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THE WORLD BANK

ACI 11th Annual Airport Economics and Finance Conference & Exhibition

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13 March 2019

2019 ACI Airport Economics Report

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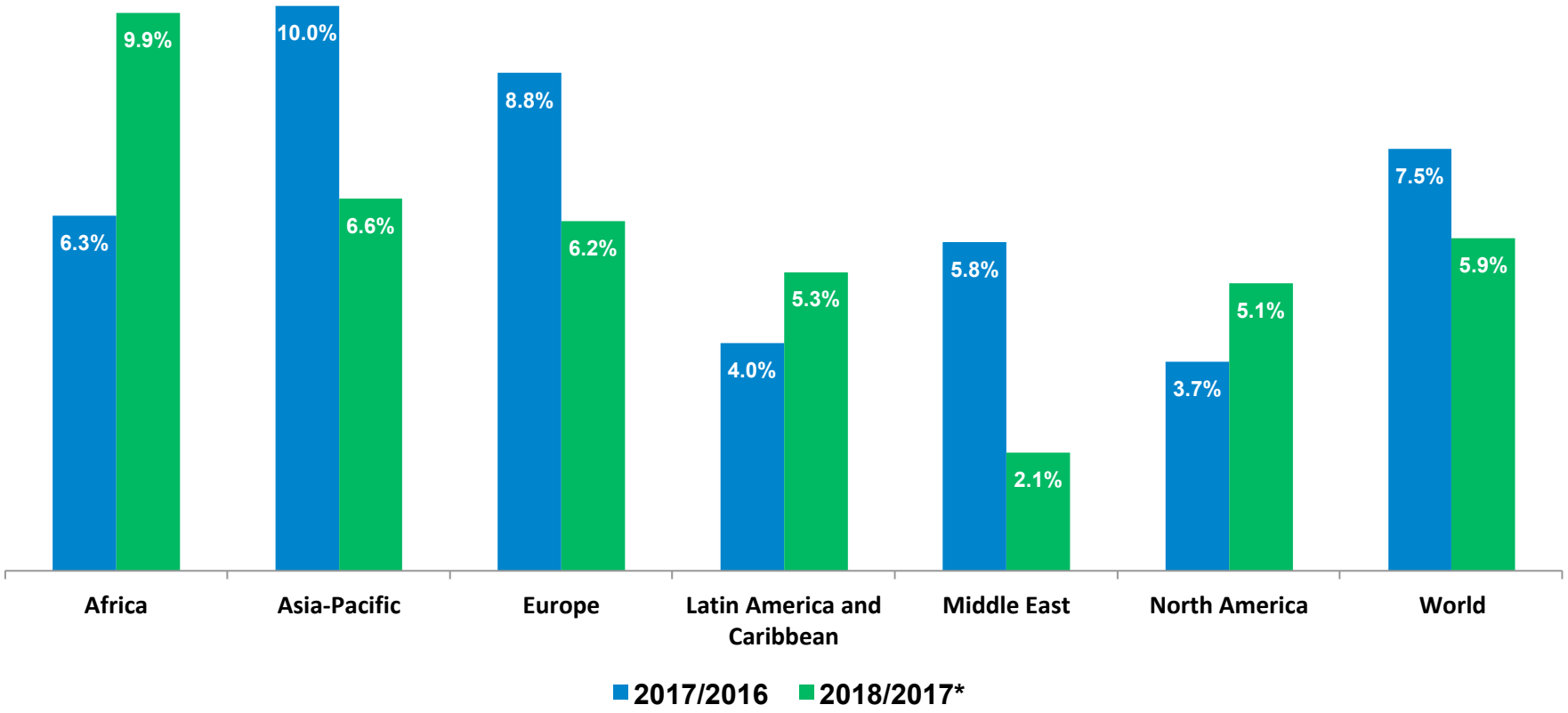
Passenger traffic growth rates by region (2017/2016 and 2018/2017*)



* Preliminary figures up through December 2018
Source: 2019 ACI Airports Economics Report

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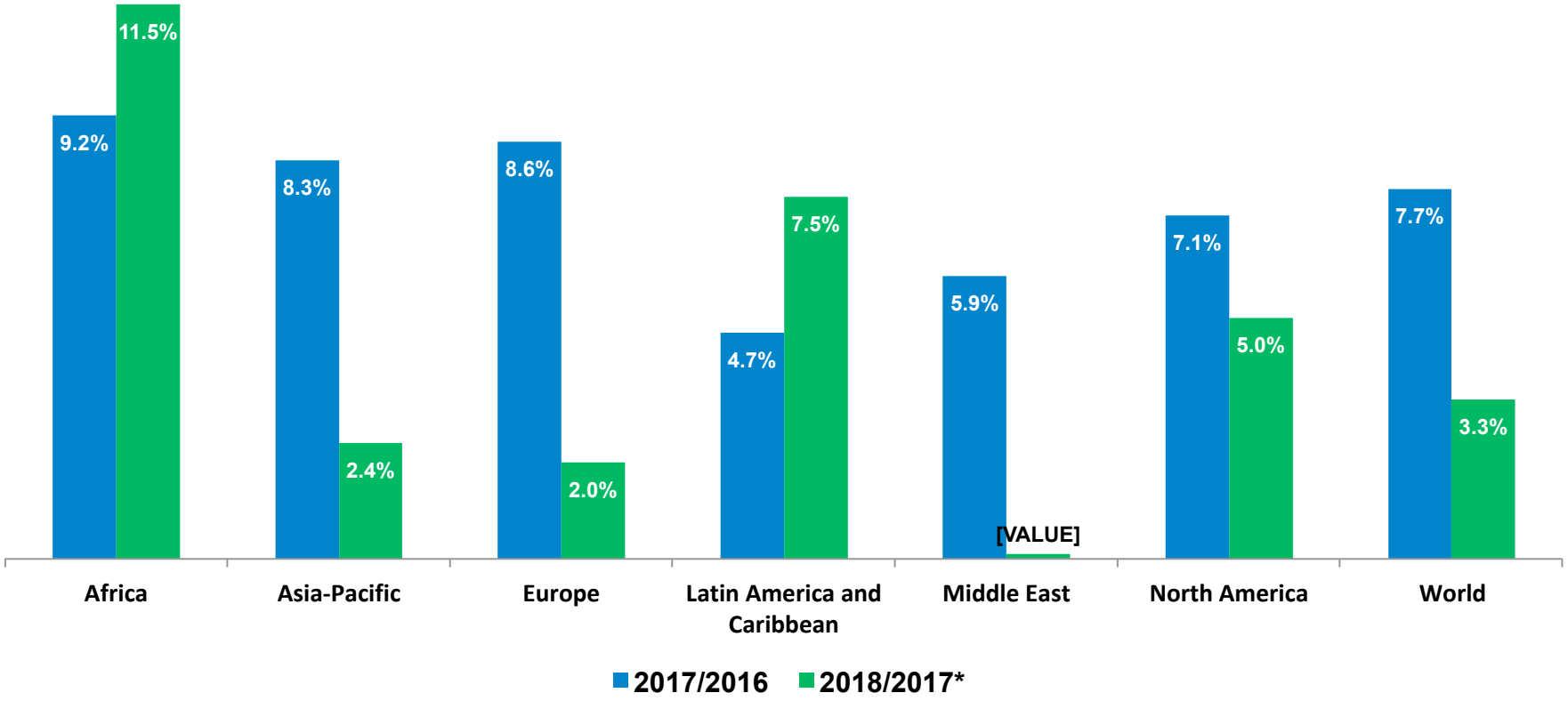
Air freight traffic growth rates by region (2017/2016 and 2018/2017*)



* Preliminary figures up through December 2018
Source: 2019 ACI Airports Economics Report

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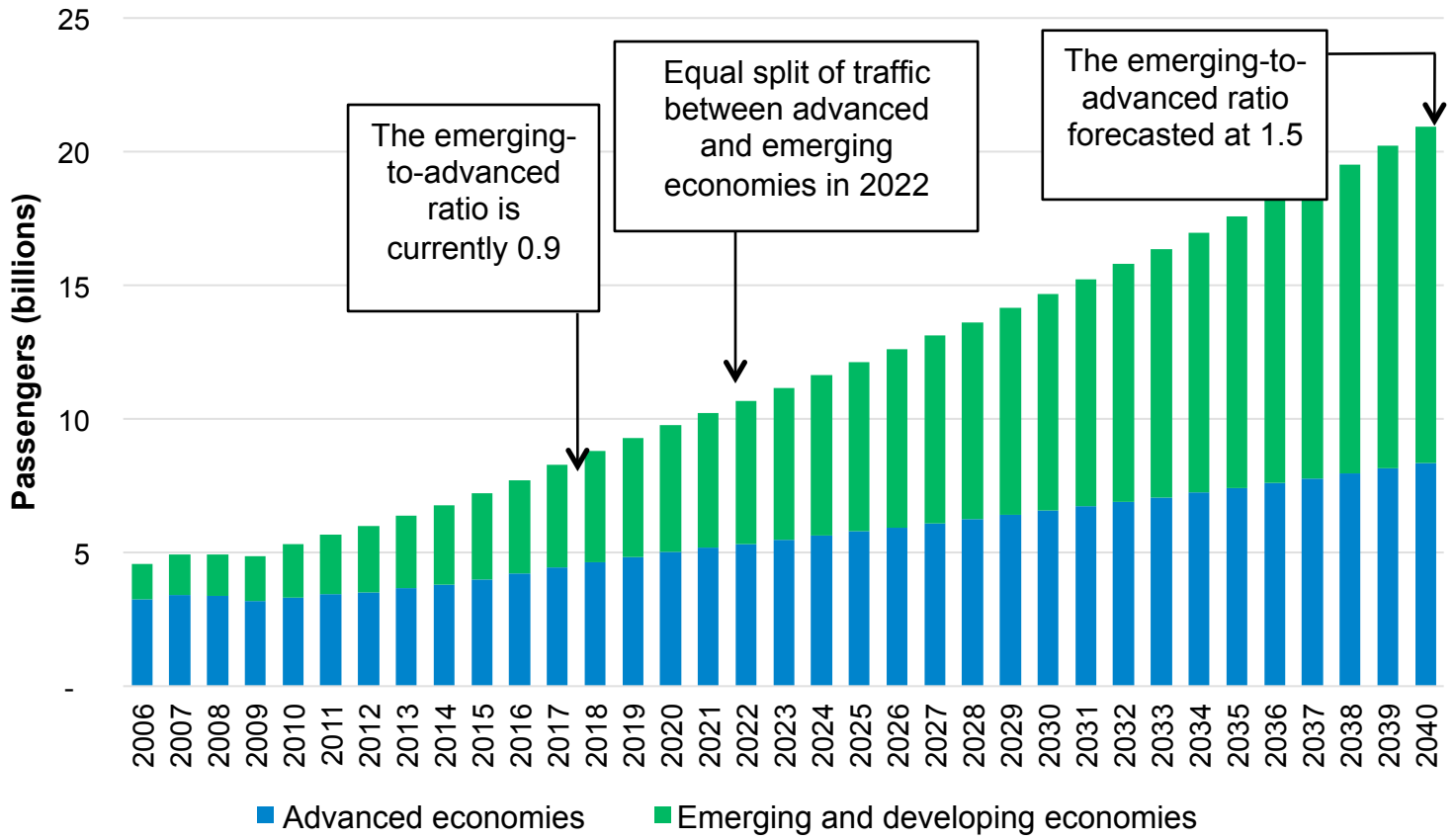
Forecasted passenger traffic (2006–2040)



Source: 2019 ACI Airports Economics Report

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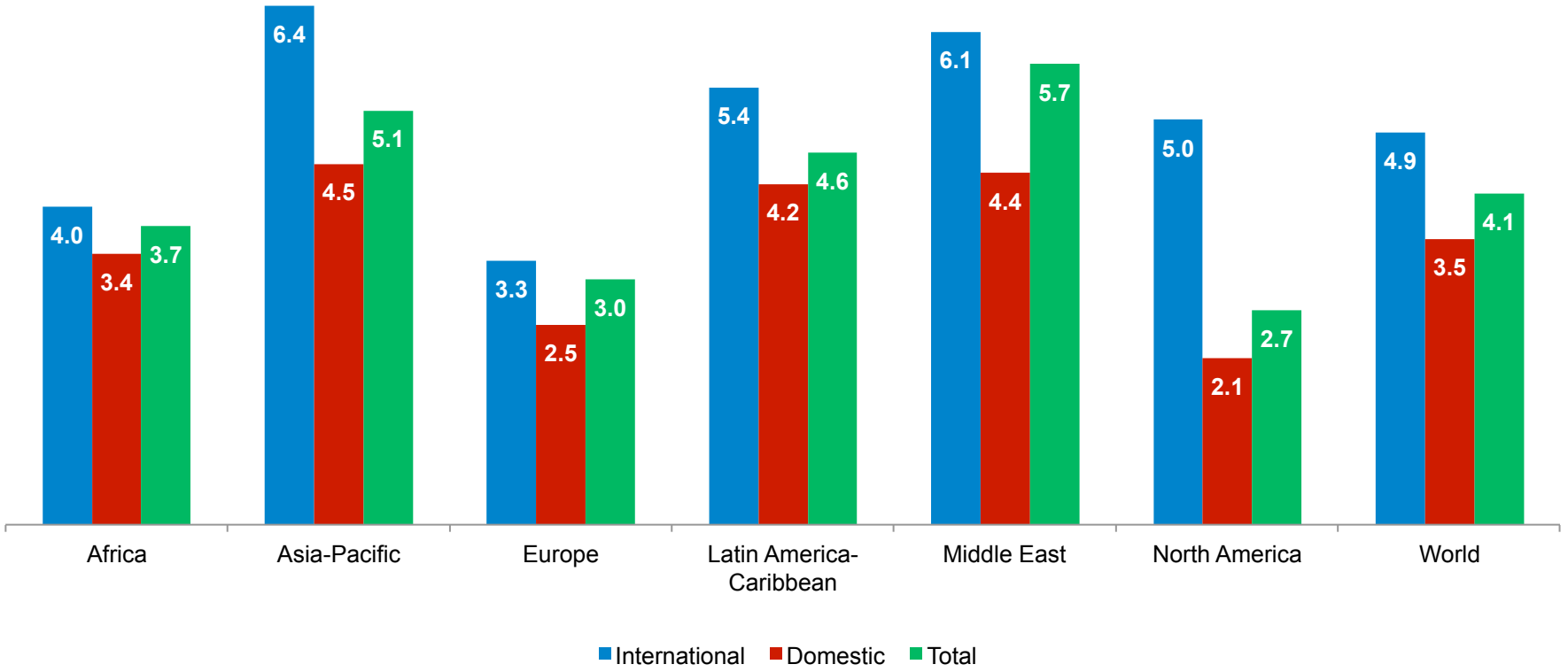
Long-term passenger forecast CAGR (2017–2040)



*Source: World Airport Traffic Forecasts 2017–2040

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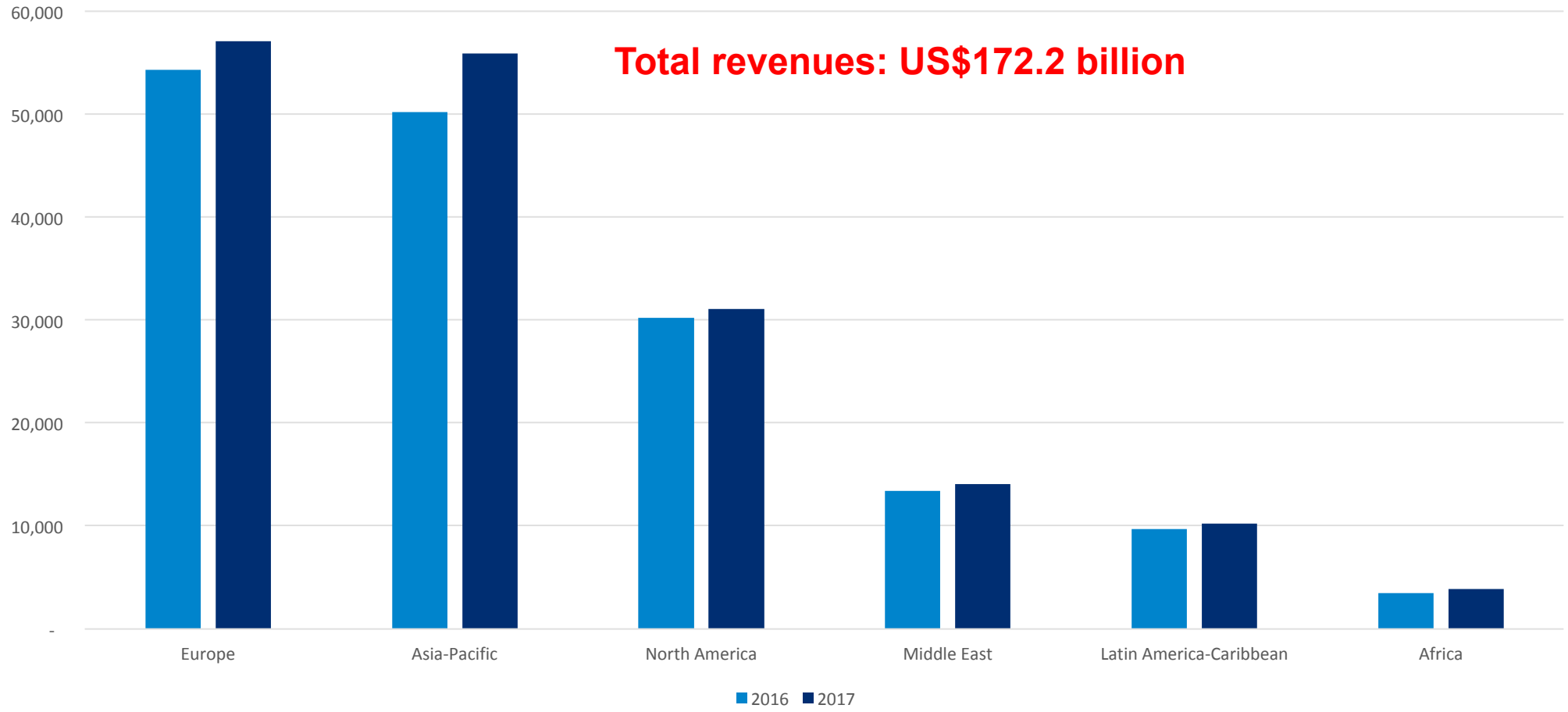
Distribution of airport revenues by region (2016–2017; billions USD)



Source: 2019 ACI Airports Economics Report

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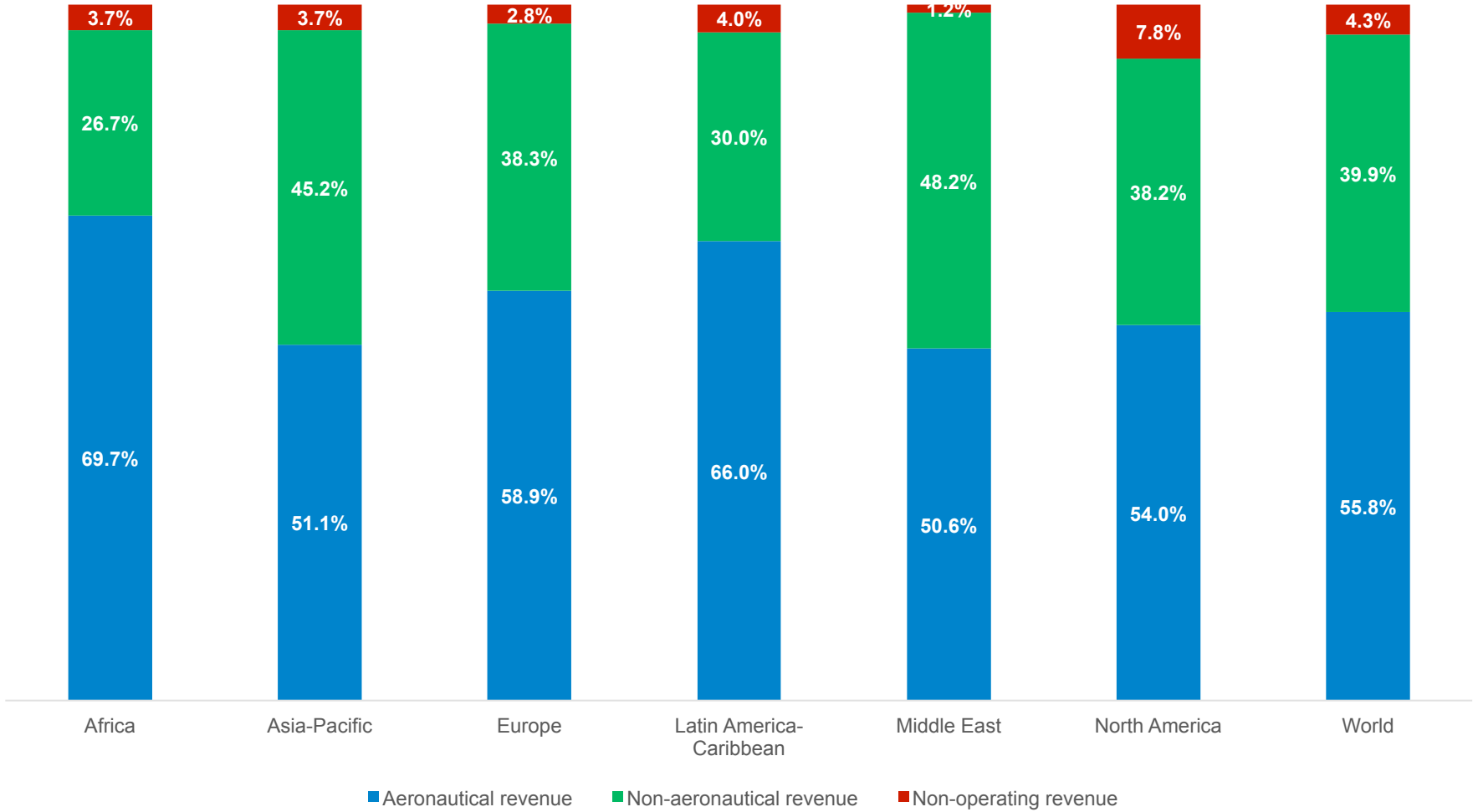
Distribution of airport revenues by key source and region (2017)



Source: 2019 ACI Airports Economics Report

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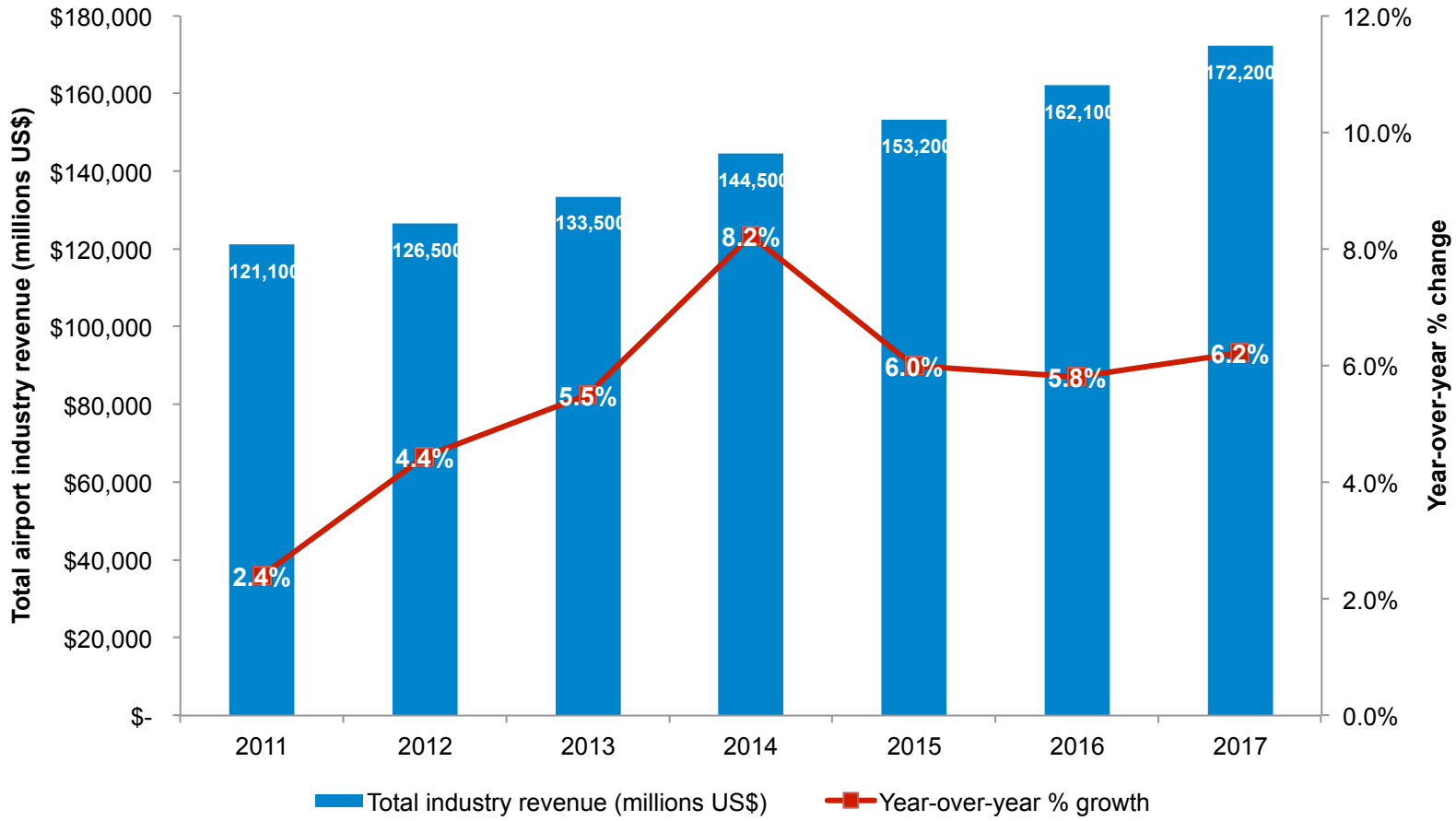
Evolution of industry total revenue (millions US$) and year-over-year % growth (2011–2017)



Source: 2019 ACI Airports Economics Report

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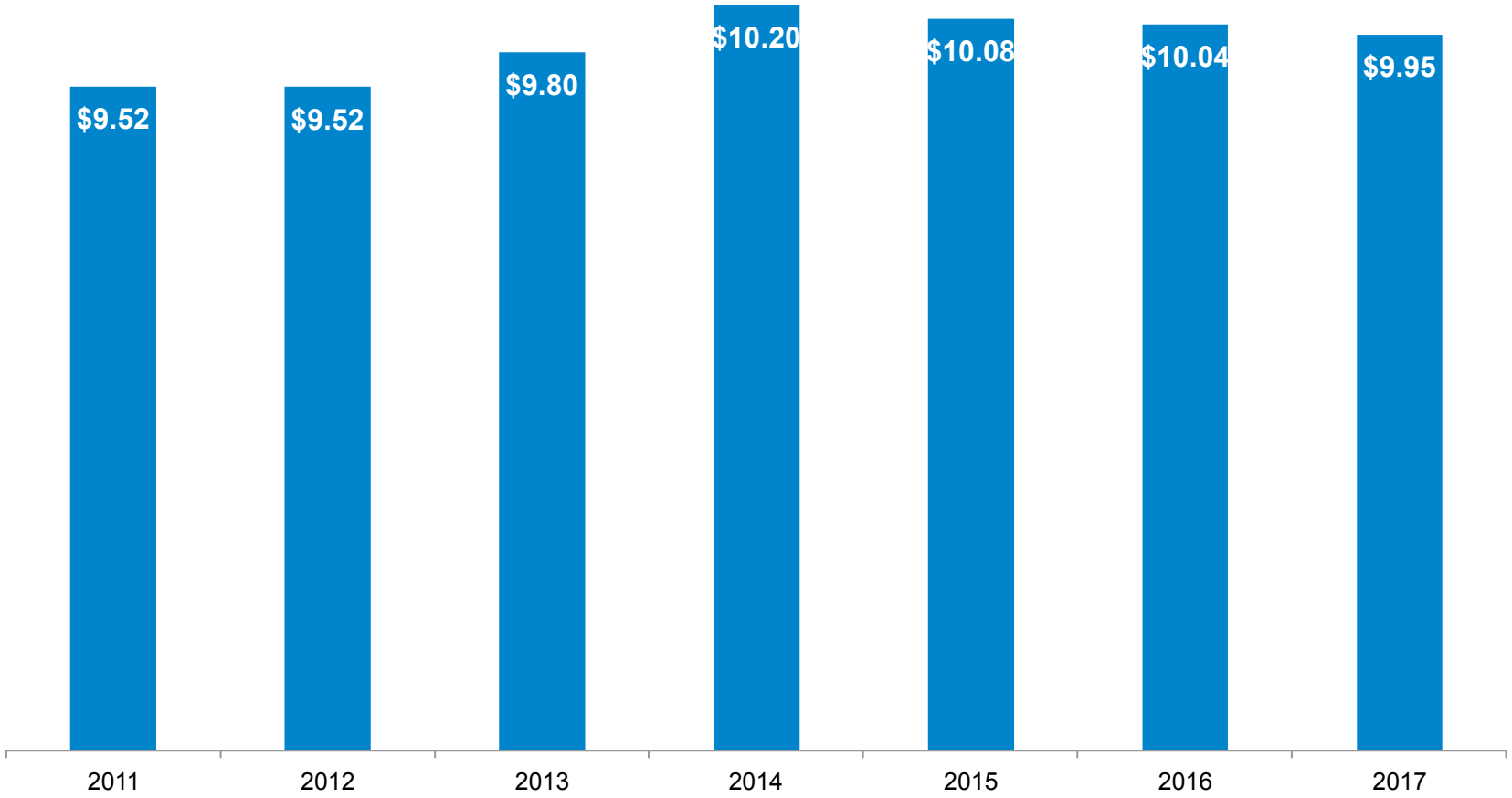
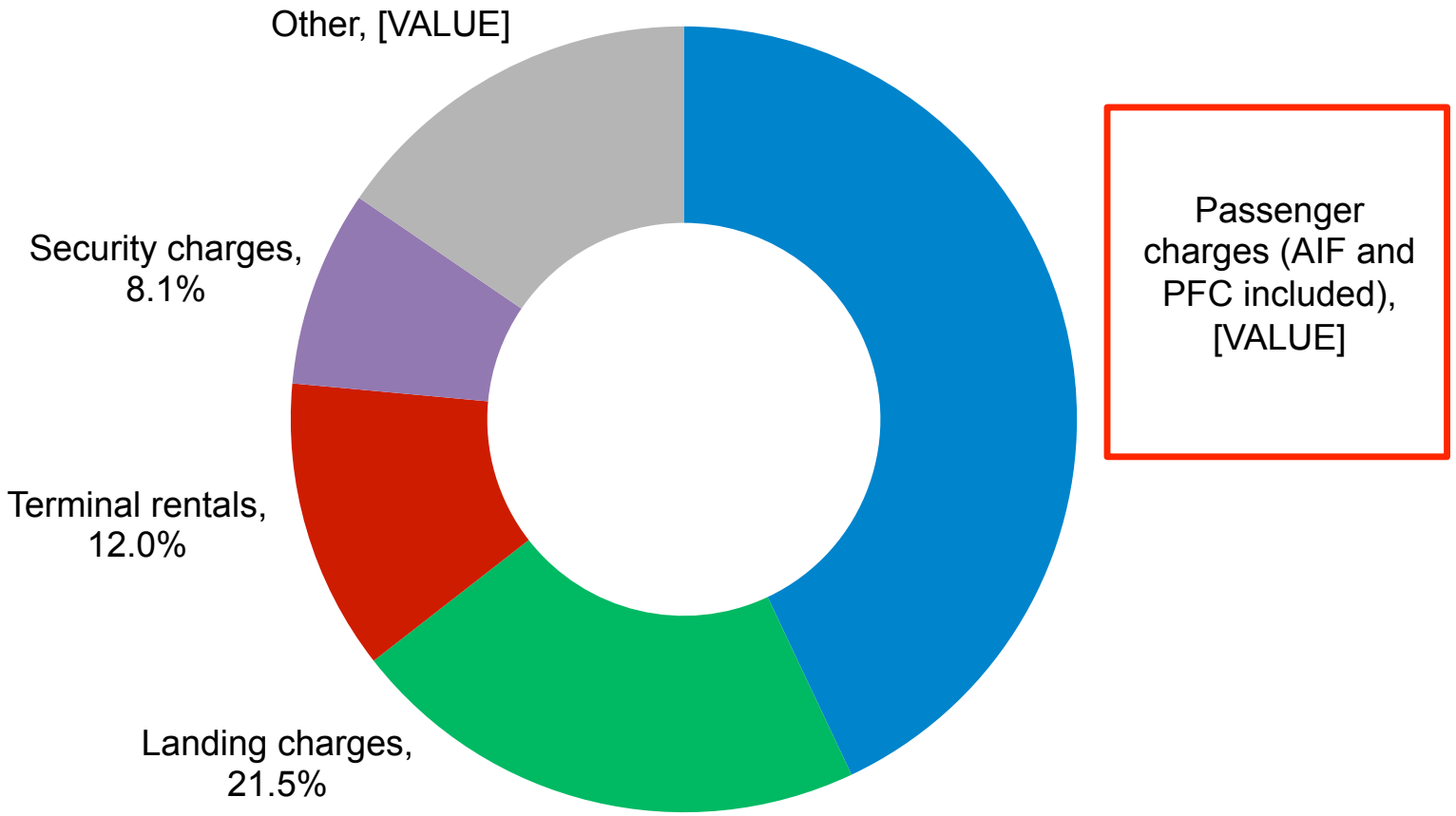
Aeronautical revenues per passenger 2011–2017



Source: 2019 ACI Airports Economics Report

Distribution of aeronautical revenue sources (2017)



Source: 2019 ACI Airports Economics Report

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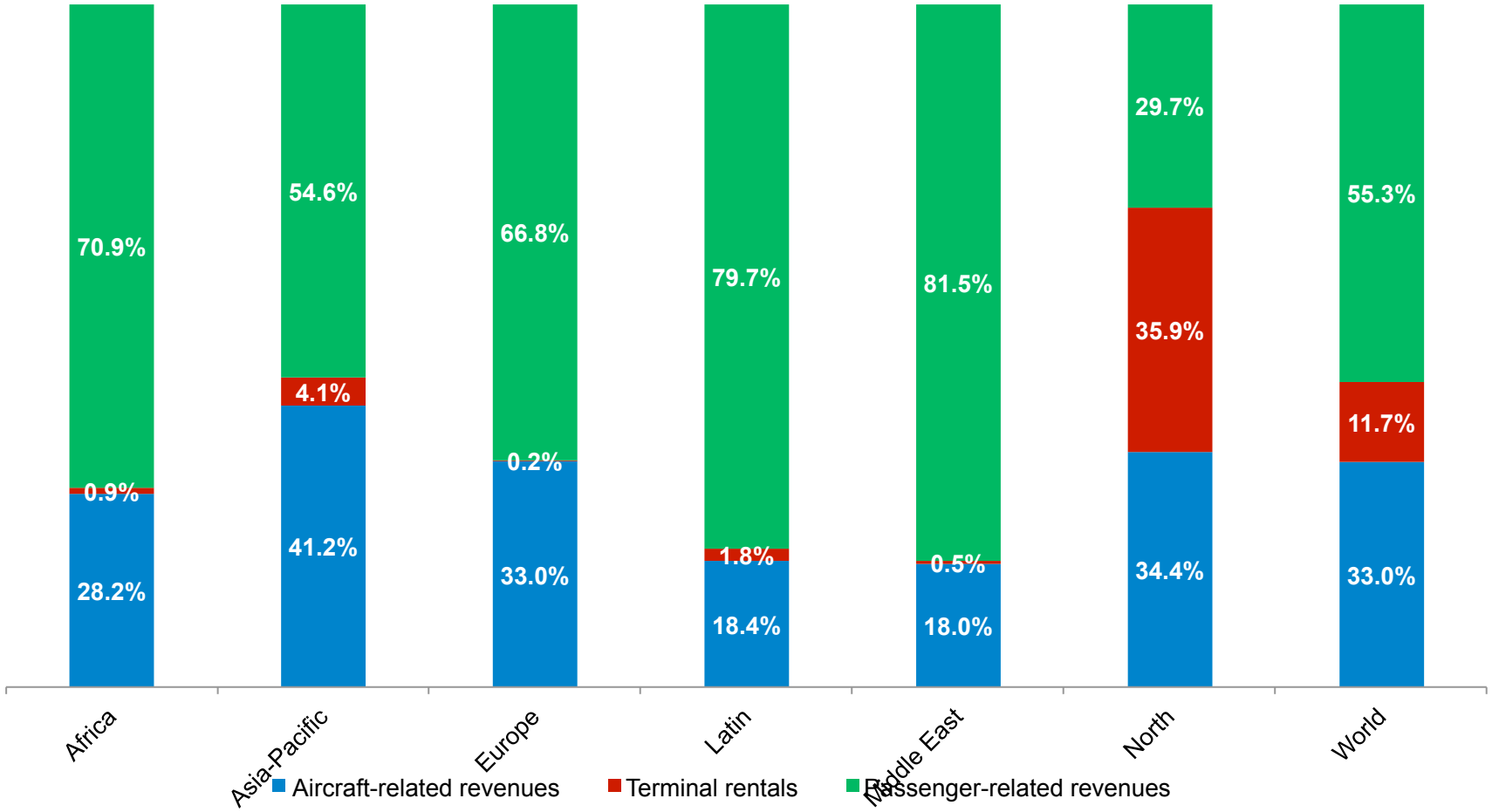
Ratio of aircraft-related to passenger-related revenues by region (2017)



Source: 2019 ACI Airports Economics Report

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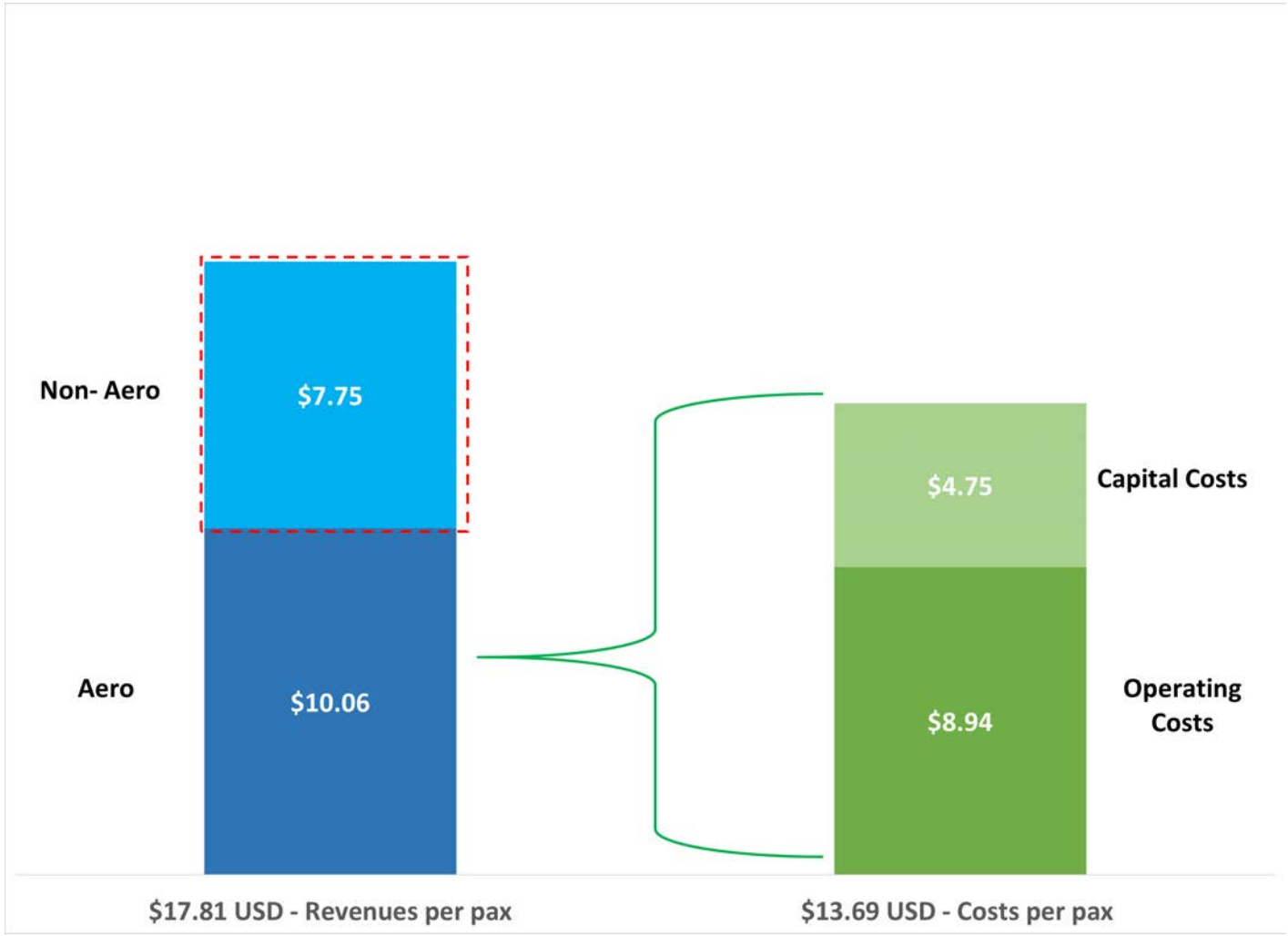
Airport Revenues Vs. Airport Costs (2017)



Source: ACI Economics Database

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Distribution of non-aeronautical revenue by region (% of total non-aeronautical revenue, 2017)

	Retail concessions	Food and beverage	Car parking	Rental car concessions	Advertising	Fuel and oil	Aviation catering service	Utility recharges	Property and real estate revenue or rent	Other non-aeronautical revenue*
Africa	31.9%	1.5%	10.7%	3.2%	3.5%	2.5%	0.3%	4.9%	12.7%	28.8%
Asia-Pacific	45.4%	3.7%	7.1%	0.8%	3.7%	2.7%	0.8%	1.8%	22.2%	11.8%
Europe	35.7%	4.7%	16.1%	2.3%	1.9%	2.3%	0.5%	5.0%	16.4%	14.9%
Latin America-Caribbean	26.9%	6.9%	10.6%	4.0%	4.5%	4.4%	1.7%	1.3%	9.8%	29.8%
Middle East	52.9%	3.9%	9.1%	1.3%	1.7%	4.6%	1.6%	3.1%	13.6%	8.1%
North America	8.0%	7.7%	40.7%	17.1%	0.6%	3.0%	0.0%	0.0%	7.4%	15.5%
World	30.2%	5.3%	20.1%	6.2%	2.2%	2.8%	0.5%	2.5%	15.0%	15.2%

* Other non-aeronautical revenues depend on the unique commercial makeup of each airport. They can include revenues from: gas stations, golf clubs, dry cleaners, supermarkets, etc.

Source: 2019 ACI Airports Economics Report

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Year-over-year % change in non-aeronautical revenue by region (2017/2016)

	Retail concessions	Food and beverage	Car parking	Rental car concessions	Advertising	Fuel and oil	Aviation catering service	Utility recharges	Property and real estate revenue or rent	Other non-aeronautical revenues*
Africa	4.0%	69.6%	-0.2%	1.9%	7.6%	27.0%	4.7%	19.8%	71.7%	6.2%
Asia-Pacific	12.4%	13.7%	7.0%	9.3%	7.1%	7.6%	-10.7%	3.8%	5.6%	7.6%
Europe	11.7%	14.6%	6.5%	22.0%	-1.1%	16.4%	-4.7%	2.8%	2.9%	-3.4%
Latin America-Caribbean	2.9%	4.8%	-4.5%	8.3%	-8.2%	-3.8%	2.1%	-1.1%	-21.8%	0.1%
Middle East	-5.3%	6.8%	1.0%	24.5%	0.9%	18.8%	16.8%	-8.6%	5.1%	4.4%
North America	1.6%	7.1%	4.0%	1.8%	55.2%	5.4%	25.3%	20.1%	11.9%	-0.7%
World	10.1%	10.7%	4.7%	4.8%	2.2%	8.6%	-5.1%	3.1%	4.5%	0.6%

* Other non-aeronautical revenues depend on the unique commercial makeup of each airport. They can include revenues from: gas stations, golf clubs, dry cleaners, supermarkets, etc.

Source: 2019 ACI Airports Economics Report

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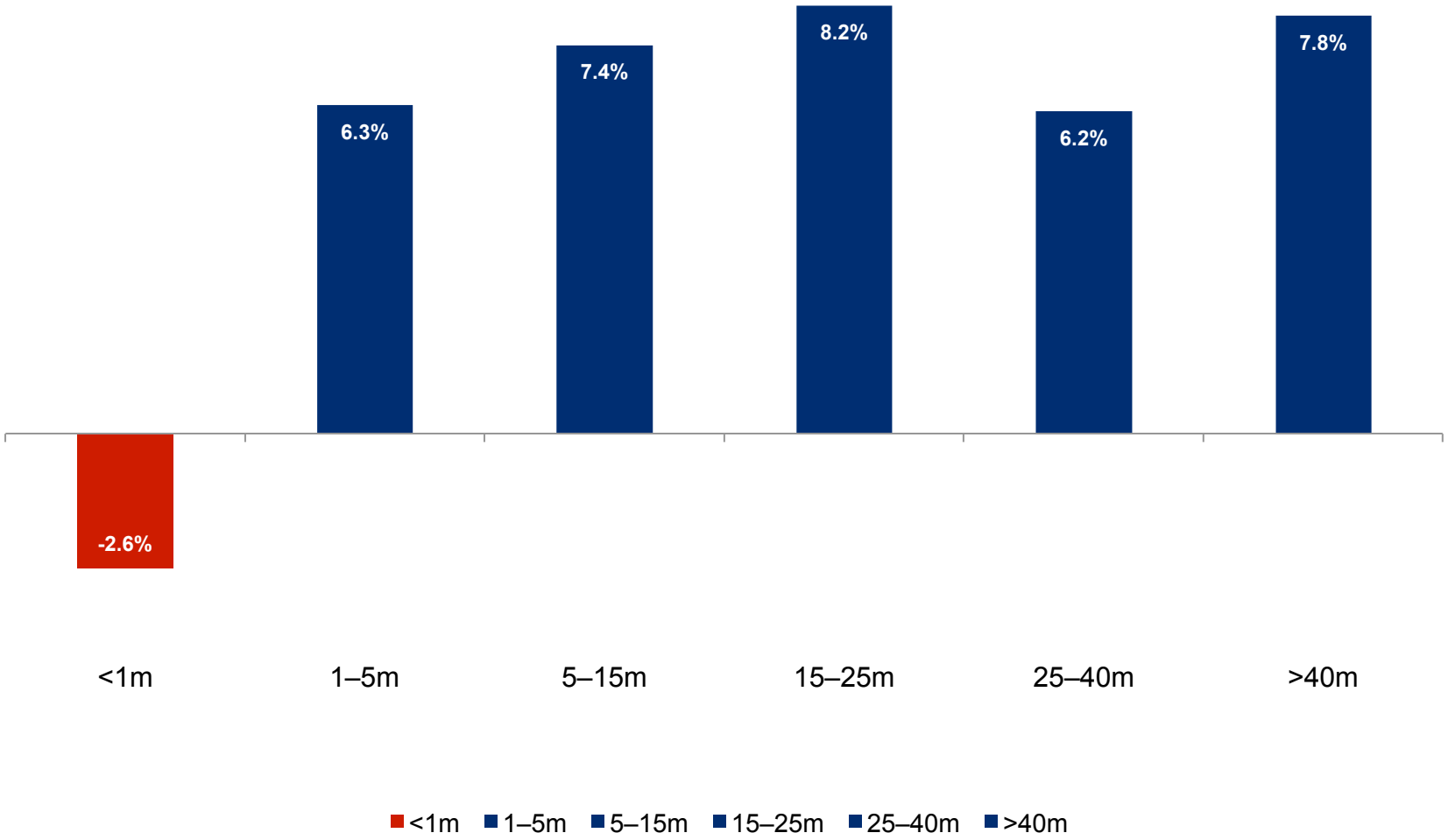
ROIC by airport size category (2017)



Source: 2019 ACI Airports Economics Report

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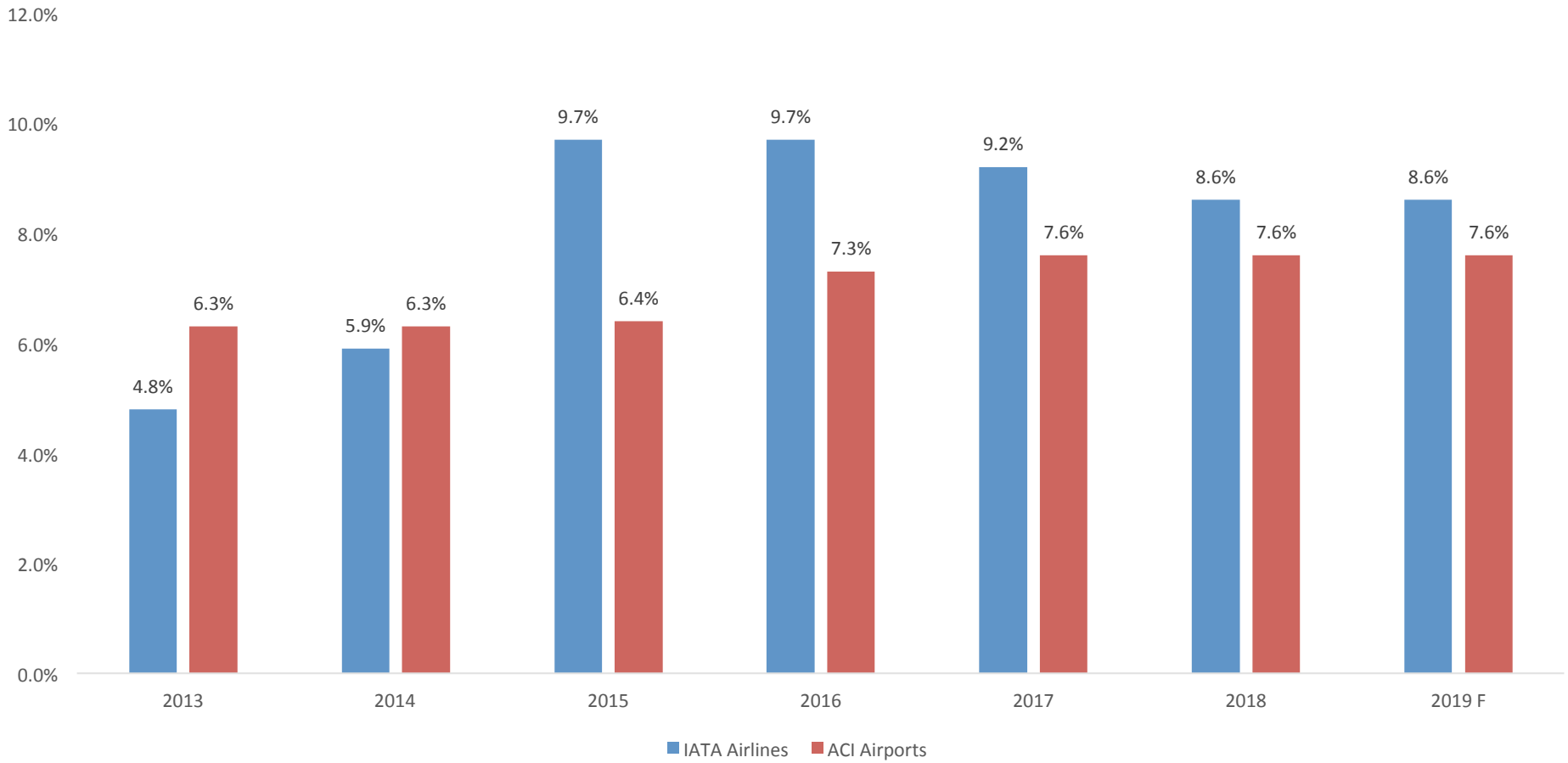
ROIC for IATA airlines and ACI airports (2012–2019*)



*Forecasted data for 2019

Source: ACI Economics Database

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ACI Policy Briefs

ACI POLICY RECOMMENDATIONS:

NO "ONE SIZE FITS ALL" APPROACH TO AIRPORT OWNERSHIP

ACI does not prescribe any specific type of ownership model. In short, airports should be permitted to operate under a range of ownership models. Types of ownership and participation of private capital vary from airport to airport depending on local circumstances. Each ownership model should guarantee flexibility to airport operators in developing both the aeronautical and non-aeronautical sides of the business to achieve a reasonable return on investment.

CREATE ECONOMIC INCENTIVES AND GUARANTEE CONSISTENCY IN REGULATORY FRAMEWORKS

With ACI's global medium-term forecast showing 33% growth in passenger volumes from 2015 to 2020, many national governments may face a predicament where a surge in air transport demand is outstripping the airport infrastructure. Private investment is needed to address this challenge over the long run. Along with a consistency in regulatory frameworks, a move toward well-crafted economic incentives enables private equity to flow to the airport industry and helps contain the level of risk of such a capital intensive investment.

The single till accounting method is born of a long-standing convention to support aircraft operators at the expense of infrastructure providers. Many economists, airport operators and a growing number of regulators agree that this method introduces price distortions and creates an artificial constraint that results in market inefficiencies both for airport operators and their airline customers. A movement away from single till regimes to dual and hybrid tills induces cost efficiencies and innovations on the commercial side of the airport business.

EVIDENCE-BASED POLICYMAKING

The role of a regulator and its oversight function is to monitor and ensure there is no significant abuse of market power. The application of competition laws, robust measures of competition and market-power tests on the pricing of airport services must be data-driven. Strict forms of price regulation result in allocative inefficiencies which affect economic incentives adversely. This may result in inefficient and/or insufficient infrastructure development.

FOSTERING ENTREPRENEURSHIP AND VALUE CREATION

The potential for value creation and market innovations is omnipresent for aviation stakeholders in circumstances where airport operators are as free to grow as any other enterprise. There is ample evidence that private stakeholders re-invest portions of airport revenues generated from aeronautical and commercial activities in order to improve the quality of airport services and infrastructure. Moreover, during times of economic distress, non-aeronautical revenues serve as a cushion between airports and their airline customers with respect to charges. This has become a common practice at the worldwide level and should be further incentivized.

ACI POLICY RECOMMENDATIONS:

GOVERNMENTS NEED TO IDENTIFY CLEARLY THEIR OBJECTIVES FOR AIRPORTS

- A range of objectives may lead a government to consider privatization as an option. As some objectives may conflict, the government's specific policy objectives and their relative weighting should guide the choice of privatization model.

GOVERNMENTS SHOULD ENSURE A CLEAR AND CONSISTENT LEGAL FRAMEWORK EXISTS PRIOR TO PRIVATIZATION

- Bidding processes should be clearly defined, transparent and competitive, and allow government and private investors to exchange information to provide certainty on the project's planning, execution and economic sustainability. The legal framework and any economic regulation should be defined before privatization, to ensure cost recovery and a reasonable return on investment.
- Governments should ensure an appropriate level of communication exists with key stakeholders—including aviation stakeholders, unions and economic development and tourism authorities—about the rationale underlying the privatization process.
- Governments should ensure they comply with all relevant obligations of States specified in the Chicago Convention and its Annexes and that ICAO's policies and key principles are observed.

GOVERNMENTS SHOULD CONSIDER AIRPORTS' WIDER ECONOMIC BENEFITS

- While financial pressures on governments often make them keen to privatize, they should consider the critical role airports and aviation play in connecting any region to the global economy. The catalytic effects of improved connectivity on a region's trade, tourism, foreign investment and locational decisions have significant impacts on the national economy. Governments should consider privatizing regional networks of airports and seek a balance between short-term returns and longer-term, wider economic benefits.

PRIVATIZATION MODELS MUST INCLUDE INCENTIVES FOR INVESTORS

- Governments need to consider incentives to attract potential national and foreign investors and provide the clarity investors need on the issues they face.
- Investors expect a reasonable return to incentivize future investments in airport facilities and operations. They should be able to run an airport as a business and generate returns on investment from both its aeronautical and its commercial revenues.
- Concessionaires need flexibility regarding both the nature and the timing of capital expenditures to adapt better to market demand and economic challenges.
- Applying the widely used dual or hybrid till regime induces cost efficiencies and innovations in the airport's commercial business.
- The complexity of covering the high costs small airports face because of their low throughput makes it advisable when privatizing an airport network to ensure cross-financing among airports.

GOVERNMENTS SHOULD MATCH THE CONCESSION'S LIFESPAN TO THE MODEL

- There is an appropriate lifespan for each form of privatization. A short term may be appropriate for a management concession because the operator makes no investment. When seeking a specific investment by means of a BOT model, the span should be sufficient to recover the investment and produce a reasonable return on capital. When the objective is for the private sector to operate, maintain and invest over a long period, a much longer-term agreement is necessary.

GOVERNMENTS SHOULD CONSIDER A MULTI-STAGE BIDDING PROCESS

- A three-stage bidding process is advisable for BOT concessions, because it lets the vendor test market interest and provides time for consortiums to be formed. First, a request for information (ROI) lets bidders submit comments on the BOT reference design and—if allowed—suggest suitable alternative specifications. Next, a request for qualifications (RFQ) gathers qualified proponents. Finally, a request for proposals (RFP) is issued to select the best offer from a shortlist of bidders. The bid process for sale/lease models should use the latter two stages.

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Reliable legal framework

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Improved slot allocation

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