

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

(Montreal, 19 - 28 June 2000)

**Agenda Item 2: Organizational issues**

**Agenda Item 4: Determinants of the economic regulation of airports and air navigation services**

### **COMMERCIALISATION OF AIRPORTS**

(Presented by Airports Council International)

#### **SUMMARY**

This paper is presented in response to IATA's WP/26 on the commercialisation of airports. ACI welcomes the recognition by IATA that the process of commercialisation of airports may produce benefits for airlines. ACI accepts that the process needs to be managed with care, and give due weight to the interest of airlines. ACI believes, however, that many specific rules and requirements proposed by IATA in WP/26 are unduly rigid, and in many cases unnecessary. ACI recommends that the rules and requirements should be established separately in each case, having regard to both sound economic principles and local conditions.

#### **1. Results of Commercialisation**

1.1 This ACI paper is a brief response to points raised by IATA in WP/26 concerning the commercialisation of airports, a worldwide trend which has important implications for airport economics.

1.2 In para. 12 of Appendix A to WP/26, IATA argues that privatisation has often resulted in significant increases in airport cost bases for charging purposes and thus higher charges. ACI rejects this allegation. In many cases, including the UK, Australia, South Africa, Austria and Denmark, commercialisation has resulted in reductions in airport charges in real terms. Moreover, facilities and services have generally improved with privatisation. Similarly, IATA argues that commercialisation had resulted in airlines being negated rights, whereas, in fact in many cases it has resulted in greater safeguards for airlines.

## **2. Sales of assets**

2.1 In para. 16.4 Appendix A to WP/26, IATA argues that the price of any assets sold by airports should not exceed depreciated historical cost. This may lead to perverse effects, since any higher price would simply improve the cash resources available to the airport without cost to airlines. Likewise the suggestion that the proceeds of asset sales should only be used to reduce debt would prevent use of the receipts for direct investment. (It would also be an intrusion into the rights of airport investors to use their funds as they wish, which would in turn discourage investment and raise the cost of capital for airports).

## **3. Costs of transition**

3.1 In para. 16.5 of Appendix A, IATA argues that users should not bear the costs of transition towards commercialisation. However, if the purpose of commercialisation is to improve airport performance and attract private capital for airport investment, and the process is supported by airlines, it would be equitable for airlines to bear at least a share of the costs.

## **4. Treatment of land**

4.1 In para 16.9 of Appendix A, IATA argues that land should be treated as free capital, and that airports should not be allowed a return on their investment in land. This would defy normal economic rules, and provide an absolute discouragement to airport owners to acquire land needed for airport development. It is not acceptable that if money is borrowed, or equity finance raised for land purchase, that the airport would have to bear the cost of finance as a loss, or a subsidy to airlines.

## **5. Rates of return**

5.1 In para 16.10 of Appendix A, IATA argues that airports should be allowed a rate of return similar to Government bonds. If that were the case, lenders and investors would not put money into airport development, since they could obtain the same return with no risk, by buying Government bonds. Investors should be entitled to a higher return from airports to reflect a proper assessment of the risks associated with the particular airport investment in question.

## **6. Arbitration**

6.1 In para 16.11 of Appendix A, IATA recommends that in the event of a dispute regarding user charges, the users should have a right of appeal to the regulatory body and/or recourse to an arbitration process. In many States, airport users contracts, consumer or trading law and/or international agreements already provide full protection for users. The addition of further separate arbitration/regulation procedures would create an unnecessary and unreasonable double burden for airport operators.

## **7. Action by the Conference**

7.1 The Conference is invited to take note of ACI's views and to recommend that any guidance concerning the specific rules and requirements on airport commercialisation be prepared with due regard to a thorough analysis of the issues, and allowing for the appropriate alignment of sound economic principles with local practices and conditions in different States.

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