

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 2: Organizational issues

Airport Networks and Airport Cross-ownership

(Presented by the International Air Transport Association)

SUMMARY

This paper addresses IATA concerns with respect to airport networks and airport cross-ownership/alliances charging practices. IATA strongly believes in airport cost related, location-specific charges.

1. Introduction

1.1 IATA strongly supports the ICAO principle of cost related charges. Cost related charges means that airlines can understand why charges are set at a given level. It also means that the airlines understand what it will cost to expand capacity or improve service levels, and the effects this might have on the charges paid.

2. Discussion

Airport Networks

2.1 IATA strongly believes in location-specific charges. If an authority is operating a network of airports, the charges should be set individually for each airport based on its costs. The reasons are:

2.1.1 If charges are set for a whole network of airports, the cost relationship will not apply to individual airports, but only to the whole airport system as such. Most airlines will normally only fly to one or a few airports of the network. For those airlines, the link between the airports costs and the

price the airline pays at that particular airport is lost.

2.1.2 Where a national airport network is operated by an authority, the international airports cross-subsidise the domestic airports. This means that the international airlines operating at international airports are asked to subsidise a domestic airport network which they do not use. Such airports might serve remote regions of a State with little passenger demand. If a State wishes to support such airports as part of a national transportation plan, the States must be prepared to subsidise such airports.

2.1.3 Airport networks might have proven its efficiency during the early days of civil aviation, since central knowledge was essential to secure a safe and orderly development of the airports. Today, in States with a developed civil aviation infrastructure, airport networks are not essential. Networks could even be counter-productive, since central management of a group of airports of different sizes, markets and characteristics is a very difficult task.

Airport Cross-Ownership and Alliances

2.2.1 A number of leading airports are already engaged in other airports one way or another. The engagement can take the form of consulting and advice, management contracts or partial or full ownership. This trend is a natural development of the commercialisation and privatisation of airports. From an airline perspective, there are certain advantages and disadvantages.

2.2.2 Possible advantages include economies of scale: expensive systems developed by an airport can be implemented at other airports; joint/bulk purchasing of equipment and goods can also result in lower costs.

2.2.3 Possible disadvantages and risks include cross-subsidisation between airports, export of sophisticated systems which are not needed at smaller airports, drainage of funds that should be used at the ~~Another~~ airport, and diversion of management attention.

3. The IATA position

3.1 IATA considers there should not be any cross-subsidisation between airports. Finances should be strictly separated. Engagement in other airports must not drain the ~~Another~~ airport from its own funds. Consultation with airlines on issues like airport capacity development, quality of service and charges levels must always be with the local management of an airport. A failure at an allied or cross-owned airport cannot be passed on to the users of the ~~Another~~ airport by way of higher airport charges or drainage of commercial revenue. This means that ~~Another~~ airports should openly declare their policies with respect to their involvement in other airports and prove that their engagement will not result in any financial risk to the users of those airports.

3.2 Therefore, IATA would not object to airport partnerships or alliances, and cross-ownership between airports, where it can be demonstrated that this brings economies of scale to the airport industry from which the airlines could benefit through lower charges, and does not contribute to revenue diversion, cross-subsidies or dilution of the single-till.

4. **Action by the Conference**

4.1 The Conference is invited to:

- a) recommend that ICAO guidance explicitly state that airport charges should be cost related and location-specific;
- b) recommend the elimination of cross-subsidisation practices between airports; and
- c) note that IATA does not object to airport partnerships or alliances, and cross-ownership between airports, as long as this brings economies of scale to the industry from which the airlines will benefit through lower charges.

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