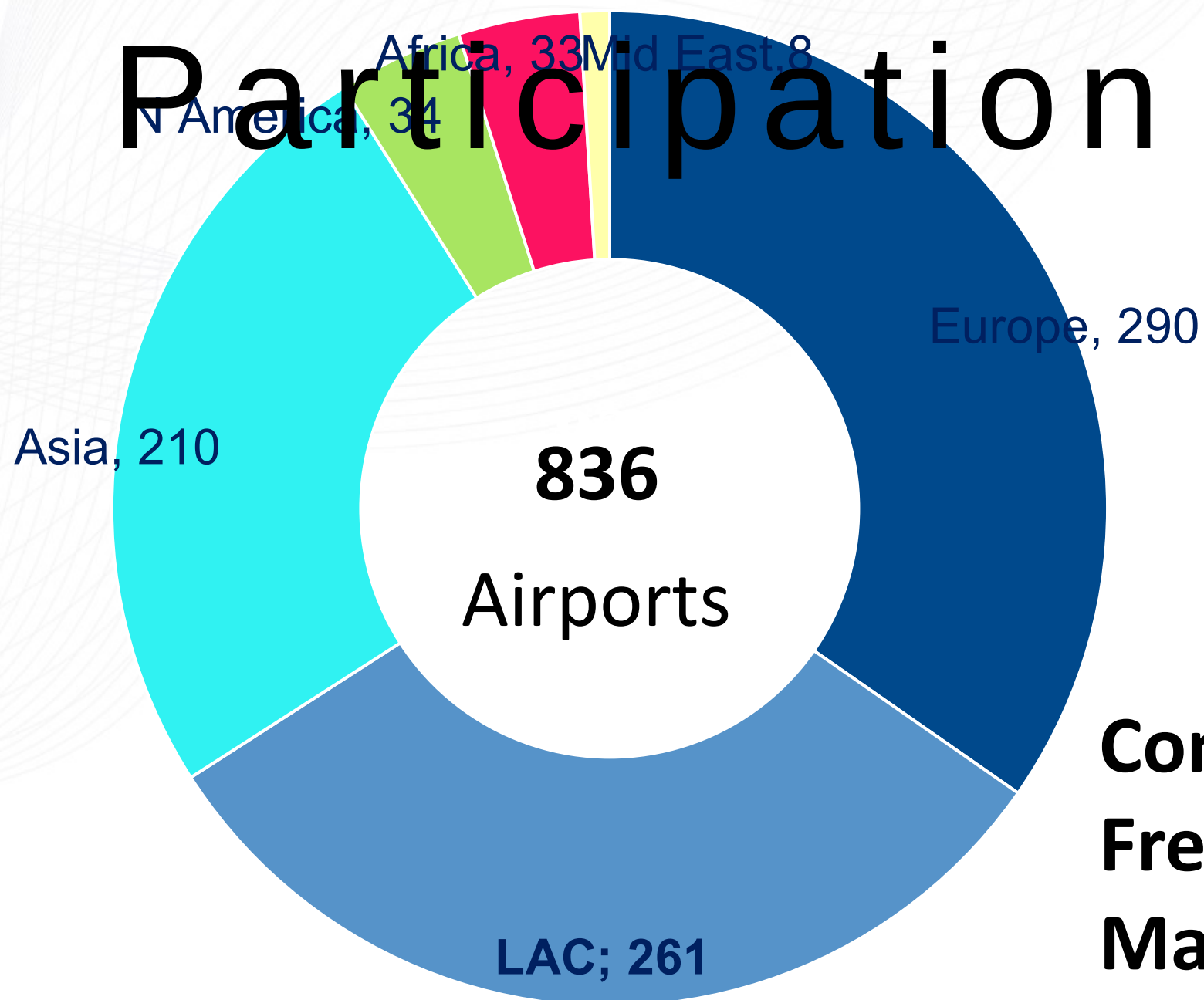


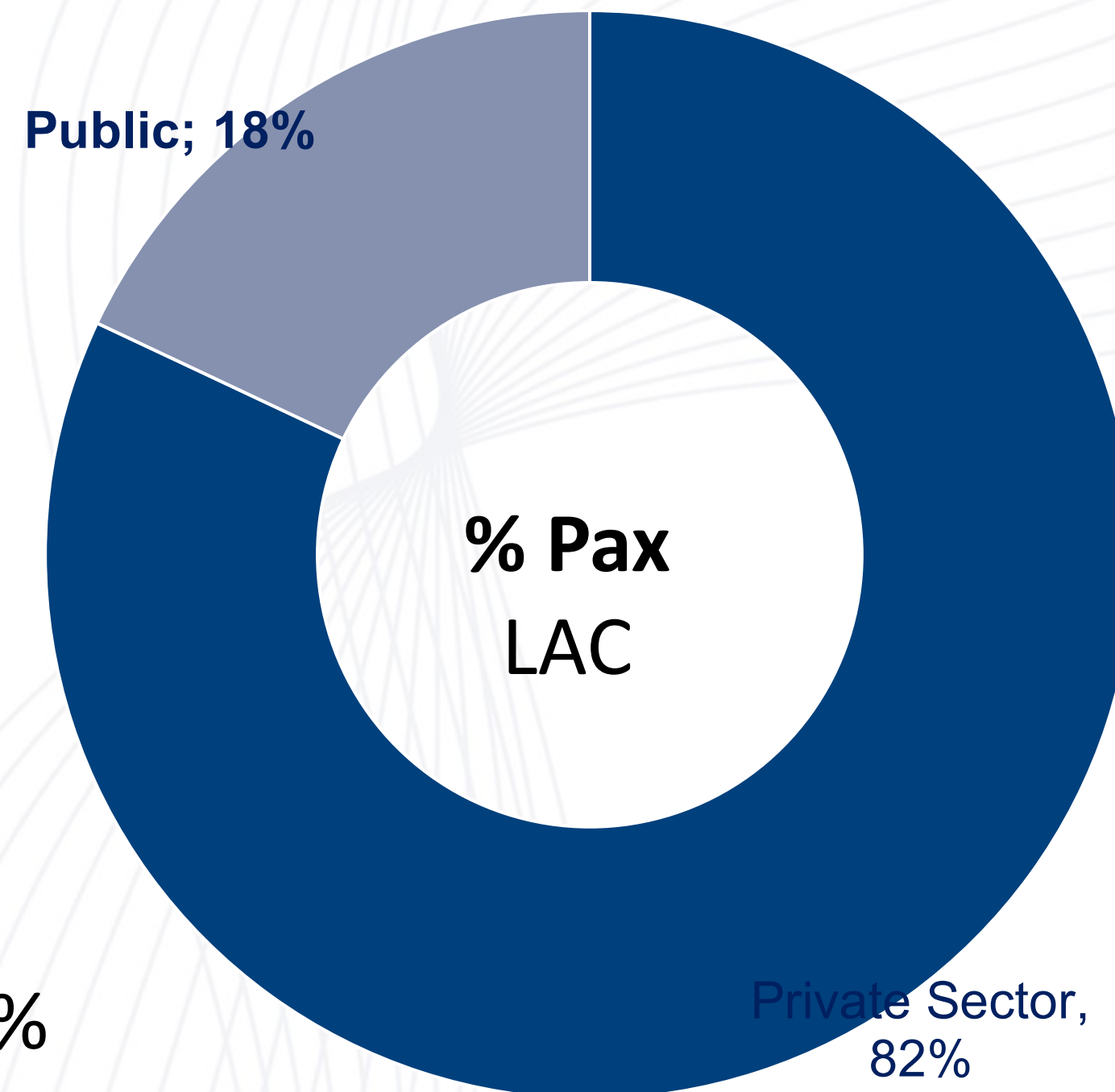
State of Airport Economic Regulation

Patrick Lucas / Dr. Rafael Echevarria
Airport Economics Consulting / ACI-LAC
May 2025

Private Sector Participation



Concession: 60%
Freehold: 30%
Management: 10%

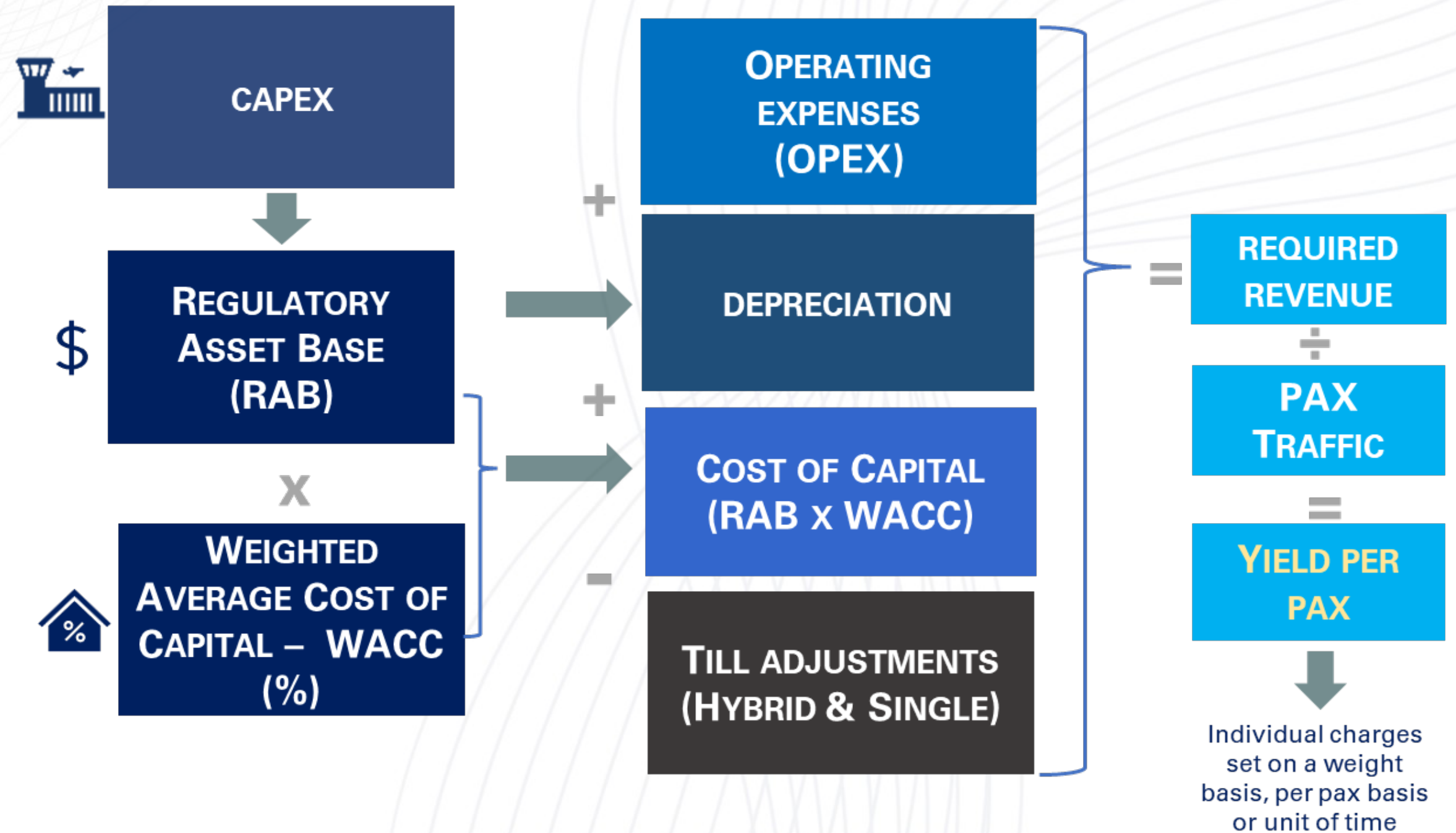


Economic regulation primer

The Building Blocks

- The building blocks are the ingredients for the cost basis for airport charges, including “reasonable profit or return” of the company.

- ✈ The return is treated as a cost (i.e. cost of debt and equity)
- ✈ The total cost is set in relation to the forecasted traffic.



Models of Economic Oversight



Heavy-handed models (ex-ante) are prescriptive and can be based on government decree (pre-determined)

- Cost of service regulation (Cost-Plus)
- Rate-base rate of return regulation
- Price cap regulation with Q, X-factor

- Mandatory consultation



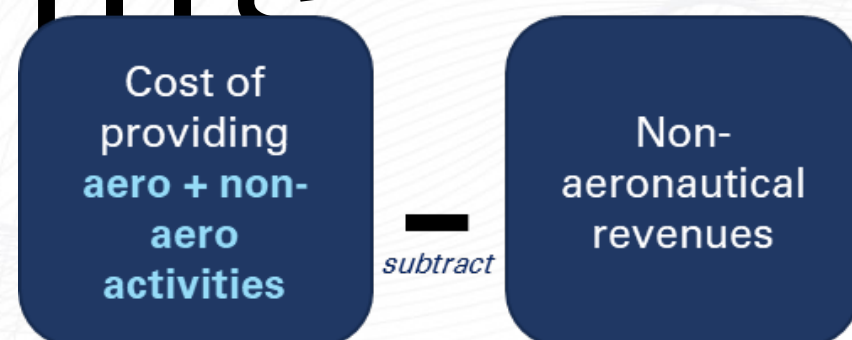
Light-handed models (ex-post) usually consider decentralized and flexible approaches to setting charges (threat of regulation)

- Trigger regulation or price monitoring
- Long term commercial agreements

Summary of Regulatory

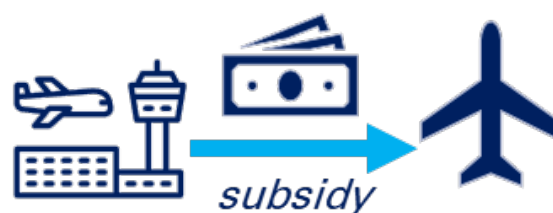
Tills

Single Till



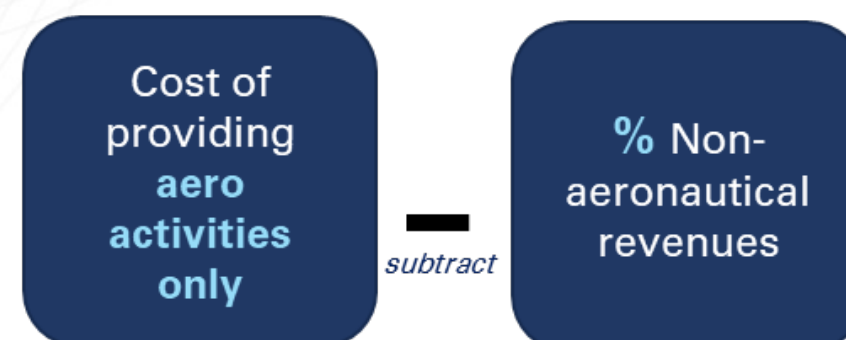
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Cost basis for aeronautical charges



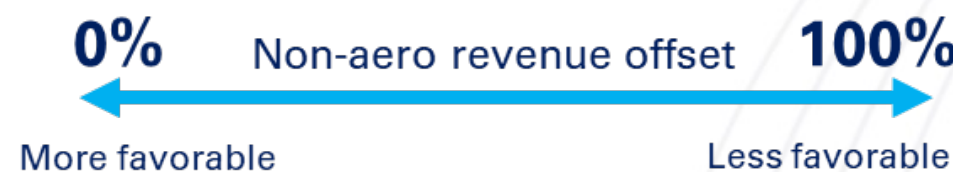
Airlines lobby for this approach

Hybrid Till



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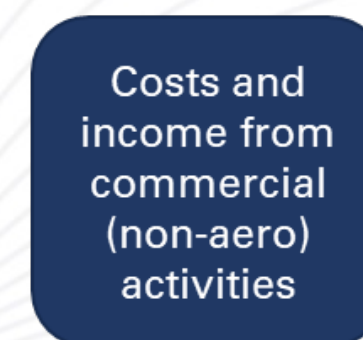
Cost basis for aeronautical charges



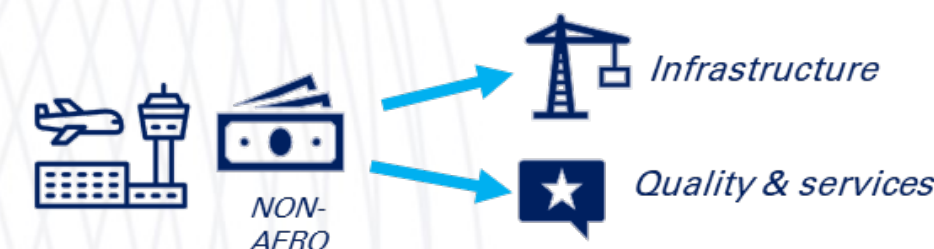
Dual Till



Cost basis for aeronautical charges



Net revenue for the airport operator



Airports lobby for this approach

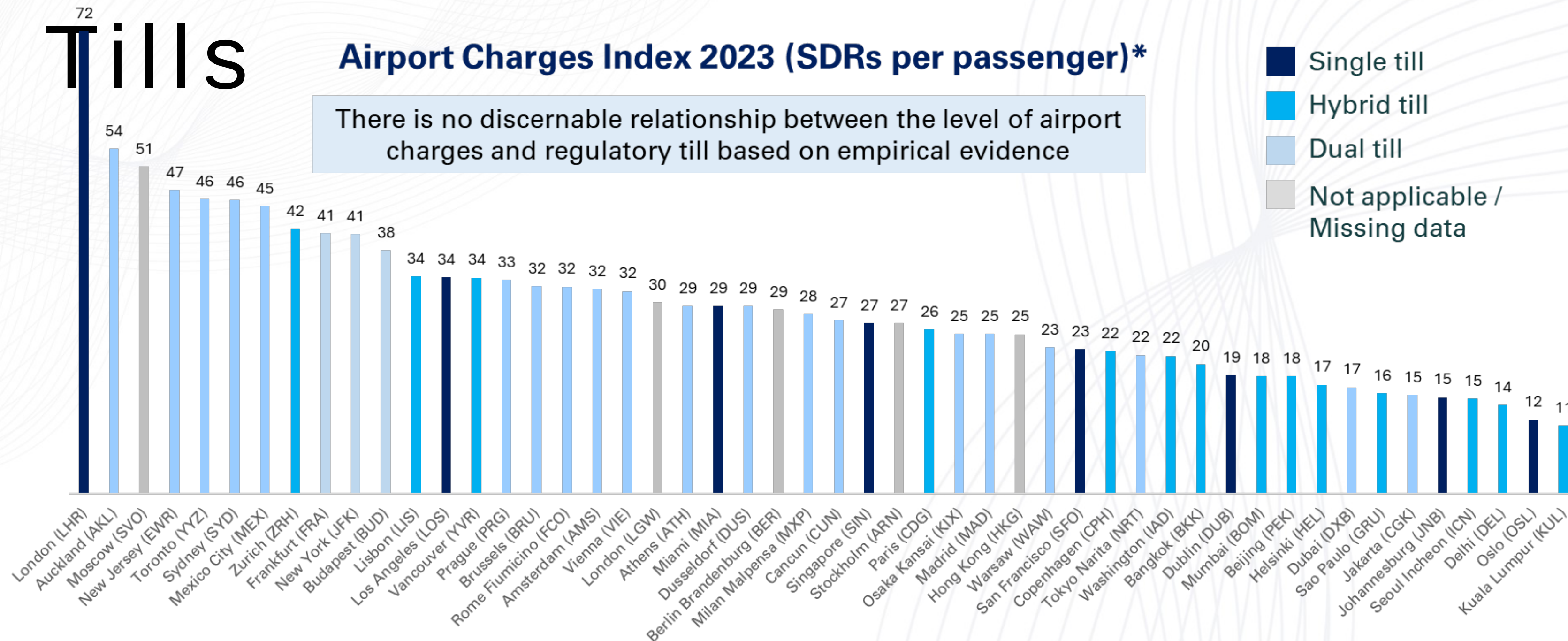
Key data insights into economic Regulation and charges

Summary of Regulatory

Tills

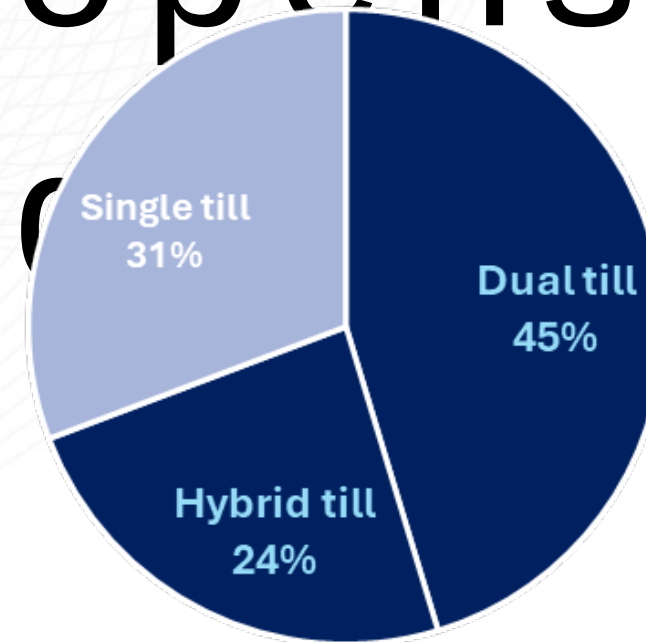
Airport Charges Index 2023 (SDRs per passenger)*

There is no discernable relationship between the level of airport charges and regulatory till based on empirical evidence

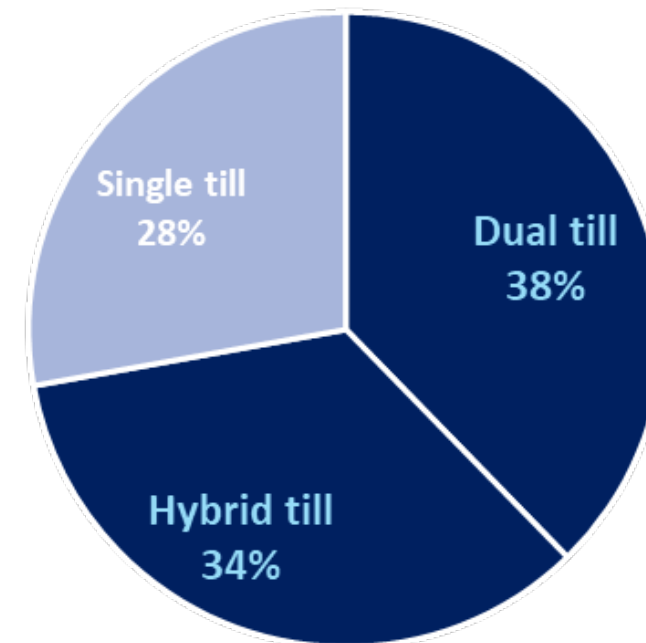


Higher propensity to dual and hybrid

% of airports by till
69% Dual or Hybrid till



% of pax traffic by till
72% Dual or Hybrid till



For available data from 576 airports that apply a building blocks approach from more than 100 major air transport markets located in advanced economies and emerging markets, the charts show the accounting till method applied at major commercial airports.

Almost 70% of airports operate under either a dual or hybrid till regime. From a passenger traffic perspective, these airports handle 72% of traffic under the same regulatory pricing regimes.

Regulatory tills across the globe

LEGEND:

For busiest commercial airports in jurisdiction:

- Dual till
- Hybrid till
- Single till
- Other approaches

Busiest airports under dual till

Mixed models including dual, hybrid and single till

Mixed both hybrid and single till

In transition to dual till

Regulator is considering a transition to hybrid/dual till in next regulatory period

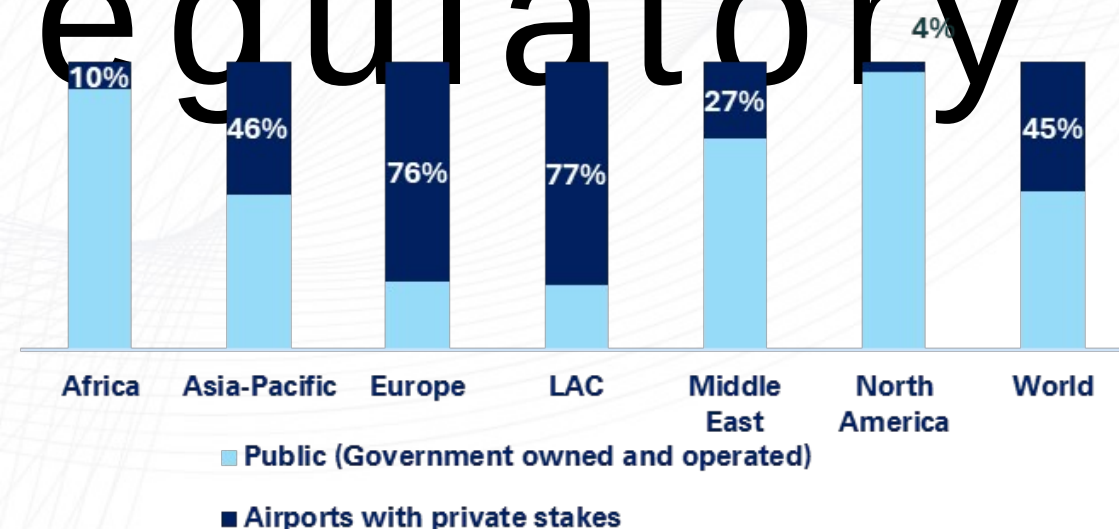
Mixed both hybrid and dual till

ICN (busiest airport) is hybrid while other major airports are single till

Source: Based on reported data for the busiest commercial airports – ACI Airport Economics Database (2023) n=576 airports and desktop research

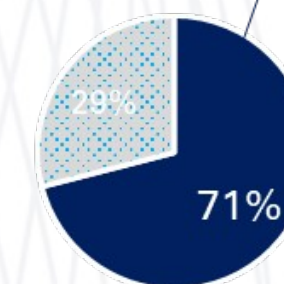
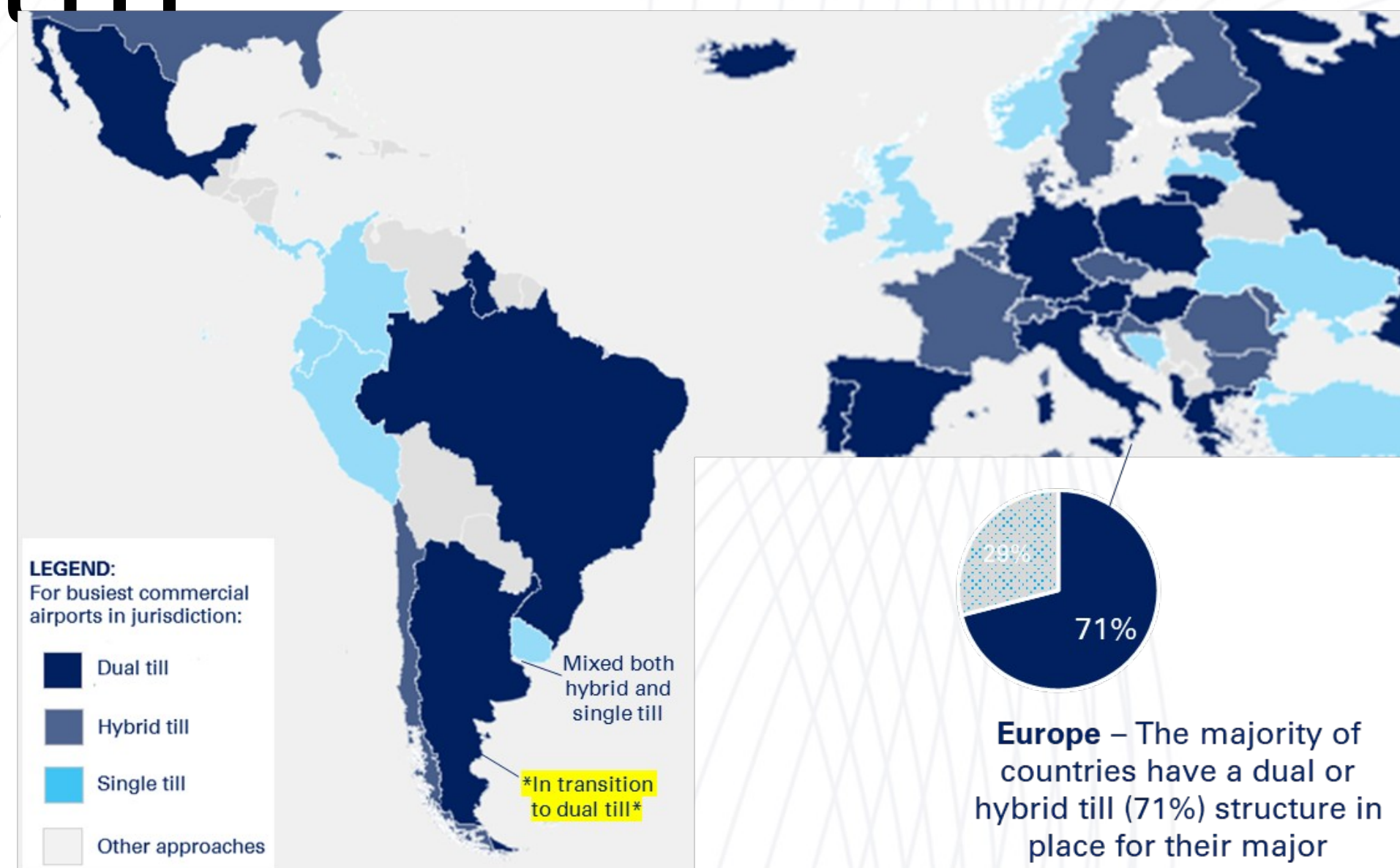
Privatization and regulatory till

% of PAX traffic handled by airports with private stakes*
(2023 based on 2019 traffic)



Regions that have a higher propensity towards different forms of privatizations or private sector involvement have a higher propensity towards hybrid and dual till regulatory regimes. Europe (76%) and Latin America and the Caribbean – LAC (77%) remain the regions with the highest percentage of passengers handled by airports with private sector participation.

LAC – Major markets like Mexico, Brazil, (Dual till) and Chile (Hybrid till) make up a significant share of traffic in the region.



Europe – The majority of countries have a dual or hybrid till (71%) structure in place for their major commercial airports

Charges and CAPEX by type of regulation

Fig. 1 Average Annual Aero per pax
(2014–2019) USD

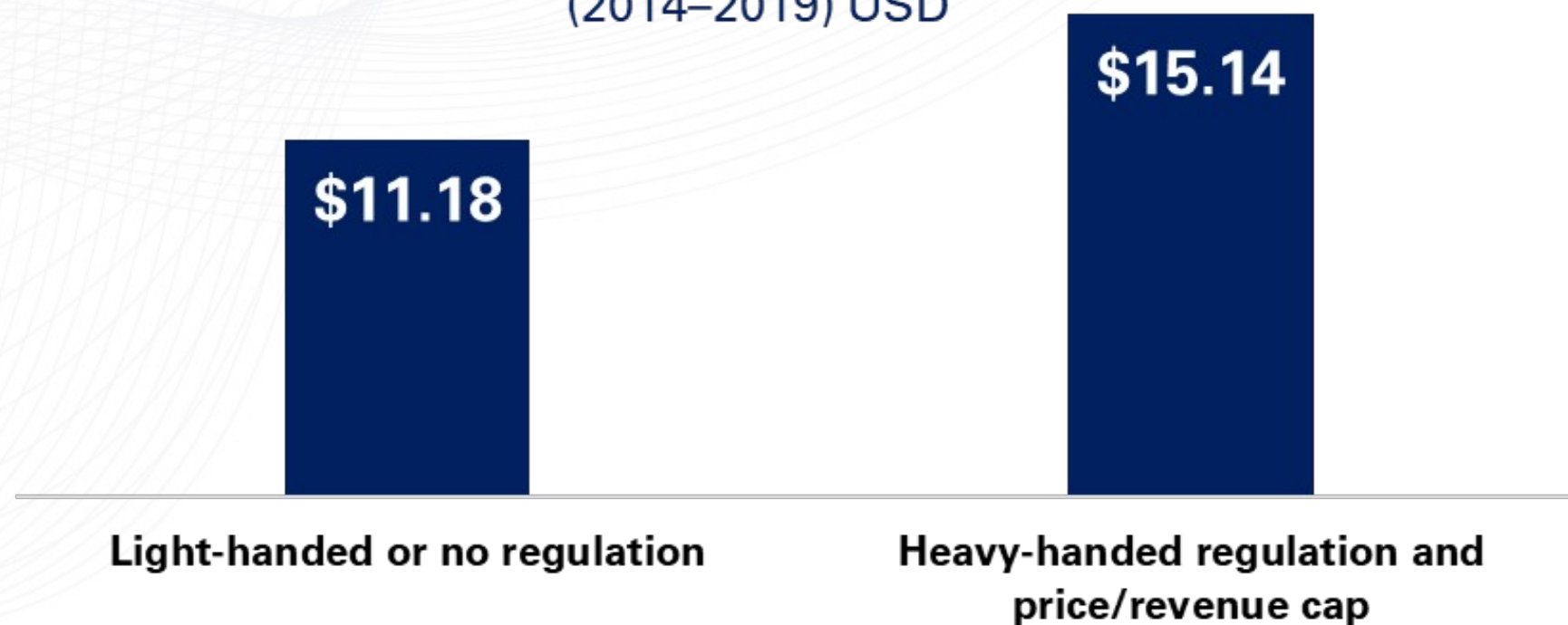


Fig. 2 Average Annual CAPEX per pax
(2014–2019) USD



Airline perspective and the impact of airport charges

Economic oversight of airports

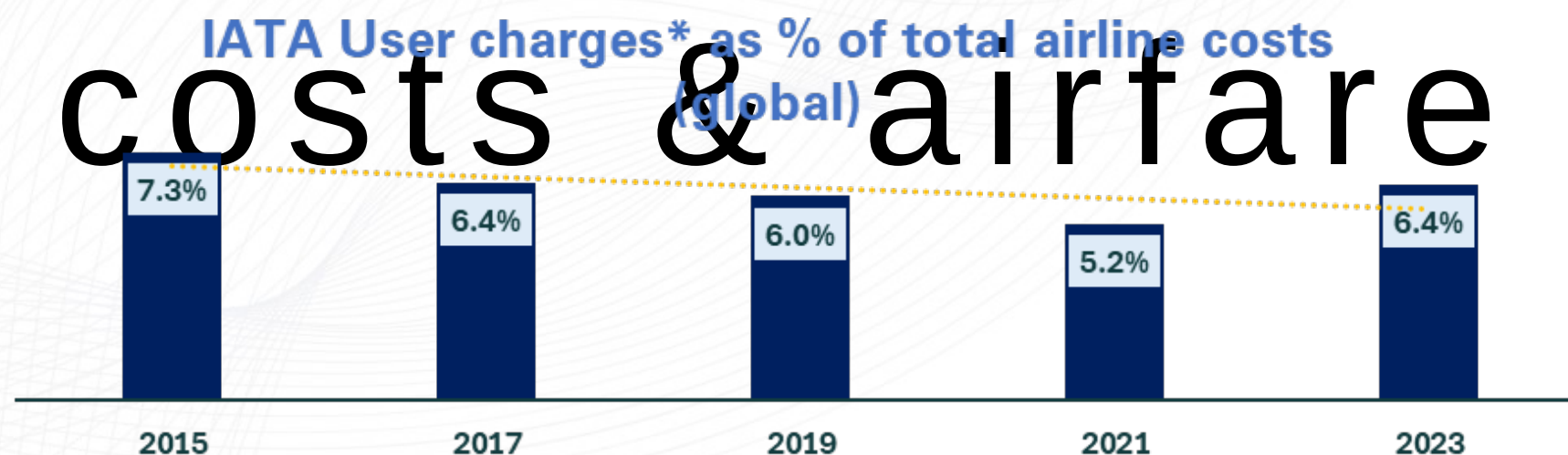


- **Strong, robust and independent** economic regulation
- Neutral dispute settlement mechanism
- Effective **stakeholders' engagement**
- CAPEX if and only if agreeable to airlines users



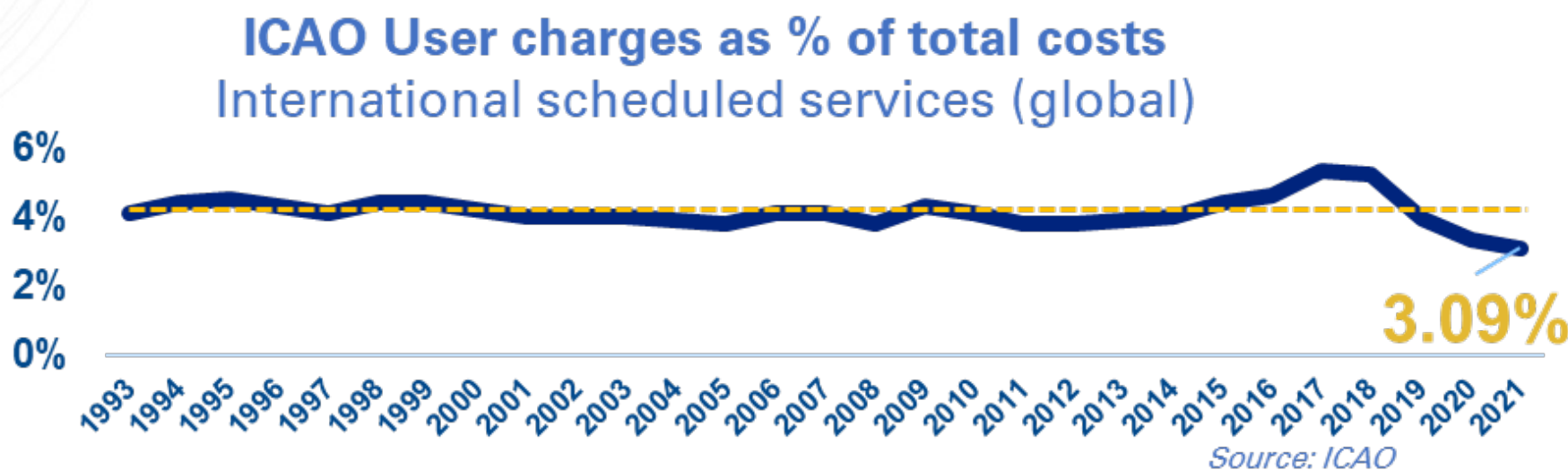
- **Competition issues** should be addressed first and foremost by national **competition law**.
- Regulation only be imposed when **market dynamics** have proven to be **insufficient**.
- The interests of airlines **should not supersede** the interests of airports and passengers.

Airport charges as % airline costs & airfare

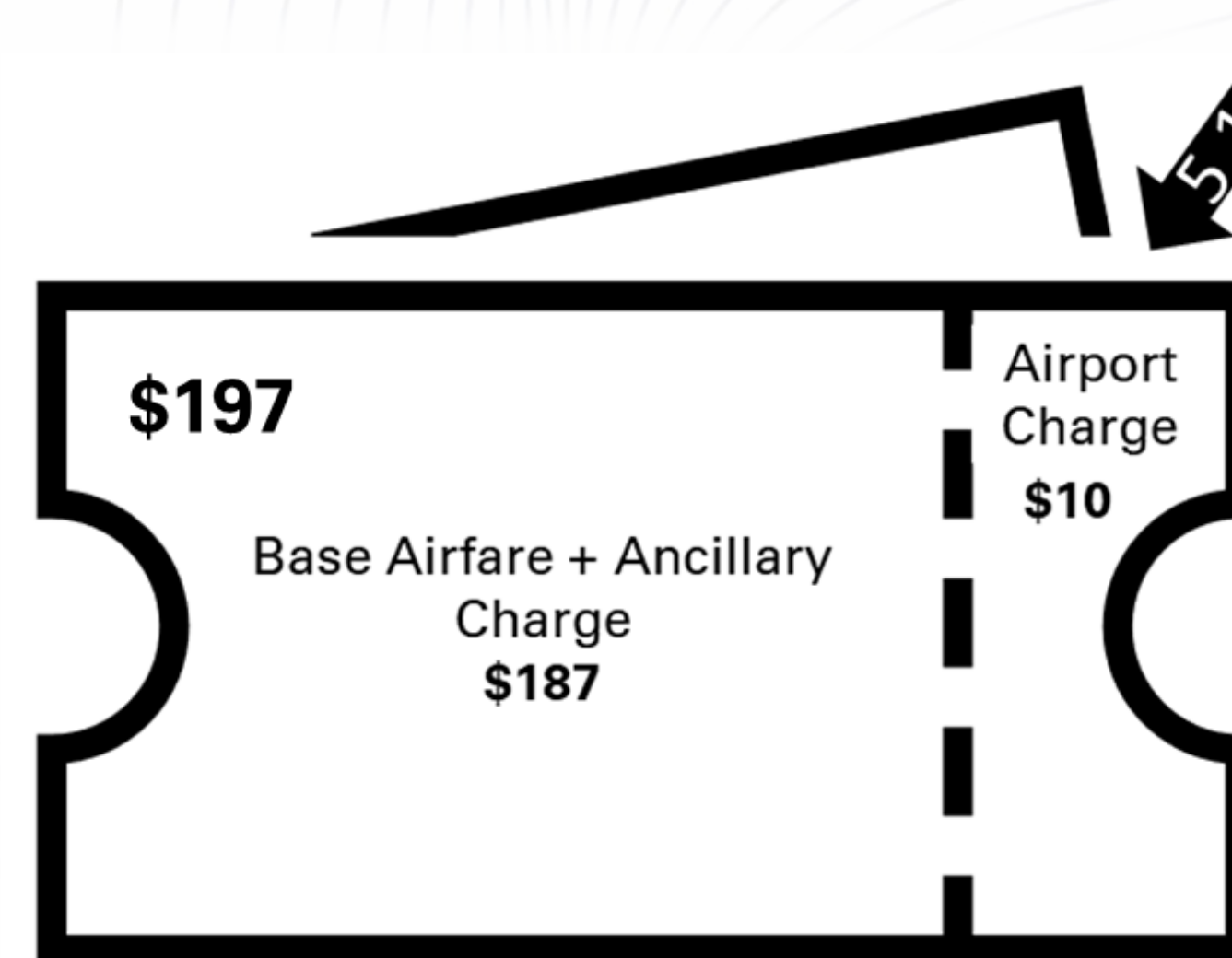


Source: ACI World adapted from IATA WATS 2016, 2017, 2018, 2019, 2020, 2021, 2022

*As defined in IATA WATS, the data presented are drawn from a sample of airlines. The sample sizes generally reflect traditional/legacy airlines only. User charges consists of both of Air traffic control (ATC) charges and airport charges



Airport charges represent a small % of airfares



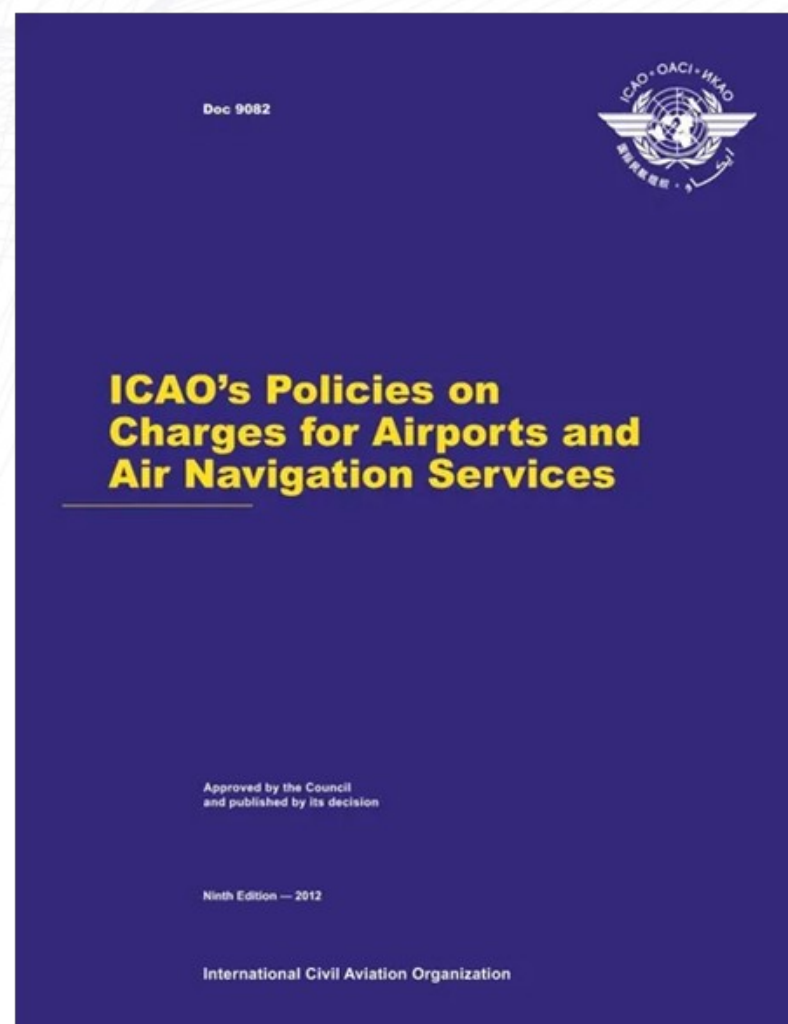
Source: InterVISTAS Analysis of Sabre MIDT Airfare Data, Ancillary Revenue Data from IdeaWorks, and ACI World Economics Data.

Strategic considerations for airports

ACI push to modernize ICAO

Why modernize? doc 9082

Doc 9082 – ICAO's policies
on airport charges



Airports

- Corporatization or privatization
- New approaches to pricing and economic oversight
- Commercialization and customer experience
- Increased airport competition
- Infrastructure bottlenecks
- Decarbonization

Airlines

- Deregulation and privatization
- Alliances and consolidation
- Rise of the LCCs
- Changes in aircraft technology/economics
- Dynamic demand elasticity pricing
- Energy transition and decarbonization



ICAO's policies on charges – Doc 9082

- 4 Basic principles:

- ✈ Non-discrimination
- ✈ Cost-relatedness
- ✈ Transparency
- ✈ Consultation

- The policies are not binding but States are committed to follow them and conform to them – Typically included in national legislation



Pre-funding

*Pre-funding of projects through charges should not be used to fully recover costs in advance of the commissioning of new airport or air navigation facilities or infrastructure **but may be accepted in specific circumstances, after having allowed for possible contributions from non-aeronautical revenues, where this can assist in financing long-term, large-scale investment, provided that strict safeguards are in place, including the following:***

- a. effective and transparent economic oversight of charges and the related provision of services, including performance management;*
- b. comprehensive and transparent accounting, with assurances that resulting charges are, and will remain, earmarked for civil aviation services or projects;*
- c. advance, transparent and substantive consultation by providers and, to the greatest extent possible, agreement with users regarding significant projects being pre-funded;*
- d. application for a limited period of time with users benefiting from lower charges and from smoother transition in changes to charges than would otherwise have been the case once new facilities or infrastructure are in place; and*
- e. where pre-funding is applied, ring-fencing mechanisms should be put in place to ensure that the funds collected are only used for identified projects.*



Market-based Pricing

NEW!

- *“Consistent with the form of economic oversight adopted, States should assess, on a case-by-case basis and according to local or national circumstances, the positive and negative effects of modifying airport charges to address specific situations. For example, **an airport may want to modify its current charging approach to improve the economic efficiency associated with service provision through the use of pricing based on peak periods or congestion. In other cases, an airport may want to encourage the use of certain technologies or attract new air services by offering rebates or discounts....**”*
- Must also be consistent with **four charging principles**



Transitioning to hybrid and dual till regimes

Notable examples where jurisdictions (major airports) transitioned from single to hybrid or dual till

Note that in many instances the transition spanned multiple years



Australia



Germany



India



Portugal



Spain

Pre-requisite for transitioning:

- Airport operator maturity – Robust managerial cost accounting systems with cost centers for aero and non-aero activities:
 - ✓ Assets and depreciation segregated
 - ✓ OPEX segregated
- Full buy-in of regulator/grantor to support the transition

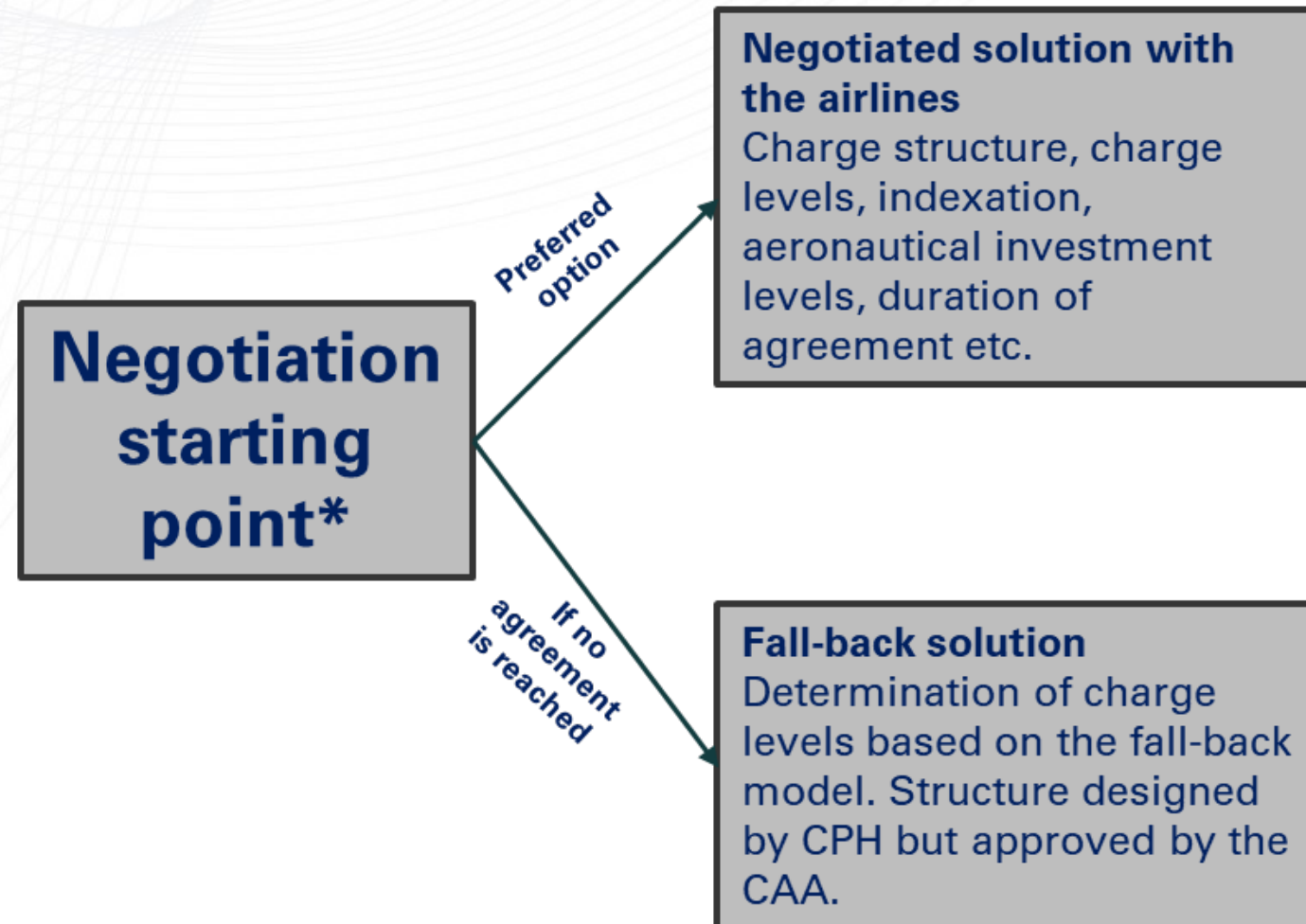
Benefits of transitioning:

- Better margins and EBITDA – Monies for CAPEX, Service quality, etc.
- Greater incentive to develop non-aero activities and revenues
- Incentivizes for private investment & entrepreneurship
- Better terms from creditors (cheaper cost of capital)

Benefits of the Danish case –

h

Decentralized model of economic oversight: The Danish regulation on airport charges motivates CPH and airlines to agree on the level charges and services. If the parties do not agree the Fallback model is activated, and the CAA determines what revenue CPH is allowed to make on the aeronautical segment – in a two-year period.



BENEFITS of the regulatory model

- **Airport and airlines can agree on terms (i.e. commercial agreements)** and on how to organize the charges' structure – to cater to the prevailing airline business model at the specific airport.
- **To support the best use of current capacity**
 - ✓ Ongoing dialogue on what investments to undertake etc., (airports maintain a veto on the decisions)
 - ✓ For the parties to engage in commercial partnership models to incentivize growth for both parties – how do we commit each other (i.e. reciprocal link)?
- **An incentive for the airport to deliver a professional product on service and quality** – not just invest to increase prices!
- **And to establish an appropriate service offering to the traveler** (e.g. services, retail offering, F&B etc.).

Summary

1. Airport charges building blocks for economic regulation
 - Cost of capital tends to be the most contentious
2. Trend towards dual and hybrid till
 - Dual and hybrid till do not always result in higher airport charges based on the empirical evidence, yet tends to be more favorable for airport operators and investors
3. Understanding the airline perspective and develop win-win strategies or risk-sharing mechanisms
4. Rethink conventional economic regulation to create incentives to develop traffic & CAPEX

THANK YOU!

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