

Transparency requirements for the determination of airport charges in the context of the EU Directive 2009/12/EC

Foreword

Airport charges account for a relevant proportion of airlines' operating 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 objectives of the Directive are to (i) to improve fairness in the process of charges setting, with the aim of improving the countervailing bargaining power of airport users, especially when dealing with airports with market power; (ii) contribute to fair competition between EU airports by the introduction of common charging principles; (iii) promote more transparent charging systems applicable to users of airport infrastructure; and (iv) generate sufficient revenues to maintain and complete airport infrastructure at an optimal level.

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.

Article 7 of the Directive outlines the minimum 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 on transparency requirements and therefore in many cases the current level of transparency at consultations does not allow for a proper assessment of how airport charges are set, preventing meaningful engagement between parties.

As outlined in the Commission's 2014 [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 was later confirmed in the Commission's 2017 publication of the [Inception Impact Assessment](#) which highlighted that "... at several EU airports, despite the Directive, the exchange of information between airports and airlines is still inadequate and/or the opportunity for airlines to influence airport charges is insufficient".

IATA believes that the Directive has not achieved its stated objectives, as its provisions have not prevented airports abusing their market power. The Directive needs to be replaced, in the form of a regulation, to address such failure. Among a number of needed changes, transparency requirements need to be further detailed in order to ensure meaningful consultations.

This paper provides guidance on what information is needed and why it is necessary as minimum for any meaningful consultation.

Introduction

IATA strongly advocates for more detailed transparency requirements as these will enable meaningful consultations on airport charges and support ISA's to carry out their duties.

This document provides an overview of the level of basic information necessary, in order to ensure a meaningful 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.

This document follows the building block methodology described in the ICAO airport charges manual, explaining and justifying the baseline information required in airport charges consultations. It aims to be neutral and provide sufficient transparency for airlines to assess the current/proposed level and structure of airport charges, as intended by the Directive. As such, the document does not reflect IATA's positions on the determination of airport charges (such as regulatory framework, regulatory till, methodology for WACC calculations, network charging, among others) which can be found on our website.

<https://www.iata.org/policy/infrastructure/Pages/index.aspx>

Detailed Transparency requirements for the determination of airport charges

Information requirement	Justification
GENERAL INFORMATION	
<p>What are the facility/services being covered by the proposed airport charges? What facility/services are NOT covered?</p>	<p>Facilities 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>This information is needed to understand the cost and revenue allocation among the airports in the network</p>

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Have financial information been provided on a per airport basis?	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. (Also: ICAO Doc 9082, para 2 ii) of Section II; Doc 9562 para 2.37)
Have annual reports, audited accounts and notes been provided?	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.
Has information on ownership structure been provided? Is the company listed on the stock market and what is the free float?	Ownership information is necessary to assess applicability of EU/government/state aid rules (other funding) and to understand potential transfer pricing.
Are the documents also provided in English and will the consultations also be held in English? Who is eligible to participate in the consultation process?	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.
OPERATING COST DETAILS	
<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"> • Staff cost (and number of staff incl. applicable allocation) • Maintenance cost • Information Technology cost • Utilities cost • Consulting or outsourcing cost • Other cost (e.g. rental) <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>Staff cost comprises the overall staff cost (direct and indirect) 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, out-/insourcing, internal allocation methods to share staff cost among business segments, etc.). Changes in staffing levels 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. Staffing vacancies should be displayed as the planned number often differs from actual staffing levels.</p> <p>Maintenance cost may have different cost drivers, and these must be understood.</p>

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	<p>Information Technology 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 utilities (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 also to anticipate future changes.</p> <p>Consulting/ Outsourcing 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 drivers for cost changes 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 c.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>

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<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 driven by competition. 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> <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>
<p>INVESTMENTS</p>	
<p>Has a detailed list of investments (and their justification) been provided, consulted upon and agreed with Users?</p> <p>What are the drivers for investments and what are expected outcomes?</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. Airport infrastructure development is iterative and requires structured, regular airport-Users consultation. IATA has developed industry best practice guidance to support meaningful consultation and transparency with airlines: https://www.iata.org/whatwedo/ops-infra/airport-</p>

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	<p>infrastructure/Documents/Airport-InfrastructureInvestment-Best-Practice-Consultation.pdf</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 consulted upon with all relevant stakeholders. This information must explain and justify why investments are required 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>
<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"> • How do actuals compare to previous forecasts? • Have airports included forecast in previous charges determinations depreciation/cost of capital for investments that were not made? 	<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.</p> <p>This relationship has to be transparent to airlines in order to avoid double charging.</p>

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<ul style="list-style-type: none"> • What is the plan of the airport in case of cost overruns for envisaged investments? • How shall cases be handled where investments are canceled, and budgets are reassigned? 	
<p>DEPRECIATION</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 internationally applied standards of accounting 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 timeline of investments, 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>

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ASSET BASE	
<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"> • What is the methodology for allocating assets between regulated and non-regulated assets? • In particular, how common used infrastructure assets have been allocated? • Which allocation keys have been applied? • What are the resulting amounts? 	<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>
COST OF CAPITAL	
<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</p>

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	<p>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 challenges involved in airports and airlines agreeing a cost of capital.</p>
<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"> • How is the Risk Free Rate determined? • How is the Debt Premium determined? • What was the input for the determination of the Market Risk Premium? • How has the asset/equity beta been determined? • Which gearing rate is applied and why? • Which Tax Rate is applied? • How is the WACC expressed? 	<p>The Risk Free Rate 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> <p>a) Whether the country bonds used as the basis for the rate can be considered as 'risk free'</p> <p>b) definition of the duration of bonds (1, 5 or 10 years generally) and</p> <p>c) the forward rate applied.</p> <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 Debt Premium 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 Market Risk Premium as to what has been used for the determination of the rate.</p>

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	<p>As the equity beta is derived from the asset beta, 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> <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"> • Fixed assets? • Long term assets? 	<p>The cost of capital is a major cost component and every information how the calculation is done is thus important.</p>

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<ul style="list-style-type: none"> • Long term assets + working capital (current assets - current liabilities)? • Is cash & equivalents being included? 	
Any other adjustments?	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.
In case of dual/hybrid till, has a distinction been made between the aeronautical and commercial beta?	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.
TRAFFIC FORECAST	
What is the method used for forecasting future traffic? Have specific assumptions on traffic forecasts and enough granularity on traffic numbers been provided?	<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>
How accurate had previous traffic forecasts been?	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.
Who had been involved in the forecast?	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.

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REVENUES	
<p>What is the detailed revenue per charges category (Landing & Take Off charges, 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 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>
STRUCTURE OF CHARGES	
<p>Are any changes planned in the structure of charges and if so why?</p>	<p>Changes in the structure of charges must be explained and justified.</p>
SERVICE LEVELS	
<p>What are the defined service levels are the users are paying for?</p> <p>Are there any mechanisms in place for the case defined service levels are not met?</p>	<p>As the service levels/quality are directly linked to the cost of providing services, the consultation and agreement with Users is required regarding all services level metrics, and how they will be measured and met. IATA has developed industry best practice guidance to</p>

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	<p>support meaningful consultation and transparency: https://www.iata.org/whatwedo/ops-infra/airport-infrastructure/Documents/airport-development-level-service-best-practice.pdf</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>