

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

- Agenda Item 3: Funding issues**
- Agenda Item 4: Determinants of the economic regulation of airports and air navigation services**
- Agenda Item 5: ICAO policy**

RECOMMENDATIONS FOR NEW ICAO GUIDELINES ON PRE-FINANCING OF AIRPORT CAPITAL EXPENDITURES

(Presented by Airports Council International)

SUMMARY

The issue of pre-financing of airport capital expenditures, which ACI addressed in WP/52, is indeed complex, as evidenced by detailed treatment of the concept in ICAO WP/15 and IATA WP/31. ACI welcomes ICAO's thoughtful and constructive elaboration of its view of pre-financing, which demonstrates a sensitivity to the recent evolution of airport ownership and management structures. ACI regards ICAO's reasoning in para. 4.4 of WP/15 in citing specific cases where pre-financing could be justified as a good basis for amending ICAO Doc. 9082 to reflect the realities of 21st century airport economics.

1. Introduction

1.1 ACI addressed the issue of pre-financing (referred to by ICAO as "pre-funding" and IATA as "forward financing" although all three terms are synonymous) of airport capital expenditures in some detail in WP/52, pointing out that prudent pre-financing could be part of an efficient airport investment plan. ACI not only provided concrete examples of pre-financing approved by regulatory authorities of certain States, but also examples where pre-financing represented a net savings to the airport users.

2. ACI views on WP/15

2.1 The issue of pre-financing is complex and has taken on new urgency with the proliferation of autonomous airport authorities with commercialised or privatized ownership structures. This complexity is aptly demonstrated in ICAO WP/15 and ACI welcomes the flexibility which ICAO has shown in its

willingness to examine pre-financing issues, most specifically in para. 4.4 where it is noted: “In certain, very specific circumstances, pre-funding could perhaps be justified for the provision of airport...services if strict safeguards against abuse were in place....” WP 15 goes on to list the proposed safeguards. Demonstrating the same open-minded approach, para. 5.1 continues: “While endorsement of pre-funding (by ICAO) may be premature, there are some aspects of ICAO policy which both merit enhancement in their own right and could pave the way for general acceptance of pre-funding.” Para. 5 continues to suggest that the issue of pre-funding be linked to more general questions of economic regulation of airports and also to the issue of airport/user consultations and the standardization of airport accounting practices. ACI would endorse the linking of these critical issues and go one step further.

2.2 Para. 3.3 of WP/15 states: “The general practice of commercial enterprises which operate in a competitive environment is to fund their investment needs through reserves normally composed in part of profits and depreciation, and where major investments are concerned, principally through loans obtained on the financial markets.” ACI has several problems with this notion, if it is to be applied to airports. Firstly, ICAO and ACI data prove that the majority of international airports, particularly those with low volumes of traffic, operate at a loss. That eliminates a major source of investment funding at these airports. Moreover, those airports operating at a loss are not likely to be able to borrow at reasonable rates of interest, if indeed they can even find a willing lender. For many airports, governments continue to be the only option as a funding source. Secondly, even for those airports making positive returns, in large part this is due to development of non-aeronautical sources of income, according to ACI surveys. But both ICAO and IATA, in their views on the single till, have suggested that all commercial revenues should be applied to the cost base to reduce airport charges. This would suggest that some airports may need to finance major projects by tapping into airport charges. ACI would therefore suggest that along with the other topics linked by WP/15 to the pre-financing issue, the single till should be added as well.

2.3 The concern “that users may be charged twice”, elaborated in para. 4.2, is understandable but it misses the important point which is that users benefit from lowered charges, after facility completion, through savings on debt service charges.

2.4 Airports are referred to as monopolistic providers of services in paras. 4.2 and 5.1. This contrasts with the focus of ANSCConf2000 on reflecting the change in the role of airports in a competitive, rapidly changing global marketplace. For example, there is increasing competition between large intercontinental hub airports, and between regional airports to become regional hubs. Another example of the exposure of airports to market forces was the recent reaction of two major Asian airports to the recession in the region. These airports reduced user charges to the airlines in response to the recession, hardly the response of a “monopolistic provider” but a market response to market forces.

2.5 At the same time, it could be argued that through the rapid expansion of airline alliances, many having global scope, the airline industry has increased and consolidated its considerable financial and political power. Indeed, in this beautiful nation hosting us, there is now a single major carrier providing nationwide air services across this vast market. The point in mentioning these facts is not to enter into an esoteric debate to define the concept of “monopolistic power.” The intention is only point out that the world of aviation is changing rapidly, and that ACI welcomes ICAO’s recognition of these dynamics and its willingness to have the Conference consider amending its guidelines and recommendations accordingly.

3. The way forward

3.1 ACI's views on the importance and benefits for airports and users of pre-financing are presented in WP/52. Airports are capital-intensive enterprises with long lead times for planning and implementing projects to expand capacity and improve service levels. To avoid large and abrupt increases in airport charges when such projects come on stream, it is sometimes prudent to pre-finance projects from internal sources through the gradual increase of charges during the construction period. This practice carries the added benefits to both airports and their users of reducing the airport operator's reliance on external sources of funding, keeping debt service payments to a reasonable level and safeguarding the airport's credit rating. Where pre-financing is used, financial information should be provided where appropriate to assist in quantifying the benefits for users.

3.2 ICAO WP/15 recognizes that passenger charges have been applied in many instances in several nations, including in the U.S., Canada, and Greece (to name a few examples) to fund airport projects. In fact, in the U.S., 294 airports elected to benefit from so-called PFC's (passenger facility charges) as of 1 March 2000. The U.S., Congress has just voted to raise the PFC limit from USD 3 to USD 4.50.

3.3 The outcome of ANSConf2000 will be measured by its success in recommending practical and relevant guidelines for States and the aviation industry to follow. Bearing in mind that PFC's represent a form a pre-financing which is widespread in the world's largest aviation market, ACI believes the main issue here is not the practice itself, but in ensuring that PFC's and other forms of pre-financing are utilized in ways that directly benefit airport users, the travelling public and the community at large.

4. Action by the Conference

4.1 The Conference is invited to examine the issue of pre-financing, taking into account ACI's views in WP/52 and above, and recommend that it may be used, where appropriate, as one alternative means of financing airport investment projects, subject to the provision of safeguards for airport users to ensure that pre-financing is applied prudently.