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Airport Economics and Oversight

Sainarayan A

Chief Aviation Data and Analysis , ICAO

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Outline

- **ICAO's policies of transparency, and user consultation, with respect to charges**
- **Allocative efficiency in capacity allocation**
- **Models of economic oversight**



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- DOC 9082 (ICAO policies on charges for Airports and ANSP's) makes specific recommendations to transparency and user consultation. Some of these include –
 - non-discrimination and transparency in the application of charges including differential charges
 - consultation with users when airport is considering revision of charges or new charges
 - transparency in accounting and sharing of financial information to provide assurance that cost basis for charges are related to appropriate services provided to the users.
 - transparent economic oversight of charges and the related provision of services, including performance management.



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Allocation of capacity - Challenges: (US Model)

- The main challenge with slots is the efficiency of their allocation. By having no slots, but an open access to airports, the authorities get around this problem and leave it to competition between airlines to use the existing capacity in the best possible way, given passenger demand.
- The ‘first come, first served’ system is thus an efficient system, and is widely accepted by airlines as long as runway (and terminal) capacity is sufficient to accommodate demand. If demand exceeds capacity during significant periods, it can rapidly lead to congestion-related delays.



Allocation of capacity - Challenges: (EU Model)

- EU and other parts of the world follow the IATA slot allocation system. Under this system, excess demand is rationed more efficiently than ineffective queuing, however the users of the slots are not usually charged in accordance with their willingness to pay.
- There are two ways in which a slot system can be efficient: productive efficiency and allocative efficiency. Productive efficiency means that the maximum number of available slots should be used.
- Allocative efficiency means that the slots should be used in ways that provide the highest possible social value. Ideally, a slot system should have the properties of productive and allocative efficiency.
- Inefficiencies impacts prices and the finances of both the intermediate and end users as well as the output providers.



Allocation of capacity - Challenges:

- Recognizing the importance of this, the matter of slots and optimal utilization of scarce capacity was discussed in the recently concluded ICAO Assembly and papers presented by ACI and IATA.
- The two Organizations agreed to work collaboratively on the ongoing process to develop a more efficient and effective slot allocation process. They also agreed that such a process must ensure transparency, certainty, consistency, fairness and non-discrimination, as well as remaining globally harmonized.
- It was noted that ACI and IATA would work with States, the industry stakeholders as partners and would report progress to the next session of the Assembly.



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Economic Oversight:

- The term economic oversight has been defined as the function by which a State supervises commercial and operational practices of an airport.

- It is also clear that the responsibility of the oversight functions rests with the State and the objectives of the oversight are primarily
 - a) reduce risks of airport engaging in anti-competitive practices or abuse any dominant position in the market.

 - b) ensure transparency in applying charges and

 - c) protecting interests of end users .



Economic oversight may take several from a light-handed approach (such as the application of competition law) to a more robust approach (such as direct regulatory interventions in the economic decisions and charging policies of airports). Each approach by a State impacts investors and investments differently.

	Applicability of competition law	Rate of Return	Price Cap
Attracting investments and capital flows	Strong	Strong	Moderate
Aeronautical prices predictability	Weak	Moderate	Moderate
Airport profits predictability	Weak	Strong	Moderate
Impact on airports operating efficiency	Weak	Weak	Moderate



- The degree of competition between providers, the costs and benefits of different forms of oversight, as well as the legal, institutional and governance frameworks should be taken into consideration when selecting the appropriate approach.
- Even where competition may not be considered sufficiently strong, if a strong consultative, collaborative process or institutional mechanism is in place between the airports, concessionaires and users in determining optimal service standards, charges system and the level of the charges in relation to the services rendered then regulatory intervention need to be kept to a minimum
- It is possible to conceive variations of each form of economic oversight set out above. In some situations, the combination of two or more of the forms may yield the best form of economic oversight while ensuring that investments are not stifled and connective options optimized for the air travellers.



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