



**WORKING PAPER**

**ASSEMBLY — 41ST SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 36: Economics of Airports and Air Navigation Services – Policy**

**SUPPORT OF ICAO'S AIRPORT ECONOMICS PANEL AMIDST CHANGES TO THE  
ECONOMIC REGULATORY FRAMEWORK**

(Presented by South Africa)

**EXECUTIVE SUMMARY**

The economic and competitive landscape of the airport industry and the aviation ecosystem have changed dramatically. COVID-19 pandemic impaired the financial position of airports across the globe with continued difficulties to maintain existing infrastructure and planning for future capital expenditure (CAPEX) requirements. Consequently, risk profile of the airport industry has significantly changed with heightened debt levels, and rising cost of capital that have weakened airports' long-term economic viability in delivering capital investments to meet sustainability targets.

It is important that the Airport Economic Panel (AEP) review ICAO policies on charges contained in Doc 9082, and explore mechanisms upon which regulated airports can be compensated for exceptional circumstances such as pandemics, and other global shocks.

**Action:** The Assembly is invited to:

- a) note that the financial situation of airports is impaired by the COVID-19 pandemic;
- b) note that the changed risk profile of the industry, heightened debt levels, and rising cost of capital have weakened airports' long-term economic viability in delivering capital investments to meet sustainability targets;
- c) request the AEP to explore means upon which regulated airports would be compensated for the impact of exceptional circumstances such as COVID-19 on their businesses; and
- d) request the AEP to review Doc 9082 to assess its ongoing relevance and responsiveness regarding the effect of the long-term impact of the COVID-19 pandemic.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives: <i>Economic Development of Air Transport</i>
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<i>Financial implications:</i>	N/A
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<i>References:</i>	<i>AEP-ANSEP/8 Report: Update of Policies and Guidance on Airport and Air Navigation Services Economies.</i> <i>ACI World, Airport Economics Report and KPIs</i> <i>ICAO, Conference on the Economics of Airports and Air Navigation Services (CEANS-2008)</i> <i>ICAO, Draft ICAO Business Plan for 2023-2024-2025 (C-WP/15412)</i>
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## 1. INTRODUCTION

1.1 The Aviation industry was highly impacted by COVID-19. This resulted in the 2020 passenger traffic and aeronautical revenues declining to 34% of 2019 levels in the African region. The 2021 traffic recovered to 51% of 2019 levels and 2022 traffic is forecasted to recover to 75% of 2019 levels<sup>1</sup>. This led to weakened aeronautical and non-aeronautical revenues, increased debt levels, changes in airports' risk profile, declining in capital infrastructure investments, and many devastated industries across the airport ecosystem.

1.2 In 2021, the Airports Council International (ACI) conducted a survey of their member airports on their response to COVID-19. The survey across all regions identified the lack of flexibility to adjust prices rapidly, lack of clarity as to how losses could be recovered in the future, and the impact of financing on future investments as some of the key concerns. Only 34 per cent of the airports that are subjected to regulation indicated that they would be able to recover COVID-19 related losses.

1.3 The impact of COVID-19 in Africa and the rest of the world has led to the expedited need to assess possible changes to some of the ICAO policies so that they are flexible and responsive in times of crisis, to ensure financial sustainability of airports.

1.4 The South African government is planning to consolidate all economic regulation of transport within a single entity and framework policy. The intention is to, *inter alia*, (i) promote the development of a competitive, efficient and viable transport industry including airports that contribute to economic growth; (ii) promote the development of an integrated system of economic regulation of transport of passengers and goods; and (iii) improve efficiency in line with international standards and local requirements. All these proposed changes are done for the ultimate benefit of the customers and the traveling public.

## 2. OPERATING LANDSCAPE OF AIRPORTS

2.1 Airports have always been perceived to operate in a monopolistic environment with potential to exercise their market power. This has since changed subsequent to the involvement of the private sector in the ownership and operation of airport business. Whilst airports are still asset-intensive (e.g. runways and terminal buildings), they currently operate in a complex multi-stakeholder environment that engages in commercial relationships with airlines, passengers and concessionaires among others. They compete for airline services, for capacity, for passengers, for cargo, and for commercial activities.

2.2 Airport competition between airports located in the same catchment area has long been a reality. Airports in the catchment area and outside the catchment area compete on new services and/or increases in route capacity.

2.3 Whilst airports spend significant effort on attracting airlines to their airports, airlines can switch capacity from one airport to another based on market changes or when they deem that economic conditions are less favourable. If an airline becomes dominant in an airport, it can exert its buyer power and further limiting changes in airport charges. Airport charges are also pressured by the proliferation of

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<sup>1</sup> Regional Analysis The State of Play: Competition, Regulation, and Airport Charges 2022

low-cost carriers. Between 2005 and 2019, low-cost carriers have gained 11 percentage points in market share, rising to 13 per cent of Africa's air seat capacity in 2019 from 2.3 per cent in 2005<sup>2</sup>.

2.4 Competition has become the centre of the airport business. Airports compete on all aspects of their business, from aeronautical business to on-site and off-site commercial activities. The competitive nature of the airport business needs to be addressed in the ICAO policy assessments. Air transport also competes with other modes of transport. Passengers have the option to use other transport modes and as a result, this exerts competitive pressure to airports. In addition, non-aeronautical revenue is in direct competition with online retailers wherein customers can buy directly and get their goods delivered to addresses that bypass the airports.

### 3. COVID-19 IMPACT

3.1 The impact of the COVID-19 pandemic on airport traffic and revenues has changed the risk profile of airports. Debt-to-EBIDTA ratios reached 15:1 in 2020 with several privatized airport operators reaching ratios of 60:1<sup>3</sup>, and these debt levels are financially unsustainable.

3.2 To remain sustainable and conserve cash, airports have reduced spending on capital investment and in some instances operational expenditure that is not linked to the licence to operate. However, this has resulted in unintended consequences including long-term capacity planning for airports.

3.3 Based on estimates from ACI, the African region will require US\$32 billion in capital expenditures to service the 442 million passengers expected to flow through the region's airports by 2040<sup>4</sup>. Thus, Member States must ensure that the airport charges and taxation are consistent with the ICAO recommendations and policies to unlock the projected growth.

3.4 The Thessaloniki Forum<sup>5</sup>, a group of national independent supervisory authorities (ISAs) that provide learnings on best practices in the economic regulation of airports, concluded that since economic regulation was not designed for "black swan" events or exceptional circumstances like COVID-19, regulators should consider allowing airports to recover costs that were unrecovered in the past due to such events via future charges.<sup>6</sup>

### 4. SUPPORTING THE WORK OF THE ICAO AIRPORT ECONOMICS PANEL AND AIR NAVIGATION SERVICES ECONOMICS PANEL (AEP-ANSEP)

4.1 Following the recommendations of the Eighth Joint Meeting of the ICAO Airport Economics Panel and Air Navigation Services Economics Panel (AEP-ANSEP/8), a new Working Group was established "*with the task of conducting a general review of ICAO's policies on charges contained in Doc 9082, comprising the assessment of its ongoing relevance and responsiveness, including with regard*

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<sup>2</sup> Regional Analysis The State of Play: Competition, Regulation, and Airport Charges 2022

<sup>3</sup> [ACI Airport Economics Report and Key Performance Indicators](#)

<sup>4</sup> Regional Analysis The State of Play: Competition, Regulation, and Airport Charges 2022

<sup>5</sup> European Forum of airport charges regulators from 28 countries and 5 international industry organizations.

<sup>6</sup> Source: Thessaloniki Forum of Airport Charges Regulators. (2022). Airport Charges in Times of Crisis. <https://www.sipotra.it/wp-content/uploads/2022/03/Airport-charges-in-times-of-crisis.pdf>  
<https://ec.europa.eu/transparency/expert-groups-register/core/api/front/document/71737/download>

*to the effect of the long-term impact of the COVID-19 pandemic and an examination of which airports and ANSPs were most significantly affected.”*

4.2 The AEP-ANSEP/8 Working Group is expected to update the guidance material and policies on airport charges to account for industry changes and adverse shocks, which will represent important contributions for both the aviation industry and States.

4.3 The ongoing deliverables of the AEP-ANSEP/8 Working Group are aligned with the priorities outlined in ICAO’s Draft Business Plan for 2023-2024-2025.

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