAO TAXATION AND CHARGING POLICIES?

- The four key charging principles of non-discrimination, cost-relatedness, transparency and consultation with users are important for states to adopt.
- ICAO should have more interaction with leaders and should provide more trainings for states.
- ACI is working with ICAO on the Charges calculator which is an excellent tool which airports can use to set airport charges consistent with best practices.