

## **CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES**

(Montreal, 19 - 28 June 2000)

### **Agenda item 5.2.1: Airport charging principles**

#### **SINGLE TILL AND THE DEVELOPMENT OF NON-AERONAUTICAL REVENUES**

(Presented by the Secretariat)

##### **SUMMARY**

This paper addresses the “single till” concept and the importance of revenues derived from non-aeronautical revenues in setting charges on air traffic. Suggested action by the Conference is at paragraph 3.1.

### **1. Background**

1.1 A basic principle with regard to determining the cost basis for airport charges is set out in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* (Doc 9082/5)\* paragraph 14 i) as follows:

“The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the cost of maintenance and operation and management and administration expenses, but allowing for all revenues, aeronautical or non-aeronautical, accruing from the operation of the airport to its operators.”

This has been referred to as the “single till” principle since it envisages the pooling of airport revenues and costs from all revenue-generating activities when charges are set.

1.2 Also relevant in this context is the following principle in the Council Statements in Doc 9082/5, paragraph 14 vii):

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\*Proposed by the Secretariat in ANSCConf-WP/4 to be retitled *ICAO Policies on Charges for Airports and Air Navigation Services*.

“Airports may produce sufficient revenues to exceed all direct and indirect operating costs (including general administration, etc.) and so provide for a reasonable return on assets (before tax and cost of capital) to contribute towards necessary capital improvements.”

1.3 The revenues derived from non-aeronautical activities at airports, which in some instances account for more than half of total airport revenues, are of critical importance to the financial viability of airports. They not only contribute to the overall profitability of the airports concerned but can also provide a means of reducing the charges on air traffic (landing, parking, passenger services charges, etc) that need to be levied on aircraft operators. The Council Statements in Doc 9082/5 address the relevance of non-aeronautical revenues in paragraph 24 as follows:

“The Council recognizes the continuing importance to airports of income derived from such sources as concessions, rental of premises and "free zones". The Council recommends that, with the exception of concessions that are directly associated with the operation of air transport services, such as fuel, in-flight catering and ground handling, the full development of revenues of this kind be encouraged having regard to the need for moderation in prices to the public, the requirements of passengers, and the need for terminal efficiency.”

1.4 As can be noted from the above there is a major difference between development of revenues from the two sources, that is charges from air traffic and non-aeronautical activities. In the case of the latter full revenue development is encouraged, though with important justifications such as moderation in prices to the public, maintenance of high standards of service and efficient use of facilities. However, in the case of charges on air traffic only costs plus a reasonable return on assets should be recovered (after allowing for profits, if any, from non-aeronautical activities).

## 2. Discussion

2.1 An objective sometimes expressed is for each major type of service provided and each activity performed at an airport to be self-financing. In reality however, even at large airports, the airside activities are rarely profitable. In fact where airports are profitable this is usually because revenues from non-aeronautical activities generate sufficiently high profits not only to cover the shortfall of revenues on airside activities but also to leave the airport with an overall profit. Non-aeronautical revenues are consequently the principal means by which the large majority of profitable airports are able to recover their total costs, and the development of these revenues is expected to continue at an increased pace.

2.2 Recently there have been instances of criticism against the “single-till” principle on the grounds that using revenues from commercial or competitive non-aeronautical activities essentially to subsidize monopoly services (airside activities) had such undesirable effects as artificially setting aeronautical charges at a level lower than the economic cost of providing these services. It also reduced incentives for airport management to lower the costs of these monopolistic services or for investing in new facilities.

2.3 This may raise the question of what should be the primary aim. Is it for user charges on air traffic to recover the full economic costs to the operator of providing the airport facilities? Or is it, alternatively, for charges on air traffic to be as low as possible, but permitting cost recovery and earning of a reasonable return, so as to encourage growth in air traffic and related economic benefits? As noted above, profits at an airport are as a rule primarily only composed of profits from non-aeronautical activities, i.e. shops, restaurants, automobile parking, etc. However, it should be noted that non-aeronautical activities can only occur at an airport because of the very existence of the airport itself. The aircraft, passengers, meeters and

greeters, staff at the airport, etc. are the market for non aeronautical activities and that market has been created by the aircraft operators. Consequently, it may be viewed as equitable that the principal users, i.e. the air carriers and their passengers, benefit from non-aeronautical as well as aeronautical activities.

2.4 The “single till” concept has so far only been addressed in the context of airport operations but applies equally in the context of air navigation services. It has, however, not been relevant in that context because non-aeronautical activities of any measure are not performed at the sites of air navigation services. However, in the future with growing commercialization in the provision of air navigation services the operators concerned may develop such profitable non-aeronautical revenue-generating activities as provision of services to non-aeronautical users, consultancy services, etc. It may therefore be desirable to align the text in paragraph 34 i) which addresses the same issue with regard to air navigation services as paragraph 14 i) does with regard to airports, with the text in paragraph 14 i).

### **3. Action by the Conference**

3.1 The Conference is invited to note this paper and agree to recommend to Council that in the Council Statements in Doc 9082/5 :

- a) the substance of the texts in paragraphs 14 i) and 34 i) addressing cost basis for charges, and the substance of the text in paragraph 24 addressing development of revenues from concessions, rentals and other non-aeronautical activities be reaffirmed; and
- b) the text in paragraph 34 i) be aligned with that in paragraph 14 i).

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