



INTERNATIONAL JOURNAL OF AERONAUTICS AND ASTRONAUTICS

2021, Vol. No: 2(2), 52-55



Book Review

Critical Book “Aviation Investment: Economic Appraisal for Airports, Air Traffic Management, Airlines and Aeronautics”


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ARTICLE INFO

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Received June 1, 2021
Revised August 25, 2021
Accepted August 26, 2021

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 000-0001-5550-5581

BOOK INFO

Title

Aviation Investment: Economic Appraisal for Airports, Air Traffic Management, Airlines and Aeronautics

Author(s)

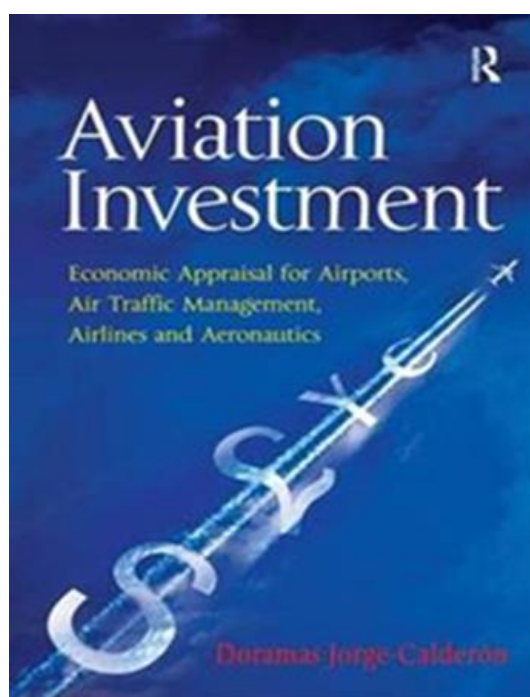
Doramas Jorge-Calderón

Editor

Taylor & Francis Ltd (2nd New edition)

ISBN-13: 9781138036635

BOOK COVER



CRITICAL

Covid-19 caused the biggest crisis in the history of commercial aviation. In the article "An early assessment of the impact of COVID-19 on air transport: Just another crisis or the end of aviation as we know it?" published in the *Journal of Transport Geography*, a number of aspects to be considered in the future of air transport are identified.

The group of sector managers and consultancy companies surveyed between 19 March and 17 April 2020 reflected on a number of aspects that can help to plan and recover the sector.

1. Changes in the offer with important long-term consequences
2. Changes in the airport business
3. Changes in passenger behavior
4. Price developments
5. Regulation and ethics

Doramas Jorge-Calderón is an economist specializing in transport economics and in the evaluation of investments in the aviation sector, working at the European Investment Bank in Luxembourg.

Calderón's book, published before the pandemic, with its first edition in 2016, remains a current book of great didactic character.

The interest of the work lies in two main reasons, being that, even individually, any one of them is valid and sufficient, forcing a careful reading: on the one hand, the central theme of the book and its relevance and, on the other hand, the curriculum of the author.

The book is organized in two parts. The first part consists of chapters 1 to 3. Chapter 1 deals with the differences between financial profit and economic profit. In chapter 2, the benefits of aviation projects are identified, which fall into three groups, the drivers of value for the customer that determine the consumer surplus in the economic evaluation and in the competitive advantage on which any financial result must be supported, secondly, the external effects, which are also an important driver of economic returns and can be interpreted as signs of regulatory risk in the financial analysis and, thirdly, the economic benefits resulting from the investments made.

In the second part, chapters 4 to 7, the author addresses each aviation sector in a specific way.

Chapter 4 deals with airports, with a view to the investments required to accommodate passengers and aircraft. In the following chapter, air traffic management is studied, including investments aimed at expanding the fleet's handling capacity and those aimed at improving flight efficiency.

Chapter 6 addresses the theme of the most competitive airlines in terms of the acquisition of new airplanes, intermodal and the value of air transport for society.

In chapter 7, the aeronautical sector is analyzed as a competitive industry, but imperfect due to the high entry barriers and sunk costs, therefore, it requires special considerations in the evaluation process. In addition, as in the case of airlines, uncertainty returns to relevance, in this case from the perspective of technological innovation. Here, the uncertainty and risks involved are generally a motivation for government intervention in financing such investments, which again require a rigorous economic assessment.

In the last chapter, the author in a summary way, addresses particular aspects of the various evaluation methods developed in the previous chapters.

The new edition covers the theme of the treatment of environmental emissions with special emphasis on the social and economic impacts of climate change, whose main instrument for reducing emissions is carbon transactions, in the path of the economic instrument created in 2008 by the European Union, The European Union Emissions Trading System (EU ETS), with the application of the cap and trade to reduce carbon emissions and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

In this regard, and despite the publication of the book predating the pandemic, the effort made globally to innovate aircraft and propulsion technologies, operational improvements both in the air and on the ground, and opportunities to increase the scale of sustainable fuels for aviation should be highlighted. SAFs¹ were already a reality, with more than 330,000 commercial flights using primarily bio-based aviation fuels, with SAFs' top priority being to increase production levels, reduce costs and increase competitiveness with conventional aviation fuels.

The green bond market has not yet started for aircraft finance but some "transition bonds/loans" market could emerge based upon the best current technology available to mitigate the CO² emissions (as for LNG for shipping) when no alternative transportation mode is available.

This edition includes two new project types. One is airport relocations, perhaps the most complex type of airport projects, where the economic case is often more nuanced than may be apparent. The second is the re-introduction of supersonic travel in the perspective of the economic and financial evaluation of investments in which the various sub-sectors of aviation depend on their implementation and good management.

In conclusion, the book written in an accessible style is an excellent guide for all who wish to have a global perspective on the theme of investments in the aeronautical industry with the help of abundant case studies on economic evaluation or cost-benefit analysis in terms of value of projects for society as a whole, and financial evaluation from a cash flow perspective.

Regardless of the time we are experiencing, characterized by great uncertainties, the topics covered continue to remain valid, the creation of value, competitive advantages, intensive capital and financial leverage continue to be structural variables in the air transport business.

¹ Sustainable aviation fuel (SAF) is the main term used by the aviation industry to describe a nonconventional (fossil derived) aviation fuel.

The capital markets should remain open for airlines with strong business models and prospects for the recovery period to refinance their debt and issue new equity – the success of this hinges on the timeframe and strength of the recovery.

According to Mike Inglese, CEO da Aircastle, “Aviation is still a very attractive relative value investment target. We will still see a fair bit of capital coming into the sector and there are those have been positioning themselves for a different form of downturn that will be well positioned to take advantage of opportunities, whether it’s sale leasebacks or picking up portfolios at discounts from companies that may not otherwise make it through.”

Ending reading the book allows us to reflect on the past and the future of airlines and on the ongoing restructuring processes, the great financial leverage underscores the need for sound investment decisions, since both gains and losses are leveraged. Bad, large and leveraged investments can be fundamental to put companies or economies in difficulties, especially those that have a considerable degree of dependence on tourism.

In addition to financial considerations, unsuccessful or unnecessary investments represent a waste of public and / or private resources that society could invest in other sectors.

As the Nobel Prize for Economics said in 1976, Milton Friedman reminds us that “There are no free lunches”, some even say that, in the end, we all have a price to pay today, or later, the bill remains unpaid.