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# IATA/ICAO – Airports and Air Navigation Charges Workshop

## Airport Economic Oversight

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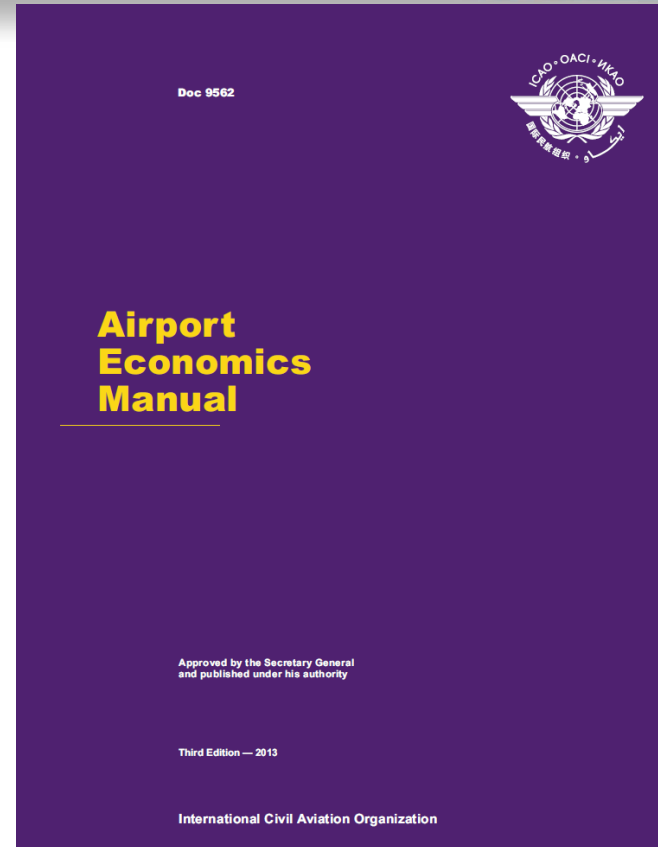
**ICAO ESAF Regional Office**

**Dakar, Senegal**

**12-13 June 2019**



ICAO's Guidance  
material on  
Economic  
Oversight of  
Airports is in  
**Doc 9562**  
*Chapter I – Part C*





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## Economic oversight

Definition:

*“The function by which a State supervises commercial and operational practices of an airport.”*



## Objectives of economic oversight

- minimize the risk that airports could engage in **anti-competitive practices or abuse any dominant position** they may have
- ensure **non-discrimination and transparency** in the application of charges
- ascertain that **investments in capacity meet current and future demand** in a cost-effective manner
- **protect the interests** of passengers and other end-users



## Possible forms of economic oversight

from a **light-handed** approach to a **more robust approach**:

- application of **competition law**
- **fallback regulation**
- **institutional requirements**
- **price cap regulation** (“incentive-based regulation”)
- **rate of return regulation** (“cost of service regulation”)



## Application of competition law

- Laws (including regulations and policies) to foster or maintain competition in markets by **prohibiting anti-competitive practices**.
  - respond to complaints,
  - monitor market behaviours,
  - prosecute offenders,
  - adjudicate liability, and
  - impose sanctions upon parties adjudged to have violated the law.
- ➔ Deterrent effect on anti-competitive behaviours.



## Fallback regulation

- Explicit **“threat”** of a more robust form of economic oversight if a company does not ensure that its behaviour stays within “acceptable” bounds
- **Lighthanded approach**: to mitigate a potential risk of abusing dominant position **without incurring the regulatory costs and distortions**
- **Potential difficulty**: by defining the commercial boundaries in detail the State might risk creating precisely the regulatory distortions that it seeks to avoid





## Institutional requirements

- **Users should be sufficiently well informed through a constructive engagement of airports and users.**
- **Transparency** and the **flow of information**, between airports and users should be enhanced.





## Light-handed types of institutional requirements

- **Consultation between airports and users** is mandatory
  - If a meaningful consultation process is well established, it could eliminate or reduce the need for a robust form of economic oversight;
- **Performance management system** should be implemented
- **Corporate governance** including stakeholder membership of the board of directors, is a means of promoting adequate flow of economic information between the airport and its users.



## More robust types of institutional requirements

- **Joint ownership, or mixed enterprise**, as a means of ensuring information flow, consultation and consensus in the establishment of airport charges and development plans;
  - However: potential anti-competitive issues involved regarding airline competition and barriers to entry where joint ownership means **airlines have a large say** in investment plans and in the management of the airport



## Rate of return regulation\*

- To address the **issue of excessive profits** in enterprises with **monopoly characteristics**.
  - obtain **approval for the level of charges and investments**, the objective being to align the airport's rate of return on capital at the level prevailing in a competitive market.

*\*: or cost of service or cost plus regulation*



# Best practices for economic oversight

- **transparent**
- **efficient**
- **cost-effective** manner
- keeping regulatory **interventions at a minimum** and as required
- **costs and benefits analysis** related to the particular form of economic oversight



## Selecting appropriate forms of oversight

- States should first consider the **scope and degree of competition**.
- Where **competition or the threat of it is sufficiently strong**, the **application of competition law** is likely to be adequate.



## Operation and administration of economic oversight is not cost-free

- In moving from a light-handed to a more robust form, the cost of economic oversight turns higher
- State should search the spectrum of options for **protecting public interests** at an **acceptable level** and at a **minimum regulatory cost**



# Implementation of economic oversight

- Surveys on status of implementation of ICAO's policies on charges
- Of 79 States that responded (representing 86% of world traffic), **61% confirmed they have implemented economic oversight for airports**





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