



Public hearing for Fiumicino and Ciampino airport users in the framework of 2023 annual consultation

Minutes of the meeting held on March 9, 2023 (Rome Fiumicino)

Attendees:

- ADR: Fabio Soleri, Alessandra Sansone, Fabrizio Iannoni, Marco Gravagno
- ART: Andrea Rossetti, Simone Bonafede
- Luxair: Benito Negrini
- Ryanair: Regan Tilson
- CIA users' committee: Elia Pistola
- EasyJet: Marco Gatti, Francesco Rado
- Egyptair: Yehia Soliman
- Cathay Pacific Airlines: Alberto Nanni
- Volotea: Lucia Pagano
- Jet2: Robert Tarren, Ricard Querol
- Norwegian: Maria Barrera
- UDICON: Alessandro Ligotti
- IATA: Nicoletta Masi

Meeting starts at 10:05 am CET

ADR's Fabio Soleri introduces the session clarifying that the meeting can be considered as part of the wider process of consultations with users for updates to regulated charges of FCO and CIA airports to be applicable for the remainder of 2023.

While regulated charges for 2023 remain determined under the umbrella of ART's ruling n. 68/2021, in parallel ADR has to comply with ART's ruling n. 232/2022 that instructed on re-determination to 2022 boarding passengers' charges in consideration of split of costs and passengers' volumes between the two traffic clusters (UE/non-UE) as re-balanced



consequent to passengers with UK destinations being re-located to non-EU. Methodology for such a re-determination was shared with users in former meetings and in ADR's notes published on the consultation webpages.

With specific focus on this item, ADR is keen to reaffirm its openness in providing stakeholders with all the needed information to address the complexity of the cost-correlation analyses that it performed to provide evidence of fairness of proposed "equilibrium" charges for boarding passengers' service.

Easyjet: as a general premise it can be stated that, for several years, the issue of cost allocation criteria has received little room for discussion with users, not only in Italy but also on an international scale. In particular, a first topic of interest for EasyJet is how ADR performed cost allocations in general and if this has been reviewed by ART and specifically on boarding area E: *what about all the EU non-Schengen passengers? How can it be 100% instead of, say, 98%? How are these costs calculated?*

ADR: On the broader theme of cost allocations, I think ADR has shed light in past meetings and on published documents. Said this, we gladly refresh our general approach's assumptions:

- a. infrastructures represented by passengers' boarding areas and baggage reclaiming areas are for exclusive use of the relevant traffic clusters (EU / non-EU) with obvious consequences on cost allocation (entirely allocated to the relative customer cluster);
- b. areas termed "Terminal" – broadly speaking represented by passenger acceptance and surrounding areas – and centralised infrastructures such as passenger acceptance system, BHS systems, public information and announcements require addressing cost split on the basis of relative use by traffic cluster.



On boarding area E:

- a) Materiality matters as (i) we cannot track every single flight and (ii) boarding area E is devoted to non-Schengen, the vast majority of which is non-EU and
- b) ADR adopts an approach which, while seeking as much detail as possible about the various cost items, at the same time needs to embrace some simplifications.

ART (A. Rossetti): ART will carefully read the minutes of the meeting in the framework of its supervisory functions.

Cathay Pacific: how did other Italian airports behave in the face of Brexit? Are there any indications from ART in this regard?

ADR: ADR does not have sufficient elements to provide an exhaustive picture on how other airports have dealt with Brexit. However, as emerged from publicly available information, the airports of Milan and Venice are supposed to have decided to apply non-EU treatment to UK passengers.

With regard to tariff application, ADR pursues the objective of avoiding overcompensation, measured in terms of total revenues. Total revenues, in turn, depend on the mix of two tariff streams, domestic EU pax and extra EU pax (who pay a premium). These tariffs can be calibrated according to different logics, as long as the objective of avoiding overcompensation is maintained.

ADR's calculations shared with users (December publication, former meeting of Jan. 31st and replies to users' comments) meet the revenue requirement set by ART, hence the decline in avg (EU/non-EU charge) boarding pax charges, only incidentally resolved by an unchanged EU charge and a declining non-EU charge due to ADR's cost allocation analysis showing cost-correlated differential of 50%, as opposed to applied 61%.



That is to say that to meet a pre-set revenue constraint, an improvement in traffic mix – more non-EU volumes with UK being added – must be coupled by a decline in average charge, other things equal.

ART (S. Bonafede): with regard to the behaviour of the other Italian airports vis-a-vis Brexit, in order to avoid misunderstandings, it is important to underline that the airports of Milan and Venice have not changed tariffs.

Furthermore:

- after Brexit, a decision by the Government was expected;
- ADR's case can be singled out on the basis of ruling 232/2022 of ART.

Easyjet: What are the incremental costs that ADR has to bear as a result of the UK's decision to leave the European Union?

ADR: in order to clarify this point, it is appropriate to share some more methodology issues with users.

In December 2022 charges proposal, EU/non-EU cost splits on "shared" infrastructures were assumed sensitive to shifts in passenger flows (please see table "c1" of document "Assessing cost-correlation within passenger boarding charges for FCO-CIA").

To reply to some issues you raised in today's meeting and in your note, an approach that we can adopt for further scrutiny is predicated on extracting even more data from our certified regulatory accounts. The logic of ADR's regulatory model provides for a sequence of allocations of the different allowed service costs. Over time ADR has refined and improved its cost analysis capability, making it ever more precise.

In particular:



-
- Direct cost allocation is an activity on which we put significant efforts over time order to track cost better (10 years ago direct costs accounted for 24% of total cost allocations, in 2022 about 32%);
 - Second in line, we perform allocation of those costs that can be associated with services (eg. terminal cleaning) through a "simple" driver (by far the most significant of which provides for cost allocations proportional to square metres pertaining to each infrastructure/service as represented in the company's planimetry);
 - Thirdly, pro-rata direct and direct costs contribute to the definition of the "General Costs" driver – formerly "CIPE key" – (direct and pro-rata direct costs as a ratio to total costs) on which the allocation of indirect costs to services depends;
 - Fourthly and finally, “other indirect allocations” are handled: while direct costs and costs in second and third sequence are fully (direct) or mostly (other two) centered around infrastructures, costs in last sequence can be associated to passenger volumes.

When passengers move, we can consider that costs which move along are taken from third and fourth rounds of allocations as the remainder of costs are tied directly or indirectly to infrastructures via clearly identified logics in allocation model.

To reflect your views and concerns, ADR may verify consistency of said analysis with the outcomes we presented in doc “Assessing cost-correlation within passenger boarding charges for FCO-CIA” that informed our charges proposal of last December and get back to you with further evidence.

EasyJet: Could you please provide information to reconcile some numbers of the current presentation with those provided in the previous one (2019 vs 2021)?

ADR: 2019 is the last year on which reliable data are available, hence 2019 accounts are relevant for cost splits; as for revenue target, ART itself decided to refer to 2021 *ex-ante*



(ART requires ADR to take the *ex-ante* and correct it for differences between actually verified capital expenditures and estimates).

This explains difference between revenue target (2021) and total allowed service costs (2019). 2019 is still now a legitimate assessment of cost allocation based on how infrastructures are being used post COVID.

	UK in DOM UE			UK in EX UE			UK in EX UE		
	Vol	Equil charges (€)	Allowed rev	Vol	Equil charges (€)	Allowed rev	Vol	Equil charges (€)	Allowed rev
Max allowed rev			334.587			334.587			334.587
<i>Differential ex-UE vs dom-UE</i>		67,4%			61%			50%	
Childrn		50%			50%			50%	
Transfer		35%			35%			35%	
	<i>Delibera ART 232/2022</i>			<i>Charges proposal</i>					
TOTAL	22.176		334.587	22.176		334.587	22.176		334.587
Origin	16.580		297.552	16.580		298.546	16.580		298.661
dom-UE	12.191	15,78	192.395	11.203	15,55	174.221	11.203	15,99	179.117
ex-UE	464	7,89	3.658	423	7,78	3.288	423	7,99	3.381
Transfer	3.756	26,42	99.256	4.744	24,96	118.410	4.744	23,96	113.642
dom-UE	170	13,21	2.243	210	12,48	2.626	210	11,98	2.521
ex-UE	5.596		37.035	5.596		36.042	5.596		35.927
dom-UE	3.587	5,52	19.811	3.518	5,44	19.147	3.518	5,60	19.685
ex-UE	151	2,76	416	147	2,72	399	147	2,80	410
	1.776	9,25	16.425	1.845	8,74	16.116	1.845	8,38	15.467
	83	4,62	383	87	4,37	380	87	4,19	365

Easyjet: we like to thank ADR for its availability, but we reiterate that ADR’s charges proposal has not provided for a justification of incremental costs corresponding to UK traffic.

ADR: we thank all the participants, your inputs represent valuable contributions on this particularly complex topic. We hope that the current condition of tariff freeze will be overcome as soon as possible and we remain available in coming days for further comments. More specifically, we expect consultation to close by end of the month and – as said previously – we do not rule out coming back to you with further analytical considerations on our approach to cost splitting between EU and non-EU.

Meeting closes at 11.30 am CET.