1 INTRODUCTION

1.1 Airports’ financial viability is directly linked to passenger volumes, and with the current situation of travel restrictions and public response to the COVID-19 global pandemic, demand for air transport is nearly non-existent.

1.2 Demand will only return when national governments have withdrawn travel restrictions and the public is reassured about air travel as a safe and healthy transport mode. This paper takes the recommendations for ‘A Healthy Passenger Experience’ as the starting point.

1.2.1 The cost of using airport infrastructure for airlines is a small part of the total cost of travel (airport services cost is <6% of airlines’ costs for the large majority of airlines in Europe). Therefore, airports have limited scope to stimulate the market, and should focus on measures to aid traffic recovery. It is absolutely essential that other stakeholders, including governments, regional authorities, and tourism bodies, undertake initiatives to stimulate traffic.

1.2.2 Airports must ensure that they have sufficient revenues to finance necessary measures in the terminal that restore passenger confidence. The financial stability of airport operators must be prioritised in the long term to ensure continuity of airports’ as essential European infrastructure and to enable continued growth for the sector.

2 PROBLEM DEFINITION

2.1 Airport revenues, both aeronautical and non-aeronautical, have suffered unprecedented losses as a result of COVID-19. Airlines and airline associations have proposed that one tool to aid recovery of air traffic should be to reduce airport charges, seeking to pass liquidity problems from one partner to another, in a win-lose manner. It is worth noting that airlines are not flying repatriation flights at lower costs and are more than doubling rates on cargo. The concept that airports should be expected to provide their services for free fundamentally challenges an airport’s independent financial existence. Similarly, the non-aeronautical business will lose revenues as passenger demand decreases and faces a larger longer-term existential threat in protecting the airport as a place for consumption.
2.2 Airports, through their pricing strategies, have some scope to support connectivity but it should not be at the expense of the long-term financial viability of the airport. Efforts should be focused on generating political support for both financial and non-financial measures that stimulate passenger demand and instil confidence in the safety of air travel.

3 PROPOSED SOLUTION

3.1 Governments should ensure airports’ right to generate revenue through user charges

3.1.1 Airports will need to keep charging for services provided to end-users and users of infrastructure to ensure the continuity of services required for airport users and passengers. This includes safe and secure airport infrastructure staffed in the most efficient way to ensure continuity in the provision of services. The measures necessary to restore enduring passenger confidence in a safe and healthy airport and air travel experience should be financed by public health authorities, but may also need to be financed in part through airport charges.

3.1.2 It is unacceptable to suggest that airport charges should be reduced, as a way of supporting airlines, or indirectly, connectivity. Alleviating the collection of airport charges through an overall suspension or by granting blanket discounts simply shifts revenue and liquidity from airports to airlines, but it is a largely ineffective measure in helping consumers to access the air connectivity that they need for work and travel. The ‘user pays principle’ remains the valid and efficient method for airports to charge.

3.1.3 Therefore, government support measures for the air transport sector should not benefit one actor at the expense of another.

3.2 Airport operators are best placed to design pricing strategies that aid traffic recovery

3.2.1 For many airports in Europe, the level and structure of airport charges is subject to approval by an authority, as a form of economic regulation.

3.2.2 In seeking to return to operational capacity, airports will have to continue to recover costs of operation. Because economic regulation, where applied, has limited airports’ pricing by capping prices/revenues, airports today will have to adjust prices adequately to support the recovery of traffic while also recovering costs of providing the airport infrastructure.

3.2.3 Some airports may seek to put in place temporary discounts or rebates on charges, broadly called incentives, or broader aeronautical pricing modifications. The incentive scheme could be consulted with airlines, the availability of the incentive scheme should be transparent, and all operators in the same economic conditions should have non-discriminatory access to the incentives. For airports in the European Union with more than 5 million passengers, where the incentive scheme is part of the schedule of airport charges, these requirements are mandatory under the EU Airport Charges Directive (ACD) 2009/12.

3.2.4 Incentives may be negotiated bi-laterally with airlines, depending on local circumstances and regulations. Airports that are in EU countries which implement article 6(5)(a) of the EU Airport Charges Directive 2009/12 furthermore should only conclude bilateral agreements which include charges approved by the independent supervisory authority [Judgment in Case C 379/18, Deutsche Lufthansa AG v Land Berlin, on the interpretation of Article 3, Article 6(3) to (5) and Article 11(1) and (7) of Directive 2009/12 on airport charges ("ACD").]
3.2.5 While transparency requires informing users that an airport will negotiate bilateral contracts, and the criteria for those contracts, the above-cited legal decision is not conclusive on the matter of transparency also extending to the prices in the bilateral contract. The United Kingdom’s Civil Aviation Authority (UK CAA) has expressly stated that transparency should not lead to disclosure of the price in the contract, as this may lead to other competition issues.

3.2.6 Consultations with users on charges need to be time-efficient and allow for dynamic modifications of pricing that airports deem necessary, rather than time-exhaustive measures which may limit the ability of airports to aid recovery.

3.2.7 The ability of airports to implement incentives schemes & engage in commercial negotiations with airlines should not be inhibited by overly-intrusive economic regulation exclusively geared towards setting revenues caps. The adoption of incentive schemes by many airports has been proven to be the most effective measure for traffic development in the past. Recent research by Oxera\(^1\), Copenhagen Economics\(^2\) and a study by the European Commission\(^3\) have all identified the heavily competitive features of the airport market, challenging the need for economic regulation which interferes in the workings of a competitive market.

3.2.8 Furthermore, one outcome of COVID-19 on the aviation market will be an acceleration of consolidation of the airline sector. The increasing concentration of the airline sector in Europe means that the dominant partner in the airport-airline business relationship is the airline. There are more than 450 commercial airports in Europe vying for traffic, and only a dozen airlines that are actively shaping the air transport market.

3.2.9 The current review of the EU Airport Charges Directive (2019/12/EC) should be paused, pending greater clarity on the implications of the COVID-19 crisis on the sector. Consideration should also be given to the ongoing work on slot reform to ensure there is no unintentional negative adverse implications to pricing.

4 EXPECTED OUTCOME

4.1.1 Airports will remain able to invest in customer service, capacity enhancement, regulatory and sustainable initiatives that benefit passengers, airport partners and local communities. This allows airport operators the continued opportunity to charge users based on market conditions and demonstrable value to stakeholders.

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1 The continuing development of airport competition in Europe, Oxera (September 2017)
2 Airport Competition in Europe, Copenhagen Economics (2012)