

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
Agenda Item 5.2: Elements for consideration with regard to ICAO policy

THE MANAGEMENT OF AIRPORTS AS COMMERCIAL ENTITIES

(Presented by Albania, Armenia, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, The former Yugoslav Republic of Macedonia, Turkey, Ukraine, United Kingdom)

SUMMARY

This paper outlines the principles of best commercial practice which ECAC believes that airports should follow. The considerations which ECAC feels that airport managing bodies should have regard to in following the principles outlined are also set down in the paper. Recommendations for action by the Conference are contained in paragraphs 7 and 8.

Introduction

1. The Council statement on airport charges (Doc 9082/5) declares that the financial situation and managerial efficiency of airports has tended to improve where operations are undertaken by autonomous authorities, that is to say where decisions are taken by management, acting independently on a day by day basis and following commercial principles.
2. ECAC agrees that the establishment of autonomous operating authorities is generally desirable, regardless of whether these authorities are in the public or private sector. It believes that the statement should however go further, and endorse the principle that whether owned by the public or private sector, or by a combination of the two, airports should follow best commercial practice in their operation and in the presentation of their accounts. This principle would, in a competitive market, be a prerequisite of successful

operation. However, airports frequently enjoy at least some degree of local monopoly. This is in the nature of the industry, and contrasts with the competitive environment in which many of their airline customers operate. ECAC therefore believes that airports should be aware of and respond to the legitimate commercial expectations of their customers.

Discussion

3. The establishment of this principle is desirable whether an airport is profitable in its own right or requires financial support from other sources. It is not ECAC's intention to suggest that all airports could or should operate with the objective of ensuring that income exceeds expenditure. But it believes that they should follow practices that promote transparency, efficiency and cost effectiveness in the provision of an appropriate quality of services and facilities.

4. Principles of best commercial practice are:

- recognition of airlines, passengers and others doing business at the airport as customers who want to be satisfied that services are provided to an appropriate standard of quality, in a timely and cost-effective manner;
- responsiveness to changing customer requirements and demands;
- no unreasonable difference of treatment of users;
- transparent accounts, enabling costs, revenues and (where appropriate) subsidies and cross-subsidies to be clearly identified, published on a regular basis. At airports where non-aeronautical revenues are generated, and are taken into account when calculating aeronautical charges (single till), there should be differentiation between the income and costs from the two sources;
- subsidisation of user charges through the single till should not be regarded as a substitute for bearing down on operating costs;
- the drawing up of at least a medium term development plan and investment programme that shows how forecast services and airport capacity are to be provided;
- a two-way exchange of information and an in-depth consultation process with airport users on the development plan and the relationship between quality of service, the level of investment, and the level of charges;
- objective assessment of investment proposals against financial and wider cost: benefit criteria, including evaluation of social need, national or local economic benefit, and environmental impact. Safety and security needs must also be reflected. The possible role of government, at national and local level, in defining these criteria is acknowledged.

5. In following these principles, airport managing bodies should have regard to the following relevant considerations:

- charges should start from the basis of cost relatedness, including the financing of investment and the generation of a reasonable rate of return. What is to be deemed “reasonable” will vary according to the circumstances of the airports;
- formal agreements between an airport and its users as to the quality and level of service to be provided may be a useful outcome of the consultative process;
- where an airline requires a higher level of service than is standard (for instance an exclusive lounge), that should be financed separately;
- airports may offer introductory time limited discounts on charges to airlines starting new services, provided that this is on a non-discriminatory basis;
- pre-funding, in the form of increased charges or any other appropriate and agreed method, may be necessary to deliver long-term, large scale investment. ICAO guidelines should acknowledge this as a permissible approach. Users should benefit from lower charges and from smoother transition in changes to charges rather than sharp rises and falls than would otherwise have been the case once new facilities or infrastructure are in place;
- at airports that are socially or economically essential to the region that they serve, but where traffic levels will not generate levels of revenue that will cover costs, other funding methods may be examined. These may include aid from government funds, or borrowing that is underwritten by the State, or any other appropriate approach. In particular, care needs to be taken to ensure that any such State support does not distort competition between airports;
- access to increased commercial and financial expertise and cheaper capital may be achieved by permitting partial or total ownership (or operation on long term lease) by non-nationals.

6. Some form of efficiency incentive is desirable in the provision of individual services and in the overall operation of the airport. This might be provided through market competition or economic regulation. Where services, such as for instance groundhandling, are capable of being provided on a competitively tendered basis without detriment to the safe and efficient operation of the airport, consideration should be given to doing so. Economic regulation may be considered where market mechanisms cannot be made to deliver the necessary incentives.

Action by the Conference

7. ECAC believes that these principles and considerations should be embodied in the introduction to ICAO’s statement to contracting states on charges for airports, after paragraph 6, as follows:

“Commercial principles of operation should be followed regardless of whether an airport is owned and operated by the public or private sectors, and of whether or not it is profitable in itself. Services

should be provided in a timely and cost-effective manner, to an appropriate quality. Proposals for investment should be assessed against financial and wider cost : benefit criteria. National or local government may be involved in defining the latter. Investment proposals should be the subject of consultation with airport users, before being incorporated into a published development plan. Accounts should follow best established practice, and enable costs and revenues to be identified. Where it is necessary for wider public interest reasons to subsidise airport operations, from public funds or from revenues generated by other airports in a common system, this should also be identifiable.”

8. It further proposes that the following be added to the section on the basis for airport charges:

“While adhering to the general principle of cost-relatedness, airport charges may contain an element of pre-funding where this is the most appropriate means of implementing long-term, large-scale investment. This would need to be done in consultation and ideally in agreement with airport users. Where pre-funding is required for specific projects it should be introduced over a limited period of time and users should benefit from lower charges and from smoother transition in changes to charges than would otherwise have been the case once new facilities or infrastructure are in place.”

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