



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 of 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.

- **Use cash reserves**

Infrastructure entities that have significant cash reserves should use them to limit or avoid the fee increase during the crisis. IATA advocates for transparency in the financials of centralised airport infrastructure to enable such a discussion with the owners and operators of the facilities.

- **Negotiate reduction of rental fee**

A significant cost item in the budget of fuel infrastructure entities tends to be the rental payment for the land on which the storage and hydrant facilities are built. Usually, the airport will be the landlord. As part of the measures to support the recovery of aviation, the entity might want to advocate for a reduction or postponement of rental payments.

- **Get bank loan to spread the recovery of the necessary funds ("flatten the curve")**

In some countries, it is possible to obtain state guaranteed bank loans to compensate the shortfall of cash required to operate the facility. Such a loan could mitigate a sharp increase in throughput fees and could be paid back over a period of several years. As this option might require extensive approval processes with the shareholders, it should be initiated as soon as possible.

- **Participate in aviation state aid packages to cover the shortfall in revenue**

As part of the relief measures, some countries have put in place aid packages for aviation. Some airports have experienced allocation of a part of such an aid package to fuel infrastructure, which helps to keep the infrastructure fees at the usual level.

- **Remove costs which do not affect cashflow from fee computation**

Costs which do not affect cashflow especially depreciation costs should be temporarily excluded from the formula for computation of the fee.

Call to action

In these difficult times, all players along the aviation value chain need to work together and act reasonably taking into consideration that every player should be here for the long run. The efforts made by fuel infrastructure entities to keep fuel fees reasonable would be of significant help to the industry as it makes its recovery from the crisis.