



## **Briefing of ICAO Council on airport business and economics**

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# Membership: airports and business partners

- ■ ■ 597 members operating 1679 airports in 177 countries and territories: 96% of the world's passengers
- ■ ■ 447 World Business Partners

**North America:**  
194 members, 347 airports

**Europe:** 202 members, 454 airports

**Asia-Pacific:**  
96 members, 473 airports

**Latin America-Caribbean:**  
58 members, 196 airports

**Africa:** 56 members, 203 airports



# ACI around the world

- ■ ■ **ACI Chairman and CEO Aéroports de Montréal: James Cherry**
- ■ ■ **ACI World, Director General, Geneva: Angela Gittens**
- ■ ■ **ACI ICAO Bureau, Director, Montreal: Anne McGinley**
- ■ ■ **5 regional offices**

ACI North America: Washington DC  
*President: Greg Principato*

ACI Europe: Brussels  
*Director General: Olivier Jankovec*

ACI Asia-Pacific: Hong Kong  
*Regional Director: Maggie Kwok*

ACI Africa: Casablanca  
*Regional Secretary: Ali Tounsi*

ACI Latin America-Caribbean: Sao Paulo  
*Regional Secretary: Eduardo Flores*



# Historical context

Throughout history,  
economic centres have  
developed along the  
major transport  
highways of the age,  
particularly at modal  
junctions

- ■ ■ Silk Road
- ■ ■ Sea Trade routes



Today, economic development follows airport development



# Airports today

- ■ ■ Economic generators
- ■ ■ Customer focused
  - ■ ■ Passengers and airlines
- ■ ■ Commercial businesses
- ■ ■ Variety of ownership and governance structures
- ■ ■ Diverse business models



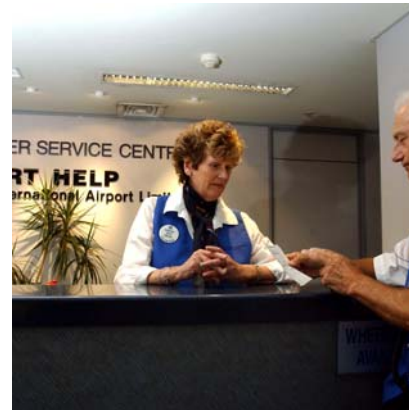
# Priorities

- ■ ■ Safety
- ■ ■ Security
- ■ ■ Customer service
- ■ ■ Environmental responsibility

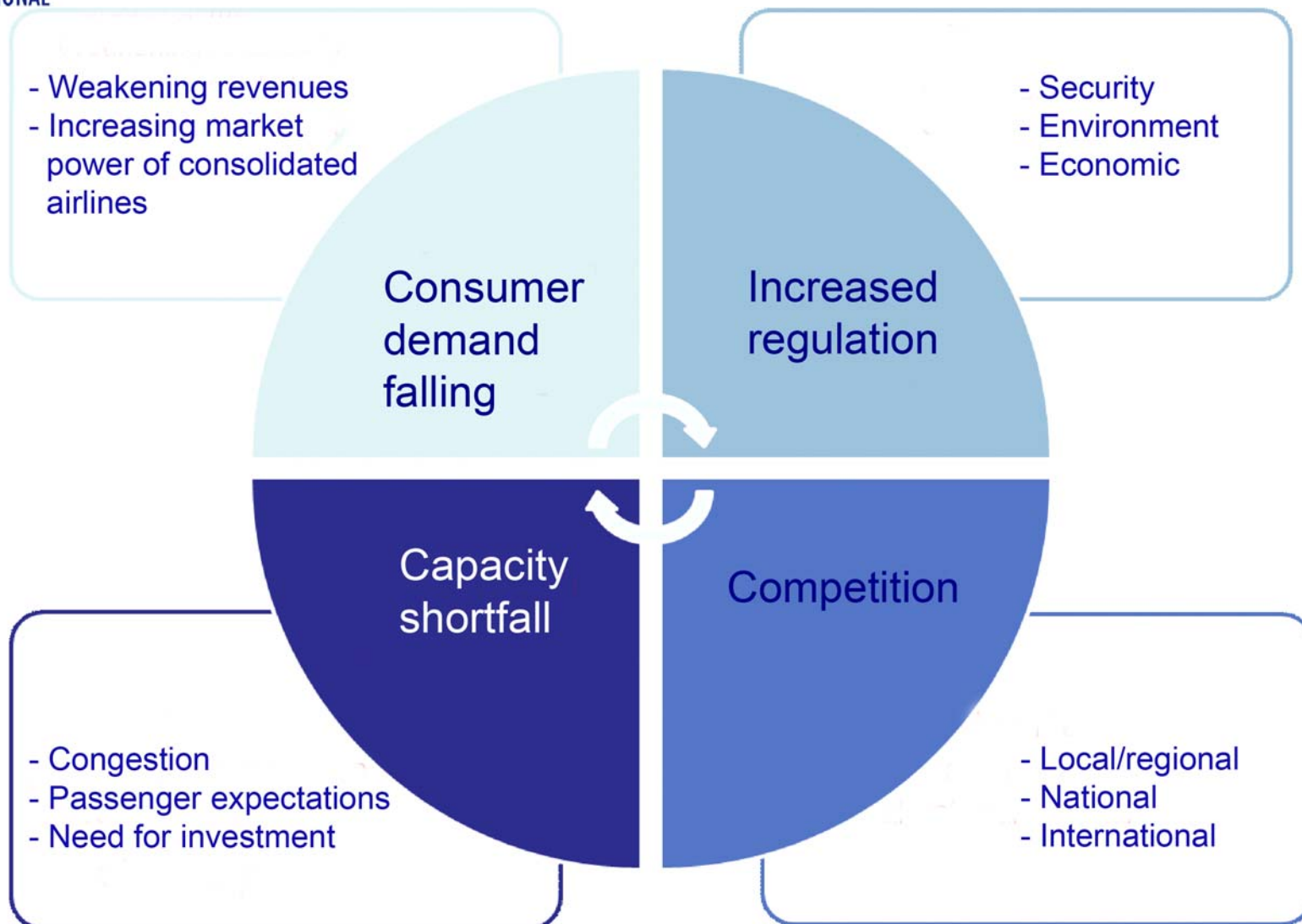


**70% of airport  
operating cost is for  
safety and security**

**Sustainable aviation, with adequate capacity to handle future growth**



# Airport business context



# Crisis impact on airports



- ■ ■ 2008-2010 likely to be lost years in terms of growth
- ■ ■ Airport revenue decline in all areas due to fewer passengers, fewer a/c movements, smaller / lighter a/c, reduced spending overall and per head
- ■ ■ Operating cost remain high, weighs on profits
- ■ ■ Airports review personnel and capital programmes, risk
- ■ ■ Still 4.5 billion passengers in 2009
- ■ ■ Safety, security and service quality remain priority





# Global airport revenues 2007 \*

Aeronautical	Non-aeronautical	% non aeronautical
42 USD billion	39.3 USD billion	48.3%

Non-aeronautical revenues critical and growing element of airport viability. Aeronautical revenue does not cover costs.

*\* excluding revenue from ground handling*

# Aeronautical operations – cost vs. revenue



- ■ ■ High level of fixed operating cost due to personnel and maintenance requirements for safety and security
- ■ ■ Airport industry operating cost absorbs 60% of total airport industry revenue
- ■ ■ Only 50% of total airport industry revenue generated by aeronautical charges
- ■ ■ No or low profit margins (single till at some airports)
- ■ ■ Constant pressure to keep user charges low while improving standards and facilities



**Zero sum game at best**

# Airport user charges to airlines

- ■ ■ Account for less than 4% of global airline industry operating cost – airport charges are not the reason why airlines have been in such trouble
- ■ ■ Insufficient to cover aeronautical services worldwide
- ■ ■ Subsidized by non-aeronautical revenues and passenger charges
- ■ ■ Single till removes incentive to maximize commercial revenues



# Why regulation?

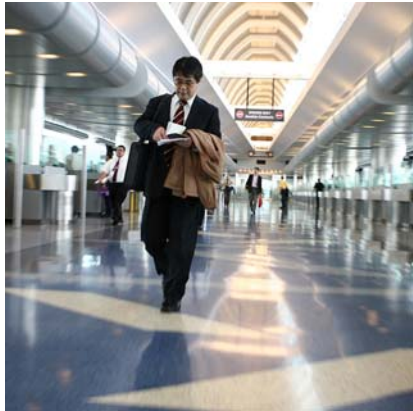
- ■ ■ Regulation is required if and only if there is no potential for a normal competitive market, i.e. market failure
- ■ ■ Objective is to increase general economic welfare

**So, in whose interest do we regulate airports?**





# Airport charges regulation



- ■ ■ In most regulatory spheres, the customer is the end-customer, e.g. energy, telecommunications
- ■ ■ In contrast, in aviation, the 'user' is frequently identified as the airline
- ■ ■ ACI view is that the passenger is the ultimate customer
- ■ ■ Purpose of airport economic oversight/ regulation is not protection of airline industry



**Regulation should be designed for passengers**

# Airports are innovators - going commercial

- ■ ■ Retail
- ■ ■ Real Estate
- ■ ■ Services



# Benefits of airport commercialization

- ■ ■ Key driver/ enabler of growth
- ■ ■ Supports / improves standards and services
- ■ ■ Independence from aeronautical revenues
- ■ ■ Moderates user charges
- ■ ■ Profitability
- ■ ■ Ability to invest
- ■ ■ Attractive to investors



# Capital expenditure – the long-term perspective

- ■ ■ USD 330 billion in 10 years (1998-2007)
- ■ ■ USD 50 billion in 2007 alone
- ■ ■ Annual cost for depreciation/ amortization and interest: USD 26 billion (2007) or 30% of total revenue
- ■ ■ Exceeds revenue from passenger related charges (23 billion) or aircraft related charges (18 billion)





# Airports and airlines - 1

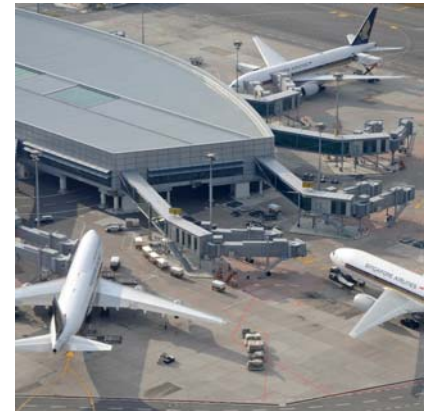


- ■ ■ Airports have long term planning horizon, 5 - 30 years and commitment to local community
- ■ ■ Airlines are global mobile multinationals
  - ■ ■ unilaterally and on short notice reduce capacity, cut routes, deploy smaller aircraft
  - ■ ■ Significant market power
- ■ ■ Airports have high proportion of fixed costs
  - ■ ■ bear consequences of declining revenues without time to adjust resources and cost



# Airports and airlines - 2

- ■ ■ Free airline industry competition  
key to efficient use of airport  
infrastructure
- ■ ■ Infrastructure investment benefits  
communities and entire industry
- ■ ■ Airport business is risky, premium  
on risk



# Increasing competitive pressures at airports

- ■ ■ Airports compete with each other for traffic – airlines and passengers
- ■ ■ Market power of airlines
- ■ ■ Rising passenger expectations
- ■ ■ Liberalization means airlines have choices
- ■ ■ Communities expect attractive route network



# Future framework - 1



- ■ ■ Airport capacity vital to aviation growth, cost, competition, service quality and economics development
- ■ ■ Need incentives to obtain resources required (i.e. return on capital)
- ■ ■ Competition drives industry forward
- ■ ■ Regulation only when market forces are not intact (market failure) with primary focus on passengers, end users and shippers
- ■ ■ Liberalization prerequisite to stimulate demand and supply, and innovation



# Future framework - 2

- ■ ■ 'National interest' may protect airlines, but damaging to airports
- ■ ■ ICAO leadership on passenger protection and environment protection
- ■ ■ Harmonization, not fragmentation (environment, security)
- ■ ■ Airline ticket transparency and distinction between surcharges levied by airlines and charges levied by airports





# **THANK YOU**

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