

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 5.2.1 Airport charging principles

THE SINGLE TILL

(Presented by Airports Council International)

SUMMARY

Using revenues from airport commercial activities to reduce aeronautical charges represents a departure from sound economic principles and creates an exceptional cross-subsidy to airlines. Although this practice is widespread, it is neither universal nor mandatory. Airport operators should retain the flexibility to use revenues from commercial activities in a manner which promotes the business strategy of the airport and best serves the interests of airport users and the community in the long term.

1. The single till in operation

1.1 Airports have two main sources of revenue: 1) charges on airlines and passengers for the use of aeronautical facilities; and 2) commercial revenues from activities such as retailing, real estate, rentals, catering and car parking.

1.2 In a normal competitive private sector market, these activities would be priced separately, and each would cover its own costs. In the airports business, however, this is not the case. Many airports operate using a cross-subsidy, under which some of the revenues from commercial activities are used to offset aeronautical costs and reduce aeronautical charges to airlines.

1.3 While this approach, referred to as the “single till”, is widespread, it is neither universal nor mandatory. Seven of the top ten U.S. airports do not operate this kind of cross-subsidy. Likewise, the governments of Australia and South Africa have given notice of their intention to move away from the single till. Contrary to the understanding of some airlines, there is no international legal obligation to operate a single till.

2. **Problems with the single till approach**

2.1 While the single till helps to reduce airline operating costs in the short term through lower airport charges, it distorts the market, and gives rise to three specific problems. First, it takes commercial revenues which could be used to finance capital investment and instead gives that money back to airlines in the form of lower charges. In that way, it reduces short term costs at the expense of longer term investment. Second, the channeling of commercial revenues back to airlines through the single till reduces the airports' ability to develop new and better commercial facilities for the benefit of passengers. As a result, the single till may actually reduce the amount of commercial revenue available to airports in the longer term. Third, as airport traffic increases, the operation of the single till forces down charges, merely contributing to the creation of additional congestion and environmental pressure while denying the airport the resources to counter these problems.

2.2 There are a number of measures available to mitigate this problem:

- a) Allocating a part or all commercial operating surpluses for investment in airport facilities and services, rather than to the reduction of airport charges;
- b) Allocating part or all of commercial operating surpluses for distribution to the airport's owners to attract more capital to the airport; and
- c) Excluding in the definition of the range of activities to be included within any single till any commercial income which is won in fair competition with other non-airport providers (such as hotel rentals, or long term parking garages).

2.3 Ultimately, it may be necessary and desirable for many airports to move away from the single till, and to retain a greater proportion of their commercial revenues for their own use. The speed and extent of this evolution will, however, depend on local circumstances. Moreover, it is important that airports be able to make adequate rates of return on their aeronautical operations. One ACI member airport, for example, receives over 60 percent of its total revenues from concessions. In such a case, operation of the single till could lead to airport charges for aeronautical services being priced substantially below cost, against basic ICAO principles and economic logic.

2.4 Further comments by ACI on this subject are presented in WP/50 in response to WP/17 (ICAO) and WP/30 (IATA).

3. **Recommendations**

3.1 The single till can create distortions in competition and investment. The most appropriate solution will vary from airport to airport depending on the volume of traffic, the nature and size of the commercial profits, the scale of investment demands, and the level of user charges. States should be encouraged to take these factors into account.

4. **Action by the Conference**

4.1 The Conference is invited to take note of the complexities of the single till and to recommend the adoption of a more flexible policy allowing for airport operators to retain and use commercial revenues as and when needed to help fund airport improvements. Accordingly, the Conference is invited to take the action proposed by ACI in WP/50, para. 6.1.