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Agenda Item 26: Economic Development of Air Transport

MODERNIZING AIRPORT CHARGING PRINCIPLES: ENHANCING ECONOMIC VIABILITY AND COMPETITIVENESS OF AIRPORTS- TOWARDS A COMMERCIAL PRICING FRAMEWORK AND GUIDANCE ON AIRPORT PRICING MODELS IN A COMPETITIVE ECOSYSTEM

(Presented by Oman)

EXECUTIVE SUMMARY

The global air transport sector is undergoing transformative change driven by increasing airport privatization, the rapid expansion of low-cost carriers (LCCs), and intensifying competition among airports. ICAO's current airport charging policy, as outlined in Doc 9082, is grounded in cost-recovery and non-discrimination principles. These principles, developed at a time when most airports were State-owned, are becoming increasingly misaligned with modern commercial and competitive dynamics.

This paper underscores the need to update ICAO's economic regulatory framework to reflect the realities of a liberalized and market-driven aviation ecosystem. It proposes incorporating market-based pricing mechanisms, performance-oriented regulations, and flexible, demand-responsive models that foster economic efficiency, fair competition, and long-term financial sustainability.

Action: The Assembly is invited to:
a) acknowledge the limitations of the existing ICAO pricing framework in the context of airport commercialization, LCC expansion, and market competition;
b) endorse the modernization of ICAO's airport pricing policies and recommend the establishment of a dedicated task force;
c) promote the adoption of performance-based and market-responsive pricing models; and
d) support pilot programs and global stakeholder consultations to test and refine modernized airport pricing frameworks.

Strategic Goals:	This working paper relates to Strategic Goal: The Economic Development of Air Transport Assures the Delivery of Economic Prosperity and Societal Well-Being for All
Financial implications:	Not determined at this stage.

1. INTRODUCTION

1.1 Airport charges globally are subject to regulatory oversight, often aligned with ICAO's policies as set out in Doc 9082.

1.2 These policies emphasize non-discriminatory, cost-related charging principles encompassing full operational costs, capital investment, and depreciation. However, this model lacks the flexibility to address economic shocks—such as sudden traffic declines—given the largely fixed cost structures inherent in airport operations.

1.3 Key developments reshaping the aviation industry since the inception of ICAO's pricing framework include:

a) **Airport Privatization and Commercialization:** A growing number of airports operate under privatized or public-private partnership models. These airports increasingly adopt market-oriented pricing, seeking returns on investment through mechanisms such as peak-period pricing, congestion charges, and premium service differentiation— practices that diverge from the traditional cost-recovery framework.

b) **Expansion of Low-Cost Carriers (LCCs):** LCCs prioritize cost-efficiency and high passenger volumes, driving demand for simplified infrastructure and performance-based incentives. The existing ICAO framework does not adequately accommodate differentiated, volume-based pricing models required to support LCC growth.

c) **Emergence of Multi-Airport Competition:** Major urban regions now host multiple airports competing for traffic, necessitating dynamic, market-driven pricing strategies— including negotiated discounts and service-based differentiation—that challenge ICAO's uniform pricing principles.

d) **Rise of Non-Aeronautical Revenues:** Many airports derive 60–70 per cent of total revenues from commercial activities such as retail, parking, and real estate. The single-till model endorsed by ICAO is increasingly at odds with hybrid or dual-till practices adopted by regulators worldwide, which are more aligned with modern commercial airport operations.

e) **Financial Viability of Small Airports:** Small airports often struggle to achieve full cost recovery due to low traffic volumes. ICAO guidance remains limited in addressing how to balance socioeconomic objectives with financial sustainability in such cases.

1.4 ICAO's traditional principles—cost recovery, transparency, and non-discrimination—are no longer sufficient to manage modern, market-oriented airport environments. Commercial pricing strategies are needed to support economic sustainability, improve connectivity, and enable airports to respond flexibly to market demands.

1.5 Although Doc 9082 offers a foundational framework, its implementation faces challenges stemming from economic, regulatory, and political variations. The lack of a universally enforced model leads to inconsistencies, disputes, and inefficiencies in global airport charging systems. There is a compelling need to evolve towards a more flexible and market-responsive charging system.

2. DISCUSSION

2.1 Key Implementation Challenges

2.1.1 Privatization and Commercialization of Airports

- Privatized airports must attract investments and balance profitability with service obligations. Cost-based pricing constraints limit their ability to operate efficiently and competitively.
- Current ICAO policies discourage innovative pricing solutions that balance peak and off-peak demand.
- A more flexible, value-based pricing model would support long-term planning, encourage efficient capital investment, and better align pricing with demand dynamics.

2.1.2 Airport Competition

- Uniform, cost-based pricing is impractical in multi-airport regions where airports compete for airlines and passengers.
- Pricing flexibility, including volume discounts and negotiated long-term agreements, is essential to support healthy competition.
- ICAO should provide updated guidance to support competitive differentiation, especially for slot-constrained airports.

2.1.3 Economic Sustainability of Small Airports

- Smaller airports face structural disadvantages in achieving cost recovery mainly due to low traffic volumes.
- Solutions may include government subsidies or a system of grouped airports applying shared pricing policies and capital cost benchmarks.
- ICAO should support such models to ensure connectivity and service continuity in underserved regions.

2.1.4 Accommodating Low-Cost Carriers (LCCs)

- LCCs demand lower charges and dedicated infrastructure to maintain cost efficiency.
- Uniform pricing policies limit the ability of airports to offer tailored incentives to LCCs who can contribute to high passenger volumes.
- Differentiated pricing aligned with LCC business models can enhance airport efficiency, asset utilization, and traffic growth.

2.1.5 Growth in Non-Aeronautical Revenues

- Many airports now rely on non-aeronautical revenue streams to remain financially viable.

- ICAO's current single-till preference may disincentivize commercial investment by mandating cross-subsidization.
- ICAO lacks clear guidance on dual-till and hybrid-till models, and circumstances/conditions for considering dual-till and hybrid-till pricing approaches, creating global inconsistencies in pricing and revenue-sharing approaches. This adversely impacts airlines operating internationally which face inconsistent pricing structures.

3. PROPOSED REVISIONS TO ICAO'S PRICING FRAMEWORK

3.1 Transition to Market-Based Pricing

- Introduce flexible, demand-responsive pricing mechanisms linked to market conditions and performance outcomes.
- Encourage pricing models tied to efficiency, service quality, and value delivered.

3.2 Competitive Market Guidance

- Develop ICAO recommendations for managing pricing in competitive, deregulated, or multi-airport environments.
- Establish global benchmarking and oversight tools to ensure fair practices.

3.3 LCC-Oriented Pricing Models

- Promote differentiated pricing for LCCs, including volume-based discounts and specialized terminal charges.
- Encourage peak/off-peak pricing strategies to optimize infrastructure usage.

3.4 Support for Small and Regional Airports

- Recommend cross-subsidization frameworks or government-backed support to sustain essential air services and to ensure the operational continuity of small airports.
- Propose pricing methodologies that account for socioeconomic and regional connectivity priorities.

3.5 Integration of Non-Aeronautical Revenues

- Provide guidance on adopting hybrid-till or dual-till models where appropriate.
- Recommend transparent revenue-sharing agreements between airports and airlines.

3.6 Sustainability-Linked Pricing Mechanisms

- Introduce incentives for low-emission aircraft and environmentally sustainable practices.
- Develop frameworks for carbon pricing and dynamic congestion-based fees.

4. PROPOSED IMPLEMENTATION STRATEGY

4.1 **Establishment of ICAO Task Force:** Create a specialized task force to revise Doc 9082 and develop supplemental guidance.

4.2 **Pilot Projects:** Launch trial pricing schemes in selected regions (e.g., Gulf Cooperation Council (GCC), the Association of Southeast Asian Nations (ASEAN)) to evaluate market-based models and their impacts.

4.3 **Global Consultation:** Engage with stakeholders—including airport operators, regulators, and airline representatives—to ensure inclusive policy development.

4.4 **Finalization and Adoption:** Submit the revised pricing policies and implementation guidelines for endorsement at the next ICAO Worldwide Air Transport Conference.

5. CONCLUSION

5.1 The current ICAO pricing framework, rooted in cost recovery and non-discrimination, is insufficient to address the modern realities of a liberalized, competitive air transport sector. In light of industry developments—including airport privatization, LCC growth, and the rise of hybrid revenue models—a fundamental update to Doc 9082 is essential. ICAO must embrace a more market-oriented, flexible pricing approach that fosters investment, innovation, and equitable access while safeguarding transparency and accountability.

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