



WORKING PAPER

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND
AIR NAVIGATION SERVICES**

Montréal, 15 to 20 September 2008

Agenda Item 1: Issues involving interaction between States, providers and users

1.1: Economic oversight

1.2: Economic performance and minimum reporting requirements

**THE GOVERNMENT, AS A FACILITATOR FOR THE COOPERATION
BETWEEN SERVICE PROVIDERS AND USERS**

(Presented by the Republic of Korea)

SUMMARY

Airports in Korea are operated by independent organizations in the form of public corporations and the government implements appropriate regulations through legal and institutional frameworks in order to ensure that the airport operators do not abuse their dominant positions in deciding user charges and other airport operation matters. Further, the government encourages proactive and systematic performance management by requiring the airport operators to establish management and performance indicators in areas including airport safety, service quality, productivity, and cost effectiveness which the airport operators are required to submit to the government every year. In particular, the government supervises to ensure that opinions of airport users are reflected in the management goals. The government also supports and promotes timely mid and long term development of airports to meet future demands.

INFORMATION PAPER

1. THE FORM OF ECONOMIC OVERSIGHT BY GOVERNMENT

1.1 The form of economic oversight by the government for a airport operator varies according to their specific circumstances. However, usually the government controls the airports or the third parties like autonomous entities regulate the airports

2. GOVERNANCE OF AIRPORT OPERATORS

2.1 In Korea's case, airport operators are independent organizations (public corporations) owned 100% by the government but given management autonomy to operate the airports. However, the

government acts as the regulator through legal and institutional frameworks to ensure proper management and operation of airports.

3. PREVENTION OF THE ABUSE BY AIRPORT OPERATOR'S DOMINANT POSITION

3.1 The airport service charges are decided by mutual consent between the airport operator and airport users and there is no direct intervention by the government in the decision making of airport service charges.

3.2 However, as the major shareholder, the government does have an indirect influence on the decision making and requires the airport operator to report the results of the air service charge consultations to the government and thereby prevents in an appropriate manner possible abusive actions by the airport operator.

3.3 There was an instance where the government took into account the opinions of airport users and encouraged the airport operator to lower or freeze airport service charges under the recognition that it is important to enhance Incheon Airport's competitiveness through strong cooperation with servicing airlines.

4. PERFORMANCE MANAGEMENT BY SERVICE PROVIDER

4.1 The government requires service providers to consult with the government in advance in the establishment of performance indicators in terms of airport safety, service quality, productivity, cost effectiveness etc. as well as CEO management agreement reflecting those indicators.

4.2 The performance evaluation based on the performance objectives established as above should be executed annually and its results are reported to the government. The data is used by the government in effective supervision of performance management such as reappointment of CEO, etc.

4.3 The performance objectives are useful not only in economic generation of revenues but also in balanced management of performance indicators in core performance areas (airport safety, service quality, productivity, and cost effectiveness) recommended by ICAO.

- a) Airport safety: number of airport accident/incident occurrences, number of external auditor's findings in airport safety and security, implementation of security and safe systems at airports, etc.
- b) Service quality: successful execution of airport expansion projects, operational efficiency of runways and terminals, customer satisfaction, etc.
- c) Productivity and cost-effectiveness: softcost per passenger, labor productivity, capital productivity, labor costs, rate of return on equity, etc.

4.4 Further, meetings of the Service Improvement Committee, Airport Operation Committee, and other committees whose members are composed of representatives from government agencies, airport corporations, and airlines are held on a regular basis to gather opinions and feedback from airport users and to reflect them in the management and performance objectives in order to improve airport safety and services.

5. AIRPORT INVESTMENT TO MEET FUTURE DEMAND

5.1 As the major shareholder of airport corporations, the government reserves the right to approve key tasks of the airport corporations. Thus, the government assures and supervises timely establishment and execution of airport development and investment plans that prepare for future demands.

6. ECONOMIC OVERSIGHT AFTER PRIVATIZATION

6.1 The government, at present, is in the process of privatizing airport corporations but will set up sufficient institutional frameworks to ensure proper economic oversight in all applicable areas even before and after the privatization.

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