# Preparing for the restart of the fuel value chain in Africa

AFRAA ASC - 18 May 2021

# Welcome

**Alex Küper**

Director Fuel, IATA

# Agenda

Welcome
(Intro and Anti-Trust Briefing)

Quality jet fuel

Q/A

Reliable, on-time supply

Q/A

Competitive fuel costs

Q/A

Wrap up
(Final Questions)

# Competition Law Guidelines

- Follow the Agenda
- Do not discuss
  - Pricing including fares, service charges
  - Commissions
  - Bids on contracts
  - Allocation of customers
  - Geographic/Product market allocations and marketing plans
  - Group boycotts
  - Your relations with agents, airlines or other third parties
  - Any discussions aimed at influencing independent business decision of competitors
- All discussions count, even informal ones

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# Introduction

## Context

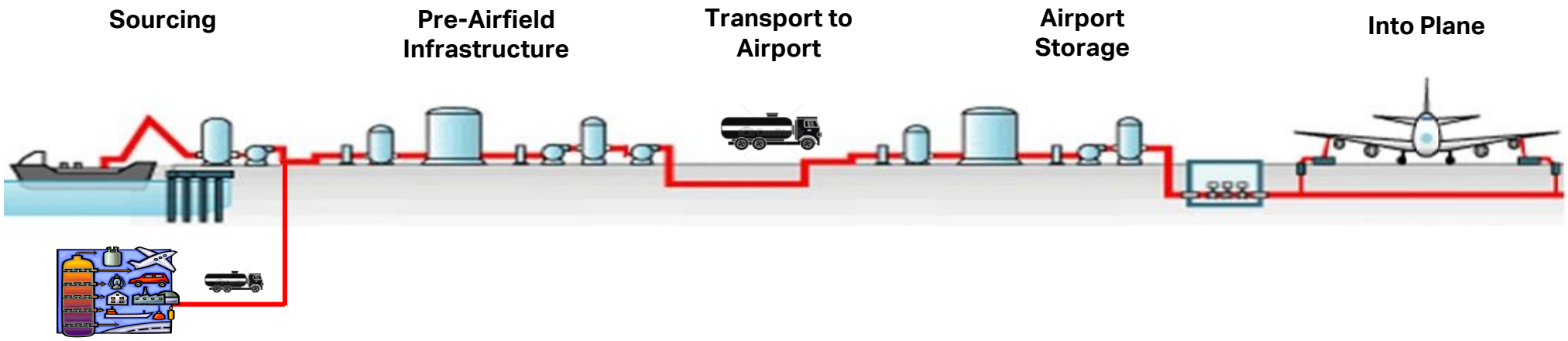
- Traffic collapsed in 2020: region heavily affected with 69% drop in passenger demand in Africa
- Strong impact on all levels of the jet fuel supply chain
- Still a very challenging outlook in 2021 but some markets are expected to open up in H2
- Timely to address which steps can be taken to prepare for the fuel supply chain return to service

## Practical information

- Participative session: ask your questions in the chat, vote through polls
- Slides will be distributed
- You will be available to download IATA guidance materials

# Impacts across all the fuel supply chain

## Challenges to all participants in the value chain




| Sourcing | Pre-Airfield Infrastructure | Transport to Airport | Airport Storage | Into Plane |
|---|---|---|---|---|
| Product yields, floating storage | Off-airport storage facilities | Pipelines and ground transport volumes | On-airport storage, hydrants | Equipment and manpower |

# Poll Question:

*What is your biggest concern regarding Fuel when restarting flights in a location?*

1. *Quality*
2. *Supply*
3. *Costs*
4. *1, 2 and 3*

Quality jet fuel

Reliable, on-time supply

Competitive fuel costs

# Adopting best practices for quality jet fuel


21 May 2021

# Facilitator

**Mark Vaughan**

Head Technical Fuel Services, IATA

# Poll question

Quality jet fuel

*What needs to be done when an aircraft is being brought back into service after having been parked for a long period of time?*

1. *Check for microbiological contamination in the fuel tanks*
2. *Service aircraft in accordance with the Aircraft Maintenance Manual*
3. *Ensure that the fuel being uplifted is on specification and fit for purpose*
4. *Both 1 and 2*
5. *1, 2 and 3*

# On-airport equipment maintenance (JIG)

At the start of the pandemic fuel facilities were operating at greatly reduced capacity

The Joint Inspection Group (JIG) issued Bulletins 128 "*Placing equipment into care as part of pandemic response*". Topics listed below were addressed:

- Fueling Facilities
- Fueling Equipment
- Hydrant systems usage and maintenance
- Keeping fueling staff current
- We have included a copy of JIG Bulletins 128 *(public documents)*

# Microbiological Contamination

- **Step 1** Remove water though regular slumping
- **Step 2** Test for microbial contamination using a test kit
- **Step 3** Eliminate/Treat using biocide and or tank cleaning






# IFQP Inspections

- Regulators require airlines to have oversight over fuel uplifted
- Airlines established the IATA Fuel Quality Pool (IFQP) to share the load of inspection requirements
- During the pandemic IFQP put measures in place to continue ensuring safety where physical inspections could not take place through:

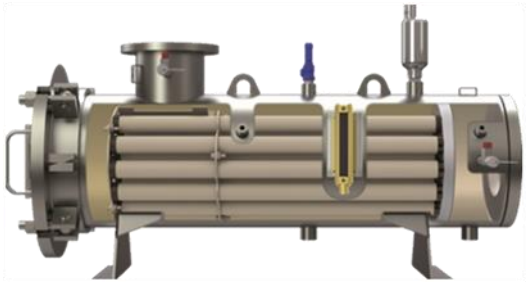
*Desktop Inspections*

*Keeping inspector's current  though virtual training*

*Reallocating inspections to inspectors in the country where they live*

*IFQP is looking at a risk-based approach to prioritizing  the eliminating of backlogs once free travel is allowed*

# Update on filtration



Fuel Filtration that can be used for into plane fueling

- Filter Water Separators
- Dirt Defense in conjunction with Electronic Water Sensors *(Bulletin 130 included)*

- Filter Monitors (SAP based filtration). JIG Bulletin 105 shall be implemented when using FM *(copy included)*
- Additional drop in filer technology is being trialed now (Water Barrier)

Background documentation to why FM are being replaced

*IATA Super-absorbent Polymer (SAP) Special Interest Group – Data summary and proposed roadmap* *(copy included)*

# Guidance materials

Operations Bulletin

JIG
jigonline.com

Bulletin No 128 Placing equipment into care as part of pandemic response 25 Mar 20

**Guidance for managing operations as part of COVID-19 pandemic response – Valid for 3 months**

**Background**

JIG recognises that the COVID-19 outbreak may affect Members' abilities to carry out their routine operations and maintenance tasks due to reduced traffic & throughput levels as well as staffing reductions caused by illness, self-isolation or for business reasons. This Bulletin seeks to issue guidance for users of JIG standards in managing operations under these conditions but also to prepare for a return to normal service levels when activity begins to recover.

Guidance is provided to operations where there is either limited or zero airfield operations, for:

- Maintaining Operations (even if at reduced level), or
- Decommissioning and Recommissioning of equipment where necessary

Operating sites are advised to follow company guidelines and local legislation, in addition to following recommendations included in this Bulletin. JIG will continue to monitor the situation and update the advice as necessary but at least quarterly. Discussions are underway with other industry bodies to ensure a coordinated approach.

**Management of Change (MOC)**

Operators who have been impacted by the pandemic, are expected to activate their Business Continuity Plans (BCPs). All operators shall apply their MOC process throughout this period of change to routine operations. By assessing the impact and potential duration of changes, operators can effectively plan for, and effectively communicate changes to mitigate against incidents.

The overriding principle in relation to change actions in response to the pandemic shall be the protection of people. Consideration shall first be given to minimising activity that could result in the spread of the virus. Minimising work that involves direct contact between individuals and adopting approaches to remote working where safe to do so shall be implemented.

**Recommendations**

Operators shall assess their operational needs and identify if all or part of the equipment or facilities should be temporarily removed from service. A location should identify a minimum level of staffing / competence / compliant equipment / capability to run the operation to JIG standards, even if this is at a reduced state.

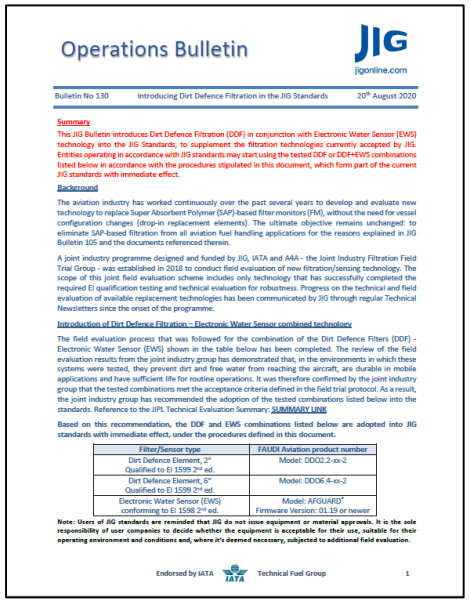
**When safe fuelling and delivery of on specification fuel can no longer be achieved, airport authorities and airline operators shall be notified.**

The principle of action taken should be based on the following priorities:

- **Option 1** - Maintain all equipment in operational mode, where there are no changes in on-site staffing levels, in line with reduced activity to minimise potential risk of virus spread.
- **Option 2** - Where option 1 is not possible, establish a plan to decommission part of the site equipment and facilities that are not needed for the current reduced operation and focus

Endorsed by IATA Technical Fuel Group 1

[JIG Bulletin 128]



Operations Bulletin

JIG
jigonline.com

Bulletin No 130 Introducing Dirt Defence Filtration in the JIG Standards 20th August 2020

**Summary**

This JIG Bulletin introduces Dirt Defence Filtration (DDF) in conjunction with Electronic Water Sensor (EWS) technology into the JIG Standards, to supplement the filtration technologies currently accepted by JIG. Entities operating in accordance with JIG standards may start using the tested DDF or DDF+EWS combinations listed below in accordance with the procedures stipulated in this document, which form part of the current JIG standards with immediate effect.

**Background**

The aviation industry has worked continuously over the past several years to develop and evaluate new technology to replace Super Absorbent Polymer (SAP)-based filter monitors (FM), without the need for vessel configuration changes (drop-in replacement elements). The ultimate objective remains unchanged: to eliminate SAP-based filtration from all aviation fuel handling applications for the reasons explained in JIG Bulletin 105 and the documents referenced therein.

A joint industry programme designed and funded by JIG, IATA and A4A - the Joint Industry Filtration Field Trial Group - was established in 2018 to conduct field evaluation of new filtration/sensing technology. The scope of this joint field evaluation scheme includes only technology that has successfully completed the required EI qualification testing and technical evaluation for robustness. Progress on the technical and field evaluation of available replacement technologies has been communicated by JIG through regular Technical Newsletters since the onset of the programme.

**Introduction of Dirt Defence Filtration – Electronic Water Sensor combined technology**

The field evaluation process that was followed for the combination of the Dirt Defence Filters (DDF) - Electronic Water Sensor (EWS) shown in the table below has been completed. The review of the field evaluation results from the joint industry group has demonstrated that, in the environments in which these systems were tested, they prevent dirt and free water from reaching the aircraft, are durable in mobile applications and have sufficient life for routine operations. It was therefore confirmed by the joint industry group that the tested combinations met the acceptance criteria defined in the field trial protocol. As a result, the joint industry group has recommended the adoption of the tested combinations listed below into the standards. Reference to the JIPL Technical Evaluation Summary: SUMMARY LINK

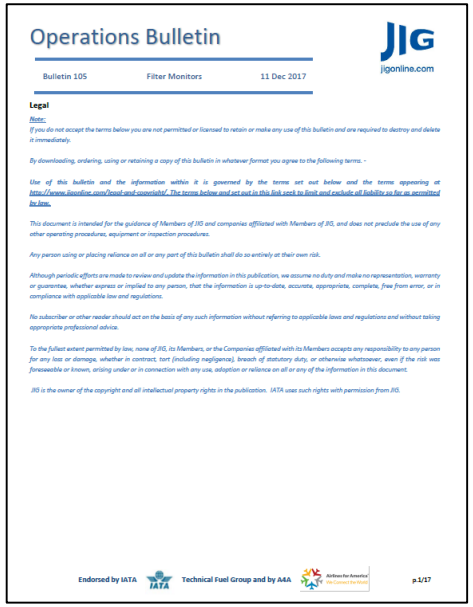
**Based on this recommendation, the DDF and EWS combinations listed below are adopted into JIG standards with immediate effect, under the procedures defined in this document.**

| Filter/Sensor type | FAUDI Aviation product number |
|---|---|
| Dirt Defence Element, 2" Qualified to EI 1599 2nd ed. | Model: DDO2.2-xx-2 |
| Dirt Defence Element, 6" Qualified to EI 1599 2nd ed. | Model: DDO6.4-xx-2 |
| Electronic Water Sensor (EWS) conforming to EI 1598 2nd ed. | Model: AFGUARD® Firmware Version: 01.19 or newer |

**Note: Users of JIG standards are reminded that JIG do not issue equipment or material approvals. It is the sole responsibility of user companies to decide whether the equipment is acceptable for their use, suitable for their operating environment and conditions and, where it's deemed necessary, subjected to additional field evaluation.**

Endorsed by IATA Technical Fuel Group 1

[JIG Bulletin 130]



Operations Bulletin

JIG
jigonline.com

Bulletin 105 Filter Monitors 11 Dec 2017

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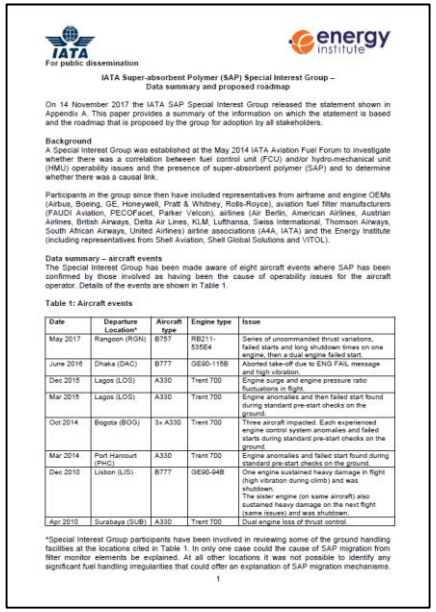
Endorsed by IATA Technical Fuel Group and by A4A p.1/17

[JIG Bulletin 105]



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For public dissemination

energy institute

**IATA Super-absorbent Polymer (SAP) Special Interest Group – Data summary and proposed roadmap**

On 14 November 2017 the IATA SAP Special Interest Group released the statement shown in Appendix A. This paper provides a summary of the information on which the statement is based and the roadmap that is proposed by the group for adoption by all stakeholders.

**Background**

A Special Interest Group was established at the May 2014 IATA Aviation Fuel Forum to investigate whether there was a correlation between fuel control unit (FCU) and/or hydro-mechanical unit (HMU) operability issues and the presence of super-absorbent polymer (SAP) and to determine whether there was a causal link.

Participants in the group since then have included representatives from airframe and engine OEMs (Airbus, Boeing, GE, Honeywell, Pratt & Whitney, Rolls-Royce), aviation fuel filter manufacturers (FAUDI Aviation, PECOFacet, Parker Velcon), airlines (Air Berlin, American Airlines, Austrian Airlines, British Airways, Delta Air Lines, KLM, Lufthansa, Swiss International, Thomson Airways, South African Airways, United Airlines) airline associations (A4A, IATA) and the Energy Institute (including representatives from Shell Aviation, Shell Global Solutions and VITOL).

**Data summary – aircraft events**

The Special Interest Group has been made aware of eight aircraft events where SAP has been confirmed by those involved as having been the cause of operability issues for the aircraft operator. Details of the events are shown in Table 1.

**Table 1: Aircraft events**

| Date | Departure Location* | Aircraft type | Engine type | Issue |
|---|---|---|---|---|
| May 2017 | Rangoon (RGN) | B757 | RB211-535E4 | Series of uncommanded thrust variations, failed starts and long shutdown times on one engine, then a dual engine failed start. |
| June 2016 | Dhaka (DAC) | B777 | GE90-115B | Aborted take-off due to ENG FAIL message and high vibration. |
| Dec 2015 | Lagos (LOS) | A330 | Trent 700 | Engine surge and engine pressure ratio fluctuations in flight. |
| Mar 2015 | Lagos (LOS) | A330 | Trent 700 | Engine anomalies and then failed start found during standard pre-start checks on the ground. |
| Oct 2014 | Bogota (BOG) | 3x A330 | Trent 700 | Three aircraft impacted. Each experienced engine control system anomalies and failed starts during standard pre-start checks on the ground. |
| Mar 2014 | Port Harcourt (PHC) | A330 | Trent 700 | Engine anomalies and failed start found during standard pre-start checks on the ground. |
| Dec 2010 | Lisbon (LIS) | B777 | GE90-94B | One engine sustained heavy damage in flight (high vibration during climb) and was shutdown. The sister engine (on same aircraft) also sustained heavy damage on the next flight (same issues) and was shutdown. |
| Apr 2010 | Surabaya (SUB) | A330 | Trent 700 | Dual engine loss of thrust control. |

*Special Interest Group participants have been involved in reviewing some of the ground handling facilities at the locations cited in Table 1. In only one case could the cause of SAP migration from filter monitor elements be explained. At all other locations it was not possible to identify any significant fuel handling irregularities that could offer an explanation of SAP migration mechanisms.

1

[SAP_SIG_Summary_Roadmap]

# Q&A

# Contributing to a reliable, on-time supply of fuel

21 May 2021

# Facilitator

**Marine Sailhen-Brown**

Manager Commercial Fuel, IATA

# Poll question

Reliable, on-time supply

*Do you feel that regular communication between fuel supplier and airline has been lacking in some locations?*

1. YES
2. NO

# Presentation outline

1. Challenges faced by the fuel value chain during Restart
2. Industry Guidance
3. Highlights for Africa
4. Next steps
5. Q&A

# Challenges faced by the fuel value chain during restart

- Forecasting demand
- Flight schedule changes
- Adequacy of fuel supply
- Fuel quality
- Manpower availability
- Equipment serviceability
- Ramp-up lead times

IATA

# Industry Guidance for return to service

IATA

# Information Sharing #1: **AIRLINE** TO **SUPPLIER / ITP**

| WHAT | WHY | WHEN | HOW |
|---|---|---|---|
| • 1. Flight schedule<br>• 2. Airline's fuel volume forecast | • To inform on fuel needs<br>• For ITPs' operational planning | • During the initial restart phase: at least 1 month in advance<br>• As stability returns in the industry: 2 to 3 months in advance | Email from the Airline:<br>• Schedule information:<br>(i) Days of operation<br>(ii) Route<br>(iii) ETD<br>(iv) ETA<br>(v) Aircraft type<br>• Fuel volume forecast where available |
| • Updates to flight schedule | • For operations: manpower planning and fuel supply | • As and when schedule changes are known | • Email from the Airline with updated schedule and aircraft type information<br>• Airport flight information system for daily changes |

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| • Updates to flight schedule | • For operations: manpower planning and fuel supply | • As and when schedule changes are known | • Email from the Airline with updated schedule and aircraft type information<br>• Airport flight information system for daily changes |

# Information Sharing #2: **SUPPLIER / ITP** TO **AIRLINE**

| WHAT | WHY | WHEN | HOW |
|---|---|---|---|
| • Supply or manpower restrictions at contracted airports | • To enable restart of supply at required time | • As soon as issues are known or when requested by airline | • Email |
| • Quality compliance and ready for start-up at contracted airports | • To be assured of fuel quality | • When requested by airlines | • Email |

# Information Sharing #2: **SUPPLIER / ITP** TO **AIRLINE**

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| • Quality compliance and ready for start-up at contracted airports | • To be assured of fuel quality | • When requested by airlines | • Email |

# Highlights for Africa

- Fuel stocks were typically high in 2020, therefore no problem envisaged in the short term
- However, as demand restarts and picks up in Africa, additional efforts could be required to ensure reliability of supply
- Key challenge: long nomination lead time to bring fuel into some countries that do not have their own refining capacity.

**Airline's volume forecast**

- Communication between airlines and suppliers (e.g. provision of schedule/volume forecast information by airlines to suppliers) on a regular basis has been lacking in some cases. Hence, adoption of the guidance is highly encouraged. In addition, the involvement of airline station managers in the exchange of information is particularly important in the region.

**Lead time to ramp-up capacity**

- Currently, the nomination lead time is extensive for some African countries

  - Government schemes (e.g. DAR) – up to 3 months
  - Inland import (e.g. LUN) – 2 months
  - Coastal import (e.g. CPT) – 1 month
  - In country refinery/import mix (e.g. JNB) – 2 months

  The industry should obtain information on how long existing stocks would last and whether there is scope to further stock up in view of the long nomination period and lobby government/supplier to shorten the nomination period.

# Other Information Sources

In addition to the information flow between airlines and fuel supply chain participants, other sources can be consulted to gain understanding of macroeconomic trends and industry developments and support planning and forecasting. These sources include, among others:

- IATA Resources and Publications
- OAG
- A4A & JIG Resources
- CAPA Newsletters
- Consultancy Reports

# Next steps

Guidance available for use by airlines and fuel supply chain participants

## Download Guidance

Available under this link


## Share your Feedback

FuelTeam@iata.org

# Q&A

# Promoting a competitive and favorable cost environment for the restart


21 May 2021

# Facilitator

**Alex Küper**

Director Fuel, IATA

# Fuel represents one of the biggest direct cost items for airlines

5- 10%
comprises add-on to product price

188 $Bn
Industry Fuel Bill
(2019)*

24%
of airlines' operating costs
(2019)*

*Source: IATA Economics

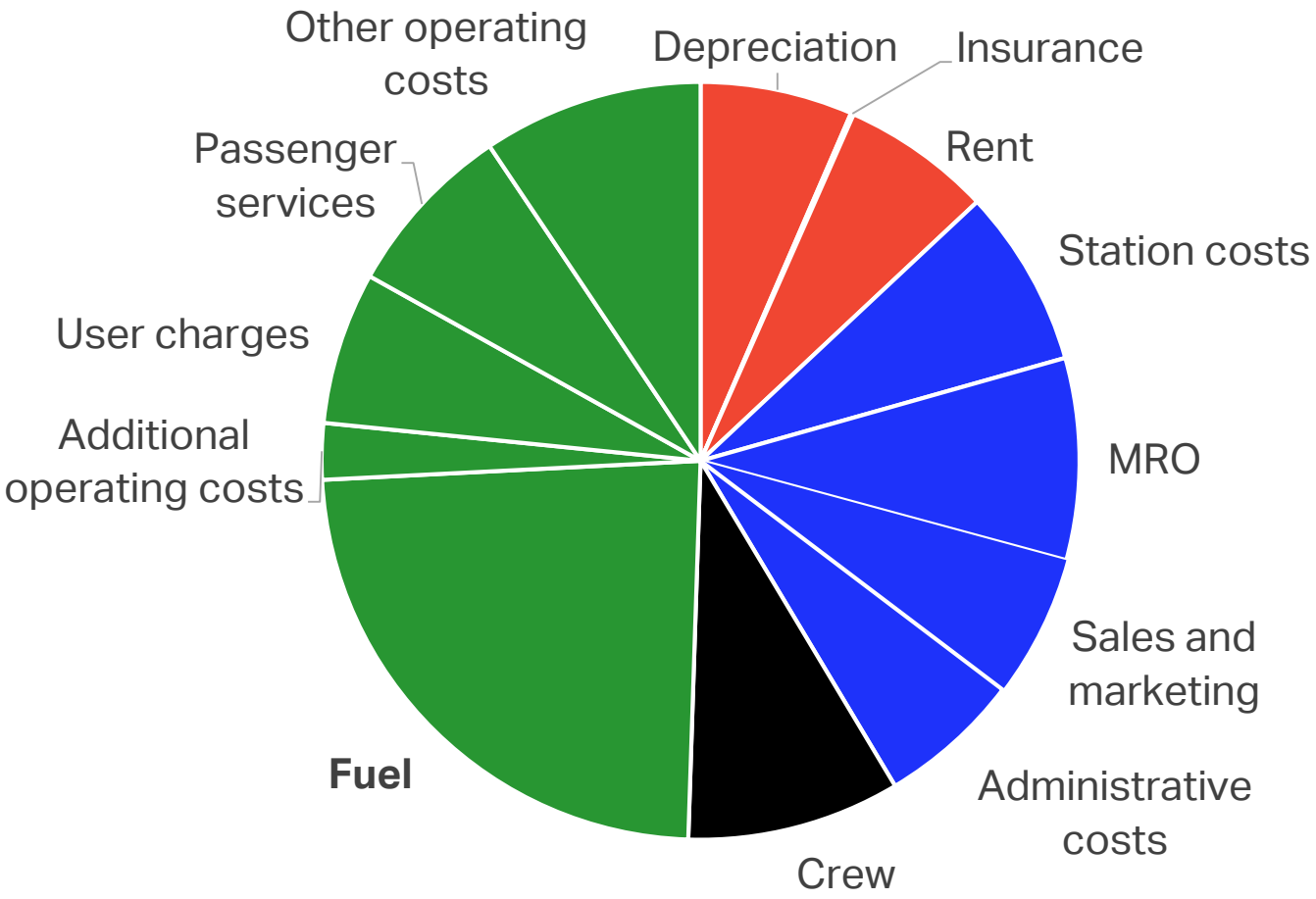
# Airlines' cost structure

## Fuel is at least ¼ of operating costs

**Variable costs**

=

51% of total operating costs




**Fixed costs**

+

**Semi-fixed costs**

+

Crew

=

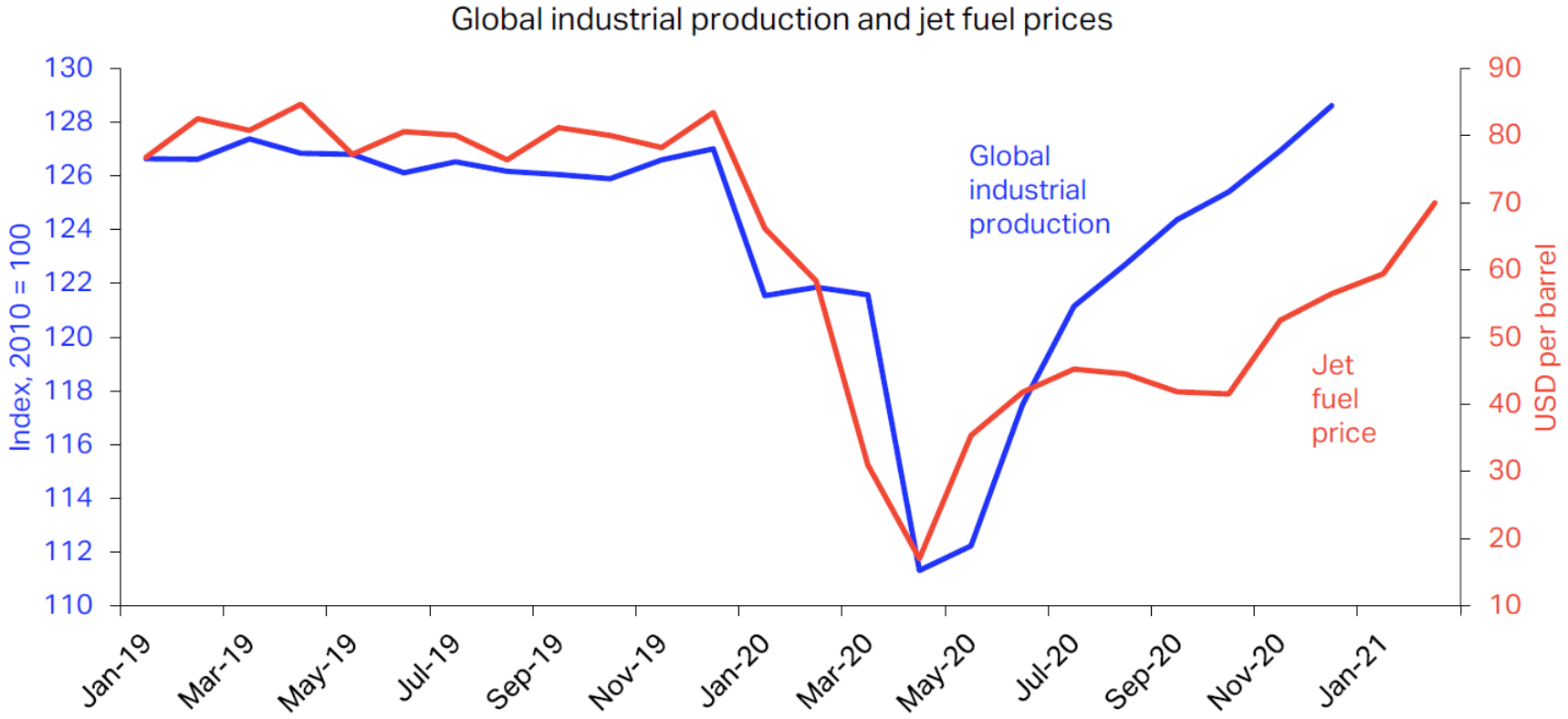
49% of total operating costs

Source: IATA Economics using information from WATS and Economic Performance of the Airline Industry, end 2019

# Higher fuel prices add to airlines' fragile financial position

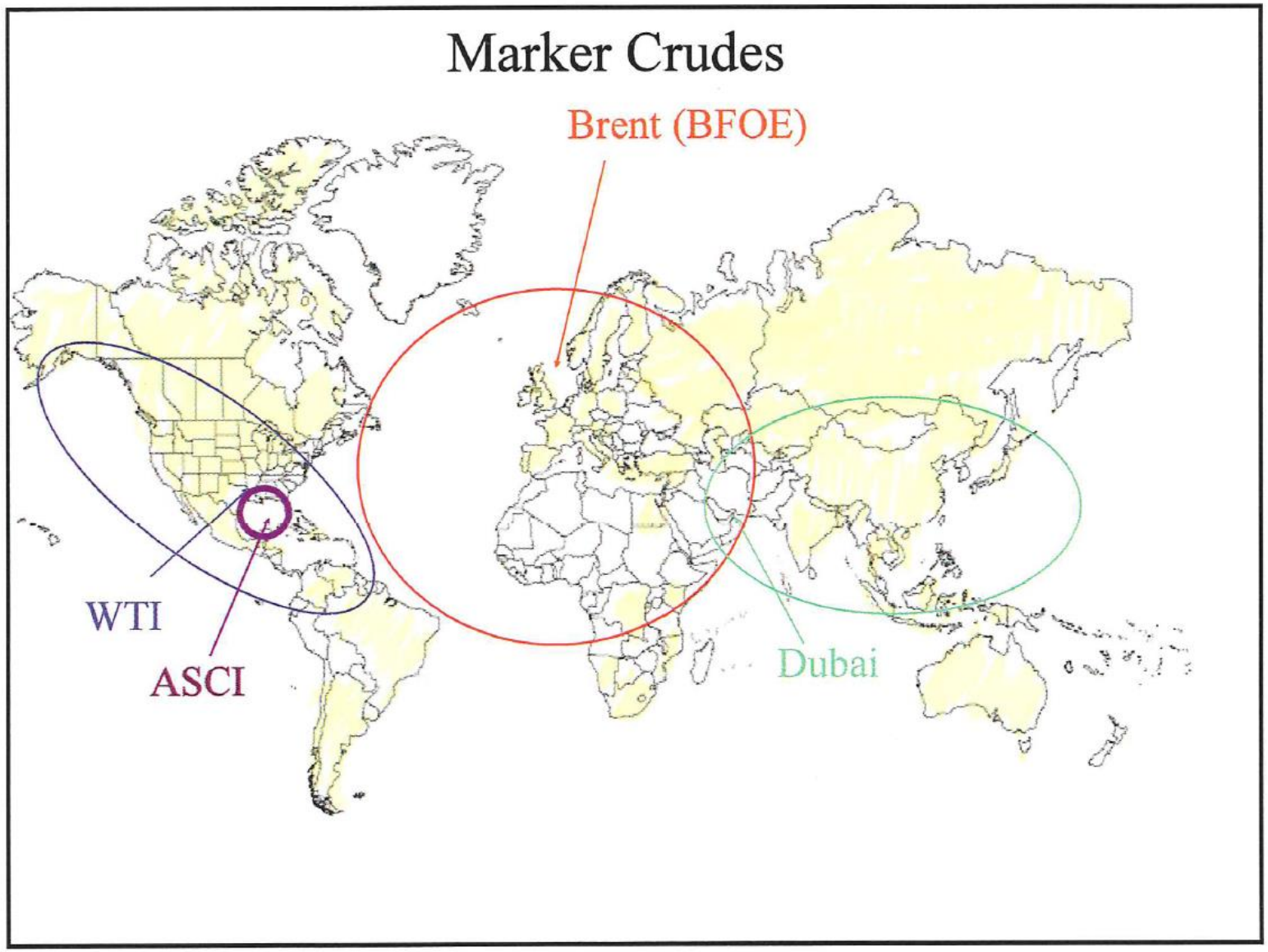
## Encouraging 'V-shaped' economic recovery but fuel is up

### Higher fuel prices add to challenge of making restart cash positive




Source: IATA Economics

# Crude prices



# Components of Fuel Costs - Price

## Main Factors

a) World Jet Fuel Demand (Economy)

b) Fuel Supply situation

c) OPEC-Policy and (OPEC discipline)

d) Supply from Non-OPEC-Countries

e) Political situation (regional stability, war)

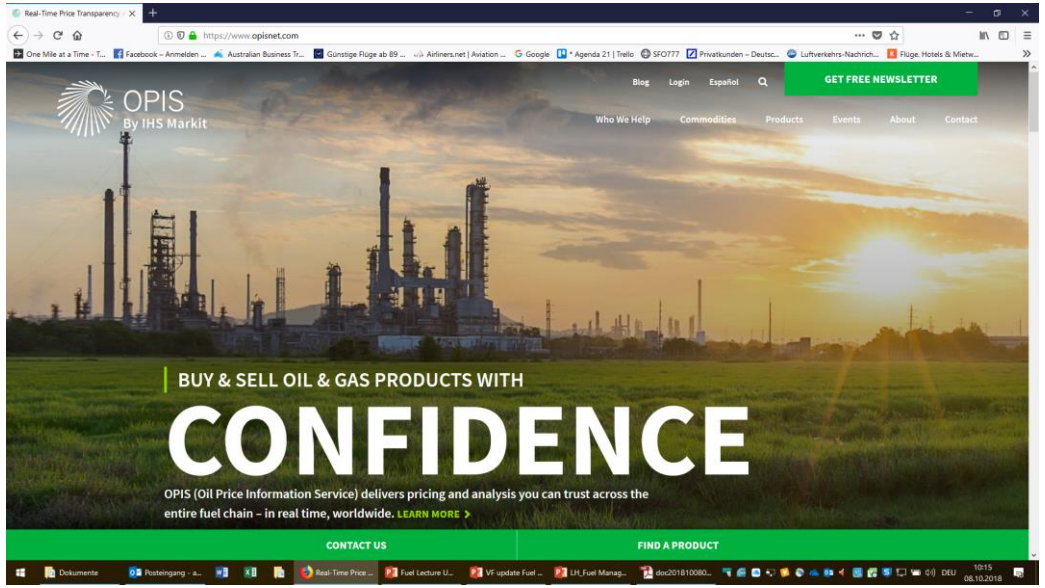
f) External factors (weather, accident, strike)

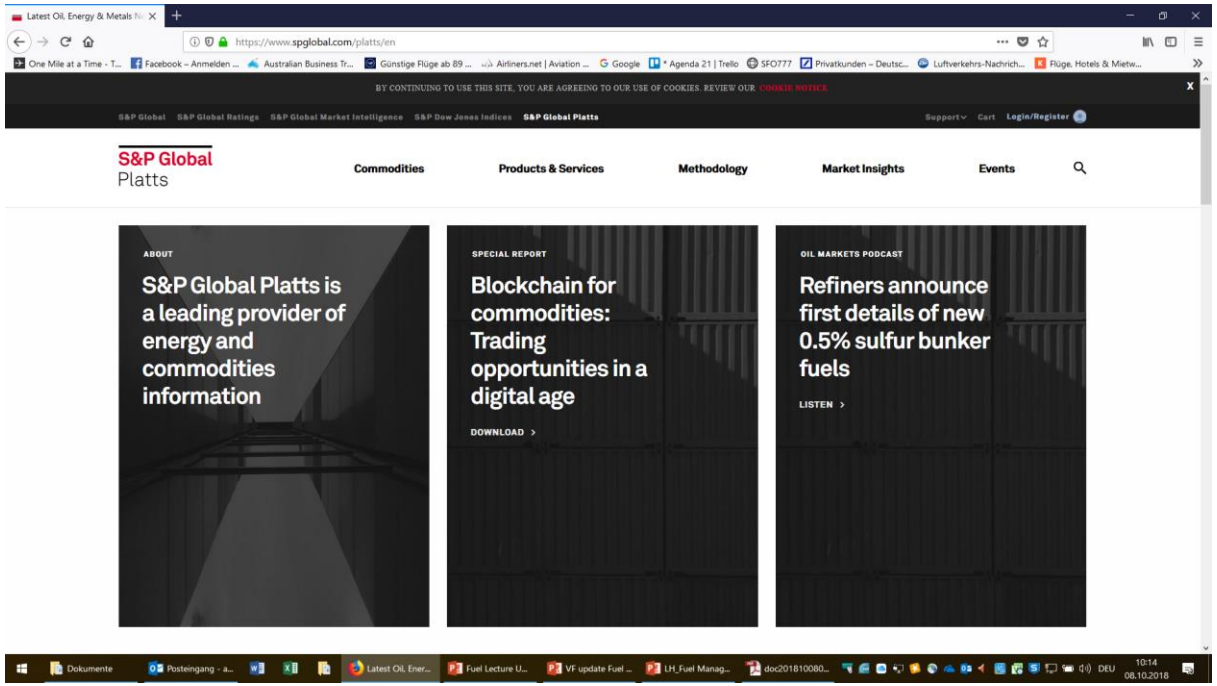

Source: Bloomberg

# Oil products - pricing

Prices are reported by reporting agencies:

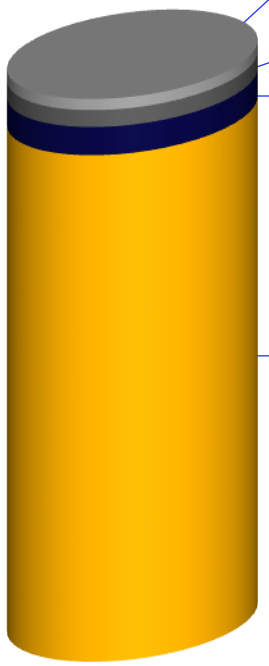
- 1900: Petroleum Review
- 1923: Platt´s daily
- 1970: Argus
- 1980s: Oil Futures Exchange




Source: Platts´website

# Jet Price & self supply



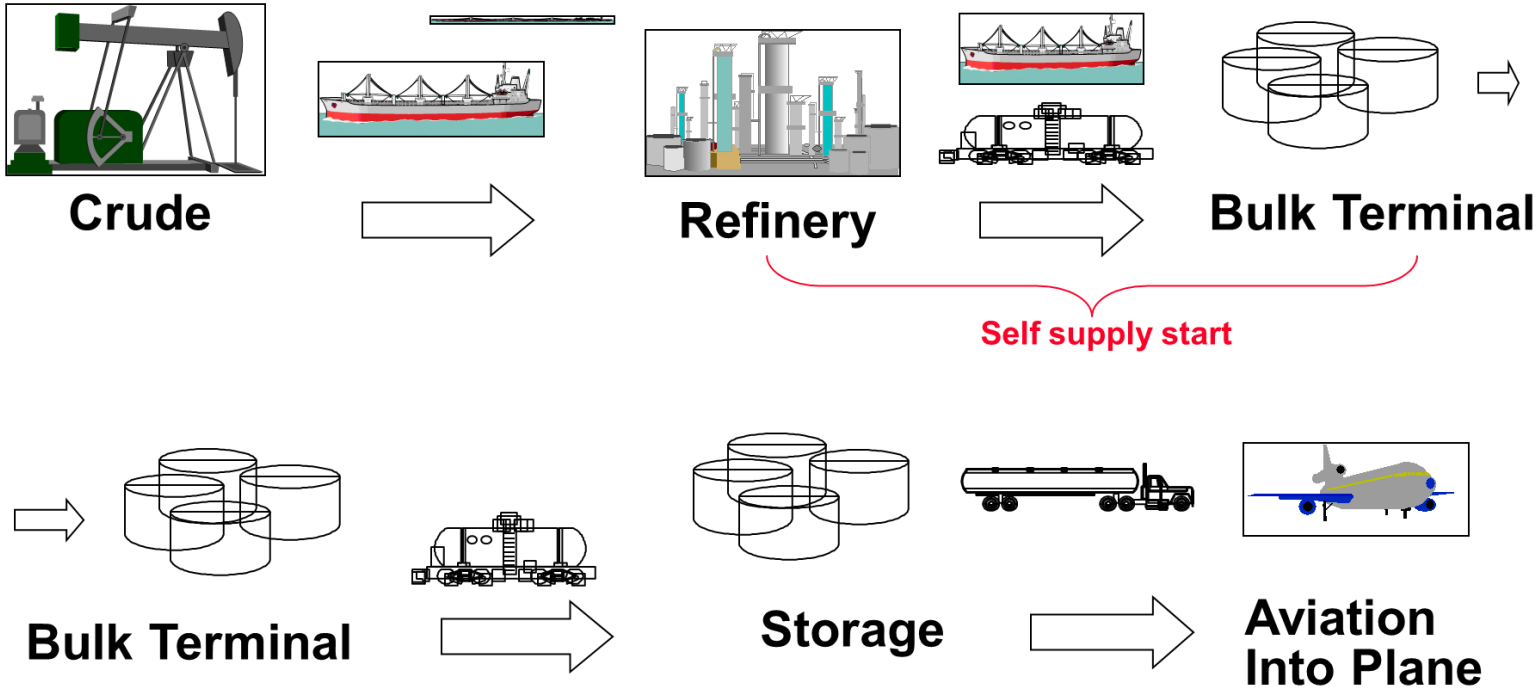
Oil Co margin
(not published, aprox 1%)

Taxes & Fees (1,5%)

Logistic & Fueling Service
(ca. 3%)

Jet A1 Price
(ca. 95%)

**Self supply tries to go back the supply chain as far as possible**



# Price Components

| Type of Price | Share | Price component | Negotiation/Influence |
|---|---|---|---|
| Price based on spot market quotation | 79% | Spot market quotation + Into-Plane-Different. + Fees & Taxes | **Choice of quotation**<br>**Main component of negotiation**<br>**Optimize tax policy & pressure on fees through lobbying** |
| Monopoly Price | 9% | Price of monopolist (promised to be correlated with market) | **Negotiate discount or lobby for market related price building** |
| Governmental Price | 8% | Price set by government | |
| Ex Refinery Price | 4% | Price based on published refinery price | |

Other negotiation elements:

**Terms of Payment, Duty Drawback (in USA), Penalties, Terms of Termination/Extension,...**

# Fuel costs should be:

Competitive

Transparent

IATA

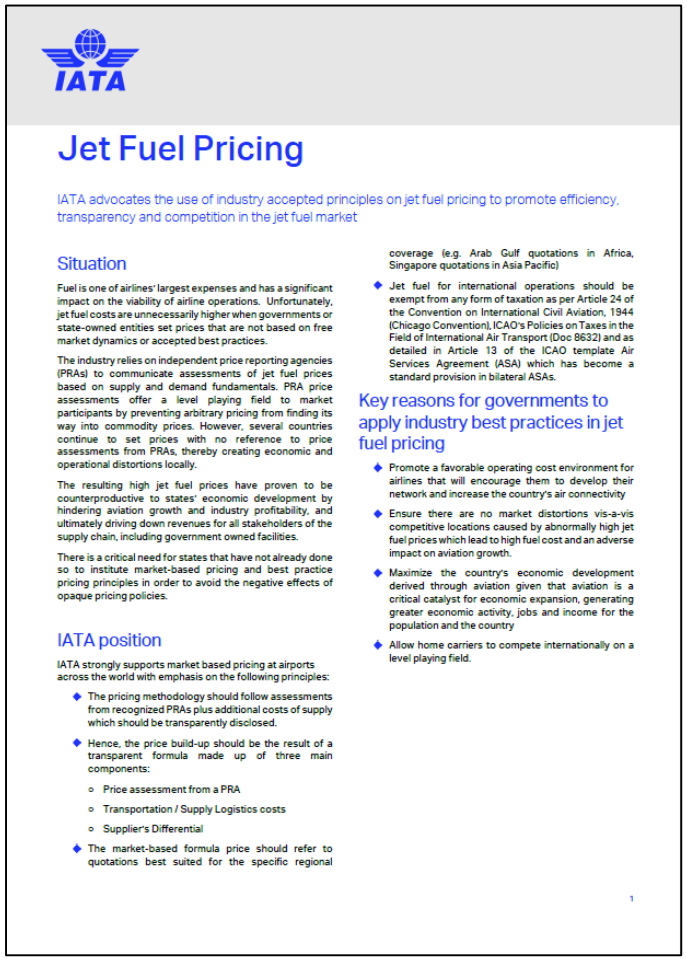
# Jet Fuel Pricing

**Working towards the implementation of competitive and transparent jet fuel prices that follow the market**

IATA strongly supports market-based pricing at airports across the world with emphasis on the following principles:

- The price build-up should be the result of a transparent, internationally accepted formula made up of 3 main components:
  1. Price assessment from a Price Reporting Agencies (PRAs)
  2. Transportation / Supply Logistics costs
  3. Supplier's Differential

- The market-based formula price should refer to quotations best suited for the specific regional coverage (e.g. Arab Gulf quotations in Africa)



IATA

## Jet Fuel Pricing

IATA advocates the use of industry accepted principles on jet fuel pricing to promote efficiency, transparency and competition in the jet fuel market

### Situation

Fuel is one of airlines' largest expenses and has a significant impact on the viability of airline operations. Unfortunately, jet fuel costs are unnecessarily higher when governments or state-owned entities set prices that are not based on free market dynamics or accepted best practices.

The industry relies on independent price reporting agencies (PRAs) to communicate assessments of jet fuel prices based on supply and demand fundamentals. PRA price assessments offer a level playing field to market participants by preventing arbitrary pricing from finding its way into commodity prices. However, several countries continue to set prices with no reference to price assessments from PRAs, thereby creating economic and operational distortions locally.

The resulting high jet fuel prices have proven to be counterproductive to states' economic development by hindering aviation growth and industry profitability, and ultimately driving down revenues for all stakeholders of the supply chain, including government owned facilities.

There is a critical need for states that have not already done so to institute market-based pricing and best practice pricing principles in order to avoid the negative effects of opaque pricing policies.

### IATA position

IATA strongly supports market based pricing at airports across the world with emphasis on the following principles:

- The pricing methodology should follow assessments from recognized PRAs plus additional costs of supply which should be transparently disclosed.
- Hence, the price build-up should be the result of a transparent formula made up of three main components:
  - Price assessment from a PRA
  - Transportation / Supply Logistics costs
  - Supplier's Differential
- The market-based formula price should refer to quotations best suited for the specific regional coverage (e.g. Arab Gulf quotations in Africa, Singapore quotations in Asia Pacific)
- Jet fuel for international operations should be exempt from any form of taxation as per Article 24 of the Convention on International Civil Aviation, 1944 (Chicago Convention), ICAO's Policies on Taxes in the Field of International Air Transport (Doc 8632) and as detailed in Article 13 of the ICAO template Air Services Agreement (ASA) which has become a standard provision in bilateral ASAs.

### Key reasons for governments to apply industry best practices in jet fuel pricing

- Promote a favorable operating cost environment for airlines that will encourage them to develop their network and increase the country's air connectivity
- Ensure there are no market distortions vis-a-vis competitive locations caused by abnormally high jet fuel prices which lead to high fuel cost and an adverse impact on aviation growth.
- Maximize the country's economic development derived through aviation given that aviation is a critical catalyst for economic expansion, generating greater economic activity, jobs and income for the population and the country
- Allow home carriers to compete internationally on a level playing field.

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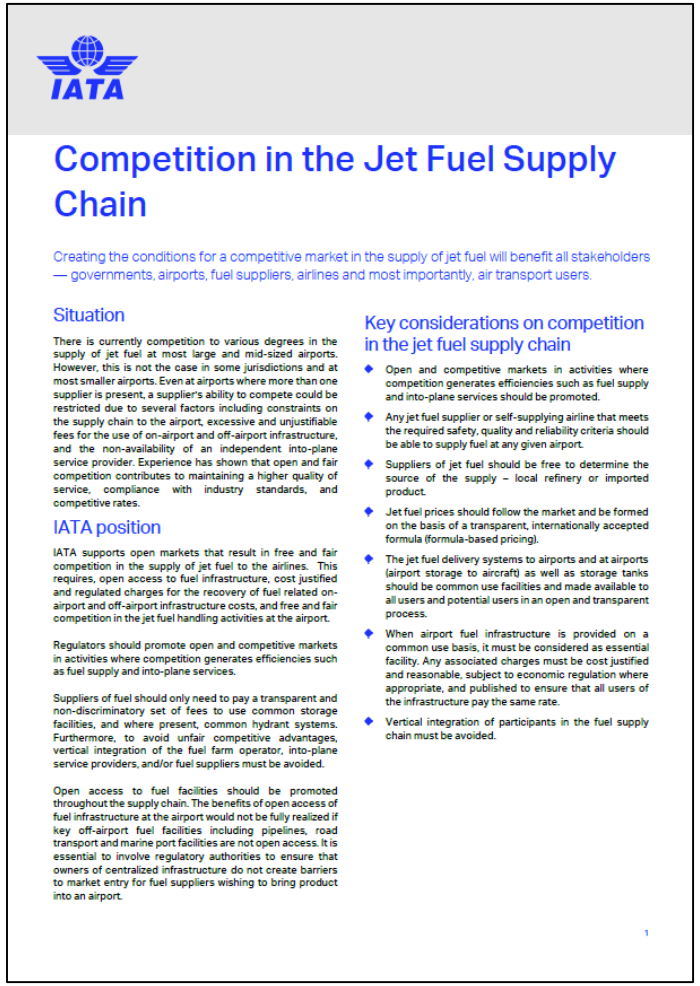
# Competition

**Working towards effective competition in the supply chain:**

- Open and competitive markets for fuel supply and into-plane services should be promoted.
- Any jet fuel supplier or self-supplying airline that meets the required criteria should be able to supply fuel at any given airport.
- Suppliers of jet fuel should be free to determine the source of the supply – local refinery or imported product.
- Jet fuel prices should follow the market and be formed on the basis of a transparent, internationally accepted formula (formula-based pricing).



## Competition in the Jet Fuel Supply Chain

Creating the conditions for a competitive market in the supply of jet fuel will benefit all stakeholders — governments, airports, fuel suppliers, airlines and most importantly, air transport users.

### Situation

There is currently competition to various degrees in the supply of jet fuel at most large and mid-sized airports. However, this is not the case in some jurisdictions and at most smaller airports. Even at airports where more than one supplier is present, a supplier's ability to compete could be restricted due to several factors including constraints on the supply chain to the airport, excessive and unjustifiable fees for the use of on-airport and off-airport infrastructure, and the non-availability of an independent into-plane service provider. Experience has shown that open and fair competition contributes to maintaining a higher quality of service, compliance with industry standards, and competitive rates.

### IATA position

IATA supports open markets that result in free and fair competition in the supply of jet fuel to the airlines. This requires, open access to fuel infrastructure, cost justified and regulated charges for the recovery of fuel related on-airport and off-airport infrastructure costs, and free and fair competition in the jet fuel handling activities at the airport.

Regulators should promote open and competitive markets in activities where competition generates efficiencies such as fuel supply and into-plane services.

Suppliers of fuel should only need to pay a transparent and non-discriminatory set of fees to use common storage facilities, and where present, common hydrant systems. Furthermore, to avoid unfair competitive advantages, vertical integration of the fuel farm operator, into-plane service providers, and/or fuel suppliers must be avoided.

Open access to fuel facilities should be promoted throughout the supply chain. The benefits of open access of fuel infrastructure at the airport would not be fully realized if key off-airport fuel facilities including pipelines, road transport and marine port facilities are not open access. It is essential to involve regulatory authorities to ensure that owners of centralized infrastructure do not create barriers to market entry for fuel suppliers wishing to bring product into an airport.

### Key considerations on competition in the jet fuel supply chain

- Open and competitive markets in activities where competition generates efficiencies such as fuel supply and into-plane services should be promoted.
- Any jet fuel supplier or self-supplying airline that meets the required safety, quality and reliability criteria should be able to supply fuel at any given airport.
- Suppliers of jet fuel should be free to determine the source of the supply – local refinery or imported product.
- Jet fuel prices should follow the market and be formed on the basis of a transparent, internationally accepted formula (formula-based pricing).
- The jet fuel delivery systems to airports and at airports (airport storage to aircraft) as well as storage tanks should be common use facilities and made available to all users and potential users in an open and transparent process.
- When airport fuel infrastructure is provided on a common use basis, it must be considered as essential facility. Any associated charges must be cost justified and reasonable, subject to economic regulation where appropriate, and published to ensure that all users of the infrastructure pay the same rate.
- Vertical integration of participants in the fuel supply chain must be avoided.

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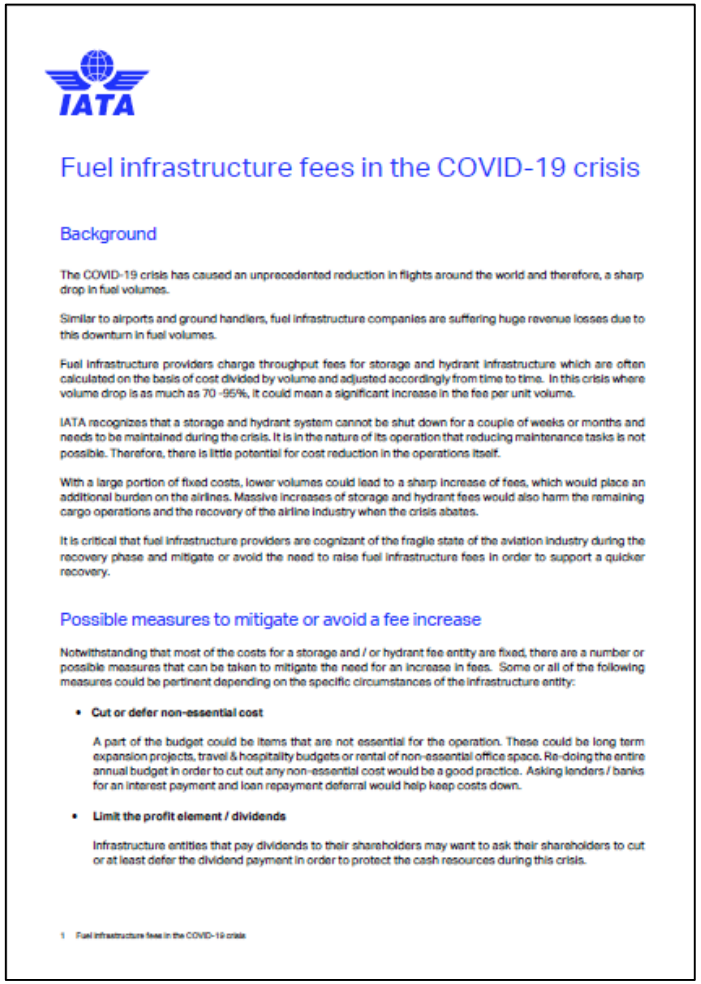
# Fuel infrastructure fees

**Avoiding further increases in fuel infrastructure fees during the COVID-19 crisis:**

- Volume drop has led to significant increase in unit cost of fuel infrastructure at many airports
- Such increases make uplifting fuel at some airports in Africa significantly more expensive and uncompetitive, which will delay the recovery of flights operations in the region
- Possible measures for fuel infrastructure providers to avoid or mitigate a fee increase:
    - Cut of defer non-essential costs
    - Limit dividends
    - Negotiate reduction of rental fee applicable to fuel facilities



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## Fuel infrastructure fees in the COVID-19 crisis

### Background

The COVID-19 crisis has caused an unprecedented reduction in flights around the world and therefore, a sharp drop in fuel volumes.

Similar to airports and ground handlers, fuel infrastructure companies are suffering huge revenue losses due to this downturn in fuel volumes.

Fuel infrastructure providers charge throughput fees for storage and hydrant infrastructure which are often calculated on the basis of cost divided by volume and adjusted accordingly from time to time. In this crisis where volume drop is as much as 70 -95%, it could mean a significant increase in the fee per unit volume.

IATA recognizes that a storage and hydrant system cannot be shut down for a couple of weeks or months and needs to be maintained during the crisis. It is in the nature of its operation that reducing maintenance tasks is not possible. Therefore, there is little potential for cost reduction in the operations itself.

With a large portion of fixed costs, lower volumes could lead to a sharp increase of fees, which would place an additional burden on the airlines. Massive increases of storage and hydrant fees would also harm the remaining cargo operations and the recovery of the airline industry when the crisis abates.

It is critical that fuel infrastructure providers are cognizant of the fragile state of the aviation industry during the recovery phase and mitigate or avoid the need to raise fuel infrastructure fees in order to support a quicker recovery.

### Possible measures to mitigate or avoid a fee increase

Notwithstanding that most of the costs for a storage and / or hydrant fee entity are fixed, there are a number or possible measures that can be taken to mitigate the need for an increase in fees. Some or all of the following measures could be pertinent depending on the specific circumstances of the infrastructure entity:

- **Cut or defer non-essential cost**

  A part of the budget could be items that are not essential for the operation. These could be long term expansion projects, travel & hospitality budgets or rental of non-essential office space. Re-doing the entire annual budget in order to cut out any non-essential cost would be a good practice. Asking lenders / banks for an interest payment and loan repayment deferral would help keep costs down.

- **Limit the profit element / dividends**

  Infrastructure entities that pay dividends to their shareholders may want to ask their shareholders to cut or at least defer the dividend payment in order to protect the cash resources during this crisis.

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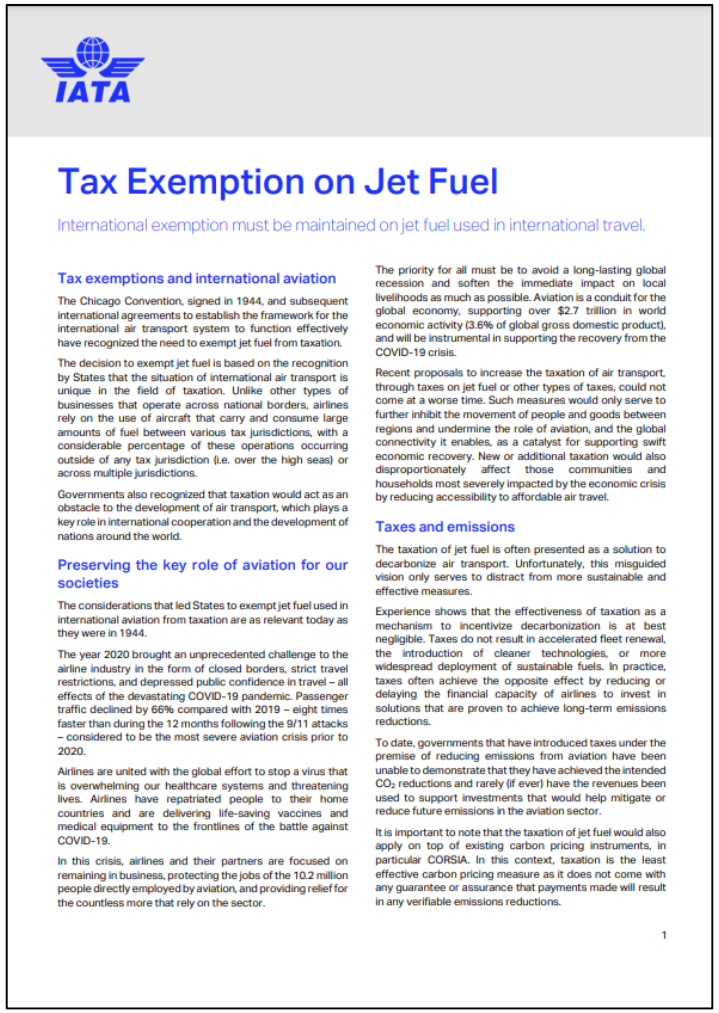
# Fuel Taxes

**Seeking relief on taxes applicable to fuel**

- IATA's position is that international exemption must be maintained on jet fuel used in international travel, in accordance with ICAO's long-standing policies on taxation and ICAO template Air Services Agreement

- To support the airlines through the unprecedented COVID-19 crisis, IATA has been advocating for financial relief measures such as:
  - Domestic tax reduction and/or deferral
  - Postponement or reduction of other government-imposed fees

- In the effort to reduce CO2 emissions, we will see a renewed push for the introduction of new fuel taxes



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## Tax Exemption on Jet Fuel

International exemption must be maintained on jet fuel used in international travel.

### Tax exemptions and international aviation

The Chicago Convention, signed in 1944, and subsequent international agreements to establish the framework for the international air transport system to function effectively have recognized the need to exempt jet fuel from taxation.

The decision to exempt jet fuel is based on the recognition by States that the situation of international air transport is unique in the field of taxation. Unlike other types of businesses that operate across national borders, airlines rely on the use of aircraft that carry and consume large amounts of fuel between various tax jurisdictions, with a considerable percentage of these operations occurring outside of any tax jurisdiction (i.e. over the high seas) or across multiple jurisdictions.

Governments also recognized that taxation would act as an obstacle to the development of air transport, which plays a key role in international cooperation and the development of nations around the world.

### Preserving the key role of aviation for our societies

The considerations that led States to exempt jet fuel used in international aviation from taxation are as relevant today as they were in 1944.

The year 2020 brought an unprecedented challenge to the airline industry in the form of closed borders, strict travel restrictions, and depressed public confidence in travel – all effects of the devastating COVID-19 pandemic. Passenger traffic declined by 66% compared with 2019 – eight times faster than during the 12 months following the 9/11 attacks – considered to be the most severe aviation crisis prior to 2020.

Airlines are united with the global effort to stop a virus that is overwhelming our healthcare systems and threatening lives. Airlines have repatriated people to their home countries and are delivering life-saving vaccines and medical equipment to the frontlines of the battle against COVID-19.

In this crisis, airlines and their partners are focused on remaining in business, protecting the jobs of the 10.2 million people directly employed by aviation, and providing relief for the countless more that rely on the sector.

The priority for all must be to avoid a long-lasting global recession and soften the immediate impact on local livelihoods as much as possible. Aviation is a conduit for the global economy, supporting over $2.7 trillion in world economic activity (3.6% of global gross domestic product), and will be instrumental in supporting the recovery from the COVID-19 crisis.

Recent proposals to increase the taxation of air transport, through taxes on jet fuel or other types of taxes, could not come at a worse time. Such measures would only serve to further inhibit the movement of people and goods between regions and undermine the role of aviation, and the global connectivity it enables, as a catalyst for supporting swift economic recovery. New or additional taxation would also disproportionately affect those communities and households most severely impacted by the economic crisis by reducing accessibility to affordable air travel.

### Taxes and emissions

The taxation of jet fuel is often presented as a solution to decarbonize air transport. Unfortunately, this misguided vision only serves to distract from more sustainable and effective measures.

Experience shows that the effectiveness of taxation as a mechanism to incentivize decarbonization is at best negligible. Taxes do not result in accelerated fleet renewal, the introduction of cleaner technologies, or more widespread deployment of sustainable fuels. In practice, taxes often achieve the opposite effect by reducing or delaying the financial capacity of airlines to invest in solutions that are proven to achieve long-term emissions reductions.

To date, governments that have introduced taxes under the premise of reducing emissions from aviation have been unable to demonstrate that they have achieved the intended $CO_2$ reductions and rarely (if ever) have the revenues been used to support investments that would help mitigate or reduce future emissions in the aviation sector.

It is important to note that the taxation of jet fuel would also apply on top of existing carbon pricing instruments, in particular CORSIA. In this context, taxation is the least effective carbon pricing measure as it does not come with any guarantee or assurance that payments made will result in any verifiable emissions reductions.

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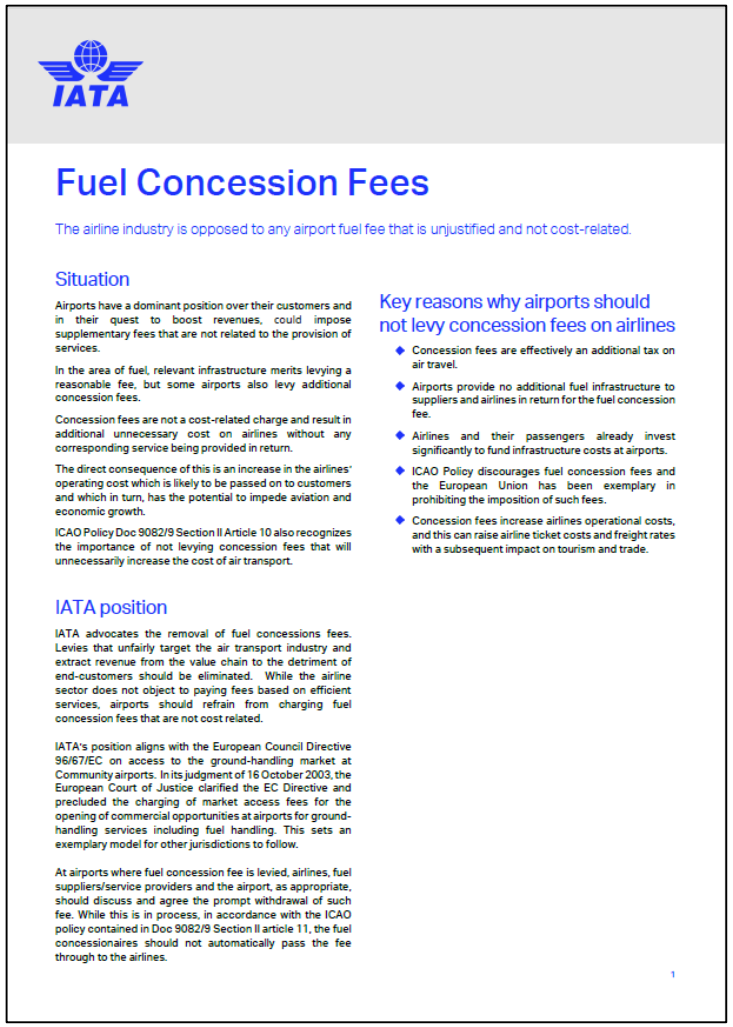
# Concession Fees

**Challenging airport fuel fees that are unjustified and not cost related**:

- Concession fees levied by airports on airlines might be unjustified burden on air travel
- Often, airports provide no additional fuel infrastructure to suppliers and airlines in return for the fuel concession fee
- ICAO Policy discourages fuel concession fees and the European Union has been exemplary in prohibiting the imposition of such fees
- Concession fees increase airlines operational costs, and this can raise airline ticket costs and freight rates with a subsequent impact on tourism and trade



## Fuel Concession Fees

The airline industry is opposed to any airport fuel fee that is unjustified and not cost-related.

### Situation

Airports have a dominant position over their customers and in their quest to boost revenues, could impose supplementary fees that are not related to the provision of services.

In the area of fuel, relevant infrastructure merits levying a reasonable fee, but some airports also levy additional concession fees.

Concession fees are not a cost-related charge and result in additional unnecessary cost on airlines without any corresponding service being provided in return.

The direct consequence of this is an increase in the airlines' operating cost which is likely to be passed on to customers and which in turn, has the potential to impede aviation and economic growth.

ICAO Policy Doc 9082/9 Section II Article 10 also recognizes the importance of not levying concession fees that will unnecessarily increase the cost of air transport.

### IATA position

IATA advocates the removal of fuel concessions fees. Levies that unfairly target the air transport industry and extract revenue from the value chain to the detriment of end-customers should be eliminated. While the airline sector does not object to paying fees based on efficient services, airports should refrain from charging fuel concession fees that are not cost related.

IATA's position aligns with the European Council Directive 96/67/EC on access to the ground-handling market at Community airports. In its judgment of 16 October 2003, the European Court of Justice clarified the EC Directive and precluded the charging of market access fees for the opening of commercial opportunities at airports for ground-handling services including fuel handling. This sets an exemplary model for other jurisdictions to follow.

At airports where fuel concession fee is levied, airlines, fuel suppliers/service providers and the airport, as appropriate, should discuss and agree the prompt withdrawal of such fee. While this is in process, in accordance with the ICAO policy contained in Doc 9082/9 Section II article 11, the fuel concessionaires should not automatically pass the fee through to the airlines.

### Key reasons why airports should not levy concession fees on airlines

- Concession fees are effectively an additional tax on air travel.
- Airports provide no additional fuel infrastructure to suppliers and airlines in return for the fuel concession fee.
- Airlines and their passengers already invest significantly to fund infrastructure costs at airports.
- ICAO Policy discourages fuel concession fees and the European Union has been exemplary in prohibiting the imposition of such fees.
- Concession fees increase airlines operational costs, and this can raise airline ticket costs and freight rates with a subsequent impact on tourism and trade.

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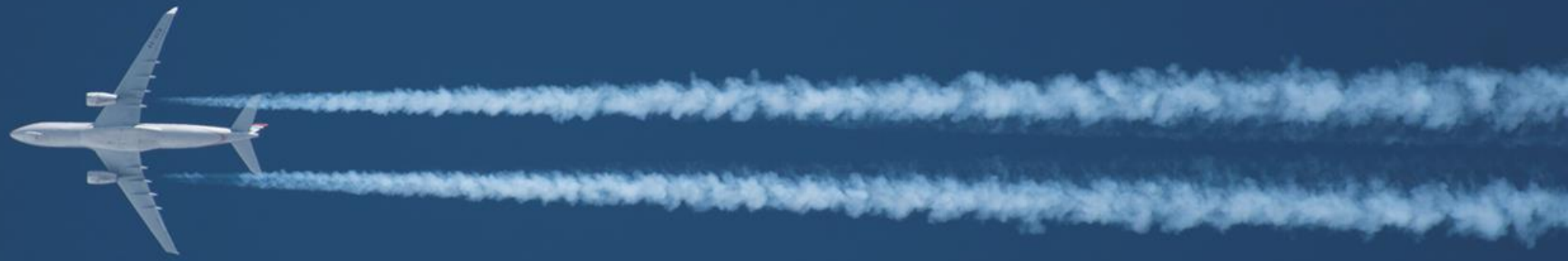
# Q&A



# Wrap up

# Thank you!

Any follow-up questions:
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