

Workshop on Economic Regulation of Airports

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Workshop Panel:

❖ ***Dr. Sotiris Pagdadis***

Economics and Regulation

❖ ***Ms. Kate Lang***

FAA and the “U.S.A. Model”

❖ ***Ms. Monique Bruinsma Schouten***

❖ *Schiphol Group and the “European Model”*

❖ ***Mr. Dennis Chant***

Queensland Airport and the “Australian Model”

❖ ***Rafael Pereira Scherre & Daniel Aldigueri***

ANAC and the “Brazilian Model”

Airport Ownership Frameworks:

- Public Entities. Operated by Public Entity
- Public Entities. Operated as Non-Profit Orgs.
- Public Entities. Corporatized
- In Concession Agreement
- Privatized (Partially/ Fully)

Why are Airports Regulated?

Historically airports have existed as public entity assets and have served the public. As a public service, therefore, governments have sought to ensure the public is served fully and fairly.

With the introduction of private operators in the 1980's, governments sought to ensure, to the extent an airport were to function as a monopoly, or have undue market power, that care would be taken to limit unfair enrichment at the cost of the public.

Economic Regulation Frameworks Used:

- PRICE CAPS
- RATE OF RETURN
- COST BASIS
- REVENUE BASIS
- AIRPORT SET CHARGES

Single Till versus Dual Till

Single Till : Regulates both aeronautical and non-aeronautical revenues. The model favors cross subsidization between the two types of revenue sources.

ICAO Document 9082/8 para 30i)

“The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the cost of maintenance, operation, management and administration, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators.”

Single Till versus Dual Till

Dual Till : Strictly speaking this approach only regulates aeronautical revenues. The model encourages creative exploitation of non-aeronautical revenue sources to suit the needs of the airport operator.

*In 1990, only about 30 percent of airport revenues were from non-aeronautical sources. This figure has grown significantly in recent years, where it is now closer to 50 percent, and in some cases even 60 percent of gross revenue of the airport. **

* From ACI Position Brief, October 2007

Hybrid Till

The expectation of hybrid regulation is to provide some incentive mix between the two other models. This is put in place, either because market conditions have not been tested, or time is needed to transition an airport business to an optimal state, or because market conditions are such that the airport's sustainability is dependent on a more creative regulatory framework.

Objectives of fair-handed Regulation:

- Prevent anti-competitive/ discriminatory practices
- Provide incentives for investment

- Ensure efficient airport operation
- Ensure cost effective use of facilities

Primary Considerations:

- ➔ *Prevailing Laws*
- ➔ *Ownership and Operating Structure*
- ➔ *Amount of Capital Investment compared to LCC*
- ➔ *Traffic Size and Forecasted Growth*
- ➔ *Slot Allocation Mechanism*
- ➔ *Types of Airport Competition*

Deliberation:

❖ ***Dr. Sotiris Pagdadis***

Moderation

❖ ***Ms. Kate Lang***

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