

IATA response to the Commission for Aviation Regulation Paper CP4/2003 of 7 November 2003 on the Interim Review of Airport Charges

1 Introduction

1.1 The International Air Transport Association (IATA) fully supports the economic regulation of airports. We believe such regulation not only encourages productivity and efficiency, but also prevents possible abuse from monopolistic and dominant positions. It is also necessary to balance the airports' possible objective to maximize profits with the airlines' requirements to minimize costs and provide necessary facilities and capacity. Regulation should challenge the airports to increase their efficiency and constantly reduce costs.

1.2 IATA therefore welcomes the opportunity to respond to the Commissions' interim review of the determination on the maximum levels of airport charges.

2 New traffic forecasts from January 2004

2.1 We believe the traffic forecasts being considered are too conservative and pessimistic. IATA passenger traffic forecasts indicate an average yearly passenger growth rate of 4.7% between 2002-2007. Our yearly forecasts for the years under consideration are:

2003 +4.2%
2004 +4.6%
2005 +6%
2006 +4.8%

3 Security cost base

3.1 We have concerns regarding:

- The upward adjustment in ART's regulatory asset base does not seem to be consistent with the stated depreciation figures.
- The inconsistency of the cost increases across the three airports.
- Why security staffing and overall costs need to increase above current 2003 levels.

3.2 We recognize that security requirements have increased following the events of "September 11" and heightened terrorist activities and threats. It should be noted, however, that these threats are against the State not the airlines. Governments should assume the responsibility and funding for security measures aimed at protection of the general public against the threat of terrorist action. The funding should therefore be borne by general revenues rather than airport charges or fees.

3.3 We note that other transport modes are not required to pay for security, and regard the imposition of such charges as discriminatory against aviation. In this context Governments should take into consideration the much wider economic and social benefits of airports and civil aviation. Airlines worldwide are already paying some USD 5 billion globally from the costs of extra security, including reinforced cockpit doors, air marshals, cargo and mail restrictions.

3.4 We have noted that some airports have previously included peripheral costs within, and on the back of, the justification of additional security requirements. We trust that the Commission has satisfied itself that the additional claimed ART costs are justified.

3.5 Security costs should not be considered as a relatively easy pass-through cost to the users. It should be noted the UK regulator recognized our concerns in this respect by allowing only 75% of identified additional security costs to be added to the cost base via the "S" security factors.

4 Regulatory cost base

4.1 We can support:

- Rolling forward of the RAB each year in line with inflation.
- Writing-off the cost of fixed assets on a straight-line basis over their estimated useful line.

4.2 We note however, there is a considerable range within each of the asset lives categories. We would like assurance that realistic estimated lives have been applied.

4.3 We are also concerned to note that the result of the indexation changes and exclusion of fully depreciated assets has increased ART's RAB by some 30% from September 2003. We interpret that the net asset figure has considerably increased as a result of significantly greater asset life assumptions. In these circumstances we would have expected a significant compensating reduction in the annual depreciation charge. We note however this has only reduced from EUR 58m to EUR 50m.

5 Currency denomination and calendar year

5.1 The move to a calendar year for regulatory purposes will be more appropriate and practical. We understand the requirement to change the currency denomination from Irish Pounds to Euros.

6 Correction factors and Computation of the X factor

6.1 We appreciate the requirement for the regulatory formula to ensure that ART collects the yield intended by the Commission's policy. We do not understand, however, the role of the calculation of the two different values of X and the "smooth evolution of yields". We are generally

suspicious of “smoothing” which implies artificial results that can impact on transparency. It would have been helpful to have the indicative values of X for 2005 and 2006.

6.2 It is generally accepted that airports are relatively monopolistic and low-risk enterprises. We believe the rate of return and X factors should reflect this situation. Airports are the providers of essential services and facilities to the airlines. Airlines operate in an increasingly competitive environment.

6.3 As a result the average passenger yield of IATA members has been reducing 2.5% yearly over the last five years. Unit costs have reduced some 2% per year over the same period. This continuous pressure on costs is necessary for survival.

6.4 As essential members of the industry value chain, we expect airports to make their contribution to this continuous drive for cost-effectiveness. We ask no more than our customers expect from us – better service at a lower price. We therefore expect the Commission to apply the most robust value of X possible that will continue to exert strong downward pressure on ART’s costs and charges. Against this background it should be noted that some 20 airports worldwide have reduced their charges saving our members USD 196m in 2003.

7 Methodology of the off-peak runway sub-cap and associated aircraft classifications

7.1 We are firmly against the use of peak/off-peak charging. The economic theory for better utilization of capacity and for “steering” demand is not necessarily applicable or relevant to the relatively low-risk monopoly provision of airport capacity. Such an approach only arbitrarily redistributes costs between different users. It is accepted that airlines generally have little opportunity to adjust to such a system in an efficient way due to the complex task of scheduling their operations.

7.2 We believe airport costs should be considered as joint costs to all users. It is difficult to allocate capacity fairly without influencing all users. All users should pay their fair share of the joint costs. An average cost pricing regime, within economic regulation, is considered the most transparent, fair and equitable charging regime.

7.3 We are still unclear for the reasons for using ACN methodology for variable off-peak charges per ton for landing charges. We are unconvinced of the justification for this method and do not believe it is appropriate. ICAO states a clear preference for MTOW charges, and we are unaware of any other airport applying this methodology.

7.4 We are willing to provide more detail regarding our concerns with ACN on request if the Commission considers this helpful.

Geneva 8 December 2003