



WORKING PAPER

**REGIONAL WORKSHOP ON AIRPORT AND
AIR NAVIGATION SERVICES ECONOMICS**

(Bangkok, Thailand, 25-27 February 2009)

**IATA INPUT TO THE ASIA PACIFIC REGIONAL WORKSHOP ON
AIRPORT AND AIR NAVIGATION SERVICES ECONOMICS**

(Presented by IATA)

SUMMARY

- IATA supports the outcome of the 2008 ICAO economic conference
- IATA advocates the implementation of ICAO policies on airport and air navigation charges
- Effective governance and robust economic regulation are more important than ownership considerations

1. INTRODUCTION

1.1 IATA has had considerable involvement with Airports, Air Navigation Providers and regulatory authorities in the Asia Pacific region. The following conclusions and recommendations are based on IATA's observations and analysis of the key issues and trends in the region.

2. KEY ISSUES IN ASIA PACIFIC

- Most of airports and ANSPs have a consultation process in place
- But a majority of the consultation processes are not fully in line with ICAO policy
- Areas of concern are lack of transparency and cost based charging
- Independent Economic Regulation has been instituted on a limited scale
- Independent appeal body (dispute mechanism) is not available in most economies
- National aviation interests play a significant role in shaping government policy

Overall, there are varying degrees of consultation processes in the region. But, the lack of economic regulation leads to uncertain outcomes and tension between the providers and users.

3. **EMERGING TRENDS IN ASIA PACIFIC**

- Greater focus on revenue generation by Airports and Air Navigation Providers
- Corporatisation of Air Navigation Providers
- Privatisation of Airports
- Slow shift towards Economic Regulation

The above trends vary greatly from country to country – depending on economic and market factors. On the whole, there continues to be diversity in the quality of consultations and level of adherence to ICAO policies.

4. **2008 ICAO ECONOMIC CONFERENCE**

4.1 IATA participated in the 2008 ICAO Conference on The Economics of Airports and Air Navigation Services. The key IATA messages to the Conference delegates were:

- Support and enforce ICAO policies on charges;
- Embrace robust independent economic regulation where competition does not exist; and
- Ensure non-discrimination, user consultation and transparency.

4.2 Despite strong ICAO policies, airports and ATC providers in 41% of the States in the world do not consult with users, 47% have no transparency at all and 48% have discriminatory charges.

4.3 **Why should States support and enforce ICAO 9082?**

- ICAO offers strong policy and guidance materials which have been agreed by ICAO contracting States
- 41% of those same States do not consult with users, 47% have no transparency and 48% have discriminatory charges, violating key ICAO policies. ICAO Member States have a moral obligation to comply with ICAO policy and to ensure their Infrastructure Providers do the same
- 85% of the States have no independent economic regulation, in 26% of the States there is no regulation at all
- States often are unaware of the non-compliance of providers with ICAO policies or have significant gain from non-compliance
- The airline industry is over regulated while engaged in strong competition, yet infrastructure providers are often allowed to operate as unregulated monopolies in the same market causing significant distortion
- This lack of regulation and enforcement leads to increased consumer prices and has a negative impact on the economy and competition
- ICAO 9082 should be applied and monitored in every contracting State

All partners in the value chain should realize the industry's need to reduce its costs and become more efficient in order to survive.

4.4 **Consultation with customers is key in any effective business model**

- Airports should continuously consult customers on charges, capacity and investment planning
- Key elements of consultation:
 - A good description of the proposals/plans and the impact it will have on users
 - Proposals should be supported by a solid business case
 - Major investments should be supported by proper, positive cost benefit analyses
 - During consultation and decisions, feedback by airline users must be fully taken into account
 - Airline users should be engaged throughout the entire proposal, consultation, decision-making and implementation process
 - Transparency is an integral aspect of any progressive commercial relationship between a provider and its customers
- Airlines should only pay for the infrastructure they use, and not pre-finance airports expansion plans when alternative and more efficient financing is available
- There should be an independent appeal body / dispute mechanism in case no agreement can be reached

Airlines globally pay nearly \$ 43.5 billion in airport & ATC charges each year, after fuel their largest external cost.

4.5 **Why should States embrace robust, independent Economic Regulation?**

- Aviation is a major contributor to economic growth, tourism and business development
- Consumer interests must be protected
- Market forces do not discipline natural monopolies - only economic regulation does
- Providers are for the most part still natural monopolies
 - Even where there are several airports around a city, they are frequently operated by the same owner
 - Network Airlines have long term investments in airport facilities and staff, limiting their ability to choose or change
 - Monopolies have limited incentive to increase efficiency and keep prices low
- Regulation aimed at cost reduction and cost efficiencies will improve the health and competitiveness of the airline industry and the economy in general
- Distortions of competition should be eliminated to maintain a level playing field
- A minimum of economic oversight enforcing ICAO 9082 is required in every State
- Minimum Requirements for Economic Regulation:
 - A continuous user consultation process
 - Minimum auditable transparency requirements
 - Cost benefit analysis for major investments
 - Cost efficiency targets set by the regulator
 - Non-discrimination clauses for all rates & charges
 - No cross subsidization between user groups
 - Single till requirements for all airports.
 - Establishment of an Independent appeal body/dispute mechanism