



International Civil Aviation Organization

## WORKING PAPER

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### ASSEMBLY — 41ST SESSION

#### ECONOMIC COMMISSION

#### Agenda Item 36: Economics of Airports and Air Navigation Services — Policy

#### IN SUPPORT OF ICAO'S AIRPORT ECONOMICS PANEL

(Presented by Airports Council International (ACI))

#### EXECUTIVE SUMMARY

In recognizing the changes to the airport sector over the past decade, the ICAO's Airport Economics Panel (AEP) has initiated a working group of Member States and Official Observers to assess the ongoing relevance and responsiveness of ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082) in 2022. The last thorough examination of the relevance and responsiveness of ICAO's policies on charges included in Doc 9082 was done in 2008 at the Conference on the Economics of Airports and Air Navigation Services (CEANS-2008). The competitive and economic landscape of the airport industry and the aviation ecosystem has changed dramatically. Airports require responsive, flexible, and efficient charging approaches to recover sustainably from the COVID-19 pandemic and to respond adequately to capital expenditure needs for the benefit of the travelling public (consumers).

**Action:** Actions by the Assembly are found in paragraph 5.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective – <i>Economic Development of Air Transport</i>
<i>Financial implications:</i>	N/A
<i>References:</i>	<i>AEP-ANSEP/8 Report on Agenda Item 1: Update of Policies and Guidance on Airport and Air Navigation Services Economies. Sub-item 1: Review of Doc 9082, taking into account the revisions to Docs 9562 and 9161</i> <i>ICAO, Conference on the Economics of Airports and Air Navigation Services (CEANS-2008)</i> <i>ICAO, Draft ICAO Business Plan for 2023-2024-2025 (C-WP/15412)</i> <i>ICAO, Policies on Charges for Airports and Air Navigation Services (Doc 9082, Ninth Edition)</i>

<sup>1</sup> English, Arabic, Chinese, French, Russian and Spanish versions provided by ACI.

## 1. INTRODUCTION

1.1 The last examination of the relevance and responsiveness of ICAO's policies on charges in Doc 9082 and ICAO's positions on the economic oversight of airports was achieved at the [Conference on the Economics of Airports and Air Navigation Services \(CEANS-2008\)](#), which ICAO convened in Montréal from 15 to 20 September 2008.

1.2 The competitive dynamic of the airport industry has been rapidly growing even before CEANS-2008. Airports face multi-faceted competition, which has intensified over the past decades. Airports compete for airline services, for capacity, for passengers, for cargo, and on commercial activities. Airports also need responsive, efficient, and flexible charging approaches to recover sustainably from the COVID-19 pandemic and to respond adequately to capital expenditure needs. Thus, guidance material, policies, and regulations on airport charges should be updated and modernized in support of a changed industry for the ultimate benefit of the travelling public.

1.3 Recognizing the changes to the airport sector over the past decades, ICAO's Airport Economics Panel (AEP) and Air Navigation Services Economics Panel (ANSEP) has initiated a Working Group of Member States and Official Observers in 2022 to assess the on-going relevance and responsiveness of ICAO's policies on charges contained in Doc 9082. This follows on the recommendations from the Eighth Joint Meeting of AEP and ANSEP (AEP-ANSEP/8) held from 29 November to 3 December 2021.

## 2. A CHANGED COMPETITIVE LANDSCAPE

2.1 Competition is a key driver of the airport business. Airports compete on all aspects of their business—from the aeronautical business to on-site and off-site commercial activities. The result is a competitive and dynamic airport market which did not get addressed at CEANS-2008.

2.2 Airlines, on the other hand, have greater flexibility in switching capacity from one airport to another based on market changes or when they deem that economic conditions are less favourable. As such, in many jurisdictions, airlines put airports in competition against each other on new services and/or increases in route capacity. Additionally, airlines can exert their buyer power as they become the dominant player in an airport, further limiting changes in airport charges. Three trends have also been clearly observed: First, super-connector airlines driving away traffic or capturing growth at the expense of long-established hubs; second, the development of multi-hub strategies by the largest airlines and airline groups; and third, the increasing number of direct routes resulting in hub bypass enabled by new generation aircraft.

2.3 Competition for passengers has also dramatically intensified since CEANS-2008, as the ability of passengers to use alternative airports or other modes of transport exposes individual airports to greater competitive pressures in many jurisdictions. Point-to-point passengers can switch in a variety of ways. For instance, they can switch to other airports in their departing region and/or in the destination region. Transfer passengers are also able to choose between connections at different hub airports.

2.4 In terms of commercial or non-aeronautical activities, airport retail segments are in direct competition with online retailers, whereby consumers can directly compare prices from stores and buy goods online and get these directly delivered home—without considering airport security restrictions—if prices are more attractive online. Similarly, more advertising platforms are now competing with airports' traditional advertising space. Sharing economy models, especially in ground transportation and real

estate—such as ride hailing and hospitality brokerage services (e.g., Uber and Airbnb)—are also major disruptors for the traditional airport commercial revenue streams, such as car parking, car rentals, and airport-site hotels.

2.5 Such intense competitive trends are re-shaping the competitive landscape of the airport industry in the interest of consumers (passengers) in a context where airline consolidation and airlines' countervailing power has continuously increased in many markets since CEANS-2008. The prevalence of the low-cost carrier business model, the presence of dominant carriers, the formation of airline alliances, and holdings of large portfolios of grandfathered airport slots are giving airlines significant countervailing power vis-à-vis airport operators.

2.6 Airports compete with each other to attract airlines and passengers who have a choice of which airport to use. They compete on the quality of services they offer and the price they charge to airlines and passengers on the level of airport charges, which ultimately benefits the travelling public.

### 3. **RESPONSIVE AND FLEXIBLE POLICIES FOR A SUSTAINABLE RECOVERY POST-COVID-19**

3.1 Like many asset-intensive businesses, the airport cost structure is characterized by predominantly high fixed costs in the operation and maintenance of major infrastructure components, such as runways and terminal buildings. However, the COVID-19 pandemic and resultant travel bans placed the airport business in survival mode. With restrictions on travel and the collapse in air transport demand, airport operators had neither sufficient traffic to drive down unit costs and achieve economies of scale nor to generate aeronautical or commercial revenues to cover costs and to service debt levels.

3.2 Beyond the recovery from the COVID-19 pandemic, the airport industry is committed to providing sustainable long-term growth to improve the economic, social, and environmental footprint. With heightened debt levels and a changed risk profile for airports, the longer-term capital needs add an additional challenge. That is, such commitments require significant airport capital investment in new infrastructure and optimizing existing infrastructure to minimize the carbon footprint. The ICAO economic regulatory framework, which was last thoroughly reviewed by the global community of States in 2008, should be reassessed to guarantee its responsiveness to the capital expenditure needs and decarbonization goal challenges.

3.3 ICAO's policies and economic regulatory frameworks as assessed and examined at CEANS-2008 are not fully reflective of a changed competitive landscape or an industry that is undergoing its largest shock in history. These frameworks are especially inappropriate in a context of a major shock and radical drops in traffic volumes, where the building-block based annual regulation results in sharp increases in regulated charges if the traffic volume (denominator in any building block system) radically drops.

### 4. **SUPPORTING THE WORK OF THE ICAO AIRPORT ECONOMICS PANEL (AEP-ANSEP)**

4.1 Following the recommendations of AEP-ANSEP/8, a new Working Group was established *“with the task of conducting a general review of ICAO's policies on charges contained in Doc 9082, comprising the assessment of its ongoing relevance and responsiveness, including with regard to the effect of the long-term impact of the COVID-19 pandemic and an examination of which airports and ANSPs were most significantly affected.”*

4.2 In the Report from AEP-ANSEP/8, members of the panel recognized “*the changes to the airport sector over the past decade, including the impact of the COVID-19 pandemic, which has significantly affected the condition of financing, investment and competition, etc., some members were of the view that it is important and justified to conduct an in-depth analysis of these changes with the objective to identify potential improvements and/or supplement to the existing policies in order to ensure the viability of airports in the long-term*”.

4.3 The current composition of the AEP-ANSEP/8 Working Group is made up of ICAO Member States: Canada (Rapporteur), Brazil, China, Denmark, France, Germany, Ireland, Morocco, Nigeria, Russian Federation, Spain, Trinidad and Tobago, United Kingdom, and United States; and Official Observers: ACI, Civil Air Navigation Services Organisation (CANSO), European Commission, EUROCONTROL, and International Air Transport Association (IATA). Updating the guidance material and policies on airport charges to account for industry changes and adverse shocks will represent important contributions for both industry and States.

4.4 States in the Asia-Pacific Region are also supporting the work of the AEP-ANSEP. The 57th Conference of Directors General of Civil Aviation – Asia and Pacific Regions (Incheon, Republic of Korea, 4-8 July 2022) highlighted Action Item 57/40 under Agenda item 6 – Economic Development of Air Transport: “*The Conference encouraged the States/Administration to support the activities and tasks of ICAO’s Airport Economics and Air Navigation Services Panel (AEP-ANSEP) to conduct a general review of the ICAO policies on charges contained in Doc 9082, including the assessment of its ongoing relevance and responsiveness to industry changes and to ensure representation and active participation of Asia-Pacific States/Administrations in the Panel.*”

4.5 The ongoing deliverables of the AEP-ANSEP/8 Working Group are perfectly aligned with the Priorities outlined in ICAO’s Draft Business Plan for 2023-2024-2025 (C-WP/15412), presented to Council at its 226<sup>th</sup> Session. Para. 9.2.2 therein states that *ICAO will prioritize its work as follows: a) Develop and update air transport policy and guidance related to economic regulatory frameworks.*

## 5. RECOMMENDATIONS

5.1 The Assembly is invited to:

- a) urge members of ICAO’s Airport Economics and Air Navigation Services Economics Panel (AEP-ANSEP) to conduct a general review of the ICAO policies on charges contained in Doc 9082, including the assessment of its on-going relevance, and its modernization in response to industry changes;
- b) acknowledge the changed competitive landscape of the airport industry over the past decades;
- c) recognise the long-term airport infrastructure needs to meet international targets; and
- d) support ICAO’s Business Plan for 2023-2024-2025 (C-WP/15412) presented to Council at its 226th Session to prioritize the development and updating of air transport policy and guidance related to economic regulatory frameworks.