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OF AIRPORT CHARGES & AIRLINES' ACCUSATIONS

A rebuttal to IATA

On 27 September 2017, IATA released an *Economic Briefing* ("Economic Benefit from Effective Regulation of European airports") calling for tighter regulation of airports. In their two page document, IATA makes a number of rather extraordinary claims regarding the evolution of airport charges and related impacts on air fares and the economy.

Having looked in details at these claims, ACI EUROPE wishes to respond in an effort to put the debate on the financing of airport infrastructure on a more robust, honest and fact-based foundation.

1) IATA asserts that "*passenger airport charges doubled*" in 10 years

This statement is materially incorrect and also misleading - as it does not provide comprehensive & accurate information on the evolution of total airport charges.

- Airport charges comprise airline-related charges (which include aircraft landing, parking and lighting charges levied on airlines) and passenger-related charges (levied on passengers for the use of terminal facilities). By referring only to "*passenger airport charges*" without looking at the evolution of other airline-related charges, **IATA does not provide the full & real picture of the overall airport charges evolution**.

  Indeed, airlines (and in particular IATA members) have over the past years requested airports put **more weight on passenger-related charges than on airline-related charges**. The airlines' rationale behind that is for airports to shoulder more of airlines' own business risk in terms of variations in passenger demand levels. In practice, this means that the lower the load factor for a given flight, the less the airline pays in terms of airport charges.

  Airports have duly obliged. Between 2008 and 2015, **passenger-related charges** effectively paid by airlines at European airports (net of rebates & incentives offered by airports) have increased by **+29.6%** since 2008. Conversely, **airline-related charges** have decreased by **-7%**. Accordingly, the share of passenger-related charges out of total airport charges revenues has increased from 57.5% to 65.4%, while the share of airline-related charges has decreased from 42.2% to 34.6%.

By referring only to part of airport charges without mentioning that the increase in such charges had been driven by airlines themselves, as a way to rebalance the overall structure of airport charges so that airports share traffic volume risks with airlines, IATA is being selective to the point of conveniently distorting the truth.

But there is even more…

- In 2015, the **average passenger-related airport charge revenue for Europe's airports** stood at **€11.94** (per passenger). This compares with IATA claiming an average passenger-related charge of €33 in 2016. IATA does not indicate whether this applies to one-way or return trips. Even assuming that this would systematically relate to return trips (this involving airport charges paid both at the departing and the returning airport), this still leaves a €9.12 difference between what IATA claims are passenger-related charges and the revenues actually accruing to airports from those charges.

  This discrepancy reflects the fact that **airlines are the sole beneficiaries of the rebates granted by airports on passenger-related charges**. While passenger-related charges are airport revenues, they are actually not paid by the passenger directly to the airport. They are included in air tickets price and are thus levied by airlines who then pass them on to airports once the passenger has effectively travelled. Yet, air tickets systematically report the full & unrebated amount of passenger-related charges. Whenever airports grant such rebates, the amount of the charge paid by the passenger via his/her air ticket does not correspond to the actual amount passed on to the airport by the airline – which ends up being systematically lower.

- In addition, as already shown by ACI EUROPE (in a detailed publication), **overall airport charges at the Top 21 European airports only increased by +25.4% between 2005 and 2015** (less than €3 per passenger over 10 years). This average involves a wide range of situations, with half of those airports keeping their charges flat or decreasing them.

  This average increase is in line with price evolutions in other goods & services (electricity: 30.8%, Water supply: +25.3%, rail: +22.3% or education: +30.8%). We do not have data on this covering all of Europe's airports, but clearly with investment needs being more significant at the Top 21 airports, we reckon that price evolution for the entire industry would be below +25.4%.

  As to what drove that increase, it was essentially down to regulatory costs (security, PRM regulation entering into force, safety) and investment (the increase allowed the Top 21 airports to invest €53 billion back into their facilities).

2) IATA asserts that "*the average cost of an air ticket remained virtually the same during that time*"

ACI EUROPE does not collect data on air ticket prices, but we have previously pointed out that **EUROSTAT data indicates that the price of air transport increased by +29% between 2005 and 2016** (Eurostat harmonised Indices of Consumer price levels for passengers transported by air).

3) IATA assumes that any freeze in airport charges would be passed onto consumers and thus result in lower air fares & more traffic – with these benefitting €17 per one-way trip – i.e. price stimulus of 10% of average ticket costs which would have generated an additional 50 million passengers.

- This is absolutely ludicrous. **Air fares are primarily driven by the level of competition on any given route – not by airport charges**. Just one (emblematic) example: passengers routinely pay around €900 to fly economy class between Brussels and Strasbourg during European Parliament plenary sessions, and that bears no relation to airport charges levels). Unless regulators would step in to exercise close scrutiny, it would be illusory to believe that airlines would pass on charges freezes or decreases into lower fares…

- Freezing airport charges at their 2006 levels, as advocated by IATA, would have impeded the Top 21 airports in Europe to invest **€53 billion** into their facilities since then. Considering that this investment was used to expand their capacity by **177 million passengers** – which in turn allowed them to accommodate an additional 169 million passengers and to increase their direct connectivity by +10%, **what IATA advocates for is essentially mounting congestion and reduced connectivity**.

  This is not surprising – and reflects feedback from our member airports indicating that airlines are increasingly opposing/challenging airports investments Indeed, for incumbent airlines, blocking investments is the best way to keep competition at bay. This allows incumbents to raise air fares or – at a minimum – to avoid being confronted to lower fares offered by competitors – not quite in the interest of consumers (in this regard, see the report "*How Airport Capacity Impacts Air Fares"*).

  The IATA plea is clearly **self-serving** and is **not motivated by social/consumer welfare**. It is about their members' bottom line – at the expense of airports.

- Finally, the simplistic model used by IATA to calculate alleged economic benefits from a direct reduction of air ticket prices is not credible. IATA only conducts a partial analysis arriving at the fantasy number of €50 billion of economic benefit (no less than the GDP of Bulgaria!) without even taking into account first-order effects. This comes back to the point made above. Even assuming airlines would have lowered air fares as a result of frozen airport charges, what about the multiple & far reaching impact of airports being unable to invest? These would include reduced activities for construction companies and a full range of airport suppliers and their sub-contractors, less traffic and less connectivity as a result of congestion/lack of capacity & lower quality.

4) IATA keeps claiming that airports are insulated from competition and that the rise of private investment in airports has created private monopolists

This is denial of market reality to the point of blindness. We would simply refer to the newly released Oxera Study "*The Continuing Development of Airport Competition in Europe"* and the ACI EUROPE Synopsis publication "*The Competitive Edge: Airports in Europe*".

When it comes to private investment, investors need a return on their investment (another reality check). The choices made by Europe at national and EU level limit public financing into airport infrastructure and require airports to cover both their operating and investment costs. These choices imply that users bear a higher/more realistic share of the cost of the infrastructure they use – in line with the EU "user pays" principle for infrastructure financing.

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