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Session # 4

Charging Strategies

– Ensuring a Successful Financial Performance

Airport - Airline Risk Sharing Model For Better Partnership

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THE UNIVERSITY OF TOKYO



Why AP-AL Relationship?

- ✈ Airline(AL), especially LCCs, has concern about Airport(AP)-related costs.
e.g., Landing Charges, Gate Payment ...
- ✈ APs are greatly affected by ALs.
e.g., Hub (Base), Frequencies, ...
- ✈ Discussed for Long but Still Significant Issue
e.g., Start-up aides, Vertical Relationship,...

Complex Relationship (AP-AL)

✈️ Conflicting (Zero-Sum Game)

→ Landing Charge, Gate Payments...

✈️ Inter-dependent / Joint-Venture type

→ Jointly Serving Users (Need Both)

✈️ Can we improve the AP-AL relationship ?

→ Yes, if we can design contract smartly.

e.g.; Examples vary depending on APs, areas, ...

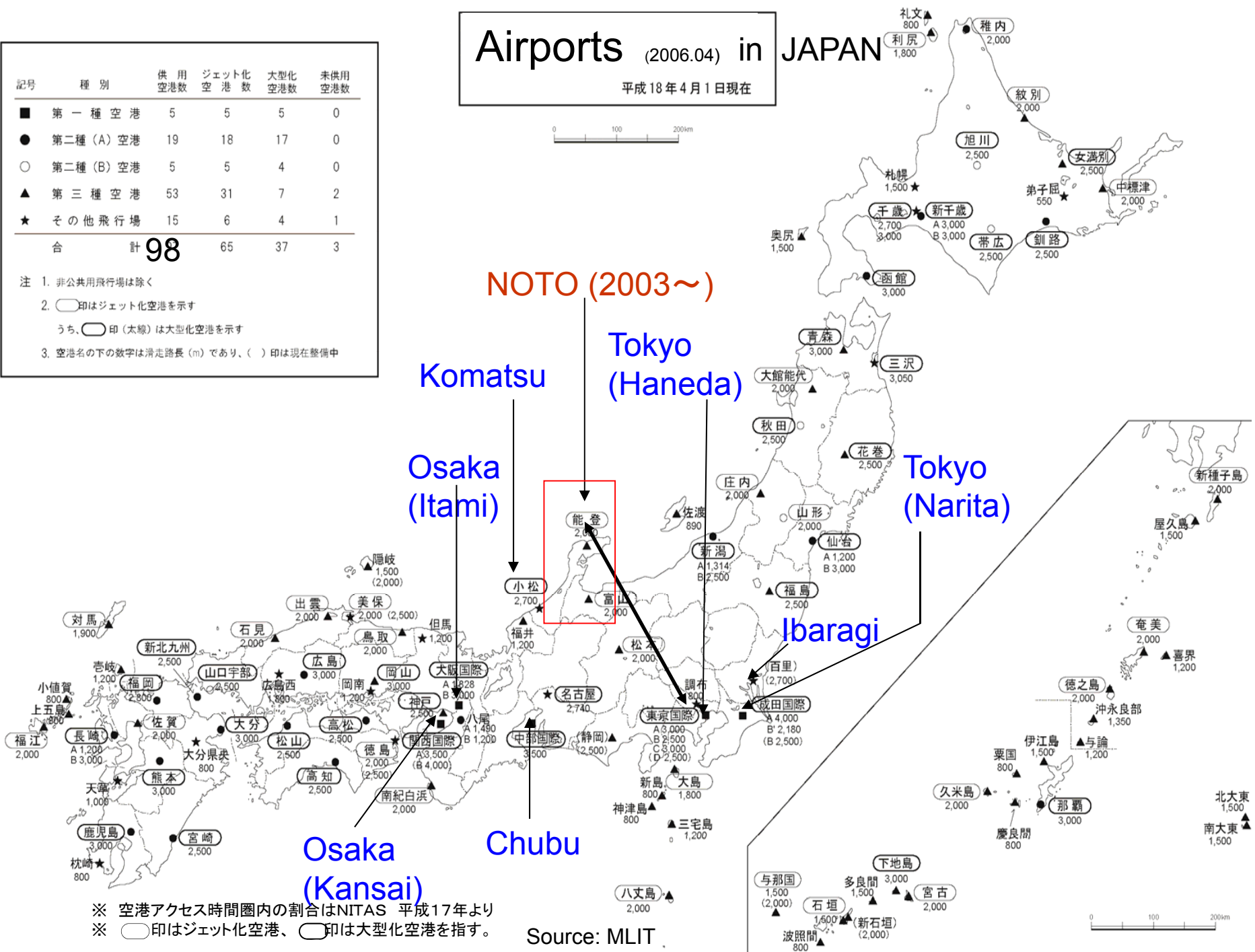
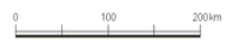
NOTO_AP (150,000pax/year) case

Airports (2006.04) in JAPAN

平成18年4月1日現在

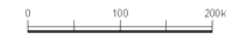
記号	種別	供用空港数	ジェット化空港数	大型化空港数	未供用空港数
■	第一種空港	5	5	5	0
●	第二種(A)空港	19	18	17	0
○	第二種(B)空港	5	5	4	0
▲	第三種空港	53	31	7	2
★	その他飛行場	15	6	4	1
合計		98	65	37	3

注 1. 非公共用飛行場は除く
 2. ○印はジェット化空港を示す
 うち、○印(太線)は大型化空港を示す
 3. 空港名の下に数字は滑走路長(m)であり、()印は現在整備中

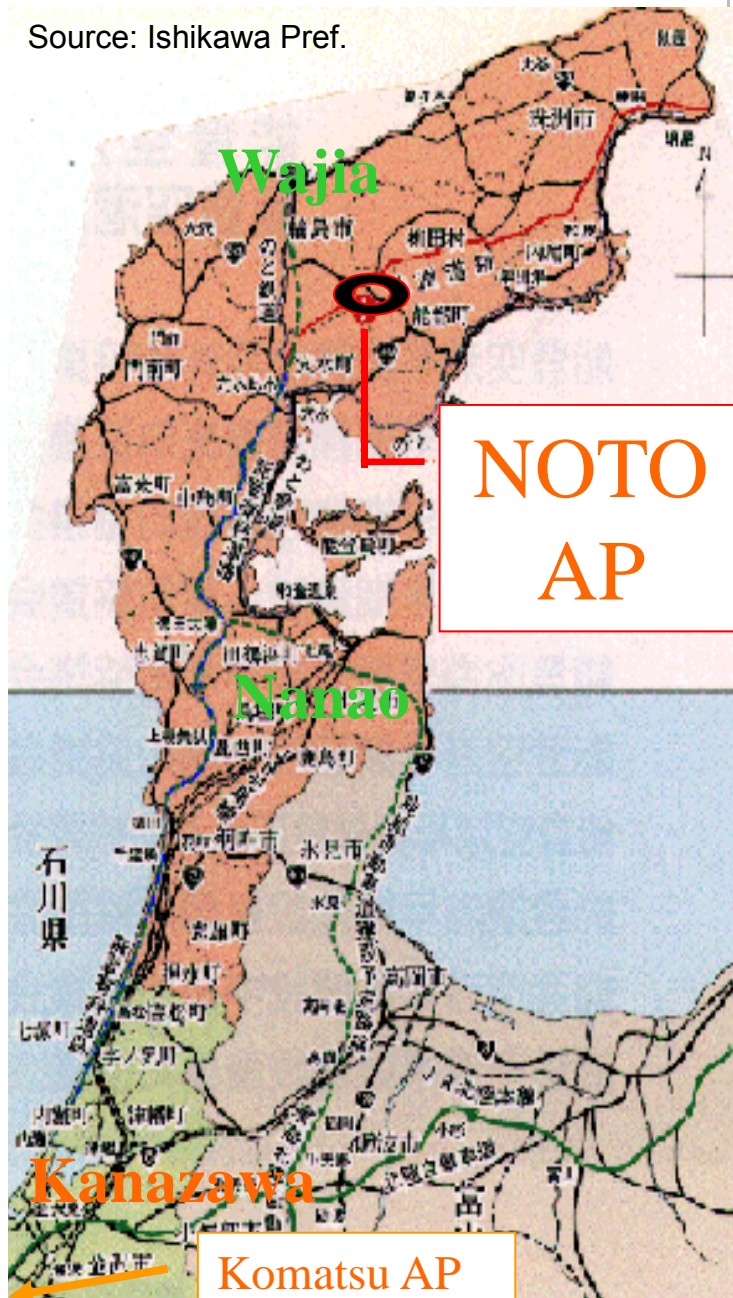


※ 空港アクセス時間圏内の割合はNITAS 平成17年より
 ※ ○印はジェット化空港、○印は大型化空港を指す。

Source: MLIT



Source: Ishikawa Pref.



NOTO Airport

【NOTO AP Spec】

Opened
2003

AP Authority

Ishikawa Pref. Gov.

Runway 1
2,000m x 45m

Construct. Cost
about US\$270M

Serving Airline
ANA; 2 RTs/day to Haneda



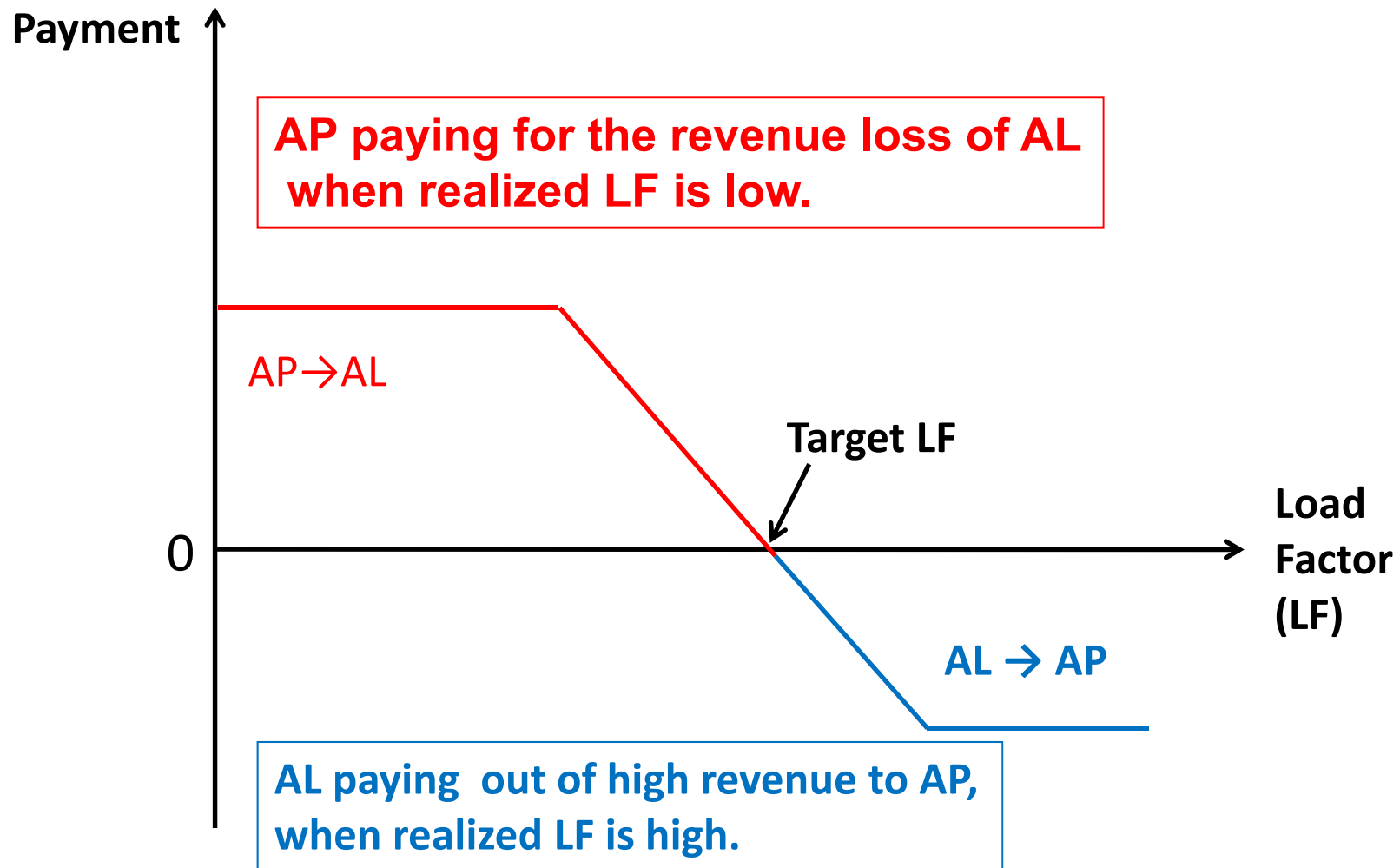
Load Factor Guarantee Mechanism (LFGM)

Contract (b/w NOTO AP and ANA AL) specifying the payment from AP to AL (or reverse) based on the difference between a target load factor and a realized load factor of the route

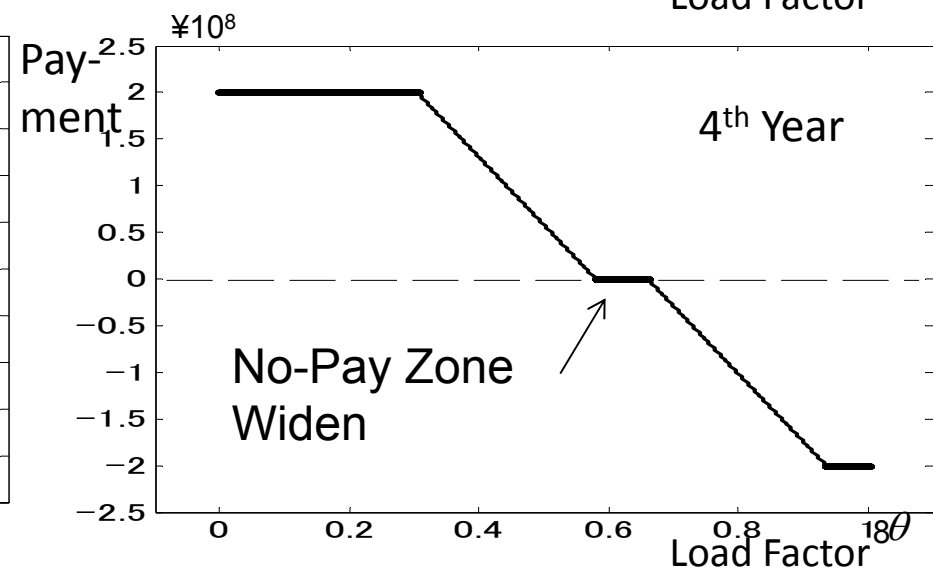
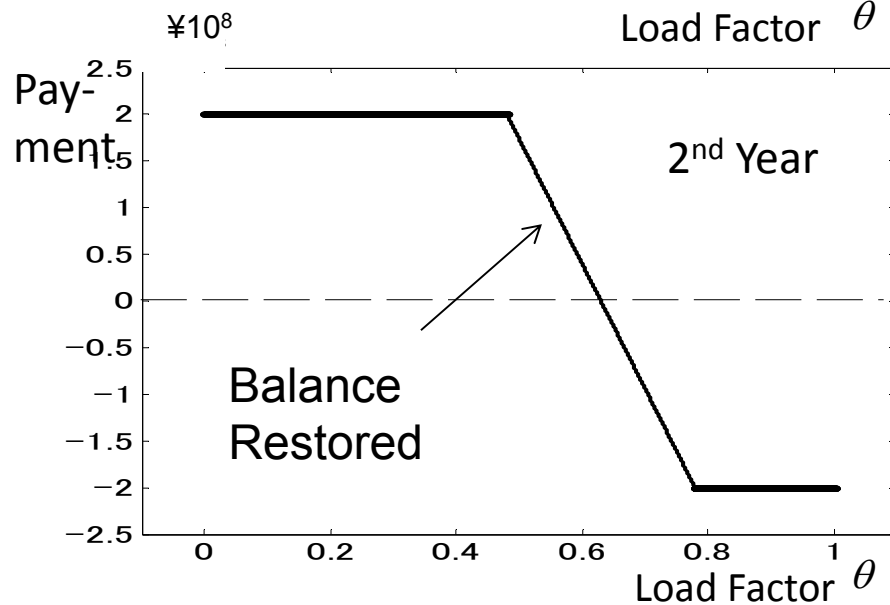
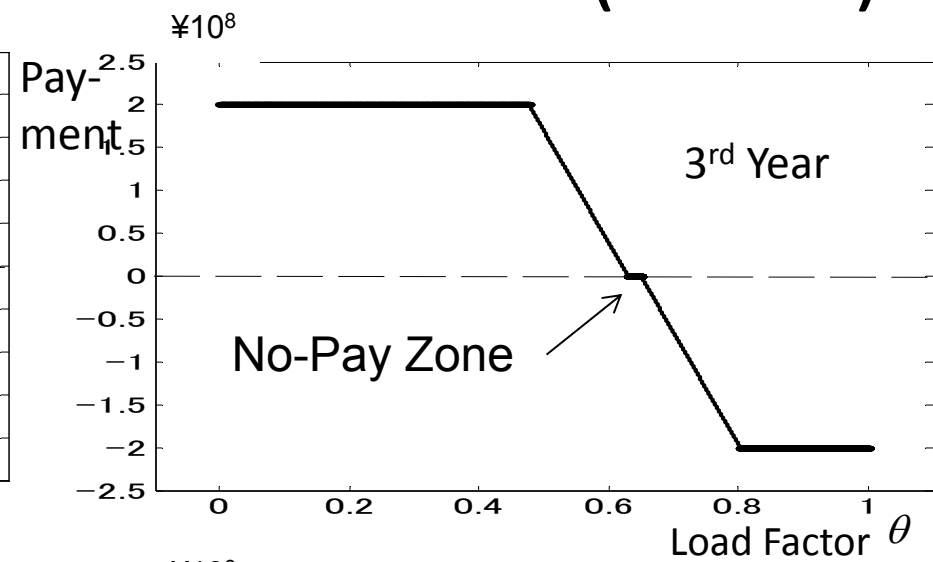
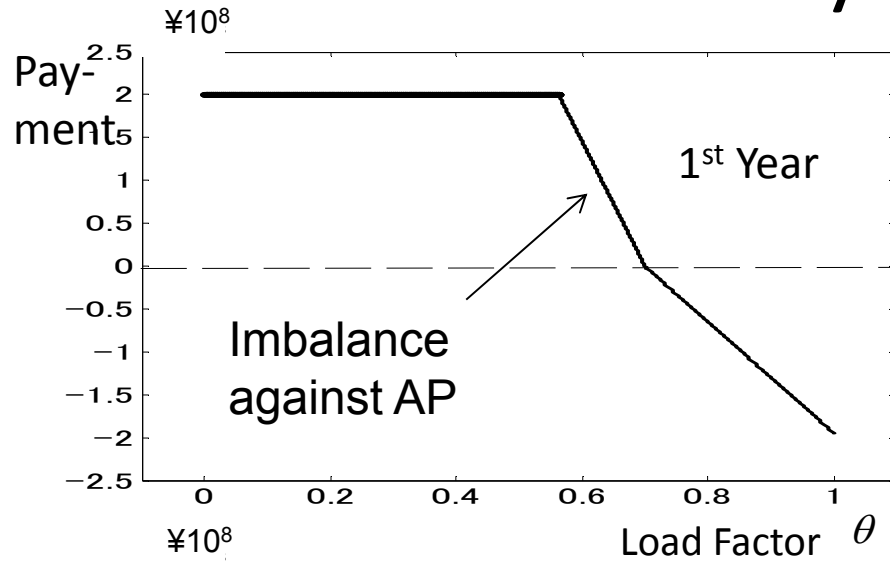
Payment = Target LF – Realized LF

+: AP → AL, - : AL → AP

Payment Structure of LFGM (conceptual)



NOTO Contract Payment Structure (actual)



Source: Hihara (2008)

Actual Data at NOTO Case

Year	Target LF	Realized LF	Payment AL→AP (¥10 ⁸)
1	70%	79.5%	0.97
2	63%	64.6%	0.15
3	64%	66.5%	0.20
4	62%	65.1%	0

➡ AP consistently beat expectation and keep services.

A Lot of Efforts (examples)

AP;

- Promotion Campaign Budget (1.1M\$/year)
- Landing Fee Cut by 2/3
- AP Parking Free of Charge
- Incentive Payment to Tickets on NOTO=Haneda
- Improve Bus and Taxi to/from AP

AL;

- Improve Connection at Haneda
- Discount for Connection Ticket
- Quality Travel Package (domestic/int'l)

Multiple Functions of Contract

- ✈ AP & AL share revenue fluctuation risk.
- ✈ Incentive device to improve each effort
(to meet target LF or to get payment)
- ✈ Commitment to serve AP by AL



Analyses from Several View Points are possible.

Risk Sharing gets Balanced ?

Efficiency Gain by the Contract ?

Linear Contract can be Optimal ?

...

} → YES!!!

Conclusion

- ✈ AP-AL relationships could be made into better risk sharings by designing contracts smartly.
- ✈ To reach smart contract, clever incentive design & decreasing asymmetries is the key.
 - e.g., level the playing field,
enhance transparency,
improve communication ...



Special Gratitude to



- ✈️ Kansai International Airport Co., Ltd.
- ✈️ Airport Environment Improvement Foundation
- ✈️ Narita International Airport Co., Ltd.
- ✈️ Japan Airport Terminal Co., Ltd.



Thank you for your attention!



Papars;

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