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Concession Agreements: Guide for Airport Managers and Commercial Operators

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2. INTRODUCTION

The long-term prospect for air travel demand remains strong. By 2040, passenger movements by air are forecasted to be twice as high as in 2019.¹ Airports worldwide will further require an additional US\$2.4 trillion in capital expenditure (CAPEX) by 2040 to address the long-term trend in passenger demand.² Increasing passenger traffic and employees working at airports highlight the need for increased or renewed concession options that can cope with growing demand. The airport experience and options available for passengers will also need to evolve into ones that are more relevant, desirable, and sustainable. In today's environment when meeting the needs of passengers is ever so more important, it is essential that airport operators select the best concession partners and hold them to a level of operational excellence and performance that will meet both the financial needs of the airport operator and the expectations of its customers—the passengers and the airlines.

This guidance document provides a set of tools that can be used by airport operators and concessionaires and is focused on how to develop and maintain successful business relationships in a changing world, regardless of the ownership and regulatory model, operations patterns, geographical location, or traffic levels of an airport. It is divided into five key parts:

Framework for Request for Proposals

The first part of this document provides a framework (geared more towards retail) that can be used for solicitation requests in the form of an RFP document. The framework provides an overview of the key elements which could be included in any future solicitation by an airport. The framework provides the basis of an RFP document that should ensure that the scope of the request is clearly defined and detailed information about the service needed is requested. Not only will this help ensure potential concessionaires respond with options that meet the goals set out but, in turn, will also allow the airport operator to easily compare options.

Key Elements of the Concession Agreement

In its second part, this document provides a framework of key elements of the concession agreement, and considerations within them, as airports strive for a balanced legal agreement between the airport operator and the concessionaire.

Types of Business Models and Relationships

There are several options in the way in which airport operators and concessionaires work together. The third part of this guidance document provides an overview of the types of business models and relationships, and their related advantages and disadvantages for consideration.

Fixed and Variable Minimal Annual Guarantees

The impact of the pandemic has forced many airport operators and concessionaires to revisit their commercial agreements. This is especially true for agreements incorporating the MAG mechanism or fixed rent clauses. While many contracts include a *force majeure* clause, this does not necessarily cover pandemic scenarios and, in many instances, there is no formal agreement in place to review commercial terms in the event of such a situation. Thus, the fourth part of this document provides context regarding the traditional use of the MAG model of rent and discusses the impact on the model in line with the evolution of the sector.

¹ ACI, *Global Outlook of Airport Capital Expenditure*, 2021

² Ibid



Data Definitions and Measuring

The final element of this guidance document provides recommendations on data definitions and measuring to help with consistency on industry-accepted definitions and to promote a common understanding of the measuring and data exchange between airport operators and concessionaires.

By utilizing the set of tools provided in this guidance document, airport operators of all sizes should have a robust foundation from solicitation to contracting in order to ensure that future engagements with concessionaires are built as a partnership in a sustainable and rewarding manner.