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Understanding airport business

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In the sometimes turbulent aviation industry, airports are stable providers of infrastructure assets. While airports and airlines are intrinsically linked and rely on one another to operate efficiently, they are based on different business models. Airlines are able to move quickly to respond to changes in traffic flows, by leasing or retiring capacity. Airports, on the other hand, must make long-term planning decisions to safeguard capacity sometimes 50 years into the future. In spite of this, airport charges have remained a stable 4% of airline operating costs for over two decades, while airports have expanded to meet the needs of a burgeoning aviation industry and develop new business models.

ACI encourages and supports its member airports to continuously improve operational and cost efficiency to moderate the cost of flying and to mitigate intensifying capacity shortfalls.

Over the past 30 years, airports have evolved from being simply municipal infrastructure providers into sophisticated and business-oriented service providers. As in every industry the pressure to operate efficiently is constant and arises from customers and stakeholders alike.

In recent years airports have played a critical role in keeping air traffic affordable and operating costs for airlines stable, or, as it was the case after September 11, 2001 and SARS, have shown high flexibility in dealing with their airlines customers to relieve some of the financial pressure they came under.

Charges on the decrease

Figures collected and analysed by the UN agency International Civil Aviation Organisation demonstrate the airport industry is healthy and clearly committed to efficiency:

- In 2005, the income of 86% of airports worldwide covers or exceeds their expenses. Only 14% of airports generated a loss.
- Expenses on landing and associated airport charges incurred by air carriers have gone up by only 1.4% annually on average between 2000 and 2005.
- From 2004 to 2005 total airline expenses incurred on airport charges rose by 6% remaining below the 6.6% increase in actual passenger traffic.
- In terms of unit costs (cents per available tonne / km) the average annual growth rate of airport charges since 2000 has been only 0.6% while total airline operating expenses increased by 1.7% annually during this period. That shows that airport charges have actually gone down.
- Consequently, airport charges as share of airline operating expenses have constantly decreased over the past 10 past years to 3.8% in 2005.

During the same period the global airport industry has invested over $US100 billion in its infrastructure and continues to plough money into existing and new facilities. ACI estimates that capital expenditure at airports in 2007 alone will exceed $US40 billion.

Sources of revenue

There are two distinct forms of income and expenditure at an airport: 'aeronautical' and 'non-aeronautical'. In broad terms, the aeronautical side of the business is made up of the traditional core airport-related activities such as the provision of runways, aircraft stands, facilitation and security areas and the associated personnel to staff such activities. The non-aeronautical side accounts for all activities that are undertaken on top of this core business, such as retail, parking, other concessions and rentals. At medium and large airports this revenue may account for over 50% of the total income, growing at much faster pace than aeronautical income or traffic figures and producing greater profit margins.

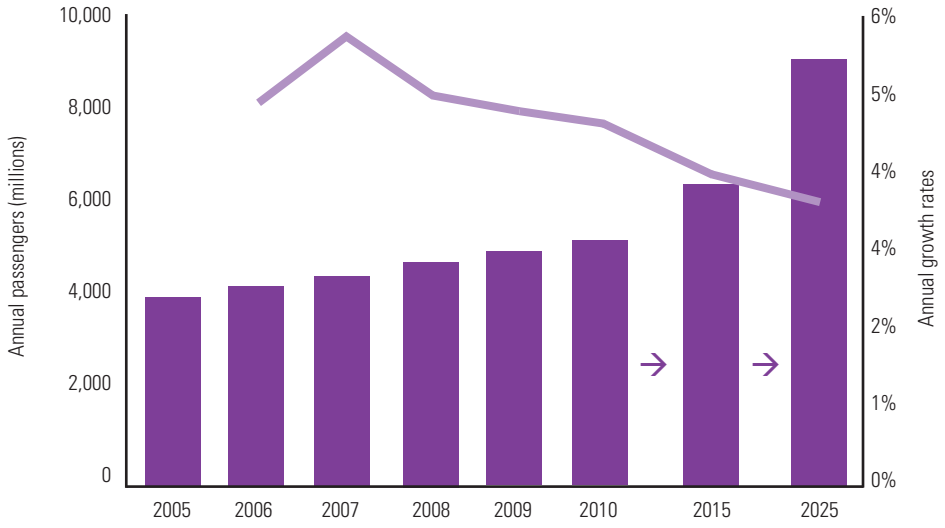
A key component in enabling airports to generate funds for the significant investment they must undertake in terminal and airfield expansion is the additional income from non-aeronautical revenues. The commercial revenue stream is essential for positive credit ratings and the airport's ability to attract investors, private or public (and the associated financing of large infrastructure projects). Without this revenue, airports would be considered less attractive investments. Many airports would not be able to keep aeronautical charges stable as more income would have to be generated through aeronautical revenues to cover the higher cost of raising larger and more expensive credit.

There are two broad approaches to the airport business model. One, the '**dual till**' system, splits the aeronautical and non-aeronautical business into distinct income and expenditure accounts. This ensures that income from the aeronautical side of the business (such as landing fees, security costs, passenger charges and departure fees) are used for aeronautical expenditure (such as runway repairs and terminal development), leaving the non-aeronautical income to provide for non-aeronautical expenditure (building new car parks and expanding retail sections of a terminal) and to make up company profits.

By contrast, a '**single till**' approach (whereby all revenues of an airport would be directly considered for setting airport charges) is not advocated by ACI. Including non-aeronautical revenues in the cost base for airport charges removes the incentive for airports to run commercial activities as it would simply result in lower airport income on the aeronautical side without increasing overall revenue. An important source of value creation would be thus squandered. It also provides an unjustified subsidy for the aeronautical activities that feeds directly into a subsidy for the airlines flying to an airport.

User charges

Projection of total world passenger traffic



East Asia example:

- Three major hub zones
- Many competitors in each zone

Airport employment by region

Region	Employed directly by airport operators	Total employees on airport sites
Africa-Middle East	50,000	250,000
Asia-Pacific	100,000	950,000
Europe	156,000	1,100,000
Latin America-Caribbean	25,000	200,000
North America	43,000	2,000,000
Total	**374,000**	**4,500,000**

User charges

Year	Airport charges as a percentage of airline operating costs
1978	4.0%
1989	3.7%
1998	4.4%
1999	4.4%
2000	4.2%
2001	4.0%
2002	4.0%
2003	4.0%
2004	4.0%
2005	3.8%