



A FUTURE PERFECT? *TRENDS AND CHALLENGES FOR THE AVIATION INDUSTRY*

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Luis FONSECA de ALMEIDA,
ICAO Regional Director, EUR/NAT, ICAO
20 February 2014



Chicago, 7 December 1944

PREAMBLE

THEREFORE, the undersigned governments having agreed on certain principles and arrangements in order that international civil aviation may be developed in a safe and orderly manner and that international air transport services may be established on the basis of equality of opportunity and operated soundly and economically;



Economic Development of Air Transport

- To foster the development of a sound and economically viable air transport system
- New SO reflect the need for ICAO's leadership in developing and harmonizing the global regulatory framework
- Helps focus ICAO's work to meet the needs of Member States and aviation stakeholders

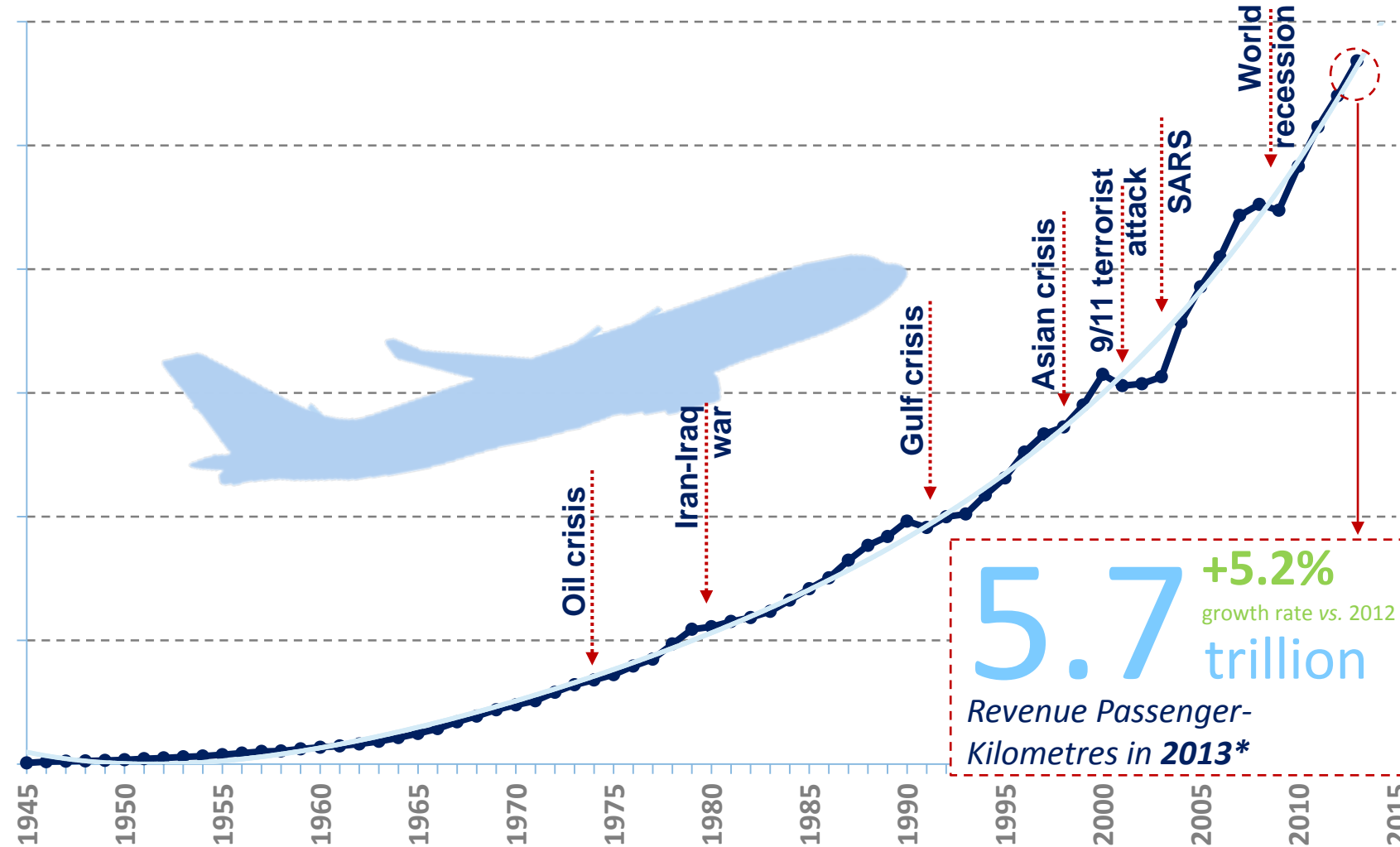


Key activities comprised under the SO :

- Economic policy, air transport regulation and oversight:
 - Develop air transport policy/guidance
 - Promote harmonization
- Financing of the air transport system (user charges)
- Funding of air transport infrastructure
- Aviation data, forecasting and economic analysis
 - Collect and disseminate data and statistics
 - Develop traffic forecasts
 - Conduct economic analysis

Revenue Passenger-Kilometres

(billion)



5.7 +5.2%
growth rate vs. 2012
trillion
Revenue Passenger-Kilometres in 2013*

Note: World total scheduled services

*Preliminary Results

- 3.1 billion passengers*
52% of tourists travel by air ⁽¹⁾
- 51 million tonnes of freight*
Air freight in the international trade: 0.5% in volume and 35% in value ⁽²⁾
- 1 000 scheduled airlines
- 25 000 aircrafts in service
- More than 4 000 airports
- 170 air navigation centres



(1): source: UNWTO

(2): source: ATAG

*Traffic is for scheduled services in 2013

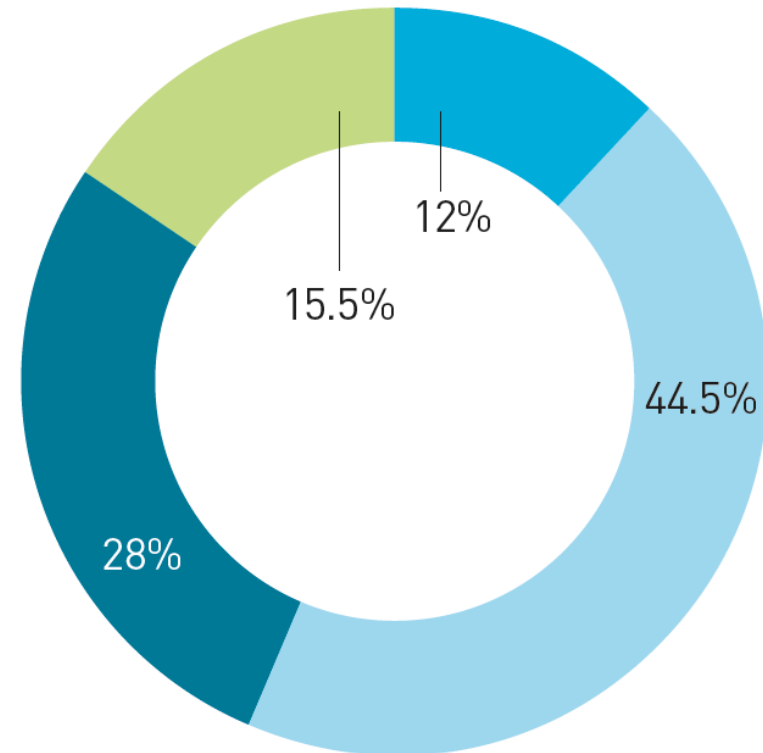
1.9 million jobs created directly by air transport in Europe (2010)

519,000 (28%): airlines, handling agents (flight crews, maintenance, reservations)

827,000 (44.5%): governments agencies (customs, security) or services (restaurants, hotels) on airports

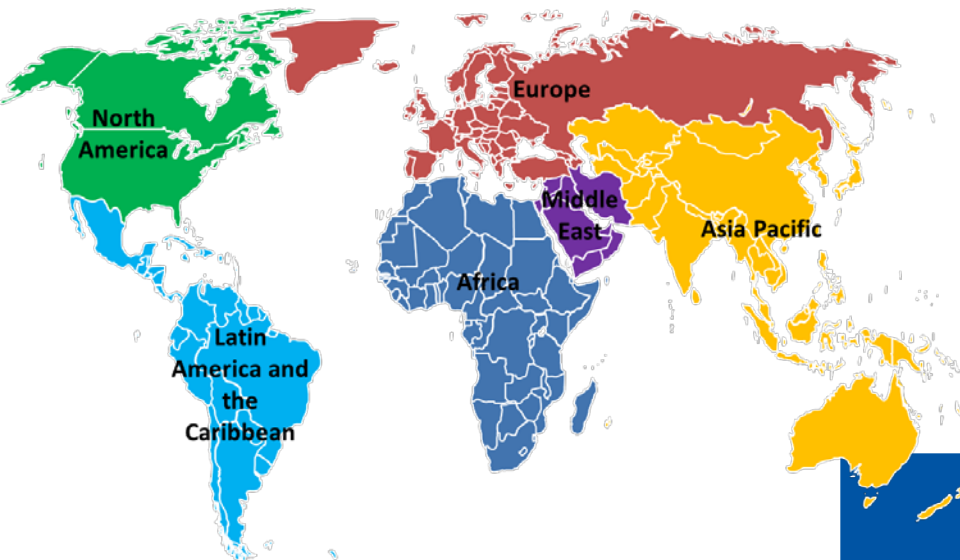
220,000 (12%): airports (management, maintenance, etc...)

290,000 (15.5%): civil aerospace sector (manufacture of aircraft systems, components, airframes and engines)



Source: ATAG, 2012

2013 Regional distribution



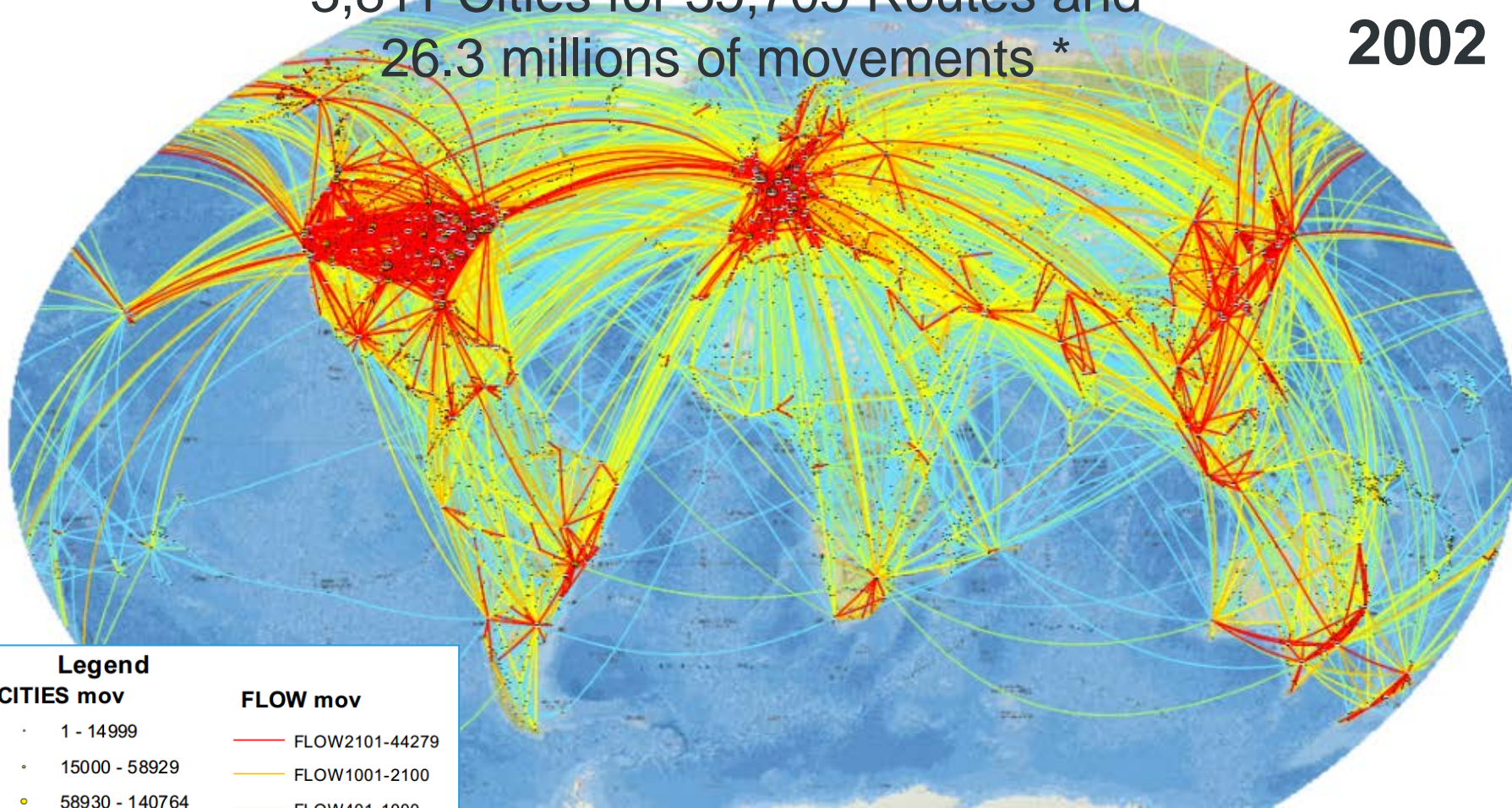
2013* Regional distribution (preliminary figures)
Revenue Passenger-Kilometers

Region	% world traffic	annual growth 2013 vs. 2012
Asia and Pacific	31%	+7.2%
Europe	27%	+3.8%
North America	26%	+2.2%
Middle East	9%	+11.2%
Latin Am. & Caribbean	5%	+6.3%
Africa	2%	+7.0%

*Preliminary figures

3,811 Cities for 35,705 Routes and
26.3 millions of movements *

2002

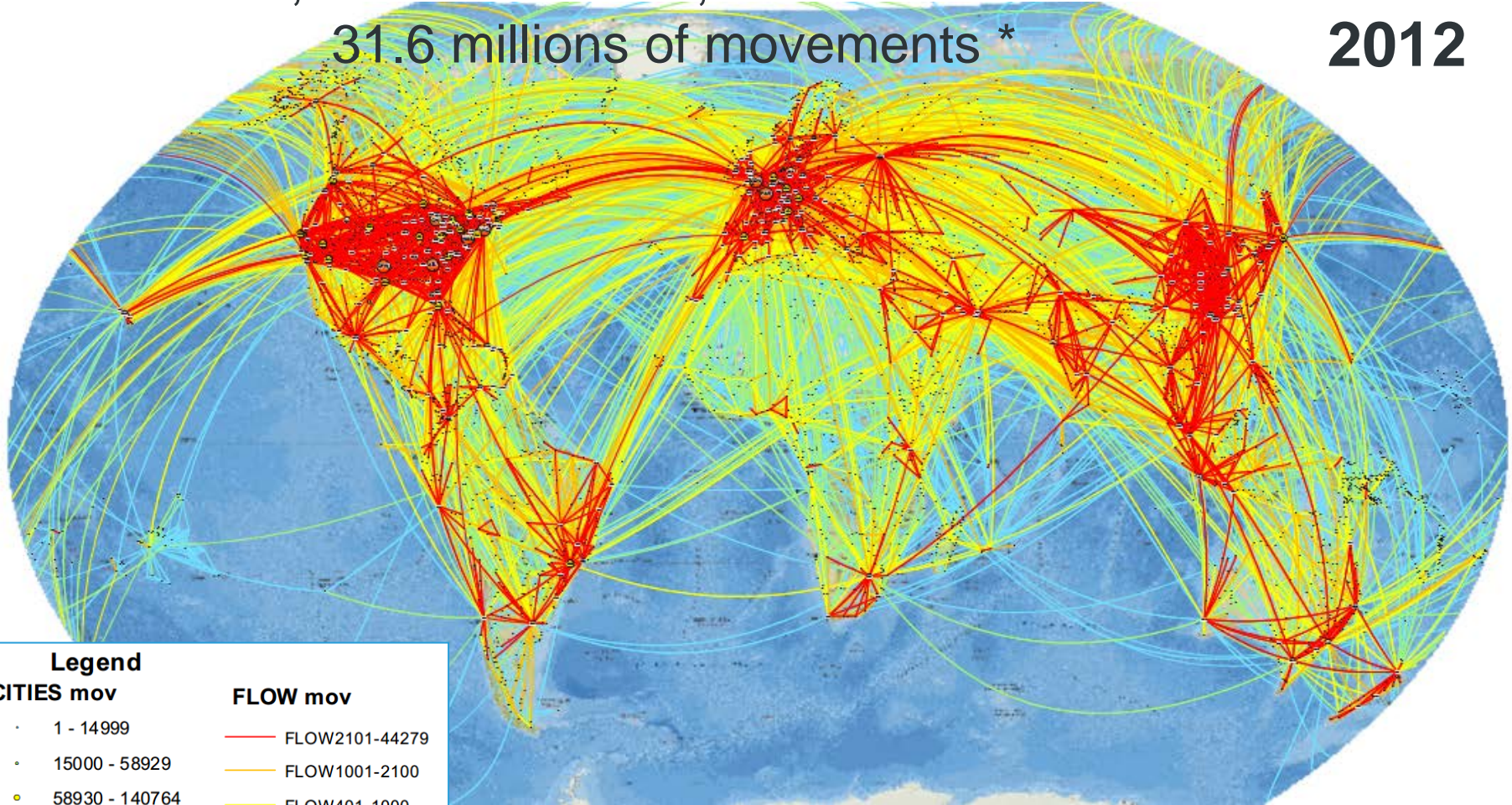


Legend	
CITIES mov	FLOW mov
• 1 - 14999	— FLOW2101-44279
• 15000 - 58929	— FLOW1001-2100
• 58930 - 140764	— FLOW401-1000
• 140765 - 303197	— FLOW166-400
• 303198 - 556306	— FLOW1-165

**Based on OAG data*

4,300 Cities for 46,651 Routes and
31.6 millions of movements *

2012



Legend	
CITIES mov	FLOW mov
• 1 - 14999	— FLOW2101-44279
• 15000 - 58929	— FLOW1001-2100
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**Based on OAG data*



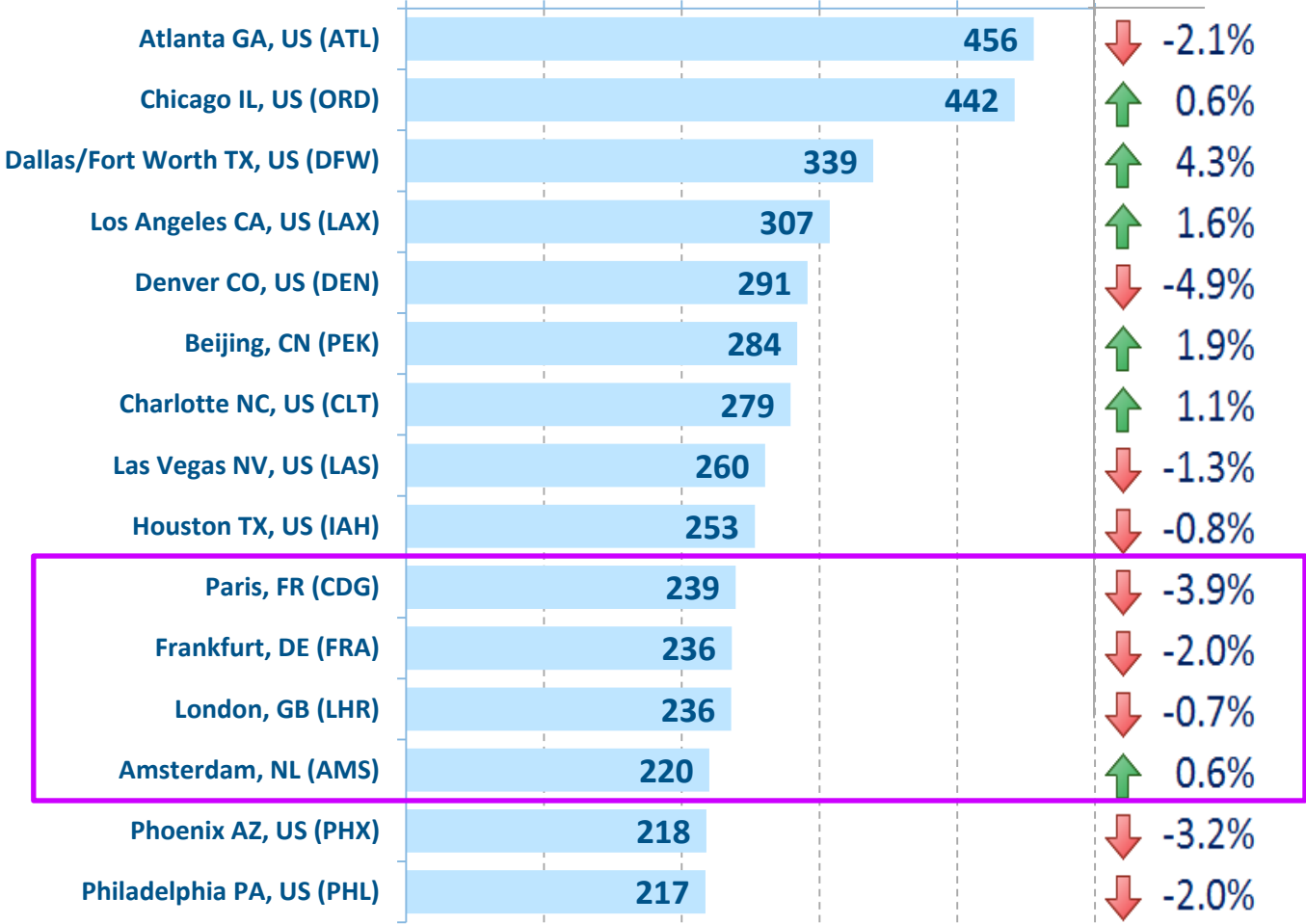
2013

Departures

(Thousands)

100 200 300 400

YoY



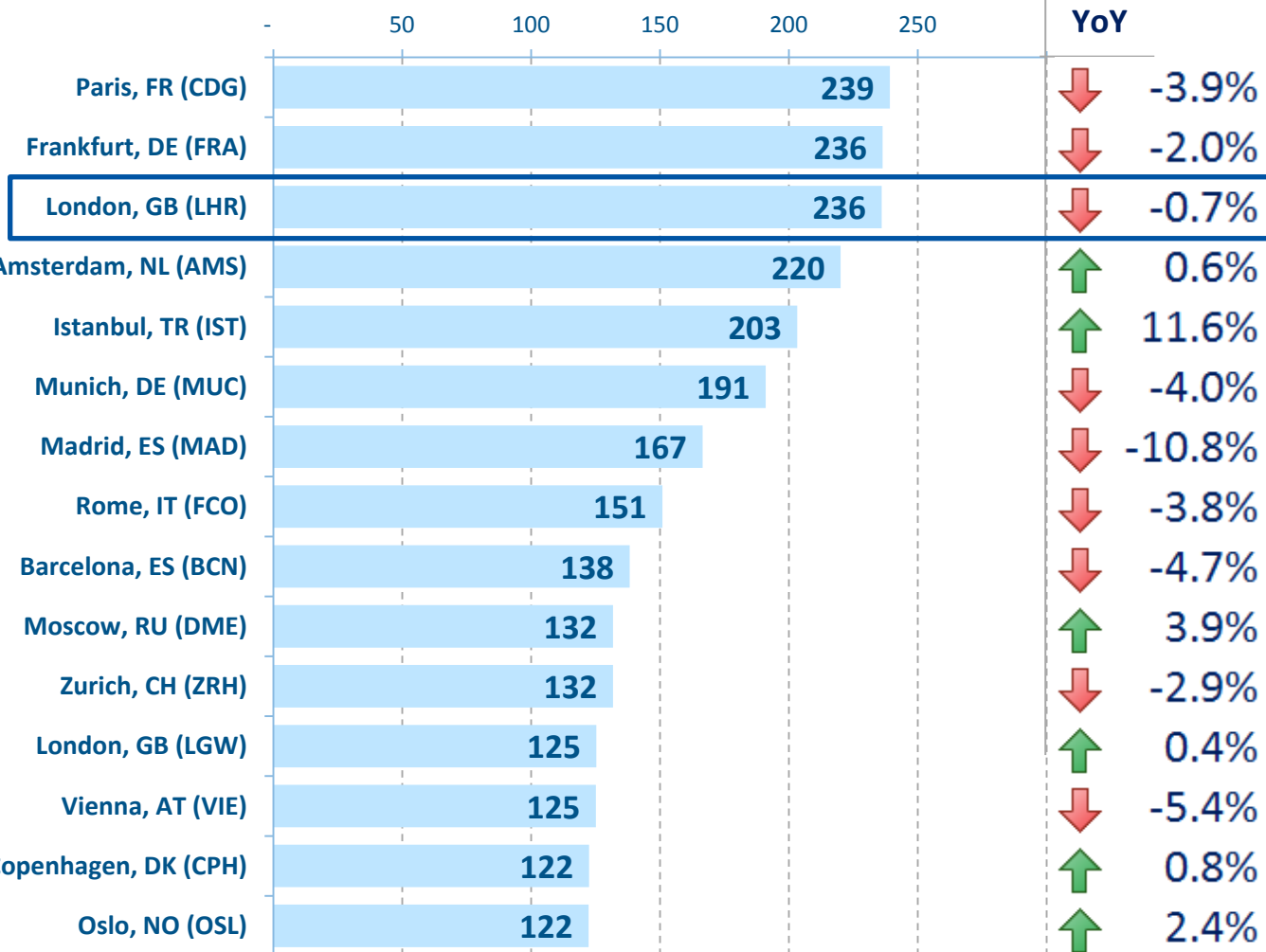
4 European airports in the Top 15

Source: Airports Council International
Notes: Scheduled and non-scheduled
Preliminary figures

2013

Departures

(Thousands)



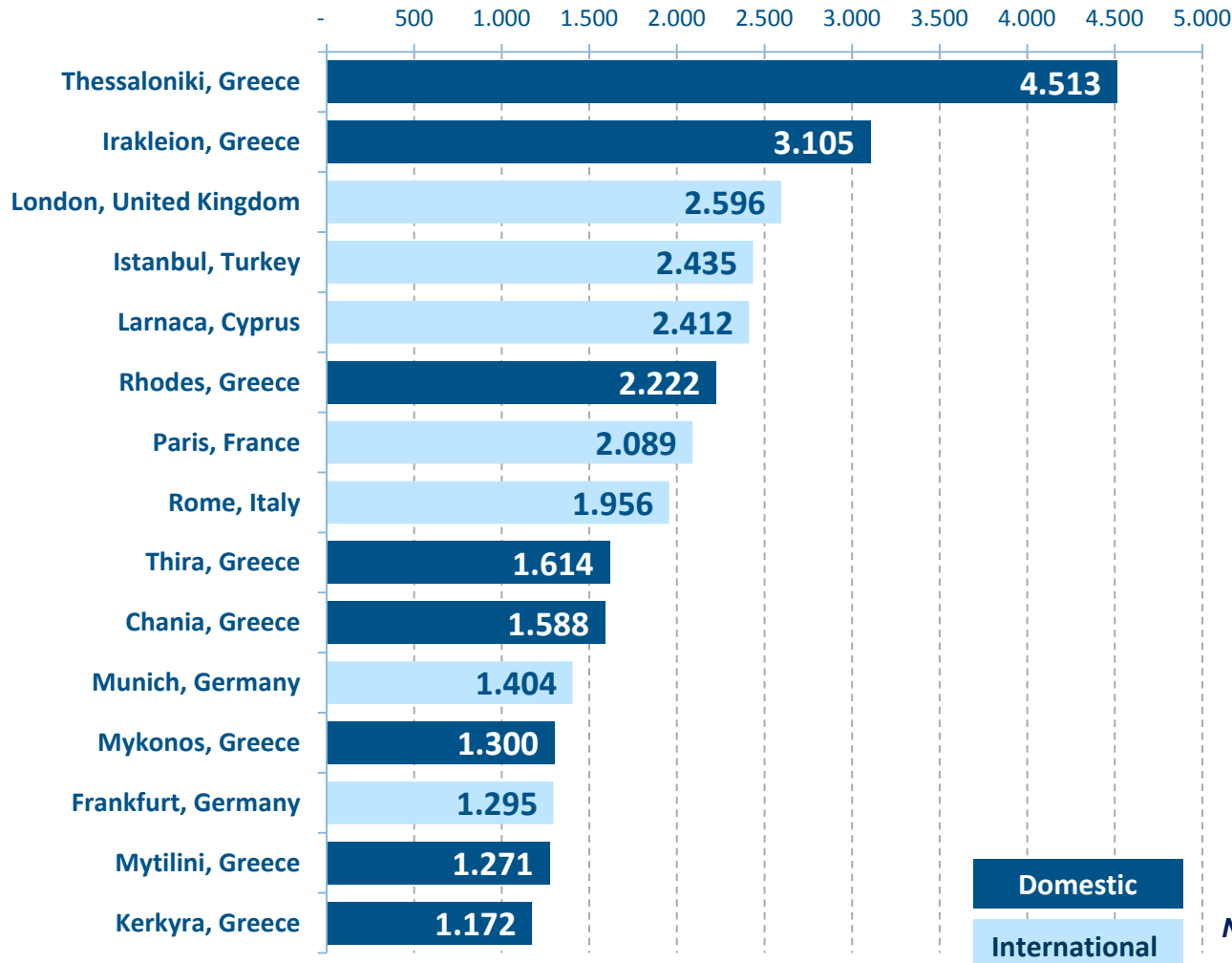
Note on LHR:

in terms of passengers
 → 1st airport in Europe
 → 3rd in the world

Source: Airports Council International
 Notes: Scheduled and non-scheduled
 Preliminary figures

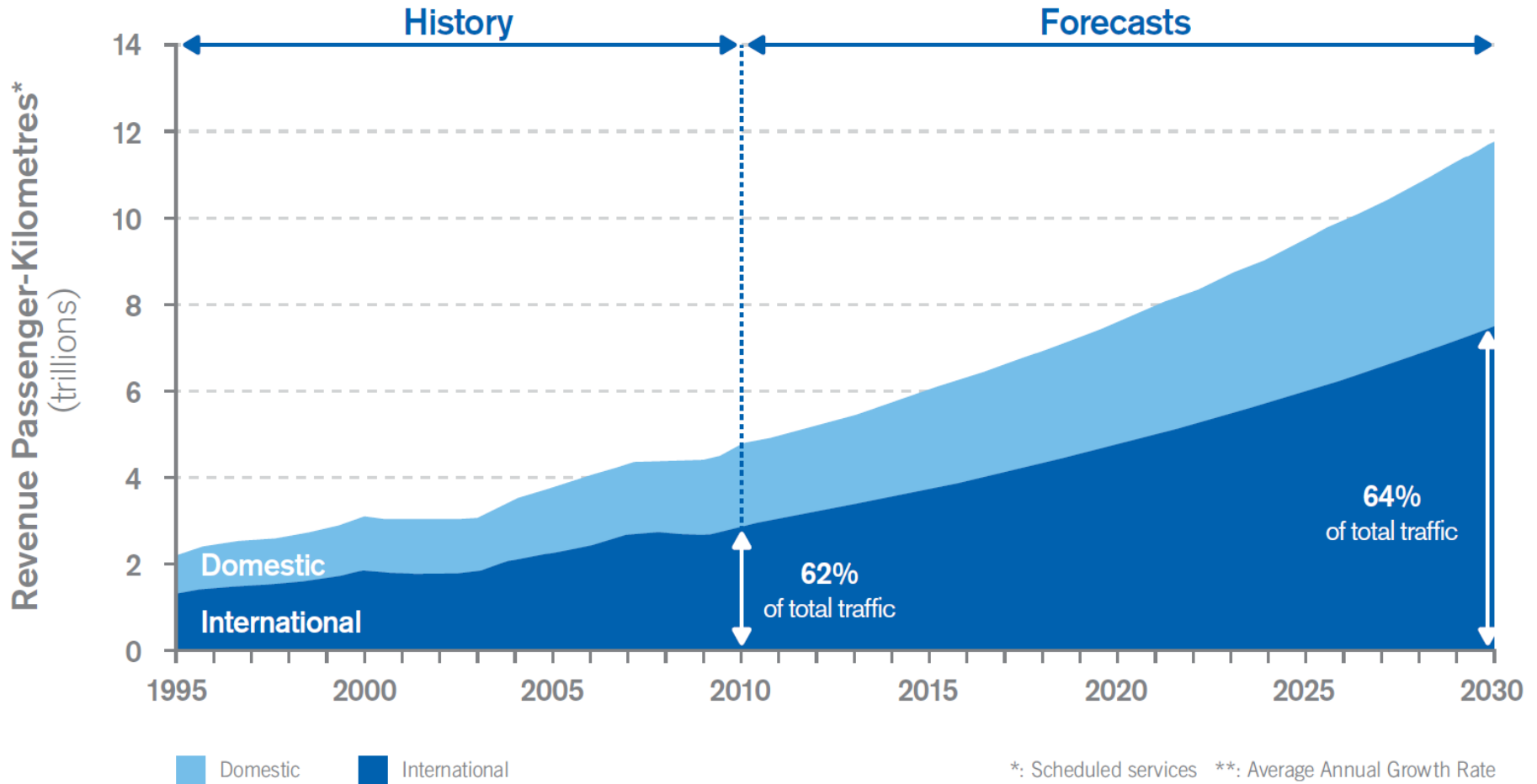
2013

Departures

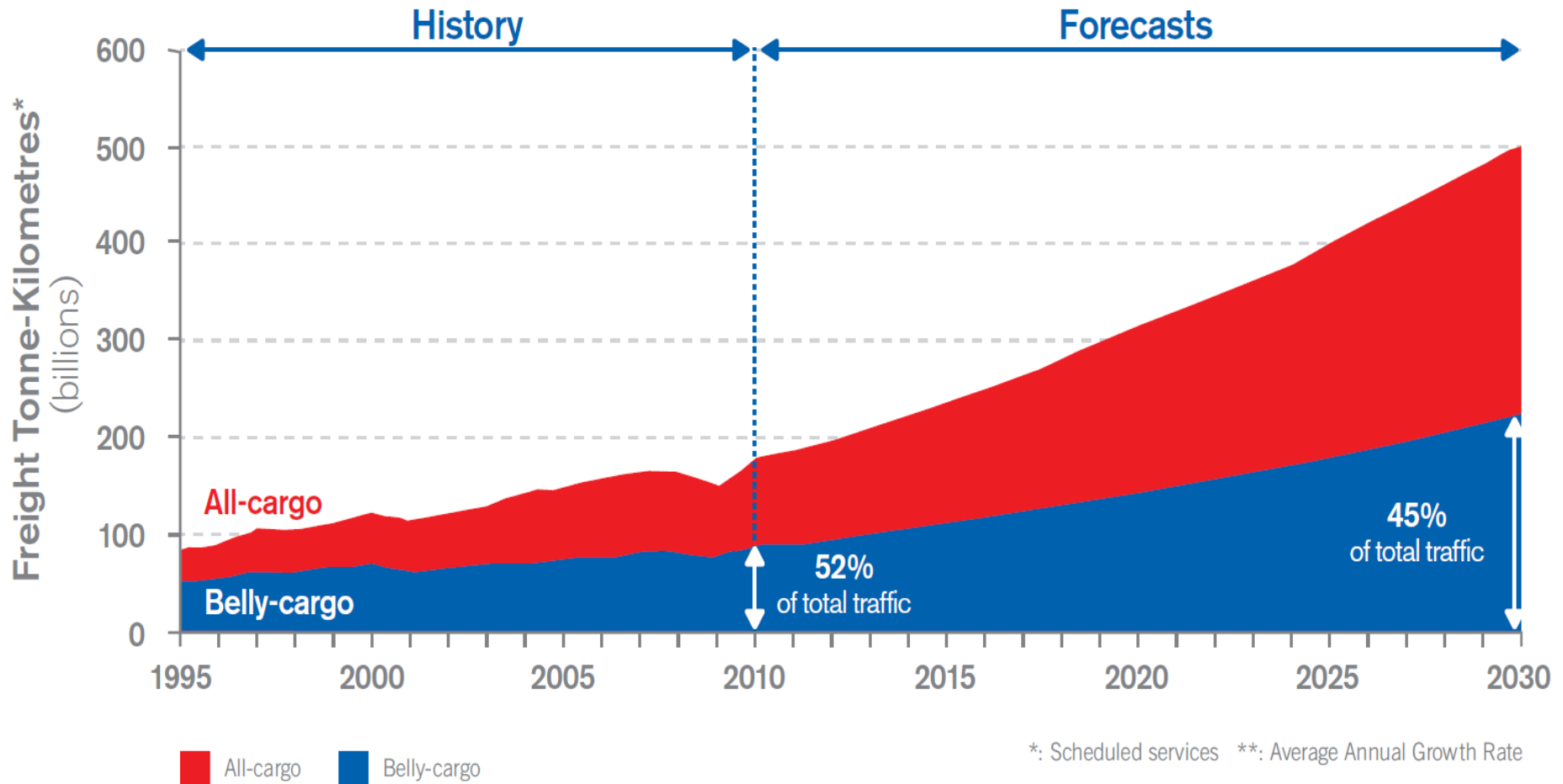


- The Top 15 destinations are all intra-European
- More than half are in the Domestic market

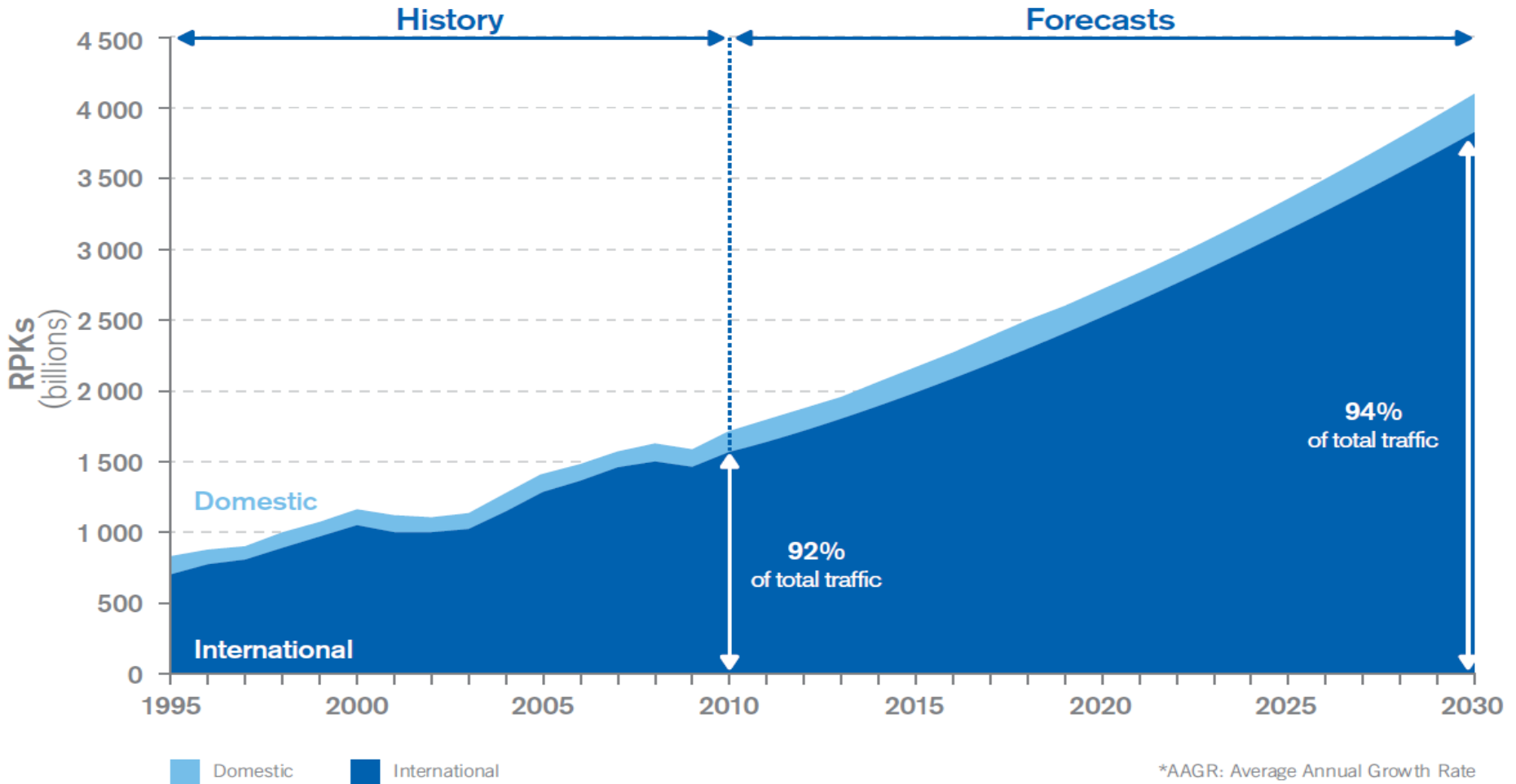
Source: OAG
Notes: Scheduled services direct flights



Source: ICAO's Global Air Transport Outlook to 2030 – Cir 333

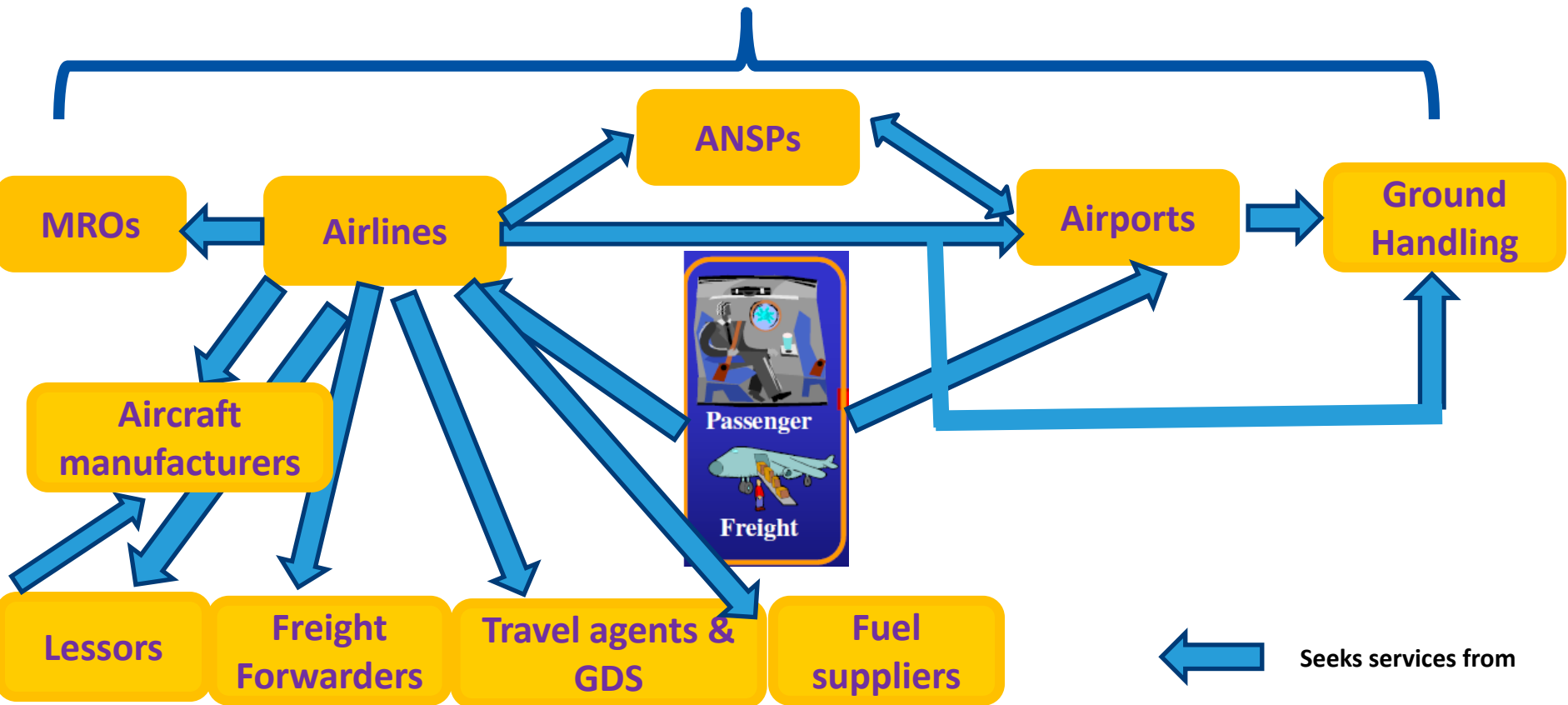


Source: ICAO's Global Air Transport Outlook to 2030 – Cir 333



Source: ICAO's Global Air Transport Outlook to 2030 – Cir 333

STATES (Regulatory framework)





AIRPORT MANAGEMENT: AN IMPORTANT PART OF THE VALUE CHAIN

- Government ownership
 - Management contract
 - Lease or concession
 - Transfer of minority ownership
 - Public-private partnerships
 - Private sector ownership and control
- 



- When considering the commercialization or privatization of airports, States should bear in mind that they are **ultimately responsible for safety, security and economic oversight** of these entities.

➔ To achieve a balance between the interests of airports and those public policy objectives

- **Minimize the risk of anti-competitive practices or abusing any dominant position**
- **Ensure non-discrimination and transparency** in the application of charges
- **Investments in capacity** meet **current and future demand** in a **cost-effective manner**
- **Protect the interests of passengers and other end-users**

From light-handed to more robust approaches:

- Competition law
- Fall-back regulation (or “market regulation”)
- Institutional requirements (or “checks and balances”)
- Price cap regulation (or “incentive-based” regulation)
- Rate of return regulation (or “cost of service”, or “cost plus” regulation)

ICAO’s Doc 9082 – ICAO’s Policies on Charges for Airports and Air Navigation Services

ICAO’s policies on the issue are quite flexible for the application by States/Regulators according to local circumstances, in particular the degree of competition.



- Non-discrimination
- Cost relatedness
- Transparency
- Consultation with users



- A **charge** is a levy that is designed and applied **specifically to recover the costs** of providing facilities and services for civil aviation
- A **tax** is 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.**



- Users shall ultimately bear their **full and fair share of the costs** of providing the airport.
- Cost to be allocated is the **full cost of providing the airport and its ancillary services**, including appropriate amounts for **cost of capital and depreciation of assets**, as well as the **costs of maintenance, operation, management and administration**.
- Consistent with the form of **economic oversight adopted**, **these costs may be offset by non-aeronautical revenues**.



It is recommended that,

*“with the exception of concessions that are directly associated with the operation of air transport services, such as fuel, in-flight catering and ground handling, **non-aeronautical revenues be fully developed**, while keeping in mind the interests and needs of passengers and the public, and ensuring terminal efficiency”*

How an airport recovers the full cost associated with the airport and its essential non-aeronautical services ?

a) the single-till

(sometimes referred to as the “residual” method);

b) dual-till

(sometimes referred to as the “compensatory” method);

c) hybrid-till.

The **full costs associated** with an airport and its essential ancillary services, **are included in the cost basis** attributed to air traffic, including the following:

- appropriate amounts for cost of capital
- depreciation of assets
- cost of maintenance and operation, and
- management and administration expenses,

These **costs are then adjusted to reflect non-aeronautical revenues** that accrue to the airport.

NB: In general, in exchange for sharing the risk associated with the airport's operations, aircraft operators and/or end-users benefit from a cost basis that is adjusted to reflect non-aeronautical revenues.

The **full costs** associated with the airport and its essential ancillary services **are allocated between:**

- the airport owner/operator and
- the airport users.

The costs allocated to **air traffic include only those costs associated with the facilities that are actually used by the aircraft operators and the end-users.**

No adjustment is made to this cost basis to reflect non-aeronautical revenues accruing to the airport. The airport owner/operator is free to direct the use of any revenues generated from its concessions, parking facilities, and any other non-aeronautical activities for use at the airport, as it deems necessary and appropriate..

The cost basis is established based on a **combination of the single-till and the dual-till** approaches.

For example, the airport owner/operator may choose to recover landing costs on the basis of the single-till approach while establishing terminal costs on the basis of the dual-till approach.



- When considering the commercialization or privatization of airports, States should bear in mind that they **are ultimately responsible for safety, security and economic oversight** of these entities (ICAO's policies in Doc 9082)
- States can choose **government funds or charges** for funding of oversight functions at the airport level
 - proposal for a passenger-based charge to fund safety and security oversight activities is not in line with ICAO's policies on charges



THE VALUE OF CONNECTIVITY FOR AIR TRANSPORT DEVELOPMENT



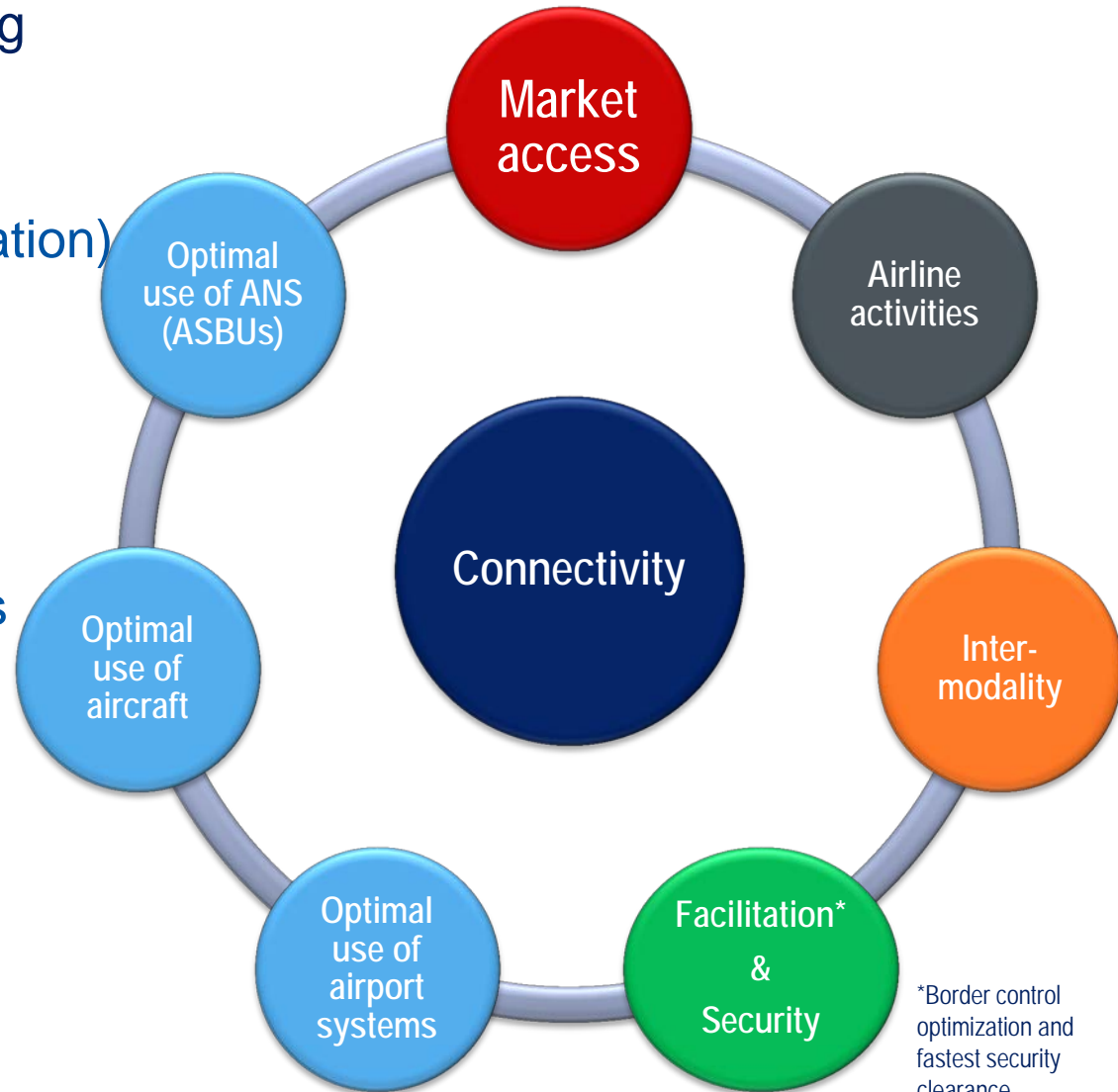
Movement of passengers, mail and cargo involving the **minimum of transit points**

- which makes a trip as **short** as possible
- with **optimal** user satisfaction
- at the **minimum** price possible

Connectivity needs a strong supporting framework

This includes

- Market access (e.g. liberalization)
- Facilitation (border control optimization)
- Security (fastest clearance)
- Optimal use of:
 - air navigations services
 - Aircraft
 - Airport systems
- Intermodality
- Airline activities



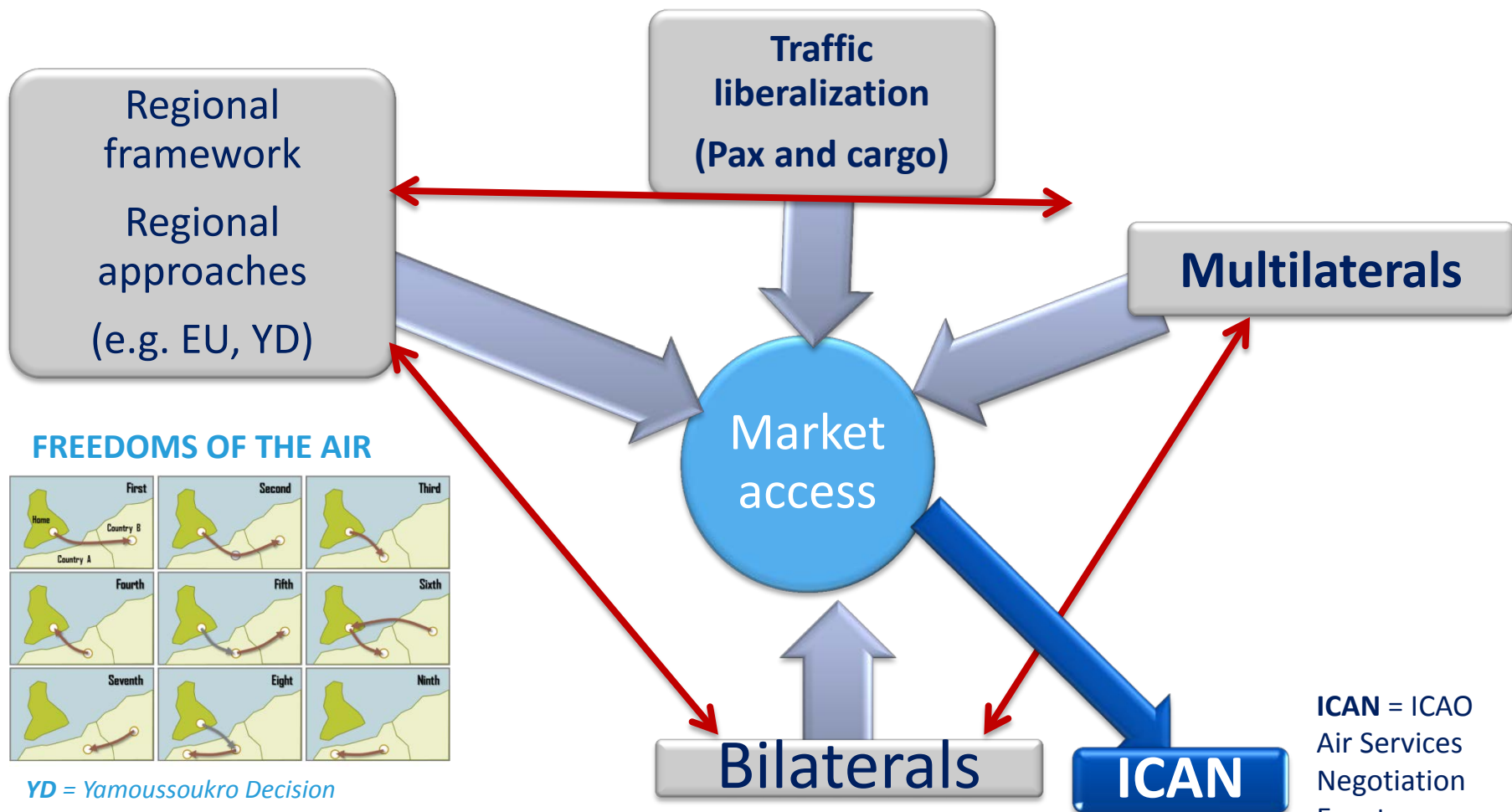
*Border control optimization and fastest security clearance



- **Market access liberalization:** international agreements (including for cargo services)
- **Air carrier ownership and control:** international agreements to liberalize the current restrictions
- **Aviation system block upgrades (ASBUs):** improved access, better utilization of available capacity, reduced fuel burn
- **Facilitation:** need smooth transit through air transport system for passengers and cargo



- **Consumer protection:** ICAO to foster regulatory convergence through core principles (incl. price transparency)
- **Fair competition:** ICAO to facilitate exchange of best practices ICAO (ICAN competition seminar) and facilitate comparison between national and regional competition policies/practices (compendium)
- **User charges key principles** – cost-relatedness, transparency, consultation with users, non-discrimination
- **Taxation in line with ICAO policies** – «Not to kill the goose that lays the golden eggs»



Market access ⇒ Connectivity ⇒ Economic development

Connectivity brings concrete value ⇒ main purpose of air transport

If conditions are met:

- good end-user experience
- more travel
- more economic development
- and hence more traffic growth

Connectivity is in line with Chicago Convention

Preamble

civil aviation may be developed in a safe and orderly manner and that international air transport services may be established on the basis of equality of opportunity and operated soundly and economically;

Art. 44

d) Meet the needs of the peoples of the world for safe, regular, efficient and economical air transport;



- **World Bank**
Indicator on Air Transport Connectivity (ACI)
- **WTO / WCO / TIACA / FIATA**
Logistics Performance Index for Cargo Connectivity
- **UNWTO / WTTC**
Joint Statement “Hand in Hand for Sustainability”



Aviation & Tourism



Hand in Hand for Sustainability

Air transport and tourism are major contributors to global economic prosperity. In 2012, more than one billion tourists crossed international borders, more than half by air. The total number of international tourists, which includes both business and leisure travellers, is expected to reach 1.8 billion by 2030. This will further increase the demand for air transport services, with overall annual aircraft departures forecast to grow from today's 30 million to 60 million in 2030.

The symbiotic relationship between aviation and tourism is reflected at the global level in the respective mandates of the International Civil Aviation Organization (ICAO) and the World Tourism Organization (UNWTO). While ICAO sets standards and policies for aviation safety, security, efficiency, environmental protection and the economic development of air transport, UNWTO promotes tourism as a driver of economic growth and

sustainable development, offering leadership and support to the sector in advancing knowledge and tourism policies worldwide.

Accordingly, ICAO and UNWTO have decided to strengthen their collaborative efforts towards building a more sustainable future in all of the three pillars of the United Nations definition of sustainability – social, environmental and economic – and to position air transport and tourism as strategically interrelated sectors that benefit the global society they both serve.

To that end, the two Organizations – hereinafter referred to as "we" – affirm their common understanding and shared intent through the following Joint Statement on Aviation and Tourism, symbolically signed on the occasion of the official opening of the ICAO Sixth Worldwide Air Transport Conference, convened under the theme of "Sustainability of Air Transport".

A solid track record

ICAO and UNWTO are designated inter-governmental bodies responsible for aviation and tourism respectively. As sister agencies within the United Nations system, we together contribute to securing the social, economic and environmental pillars of sustainability.

In 1978, we entered into a Working Arrangement for consulting each other on questions of common interest, so as to ensure optimal coordination of activities and avoid duplication of efforts.

In 2010, we signed a Memorandum of Co-operation to strengthen collaboration in several areas of strategic importance to air transport and tourism:

- Security and facilitation for travellers.
- Promotion of investments in aviation infrastructure and safety.
- Crisis management.
- Health issues, including those pertaining to the spread of communicable diseases through travel.
- Sustainable development, including environmental protection, mitigation of, and adaptation to, climate change.
- Liberalization of international air transport.
- Economic studies on aviation and tourism, and their impacts on the economy.

A firm intention

Looking ahead, we intend to further optimize the benefits of aviation and tourism through:

- Maximizing synergies between air transport and tourism, while finding ways to continually enhance collaborative endeavours.
- Cooperating for the modernization of the air transport regulatory framework.
- Enhancing air transport connectivity further through cooperation:
 - Regarding visa and other travel document formalities and issuance, including the simplification of visa processing and the development of multi-State regional visas and e-visas;
 - For the improvement of air passenger flow management at airports;
 - For the implementation of the Essential Service and Tourism Development Route (ESTDR) concept.
- Contributing to the emergence of globally convergent rules on the protection of passengers, tourists and tourism service providers, within our respective mandates and the framework of existing or future international bilateral or multilateral agreements.
- Contributing to the reduction of greenhouse gas emissions from aviation and tourism.
- Giving due consideration to the particular importance of air transport for tourism development in long-haul destinations and landlocked or island countries.
- Assessing the impact of taxes, charges and other levies on aviation and tourism, and thus on global economic growth and jobs.

Working together on common issues will more effectively position aviation and tourism as leaders in the pursuit of sustainable development.

Signed in Montréal on 18 March 2013:

ICAO:



Mr. Raymond Benjamin, Secretary General

UNWTO:



Mr. Taleb Rifai, Secretary General

ICAO

Uniting Aviation on

Safety | Security | Environment



ICAO

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