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Session 1 – Sustainable Development of Air Transport

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Good morning.

I think it is safe to say as a general rule that liberalization benefits passengers through reduced air fares and results in increased air service which in turn generates direct and indirect economic and social benefits for the communities being served. In a North American study we saw that traffic growth rates typically averaged between 12 and 35% after liberalization of air services agreements. In some cases, growth rates ranged from 50% to nearly 100% of pre-liberalization rates.

So, in the most immediate sense for airports, liberalization can bring more passengers through the doors and more planes to the gates. Airport profit margins rise with traffic volume, particularly as airports are able to increase non-aeronautical revenue. Retail is the leading source of non-aeronautical income for airports, with property income and rent tied with parking as the second-largest source of non-aeronautical income at 20% each.

In the broader context, airports are part of the communities in which they are located, help to define their economies and act as catalysts for economic vitality. According to the 2012 ACI EUROPE study "How Regional Airports Link People, Places and Products," the presence of a robust airport is a positive for companies already established locally and is essential to attracting new companies to the local market.

In the case of liberalization, then, what's good for airports is also good for their communities at large. This isn't to say, though, that liberalization is without its challenges.

Contending with the liberalization of airline markets and the increased agility of those markets means that communities compete against each other for air service and they do that through their airports, whether the airport is publicly or privately governed.

We now have airports chasing airlines for their business, and competing with each other to become gateways to cities, regions or even entire continents. The emergence of new types of airlines means that airports compete on a global scale for global alliance hubs or low-cost airline bases.

For some airports the balance of power has completely changed over recent years, with airlines or alliances often being the dominant party in negotiations. Airports are increasingly challenged to grow or even retain air service to their communities in the face of airline market behaviour where they will move their airplane where it makes the most money.

Airports no longer have to convince airlines that their route will be profitable; airlines want to know it will generate a higher profit than some other route.

This brings us to the issue of regulation, and it's ACI's view that where liberalization brings about such competition, economic regulation is unnecessary, likely to be harmful and result in needless costs for the regulator and the airport alike.

Determining the potential need for the regulation of an airport should be done by considering the specific conditions in which that airport operates. Airports differ greatly in terms of their governance models; the type of traffic and airlines they serve; and the availability of other airports (and even other modes) in the catchment area. Uniform approaches for determining the application of regulation are arbitrary and may have detrimental effects on competition.

Any regulation applied should seek to foster the evolution of competitive forces, and to encourage the market players to come to their own resolution. When needed, regulation can be a process involving consultation and negotiation between airports and airlines, with the regulator acting as a facilitator and/or backstop. Such regulation is less likely to distort or discourage market forces and has much lower administration costs.

A "one size fits all approach" is not appropriate. While the airport industry as a whole is profitable, with airports posting net profit margins in the realm of 13%, a significant proportion of airports are actually in the red.

In fact, as many as 67% of airports globally operate at a net loss, with 80% of airports that service fewer than one million passengers per year posting net losses of 6% on average.

This is a catch 22 because to grow, airports need to generate the financial returns required to attract private investors. At the moment industry profitability is primarily generated from the 20% of airports that carry the bulk of passenger traffic. When it comes to regulation, what works for an airport servicing 50 million passengers per year won't work for an airport that handles 800,000.

Furthermore, investors will be far less willing to provide airport financing at attractive rates if they view that their returns will be subject to political interference. The functions of regulator and ownership should therefore be separated. The independence of the regulator is critical to ensure that the focus of the regulation remains on efficiency and maximizing economic welfare without undue influence by political considerations. This is particularly critical in attracting private investors to support the long-term development of the airport. In a liberalized market, airports—and especially smaller airports—need every opportunity to be competitive.

ACI believes that any economic regulatory interventions should be kept to a minimum and the right economic regulatory incentives must be in place in order to ensure investments in airport infrastructure. This is particularly true in states where there is increasing reliance on the private sector to secure much needed aeronautical infrastructure investments.

And while we're discussing barriers to growth, over the past decade the industry has witnessed a significant proliferation of unjustified and discriminatory aviation taxes on a global scale. In parallel, several new taxation schemes that were implemented have been withdrawn after it became clear they did significant harm to demand and the economy of the imposing state, to the detriment of passengers, operators and infrastructure providers.

The main rationale of most of these unwarranted aviation taxes is to generate additional revenues for the general budget of a country. However, evidence from some countries indicates that the economic loss from the taxes on the economy as a whole can outweigh the expected return from the tax. Overall, taxes on air transport discourage travel, reduce consumer benefit, hamper connectivity and can retard economic development.

Increased taxation can result in reduced frequency of air services, fewer destinations being served and/or bring about a change in the type of destinations. Aviation connectivity facilitates tourism development, gets products to market, moves businesspeople, reduces production costs, increases productivity, attracts foreign direct investment and generally stimulates international trade.

So, in summary, it's clear that liberalization represents a significant opportunity for airports to increase revenues, contribute more to their local economies and attract private investors. However, unwarranted taxation and arbitrary regulation may erase many of the benefits that liberalization creates.

ACI is working with airports to ensure that we are doing our part to earn permission to grow from our communities, taking a view on sustainability that includes not only environmental considerations, but also safety, security and economic sustainability. But this is only half of the puzzle. Governments must recognize the new reality in which airports operate if they are to deliver increased connectivity for the communities they serve and be catalysts for economic growth.

Thank you.