ACI AIRPORTS COUNCIL INTERNATIONAL

ACI position brief
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THE AIRPORT BUSINESS

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

Airports are stable providers of infrastructure assets, even in the sometimes turbulent aviation industry. 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, through efficiency gains in operations, staff productivity and venturing into new revenue streams, airports have held user charges at a stable 4% of airline operating costs for over two decades. All the while, airports have invested to meet the needs of a burgeoning aviation industry and developed new business models.

Over the past 30 years, airports have evolved from being simply municipal or Government 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 stablising operating costs for airlines. Or, as it was the case after 11 September, 2001 and SARS, have shown high flexibility in dealing with their airlines customers to relieve some of the financial pressure they came under.

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%

User charges

Airports charge their airline customers for the facilities they use, following the UN's International Civil Aviation Organisation (ICAO) accepted standards. The landing and airport charges reported by the air carriers to ICAO include all charges and fees related to air transport operations that are levied against the air carrier for services provided at the airport.

These include:

- landing charges;
- passenger and cargo fees;
- security, parking and hangar charges; and
- related traffic operation charges (excluding fuel and oil throughput charges)

They exclude those airport passenger-related charges paid by the passengers, and which may be collected by the air carriers at the point of sale, as these are not included in the profit and loss statement of the air carriers concerned.

Cost containment is challenging for airport operators as a result of their expensive asset base which must be maintained and even enhanced over time to adapt to a changing customer base. Indeed, depreciation and amortisation of airport assets account for up to 30% of expenses on the profit and loss statement.

At the same time, airports are being required to pay extensive costs for enhanced security and the introduction of new technology.

"In 1990, only about 30 percent of airport revenues were from non-aeronautical sources. In recent years, the global figure is closer to 50 percent, with a number of large airports deriving over 60 percent of gross revenues from non-aeronautical sources, including retail concessions, auto parking, rental car concessions and property income from leasing of airport land. Thanks to these revenues, airports have held user charges to a constant 4% of airline operating costs for 25 years, not something other airline suppliers can claim."
- Robert J Aaronson

Charges on the decrease

Figures collected and analysed by ICAO 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 committed to at airports in 2007 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 fees paid for the traditional core airport-related activities such as the provision of runways, aircraft stands, facilitation and security areas and the associated staff to undertake such activities.

The non-aeronautical revenues come from 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.

The additional income from non-aeronautical revenue is a key component in enabling airports to generate funds for the significant investment they must undertake in terminal and airfield expansion. 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.

Dual till vs. single till

Broadly speaking, there are two 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 are directly considered for setting airport charges) is not advocated by ACI. Including non-aeronautical revenues in the cost base for airport charge calculations creates an artificial constraint on the airport company. The airport must then focus heavily on non-aeronautical revenue in order to meet reasonable returns. It also provides an unjustified subsidy for the aeronautical activities that effectively becomes a subsidy for the airlines.

A dual-till structure also allows the 'monopolistic' part of an airport's business - the provision of core aeronautical activities - to be regulated, while ensuring that the other parts of the business can be run using the normal marketplace competition rules.

Urgent need for further investment

The pressure on infrastructure will not let up as global air traffic is set to double within 20 years. Dozens of major international airports continuously operate at or over capacity. It is due to their efficiency, flexibility and innovations that the air transport system has been able to absorb ever growing passenger numbers.

Sweeping requests to reduce or freeze airport user charges are short-sighted and ultimately do not promote efficient airport operations given the urgent need for investment in new infrastructure. They are also proving to be detrimental to airline and system efficiency as the continued and growing lack of airport capacity produces significant cost due to delays in the air and on the ground to the disadvantage of the wider economy.

"Privatisation in London's airports acutally resulted in lower charges to the airlines. But that is not always the case, as an investor may find it necessary to raise charges to fund new capacity and other improvements that have been neglected by the public sector management. When revenues do increase, it is generally because the airport is performing at an enhanced level."

- Robert J Aaronson