

Economic Regulation of Irish Airports - IATA response to Consultation Paper CP2/2001 of February 2001

As the Trade Association representing 270 scheduled airline members, the International Air Transport Association (IATA) welcomes the opportunity to respond to this paper. We have worldwide experience and involvement with a number of airports and their regulators, and therefore much appreciate the comprehensive approach to this issue by the Commission for Aviation Regulation.

We fully support the economic regulation of airports, which encourages productivity and efficiency while also preventing abuse from monopolistic or dominant positions. It is also necessary in order to balance the airport's objective to maximise profits with the users' requirements to minimise costs and maximise capacity. Airlines operate in an increasingly liberalised, deregulated and intensively competitive environment, which has forced them to reduce costs and improve productivity. Airports, by comparison, are generally low-risk, relatively monopolistic suppliers of essential services and facilities for the airlines and their customers. Independent economic regulation provides incentives to airports to improve productivity and efficiency as a means of minimising charges. We therefore welcome the introduction of independent economic regulation in Ireland.

Q1 Are there other types of framework that should be considered by the Commission in the regulation of airport charges?

We believe that the most appropriate regulatory frameworks have been considered. We would however, be willing to discuss and consider any alternative system that can be seen to be cost-related, minimised charges, and did not have any significantly negative impact on any individual users.

Q2 What regulatory framework do you advocate for the economic regulation of airport charges?

We believe that the most suitable form is the application of incentive regulation through the RPI-X price cap. This approach should be based on an inflation sensitive cap on the yield per passenger, with a challenging value of 'X', which encourages good cost control. While the 'tariff basket' approach would avoid the complicated yearly corrections which have elsewhere led to price increases significantly different from the headline RPI-X, it would require complex calculations on the weightings for each price increase against the revenue it produces, before the charges can be set. We do not believe that the rate of return method would provide the necessary incentive for strong cost control.

Q3 What structure of pricing would be most effective in achieving allocative efficiency at Ireland's regulated airports?

We understand that slot allocation rules are subject to a review by the EC. Notwithstanding the EC interest and studies into slot allocation, we do not believe that slots should be considered within the scope of airport economic regulation. In our view the problem is not

with current slot allocation systems, but with the fact that users have not been provided with the necessary capacity.

We do not support differential pricing, peak/off-peak pricing, or marginal pricing, which supposedly encourage efficient use of resources. While we can understand the requirement for minimum charges to make more efficient use of runways, we are strongly opposed to any form of peak/off-peak charging. In our view this only arbitrarily redistributes costs between different airlines. The Users have little opportunity to adjust to such a system in an efficient way due to the complex task of scheduling such operations. Our proven experience is that the passengers and shippers create the demand and schedules, and that economic pricing has very little impact on “steering” demand. Additionally, peak charging can obscure transparency and fair and equitable charging.

We have some concern with the approach of prices to reflect the costs of meeting additional capacity. We believe that the application of economic concepts such as marginal pricing should be limited to airports where there are agreed capacity or congestion problems. Where such concepts are considered, this should only be done in agreement with the users. They should only be considered providing it can be demonstrated that it is the only way to address the problem and that the different pricing systems or schemes will result in improved efficiency, additional capacity, or better use of existing capacity.

Q4 In the context of any knowledge or experience that you may have in terms of the successes or failures of economic regulation of airports abroad, are there lessons to be applied in Ireland drawing on such international experience?

UK - In our experience the UK system, which has evolved over three quinquennia or review periods, is the most effective. It should be noted however that it does suffer from the complexity and lack of clarity caused by the necessity annual re-calculations or adjustments. While it is accepted that the underlying yield, rather than “X”, is the over-riding consideration, the first impression of a simplistic formula is made complicated due to the dilution/concentration calculations and the over/under-recoveries. The ex-post corrections necessary under the revenue-yield approach can lead to price increases in individual years significantly different from the headline RPI-X. Failure to predict the full extent of dilution can also lead to additional increases in later years through the correction factor. As a result, users may not receive reasonable assurances on the level of charges that they are likely to face.

New Zealand – In general we are not supportive of the so-called ‘light-handed’ approach in New Zealand, which has led to airlines having to take legal action to protect their interests.

Australia – The privatised airports have been subject to site-specific RPI-X formulas, and there is on going consultation on the regulation of Sydney Airport. In general we are not happy with the performance of the ACCC which we do not feel is adequately protecting the users’ interests.

Ireland – We have a number of on-going concerns with AerRianta regarding consultation on capital expenditure, proposed charges structure and levels, and application of the ‘single-till’. AerRianta have recently invited us to continue these discussions in light of the new regulatory framework.

Others - We also have considerable recent previous involvement and discussions with the following airports on economic regulation - South Africa, Portuguese Airports (ANA), Vienna, Hamburg, New Berlin Airport, German Ministry of Transport, Copenhagen, Amsterdam Schiphol, Australian Airports and ACCC. We can provide further details on the individual experiences and the lessons learnt if considered useful. As a result of these experiences we have developed a model “Utopia” Airport regulation approach, which is shown in **Attachment A**

Q5 What set of services provided by an airport operator should be considered to be financed from the five airport charges specified in the Act and Q6 How should the costs of other airport services be paid for?

Appendix 1 of the consultation paper gives the services and facilities covered by BAA airport charges. It may be useful to note that during the UK Review processes we have had useful discussions with BAA regarding which services and facilities should be covered by charges. There is scope for the airports operator and the users to discuss and agree what should be covered within the charges, particularly miscellaneous charges, and for any agreement to be proposed to the Regulator for approval. Paragraph 4.1 (b) and (c) refers to charges levied in respect of the arrival at or departure from an airport by air of passengers and freight. Approach (terminal navigation charges) are paid by every arrival or departure flight at the airports subject to economic regulation. We therefore believe consideration should be given to the inclusion of these services, which are also provided by a monopoly supplier, within the scope of regulated charges.

Our experience with the UK regulation may be of relevance here. In consultation with the BAA, consideration has been given during review periods to the inclusion of certain miscellaneous charges or operational activities, referred to as “other operational income” under the Airports Act 1986, into airport charges for economic regulation purposes. These discussions were made under the assumption that any such structural change would not significantly alter either the BAA’s total revenue nor the airlines’ costs in total, although they may impact on airlines individually. These included costs such as in-flight catering levies, airside (non-handling) licences, and fuel throughput fees. While there were possible benefits of consistency and simplicity in such transfers, these were outweighed by the disadvantages due to the differing amount of usage by various airlines and variations in needs. Under the revenue yield per passenger price control, we did not believe this would necessarily guarantee better control over future prices.

We are strongly against payment of levies or fees that are not cost-related. This includes ground-handling access or infrastructure fees and fuel levies. Our position and proposals on fuel fees and charges is shown in **Attachment B**.

Q7 What are the advantages and the disadvantages of regulating a number of airports on an aggregate basis?

Users at any particular airport should not subsidise users at other airports. While we can appreciate that airport networks are capable of creating economies of scale and improved efficiencies, airport costs and charges should be site-specific in line with the ICAO principle

of cost-relationship. The operation of airport systems should not allow for revenue diversion, cross-subsidies, and dilution of the ‘single-till’.

Q8 Should Dublin, Cork and Shannon airports be regulated separately or on an aggregate basis?

For the reasons given in Q7, we believe consideration should be given to the separate regulation of the airports, certainly Dublin, to improve transparency of costs and charges.

Q9 Should the maximum charges set by the Commission apply to individual charges, to a basket of charges or to the total of charges? Q10 If more than one limit, on which categories of charges? Q11 How should the determination on maximum charges be expressed having regard to the options contained in Section 32 (6) of the Act?

Our preference for RPI-X to be applied to the revenue yield per passenger, and its perceived benefits over the ‘tariff basket’ approach, have been referred to in our response to Q2.

Q12 Are there any alternative ways by which the contribution of each of the factors specified in Section 33 to the achievement of the statutory objective may be assessed.

We are pleased to note that the objective of the Commission is to facilitate the development and operation of cost-effective airports which meet the requirements of users. We believe that the airlines, who pay the charges, are the prime users. Consideration must also be given to the vital role that airports play in the economic and social development of the areas they serve. It should be taken into consideration that the airport has an important role in the business and tourism development of its catchment area, and that possible over-pricing of its services has impact on a much larger community than its immediate users. While we can appreciate the desire to maximise economic welfare, we believe that the main role of the Commission should therefore be to ensure that the necessary capacity and facilities are provided for the users.

Q 13 How should an airport operator relate capex decisions to current and prospective user needs. How should the Commission assess the degree to which the airport operator is doing so successfully?

Q14 How should capex be funded. Should one of the five regulated charges be earmarked for investment spending or instead should the revenue from charges be pooled (perhaps with other income as allowed for under the Act) to fund both opex and capex?

Given the increase in non-aeronautical revenues, particularly at Dublin, plus the aeronautical revenues, together with the alternative forms of financing that are available, we believe that the necessary airport investments are compatible and possible with tight economic regulation. We believe that we should only be paying through our charges for agreed facilities and services that we need and use. In our view a total investment volume should be defined for the period under review. If this volume is not reached, a downward correction should be made to the regulation formula. Similarly, if volume increases due to facilities needed and used by airlines, an upward correction can be made. The regulator should continue to ensure that the necessary consultation process is in place for such capex. Consultation in relation to

major airport developments, strategic planning, and its impact on costs and charges, should be conducted in a meaningful way with the users.

We do not support forward, or pre-financing, in which the airlines and their passengers are asked to pay for facilities that are not yet in use. There is no guarantee that the airlines or passengers paying for future facilities today will be those obtaining the benefits once the new or improved facilities are operational. Apart from going out of business, airlines can also lose traffic rights or slots in increasingly deregulated environments. New operators can benefit from facilities paid for by longer serving airlines. If airlines are burdened by forward financing charges it would be difficult to justify to passengers that the increase in their ticket or freight charges are for better facilities that they may benefit from in the future.

Q15 When should investments be included in the assets on which a reasonable return is applied in the calculation of airport charges – before construction of the new facility commences, once the investment is in progress, or only when it is in use?

While we are prepared to pay the financing costs, or cost of capital, we do not support pre-financing or return on assets in course of construction. As mentioned above, we believe that we should only be paying through our charges for agreed facilities and services that we need and use, once they are operational. Our experience with pre-financing of significantly delayed projects such as Terminal 5 at Heathrow Airport and the UK NATS Swanwick NERC facility, is that they have an adverse impact on user costs and charges. Our preference is for a factor to be included in the regulation formula to allow for charges to be adjusted as and when major capital programmes such as terminal facilities are actually brought into use. If planned capex is subsequently deferred, the formula assumptions can be wrong, and the operator may have the opportunity to subsequently spend either on projects, which are not agreed airline priorities, or on commercial infrastructure at the expense of aeronautical facilities.

Q16 What assets should be included in the regulatory base?

Q17 On what basis should those airport assets that are used to provide airport services and other services at Irish airports be valued?

We support the historical cost method rather than current cost accounting for the valuation of airport assets. This reduces the volatility effect of the property and building cost re-evaluations, and is less capable of being manipulated. For regulatory purposes assets should be valued on a fixed asset base, rolled forward through subsequent years on RPI. We believe that this approach would reflect the low-risk nature of airport investments, and the rate of return expected from them. Our experience of regulated UK and other airports proves that the valuation of the asset base is a key component of the cost base and the subsequent charges. We are also concerned that there is a tendency to inflate asset base values in order to increase the sale price and subsequent shareholder value of privatised entities. Economic regulation applied against an artificially high asset and costbase, and not in agreement with users, would be ineffective and counter-productive.

Q18 How should the rate of return of the airport operator be defined and measured?

We recognise that airports are entitled to earn a reasonable rate of return (ROR), and that the ROR is an essential element of economic regulation. The ROR however, should reflect the fact that airports are natural monopolies and relatively low-risk businesses. We believe the equivalent of Government bond interest is generally the appropriate level. The ROR is also an important constituent of airport economic regulation. As previously referred to in Q12, it should be taken into consideration that the airport has an important role in the business and tourism development of its catchment area, and that possible over-pricing of its services has impact on a much larger community than its immediate users.

Q25 How should the contribution of the airports to the regions in which they are located be assessed? Q26 What is the contribution of the airports to the regions in which they are located?

We are not familiar with the particular local conditions, but believe our general comments in response to Q12 and Q18 on this issue are relevant and should be taken into consideration.

Q27 Should airport users obtain any financial benefit from other income that the airport company derives from airport facilities. In other words, should airport regulation be based on a single or a dual till principle?

We fully support the ICAO recommended principle of the “single-till”. Airports are specifically built for aviation purposes, and non-aeronautical revenues are largely derived from the passengers that airlines bring to the airports. Non-core activities within the airport perimeter, which can be developed due to the aviation activities, should benefit its primary users, the airlines, in terms of reducing the cost base for charging purposes. The “single-till” permits increased profits from retail and commercial activities for the airports, while minimising the airport charges for users. It can be considered as an acknowledgement of the partnership between airports and airlines in achieving the optimal capacity, price, and quality relationship for the passenger who is the ultimate customer. We support the approach of full cost-recovery and cost-related charges providing this is in relation to the application of the “single-till”.

Following on from ANSConf 2000, ICAO agreed a revised wording on the ‘single-till’ for Document 9082/6. The ICAO Air Transport Committee subsequently invited IATA and ACI to develop a common understanding regarding the application of the revised wording. ICAO has agreed this common interpretation, and we understand it will be placed in the appropriate ICAO manuals. A copy of this draft is shown in **Attachment C**.

Q28 If a single-till principle is to be used, what other revenues should be included in it and how should the charges be related to them?

We are open to discussion on the boundary of the “single-till”, and on what items should or should not be included against the principle outlined above, and within the ‘interpretative’ text in **Attachment C**.

Q29 How should the cost-effectiveness of Irish airports be assessed?

See response to Q33.

Q30 What costs of operating an airport are joint costs. How should such joint costs be allocated among users?

See response to Q32

Q31 Should some of the costs of operating an airport be recovered directly from passengers?

It is accepted practice throughout much of Europe, and elsewhere, for passenger charges and/or security charges to be put directly into the tax box on passenger tickets. However, such costs are still considered an essential part of the total airport costs, and must be subject to the same degree of economic regulation, transparency and justification as all other charges.

Q32 How should the Commission seek to prevent a price maximum being evaded by a lessening of service quality. What incentives could an airport operator be given to provide appropriate service quality?

We believe generic standards should be included in the airports' Conditions of Use, and that such contracts should be linked to the charges. Airport charges should be for the agreed basic facilities and service levels that users need and use. Payments for any additional facilities and service should be agreed between the airports and the operators making such requests. Agreement of such basic or generic levels is necessary.

Basic standards, together with service level agreements (SLAs) and effective regulation, can minimise the opportunity for airport providers to achieve cost savings through lowered standards of service. Airport charges should cover the cost for the basic facilities and services needed for the provision of an airport system and to allow passengers free and easy movement around, and access to, the airport.

SLAs are essential to ensure that agreed levels of service are delivered by airports to their airline customers and the travelling public. The aim is to produce a robust service partnership by clarifying the key operational targets and sharpening accountabilities within the airports' operations. The output should be high quality service to customers and the promotion of continuous improvement

Q33 How should the international cost competitiveness of Irish Airports be assessed?

Because of the inherent weaknesses in international benchmarking, we use our own historical database to record major individual airports' performance over time. This provides us with useful information, including traffic and staff productivity, plus costs per passenger and traffic unit, and financial returns. These year-on-year performance and efficiency indicators help us to evaluate each airport individually in terms of value for money in relation to charges, and to encourage improvement over past performance. We believe there is scope for benchmarking to be applied for some operational and economic purposes including service quality and construction costs.

Q34 Does benchmarking have a role to play in evaluating the efficiency of Irish airports. If so, against which entities should Irish airport efficiency be benchmarked?

Q35 Are there any difficulties associated with reliance on international comparisons?

We are aware of the value of benchmarking, but wonder how meaningful and appropriate comparison of airports can be made without standard accounting and reporting systems. We find the existing benchmarking publications such as TRL, ITA and Cranfield very interesting for charges purposes, and for comparing total turn-round costs for various aircraft types. However, we realise they must be treated with a certain amount of caution in view the number of variables. The industry is very diverse and heterogeneous with a high degree of quality differentiation and different investment cycles, as well as external constraints such as planning processes and environmental factors. In these circumstances the use of benchmarking must be approached very carefully. We are not aware of any benchmarking techniques or proven models that can satisfactorily take all the considerable airport differences into consideration.

Q36 Is it appropriate to minimise regulatory restrictions according to the extent of competition faced by an airport operator or airport service provider. Is there a more appropriate method?

While consideration could be given to 'lighter-handed' or less complicated form of regulation for smaller airports, any airport still enjoys considerable market powers by virtue of its relatively monopolistic control of its site and the use.

Q37 Which airport services, if any, at the regulated airports are exposed to competition. Are there services for which airports possess market power. Are there services where the degree of competition faced by suppliers might be increased?

This question has also arisen at other airports with regard to what should or should not be included in the 'single-till'. It has been proposed that activities provided by airports in which they have competition, such as long-term car parking and consultancy services, should not be included in the 'single-till'. There is some merit in this argument, but we could also consider that the airport possesses market powers on all activities by nature of its generally monopolistic and dominant position. As with the 'single-till', we believe that agreement should be established through consultation between the airport, the users, and the Regulator.

SUMMARY

We welcome the opportunity to make this initial submission and the start of this consultation process on the economic regulation of the Irish Airports. The IATA policy paper on Airports Economic Regulation can be provided if this would be helpful, and we are of course willing to provide any further information and comments required. We hope that the Regulator will be an active champion of the users of air transport and of the country's economic interest in the aviation industry.

Geneva 30/3/01

Attachment A IATA Utopia Airport regulation model

The general rules of the "Utopia" model are:

Point of departure: determine an ex-ante cap on the average charges-related income per passenger based on inflation correction, agreed investments, allowing for traffic developments and efficiency targets (RPI-X). (N.B.: the cap is not meant as a target and it should not exceed market conformity).

RPI: average of past 12 months.

X factor is the ex-ante determined correction to actual inflation based on:

- traffic volume and mix development,
- efficiency improvement,
- agreed investments (replacement and new),
- resulting cost developments with efficiency targets, without inflation (which will be taken care off in the RPI figure),
- agreed WACC with optimised financial structure - debt/equity ratio, and
- development of other aviation revenue and commercial revenue.

"Single-till" Version: all assets, costs and income relevant to the till are applied in the model, so no problem with cost allocation.

"Shared-till" Version: only assets, costs and income relevant to the aviation sectors of the airport operations are applied in the model, allowing for an amount of agreed income from commercial activities. Proper cost allocation is an important issue here.

All parameters are ex-ante determined. The question remains if a correction (yearly or periodically) should be applied for actual values of the parameters, which complicates the determination of the charges and surely the transparency.

Regulation period: five years' data with a three-year regulating period.

Starting base adjustment: existing cost-base for charging purposes should be discussed in all transparency; certain elements (e.g. inefficiencies, provision of unnecessary services) should be corrected.

The resulting development of necessary charges income per passenger over the years lead to the "X factor" to be applied to the RPI.

UTOPIA INTERNATIONAL AIRPORT REGULATION

shared till version / Feb 2000

Charges revenue cap:

Adjusted starting base:

First determine the aviation related assets, costs and income; then apply corrections for inefficiencies

to the various elements to achieve a reasonable starting base.

Then determine the weighted cost of capital (with optimised debt/equity).

The resulting balance is the necessary level of charges/income and adjust the charges accordingly.;

X-factor

calculation:

Determine horizontally the traffic development and related asset (capacity) development.

*Then determine horizontally the targeted cost and income developments **without** inflation.*

The development of the charges/revenue per passenger determines the X-factor to be applied to the RPI.

	aviation relation activities							av
	adjusted starting							
	actual 1999	base 1999	estimate 2000	regulating period			2004	
			2001	2002	2003			
movements	130,000	130,000	135,200	140,608	146,232	152,082	158,165	+4%
MTOW	6,000	6,000	6,360	6,742	7,146	7,575	8,029	+6%
passengers x1000	11,000	11,000	11,770	12,594	13,475	14,419	15,428	+7%
assets	10,000	say: 9,500	10,450	11,495	12,645	13,909	15,300	+10%
cost:								
depreciation	600	550	605	666	732	805	886	+10%
personnel	1,500	1,400	1,400	1,400	1,400	1,400	1,400	+0%
operational	700	600	624	649	675	702	730	+4%
other	700	500	500	500	500	500	500	+0%
total costs	3,500	3,050	3,129	3,214	3,307	3,407	3,516	
WACC	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
WACC x assets	800	665	732	805	885	974	1071	
income from :								
aviation act. (handling)	-1000	-1000	-1040	-1082	-1125	-1170	-1217	+4%

ECONOMIC REGULATION OF AER RIANTA AIRPORTS (Cork, Dublin and Shannon)

Commentary on Jet Fuel Issues

Current Position

Aer Rianta levy a fee on all Jet Fuel uplifts at Dublin Airport, which is collected from the Airlines via the Suppliers as a line item on invoices. No justification has ever been provided for this fee, which has generated at least 3 million IRL of revenue for Aer Rianta over the past ten years. The Airport also charges rentals to the Suppliers for their office accommodation.

A similar fee was planned for introduction at Cork in mid-2000 by Aer Rianta, but this was suspended in view of the opposition from the Suppliers and Airlines, and the imminent appointment of the Airport Commissioner. As for Dublin, Suppliers also pay rentals for their offices.

At Shannon, all Jet Fuel is supplied by Shannon Fuels, a Division of Aer Rianta, and thus there is no transparency of any fees paid to the Airport within the prices paid by the Airlines.

IATA Policy on Fuel Fees and Charges

The International Air Transport Association recognises, and accepts, that the costs of any fuel facilities required to support airline operations need to be recovered via appropriate fees and charges. However, these should be fair, non-discriminatory, transparent and cost-justified, with full consultation with the airline users.

Jet Fuel supply is an essential part of an airport's infrastructure, and thus it should not be regarded as an opportunity to create a revenue stream, as is the case for commercial income derived from such activities as shops in the passenger terminals.

IATA Proposals for Fuel within Overall Airport Regulation

- Any and all fees/charges set by Aer Rianta on Jet Fuel should be designated as "Ground Handling Access Charges", and thus be subject to approval by the Commissioner prior to implementation.
- Any and all fees/charges set by Aer Rianta on Jet Fuel – both explicit line items, and costs hidden within leases etc – should be fair, non-discriminatory, transparent and cost-justified.
- Aer Rianta should be required to create an appropriate consultative machinery with the Airlines and Fuel Suppliers at which all non-competitive issues, including the Airport fees, may be discussed on a tripartite basis.

Attachment C “Single Till”

The IATA position at the ICAO ANSConf 2000 on this issue was that non-aeronautical activities and revenues are generated because there is air traffic and the ‘single-till’ is an acknowledgement of the partnership between airports and airlines. Some states supported more flexibility in the application of the ‘single-till’. ANSConf 2000 recommended that ICAO undertake as a matter of high priority a study on the application of the ‘single-till’, to identify elements that should be included in it, determine if there is a need to amend the current policy or to develop additional guidance for States.

Post ANSConf, the ICAO Air Transport Committee (ATC) advised they did not have the resources or budget to do this study. Subsequently, they approved the following redrafted text on the ‘single-till’ for Document 9082/6, on the understanding that ICAO, ACI and IATA develop a common understanding regarding the application: -

“The cost to be shared 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 and operation and management and administration expenses, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators”.

A draft common interpretation developed by ACI/IATA was forwarded to ICAO for consideration. With a few minor amendments ICAO has agreed this draft. We understand that ICAO will send the interpretative text in a State letter which will also indicate it will be placed in the appropriate ICAO manuals. As requested by the ICAO Council, this state letter will also include a questionnaire on the degree to which States are implementing the ICAO charges policies. The interpretative text is as follows: -

1. The existence of air traffic activity is a necessary precondition for the generation of airport non-aeronautical revenues. Such revenues are then generated through management initiatives in offering suitable products and prices. All aeronautical and non-aeronautical revenues from the operation of an airport accrue, in the first instance, to the airport. Reaching a common understanding on the contributions of non-aeronautical revenues to defray the cost base for charges is an acknowledgement of the partnership between airports and users.
2. The non-aeronautical revenues in question do not normally include revenues earned by airport operators from activities undertaken off-airport or those undertaken by the airport in full competition with other suppliers.
3. Given the different local circumstances and fast changing conditions with respect to airport ownership and management, as well as regulatory regimes, there are likely to be a range of different appropriate treatments of non-aeronautical income by airports.
4. When determining the contributions from non-aeronautical revenues, high priority should be given to the investment needs of airports, taking into account paragraph 24 of Doc 9082/6, which addresses pre-funding of projects, while recognising that there may be many alternatives to finance infrastructure development.

5. The appropriate return on aeronautical activities should reflect differences in the level of risk from non-aeronautical activities. Further, in order to provide incentives to the airport operator, high levels of service and efficiency in aeronautical activities may be rewarded with higher returns and vice versa.
6. When defining the contributions from non-aeronautical revenues, an accounting system should be in place to identify the relationship between costs and revenues of non-aeronautical and aeronautical activities (refer to Doc 9082/6, paragraph 17.iv).
7. As stated in point 4 above, it may be appropriate for airports to retain non-aeronautical revenues rather than use such revenues to defray charges. However, there is no requirement for airports to do so and, in appropriate circumstances, there may be solid grounds for charges to be lower, consistent with Doc 9082/6, paragraph 22.viii.
8. None of the foregoing should be interpreted as encouragement to airports to unreasonably exploit their market position relative to users.