



XII

Welcome to **WALA XII**
Punta Cana, Dominican Republic
April 27-29, 2022

Session 6:
Challenging the conventional wisdom – Airport charges

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ACI World

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Challenging the conventional wisdom



“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”

Milton Friedman, Nobel Laureate in Economic Sciences

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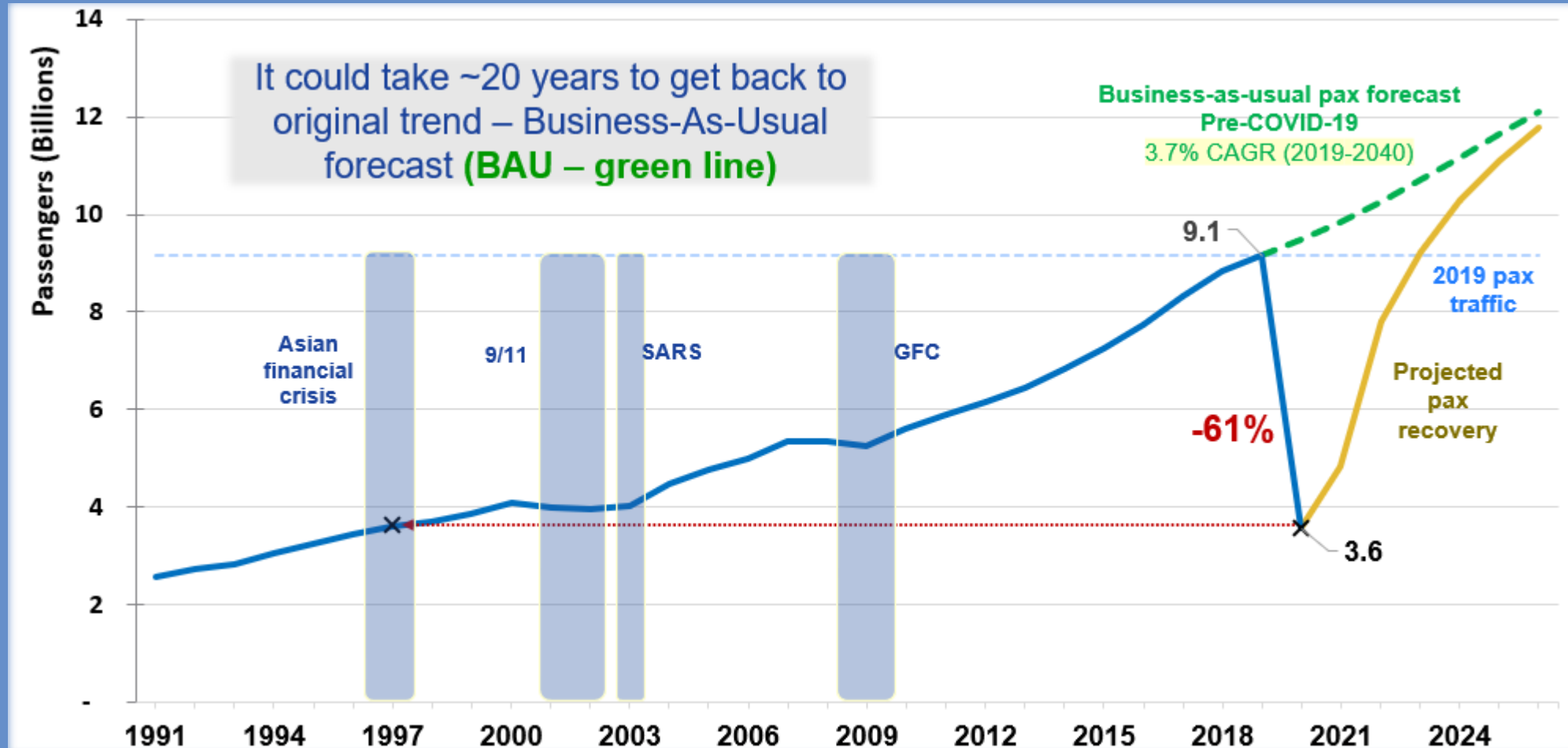
Presentation Roadmap

- Economics of airports amidst the pandemic
- Assessing the competitive landscape – airports and airlines
- Modernizing regulatory frameworks on airport charges
- Debunking the myths on airport charges
- Policy instruments to stimulate demand
- The way forward



Back to the future

Scale of the COVID-19 impact on global passenger traffic



Airport revenues

Impact across revenue channels

2019



Aero: 5.7% 10-year CAGR
Non-aero: 4.8% 10-year CAGR

2020

Non-aero revenues

Retail concessions -63%

- Middle East and Asia-Pacific most affected regions



Property and real estate income smaller decline -12%



Aero revenues

Passenger charges -65%

- Europe, Middle East and Asia-Pacific most affected regions

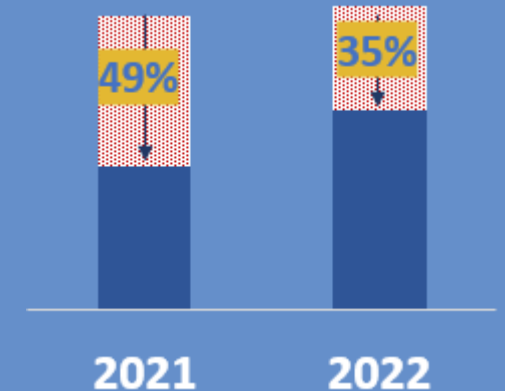


Landing charges -42%



2021-2022

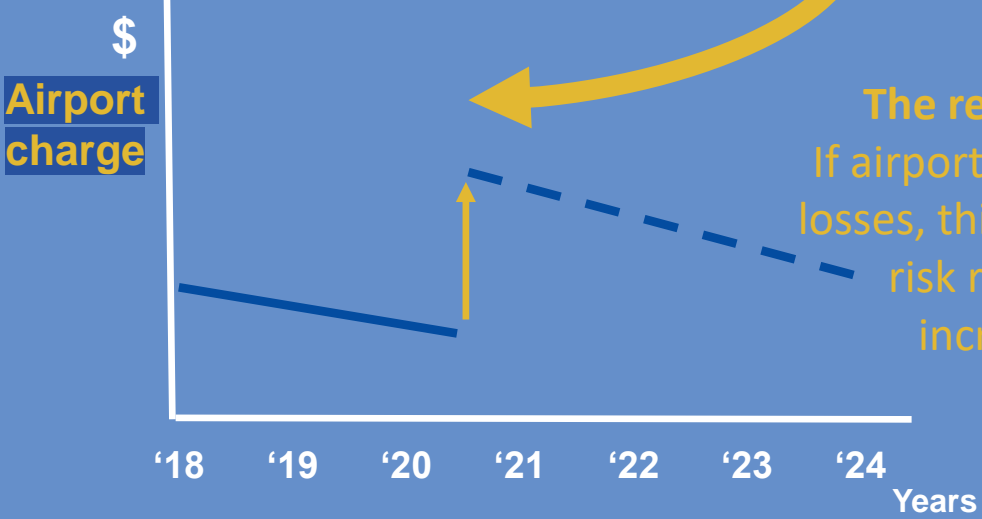
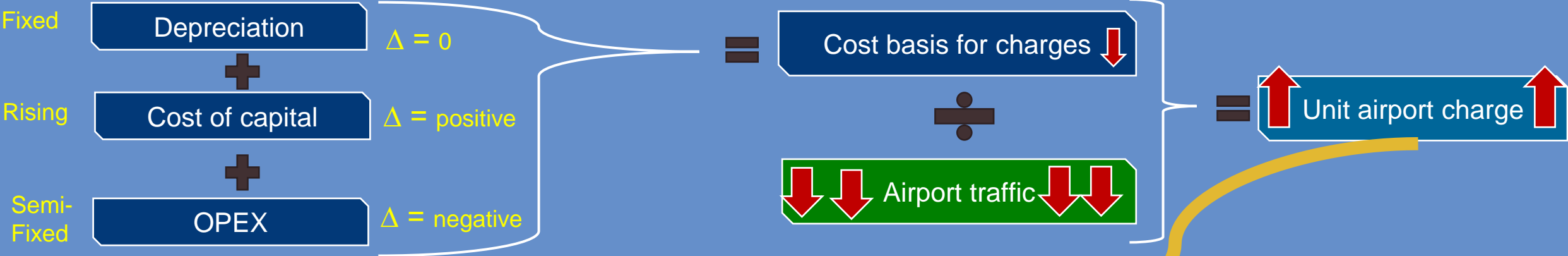
Combined losses of 148 billion USD '21-22*



**losses as compared to pre-COVID-19 projected baseline*

Short run CAVEAT – COVID-19 and regulated airport charges

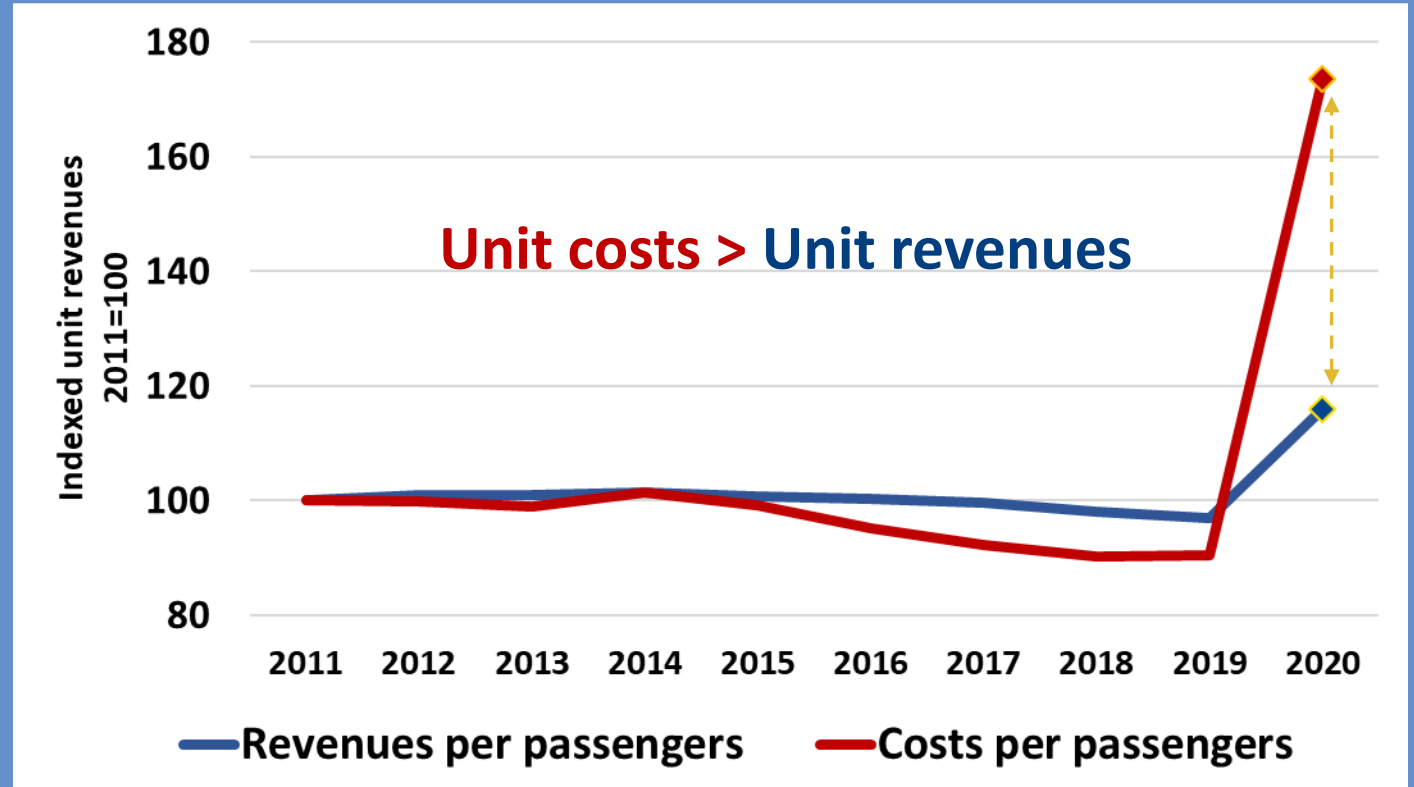
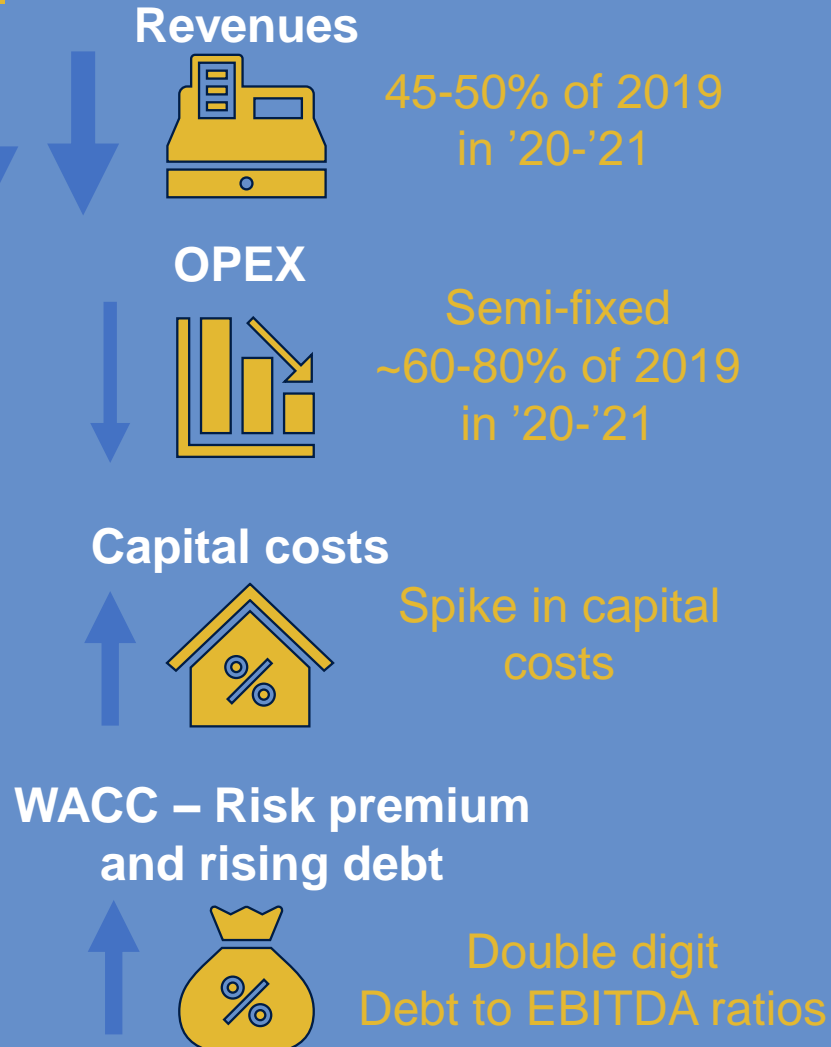
The classical model of economic regulation – From business as usual...to unusual



The regulatory conundrum:
If airports are not able to recover losses, this represents a regulatory risk resulting in structural increases in the WACC

Airport costs

Economics of airports amidst the pandemic



Source: ACI World Airport Economics Survey



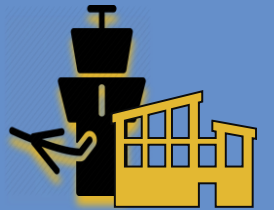
Impact of COVID-19

The top three most pressing issues regarding economic regulation and airport charges

— Inability to adjust prices rapidly and in a flexible manner;



— Hindering needed future investments due to inadequate revenues;



— Inability to attract new financing (debt and equity).





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Assessing the competitive landscape – airports and airlines



Challenging the conventional wisdom

The over application of economic regulation across the globe



The erroneous assumptions built into many regulatory frameworks



Consequences:

Hindering infrastructure development and the socio-economic multiplier



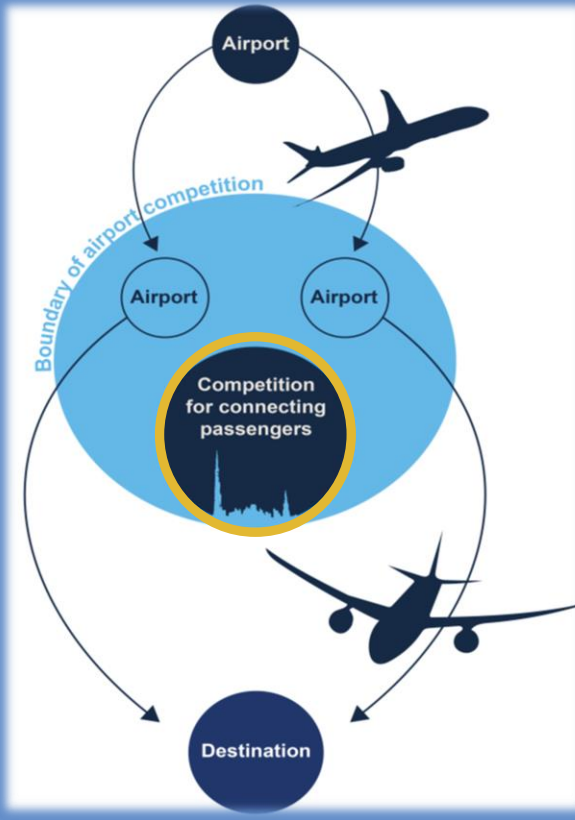
The reality: Airport competition has intensified

Aeronautical side of the business –

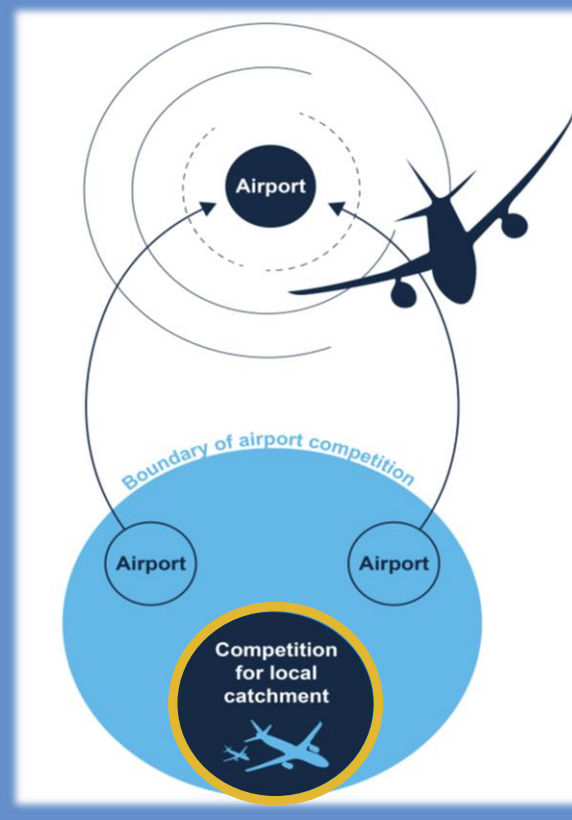
Competition between airports for airline services on new and existing routes



Competition between airports for connecting passengers



Competition for passengers in local catchment



Modal competition

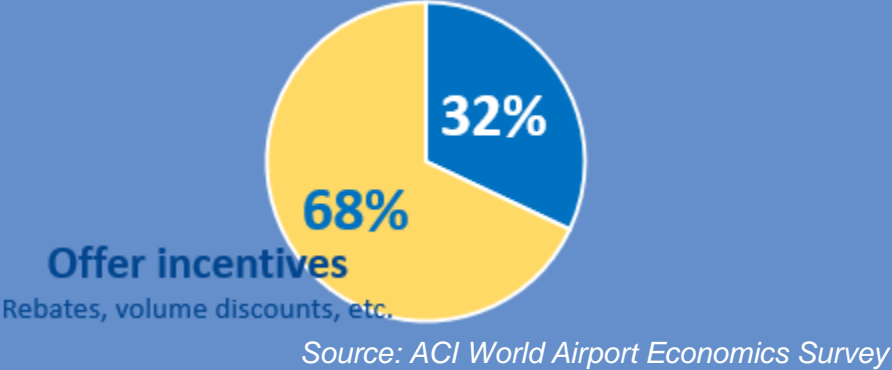


Air cargo competition and Short-and medium-haul for pax

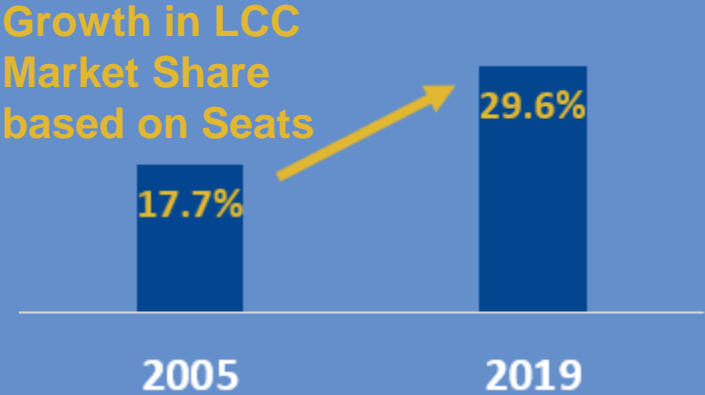
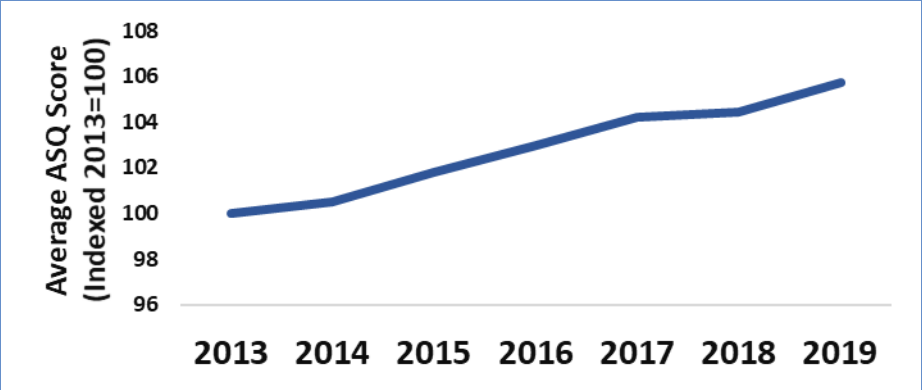
Competing for passengers and airlines

Airlines have significant buyer power in many markets

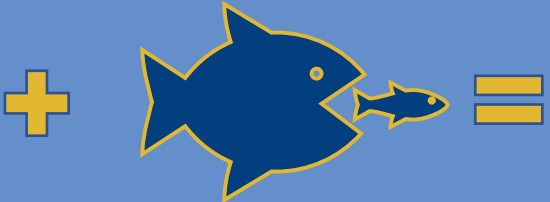
Competing for AIRLINES - % of airports offering incentives



Competing for PASSENGERS – Growth in Airport Service Quality (ASQ)



Airline industry consolidation



Airline Countervailing power



Source: InterVISTAS Analysis of Innovata Schedules Data via Diio

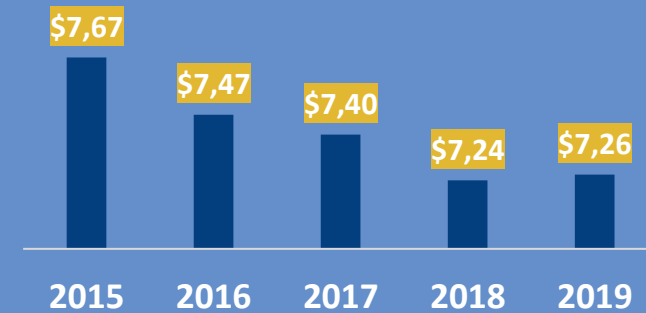


The reality: Airport competition has intensified

Non-aeronautical – the double-edged sword of technological disruption



Non-aero revenue per pax



Source: ACI World



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Modernizing global frameworks on airport charges

Ensuring the efficient use of infrastructure for the benefit of the traveling public

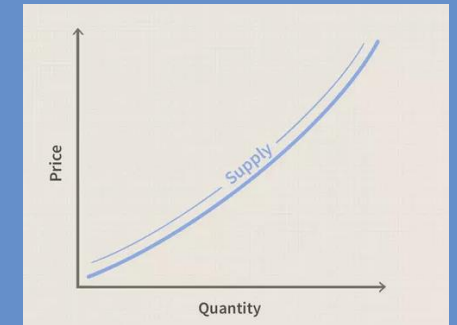


Airport charges defined

What is and what should be

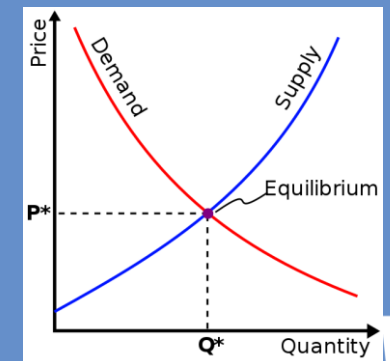
What is – An exclusive focus on cost recovery (supply side)

- The **International Civil Aviation Organization (ICAO)** defines an airport charge as “a levy that is designed and applied specifically to recover the costs of providing facilities and civil aviation services,” including the operating expenses and costs related to capital investments to build and maintain airport infrastructure.



What should be – prices that consider the interaction of demand and supply

- Airport charges should reflect not only **market supply (cost)** but also **demand elements**, especially price signals for efficient use of airport resources.
- Charges should provide incentives for:
 - ✓ prioritizing uses of existing capacity,
 - ✓ for signalling when the market needs and is able to pay for additional capacity,
 - ✓ to mitigate external impacts such as noise and environmental considerations, and
 - ✓ for increasing connectivity and socio-economic gains via incentives.



A new approach toward airport charges

Efficient infrastructure management through the price mechanism

Policies on airport charges should ensure that they serve the best interests of the travelling public and local communities



FROM COST-BASED PRICES ON A COST-LINE BASIS



- Recover the historical operating and capital costs of the airport, typically setting cost-based charges for each cost grouping (e.g., terminal, airfield, ramp parking, etc).

TO MARKET-BASED PRICES



Pricing that recovers costs but also manages capacity efficiently (supply side)

- Reflect and recover the operating, current maintenance, and replacement capital costs of the airport over time, although not necessarily on a year-by-year basis.
- Provide incentives to airports to reduce costs via market pressures.
- Reflect scarce airport capacity to prioritize high value uses of the available capacity.
- Provide funds via pre-financing when capacity is scarce and must be expanded.
- Provide incentives when there is unutilized airport capacity to attract new services expand regional connectivity.



Pricing that properly reflects the value of scarce airport capacity (demand side)

- Reflect customer (airline, passenger, leaseholder) willingness to pay and valuation of services.
- Signal to the airport operator when the market is willing and able to pay for increased capacity. These price signals can be used for partial prefunding of needed and justified capacity expansion.



Pricing that increases connectivity and capacity utilization (demand side)

- Provide incentives to airlines to increase community connectivity via new routes, added capacity, lower fares, and competition.
- Provide appropriate and effective incentives to airlines to grow traffic when capacity is underutilized and in a recovery.



Pricing that reflects the competitive landscape (market based)

- Reduce airport/airline/government/stakeholder costs of price regulation when the benefits of regulation do not exceed its costs.
- Recognize the market pressures at the increasingly large number of airports that compete for catchment area, connecting and destination traffic, airline deployment of fleet capacity and intermodal competition.



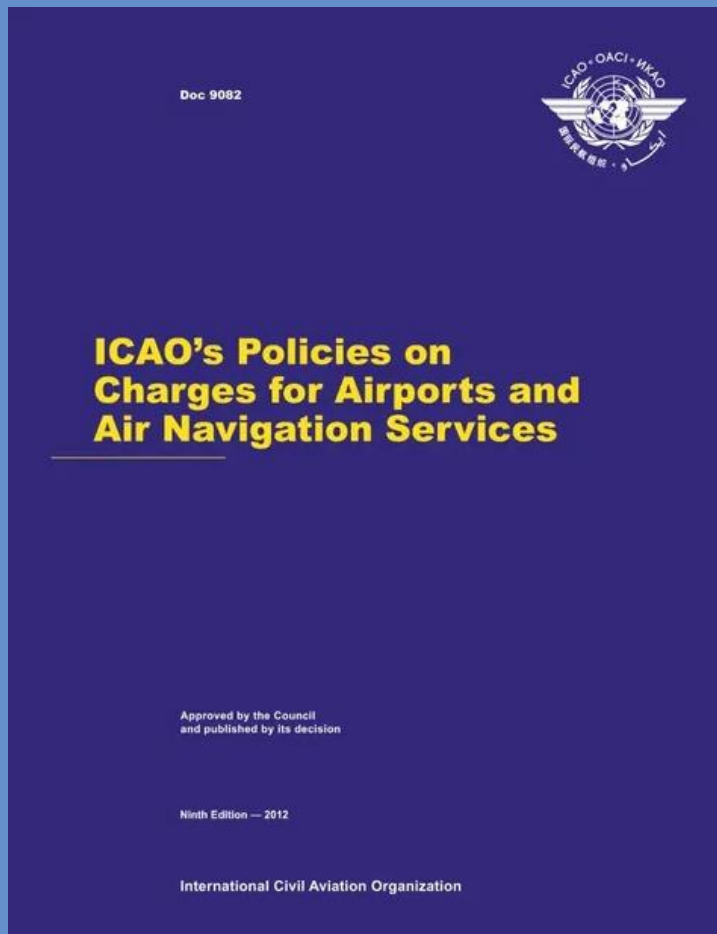
Pricing that incentivizes reduction in noise and emission externality impacts

- Allow pricing to incentivize mitigation of noise and emission impacts.
- Support airport decarbonization strategies and goals.

Modernizing global policy frameworks on airport charges

Ensuring the efficient use of infrastructure for the benefit of the traveling public

Almost exclusively cost-recovery



Market-responsiveness



InterVISTAS
a company of Royal HaskoningDHV



Australian case

Competition and light-handed oversight



Light-handed

versus

Intrusive price regulation



- Australia's government removed the price cap regulation remaining at Australian airports in May 2002, recognizing that the market had effective competition
- Successive reviews by the Australian Government Productivity Commission in 2006, 2011 and 2019 have shown that the system delivers good market outcomes



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Debunking some myths on airport charges



Debunking the myths

Eliminating the noise based on hard facts



Myth #1: Airport charges have risen over time



Myth #2: Airport charges have a big impact on consumers (airfares)



Myth #3: Heavy-handed regulation is required to cap charges and protect consumers



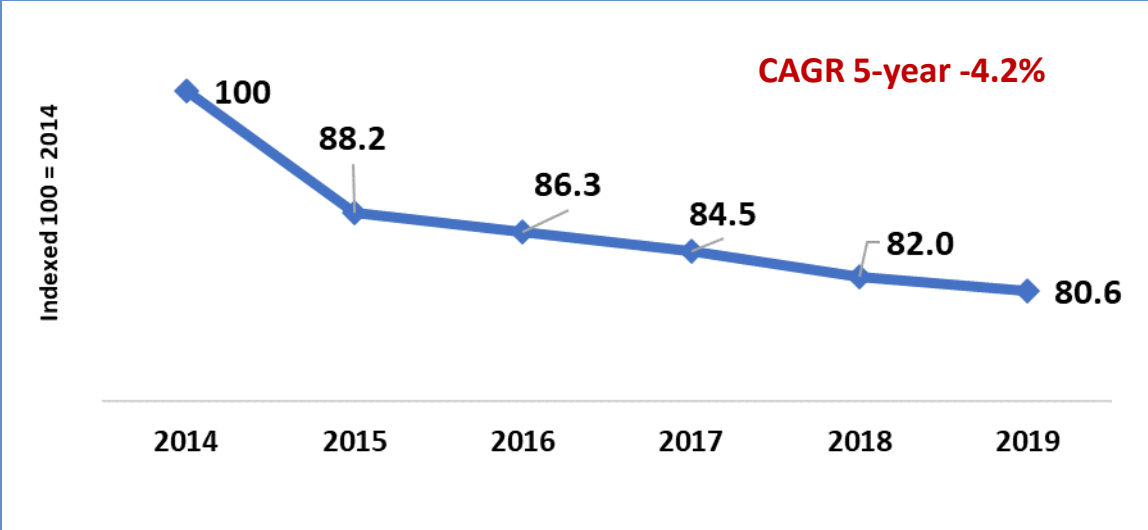
“Without data you’re just another person with an opinion.”

Edward Deming, Statistician



Myth #1: Airport charges have risen over time

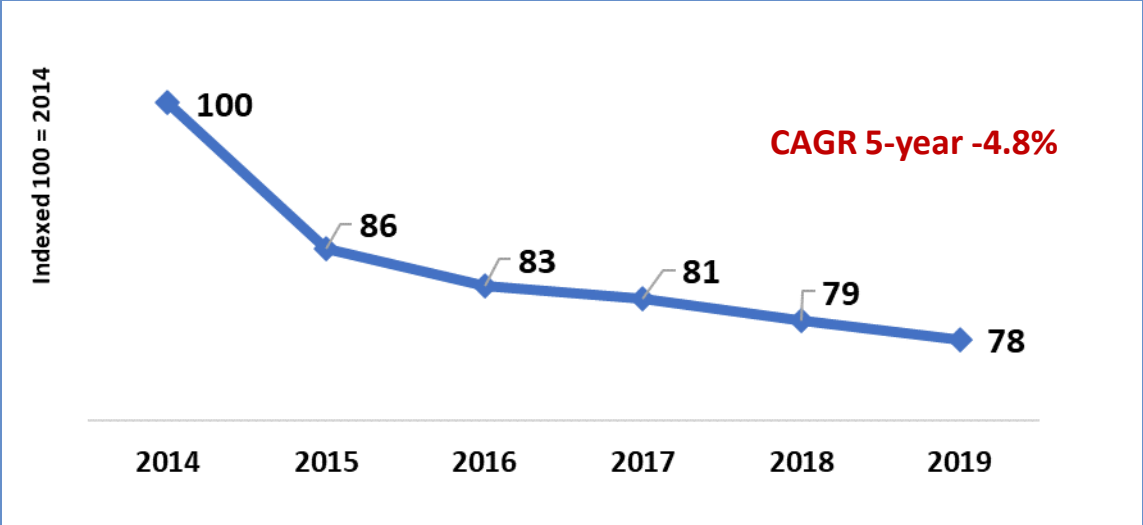
Unit revenues from airport charges indexed to inflation (2014 – 2019)



Aero revenue per pax

~20% real decline in unit revenues related to charges '14 – '19

Landing charge revenue per pax



Source: ACI World Airport Economics data (n=655) set using International Monetary Fund country level inflation rates,



Myth #2: Airport charges have a big impact on consumers

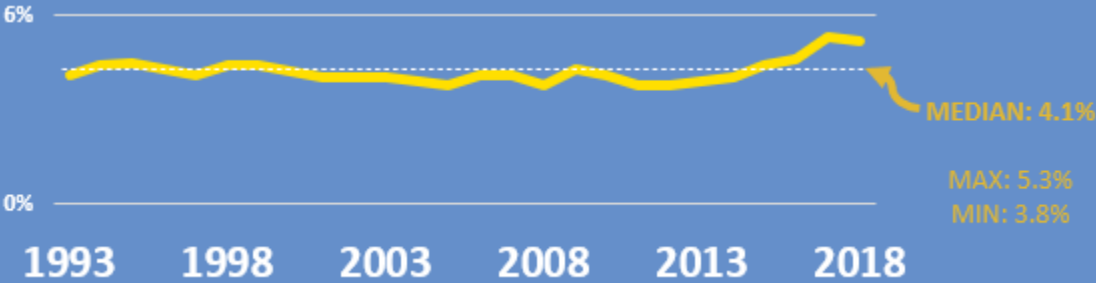
Airport charges as a % of airline costs and airfares

IATA User charges* as % of total airline costs



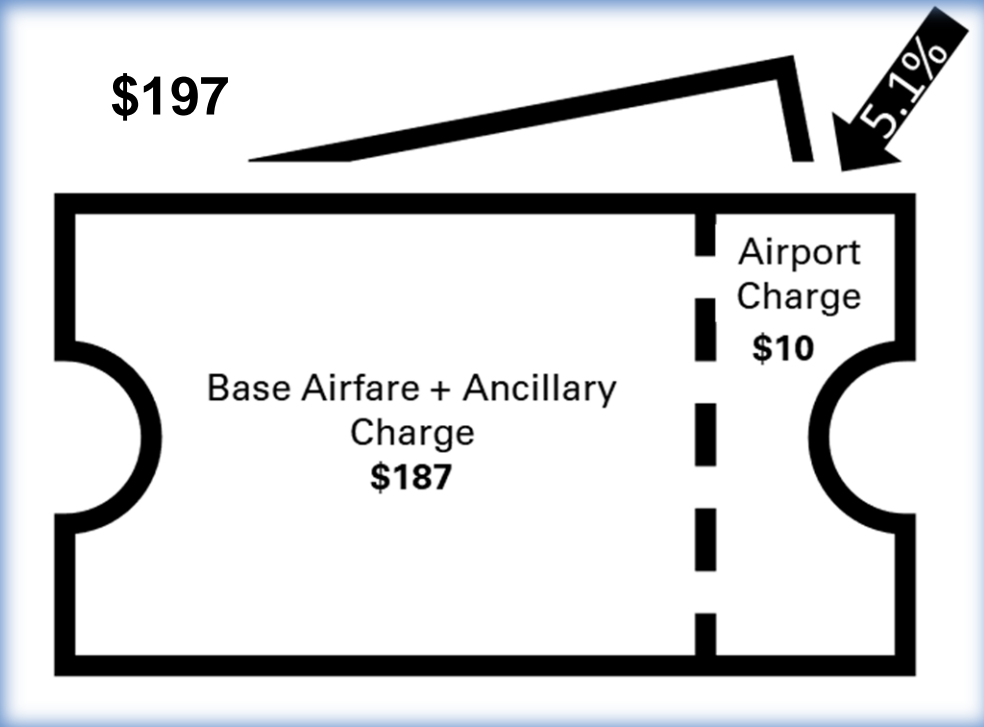
Source: ACI World adapted from IATA WATS 2021 & WATS 2016
 *As defined in IATA WATS, the data presented are drawn from a sample of airlines with financial years ending in 2020 (n=126), and 2015 (n=110). The sample sizes generally reflect traditional/legacy airlines only. User charges consists of both of Air traffic control (ATC) charges and airport charges

ICAO User charges as % of total costs
 International scheduled services



Source: ICAO

All airport charges represent a small % of airfares passenger and airline charges

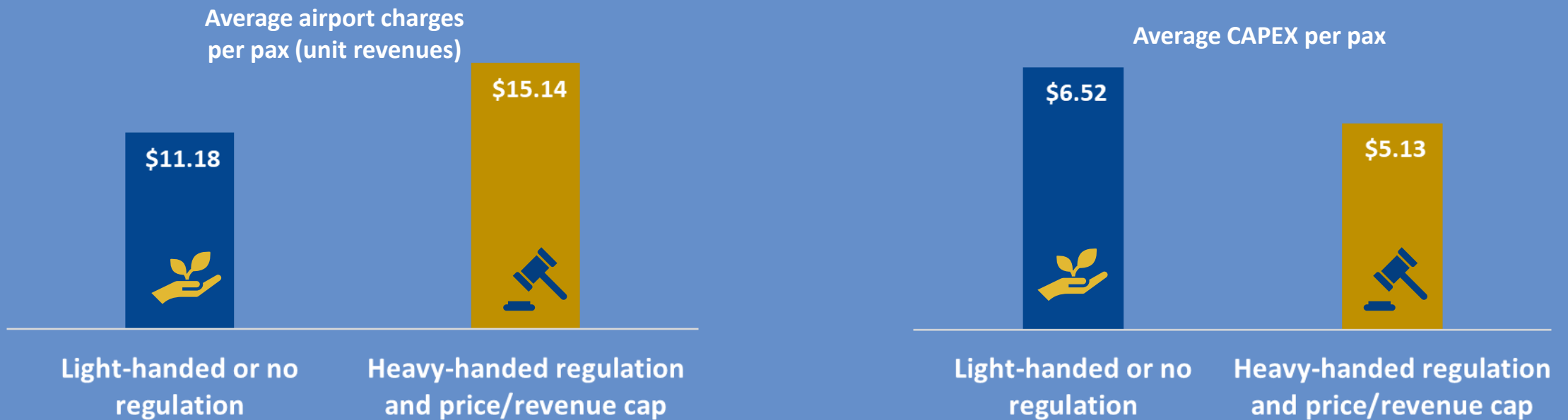


Source: InterVISTAS Analysis of Sabre MIDT Airfare Data, Ancillary Revenue Data from IdeaWorks, and ACI World Economics Data.



Myth #3: Heavy-handed regulation is required to cap charges and protect consumers

Charges and CAPEX spend per pax (USD 2014 – 2019)



Source: InterVISTAS Analysis of ACI World Economics Data

“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”

Milton Friedman, Nobel Laureate in Economic Sciences



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Policy levers to stimulate demand – Charges versus Taxes



Taxes versus charges demystified

ICAO Policies on taxation (doc 8632)

Doc 8632

ICAO'S POLICIES
ON TAXATION
IN THE FIELD OF
INTERNATIONAL AIR TRANSPORT

THIRD EDITION — 2000








Whereas any levy on international air transport should be fair, equitable, transparent and non-discriminatory in its intent and its application vis-à-vis other modes of international transport, and should take into account the contribution of civil aviation to tourism, economic growth and development;

Whereas ICAO, for the purpose of its policy objectives, makes a distinction between a charge and a tax, in that charges are levies to defray the costs of providing facilities and services for civil aviation while taxes are levies to raise general national and local government revenues that are applied for non-aviation purposes;

Taxes versus charges demystified

ICAO Policies on taxation (doc 8632)

Entity who imposes the levy	Airport	Government		
Use of proceeds	 <p>Coverage of infrastructure or operating costs</p>	<p>Coverage of infrastructure or operating costs</p>	 <p>Trust fund or internal accounting entry used partially for aviation or tourism purpose</p>	<p>Non-aviation</p>
Classification of levy	Charge	Charge	Tax	Tax
Consistency with ICAO Policies on taxation (doc 8632) and charges (doc 9082)	<p>Optimal</p> 	<p>Justifiable</p> 	<p>Sub-optimal</p>	<p>Misalignment with ICAO policies and guidance</p> 

Airport charges and taxes as percent of base airfare with airline ancillary charges

LAC example: SCL-EZE-SCL

Intra-Latin America all-in airfare SCL-EZE-SCL

Yellow highlight indicates charges that are remitted to government bodies

Average all-in economy airfare SCL-EZE-SCL	ACI classification		
Base airfare (round trip, average of all airlines)	Airline charge	US\$	222.44
Airline: surcharges (Sky Airline)	Airline charge	US\$	-
Airline: voluntary charges (checked bag, seat selection, meal)	Airline charge	US\$	28.93
Chile: International Airport Facility Charge (departing)	Government tax	US\$	25.00
Argentina: International Custom & Immigration Services Tax (departing)	Government tax	US\$	10.00
Argentina: Retention Income Tax (departing) *5%	Government tax	5%	5.56
Argentina: Ticket Tax (departing) *7%	Government tax	7%	7.79
EZE: International Airport Tax (departing)	Airport charge	US\$	51.00
EZE: International Security Tax (departing)	Airport charge	US\$	10.00
Total ticket price		US\$	360.72

Government taxes
13%
22% of base fare

Average all-in economy airfare EZE-SCL	ACI classification		
Base airfare (one way, average of all airlines)	Airline charge	US\$	111.22
Airline: surcharges (Sky Airline)	Airline charge	US\$	-
Airline: voluntary charges (checked bag, seat selection, meal)	Airline charge	US\$	14.46
Argentina: International Custom & Immigration Services Tax (departing)	Government tax	US\$	10.00
Argentina: Retention Income Tax (departing) *5%	Government tax	5%	5.56
Argentina: Ticket Tax (departing) *7%	Government tax	7%	7.79
EZE: International Airport Tax (departing)	Airport charge	US\$	51.00
EZE: International Security Tax (departing)	Airport charge	US\$	10.00
Total ticket price		US\$	210.03

Average all-in economy airfare SCL-EZE	ACI classification		
Base airfare (one way, average of all airlines)	Airline charge	US\$	111.22
Airline: surcharges (Sky Airline)	Airline charge	US\$	-
Airline: voluntary charges (checked bag, seat selection, meal)	Airline charge	US\$	14.46
Chile: International Airport Facility Charge (departing)	Government tax	US\$	25.00
Total ticket price		US\$	150.68



Source: InterVISTAS analysis; Updated from ACI World Policy Brief (2020) Taxation of International Air Transport and Airports: Economic benefits and costs

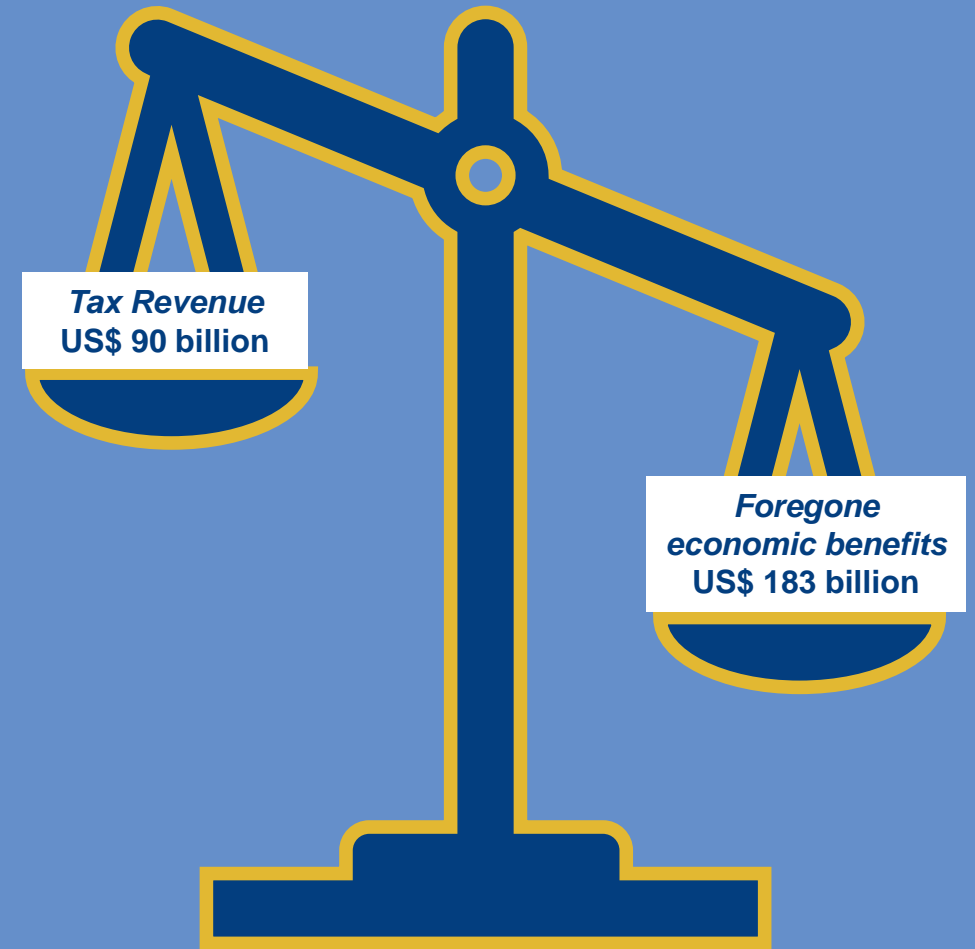
NB The analysis includes a breakdown of charges and taxes for an average all-in economy two-way airfare for a typical intra-Latin American route between Santiago, Chile (SCL) and Buenos Aires-Ezeiza, Argentina (EZE). Government taxes constitute 13% of the airfare which includes surcharges and typical voluntary ancillary charges. However, if calculated on a base fare, the share of government taxes is 22%.



Policy levers to stimulate Demand

Removing pax-based taxes — Unleash the full socio-economic benefits of aviation

- Estimated revenue from taxes on air transport and levied on airline tickets globally is **\$90 billion**
- Reducing or eliminating tourism taxes can result in higher national well-being by stimulating tourism. The increased spending by these tourists will generate higher employment and GDP and potentially offsetting or exceeding taxation revenues.



Policy levers to stimulate Demand

Removing pax-based taxes — Unleash the full socio-economic benefits of aviation

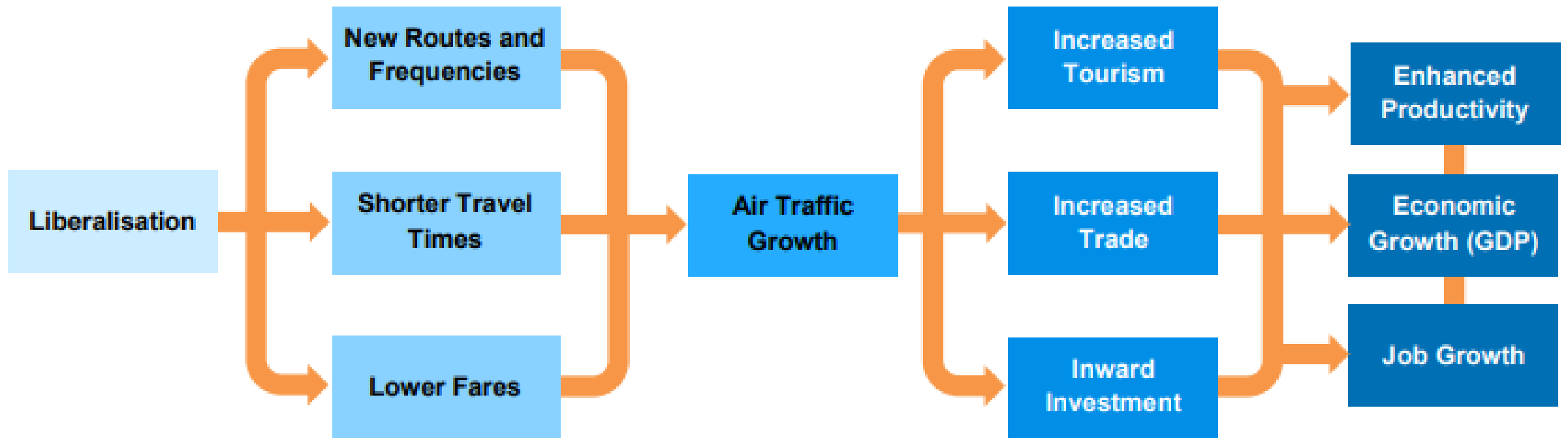
Based on estimated price elasticities – Removal of taxes would increase traffic by 9% Globally (and 11% for LAC)



Impact of tax removal	Tax revenues (US\$ billions)	Foregone Employment (Jobs - millions)	Foregone GDP (US\$ billions)
Global macroeconomic impact	US\$ -90	5.2	US\$ 183

Liberalisation of air services

Creates both airport and airline competition



Source: IATA; InterVISTAS – Transforming Intra-African Air Connectivity: The Economic Benefits of Implementing the Yamoussoukro Decision (2014)

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Summary and the way forward



Summary

Key facts on the state of play regarding airport charges

- ✚ **Airports/airlines changed dramatically since charges policy was instituted in 1940s**
 - Increased privatization and deregulation
 - Increased airport competition; Growth of LCCs, Airline consolidation
- ✚ **Airport charges per pax have been declining in recent years**
 - on a per pax basis, declined 20% in real terms between 2014 and 2019
- ✚ **Airport charges are still a small share of average ticket price**
- ✚ **Heavy handed regulation (price cap) of airport charges is not associated with lower charges**
- ✚ **Taxes versus charges – Tax reduction (especially non-aviation taxes) and liberalization are levers to stimulate demand, connectivity and competition**



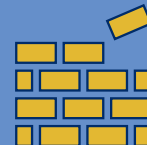
Consumers at the center

Crafting policies that deliver benefits to the traveling public



Role of economic oversight:

- ┌ Ensuring that airport charges and pricing are based on market signals guaranteeing the most efficient use of infrastructure for the traveling public;
- ┌ Monitoring competition – Cost-benefit analysis of regulation;
- ┌ Incentivizing innovation and aviation’s decarbonization;
- ┌ Fostering investment in infrastructure for socio-economic gains;
- ┌ Promoting commercial agreements that facilitate airport-airline risk sharing.



Thank you

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