



WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

SIXTH MEETING

Montréal, 18 to 22 March 2013

Agenda Item 2: Examination of key issues and related regulatory framework

Agenda Item 2.7: Economics of airports and air navigation services

AVIATION INDUSTRY DEVELOPMENT MODEL SECURING INFRASTRUCTURE
INVESTMENTS FROM AIRPORT NON-AVIATION REVENUES

(Presented by Republic of Korea)

EXECUTIVE SUMMARY

Recognizing that unnecessary taxes and levies on international air transport undermine the successful development of international civil aviation as described in ATConf/6-WP/10 presented by the Secretariat, this paper introduces the business model of Incheon International Airport, which promotes an overall development of the aviation industry while making infrastructure investments using airport non-aviation revenues. Such model is consistent with policies contained in ICAO's *Policies on Charges for Airports and Air Navigation Services* (Doc 9082) and which are described in ATConf/6-WP/21.

Action: The Conference is invited to:

- a) review the information presented in this paper; and
- b) adopt the recommendation presented in paragraph 6.

References: ATConf/6 reference material is available at www.icao.int/meetings/atconf6.

1. INTRODUCTION

1.1 The Republic of Korea strongly sympathizes with the opinion set out in ATConf/6-WP/10 which states that the proliferation of various types of taxes and levies, which the air transport industry has seen in recent years, coupled with the lack of transparency and discriminatory practices against air transport is negatively affecting national economic development.

1.2 For the further development of civil aviation, the Republic of Korea also thinks it is desirable to address unsubstantiated tax or duty which can have a significantly negative impact on air transport and tourism as suggested by the World Tourism Organization (UNWTO) in ATConf/6-WP/66.

1.3 The Republic of Korea strongly agrees to ICAO's *Policies on Taxation in the Field of International Air Transport* (Doc 8632), which state in section 2-13 (Taxes on the sale and use of

international air transport) that “taxes on the sale or use of international air transport are at odds with modern trends towards liberalizing and reducing barriers to trade in goods and services”.

1.4 Therefore, taxes on air transport needs international standards, however at the same time, laws and regulations of each State and respective authority may apply. As a result, it will take time in order to establish necessary standards as both national and international efforts are requested. However, with respect to charges, airport user charges can be ameliorated and create a virtuous cycle by sole effort of the aeronautical authority with an active support of the government.

1.5 As a part of the Republic of Korea’s diversified efforts aimed at aviation industry development, Incheon International Airport Corporation (IIACC) changed its profit model and made significant progress in promoting non-aeronautical revenues. Based on these non-aeronautical revenues, IIAC implemented a user charge reduction policy to support airlines creating aviation demand, minimize entry barriers and, ultimately, keep up with the industry trends of service liberalization. Using extra profits earned, IIAC enhanced passenger convenience through constructing a new terminal and runways. IIAC also reinvested the profits in developing aviation professionals by establishing education and training centres. While doing so, IIAC could create an exemplary virtuous cycle that also contributes to overall industry development.

1.6 This paper aims at introducing States to the synergetic growth-oriented business model of IIAC seeking to support States in deliberating their policy on user charges.

2. ASSESSMENT OF THE CURRENT SITUATION

2.1 As the aviation industry constantly develops, revenues from non-aviation activities have grown considerably and match or even exceed the aviation revenues of some airports. Accordingly, several major airports across the world have re-examined their traditional business model and introduced various new initiatives such as reducing multiple user charges, while actively following relevant ICAO policies with a view to boosting competitiveness and creating more aviation demand.

2.2 *ICAO’s Policies on Charges for Airports and Air navigation Services (Doc 9082)*

2.2.1 ICAO policies on charges in Doc 9082 (Section I paragraph 2) spelled out two important recommendations in relation to charges: it is recommended that States permit the imposition of charges only for services and functions which are provided for, directly related to, or ultimately beneficial for, civil aviation operations; and it is also recommended that States refrain from imposing charges which discriminate against international civil aviation in relation to other modes of international transport (see ATConf/6-WP/21). These recommendations are also contained in ICAO policies on taxes in Doc 8632 (Section 2, paragraph 18 refers).

2.2.2 In accordance with the above-mentioned recommendations, States are promoting relevant measures tailored to each airport. IIAC, in particular, goes beyond what is covered by the said recommendations and provides user charges exemption for services and functions which are required for international civil aviation. IIAC also offers incentives for the airlines that have concluded a Memorandum of Understanding with the airport, which helps airlines ameliorate their business environments. By doing so, IIAC aims to provide better services to passengers.

2.3 Current Status of Airport Facilities Service Charges at Major Airports

Types of User Charges (except ATC Charges) by Airports

Airport	Landing	Parking	Boarding Bridge	BHS	Noise	Emissions	Security	Passenger	Lighting	Others
Heathrow	○	○	-	-	○	○	-	○	-	Air Transport Tax
Dubai	○	○	○	-	-	-	○	○	-	-
Charles De Gaulle	○	○	-	○	○	-	-	○	-	Airport tax, union tax, civil aviation tax
Hong Kong	○	○	○	-	-	-	○	-	-	Airport/terminal service charge, gov. tax
Amsterdam	○	○	-	-	○	-	○	○	-	Noise tax, gov. tax,
Frankfurt	○	○	-	-	○	○	○	○	-	Infrastructure charge,, baggage screening fee, Air transport tax,
Changi	○	○	○	-	-	-	○	○	-	Development fund
Bangkok	○	○	○	-	-	-	-	○	-	-
Incheon	○	○	○	○	-	-	-	○	-	-
Madrid	○	○	○	-	○	-	○	○	-	-

Status of User Charges at Major Airports

Airport	Charges on Airline (B747-400, weekday) (USD)			Charges on Passenger (USD)		
	Landing Charge	Other Fees	Total	Airport Service - Pax. Terminal Charge (per passenger)	Other Fees (Government tax, etc.)	Total
Charles De Gaulle	3,070	4,780	7,850	30	20	50
Schiphol	6,280	904	7,184	20	17	37
Madrid	5,836	634	6,470	27	31	58
Chek-lap-kok	4,878	1,189	6,067	Incl. in Gov. Tax	20	20
Changi	3,594	1,941	5,535	11	6	17
Incheon	3,268	1,202	4,470	16	0	16
Dubai	1,597	1,675	3,272	20	0	20
Frankfurt	2,252	829	3,081	31	9	40
Heathrow	2,963	54	3,017	53	0	53
Bangkok	1,988	230	2,218	21	0	21

※ Source : IATA Airport Charges 2012/ 2012 Top 10 busiest airports by passenger traffic / 8 hour parking/ Other fees (parking/ boarding bridge/ BHS charges, etc.)/ Excluding any other tax

3. EFFORTS TO MEET ICAO POLICY

3.1 IIAC fully reflected ICAO policies on charges in Doc 9082 in establishing its charging scheme and implementing relevant consultations procedures. IIAC has transparently announced its charging scheme to all airlines in an effort to promote a clear and objective policy.

3.2 Table of Airport Facilities Service Charges

Kind	System (Criterion)	Charge
Landing Charge	·Maximum takeoff weight	·Up to 100 tons : KRW 9,000per ton, ·From more than 100tons up to 200 tons: KRW8,800 per ton surpassing 100 tons ·More than 200 tons: KRW 8,600 per ton surpassing 200 tons
Lighting Charge	·Pilot exemption until 2015	·KRW 124,336is imposed per flight ·Imposed each on take-off/landing
Parking Charge	·Imposed per every 30 minutes based on maximum takeoff weight ·Within 3 hours of parking is exempted from the charge	·Up to 100 tons: KRW 118per ton/by every 30 minutes ·From more than 100 tons up to 200 tons: KRW 100 per ton surpassing 100 tons/ every thirty minutes ·From more than 200 tons: KRW 80 per ton surpassing 200 tons/ every thirty minutes
Baggage Facilities Service Charge	·Total number of departing passengers (not of transit passengers)	·KRW 1,895per departing passenger
Boarding Bridge Charge	·When used	·KRW 64,43 per flight (50% discount when using Concourse)
Airport Service (Pax. Terminal) Charge	·Departure and transfer passengers ·Transit passengers are exempted	·International Flights: KRW 17,000 per passenger ·Domestic Flights: KRW 5,000 per passenger ·Transfer Passenger: KRW 10,000 per passenger (from March '10)

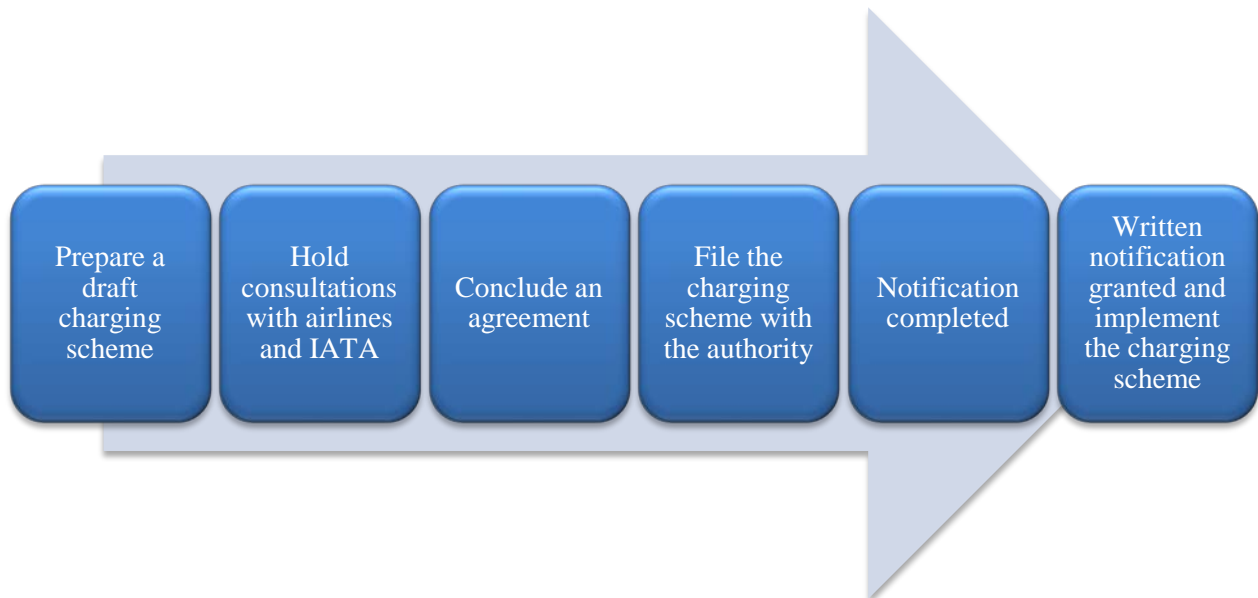
3.3 IIAC Charging Scheme Settlement Procedures

3.3.1 IIAC takes into account various internal and external elements including economic situation, airport's financial status and aviation demand in calculating user charges. With a draft charging scheme, the airport proceeds with consultations procedures with airport users in accordance with Doc 9082 – Consultation with Users (Section I, paragraphs 17 and 18 refers). Confirmed charges are filed with the aeronautical authorities for notification.

3.3.2 Members of the Airline Operators Committee can present conflicting opinions on the draft charging scheme based on their own interests. Therefore, it is difficult to incorporate all their opinions. However, the airport does its best to find a non-discriminatory and reasonable compromised scheme.

3.3.3 Currently, IIAC re-invests part of its revenues to improve user benefits which resulted in high user satisfaction. In addition, IIAC could maintain mutually cooperative relations between service providers, users and regulators through friendly consultations.

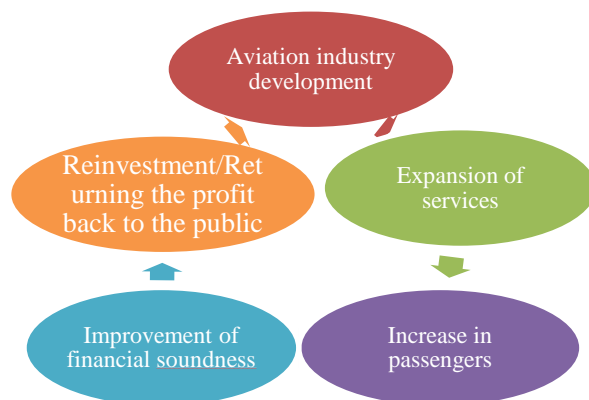
IIAC Charging Scheme Settlement Procedures



4. DISCUSSION

4.1 Maximizing profit is not what the aviation industry, especially airports, is all about. Rather, airports pursue a profit model that improves financial soundness through aviation-related revenue streams, supports creating new passenger demand by returning the profits to the public and fundamentally contributes to the overall industry development.

Profit/Reinvestment Cycle



4.2 If an airport only puts in place strategies for achieving financial stability and financial independence while neglecting the needs of all its customers from airlines to passengers, it can have a significantly negative impact on creating profit, attracting passengers, thus producing a net damage to the growth of entire aviation industry.

4.3 Then, it becomes more likely for the airport to introduce individual charging items in order to accumulate profits, which leads to activities that are at odds with ICAO policies on charges in Doc 9082 as well as the industry paradigm towards air service liberalization and lower trade barriers.

4.4 Data on major airports' profit structures suggests that airports posting substantial growth in aviation demand are those that non-aviation revenues outstrip aviation revenues. These airports are actively pursuing reduction in user charges in order to create more demand.

Profit Structures of Major Airports

Airport	Profit Structure (thousand USD)-1.1.'11-31.12.'11		Passenger (thousand)		
	Aviation Revenues	Non-aviation Revenues	2011	2012	Growth(%)
Heathrow	GBP 1,149.6 million (56.2%)	GBP 897.6 million (43.8%)	64,688	65,258	0.9
Charles De Gaulle	EUR 1,504,584 thousand (60.1%)	EUR 996,930 thousand (39.9%)	55,675	56,201	0.9
Chek-lap-kok	HKD 4,389 million (36.1%)	HKD 7,765 million (63.9%)	52,749	55,744	5.7
Schiphol	EUR 733,933 thousand (57.4%)	EUR 544,367 thousand (42.6%)	49,680	50,976	2.6
Frankfurt	EUR 774.9 million (31.6%)	EUR 1,677.9 million (68.4%)	49,477	50,749	2.6
Changi	SGD 536,252 thousand (36.9%)	SGD 918,002 thousand (63.1%)	45,429	49,910	9.9
Incheon	KRW 536,362 million (35.8%)	KRW 960,253 million (64.2%)	34,538	38,351	11.0

※ Source : 2011 Annual Reports of Major Airports (7 airports out of 2012 Top 10 busiest airports by passenger traffic)

※ Significant increase in non-aeronautical revenues at Check-lap-kok, Changi and Incheon.

4.5 Against this backdrop, IAC also actively promotes measures to increase aviation demand by offering reduction in user charges and to bump up infrastructures by re-investing non-aeronautical revenues. These measures laid the foundation for a constant increase in profit and passenger demand.

4.6 In detail, IAC's activities aimed at a further development of the aviation industry have included seeking mutual growth with airline partners by offering lower user charges which contributed to increasing aviation demand. This has in turn resulted in a significant increase in non-aeronautical revenues, which has enabled IAC to make new investments in the establishment and operation of the

Human Resource Development Center and the Pilot Training Center with the vision of developing qualified aviation professionals through offering them quality education and training. In addition, the third phase expansion project of the airport is also underway to create robust demand further in the future.

Returning the Airport's Profits to Airlines (User charge exemption)

Category	2007	2008	2009	2010	2011	2012	Total
Exempted amount (000 USD)	6,280	19,907	19,910	20,930	4,900	5,500,000	77,427,000

*. 2008~2010: 10% cut down in landing charges for all flights to address global economic crisis

* Exemption applies both on aeronautical services and non-aeronautical services

* 2013~2015: Approx. USD 23,000,000 of lighting charges will be exempted

Human Resource Development Center- Construction and Operation

Category	Total Investment (USD)		No. of Trainees	No. of Courses
	Construction	Education		
		30,103,480	600,000	68,199

* Date of completion : June '08.

* Education costs and the number of trainees: 2010~2012 accumulated

Pilot Training Center- Construction and Operation

Category	Construction Cost (USD)	Training Recipient
	15,000,000	LCC Pilots

* Expected date of completion : June '13.

Third Phase Expansion – Terminal Construction

Category	Construction Cost (USD)	Construction Period	Passenger Handling Capacity	Ramp (Boarding Bridge)
	4,609,595,485	2013~2017	62,000,000 persons	56(37)

* Using non-aeronautical revenues and loan

5. CONCLUSION

5.1 Global economic growth is expected to average 3.2 per cent over the next 20 years, fostering 4.0 per cent annual growth in passenger traffic. To prepare for such increase in demand, airlines will make constant investments in their fleet by introducing more cutting-edge models or by replacing old models (from 19,890 airplanes in 2011 to 39,780 airplanes in 2031, according to Boeing's *Current Market Outlook 2012-2031*, p. 3). Airports, in their part, will have to make steady investment in aviation infrastructure for new and improved facilities.

5.2 Likewise, sustained investment is crucial to the continuing growth of commercial aviation and the role of airport authorities is of utmost importance in this sense. Airport authorities hold the key in creating a virtuous development cycle by supporting stable growth of airlines to expand flight operations which will enable passengers to have more choices in flights, thereby enhancing user convenience. This will eventually end up in a comprehensive development of the aviation industry.

5.3 To that end, it is important to make effective and aggressive reinvestment of revenues earned from the non-aeronautical services that airports are offering, which is essential to creating further demand. In light of this airport economics, non-aviation activities have therefore become an important component of revenue generation for modern airports as profit margins from this sector are typically higher. As these non-aeronautical revenues are coming from using airports' existing infrastructures, it is deemed desirable to reinvest such revenues in the airport again or return the profits to users.

5.4 These activities will guarantee sustainable development of the aviation industry. Therefore, industry participants are strongly encouraged to pursue an active investment strategy, which calls for coordinated efforts of organizations and stakeholders of the aviation industry.

6. **RECOMMENDATIONS**

6.1 The Conference is invited to:

- a) agree that the ICAO principle of non-discrimination in the application of charges shall only be applicable to user charges for those essential facilities and services in general used by international air services;
- b) recognize that imposing minimum user charges is desirable for creating a virtuous development cycle of the aviation industry;
- c) recommend States to use increase in profits driven by demand growth to improve the aviation industry by reinvesting in facility upgrade or return them to users (public); and
- d) recommend ICAO to develop a methodology for sharing information among stakeholders on airports' charging schemes and user charge reduction policy to periodically communicate to expand airlines' choices in establishing routes.