



Economic Regulation of Airports and Air Navigation Service Providers

Strong, robust and independent economic regulation is needed to protect airlines and their passengers from monopoly abuse.

Airports and ANSPs are, for the most part, natural monopolies. As such, they need to be subject to additional supervision to ensure that, in the absence of sufficient competition, prices to airlines and passengers are cost efficient and that service quality improves.

IATA POSITION

IATA and the airlines support the need for strong, robust and independent economic regulation. Regulation is required to give sufficient protection to users against potential monopoly abuse of dominant position, especially for privatised or profit-maximising providers. The independence of regulators from government, especially for airports and ANSPs that retain a degree of public sector ownership, is critical in order to provide objectivity.

KEY ELEMENTS TO INCLUDE IN STRONG, ROBUST, & POLITICALLY INDEPENDENT ECONOMIC REGULATION

- 1** Effective stakeholder engagement should ensure the early and timely involvement of airlines in negotiations on business plans, future investments and operational expenditures. This involvement should continue until a successful conclusion is reached.
- 2** Transparency should be provided on the future business strategy and plans, future investments, essential historic and forecast financial and operational performance data.
- 3** Capital expenditure should only be undertaken with the agreement of airline users who agree both the need for and the financing of infrastructure.
- 4** Strong support to encourage airports and ANSPs to strive for cost reduction, and better cost efficiency on a continuous basis by setting clear and measurable cost efficiency targets.
- 5** Agreed quality and operational performance standards through service level agreements. These should be regularly measured to ensure performance.
- 6** Charges should be non-discriminatory.
- 7** No cross subsidisation between user groups.
- 8** Single till should be applied at airports.
- 9** ICAO Policies on charges for airports and air navigation services should be applied¹.
- 10** An independent appeal body should be available in the event of a dispute.

¹ ICAO Doc 9082/7 - paragraphs 13 & 15



Airline Engagement in Business Decision-Making Processes of Airports and ANSPs

Airlines are key stakeholders who pay for airport and ANSP investments and services.

Airlines and eventually their passengers are among those that are mostly affected by aviation policy changes and investment plans by airports, air navigation service providers and governments.

SITUATION

Airport and air navigation services charges have a significant impact on airlines and passengers. Without effective communication between all stakeholders there is a real danger that individual strategies will result in unnecessary and expensive investments, capacity or safety issues and cost increases for airlines and their passengers.

IATA POSITION

Airlines and their respective airline associations should be fully engaged in the decision-making process from an early stage and continue to be engaged throughout its development and implementation. Effective consultation with users should ensure that airlines will be involved in major policy decisions, capacity planning and investment plans. Investments should only be made when there is a clear business case supported by a thorough and positive cost benefit analysis on the impact on stakeholders. When agreement cannot be reached, a decision should not be imposed. All possible steps should be taken to reach consensus before proceeding with major changes. With proper involvement of the customer the chance of success for any major policy change or investment will be much higher as the change will become an integral part of the total air transport system.

KEY REASONS TO CONSULT WITH AIRLINES

- 1 As customers and stakeholders, airlines are directly affected by policy decisions, investments and charges.
- 2 Policies, plans and investments will be more successful with the full engagement and agreement of airlines, since they will then meet customer and market requirements.
- 3 Investments will be more effective and cost efficient through airline involvement since they will be market-driven.
- 4 It is essential for all stakeholders to be heading in the same direction with consensus.
- 5 Airlines provide a customer and market view at an early stage in the process.
- 6 Endorsed by ICAO Policies "wherever possible, changes should be made in agreement between users and providers¹".

KEY ELEMENTS OF CONSULTATION

- 1 A good description of the proposals/plans and the impact it will have on users.
- 2 Proposals should be supported by a business case to show why they are being proposed.
- 3 Major investments should be supported by a proper cost benefit analysis.
- 4 During consultation and decisions, feedback by airline users must be fully taken into account.
- 5 Airline users should be engaged throughout the entire consultation, decision-making and implementation process.

¹ ICAO Doc 9082/7 – paragraphs 16, 17, 21, 22viii), 31, 32 & 49



Transparency

Transparency is an integral aspect of any progressive commercial relationship between a provider and its customers.

Transparency is the means of facilitating knowledge, assessment and opinion on what is happening within an organisation and/or service.

IATA POSITION

Airports and Air Navigation Service Providers (ANSPs) need to ensure that airlines (as users) are provided with adequate information on major developments at airports/ANSPs, the rationale for any charges proposal, charge setting formula and the methods to establish the values used in the formula.

Airport operators/ANSPs should provide airlines with key operational data to support benchmarking and discussions on continuous improvements in performance and cost efficiency.

Also, regulators should be transparent to the users on the rationale for the selected regulatory formula and the methods for determining the values used in the formula. Similarly, third party arbitrators overseeing the consultation process need to be transparent in any ruling or decision.

KEY REASONS WHY TRANSPARENCY IS IMPORTANT

- 1 ICAO fully supports transparency as one of the key charges Policies¹.
- 2 Airlines need to know exactly for what they are paying for.
- 3 Providers, regulators and third-party arbitrators need to justify the charges structure and demonstrate that the charges are cost-based and non-discriminatory in line with ICAO Policies.
- 4 Providers need to justify investment plans and business developments that impact on its users.
- 5 A meaningful and productive consultation can only take place if airlines have enough detailed information to analyse and provide feedback on the provider's charges proposals prior to the consultation meeting.
- 6 Airlines need adequate information to evaluate the operational and financial performance of an airport in order to identify mutually beneficial improvement opportunities.

- 7 Airlines need adequate information to evaluate and benchmark the financial and operational performance of the provider.
- 8 Airlines need adequate information to evaluate the providers' future operational plans to ensure that the investment is cost effective and meets future requirements.

PROVIDERS' DATA THAT SHOULD BE TRANSPARENT TO AIRLINES

Financial Data

- Historical revenue and costs – A minimum of five years
- Forecast revenue and costs – A minimum of five years
- Revenue segments – Commercial/aeronautical
- Corporate financial structure and shareholder commitments
- Unit costs and productivity metrics and targets
- Capital, borrowings, interest costs, depreciation etc

Operational Data

- Historical traffic levels – Aircraft movements, passengers and freight
- Forecast traffic levels
- Staffing levels
- Service levels, core functional delivery, customer satisfaction etc.

Planning Data

- Master planning – Short, mid and long-term
- Business cases to support infrastructure development
- Growth and risk factors – External and internal

¹ ICAO Doc 9082/7 – paragraphs 17, 31 & 49



Security Charges

Security is the responsibility of the State and should not be funded exclusively by airlines.

Security measures generally have been increased to meet the enhanced security measures required by new legislation. This has resulted in significant increases in security costs that have been passed on by airports to airlines through increased security charges. The lack of clear information on responsibility for costs, revenue and efficiency makes it difficult, however, to implement in a fair and transparent manner.

The European Commission position is very clear:

"The protection of European citizens against terrorist attacks is essentially a State responsibility".

SITUATION

Security providers in most airports are not a part of the regular consultation process and airlines are often not involved in determining the requirements and costs of security services.

In addition, international decision makers are requiring airports to invest in security, fuelled by international and national media and public attention, without defining who will pay for the additional cost. Often this leads to individual interpretations of international agreements, laws and policies regarding charges.

Many governments expect aviation to pay for its own security, whereas the cost of security for other modes of transport and public areas is fully subsidised and paid for by governments (e.g. train stations, stadiums, public buildings).

IATA POSITION

- Security is the responsibility of the State¹ and should be funded by the State especially for activities such as counter terrorism activities and baseline policing that are over and above the level of security required at airports for normal business purposes.
- However, where security costs are incurred by an airport, these costs and the consequent charges should be split between all users on an equitable cost-related basis including a fair share to the airport itself.
- When the airport provides security through a third party, airlines should receive clear and timely information on the tender process and the resulting decision(s).
- Security standards should be harmonised on a global basis.

KEY ELEMENTS TO TAKE INTO CONSIDERATION BEFORE INTRODUCING A SECURITY CHARGE

- 1 Governments should assess and provide the most cost effective solution for additional security measures prior to implementation.
- 2 Provide airlines with adequate and transparent financial information.
- 3 Consult airlines on the extent of security measures provided at a given airport and on the level of security charges.
- 4 Airports and airlines should agree a fair share allocation of costs, to ensure that all users make a contribution towards security costs.

¹ ICAO Doc 9082/7 - paragraph 29