



THE
GOVERNMENT OF THE
TURKS & CAICOS ISLANDS



TURKS AND CAICOS ISLANDS
AIRPORTS AUTHORITY

INTERMEDIATE INFRASTRUCTURE BUSINESS CASE FOR THE REDEVELOPMENT OF THE HOWARD HAMILTON INTERNATIONAL AIRPORT

ANNEX 1. DUE DILIGENCE REPORT

ANNEX 1.4 FEES & CHARGES

FEES & CHARGES

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Executive summary

- Providenciales' current **tariff structure** is aligned with other Caribbean airports, including
 - Passenger-related charges
 - Aircraft-related charges (airport and ATC)
 - Other charges (handling, fuel)
- Total **passenger-related fees sum 70 USD per departing international passenger** (commercial only), which is slightly above benchmarks excluding Government taxes (65 USD).
 - It should be further studied if **domestic passengers** (excluding TCI nationals) should also be charged with an Aerodrome Charge and/or Security charge.
 - In case TCI Government implements a **Tourism tax** it would be on top of these 70 USD. Benchmarks of the Caribbean region suggests total passenger-related charges could go up to ~80 USD (average of the region including Government taxes).
- Regarding **aircraft-related charges**, several options arise:
 - The creation of PBB charges to recover the costs of operation of the new boarding bridges that are planned to be installed.
 - The establishment of Noise & emissions charges, that would allow the airport operator to implement environmental management practices.
 - The FAA is the Air Navigation Service Provider, but TCI is sovereign over its own air space and could establish further air navigation charges (currently only charging for the final approach).
- Currently, there is no update mechanism for fees and charges at PLS. **Economic regulation** needs to be clear and transparent and define an update mechanism that could be based on CPI, quality of service and/or a Regulated Asset Base.
- The proposal is preliminary and is based on ICAO recommendations and best practices. The objective is to offer an adequate level of **Return On Equity** (ROE) for both the airport operator and the Government, taking into account the projected investments and operating costs. Sensitivity with the Financial will help to fine tune the preliminary proposal.
- Finally, it is important to take into account that the aeronautical fees & charges are regulated by the Government so in order to implement the changes proposed or any other modification a **change in current Ordinances may be required**.

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Benchmarking analysis

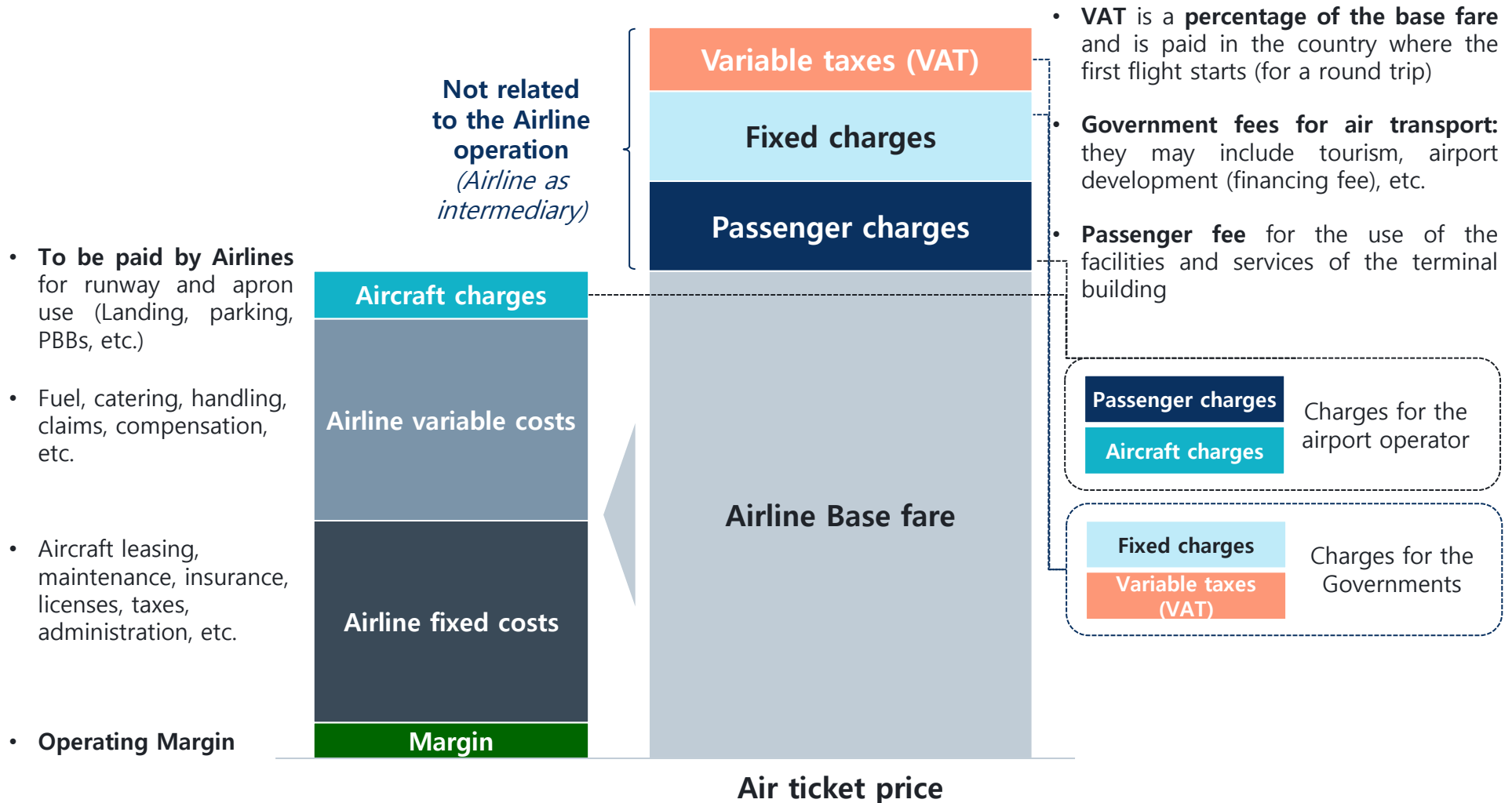
Proposed fees & charges structure

Proposed fees & charges update mechanism

An air ticket includes the base fare established by the airline, passenger charges levied by the airport operator and other fixed & variable taxes

Air Ticket Price Composition

ILLUSTRATIVE



The basis for establishing airport charges is the recovery of infrastructure and operational costs for the provision of air traffic operations

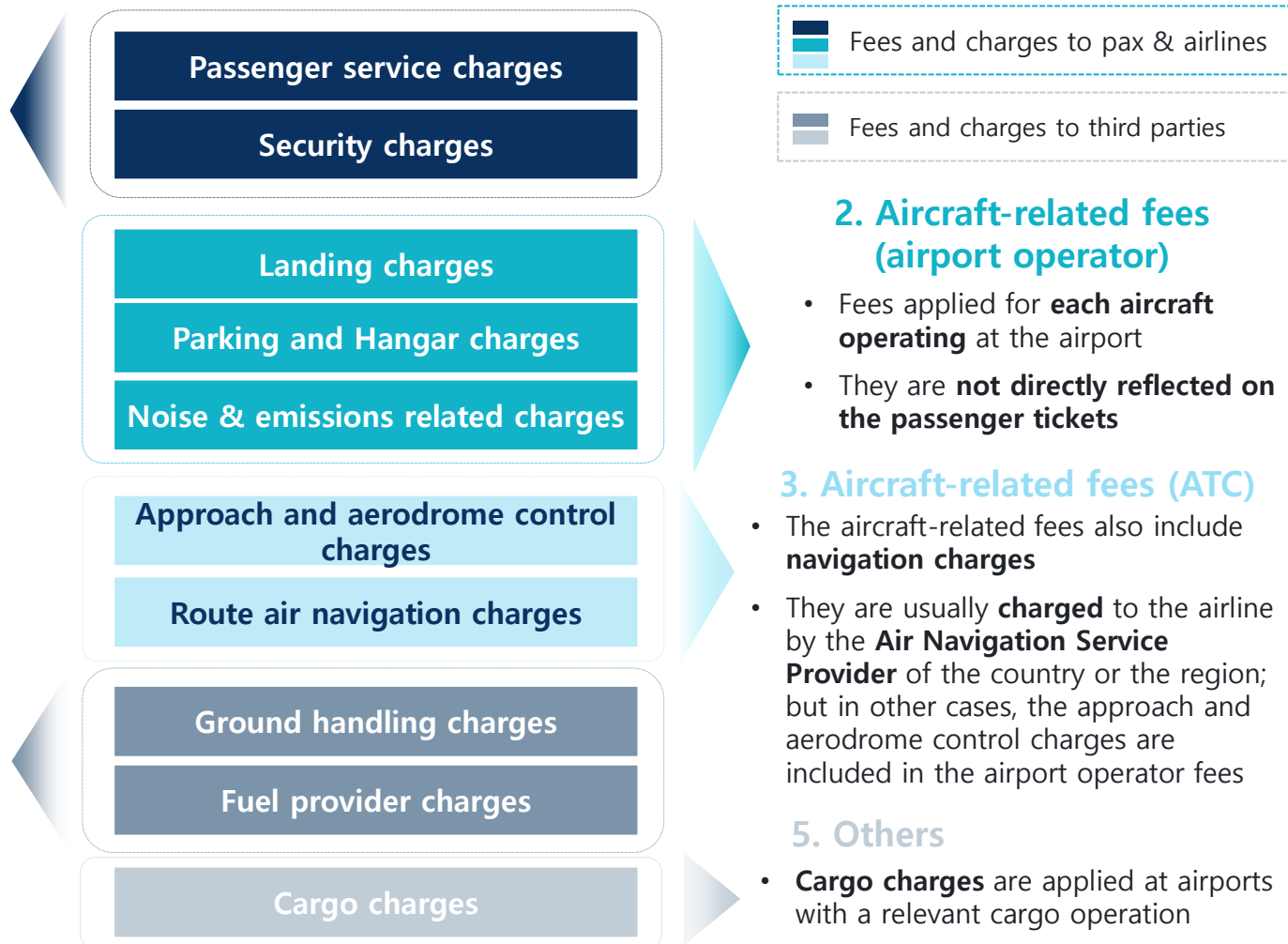
Revenues from air traffic operations

1. Passenger-related fees

- Fees **directly related to the number of** arriving/departing passengers
- These fees are usually **included on the passenger tickets**
- Charged to the passenger, accounting **for the use of the facilities and the services** of the airport
- In some cases, a **Government tax can be also included** as a passenger fee, this fees can account for tourism taxes or financing the development of infrastructure, among others

4. Service providers-related fees

- Fees collected from aircraft operators for the use of facilities and services related to handling and fueling activities



Airport charges are defined to cover the costs incurred by the airport operator while providing facilities and services for the users of the airport

Setting charges on air traffic operations

- Airport charges are defined to **charge users for the facilities and services** that are directly related to their use of the airport
- Airport charges are recommended **to be updated, at most, annually under cost-based principles**
- Traditionally, **charges** on air traffic operations **have been set on the basis of average costs**
- However, this approach does not necessarily cover costs in a way that fosters the most economically efficient provision and use of the airport's facilities and services
- An alternative approach is based on the principle of **economic pricing**: charges are defined to encourage a more efficient use of the airport's scarce resources by incorporating the **users' "willingness-to-pay"** within the context of cost recovery while at the same time ensuring that no users will be burdened with costs that are not properly allocable to them according to sound accounting principles

Incentives

- The **airport operator should avoid cross subsidizing different user categories**, as such cross subsidization may not only result in **discriminatory treatment of users** and consequently, in service pattern distortions, but can also result in an economically inefficient use of the airport
- In certain circumstances, **States may wish to encourage** the greater **use of an airport by subsidizing** users from non-aeronautical airport profits or from other sources of funds, such as national treasuries
- In such cases, it is important to ensure that such subsidization does not unintentionally provide an unfair competitive advantage to any particular user or user group at the airport
- Considering the potential adverse effects associated with differential charges, when performing their economic oversight function States should, where necessary, assess principles of **non-discrimination, transparency, non cross subsidization and time-limitation** for safeguarding users against potential negative effects of differential charges

In order to estimate the cost basis for the airport charges, ICAO provides a definition of the different components included in each of the charges (1/2)

Cost basis for charges on air traffic

1. Passenger-related fees

Passenger service charges

Includes costs of **passenger terminal facilities** that are attributable to the passenger processing and the costs of **ground access facilities and services** attributable to passenger terminal access. The charge usually differs for domestic and international passengers
In the case of airports with **aerobridges**, an additional charge can be included for the costs attributed to the provision and operation of aerobridges, if these are not included already in the passenger service charges

Security charges

Includes all costs attributable to the **provision of security services** for air traffic. This would include all security measures of a preventive character which are performed routinely

2. Aircraft-related fees (airport)

Landing charges

Includes costs of **aircraft movement areas** and their associated **lighting** (unless lighting is charged for separately), **firefighting and ambulance services**, **aircraft noise and emissions** (unless either or both are charged for separately), **and air traffic control** (including communications) and **meteorological services** (unless either or both are charged for separately)

Parking and Hangar charges

Includes costs attributable to **parking areas** and their associated lighting, as well as aircraft towing, where provided by the airport
Includes also costs attributable to **hangars** owned by the airport, including access roads, and costs of security services attributable to hangars (unless security services are charged for separately)

Noise & emissions charges

If incurred and not included in the cost basis for landing charges, includes the **costs of noise monitoring and noise abatement measures**
If incurred and not included in the cost basis for landing charges, includes the **costs of the measures applied to prevent or mitigate environmental impact to local air quality** caused by and directly attributable to civil aircraft operations

In order to estimate the cost basis for the airport charges, ICAO provides a definition of the different components included in each of the charges (2/2)

Cost basis for charges on air traffic

3. Aircraft-related fees (ATC)

Approach and aerodrome control charges

If not included in the cost basis for landing charges, this includes the **costs of air traffic control** (including communications) and meteorological services
This charge is **usually separated from landing charges** when the Air Traffic Control is provided by a different company than the airport operation

Route air navigation charges*

Consists of the charge for **route air navigation services** provided at a national or regional level based on the distance flown within a defined area

4. Service providers-related fees

Ground handling charges

Fuel provider charges

Fees collected from aircraft operators for the use of facilities and services provided by the airport for the **handling, in-flight catering and fueling of aircraft**
These charges **do not include the potential space rental required by ground handlers and fuel providers** for their operation and storage. This space rental income should be considered as commercial or non-aero revenue for the airport operators

5. Others

Cargo charges

Cargo charges **only apply in airports with relevant cargo operation**
International and domestic cargo charges could be levied if separate cost bases for each are developed

**Doc 9082 - ICAO's Policies on Charges for Airports and Air Navigation Services*

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Executive summary

ICAO Doc 9562 recommendations

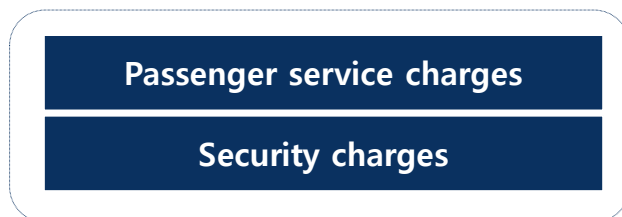
Benchmarking analysis

Proposed fees & charges structure

Proposed fees & charges update mechanism

Current airport charges at PLS passenger-related fees, aircraft-related fees and air navigation fees; ground handlers also pay a fee to operate on the airside

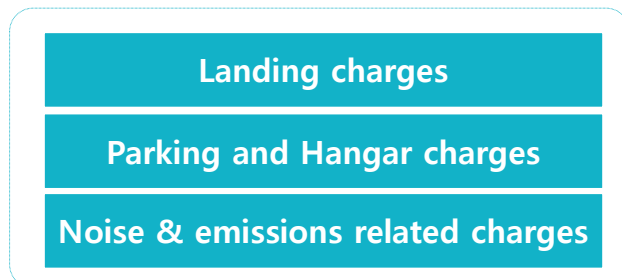
Airport charges at PLS



PLS passenger-related fees include:

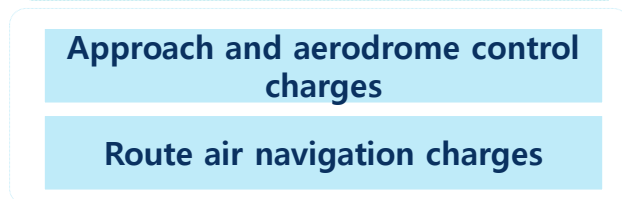
- Aerodrome Security Charge International (40 USD per international departing passenger)
- Airport Development Charge International (20 USD per international departing passenger)
- Security Facility Maintenance Charge (5 USD per international departing passenger)
- Extended Airline System Environment Ease Charge (5 USD per int'l departing passenger)

Based on the items levied in airline tickets



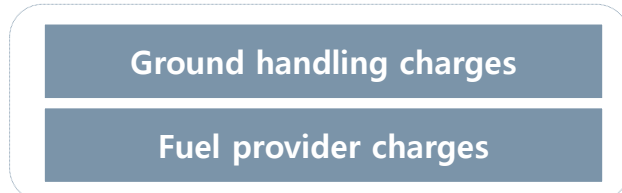
PLS Aircraft-related fees include:

- Landing charges (unspecified if these include lighting, firefighting and ambulance services)
- Discounts for airlines (50% for more than 200 landings/month and 75% for more than 300)
- Parking charges after the 2nd hour
- Charges segmentation by MTOW
- No specific noise or emissions charges (may be included in passenger's charges)



PLS Aircraft-related fees (ATC)

- Services to be provided by the ATC / ANSP
- There is an air navigation fee of 5 USD per landing
- The Aerodrome control is a service to be provided by the ATC to the airport operator
- Independent & clear P&L per each of the parties is recommended



PLS service providers-related fees include:

- Fuel charges: *information not available*
- There are charges for tarmac driver licenses (45\$ for an initial issue and 20\$ for renewals) and charges from 15\$ per annum to 50\$ per annum for vehicles (depending on tonnage)



PLS other charges include:

- No specific charge related with cargo as the cargo operation is not significant at the airport

Slight discrepancies found between the fees levied to international departing passengers stated in an airline ticket and the airport's documentation

Passenger-related fees for int'l departing passengers

NOTE: from now onwards, the fees levied on an airline ticket will be used in the report.

TCIAA RATES SUMMARY			FEES LEVIED ON AN AIRLINE TICKET	
Airport Departure Tax	29 USD	✓	Aerodrome Security Charge International	40 USD
Airport Security Tax	8 USD		Airport Development Charge International	20 USD
Airport Users Fee	3 USD		Security Facility Maintenance Charge	5 USD
Airport Development Charge	20 USD	✓	Extended Airline System Environment Ease Charge	5 USD
Security Recovery Change	5 USD	✓		
Common User Fee Rates	5 USD	?		
FEES PER INT'L DEPARTING PAX	70 USD		FEES PER INT'L DEPARTING PAX	70 USD

? TCIAA "Common User Fee" (5 USD) seems to correspond to "Environment Easy Charge" (5 USD). However, this revenue stream is included as Other income (non regulated) in the P&L

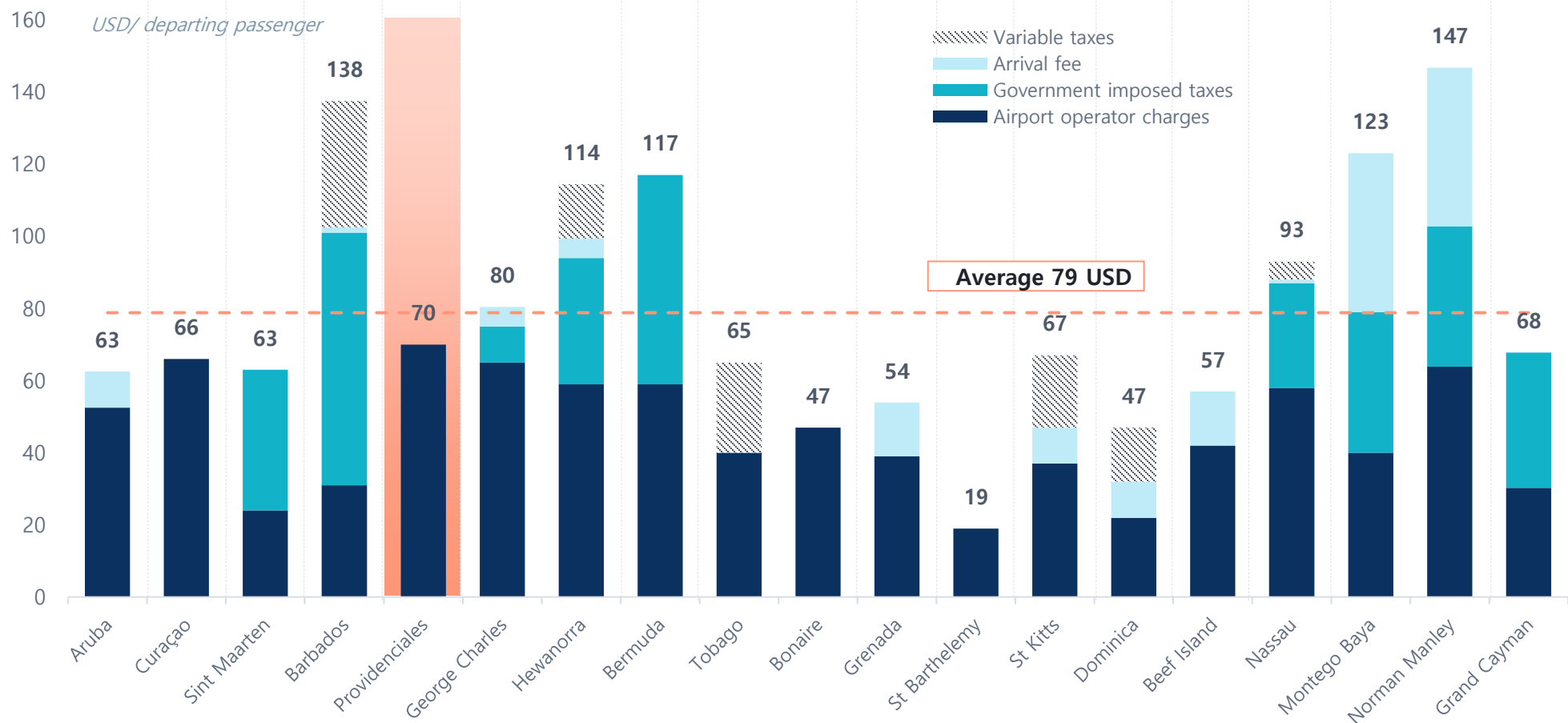
Only international departing passengers are charged in PLS with 70 USD, including 20 USD for an Airport Development Charge (since May 2010)

Fees and Taxes Applied in Providenciales Airport

	Domestic passenger	International departing passengers	International arriving passengers
Passenger fee	0 USD	70 USD/departing pax <i>Security Facility Maintenance Charge: 5 USD + Security Charge International: 40 USD + Airport Development Charge International: 20 USD + Extended Airline System Environment Ease Charge: 5 USD</i>	0 USD
Fixed taxes	There are no fixed taxes associated to air tickets in T&C	There are no fixed taxes associated to air tickets in T&C	There are no fixed taxes associated to air tickets in T&C
Variables Taxes (VAT)	0% <i>There is not VAT in T&C</i>	0% <i>There is not VAT in T&C</i>	0% <i>There is not VAT in T&C</i>
TOTAL	0 <i>USD/departing pax</i>	70 <i>USD/departing pax</i>	0 <i>USD/departing pax</i>

PLS total combined published charges per Int'l passenger (70 USD) are below the average in the Caribbean Region (11% below the average)

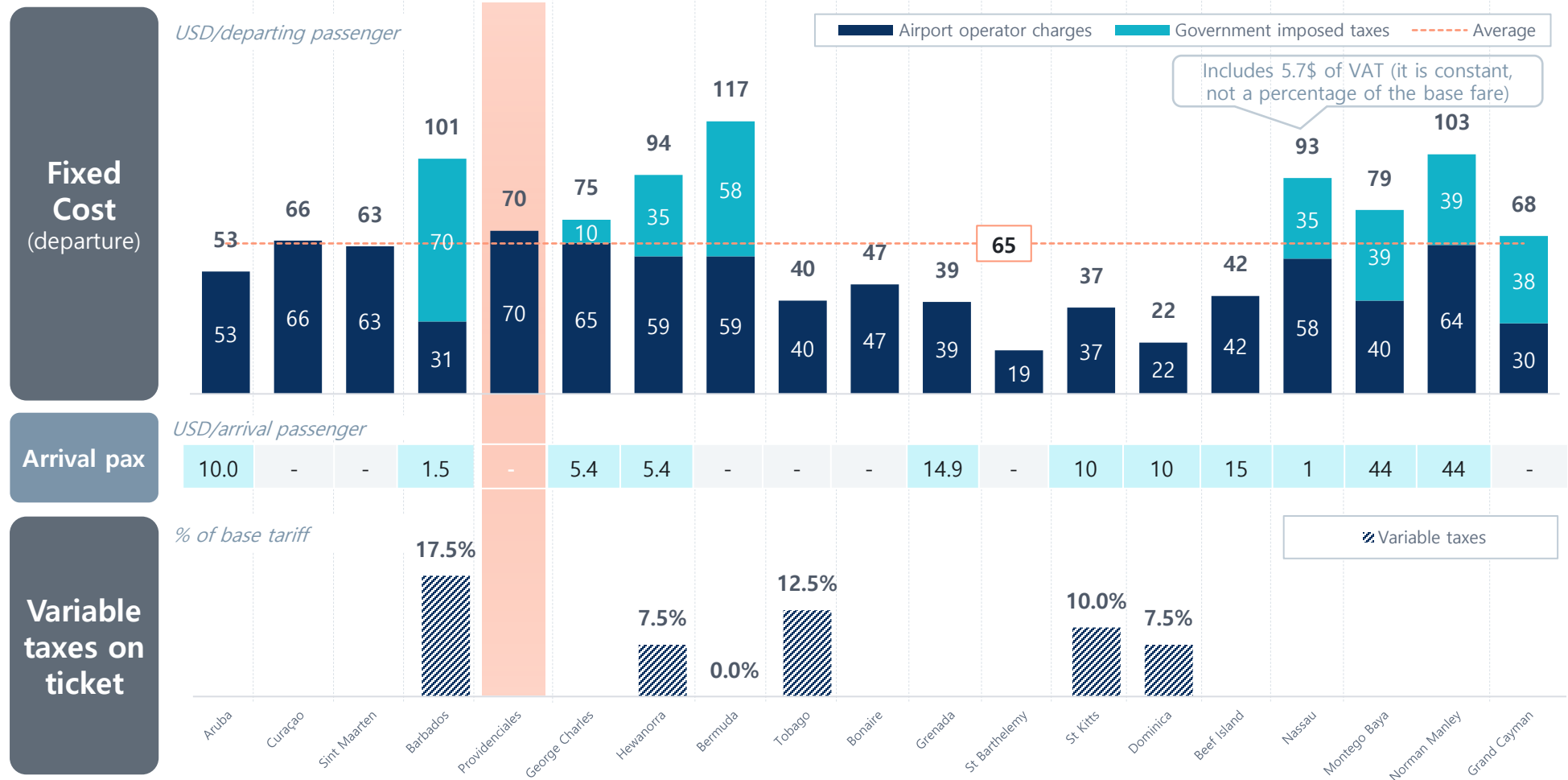
Benchmarking of total international passenger charges in the Caribbean Airports (2022)



*Based on a base tariff of 200 USD

PLS has a fixed cost per departing passenger in the average of the Caribbean region, but it does not apply variable taxes over base tariffs

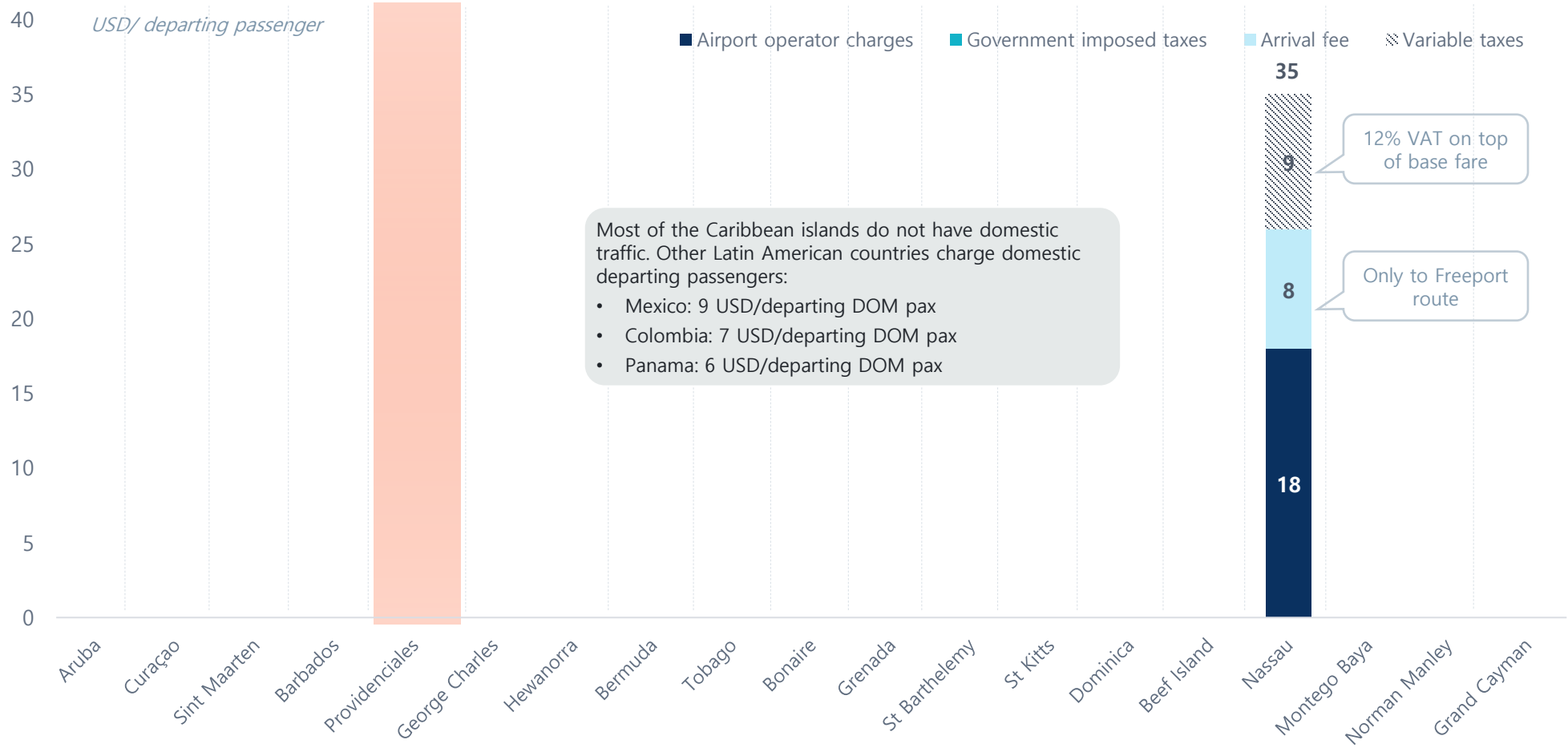
Benchmarking of international passenger charges at Caribbean Airports (2022)



Source: Airports webs, Civil Aviation Authorities, Airlines websites; ALG analysis

PLS does not charge domestic passenger; Nassau is the only airport in the Caribbean which charges domestic passengers

Benchmarking of total domestic passenger charges in the Caribbean Airports (2022)



*Based on a base tariff of 100 USD

Aircraft-related charges in PLS include landing, parking and air navigation charges; a handling charge is also applied to apron users

Aircraft-related charges at PLS

Landing Charge

- Aircraft not exceeding 4,000 lbs, in weight: **10\$**
- Aircraft exceeding 4,000 lbs, but not exceeding 6,000 lbs in weight: **15\$**
- Aircraft exceeding 6,000 lbs, but not exceeding 8,000 lbs in weight: **25\$**
- Aircraft exceeding 8,000 lbs, but not exceeding 10,000 lbs in weight: **30\$**
- Aircraft exceeding 10,000 lbs in weight: **2\$ per 1,000 lbs, up to 200,000 lbs, and 1.75\$ per 1,000 lbs or part of 1,000 lbs, in excess of 200,000 lbs** with minimum payment of 30\$

Parking Charge (after 2h)

- MTOW < 10,000 lbs: **5\$/day**
- 10,000 lbs < MTOW < 30,000 lbs: **10\$/day**
- 30,000 lbs < MTOW < 60,000 lbs: **15\$/day**
- 60,000 lbs < MTOW < 90,000 lbs: **20\$/day**
- 90,000 lbs < MTOW < 120,000 lbs: **30\$/day**
- 120,000 lbs < MTOW < 180,000 lbs: **50\$/day**
- 180,000 lbs < MTOW < 240,000 lbs: **70\$/day**
- 240,000 lbs < MTOW < 300,000 lbs: **120\$/day**
- 300,000 lbs < MTOW < 360,000 lbs: **170\$/day**
- 360,000 lbs < MTOW < 420,000 lbs: **220\$/day**
- 420,000 lbs < MTOW < 480,000 lbs: **270\$/day**
- 480,000 lbs < MTOW < 540,000 lbs: **320\$/day**
- 540,000 lbs < MTOW < 600,000 lbs: **370\$/day**
- MTOW < 600,000 lbs: **420\$/day**

Air Navigation Charge

- General/Corporate Aviation: **5\$ per landing**
- Commercial: **5\$ per landing**

Service providers-related fees – Non-aeronautical revenues related to the aircraft and its turn-around

Fuel Charge

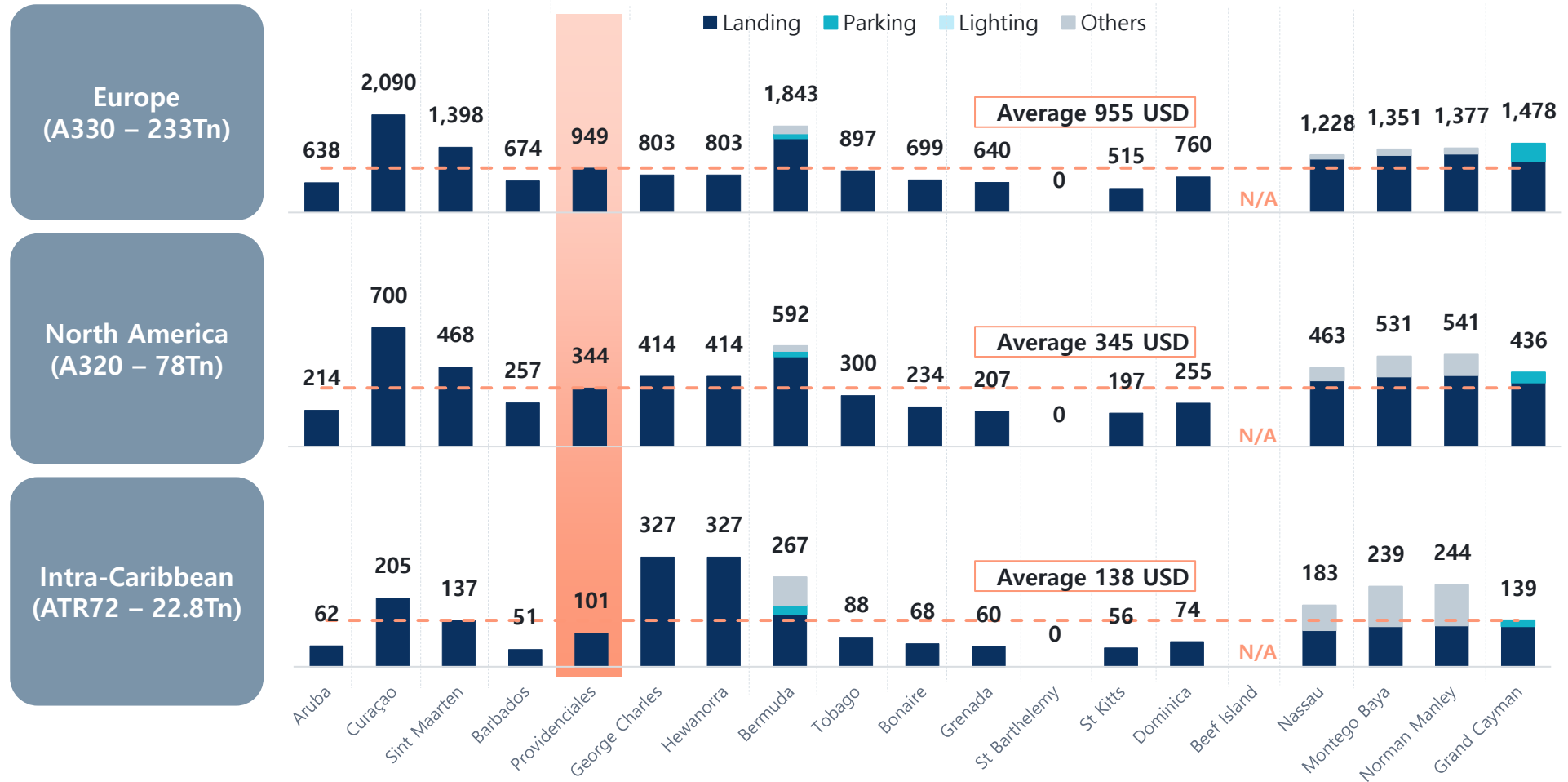
Information not available

Handling Charge

- Tarmac Driver License (Commercial):**
- Initial Issue: 45\$
 - Renewal: 20\$ per annum
- Vehicles:**
- Small trucks/cars: 15\$ per annum
 - 1 to 5,000 lbs weight: 30\$ per annum
 - 5,000 to 10,000 weight: 40\$ per annum
 - Exceeding 10,000 lbs weight: 50\$ per annum

PLS aircraft charges are competitive compared to benchmarks of the Caribbean region

Benchmarking of aircraft airport charges in the Caribbean Airports per flight (USD per turnaround)























NOTE 1: Considers turnaround times of 2 hours

NOTE 2: Others correspond to Aerobridge charges and Terminal Charges (Bermuda)

Source: Public information, ICAO Doc. 7100, ALG analysis

PLS offers discounts for airlines performing more than 200 monthly landings; other incentive schemes could be implemented based on int'l practices

Aeronautical charges incentive schemes – International practice

	<p> New routes & frequency incentive Reductions on landing fees for the first years of operation for new routes or additional frequencies:</p> <ul style="list-style-type: none"> • 50% discount first 6 months • 25% discount second 6 months 	<p> New routes & frequency incentive New routes and airline promotion during 3 years</p> <ul style="list-style-type: none"> • Minimum revenue per flight guarantee • Marketing support 	<p> PLS - Frequency incentive The landing fee shall be reduced:</p> <ul style="list-style-type: none"> • By 50% if the landing is made after more than 200 landings have been made during that month • By 75% if the landing is made after more than 300 landings 	
	<p> New routes 75% discount in passenger fee in the 1st IATA season and 25% during the 2nd IATA season</p>	<p> Long-haul route growth Discount in passenger fee during the 1st and 2nd IATA seasons for extra passengers</p>	<p> Off-peak operation 50% discount in passenger and landing fees for operations on off-peak days or periods</p>	<p> Connexion bonus 40% discount in passenger and security fees for each transfer or transit operation</p>
	<p> New routes Fixed amount per passenger handled in new routes during the first 3 years of operation (100%, 80% and 65% respectively)</p>	<p> Operational efficiency Fixed amount per passenger extra passengers handled in existing routes, measured in IATA seasons (1 year)</p>		<p> New frequency Fixed amount per passenger handled in new frequencies served on existing routes (1 year)</p>
	<p> New routes 100% abatement of landing fees (during 1 year) for new scheduled destinations, city or airport for both, passengers and cargo services; the service must be offered at least during one year</p>			
	<p> New routes Refund of the landing fee during the four first years of operation (100%, 80%, 60%, 40% resp.)</p>	<p> Frequency incentive Refund of the landing fee during the 2 or 3 first years of operation (short or long-haul)</p>	<p> Volume incentive Fixed amount per 100 departing passengers handled by based airlines</p>	<p> Transfer incentive Fixed amount per 100 transfer passengers (for all airlines)</p>

Source: TCI Airports Authority Ordinance, Airport operators' websites, ALG analysis

ILLUSTRATIVE

Air navigation charges: TCIAA only charges 5 USD per landing as the FAA is delivering air navigation services up until the final approach

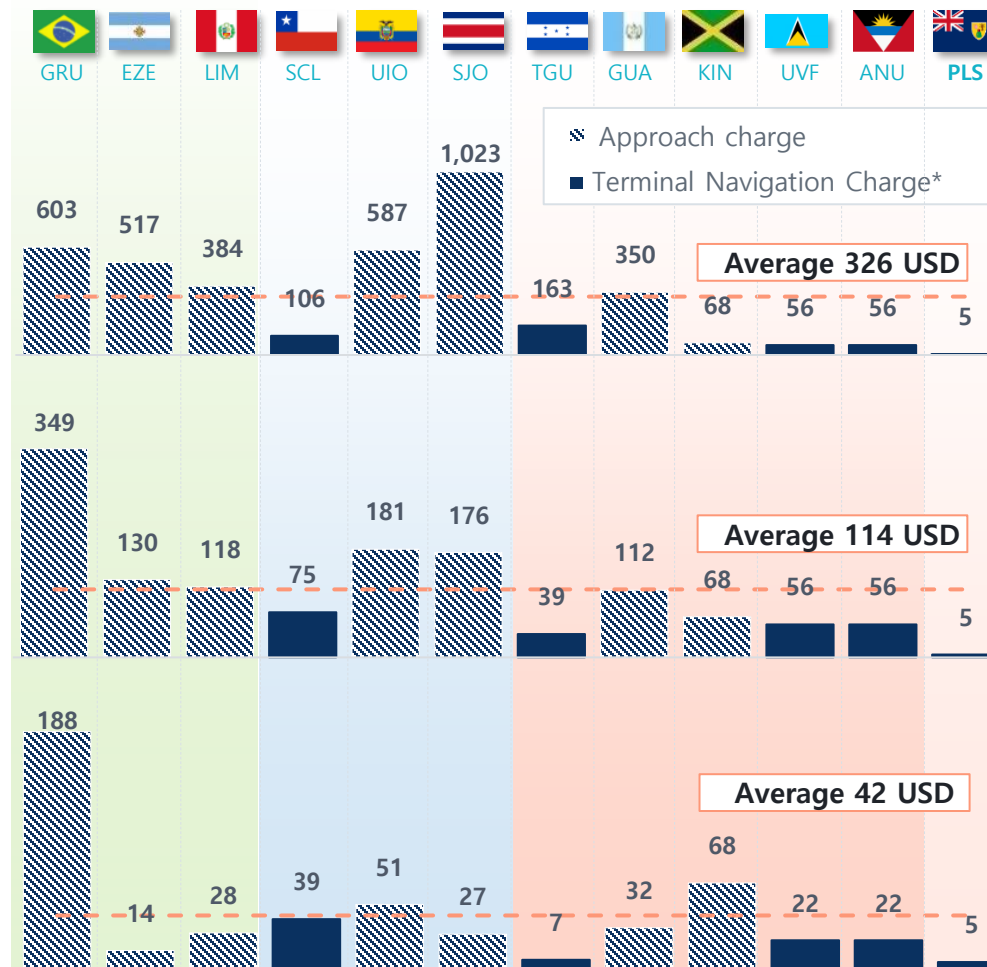
Benchmarking of navigation fees - approach

Figures presented in USD

Europe (A330)

North America (A320)

Intra-Caribbean (ATR72)



Countries with a **public Air Service Provider independent from other entities** take control of their own funds

Airports operated by **private operators** and **lower air space service** provided by the **Civil Aviation Authorities** (COCESNA acts as ANSP only above 19.500ft is)

Caribbean airports with a **public operator** and with the **lower airspace services provided by the Civil Aviation Authorities** (Honduras and Guatemala are part of COCESNA so the Civil Authorities only have control below 19.500ft)

Source: Airports webs, Civil Aviation Authorities, ANSP webs, OACI; ALG analysis

*Terminal Navigation Fee: There is not an specific approach charge but there is a fee for the navigation services apart from the landing

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Executive summary

ICAO Doc 9562 recommendations

Benchmarking analysis

Proposed fees & charges structure

Proposed fees & charges update mechanism

Although current PLS fees & charges are aligned with Caribbean airports, new fares could be defined to follow international practices

Current status of PLS fees & charges

		<i>Implemented at PLS</i>	<i>Recommended by ICAO</i>	<i>Comments</i>
Passenger	Passenger service charge	✓	✓	Passenger-related fees are above benchmarks (70 USD vs. 65 USD in average excl. Government tax). PLS levies an Airport Development Charge which is used by the TCIAA to fund the development of the Airport
	Security charge	✓	✓	
Aircraft operations	Landing charge	✓	✓	Aircraft related-fees regarding airport operations are aligned with ICAO recommendations having a landing charge and a parking charge. As these are significantly below benchmark it enhances TCI competitiveness. Noise & Emission charges are not implemented, in theory, as per the Airports Ordinance. However, an Environment Ease Charge is charged to passengers in airline tickets.
	Parking charge	✓	✓	
	Noise & emissions charge	~	✓	
ATC	Approach charge	X	✓	Currently, TCIAA charges 5 USD to all arriving commercial or private aircrafts (Air Navigation Facility Fee). FAA is the Air Navigation Service Provider up until final approach phase to PLS.
	Route charge	X	✓	
Service provider	Handling charge	✓	✓	<ul style="list-style-type: none"> It is unknown if there is a fuel charge, the documentation available does not show this information PLS charges a fee for driving licenses to ground handlers in the tarmac and for the vehicles in the apron area (variable, depending on weight)
	Fuel charge	X	✓	
Other	Cargo Charge	X	~	Cargo charges are only levied at airports with a relevant cargo operation. This is not the case of PLS, so there isn't a Cargo Charge
Gov.	Government taxes	X	X	The fact of not having Government taxes nor VAT ensures TCI competitiveness in the Caribbean region.

Preliminary, it is proposed that the airport operator keeps the same passenger-related charges for int'l passengers. Domestic traffic could also be charged


Proposed fees & charges structure for PLS

		USD	Driver	Comments
Passenger-related	Aerodrome Charge	40	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator to cover the costs related to the maintenance of passenger terminal facilities. It is proposed, according to best practice, that domestic passengers should also be charged (with a lower charge), excluding TCI nationals.
		<small>NEW</small> 5	Per domestic departing passengers (TCI national excluded)	
	Security charge	5	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator to cover the provision of security costs in the airport. A case study can be done to match security-related costs with this charge. It should be studied if domestic passengers should also be charged.
	Airport Development Charge	20	Per international departing passengers (commercial only)	This charge was implemented in 2010 to finance works in PLS. It should be further analysed if this charge is required to be levied by the airport operator to finance the airport redevelopment project and for how long.
Environmental Airline System Charge	5	Per international departing passengers (commercial only)	This charge is to be levied by the airport operator. For the time being, it is not clear the nature of this charge (regulated / non regulated). TCIAA should confirm if this charge is Aeronautical Income or Other Income in their P&L.	

- Total passenger-related fees sum 70 USD per departing international passenger (commercial only), which is slightly above benchmarks excluding Government taxes (65 USD).
- The Financial model should help to determine the need of including all these charges or not in the P&L of the airport operator. Preliminary, it is recommended that the airport operator keeps these four charges, also the Airport Development Charge.
- It should be further studied (sensitivity with the Financial model) if domestic passengers should also be charged with an Aerodrome Charge and/or Security charge.
- Any Government taxes implemented (e.g. Tourism tax) would be on top of these 70 USD. Benchmarks of the Caribbean region suggests total passenger-related charges could go up to ~80 USD (average of the region including Government taxes).

The airport operator could add some aircraft-related charges (noise & emission charges and fees for PBB usage) as per industry trends



Proposed fees & charges structure for PLS

		<i>USD</i>	<i>Driver</i>	<i>Comments</i>
Aircraft-related	Landing charges	~350 USD x A320	All aircraft landing at PLS based on their MTOW	This charge is to be levied by the airport operator to cover the costs related to the airport maintenance. Current charges are competitive and it is recommended to keep the same structure. In case of capacity constraints, differentiation can be made between peak vs. off-peak times.
	Parking charges	~50 USD/day x A320	All aircraft landing at PLS based on their MTOW (free of charge the first 2 hours)	This charge is to be levied by the airport operator. Current charges are competitive and it is recommended to keep the same structure. In case of capacity constraints, differentiation can be made between peak vs. off-peak times.
	Noise & Emissions	N/A	All aircraft landing at PLS based on their MTOW	Noise & Emissions charges are becoming a common industry practice aimed to cover for the related costs. However, based on the E&S DD results these charges do not apply to PLS
	PBB use 	80	All aircraft using Passenger Boarding Bridges (PBB)	PBB use charge is a common industry practice aimed to cover for the related costs of both construction and maintenance of the PBB units.

- It is recommended that the current landing and parking charges remain the same as they are aligned with international practices and PLS is competitive compared to benchmarks.
- The creation of a new charge to be levied for the airlines using PBB is recommended to be implemented once the PBB are built at the airport (to be determined after sensitivity analysis with the Financial model).
- It is also important to consider the possibility of future noise and emissions charges that might be imposed to the airport. If this happens, then the airport operator should be able to impose a new noise & emissions charge.
- Financial model sensitivity (together with benchmarking analysis) should help to identify the optimal charges to be implemented.

The FAA is the Air Navigation Service Provider, but TCI is sovereign over its own air space and could establish further air navigation charges

Proposed fees & charges structure for PLS

		<i>USD</i>	<i>Driver</i>	<i>Comments</i>
Aircraft-related (ATC)	Air Navigation Facility Fee	5 USD	All aircraft landing at PLS	This charge is to be levied by the airport operator.
	Approach charge 	TBD	All aircraft at PLS	Turks & Caicos has sovereignty of its own air space. Therefore, there is the possibility to establish this charge even if the FAA provides the service.
	Route charge 	TBD	All aircraft en-route at PLS	Turks & Caicos has sovereignty of its own air space. Therefore, there is the possibility to establish this charge even if the FAA provides the service.

- ICAO recommends the separation of the Air Navigation Service Provider than the airport operator, which currently the case in Turks & Caicos as the FAA is the Air Navigation Service Provider up until final approach phase to PLS.
- Currently, TCIAA charges Air Navigation fees of 5 USD to all arriving aircraft (commercial and private) accounting for the services provided in the last phase of approach.
- TCI is sovereign over its own air space and could establish further air navigation charges (Approach and en-route charges).

There is the possibility to increase or add other fees in the airport (e.g. handling); the creation of a Tourism tax is under study in TCI





Proposed fees & charges structure for PLS

		<i>USD</i>	<i>Driver</i>	<i>Comments</i>
Service provider	Handling	TBD	TBD	TCIAA currently charges ground handling operators, but the fees published seem very low. Charges could be significantly increased to adjust to benchmark values.
	Fuel	n/a	n/a	It is unknown if there is a fuel charge currently in place, the documentation available does not provide this information.
Other	Cargo	-	-	Cargo charges are only levied at airports with a relevant cargo operation. This is not the case of PLS, so no Cargo Charge is proposed
Gov. tax	NEW Tourism tax	10	All international inbound passengers	INITIAL PROPOSAL. The Government of the Turks and Caicos Islands is considering the introduction of a tourism tax at PLS.

- Any Government taxes implemented (e.g. Tourism tax) would be on top of the current passenger-related charges of 70 USD. Benchmarks of the Caribbean region suggests total passenger-related charges could go up to ~80 USD (average of the region including Government taxes), suggesting preliminarily that tourism tax should not be > 10 USD per international inbound passenger.

The Government of the Turks and Caicos Islands is considering the introduction of a tourism tax at PLS; a practice in place at other Caribbean airports

Tourism Tax in the Caribbean Region

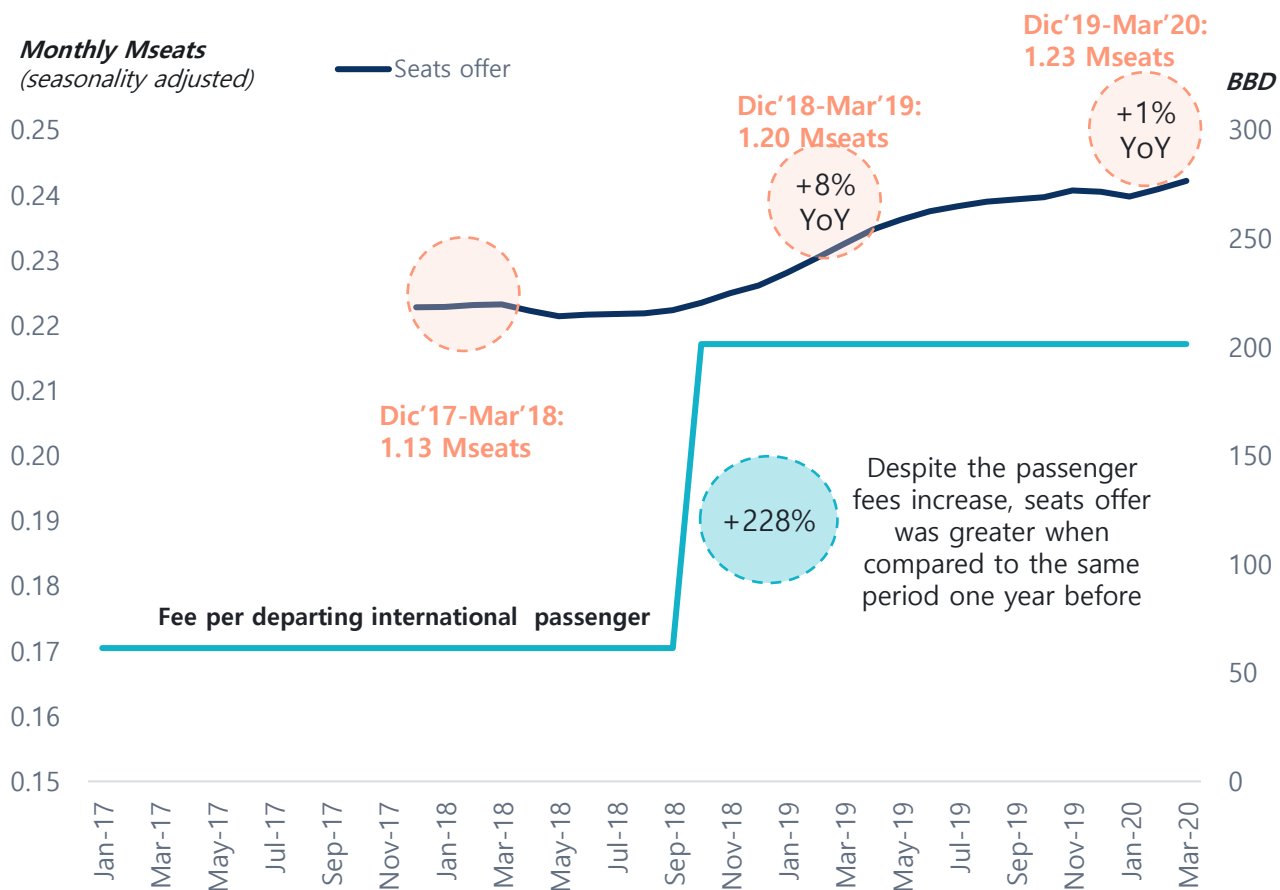
Mexico		Mexico Tourism Tax Derecho No Inmigrante. The Mexican Government charges inbound arriving passengers with USD 31.72
Dominican Republic		Dominican Republic Tourism Tax. The Dominican Republic Government applies a tourism tax equal to USD 10 per arriving passenger
Barbados		Passenger service charge. The Barbados Government charges USD 55 per departing passenger, part of which are attributed to a Tourism Tax (<i>it is not fully clear what % of this tax is a Tourism Tax</i>) to subsidize new routes. Also applicable to cruise passengers
Jamaica		Jamaica Tourism Enhancement Fee International (Tourism Tax). Jamaica applies a Tourism Tax equal to USD 20 to inbound international passengers

- In the Caribbean Region, several countries have established a Tourism Tax
- Countries such as Mexico, Dominican Republic, Barbados, and Jamaica are currently applying a Tourism Tax on inbound passengers. Some of them also to passengers arriving in other transport modes (e.g. cruise passengers in Barbados)
- The amount of the Tourism Tax depends on each country. Among those listed, the range is between USD 10 (Dominican Republic) to USD 55 (Barbados)

In case TCI establishes this Tourism tax, it should be ensured that the competitiveness of the country is not jeopardized due to having too high taxes

In Barbados, the effect of increasing the charges did not have an impact on the seat supply in 2018 – offer seems inelastic to the increase of charges

Seats offer vs passengers fee regression (Mseats)



	Valid	Value
R ²	> 97%	10.4%
Adjusted R ²	> 85%	8.0%
P-value	< 0.05	0.05
Significance F	< 0.01	0.04

- As shown by the statistical values, there is no clear correlation between the increased passenger fee and the seats offered in BGI
- The Determination Coefficient is very low and the P-value shows that the variable is not relevant for the model
- Statistically, a variable is significant within a regression when the P-value is below 0.05

CHAPTER



4

Executive summary

ICAO Doc 9562 recommendations

Benchmarking analysis

Proposed fees & charges structure

Proposed fees & charges update mechanism

In other countries, a clear and transparent tariff updating mechanism is considered in PPP schemes to avoid jeopardizing the viability of the contract

Models of fees & charges update mechanisms internationally used

- In most of the countries, the **Government has the competencies to fix and amend the aeronautical fees and charges** or to stipulate a cap to their values. However, the Government must also ensure that the private operator obtains benefits from the airport activity
- For this reason, there are different **mechanisms to update the fees and charges** in order to cover those cases that compromise the economic viability of the project or the public service

Local CPI + USA CPI

- It is the most common model used in LatAm
- It uses the local CPI to update the fees and charges to be collected in the local currency (typically domestic charges) and the United States CPI to update the fees and charges received in US dollars (typically international charges)
- In some cases, both inflations are weighted



Brazil

- ANAC (the Brazilian Civil Aviation Authority) introduced a quality parameter in the formula to adjust the maximum charges to be applied
- This quality parameter, named Q Factor, considers 17 quality KPIs
- This parameter encourages the airport operator to improve the airport level of service and comply with the quality KPIs so the regulated charges can increase



Peru

- This model is included in Lima Airport concession agreement
- The charges are updated in accordance with the United States CPI except for an estimated percentage of productivity increases (CPI – X)
- It tries to ensure an efficient operation from the concessionaire



Mexico

- Mexico has a system that is similar to the Regulated Asset Base system
- This system regulates the maximum aeronautical charges depending on the operative expenses and the investments

Currently, there is no update mechanism for tariffs at PLS; a mechanism should be developed based on CPI, quality of service or required investments

Potential mechanisms to updated tariffs at PLS

Proposed mechanism

CPI



- Both passenger related and aircraft operations charges are set to grow annually following CPI YoY rate; this procedure matches standard international practices
- The CPI (or equivalent measure) of Turks & Caicos or the USA can be used, or an average of the two
- This mechanism ensures that the airlines and passengers (the airport users) do not perceive an increase in costs higher than the inflation (measured by the Consumer Price Index or similar) for the previous year

$$\text{Tariff year}_{i+1} = \text{Tariff year}_i \times (1 + \text{CPI})$$

Quality Factor



- A quality factor could also be defined to modify the actual yearly growth rate for aeronautical fares to account for the Level of Service provided at the airport, incentivizing the airport operator to improve its LoS
- Q Factor - Quality of service index: additional growth related to terminal facilities Level of Service achieved on the previous year (higher level of service implies additional growth while non-optimal LoS implies growth below CPI)
- This factor will also penalize the concessionaire if the initial required investments are not completed on time because the Q factor will reduce the tariffs growth from subsequent years

$$\text{Tariff year}_{i+1} = \text{Tariff year}_i \times (1 + \text{CPI} + \text{Q Factor})$$

Regulatory Asset Base



- Another option would consider the introduction of an extra factor linked to any investments that the airport operator is required to complete by a given point in time
- This could however compromise the concessionaire in case the investments are delayed for external reasons
- Nevertheless, in order to penalize these potential delays in any investments it is recommended to include the fines and penalties to the Concessionaire within the contract document