

Doc 9562



Airport Economics Manual

Approved by the Secretary General
and published under his authority

Third Edition — 2013

International Civil Aviation Organization

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AMENDMENTS

Amendments are announced in the supplements to the *Catalogue of ICAO Publications*; the Catalogue and its supplements are available on the ICAO website at www.icao.int. The space below is provided to keep a record of such amendments.

RECORD OF AMENDMENTS AND CORRIGENDA

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FOREWORD

ORIGIN AND OBJECTIVE

1. In June 1986, the ICAO Air Transport Committee decided that a manual on airport economics should be developed; consequently, the first edition of the *Airport Economics Manual* (Doc 9562) was released in 1991. In April 2001, the Air Transport Committee decided that the *Airport Economics Manual* should be revised as a follow-up to the Conference on the Economics of Airports and Air Navigation Services (ANSCong 2000). In view of developments that have taken place since then, which were emphasized at the Conference on the Economics of Airports and Air Navigation Services (CEANS 2008), the Air Transport Committee decided, in May 2009, that the *Airport Economics Manual* should be revised and updated.

2. The objective of this manual is to provide practical guidance to States, airport managing and operating entities, and designated charging and regulatory authorities, to assist in the efficient management of airports and in implementing ICAO's *Policies on Charges for Airports and Air Navigation Services* (Doc 9082).

SCOPE

3. This guidance takes into account the wide range of different circumstances faced by airport operators. It is based on international policies and principles on airport cost-recovery that States have developed through ICAO, and describes procedures and practices that are in conformity with these policies and principles. The basis for these policies and principles is set out in Article 15 of the *Convention on International Civil Aviation* (Doc 7300), the charter of ICAO. Extensive policy guidance in this area was subsequently developed by the ICAO Council and is contained in Doc 9082.

4. The guidance material in this manual is presented in six chapters, five associated appendices, a glossary of terms as used in this manual and an index. Chapter 1 addresses ICAO's policies on airport charges and States' responsibilities; Chapter 2 focuses on airport ownership, control and governance issues; Chapter 3 deals with airport economic and financial management, including economic performance management; Chapter 4 provides guidance on determining the cost basis for airport charges, as well as the costs attributable to concessions and other non-aeronautical activities, and guidance on the setting of individual air traffic charges and their collection; Chapter 5 addresses the development and management of non-aeronautical activities; and Chapter 6 provides guidance on financing airport infrastructure.

5. Special care has been taken, throughout this manual, to ensure consistency and harmonization with the companion document — *Manual on Air Navigation Services Economics* (Doc 9161).

SOURCES

6. This third edition of Doc 9562 has been developed with the assistance of a panel of experts on airport economics — the Airport Economics Panel (AEP). The principal sources were the second edition of the manual, ICAO's *Policies on Charges for Airports and Air Navigation Services* (Doc 9082, Ninth Edition), the *Report of the Conference on the Economics of Airports and Air Navigation Services* (CEANS 2008 — Doc 9908), and the *Manual on Air Navigation Services Economics* (Doc 9161). Additional ICAO source documents included Annexes to the *Convention on International Civil Aviation*, manuals, reports, circulars and studies, as well as individual consultations by the Secretariat.

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GLOSSARY OF TERMS

Note.— The following terms are described as they apply in the context of this manual. This list is not exhaustive. Other terms, for which a definition is provided in the body of the manual, may be found in the Index.

Amortization. The gradual extinguishment of the cost of an asset by periodic (annual) charges to expenses, usually applicable to intangible assets (e.g. development costs).

Asset. A resource from which future economic benefits are expected to flow to the entity that owns or controls it.

Autonomous entity. An independent entity established for the purpose of operating and managing one or more airports, which is empowered to manage and use the revenues it generates to cover its costs.

Benchmarking. The process of either making comparisons over time within a single organization (internal benchmarking) or of comparing performance between two or more organizations (external benchmarking) in order to make improvements.

Best practices. Practices that, over time, have proven cost-effective, efficient and successful in bringing quality products and services to the marketplace.

Bond. Documentary promise to repay long-term borrowed money with interest at a definite or determinable future date.

Capital assets. Assets acquired with the expectation that they will remain in service for a number of accounting periods.

Capitalizing expenditure. The recording and carrying forward into one or more future financial periods as a depreciable asset any costs the benefits of which will be realized over the period(s) concerned.

Cash flow. The net amount of money received by an entity over a given period.

Charge. A levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation.

Commercialization. An approach to management of facilities and services in which business principles are applied or emphasis is placed on development of commercial activities.

Concession. The right to operate a certain commercial activity at the airport, commonly on an exclusive basis and usually at a specified location.

Corporate governance. Overseeing the running of a company or an entity by its management and its accountability to shareholders and other interested parties.

Cost of capital. The cost of raising debt or equity funds.

Current assets. Assets that can be realized within one year.

Depreciation of assets. The decrease in the value of an asset due to wear and tear through use, action of the elements, inadequacy or obsolescence, normally over a predetermined period of time (depreciation period/book life of the asset).

Differential charges. Any preferential charges, rebates, discounts or other reductions in the charges normally payable for the use of airport facilities and services.

Direct transit passengers. Passengers arriving at an airport of a State and continuing their journey on the same through flight (differs from “transfer/connecting passengers” defined below).

Dividends. Distribution of earnings in cash or in stock.

Economic life (of an asset). The period during which an asset is expected to yield a rate of return.

Economic oversight. The function by which a State supervises commercial and operational practices of an airport.

Equity capital. Money furnished by the owner(s) of the entity.

Financial statements. These include the income statement and the balance sheet. The income statement summarizes all revenues and expenses, with the difference between the two totals being either a profit or a loss. The balance sheet summarizes assets and liabilities, with the difference between the two representing an increase or decrease in net worth.

Fixed assets. Tangible assets that are permanent in nature and generally held for a period of more than one year (normally buildings and equipment).

Fixed costs. Costs that in the short-term remain unchanged regardless of whether or not the volume of services provided increases or decreases.

Fuel “throughput” charges. A concession fee levied by an airport on aviation fuel sold at the airport.

General aviation. All civil aviation operations other than scheduled air services and non-scheduled air transport operations for remuneration or hire.

Key performance areas (KPIs). Key areas of performance corresponding to the expectations of providers, regulators, users and other interested parties.

Key performance indicators (KPIs). Current/past performance, expected future performance (estimated as part of forecasting and performance modelling), as well as actual progress in achieving performance objectives is quantitatively expressed by means of indicators. Since indicators support objectives, they should be defined having a specific performance objective in mind.

Lease. The right to occupy certain defined premises or possess some equipment for a fixed period, which may be used for business purposes. The premises or equipment are returned to the owner on expiry of the lease, generally without paying any compensation.

Liabilities. Debt of the entity in the form of financial claims on an entity's assets.

Liquidity. A state or situation determined by the extent or degree of possession of assets that are immediately available for discharge of financial obligations.

Local air quality (LAQ) emissions-related charges. Charges levied on aircraft with respect to aircraft engine emissions that have effects on local air quality.

Marginal cost. The cost of producing another unit or output.

Modulated charges. Charges that are adjusted according to the time and/or situation of use of the facility or service concerned (for example, peak/off-peak hours, air traffic congestion, noise and local air quality aspects).

Multiplier effect. Normally expressed as a factor showing how much the direct economic impact of the airport is increased by the indirect and induced economic effects of airport activities.

Net asset value. The value of the total assets of an entity after deduction of all debts (equals equity capital).

Operating life (of an asset). Period of time that a fixed asset can be used.

Performance management. An interactive process through which the performance of providers is expected to improve over time. This process consists of several steps, i.e. defining performance objectives, selecting performance indicators and setting their targets, monitoring performance, and reporting and assessing performance.

Pre-funding. Financing of an airport facility project through charges levied on users prior to completion of the facility concerned.

Price cap. The maximum price set under a prices policy or under specific legislation.

Private involvement. Minority participation or involvement of a private entity in the ownership of certain facilities and services. Private involvement may also take the forms of management contract or lease.

Privatization. Transfer of full or majority ownership of facilities and services to the private sector.

Providers. In this document, refers to entities providing and operating airports.

Rental of premises. The right to occupy certain defined premises or a specific area of land against payment of a fee.

Residual value. Cost (of an asset) less any part of the cost that has been depreciated or amortized, or treated as an expense or loss.

Revenues from non-aeronautical sources. Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions, the rental or leasing of premises and land, and free-zone operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators). Also intended to be included are the gross revenues, less any sales tax or other taxes, earned by shops or services operated by the airport itself.

Tax. A levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis.

Transfer (or connecting) passengers. Passengers arriving at an airport of a State and continuing their journey on another flight at the same or another airport of that State (differs from “direct transit passengers” defined above).

Users. This term refers to aircraft operators as users of airport facilities and services. The term “end-users” refers to ultimate consumers in general (for example, passengers and shippers).

Chapter 1

ICAO'S POLICIES ON CHARGES AND STATES' RESPONSIBILITIES

This chapter focuses on ICAO's key policies on airport charges and the responsibilities assigned to Contracting States under the *Convention on International Civil Aviation* (the Chicago Convention — Doc 7300).

Part A addresses the basic principles expressed in: a) Article 15 of the Chicago Convention; b) Assembly Resolutions on policies in the air transport field; and c) *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082).

Part B focuses on States' responsibilities regarding the provision of airport and air navigation facilities and services.

Part C summarizes ICAO's policies on objectives, forms and implementation of economic oversight for airports, as well as dispute resolution.

Part D summarizes ICAO's policies with regard to consultation with users on charges and airport development plans, as well as a "first-resort" mechanism.

A — ARTICLE 15 OF THE CONVENTION ON INTERNATIONAL CIVIL AVIATION, ASSEMBLY RESOLUTIONS AND ICAO'S POLICIES ON CHARGES

CONVENTION ON INTERNATIONAL CIVIL AVIATION

1.1 The basic principles established by ICAO in the area of charges for airports and air navigation services are expressed in Article 15 of the *Convention on International Civil Aviation* (Doc 7300), usually referred to as the Chicago Convention, as follows:

Airport and similar charges

Every airport in a contracting State which is open to public use by its national aircraft shall likewise, subject to the provisions of Article 68, be open under uniform conditions to the aircraft of all the other contracting States. The like uniform conditions shall apply to the use, by aircraft of every contracting State, of all air navigation facilities, including radio and meteorological services, which may be provided for public use for the safety and expedition of air navigation.

Any charges that may be imposed or permitted to be imposed by a Contracting State for the use of such airports and air navigation facilities by the aircraft of any other Contracting State shall not be higher,

- a) As to aircraft not engaged in scheduled international air services, than those that would be paid by its national aircraft of the same class engaged in similar operations, and
- b) As to aircraft engaged in scheduled international air services, than those that would be paid by its national aircraft engaged in similar international air services.

All such charges shall be published and communicated to the International Civil Aviation Organization, provided that, upon representation by an interested contracting State, the charges imposed for the use of airports and other facilities shall be subject to review by the Council, which shall report and make recommendations thereon for the consideration of the State or States concerned. No fees, dues or other charges shall be imposed by any contracting State in respect solely of the right of transit over or entry into or exit from its territory of any aircraft of a contracting State or persons or property thereon.

1.2 In summary, Article 15 of the Chicago Convention sets out the following three basic principles:

- uniform conditions shall apply to the use of airports and air navigation services in a Contracting State by aircraft of all other Contracting States;
- the charges imposed by a Contracting State for the use of such airports or air navigation services shall not be higher for aircraft of other Contracting States than those paid by its national aircraft engaged in similar international operations; and
- no charge shall be imposed by any Contracting State solely for the right of transit over or entry into or exit from its territory of any aircraft of a Contracting State or persons or property thereon.

The first two principles, which relate to non-discrimination, do not appear to have given rise to misunderstandings. However, in some instances, the third principle has been interpreted to mean that no charges are to be levied when an aircraft flies into, out of or over a State. That, however, is not the intent of this principle, since all States are fully within their rights to recover, through user charges, the costs incurred in the provision of airport and air navigation facilities and services. The substance of this principle is in fact that a State should not charge solely for granting an authorization for a flight to operate into, out of or over its territory.

1.3 Two other aspects are also addressed in Article 15. The first is that States are obliged to publish their airport and air navigation services charges, and also communicate them to ICAO. This information is collected and published by ICAO in the *Tariffs for Airports and Air Navigation Services* (Doc 7100).

1.4 Article 15 also provides for ICAO, upon representation by an interested Contracting State, to review the charges imposed and make recommendations thereon to the State or States concerned. It should be noted that the Article specifically refers to representation by an interested Contracting State only, not by any other party.

1.5 As to the status of the principles in Article 15 and, for that matter, all the Articles of the Chicago Convention, an ICAO Contracting State cannot exempt itself from applying any of the principles expressed therein since by signing the Chicago Convention the signatory State binds itself to adhere to all its Articles without exception.

ASSEMBLY RESOLUTIONS

1.6 ICAO's policies in the air transport field are expressed in consolidated Assembly Resolutions, which are updated at each ordinary session of the Assembly. These Resolutions address policy matters in all sectors of the ICAO Air Transport Programme, through dedicated appendices. The latest Assembly Resolution in force is A37-20 —

Consolidated statement of continuing ICAO policies in the air transport field, where Appendix F relates to airports and air navigation services. A37-20 — Appendix F urges Contracting States to ensure that Article 15 of the Convention is fully respected, regardless of the organizational structure under which airports and air navigation services are operated, and reminds States that they alone remain responsible for the commitments they have assumed under Article 28 of the Chicago Convention.

1.7 ICAO's policies on environmental levies are expressed in Assembly Resolution A37-18 — *Consolidated statement of continuing ICAO policies and practices related to environmental protection — General provisions, noise and local air quality*, where Appendix H relates to *Aviation impact on local air quality*.

1.8 The use of charges for the purpose of environmental protection may be applied in two areas: aircraft noise and aircraft engine emissions. ICAO's policies on noise-related charges are contained in *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082 — Ninth Edition), Section II, paragraph 8. Aircraft engine emissions have an impact on the environment at two levels: a) on local air quality (LAQ); and b) globally. Policies regarding LAQ-related charges are contained in Doc 9082, Section II, paragraph 9. At the global level, ICAO's policies are in favour of using measures other than levies.

ICAO'S POLICIES ON CHARGES

1.9 Additional and more detailed policy guidance on charges for airports and air navigation services is provided in Doc 9082. The policies on user charges are revised periodically by the Council following major international conferences on airport and air navigation services economics, although most of the basic philosophy and principles have remained unchanged over the years. ICAO's policies on charges differ in status from the Chicago Convention in that an ICAO Contracting State is not legally bound to adhere thereto, unlike the Articles of the Chicago Convention. However, since the principles in Doc 9082 are based on recommendations by major international conferences, States are morally committed to follow them and to ensure that their cost recovery practices conform thereto. Paragraph 1 in the Foreword of Doc 9082 notes that, as per a recommendation adopted by the Conference on the Economics of Airports and Air Navigation Services (CEANS — 2008), States are encouraged to incorporate the four key charging principles of non-discrimination, cost-relatedness, transparency and consultation with users in their national legislation, regulations or policies, as well as in their air services agreements, in order to ensure compliance by airport operators and air navigation services providers (ANSPs).

1.10 An important consideration of Doc 9082 is that there should be a balance between the respective interests of airports and ANSPs on one hand and of aircraft operators on the other, particularly in view of the importance of an air transport system to States and its influence in fostering economic, cultural and social interchanges between States. This especially applies during periods of economic difficulty; therefore, it is recommended that States encourage increased cooperation between airports/ANSPs and aircraft operators to ensure that economic difficulties facing them are shared in a reasonable manner (Doc 9082, Foreword, paragraphs 4 and 8).

1.11 Section I of Doc 9082 addresses some issues that are common to airports and air navigation services: scope and proliferation of charges; organizational and managerial issues; economic oversight; economic performance; consultation with users; prefunding of projects; and currency issues.

1.12 Section II of Doc 9082 concerns airport charges and is, together with Section I, the focus for the description in this part of the manual.¹

1.13 Paragraphs 2 and 3 of Section I of Doc 9082 express concern over the proliferation of charges on air traffic. It is recommended that States:

1. The highlighting of certain principles in Doc 9082 should not be interpreted to mean that these principles are more important than other principles in Doc 9082.

- i) permit the imposition of charges only for services and functions which are provided for, directly related to, or ultimately beneficial for, civil aviation operations; and
- ii) refrain from imposing charges which discriminate against international civil aviation in relation to other modes of international transport.

1.14 Experience gained worldwide indicates that where airports and air navigation services have been operated by autonomous entities, their overall financial situation and managerial efficiency have generally tended to improve (Doc 9082, Section I, paragraph 4). Therefore, it is recommended that, where this is economically viable and in the best interests of providers and users, States consider establishing autonomous entities to operate their airports and air navigation services (Doc 9082, Section I, paragraph 5). When considering the commercialization or privatization of airports and ANSPs, States should bear in mind that they are ultimately responsible for safety, security and economic oversight of these entities (Doc 9082, Section I, paragraph 6). Whenever an autonomous entity is established to operate an airport(s) and/or provide air navigation services, the State should ensure that all relevant obligations of the State specified in the Convention on International Civil Aviation, its Annexes and in air services agreements are complied with, and that ICAO's policies on charges are observed (Doc 9082, Section I, paragraph 7). Furthermore, States should ensure the use of best practices of good corporate governance for airports and ANSPs. In order to promote transparency, efficiency and cost-effectiveness in the provision of an appropriate quality of facilities and services, airports and ANSPs should apply management best practices in all areas of their business (Doc 9082, Section I, paragraphs 9 and 10).

1.15 The principles contained in Section II of Doc 9082 cover such subjects as the cost basis for airport charges, airport charging systems, landing charges, parking and hangar charges, passenger service charges, security charges, noise-related charges, emissions-related aircraft charges to address local air quality problems at or around airports, development of revenues from concessions, rental of premises and "free zones", and fuel concession fees.

1.16 Among the basic principles included in Doc 9082 concerning the cost basis for airport charges are that:

- where an airport is provided for international use, the users ultimately bear their full and fair share of the cost of providing the airport (Doc 9082, Section II, paragraph 1); and
- the cost to be allocated 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. Consistent with the form of economic oversight adopted, such costs may be offset by non-aeronautical revenues (Doc 9082, Section II, paragraph 2 i)).

ICAO's policies on charges actively encourage the full development of revenues from non-aeronautical activities in general (Doc 9082, Section II, paragraph 10). This is the subject of Chapter 5 — Development and management of non-aeronautical activities, of this manual.

1.17 Other principles and recommendations of particular relevance in the context of the cost basis for airport charges and charging systems are that:

- airports should maintain accounts that provide a satisfactory basis for determining and allocating the costs to be recovered, and should provide adequate financial information to the users (Doc 9082, Section II, paragraphs 1 and 2 iv));
- the proportion of costs allocable to the various categories of airport users should be determined on an equitable basis, so that no users shall be burdened with costs not properly allocable to them according to sound accounting principles (Doc 9082, Section II, paragraph 2 vi));

- airports may produce sufficient revenues to exceed all direct and indirect operating costs and so provide for a reasonable return on assets at a sufficient level to secure efficient financing in capital markets for the purpose of investing in new or expanded airport infrastructure and, where relevant, to remunerate adequately holders of airport equity (Doc 9082, Section II, paragraph 2 viii));
- any charging system should, so far as possible, be simple and suitable for general application at international airports (Doc 9082, Section II, paragraph 3 i));
- charges should not be imposed in such a way as to discourage the use of facilities and services necessary for safety, such as lighting and navigation aids (Doc 9082, Section II, paragraph 3 ii));
- consistent with the form of economic oversight adopted, States should assess, on a case-by-case basis and according to local or national circumstances, the positive and negative effects of differential charges applied by airports. States should ensure that the purpose, creation and criteria for differential charges are transparent. Without prejudice to modulated charging schemes, the costs associated with such differential charges should not be allocated to users not benefiting from them. Charges offered for the purpose of attracting or retaining new air services should be offered on a temporary basis only (Doc 9082, Section II, paragraph 3 v));
- to avoid undue disruption to users, increases in charges should be introduced on a gradual basis; however, it is recognized that in some circumstances a departure from this approach may be necessary (Doc 9082, Section II, paragraph 3 vi)); and
- airport charges levied on international general aviation, including business aviation, should be assessed in a reasonable manner, having regard to the cost of the facilities needed and used and the goal of promoting the sound development of international civil aviation as a whole (Doc 9082, Section II, paragraph 3 ix)).

1.18 According to ICAO's policies concerning security charges (Doc 9082, Section II, paragraph 7), any charges or transfers of security costs should be directly related to the costs of providing the security services concerned and should be designed to recover no more than the relevant costs involved.

B — STATES' RESPONSIBILITIES

1.19 As noted in Part A above, Article 15 of the Chicago Convention establishes the basic charging principles for airports and air navigation services and reinforces the concept of freedom of access and non-discrimination set forth in Article 11 with respect to the use of facilities and services for the aircraft of the Contracting States in the operation of international air transport.

1.20 Also relevant is Article 68, which sets forth that each Contracting State may designate the route to be followed within its territory by any international air service and the airports which any such service may use.

1.21 Under Article 28 of the Chicago Convention, Contracting States are assigned basic responsibilities. For example, it is the State that is responsible for the provision of airport and air navigation facilities and services, in accordance with the standards and practices recommended or established from time to time, pursuant to the Convention.

1.22 In addition, States undertake obligations under their air services agreements, where again the State alone is responsible for the observance of stipulations addressing, for example, access to certain airports and routes and key charging principles such as non-discrimination, cost-relatedness, transparency and consultation with users.

C — ECONOMIC OVERSIGHT OF AIRPORTS

INTRODUCTION

1.23 As noted in Part A above, a State, in view of the potential abuse of dominant position of airports, is responsible for the economic oversight of their operations. Economic oversight is defined as the function by which a State supervises the commercial and operational practices of an airport. In performing its economic oversight function, a State should, in particular, ensure that airports consult with users and that appropriate performance management systems are in place.

1.24 When goods and services are supplied by competitors vying for customers, the economic well-being of consumers can often be left in the hands of market forces, which act as an “automatic regulator” for ensuring efficiency in setting prices and establishing the quantity and quality of supply. By contrast, when supply in a given market is dominated by a single provider, the question of regulatory intervention becomes a public concern.

1.25 Commercialization and privatization have been bringing more competition and commercial pressure on airports. Competition between airports may arise in varying circumstances, for example, long-haul hubs competing for origin-destination and transfer traffic; multiple airports in large conurbations owned and/or operated by separate entities competing in the same market; smaller non-proximate airports actively competing to attract point-to-point, short-haul services, particularly those offered by low-cost carriers (LCCs). However, this does not imply any changes to the responsibility of States regarding economic oversight, although it is likely to impact on which model of oversight the State may deem to be most appropriate. The market conditions and the degrees of competition are not uniform. Even in competitive markets, the focus by airports on competition and cost reduction may sometimes negatively affect the interests of certain categories of users. Furthermore, commercialization and privatization may have reduced the awareness of, and adherence by airports to, States’ international obligations including ICAO’s policies on charges. These responsibilities can only be assumed by the State itself.

OBJECTIVES OF ECONOMIC OVERSIGHT

1.26 Economic oversight works best when clear objectives and incentives are given to airports so that they can provide services in the most cost-effective manner and with an appropriate level of quality. Paragraph 13 of Section I of Doc 9082 sets out a number of objectives reflecting areas of potential need for appropriate economic oversight as follows:

- minimize the risk that airports could engage in anti-competitive practices or abuse any dominant position they may have;
- ensure non-discrimination and transparency in the application of charges;
- ascertain that investments in capacity meet current and future demand in a cost-effective manner; and
- protect the interests of passengers and other end-users.²

To promote these objectives, consistent with the form of economic oversight adopted, States should ensure that airports consult with users and that appropriate performance management systems are in place.

2. The term “end-users” refers to ultimate consumers in general (e.g., passengers and shippers).

1.27 The priority for each objective may vary depending on the specific circumstances in each State, and there should be a balance between such public policy objectives and the interests of the autonomous/private entities to obtain the optimal benefits of commercialization or privatization.

POSSIBLE FORMS OF ECONOMIC OVERSIGHT

1.28 Economic oversight may take several different forms, from a light-handed approach (such as the application of competition law) to a more robust approach (such as direct regulatory interventions in the economic decisions of airports), as follows:

- application of competition law;
- fallback regulation ("market regulation");
- institutional requirements ("institutionalized checks and balances");
- price cap regulation ("incentive-based regulation"); and
- rate of return regulation ("cost of service regulation").

Application of competition law

1.29 The concept of competition law refers to laws (including regulations and policies) that aim to foster or maintain competition in markets by prohibiting anti-competitive practices. The process of applying competition law normally consists of responding to complaints, monitoring market behaviours, prosecuting offenders, adjudicating liability, and imposing sanctions upon parties adjudged to have violated the law. Such actions are likely to also have a deterrent effect on anti-competitive behaviours.

Fallback regulation

1.30 Fallback regulation is predicated on making explicit the "threat" of a more robust form of economic oversight if a company does not ensure that its behaviour stays within "acceptable" bounds. The benefit of this light-handed approach is to mitigate a potential risk of abusing dominant position without incurring the regulatory costs and distortions. Normally, this would be accompanied by the application of standard competition law. For this approach to work the airport must understand what constitutes unacceptable behaviour. A potential difficulty is that by defining the commercial boundaries in detail the State might risk creating precisely the regulatory distortions that it seeks to avoid.

Institutional requirements

1.31 Research and experience indicate that the interests of all stakeholders could be best served if users were sufficiently well informed through a constructive engagement of airports and users. Certain institutional requirements can enhance transparency and the flow of information, thereby transmitting the right signals and responses between airports and users.

1.32 Light-handed types of institutional requirements include conditions on:

- *mandatory consultation between airports and users* in the establishment of airport charges and development plans in order to ensure adequate disclosure of costs and transparency in the economic and financial underpinnings of rate and service proposals. If a meaningful consultation process is well established, it could eliminate or reduce the need for a robust form of economic oversight;

- *implementation of a performance management system* (see Chapter 3); and
- *establishment of corporate governance* including stakeholder membership of the board of directors, which is a means of promoting the adequate flow of economic information between the airport and its users.

1.33 More robust types of institutional requirements include conditions on:

- *joint ownership, or mixed enterprise*, as a means of ensuring information flow, consultation and consensus in the establishment of airport charges and development plans; however, there might be potential anti-competitive issues involved regarding airline competition and barriers to entry where joint ownership means airlines have a large say in investment plans and in the management of the airport; and
- *not-for-profit financial status*. The rationale behind this arrangement is that removing the profit incentive from an otherwise commercially-oriented organization relieves it of the stimulus to abuse its dominant position. However, it can also be argued that a profit motive protects the public against the risk of an airport failing to generate sufficient surplus revenues to sustain and modernize its facilities on a timely basis. In whatever case, the managers will have to trade-off between multiple objectives, which are well-known problems of management incentives.

1.34 Institutional requirements are often specified in a contract of concessions. These could be for a Build-Operate-Transfer (BOT) type project, or it could be a management contract, or any variant in between.

Price cap regulation

1.35 Some forms of economic oversight are designed to encompass incentive elements within them. The archetypal example is price cap regulation, under which the regulator sets a maximum chargeable rate applicable for a specific period, normally by using the retail/consumer price index minus (or plus) an incentive target (an “x” factor). If the airport exceeds the target, it may keep any over-recoveries. Where the target is not met, the airport would not be allowed to increase charges to compensate for the under-recovery and would have to find the means to balance its accounts during the regulated period. Under this scenario, the airport has a strong incentive to improve its efficiency and reduce its costs.

1.36 The price cap regulation has some potential shortcomings. For example, over time, as the ability of the regulated company to out-perform the cap is reduced, the incentive is less effective. Also, since a price cap is usually set for several years on the basis of projected capital expenditure as well as on existing assets, the airport may have an incentive to overstate capital expenditure prior to the price cap being set and, subsequently, not to undertake the full programme (the price cap can give the airport a short-term return on the assets without actually having to invest in them). Such issues can be dealt with largely through the establishment of a clear and comprehensive definition of outputs and their pricing, which allows the regulated entity to argue that the lower than planned expenditure is the result of (desirable) efficiency gains. The resulting regulatory system does, however, become increasingly complex and hence more expensive for the regulator, the regulated companies and all users.

1.37 Output-based price caps may mitigate this problem. Prices set instead in relation to output performance may provide better incentives to invest efficiently. The price can be varied up or down based on meeting performance specifications. If price caps can be linked closely to outputs over time, the airport will have fewer incentives to delay or not undertake productive investments. The barriers to this form of regulation are the long lead times to investment such that the benefits in terms of outputs are often achieved many years later only and the challenge of defining outputs in such a way that they cover service quality as well as capacity.

1.38 It is possible to modify the scope of price cap regulation by separating the aeronautical activities from the non-aeronautical activities and, therefore, applying different types of price cap to each sector, including off-airport activities. Some, however, have expressed concern about a dual-till approach (see Chapter 4, paragraphs 4.119-4.123), arguing that the non-aeronautical revenues provide a good incentive to stop airports abusing their dominant position on the aeronautical side. The approach, in some countries, has been to impose a price cap only where there is monopoly power, and that is mostly on the aeronautical side. There is a strong argument that there are off-airport competitors for an airport's commercial activities, and unnecessary or inappropriate regulation may distort the market.

Rate of return regulation

1.39 A rate of return regulation (also called cost of service or cost plus regulation) is designed principally to address the issue of excessive profits in enterprises with monopoly characteristics. The airport may be required to obtain approval for the level of charges and investments, the objective being to limit the airport's rate of return on capital at the level prevailing in a competitive market. In its simplest form at least, it allows cost pass-through for both operating and capital expenditures. However, rate of return regulation may provide the airport with a strong incentive for over-investment in order to increase the volume of its profit. Where there are no other incentives on efficiency (for example, through governance), rate of return regulation may provide limited incentive to cost-effectiveness and may also encourage over-investment beyond the requirement of users.

SELECTING APPROPRIATE FORMS OF OVERSIGHT

1.40 The selection of the appropriate form of economic oversight depends, inter alia, on the degree of competition, and the legal, institutional and governance frameworks, including the roles, rights and responsibilities of the different parties involved, as well as the costs related to specific oversight forms. Whatever approach is adopted, economic oversight should be performed in a transparent, efficient and cost-effective manner, while keeping regulatory interventions at a minimum and as required, for instance, when there is a disagreement between the parties, where strong market positions create the potential for overcharging, or where there is increased potential for discriminatory behaviour against specific users. Since circumstances change over time, the different options might be more or less appropriate at different times. It is therefore desirable to ensure a certain degree of flexibility so that oversight can be adapted to changing circumstances.

1.41 In selecting the appropriate form of economic oversight, States should first consider the scope and degree of competition. Where competition or the threat of it is sufficiently strong, the application of competition law is likely to be adequate.

1.42 One of the justifications for selecting other forms of economic oversight, therefore, requires that competition and the application of competition law would be insufficient to address the risk that an airport could abuse any dominant position it may have. The issue here is how to identify the circumstances in which competition or the threat of it would not be sufficiently strong. In general, the degree of competitive market constraints could be measured in terms of actual and potential competition from rival airports or from other modes of transport. The size of the entities and traffic volume relevant to the market are also factors to be taken into account.

1.43 Even where competition may not be considered sufficiently strong, there may be circumstances in which the need for a robust form of economic oversight is less obvious. For example, the airports, in collaboration with the users, are the parties best placed to determine the optimal service standards, charges system and the level of the charges in relation to the services rendered. In such cases, the scope of economic oversight should be limited to encouraging that changes to the charges system and to the level of charges be made in agreement between the airport and all categories of users where this is achievable.

1.44 Another important factor in assessing the most appropriate approach is the potential costs and benefits related to the particular form of economic oversight. The operation and administration of economic oversight is not cost-

free, and the cost associated to it may increase as the approach taken by a State moves from a light-handed to a more robust form. In the extreme, the regulatory cost may outweigh the expected benefit. The choice of an appropriate form going beyond the application of competition law is, therefore, a matter of searching the spectrum of options for protecting public interests at an acceptable level and at a minimum regulatory cost.

1.45 It is possible to conceive variations of each form of economic oversight set out above. In some situations, the combination of two or more of the forms may yield the best form of economic oversight.

IMPLEMENTATION OF ECONOMIC OVERSIGHT

1.46 States may perform their economic oversight function through legislation or rule-making, establishment of a regulatory mechanism, etc. The mechanism by which economic oversight takes place can be key to its success in achieving its objectives in an efficient and cost-effective manner. It is important for States to consider carefully the roles, rights and responsibilities of the different parties involved — governments, airports and users — and to exercise their economic oversight function, in particular concerning economic performance management and consultation with users, in an internally consistent manner.

1.47 Where the operation of one or more airports is performed by a government entity, the economic oversight function should be functionally separated from the operation and provision of airport services within the administration, and roles and powers should be clearly defined for each function (see Chapter 2, Part B).

1.48 Taking account of local circumstances, a State may wish to establish an independent economic oversight entity with the responsibility of reviewing and sanctioning any action on pricing, investments and service quality. An appropriate balance between independence and accountability is required for the economic oversight entity as well as for the airport(s) that it would regulate. In order to hold the regulating entity accountable, the government would need to give it clear objectives, preferably through statute, coupled with sufficient operating autonomy. Without such a balance, there will be a risk to regulatory commitment and credibility.

1.49 A State can also use a third party advisory commission as a less formal tool to help perform its economic oversight function. The advisory commission is often considered appropriate when parties concerned do not form cohesive groups and thus have little or no means by which to organize for class action. The advisory commission might be composed of air carriers, general aviation, the military, representatives of end-users, and other principal parties concerned. A strong advisory commission would be equipped to engage in meaningful dialogue with the airport management on an ongoing basis and to review specific pricing, investments and service levels proposals.

1.50 Another important aspect to be considered is the possible need for additional resources to perform an economic oversight function. Some States may lack the capacity to adequately fulfil their economic oversight responsibilities, given competing priorities on safety, security, environment and liberalization of air transport. For those States, the adoption of a region-wide regulatory framework could be a useful option to pull their resources together in performing their economic oversight function.

DISPUTE RESOLUTION

1.51 If as suggested in paragraph 1.30 above, the State defines an acceptable standard of behaviour, or if there is a contract between an airport and its users, arbitration or a dispute resolution mechanism could come into play whenever the provider and the users are unable to agree on an application in practice. It might be necessary to specify “triggers” for initiating arbitration and the criteria for settling disputes. The main advantage of such arbitration is that it would pressure the parties to reach and adhere to commercial agreements and in doing so would help to reinforce any underlying countervailing market power that the users may possess. However, the success of arbitration is likely to depend, inter alia, on the market power of the airport, particularly if it is the only “regulatory” mechanism available. It may

also give rise to gaming behaviours by the parties, trading off a potential arbitration outcome against a negotiated agreement.

1.52 The involvement of autonomous entities in the management of airports, as well as the growth of new types of aircraft operators, has brought about business practices and new market forces that can potentially result in new and different kinds of disputes that will need to be resolved before they enter the international arena. Economic oversight should provide for equitable, transparent, expeditious and effective dispute settlement mechanisms that build confidence between the airport and its users. Its purpose is to instil trust between parties where market forces do not provide for resolution of disputes.

1.53 No single mechanism can meet all needs and circumstances. In general, the procedures for settling a dispute between parties to an agreement may be carried out in two stages: a) consultations between the parties; and/or b) at the request of either party, the submission of the dispute to an arbitration tribunal for a decision. Usually, decisions reached under this latter stage of the mechanism are binding and both parties have the obligation to enforce the decision.

1.54 In addition to administrative and judicial proceedings, a State may consider a "first-resort" mechanism, which could provide for an intermediate level between the two stages of consultation and arbitration. This intermediate level calls for either an independent mediator or an independent dispute settlement panel to be used for the fact-finding investigation, including determination of the substance of the dispute or for providing a recommendation to remedy the dispute. It is based on clear time frames, implementation arrangements, interim measures and provision for third-party involvement (see paragraphs 1.71 to 1.73).

1.55 An independent tribunal could be established to which users could appeal if they had reason to believe they were being subjected to abuse of dominant position or other unfair practices, although the need to avoid the tactical use of such a mechanism with vexatious claims would need to be considered. This body could also handle appeals lodged with respect to complaints about non-compliance with the required principles for establishing charges and rates. The mechanism should not affect the right of the parties to have access to other dispute resolution mechanisms, including those under general competition laws, nor should it preclude the implementation of the formal arbitration process in an agreement.

1.56 Third-party protection could also be ensured through the use of a less costly mechanism, such as an ombudsman. It should be noted, however, that while the role of an ombudsman is to provide a neutral forum, an ombudsman ultimately has no enforcement power.

1.57 In addition, with respect to complaints relating to decisions taken by the regulator (such as an economic oversight entity), the right of appeal to a higher tribunal should be available. A compliance and enforcement regime providing for the creation of an administrative monetary penalty system, with appeals to an independent appeal tribunal, could be envisaged. It has to be recognized, however, that while an effective enforcement mechanism is a point of critical importance, it could be very demanding in terms of resources for many States.

D — CONSULTATION WITH USERS

NATURE OF CONSULTATION

1.58 Good relations between regulators, airport operators and users are important for the sound development of air transport. Consultation and cooperation lead to increased mutual understanding between airports and users, thereby improving efficiency and cost-effectiveness in the provision and operation of airport services with all the parties striving to move in the same direction. Consultation with users covers all aspects referred to in Doc 9082, namely, changes in charging systems or levels of charges, airport planning (capacity development and investment plans), performance management, service quality, pre-funding of projects, collection of passenger services charges, cost recovery of security measures, and environmental charges.

1.59 The key purpose of consultation with users is to ensure that the needs and wishes of users are considered in the context of the airport's plans to meet them. Effective consultation will help both to prioritize investments and to ensure that adequate capacity and services will be provided to meet the demand of current and future users, including end-users.

1.60 Consultation with users may provide useful comments and suggestions for improvements in the management of the charging system and lower costs for both airports and users. Consultation might also reveal aspects of the proposed charges that may inadvertently discriminate against certain user groups. Through consultation, users become aware of the financial implications of the charges that they would have to pay.

1.61 Successful consultation depends on goodwill and constructive engagement from all parties involved. However, there is a wide variation between airports in the degree of consultation and users' involvement. While some airports have established cooperative arrangements such as service level agreements (i.e. defining the level of service provided and the rules that govern the airport/users relationship on the agreed services), some other airports around the world do not maintain a proper and regular consultation process, or do not consult users at all. In some cases, even where a consultation process has been established, there is limited engagement by the airport and/or the users in the process. All sides should participate in a meaningful way to ensure that the process delivers an optimal outcome.

THE CONSULTATION PROCESS

1.62 As recommended in ICAO's policies on charges in Doc 9082 (Section I, paragraph 13), States should ensure, within their economic oversight responsibilities, that all the users concerned are properly consulted on issues that could materially affect them. Specific procedures for effective consultation should be determined on a case-by-case basis, taking into account the form of economic oversight adopted by the State and the size and scale of the airport's activities.

1.63 Where there are no cooperative arrangements in place that are acceptable to all parties, States are encouraged to ensure that a clearly defined, regular consultation process is established with users by their airports (Doc 9082, Section I, paragraph 21). The consultation process could be maintained even in times where no changes in charges, capacity development or investments are being contemplated by an airport.

1.64 In general, consultation starts with advance notice of proposals. When a revision to existing charges or the imposition of new charges is contemplated by an airport or another competent entity, it is recommended that appropriate notice should be given to users, either directly or through their representative organizations, at least four months in advance, in accordance with the rules and regulations applicable in each State (Doc 9082, Section I, paragraph 21 i)).

1.65 Consultation documents should make clear the nature of the proposals, the parties most likely to be affected, the specific questions on which feedback is requested, and the time schedule for responses (Doc 9082, Section I, paragraph 21 iv)). In any revision of charges or imposition of new charges, the users should be provided with transparent and appropriate financial, operational and other relevant information to allow them to make informed comments (Doc 9082, Section I, paragraph 21 ii)). Summaries of the main revenue and expense items as well as other financial data described in Chapter 4, Part A, illustrate the type of information referred to.

1.66 All interested parties should be given the opportunity to present their views on the proposals (Doc 9082, Section I, paragraph 21 iv)). The written submissions by users or their representative organizations and any feedback obtained through associated consultative discussions should be considered, as far as possible, before reaching a decision. The best outcome from consultation would be consensus, and reasonable measures should be taken to achieve this, although it may not be possible, or even desirable, to reach consensus in each situation.

1.67 It is important to note that the party being consulted (users) has a responsibility equal to the party consulting (airport) to engage actively in the consultation process. For example, concerning capacity development and investment plans, the attention of users, particularly air carriers, should be drawn to their responsibility to provide

advance planning data to individual airports on a five- to ten-year forecast basis relating to future types, characteristics and numbers of aircraft expected to be used, the anticipated growth of aircraft movements, passengers and cargo to be handled, and other relevant matters (Doc 9082, Section I, paragraph 19).

1.68 Both airports and users are to provide sufficient information to each other for meaningful consultations, while market-sensitive data should be protected properly. Also, the detail and amount of information to be provided would depend on the size of airports and the nature of the proposals being undertaken. For example, for small airports, a process such as that described in paragraphs 1.65 to 1.67 above would be too cumbersome and expensive, and thus a less elaborate process and related information may be needed.

1.69 Decision documents should provide appropriate rationale for the decision taken. Especially where users' views have not been accepted, justification for the decision is necessary. With respect to the revision of charges or imposition of new charges, it is recommended again that reasonable advance notice of the final decision, of at least one month, be given to the users. This one-month period does not need to be in addition to the four months' advance notice period referred to in paragraph 1.64 above. Advance notice could enable the users to make any necessary arrangements for the additional costs involved and make adjustments to their fares, if needed. It also allows the users some time to invoke a dispute resolution mechanism, where available, prior to the revised or new charges taking effect.

PRE-FUNDING OF PROJECTS THROUGH CHARGES

1.70 Specific considerations for consultations related to the use of pre-funding charges for project financing are addressed in Appendix 4, paragraph 6.

"FIRST-RESORT" MECHANISM

1.71 A revision of existing charges or the imposition of new charges should be made in agreement between airports and users through consultation, wherever possible. Failing such agreement, paragraph 18 in Section I of Doc 9082 acknowledges that the airport would continue to be free to impose the charges proposed, subject to a right of appeal to, or other determination by, a body independent of the airport, where available. The appeal process should be consistent with the form of economic oversight adopted in the State concerned. If there is not an appeal mechanism in place it is even more important that airports and users make every effort to reach an agreement on any changes in charging systems or levels of charges before they are introduced.

1.72 With the growth in the number of instances where provision of airport services is independent of direct government control, there may be a need for a neutral party at the national level to pre-empt and resolve disputes before they enter the international arena (a "first-resort" mechanism). Balancing the interests of both airports and users would be more effectively achieved through preventive measures including requirements for prior consultation and expeditious national treatment of complaints.

1.73 Paragraph 22 in Section I of Doc 9082 recommends that the "first-resort" mechanism should be flexible, with focus on conciliation or mediation but with the possibility of arbitration if the State concerned so decides. Specific procedures for consultations of this kind will have to be adapted to the diversity in the administrative, financial and legal frameworks within which airports function. The procedures with regard to individual airports will also need to take into account the size and scale of the airport's activities. The mechanism, if required, should be established in a manner consistent with the form of economic oversight adopted.

Chapter 2

OWNERSHIP, CONTROL AND GOVERNANCE OF AIRPORTS

This chapter addresses various aspects of ownership and control structures of airports, which have implications for their governance and performance.

Part A provides some basic comments essential for the understanding of the guidance in this chapter.

Part B describes the organizational structures for the provision of airport facilities and services by government owned and controlled entities.

Part C addresses the issue of privatization of, and private participation in, airports.

Part D addresses the issue of airport systems, networks and alliances.

Part E stresses the need to apply best practices so as to ensure good corporate governance of airports.

Part F identifies, from an organizational viewpoint, the major areas of airport activity and describes the responsibilities normally assigned to each area.

A — BASIC FACTORS

2.1 This chapter focuses on ownership and control structures of airports, which have implications for their governance and performance. The various organizational structures used by States can be grouped into two main types. The first type falls under government or public ownership and control. Although this is still the predominant form of organization, many States have established autonomous entities by separating the provision of airport services from the executive arm of the State and by allowing them to operate on a commercial basis. The second type is where private interests are involved in whole or in part, a format that is becoming more common. Considering the diverse circumstances involved, it is not the intent of this manual to recommend one organizational format over another, but rather to provide guidance to States by describing relevant aspects of each format.

2.2 The decisions made by individual States at the national level as to the organizational format under which their airports operate will depend on the situation in the State concerned and will often be strongly influenced by government policy, as well as by the experiences of other States. The most appropriate choice can be determined in the context of the following factors:

- a) the legal, institutional and governance frameworks of the government and system of administration in the State;

- b) the cost and source of funds required to meet infrastructure needs and to secure the continuity of operation taking into account traffic forecasts and risks (for example, contingency planning to deal with the potential impact of reductions in revenue that could occur due to decreases in air traffic);
- c) market conditions including degrees of competition among airports and users;
- d) the requirements of the aviation industry; and
- e) the contribution of civil aviation to the State's economic and social objectives and the extent to which civil aviation has been developed to meet those needs.

2.3 The process of transition from one format to another will also depend on the circumstances and practices of each State but, in general, the transitional issues that may arise include:

- a) identification, valuation and transfer of assets;
- b) determination of the initial financial structure, staffing and conditions of employment including pension arrangements and maintenance of good labour relations during the transition period;
- c) establishment of good corporate governance;
- d) establishment of formal relationships between the airport(s) and the government, including the military;
- e) establishment of formal relationships between the airport(s) and the aviation safety and security organization(s);
- f) establishment of an economic oversight framework; and
- g) establishment of appropriate performance management systems and a consultation mechanism with users and other interested parties.

2.4 Regardless of the organizational format, according to ICAO's policies on charges in Doc 9082, the State is ultimately responsible for safety, security and, in view of the potential abuse of dominant position by airports, economic oversight of their operations (Doc 9082, Section I, paragraph 6). It is further stressed that whenever an autonomous entity is established, whether by a government or by private interests, the State should ensure that all relevant obligations of the State specified in the Chicago Convention, its Annexes and in air services agreements are complied with and that ICAO's policies and practices are observed (Doc 9082, Section I, paragraph 7). With regards to their responsibility for safety, States should ensure that airports undergoing changes of ownership and control structures are subject to a certification procedure in accordance with the Standards and Recommended Practices in ICAO *Annex 14 – Aerodromes*, Volume I – *Aerodrome Design and Operations*, to the Chicago Convention as well as other relevant ICAO specifications, and as outlined in the *Manual of Certification of Aerodromes* (Doc 9774).

B — GOVERNMENT OWNERSHIP AND CONTROL

GENERAL

2.5 Government or public ownership may take the form of direct control and management, for example, through a civil aviation administration, or through another ministerial department, or through regional or municipal levels of government. Government control can also be exerted through bodies benefiting from a certain degree of autonomy, such as a government body with financial and operational autonomy, an autonomous corporation established under the provisions of a special statute (a statutory body), or a company established under company law.

GOVERNMENT DEPARTMENT

2.6 The historical organizational format of the airport is a fully integrated component of the State's bureaucracy, where the operation of one or more airports represents only one of many functions performed by a government entity. Generally, this organizational format is characterized by the following features:

- a) the head of an airport department reports directly to the executive level of government;
- b) as an organization within government it is funded by the government, sometimes from general taxation. User charges levied for airports can be retained either by the government for general purposes or by the organization; and
- c) the organization may not be subject to taxes as paid by private business.

2.7 When a government plays both the role of regulator (i.e. performing its economic oversight function) and service provider, it should consider a clear separation of the regulatory and operational functions, with roles and powers clearly defined for each function as recommended in ICAO's policies on charges in Doc 9082 (Section I, paragraph 12). This is because too close a relationship between the regulator and the service provider can result in conflicts of interest and undermine public confidence and trust in the adequacy of the system, and because overlaps in the regulatory and operational functions may lead to diffuse accountability relationships within the entity. Separation enhances transparency in the decision-making process and makes clear the lines of accountability and the authority of one branch to monitor the activities of the other.

2.8 The internal separation process of the two functions involves delegation of responsibilities of management and finance, giving much greater autonomy to an airport department within the entity. In general, the head of the airport department may have considerable authority in decisions pertaining to the daily operations of the airport, including personnel management, and the authority to make purchases of supplies and arrange for any services required for that purpose. The department head may also be given the authority to negotiate agreements concerning all but major concessions and rentals, the final decisions relating to which would normally be made at higher levels. Decisions involving, for example, major purchases or investments in facilities and equipment would normally be subject to the government's approval process and treasury rules and may compete against other claims for government funds.

2.9 If the government accounting system is inadequate to provide the necessary accounting information, separate accounts following commercial accounting standards and practices will be necessary. The format of airport accounts and their possible itemization is addressed in Chapter 4.

GOVERNMENT-OWNED AUTONOMOUS ENTITIES

Definition

2.10 An autonomous airport entity is essentially an independent entity established for the purpose of operating and managing one or more airports, which is empowered to manage and use the revenues it generates to cover its costs. Creating legal entities outside the government is usually called "corporatization". In some circumstances, a single autonomous entity may operate both airports and air navigation services. Such autonomous entities may, in some cases, operate not only airport facilities but also facilities for other modes of transport, covering such facilities as ports, bridges and tunnels. While not common, this approach has been found useful, for example, where cities operating airports wish to centralize the operation and management of these and other major transportation facilities for which they are responsible.

2.11 The government-owned autonomous entity normally has the following key features:

- a) the government, as owner of the organization, is responsible for setting the autonomous entity's objectives and monitoring its performance;
- b) a board of directors appointed by the government oversees the activities of the entity;
- c) the autonomous entity is self-financing, charges for its services, uses revenues from these charges to fund operating expenses and to finance capital expenditure, applies commercial accounting standards and practices, and may be required to achieve a financial return; and
- d) the autonomous entity may be subject to normal business taxes, and the staff of the entity are not likely to be civil servants and may therefore not have public sector pay and conditions of service.

2.12 The extent to which the government-owned autonomous entity can function like a private sector company depends on the degree of autonomy conferred to the entity. On the one hand, the autonomous entity can still be subject to the government's directions or pressure to take account of wider public issues, as well as its approval process for major capital investment. On the other hand, the autonomous entity can be allowed to commercialize some of its activities. Commercialization refers to an approach to management of facilities and services in which business principles are applied or emphasis is placed on development of commercial activities.

Development and advantages

2.13 In the past two decades, the number of autonomous entities has grown in all regions. While the establishment of an autonomous entity would not necessarily result in an unprofitable airport becoming profitable, experience gained worldwide from these developments indicates that the autonomous entities may have the following advantages:

- a) ensure that the revenues generated through the use of airport resources are transparently re-invested in operating and developing the facilities;
- b) ensure that the users of the airports contribute directly to the upkeep and development of the facilities that they use (user pays principle);
- c) reduce the financing burden on governments;
- d) encourage the growth of a business culture (for example, closer control over revenues and expenses, quicker decisions and more responsive actions, and good governance), thereby increasing efficiency and improving the quality of services;
- e) enable access to private capital markets, which may only become possible with a change in organizational format because of public sector borrowing restrictions; and
- f) establish a clear separation of the regulatory and operational functions.

In light of these advantages, ICAO's policies on charges in Doc 9082 (Section I, paragraph 5) recommend that, where it is economically viable and in the best interest of airports and users, States consider establishing autonomous entities to operate their airports.

2.14 The main purpose of establishing autonomous entities has been to improve the efficiency and financial performance of the airport(s). To the extent that international airports have become more autonomous, this trend has been associated with the larger international airports with sufficient traffic volumes to warrant expectations of attaining

financial self-sufficiency. However, smaller international airports may also benefit from becoming more autonomous in their management and operation, although they may face risks such as a lack of sufficient bargaining strength to counter the market power of their users. Regardless of airport size, States should always consider the benefits and risks associated with adopting new management and operating structures.

2.15 In certain circumstances, assigning the operation of one or more airports to an autonomous entity may not be a good approach to improving airport operating efficiency. For example, in a small State with limited aviation activity and where the operation of an international airport is the dominant function of the civil aviation administration, little if anything may be gained by separating the airport operation from the civil aviation administration and assigning it to an autonomous entity established exclusively for that purpose. In fact, costly duplication and rivalry between the two bodies could result in each of the two bodies carrying out functions previously performed more efficiently and at a lower cost by the civil aviation administration. This applies particularly to administrative costs and overhead.

Responsibility and financial independence

2.16 Before an autonomous entity becomes operational, its charter, or a document of a similar character, needs to be drawn up. The charter clearly describes the scope of the services and areas of responsibility of the autonomous entity. Because of different national practices, these tend to differ between airport entities. The areas or services concerned normally include most or all of the following: aircraft movement areas, aircraft parking areas, passenger terminal facilities, cargo facilities, hangar facilities, air traffic control including communications, and sometimes, meteorological services.

2.17 Where airport facilities already exist, the charter makes clear whether or not the assets are to become the property of the entity and, if so, what value is to be placed on these assets and whether or not a corresponding debt is to be charged to the entity. The charter also states how the airport is to be governed (see paragraphs 2.40–2.43 on corporate governance).

2.18 On the financial side, the charter needs to make clear that the autonomous entity will be empowered to retain the revenues it generates for the purpose of defraying airport expenses and building up possible capital reserves. This means that the civil aviation administration would no longer have the financial benefit of the common use of premises and equipment, the costs of which were, at least in part, financed by airport revenues. Where it is foreseen to be unlikely that the autonomous entity will be profitable in the short-term, the charter may need to specify how shortfalls in revenues are to be covered (such as through direct loans from and loan guarantees by the government), preferably by the drawing up of an annual financial plan to be agreed by the government (in this context, reference should also be made to the guidance material in Chapter 3).

2.19 If airport entities lack the necessary financial autonomy, all the revenues they generate from charges, rentals and concession fees are deposited directly to the account of the national treasury, a ministry or the civil aviation administration, resulting in the airport entity then having to apply for all funds required to cover airport expenses. The airport entities concerned nevertheless remain responsible for the levying and collection of charges on air traffic as well as for the promotion and development of non-aeronautical activities. However, such kinds of arrangements tend to significantly reduce the incentive of airport management to develop new revenue sources or increase income from existing sources because it cannot make use of revenues it generates to defray expenses for which it is held responsible.

AUTONOMOUS CIVIL AVIATION AUTHORITY

2.20 Even in circumstances where the establishment of an autonomous airport entity may not be desirable (see paragraph 2.15), it may be beneficial to establish an autonomous civil aviation authority to take over the functions, including the operation of airports, previously performed by a civil aviation administration. The establishment of an autonomous civil aviation authority could permit the State to obtain benefits such as an increased efficiency and a

significant reduction of the contribution from public funds previously required for the civil aviation administration, which the civil aviation authority would replace.

2.21 As in the case of autonomous airport entities, granting financial independence to the civil aviation authority would usually be an important prerequisite for realizing such benefits. However, experience in some States has shown that achieving complete financial autonomy remains a distant goal and that continuation of government financial support through grants sometimes remains necessary, at least in the early stages.

C — PRIVATE OWNERSHIP AND PARTICIPATION/INVOLVEMENT

2.22 In the past two decades, many government-owned autonomous entities have been commercialized and are expected to operate as a financially independent business entity and to be as competitive, efficient and cost-effective as any other commercial business. The ownership of some of the commercialized airport entities has been transferred partly or fully to the private sector. Further details and guidance material on airport privatization can be found in the *Manual on Privatization in the Provision of Airports and Air Navigation Services* (Doc 9980).

MOTIVATIONS

2.23 The opening of the door to private interests has been driven by diverse motives, ranging from improving operational efficiency and reducing costs to a more pragmatic desire to relieve the State of the responsibility for financing infrastructure developments. The government also expects to gain a one-time cash windfall from the sale of shares, as well as regular tax revenue from privatized airports. Public financing of airports is becoming more difficult because of budgetary constraints or other national spending priorities and pressure to move away from non-core public utilities. Governments also confront the increasing difficulty of the purchase, lease or reclamation of land and the growing expectations of the users in regard to the quality of service at airports.

2.24 The business and financial communities are aware that an airport can be a sound investment. Larger airports are turning into cities in themselves ("aerotropolis"), with marketplaces and meeting points for people and businesses. Growth in air traffic is generally related to economic growth. Depending on the economic cycles, the credit ratings of many major airports have historically been high and they have strong cash flows. Although airports are subject to States' economic oversight, commercial activities at airports, which produce significant revenues, are generally less regulated than aeronautical activities or are not regulated at all. All these factors combined have resulted in major airport management companies investing and participating in the management of airports in other regions of the world. Thus airport management companies have developed, paralleling the development of the large international airline companies, and together creating a genuinely global aviation industry.

PRIVATIZATION

2.25 Privatization is the term most commonly used in connection with the changes taking place in the ownership and control of airports. While the term privatization is often loosely interpreted as any move away from government ownership and control of airports, ICAO's policies on charges define privatization as a transfer of full or majority ownership of airport facilities and services to the private sector (Doc 9082, Appendix 3). Privatization is usually achieved through outright sale of shares to a strategic partner or an Initial Public Offer (IPO) on the stock exchange market. In the event that a State would wish to regain full or majority ownership, it would have to buy back the shares, with the risk that their price may be higher than the original sale price.

2.26 Key features of a privatized airport are likely to include the following:

- a) there is a board of directors for the corporation appointed according to its charter;



- b) the privatized airport is self-financing, charges for its services, obtains funds from the capital market, applies commercial accounting standards and practices, and needs to achieve a financial return as a commercial entity; and
- c) the privatized airport is subject to normal business taxes.

2.27 Airport privatization requires careful consideration of a number of factors (paragraph 2.2 refers). These include an assessment of market conditions and the degrees of competition. This will serve to minimize the risk of airports, on the one hand, engaging in anti-competitive practices or abusing their dominant position, or on the other the possibility of being subject to market pressure by users. In addition, the objectives of change of ownership structures may need to be clearly defined through appropriate consultations with existing airport management, users and other interested parties. Privatization should not in any way diminish the State's requirement to fulfil its international obligations, notably those contained in the Chicago Convention, its Annexes and in air services agreements, and to observe ICAO's policies on charges in Doc 9082.

PRIVATE PARTICIPATION/INVOLVEMENT

2.28 Private participation and private involvement, which are synonyms, mean that the private sector has a role in the ownership, control and/or management of an airport entity while majority or ultimate ownership remains with the government. Private participation/involvement that can be used for airport management and operation sometimes involves the establishment of a public-private partnership (PPP). The advantage of a PPP is that the management skills and financial acumen of private businesses could create better value for money for taxpayers, when proper cooperative arrangements between the public and private sectors are used. Private participation/involvement has basically four different forms: management contract, lease (which is sometimes called concession), transfer of minority ownership, and private sector ownership and/or operation of parts of the activities of an airport (including PPP schemes).

Management contract

2.29 Under this option, the management of an airport or a group of airports is transferred to a private entity for a limited period of time for a fee or pre-determined payment terms. The private entity can be a local/national concern, or an international airport managing group, or a consortium associating various interests of which the former two may be part. The airport (or group of airports) benefits from professional management, but development of airport facilities may not be included in the contract.

Lease or concession

2.30 Airport leases/concessions can be short-, medium-, or long-term. Under this option, an airport or a group of airports is transferred for management and development to a private entity or consortium for a fixed period. In almost all cases, the responsibility for expansion and development of airports rests with the lessee or concessionaire, under conditions that are either listed in the contract or are dependent on traffic growth. The payment terms of leases or concessions vary widely. In some cases, it is all down payment, while in other cases it is partly down payment and partly annual payment, or only annual payment. One of the most common forms is the Build-Operate-Transfer (BOT) scheme, an ownership and management system under which a private entity obtains the right to finance, build and operate a certain facility, including land and/or buildings, over a long period of time, and on expiry of the right returns it to the owner. Many variants of this scheme have come into existence (see definitions in the glossary of terms in ICAO's *Manual on Privatization in the Provision of Airports and Air Navigation Services* — Doc 9980).

2.31 When giving airports in concession¹ to a company or a consortium, a number of aspects have to be considered in order to obtain the best results. In particular, States should duly take into account, in addition to economic policy and guidance material, other ICAO documents such as: a) *Airport Planning Manual* (Doc 9184), b) *Airport Services Manual* (Doc 9137), and c) *Manual on Privatization of Airports and Air Navigation Services* (Doc 9980). Factors to be considered include:

- a) the aeronautical and non-aeronautical services to be transferred to the private sector and those that will remain in the hands of the State should be identified, as well as the standards to be applied for the desired quality of the services provided;
- b) master plans and investment plans for airport concessions should be sufficiently flexible to enable their revision based on demand, taking into account State requirements, compliance with applicable international standards, and user needs. Such plans must give priority to the cost-effectiveness of concessions;
- c) the adequacy between the duration of the concession and the magnitude of the investment made;
- d) the contract between the State and the private airport operator must be the result of a competitive open bidding process that guarantees an efficient concession process, where all the required conditions, assessment formulae, and criteria used for awarding the contract are established with absolute transparency and are known to all stakeholders;
- e) the concession system should be based on the State and the private sector assuming their respective risks in the implementation of airport projects;
- f) airport concession contracts should allow for some flexibility in order to adjust to new market conditions resulting from an evolving air transport industry and the long duration of concession contracts; and
- g) measures should be taken to prevent the problems that have arisen with some concession contracts in relation to the timely payment of concession fees, delayed investments, definition of competencies, and management coordination.

Transfer of minority ownership

2.32 Under this option, minority ownership of an airport or a group of airports is transferred to the private sector, usually through the sale of shares to a strategic partner or through share flotation. It is sometimes a first stage or tranche of a full or multi-step privatization process to ensure a smooth transition during which the business can accommodate the market conditions.

Private sector ownership and control

2.33 Under this option, majority or full ownership of the airport is transferred to a private entity, including non-profit corporations or trusts.

1. This type of scheme has been implemented in particular in a number of States in Latin America. In this respect, the Latin American Civil Aviation Commission (LACAC) adopted in 2003 a Resolution (A17-03) with factors to be considered when giving airports in concession. In this Resolution, LACAC urges Member States that are conducting or about to start or revise airport and aeronautical infrastructure concession processes, to consider a number of aspects in order to obtain the best results. Such aspects are in line with ICAO's policies on user charges and guidance material on airport privatization.

Private sector ownership and/or operation of parts of the activities of an airport

2.34 This option refers to the ownership and operation of certain facilities or services at an airport, for example a passenger terminal, or a cargo warehouse, or security services. The activities of the operator are regulated by a contract that, from a legal point of view, is similar to a commercial concession agreement. Where a part of an airport (such as a passenger terminal) is privately owned and operated, measures need to be taken to ensure that the privatized element of the airport makes a proper contribution to the costs of operating the rest of the airport, for instance by payment of a significant concession or lease fee.

D — AIRPORT SYSTEMS, NETWORKS AND ALLIANCES

2.35 Whatever the form of ownership and control that the State has selected, the management of airports can be done either on an individual airport basis, on an airport system basis, on an airport network basis, or on a combination of these. An airport system is composed of two or more airports serving the same major metropolitan area and operated under a single ownership and control structure. An airport network is a group of airports within a State operated under a single ownership and control structure; it can include all airports serving the territory of this State or only some of these airports².

2.36 There are arguments in favour of operating and managing a group of airports within an airport network, a form of organization that is common at a national level. Smaller airports may derive some benefit within a common ownership, which could include cross subsidization. Other arguments point to, inter alia: the advantages for a State having a national air transport system in achieving its national development objectives; the advantages in terms of economies of scale; the easier access of all airports to capital markets; and the better management of capacity and use of resources throughout the network. In summary, an airport network can be a valuable method of collectively managing airports that, taken individually, would not be viable.

2.37 Arguments against cross subsidization are based on the fact that airport charges should be cost-related; that users should not be charged for facilities they do not use; and that only those facilities used for international air services should be included in the cost basis for charges (Doc 9082, Section II, paragraphs 2 i), ii) and iii) refer). In that sense, cross subsidies from profitable to non-profitable airports within a network are questionable, although it is recognized that in some States it may be the only way to maintain airports that serve, for example, isolated regions. Opponents to the network approach also point out that if subsidies are to be provided for national planning purposes, these should rather come from the State than from users of other airports.

2.38 Another aspect is related to the operation and management of airports at an international, or multinational, level, including alliances between airports or airport groups. This is made possible by the operation and management of airports in different States by globalized airport companies. The main advantage of such a form of organization lies in the potential economies of scale, while the drawbacks may be found in a possible diversion of revenue and cross subsidies between airports in different States (a form of cooperation that may be acceptable to some developing States).

2.39 One conclusion that may be drawn from this controversial issue is that an equilibrium should be sought between the interests of airports and users, specifically including those of current and future end-users; and that in cases where cross subsidization within a national network is applied, full transparency is necessary. In the final analysis, it is for States to decide on what is in their best interest, taking the above advantages and disadvantages and their particular circumstances into account. In this respect, States should consider paragraph 2 ix) in Section II of Doc 9082, which says that a State or a charging authority may recover less than its full costs in recognition of local, regional or

2. Cross ownership of airports in different States or management contracts obtained in different States by an international airport management company can also lead to a form of cooperation sometimes referred to as airport networks, or as airport alliances. However, these forms of international cooperation are of a different nature than a network at a national level.

national benefits received, as well as to the possibility of cross subsidization through revenues from non-aeronautical activities. With regard to international operation and management of airports, this form of organization needs to be exerted with caution and could be considered as acceptable as long as it brings lower charges through economies of scale.

E — CORPORATE GOVERNANCE

2.40 The change of ownership, control and/or management of an airport can have implications on its governance and performance. A number of recent studies and experiences indicate that a change of ownership and control is normally considered as a means to improve corporate governance and that better performance is achieved as a result of good corporate governance. The term corporate governance refers to overseeing the running of a company or an entity by its management and its accountability to shareholders and other interested parties.

2.41 Corporate governance becomes even more important where the control and management of an airport is separated from the ownership and in situations where an airport is more dependent on external capital for the financing of its activities and investments. For example, a sound corporate governance system could provide effective assurance for all interested parties, including shareholders and creditors, that management acts in the best interest of the airport and uses funds in an efficient way, thereby making it easier to raise capital. Conversely, without good corporate governance the management may seek to maximize its own interests at the expense of those of other interested parties, and there may be less transparency in the use of available funds.

2.42 Corporate governance principles and codes have been developed worldwide. Some of the most influential guidelines are the *OECD Principles of Corporate Governance* (2004) by the Organization for Economic Co-operation and Development. The application of the OECD principles and the results of recent studies on the commercialization and privatization of airports may serve as the basis for the establishment of the best practices needed to ensure good corporate governance of commercialized airports. These include:

- a) clearly defined objectives and responsibilities as set out in a legislation or license;
- b) an equitable treatment of shareholders and protection of shareholders' rights (where all or a part of the capital is held by private shareholders);
- c) an independent, professional supervisory board to provide overall direction to the management;
- d) empowered and accountable management to make timely decisions regarding finances, operations, technology, human resources, investments and services in line with corporate objectives and board directions;
- e) good relationships with all interested parties through consultation; and
- f) timely and accurate disclosure of information to enhance transparency.

2.43 The best practice of good corporate governance could equally apply to airports fully owned and directly controlled by government, as the performance of airports is related more to good governance than to the ownership and control structure. In many instances, however, a State authority does have inherent limitations that must be overcome (for example, cumbersome approval and lengthy procurement processes, and competition with other State priorities for investments).

F — INTERNAL ORGANIZATION

GENERAL

2.44 When establishing the internal organizational structure of an airport (or group of airports), the principal aim is to create a structure that enables the airport to meet its objectives and carry out its functions in the most efficient and cost-effective manner while maintaining a high standard of service.

2.45 Before defining or revising its internal organizational structure, particular attention will first be directed to the areas of responsibility of the airport (or group of airports), which are often described in the charter of the airport(s) or in documents of a similar character (see paragraphs 2.16–2.18).

2.46 The functions of an airport will vary according to its size, mix of traffic, areas of responsibility and business model. For example, some airports are responsible for air traffic control as well as for meteorological services, while at most other airports such services are provided by separate entities. Many airports are involved in security functions in varying degrees and in providing facilities for customs, immigration and health authorities. Ground-handling services for the airlines, including terminal handling or apron (ramp) handling, or both, are provided by some airports, while at others they are provided by the airlines or by specialized agents or companies. Certain airports also perform functions that exceed the scope of conventional airport activities, such as consultancy services, public works, construction, and real estate development.

2.47 The main functions of an airport are described below. At smaller airports, it may be more effective and convenient to have several functions handled by one department, whereas at major airports, many of them are likely to be handled by separate departments. The functions enumerated above may either coincide with the cost centres listed in paragraph 4.51 (Chapter 4, Part A), or regroup several cost centres.

ADMINISTRATION AND FINANCE

2.48 The administration and finance function is usually responsible for overall management of personnel and general administrative matters, including management of buildings and land and the supply and management of stocks. It would also be responsible for accounting, budgets, budgetary control, the assessment and collection of charges and other revenues, as well as making payments and, possibly, the operation of airport data processing systems. Also included would be matters relating to rentals and leases, concession contracts, drafting of the necessary agreements and other legal matters.

2.49 Defining the airport's long-term objectives and establishing development plans and investment programmes may be the responsibility of the finance function or a separate planning and development function.

2.50 Management control (which includes comparisons of the results achieved in relation to forecasts, budgets and plans, and the analysis of discrepancies) may also be separated from the finance function. Management information systems, which can be of significant assistance, tend to be operated by the administration and finance function. This may include the airport data processing system or may be operated as a separate function. The internal audit function, however, is usually independent and should report to a high level of management to ensure its impartiality.

OPERATION OF AIRPORT FACILITIES

2.51 This function covers the operation of the passenger and freight terminals, including air bridges, and runways, taxiways and aprons including ramp equipment, buses and other airport vehicles, and automobile parking. This function usually has a large staff for the various operating, cleaning, guarding and other functions involved, with certain services often provided through subcontractors.

ENGINEERING, CONSTRUCTION WORKS AND MAINTENANCE

2.52 This function provides maintenance services for airport installations and equipment, and also performs civil engineering work at the airport. Maintenance ensures that airport buildings and installations are kept fully operational; it includes the internal equipment of the air terminal (e.g. baggage conveyor belts, moving stairways, passageways, heating and air conditioning systems, power supply) and the external equipment (e.g. runway lighting, instrument landing system, telecommunication and meteorological equipment), as well as airport vehicles (e.g. buses, firefighting and apron vehicles) and ground-handling equipment (ground power units, aircraft stairs, and cargo and baggage handling equipment).

2.53 Engineering and construction services are often performed by outside consultants or contractors at airports that have not reached a size that enables them to efficiently use such services on a permanent and continuous basis.

2.54 Engineering includes the definition of new projects and programmes, including preliminary and final project specifications. An essential responsibility is to define the master plan for the development of the airport to its optimal capacity so as to efficiently meet growing traffic volumes. This would include the location of additional runways and passenger terminals, in the medium and long term, consistent with the planning and development objectives. The construction works department carries out part or all of the tasks, such as management of the operations, planning and supervision of the construction works, related to the ground facilities and the air terminals.

MARKETING AND PUBLIC RELATIONS

2.55 This function is aimed at promoting the airport to the aircraft operators and the general public as well as to potential users of airport services. This involves identifying typical features of the airport's customers and their requirements, public and media relations, operating guided tours, dealing with complaints, preparing brochures describing the airport for the public, and maintaining the airport's website.

2.56 Also included could be the development and management of commercial concessions, particularly at smaller airports where it would often form part of the administration or operation function. The development and management of commercial concessions and other non-aeronautical activities becomes increasingly important as airport traffic increases; at larger airports, it may therefore be justified to organize this activity as a separate function.

GROUND HANDLING

2.57 This function concerns only those airports that provide all or part of the ground-handling services at the airport. The function may be separated into terminal handling (passenger check-in, baggage and freight handling, flight plan processing) and apron handling (aircraft handling, cleaning and servicing). If it is not organized as a separate function, it could be included under "operation of airport facilities" (see paragraph 2.51). This function generally requires a large number of personnel, which can be partly or wholly subcontracted.

AIR TRAFFIC OPERATIONS

2.58 Concerned with the movement of aircraft within the airport and its vicinity, air traffic operations include air traffic control and related associated procedures, firefighting and rescue services, meteorological services, and the operation of pilot briefing offices, which are usually also responsible for the provision of aeronautical documentation and information. These services are often the responsibility of the State in which the airport is located.

SECURITY, IMMIGRATION, HEALTH AND CUSTOMS

2.59 All these services are required and generally provided by the State. They should be accorded the full cooperation of airport management. At some airports, an airport police or security force may be responsible for certain or all airport security functions.

ORGANIZATION CHARTS

2.60 While various types of organizational structures can be used to ensure effective management and internal communications for different types of operating entities, examples of some generic airport organization charts are included in the following pages. Although each airport is unique and will take on its own unique organizational and governance structure, certain basic factors need to be considered when an airport's organization chart is to be prepared.

2.61 The establishment of the most suitable organizational chart for an airport (or group of airports) should take into account the following factors:

- the functions and the objectives of the airport(s);
- the relationships between the various functions performed at the airport(s);
- the number of airports and their geographical distribution, if they are operated as a group/network;
- airport size, which determines whether each of the various functions should be entrusted to a distinct department, or whether some of them could be grouped together in the same organizational unit or department;
- the type(s) of traffic (international, domestic, civil, general aviation, military); and
- the degree of financial autonomy of the airport or airports concerned.

2.62 The organizational chart for an airport (or group of airports) indicates how the various airport functions are related, and in this way provides some guidance in the allocation and determination of costs of the facilities and services provided (a topic dealt with in Chapter 4). The graphical presentation of the functional relationships that exist for the relevant organizational structure should take into account the following considerations:

- one or more functions should be grouped together in each department;
- the functions grouped together should be related and have a common purpose;
- if the volume of traffic is low, the number of departments should be relatively limited. As the airport increases in size, its organizational charts tend to become increasingly complicated, but the multiplicity of departments should not result in any overlapping in responsibilities which would hamper the smooth operation of the airport;
- all departments should be closely coordinated, particularly as regards airport security; and
- regardless of the form of internal organization, airports are usually managed by a governing board (or board of directors), which is usually responsible for all important policy decisions regarding the airport, and a chief executive officer (or managing director, or director general). The chief executive officer is responsible for the day-to-day operation and administration of the airport and implements the decisions of the board.

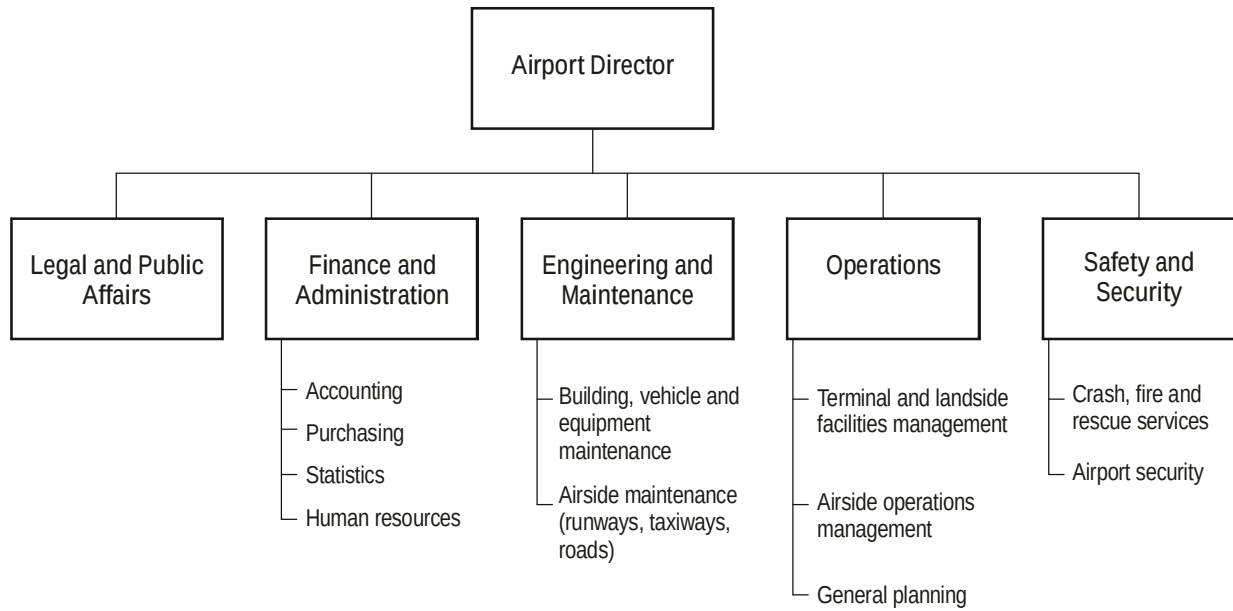


Figure 2-1. Airport Authority under CAA