

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 2: **Organizational issues**
Agenda Item 5.2: **Elements for consideration with regard to ICAO policy**

Cost Efficiency of Airport and ANS Entities

(Presented by the International Air Transport Association)

SUMMARY

This paper highlights the importance of the cost efficient provision of airport and air navigation facilities and services and argues that there should be a commitment to the principle of productivity improvements in the establishment of airport and ANS charges.

1. Introduction

1.1 An important stipulation contained in the ICAO *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*[@] is the principle of cost relationship. While this principle remains extremely important, major changes in the airport and ANS sectors during the last decade require additional guidance from ICAO.

2. Current situation

2.1 The principle of cost related charges figures prominently in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*[@]. The users are requested only to pay their full and fair share of the cost of providing the airport or air navigation services.

2.2 The last decade has been a period of major changes for civil aviation. These changes included the deregulation and liberalisation of air transport. At the same time, many States reduced (or eliminated) their equity in the national airline(s), thus abolishing any subsidy payments to the air carriers in case of losses incurred by them. Another result of deregulation is the emergence of many new carriers, which has resulted in a degree

of competition amongst airlines never before experienced. Today, airlines operate in the most competitive environment of the transport industry.

2.3 The fiercely competitive environment proves to be beneficial to the travelling public. Over the last ten years, airline yields have continued to decline and this trend will continue for the foreseeable future. In order to remain in business, the airlines have had to meet this decline in yield by improving productivity and efficiency.

2.4 Airports, and to a greater extent, air navigation service providers, are not subjected to competition in the same way airlines are. While there may be a limited degree of competition between airports in certain regions, particularly for transit traffic, competition between ANS providers is virtually non-existent.

2.5 Given this environment, IATA believes that the principle of cost related charges has to be supplemented by a requirement for airports and ANS providers to improve their productivity and deliver their facilities and services in a cost efficient manner. While it can be argued that this is the natural aim of the management of any company, this is not always the case for airport and ANS entities. All too often, increases in cost or decreases in traffic volumes are simply passed on to the users in the form of increases in charges.

2.6 Aviation as a whole can only prosper if all parties involved abide by the same principles and aims. The cost reductions and efficiency and productivity improvements that the airlines have achieved over the last decade have to be matched by similar initiatives by airports and ANS providers. Only the combined efforts of all parties involved will lead to further sustained cost reductions that are the basis for further growth of civil aviation.

3. The IATA Position

3.1 Airports and ANS providers should have targets to improve their financial position through productivity improvements and, in the case of airports, boosts in commercial revenues. Increases in aeronautical charges should be seen as the last resort to resolving financial difficulties.

3.2 IATA suggests that airlines, airports and ANS providers work together in order to periodically define the efficiency targets that should be achieved by airports and ANS providers. These targets should be linked to the yield development the air carriers are facing. Productivity improvements being experienced in other competitive industries should also be taken into account. Equally, the partners should not only define necessary cost reductions, but at the same time should also agree on service levels and standards.

4. Action by the Conference

4.1 IATA requests that the Conference introduce, as an additional requirement for the establishment of airport and air navigation charges, the principle of efficiency and productivity improvements which should be defined on a bilateral basis between users and providers.

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