Public hearing for Fiumicino and Ciampino airport users in the framework of annual consultation

Minutes of the meeting, Rome, Jan. 31, 2023

Attendees:

- ADR: Marco Troncone, Giovanni Cavallaro, Primiano De Maria, Federico Scriboni, Alessandra Sansone, Fabio Soleri, Marco Gravagno, Claudio Faustini, Marco Gianello
- ITA Airways: Rita Gaglione
- EasyJet: Marco Gatti, Francesco Rado
- Ryanair: Regan Tilson, Muireann Mc Sweeney
- American Airlines: Bernardino de Carolis
- IATA: Ana Gomez-Pineda, Nicoletta Masi, Martin Braun
- IBAR: Luciano Neri
- ART: Elena Davino, Simone Bonafede
- FCO users’ committee: Marco Calvarese (Emirates)
- CIA users’ committee: Elia Pistola
- Air France KLM Group: Frank van ’t Hof
- Jet2: Robert Tarren
- UPS: Carlo D’amato
- ADOC: Alessandro Cafagna
- UDICON: Alessandro Ligotti
- Federconsumatori: Michela Fattori, M. Carrus

Meeting starts at 10:05 am CET

Fabio Soleri, responsible for the procedure, Marco Troncone, ADR’s CEO and Giovanni Cavallaro, head of strategy and planning, present to users information material made available on ADR’s website on consultation opening (december 2022), starting with document “Assessing cost-correlation within passenger boarding charges for FCO and CIA” and subsequently covering the specific themes regarding 2023 charges update at Fiumicino and Ciampino.

Q&A

Ana Gomez, IATA

1. As for regulatory deficit shown at page 4, we fail to understand where are the alleged losses
2. As for non-EU charge differential after UK, we fail to understand the impact on EU charges
3. Can you elaborate on entry-exit system that is supposed to be deployed by November 2023? Can you please shed some light on impact on costs/avio charges in Italian airports, especially in the light of different reactions of EU member states on state finance to fund the related costs?
ADR

On 1.

Our financial survival is dependent on cost recovery and that includes fair remuneration on invested capital. Without that, our assets deplete in regulatory books without a chance for us to recoup financial equilibrium in future.

If we airports earn WACC in good times and less than WACC in “less than good times”, then on average over a fairly long time period, we are doomed to earn always “less than WACC”. This is meant to discourage investors and raise our cost of capital with potential impact for all the value chain participants.

My central point here is simple and revolves around the empirical evidence so far that pandemic losses without proper regulatory intervention alter the risk/return trade-off (equilibrium) that through last two decades has attracted investors to airports.

For now, not surprisingly, airlines do not seem to care much and focus on airports’ financial survival, continued low cost of debt (although much higher than before) and pre-pandemic allegedly “high” level of profits at airports.

But that to me misses the point: if investors’ appetite of airports’ asset diminishes, we all face a future of higher costs (due to higher cost of capital) AND less investments in needed capacity/innovation, potentially triggering a vicious circle.

Conversely, if we all (airports and airlines) agree on the above and embrace this as a new challenge (instead of wasting energies on futile/“religious” discussions on types of regulation), then pandemic may also be remembered as a the starting point of a more collaborative effort to address areas where improvements are much needed and are within reach.

Remuneration in slide is not precisely indicated while waiting for a regulatory resolution of the matter.

On 2.

Consequence on EU charges of our recalculation of boarding charges for UE and non-UE in the wake of traffic with UK destinations being earmarked as non-UE is equal to ZERO. This is the result of calculations that led to results shared with you (ie. decline in non-EU differential and decline in non-EU boarding pax charge).

Today ADR has shared with users a cost allocation methodology (and related results) on evidence provided in 2019 regulatory accounts (as the last relevant year pre-pandemic), both with passengers having UK destination within EU and non-EU traffic clusters. Resolved for “x” (ie. the cost-correlated EU/non-EU differential in charges, please see tables [b.] and [d.]), “x” is then applied to meet a clearly identified revenue cap (ie. 2021 revenues built ex-ante for the 2017-21 reg period as amended for most recent cost actuals).

Given revenue cap constraint and 50% proposed cost-correlated EU/non-EU differential in charges, EU charges are resolved and impact as y/y change is equal to ZERO.
On 3.
Entry-exit system is one significant source of headache for us. We shall procure all equipment for the task and we already implemented some tests. An app will allow for partial control of actions from remote. As for latest news we have, deadline for introduction was postponed to November 2023, but various indications point to residual uncertainty as to timing. We shall be ready by May.
Costwise, we see areas of potential pain. Capex in the region of € 12-15 mln for FCO may not be covered by state funds (unlike other cases around Europe). We shall keep you posted on forthcoming developments as – without state funds that we loudly advocate – we have no alternatives but to consider those costs in the basket of regulated service allowances.

Luciano Neri, IBAR
IBAR acknowledges achievements of ADR on quality of service.
1. On ART’s resolution no. 232/2022 we noted that (i) ADR was requested to stage a consultation with users on cost analyses; (ii) level of charges had to be updated to reflect cost allocation, traffic split and revenue constraint. This is being done in today’s meeting, but we fail to understand why ADR’s proposal shows a gap relative to figures for boarding pax charges published by ART in the above said resolution. Final analysis is a burden of the regulator but I share with you a frustration over the current state of regulation for ADR.
2. On traffic, we have a view that you are being excessively shy.
3. On recovery in future tariff evolution of losses incurred in the pandemic period, we are hearing too many definitions, stressing lingering confusion on such a relevant matter. Financial solidarity may help find viable solutions. Moreover, we are eager to have a resolution to the prolonged regulatory uncertainty in Italy.

ADR
On 1.
P-2-P traffic and transit traffic deserve two separated analyses. On P-2-P traffic we are still projecting underperformance relative to 2019 on part of long haul traffic that were significant for FCO figures in pre-pandemic (eg China, Russia). As for transit traffic, ITA is slowly coming back to significant volumes and thus transit traffic is picking up, but slowly, and we do not see potential to go above 80% recovery of 2019 level of transit traffic.

On 2.
If you read through ART’s resolution n. 232/2022 the conclusion points to different EU and non-EU boarding pax charges relative to what you see today in ADR’s proposal. The difference lies entirely in the fact that – as presented in the discussion material – ADR’s proposal is predicated on a 50% cost-correlated non-EU boarding pax charge differential. The above said 50% is based on ADR’s latest considerations on application of cost correlation to the two traffic clusters, as detailed in the
material for discussion posted on our website (while ART’s calculation rest on the previously applied differential of 61%).

On 3.
We have expressed several times our intention to present to users a medium-long term prospective on aviation charges and capital expenditures. We appreciate that users share our same view and are looking forward to the start of a new period of regulatory certainty. We agree also on the theme of “financial solidarity”. We simply aim to recover difference between actual revenues and allowances.

**Marco Calvarese, Emirates**
We appreciate ADR’s investment efforts and attention to service quality that is finding much deserved recognition in the international awards that Fiumicino is collecting.
A couple of questions on future investments:

1. Biometric system
2. Train connection

**ADR:**
1. Intermodality remains a key pillar of our strategy, as evident by the agreement we put in place with Ferrovie dello Stato with the aim of coordinating rail connection into the airport with the most appropriate schedule to effectively improve access to airport for airport users. We consider it a confirmed commitment going forward.
2. Biometric is another area where we intend to push forward. We were among the first airports in Europe to test these technologies (through COVID period). We are committed to rolling forward deployment of our technology.

**Marco Gatti and Francesco Rado, Easyjet**
Also Easyjet flags that quality of Fiumicino’s service is a plus.
In a letter we sent last week, we brought up 19 questions on rise in charges to UK and we insist that ART review calculations leading to ADR’s proposal. We deem the content of the letter as “preliminary” points we needed to raise on this specific subject.
In the light of this, we asked ADR to provide comprehensive replies and allow more time after today’s meeting for us to complement with further points.

ADR: we thank you very much for the contribution you sent and we prepared a comprehensive document with the aim of replying to all your questions. Said document is being separately published on the consultation web pages. For now we provide you here with short replies to questions 1., 2., 5., 7., 8., 15. And 16. (see full document for integral text of replies).
Moreover, we support your request to have more time to submit further material (on this as well as other subjects related to 2023 charges update at FCO and CIA) and we set as per your request a deadline on Feb. 13th to receive further questions/contributions to which we shall duly reply. (please refer to separate document of reply to EasyJet “25 January 2023: EasyJet questions on ADR’s proposal”)

Meeting closes at 12:15 am CET.