Potential financial and operational measures to mitigate COVID-19 impact related to Airports and ANSPs

Purpose and recommended approach

All IATA regions have been active to reach out to governments to emphasize the extreme financial pressure on airlines and to ask for relief measures / packages Relief from Airport and ANSP Charges is one of the key areas identified in the Financial Health Action Plan.

For any follow up engagement with selected governments, airports or ANSPs, we've identified potential measures to be raised to help mitigating the financial and operational impact of COVID-19. The list of measures is not applicable to all airports/ANSPs and governments in the same manner and only relevant measures should be selected when engaging the stakeholders (also following advice from our members through the AWG and ATM WG).

This document also provides key messages which can be used in any letters or follow-up communications with providers, as well as the potential risks which need to be considered.

Equally, for centrally driven engagements and communications (e.g. ACI world, CANSO) the central team will gather regional inputs for aligned messaging.

Potential financial and operational measures related to airports and ANSPs (focused on charges and investments)

Below is an outline of possible measures and a high-level analysis of cases where they could be applied, as well as risks to consider. The order of measures is not a prioritization and depend on the ownership model of the airport/ANSP, regulatory framework, CAPEX cycle and other elements, some measures might be more applicable at a specific case than others. Not all measures are applicable to both, Airports and ANSPs, which is indicated in the list below.

Following the approach outlined above t<u>he purpose of the proposed elements below is not for 'global communication' and certainly not all elements are reasonable in all cases, thus a targeted and selected approach as part of the regional engagement is required</u>.

Overall regional specifics to be considered:

- Europe – Potential implication and compliance to State Aid rules
- Americas – Focus for airport concessions (LATAM), cash reserves (USA),
- ASPAC – Greater influence from governmental action
- AME– Cases of government subsidy / high risk of copy-cat charges
- NASIA – Central government control through CAAC

For all measures, the principles of non-discrimination need to be considered with a focus for IATA to engage on industry wide benefits.

Potential measures include:

1) Postponement on charges payments without surcharge / penalties (Airports/ANSPs)
2) Temporary bonification to reduce charges / postponement of increases (Airports/ANSPs)
3) Joint focus on cost-reduction initiatives (Airports/ANSPs)
4) Review / scrutinization of investments (Airports/ANSPs)
5) Removal of automatic inflationary increases (Airports/ANSPs)
6) Reduced or zero return of capital for states (Airports/ANSPs)
7) Waiving of concession fees (Airports/ANSPs
8) Waiver of parking charges (Airports)
9) Operational improvement measures (Airports/ANSPs)
10) Fund to restart / maintain routes (Airports)

1) Postponement on charges payments without surcharges / penalties (Airports / ANSPs)

Overall message / Reasoning:

- Airports and ANSPs with strict credit risk management may identify that airlines in financial difficulty need tighter cash management and impose requirements for upfront deposits / cash payments / bank guarantees etc. If it is done by multiple providers simultaneously, it can cause further impact on the airline's cash flow situation
- Three key asks for governments / providers, to be used selectively depending on the government/provider
  - To the extent possible, consider exceptional relaxing of payment terms and removal of penalty interest on late payments from airlines.
  - Avoid overreacting and imposing very stringent credit measures (e.g. prepayment of X months of charges, etc.) as it may not seem much to your organization but it adds up – pre-payment of 3 months of charges for an airline can mean a cash draw of over 20% of an airline's costs.
  - Avoid imposing tighter credit restrictions, please open a dialogue with the airlines first

Applicable / not applicable under which conditions:

- For extension of payment terms, start to focus on providers with very short payment terms
- For providers requesting high-security deposits / cash payments, focus on removing or relaxing those requirements
- Government-owned facilities can be prioritized as they are less likely to have immediate financial distress
- Differentiated message per provider

Potential risk

- If not targeted, might trigger airports/ANSPs to consider additional security / deposits –can be considered as a re-active message in certain situations
- Once the crisis is over, need to ensure that any additional credit restrictions are relaxed, and equally commitment from carriers to go back to previous agreements

Airline feedback on application / priority:

- Need to address how situations of potential 'airline bankruptcy' will be handled
- Cautious and selected approach required

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

2) Temporary bonifications to reduce charges / postponement of increases (Airports / ANSPs)

Overall message / Reasoning:

- We want airports and ANSPs to look at all opportunities to reduce charges where possible.
- We know that airport and ANSP revenues will drop as a result of the decreased traffic. Assuming the outbreak does not last more than a few months, we would ask the providers to consider postponing any planned increases in charges for 6-12 months until we all have a clearer picture of the situation
- Some providers recalculate charges on a regular basis to adjust for traffic volumes. We would ask for open and frank discussions before any adjustment to take place. Where agreed risk sharing mechanisms exist – airlines and the providers are expected to uphold existing agreements. The timing of such adjustments, however, is not always in line with the timing of major events such as the current COVID-19 outbreak. We would ask for flexibility in the timing of implementation of any changes and a discussion where any changes are planned to take place
- We need to ensure that airlines are not paying for the Airport /ANSPs losses occurred due to the COVID-19 crisis, thus any recovering mechanism for under recovery in future periods due to the decline in traffic should be waived

Applicable / not applicable under which conditions:

- Airports under long-term framework / concession and agreed risk-mechanism must be analyzed according to the rules for over / under-recovery
- For ANSPs:
- For state-owned airports this measure can only be agreed together with governments

Potential risk

- Multi-year charges agreements have to be reviewed as there is a risk of a 'catch-up' effect at a later stage

Feedback on application / priority:

- Airlines support this approach, however the risk of a potential steeper increase at a later stage need to be assessed

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

3) Joint focus / agreement on cost-reduction initiatives (Airports / ANSPs)

Overall message / Reasoning:

- A collaborative approach between airports, ANSPs, airlines and governments is needed and a strong focus on cost cutting measures need to be put in place.
- We're aiming on joint initiatives to help cost-cutting measures and all stakeholders in the value chain applying the same approach
- Discussion on the following areas should take place:
  - Staff cost reductions – including voluntary unpaid leave, recruitment freeze and potential staff reductions
  - Projects – where possible, suspension of work on non-business critical projects to reduce the short-term impact on cash flows
  - Other operating expenses – where traffic decreases at an airport are extreme, consideration of temporarily closing parts of the airport to reduce operating costs, following consultation with the airlines on the operational impact. Similarly, closing sectors for ANPSs in order to reduce costs and divert personnel to activities such as training etc. planned during the rest of the year
  - Exceptional cuts – reductions in non-critical activity such as participation in conferences, etc.
  - Inflation based increases – where certain cost elements in the calculation of charges are based on inflation, those should be waived
  - Deferral of non-essential investments in consultation with the airlines (see point e)

Applicable / not applicable under which conditions:

- Applicable to all providers / no restrictions, however operational impact to be discussed with the airlines
- Need to review long-term contracts / concession frameworks to see how potential cost reduction will be transferred into a charge's reduction (short-and medium term)
- A clear understanding of the savings (and follow up through consultation is required)

Potential risk

- Need to ensure safe operations
- Avoid a jump in the cost-base following the crisis

Feedback on application / priority:

- Need to monitor provider announcements of planned measures to ensure follow up
- Suggest to arrange for consultation / 'task force' meetings to identify opportunities

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

4) Review / scrutinization of investments (Airports / ANSPs)

Overall message/ Reasoning:

- We strongly recommend airports and ANSPs to review their capital investment plans in consultation with the airlines to consider which airport and ANSP infrastructure projects could be delayed or even cancelled.
- Decisions (go / no-go gateways) to proceed with capacity projects should be put on hold until the impact and extend of the demand drop is fully understood.
- Providing alleviation to the airline industry at this time is critical to ensure the medium to long term health of our industry, and to plan effectively in order to ensure capacity is balanced with demand and affordable capex thresholds are agreed.
- Where investments are imposed on operators through concession agreements/government programs, joint engagement should take place to ensure those agreements are adapted given the current situation

Applicable / not applicable under which conditions:

- All airports and ANSPs in consultation with user to review
  - Longer term investments beyond 5 years in "pipeline" stages of design at concept or pre-concept level with high level/no Business Case should be deferred unless otherwise agreed with users.
  - Medium term investments typically defined as those being progressed in the next 18 months to 5 years should trigger a careful review of their Business Cases under development considering i) do nothing scenario ii) impact of stopping the project immediately on costs and benefits.
  - Shorter-term investments in delivery and construction phases should be reviewed for natural break points where cost effective to do so.
  - Prioritizing investment reviews and category can be a useful approach for instance:
    - Major projects – new projects over a certain capex threshold.
    - Major Asset Replacement and Refurbishment – airport / non-airport specific assets over a certain. capex threshold i.e. baggage systems, airbridges, utilities plants, airfield civils works.
    - Major CNS/ATM Infrastructure replacement/refurbishment, not being based on a safety case, over a certain. capex threshold Non-major projects – all other projects under a certain capex threshold.
    - Major external consultants i.e. Architects, Design engineers.

Potential risk

- Likely not relevant for regions with capacity constraints, need to consider long-term forecasts, supply chain lead times and expectations for recovery in traffic to avoid delaying needed investments
- Need to check how investments have already been included in charges over a longer-term period or concession contracts (have we paid for this already)?
- Minimal to non-existent financial impact of cancelling projects that are not yet in the asset base

Feedback on application / priority:

- To be carefully assessed on a case-by case basis, some carriers in support of a general deferral of all investments – but not shared among all members

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

5) Removal of automatic inflationary increases (Airports / ANSPs)

Overall message / Reasoning:

- In several airport concession agreements, regulatory frameworks also concerning ANSPs, inflation is used as a basis of calculation of the price cap or charges adjustments. As airports' and ANSPs' costs are not necessarily related to inflation and given the exceptional circumstances, we would ask the grantors of concessions and concessionaires to consider foregoing any inflation-linked increase while the industry is in financial crisis.
- If price increases based on inflation are maintained, there is a risk of simply making a critical situation worse. For airlines who are in financial duress, even a 1% increase can have a major impact in a good year, let alone during a crisis.

Applicable / not applicable under which conditions:

- Relevant for airports under concession / regulatory frameworks an ANSPs with automatic inflation-based increases
- Any airport and ANSP which applies automatic inflation as a rational for an increase
- To be reviewed where airports/ANSPs apply inflation for an automatic increase in Opex (also mentioned under c)

Potential risk

- Need to ensure there is no 'catching up' at a later stage

Feedback on application / priority:

- Supported by the airlines

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

6) Reduced return on capital (Airports state or privately owned and ANSPs)

Reasoning:

- Airlines bear much, if not all the business cycle risk, in pricing arrangements with airports and ANSPs.
- During challenging economic times, as is the current situation with COVID-19, travel demand falls and lower demand puts downward pressure on airline pricing. Thus, airlines face a serious financial burden and dual pressure on revenues: falling demand and falling average prices.
- Airports and ANSPs should share in on the risks when demand conditions are weak. In tough times, expectations should be set that airport and ANSPs returns are lower, reflecting the prevailing market conditions. While airports and ANSPs currently also experience a fall in passenger and cargo traffic, most airports and ANSPs have regulatory policies and/or agreements with carriers that allow them to set fees each year to allow full recovery of their aeronautical costs.
- This results in air carriers being subjected to a third pressure: revenues fall doubly from reduced demand and lower fares, while unit costs rise due to higher charges.

Overall message:

- We ask our partners to avoid routine profit taking during the time when the air transport industry is facing a major crisis to the ultimate detriment of the passenger.
- Keeping charges at lower levels would enable faster recovery of air travel once the situation stabilizes and is brought under control.

Applicable / not applicable under which conditions:

- Applicable to all airports (state and privately owned) and ANSPs
- High priority to government owned airports due to higher likelihood of successful lobbying
- Low priority for small loss-making airports

Potential risk

- Pushback from privately owned airports incentivised to deliver shareholder returns
- Potential for airports to recoup losses through higher charges when demand recovers

Feedback on application / priority:

- Will be seen critical by ACI / Airports outlining they're similar situation and financial pressure
- Careful wording and selective approach required

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

7) Waiving of concession fees and airport rents (Airports)

Overall message / Reasoning:

- Governments collecting concession fees and rent from airports are usually passed on to airlines and their passengers through artificially higher charges
- Besides our general position that those fees, which are not linked to any additional service provided, should be removed, it's even more important during this time of crisis.
- We urge government partners for temporary relief from airport concession payments.

Applicable / not applicable under which conditions:

- Applicable for airports under concession

Potential risk

- n/a

Feedback on application / priority:

- Can be initiated as a potential joint initiative with ACI / airports

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

8) Waiver of parking charges (Airports)

Overall message / Reasoning:

- Due to the need to reduce capacity and airlines being forced to ground aircraft, they will incur costs parking these aircraft at airports. We therefore ask the respective authorities to consider waiving these charges or offering special conditions for the duration of the crisis.

Applicable / not applicable under which conditions:

- Applicable to all airports but need to be applied in a non-discriminatory way

Potential risk

- Potential capacity issues at certain airports

Airline feedback on application / priority:

- Support of this measure if applied in a non-discriminatory way

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

9) Operational improvement measures (Airports / ANSPs)

Overall message / Reasoning:

- Given the drop in traffic this might be an opportunity to prioritize and focus on some needed maintenance /repair work (e.g. runway / airfield refurbishments) with less impact on operations once traffic picks up again
- We suggest aligning with airlines on planned activities and identify operational impact if those measures are brought forward

Applicable / not applicable under which conditions:

- Relevant for certain airports and ANSPs where operational maintenance was scheduled over a longer period during running operations – need to be considered together with item e)

Potential risk

- Might have an impact on costs, however if it relates to measures that were planned in any case the overall benefit should be positive

Feedback on application / priority:

- Not the main priority and no pro-active ask needed, more for operational discussions as they occur

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment

10) Funds to restart / maintain routes and other incentive related measures (Airports)

Overall message / Reasoning:

- Covid19 has rapidly altered the demand environment forcing airlines to cut a growing list of flights. The damage to airlines and the aviation value chain is already approaching annualised double-digit negatives. Many of the current and planned flights will continue to operate at well below economic load factors.
- Airlines will need support to maintain their networks which play a critical role in driving the world's economy.
- An incentive system to support airlines either through a rebate on landing charges per flight or via a direct subsidy per available seat kilometre until markets have been stabilised.

Applicable / not applicable under which conditions:

- To be applied to international routes that have been severely impacted by Covid19. Criteria to be established for application of the programme.

Potential risk

- Need to ensure non-discrimination (transparent and applicable to all carriers, timely limited)
- Funds shouldn't be part of the airport charges cost-base, thus funded through other carriers

Feedback on application / priority:

- Not all airlines in support of this initiative, given high -risk of discrimination if only applied in certain markets
- Other airlines also support the approach asking for removal of certain thresholds (e.g. pax volume) for existing incentive schemes in the time of crisis

Recommendations (please list any specific providers / countries):

Providers to approach	Providers to NOT approach	Comment