

WORLDWIDE AIR TRANSPORT CONFERENCE: CHALLENGES AND OPPORTUNITIES OF LIBERALIZATION

Montreal, 24 to 29 March 2003

Agenda Item 2: Examination of key regulatory issues in liberalization 2.2: Market access

AIRPORT CAPACITY EXPANSION: ALLEVIATING THE FINANCIAL CONSTRAINTS

(Presented by Airports Council International (ACI))

SUMMARY

Greater regulatory flexibility for airports is needed to expand capacity in a timely and cost-effective manner in order to meet future traffic growth expected as a result of air transport liberalization. Speedy implementation of the airport-related recommendations of ICAO ANSConf 2000 reflected in ICAO policy and guidance will help provide airports with some of the economic and financial tools they require for that purpose.

Action by the Conference is in paragraph 4.1.

1. INTRODUCTION

1.1 The events of 11 September 2001 combined with an already deepening economic downturn to cause an unprecedented drop in air traffic which hurt carriers and airports alike. Air transport is still in a deep slump, after 50 years of almost uninterrupted growth. ACI's airport traffic statistics show that worldwide passenger traffic in 2000 grew by 5.7 per cent over 1999 to almost 3.5 billion passengers, in 2001 it dropped by 2.7 per cent to under 3.4 billion, while in 2002 it is estimated to have dropped further to 3.3 billion. However, ACI forecasts predict that by 2020 traffic will roughly double to between 6 and 7 billion passengers. In short, the problem of scarce airport capacity has not been solved, and airport operators worldwide are doing their utmost to build new infrastructure in time to meet the demands of the global economy over the long term.

¹ French and Spanish versions provided by Airports Council International (ACI)

2. DISCUSSION

2.1 As pointed out in section 3 of ATConf/5-WP/8, air traffic growth since 1994 has continued to outstrip available capacity at an increasing number of airports. Despite the efforts of airports and governments, very few new airports or runways have been constructed in the last few years except in the Asia/Pacific region. Airport capacity constraints are therefore becoming an increasing challenge to the continued growth of air transport and may affect market access and thus the very process, progress and aims of liberalization.

2.2 ACI supports the conclusions of ATConf/5-WP/8, in particular the one in paragraph 4.1 (e), which highlights the importance of airport capacity constraints and long-term infrastructure needs as a pre-condition for air transport liberalization.

2.3 Liberalization presents airports with new challenges for their planning, financing, development, and operation. The need for airports to have both the flexibility and financial resources to meet those challenges should therefore be recognized by ATConf/5. In order to help provide airports with some of the economic and financial tools to expand their capacity and thus contribute to successful air transport liberalization, the greater regulatory flexibility endorsed by ANSConf 2000 reflected in ICAO policy and guidance would have to be fully implemented by ICAO Contracting States.

2.4 The ANSConf 2000 recommendations advocate greater flexibility for airports particularly in the following areas: pre-financing of airport capital expenditures, commercialization of airports, the development of airport systems and networks, consultation with users and the use of economic principles in airport pricing policies for managing capacity. ANSConf 2000 also recognized the need for flexibility in applying the single till principle, establishing guidelines that a portion of non-aeronautical revenues should be permitted to finance new infrastructure. Finally, it is important to bear in mind the statement by ANSConf 2000 Chairman that its recommendations should be formulated in a “permissive, not prescriptive” way. ANSConf 2000 recommendations were approved by the ICAO Council for adoption as policy or guidance. Many of those recommendations are reflected in *ICAO’s Policies on Charges for Airports and Airport Navigation Services* (Doc.9082/6), while others are to be reflected in the updating of the guidance in the *Airport Economics Manual* (Doc 9562) now being carried out. ACI’s views and the ANSConf 2000 recommendation in each area are presented below.

2.4.1 **Pre-financing of airport capital expenditures:** Airports are capital-intensive enterprises with long lead times for planning and implementing projects to expand capacity and improve service levels. Therefore, to avoid large and abrupt increases in airport charges when such projects come on stream, it would sometimes be prudent to pre-finance projects from internal sources through the gradual increase of charges during the construction period subject to safeguards for users. Pre-financing carries the added benefits to both airports and their users of reducing the airport operator’s reliance on external sources of funding, keeping debt service payments to a reasonable level, and safeguarding the airport’s credit rating. ANSConf 2000 recommended that pre-financing “may be accepted in specific circumstances (for) long term investment..., provided that strict safeguards”, including financial transparency and consultation with users, are respected.

2.4.2 **Commercialization of airports:** The potential benefits of commercialization may benefit airlines, as recognized by International Air Transport Association (IATA). Airport operators should have the flexibility to adopt ownership and management structures that allow for the highest levels of service and access to capital markets to improve their facilities, with due regard to sound economic principles and local conditions. Flexibility should also be exercised in considering the form of ownership most appropriate for airports, including privatization. ANSConf 2000 endorsed ACI’s view that “there is no single best option for

States to follow” in managing airports, recommended changes to the *Airport Economics Manual* (Doc. 9562) and requested ICAO to develop guidance for States wishing to commercialize their airports.

2.4.3 **Airport networks and cross ownership:** Airports could be managed as single airports, airport systems or airport networks. Each of these models could provide efficient and cost-effective services for users. Airport networks, when managed prudently, could achieve substantial economies of scale, promote regional growth, enhance smooth-functioning hub and spoke operations and permit rapid adoption of “best practices”. ANSConf 2000 recommended that ICAO develop further guidance on airport systems and networks in the context of its guidance on commercialization.

2.4.4 **The single till:** The single till concept provides for the use of revenues from non-aeronautical and commercial activities to reduce aeronautical charges. This represents an exceptional cross-subsidy to air carriers, sends the wrong economic signals to airport operators, and creates disincentives to develop new revenue streams. ACI proposed that ICAO guidance be amended to allow airports to use non-aeronautical revenues, as appropriate, for the financing of investment, the setting of user charges, and the provision of appropriate rewards to airport owners. ACI’s views received broad support, and ANSConf 2000 recommended that ICAO undertake a study on the single till principle as a pre-condition to developing new guidance on the subject. Aspects to be considered were the economic implications, including return on investment and the impact on charges, and the “need for transparency in financial accounting and flexibility to accommodate differing circumstances in different States”.

2.4.5 **Consultations with users:** Consultations on issues such as user charges and airport investment plans are the cornerstones of a productive working relationship between airports and their users. When consultations do not lead to consensus, ACI supports current ICAO guidelines on charges giving airports full authority to introduce revised charges. ANSConf 2000 recommended to further emphasize the importance of consultations in the current ICAO guidance and recommended a study on the concept of the right of appeal to an independent body, recognizing that any appeal on the outcome of consultations should be “consistent with the regulatory regime in the State concerned”.

2.4.6 **Economic regulation of airports:** Most airports are effectively regulated by trade and competition laws, by contractual agreements with airlines, and by effective general pressure from large and well-organized airlines. Airport regulation should therefore only be necessary where the airport has been shown to have abused whatever market power it may have and where national and international consumer and trade laws are not sufficient to protect airlines and passengers. All regulatory systems should endeavor to preserve sufficient freedom and incentives for airport managers to operate their businesses effectively to serve the traveling public and the community. A number of States supported ACI’s view that excessive regulation was costly and ineffective. ANSConf 2000 recognized that States would choose their own regulatory regimes and mechanisms according to their particular needs and circumstances. The view was expressed that in choosing to establish an independent authority States give consideration to the costs of regulation and the need for regulatory simplicity. ANSConf 2000 recommended that ICAO develop guidelines on the establishment of an independent regulatory body (for those States wishing to establish such bodies); draw up a list of optional objectives for use by States; and develop guidance on principles of best commercial practices for airports and air navigation services for the Council Statements in Doc. 9082.

2.4.7 **Marginal cost pricing and the application of economic principles:** Airport operators should be free to adopt pricing policies that take into account local circumstances. Flexibility in using economic principles in pricing was deemed important and might include some aspects of marginal pricing, such as peak period charges as useful tools for managing capacity. ANSConf 2000 accepted the use of economic principles in airport pricing, as well as the use of economic pricing for capacity management, with the caveat that this practice should provide a reasonable rate of return on investment and not result in

“over-recovery” of costs. It also accepted that charges should be set to recover costs, to provide a reasonable return on investment where appropriate and to provide additional capacity where justified. Costs must therefore be defined to include all economic costs (for example, appropriate return on investment, replacement costs, capitalized interest, pre-funding, etc.).

2.4.8 **Government charges on air transport:** In a joint paper, ACI and IATA expressed concern over the proliferation of governmental charges on air transport. ANSConf 2000 accepted the ACI/IATA recommendation that States permit charges only for services and functions which are provided for, directly related to, or ultimately beneficial for civil aviation operations.

3. CONCLUSIONS

3.1 Greater regulatory flexibility for airports is needed to expand capacity in a timely and cost-effective manner as a pre-condition for air transport liberalization in order to meet the expected future traffic growth. Speedy implementation of the airport-related recommendations of ICAO ANSConf 2000 reflected in ICAO policy and guidance will help provide airports with some of the economic and financial tools they require for that purpose.

4. ACTION BY THE CONFERENCE

4.1 The Conference is invited to:

- a) note ACI’s support for the conclusions of ATConf/5-WP/8;
- b) agree, in line with ANSConf 2000 recommendations reflected in ICAO policy and guidance, that greater regulatory flexibility for airports is needed to expand capacity in a timely and cost-effective manner as a pre-condition for air transport liberalization in order to meet the expected future traffic growth; and
- c) urge ICAO Contracting States to implement as soon as possible the ANSConf 2000 recommendations, to help provide airports with some of the economic and financial tools required for expanding their capacity.

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