



**IATA submission in response to the
SAMFERDSELSDEPARTMENT Hearing on AVINOR's 2012
charges**

16 Sept 2011

This submission presents the response of the International Air Transport Association (IATA). IATA's mission is to represent, lead and serve the airline industry and brings together over 230 member airlines whose flights account for 93% of all international scheduled air traffic.

Overall, IATA strongly opposes the 6.4% airport charges increases being proposed in the SAMFERDSELSDEPARTMENT's hearing document. This is due to a number of concerns such as lack of transparency, lack of consultation, pre-financing, among others. The reasoning behind this conclusion is detailed below.

1) Concerns related to the lack of transparency and meaningful consultation

IATA considers that the hearing document lacks basic transparency. This is due to the fact that it limits itself to describe the new tariffs and their impact on revenue (excluding the traffic effect). It does not provide any meaningful financial projections for AVINOR (such as operating costs, depreciation, asset base projections, cost of capital, traffic, etc) that would be necessary to justify any such increases. As well, the document fails to provide any actions that AVINOR intends to implement in order to improve its cost efficiency over the forthcoming year.

It should be noted that ICAO's policies on charges is also clear in relation to the information to be provided at consultations processes: "... Users should be provided with transparent and appropriate financial, operational and other relevant information to allow them to make informed comments." (Para. 22 (ii)). IATA does not consider this fundamental element is being followed in this hearing process.

The only area where there has been a much higher level of transparency is on the ANS side. However, this is not due a voluntary gesture by AVINOR. Instead, this is due to the reporting obligations related to the Single European Sky legislation and the Performance Scheme.

2) Concerns over the potential explanations for differentials between decreases in ANS charges vs. increases in airport charges

It is of IATA's concern that ANS charges decrease in 5.6%, while passenger and landing airport charges are set to increase in 6.4% (excluding the effect of security charges, as this is a separate cost base). Given the lack of transparency and justification, it is worrying that such differences may be attributed to any of the following possibilities:

- 1) The lack of a cost efficiency target imposed on AVINOR for its airport operations (i.e. like the 3.5% per annum for the period 2012-14 being implemented under SES Performance Scheme), or
- 2) AVINOR is "recovering" the "lost" revenues from the implementation of the Performance Scheme targets through airport charges.

In order to avoid this situation from happening, IATA urges the SAMFERDSELSDEPARTMENT to impose top-down efficiency targets on the airport's cost base at least similar to those targets being applied on the ANS side.

3) Concerns of Pre-financing

The only hint of “justification” provided throughout the hearing document on why the passenger and landing charges are set to increase is related to the ‘financing needs’ of the capital expenditure program. This is not an acceptable due the following:

- ICAO's policies on charges (document 9082) is clear in stating that airport and ANS charges should only reflect the cost of providing the facilities and services being used. These costs are operating costs, depreciation, cost of capital minus contributions from non-aeronautical revenues.

The allowance for depreciation and cost of capital will ensure that any investment will be paid by users throughout the life of the asset as well as ensure a reasonable return on such investment.

None of this has been provided in the hearing document.

- AVINOR's largest investment is related to the expansion of its terminal/pier facilities (Pier North and Central Building West). The construction phase is meant to start in 2012 and the facilities are forecast for completion in 2017. As such, the only acceptable moment for costs to be included in the charges should be once these facilities are opened and actually being used by airlines/passengers (costs could then reflect the related depreciation, cost of capital).

Between 2012 and 2017 any financing needs should be covered through debt or equity, not charges.

- Based on the above, any increases in charges before 2017 related to this investment can only be considered as pre-financing. ICAO's policies on charges (paragraph 32) also set a series of specific conditions that need to be met before any pre-financing can be considered:

- i) Effective and transparent economic oversight of user charges and the related provision of services, including performance auditing and “benchmarking” (comparison of productivity criteria against other similar enterprises);
- ii) Comprehensive and transparent accounting, with assurances that all aviation user charges are, and will remain, earmarked for civil aviation services or projects;
- iii) Advance, transparent and substantive consultation by airports and, to the greatest extent possible, agreement with users regarding significant projects; and
- iv) Application for a limited period of time with users benefiting from lower charges and from smoother transition in changes to charges than would otherwise have been the case once new facilities or infrastructure are in place.

As a matter of principle, IATA and its member airlines do not accept the concept of pre-financing as users are being asked to pay for a facility that does not exist and can not use. However, if the SAMFERDSELSDEPARTMENT continues to consider such path, it should at least fulfill the conditions set in ICAO's document. In IATA's view, these conditions have not been met. As such, IATA urges SAMFERDSELSDEPARTMENT not to accept any pre-financing component to be included in AVINOR's airport charges for 2012.

4) Concerns over cross-subsides due to Network pricing

IATA has already written on previous occasions to the SAMFERDSELSDEPARTMENT highlighting that larger airports should not cross-subsidize the costs of usage of the smaller, regional ones. This follows the logic that airlines (and passengers) should only pay for the facilities they use.

Although users understand the State's aim to avoid significant charge increases, if the charges of each airport reflect their true costs, this should be achieved through direct grants, provided by the State budget (not AVINOR's) rather than by obliging users to cross-subsidize such airports.

5) Lack of justification in the proposed "split" of increases between landing and passenger charges

IATA does not accept the reasoning behind the split of charges increases between weight-related and passenger-related charges (i.e. in a way that the passenger related revenue increase 'cancels out' with the reductions from security charges). If the capital expenditure is related to terminal and pier expansions, then the logical cost driver is the number of passengers. As such, the increase should be reflected on those charges that are passenger-related and not weight-related.

6) Need to be consulted in the process of review of the regulatory framework for setting airport charges

IATA welcomes initiative to review the regulatory framework currently being applied for the setting of airport charges at AVINOR. In IATA's view, it is clear that the current framework is flawed and does not allow stakeholders to be part of a meaningful consultation process.

In this regard IATA asks the SAMFERDSELSDEPARTMENT to consult on any changes to be proposed to the regulatory framework and allow all stakeholders to provide their views about such proposals.

7) Conclusions

In conclusion, there are a number of unanswered questions (in relation to the landing and passenger charges increases) that raise significant concerns among airspace users. This can only be solved by providing the adequate level of transparency and inviting airspace users (domestic and international) to a meaningful consultation aimed to address these concerns. IATA urges the SAMFERDSELSDEPARTMENT to freeze AVINOR's passenger and landing charges until such conditions have been met.

For additional information or clarification, please contact:

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