



**International Air Transport Association (IATA)  
Submission to the  
Productivity Commission (PC)'s Inquiry  
into the  
Economic Regulation of Australian Airports**

**September 2018**





## About IATA

The International Air Transport Association (IATA) is the trade association for the World's airlines, representing some 290 airlines or 82% of total air traffic. IATA supports many areas of aviation activity and help formulate industry policy on critical aviation issues to drive a safe, secure and sustainable environment for aviation to flourish.

IATA member airlines include many that operate flights to Australia, including Australian carriers Qantas Airways and Virgin Australia Airlines. Hence, IATA has an interest to convey its views pertaining to this inquiry for consideration by the Government of Australia.

## Table of Contents

- A. Executive Summary**
- B. Importance of Aviation to Australia**
- C. Performance of Australian Airports**
- D. Current Monitoring Regime Not Fit-For-Purpose**
- E. Proposed Changes and Envisaged Outcomes**
- F. Aviation Fuel Market Competition**

### Annexes

1. Airlines do not have countervailing power
2. Transparency requirements for the determination of airport charges in the context of EU Directive 2009/12/EC
3. Airport Infrastructure Investment – Best Practice Consultation

For further details, please contact:

Mr. Matteo ZANARINI  
Area Manager – South West Pacific  
Suite 8.01, Level 8, 55 Clarence Street  
Sydney NSW 2000



## A. Executive Summary

IATA welcomes the opportunity to submit its comments in response to the Productivity Commission's Review of Economic Regulation of Airports. IATA's comments are from an international perspective and are based on the requirements of, and best practice in, international civil aviation. Given this international perspective, IATA is focusing its response on the four main airports with an international presence (BNE, MEL, PER and SYD), which are under the existing price and quality of service monitoring framework<sup>1</sup>. IATA also addresses the aviation fuel market competition aspect for Australia in this submission.

It is IATA's view that the existing monitoring regime has fallen short of delivering the key strategic outcomes envisioned by the Australian Government in moving to light-handed economic regulation in 2002. This view is corroborated by the concerns of its member airlines expressed to IATA leading to the conclusions that the present regime:

- Is not effective in constraining the misuse of market power by airports;
- Does not present a credible threat of regulation to bring about meaningful commercial negotiations as intended; and
- Does not adequately replicate competition and incentivize improvements over time to deliver value for consumers.

The key observations and evidences outlined by IATA in this submission and in addition to those by the Board of Airline Representatives (BARA), A4ANZ, Qantas Airways and Virgin Australia Airlines in their respective submissions establish that:

- Profit maximizing airport operators are not delivering value for money in airport services;
- Critical information on investment and service proposals is not being provided to enable meaningful commercial negotiation;
- Commercial negotiations in its present form are ineffective and imbalanced with airports having significant negotiating power;
- Airport operators are effectively engaging in self-regulation of their profit levels and service delivery; and
- Airlines do not possess countervailing power.

If trends continue, the total aeronautical charges recovered in excess of current charge levels could amount up to AUD 1.5 billion over the next 5 years<sup>2</sup>. Therefore, IATA is concerned about the cost to the industry and Australian economy from continuing the monitoring model without further changes. It is timely for the PC and the Government of Australia to recognize the need to address the deficiencies in the present price monitoring framework and bring about the necessary changes.

---

<sup>1</sup> While we do not comment on Australian airports beyond the key four airports with the most significant international presence, IATA's recommendations should be considered applicable to any Australian airport with significant market power.

<sup>2</sup> Calculated by projecting aeronautical charge increases from 2011 to 2017, onto the next 5 years period between 2019 and 2023, multiplied by 2017 passenger figures, in 2017 prices. This is a conservative figure as it does not forecast passenger growth, which could result in even higher excess aeronautical charges.



### **Consultation, Agreement and Regulatory Appeal (“CARA”)**

To address this deficiency, IATA proposes a model for the key four airports in Australia that incorporates:

- **Consultation**  
Multilateral consultation between the airport and airlines and airline associations;
- **Agreement**  
The consultation should aim towards agreement between the airport and airline representatives on the business plan; including investments, service levels and charges; and
- **Regulatory appeal**  
Finally, an appeals process for a regulator to resolve outstanding issues and set the future business plan, in the absence of agreement.

This is based on IATA’s worldwide experience of various regulatory oversight frameworks and the potential of applying a practical, progressive solution for the Australian environment, IATA is confident that the improved model will more adequately prevent market abuse by airports, secure efficiencies and ensure service quality, leading to a vibrant aviation sector for Australia. Moreover, it will foster a more balanced and productive working environment between airports and airlines, where all parties are clear on the working process and benefits of ‘constructive engagement’.



## B. IMPORTANCE OF AVIATION TO AUSTRALIA

**2.4%** Annual average growth in the # of O-D passenger journeys per year to, from or within Australia  
(Source: IATA/TE)  
over the next 20 years

**150+** million by 2037  
Over 150 million passenger journeys per year to, from and within Australia by 2037  
(Source: IATA/TE)

**668,000** Aviation supported 668,000 Australian jobs in 2016  
(Sources: IATA, Oxford Economics)

**7<sup>th</sup>** Australia is the seventh largest domestic passenger market in the world  
(Source: IATA)

**US\$62 billion** in 2016  
US\$62 billion in 2016 aviation contribution to Australian GDP  
(Sources: IATA, Oxford Economics)

**2<sup>nd</sup>** Sydney-Melbourne (SYD-MEL) is the world's second busiest domestic route  
(Source: IATA WATS)

**94 million** in 2017  
Passengers flew to, from, or within Australia in 2017  
(Source: IATA)

**705** Airport pairs operated within Australia  
(Source: SRS Analyser)

**187** International airport pairs in 2017  
(Source: SRS Analyser)

Air travel is no longer an optional undertaking in an increasingly globalised world. It is a necessity that most people cannot do without for business or personal purposes alike. Similarly, the movement of cargo by air is essential in supporting the development of crucial trade links between nations. This is exceptionally true for a nation like Australia with its population scattered across the vast geography with aviation as an essential transportation mode. Further, Australia's main airports act as major connecting gateways to other nations in the Pacific islands.

IATA believes that the economic success of Australia and its people hinges on policies which must not inhibit but instead foster the growth of aviation to its fullest and ensure that consumers benefit from such developments. Further, IATA believes that Australia has yet to strike this optimal balance due to the shortcomings in the existing regulatory oversight framework for airports which will be detailed later in this submission. Specifically, IATA is concerned that airports in Australia, which have been determined to have excess market power, have been proven to repetitively exercise excess profit taking, ultimately at the expense of the consumer. Further, the level of profit taking is markedly higher than other airports around the world.

While IATA recognizes that airport concessions in Australia are irreversible up to their expiry (or could be expensive for the government to terminate), it is timely for the PC and the Government of Australia to recognize the need to address the deficiencies in the present price monitoring framework and bring about the necessary changes.



Overall, successful airport privatizations should deliver:

- A more efficient, cheaper and better service for passengers and shippers;
- Cost effective and fit for purpose investment;
- Normal market-based returns on capital for investors; and
- Economic benefits for local community and the wider economy.

Over recent years, IATA has seen various shortcomings in airport privatization largely due to:

- Lack of competition in the airport sector;
- Ineffective economic regulatory oversight;
- Short-term financial gains for investors instead of best consumer/public interest; and
- Insufficient consultation with industry.

IATA's submission offers a practical solution for the Australian Government to address the negative impact of such shortcomings. Reform will be necessary to overcome the current weaknesses of the regime and strengthen the regulatory oversight framework.



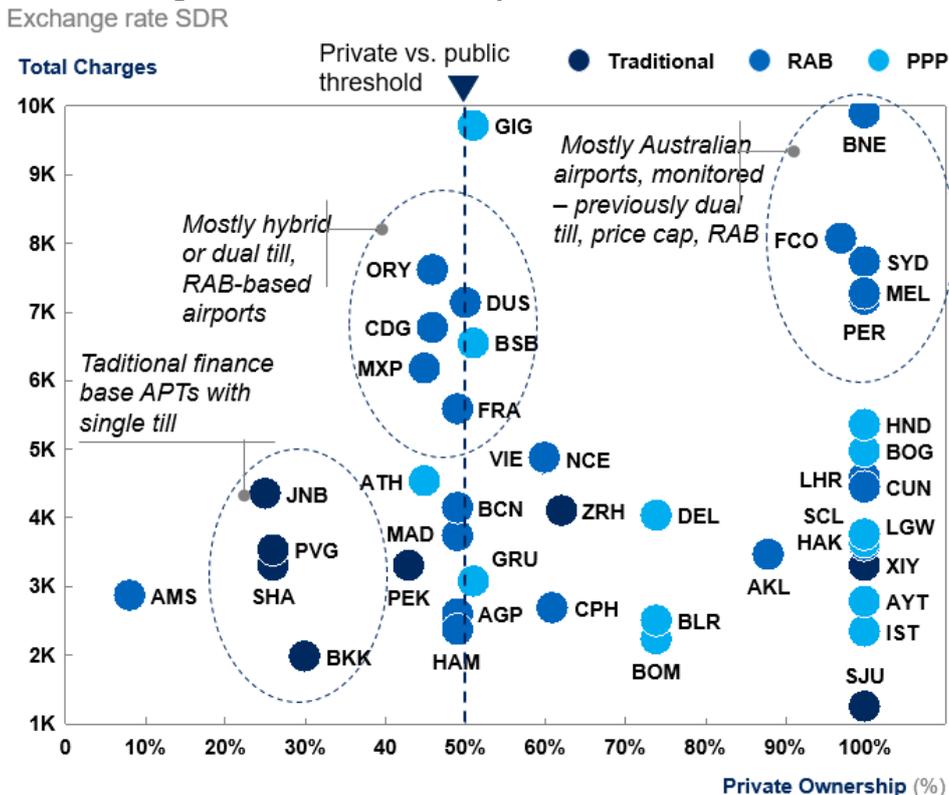
## C. PERFORMANCE OF PRIVATIZED AUSTRALIAN AIRPORTS

IATA research covering over major airports around the world shows that privatized airports (those with majority equity/asset divestiture to the private sector or operating under a long-term concession contract) are more expensive without the commensurate gains in efficiency or levels of investment. This runs counter to the experience of other industries and airline privatization where enhanced competition resulted in increased efficiency, better services and lower pricing to consumers. The difference between the airport and airline sectors, where airports do not operate in a competitive market, has not been adequately addressed in Australia and has instead led to market power abuse at the expense of the fare-paying consumer.

In order to examine the issue in more detail, IATA's submission builds on key findings from a study undertaken by McKinsey & Company to identify key influencing factors on the performance of airports globally. The following clearly demonstrates that the main Australian airports, under the present monitoring regime are outliers compared to other airports globally.

Overall, as shown in Chart 1, many factors seem to influence total charges with private airports (>50% private ownership) broadly presenting slightly higher charges but the main Australian airports being considerably more expensive compared to other private airports.

**Chart 1: Total charges based on ownership structure**



Sources: Airport performance database created by McKinsey & Company for IATA.  
 Total Turnaround costs for an aircraft A320-200 in 2015.  
 SDR (Special drawing rights) is a currency instrument used by the IMF, representing a combination (weighted average) of multiple currencies comprising the US dollar, Euro, British Pound and Yen.



There are many contributing factors which have likely led to this situation. There is clear evidence that:

- There is a lack of focus on determining customer needs for core airport services;
- Critical information on investment and service proposals is not being provided to enable meaningful commercial negotiation;
- Commercial negotiations in its present form are ineffective and imbalanced with airports having significant negotiating power;
- Airport operators are effectively engaging in self-regulation of their profit levels and service delivery;
- Profit maximizing airport operators are not delivering value for money in airport services; and
- Airlines do not possess countervailing power.

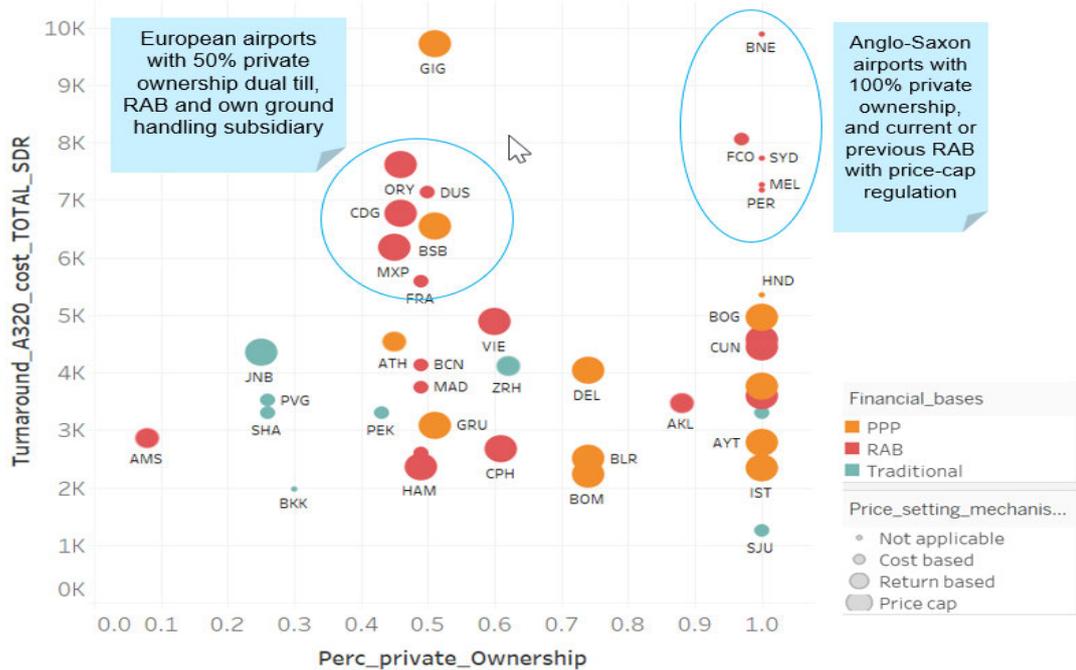
One other contributing factor leading to higher charges is that the Australian airports re-valuation of their assets in the past has led to higher regulatory assets bases ("RAB"s) without a clear link to efficiency or service level improvements. IATA believes that an increase in land and infrastructure values based on the application of an alternative use (i.e. opportunity cost) valuation allows airports to artificially increase the value of their assets and the return they receive.

Fundamentally, this process is:

- **Unfair**  
It merely creates unearned returns (i.e. windfall gains). Airlines should only pay for the services an airport 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; and
- **Not standard practice**  
Adjustments to charges based on unearned land or infrastructure value appreciations are not in line with ICAO's provisions.

At the same time, it is clear that the lack of effective regulatory intervention has allowed the four Australian airports in this sample to continue increasing prices without adequate safeguards. Chart 2 below shows the disparity between Australian airports and other airports analysed in terms of regulatory oversight.

**Chart 2: A320 Turnaround cost based on ownership and regulatory structure**

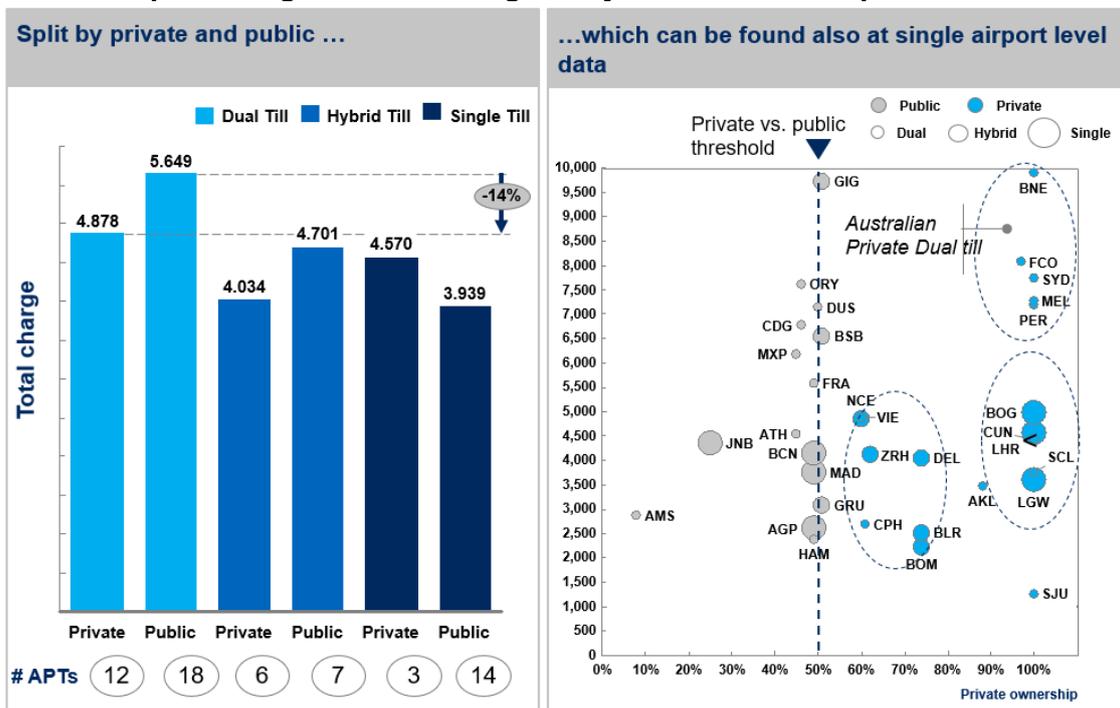


Source: Airport performance database created by McKinsey & Company for IATA.

It is also evident that the dual till approach in Australia has resulted in higher overall charges for users, further exacerbated by the lack of fit-for-purpose regulatory oversight regime. A dual till approach to charging is possible only because airports do not operate in a competitive environment and are able to ring fence individual high-yielding business streams to extract profit. There is no evidence that dual till provides better incentives for airports to make timely investments than single till. Conversely, dual till can incentivize airports to invest in potentially higher-return commercial activity to the detriment of essential aeronautical infrastructure.

Single till reflects the pricing mechanism airports would apply if they were operating under real competition: it is therefore the fairest mechanism of charging to replicate a competitive environment. Single till also eliminates the need for difficult, detailed cost and asset allocation between aeronautical and commercial tills. As a progressive move to address this shortcoming, and as evidenced in Chart 3, IATA believes the application of a hybrid till should be considered for the Australian airports.

**Chart 3: Airport charges based on regulatory till and ownership structure**



Source: Airport performance database created by McKinsey & Company for IATA.

Overall, the simple reliance on the price monitoring framework for Australian airports without the protection of effective regulatory oversight and intervention has led to an unbalanced scenario between airports and airlines. The airports benefit from much of the same protection they would have under a traditional RAB regulatory framework, in terms of full cost plus recovery, while removing the protection for airlines, passengers and shippers in terms regulatory scrutiny or the threat of intervention to address inefficiency, service level shortfalls or excessive charges. Instead of replicating competition by encouraging an effective negotiation between an airport and its customers, airlines have been faced with disparate consultations, inadequate transparency and separate negotiations, with the threat of long protracted disputes with the airport in order to mitigate the risk of substantial increases in price.



## D. Current Monitoring Regime Not Fit-For-Purpose

The price and quality service monitoring regime (also termed 'light touch' regulation) has been in place since 2002<sup>3</sup>, and IATA found it to be ineffective at dealing with recognised airport market power and promoting the efficient development of the Australian aviation industry, for the following reasons:

- 1) Monitoring cannot constrain the airport's market power;
- 2) Monitoring does not replicate competition, as it fails to ensure balanced interaction between the supplier and airline customers; and
- 3) Monitoring does not incentivize airport improvements over time.

### 1. Monitoring cannot constrain the airport's market power

Over the last 16 years, the Australian Competition and Consumer Commission (ACCC) has produced complex reports that detail the findings from the monitoring. During this time, IATA saw poor behaviours from the four key monopolistic airports.

Airport charging compares poorly with airline fares performance, over the last decade:

- Aeronautical revenue<sup>4</sup> at Australia's four major airports<sup>5</sup> rose by between 15% and 58% in real terms between 2008 and 2017. For domestic travel, passenger-based airport charges paid on the average domestic air fare to fly from Australia's airports increased by two-thirds between 2007 and 2017, from AUD 7.65 to AUD 12.75. Higher costs feed through to higher air fares damaging Australia's air connectivity and economic competitiveness;
- In contrast, average air fares fell between 44% and 52% in real terms over the same period as competition and efficiency gains delivered benefits for consumers; and
- If passenger-based charges had remained at 2007 levels, IATA estimates that an additional 1.2 million passengers would have flown domestically in 2017.

---

<sup>3</sup> While we do not comment on Australian airports beyond the key four airports with the most significant international presence, IATA's recommendations should be considered applicable to any Australian airport with significant market power.

<sup>4</sup> Airports' aeronautical revenue is made up of charges levied on a per aircraft basis and charges levied on a per passenger basis, on the passenger's ticket.

<sup>5</sup> Brisbane, Melbourne, Perth and Sydney, all of which are subject to price-monitoring by the ACCC. Data from ACCC.



**Table 1: Evolution of airport charges and fares, 2008-17 (real terms, 2017 AUD)**

Airport/Year	Aeronautical Revenue / Passenger			Average Air Fare		
	2008	2017	Change	2008	2017	Change
<b>BNE</b>	9.24	12.60	36%	514.14	290.73	-43%
<b>MEL</b>	9.47	12.44	31%	548.14	320.31	-42%
<b>PER</b>	9.95	15.79	59%	801.25	383.83	-52%
<b>SYD</b>	15.9	18.34	15%	666.11	366.35	-45%

The data shown above is further illustrated in Chart 4 below, which provides a graphical representation of how charges and fares have moved in opposite directions over the past decade. This highlights the fact that the monitoring regime has not proved an effective tool to constrain airport pricing period over the period and that, in the absence of effective competitive pressures or robust economic oversight, airports have not achieved the levels of price reductions seen in the airline sector, where consumers have been the major beneficiaries in terms of increased choice and connectivity at the same time as lower fares. This is despite the scale economies that should be possible at airports, as largely fixed cost businesses should benefit from additional passengers, without significant extra cost.

**Chart 4: Evolution of airport charges and fares 2008-17 (real terms, 2017 AUD)**



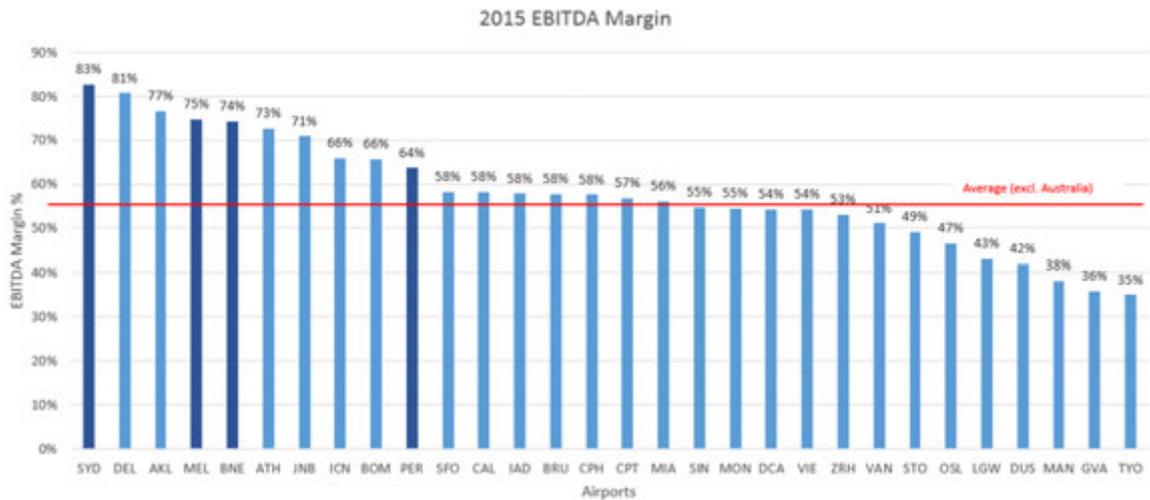
Sources: IATA Economics based on ACCC and PaxIS.

Higher charges have resulted in higher profits for the main four airports. The analysis presented below demonstrates clear evidence of airports leveraging their monopoly position to earn excess profits in the absence of effective regulatory oversight. The margins achieved are much higher than comparable airports worldwide and above the



average of non-Australian airports (EBITDA measures the cash-generating performance of business. High EBITDA margins are indicative of market power being exercised).

**Chart 5: Average EBITDA margins (2015) for Australian airports higher than average**



Source: Data for 2015, available from Leigh Fisher 2016 and 2017 reports<sup>6</sup>.

While IATA does not yet have EBITDA figures to complete an analysis for the above in 2017, it is important to note that figures for DEL and JNB would be significantly lower due regulatory intervention which has lowered charges:

- For DEL, charges in 2017 were reduced by 96% following the conclusion of the appeal on the tariffs determination by the Airports Economic Regulatory Authority (AERA) for the second control period after it was determined that the airport recovered much more than it needed following the 346% increase in the first control period and that the cost projection going forward was less than what the airport had implemented in charges; and
- For JNB, charges in April 2017 were reduced by 35% due to the commencement of the new regulatory price setting period. The reductions included a clawback on revenues that were allowed in the previous regulatory period to cover costs related to investments that the airport never made. This explains the excessive EBITDA generated during 2015. Additionally, South African airports (ACSA) operate as a network, in which JNB generates more profits than it should in order to cross-subsidize the costs of the rest of the network (JNB EBITDA margin was 71%, whereas the ACSA EBITDA was 61%).

With these changes, IATA fully expect EBITDA for SYD, MEL and BNE to be the highest for the sample shown (alongside AKL which operates under a similar monitoring regime). The performance of PER would be closer to this group. It is clear more effective measures are required for the Australian airports to curtail such excess profit-taking.

<sup>6</sup> Full selection of comparator airports available from the Leigh Fisher 2016 and 2017 reports, excluding non-comparable group network airports and the largest airports, by number of passengers.



While IATA welcomes the efforts of Australian authorities to expose poor behaviour from monopolistic airports; ultimately, we do not see how such behaviour can be constrained through monitoring alone:

- **Airline passengers and cargo users**

End users have little or no option but to continue to use these airports, despite their price and quality performance. The four key Australian airports do not compete with other airports in their catchment areas. Given the size of the country, most Australian end users do not have an alternative domestic transport mode options, such as rail or road transport, within a realistic time frame; and even fewer options for international travel. This means that such end users are captive and hence, they do not pose a credible threat to the airport businesses, to constrain poor behaviour.

- **Airline customers**

Similarly, airline customers have little or no option to offer services from monopolistic airports, given the lack of competing airport catchment for Australian cities. While some interest groups have lobbied for the idea that airlines have equal market power, this is clearly untrue given the active competition between airlines as is demonstrated by the continued reduction in fares. Individual airlines cannot threaten to reduce services at profitable airports, in response to poor airport performance, because they would be replaced by competing airlines. We discuss this further in Annex 1. Therefore, airlines are price-takers and cannot credibly constrain poor behaviour.

- **Regulators**

In other parts of the world, where airports have recognised market power, IATA would expect regulators to have the power to step in and prevent poor behaviour. This is not the case in Australia, where the ACCC does not have powers to act against market power behaviour. This situation appears even more anomalous, given the responsibility of the ACCC to reveal the poor behaviour, through its monitoring reports – and yet, it cannot do anything about the situation:

*“As it is not price regulation, monitoring does not directly restrict the airports from increasing prices and allowing service quality to decline. In particular, it does not provide the ACCC with a general power to intervene in the airports’ setting of terms and conditions of access to the airports’ infrastructure.”*

ACCC Monitoring Report 2016-17, page 9.

Given that no interest group can act as a sufficient constraint on monopolistic airport poor behaviour, IATA calls on the PC to enable regulatory intervention to prevent abuse.

## 2. **Monitoring does not create balanced interaction between supplier and airline customers**

IATA recognises that competitive markets deliver many benefits, as well as constraining over-pricing and poor quality. Competitive markets also generate the dynamic and balanced interaction between suppliers and customers, where suppliers invest time in understanding customer needs for the future and amend their investment plans accordingly.



Suppliers are incentivised to engage with customers, to provide best value to customers and to match their changing business needs, in order to win business in the future, within a competitive market. Within such interaction, both suppliers and customers gain value, as the customers' changing needs are fulfilled and provide more business to the supplier.

In the case of airports, competition does not function well. In markets where the airport has sufficient market power, it does not have a strong incentive to interact fairly with customers. This is demonstrated by the evidence in the submissions of A4ANZ, BARA and the Australian based airlines. As airline customers are captive and have no alternative but to buy from the airport, then there is a significant risk the airport is free to maximise its profits regardless of its customer's business plans (for example, by cutting service quality or through diverting investment into areas that suit the supplier and not the customer).

The monitoring model relies on the negotiation between airlines and airports as a replacement for full regulatory oversight. While IATA acknowledges the original intent of the monitoring model, given the market power of airports, the airports do not have a strong incentive to understand changing airlines needs, to invest to meet their changing business needs.

*"It is generally accepted that Australia's four major airports have market power and control access to monopoly infrastructure. As a result, there is a concern that at some airports, airlines do not possess enough bargaining power to ensure appropriate commercial outcomes."*

ACCC Monitoring Report 2016-17, page 9.

Specifically, given the experience of the monitoring model, airlines have experienced:

- **Lack of commercial data from airports**  
While the ACCC report produces a lot of aggregated data, this information is not detailed or specific enough to enable commercial interactions between airlines and airports. This prevents airlines from understanding existing airport plans, efficiency improvement opportunities and from engaging to describe how these plans could be changed to meet individual airline market needs.
- **Discussions are one-sided**  
Given the market power of the airports, airlines have little if no negotiation power to ultimately affect change. This leaves the airlines seeking the best outcome from a one-sided discussion, rather than a fair and balanced interaction in which changing airline needs are fairly taken into account.

Given the airports' market power, and the lack of balanced interaction between airports and airlines, IATA calls on the PC to take action to enable such discussions to emulate a balanced consultation environment.



### 3. **Monitoring does not incentivise airport improvements over time**

In competitive markets, suppliers' performance tends to improve over time. This is because competition encourages suppliers to innovate, to increase service quality or reduce costs, thereby growing value for customers.

Across the economy, the productivity gains from such innovation is observable. For the latest year's figures that are available from the Australian Bureau of Statistics, Australian multi-factor productivity grew 0.6% in the year to 2016/17; while the Australian Transport, postal and warehousing sector productivity grew by 1.8% in the year to 2016/17<sup>7</sup>. IATA is concerned not to have seen such factor productivity at the four key Australian airports.

Given the lack of competition between airports, such innovation incentives do not exist for airports – and they are not replicated in the current monitoring model. The ACCC's reports can merely report performance from a baseline of what was performed in the last period. No mechanism exists for incentivizing improvement over time, to replicate performance that should otherwise be achieved in a competitive environment:

*"...trends in prices and profitability alone cannot tell us conclusively whether an airport is extracting monopoly profits."*

ACCC Monitoring Report 2016-17, page 189.

This means that the model does not seek to baseline improvements against the international airport comparisons that our members see every day; neither does the report question the efficiency or potential innovations that could be possible for the airports. Therefore, at best, the monitoring model seeks to perpetuate the status quo, to prevent gross deterioration. However, as we have seen from the evidence presented in Section C, the four main Australian airports are performing at bottom of the sample of benchmarked international airports in terms of charges. Further, the EBITDA for these airports is of the highest in a sample of 30 airports. These two factors question whether price monitoring has been successful in even preventing deterioration.

IATA calls on the PC to take action to incentivise innovation and improvements at airports over time, to take into account potential efficiencies.

### **Conclusion**

Overall, IATA concludes that the monitoring model currently employed in Australia is not fit for purpose, as it cannot sufficiently deal with the effects of significant market power of the four main Australian airports. IATA believes that regulatory oversight review, together with greater involvement from the airline customers is required, in order to see an overall improvement in Australian airports, and to prevent the further slide in performance against international comparisons and, with further review and correction, to maximize the potential for the Australian economy.

We set out IATA's proposals for a new model in the next section.

---

<sup>7</sup> Australian Bureau of Statistics. "Estimates of Industry Multifactor Productivity, 2016-17". Catalogue number 5260.0.55.002.



## E. PROPOSED CHANGES AND ENVISAGED KEY OUTCOMES

In the last section, IATA described that the current monitoring model is not fit for purpose, because it does not deal with airport market power by constraining monopolistic behaviour, nor by enabling balanced interactions between airports and airline customers nor by incentivising improvement over time.

In this section, we set out IATA's proposed model for better safeguarding the industry and end-consumers against airport market power, in the following areas:

- Consultation, Agreement and Regulatory Appeal ("CARA");
- International best practice; and
- Costs and benefits from CARA model.

IATA's proposal is based on its experience of best practice from across the world. There are multiple models of consultation with a regulatory backstop and we detail below the key examples. IATA calls on the PC to investigate further how a model for Australia could address airport market power, in the ways we set out in this section.

### **Consultation, Agreement and Regulatory Appeal ("CARA")**

IATA proposes a progressive model for the key four airports in Australia that incorporates:

- **Consultation**  
Multilateral consultation between the airport and airlines and airline associations;
- **Agreement**  
The consultation should aim towards agreement between the airport and airline representatives on the business plan; including investments, service levels and charges; and
- **Regulatory appeal**  
Finally, an appeals process for a regulator to resolve outstanding issues and set the future business plan, in the absence of agreement.

### **Consultation**

IATA believes that only when balanced interaction happens between airports as suppliers and their airline customers, can airports understand how to create value and match investment to meet changing airline needs. However, given the airport's market power, such discussions are likely to be one-sided and non-productive, without regulatory backing. Therefore, IATA proposes a model in which consultation happens within a clearly defined framework for the four key Australian airports.

Importantly, the consultation must allow both the airport and its airline customers to discuss the future direction for the airport business and the services provided. Therefore,



IATA suggests that an improved consultation process should focus on proposals by the airport for the following future period (e.g. 5 years, which is similar to the current master-planning consultation horizon currently required).

Further, IATA suggests that a consultation process for each airport should feature multilateral discussions with interested airlines and airline trade bodies. Given the complexity of multiple airline business models, we see a wide-ranging multilateral discussion as the only way for the airport to understand the combined future direction of its airline customers. We also see a multilateral discussion as important for agreeing the direction for the airport, when disagreements happen between airlines.

While we recognise that elements of consultation have existed in the recent past, IATA would encourage a complete review of practices. IATA suggests the following steps, at a minimum, for the regulator in establishing the consultation process:

### **Step 1: Setting the regulatory mandate**

The regulator should establish a consultation process mandate. This should identify:

- *The interested parties*  
Each airport in turn should host a consultation process, involving interested airlines and airline trade bodies. We note that many airlines hold a significant presence in a particular airport, while others with a smaller presence may choose to engage through a trade body;
- *The information to be provided by both airport and airlines*  
IATA has been involved in similar consultations in other countries, where the discussion begins with an active business plan proposition by the airport, for the period in question. Annex 2 provides IATA's recommended information to be provided in European consultation processes that are subject to the European Airports Charging Directive ("ACD"). Further, Annex 3 provides IATA's recommended approach for consulting on airport infrastructure investment;
- *Areas of the business plan to be discussed*  
We expect that consultation to discuss the following areas, at a minimum:
  - Traffic forecast;
  - Level of service to be provided, with service level agreement;
  - Efficiency of operating costs ("opex"), including details of key cost items, such as security costs;
  - Investment project ("capex") delivery aims and cost efficiency;
  - Non-aeronautical revenue projection to offset aeronautical charges;
  - Profit margins (including underlying cost of capital and asset base calculations<sup>8</sup>);
  - Structure and resultant level of charges; and
  - Procedure to mitigate risk, both in terms of operation underperformance and investment delivery.

---

<sup>8</sup> We note that the European Thessaloniki Forum has recently recommended a basis for calculating the cost of capital for an airport. <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=29019&no=2>



- *Chairmanship*  
The regulator should specify who should chair the consultation meetings. We have experienced varying models, from joint airport-airline chairing; to the identification of an independent individual; to the airport chairing the meeting alone. If possible, we believe that the chair should be sufficiently neutral, balancing both airport and airlines, in order to prevent a one-sided discussion. While the regulator could chair the meetings, we suggest that the consultation process should be the commercial product of the airport and airlines, in the first instance;
- *Duration of consultation process*  
The consultation process should be meaningful and productive. This means that the number of meetings should allow for all topics to be discussed fully; while not being too extensive to exhaust the resources of both the airport and airline representatives; and
- *Expectation for the form of agreement*  
As the consultation process should aim toward agreement between airport and airlines, the regulator should set out its expectation for a successful conclusion, including the format of the agreement, in order to avoid ambiguities and misinterpretation after the process.

## **Step 2: During the consultation**

The regulator should be present in the consultation. This is important for the following reasons:

- *Observe the process*  
Given the regulatory mandate, we believe that the regulator needs to take a degree of responsibility for a successful outcome to the consultation. This requires the regulator to attest to the fact that discussions were open and not one-sided, and that the ultimate agreement was fair and commercially based. For this to be possible, we suggest that the regulator should attend consultation meetings;
- *Add evidence to the process*  
We have experienced processes where the regulator has added extra evidence to enrich the discussion. Within the UK ATC Customer Consultation process, the regulator has commissioned consultant assessment of opex and capex efficiency, as well as assessments of the cost of capital margins. Such evidence has acted to move discussions beyond the zero-sum;
- *Step in to help log-jams*  
While we have seen enough consultation processes to know that productive discussions are probable; sometimes, discussions can log-jam. While the chairman should be responsible for helping discussions move beyond log-jams, the regulator may be able to help to advance the process; and



- **Preparation for appeal process**  
Ultimately, IATA believes that the regulator should establish an appeal process, in case agreement is not possible at the end of the consultation. For the regulator to be informed about the options, it should inform itself of the key issues throughout the consultation duration.

### **Agreement**

IATA suggests that the result of productive discussions between airport suppliers and airport customers should be an agreement on the future business plan for the airport, at the end of the consultation process. We have experienced this agreement and the commercial value that this has created for all involved. Practically, IATA suggests the following steps:

#### **Step 3: Conclusion of the consultation and agreement**

As a result of the discussions, the parties should be aiming towards agreeing a future business plan for the airport. At the end of the process, we suggest that the chairman should be responsible for ensuring that the results of the consultation are fully recorded to avoid ambiguity and misinterpretation after the process. This should include recording areas where agreement was not possible, detailing the varying views; and

#### **Step 4: Transparent presentation of the agreement to the regulator**

Once the process has been concluded, the results of the consultation should be presented to the regulator, including specific agreement on the future business plan for the airport and the areas of disagreement.

Once agreement has been secured then the airport should be responsible for ensuring the fulfilment of the agreed business plan during the future period.

### **Regulatory appeal**

Finally, IATA suggests that the regulator could take a role in the conclusion of the consultation. If agreement has been possible, then this should be enacted by the airport and the regulator should take no further action. However, if agreement was not possible in fundamental areas of the business plan, then either party, or the regulator, should be able to trigger an appeals process:

#### **Step 5: Regulatory appeal**

The regulator should deliberate on areas of disagreement. IATA believes that the use of an appeal process should be a last resort for the consulting parties, and therefore, the regulator should dissuade parties from seeking to trigger an appeal. However, the regulator's conclusions should be fair and involve the material revealed and positions taken within the consultation process.

We note that agreement between parties is not always possible. In the 2014 Gatwick consultation process, some agreement was reached, but other areas were not agreed:

*“Progress was made on capital expenditure (capex), with agreement that a number of projects should be further developed. Progress was also made on traffic forecasts and service quality, mainly through developing a greater understanding of the issues and*



*sensitivity to key assumptions. There was less progress on operating expenditure (opex) where GAL did not provide sufficient information for the airlines to feel that they could engage meaningfully.”*

UK CAA<sup>9</sup>

Despite the good progress in the consultation, ultimately regulatory action was required. In this instance, the UK CAA's regulatory process kicked-in to conclude the full settlement.

We note that the CARA model differs from the current arbitration-based model and so the regulatory powers currently available are not sufficient to conduct such an appeal process, so IATA calls on the PC to recommend the strengthening of the regulatory role.

### **International best practice**

IATA's CARA model proposal is based on best practice seen in other jurisdictions where a constructive agreement is sought between parties as a primary objective. Formal multilateral consultation has become a standard part of the planning process for airports with market power in different parts of the world. Below, we summarise some of the most significant examples in Europe where there has been considerable development relevant to the Australian context:

- **European Airport Charges Directive**

The European Airport Charges Directive (ACD) requires consultation with airlines for charges and investment programmes, for all airports with more than 5 million passengers. The Directive also sets out the types of information and timeframes required for the consultation; however, experience since the ACD publication in 2009 has shown that more detail is required on the level of information disclosure and the process of consultation:

- In response to this shortfall, the European Commission formed a group of National Supervisory Authorities (NSA), the 'European Thessaloniki Forum', which received input from IATA and other groups, to define Consultation and Transparency Requirements<sup>10</sup>. The Commission is in the process of reviewing the ACD and will determine how to incorporate these requirements. The IATA Transparency Requirements input to the process are relevant to the Australian context and attached in Annex 2;
- A number of airports have worked with IATA to improve the consultation process. For Amsterdam Schiphol, the airport proactively reached out to define a clear consultation process, including information disclosure requirements. In this process, the airport engages with several major airlines (or interested airlines) in a pre-consultation process to discuss detailed investments and efficiency improvement opportunities before making full consultation material available for all users during a public consultation; and

---

<sup>9</sup> CAA. "Economic regulation at Gatwick from April 2014: initial proposals". Page 7.

<sup>10</sup> <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=29018&no=1>



- Overall, airports under the ACD (specifically those which are not under a more formal economic regulatory framework) are required, as a minimum, to engage in a process of consultation, monitored by the regulator, with an appeal process should the parties fail to reach agreement. The NSA then determines what action would be required to address any disagreement.
- **Copenhagen Airport**

The Danish regulator took the basic provisions of ACD and set a process which further encourages successful consultation. Under this construct, a fallback regulatory price-setting process can be triggered if the consultation does not result in agreement. Neither party is privy to the conditions of the fall-back, so all are incentivized to try reach agreement within the consultation process. Use of this model is in its early stages; however, IATA's experience indicates this approach creates incentives for all parties to reach agreement where possible.
- **Consultation on investment and service levels**

The UK CAA has required consultation between regulated airport and airlines for most areas of debate within a more formal regulatory price control setting process, for the last two regulatory review cycles. A major success during the last price control period was the agreement at London Heathrow airport between all 93 airline users and the airport on a GBP 5 billion capital expenditure program across five terminals. This form of consultation sets a clear precedent on opportunities for 'constructive engagement'. IATA has used this work and lessons learned from other airports (in Europe and worldwide) to develop a best practice framework for consultation infrastructure investment. This is attached in Annex 3 and is pertinent to the recommended improvements in Australia.

In addition, the regulation of **Airservices Australia** already features a consultation process, with regulatory backstop. Therefore, we note that the Aviation sector in Australia is already used to the features of IATA's proposed CARA model.

### **Costs and Benefits from CARA Model**

IATA believes that the CARA model is a balanced, progressive proposal for dealing with the airport market power, while still seeking an agreed outcome to setting the future direction of airports, rather than moving to more regulated price control process. Inherently, the involvement of the regulator is still required because of the imbalanced caused by airport market power.

In order to assess the costs and benefits of IATA's proposal, we consider below the available qualitative and quantitative information, comparing:

- 1) **Do nothing:** Continuation of the monitoring model - without ultimate controls over charges, investment or service levels; and
- 2) **CARA model:** Consultation with a regulatory appeal – with a well-defined efficient consultation process which focuses on airports and airlines developing agreement on the airport business plan.



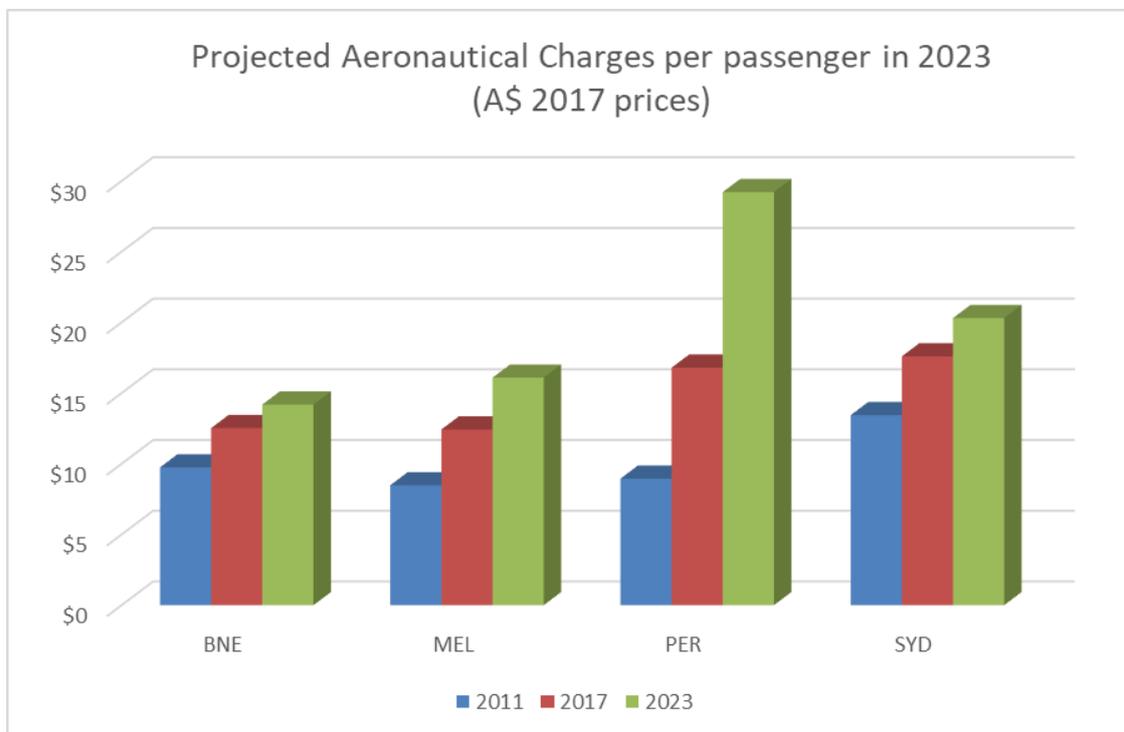
### **Do nothing**

IATA is concerned about continued use of the monitoring model for the four key Australian airports with significant market power. Given that this model features no formal mechanism for controlling airport performance, IATA is concerned about the trends that have already been established and would continue into the future.

Total charges at each of the four key Australian airports have increased over recent years, rising between 2% and 10% per year, on average, in real terms, between the last PC review in 2011 and the most recent data available in 2017. As a minimum, IATA would have expected broadly constant total charges per passenger, as airports are largely fixed cost businesses, and increasing passenger numbers should lead to economies of scale and a reduction in total charges per passenger, rather than an increase.

If those trends continue at the same pace seen between 2011 and 2017, then in 5 years' time, Perth and Sydney airports could be charging over AUD 20 per passenger (2017 prices), with Perth approaching AUD 30 per passenger. While Melbourne and Brisbane charge levels are lower, the trends are similar.

**Chart 6: Projected aeronautical charges per passenger in 2023**



Sources: 2011: Leigh Fisher; 2017: airport annual reports; IATA analysis.

If trends continue, the total aeronautical charges recovered in excess of current charge levels could amount up to AUD 1.5 billion over the next 5 years<sup>11</sup>. Therefore, IATA is concerned about the cost to the industry and Australian economy from continuing the monitoring model without further changes. It is timely for the Government of Australia to recognize the need to address the deficiencies in the present price monitoring framework

<sup>11</sup> Calculated by projecting aeronautical charge increases from 2011 to 2017, onto the next 5 years period between 2019 and 2023, multiplied by 2017 passenger figures, in 2017 prices. This is a conservative figure as it does not forecast passenger growth, which could result in even higher excess aeronautical charges.



and bring about the necessary changes to better safeguard consumers interest and the economic prosperity of Australia.

### **CARA Model**

IATA believes that there are significant benefits to be derived from the CARA model for Australia, in the following areas:

- **Curbing monopolistic tendencies**  
Controls are established over excesses of airport market power. If the 'do nothing' scenario shown above is avoided, then the savings to the aviation community in Australia could amount up to AUD 1.5 billion over the next 5 years; and
- **Value creation**  
Productive interaction between airport and airlines that can only increase the chances of identifying value growth, as the airport is more attuned to changing airline business needs.

IATA acknowledges the costs of engaging in a consultation process and also the strengthening of the regulatory involvement in the airports sector, which could involve greater effort than the current model. However, an efficient, well-defined consultation process can reduce time and costs for all parties (airports and airlines), where the requirements for information disclosure are clear with set timelines for discussions and reaching agreement.

In 2014, the UK CAA assessed the costs and benefits of another consultation model – Gatwick's new regulatory settlement, called 'Contracts and Commitments'. This model featured multilateral consultation, followed by bilateral agreements, backed by a regulatory process. While Gatwick's new model was based on greater competition between London airports, following BAA's separation – something that is not relevant to non-competing Australian airports - the UK CAA's assessment of the costs and benefits of the model derives useful precedent for IATA's proposal:

- **Benefits from regulatory involvement**  
The UK CAA assessed of the costs and benefits of regulatory involvement as opposed to no regulatory involvement in the future of Gatwick, in the following seven impact areas:
  - A) **Enforcement**  
The ability to constrain Gatwick's abuse of its market power;
  - B) **Price**  
Protection against excessive prices;
  - C) **Efficiency**  
The ability to drive cost efficiency in the future;
  - D) **Service quality (range and level of services)**  
Protection against the failure to meet service quality standards that passengers require;



**E) Investment incentives**

The ability to incentivise the right investment in the future;

**F) Operational resilience**

The ability to compel or incentivise the airport operator to adopt certain behaviours regarding the needs of the passengers; and

**G) Financial resilience**

Ensuring the airport retained investment level credit rating.

Following the regulatory assessment of Gatwick, which had guided the agreements on the future of the airport, the UK CAA concluded that some form of regulatory involvement was beneficial, compared to having no regulatory controls.

- **Benefits from consultation agreements:** However, the CAA concluded that there were also benefits from a negotiated solution, through:

**1) Avoiding the direct costs of a full regulatory review**

Gatwick priced its employee and consultant cost, together with an estimation of the CAA's costs at £10m p.a. (£2m p.a. for the CAA and £8m p.a. for Gatwick<sup>12</sup>). However, the CAA stated that this figure was too high. It concluded:

- a. **CAA's costs:** Its own costs would equal £1m p.a. for a full license regulated Gatwick and £0.25m p.a. for its work under the other scenarios (for 5 yearly cycles); and
- b. **Gatwick's costs:** The CAA concluded that Gatwick's £8m p.a. cost level was excessive but did not offer a revised figure. However, the CAA also concluded that Gatwick's direct costs would be the same in all scenarios except deregulation (i.e. no commitments counterfactual).

**2) Avoiding management distraction**

As the enforcement of the commitments would be linked to commercial negotiations, rather than regulatory targets; and

**3) Removing some perverse incentives**

From the price cap regulatory model, such as the potential distortions to capex from the RAB-based model.

Given the similarities involved between the CARA model and the new Gatwick model (though still noting the differences), IATA concludes that there are significant benefits from a commercially agreed future for an airport with market power and that regulatory involvement is also a significant net benefit, despite any additional process costs.

---

<sup>12</sup> CAA. "Cap 1134: Appendix J. Evidence and analysis on Test C". Page 75.



## F. AVIATION FUEL MARKET COMPETITION

Fuel cost makes up a significant part of an airlines' operating cost, contributing an average of 21% of airlines' expenses globally in 2017. The fuel price at a location is often a key determinant of whether an airline can operate its services viably which in turn leads to decisions on whether new services should be mounted or existing services should be supplemented or reduced. Besides prices, the reliable supply of fuel is also important as fuel shortages lead to service disruptions which add significant cost to airline operations.

An aviation fuel market that is effectively competitive at a location ensures that jet fuel is priced efficiently and there is proper incentive to invest in the necessary fuel infrastructure to ensure adequate supply chain capacity to cope with growing demand as well as to accommodate supply of fuel from multiple sources.

In the case of the aviation fuel market in Australia, various market characteristics and the experience of airlines point towards a market that is not as effectively competitive as it could be. This has led to airlines paying a higher jet fuel price compared to markets outside Australia where competition appears to be more effective and has also led to under-investment in supply chain capacity that resulted in a number of documented incidents of fuel supply shortages at major Australian airports such as SYD and MEL.

The section that follows provides inputs to the questions posed by the Productivity Commission's Issue Papers on:

1. The extent of competition in the jet fuel market;
2. The effects of the current level of competition; and
3. Options for addressing any lack of competition.

### 1. The extent of competition in the jet fuel market

- The jet fuel supply chain in Australia is characterized by supplier-owned fuel infrastructure. At the major airports in Australia, the airport fuel infrastructure necessary to deliver fuel to the aircraft (i.e. the fuel farm and associated hydrant system) are owned by an unincorporated joint venture of fuel suppliers operating under the name of Joint User Hydrant Installation or JUHI for short.
- Generally, membership of JUHI is required to access the airport fuel infrastructure. A non-member fuel supplier is effectively shut out of the market. While JUHI can accept new members, often, the cost of membership is significant and the application process long-drawn – these effectively become barriers to entry.
- Jet fuel demand has grown consistently and significantly since the formation of JUHI at the Australian airports. Statistics from the Australian Petroleum Statistics, Commonwealth of Australia 2018 indicate that in 2016/17, overall jet fuel demand in Australia was 26% higher than in 2010/11. Despite the significantly larger market, there has not been any new suppliers entering since the setup of JUHI (other than the entry of Qantas into the SYD JUHI membership as a self-supplier) which alludes to the difficulty for a new supplier to enter the market despite its attractiveness. Feedback which IATA and airlines received from speaking with



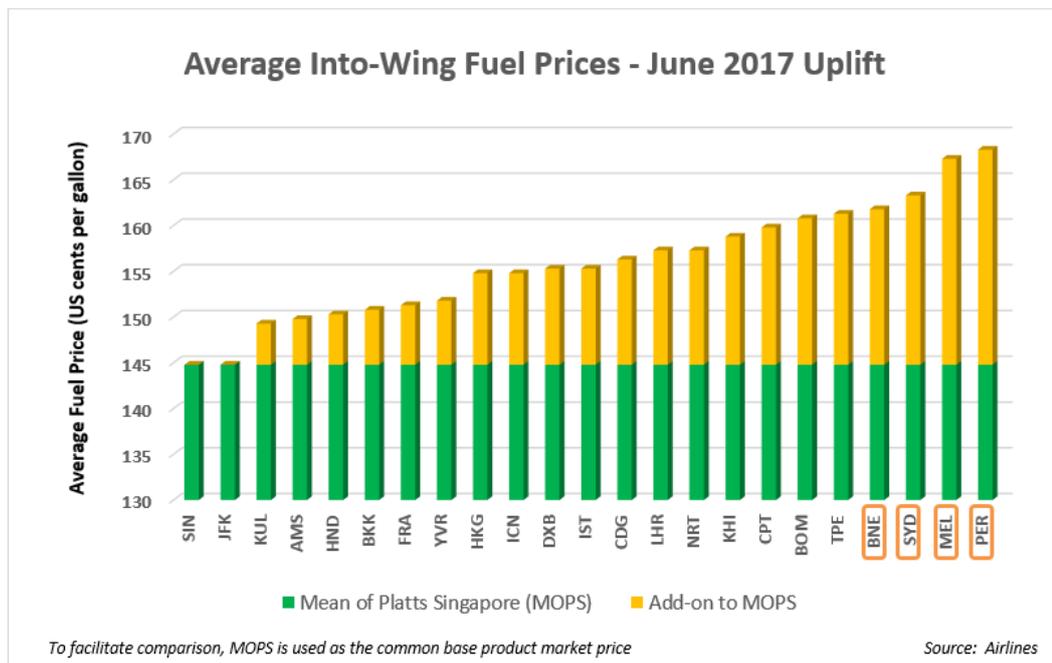
suppliers interested to supply fuel at Australian airports corroborate the difficulty of market entry.

- The Board of Airline Representatives of Australia (BARA) had consolidated inputs from a group of member airlines to provide an indication of the state of fuel supply competition at four major airports in Australia i.e. SYD, MEL, PER and BNE. In 2016, largely based on experience from their respective fuel tender exercises, these airlines rated the supply competition levels at MEL and PER to be very poor and at SYD to be poor. The situation at BNE was considered satisfactory. Details on BARA’s survey are provided in its submission to this Productivity Commission Review 2018.
- In the National Competition Council’s final recommendations dated 13 March 2012 with respect to BARA’s application for declaration of services provided by the Caltex pipeline and the joint user hydrant installation at Sydney Airport, it had remarked that ‘...the Council does not consider the market associated with the supply of jet fuel is effectively competitive nor that there is a vigorously competitive tender market.’ (page 25).

## 2. The effects of current level of competition

- The current level of fuel supply competition at Australian airports manifests itself through higher jet fuel prices relative to other major airports globally. The chart below shows the price added on to an international product price benchmark (Mean of Platts Singapore) for fuel uplifted in June 2017. Add-ons at the four Australian airports (BNE, SYD, MEL and PER) are markedly higher than those at the featured major airports around the world.

**Chart 7: Average into-wing fuel prices**





- Based on overall annual jet fuel consumption (domestic and international flights) in 2016/2017 of 2.36 billion gallons (*Australian Petroleum Statistics, Commonwealth of Australia 2018*), 1 US cents per gallon increase in jet fuel price translates to an additional USD23.6 million in cost to airlines. If through more effective fuel supply competition, prices at Australian airports could converge to a level similar to say LHR where effective fuel supply competition exists, the industry would stand to reduce its annual fuel cost by at least USD100 million.
- It would appear that the Australian airline industry is carrying significant additional cost burden because of less than effective fuel supply competition. This additional cost would ultimately have to be borne by air passengers and air freight users.

### **3. Options for addressing lack of competition**

- Fair and reasonably priced access to key jet fuel infrastructure in Australia, both on-airport (fuel farm and hydrant system) and off-airport (import facilities, pipelines and storage depots) for any supplier interested to supply fuel at Australian airports is key to addressing the issue of lack of competition. This is a common characteristic at other locations around the world where effective fuel supply competition exists.
- One commonly cited location where the concept of open access to key jet fuel infrastructure to promote effective fuel supply competition is rigorously put into effect is at Hong Kong. The characteristics of the Hong Kong supply chain model are as follows:
  - The import facilities are open for use by any supplier. It is owned by a non-fuel supplier to avoid any conflict of interest. A common transparent fee is charged for users;
  - The fuel farm and hydrant system also operate on an open access basis. The facilities are owned by the airport and there is no potential conflict of interest as would be the case in a JUHI setup. A common transparent fee is charged for users; and
  - A Management Association made up of the airport, fuel suppliers, facility operators, airlines and into-plane service providers meet regularly to address operational, budgetary and capacity investment matters among others.
- Australian airports need to migrate to a model of true open access for airport fuel infrastructure to promote supply competition. One way to achieve this is through declaration of the facilities. The fees levied by the infrastructure owner also need to be common, transparent and reasonable in order not to create a non-level playing field. Economic regulation can help to ensure that.
- Another fuel cost item not related to fuel supply competition but which has the effect of unnecessarily inflating cost for the industry is the fuel throughput levy



(FTL) imposed by the airport. FTL is currently applied only at SYD. FTL is not a cost-based charge – it is like a tax that is applied on fuel supplied to the airlines at the airport and its sole purpose is to enhance the airport’s revenue collection without providing any service in return. The airport already receives market-based rent for the land that the fuel farm owner uses and hence, FTL is unjustified and a demonstration of the airport exercising its monopoly position to extract unwarranted revenue.



# ANNEXES



## **ANNEX 1: Airlines Do Not Have Countervailing Power**

IATA is concerned at the suggestion that airlines in Australia have countervailing market power, that in some form could balance the market power of the key four Australian airports. Clearly, this is an incorrect supposition, as we explain in this annex.

The four key Australian airports have market power because of the lack of overlapping catchment between airports, which results in a lack of competition for passengers, who are captive to their local airport. Similarly, airlines are captive as they also lack a choice of airport to access the populations in the four cities. Airport market power has been recognized:

*“It is generally accepted that Australia’s four major airports have market power and control access to monopoly infrastructure. As a result, there is a concern that at some airports, airlines do not possess enough bargaining power to ensure appropriate commercial outcomes.”*

ACCC Monitoring Report 2016-17, page 9.

In contrast, airlines are in competition with each other. They seek profitable opportunities to serve passengers, and rightly win business from each other. The Australian aviation industry is mature and market opportunities are hard fought over.

Given this competition, there is clear economic logic against the statement that such airlines could have countervailing market power, similar to the airports who do not compete. In negotiations, airports have a credible threat against airlines because they can merely raise charges and (short of the airline reducing services because of the lack of profitability), the airline has no option but to accept the increase in charges. The same is not true for airlines. In negotiations, an airline does not have a credible threat to reduce services at an airport, to damage the airport’s business, because a competing airline could easily replace the reduced service. In this scenario, the negotiating airline would suffer a loss in business, but the airport would retain the same business, merely seeing a transfer in passengers from one airline to another.

Therefore, given the market power of airports and the lack of airline market power, airlines at the four key Australian airports cannot be considered to have countervailing power in negotiation with airports.

Airlines increase and decrease their services owing to the waxing and waning of profitable markets. While the PC should not interpret these changes as a negotiation tool or market power, the PC should recognize that excessive airport charges strip airlines of profitable opportunities to expand. Therefore, IATA urges the PC to establish a model for Australian airports that constrains airport market power, increases airport efficiency, thereby promoting competition between airlines.



## ANNEX 2

### **Working Paper: Transparency requirements for the determination of airport charges in the context of the EU Directive 2009/12/EC**

#### **Introduction**

Airport charges account for a relevant proportion of airlines' costs, and in order to ensure a certain degree of market protection the European Parliament and Council adopted the Directive 2009/12/EC on airport charges in March 2009, to be transposed by Member States by March 2011.

The objective of the Directive is to establish a common framework regulating the essential features of airport charges and the way they are set, also ensuring airport managing bodies increase transparency in their justification of charges and consult with the airport users<sup>13</sup>.

Art 6 para 2 indicates that member states shall ensure, wherever possible, that charges are set in agreement with airport users. One of the essential elements to make this a possibility (or to determine whether an appeal to an ISA is necessary) is for airport users to have the adequate level of transparency in order to properly assess the justification of the existing or new charges proposals.

Therefore Article 7 of the Directive outlines the requirements for information flow to and from the airport users, which has improved the initial information sharing as a baseline for a meaningful consultation meeting in some member states. However, the Directive does not go into details and in many cases, the current level of transparency being shared at consultations is still not sufficient to fully assess the situation at the airport regarding the way charges are set, preventing a meaningful engagement in concluding an agreement and consultation among both parties.

As outlined in the 2014 Commission's Report about the Implementation of the Directive, a critical element of concern, also leading to appeals in the past, is related to the question of the required level of transparency, which is not detailed enough in Article 7 of the Directive. This is in line with the feedback we received from ISAs, highlighting a need for further clarity and definition of transparency requirements, inter alia during the First Thessaloniki Meeting of ISAs that took place in June 2014.

To ensure a level playing field, IATA strongly recommend clarifying transparency requirements in a more detailed way in the Directive (e.g. appendix to the current Directive or guidelines). This will enable meaningful consultations with the aim of pursuing an agreement on airport charges but also support ISA's to take an informed decision during appeals.

This document provides an overview of the level of information necessary, in order to ensure a proper review and analysis of any charges proposals. The information requirements are even higher if an airport operates under a hybrid/dual till, as common infrastructure is artificially being split up.

---

<sup>13</sup> Final Report on the Evaluation of Directive 2009/12/EC on airport charges, September 2013, Steer Davies Gleave.



This document is:

- Structured along the building block methodology as being used in the ICAO airport charges manual, covering all relevant areas which the baseline for are determining airport charges. Along with the information requirement it also provides further explanation and justification why this level of information is needed; and
- Aimed to be neutral and solely to seek for enough transparency for airlines to assess the current/proposed level and structure of airport charges, as intended by the Directive. As such, the document deliberately does not express IATA's positions on the determination of airport charges. IATA's position on charges can be found on IATA's website. (<http://www.iata.org/policy/charges/Pages/airport-atc-charges.aspx>)



## Detailed Transparency requirements for the determination of airport charges

Information requirement	Justification
<p><b>GENERAL INFORMATION</b></p>	
<p>What are the facility/services being covered by the proposed airport charges? What facility/services are NOT covered?</p>	<p>Facility and services have to be clearly described in order to be able to understand the charges determination, i.e. what users are paying for. (ref: ICAO Doc 9082, Doc 9562, ACD article 7.1a).</p> <p>Not all airports cover the same facilities within the scope of airport charges, therefore detailed information on what is covered by airport charges and what is covered by other charges is required.</p>
<p>What is the till applied by the airport for setting charges (single, hybrid, dual).</p>	<p>The till of an airport impacts significantly the cost base for charges and is therefore necessary information.</p>
<p>What is the Regulatory environment?</p>	<p>Some airports may operate within a framework (e.g. price-cap regulation). The details of such regulations or other modes of operation need to be transparent in order to comprehend the charges calculation. Reference to relevant legislation or any other legally binding document is necessary. Within the European scope, how and where has the charges directive been implemented.</p>
<p>What has been the methodology for calculating the level of proposed airport charges?</p>	<p>The calculation method used by the airport (e.g. a certain formula used for the calculation) has to be disclosed, as mentioned under Article 7, 1, b of the ACD. (Also: ICAO building block methodology in Doc 9082, para 2 i) of Section II; developed in Doc 9562)</p>
<p>If the airport managing body operates more than one airport (if so: how many?), what are the effects on the level of charges?</p> <p>Have financial information been provided on a per airport basis?</p>	<p>This information is needed to understand the cost and revenue allocation among the airports in the network</p> <p>Article 4 and 5 of the ACD requires the airport to specify the mode under which it operates and to introduce a common and transparent airport charging system to cover all the airports in the network.</p>



Information requirement	Justification
<p>Have annual reports, audited accounts and notes been provided?</p> <p>Has information on ownership structure been provided?</p> <p>Is the company listed on the stock market and what is the free float?</p>	<p>(Also: ICAO Doc 9082, para 2 ii) of Section II; Doc 9562 para 2.37)</p> <p>This information is helpful to understand the airport's charges approach and the consistency between the displayed costs during the consultation and the company's financial data.</p> <p>Ownership information is necessary to assess applicability of EU/government/state aid rules (other funding) and to understand potential transfer pricing.</p>
<p>Are the documents also provided in English and will the consultations also be held in English?</p> <p>Who is eligible to participate in the consultation process.</p>	<p>In an international environment, setting charges applicable to international carriers, information must also be in English to allow every stakeholder the necessary involvement, to ensure that transparency is provided to all stakeholders operating in the airport.</p>
<p><b>OPERATING COST DETAILS</b></p>	
<p>Have details of cost categories been provided?</p> <p>For instance, cost categories should include at least (not conclusive):</p> <ul style="list-style-type: none"> <li>• Staff cost (and number of staff incl. applicable allocation)</li> <li>• Maintenance cost</li> <li>• Information Technology cost</li> <li>• Utilities cost</li> <li>• Consulting or outsourcing cost</li> <li>• Other cost (e.g. rental)</li> </ul> <p>In a dual/hybrid till operation, this information requires a higher level of detail in terms of cost split between regulated and non-regulated activities (aeronautical/commercial).</p>	<p><b>Staff cost</b> comprises the overall staff cost and is a key component of operating costs of an airport. Airlines must be able to understand how the airport manages this cost and therefore any significant change and assumptions/cost drivers need to be justified (e.g. changes due to pension schemes). Changes in <b>staffing levels</b> correlate with the staff cost, this information is required to understand the development of the airport's facilities and services, its reflection in the cost and how and why staffing has developed and is developing in future.</p> <p><b>Maintenance cost</b> may have different cost drivers and these must be understood.</p> <p><b>Information Technology</b> is a key instrument for efficient management and comes at a cost. IT spending generally drives efficiency thus having a counter-effect. These effects need to be understood by airlines.</p> <p>The cost for <b>utilities</b> (e.g. electricity, water) is often dictated by the suppliers but as a major element in the cost base the development and its reasons need to be understood to anticipate future changes.</p>



Information requirement	Justification
	<p><b>Consulting/ Outsourcing</b> can be a major cost element and it is therefore necessary to understand if any overall cost increases are driven from it (e.g. understanding the relationship between staff cost and outsourcing cost development).</p> <p>In general, the <b>drivers for cost changes</b> need to be provided in order to better understand if changes in charges are justified.</p> <p>Any further cost not covered by the above categories should be explained as well.</p>
<p>How does the cost develop over time?</p> <p>For charges set every 12 months, the development of cost needs to be made available over a five years period. This would mean information of the previous three years, the most recent forecast of the current year plus planning data of at least one year ahead.</p> <p>For a longer charges period, the timeline best reflects the charges period, i.e. five years would look five years back and five years into the future.</p>	<p>The cost development over time is important information as it shows in perspective the effectiveness of efficient airport management and the relevant cost for improvements of the airport's infrastructure and services.</p> <p>It also helps to understand the accuracy of previous years' planning and how correctly future cost is forecast.</p>
<p>Which efficiency initiatives have been identified?</p> <p>What is the quantified value of these initiatives?</p> <p>What is the value added over time of these initiatives?</p>	<p>In a generally monopolistic environment, where often a cost pass through is de facto in place there should and must be incentives for increasing efficiency. In a competitive environment there is naturally a motivation to do so. In both cases the airport should demonstrate its targets, efforts and results. Airlines need to see that the airport has undertaken significant efforts to mitigate cost rises.</p> <p>In a clear and concise manner, it needs to be explained what efficiency initiatives have been identified and their related value.</p>
<p>For dual/hybrid till airports, has information been split in the respective aeronautical and commercial parts?</p>	<p>Dual and hybrid till airports have to separate aeronautical from commercial costs in a highly accurate manner. Staff that provides services for both areas such as HR, Finance, Procurement etc., has to be properly separated based on sound and transparent allocation keys (e.g. HR – based on number of staff in each area, Procurement based on volume).</p>



Information requirement	Justification
	<p>Cost for utilities, IT and other costs have to be segmented as well. Caution is required as any wrongful allocation from commercial to aeronautical may impact charges without justification.</p> <p>Moreover, full transparency for this subject is required to ensure that e.g. internal cost allocation principles are executed in a fair and consistent manner, to avoid that commercial cost elements are not partially allocated to aeronautical activities.</p>
<b>INVESTMENTS</b>	
<p>Has a detailed list of investments (and their justification) been provided?</p> <p>What are drivers for investments and what are expected outputs?</p> <p>Are investments linked to the traffic forecast?</p>	<p>Investments are paid for through charges via depreciation and the cost of capital and they are consequently a key driver for future cost. It is therefore essential that investments are discussed, planned and agreed with airlines in full transparency.</p> <p>In case of any other modes of financing should be envisaged, these have to be made transparent.</p> <p>Detailed information about investments has to be shared openly and with all relevant stakeholders. This information must explain the why and how of investments, i.e. what drives the investment and what is the output.</p>
<p>Has the airport provided a master plan to demonstrate long term planning?</p> <p>Has the airport provided information regarding the link between capacity utilization and investments?</p>	<p>A master plan is important and needs to be discussed with airlines as it defines how a future growth strategy will be implemented. Investments in infrastructure have to be aligned with a master plan strategy to ensure investing is done for future demand and no sunk cost will materialize.</p>
<p>What is the timeline of investments?</p> <p>What trigger mechanisms have been agreed upon for the timing to start investments.</p>	<p>The timing when to start and complete investments is important information for the airport's users not only in terms of capacity and traffic planning but as well in terms of financials. Full transparency has to be provided in terms of when to invest, what is the basis for the cost estimate and when investments will be available for use.</p> <p>Moreover, airlines need to see that the investment program is realistic and not, as is often observed, over-ambitious in terms of completion dates.</p>



Information requirement	Justification
<p>For dual/hybrid till airports, has information been split in the respective aeronautical and commercial parts?</p>	<p>Transparency has to be provided in a dual/hybrid till operation on the share between commercial and aeronautical investments.</p>
<p>Investment accuracy:</p> <ul style="list-style-type: none"> <li>• How do actuals compare to previous forecasts?</li> <li>• Have airports included forecast in previous charges determinations depreciation/cost of capital for investments that were not made?</li> <li>• What is the plan of the airport in case of cost overruns for envisaged investments?</li> <li>• How shall cases be handled where investments are canceled and budgets are reassigned?</li> </ul>	<p>It needs to be understood if planned investments, which may have been drivers for charges changes, have actually been undertaken and to what degree. This relationship has to be transparent to airlines in order to avoid double charging.</p>
<p><b>DEPRECIATION</b></p>	
<p>What is the applied asset life of existing and new assets?</p>	<p>As a capital intensive industry, depreciation is a major cost component and needs to be well understood. Transparency is key and users need to know if <b>internationally applied standards of accounting</b> are used for asset life determination.</p> <p>Any deviation from international accounting standards has to be made transparent and clearly described.</p> <p>Any changes in asset life cycles or evaluation methods need to be explained.</p>
<p>When is the start of capitalization of new assets?</p>	<p>The <b>timeline of investments</b>, i.e. when does a new asset comes to live, is important to calculate an accurate depreciation rate as of the start the asset becomes operational.</p> <p>This information is also relevant to obtain transparency for any pre-funding.</p>
<p>Which depreciation method is used and why? Have there been any changes in this methodology since the last setting of charges?</p>	<p>Understanding the depreciation method is important in order to see how the depreciation amount has been calculated. As well, it helps airlines to understand whether the method is internationally recognized and appropriate.</p>



Information requirement	Justification
<p><b>ASSET BASE</b></p>	
<p>What individual assets make the total asset base?</p> <p>Have any revaluations/impairments been made transparent?</p>	<p>The accurate determination of the asset base is important for the calculation of the cost of capital.</p> <p>An asset schedule with assets starting at above a reasonable value shall be provided. This would help understand the value of the main investments (gross, net), the depreciation rates being applied and their cost allocation (if applicable).</p>
<p>Have any assets been sold and what has been the treatment of the proceeds?</p> <p>Has the asset base been properly adjusted for the sale?</p>	<p>Airlines need to understand the treatment of the proceeds of any assets sold during the period (i.e. whether the difference between the price and the net book value of the asset sold has been taken into account when setting airport charges).</p>
<p>In a dual/hybrid till airport, what is the value of the regulated asset base (RAB) and how has it been calculated?</p> <ul style="list-style-type: none"> <li>• What is the methodology for allocating assets between regulated and non-regulated assets?</li> <li>• In particular, how common used infrastructure assets have been allocated?</li> <li>• Which allocation keys have been applied?</li> <li>• What are the resulting amounts?</li> </ul>	<p>The assets have to be properly assigned (aeronautical /commercial in a hybrid/dual till airport) and their value correctly reflected for the year.</p> <p>Allocation keys for common used infrastructure need to be adequate and are often based on space (sqm). The approach though may vary which is why details have to be made available to airlines</p>
<p>Has the evolution of the asset base been properly explained?</p>	<p>It is important to understand what is affecting the evolution of the asset base over time (investments, depreciation, sale of assets, other adjustments, etc).</p>
<p>Does the asset base (for cost of capital calculations) include "assets under the course of construction"?</p>	<p>Including assets in the course of construction as part of the asset base (for cost of capital calculations) would constitute prefunding, and it is important for airlines to understand if the airport is proposing such an approach.</p>
<p><b>COST OF CAPITAL</b></p>	
<p>Which is the methodology used for the determination of the cost of capital?</p>	<p>Due to a high proportion of fixed cost driven infrastructure the cost of capital of an airport or an air navigation services provider can have a significant impact on the level of charges. It must be agreed with the airlines and set using fair judgment and transparency at a reasonable level. Fair judgment, transparency, consideration of the specific market situation and consideration of recent relevant precedent from established regulatory bodies are key in overcoming the inherent</p>



Information requirement	Justification
<p>Have the parameters used to determine the Cost of Capital been explained and justified?</p> <p>For instance, in case of the WACC methodology the following needs to be provided:</p> <ul style="list-style-type: none"> <li>• How is the Risk Free Rate determined?</li> <li>• How is the Debt Premium determined?</li> <li>• What was the input for the determination of the Market Risk Premium?</li> <li>• How has the asset/equity beta been determined?</li> <li>• Which gearing rate is applied and why?</li> <li>• Which Tax Rate is applied?</li> <li>• How is the WACC expressed?</li> </ul>	<p>challenges involved in airports and airlines agreeing a cost of capital.</p> <p>The <b>Risk Free Rate</b> is normally reflected through secure government bonds of a defined duration of the country in which the airport operates. Details need to be provided on:</p> <ol style="list-style-type: none"> <li>a) Whether the country bonds used as the basis for the rate can be considered as 'risk free'</li> <li>b) definition of the duration of bonds (1, 5 or 10 years generally) and</li> <li>b) the forward rate applied.</li> </ol> <p>The airport needs to be transparent how the rate is determined as it could be expected that it chooses the least expensive method of financing, which can be expressed with short term or long term bonds, depending on macroeconomic circumstances.</p> <p>The <b>Debt Premium</b> considers the risk of an airport above that of the risk free bond rates. As airports operate in a low risk environment, the surcharge is usually not significant. A generally accepted approach is to compare the airport with other companies of similar risk structure and similar credit rating, then using the average and subtracting the Risk Free Rate. An overview of the companies selected for the benchmark needs to be provided to ensure that only comparable companies are selected.</p> <p>Airlines need to be made aware if the Risk Free Rate and the Debt Premium have been used in combination with the gearing under consideration of the tax shield to calculate the cost of debt.</p> <p>Transparency has to be ensured on the <b>Market Risk Premium</b> as to what has been used for the determination of the rate.</p> <p>As the <b>equity beta</b> is derived from the <b>asset beta</b>, the latter is usually determined first. To compare the variations of the airport business segment over the general market, the approach to determine the actual business segment is important. A careful approach is necessary to identify comparable airports with a comparable traffic structure, region and growth rates, which is why this information is necessary to understand how the airport has calculated the beta.</p>



Information requirement	Justification
	<p>In addition, airports can be and are often compared with utilities where public information on beta values is more often available. Airlines need to understand if utilities have been considered for the beta value determination and if not why.</p> <p>Furthermore, it is important to understand if the tax rate has been included when determining the equity beta (as it allows to adjust for the tax benefit provided by the gearing of the company).</p> <p>As the determined value is important, the company has to provide information which gearing has been used and why.</p> <p>The applied tax rate shall always be mentioned as it is an important element in the calculations, impacting the WACC.</p> <p>It is important to understand if the calculations are done including an inflation component, i.e. expressing a nominal WACC and the source of the applied inflation rate should be made available for airlines.</p> <p>The difference between pre- and after tax WACC is significant, both values have to be expressed for clarity.</p>
<p>What is the basis used to determine the cost of capital?</p> <ul style="list-style-type: none"> <li>• Fixed assets?</li> <li>• Long term assets?</li> <li>• Long term assets + working capital (current assets - current liabilities)?</li> <li>• Is cash &amp; equivalents being included?</li> </ul>	<p>The cost of capital is a major cost component and every information how the calculation is done is thus important.</p>
<p>Any other adjustments?</p>	<p>Have there been any adjustments to the RAB on which the WACC is applied? This information is relevant as it drives the cost of capital.</p>
<p>In case of dual/hybrid till, has a distinction been made between the aeronautical and commercial beta?</p>	<p>As an expression of risk over the general market, the separated beta value of the airport accounts for the different risk profiles of the aeronautical and commercial business areas in a dual till environment.</p>



Information requirement	Justification
<p><b>TRAFFIC FORECAST</b></p>	
<p>What is the method used for forecasting future traffic? Have specific assumptions on traffic forecasts and enough granularity on traffic numbers been provided?</p>	<p>The traffic forecast is a major element in the charges determination and detailed information on underlying assumptions have to be clearly explained.</p> <p>While a one year forecast is often less demanding, a multi-year charges period requires multi-year forecasts which are more challenging. It is important that the airport provides all information on how it has calculated future traffic.</p>
<p>How accurate had previous traffic forecasts been?</p>	<p>To understand the level of accuracy of the forecast, the correctness of previous forecasts has to be considered, which is why this information has to be provided.</p>
<p>Who had been involved in the forecast?</p>	<p>Traffic is driven by the airlines' passenger growth. It is therefore important to know who has provided data for the traffic forecast of the airport and how this has been taken into account in the airport's forecast.</p>
<p><b>REVENUES</b></p>	
<p>What is the detailed revenue per charges category (Landing &amp; parking charges, Passenger charges, Security charges and Others)?</p>	<p>As under current regulation Article 7d, the revenue of the different charges has to be explained. It is important for airlines to understand how the different charges relate to the cost and return situation of the airport.</p> <p>As with costs, revenues have to be provided for different periods (past, present and future) in order to understand the forecasting accuracy of past years and to anticipate future developments with the possibility for mitigation. Mitigation for anything such as revenue shortfalls versus plan or cost increases versus planned cost cannot be done without transparent information on both.</p>
<p>In a dual/hybrid till airport, what is the commercial transfer?</p>	<p>As the airlines provide a dual till airport with the customers to develop commercial opportunities, it is common practice that a portion of the commercial</p>



Information requirement	Justification
	<p>profits is shared with the aeronautical business in terms of a transfer to reduce the charges level.</p> <p>In this regard, airports need to explain to what extend and using which method of calculation a transfer has been planned and where this is expressed in the level of charges.</p>
<p><b>STRUCTURE OF CHARGES</b></p>	
<p>Are any changes planned in the structure of charges</p>	<p>Changes in the structure of charges must be explained and justified.</p>
<p><b>LEVELS OF SERVICE</b></p>	
<p>What is the defined level of services the users are paying for?</p> <p>Are any mechanisms in place for the case defined service levels are not met?</p>	<p>As the level of services is directly linked to the cost of providing services, the information on all services levels and how they are met is required.</p> <p>As the defined level of service determines the level of charges, any deviation in the service level must be explained to outline the impact on the charges. (ACD article 9).</p>



## ANNEX 3

# Airport Infrastructure Investment - Best practice consultation

### Introduction

---

As airports are only built to serve as aviation infrastructure enabling airlines to operate, airlines are the primary customers of airports and a major source of revenue for airport authorities and operators, ancillary industries and services.

A direct cost relatedness exists between airport charges and infrastructure investments that airlines fund, whether capital or operating expenditures. Airport infrastructure investments therefore need to be affordable, fit for purpose and deliver a return on investment for airlines.

Investments should only proceed where a clear Business Case exists, supported by a positive cost benefit analysis and the explicit agreement of airlines.

Meaningful and effective airline community consultation is essential to align airport – airline infrastructure objectives, secure airlines buy-in and maximize the benefits of infrastructure investments.

The alternative will result in disparate, uncoordinated strategies and investments that are incorrectly prioritized, mistimed, and neither functional nor cost effective. Inefficient or poorly planned airport development adversely affects traffic growth and the broader economic benefits the airport delivers.

Ultimately an airport's goal should be to enable the success of airlines to ensure the economic benefits for all parties are maximized.

### Objectives and benefits

---

Best practice airport-airline community consultation should achieve the following objectives:

- A phased, prioritized and flexible capital investment plan agreed and endorsed by airlines, resulting in clearly defined airline benefits and affordable airport charges;
- Cost efficient infrastructure investment that is demand led, fit for purpose and delivers best value for airlines;
- Investment plans that are compatible with the airport's Master Plan taking account of longer term developments;
- A transparent consultation process that values airline inputs, works towards consensus and results in informed decision making; and
- Equitable treatment, non-discrimination and open access resulting from airline community consultation and adoption of ICAO mandated principles.



The benefits of best practice airline community consultation are clear:

- Business Cases that clearly demonstrate a return on investment for airlines. Project investments should only proceed that result in operating cost reductions and efficiencies with the airline community's agreement i.e. a reduction in operating cost per passenger;
- Airport development plans phased to balance capacity with demand to avoid over or under investment and supply;
- Infrastructure that meets the airlines' functional airport passenger and operational requirements;
- Improvements in passenger experience and airport service quality taking account of alternative innovative solutions and technology;
- The support and buy-in of airline customers;
- Airport investments that are independently benchmarked and demonstrate assurance and value for money to airlines;
- Resilient investment plans phased to minimize operational disruption during construction;
- Open access to facilities and services at an agreed minimum service standard and lowest possible cost;
- Infrastructure designed to be flexible and adaptable, safeguarded for modular expansion and able to accommodate changes in functionality over time; and
- A quality check with airline subject experts that investments deliver the intended outcomes taking account of industry best practices.

### **Scope of investments**

---

The scope of infrastructure consultation is broad ranging and should include the following elements:

- Airport Master planning;
- Airside infrastructure i.e. runways, taxiways, aprons, stands and gates;
- Passenger terminal i.e. departure forecourt, check-in or baggage drop hall, passenger security, emigration and immigration, airside departures lounge, retail concessions, piers, stands, gates, jet bridges, arrivals hall, baggage handling systems, wayfinding;
- Surface access within the airport boundary i.e. roads, car parks, rail, sea;
- Cargo terminal developments;
- Airport support elements; and
- Asset replacement.

### **Best practice consultation and governance**

---

User consultation is essential from an early stage in the infrastructure development process before irreversible decisions are made:

- Identify the common airlines-airport business drivers that form the basis of the investment plan;
- Agree an affordable capex threshold for investments considering airport user charges;
- Establish an airport-airlines consultation Governance structure that ensures timely and well-informed decisions with airline inputs;
- Capture airline functional requirements and agree planning inputs and assumptions; and
- Analyse the positive and negative effects on Airports operating expenses.



A jointly agreed airport-airline community Governance structure is required that ensures a structured and planned approach to consultation. This should also include:

- Meaningful discussions between subject matter experts experienced in airport infrastructure planning, airport charges and commercial areas, who are empowered to take decisions;
- Clear objectives, decision making and alignment between steering groups and working groups;
- Terms of Reference (Tour) for each working group including objectives, scope, accountabilities, frequency, attendees, and dependencies with other work streams;
- Sufficient time for consultation dialogue typically between 6-12 months before business plans approvals;
- Meeting schedules agreed in advance to ensure airline subject experts are able to attend and a structured approach is implemented.

A Consultation “protocol” or “charter” setting out the behaviours required for effective consultation:

- Work towards airport-airline community consensus decision making;
- Transparency is a critical aspect of any commercial agreement between airport providers and airline customers;
- Commitment from airport and airlines to provide the necessary resources to participate in a regular, structured dialogue; and
- A “Constructive Engagement” based on mutual respect, collaboration, openness and trust between business partners.

### **Infrastructure planning process**

Airport infrastructure development is iterative and requires a regular, ongoing dialogue with the airline community. “One-off” or irregular meetings updating the airline community on pre-determined outcomes does not constitute consultation.

IATA recommends capital investment programs should cover the short (0 – 5 years) to medium (5 – 10 years) terms and be reviewed annually.

Consultation with the airline community is required at key decision points by engaging the airline community in a timely manner at the relevant stages of the planning process.

Consideration should be given to identify break points in programmes and projects should demand not materialise as anticipated.

### **Programme level consultation**

Programme management is recommended to provide an overview of project investment activities and to align airport and airline objectives in order to:

- Prioritize projects depending on airlines willingness to fund investments considering airport charges;
- Provide an overview of constructability and project phasing to minimize operational disruption;
- Identify key milestones supporting informed airport-airline community decisions;
- Ensure projects align to business plan objectives;
- Address major changes or resolve any escalated issues;



- Monitor and track the performance of multiple projects to support successful delivery; and
- Manage project risks across multiple projects.

Programme and project assurance is important to assess the reasonableness of all key decisions made on selected projects. Independent third-party checks to assess at key stages in the development process is recommended.

Project Business Cases should be developed in parallel with the key design and development stages to analyse costs, benefits and ensure the intended project outcomes are on track.

Setting criteria to determine which projects are targeted for airline community consultation is recommended:

- Capital threshold above a certain monetary value threshold;
- Project scope and/or complexity;
- Project timeframes;
- Airlines impact; and
- Strategic impact.

#### **Project level consultation**

Best practice requires airports to consult with the airline community at key stages common to most projects. Noting different project processes and terminologies exist this typically includes:

- Initiate/Concept stage – agree investment objectives and identify project options;
- Options Selection stage– identifies design solutions and how project benefits will be delivered.
  - Estimated 50% cost and design certainty;
- Scheme Design stage – development: of the preferred option:
  - Estimated 85% cost and design certainty; and
  - Fixing project costs and programme is recommended;
- Implementation and Delivery phase – construction and engineering works focusing on implementation and delivering the agreed benefits and outcomes:
  - Operational Readiness and Airport Transfer (ORAT) is a critical project element to involve Users in.

“Gateway” events for each of the key project stages consulted upon with airlines are required as a prerequisite to progressing to the next stage of feasibility:

- A review of technical solutions and the Business Case;
- Airline queries or issues should be fully resolved before moving to the next stage; and
- A formal sign-off based on airline community consensus.



### **Business case consultation**

The purpose of a project Business Case is to clearly set-out all relevant information as to why the project is required, what benefits will be achieved for airlines typically funding the investments, and alternatives available to airlines. A detailed cost-benefit analysis is required to clearly demonstrate the monetary return on investment for airline stakeholders.

Typical elements of the Business Case are:

- Project justification or need i.e. capacity development projects should be clearly linked to passenger growth or defined Levels of Service outcomes agreed with the airline community;
- Link to strategic objectives and the master plan;
- Expected benefits and outcomes;
- Capital costs associated with constructing the infrastructure;
- Operating costs for airlines and airports. Capital investments should result in efficiencies and lower operating costs;
- Depreciation – the rate at which assets reduce in value and its cost is re-allocated over its useful life in-line with industry norms;
- Project dependencies;
- The impact on aeronautical and non-aeronautical charges; and
- Assurance that existing assets are being used as efficiently as possible.

### **Efficient airport investments**

Capital investments should aim to deliver cost efficient outcomes by optimizing a project's scope, specifications, time, costs and risks supported by a well-managed, structured development process.

Investments should take into account what is being constructed, how it is being constructed, and when facilities are required, in addition to capital cost benchmarks. The airline community should be closely involved in agreeing the optimum balance between elements that have a material impact on costs and the efficiency of the solution:

- Scope – ensure the functional requirements of airlines are captured and Business Case benefits are delivered;
- Specifications – airlines require functional airport facilities that deliver their required levels of service at the lowest possible cost. Over-specifying terminal finishes is to be avoided;
- Timeframes – efficient project delivery focused on the beneficial use of assets for airlines, taking account of construction phasing to minimise airline and operational disruption;
- Procurement and contracting strategy – selecting the appropriate tendering and contracting strategy to maximise the efficiency of projects and purchasing power of airports;
- Capital costs – benchmarking and independent checks by a third party to ensure estimates are in-line with the market; and
- A rebate mechanism should be introduced if assets are not delivered to the defined timeframes, at lower than the estimated costs, or when projects are delayed.



## **Common issues**

---

Airline and airport subject expert feedback highlights some issues to be aware of:

- Avoid done deals and “lip-service” consultation.
- Recognize airlines affordability and airport charges as a fundamental criterion.
- Avoid over specifying and “gold-plating” investments – consult with Users.
- Operational disruption – plan to minimise disruption during the construction phase.
- Project priorities – balance operational requirements with airport commercial revenues.
- Alternate options to optimize the use of existing infrastructure and “do-nothing” scenarios.

## **Supporting documents**

---

This paper provides a framework for other papers and related to airport infrastructure development:

- IATA Airport Consultative Committee (ACC) - Terms of Reference.
- IATA Airport Service Level Agreements (SLA) – Best Practice.
- IATA Levels of Service (LoS) – Best Practice.

Additional relevant papers and guidance materials supporting best practices are:

- ICAO Doc. 9082 – 9th Edition, paragraph 21.
- EC Airport Charges Directive 2009/12/EC.
- IATA Airport Charges - Transparency position paper.
- IATA Airline Engagement in Consultations position paper.
- IATA Airport Development Reference Manual (ADRM) – best practice airport planning manual.