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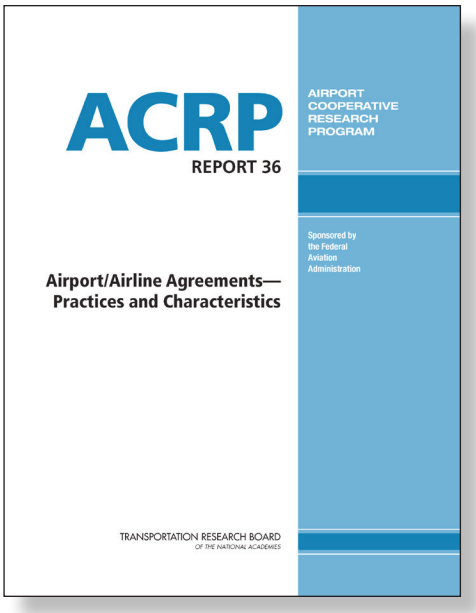
Learning to Negotiate Airport / Airline Agreements

The goal of contract negotiations between an airport and airline is to establish a mutually beneficial agreement outlining the respective responsibilities and expectations of each party. When negotiations are successful, the agreement helps facilitate efficient airport and airline operations as well as a positive working relationship between the two parties.

Each airport and airline has unique and specific needs that can change over time. However, there is a tendency during contract discussions to fall back on a previously established agreement and avoid negotiating a new contract. One reason is that renewing a prior contract is easier than approving a new one. Another reason is that there is some concern about setting a precedent for the industry if new concessions in a new contract are agreed upon.

Not only are airport and airline needs unique and varying, but societal and industry context also can change. An overreliance on prior contracts may not take into consideration current economic conditions, airline mergers, or other issues that can influence negotiations. With parts of old contracts potentially obsolete and ill-fitted to current needs, negotiating new agreements is necessary.

ACRP Report 36: Airport/Airline Agreements–Practices and Characteristics focuses on components of the contract negotiation process between airports and airlines. The report discusses obstacles that may be encountered during the process, identifies issues that could influence negotiations, and provides insight on the perspectives of different parties involved. Contracts are, as noted in the report, important to establish the "rights, privileges, and obligations for each party and defines how the airport is to be used by the airlines."



Above: Airport/airline agreements define how the airport is to be used by the airlines, including gate assignments and leasing rates. Aviation consulting firm Unison Consulting, Inc. incorporates guidance from ACRP Report 36 *in its training of new consultants and in contract negotiations for its airport clients. Photo by clarita at Morguefile.com.*

Unison Consulting, Inc., an aviation consulting firm headquartered in Chicago, has incorporated *ACRP Report 36* into its training of consultants for the past five years. According to Brian Drake, director at Unison, Unison utilizes the report's entire content in its training, emphasizing particular sections relating to lease negotiation, rates, and charges, which are especially useful for their finance team.

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Having an airline lease agreement in place is very important for an airport, said Drake, especially in relation to setting the airport's credit rating and bonds. Since the lease shows investors what the cash flow will look like, an airport that issues bonds without a lease in place is unattractive to the investment community.

The most useful part of *ACRP Report 36* in Unison's training, as Drake described, is its guidance on rate structures. The report helps Unison consultants understand the impacts of residual and compensatory rate structures on airports and airlines. This, in turn, helps them negotiate fair agreements between airlines and airport operators. Unison also finds the guidance relating to pre-approved Capital Improvement Programs (CIPs) and capital projects to be particularly useful for the negotiation process. "We have recommended pre-approved CIPs for all of our clients except for one in the last five years," says Drake. The report's sections on signatory status and affiliates also have helped Unison improve the comprehensiveness and specificity of its contract documents.

Unison also has found the guidance in *ACRP Report 36* to be useful in relation to air service incentive programs and special rates for certain types of air carriers. According to Drake, an example of this is when low-cost carriers seek to operate differently from legacy carriers. Specifically, low-cost carriers often do not use an airport gate as frequently so may not want to lease the gate. Drake says that this type of situation is managed with a new contract clause which either establishes a lower lease rate for a carrier that uses the gate a minimum number of times, or which classifies the low-cost carrier as "non-signatory" and requires higher airport fees.

Drake has compiled a suite of ACRP research reports—including *ACRP Report 36*—related to lease negotiation, rates, and charges. These ACRP reports provide Unison with important background information and resources to help orient the firm's new hires and junior staff on how to develop a financial model.

> "While some airport operators still believe that the airlines need them more than they need the airlines and vice versa—the airport / airline relationship is symbiotic. Therefore, formalization of the operating and financial framework in which both parties function becomes extremely important."
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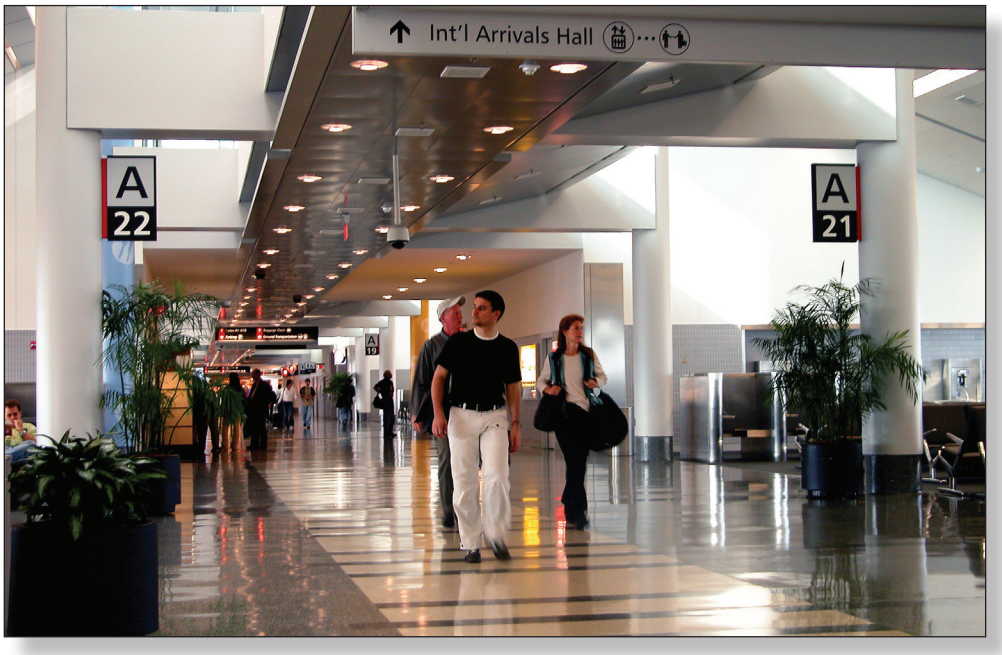
> *—ACRP Report 36: Airport / Airline Agreements—Practices and Characteristics*



Above: Airports and airlines enter into agreements that specify key aspects of their business relationships, such as rules controlling the use of terminal space. ACRP Report 36 *helps both airport operators and airlines with negotiating use and lease agreements by enhancing the mutual understanding of each other's decision-making process. Photo by clarita at Morguefile.com.*

Unison staff also routinely reference other ACRP research in its consulting work. Those most useful to the staff include *ACRP Report 30* and *ACRP Synthesis 8* which focus on common use charges and common use terminals, and *ACRP Synthesis 19* which provides guidance on non-airline revenues. "We use ACRP quite a bit," said Drake. "We have most of the ACRP reports and they come in handy. If we have a question we will read through [them]."

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