



## Conference on the Economics of Airports and Air Navigation Services Preparatory Seminar

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### SUMMARY OF DISCUSSIONS

by Mr. John Gunther  
Moderator of the Seminar

### INTRODUCTION

A Preparatory Seminar for the Conference was held over a day and a half on 19-20 June 2000. Its objective was to clarify and inform Conference delegates on several broad issues which the Conference would be addressing. To accomplish this, a number of leaders and experts in various disciplines were invited to present papers and respond to questions from seminar participants. The seminar format consisted of seven sessions on different topics followed by a panel discussion on the major challenges facing airports and air navigation service providers at the dawn of the twenty-first century. The seminar programme issued to Conference delegates contains the topics covered together with the speakers and panellists. This brief summary of the discussions, prepared by the Moderator, is intended for insertion in the Seminar Folder as part of the proceedings.

### SESSION 1 – FINANCIAL SITUATION

The seminar heard two presentations on this topic, one from the airport and the other from the air navigation service provider perspectives. On the airport side financial self-sufficiency was seen to be a function of managerial competence, flexibility and commercial innovation, and it presupposed the airport's freedom to operate as a business. An air navigation service provider case study made the link between risk management, legal obligations and financial self-sufficiency. In any situation where the provider was given autonomy the State must continue, however, to be the de facto guarantor of air navigation services.

### SESSION 2 – ATTRACTING FINANCING

Two speakers from the banking community elaborated on what prospective financiers are looking for when funding infrastructure. They identified the different kinds of risk and their allocation, as well as how bankers manage those risks. The point was made that aviation infrastructure is often easier to finance than many public utilities, in part because some of the revenue stream of airports and air navigation services was in hard currency, which could be used to securitize loans. It was suggested that States should be clear on what they want in terms of infrastructure and should also ensure that infrastructure was seen as an opportunity rather than an obstacle.

### SESSION 3 – CHARGES VS TAXES

The speaker explained the fundamentally important difference between a charge and a tax in terms of ICAO's policy approach. But, in practice, the distinction was not so easily drawn and it raised a number of policy issues for authorities to address. As the pressures to raise funds for different needs in the aviation sector grow so will the magnitude and complexities of the charges vs taxes issue. Furthermore the commercialization and privatization trend in aviation infrastructure will probably compound the problems of maintaining a policy distinction, as well as of implementing cost recovery and avoiding discriminatory

treatment in the imposition of charges and taxes.

#### **SESSION 4 – COMMERCIALIZATION AND PRIVATIZATION**

Three speakers provided a comprehensive coverage of this topical subject. A useful overview was given of the commercialization and privatization process, the terminology used, different options available and some of the issues and pitfalls along the way. The concept was presented as being a generally good thing, not so much to satisfy ideological expectations, but as a means to achieve efficiencies and meet public policy goals. However, making the process of airport privatization work required a reasonably high level and often different type of regulation, particularly with regard to pricing policy, since airports are, in essence, monopoly service providers. The traditionally adversarial relationship between airports and airlines was seen as a hindrance to successful privatization, one which should be replaced by cooperation. The "single till" principle of cost recovery prompted different viewpoints.

#### **SESSION 5 – COOPERATION AND GLOBALIZATION**

This topic was approached from various perspectives by three speakers. One was how cooperation was being used in Europe to address many of the problems and the differences in the quality of air navigation service provision. Another speaker saw globalization as an inevitability that promised much but contained inherent dangers. The way to address the danger of existing technological imbalances being perpetuated was through training and cooperation at every level. Globalization was also viewed as a process in the airport management area. It was predicted that a handful of global airport operators could be managing most of the world's airports within the foreseeable future.

#### **SESSION 6 – NON-AERONAUTICAL REVENUES**

Two successful case studies were presented. The caution was given that the pursuit of non-aeronautical revenues must be balanced with facilitation needs, especially that of passenger flows. In order for these two interests to coincide careful terminal design and planning were essential. And, as in the case of the session on self-sufficiency, the role of innovation was seen to be pivotal in successfully optimizing non-aeronautical revenues so that all could benefit.

#### **SESSION 7 – ECONOMIC REGULATION**

This topic was addressed from the perspectives of a case study and of a general overview. The conversion of a government department into a financially and managerially autonomous authority was shown to require careful planning and implementation. Responsibility for implementing Chicago Convention Annexes could be delegated to such a body but the State always remained the ultimate guarantor of safety and air navigation service provision. In moving to greater autonomy in airport and air navigation service provision, the State's responsibility changed to being that of facilitator, monitor and regulator. Nevertheless, in some circumstances, such as that of island developing countries dependent on tourism, where air transport is seen as a strategic asset, the State's role as a service provider may need to continue.

#### **SESSION 8 – PANEL SESSION ON MAJOR CHALLENGES**

Presentations were given by seven panellists, comprised of a cross section of industry and government leadership and expertise. This generated a variety of perspectives and check lists of major challenges. Emphasis was laid on the problems and consequences of: constraints on capacity in the face of strong demand growth; meeting the cost of system expansion; changing organizational structures and responsibilities; policy coherence; control over new technology; liberalization, privatization, and airline alliances; maintenance of flight safety; and human resource factors and training.