



ACI EUROPE
Brussels, Belgium

16 September 2022

Commission for Aviation Regulation
3rd Floor, 6 Earlsfort Terrace
Dublin 2
Ireland

ACI EUROPE response to Commission Paper 3/2022

Contents

1. Introduction.....	1
2. Operating expenses must support today’s service needs	1
3. WACC 2022 = WACC 2019 is not credible	3
5. Ireland is the second-slowest growing European aviation market in the ACI forecast.....	5
6. Conclusion	6

1. Introduction

ACI EUROPE thanks the Commission for Aviation Regulation for its transparent and detailed consultation and the invitation for interested parties to send responses. ACI EUROPE’s response should be read alongside the submission sent on 14 March to the Issues Paper.

2. Operating expenses must support today’s service needs

The Commission is clear that it expects Dublin Airport to return to the service quality levels offered before the Covid-19 pandemic, and in paragraph 8.3 rightly recognises that operating expenses will increase as traffic levels rise to approach the annual traffic seen in 2019.

However, the significant gap between the Commission’s draft decision and Dublin Airport’s submission reveals a critical problem. The Commission and its consultants’ ex-ante decision have misunderstood the cost of airport operations in the post-Covid era. The draft decision is based on historical data and cannot match the understanding and daily experience of the airport, its operations and human resources team, who are dealing with today’s reality challenges.

		CAR	DUB		
Item	Units	2026	2026	Δ CAR decision - DUB proposition	% gap CAR from DUB
Opex	€ millions	327.6	377.5	-49.9	-13%

Paragraph 8.13 states that one main driver of the difference in the Operating Expenses forecast is the assumptions about the number of staff to be employed during the regulatory period. It is well-documented that the air transport system in summer 2022 struggled to find staff to work at airlines, ground-handlers and airports. One recent example is emblematic: the expiration of the summer hourly pay bonus for security staff at Schiphol Airport resulted in staffing shortages in a matter of just days. Euronews stated on 14th September that *“The shortages come as security staff look elsewhere for jobs. During July and August, employees received an extra of €5.25 allowance per hour. Now that the bonus period is over, staff are quitting in droves, claimed union Joost van Doesburg, a representative for the Netherlands Trade Union confederation.”*¹ A reality that must be faced is that the cost of labour for airports will be at a higher sustained level in the future.

As a consequence, in the draft decision, the Commission and its consultants have provided for a level of resources that is the bare minimum required to provide a minimum standard of service.

People today expect more from airports. ACI’s Airport Service Quality (ASQ) programme has documented the evolution of the passenger service expectation.² Travellers do understand that the quality of the infrastructure is related to a part of what they pay in the air fare, though their understanding is not detailed. When queried about how much they are willing to pay for a more comfortable airport experience, travellers express the willingness to pay more to experience friendly staff, an easy airport journey, and a clear airport. Scrutiny of recent research demonstrates that passengers in many consumers groups are willing to pay more for higher service quality.³

The second area of difference cited arises from IT costs (paragraph 8.20). As airports increasingly digitalise to make operations more efficient, IT expenses will increase. Disallowing an airport the capacity to finance its innovation and digitalisation will challenge not only core efficiency but also the cybersecurity and sustainability of the airport.

The Commission must urgently redress the implicit biases in its assumptions that disallow Dublin Airport’s staffing costs and IT expenses, and adjust the Operating Expenditure targets in the financial model and table 8.1 to match with those of the airport operator.

2.1. The purpose of an operating expenses targets building block

Section 8.8 reveals that the Commission understands the inability of Dublin Airport to achieve the target established: *“Dublin Airport is not required to achieve the individual targets precisely as we set out, or indeed to achieve the Opex target at all. For example, if it underperforms on Opex but outperforms on passenger numbers or Commercial Revenues, it may still outperform the regulatory settlement overall.”*

If the Commission implicitly recognises that Dublin Airport is unlikely to be able to achieve the individual target precisely, it should not matter that the airport may outperform in other building blocks. Within building block regulation, which the Commission has again re-affirmed in paragraph 1.18, the purpose should be for each building block to have a target that is set as accurately as possible with the data available at the time of the price control.

¹ [Schiphol queues: Airport slammed for flight cancellations and four hour delays as lines build again | Euronews](#)

² [Airport Customer Experience and ASQ - ACI World](#)

³ Review of Consumer Acceptability Testing Research, FTI Consulting, October 2021
[CAP2266F: Review of Consumer Acceptability Testing Research \(caa.co.uk\)](#)

Such a perspective undermines the purpose of using a building blocks approach and seems to be motivated by the belief that information asymmetries are preventing the regulator from being able to truly measure efficiency.

The current real problem of operational problems experienced today should be far more pressing than theoretical problems of information asymmetries.

2.2. The relationship between Opex and financeability

Later in the draft decision, CAR assesses the financeability of Dublin Airport, and based on the sensitivity analysis, recognises the need for an adjustment so that Dublin Airport maintains its credit rating.

CAR proposes using accelerated depreciation to ensure financial viability. Such a proposal moves cash flows across period of time, and in this sense is just borrowing from the future. As such, accelerated depreciation is often discounted by borrowers and rating agencies. This proposal does not fix the fundamental problem that the cash flows allowed are insufficient to meet the service levels and investment required for Dublin Airport.

As stated in section 2.1 above, a full building block review that provides adequate allowance would overcome the need for accelerated depreciation. Equally, an adequate allowance for the weighted average cost of capital (WACC) as described below will improve the financeability of the airport, especially as it faces a future capital expenditure plan to fund.

3. WACC 2022 = WACC 2019 is not credible

ACI EUROPE urges the Commission to re-assess the implications of its decision to exclude the pandemic time period data from the calculation of the Beta for the Weighted Average Cost of Capital (WACC). This highly unusual step.

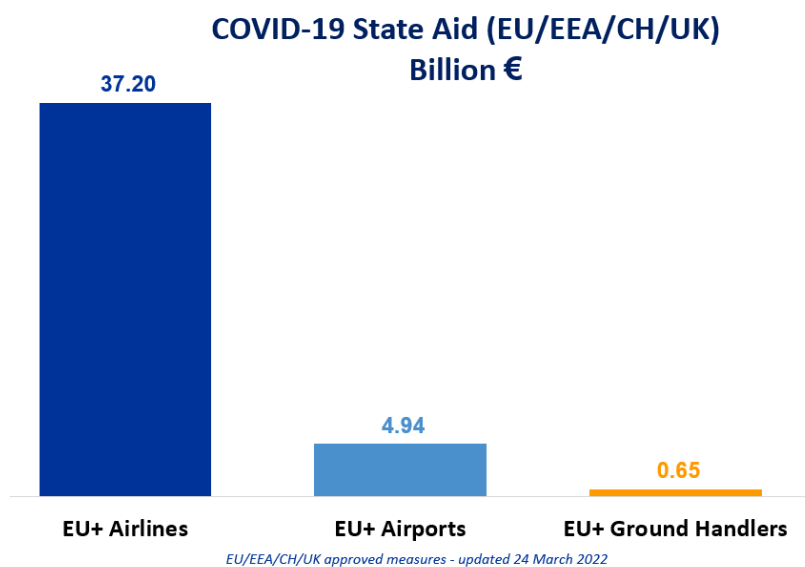
The first justification of Swiss Economics to exclude pandemic years from the data for calculation of the Beta is that future shocks to passenger numbers will be less drastic than in the past. This is tautological. While it is correct that future Covid-19 shocks will affect less airport stocks, it is incorrect that future unknown shocks will affect airports stocks less. Swiss Economics does not support its claim that *“it is likely that future catastrophic events will not affect airport stocks nearly as much as the early days and weeks of the Covid-19 pandemic did”* (p.22, Swiss Economics Report). Indeed, any of the risks identified in an airports Enterprise Risk Management system could impact airport stocks dramatically and equally to the shock of the Covid-19. The question is not about aftershocks of the Covid-19 pandemic, but the next unknown catastrophic event.

The second justification of Swiss Economics is that governments have intervened so airports are not risky. The evidence on this is not clear but it is certain that government intervention was largely limited to maintaining operations, and not to compensating an airport for uncollected regulatory-determined revenue. Swiss Economics claims on page 22 that an increased Beta is unjustified because of government interventions, but both examples provided are inaccurate. For Paris Airports, the repayable advance was exclusively for “safety and security missions” and did not reduce the financial consequences of the Covid-19 shock but provided liquidity cover (p.18 of the Groupe ADP 2020 Universal Registration Document)⁴. Contrary to the claims of Swiss Economics that government intervention would reduce the severity of shock events, Paris Airports had to issue bonds for €4.0

⁴ [Finance - Groupe ADP \(parisaeroport.fr\)](https://www.parisaeroport.fr/finance)

billion in April 2020 and July 2020. The airport did not receive any form of government intervention to lower the risk; rather it had to manage the financial challenge through increasing its debt load. Copenhagen Airport benefitted from a horizontal government support scheme for wages and salaries, to ensure that the airport could keep its employees (Copenhagen Airports Group Annual Report, page 20)⁵. Beyond these two cases, Swiss Economics cites in footnote 6 a document from the OECD that inventoried government support to the air transport sector. The airport cases listed identify cases where governments had to prop up illiquid airport operators or recapitalise airports (Isavia, Swedavia), but no examples of a government that fully compensated an airport for foregone revenues or regulatory depreciation which the airport was unable to recover.

Indeed, if anything, governments demonstrated their willingness to intervene to prop up former flag carriers, but seemed content to leave airports indebted and emptied of cash planned for needed capital expenditure, as shown in the chart below of Covid State Aid provided by business in the air transport sector.



Finally, the Thessaloniki Forum of EU Airport Charges Regulators in its January 2022 paper *Airport Charges in Times of Crisis* stated that “4.28 [...] the standard methods of calculating the regulatory WACC should be used using multi-year reference periods for individual parameters” but the Forum did not even consider the reasonableness of simply ignoring recent data.

A consequence of the Beta that is lower than it should be because of the exclusion of the pandemic period is that the overall WACC is unchanged from 2019. Such an outcome is simply not credible.

Regulators have customarily allowed airports a relatively low risk embodied in the WACC; and airports have generally been regarded as regulated assets carrying less risk than the stock market norm.

The Covid experience makes airports a fundamentally more risky proposition for equity investors. The market’s and regulators’ assessment of traffic risk will not have encompassed the scale and longevity of the Covid downturn. That is demonstrated by the marked movement in airport betas. Had Covid turbulence been within anticipated risk parameters such movement would have been more constrained. The crystallisation of a global pandemic risk, the potential for it to be devastating and

⁵ [Annual Reports \(cph.dk\)](#)

prolonged and the greater sensitivity to the possibility of future global pandemics are all bound to affect equity investors' perceptions and appetites.

The Commission's decision to follow the recommendation of Swiss Economics on the Beta calculation diverges from established practice and should raise worrying questions about the calculations of the Beta in the future.

5. Ireland is the second-slowest growing European aviation market in the ACI forecast

The Commission cites the ACI EUROPE forecast in paragraph 7.5 to justify an optimistic traffic development scenario. However, the ACI EUROPE forecast of May 2022 is not applicable to the case of Ireland.

Ireland's traffic development is expected to be the second slowest of the 38 countries covered in the Europe region, in the ACI World Airport Traffic Forecast ([ACI World Airport Traffic Forecasts 2021-2040 - ACI World Store](#)).

The published ACI EUROPE forecast included in paragraph 7.5 of the draft decision is an aggregated forecast that covers the entire ACI EUROPE region – which stretches from Iceland to Turkey to Kazakhstan. The growing dynamic markets in the region are in the emerging markets, not in Western Europe.

The detailed country-by-country information from the ACI World Airport Traffic Forecasts for years 3+ is presented below. It is clear that in this list, Ireland's traffic development is amongst the slowest in the Europe region: it's traffic growth is forecasted at the 37th of 38 countries included in this econometric forecast.

An important additional factor is that ACI's 3+ year forecast is unconstrained and was developed without any impact on traffic in EU member states due to the additional regulatory costs which face the industry from the EU's Fit for 55 policy proposals, that will increase the cost of travel and restrain demand. It is clear that on the periphery of Europe, with long sector lengths, and with price sensitive travellers, Dublin Airport will be exposed to downsides for its traffic relative to any econometrically derived traffic forecast.

ACI World Airport Traffic Forecast – European Countries Modelled Growth to 2028 Relative to 2019 Level

Analysis of detailed data tables: [ACI World Airport Traffic Forecasts 2021-2040 - ACI World Store](#)

Country	2019	[...]	2026	2027	2028
Moldova, Republic of	1.00		1.42	1.51	1.60
Turkey	1.00		1.42	1.51	1.59
Bosnia and Herzegovina	1.00		1.40	1.46	1.52
Armenia	1.00		1.37	1.42	1.47
Georgia	1.00		1.36	1.43	1.50
North Macedonia	1.00		1.34	1.45	1.55
Luxembourg	1.00		1.34	1.44	1.53
Iceland	1.00		1.34	1.46	1.57
Montenegro	1.00		1.32	1.39	1.45
Portugal	1.00		1.31	1.40	1.47
Estonia	1.00		1.27	1.35	1.43
Lithuania	1.00		1.25	1.35	1.44

Greece	1.00	1.24	1.32	1.39
Spain	1.00	1.24	1.29	1.33
Poland	1.00	1.21	1.30	1.39
Latvia	1.00	1.19	1.26	1.32
Romania	1.00	1.18	1.24	1.28
Bulgaria	1.00	1.18	1.26	1.32
Denmark	1.00	1.18	1.26	1.33
Croatia	1.00	1.18	1.23	1.28
Belgium	1.00	1.17	1.24	1.31
Ukraine	1.00	1.17	1.22	1.26
Sweden	1.00	1.16	1.21	1.26
Serbia	1.00	1.16	1.22	1.28
Netherlands	1.00	1.16	1.23	1.29
Cyprus	1.00	1.15	1.19	1.22
Malta	1.00	1.14	1.20	1.26
Switzerland	1.00	1.14	1.21	1.27
Austria	1.00	1.14	1.20	1.26
Italy	1.00	1.13	1.18	1.23
Hungary	1.00	1.12	1.20	1.27
United Kingdom	1.00	1.12	1.17	1.22
France	1.00	1.11	1.16	1.20
Norway	1.00	1.10	1.15	1.18
Finland	1.00	1.10	1.16	1.22
Czech Republic	1.00	1.08	1.14	1.19
Ireland	1.00	1.07	1.12	1.16
Germany	1.00	1.06	1.11	1.14

6. Conclusion

Dublin Airport and Europe's airports need to be able to be ready to serve the people using airports, whether travellers or shippers. This depends on a fair regulatory settlement. In sum, ACI EUROPE asks the Commission to:

- Recognise the unrealistic Opex target established and revise the target to match the needs of the airport operator to deliver a service level expected by travellers.
- Use a correct calculation for the Beta in the Weighted Average Cost of Capital calculation.
- Moderate hopes for future traffic development based on forecasts informed by market conditions and regulatory costs.

Airports Council International – European Region

37-40 Boulevard du Régent, 1000 Brussels, Belgium - tel: +32 (0)2 552 0975 - fax: +32 (0)2 502 56 37
e-mail: Michael.stanton-geddes@aci-europe.org - www.aci-europe.org