



Airport charge regulation in times of crisis

**The Thessaloniki Forum's recommendations and beyond
A regulator's perspective**

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Airport charges in building blocks

Buidling Block:	
I	Future cost development
II	RAB development and cost of Capital (WACC)
III	Development of air traffic and transport
IV?	Past Covid-19 financial losses to be recovered?



Recommendations for Building Block IV (1)

- Fundamental guiding principles regarding the recovery of financial losses.
 - Conceptual theoretical frame work, could serve as a point of reference for ISAs
 - In practice National law provisions
- Fundamental economic regulatory principles for price regulating ISA"s:
 - Economic regulation should aim to provide the correct incentives for efficient operation, while allowing a reasonable rate on return on invested capital.
 - For instance mimic the outcome of a competitive market:
 - Shareholders would receive an appropriate risk compensation in the long run.
 - Shareholders receive a risk compensation in the form of the regulatory WACC.
 - In revenue cap regulation: by regulatory design by default no volume risk
 - in principle financial losses should not be compensated in higher charges.



Recommendations for Building Block IV (2)

- Has economic regulation only been designed for normal economic cycles in which the gains and losses broadly cancel out over the medium term? Does economic regulation take into account disruptive crisis situations like Covid-19?
 - So called Black swans that do disrupt cost recovery may sometimes appear in some price regulated sectors
 - Golden swans that would dramatically boost profits do ideally not appear in properly price regulated sectors, often to a large extent passed through to customers.
 - Does economic regulation compensate for this?.
- Balanced approach: In exceptional circumstances like the Covid-19 pandemic, loss compensation may be considered, while maintaining incentives that stimulate efficiency.



financial losses eligible for potential compensation into higher airport charges

Recommendations on the passing on of financial losses via airport charges

Investigate whether losses could have been avoided (eg some depreciation costs), take into account realized (net) cost savings.

Whenever loss compensation is allowed, demand-side risk can only be partially passed on to users.

investigate whether the financial losses as a result of the crisis would have an unacceptable negative impact on the (long term) financial sustainability of the airport, taking into account shareholder responsibility

Any cost-recovery or turnover-recovery mechanism should take into account its impact on traffic recovery. (5 to 7 years recovery period)

Introduce a revenue risk sharing mechanism above and below a certain threshold (also suitable to mitigate possible gains).



Beyond the Forum's recommendations

- Partial loss compensation instead of intruding specific risk premium on the standard regulatory WACC (building block 3) could be introduced to compensate investors for the risk of a “black swan” event.
- Should state aid to airlines be taken into account when considering loss recovery for airports?
- Take sustainability considerations into account when allowing Covid-19 loss compensation by increasing airport charges?
- Take into account that airports were always open during the crisis?