Airport economics*

(cf. ICAO Policies on Charges for Airports and Air Navigation Services Doc. 9082/8 (2009),
and ICAO Policies on Taxation in the Field of International Air Transport Doc. 8632 (2000))

* Throughout this chapter, the term “airports” refers to airports managed individually and to those managed as part of networks or systems
1.1 General economic situation of airports

ACI POLICY

1.1.1 Airports are a critical part of the economy of the State within which they are located. They serve as engines of growth for their local, regional and national economies. In an increasingly commercial and competitive business environment, airports must be able to collect sufficient revenues to finance their investments and operations, and to maintain a level of service which is acceptable to all airport users, including passengers and aircraft operators, and to support the economic interest of the surrounding community.

ACI COMMENT

1.1.1a Airports are asset-intensive businesses that require many years to recover the significant capital investments in runways and terminals. Consequently, airports must take a long-term perspective to their business and ensure that capacity improvements are made before constraints occur.

1.1.1b The increasingly deregulated and liberalized aviation environment has induced many airports to re-examine their traditional business model and focus on new commercial activities with a view to achieving self-reliance and financial independence and to help support the development of their airport in line with the needs of all its customers from airlines to passengers. Commercialization of airports, changing airline business models and liberalization of air traffic, has caused airports to shift their focus to the passenger as the ultimate user and beneficiary of airport infrastructure.

1.1.1c Airport competition is an increasing feature of the industry, and the market power of airports has decreased as increasingly airlines pick and choose between various airports and destinations, moving aircraft, routes and bases. Airports compete with other airports in the same region for freight, connecting and O&D passengers, aircraft technical stops and for the services of low-cost carriers. Indeed in some cases, airports are competing with airports in other states or regions for low cost bases. Airports also compete on a global scale for hub status of carriers or global alliances and many of their commercial activities are subject to competition from local enterprises, such as restaurants, shops, hotels, convention centres and parking lots.

1.1.1d Airport performance is dependent on strong and effective airline customers. Airports can face the physical, financial and legal issues of failed or failing carriers, low-cost and startup carriers, as well as the changing business models of existing carriers. Airline alliances, which have proliferated in recent years, have added complexity to the airport/airline relationship. Large alliances bring a high degree of airline market power to the consultation table, but their instability due to membership changes can complicate the airport planning process. Alliances also can cause unpredictability in the mix of aircraft in the fleet which the airport must accommodate.

1.1.1e Since the early 1980s, except for temporary setbacks, the global airport industry has recorded continuous annual increases in traffic. At the same time traffic at a number of major airports has reached levels which give rise to congestion and delays, which create barriers to airline industry competition and further economic development. In these circumstances, the use of airport charges to manage scarce capacity and invest in additional capacity is warranted, particularly since most forecasts, including ACI’s predict passenger movements to surpass 9 billion by 2027.

1.1.1f Despite these challenges and trends, according to ICAO statistics, airport charges worldwide since 1978 on average accounted for only 4.0% of total airline operating costs. Landing and associated airport charges as a proportion of total operating expenses have actually declined over the period 1998-2005, from 4.4 per cent in 1998 to 4.2 per cent in 2000, and then stabilized at 4.0 per cent since 2001. The ICAO figures are also in line with the findings of ACI’s 2008 Economics Survey according to which aircraft related revenues accounted for less than 4% of total airline industry costs.
1.2
Airport ownership

1.2.1 Airports should be permitted to operate under a range of types of ownership. The type of ownership, and any participation by private capital, varies from airport to airport depending on local circumstances. The type of ownership at any individual airport should be such as to allow the airport flexibility in its business, and to ensure that the interests of airport users are protected by the application of sound economic principles to the airport's operations.

1.2.1a The trend towards greater diversity in the ownership and governance of airports is solidifying. Direct state control has in some cases been superseded by the establishment of private or public autonomous entities, or public private partnerships. Different forms of airport ownership may be appropriate to the situation of different airports recognizing that ownership structures must primarily serve the needs of the local community. Both private ownership and government ownership of airports have proved to be sound structures that can create efficiencies and innovation.

1.3
Airport networks

1.3.1 Airport operators have become full-fledged business enterprises which can manage a single airport, an airport system or an airport network applying the principle of cost relatedness. Any of these three models can provide efficient and cost effective management and benefit users and the economies they serve over both the short and long term. Moreover, airport systems and networks can also achieve economies of scale when managed prudently.

1.3.1a Airport systems and networks can achieve economies of scale in providing services to meet the short and long term needs of the airport users and the economies they serve. There are some common characteristics in those countries where the airport network concept is applied: e.g. difficult access to remote regions without alternative means of transport and the need to promote economic and social cohesion of the various regions of a State. Airport networks and systems may also help to achieve a smoothly functioning hub and spoke system, enhance flight safety, and provide alternate airports for use in case of bad weather or other emergencies.

1.3.1b Another advantage of networks is the improvement centralized management structures can bring in terms of efficiency and economies of scale. These synergies include joint procurement of equipment, sharing of research and development costs across the network, and establishing training facilities for employees across the network. In addition, best practices which are found to be beneficial at any airport in the network can quickly be adopted throughout the system.

1.3.1c Networks can often borrow in capital markets at favourable terms because of the spreading of the risk over the entire system or, in many cases, due to the fact that the networks are State-run, thus having a sovereign guarantor.

1.3.1d Airport networks are created within the framework of national transport policy with the objective to provide access to the air transportation network at a fair and reasonable cost and to ensure regional development. In this context, they need to be in a position to apply a common system of airport user charges to support smaller airports in remote regions by way of cross-subsidization. Similarly, airport systems serving the same city or conurbation must be enabled to apply a common charging system for reasons of traffic distribution to relieve congested airports.
1.4 Sources of investment in airports

1.4.1 Airports must be allowed access to sufficient funds to finance the investments which are needed to meet projected demand. In some cases, pre-financing of airport infrastructure projects through raising airport charges during or before the period of construction is appropriate, in line with the guidelines set out in ICAO Doc. 9082.

1.4.1a The scale of current and forecast demand at many airports clearly indicates a need for increasing levels of investment to maintain and enhance capacity at an appropriate service quality. Airport charges and non-aeronautical revenues are major sources of funds for investment. Airports should be permitted to retain and invest these revenues to finance future investments. Any action to restrict this use of revenues, or to require all commercial revenues to be used solely to reduce current user charges, could conflict with this objective and inhibit much needed investment.

1.4.1b In view of the significant levels of capital investment required for infrastructure development, to minimize prices discontinuities, limit the amount and cost of debt, and to test the market's willingness to pay, pre-funding is in many cases appropriate and cost-efficient.

1.5 Economic Oversight

1.5.1 Economic Oversight and regulation of airports should be applied at an optimal level balancing the interests of the public, stakeholders and the airport operator. Competition issues should be addressed first and foremost by national competition law within the framework of the state’s responsibility for economic oversight. Formal economic regulation should only be introduced where there is significant risk or evidence of market failure. The ultimate purpose of competition law as part of the economic oversight process is to protect the interests of the end user, the consumer. The interests of aircraft operators do not always equate to the interests of passengers or other airport users and should not supersede them.

1.5.1a Economic Oversight is mostly appropriately applied in as light handed a manner as possible. The form of economic oversight which is appropriate should be determined on a case by case basis and take into account the level of airport competition, and the national legal, institutional and governance framework, first and foremost, competition law. The application of economic regulation (as one specific form of economic oversight) should only be applied if the airport has demonstrable market power (assessed on a case-by-case basis). Any regulatory interventions should be kept at a minimum and need to be cost-effective, more specifically the direct and indirect cost of regulation should not outweigh its benefits.

1.5.1b Any right of appeal of aircraft operators against decisions by the airport should be consistent with the form of economic oversight adopted in the State. In a functioning market the commercial freedom of airport operators should not be compromised by an appeal process potentially interfering with the airport’s decision. Only in the event that market failure cannot be remedied, the decision of the airport should be subject to a review by an appeal body.

1.6 The cost basis for airport charges and airport charging systems

1.6.1 As commercial enterprises, airports have the right to determine their own economic and commercial policies taking into account national and local public policy and their financial independence.

1.6.1a The level of airport charges needs to be sufficient to cover the cost to operate the airport plus the long term capital investment required to meet the current and anticipated demand. The level and structure of airport charges should be related to the full economic costs of airport operations, including a reasonable return on assets at a sufficient level and the development of appropriate reserves to deal with unforeseen adverse circumstances.
1.6.1b The choice of charging systems is affected by many factors which vary from airport to airport. While aircraft weight is the basis for landing and parking charges in many airports, other economic principles may be applied in setting charges in accordance with the guidance in the ICAO Airport Economics Manual taking into account the “cost to access” scarce airport capacity. Charging policies of airports must take into account national and local public policy, the right of airports to determine their own economic policies and their ability to be financially self-sustaining. Passenger Service Charges should be related to the overall cost of processing the passenger at the entire airport, not only for the use of specific facilities. Whereas passenger and aircraft related charges would remain cost related, enhanced flexibility within and between the individual cost bases is desirable to offset a certain degree of risk for the aircraft operator by making his cost more variable.

1.6.1c The introduction of flexible service options, such as low cost terminals, or innovative charging schemes which rely on market economics to allocate capacity where it is in short supply (e.g. in peak hours) should be permissible and is in line with ICAO policies. Such options, however, need to be transparent and available to all airport users and must not discriminate against other users of the airport. The introduction of such options is at the discretion of the airport.

1.7 Rate of return

1.7.1a Airports are entitled to a reasonable rate of return on capital employed to secure financing of new or expanded infrastructure and to remunerate their shareholders. Private equity and debt are the primary source of capital as public funding is hardly available in many countries.

1.7.1b To ensure future investment in airport infrastructure it is important that private and institutional investors maintain their confidence in airports as attractive investment targets. Introducing prescriptive and specific guidelines regarding the rate of return that airports are allowed to generate can damage investor confidence.

1.7.1c Reasonable rates of return should be determined on a case-by-case basis. When calculating a reasonable rate of return, the various and potentially significant degrees of risk airports are exposed to must be taken into account. Airports are significantly exposed to the airline industry which is very susceptible to external circumstances forcing it frequently to revisit business models and strategies which immediately affect airports. The airports’ ability to react to negative developments can be limited as airport infrastructure cannot simply be decommissioned. Airport infrastructure development is a long term undertaking which must not be disrupted by short term airline industry volatility.

1.7.1d Any methodology applied to calculate the rate of return should exclude the contribution of non-aeronautical revenues to the overall airport financial performance. Non-aeronautical revenues should not be subject to any limitations on profitability as they are not derived from aircraft operators and generated in a competitive market environment.
1.8 Minimum landing charges at congested airports

1.8.1 Given the increasing congestion at major airports, ACI supports appropriate non-discriminatory charging structures for airlines and general aviation. ACI also supports, in principle, the concept of minimum charges which adequately reflect the economic cost of congested airside and landside facilities.

1.8.1a The concept of a minimum or fixed charge, for example at congested airports and during peak periods, is regarded as a means to signal the cost of investment in additional infrastructure, and as such has been accepted by ICAO. A minimum or fixed charge combined with a variable charge based on aircraft weight or other criteria more accurately reflects the true economic cost of providing airport facilities by charging all users on a cost recovery basis while also collecting the marginal costs associated with different aircraft types and operational characteristics.

1.9 Passenger service charges

1.9.1 Passenger service charges are an essential source of funds for airports. While they are ultimately a charge levied by the airport from the passenger, passenger service charges (and equivalent charges) should preferably be paid concurrently with the purchase of the air fare to facilitate collection of the charges.

1.9.1a Revenue accrued from passenger service charges is essential to fund the operating and capital costs of the airport.

1.9.1b Passenger service charges are either collected directly from the passenger by or on behalf of the airport operator, or billed to the airlines and incorporated in fares. Regardless of how passenger service charges are collected, they remain a charge to the passenger and do not represent a charge and cost to the airline.

1.9.1c ACI supports the ICAO Council Policies which emphasizes the need for consultations between airport operators and airlines with a view to alleviating problems related to the collection of passenger service charges. Direct collection from passengers slows down passenger flow and creates a need for bigger and more costly installations. Whenever the direct collection of passenger service charges gives rise to facilitation problems, they should be incorporated into the airline ticket, with such charges fully transparent to the passenger.

1.10 Costs associated with aviation security

1.10.1 States are responsible for ensuring the implementation of adequate security measures at airports. Terrorist acts against air transport are not directed at airports, airlines or air passengers, but aimed at States. It is therefore inequitable to single out the air transport industry for the payment of services designed primarily to protect the State. Moreover, it is the responsibility of the State.

1.10.1a Under international law to provide protection to all companies and individuals within its boundaries without discrimination, aviation security is the responsibility of the State. States should therefore bear the associated costs. If States insist upon recovering the costs of providing security at airports, these costs should be recovered in accordance with the ICAO Policies on Charges for Airports and Air Navigation Services (Doc. 9082).

1.10.1b Any such charges or transfers of security costs must be strictly cost related. Before any security costs are passed on by States, consultation must be held between all the parties concerned to ensure that the security standards established by the State are implemented in the most cost-effective manner and that the procedures are designed with facilitation in mind. Where security responsibilities are delegated by the State to airport operators, all associated costs which are not directly reimbursed by the State must be passed on to airport users. If any carrier or other entity requires services demanding a higher security standard than those established by the national security authority, that entity must pay the additional costs incurred.

1.10.1c Upon the introduction of new security provisions or requirements airports should be able to fully recover additional costs from the time when they were incurred.
1.11 Costs associated with aircraft noise

1.11.1 Airports experiencing noise problems should levy noise-related charges to encourage the development of quieter aircraft and expedite fleet airline renewals.

1.11.1a Airports have a major role in the mitigation of noise in dialogue with the surrounding community, and many are actively working in this regard. However, ACI rejects all attempts to hold airport operators responsible for the consequences of aircraft noise, which is outside the control of the airport. Airports are entitled to reflect the costs incurred in implementing aircraft noise alleviation measures in airport charges and to encourage the use of quieter aircraft.

1.11.1b A specific noise-related charge should be levied which reflects the degree of noise nuisance produced by the aircraft. Several different systems of noise measurement and noise charging are in operation at airports. The system chosen by an airport operator should reflect local objectives and be based on transparent criteria.

1.11.1c ACI encourages its members to apply the ACI Aircraft Noise Rating Index. The Index matches current trends and technologies and remains simple, while at the same time it reflects more faithfully the specific situation at each individual airport and is therefore of greater use.

1.12 Consultation with users regarding charges and airport development

1.12.1 Consultation with users is an important element in the development of airport user charges and airport infrastructure planning. All parties involved have a responsibility to engage actively and constructively in the consultation process and should primarily take into account the current and future interests of passengers and other end users. Consultation by definition are different from negotiations and do not require an agreement between the parties. The airport provider shall retain its autonomy and freedom to set charges after considering the information obtained from users during the consultation process.

1.12.1a Consultation is designed to increase the mutual understanding between providers and users, give them an awareness and knowledge of each others’ plans and intentions, and should ideally result in all parties moving in the same direction to ensure necessary investment and funding.

1.12.1b Consultation is of value to both airport operators and their users. ACI supports the ICAO Policies on airport charges that state the aim of consultation “should be that wherever possible, users and providers should reach an agreement on the charging system or level of charges.” However, consultation does not imply that airport operators have to negotiate and agree with airlines on setting or modifying user charges and on airport investment programmes. Airport operators are the sole decision-makers in such matters, since they are independently responsible for the management of their airports, and have a long term perspective which is not shared by airlines and which encompasses the interests of passengers as well as operators.

1.12.1c Airport operators should inform and consult airline users and operators on matters having an impact on the users rates and charges. In return, airlines should inform and consult airport operators about planning which may affect the development of air traffic and the revenue of airports (fares, networks, etc.). Airport operators should give reasonable advance notice to airlines when contemplating any revision of charges. However, the length of the advance notice must be left to airports, subject to economic considerations and national regulations.

1.12.1d To develop and maintain up-to-date and realistic airport traffic forecasts, an airport and its airline users should: collect and exchange statistics and other information needed to produce forecasts; exchange and discuss their assumptions; consult on forecasting methodology; and release any forecasts produced (subject to commercial confidentiality). The process of cooperation and consultation should include direct contacts between forecasting experts in the head offices of the airports and airlines concerned.
1.12.1e Dialogue between airlines and airports should be continuous and
general and not confined to consultation on specific charges. Airport capital
expenditure and development programmes, for example, are better focused
when discussed in detail with the airports’ users. Airlines should inform airport
operators of their future requirements, which will assist airports to achieve a
smooth expansion to accommodate increased traffic flow.

1.12.1f Many airports however experience difficulties with requirements imposed
on them by aircraft operators at short notice which, in some cases, are later
withdrawn after new facilities have been provided. ACI strongly recommends that
airlines regularly provide airports with regular short- and medium-term forecasts
of: future types, characteristics and numbers of aircraft to be used; anticipated
growth of passengers and cargo; special facilities which the airport users desire
and are willing to pay for; and other relevant matters.

1.13 Non-aeronautical revenues and airport charges

1.13.1a Airports should develop non-aeronautical activities at their facilities as
far as practical and should generate revenues from concessions, rentals and
other commercial activities. These activities also include maximizing returns on
scarce airport property from such activities as parking, industrial parks, hotels
and convention facilities. Commercial activities should be developed to the
maximum state practical with due regard for passenger service and profitability.

1.13.1b Including non-aeronautical revenues in the cost basis for the calculation
of airport charges can constitute an unwarranted subsidy to air carriers from the
airport operator. This practice, known as the “single till,” also acts as a
disincentive to airports to develop non-aeronautical revenues.

1.13.1c ICAO policies specifically state that “it may be appropriate for airports to
retain non-aeronautical revenues rather than use such revenues to defray
charges." The practice of using the “single till” can be contrary to the objectives
of cost-relatedness and the “user pays” principle which would require airport
charges to cover all of the costs (including quantified and agreed external costs)
of the services provided to users. Non-aeronautical revenues thus can be
considered among other sources of funding by the airport operator to finance
new investment, to pursue new business opportunities or to remunerate airport
stakeholders at the sole discretion of the aircraft operator.

1.14 Currency considerations

1.14.1a In countries where the national currency is freely convertible, airport
charges are normally payable in local currencies. However, in some countries,
charges are denominated or payable in hard currencies. This may be necessary
where high inflation is causing rapid depreciation of the local currency. Hard
currency may also be necessary to pay for the import of essential airport
equipment needed for safety, security and passenger service, or for the
purchase of services from other countries.

1.14.1b Prohibition of charging in hard currency could therefore lead to severe
deterioration in airport service, as well as damage to airport finances. ACI
therefore opposes any policy which prevents the payment of charges in hard
currencies.
1.14.1c The issue of hard currency charging has been linked to the broader issues of countries blocking the remittance of revenues from local ticket sales, or restricting the currency of payment for ticket sales. These are separate problems, and approval of the payment of airport charges in hard currency should not be made contingent on their resolution. To do so could threaten the provision of airport facilities and damage airport finances.

1.15
Airport accounting practices

1.15.1 Accounting practices must be adapted to local needs and regulations.

1.15.1a Accounting systems must meet the requirements of the body charged with responsibility for the airport. They must be adapted to the type of airport facility, the scope of its operation and the nature of its various cost areas and activities. Accounting systems must also comply with national regulations as well as the generally accepted accounting principles in a country or State.

1.16
Performance management

1.16.1 The development of relevant and appropriate performance indicators represents a best practice for airport managers, and is encouraged. Such performance indicators should cover activities by all service providers at an airport. Using airport performance indicators for benchmarking between airports or with other industries however should be done with caution as the comparability of the underlying data and its reporting is very limited since vast differences exist among airports.

1.16.1a The application of performance management systems is a common internal tool across the airport industry to enhance the performance and efficiency of an airport, airport system or network over time. Performance measures support the establishment of corporate goals and planning, identify areas requiring management attention and promote individual staff accountability. As many services critical to the airport performance are outsourced to suppliers or undertaken by other providers they should be included in the performance measurement system.

1.16.1b The incorporation of economic performance objectives as a form of economic oversight should only occur on a case by case basis and is the responsibility of the State within its economic oversight function. Such an intervention should be considered only if extreme situations, and where possible such review should be left to the airport management.

1.16.1c Airports are free to determine which individual indicators they wish to establish to ensure the organization’s success. While reporting all performance indicators to users would be overly prescriptive and counterproductive, disseminating the information on some selected key performance areas should be part of the user consultation process.

1.16.1d The collection and reporting of performance indicators needs to address the risk that the data will be misused for simplistic and inaccurate industry benchmarking exercises. Comparing the performance of airports is complex and may produce misleading results. The definition of performance measures varies significantly between airports as costs are allocated and accounted for in different ways. Other variable factors are capacity, ownership structure, age of airport infrastructure, airport size, layout and location, level of commercial activities and level of outsourcing. Moreover, there is no consistency in the collection and reporting of data. Performance indicators are an information tool specific to an individual airport, they are not designed to serve as the basis for industry benchmarking unless agreed by all parties involved.
1.17  
Government charges on civil aviation

1.17.1 Governments should impose charges only for services and functions which directly relate to and benefit civil aviation operations, and should not impose any charges for functions which are the primary responsibility of governments.

1.17.1a Government charges on air carrier traffic and air transport may be defined as levies or fees imposed by governments, intended to recover the cost of providing aviation facilities and services. Even though charges of this sort are sometimes erroneously referred to as “taxes”, under the above definition they should be referred to as charges.

1.17.1b ACI is concerned at the proliferation of government charges levied on air transport. Such charges should only be imposed for services and functions which have a direct relationship with, and which explicitly benefit civil aviation operations.

1.17.1c Governments should refrain from imposing charges which discriminate against civil aviation in relation to other modes of transportation. They should also refrain from imposing any charges for functions which are the prime responsibility of governments, such as security, immigration and customs.

Any charges, levies or fees imposed by a government authority on air transport should benefit the air transport industry and should not be used for other purposes. Charges, levies or fees levied to finance specific programmes should be withdrawn when these programmes are completed. All surplus income from these charges should be reassigned to support civil aviation in order to reduce any potential additional government charges. An increase in existing charges should be imposed only after consultation with the industry.

1.18  
Taxation on civil aviation

1.18.1 ACI is opposed in principle to all government taxation on air transport which may create impediments to the development of air travel and trade and is extremely concerned over the proliferation of taxes imposed on international air transport.

1.18.1a A “tax” has been defined by ICAO as “a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis.”

1.18.1b ACI recognizes that imposition of general business, sales, income or use taxes levied fairly and uniformly on the conduct of all businesses within a political jurisdiction should be considered the legitimate right of governments. ACI’s policy is to oppose the proliferation of taxes imposed solely on air transport and used for non-aviation purposes.

1.18.1c ACI endorses only those taxes on international air transport that are justified, equitable, non-discriminatory and in accordance with the Chicago Convention and ICAO resolutions, preferably developed in consultation with the industry, including airports and airlines. Any other form of taxation has a detrimental impact on airline and airport finances and on consumers and constitutes a material obstacle to the development and expansion of international travel and trade. Furthermore, taxation solely on air transport for non-aviation purposes contributes to the erosion of the universally-accepted system of reciprocal exemptions from multiple and unfair taxation. ACI also opposes those taxes which discriminate in favour of transport modes which compete with aviation.

1.18.1d ACI strongly urges all States to uphold and actively support the implementation of ICAO resolutions on the taxation of international air transport (Doc. 8632: ICAO’s Policies on Taxation in the Field of International Air Transport). Accordingly, ACI urges all States to impose levies only to recover the costs of providing services and functions which directly relate to and benefit civil aviation operations.