

Airport Fuel Infrastructure Ownership



LUIS FELIPE DE OLIVEIRA
IATA
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Airport Fuel Infrastructure



Five basic airport fuel infrastructure ownership models

- Airline-owned
- Fuel Supplier -owned
- Airport-owned
- Investor-owned
- Hybrid model –shared ownership

IATA is not Involved directly in any of this ownership models

Airline Ownership



- Forms of Airline Ownership
 - Fuel Committee
 - Not a legal entity
 - Example: ORD
 - Limited Liability Company
 - Legal entity
 - Non-profit mutual-benefit corporation
 - Examples: LAX, SFO

Airline Ownership/mangement



- Ensure adequacy and safety of facilities and infrastructure
- Ensure current and future supply integrity
- Provide Open Access
- Implement appropriate cost controls
- Implement cost effective capital improvements
- Cost based

Benefits for Airline Management model



- Airlines are strongly motivated to ensure adequate facilities exist to provide open access to market
- Airlines are keenly focused on safety, efficiency and cost
- Facilities are run collaboratively with the airport authorities
- Airlines are willing to make timely investments to insure current and future supply integrity
- Lowest cost
- Transparency in all items

Cost Benefits



- Airlines have control over facilities' operating and capital budgets
 - Annual budgeting process
 - Facility improvements evaluated for effectiveness and authorized/implemented by airlines
- Airlines can aggregate all-risk property and liability insurance coverages for multi-million dollar insurance savings
- ROI not a factor
- Airlines are aligned in goal of obtaining the maximum benefit from fuel facilities at the lowest cost

Cons



- Capital needed
- Cost to finance the investments
- Supply responsibility/reliability
- Environmental Liability
- Not a core business
- Dedicated staff of experts

Fuel suppliers ownership



- JV's usually provide fair competition
- JV's reduce the investment costs
- Experts running the business
- Cost-competitive for fuel suppliers, efficient and operationally effective system
- Reliable and adequate supply
- Responsibility for the stock levels

Issues



- Lack of price transparency
- Self supply usually not allowed
- Lack of competition
- Solus airport fuel facilities
- Multiple infrastructure investments (non JV's)
- Third party ITP provider not allowed
- Sub optimal investment decision (timing, scale, duplication...)
- Cost + Airport fuel concessions + Oil Company Margin

Benefits



- No investment up front by Airlines
- Not time consuming except during supply disruptions
- Managed by experts
- All inclusive fuel contracts, eg. Intowing contracts

Airport ownership (ideal)



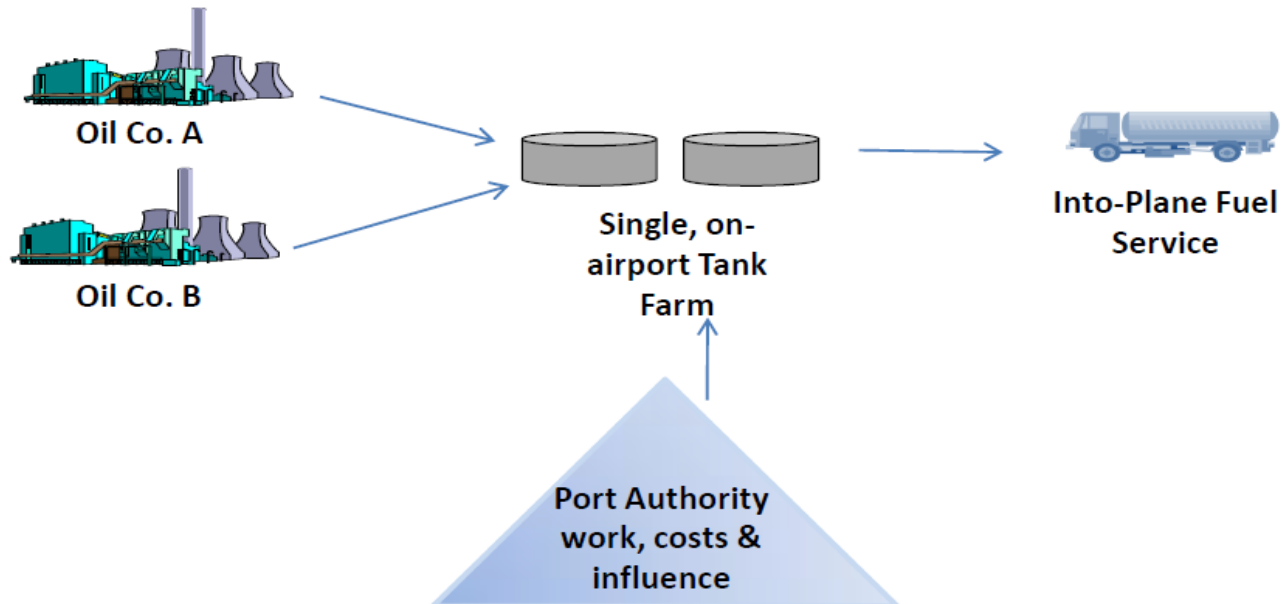
- Consultation with airlines
- Limited on budget/cost side
- Open access
- Lower storage and facilities costs
- Open access to ITP services
- Fuel definitely included on airport Master plan

Airport ownership JFK example



Characteristics

- Multiple fuel suppliers, but single pipeline into airport storage
- 1 Tank farm operator
- 1 Into plane fuel service provider
- Port Authority control



Airport ownership JFK Pros



- Partial cost transparency
- Into-plane fuel service cost
- Some tank farm costs
- Annual 3rdparty/airline budget process
- Cross utilization of employees/management
- Port/Airline consultation on 3rdparty contract renewals (airline satisfaction with performance)
- Jet fuel supply pricing
- Open access to fuel suppliers, but Port bureaucracy in issuing storage permits

Airport ownership JFK Cons



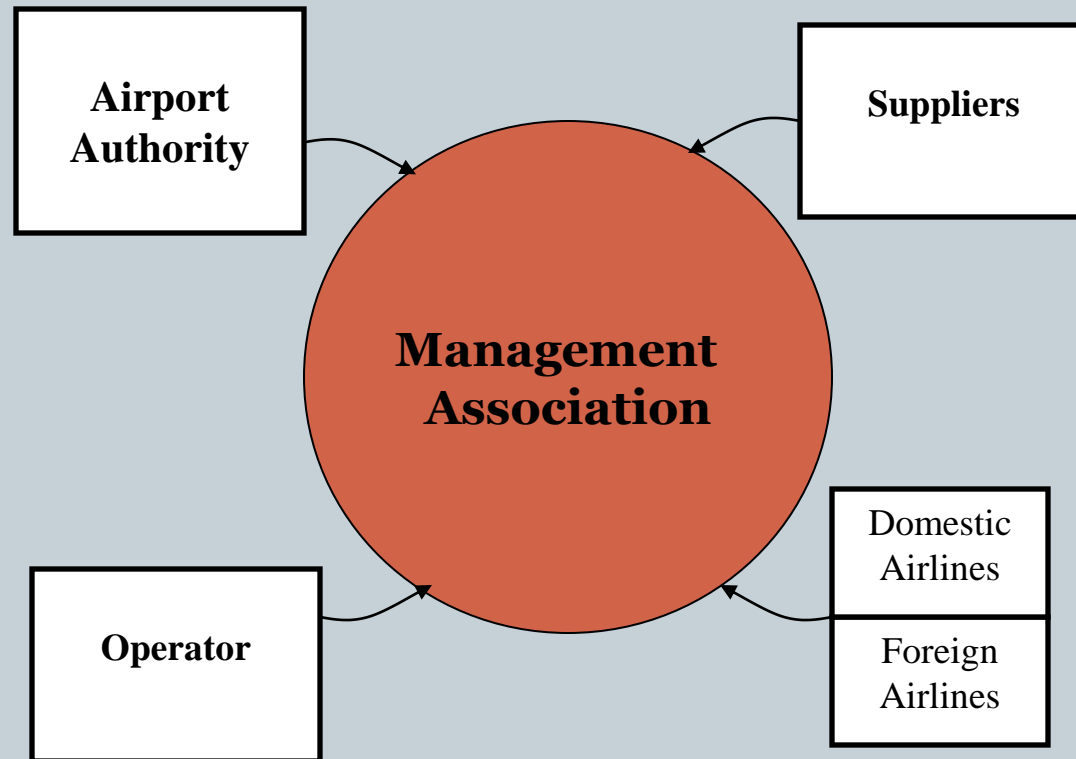
- Only partial tank farm cost transparency (Port costs/3rdparty costs)
- Operational inefficiency
- No competition on into-plane fuel service
- Limited planning & infrastructure investments
- Airlines only have advisory role –property not leased to airlines
- Costly
- Port specifications on equipment
- Port overhead
- Only partial transparency on tank farm costs (overlapping 3rdparty/Port)

Hybrid Model – Hong Kong



- Fair and non-discriminatory open access
- Transparent , non-profit operation based on cost recovery
- Cost-competitive, efficient and operationally effective system
- Reliable and adequate supply (9 suppliers)
- Conservative reserve stock levels (11 days)

Structure of management Association



Fair & Non discriminatory open access



- Any party with an airline contract can supply
- Airlines can self-supply
- Quantities & prices freely negotiable
- Healthy competition among suppliers
- Same Throughput Fees apply to all (equal treatment)
- No oil supplier-exclusive ownership of key infrastructure

Transparent and Robust Governance



- Management Association chaired by Airport Authority
- Represented by suppliers, fuel facility operators, home and foreign airlines
- Responsible for approving:
 - Throughput Fee
 - Operators' budgets
 - Development of fuel facilities
- Throughput and operational information regularly shared

Fuel Facility throughput fee



- Throughput Fee distributed to:
 - –Operators to cover operating costs
 - –Airport Authority to cover land rental
 - –Investor to cover facility construction and development costs
- •Return on Investment controlled by a cap on IRR

Into plane agents



- Two Into plane agents to ensure healthy competition
- Authority can grant 3rd into-plane license
- Airlines can contract directly for ex-hydrant or via supplier for into-wing delivery
- Maximum charge capped, actual much lower

Benefits



- Truly open access beneficial to all
- •Cost-based charges -*not profit based charges*
- •Economical Supply Chain
- •Reliable, adequate supply and reserve stocks
- •Continuous improvement through robust governance
- •Increases traffic through HKG hub thereby boosting local economy

Overhaul Conclusions

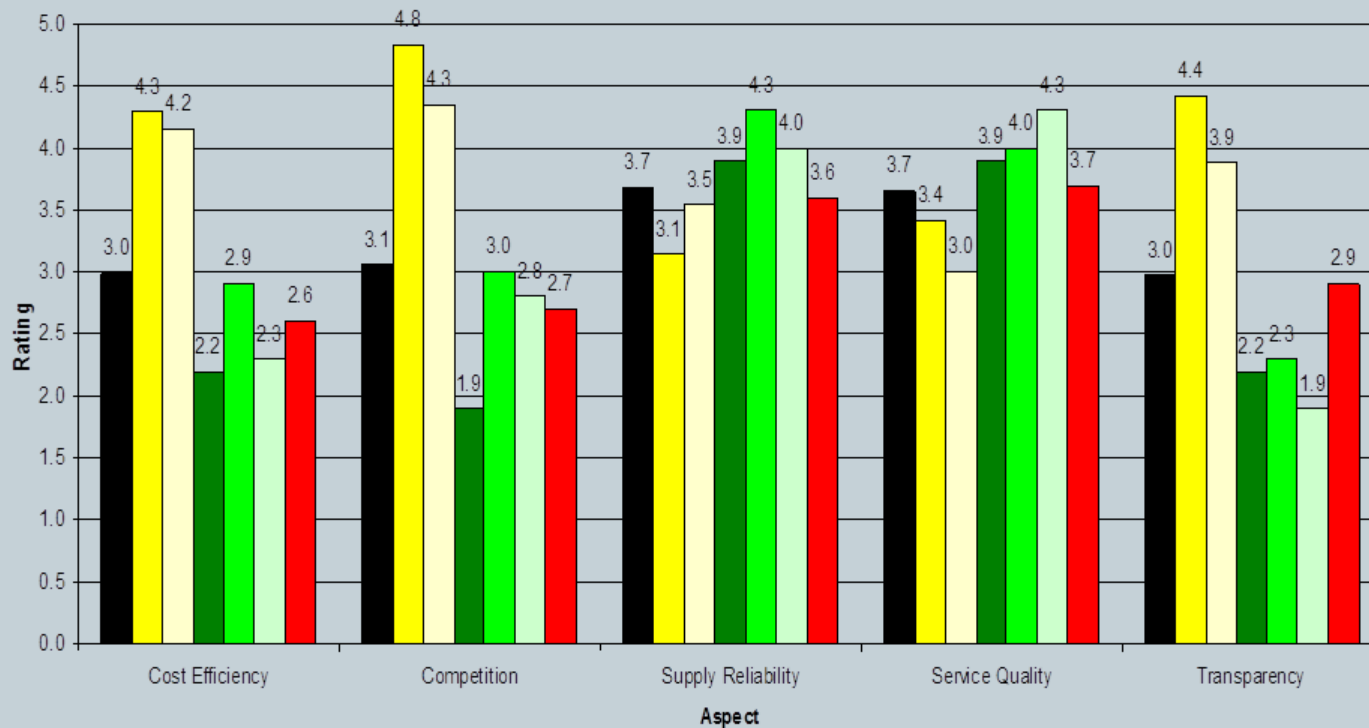


- Airline and Airline+Airport types of ownership score high on Cost Efficiency, Competition and Transparency but relatively lower on Supply Reliability and Service Quality
- Ownership models involving fuel suppliers generally display the opposite characteristics i.e. lower score on Cost Efficiency, Competition and Transparency but relatively higher scores on Supply Reliability and Service Quality

Airline Survey



INFRASTRUCTURE OWNERSHIP SURVEY SCORES (BY OWNERSHIP TYPE)



■ All Types
■ Airline
■ Airline-Airport
■ Fuel Supplier
■ Airline-Fuel Supplier
■ Airline-Fsupp-Airport
■ Airport

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Pros and Cons



- Each model has its set of problems but there are also common ones
- Transparency is a common problem encountered for the three non-airline owned models
- Difficulty in getting consensus is seen as a problem with airline-owned model
- Supplier-owned model tends to suffer from lack of open access
- No clear consensus on which is preferred ownership model

Why this is important for the airlines

- 
- Fuel is the most important cost line item for the industry
 - Airport concessions
 - Regulated and non regulated fees
 - Airport fuel concession fees

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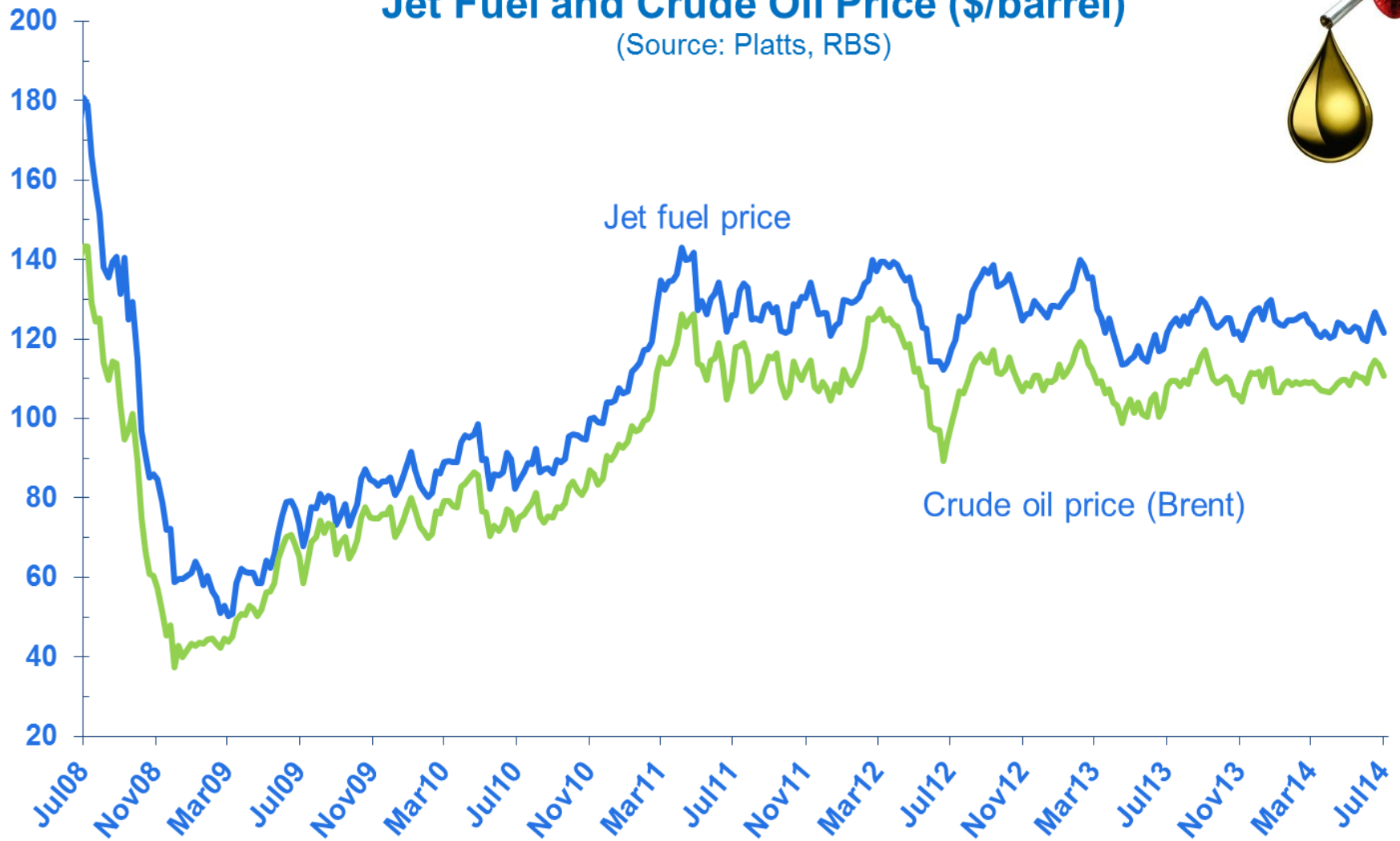
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Jet Fuel and Crude Oil Price (\$/barrel)

(Source: Platts, RBS)



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Jet Fuel for the airlines

- Most important operational cost for an airline
- As a world average represents 33% of the operational costs
- For cargo airlines the operational cost could reach 44%
- Prices in Latin America are 17% higher than the global average



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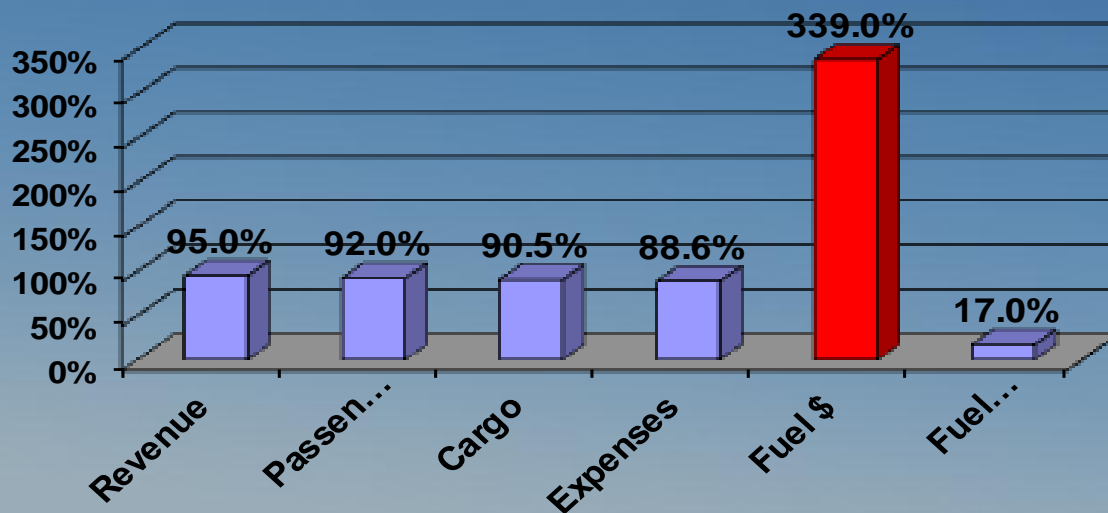
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Aviation cost evolution last 10 years

Key factors



Source: IATA

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1 Cent USD increase in the
fuel prices represents:

➤ **US\$ 700 million in the world**

➤ **US\$ 322 million in Americas**

➤ **US\$ 55 million in Latin America**

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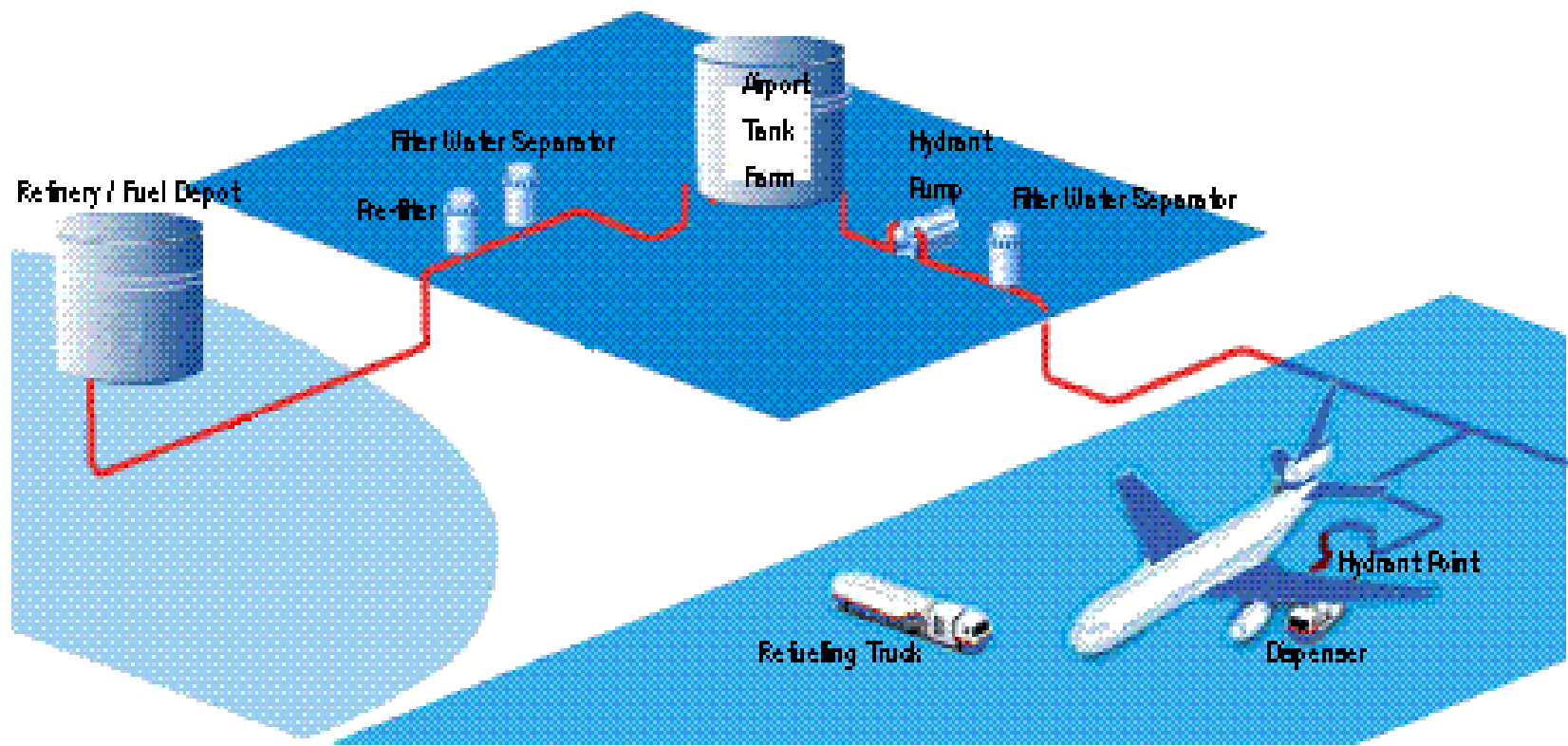
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Concept Fuel concession fee



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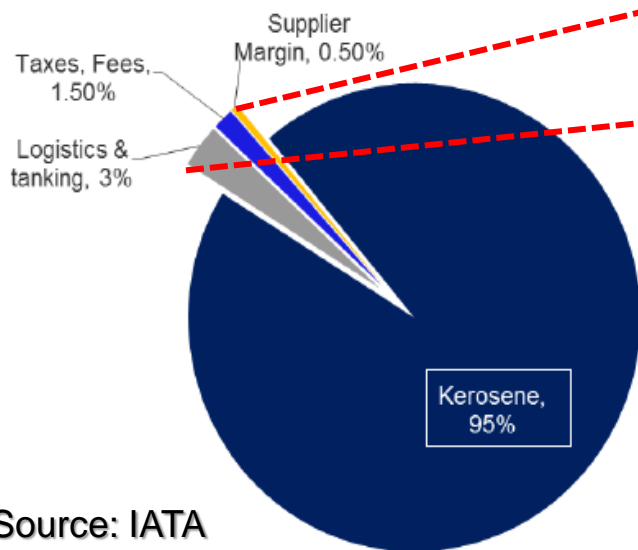
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Share based on International public prices

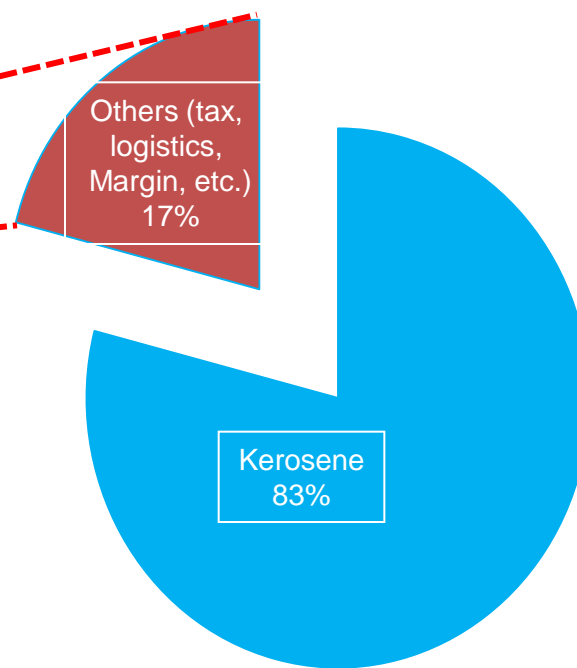


Fuel Supply Costs Global



Source: IATA

Fuel Supply Costs Latin America



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1 Cent in some airports represents:

➤ **GRU : 6 million USD a year**

➤ **EZE : 3 million USD a year**

➤ **BOG : 2 million USD a year**

➤ **BSB : 1.8 million USD a year**

➤ **PTY : 1.2 million USD a year**

➤ **UIO : 0.7 million USD a year**

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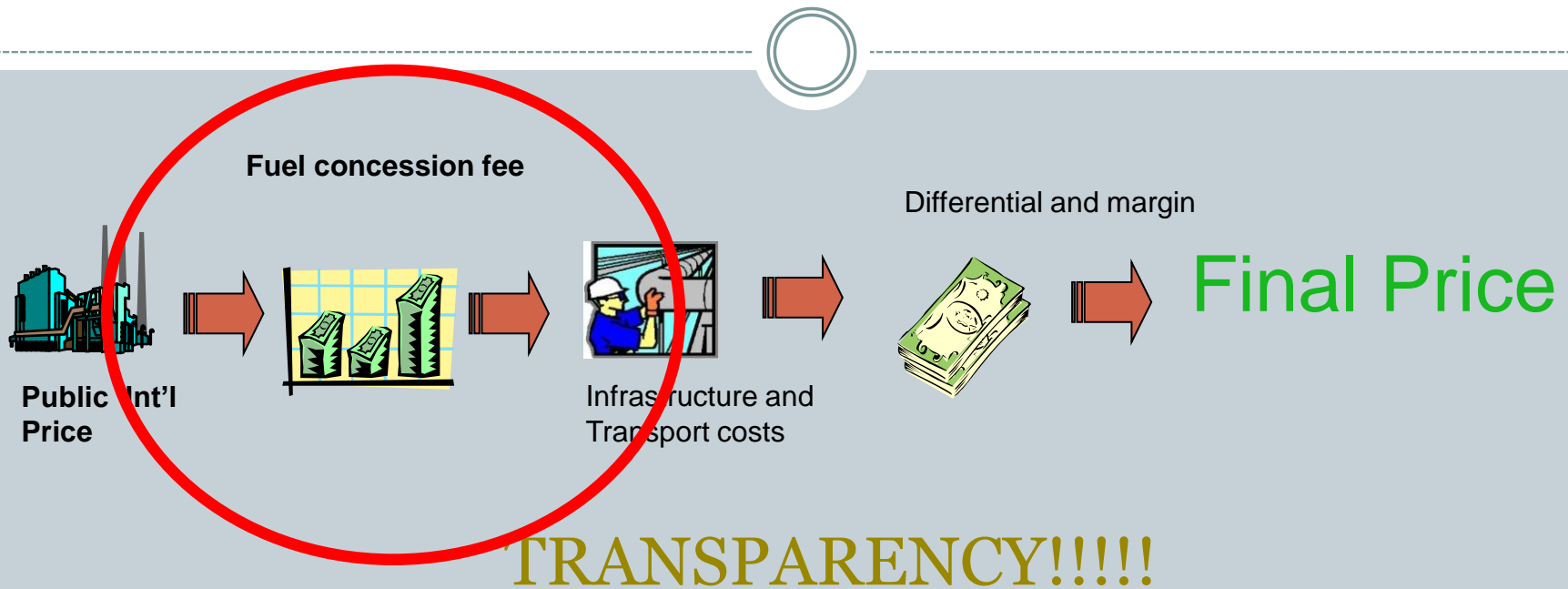
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Importance of a clear cost line item

Fuel price formula



According with ICAO Doc 9562

Revenues from non-aeronautical activities

“4.18 Aviation fuel and oil concessions (including throughput charges). **All concession fees, including any throughput charges, payable by oil companies or any other entities for the right to sell or distribute aviation fuel and lubricants at the airport.”**



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According with ICAO Doc 9562

Cost Basis for Fuel Concessions

“4.116 These would include any maintenance costs, administrative overheads and capital costs attributable to premises, land and equipment owned by the airport and placed at the disposal of the fuel concessionaries (this include any fuel farms, pipes, hydrants, pumping facilities, etc...) Also include would be costs of firefighting and security services attributable to the storing and tanking of fuel , as well as costs attributable to the use by the concessionaries of ground access facilities and services.”



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Concessions directly associated with the operation of air transport services



“4.115 The policy reference given in the paragraph 4.112 noted that the full development of the revenues from non-aeronautical activities is encouraged, except for concessions directly associated with the operation of air transport services, such as fuel, inflight catering and ground handling.”



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According with ICAO

- ***Consultation with users***
- ***Cost related fees***
- ***Reasonable return of capital***
- ***Reasonable WACC***



According with Airlines

- ***Reasonable cost of services***
- ***Open access***
- ***Minimum level of storage at the airport***

Actions



- Competitive authority in the countries to prevent “abuse of the economic power”
- Work with regulators to improve the safeguards to protect abuses
- Define some common standards from fuel concession fees at the airports
- Continue to improve the open access with clear rules for the current and new suppliers (considering the investments as well)
- Working with together with airports to find a common ground
- And improve the relationship and discussions with fuel suppliers and fuel service providers

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