

Silly season for airports?

Certifications, fees, audits, security deposits, rental increases... what *are* they thinking? asks Len Kirsch.

As airport authorities worldwide face reduced governmental funding, and in some instances a drop-off in flights, which also affects funding, they are doing some strange things. Even when these “things” are by themselves reasonable, the way they are implemented may be extreme, to say the least. At airports where the airport authority believes there are too many handlers (which must sound strange to Europeans), airports are tightening the requirements to remain permitted, which is sometimes referred to as certification.

After years discussing, debating and proposing different ideas to reduce congestion at airports, Los Angeles International may be close to imposing a new certification programme. Nothing is wrong with this concept as long as the programme does not prevent properly financed, well run, efficiently-managed, safe ground handlers from operating there. However, if the price for certification is new fees, higher rentals and/ or higher security deposits, then it becomes obvious that the purpose of the certification programme is to raise funds, not improve efficiency and safety.

In a perfect world, fees imposed fairly and consistently on ground handlers should not affect ground handlers because they are passed on to airlines. However, airlines have begun to push back any increase in their handling costs and they have tried, in some cases, to force handlers to absorb these fees. At Los Angeles, the airlines have together challenged airport fees three times before the Federal Aviation Administration in cases that are referred to as LAX I, LAX II and LAX III. If new ground handling fees are imposed, will the airlines take this challenge on with a LAX IV? My assumption is that each of these cases cost close to a US\$1m each, so they may be reluctant to do so again. Moreover, some of the issues arising from the prior cases are still not fully resolved.

Other airports in the US are also considering new fees. Dallas Fort Worth is one. One problem, among many, is that these airport authorities do not fully understand or appreciate how these fees can have a negative impact on competition, on business growth and on the costs of doing business. So, for example, most gross receipt fees imposed at US airports are on third party handling. This creates a disincentive for some larger airlines from contracting out handling to third parties. The fee alone can add 5% or more to handling costs, unless the third party handler can find 5% or more in savings (which they usually can).

However, what if fees are imposed only on independents handlers, or fees are excused if an airline third party handler is an alliance partner? What

if an airline uses a subsidiary company to self-handle? Should a fee imposed on third parties (but not on self-handling) be imposed just because an airline uses a subsidiary? This is an issue my firm is dealing with at JFK. There are many other ways that fees which are haphazardly imposed can have a negative effect on ground handlers and airlines alike and, of course, the flying public.

Many airports impose an audit process. At some airports these audits are performed on a regular basis, for example every five years; at other airports, they are random. Often the audit function is independent of the business office. Audit findings are difficult to contest, often because they go back many years and records are never as exact and clear as a company would hope. Auditors by nature are not always reasonable. Now that airport authorities seek additional revenue, ground handlers are warned that audits will increase; auditors will become less reasonable; and time and money will be lost responding to these audits. Money spent on updating record-keeping processes, automating the process, and ensuring records are comprehensive will actually save money when doing business at an airport. Ground handlers should double their efforts to ensure all fees are properly imposed, in correct amounts, and are clearly stated. Auditors should be treated with respect but also firmness. One argument in your arsenal is to demand that any finding be backed up by a policy which is consistently applied to other, similarly-situated service providers at your airport.

Lastly, expect increases in rent and demands for larger security deposits at lease renewals. Rent increases should be based on increases in costs to airport landlords and be consistently applied to all tenants. Many airport authorities do not seem to understand that a letter of credit is costly: it requires money to be set aside and the payment of bank fees. Additional costs need to be passed on to airlines and airlines pass on their costs to passengers. Make it too expensive to fly out of one airport and another airport will benefit. Airport authorities should, but do not always, take this into account when considering how to treat ground handlers.

Which is unfortunate.



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