

WORKSHOP ON AIRPORT AND ROUTE FACILITY MANAGEMENT

(Nairobi, 27-31 May 2002)

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ECONOMICS OF INTERNATIONAL AIRPORTS

(Presented by Airports Council International - ACI)

1. ECONOMICS OF INTERNATIONAL AIRPORTS

(cf. Statements by ICAO Council to Contracting States on Charges for Airports and Air Navigation Services Doc. 9082/6 (2001), ICAO Report of the Conference on the Economics of Airports and Air Navigation Services (ANSCConf 2000), June 2001.

1.1 General economic situation of international airports

SUMMARY

Airports must be able to collect sufficient revenues to carry out their functions properly and to maintain a quality of service which is acceptable to users.

1.1.1 The trend towards airline deregulation can be expected to continue and dictates an accentuated need for flexibility in the economic policies of airports. The increasingly deregulated and liberalized aviation environment in some developed countries and other regions has already induced many airports to re-examine their traditional relationships with airlines. Many airports now face the physical, financial and legal issues of failed or failing carriers, new carriers and the changing needs of existing carriers. In response to these new imperatives, many airports have modified their business policies to safeguard revenues and have moved aggressively into new commercial activities with a view to achieving self-reliance and financial independence. They compete with other airports in the same region for freight, connecting

passengers and aircraft technical stops. They also manage activities in competition with local enterprises, such as hotels, convention centers and parking lots.

1.1.2 Since the early 1980s, except for the period of the Gulf War and the recession in the early 1990s, most airports in the industrialized countries have recorded continuous annual increases in traffic. At the same time, increases in charges have been kept at or below levels of inflation. Traffic at a number of major airports has reached levels which give rise to congestion and delays. In these circumstances, the use of airport charges to manage scarce capacity and invest in additional capacity is warranted, particularly since most forecasters predict a doubling of air traffic by 2010.

1.1.3 In many developing regions, however, economic difficulties have continued to hamper traffic growth and limit airport development. As a result, many States have been forced to subsidize their airports. Airport charges in these regions have remained at very low levels over long periods and increases have often been relatively modest in absolute terms. Recent ICAO surveys indicate that the majority of international airports run operating losses.

1.1.4 Despite these problems and trends, according to ICAO statistics, airport charges worldwide in 2000 accounted for only 4.4% of total airline operating costs, a figure which has remained virtually unchanged since 1978 (4.0%). On several occasions, ICAO has acknowledged the basic stability of airport charges.

1.2 **The cost basis for airport charges and airport charging systems**

SUMMARY

Airport charges must take account of national and local public policy, the right of airports to determine their own economic and commercial policies, and their financial independence.

1.2.1 Airport charges are only a small component of the operating costs of international airlines. However, the level of airport charges needs to be sufficient to cover the operation of airports and their development to meet the anticipated demand. The level and structure of airport charges should be related to the full economic costs of airport operations, including a reasonable return on assets.

1.2.2 The choice of charging systems is affected by many factors which vary from airport to airport. While aircraft weight is the basis for landing and parking charges in many airports, other systems are used separately or in conjunction with the weight scale. Charging policies of airports must take into account national and local public policy, the right of airports to determine their own economic policies and their ability to be financially self-sustaining.

1.2.3 It is also important to recognize that airport charges play a role in the efficient allocation of resources at airports. It is therefore appropriate for airport charges to recover from users the economic costs resulting from air traffic congestion, airport access, aircraft noise and other environmental problems, as well as all other expense items. Differential pricing may be one means of achieving the efficient and equitable allocation of resources and of recovering these economic costs.

1.2.4 In particular, as traffic growth is fostered by deregulation, liberalization and other market developments, many large airports have to cope with extended periods of saturation while they plan and

undertake major expansions. When pressure on existing capacity makes it necessary to invest in additional capacity and facilities, charges may have to be set at a level which covers current facilities and in addition provides a contribution to investment in new facilities. Conversely, in many regions, airports remain underutilized. Charges at these airports may need to be structured to provide incentives for the development of new routes and services, whilst making the maximum contribution to recovering costs and making a reasonable return on assets. The level of charges may not be sufficient for the airport to break even each year, but should nevertheless be such as to recover the investment in facilities over their life-span.

1.3 **Minimum landing charges at congested airports**

1.3.1 Given the increasing congestion at major airports, ACI supports appropriate charging structures for airlines and general aviation. ACI also supports, in principle, the concept of minimum charges which adequately reflect the economic cost of congested airside and landside facilities. The concept of a minimum or fixed charge, for example at congested airports and during peak periods, has been accepted by ICAO.

1.4 **Passenger service charges**

SUMMARY

For reasons of facilitation, passenger service charges should preferably be included in air fares.
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1.4.1 Passenger service charges are either collected directly from the passenger on behalf of the airport operator, or billed to the airlines and incorporated in fares. Where passenger service charges are collected directly from the passenger, payment of such charges should be possible either in local currency or in foreign currencies which are acceptable in the region. For customer convenience, advance notice of these charges should be given to passengers, for example in booking offices, travel agencies and hotels.

1.4.2 ACI supports the ICAO Council Statements which emphasize the need for consultations between airport operators and airlines with a view to alleviating problems related to the collection of passenger service charges. Direct collection from passengers slows down passenger flow and creates a need for bigger and more costly installations. Whenever the direct collection of passenger service charges gives rise to facilitation problems, they should be incorporated in the airline ticket, with such charges fully transparent to the passenger.

1.5 **Costs associated with aviation security**

SUMMARY

Unlawful interference with air transport is not directed at airports, airlines or air passengers, but aimed at States. It is therefore inequitable to single out the air transport industry for the payment of services designed primarily to protect the State. Moreover, it is the responsibility of the State under international law to provide protection to all companies and individuals within its boundaries without discrimination.

1.5.1 Aviation security is the responsibility of the State, which should therefore bear the associated costs. If States insist upon recovering the costs of providing security at airports, these costs should be recovered in accordance with ICAO Council Statements to Contracting States on Charges for Airports and Air Navigation Services (Doc. 9082).

1.5.2 Before any security costs are passed on by States, consultations must be held between all the parties concerned to ensure that the security standards established by the State are implemented in the most cost-effective manner and that the procedures are designed with facilitation in mind. Where security responsibilities are delegated by the State to airport operators, all associated costs which are not directly reimbursed by the State must be passed on to airport users.

1.5.3 If any carrier or other entity requires services demanding a higher security standard than those established by the national security authority, that entity must pay the additional costs.

1.6 **Costs associated with aircraft noise**

SUMMARY

Airports should be able to recover the costs associated with noise alleviation schemes. Specific noise charges, or noise-related landing and take-off charges, may take into account the different levels of noise caused by different types of aircraft. Such charges may also be used to encourage the use of quieter aircraft. If an airport provides financial assistance or grants to local residents for noise reduction measures, this should not be interpreted as acceptance of liability for noise on its part.

1.6.1 ACI rejects all attempts to hold airport operators responsible for the consequences of aircraft noise. However, airports are entitled to reflect the costs occasioned by aircraft noise in airport charges and to encourage the use of quieter aircraft. A specific noise-related charge may be levied which reflects the degree of noise nuisance produced by the aircraft. Several different systems of noise measurement and noise charging are in operation at airports. The system chosen by an airport operator should reflect local objectives.

1.7 **Consultation with users regarding charges and airport planning**

SUMMARY

Consultation between airport operators and airlines implies the holding of discussions in an effort to reach general agreement on proposed charges. Failing such agreement, airport operators are free to impose the charges concerned.

1.7.1 Consultation is of value to both airport operators and their users. ACI supports the ICAO Council Statement on airport charges that “consultation implies discussion between users and providers in an effort to reach general agreement on any proposed charges; and that failing such agreement, airport operators would continue to be free to impose the charges concerned”. However, consultation does not imply that airport operators have to negotiate with airlines on setting or modifying user charges and airport investment programs. Airport operators are the sole decision-makers in such matters, since they are independently responsible for the management of their airports.

1.7.2 Furthermore, airport operators should inform and consult their users on matters having an impact on the latter's financial operations. In return, airlines should inform and consult airport operators about programs which may affect the development of air traffic and the revenue of airports (fares, networks, etc.). Airport operators should give reasonable advance notice to airlines when contemplating any revision of charges. However, the length of the advance notice must be left to airports, subject to economic considerations and national regulations.

1.7.3 Dialogue between airlines and airports should be continuous and general (systems planning) and not confined to disputes on specific charges. The ICAO Council Statements on airport charges indicate that airlines should inform airport operators of their future requirements, but this recommendation, which would assist airports to achieve a smooth expansion of traffic flow, seems to have had only limited effect. Many airports experience difficulties with requirements imposed on them by airlines at short notice which, in some cases, are later withdrawn after new facilities have been provided. ACI strongly recommends that airlines regularly provide airports with reliable short- and medium-term forecasts of: types, characteristics and numbers of aircraft to be used; anticipated growth of passengers and cargo; special facilities which the airport users desire; and other relevant matters.

1.8 **Development of revenues from concessions, rentals and “free zones”**

SUMMARY

Airports should develop non-aeronautical activities at their facilities to the fullest extent and levy appropriate concession fees.

1.8.1 Airports should develop non-aeronautical activities at their facilities as far as possible and should obtain revenue from concessions, rentals and “free zones”. For such activities as catering and handling, the notion of a "concession" is perfectly appropriate, although the fees for activities which are essential to aircraft operations may be lower than for non-aeronautical activities.

1.9 **Fuel throughput charges**

1.9.1 Fuel throughput charges are airport concession charges. It is the prerogative of airport operators to demand a concession fee for these on the same basis as for any other commercial activity carried out on their premises.

1.10 **Airport ownership**

SUMMARY

Airports should be permitted to operate under a range of types of ownership. The type of ownership, and any participation by private capital, varies from airport to airport depending on local circumstances. The type of ownership at any individual airport should be such as to allow the airport flexibility in its business, and to ensure that the interests of airport users are protected by the application of sound economic principles to the airport's operations.

1.10.1 Over recent years there has been a trend towards greater diversity in the ownership of airports. Direct state control has in some cases been superseded by the establishment of autonomous airport authorities. In a number of cases, complete or partial privatization of airports has taken, or is taking place. Different forms of airport ownership may be appropriate to the situation of different airports. Where the possibility exists for participation by private capital at airports, its potential for opening up new sources of funds for investment should not be overlooked.

1.10.2 Where airports are not under direct government control, and are in a dominant market position, appropriate mechanisms may need to be identified to ensure that airport users are protected. Such mechanisms may already exist in national laws, or may have to be developed. Such regulatory arrangements tend to be most effective and balanced when they are derived from a thorough dialogue between the regulator and the airport operator.

1.11 **Sources of investment in airports**

SUMMARY

Airports must be allowed access to sufficient funds to finance the investments which are needed to meet forecast demand.

1.11.1 The scale of current and forecast demand at many airports indicates a need for ever-increasing levels of investment to maintain and enhance capacity. Airport charges and commercial revenues are major sources of funds for investment. Airports should be permitted to retain and invest these revenues to finance future investments. Any action to restrict this use of revenues, or to require all commercial revenues to be used solely to reduce current user charges, could conflict with this objective and inhibit much needed investment.

1.11.2 In the past, many airports have relied on government funding or government-backed bond financing for their external capital needs. In future, airports may also need to consider other sources of funds, such as new forms of capital, injections of equity, sales of assets or joint ventures. Airports should not be denied access to such sources of capital where they are available on competitive terms.

1.12 **Currency considerations**

SUMMARY

Where local currency is not convertible, or inflation is high, airports may need access to hard currency to finance investment in equipment and facilities. Under these circumstances, there should be no prohibition on airports requiring that their charges be paid in such currencies.

1.12.1 In countries where the national currency is freely convertible, airport charges are normally payable in local currencies. However, in some countries, charges are denominated or payable in hard currencies. This may be necessary where high inflation is causing rapid depreciation of the local currency. Hard currency may also be necessary to pay for the import of essential airport equipment needed for safety, security and passenger service, or for the purchase of services from other countries.

1.12.2 Prohibition of charging in hard currency could therefore lead to severe deterioration in airport service, as well as damage to airport finances. ACI therefore opposes any policy which prevents the payment of charges in hard currencies.

1.12.3 The issue of hard currency charging has been linked to the broader issues of countries blocking the remittance of revenues from local ticket sales, or restricting the currency of payment for ticket sales. These are separate problems, and approval of the payment of airport charges in hard currency should not be made contingent on their resolution. To do so could threaten the provision of airport facilities and damage airport finances.

1.13 **Improvement and standardization of airport accounting practices**

SUMMARY

Accounting practices must be adapted to local needs and regulations.

1.13.1 ACI supports studies aimed at improving airport accounting practices, but at the same time clearly emphasizes that standardizing such practices is neither possible nor desirable. Accounting systems must meet the requirements of the body charged with responsibility for the airport. They must be adapted to the type of airport facility, the scope of its operation and the nature of its various cost areas and activities. Accounting systems must also comply with national regulations.

1.14 **Airport financial statistics**

SUMMARY

Airport financial data cannot readily be collected on a standardized basis. The inherent differences between airports mean that any standardized collection of data is liable to result in invalid conclusions and misleading comparisons.

1.14.1 A variety of different facilities and services serve the traveling and non-traveling public and aircraft operators on airport premises. These include: passenger terminals, car parks, ground handling, freight forwarding, duty-free shops, hotels, restaurants, bars and shopping arcades. Depending upon local policies, such facilities and services may be provided by the airport operator, concessionaires, airlines, or by other public and private bodies. Moreover, airports recoup their costs and finance their projects and investments in many different ways.

1.14.2 Furthermore, the breakdown of costs and revenues by function is not comparable between airports. For example, in some airports, security, police and fire-fighting costs are subsidized from other public sources, while in other airports they are paid for by the airport. These differences are becoming increasingly significant as a result of airline deregulation, the privatization of certain airports, the development of non-aeronautical revenues, and the varying needs for major capital programs and approaches to their funding.

1.14.3 ACI considers that any standardized collection of airport financial data can result in invalid conclusions on the economic situation of individual airports and misleading comparisons due to the inherent differences between airports. Great care therefore needs to be taken in the compilation, collection and use of such financial data. However, ACI believes that the published annual reports of international airports are the best source of information for ICAO and other interested organizations.

1.14.4 Individual airport accounts must be tailored to the situation of each airport and must provide sufficient detail to serve as a useful analytical tool for airport management. ACI encourages airports to make available annual financial data according to their own accounting needs. ACI leaves it to the discretion of individual airports whether or not to provide financial data to ICAO. Those airports which are not prepared to provide full information, as reflected in the ICAO questionnaire, may consider providing briefer summary information.

1.15 **Computer reservation systems**

SUMMARY

ACI supports the ICAO Code of Conduct for the Regulation and Operation of Computer Reservation Systems, and the principles upon which the code is based. The Code should help mitigate the economic consequences for airports of any bias in these systems, and should promote the optimum growth of air transport.

1.15.1 ACI supports the principles upon which the ICAO Code of Conduct is based, and particularly the belief that air transport users should have access to the widest possible choice of options in order to meet their needs as well as possible.

1.15.2 Any bias or discrimination within computer reservation systems would have an important effect on airports if particular carriers and/or routes were favored at the expense of others. Such distortions of free trade are economically inefficient and can prevent the customer from obtaining the best deal. They can also lead to even greater congestion at already busy airports and lower utilization of available capacity at other airports. ACI therefore supports the ICAO Code of Conduct.

1.16 **Airport traffic forecasting**

SUMMARY

ACI recommends improved cooperation and consultation on airport traffic forecasting between individual airports and their airline users. A full exchange of information, assumptions and expertise on traffic forecasting would be mutually beneficial to airports, airlines and their customers.

1.16.1 To develop and maintain up-to-date and realistic airport traffic forecasts, an airport and its airline users should: collect and exchange statistics and other information needed to produce forecasts; exchange and discuss their assumptions; consult on forecasting methodology; release any forecasts produced (subject to commercial confidentiality); and discuss the forecasts and their implications for the planning of airport facilities. The process of cooperation and consultation should include direct contacts between forecasting experts in the head offices of the airports and airlines concerned.

1.17 **Government charges on air carrier traffic and air transport**

SUMMARY

Governments should impose charges only for services and functions which directly relate to and benefit civil aviation operations, and should not impose any charges for functions which are the primary responsibility of governments.

1.17.1 Government charges on air carrier traffic and air transport may be defined as levies or fees imposed by governments, intended to recover the cost of aviation facilities and services. Even though charges of this sort are sometimes erroneously referred to as “taxes”, under the above definition they should be referred to as charges.

1.17.2 ACI is concerned at the proliferation of government charges levied on air transport. Such charges should only be imposed for services and functions which have a direct relationship with, and which explicitly benefit civil aviation operations.

1.17.3 Governments should refrain from imposing charges which discriminate against civil aviation in relation to other modes of transportation. They should also refrain from imposing any charges for functions which are the prime responsibility of governments, such as security, immigration and customs.

1.17.4 Any charges, levies or fees imposed by a government authority on air transport should benefit the air transport industry and should not be used for other purposes. Charges, levies or fees levied to finance specific programs should be withdrawn when these programs are completed. All surplus income from these charges should be reassigned to support civil aviation in order to reduce any potential additional government charges. An increase in existing charges should be imposed only after consultation with the industry.

1.18 Taxation on air transport**SUMMARY**

ACI is opposed in principle to all government taxation on air transport which may create impediments to the development of international travel and trade and is extremely concerned over the proliferation of taxes imposed on international air transport.

1.18.1 A “tax” has been defined by ICAO as any levy to raise revenue for national or local treasuries which will be used for general or specific public (i.e. non-aviation) purposes.

1.18.2 ACI recognizes that imposition of general business, sales, income or use taxes levied fairly and uniformly on the conduct of all businesses within a political jurisdiction should be considered the legitimate right of governments. ACI’s policy is to oppose the proliferation of taxes imposed solely on air transport and used for non-aviation purposes.

1.18.3 ACI endorses only those taxes on international air transport that are justified, equitable, non-discriminatory and in accordance with the Chicago Convention and ICAO resolutions. Any other form of taxation has a detrimental impact on airline and airport finances and on consumers and constitutes a material obstacle to the development and expansion of international travel and trade. Furthermore, taxation solely on air transport for non-aviation purposes contributes to the erosion of the universally-accepted system of reciprocal exemptions from multiple and unfair taxation. ACI also opposes those taxes which discriminate in favor of transport modes which compete with aviation.

1.18.4 ACI strongly urges all States to uphold and actively support the implementation of ICAO resolutions on the taxation of international air transport. Accordingly, ACI urges all States to impose levies only for services and functions which directly relate to and benefit civil aviation operations.

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