Commission for Aviation Regulation Consultation Paper 9/2020
Draft Decision on an Interim Review of the 2019 Price Determination in relation to 2020 and 2021
IATA Submission – 27 November 2020

IATA appreciates the opportunity to respond to the Commission for Aviation Regulation's consultation on Draft Decision on an Interim Review of the 2019 Price Determination in relation to 2020 and 2021.

Firstly, we note that the Commission has maintained its position not to carry out a full-scaled interim review for the moment. This was also supported in our submission.

We also note that that Commission points out the draft determination scope "*does not encompass changes in the regulatory building blocks used to derive the base price cap of EUR 7.50, or the allocation of risk, for 2020*", While some of the proposals appear to be aligned with this philosophy others may imply direct changes for either the building blocks or the allocation of risk. This is explained below:

Proposed price cap 2020

- The proposal to change from a global price cap into individual caps for 2020 is a change in the allocation of risk (traffic mix) for that year.
- Moreover, when the 2020 tariffs were set, these were inflated to higher than necessary levels in order to fund incentives schemes that turned out to be very difficult for airlines to reach in 2020. In other words, DUB asked for more to fund something it did not need to pay.
- Based on the above, we would appreciate for the CAR to reconsider the 2020 change, and maintain a global cap (at EUR 7.58, which is the ex-ante value used for setting charges for the year) .
- Should there be an over-recovery in 2020, this should be given back to users. The only reason to stop such return should be in a situation in which there is proven evidence that the airport would be in financial distress from such action (And after taking all possible steps to avoid such situation).

Proposed price cap 2021

- Consistent with our comment in the previous paragraph, we consider appropriate to maintain a global cap approach for 2021.
- In relation to DUB's letter:
    - It may be worth noting that airlines have been reducing their yields to foster demand so we don't see why airports could not support the airlines efforts by reducing the costs in the value chain.
    - We see that the letter indicates a list of airports which may maintain or increase charges. While it is not our intention to enter into a debate as to what other ISAs have approved or not at other airports, since each regulatory context needs to be analyzed before making any conclusions, we just want to point out that there are also airports that have

significantly reduced their charges in 2020 or will do so in 2021 as a consequence of applying their charging formulas (e.g. LHR -18% in 2021, LIS: -70% in 2H 2020).

Triggers and adjustments

- We understand the CARs approach towards T2 Box 2 and see no issues with it its proposals.
- Reprofiling triggers: We understand the CAR's justification towards removing the reprofiling triggers in order to avoid perverse incentives. While we understand their removal, and are not particularly opposed to the measure, we are more concerned about the CAR's overall approach towards capex for 2020 and 2021. This is commented in the next section.
- Quality of service adjustments: IATA concurs that it is reasonable that any changes to the Quality regime should wait until there is greater understanding of how traffic returns, and which health measures will be enduring. An assessment can then be better made of whether and how methodologies should be adjusted.
- Inflation & Opex pass through mechanism: No major comments.

Regulatory Mechanisms

- Capex: CIP 2020-2024 was well considered and needed; however, the demand upon which it was built and the timeline for delivery has been severely disrupted. Capex investments that retain the support of airport users or are required for safety, security or regulatory compliance should proceed. The focus should be on assessing the priority and phasing of projects to ensure alignment with the recovery of demand. IATA also supports the inclusion of stage gate projects in consultation materials at an early enough stage to make meaningful changes if required.
- We see with concern that the Commission is not planning to "clawback" unspent capex from 2020 and 2021. The CAR allowed some EUR 100m in depreciation and return on capital for new capex for these years (EUR 34.3m and EUR 68.6m for 2020 and 2021 respectively, in 2019 prices), Not clawing would imply users paying for capex that does not exist, and there could be a potential double payment if the capex is later added to the RAB and then depreciated in the following period. We would appreciate for the CAR to provide clarification on this matter (and how it plans to tackle adjustments in the Opening RAB for the next review).
- Commercial revenues rolling incentives: Consistent with the views expressed in the past about this topic, we support the removal of the rolling incentives.

Scope for a wider review

- We agree with the CAR's proposals as to what needs to be considered once a wider review is deemed necessary.

Prepared by:
Cesar Raffo, Head Airport Charges, IATA - raffoc@iata.org
Martin Braun, Assistant Director, Airport Development, IATA – braunm@iata.org