

AIRPORT ECONOMICS SYMPOSIUM



AIRPORTS COUNCIL
INTERNATIONAL



AIRPORT ECONOMICS SYMPOSIUM

Airport Strategies for Financial Recovery

WELCOME

Andrew Charlton

Managing Director, Aviation Advocacy



AIRPORT ECONOMICS SYMPOSIUM

Airport Strategies for Financial Recovery

AIRPORT INDUSTRY UPDATE

Olivier Jankovec

Director General, ACI EUROPE





AIRPORT ECONOMICS SYMPOSIUM

Airport Strategies for Financial Recovery

SETTING THE SCENE

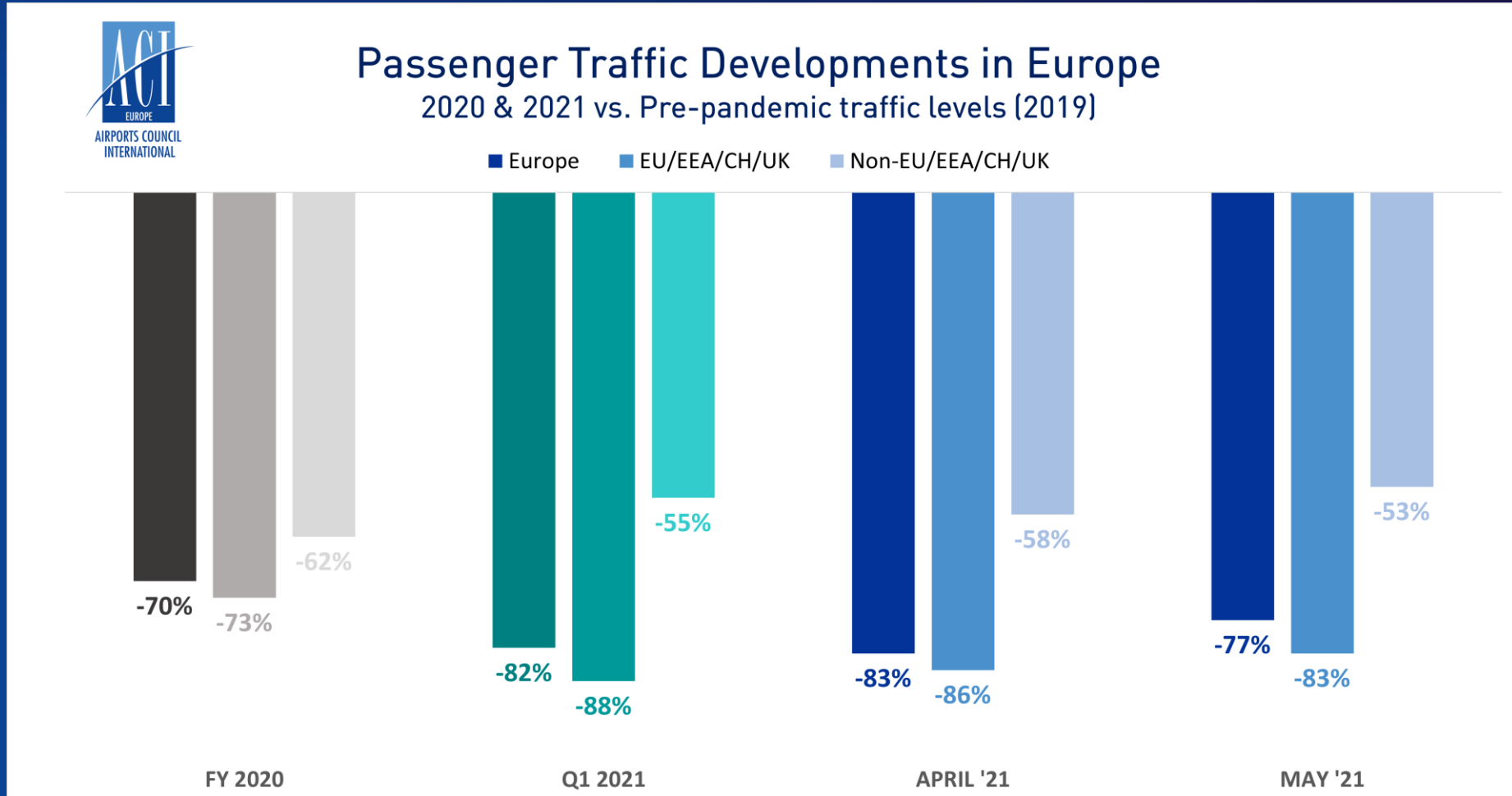
Olivier Jankovec

Director General, ACI EUROPE

TRAFFIC

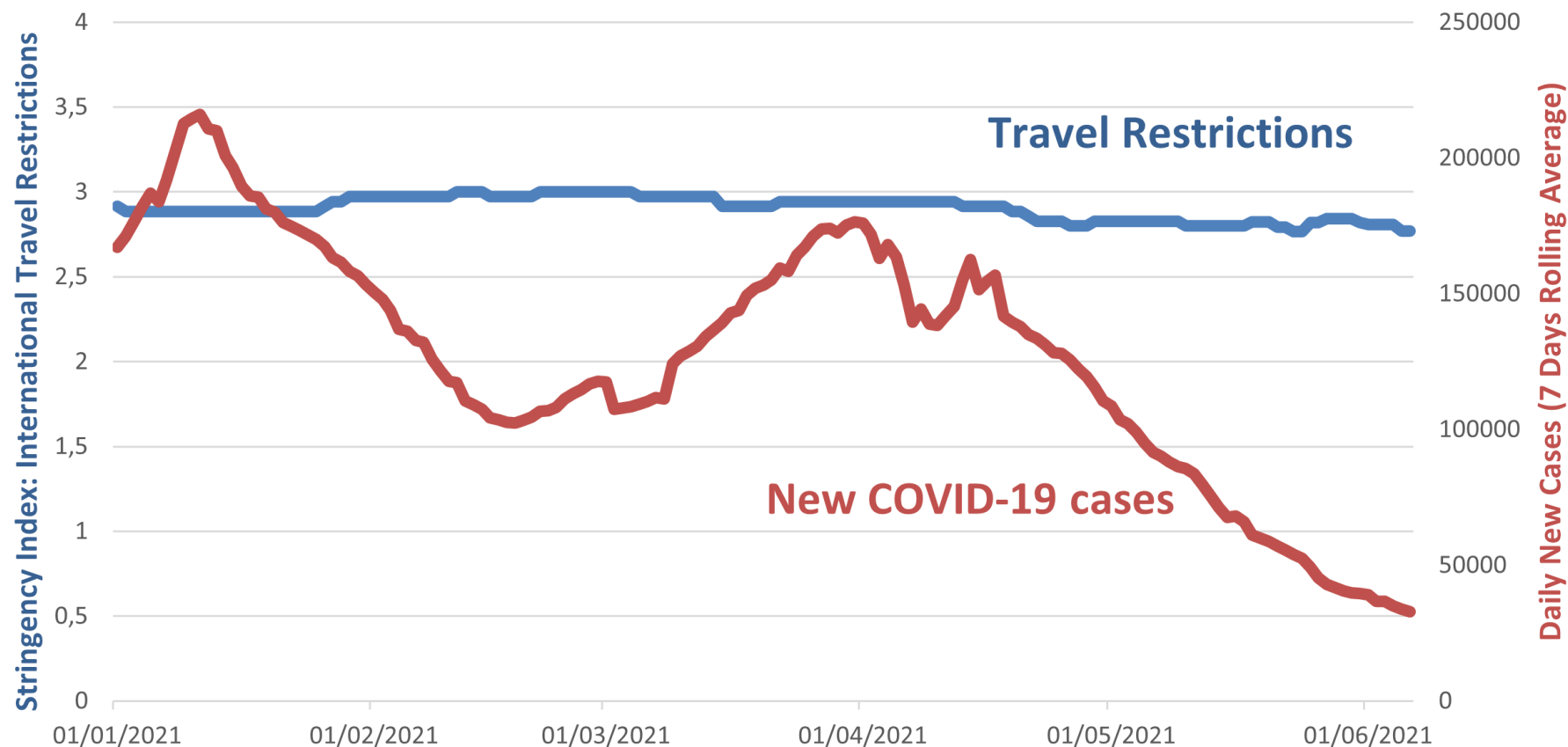
Elusive & Long Recovery

• 2021 SO FAR WORSE THAN 2020



- **TRAVEL RESTRICTIONS LAGGING
BEHIND EPIDEMIOLOGICAL SITUATION**

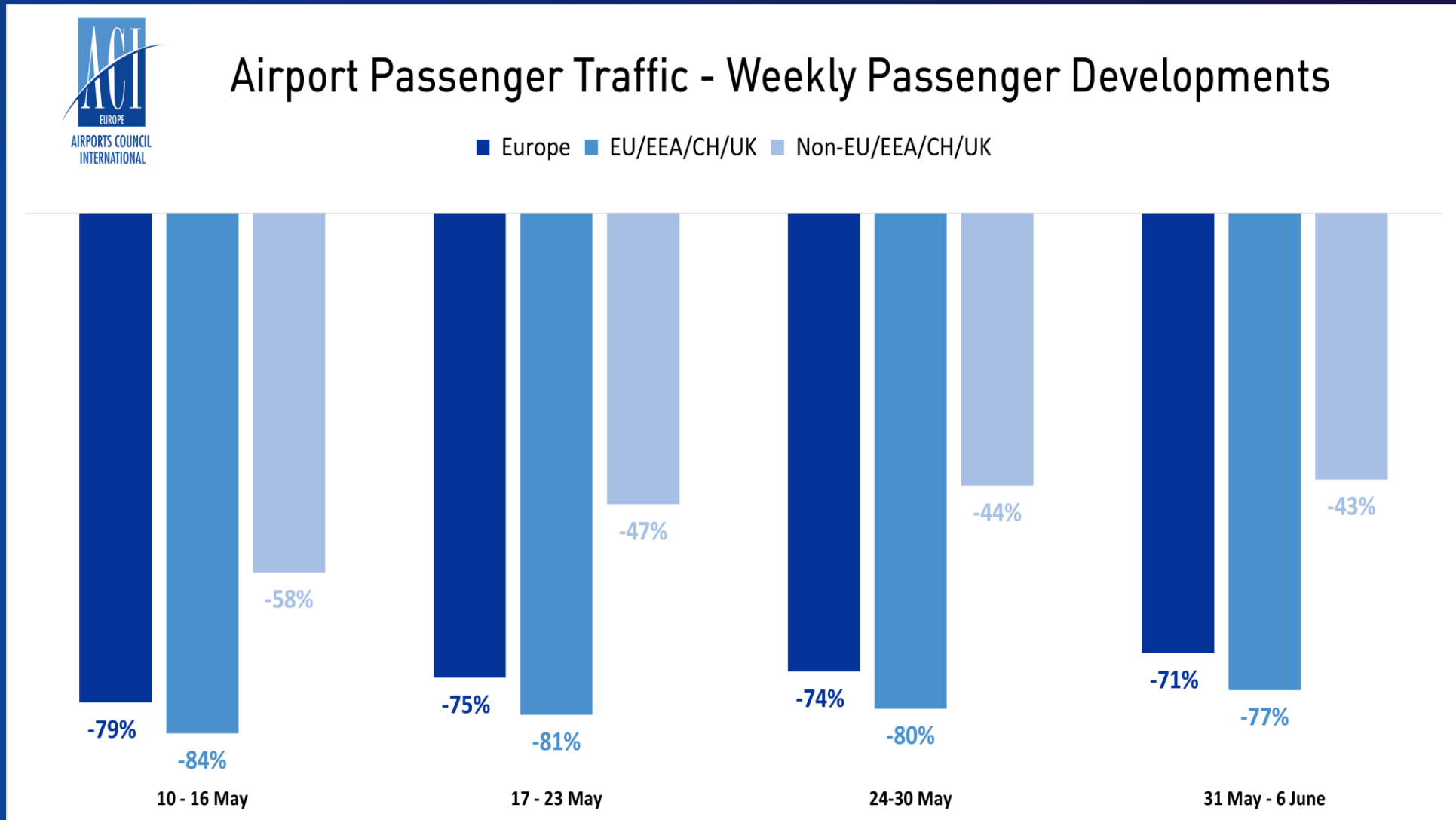
EU/EEA/CH/UK: Travel Restriction Index vs. Daily New Cases



• LIGHT AT THE END OF THE TUNNEL – FINALLY...



- Passenger traffic “picking up”

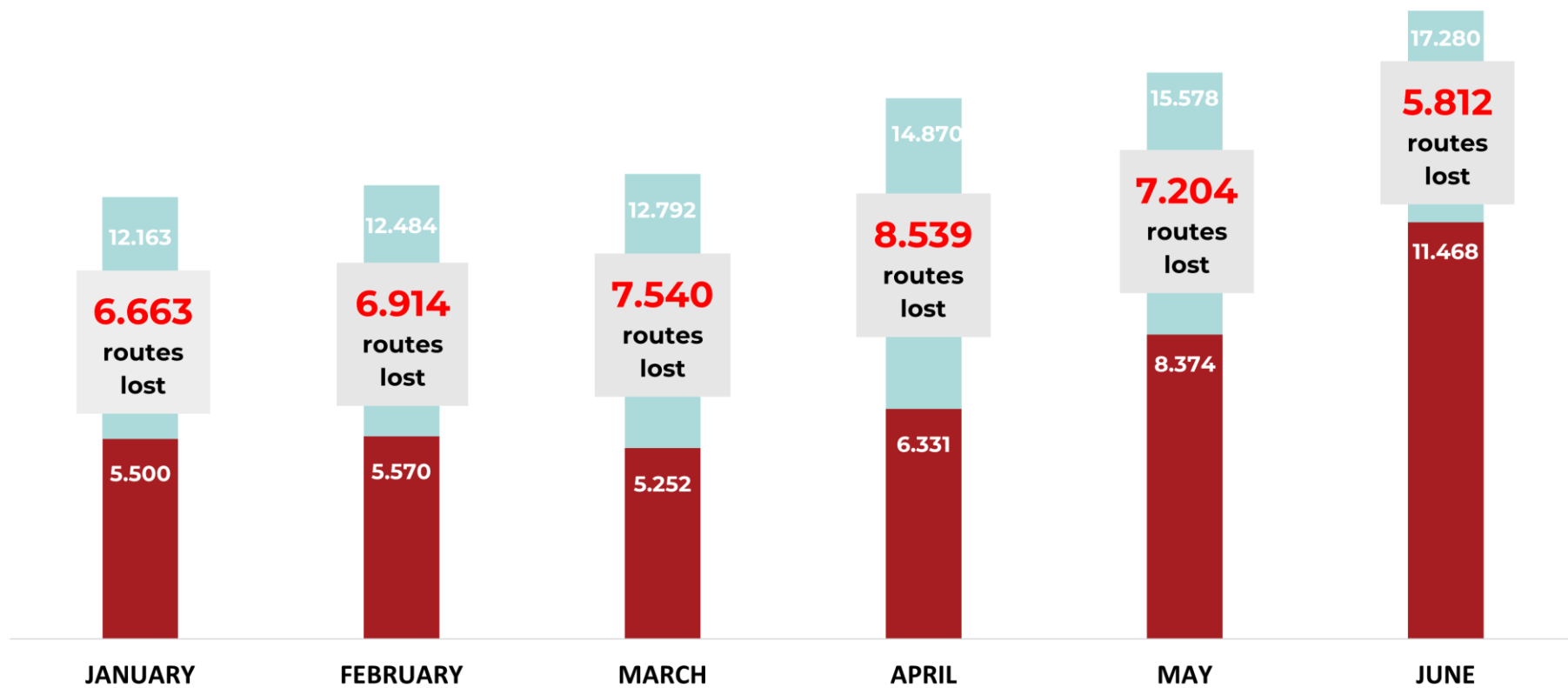


- Connectivity improving



TOTAL NUMBER OF AIR ROUTES SERVED BY EUROPEAN AIRPORTS (JANUARY-FEBRUARY-MARCH-APRIL-MAY-JUNE 2019) + % DECREASE IN 2021

■ 2019 ■ 2021



Methodology: 3rd week of month, departing flights from ACI EUROPE airport members.

- **BUT... SLOW & UNEVEN RECOVERY**

- **Market drivers: domestic | leisure | intra-European**

TRAVEL

Airlines rewrite route maps as leisure travel shows early signs of comeback

Airlines maps are ditching business hubs and are being overhauled to reflect new demand in leisure travel. Here's what you need to know about the opportunity for travellers right now



NEWS

Lufthansa flying its Boeing 747, Airbus A350 on select intra-European routes

Air France Adds 22 New Routes For Summer Leisure Travelers

by Chris Loh · April 10, 2021 · 2 minute read

Finnair restart to be focused on leisure routes

When In Rome: Ryanair Doubles Down In Italy

- Political challenges



Travel and Tourism stakeholders call for swift adoption and implementation of harmonised EU travel rules

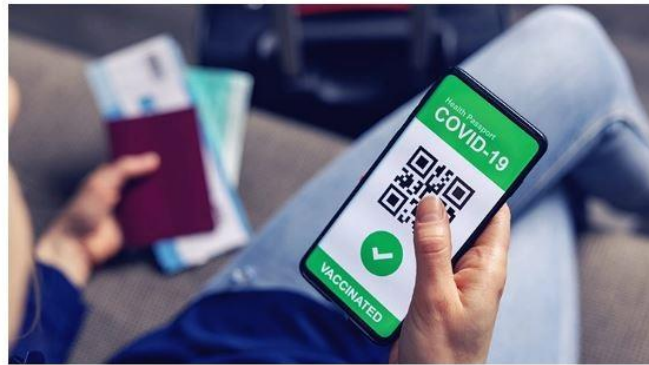
Brussels, 08 June 2021 – Ahead of the EU Ambassadors' meeting on 11 June, the European travel and tourism industry associations call on Member States to approve the Commission's proposal to start lifting travel restrictions in the EU in a coordinated way. After months of lockdowns and a patchwork of measures across the continent, this proposal is very timely. In view of the rapidly advancing vaccination programs and improving epidemiological outlook in Europe, **safe travel is possible this summer** – fuelled by the strong desire of European citizens to travel again and secured by the readiness of our sector to provide safe and responsible travel.

- Operational challenges

INTERNATIONAL Airport REVIEW

ACI Europe calls for improved COVID-19 health check processes at airports

In order to avoid chaos at European airports during summer 2021, ACI Europe has called for governments to step up advance planning and work closer with the industry.



EURACTIV

Chaos looms as travel resumption edges closer

By Sean Goulding Carroll | EURACTIV.com

8 Jun 2021 (updated: 9 Jun 2021)



AVIATION WEEK NETWORK

Prepare Or Face Airport Chaos, ACI Europe Says

June 02, 2021



Routes online

Airports in Europe at risk of 'chaos' as routes restart

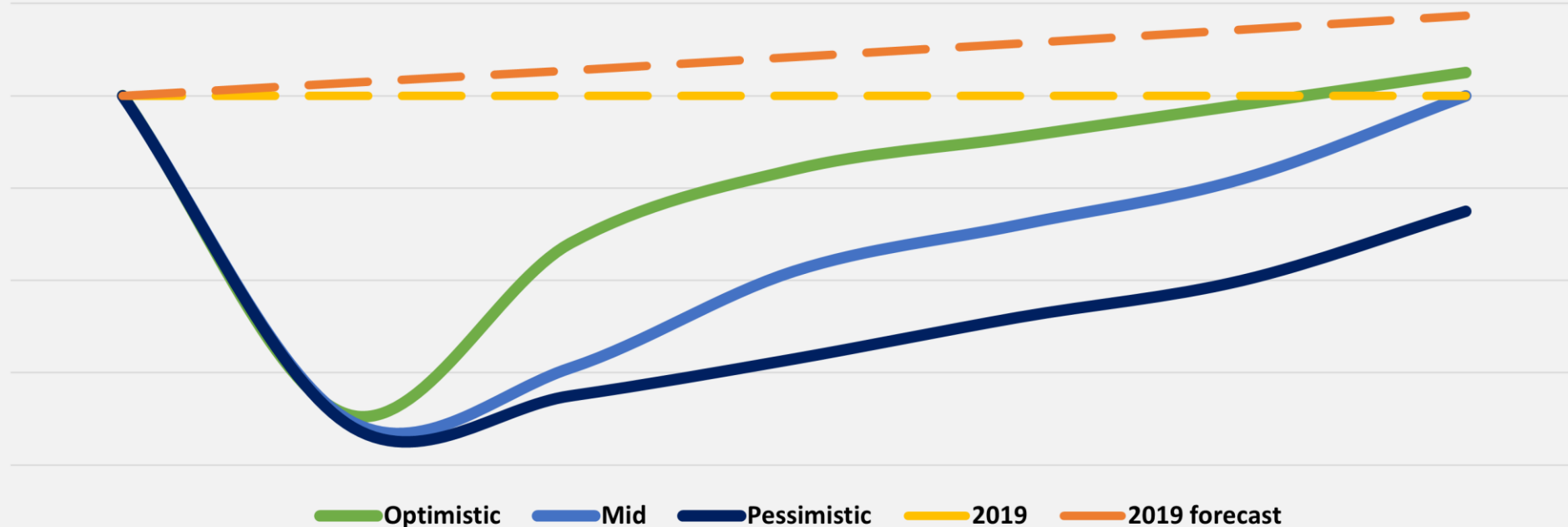
Airports, governments may not be ready for passengers returning to air travel this summer, ACI Europe warns.



- Full recovery only by 2025

European Airport Passenger Traffic: Annual Forecast Scenarios

2019 2020 2021 2022 2023 2024 2025



COVID-19 IMPACTS

Structural & Lasting

• SYSTEMIC FINANCIAL WEAKNESS

- 2020/21 historic losses

CAPA News Analysis Data CAPA Live & Events About Log In

28-Apr-2021 3:59 PM

European airports to lose EUR29 billion revenue in 2021

10 FEBRUARY 2021 16:05

Swedavia's Year-End Report 2020: Historic loss due to pandemic – despite early, forceful measures

NL#TIMES

FRIDAY, FEBRUARY 19, 2021 - 09:25

Schiphol Group ends 2020 with €563 million loss

CAPA News Analysis Data CAPA Live & Events About Log In

18-Feb-2021 4:20 AM

Groupe ADP reports EUR1.4bn operating loss in 2020

Groupe ADP reported (17-Feb-2021) the following financial highlights for the 12 months ended 31-Dec-2020:

FlightGlobal

Networks

Heathrow Airport losses top £2 billion in pandemic-hit 2020

By Graham Dunn | 24 February 2021

THE IRISH TIMES

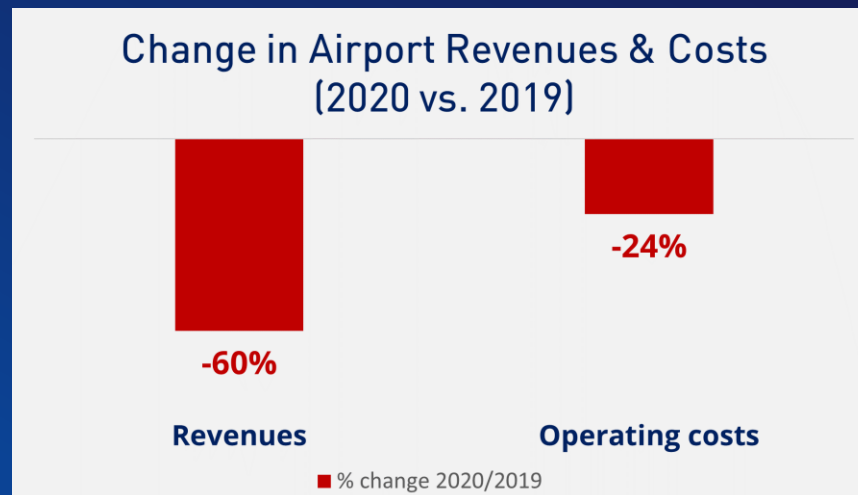
Covid leaves Knock Airport with €4m loss

Government should open 'air corridor' with UK regions, says airport manager

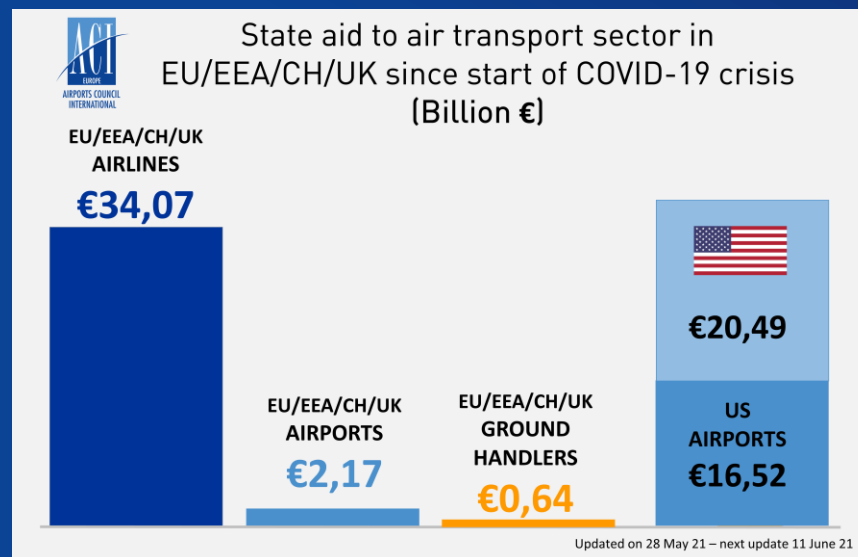
Less than **10** profitable airports out of... **780**

- Key factors

i) Collapsed revenues & fixed costs = cost cutting unable to offset drop in earnings



ii) Limited financial support from States



- iii) *Continued competitive pressures & Massive aid to airlines...
NOT trickling down to airports*

FINANCIAL TIMES

Deutsche Lufthansa AG

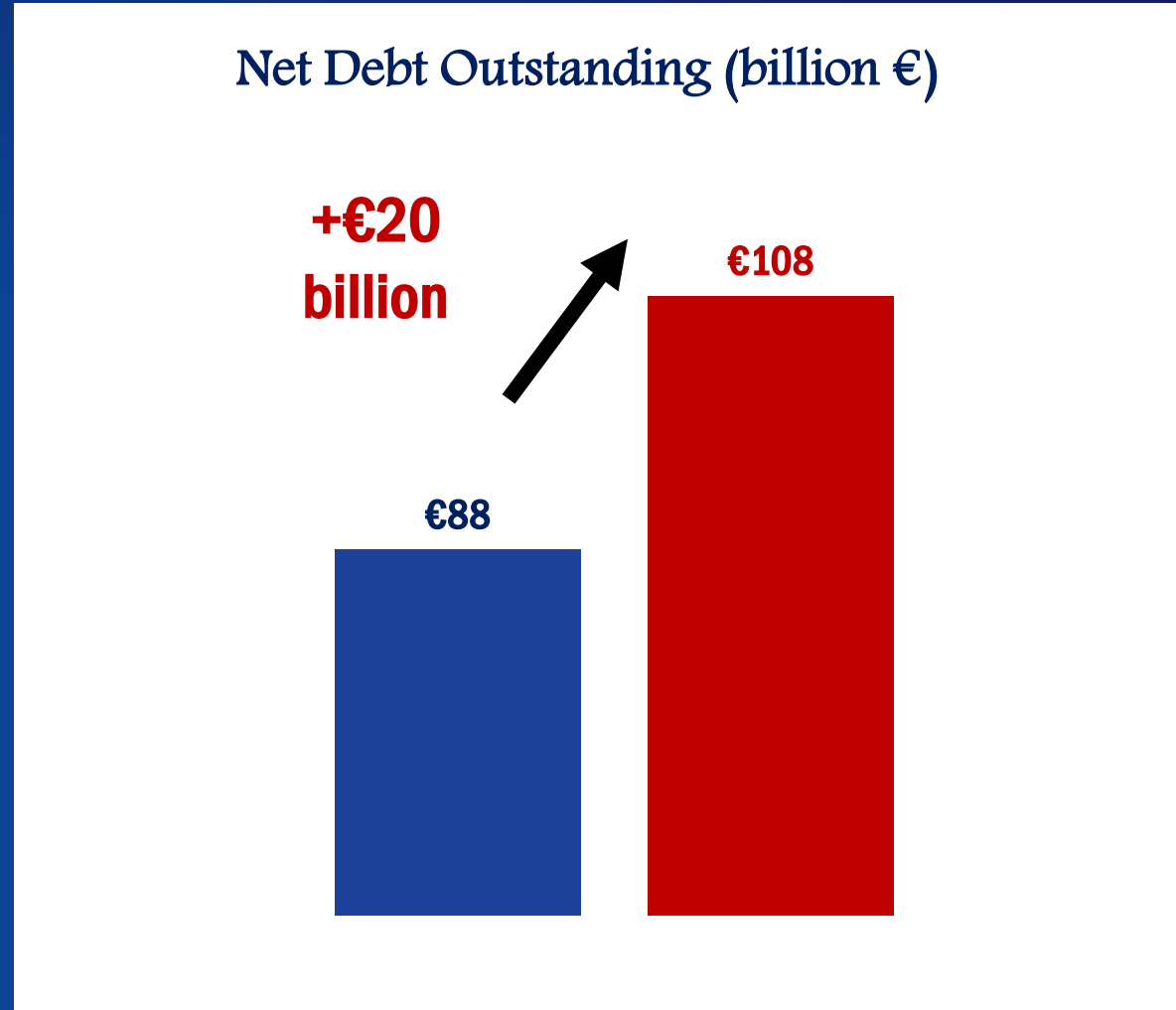
Lufthansa chief says €9bn bailout larger than needed for survival

Rescue package aims to cement group's position as 'German global champion', admits Carsten Spohr



COVID-19 charges rebates & incentive = **70%** of European airports

- **Debt increase: + €20 billion**



... Financing current operations

• CASH INTENSIVE & REVENUE WEAK RECOVERY

- Health measures (Physical distancing)
= *reduced capacity*
- Traffic concentrations & peaks
= *scaled up capacity & resources*
- Slot waivers & late hand-backs
= *unused capacity & limited planning visibility*



Driving cost increases & inefficiencies...

... BUT slow traffic recovery limiting revenue growth



LASTING FINANCIAL WEAKNESS

- **INVESTMENT CRUNCH LOOMING**

- **Cost cutting exhausted & More not an option**

"The ability (of European airports) to further reduce operating costs and investment is limited" – Moody's (8 June)

- **Revenue generation constrained**

- i) Slower traffic growth

- ii) Competitive pressures & airline dominance

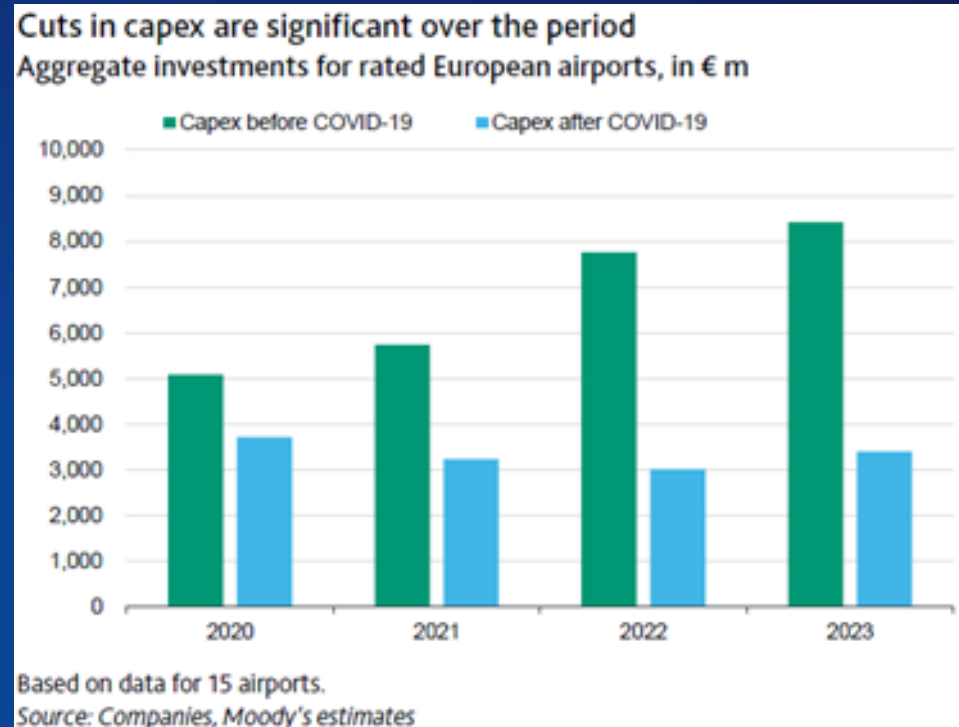
- iii) Charges regulation & inability to recoup COVID-19 losses?

- **Limited public financing & EU State aid constraints**



**Revenues insufficient to meet capital expenditure & capital costs
until 2032 + more debt...**

- Investments already slashed



= Airport industry decarbonisation & NET ZERO 2050 pledge @ risk

= Airport digitalisation & operational efficiency @ risk

= Airport capacity & connectivity @ risk

= More scarcity rents for airlines & higher fares for consumers

= European cohesion & regional development hampered

WAY FORWARD

Policy/Regulatory & Industry Alignment

- **COVID-19 = TURNING POINT...
...CLIMATISATION = NEW ERA**

"The next 10 years must be a turning point, first and foremost for Global CO₂ emissions"

"There will be change to the way we work and travel"

"I want this decade to be the Roaring Twenties of climate action and climate investments"

**Ursula von der Leyen
President of the European Commission**



Aviation business models & eco-system reset

- **EU STATE AID RULES RESET**
 - **From Temporary Framework to Recovery Framework**
 - **Public financing for decarbonisation/sustainability**
 - **EU Resilience & Recovery Facility = regulatory failure**
 - **Regional airports & local development**



- **2014 Aviation State Aid Guidelines review = a must**

• AIRPORT REGULATION RESET

1) COVID-19 = limits & flaws of intrusive price cap models

- “One way street” : airport affordability for airlines (+ scarcity rents) & airport business = risk free (stable & continued traffic growth)
- Unfit for exceptional occurrences... Airport traffic risk & lower growth

Dublin Airport charges plan will require review - CAR

Updated / Tuesday, 2 Jun 2020 18:44



- “Protecting” airlines in good times & airports in bad times



TRAVELWEEKLY

Heathrow ‘delays plans’ to speed up security checks

by Samantha Mayling © May 24, 2021, 15:47

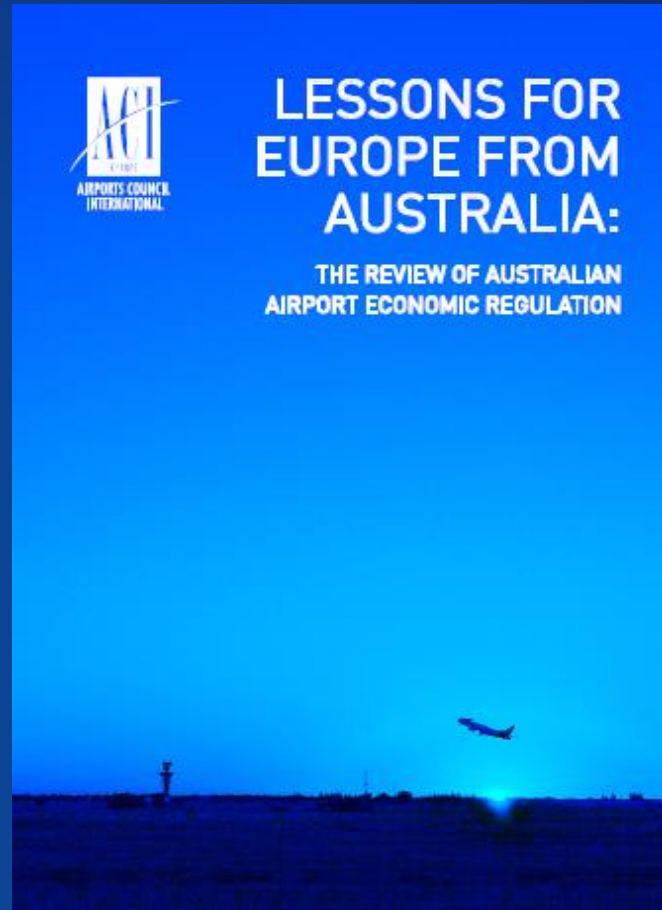
2) Alignment with Climate goals

- Cost recovery & user pays principle = no alternative
- Rebalancing national regulators' systematic focus on airport affordability
- Sharing scarcity rents (slots)?



3) Alignment with market reality & dynamics

- Lessons from Australia



i) Most European airports do not have market power

ii) Pricing power is NOT abuse of market power

iii) Significant airline countervailing power

iv) Airline interest is NOT passenger interest

v) Intrusive regulation impeding commercial dynamics

• INDUSTRY COOPERATION

- Unprecedented over the past seventeen months



Aviation, Travel & Tourism Sectors Applaud European Parliament Vote on "EU COVID-19 Certificates" – Setting Final Negotiations with European Commission and Council into Motion



Airports and airlines issue plea to Europe's Heads of State: Prioritise preparations and set a date to make the Digital Green Certificate a reality



Travel and Tourism stakeholders call for swift adoption and implementation of harmonised EU travel rules



DESTINATION
2050



THE GREAT RESET



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THANK YOU



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Airport Strategies for Financial Recovery

PRESENTATION

Whitepaper: **Turnaround Time: Airport Financial
Recovery and Restart Following COVID-19**

Brian Horn

Managing Director, AlixPartners



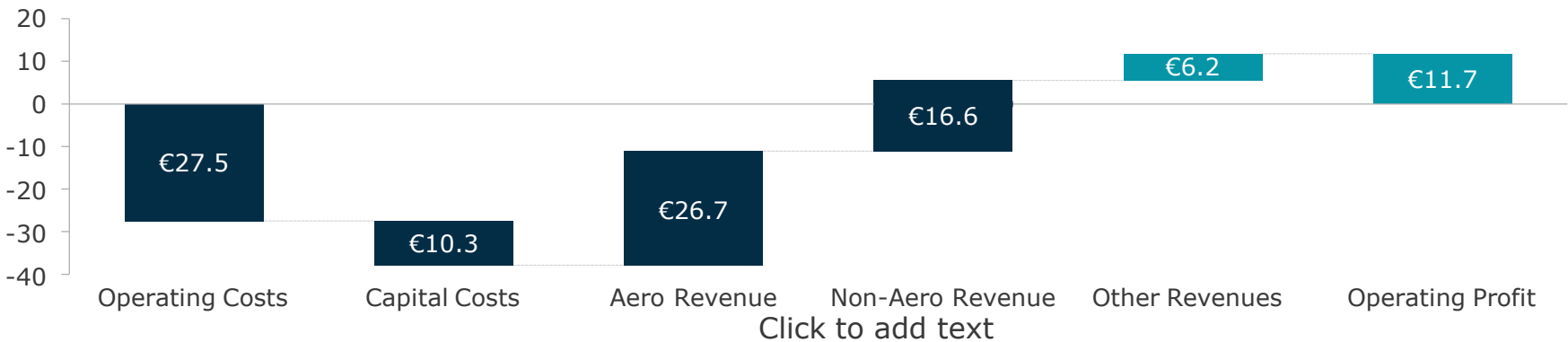
Airport Restart and Recovery Following COVID-19

ACI EUROPE Airport Economics Symposium

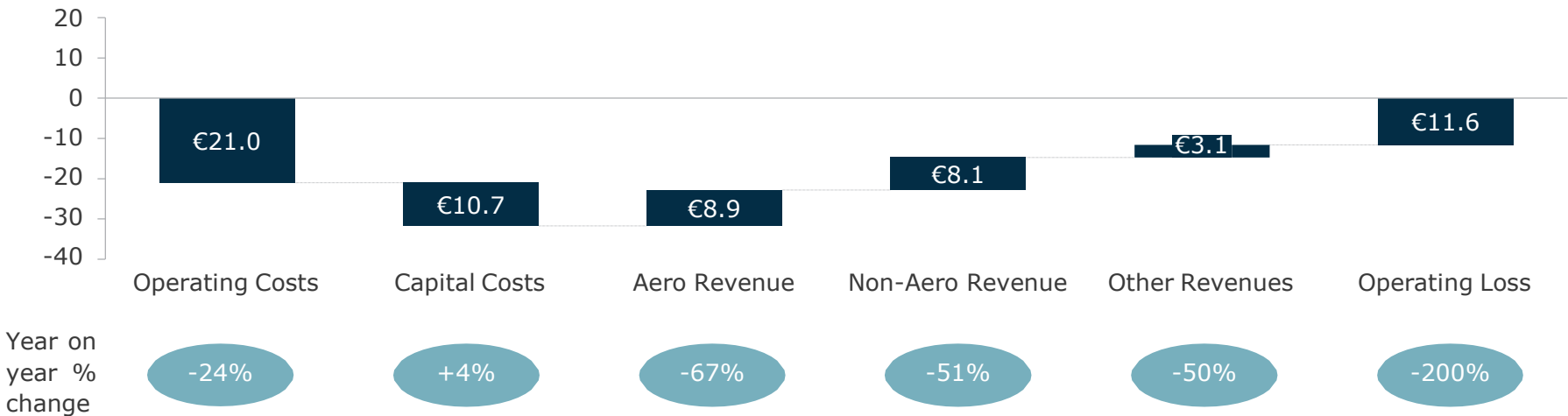
17 June 2021

Europe’s airports have experienced a massive and systemic shock as the sudden collapse of air traffic resulted in severe revenue reductions

2019: The role of commercial revenues in European Airport Viability (€Billion)



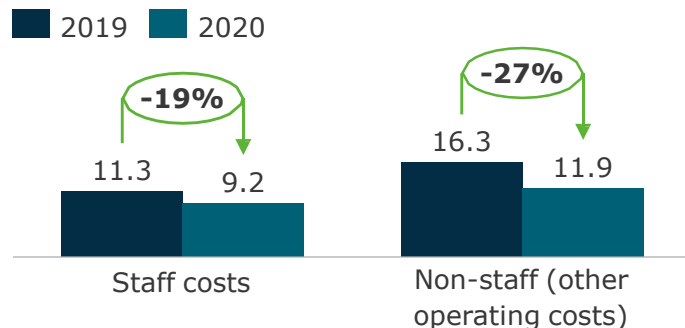
2020: The impact of the pandemic on capital costs and revenue affecting European Airport Viability (€Billion)



- Declines in passenger volumes have resulted in significant reductions in operating profit for airports across Europe
- Total revenues fell by €30 billion year-on-year, or around 60%
- Airports were able to reduce operating costs during the pandemic, but not to the same extent as decreases in revenue
- Airports have been forced to increase indebtedness to shore up liquidity
- Looking forward, the cost of re-opening terminals and general restart is going to result in greater cash burn for airports

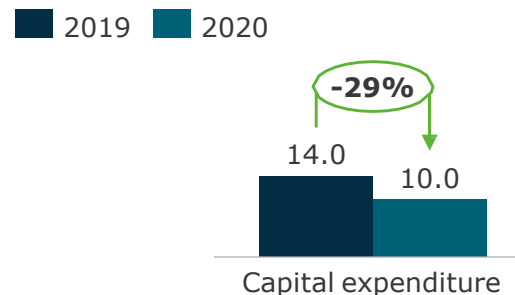
The drop in passenger numbers in Europe has not been matched by a decline in operational costs, however airports have sought to mitigate the economic impact

2019 -2020: Reduction in operating costs (€Billion)



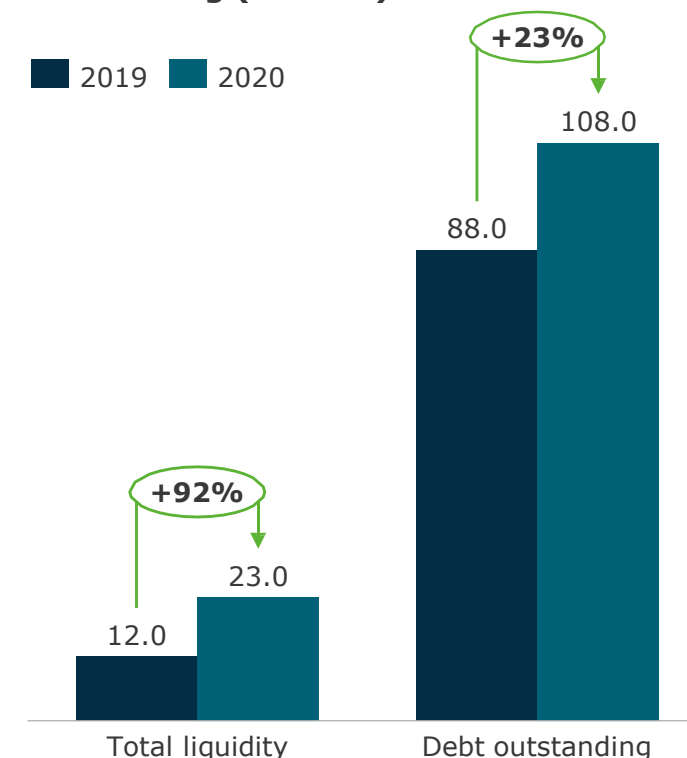
- On average, staff and contracted services costs make up nearly two-thirds of an airport's total operating costs
- Staff cost savings have also been achieved through:
 - negotiations with workers and unions to reduce annual salary indexation,
 - transitioning staff to more flexible contracts
- Airports sought to reduce operating costs through terminal closures

2019 -2020: Capital expenditure (€Billion)



- The overwhelming first action of airports was to postpone, reduce or defer investment in all but essential capital projects
- Some airports brought forward planned runway maintenance
- Others have restricted capital expenditure to essential works:
 - hold baggage screening equipment to comply with European regulations
 - programmes where delays would have increased costs

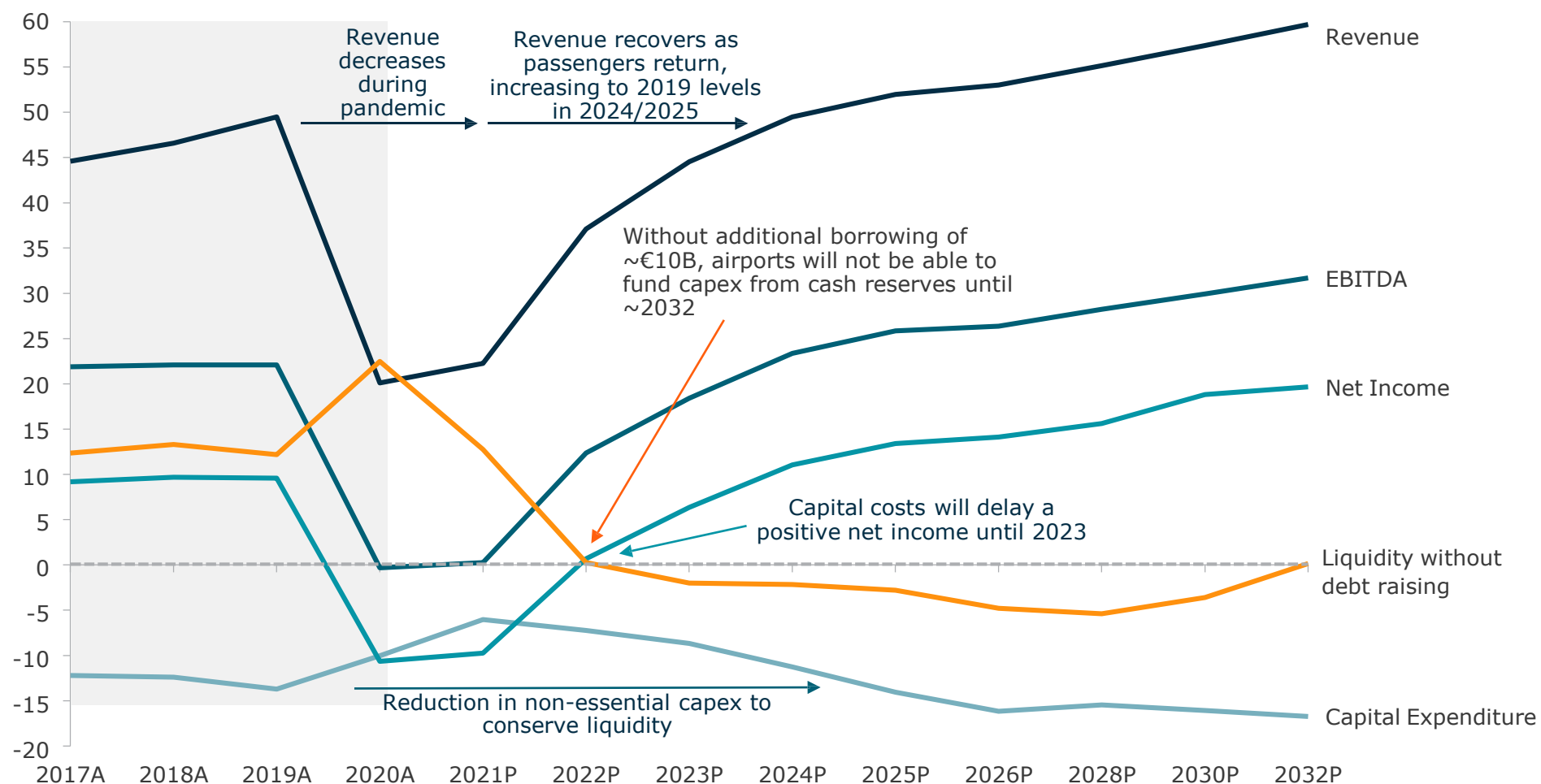
2019 - 2020: Liquidity & net debt outstanding (€Billion)



- To bolster their balance sheets and counter cash burn, airports have raised material, additional financing through the capital and debt markets

The combination of higher interest costs, operational cash burn and delayed non-essential capex all serve to put pressure on liquidity in the sector

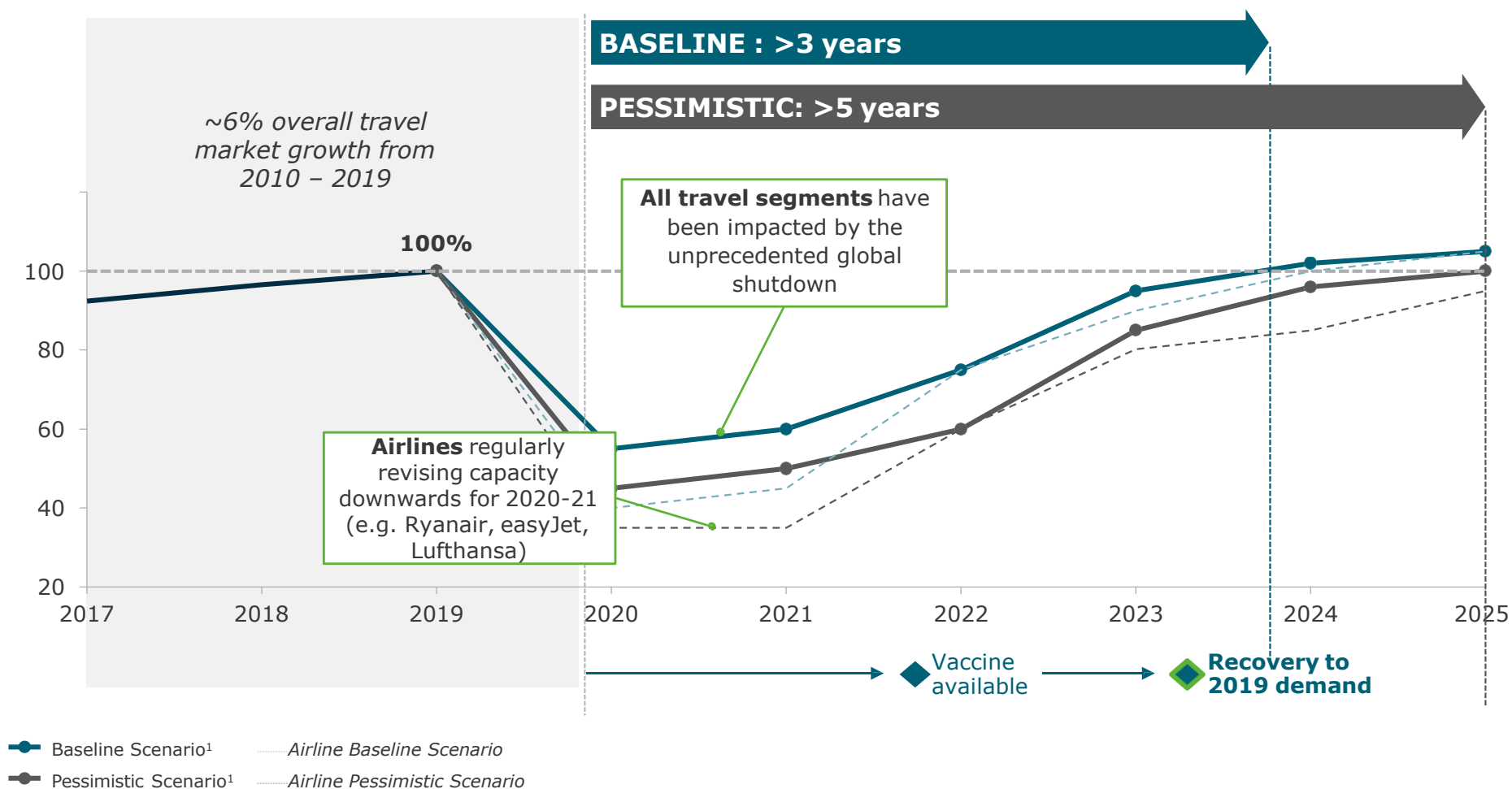
Key financials (€B)



- Airports have largely been able to raise and refinance debt within their existing terms, albeit with increased interest rates
- There was a 35% increase in total financial liabilities on average across Europe's largest airport operators
- Airports will need to borrow additional financing to cover the liquidity shortfall approaching in 2023
- A large portion of replacement and maintenance capex cannot be avoided to ensure the safety of airports and compliance with regulations

Continued disruption is putting huge pressure on demand levels, which could take >3 to 5 years to recover to pre-crisis levels

Market forecast (% vs 2019)



¹ Methodology: IATA Airline Demand Curve (estimate on Revenue Passenger Kilometers) used as a starting point, adjusted for other travel & leisure spend (e.g. domestic travel) based on Euromonitor data as well as country-specific macro-economic indicators (e.g. Private Consumption, Economic Growth)

- There remains significant uncertainty about how quickly or permanently demand for leisure travel will return to pre-pandemic levels
- There is pent-up demand among leisure travellers for foreign holidays and visits to friends and relatives
- The return of business travel volumes to pre-pandemic levels is highly unpredictable
- Easing travel restrictions will not necessarily alleviate travellers' concerns around:
 - contracting the virus
 - proof of vaccination requirements
 - testing and quarantine obligations and their associated costs

Airports will be crucial enablers of Europe's economic recovery post-pandemic, but Airport recovery requires support from multiple stakeholders

More flexible regulatory charging structures

While regulatory approaches to the recovery of costs from previous years differ considerably between countries, many of Europe's airports will see their multi-year regulatory charging agreements expire in the next two years.

There is, therefore, an opportunity to encourage regulators to adopt a more flexible approach:

1. Re-profile cost recovery to future years
2. Recognise that in the post-pandemic era, airport investment has a higher risk perception
3. Evaluate allowing future charges to recover losses in previous periods where additional cash flow is necessary to maintain and enhance airports in the future

Collaboration with concessionaires and airlines on customer experience

- The relationships between airports and concession holders will remain critical as both adapt to changes in customer profile and demand
- Customer experience is a key driver to enhance non-aviation revenues for retailers, food and beverage operators, airlines, and air service providers as well as airports
- Customer journeys at the airport are already shifting given accelerated developments to reduce physical touchpoints for safety purposes
- Further progress will depend on greater integration and coordination between airports, airlines and retailers and the willingness of passengers to share their data

Support of a sustainable recovery and innovative future revenue streams

- The prolonged impact of the pandemic and the significant obstacles to recovery mean there will also be a need for more innovative, 'outside-the-box' solutions to:
 - reduce costs
 - generate additional revenue
 - meet sustainability targets
- As with any investment decision, capital and the support of airport owners will be required to launch new initiatives

AlixPartners

WHEN IT REALLY MATTERS.

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Airport Strategies for Financial Recovery

PANEL 1: THE INVESTMENT CRUNCH

Moderator: **Andrew Charlton**



Henrik Hololei

European Commission



Birgit Otto

Amsterdam Airport Schiphol



Dalton Philips

daa



Andrea Wächtershäuser

IATA

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Airport Strategies for Financial Recovery

BREAK



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PRESENTATION

Future of Economic Regulation

Jon Phillips

Director, Global Infrastructure Investors Association (GIIA)



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PANEL 2: POLICY AND REGULATORY ALIGNMENT AND IMPLICATIONS

Moderator: **Andrew Charlton**



Elisabetta de Bernardi

Atlantia



Werner Kersch

IFM Investors



Cathy Mannion

Irish Commission for Aviation
Regulation



Nicolas Notebaert

VINCI Airports



David Warnock-Smith

Buckinghamshire New
University

AIRPORT ECONOMICS SYMPOSIUM

Airport Strategies for Financial Recovery

SUMMARY OF DISCUSSIONS

Jost Lammers

ACI EUROPE President

Munich Airport President & CEO



AIRPORT ECONOMICS SYMPOSIUM

Airport Strategies for Financial Recovery



CONCLUSION

Andrew Charlton

Managing Director, Aviation Advocacy



UPCOMING EVENT



31ST ACI EUROPE Annual Congress & General Assembly

26 - 27 October 2021
Geneva, Switzerland

HOSTED BY:

GENÈVE
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