

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

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

REVENUE DIVERSION

(Presented by the International Air Transport Association)

SUMMARY

Monies generated from users are needed for the provision of airport and air navigation facilities and services, and should remain with the airport and ANS providers. Such revenue is critical for the capital and operational needs of aviation facilities and services.

1. Introduction

1.1 As the aviation system has matured, its ability to raise revenue has increased, but so has the demand for capital to finance much needed airport and ANS expansion and enhancement programmes. At the same time, there is increasing political pressure being exerted on both airports and ANS providers to divert some of the revenues generated for other purposes.

1.2 The result is that airport and ANS rates and charges are set higher than they need to be, or there is a lack of funds when needed. The users of the airport or ANS are the immediate sufferers of these unnecessarily high charges or deficiencies.

2. Discussion

2.1 Revenue diversion can take a variety of forms. Below is a description of the most common forms of revenue diversion, although new schemes are continually being created. Some types are described in separate papers, such as cross-subsidisation (i.e. using the revenues from en route services to subsidise unprofitable airports, or of profitable airports to support unprofitable airports or airport networks).

2.2 Typical examples of revenue diversion include:

2.2.1 **Using airport and ANS revenues for general government purposes.** This is often a leftover from the days when aviation facilities and services were owned and funded out of general government revenues. It was therefore acceptable that any revenues generated by the airport or ANS entity be paid back to the government treasury.

2.2.2 **Revenues exceeding the needs of the airport or ANS provider in order to generate profits or dividends.** Any privatised organisation will set profit goals. There is nothing wrong with that. However, in monopoly situations, where no or little competition exists, such profits need to be capped through independent regulation to prevent monopoly abuse.

2.2.3 **Sale or lease of an airport.** The recent trend toward airport privatisation has generated large amounts of money for consortia purchasing part of or the entire airport. IATA views this sale or lease of a public utility (which has often already been fully paid for) as an effort by governments to generate revenue. It is in fact pure revenue diversion with the result that the users of the facilities and services are burdened with the additional cost. Further, any additional capacity that is needed in future will cost additional money. Bidders for airport concessions recognise the monopolistic nature of the facilities they are acquiring. They are therefore in a position to bid a high price with little or no risk to obtaining a return on their investment.

3. Policy Guidance

3.1 Paragraphs 14 and 34 of the ICAO “*Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*” indicate that airports and ANS entities may produce sufficient revenues to exceed all direct and indirect operating costs and so provide for a reasonable return on assets to contribute to necessary capital improvements.

3.2 Appendices 1 and 2 to ICAO Doc 9082/5 serve as guidance as far as what facilities and services are to be taken into account in determining total airport and ANS costs. Neither appendix makes any reference to general government revenues, excessive rates of return, or proceeds from the sale (or lease) of an airport or ANS entity. Rather, this guidance concentrates on the facilities and services necessary to operate an airport or ANS safely and efficiently, the cost of which can be taken into account when determining charges.

4. The IATA position

4.1 Revenues generated on an airport should remain with the airport. Likewise, revenues generated by an ANS should remain with the ANS provider.

4.2 Revenues that are diverted unnecessarily add to the cost burden of an airport or ANS provider, which ultimately is recovered from the users.

4.3 Revenue diversion may alter the management focus of an airport or ANS operator, which should be on providing a safe and efficient facility or service that is able to meet the operational demands placed upon it by the users in a cost effective manner.

5. Action by the Conference

5.1 The Conference is invited to:

- a) Recognise that the diversion of funds from an airport or ANS provider unnecessarily increases its operating costs;
- b) Note that the commitment of such funds to uses other than at the airport or ANS provider where these funds were generated will deprive these operations of the necessary funds required to maintain a safe and efficient facility or service that is able to meet capacity demands;
- c) Note that a requirement to provide such an income stream for a purpose not directly related to the operation and development of an airport or ANS will result in a management focus on shareholder interests rather than stakeholder interests; and
- d) Recommend that ICAO guidance explicitly state that revenues generated by an airport or ANS provider should remain with the airport or ANS provider.

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