Pre-financing

A properly structured financing package for new investments will ensure that costs of financing are kept to a minimum while users only pay for the investments on an as used basis.

Pre-financing directly through user charges increases the cost of air transportation. Airlines and/or the passenger are made to pay for facilities that are not yet in use.

IATA POSITION

Major capital investments require external financing. Airlines should only pay for agreed investments on an "as and when used" basis, which will require airports and Air Navigation Service Providers (ANSPs) to develop other means of financing.

FIVE KEY REASONS TO ELIMINATE PRE-FINANCING OF INVESTMENTS DIRECTLY THROUGH USER CHARGES

1. Pre-financing through user charges is more expensive for airlines, users and the wider economy.
2. Providing an upfront pool of money gives inefficient management incentives for investment to be delivered in a cost effective and timely manner.
3. Pre-financing is unfair as there is no guarantee that airlines paying for future facilities today will be the same using the service.
4. Pre-financing is unjustified. If necessary, Governments should assist towards funding as the aviation industry creates wider economic benefits.
5. Pre-financing through user charges is unnecessary and is not applied in other transport sectors where private sector financing is available.

BETTER FINANCING OPTIONS

Financing should be agreed in advance with users through a formal and open consultation process. Subject to user agreement, the cost of financing can be recovered through charges as and when those costs are incurred.

Loan/Borrowing:

- Borrowing from commercial banks is the most common method of financing for medium to long-term financing requirements.
- Financial institutions such as European Investment Bank, European Bank for Reconstruction & Development, Asian Development Bank and World Bank often lend to well-constructed Capital Projects.
- Airports and ANSPs could float commercial paper to raise funds from the commercial market.
- Airports and ANSPs could securitise their revenue stream for a given period.

Institutional Lending or Subsidies:

- The State could directly fund investments from the Government budget where an airport or ANSP is government owned.
- Supra-National Bodies could provide funds.
  The European Commission (EC) has funds like the TEN-T (Trans European Network) for funding transport networks of Civil Aviation and Railways.

Public private financing:

- The manufacturing industry could also share the risk in financing projects, with returns earned through future product revenues.