IATA response to the Irish Commission for Aviation Regulation (CAR) consultation paper of 30 November 2010 on Defining the Regulatory Till

1. Introduction

1.1 We welcome the opportunity to give our views on the relative merits between the single and dual till approach for airport economic regulation in general and at Dublin Airport in particular.

1.2 IATA has consistently supported the single-till approach which we believe is the fairest mechanism of charging airline users. Under the single till principle airport activities, both aeronautical and commercial, are taken into consideration to determine the levels of airport charges. By contrast only aeronautical activities are taken into consideration under the dual till principle.

1.3 Airport charges derived using the single till approach are therefore likely to be lower than they would under a dual till because of the sharing of profits generated by commercial activities. Airports and their investors, particularly with privatisations, are increasingly aware that their commercial revenue profits are significantly enhanced through application of the dual till.

1.4 Application of the single till is a clear recognition that airlines, and the passenger customers they deliver to airports, are a key factor in the ability to develop commercial revenues at an airport.

2. Arguments against the single-till

In our experience and discussions with airports and their regulators the arguments against the single till have included:

- It is not in line with ICAO and IATA policies on cost-relatedness.
- In normal marketplace these activities would be priced separately with each covering their own costs.
- Inconsistent with sound economic principles.
- Perverse incentive that can lead to lower charges at congested airports, in turn increasing traffic demand.
- Creates disincentive to airports to continue to exploit new commercial opportunities in order to fund investment infrastructure.
- Diverts revenues that could be used to finance capital investment and rebates the funds to the airlines.
- Reduces short-term costs at the expense of long-term investment.
- Channelling commercial revenues back to airlines reduces airports' ability to spend to enhance commercial facilities for benefit of passengers.
- Airlines can be exposed to risks from activities/projects put into the single-till.

3. Key reasons for the single till to be applied

There are however strong and compelling reasons for the single till approach including:

- Single till is an acknowledgement of the symbiotic and essential relationship between airports and the airline users.
- Airlines bring passengers to the airport and as the primary users should share the benefits from the non-core activities.
- Lower fares as a result of lower charges increases the attractiveness and competitiveness of the airports
- Airports are built specifically for aviation purposes and priority must be given to airlines activity and passenger facilitation.
- Single till eliminates the need for difficult detailed cost and asset allocation between aeronautical and commercial tills.
- There is no evidence that dual till provides better incentives for airports to make more timely investments than under the single till.
- Dual till can incentivise airports to invest in potentially higher-return commercial activity rather than essential aeronautical infrastructure.
- Single till incentivises and allows airports to increase retail and commercial revenues while decreasing charges to airline users.
- Single till is supported by ICAO Charges Policies - Document 9082/8 paragraph 30 i)

4. IATA position

IATA therefore strongly supports retention of the single till principle under which airports commercial revenues are used to off-set the charges cost base. We recognise however that relatively few airports apply the single till in full, and where a dual till is nevertheless imposed we believe there must be:

- A clear definition of essential services and activities to be included in the aeronautical and/or regulated till.
- Detailed and measurable information on cost-allocation methodologies for the cost, revenue and asset allocations between aeronautical and commercial activities, including shared or common areas, with robust independent audit.
- Costs on non-aeronautical activities assessed on stand-alone basis.
- Capital expenditure plans which clearly identify planned spend by till.
- The rate of return applied to aeronautical activity must reflect the considerably lower risk in these activities.
- Exclusion of surface access costs from the aeronautical till
- Inclusion of any concession fees applied on aeronautical related activities within the regulated till.

Geneva 19 Jan 2011