

Airports & Air Navigation Charges Workshop – Sharing Best Practices and Experiences by States and Industry

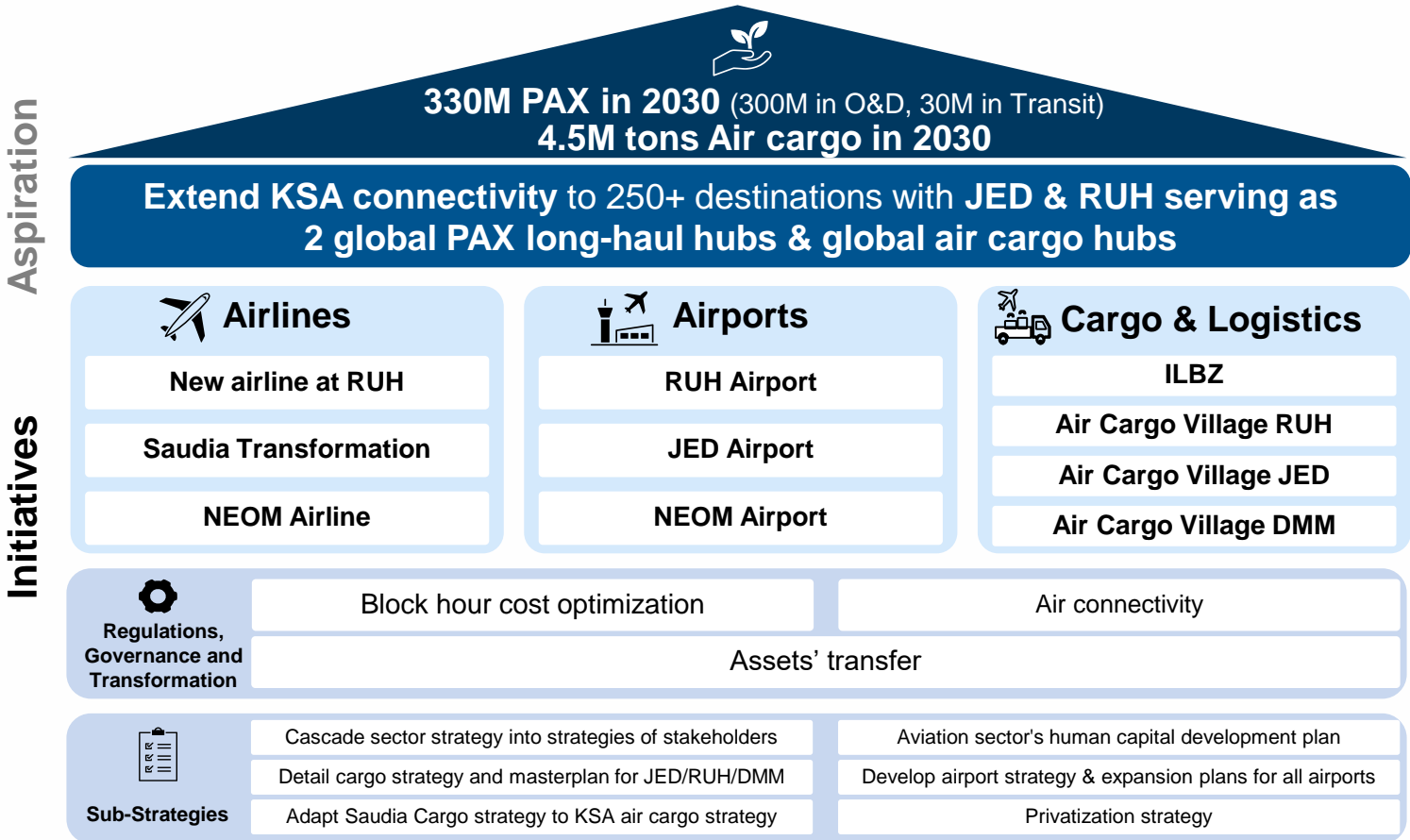
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New economic regulations are a key enabler of KSA's national aviation strategy aimed at increasing traffic volumes and positioning the Kingdom as a global passenger and cargo hub

National Aviation Strategy (NAS)




Current economic regulations address the key pillars of NAS


Airport regulations aimed at setting fair and competitive charges, ensure competitive returns for investors, and promote PPPs



Air transport regulations improved governance structure through CoU & SLA, engagement through consultation committees



GH and air cargo services regulations improved governance structure and ensure fair and open competition



GACA has undergone a deep transformation process, including the corporatization of airports and ANS, generating a new financial paradigm and redefining its objectives

Saudi Civil Aviation Institutional Framework



P Public entity

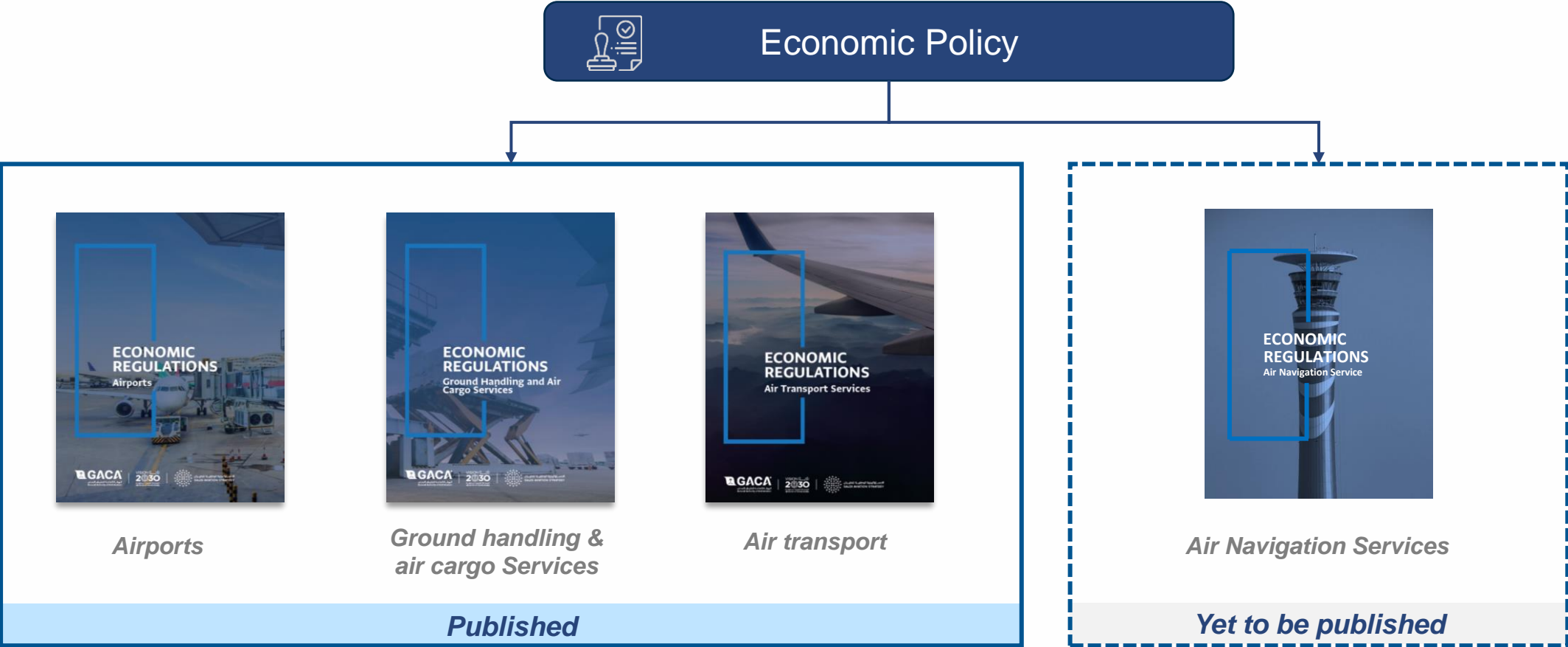
P Private entity

P PPP (Public-private partnership)

- As an ICAO signatory State since 1962, KSA is bound to hold certain duties within the system and **avoid conflict of interest** between parties. GACA is pivotal to the development on the **State functions** towards the global community
- Following ICAO guidelines and international best practices, GACA has segregated some of its former functions to corporatized entities:
- However, following ICAO guidelines and international best practices, GACA has segregated some of its former functions to corporatized entities:
 - ATS, AIM, IFPD, CHART and SAR (partly) has been transferred to **Saudi Air Navigation Services (SANS)**
 - Airport operation and ownership is being transitorily moved to **MATARAT**. The sector is being further privatized by:
 - **Corporatizing subsidiary companies** such as JEDCO, RAC and DACO
 - **Management Contracts** to bring-in global airport operators to shadow-manage key functions in JED and RUH
 - **Public-private partnerships (PPPs)** models for airports that require significant expansions (Medinah, Abha, Taif, Al Qassim, etc.)
- Consequently, GACA's activities can focus on **policy formulation, regulation and oversight**, as well as strategic steering of the sector towards the national vision

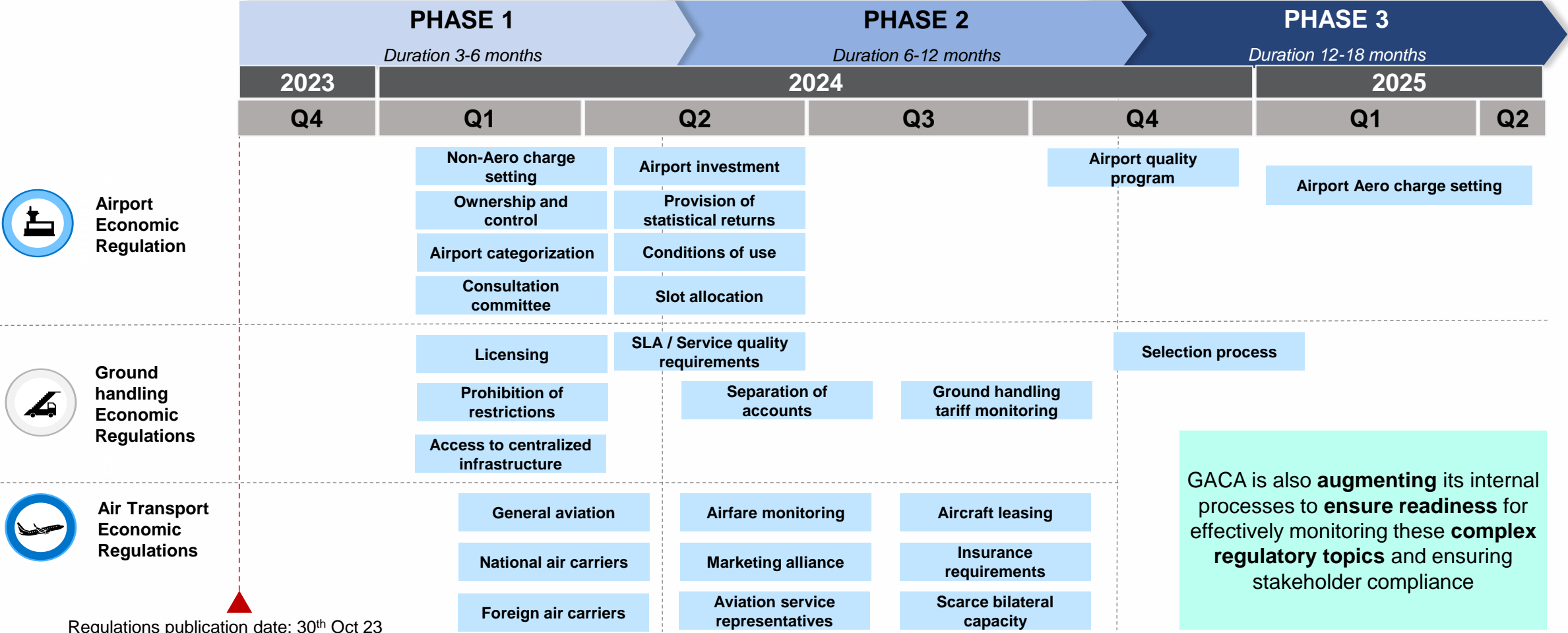
As part of its economic policy initiative, GACA has published three economic regulations and it is aiming to publish the ANS regulations by the end of 2024

New economic regulations



The new economic regulations are being rolled out in a gradual and staggered manner to ensure compliance readiness of all stakeholders in the ecosystem

Consolidated economic regulations roll out plan



GACA is also **augmenting** its internal processes to **ensure readiness** for effectively monitoring these **complex regulatory topics** and ensuring stakeholder compliance

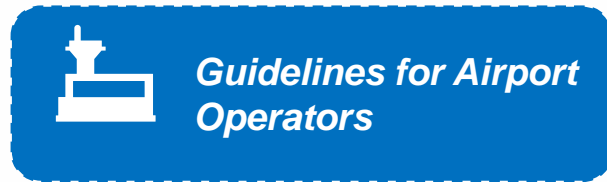
Regulations publication date: 30th Oct 23



Note: Timeline indicate the time when a topic becomes ready for rollout

GACA has issued guidelines for airport operators, ground handlers and air transport carriers to enhance their understanding of the new regulations and support their preparation

Guidelines summary



The guideline explaining mechanisms and procedures for setting **charges (Aero and non-Aero) across designated and non-designated airports**. It provides extensive insights into crucial aspects such as **ground handling services, in-flight catering services, into-plane fuel services, and air cargo services**, alongside facilitating **user consultations**.



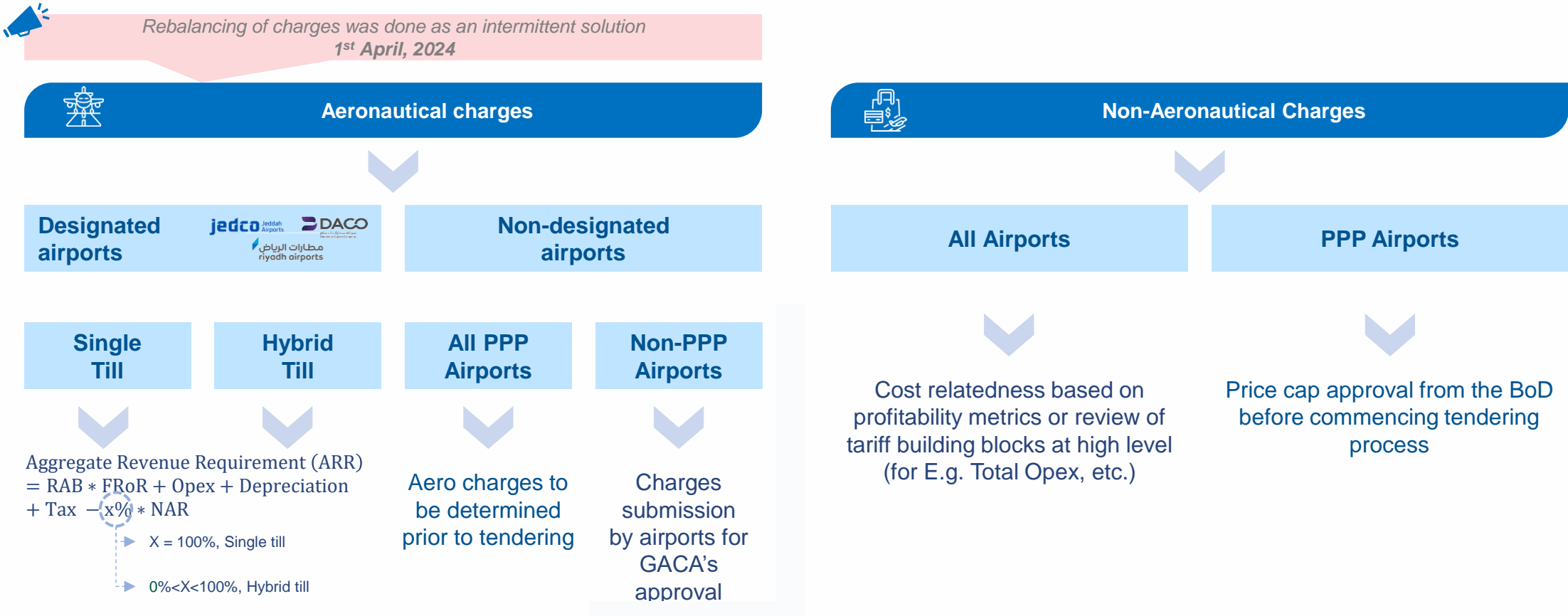
The guideline outlines the **selection process, licensing requirements for service providers, consultations**, and provides guidance on **service level agreements**. Additionally, it offers insights into determining the **optimal number of service providers** to ensure operational efficiency and service quality within the airport ecosystem



The guideline covers general rules and conditions governing **flight permits, the Oboor System, slot allocation** and application procedures. It also delves into the parameters determining the **validity of permits**, while providing detailed instructions for the **approval of dangerous goods by air**.

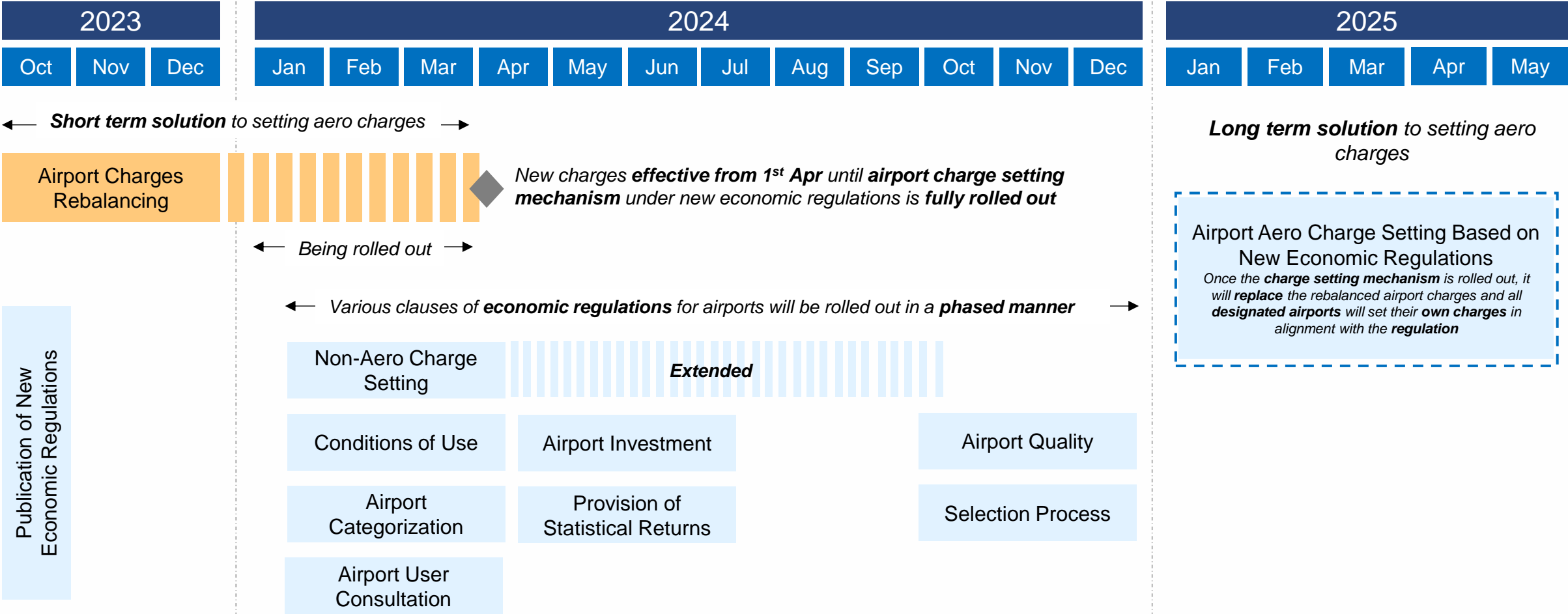
A multi-layered framework has been developed to determine the aeronautical and non aeronautical charges for airport operators

Airport charge setting framework



In the interim, GACA has undertaken rebalancing of airport charges to ensure the aviation ecosystem's sustainability while the regulations are being rolled out

Short and long-term initiatives to safeguard aviation ecosystem's sustainability



Aeronautical charges at designated airports shall be determined based on single till or hybrid till approach

Single and hybrid till mechanism for determination of aeronautical charges








Single-Till

- All airport activities – **aeronautical and non-aeronautical** – are considered to determine the level of airport charge
- Allows the airport operator to earn a **competitive rate of return** across the whole airport business
- Likely to **reduce the yield per pax** and hence leading to **increased traffic volumes**



Hybrid-Till

- A fixed **percentage of non-aeronautical revenues** are used to **offset the costs** and determine aeronautical revenue requirement
- Allows the airport operator to earn a **percentage of unregulated profits** from the non-aeronautical business
- **Incentivizes airports to invest** in potentially high-return commercial activity along with focusing on aeronautical side of business as well

	Airport charges 	Air fares 	Asset allocation 	Passenger demand, airline route expansion 	Airport profitability 
Single Till	<p>↑ Airport charges are likely to reduce due to offset of aeronautical costs through non-aeronautical revenues</p>	<p>↑ Lower airport charges may lead to lower airfares as airlines are likely to pass on the benefits to passengers</p>	<p>↑ Single till eliminates the need for detailed cost and asset allocation Improves speed and ease of charges proposal preparation</p>	<p>↑ Lower airport charges would incentivize airlines to expand network (base operations, direct flights etc.)</p>	<p>↑ Airport profitability may reduce due to the likely reduction in aeronautical revenues</p>
Hybrid Till	<p>↓ Although there may be a reduction in airport charges, the reduction would not be as higher as compared to single till</p>	<p>↓ Although there may be a reduction in airport charges, the reduction would not be as higher as compared to single till</p>	<p>↓ Regulator would be required to ascertain aero/non-aero split for large number of RAB and opex items</p>	<p>↓ Impact may be lower as compared to single till as minimal benefit-sharing between airports and airlines</p>	<p>↓ Airport profitability may be slightly better as the reduction in aeronautical revenues would be lower as compared to single-tilt</p>

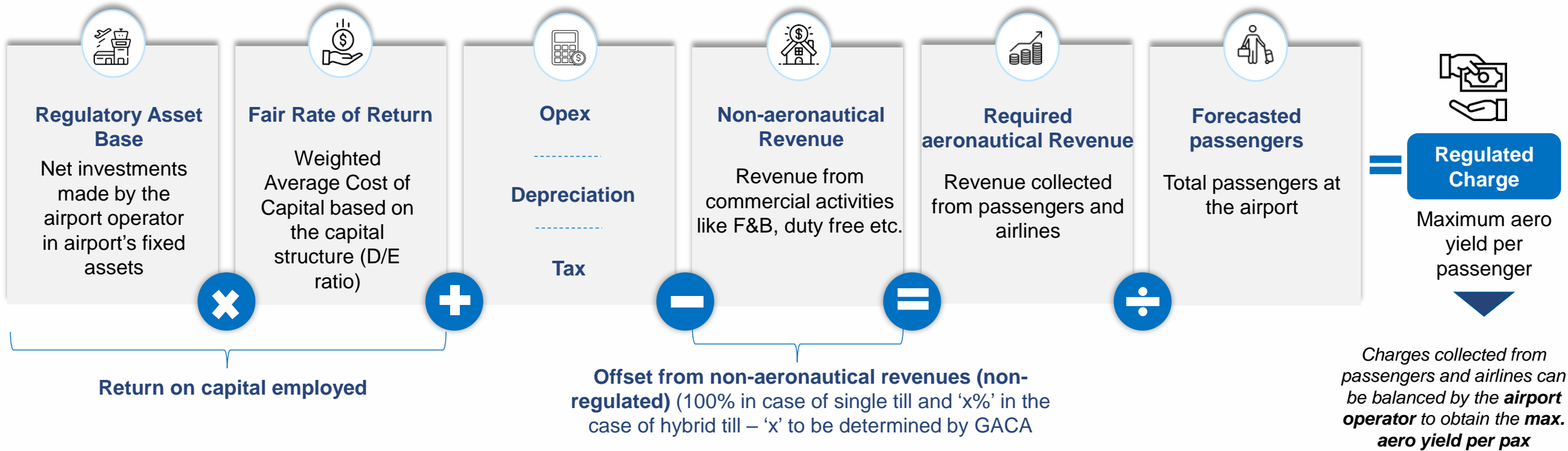
Single/hybrid till mechanism considers return on capital employed, OpEx and non-aeronautical revenues while determining aeronautical charges

Methodology to determine Aggregate Revenue Requirement (ARR) and Yield Per Pax for designated airports

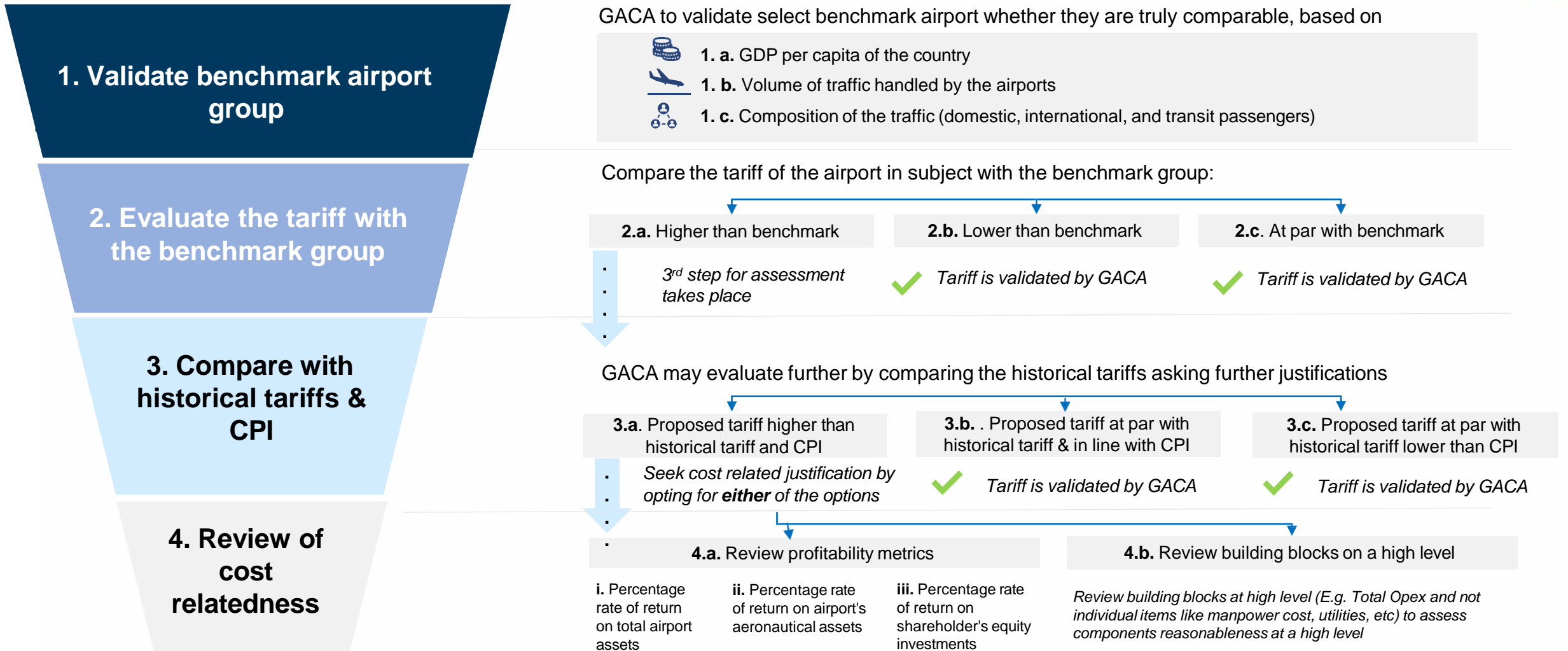
$$\text{Aggregate Revenue Requirement (ARR)} = \text{RAB} * \text{FRoR} + \text{Opex} + \text{Depreciation} + \text{Tax} - x\% * \text{NAR}$$

X = 100%, Single till

0% < X < 100%, Hybrid till

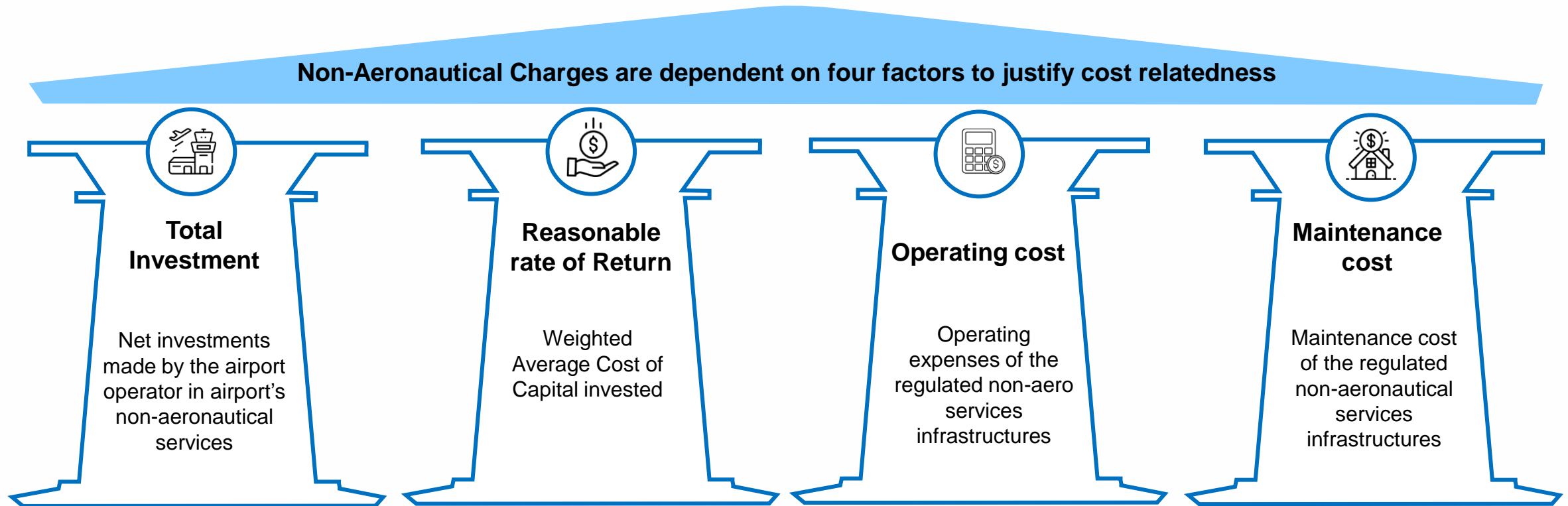


GACA is going to evaluate aeronautical charges of non-designated airports following a four-pronged approach...



The charges for regulated non-aeronautical services for all airports, regardless of designated and non designated status, will be determined by cost relatedness

Methodology to determine charges for non-aeronautical services



*The airport operator shall follow the cost relatedness requirement, covering the **operating costs, maintenance, and investments** associated with the provision of that particular service **as well as including a reasonable return on investment** when setting charges for those specific core non-aeronautical services...*



Thank you

