

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 Airports Council International)

SUMMARY

Airport operators have become full-fledged business enterprises which can manage a single airport, an airport system or an airport network applying the principle of cost-relatedness. Any of these three models can provide efficient and cost effective management and benefit users and the economies they serve over both the short and long term. Moreover, airport systems and networks can also achieve economies of scale when managed prudently.

1. Introduction

1.1 Airport operators are no longer mere providers of infrastructure. They are commercial entities which manage airports in various ways - single airport, airport system or airport network - with the objective of providing safe, efficient, and quality service to their customers. The airport network concept is well recognised worldwide as one of the acceptable models for the operation of airports. Other aviation services are also managed using the network concept. A case in point are air navigation services in Europe, the charges for which, according to Eurocontrol principles, are calculated on the basis of the costs of all air navigation services and infrastructures in each country. This produces a unit rate for each country to be applied to individual flights on a weight/distance flown basis.

2. Airport Networks

2.1 Airport systems and networks can achieve economies of scale in providing services to meet the short and long term needs of the users and the economies they serve. There are some common characteristics in those countries where the airport network concept is applied: e.g. difficult access to remote regions without alternative means of transport, and the need to promote economic and social cohesion of the various regions (as recognized in the draft European Union legislation on airport charges.) Airport networks

may also help to achieve a smoothly functioning hub and spoke system, enhance flight safety, and provide alternate airports for use in case of bad weather or other emergencies.

2.2 Another advantage of network systems is the improvement centralized management structures and economies of scale can bring in terms of efficiency and cost-effectiveness of the airport performance. Economies of scale can produce substantial improvements in terms of lower costs that cannot be obtained by an individual airport. These considerable savings in costs include the joint purchase of equipment, reduction in administrative overhead and lower unit costs for maintenance and communications relating to implementation of expensive information systems. Economies of scale are also achieved by sharing, network-wide, the high costs of R&D in developing and implementing new technologies aimed at improving the quality of service.

2.3 Airport networks can also bring about efficiency improvements in resource allocation due to overall investment planning that includes all of the airports involved and the progressive and co-ordinated development of their capacity. They also lead to a better use of resources, material and human, generating lower unit operating costs and resulting in savings. Networks can also reduce airport and airspace congestion through prudent allocation of capacity and differentiated charges across the network. Another advantage is the guarantee they offer to their customers in terms of reliable services across the networks. “Best practices” which are found to be beneficial at any airport can quickly be adopted throughout the network.

2.4 Airport networks often can borrow in capital markets at favorable terms because of the spreading of risk throughout the system or, in many cases, due to the fact that airport networks are operated by governments and have their sovereign backing as a loan guarantor.

2.5 While most airline revenues are generated primarily from “trunk lines”, these depend to a large extent on regional and commuter feeders which require efficient, and therefore adequately-financed, regional airports.

3. Airport Cross-Ownership and Alliances

3.1 Airport cross-ownership and/or alliances have increased in line with airport privatization and globalization. These arrangements generate advantages similar to those of an airport network: economies of scale, best practices implementation, and a better allocation of resources which produce lower costs and, consequently, lower charges.

3.2 Airports are commercial entities which operate in a global and competitive market. Therefore, once the level of investment required and the stability of airport charges and quality standards are guaranteed, the airport, airport system or airport network may use profits from non-aeronautical activities to expand internationally in order to achieve a strategic positioning. Moreover, airlines may also benefit from these international investments of airports through the development of emerging markets in which they could operate.

4. Action by the Conference

4.1. The Conference is invited to recognize:

- a) that a single airport company, an airport system or an airport network can manage airports with efficiency and cost-effectiveness; and

- b) that airport networks and airport alliances can be operated as commercial, customer-oriented entities, bringing economies of scale and high standards of service.

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