



# Land and Infrastructure Asset Revaluation

Upward land and infrastructure revaluations should not lead to higher charges at the direct expense of airlines and their passengers

## SITUATION

Some airports and air navigation services providers (ANSPs) propose a revaluation of their land or infrastructure assets. The revaluation is based on the investment value of the asset, i.e. its value in (often theoretical) alternative uses, rather than the operational value of the land or infrastructure in terms of the services it facilitates for its customers. Such a revaluation is used in an attempt to justify higher charges for airlines.

## IATA POSITION

Airlines should not pay for the investment value of land and infrastructure used by airports or ANSPs. As per ICAO guidance, the charges paid by airlines should reflect the operational cost of using the land to provide aeronautical services and not its market value<sup>1</sup>. ICAO further recognizes that land is a store of value for airports or ANSPs, unlike depreciating assets such as terminal buildings, as it does not deteriorate, and its useful life is not limited<sup>2</sup>. Charges should only be adjusted in consultation with users where an additional cost is incurred in purchasing new land to expand or improve services, and this land is in operational use.

## KEY REASONS WHY LAND ASSET REVALUATION SHOULD NOT BE PRACTISED

IATA believes that an increase in land and infrastructure values based on the application of an alternative use (i.e. opportunity cost valuation) is:

- ◆ **Inefficient:** it overvalues the cost of the service provided by the asset in its operational use, penalizing airlines and their passengers. Allowing airports or ANSPs to artificially increase the value of their assets and the return they receive on it does not create any clear incentives for greater efficiency in the use of these assets.
- ◆ **Unfair:** it merely creates unearned returns (i.e. windfall gains). Airlines should only pay for the services an airport or an ANSP provides. In other words, airlines should not pay higher charges for using the same asset simply because the investment value has changed.
- ◆ **Impractical:** when there is no feasible alternative use, the opportunity cost valuation has no clear basis. In the vast majority of cases, much of aeronautical land or infrastructure is either designated for aviation use or impractical for other uses. Indeed, with respect to land, it is often leased rather than owned by the airport company or ANSP.
- ◆ **Not standard practice:** adjustments to charges based on unearned land or infrastructure value appreciations are not in line with ICAO's provisions. Land and asset revaluations are not a factor in the pricing decisions of firms operating in competitive markets.

<sup>1</sup> ICAO Doc 9562 (third edition) paragraph 4.75 refers.

<sup>2</sup> ICAO Doc 9161 (fifth edition), paragraph 5.84 and ICAO Doc 9562 (third edition) paragraph 4.71 refer.