



CHECKED FACTS

IATA Airport Charges Claims

IATA has come out guns blazing since its Annual Congress in early October¹, criticising airports and air navigation service providers (ANSPs) for cost increases. This in a moment when all the aviation sector should be working together to rebuild and achieve difficult environmental targets

Do IATA claims regarding airports make sense?

For those who have only recently checked in to the airport charges debate, how should one interpret the raucous words of IATA? What else do we need to think about?

Read on...



IATA's Airline-Interested Statements



Balanced Context

"Confirmed airport and ANSP charges increases have already reached \$2.3 billion."

A \$2.3 billion increase sounds like a lot, for sure. But for the global airline industry, this increase accounts for **0.29% of total expenses**, according to ICAO's 2019 transport statistics report². Of that \$2.3 billion, **only a small share is related to airports**, as ANSP charges are more consequential. Hardly the apocalypse.

¹ Director General's Speech at UK Aviation Club, London 13 Oct 2021, <https://www.iata.org/en/pressroom/speeches/2021-10-13-01/> ; Outrageous: Infrastructure Costs Increasing \$2.3 Billion in a Crisis, IATA Press Release, 4 October 2021, <https://www.iata.org/en/pressroom/2021-releases/2021-10-04-06/>

² \$2.3 B / \$796.300 B operating expenses of scheduled airlines of ICAO Member States, p.11 https://www.icao.int/annual-report-2019/Documents/ARC_2019_Air%20Transport%20Statistics.pdf

	<p>This is not to say that we shouldn't care about costs. Costs are eventually paid by the traveller and impact overall demand, which is why airports have gone into overdrive to reduce costs (see below).</p> <p>European airlines have been granted 10 times as much state aid as airports – more than €34 billion for airlines compared to €3 billion for airports, though both suffered the same impacts from COVID-19.</p>
<p><i>“The problem is that some airports and ANSPs are seeking a solution to shore-up their finances by recovering “lost revenue” from their airline customers. You heard that correctly. Some of our so-called partners want to increase charges to recover the money that airlines could not spend with them during the crisis.”</i></p>	<p><i>“Partnership”</i></p> <p>For years, airlines asked airports, in the spirit of partnership, to accept very low costs of capital and too low charges, often arguing that airports do not face risk. Unfortunately, COVID-19 has proved that the airport business is a risky business. 2 years in a row of traffic down by nearly 70% is enormous risk. Now that such a risk has become a reality, suddenly the spirit of partnership that led to rapid air traffic growth over the past decade has disappeared.</p> <p>If partnership in the “good years” of 2013 to 2019 was airports accepting a cost of capital that provided inadequate income to prepare for bad days, then the other side of that partnership is that in the “bad year”, airlines accept the impacts without abandoning their airport partners.</p> <p>Mr Walsh himself wrote in January 2018 in the pages of the <i>Financial Times</i> that “Over time, the goal should be for charges to come down as the number of passengers and flights increase.”³ The corollary is for charges to go up as the number of passengers and flights decreases.</p> <p>True partnership would be keeping this bargain, and airlines having the equanimity to see the value in short-term cost adjustments that assure the long-term development of adequate airport capacity and environmental action needed to help air transport recover.</p>
<p><i>“But placing the financial burden of a crises of apocalyptic proportions on the back of your customers, just because you can, is a commercial</i></p>	<p><i>“A commercial strategy”</i></p> <p>The airports about which IATA is complaining have regulated prices. Airlines have been</p>

³ “For post-Brexit Britain to fly solo, Heathrow must be cheaper, Commentary by Willie Walsh” (January 14, 2018), *Financial Times*. <https://www.ft.com/content/06518064-f7a1-11e7-a4c9-bbdefa4f210b>

<p><i>strategy that only a monopoly supplier could dream up.”</i></p>	<p>instrumental in designing and influencing the implementation of that regulation. So, the commercial strategy is the mechanical outcome of a regulatory structure that airlines were instrumental in imposing on airports.</p> <p><i>“Monopoly supplier”</i> is a great phrase to throw around, but it should be justified. For example, for many city-to-city air routes in Europe, there is only one airline flying. Would that not mean the airline is the <i>“monopoly supplier”</i> for the people flying on that route?</p> <p>There is a strong public reflex that airports have dominant market positions. But this does not hold up to scrutiny.</p> <p>Airports are in competition with other airports, with other transport modes, and face strong counter-vailing buyer power from a concentrated and politically-powerful airline industry.¹</p> <p>European airports have provided tremendous value to airlines, helping airlines achieve consistent profitability between 2010 to 2019.⁴</p>
<p><i>“Reducing costs—not increasing charges—must be top of everyone’s agenda.”</i></p> <p>[...]</p> <p><i>“From the onset of the pandemic airlines have undertaken drastic cost reductions. Operating costs were reduced by 35% compared to pre-crisis. This was supported by increased commercial borrowing and shareholder contributions as a means of survival.”</i></p> <p>[...]</p> <p><i>“At an absolute minimum, cost reduction—not charges increases—must be top of the agenda for every airport and ANSP. It is for their customer airlines,”</i></p>	<p>Airports have reduced costs by 24% for the full year 2020 compared to 2019.⁵</p> <p>Looking at airports that reported half-year results, by 37% in H1 2021 compared to H1 2019.</p> <p>When you compare the nature of airlines and airports, this is surprising. Airlines can park aircraft, retire old fully-depreciated aircraft, and even return aircraft to lessors. When airlines are not operating flights, they are not paying for fuel or even paying airports for landing charges.</p> <p>An airport simply cannot flex its costs this way. An airport terminal is a fixed asset that cannot be parked. Even in the many cases where airport operators were able to close piers or terminals, or even entire airports when another nearby airport could manage all the traffic, ongoing utility costs remained important.</p>

⁴ <https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---december-2019---report/>

⁵ 2020 Airport Sector Economics Report, ACI EUROPE. <https://www.aci-europe.org/component/attachments/attachments.html?id=1499&task=download>

<p><i>“And all eyes will be on the CAA to ensure they are doing their job in protecting the consumer by pushing back on the airport’s outrageous behaviour.”</i></p>	<p>This is not the first time that IATA’s Director-General has tried to put a finger on the scales and force the CAA’s decision.⁶ But who is behaving outrageously?</p> <p>The CAA, for applying a regulatory framework that British Airways and International Airlines Group asked for? Or the airport, which is seeking to protect its financeability and investment grade credit rating? Really?</p>
<p><i>“The recovery of the UK’s travel and tourism industry impacts millions of jobs. They cannot be held hostage to the intransigence of what is effectively a greedy monopoly hub airport. Heathrow must understand that gouging its customers is not the road to recovery for itself, the airlines, travel and tourism jobs, or travellers.”</i></p>	<p>The most important factors for the millions of people working in the travel and tourism sector are the final air fares and the availability of airport capacity.</p> <p>Airlines set ticket prices independently of the level of airport charges.⁷ Airports understand deeply the role of the airport and the cost of the airport to travellers. Airports strive consistently to provide affordable and quality infrastructure, but the idea that such infrastructure can come at no cost is a mirage.</p> <p>Travel and tourism will thrive if aviation is able to convincingly address its impact on the climate. For this, airports must have the income to be able to fund investment to lower the energy efficiency of airport facilities and to enable low-carbon operations on the airport site, for example through the developing of Hydrogen Hub infrastructure.</p>
<p><i>“Just six of the largest European airports distributed dividends of \$12 billion over five years up to 2019. This alone amounts to more than the full revenue losses these providers will have incurred during the pandemic.”</i></p>	<p>Pointing fingers at sums paid to shareholders and investors for their capital employed distracts from question about who should pay and how the losses should be taken.</p> <p>[But we can’t help but note, that the IATA Director-General’s former employer, the International Consolidated Airlines Group, paid back to its shareholders €4.4 billion through dividends and share buybacks in the same 5 years up to 2019.]</p>
<p><i>“We all want to put COVID-19 behind us.”</i></p>	<p>No disagreement here. Let’s move forward.</p>

⁶ “For post-Brexit Britain to fly solo, Heathrow must be cheaper, Commentary by Willie Walsh” (January 14, 2018), *Financial Times*. <https://www.ft.com/content/06518064-f7a1-11e7-a4c9-bbdefa4f210b>

⁷ ICF 2018, Understanding the Drivers of Airfares. Study commissioned by ACI EUROPE.

ⁱ **The literature on this is extensive.** Rietveld, Piet and Nijkamp, Peter and Pels, Eric A. J. H. (2000), Airport and Airline Competition for Passengers Departing from a Large Metropolitan Area. *Journal of Urban Economics*, Vol. 48, No. 1, July 2000 / Barrett, S., (2000), Airport competition in the deregulated European aviation market, *Journal of Air Transport Management*, vol. 6, issue 1 Starkie, D. (2002), Airport regulation and competition, *Journal of Air Transport Management*, vol. 8, issue 1 / John Gardiner, Stephen Ison, Ian Humphreys (2005), Factors influencing cargo airlines' choice of airport: An international survey, *Journal of Air Transport Management*, Volume 11, Issue 6, November 2005 / Starkie, D. (2009), "The Airport Industry in a Competitive Environment: A United Kingdom Perspective", Discussion Paper 2008-15 OECD/ITF / Forsyth P., Gillen D., Muller J. and H-M. Niemeier (2010), *Airport Competition: The European Experience*, Ashgate / Morrell, P. (2010), "Airport Competition and Network Access: A European Perspective" in Forsyth P., Gillen D., Muller J. and H-M. Niemeier, *Airport Competition: The European Experience*, Ashgate / Copenhagen Economics (2012), 'Airport Competition in Europe' commissioned by ACI EUROPE / Starkie, D. (2012), "European airport and airlines: evolving relationships and the regulatory implications", *Journal of Air Transport Management*, Volume 21, 2012 / Copenhagen Economics (2016), 'Airport competition in Germany: airport and airline market power' / Bush, H., Starkie, D. (2014), Competitive drivers towards improved airport/airline relationships, *Journal of Air Transport Management*, Volume 41, October 2014 / Adler N., Liebert, V. (2014), Joint impact of competition, ownership form and economic regulation on airport performance and pricing, *Transportation Research Part A: Policy and Practice*, Volume 64, June 2014 / Lieshout R., Malighetti P., Redondi R., Burghouwt G. (2016), The competitive landscape of air transport in Europe, *Journal of Transport Geography*, Volume 50, January 2016 / Oxera (2017), 'The continuing development of airport competition in Europe', commissioned by ACI EUROPE / Thelle, M.H., la Cour Sonne, M. (2017), Airport competition in Europe, *Journal of Air Transport Management* / Arthur D Little Viewpoint: "A tipping point in airport industry economics: securing profits in uncertain times" (2017) / Button, Kenneth (2021), "Studying the empirical implications of the liberalization of airport markets", *Competition and Regulation in Network Industries* (2020), Vol. 21(3) 223-243 / Bilotkach, Volodymyr, "Airport competition from airports' perspective: Evidence from a survey of European airports", *Competition and Regulation in Network Industries* (2020), Vol. 21(3) 275-296.