



Catania Airport

Commercial *Aviation Policy* 2016 on incremental international traffic

July 2016









Commercial Policy – Guidelines

AIM

This policy aims at increasing traffic (both on international connections and domestic destinations not covered by existing ones) at the Airport of Catania Fontanarossa, through an incentive model that pursues this object in a transparent and non-discriminatory way, optimizing the use of airport infrastructures too. The traffic development plan has been prepared in accordance with objective criteria and equity in order to not create distorsion on market. The plan is mainly scheduled flight-oriented and has a minimum temporal objective defined. In order to develop new routes and increase the number of flights on the existing ones, SAC is willing to support the new routes, including the intercontinental long-haul ones, taking into account the type of aircraft used and the existing infrastructural features, through strategic partnership agreements with airlines that intend investing in the Catania Fontanarossa Airport for the new routes for at least five years, also through the opening of operational bases which generate a further income for SAC and benefits to all the economic activities such as accomodation and transfer for crew members .

These partnership agreements:

- 1. allow SAC to offer the possibility of reducing the start-up costs of the new routes to carriers;
- **2**. foresee the obligation from carriers to perform marketing and advertising activities in favour of Catania Airport, as well as to achieve the objectives agreed with regard to passengers and flights of a set of destinations, against the obligation from SAC to contribute to marketing and advertising activities charges.
- 3. allow to inform potential passengers through a communication plan.





Commercial Policy – Guidelines

Market Economic Operator Test («MEO test*»)

This policy is in line with the new EU legislation on the aid to the start-up of routes (Communication of Commission 2014 / C 99/03 of 4 April 2014, Guidelines on State aid to airports and airlines). More in detail, the new Communication considers the agreements between airports and air carriers compatible with the market, if the aid granted meets the economic requirements of a private investor.

For this reason, for each route liable to incentive, through an ex ante analysis, SAC will prepare a revenue and cost account attesting the agreement between the Airport and airlines that will lead to an increase of profits for the Airport (in compliance with the Market Economic Operator). SAC will carry out the MEO test on the basis of the guidelines included in the EC communication (paragraph 3.5.2), as reported here below:

- 1. The Airport should demonstrate to be able to cover the costs arising from the aid scheme, with a reasonable profit margin. Different fares can be offered to carriers to stimulate the growth of traffic and non-aeronautical revenue for the Airport too. The higher non-aeronautical revenues will have to cover the lower revenues of airport fees.
- 2. All the expected costs incurred by the Airport with regard to the activation of the marketing plan at the Airport will be taken into account. Such incremental costs should refer to all the expenses or investments (that is the incremental costs of investment, personnel and equipment, rebate schemes, marketing and promotion support, and so on).
- 3. In contrast, costs which the Airport would have to incur anyway independently from the arrangements with the airline should not be taken onto account in the MEO test.

*MEO: Market Economic Operator





Commercial Policy - Guidelines

TARGET MARKETS

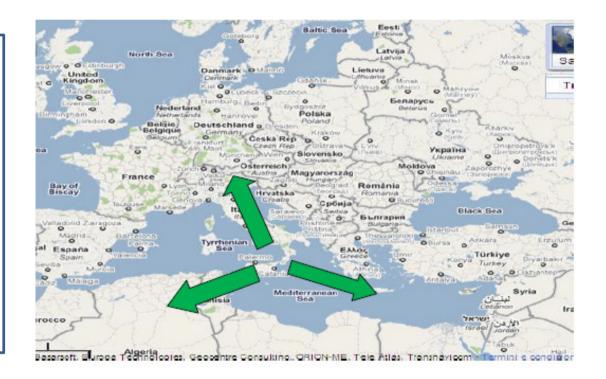
Here below are presented the target markets for which air carriers are invited to make their proposals for new connections / frequency increase, that will be evaluated and eventually supported by SAC.



NORTH AFRICA

MIDDLE EAST

INTERCONTINENTAL CONNECTIONS







Commercial Policy – Guidelines

GENERAL FEATURES

The main selection criteria of the incentive program or marketing support are presented here below:

- 1. The program applies to international traffic served and not served, including the intercontinental long-haul one, taking into account the type of aircraft used and the existing infrastructural features, and the remaining domestic destinations not served, also through the activation of operational bases.
- **2**. The program applies to scheduled flights on international routes, (residual domestic and incoming charter operations) which will be evaluated each time on the basis of possible positive effects on the territory.
- **3**. The program applies, in an incremental way, to flights that have at least 1 weekly frequency.
- **4**. The program can be applied only if, in the final balance, the 80% of scheduled flights have been made.
- **5**. In case the air carrier will not respect the incentive agreement, the amounts paid by the airport will be partially or fully returned to the Airport itself (e.g.: in case the carrier should not operate the route agreed at the end of the incentive period).
- **6**. In case the new route, or the frequency increase on a route already operated should not be profitable, the carrier may propose the substitution of the route with another one.
- 7. The incentive will be paid only if there is a contract signed by both parties.
- **8**. In order to get the incentive, the carrier will have to submit a simplified business plan to the Airport. The business plan will have to include the entire period of the operation covered by the agreement, in order to demonstrate the economic and financial sustainability of the new connection, at the end of the incentive period too. Alternatively, the carrier may provide to the Airport with the traffic forecast, concerning the new connection and the characteristics of the offer (the type of aircraft, etc.)





Commercial Policy – New destinations

We refer with "new destinations" to the start-up of new scheduled flights on international routes not served with a weekly rotation between 1 and 3.

The incentives for new connections will be regulated as follows:

- Minimum period of operation: **two years longer than the number of supported years** (maximum 3 years). If the new route should not be profitable, the carrier may propose the substitution of the route with another one.
- The incentive for incremental passengers will be paid in terms of discount on airport fees. For the first year of operation of the new route, the maximum discount is 60% of airport charges. In the subsequent years, the discount will follow a decreasing trend. The discount will depend on the level of the service offered by the carrier (for example weekly frequencies, seasonality and so on). The incentive plan will be agreed with the carrier and may be expressed both in terms of discount on airport fees and contribution for departing passenger (depax). Moreover, based on the strategic value of the new connection, SAC will evaluate the possibility to support the air carrier with a marketing contribution (to be provided for one or more years). The contribution of marketing will have a decreasing trend during the supported period with incentives.

In order to get the incentive, the following two obligations will have to be respected:

- ➤ The carrier will have to operate at least 80% of scheduled flights.
- > The carrier will have to pay SAC in a timing and regular way.

The final amount of the contribution will be defined on the basis of the Market Economic Operator test (MEO). Therefore, the contribution will be determined on the basis of the Airport profitability of the new connection and the characteristics of the connection itself (for example the aircraft type, frequencies, operating model, and so on).





Commercial policy – (operational base)

- ➤ When speaking about "operational base" we refer to the stationing of one or more aircrafts operating scheduled destinations throughout the year and involving the activation of no less than five new routes for each base aircraft during the period of the agreement. In the event of the opening of a new operational base in Catania, a contribution will be granted to the carrier. It will be negotiated according to the new routes developed and the overall volume of traffic ensured by the carrier.
- > Incentives to new connections will be governed as follows:
 - ➤ Minimum operational period: 5 years. Should the new routes not be profitable, the carrier may propose the substitution of other routes.
 - > According to the new routes developed and the overall traffic volume, SAC will evaluate the possibility of supporting the carrier as follows:

Annual marketing support in case of a new operational base to be granted in one or more years.

One-off support for each base aircraft

Support for each new route

In order to obtain the incentive, the following two constraints must be observed:

- > At least 80% of scheduled flights must be carried out
- > Payments in favour of SAC must be made punctually and regularly

The final amount of contribution will be defined on the basis of the Market Economic Operator test. Therefore, the contribution will be determined on the basis of the Airport profitability of the new connection and the characteristics of the connection itself (e.g. the type of aircraft, frequencies, operating model, etc)





Traffic Development Schemes – Existing Destinations

In case of already existing connections which are still potentially attractive for the development of new traffic, the Airport could grant a marketing support in the following cases:

- New carrier: increase of flights on one or more connections already operated.
- Carrier already present on a certain connection: frequency increase.

In both cases, the support will have to respect the following criteria:

- the connections already operated (by the same or other carriers) will be supported for a maximum period
 of two years, and the period of operation must be of four years at least.
- Only the additional traffic will receive incentives. The additional traffic will be calculated in comparison with the traffic recorded in the previous year, by all the carriers which operate on the same route. The incentive unit amount for incremental departing passengers, will be equal to maximum 60% discount of airport landing / take-off and passenger fees in the first year, and 40% in the second year. The size of discount will depend on the level of the service offered by the carrier (e.g. weekly frequencies, seasonality, and so on).
- The Airport may add an additional one-off support to the above-mentioned discount, for the development of a marketing campaign on Catania Airport.
- The incentive will be defined in order to allow the same market opportunities to all carriers interested to operate on the same route, in a non-discriminatory way.

The final amount of the contribution will be defined on the basis of the Market Economic Operator test. Therefore, the contribution will be determined on the basis of Airport profitability of the new operating model and the characteristics of the connection itself (e.g. the aircraft type, frequencies, operating model, and so on).





Beneficiaries Selection Method and Transparency

On the basis of guidelines given in this document, carriers are invited to propose new connections, or the further development of the connections already operated, with reference to target markets defined by the Catania Airport, to the following email addresses: commercialeaviation@aeroporto.catania.it sac@pec.aeroporto.catania.it

Notes:

The above-mentioned commercial policy will be valid until July 31, 2017.

Incentives will be granted according to the national guidelines issued by Italian Ministry of Infrastructure and Transport on 02/10/2014, to operational guidelines issued by ENAC (National Civil Aviation Authority) on 30/12/2014 and with the guidelines of the European Commission (par.3.5.2.).

Specific operational requisites are not required to participants for the submission of proposals of new services (for example the aircraft type, and so on). The Airport will evaluate the economic sustainability of the new connection on the basis of the Market Economic Operator test.

Each economic incentive specified in this commercial policy depends on the waiver of SAC financiers and the budget approved.



