



# Revenue and investment management of privatized airports and air navigation services—a regulatory perspective

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## Abstract

Along with the burgeoning need for an increase in airport capacity to accommodate the demand for increasing air transport capacity comes the issue of proper fiscal management of income derived by airports and air navigation services providers. Airports are showing much success at earning income from shopping malls, car parks, boutiques and other similar activities within the airport premises. Non-aeronautical revenues, as this income is called, has risen from 30% of the total airport revenue in the late eighties to 52% today. Airports are keen on using their commercial revenues to help cover the costs of huge investments being made on infrastructure. However, the “single till” approach, which is widely used and takes into account both charges imposed on airlines and passengers for using aeronautical services and income derived from non-aeronautical activities as a single income source when setting charges, has been criticized as creating a cross subsidy whereby profits from commercial activities are used to offset aeronautical costs. Intrinsic to the issue of revenue and investment management are considerations of cost pricing and liability and duties imposed upon a privatized entity, which in turn have to be managed if successful revenue and investment management were to be accomplished. © 2001 Elsevier Science Ltd. All rights reserved.

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## 1. Introduction

Revenue and investment management is a key concept which has pervaded the air transport industry, particularly in the wake of trends in privatization of airports and air navigation services. One of the preeminent issues in this regard is the consideration of the dichotomy of the “dual till” or separation of aeronautical and non-aeronautical revenues derived by airports and air navigation services providers as against the “single till” which goes to centralize the incomes as a basis for setting charges for aeronautical services rendered to airlines. Both airports and air navigation services need to consider issues involved in privatization and attendant liability in order to manage their revenues and investments. Intrinsicly, an examination of appropriate cost pricing and revenue allocation will be a starting

point for such a discussion. This article will consider the features of cost pricing and revenue allocation as management tools within the broad spectrum of liability arising out of revenue and investment management in privatized airports and air navigation services.

At its incipient stage, international civil aviation relegated to the airport the status of a terminus (ICAO, 1948), much the same as a bus terminus of that time, assigning it as the focal geographical point at which people gathered to embark on a plane for a journey by air, or disembark after an air journey. However, airports are now complex industrial enterprises (Doganis, 1992). Quite apart from the essential air side support given by airports to landing and departing aircraft, there are commercial facilities provided for both passengers and the public within the terminal building by concessionaires who are specialists in their own fields of business. The airport authorities collect concession fees (non-aeronautical revenues) from the concessionaires and in numerous airports around the world, the income derived from such resources are significant, often exceeding traditional income derived through the provision of airport and air navigation services (aeronautical revenues) to incoming and outgoing aircraft.

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The 25 largest airports in the world in terms of passenger throughput, 17 of which are located in the United States, handled a combined total of 992 million passengers in 1998 (ICAO, 1998–2001). This represented an average per airport of some 109 000 passengers every twenty four hours. In 1998 and 1999, the financial situation of airports continued to improve, with a significant number of airports collecting revenues in excess of their costs. Notably, the trend towards higher profitability among airports that operated as commercial (autonomous) entities was highly evident. The International Civil Aviation Organization (ICAO) records that, particularly in the 1998–1999 period, there was a tangible growth in a number of airports in Europe and the Asia Pacific Region, where revenues from non-aeronautical revenues exceeded 50 per cent of the total revenues (ICAO, 1998–2001).

Air travel has several determinants in regard to demand. Primarily, it is determined by income levels and demographics and the cost of air travel. In the context of cost of air travel, world energy demand, supply and prices are key factors which drive both the profitability of the air carrier and the cost factor involving the use of travel offered by the carrier to the consumer. In the years 1988–1999 the total tonne-kilometres performed, or in other words, total scheduled airline traffic, grew at an annual rate of 5.2 per cent. Passenger kilometres growth during this decade was 4.6 per cent and freight tonne-kilometres growth was 6.6 per cent for the same period.

The above figures portend an even more prolific growth rate in the near future, although financial trends in the airline industry are not readily predictable. Therefore, total forecasts of revenue generated by airlines are based on assumptions for passenger yields and on passenger forecasts, and on this basis, ICAO has forecast that total revenue of airlines world wide would grow by 3.9 per cent in the year 2000; 4.9 in 2001 and 5 per cent in 2002. These compare with an average rate of 5.6 per cent over the past decade. Although it is still premature to extrapolate an average revenue figure for the decade 1999–2009, it would not be too impractical to note that the cost-price index of airline financing would bring to bear a significant influence in the revenue curve of air carriers of the world over that decade.

## 2. Cost pricing

### 2.1. ICAO's charging policy

Article 15 of the Convention on International Civil Aviation (ICAO, 1997a–c) (hereafter called the Chicago Convention) signed on 7 December 1944, enshrines the basic philosophy of charges on airports and air

navigation services. The provision states *inter alia* that every airport in a Contracting State which is open to public use by its national aircraft shall likewise be open under uniform conditions to the aircraft of all the other Contracting States. The like uniform conditions shall apply to the use, by aircraft of every Contracting State, of all air navigation facilities, including radio and meteorological services, which may be provided for public use for the safety and expedition of air navigation. Article 15 also provides that any changes that may be imposed or permitted to be imposed by a Contracting State for the use of such airports and air navigation facilities by the aircraft of any other Contracting State shall not be higher:

- (a) as to aircraft not engaged in scheduled international air services, than those that would be paid by its national aircraft of the same class engaged in similar operations; and
- (b) as to aircraft engaged in scheduled international air services, than those that would be paid by its national aircraft engaged in similar international air services.

Article 15 subsumes three fundamental postulates:

- (1) uniform conditions should apply in the use of facilities provided by airports and air navigation services;
- (2) aircraft operators should be charged on a non-discriminatory basis; and
- (3) no charges should be levied for the mere transit over, entry into or exit from the departure of a Contracting State.

No ICAO Contracting State, which has notified its adherence to the Chicago Convention could exempt itself from Article 15, which binds Contracting States to adherence under customary international law. The binding force of the Chicago Convention on its Contracting States is ensured by the Vienna Convention on the Law of Treaties (UNGA, 1969), which recognizes treaties as a source of law, accepts free consent, good faith and the *pacta sunt servanda* as universally recognized elements of a treaty (Abeyratne, 1996).

An elaboration of the basic principles of Article 15 in the context of airports and air navigation services charges is contained in ICAO's *Policies on Charges for Airports and Air Navigation Services* (ICAO, 2001) which call for an equitable and fair determination and sharing of airport and air navigation services costs—a principle which has had sustained application by Contracting States. These ICAO policies apply to charges as referred to in the provision of airports and air navigation services within the parameters of Articles 15 and 28 of the Chicago Convention. In this context,

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