

Airports & Air Navigation Charges Workshop

Airline Perspective

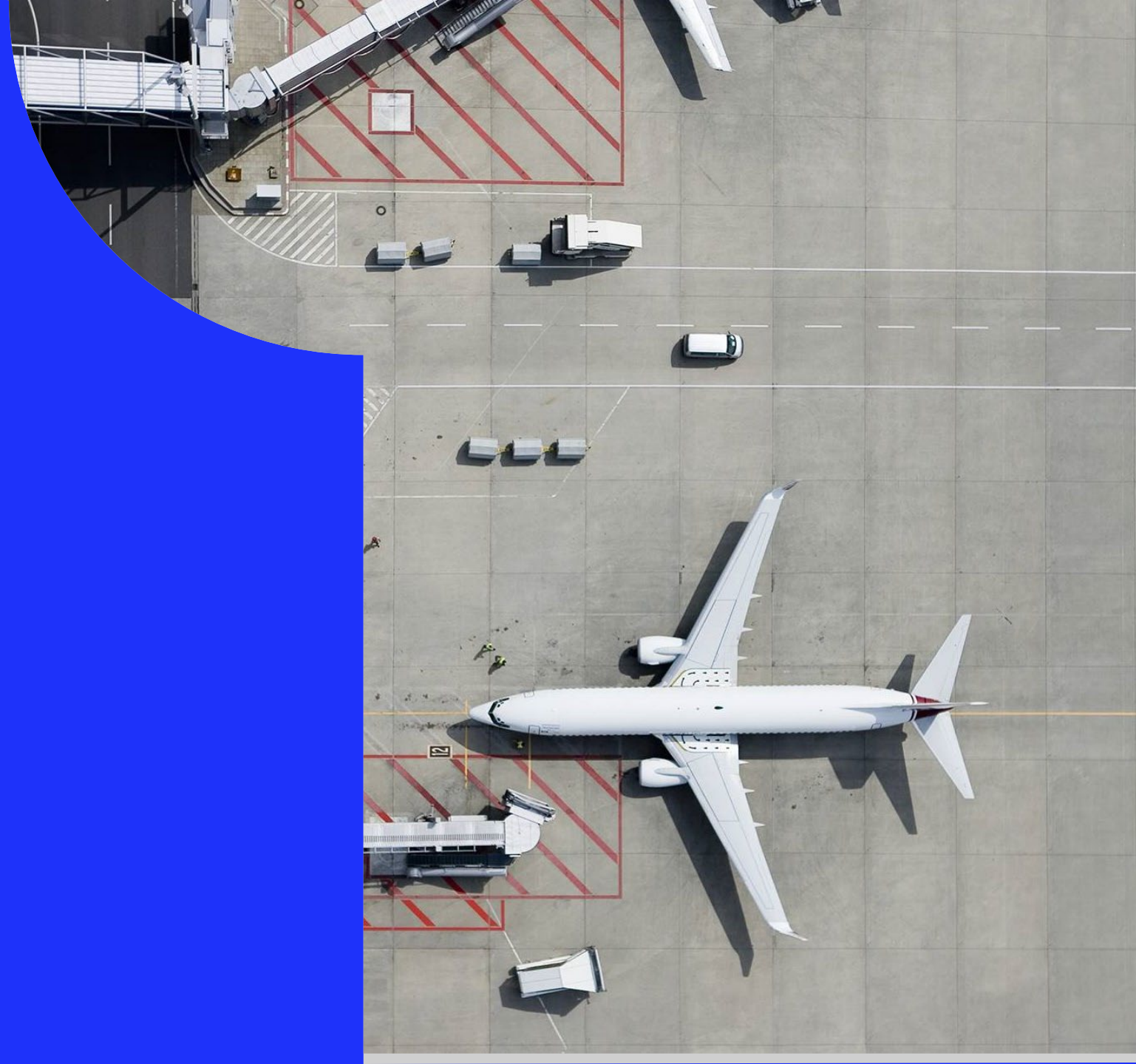
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Regional Manager, Charges &
Infrastructure

28 – 29 October 2024
Doha, Qatar



Introduction



Session Outline

- ✓ User charges | An industry priority
- ✓ Airlines perspective on the topic of user charges
- ✓ Value of aviation | A call for collaboration
- ✓ IATA's role | Governance | References | Guidance material
- ✓ Regional challenges
- ✓ Airlines expectations for a meaningful consultation
- ✓ Positive regional developments | KSA



The global trade association of the world's airlines

Founded in Havana, Cuba
in April 1945

IATA in Brief

330 passenger and cargo member airlines, representing **80%** of global air traffic

Vision

Working together to shape the future growth of a safe, secure and sustainable air transport industry that connects and enriches our world

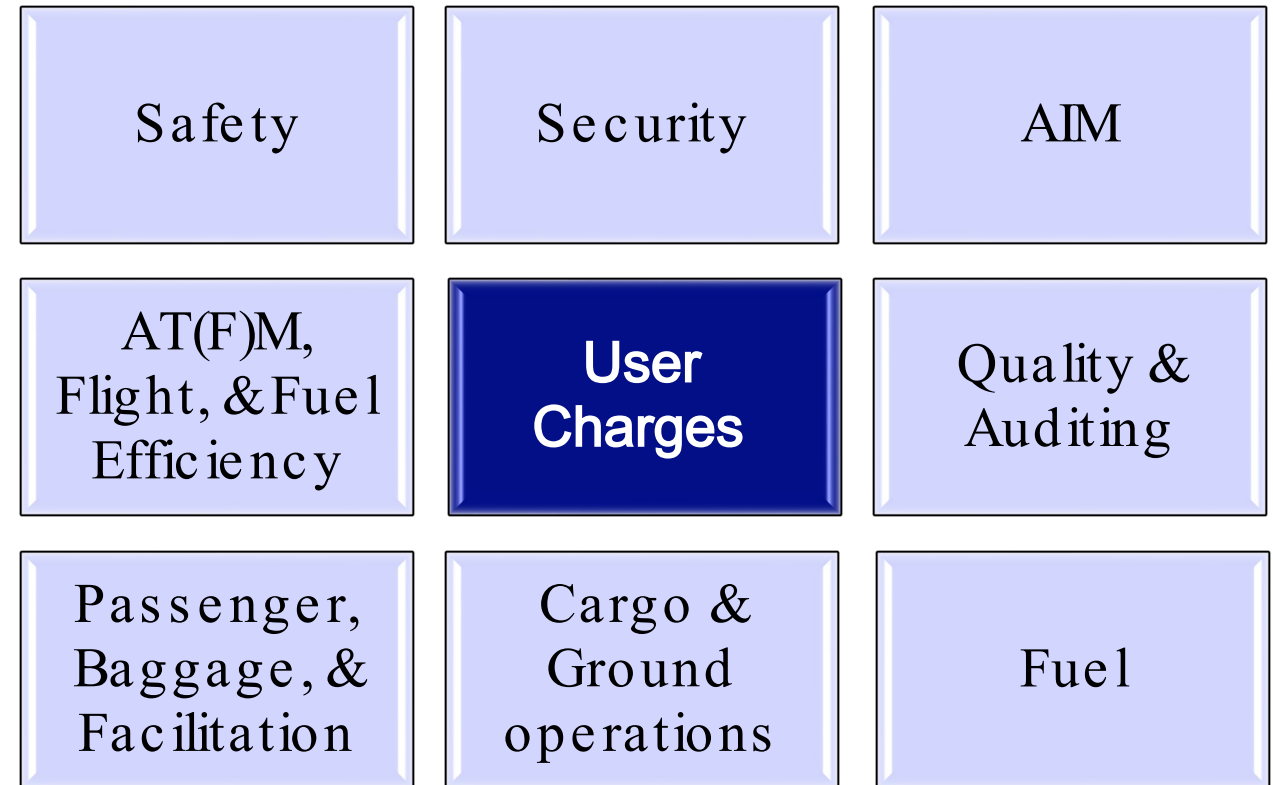
Mission

To Represent, Lead, & Serve the airline industry



User Charges | An industry priority

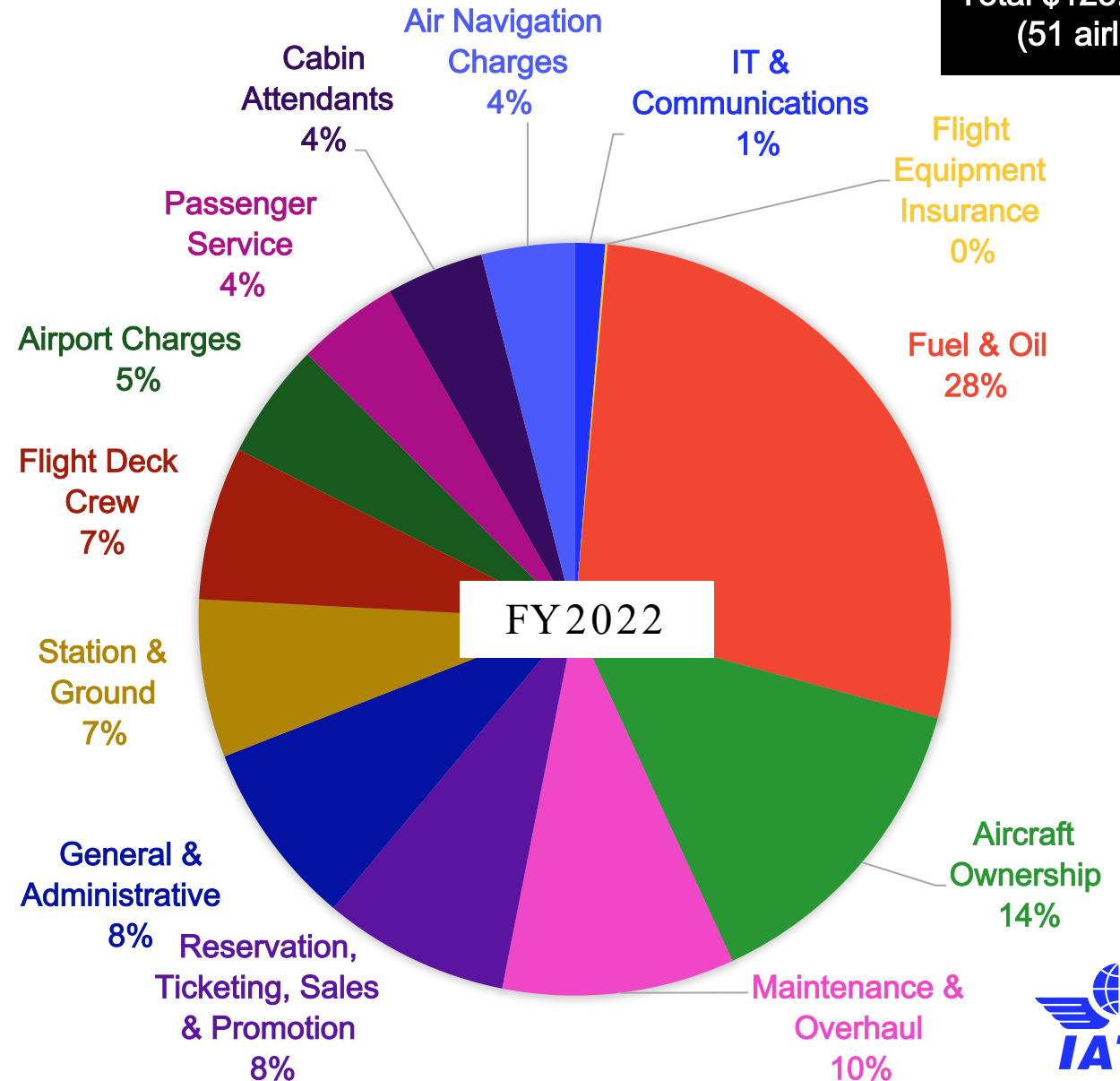
- ✓ IATA supports many areas of aviation activity and helps formulate industry policy on critical aviation issues
- ✓ Our mandates come from our Member Airlines steered through the Board of Governance (BoG)
- ✓ User charges is a top priority for our member airlines
- ✓ Global & regional working groups driven by our member airlines formulate our strategy for Airport and ANS charges



Airlines' Operational Cost

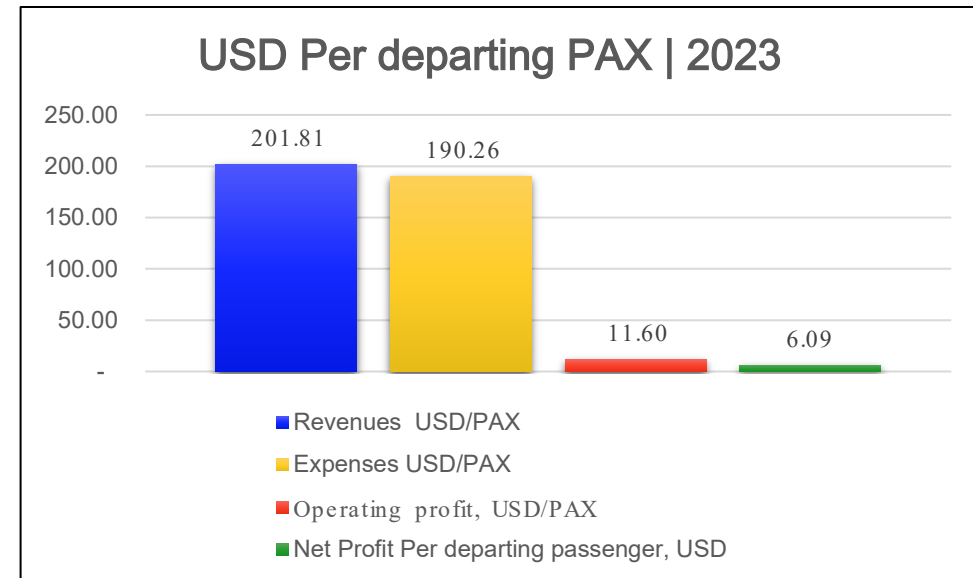
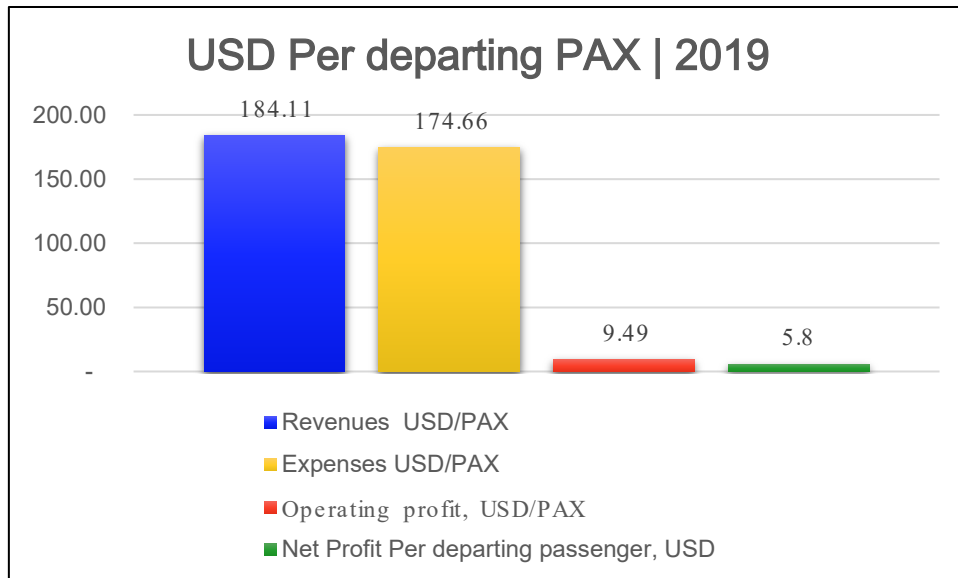
From a charges/service provider perspective, the impact/cost is at two folds:

- 1. Direct impact:** a significant contribution of 9% to airlines' operational costs (combined for both ANSPs & airports)
- 2. Indirect impact:** directly related to the service levels. An inefficient infrastructure will reduce operational efficiency & increase the contribution to airlines costs (e.g. more fuel burn = a higher cost)

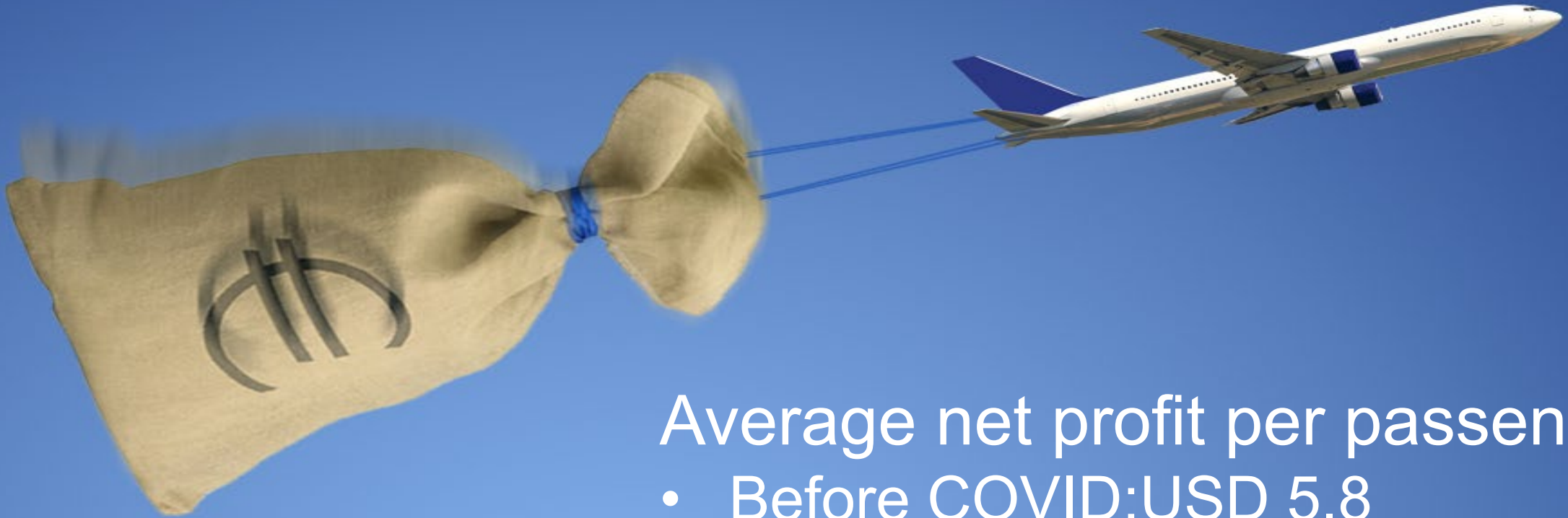


Airlines Financial Performance

Global airline industry	2019	2020	2021	2022	2023	2024F
Revenues, USD billion	838	384	513	738	908	996
Expenses, USD billion	-795	-495	-556	-727	-856	-936
Operating profit, USD billion	43.2	-110.8	-43.5	11.2	52.2	59.9
Net profit, USD billion	26.4	-137.7	-40.4	-3.5	27.4	30.5
Per departing passenger, USD	5.8	-78.38	-17.63	-0.99	6.09	6.14



Unjustified charges prevent the aviation industry from flying



Average net profit per passenger:

- Before COVID: USD 5.8
- Now: USD 6.09 @ its best

Value of aviation in Middle East

Jobs supported by aviation

3.4 million jobs

Total GDP supported by aviation

\$213 billion

Tourism catalytic GDP supported

\$87 billion

Annual passengers

206 million

% of global passenger traffic

4.6%

Annual air freight

6.6 million tonnes

Source: IATA / ATAG ABBB Report

28 October 2024



Common Interests Across the Value Chain

- Key interests are widely the same. Yet they need to be aligned and dimensioned.
- What everyone wants: Make money, good infrastructure, & independence.

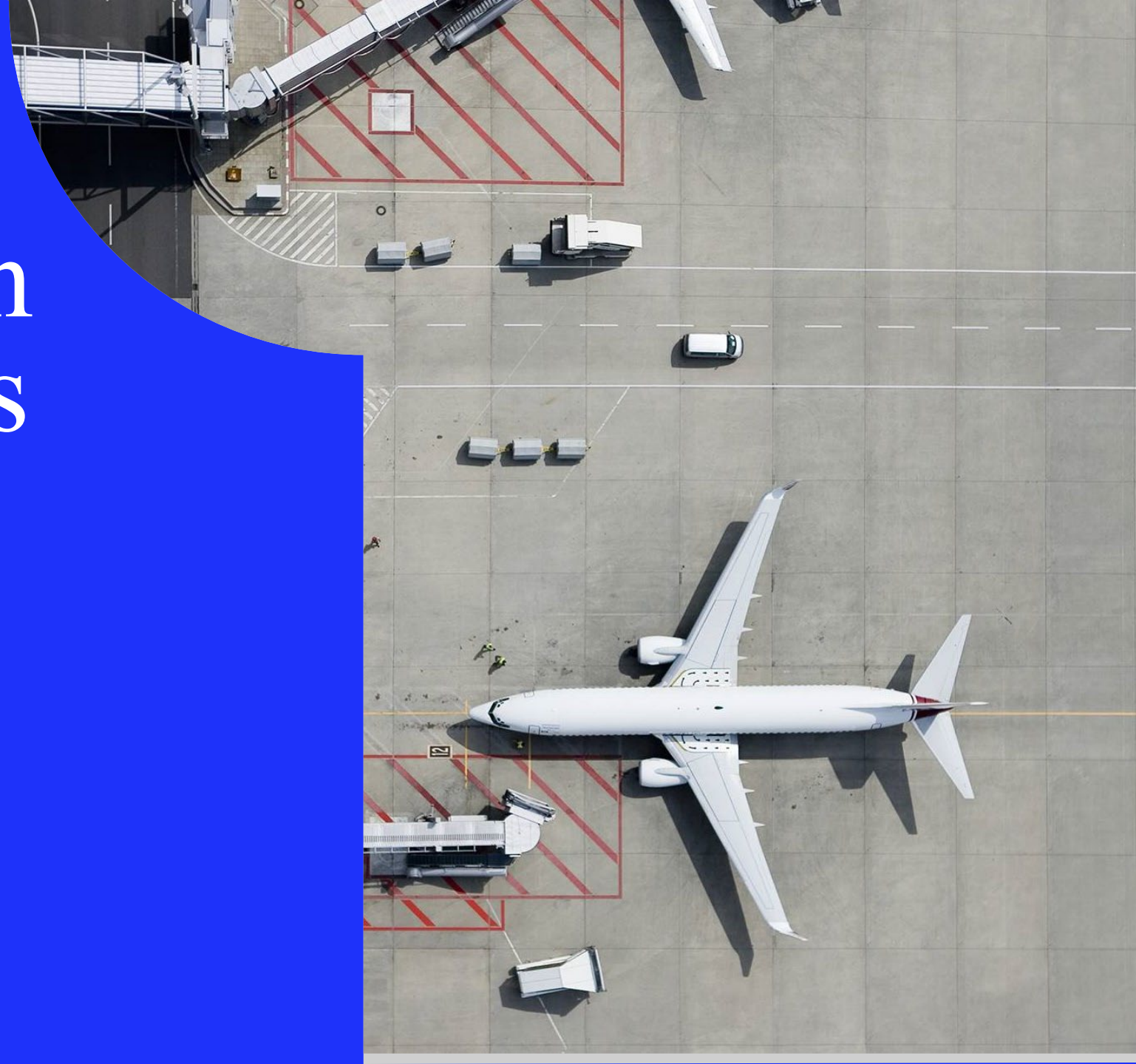
Government	Passenger	Regulator	Concessionaire	Airports / ANSPs	Airlines
<ul style="list-style-type: none">▪ Long term wealth growth• Happy public• Good infrastructure• Someone else to pay for investments• Connectivity• Funding	<ul style="list-style-type: none">▪ Wide choice of destinations• Affordable and safe travel• Good and accessible infrastructure	<ul style="list-style-type: none">▪ Independence from government interference• Sufficient staffing and competence• The means to regulate	<ul style="list-style-type: none">▪ To make money (to receive the best return on investment)• Little to no interference	<ul style="list-style-type: none">▪ To receive the funds to invest and to grow• To deliver the concessionaire's expectations and more (money)• Be free from interference	<ul style="list-style-type: none">▪ Good, safe and reliable infrastructure• Low charges• Strong regulator with independent oversight• Efficient airport/ANSP management

Collaboration is Key

- Each side has an interest in the financial well-being of the other.
- Understanding each other's perspective develops trust.
- It is not about who takes the bigger piece of the cake but to increase the size of the overall cake.
- Partnership will be tested in rough times. Good partnerships will always survive and grow.



IATA's Role in User Charges



What we do . . .

Airport & ANSP Charges

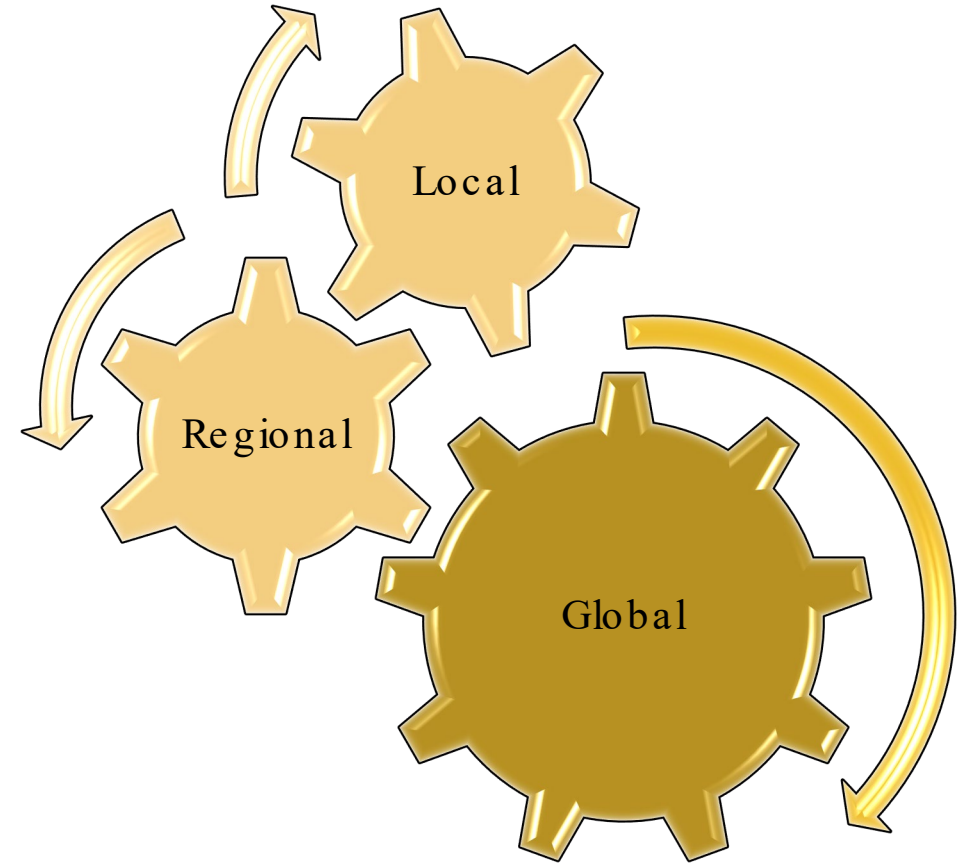
- Facilitate and represent member airlines in charges consultations (financial & operational)
- Assess cost increases & coordinate airlines feedback & user requirements
- Advocate for good economic regulatory practices

Infrastructure Development

- Objectives: Ensure that airport/ANSP projects gain early airline community involvement and produce facilities that are demand-led, fit-for-purpose and cost effective to develop and operate
- Scope: Airport/ANSP Campaigns (ACCs, consultations, peer reviews); Standard Setting (ADRM, ICAO, Position Papers); Technical Support (IATA Training, Consulting)
- Impact: Capex has a strong influence on airport/ANSP charges, passenger/airline experience, service quality and operational efficiency

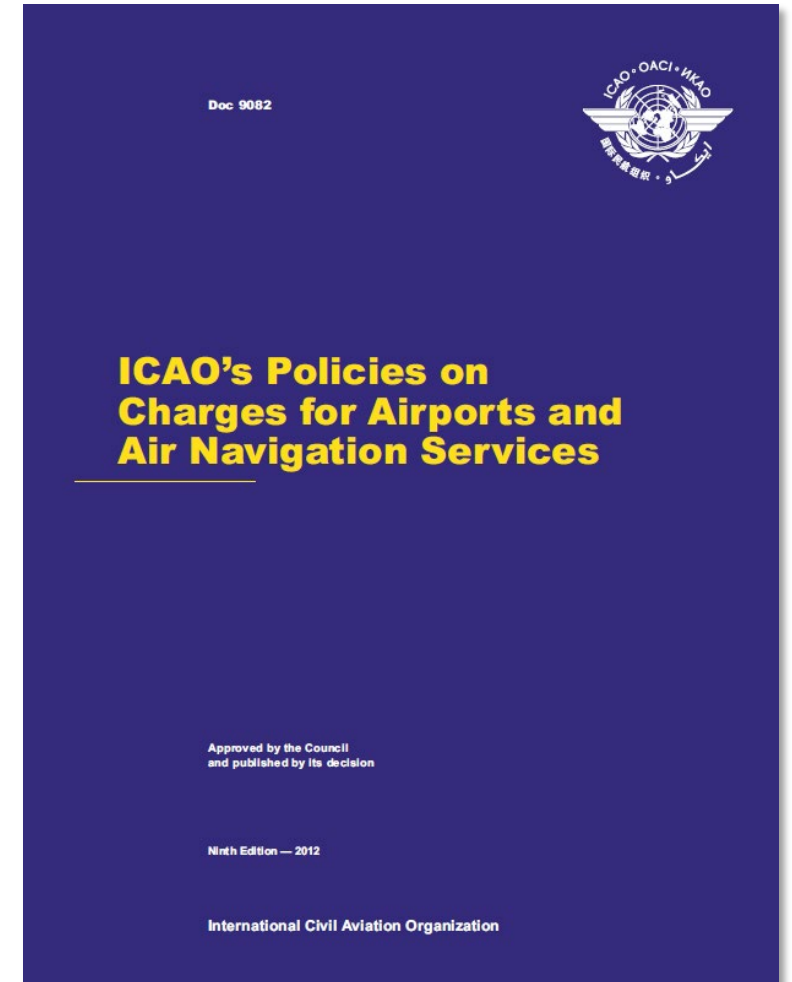
Our Governance Structure

- **Global Airports & ANSP Charges Working Group**
 - ✓ 15 members nominated by airlines
 - ✓ An advisor to Operations Advisory Council which reports to BoG
 - ✓ Develops global policies & decides on approach, direction, & prioritization of campaigns related to user charges, infrastructure developments, economic regulations, privatization, & operational improvements
- **Regional Groups**
 - ✓ Two working groups (Airports, ANSP)
 - ✓ Open attendance to all airlines
 - ✓ Reviews regional/ country specific issues based on airlines priorities & feedback.
 - ✓ Acts as advisor to AAWG in case of required changes in global policy



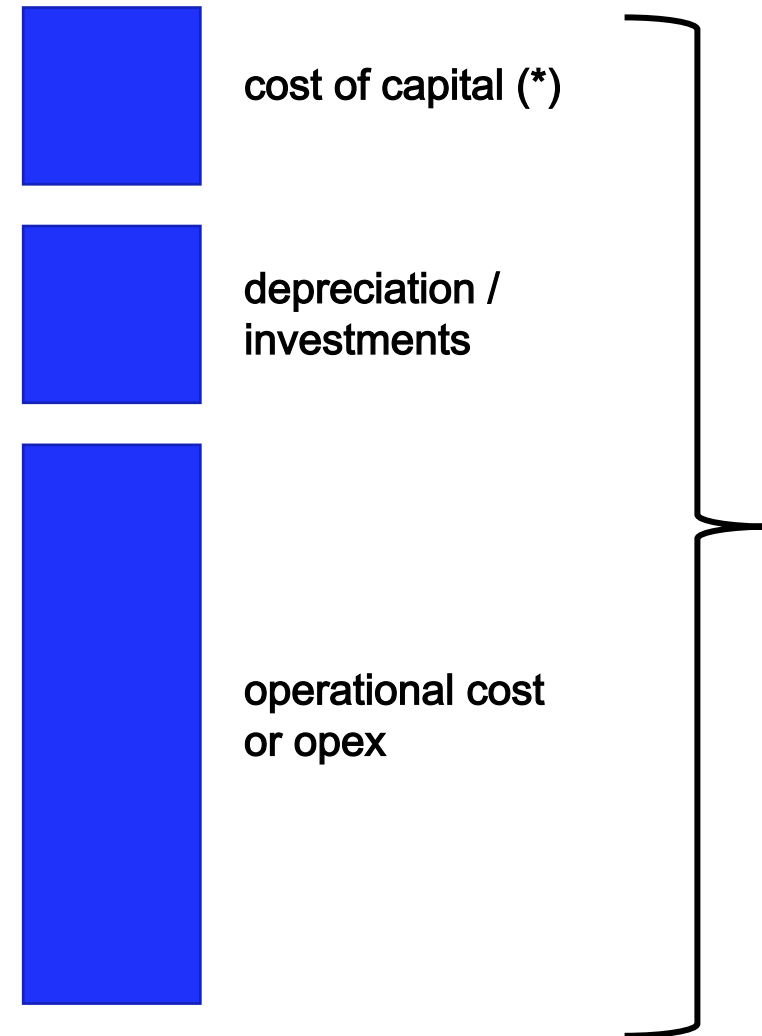
Our References

- ✓ ICAO Article 15 of the Chicago Convention represents the foundation of the charges framework
- ✓ Airports and ATC companies fall under the scope of the ICAO policies - guidance & framework.
 - ICAO Doc 9082
 - ICAO Doc 9161, Doc 9562
- ✓ Four key charging principles:
 1. Cost relatedness
 2. Transparency
 3. Non Discrimination
 4. Meaningful user consultation with 4 month notice
- ✓ Building block methodology for determining user charges



Building Block Methodology

- ✓ The building blocks define the total cost of the company related to chargeable services
- ✓ This concept is applied by many regulators when determining the overall charges level
- ✓ The company needs to be able to recover its reasonable cost and generate cash flow for investments
- ✓ Many ANSPs/Airports in the Middle East support the aviation sector and don't go for a full cost recovery model due to government subsidies. User consultations still take place to showcase the Governments' support for the aviation sector in full transparency.



(*) Other expressions: weighted average cost of capital or WACC, rate of return, allowed return, return on capital

Information Requirements | ICAO

- ✓ Traffic forecasts & assumptions
- ✓ Operating expenses
- ✓ Capital expenditure, asset value & depreciation
- ✓ Rate of return
- ✓ Planned investments & improvements
- ✓ Charging scheme, unit rate calculations

- ❑ To facilitate & ensure effective discussions, IATA created a template to be provided prior to user consultation meetings



Microsoft Excel
Worksheet

Financial Information	TRAFFIC						
	Actuals 2019	Actuals 2020	Actuals 2021	Actuals 2022	Actual 2023	Plan 2024	Plan 2025
Traffic development NUMBERS							
International Traffic (# passengers)							
International Traffic (#Movements)							
Domestic Traffic							
Traffic development ANNUAL GROWTH RATE							
International Traffic (# passengers)							
International Traffic (#Movements)							
Domestic Traffic							
Traffic development REVENUES							
International Traffic							
Domestic Traffic							
Notes:							
1 For 2023 please provide the most recent traffic actuals and indicate which months are included							
2 Please indicate if traffic for which payment is not received (bad debt) is included in the figures.							
3 Please indicate the traffic figures per category where payment is not received							

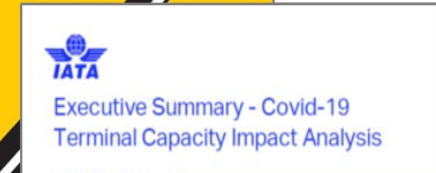
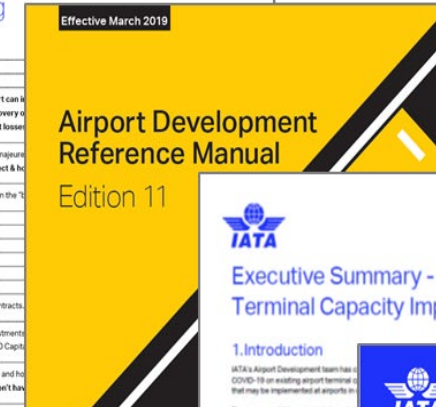
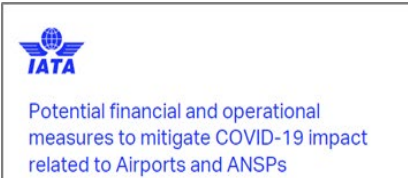
Available guidance & tools

- Position papers & guidance available to airlines and external stakeholders
- Available on:

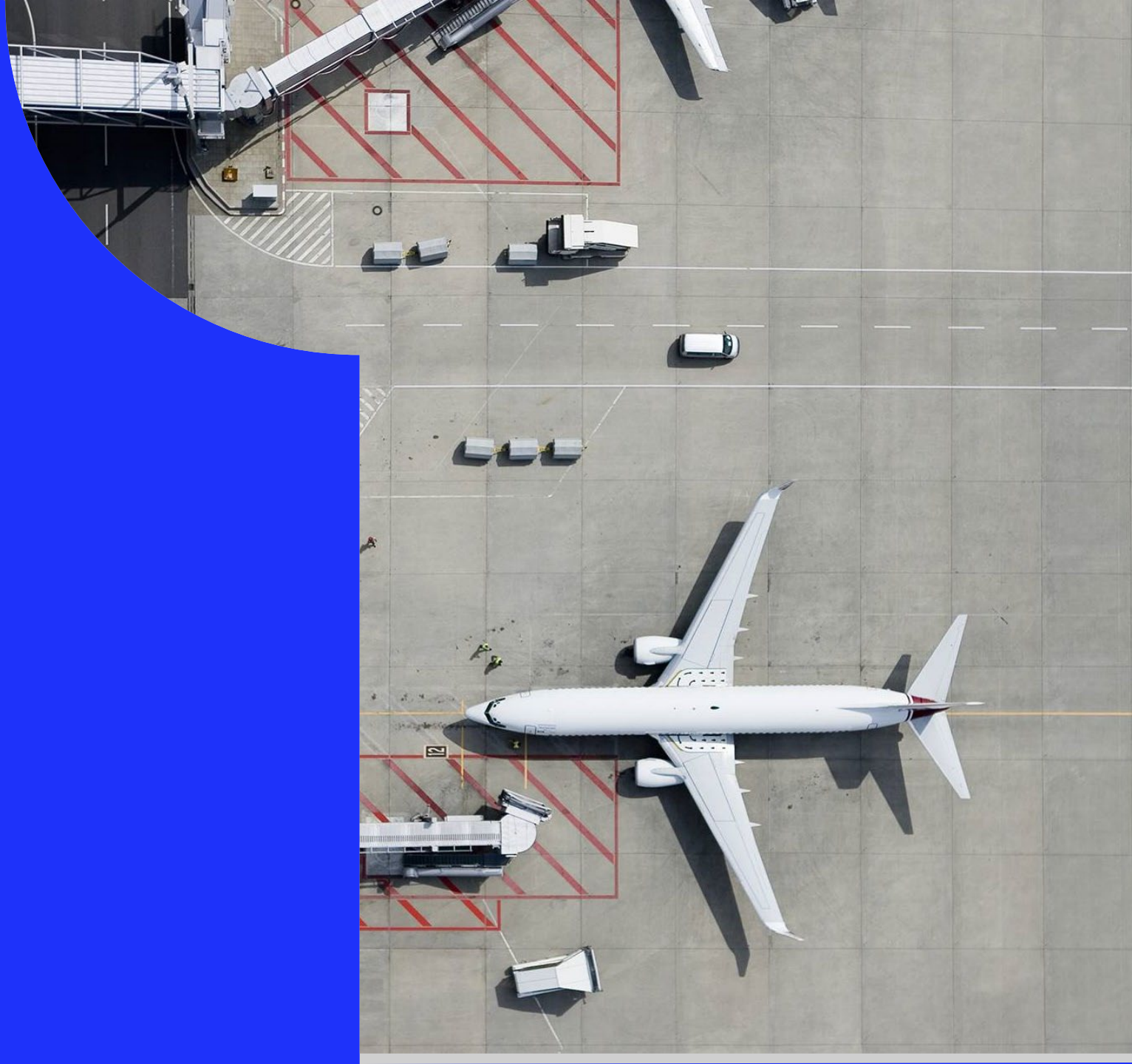
www.iata.org/airport-charges

www.iata.org/airport-development

www.iata.org/en/programs/ops-infra/air-traffic-management/air-navigation-service-charges/

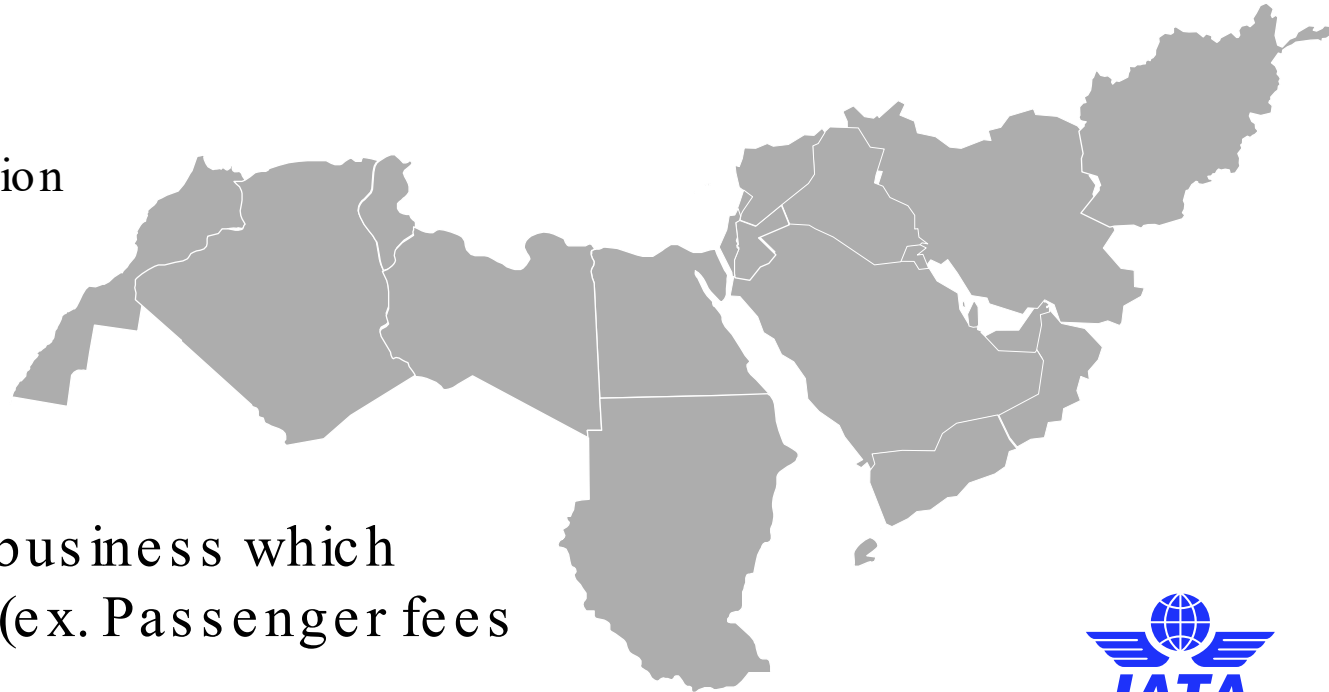


Regional Challenges



Challenges often faced in MENA

- Sanctioned countries.
- Complex decision making process (MoF, MoT involved).
- Lack of economic regulations & regulatory oversight.
- CAA playing a dual role. A service provider & a regulator.
- Lack of adherence to ICAO process standards:
 - No user consultations (Surprise!)
 - User consultations of poor quality
 - A tick in the box, no meaningful consultation
 - Limited transparency
 - Not cost related (cross subsidization)
 - Discriminatory
 - Done when it is too late
- Lack of understanding of the airlines business which results in implementation challenges (ex. Passenger fees & charges)



Airlines Expectations for Meaningful Consultations



Expectation 1 | A regulated environment

- ✓ An independent regulator
- ✓ Robust economic regulations for setting airports & ANSP charges inline with ICAO Doc 9082
- ✓ A clear & neutral dispute settlement mechanism for appeals

Economic oversight

12. States' exercise of their economic oversight responsibilities should be clearly separated from the operation and provision of airports and air navigation services, with roles and powers clearly defined for each function.

13. The main purpose of economic oversight should be to achieve a balance between the interests of airports and ANSPs, including government-operated providers, and those public policy objectives that include, but are not limited to, the following:

- Minimize the risk of airports and ANSPs engaging in anti-competitive practices or abusing any dominant position they may have;
- Ensure non-discrimination and transparency in the application of charges;
- Ascertain that investments in capacity meet current and future demand in a cost-effective manner; and
- Protect the interests of passengers and other end-users.

To promote these objectives, consistent with the form of economic oversight adopted, States should ensure that airports and ANSPs consult with users and that appropriate performance management systems are in place.

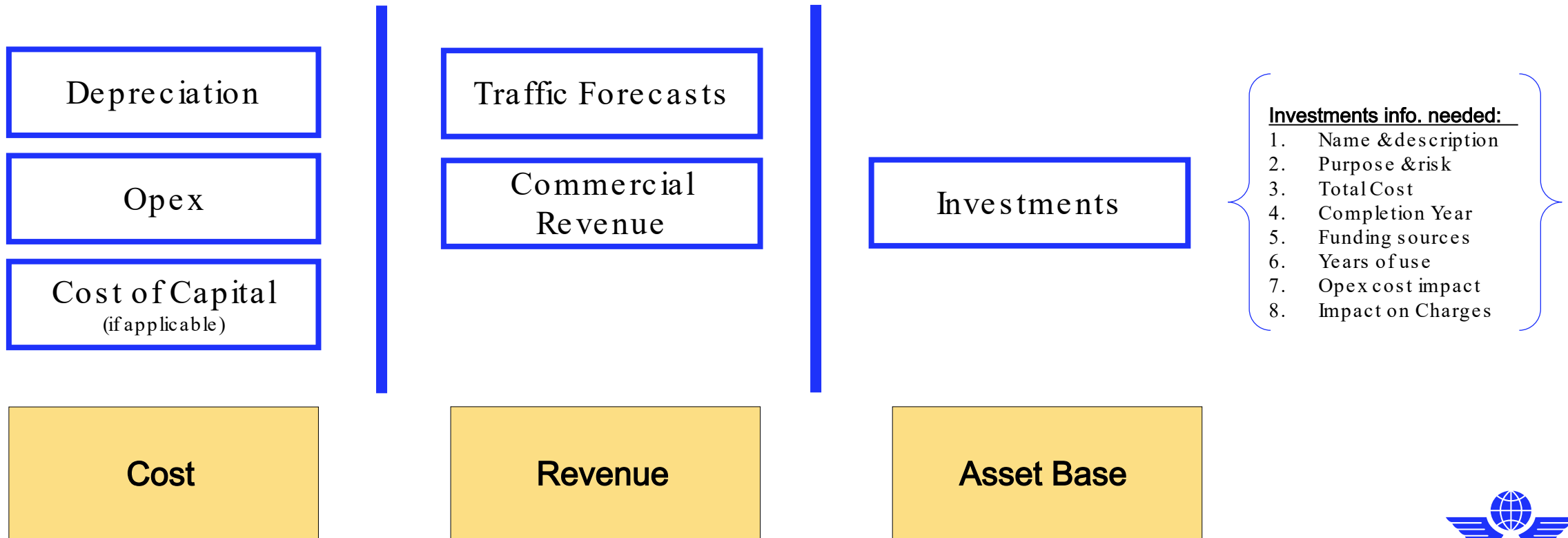
Expectation 2 | Transparency

- ✓ Transparency is an integral aspect of any progressive commercial relationship between a provider and its customers.
- ✓ Airlines need adequate information on major developments at airports/ANSPs, the rationale for any charge proposal, charge setting formula, and the methods used to establish values used in the formula.
- ✓ Key reasons why transparency is important:
 - ✓ An ICAO requirement.
 - ✓ Airlines need to know exactly for what they are paying for.
 - ✓ Providers & regulators need to justify the charges structure & demonstrate that the charges are cost-based and non-discriminatory in line with ICAO Policies.
 - ✓ A meaningful and productive consultation can only take place if airlines have enough detailed information to analyze.
 - ✓ Airlines need adequate information to evaluate the providers' future operational plans to ensure that the investment is cost effective and meets future requirements.



What is Transparency?

- ✓ Transparency can be seen as by how much does the provided information enable airlines to understand the proposal on prices/charges.
- ✓ IATA developed a simplified template with minimum data requirements to facilitate discussions.
- ✓ Transparency for financial, operational, and planning parameters is important.



Expectation 3 | Cost Relatedness

Airports / ANSPs should:

- maintain accounts that provide a satisfactory basis for determining and allocating the costs to be recovered,
- publish their financial statements on a regular basis,
- provide appropriate financial information to users in consultations.

States should ensure that Airports / ANSPs maintain their accounts, where appropriate in accordance with internationally accepted accounting standards, in a manner that ensures that airport/ANS charges levied on international civil aviation are properly calculated

Identification of
facilities & services
related to charges

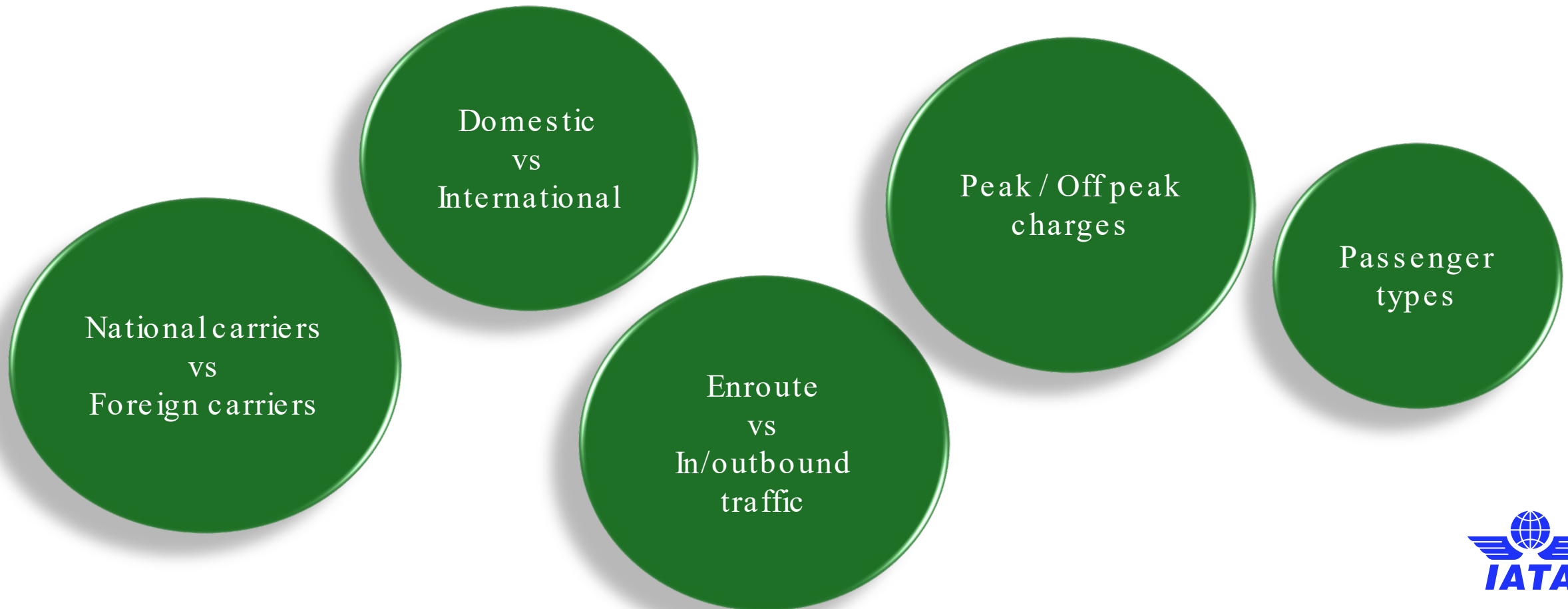
Separate accounts
per line of business/
service

Fair allocation of
shared costs

Pay as you use
(no cross subsidization, no
pre funding)

Expectation 4 | Non Discrimination

- ✓ Airlines / Passengers should pay their fair share for using a service
- ✓ Discrimination distorts competition as one group of airline users is subsidizing another group of airlines engaged in similar air operations.



Expectation 5 | Meaningful Consultation

- ✓ Multiple meetings (not a one-way informative session)
- ✓ Information shared ahead of time
- ✓ Consultative nature
 - ✓ Timing: Early before a proposal is made to decision makers
 - ✓ Responsiveness: Addresses raised concerns, implementation challenges..etc
 - ✓ Openness: Room for negotiations



Expectation 6 | Sufficient Notice

- Meaningful consultations are normally exhaustive and require adequate time.
- The minimum timeframe recommended by ICAO for a meaningful consultation is 4 months.
- Airlines budgeting cycle is usually in Q4 each year. Any unplanned charge increases would negatively affect their financial performance.
- As airlines sell tickets ahead of time, passenger related charges are very difficult to recover & airlines end up bearing the cost.



Positive Regional Developments



KSA | Introduction of Economic Regulations

- ✓ Strong leadership at State level.
- ✓ Vision 2030 with very ambitious targets for the aviation sector.
- ✓ The introduction of economic regulations was a regional breakthrough. The first and only State in MENA to regulate airport charges.
- ✓ Key features of the regulation:
 - ✓ A mandate to consult with airlines on airport charges **AND** on airport infrastructure investments.
 - ✓ Introduction of service of quality regulation.
- ✓ The effectiveness of the regulation will be tested upon implementation.



Thank you!

RWY AHEAD

A high-angle photograph of an airport runway. A large red rectangular sign with the words "RWY AHEAD" in white, bold, sans-serif capital letters is painted on the grey concrete. The sign is oriented diagonally, following the path of the runway. Yellow double lines mark the edges of the runway, curving around the sign. In the lower-left foreground, there is a series of yellow rectangular markings on the pavement, likely for taxiway guidance. The overall scene is brightly lit, suggesting daytime.