

# TANZANIA CIVIL AVIATION AUTHORITY



## STATEMENT OF CASE ON THE INTENT BY THE TANZANIA AIRPORTS AUTHORITY TO INCREASE AVIATION FUEL THROUGHPUT CHARGES

### 1. INTRODUCTION

Aviation is one of the fastest growing sectors of the global economy. Last year (2006), passengers who embarked and disembarked at our airports amounted to 2,361,701 compared to 2,172,519 in the previous year, which is 9% growth. The passenger growth is expected at a rate of not less than 10% in a couple of years to come.

Flight movements at all airports increased from 115,636 in the year 2001 to 155,052 in 2005, an increase of 34%. Flight movements at Dar es Salaam airport, increased from 31,309 in 2001 to 53,109 the year 2006, which is 70% growth. It is expected that, aircraft movement will generally grow at 5% annually, in the coming five years.

Except for Kigoma Airport where Oilcom (T) Ltd provides fuel and Kilimanjaro International Airport (KIA) where aviation fuel is provided by both BP (T) Ltd and Total (T) Ltd, aviation fuel service at Tanzanian airports is provided on monopoly basis by BP (T) Ltd. The Tanzania Airports Authority (TAA) which is responsible for issuing aviation fuel concessions at the Tanzania (mainland) airports (apart from KIA) has written to the Tanzania Civil Aviation Authority (TCAA), on its intention to increase aviation fuel throughput charges.

Presently, TAA is charging BP (T) Ltd USD 0.005 per litre; a rate that was set in year 2003 and TAA is of the opinion that this rate has now been overtaken by the prevailing business environment.

### 2. FUEL SALES STATISTICS

**TAA has provided sales statistics and corresponding aircraft movements for the period from January 2002 to 2006 as follows:**

**Jet A1, Avgas Sales and Aircraft Movements for JNIA from 2002 - 2007**

SN	PERIOD	Jet A1 Sales	Avgas Sales	Aircraft Movements
1	2002	36,683,209	866,284	36,925
2	2003	69,257,907	908,089	44,320
3	2004	78,087,266	1,050,077	49,797
4	2005	89,007,213	1,076,470	49,293
5	2006	82,020,157	945,775	53,109
6	2007	35,652,582	266,619	19,015

Source: Air BP (T) Ltd and TCAA,

Note: Figures for 2007 cover the period from Jan to May

### 3. UNDER-RECOVERY OF COSTS

According to TAA, they have always **suffered losses due to under-recovery of costs** in the provision of services in the airfield area. In the Financial Year 2006-2007, the under-recovery of cost was up to USD 17,070,000. This deficit was covered by the revenues from the terminal building revenue centre. Details provided by TAA are tabulated below.

<b>JNIA Airfield Area Cost Centre 2006 - 2007</b>			
<b>S/No.</b>	<b>Item</b>		<b>USD</b>
1.1		Direct personnel costs	3,367,911
1.2		Depreciation on public aircraft facilities without Fire and Rescue services (based on capital cost of € 50.9m, 10 year, straight line depreciation)	6,747,946
1.3		Interest on public aircraft facilities without Fire and Rescue services (based on capital cost of € 50.9m)	3,502,627
1.4		Depreciation on Fire and Rescue facilities (based on capital investment in equipment of € 1.1m)	673,582
1.5		Interest on Fire and Rescue facilities (based on capital investment in equipment of € 1.1m)	134,716
1.6		Other operating overheads	
	1.6.1	Operational costs, utilities, maintenance	4,041,493
	1.6.2	Administrative costs	1,481,881
	1.6.3	Safety and Security services	1,320,221
<b>1.7</b>		<b>Sub total - Annual cost of airfield facilities in FY 2006</b>	<b>21,270,377</b>
<b>Computation of unit rate to be charged for landingfee at JNIA FY 2006 to recover costs</b>			
2.0		Projection of scheduled air carrier weight at JNIA (tons)	1,400,000
3.0		Target landing fee charge per ton for FY 2006 (1.7/2) in order to recover airfield costs	USD 15.19

3.1	Current landing fee charge	USD 3.00
3.2	Airfield area cost deficit per ton FY 2006	USD 12.19
<b>Computation of gain or under-recovery from airfield area cost centre</b>		
4.1	Projections of scheduled air carrier weight at JNIA in tons	1,400,000
4.2	Income based on a landing charge of USD 3 per ton	USD 4,200,000
4.3	Annual cost of airfield facilities in FY 2006/2007	USD 21,270,376
4.4	Amount of under recovery FY 2006-2007	USD 17,070,376

Source: TAA

#### 4. PROPOSED NEW CHARGES

From the current charge of USD 0.005, TAA proposes **an** increase of aviation fuel throughput charges for the next three (3) years as scheduled below:

Effectiveness range of time	Proposed Throughput Fuel charge (US\$)
01/07/2007 – 30/06/2008	0.018 per litre
01/07/2007 – 30/06/2009	0.020 per litre
01/07/2009 – 30/06/2010	0.022 per litre

Source: TAA

**The** increase in aviation fuel throughput charge in financial year 2007/08 will raise approximately USD 1.9m that TAA will **be applied** to the airfield area cost centre.

#### 5. STATEMENT OF CASE

According to Section 19(1) and (2) (b) of the TCAA Act, 2003, the Authority may conduct an inquiry, as it deems necessary, for carrying out its functions. An Inquiry shall also be conducted by the Authority before it exercises power to regulate any rates or charges.

The TCAA Rules for making inquiry require the Authority to serve a statement of case on each person on whom the notice is served, indicating the purpose of inquiry, the time within which the submissions may be made to the Authority, the form in which the submissions will be made and the matters which the Authority would like to deal with.

Comments on the TAA proposal of increased aviation fuel throughput charges are expected to focus on the following:

1. The assumptions used and the methodology employed to determine the increase. Also, assess the type, the relevance and reliability of data provided to determine the case.
2. The justification of the costs/and investments supporting fuelling services, whether the airfield services are provided with minimum level of costs and resources are used efficiently and the assurance that the level and quality of service will improve with the charge increase and that users of service shall benefit;
3. The need to ensure that TAA makes reasonable returns to investments made and is able to maintain existing infrastructure and build new ones to meet existing and expected new demands for service arising from traffic growth;
4. The impact of proposed increase in charges on TAA's improvement in efficiency, aviation safety and security, in line with international standards;
5. The need to ensure that the interests of the air operators, the travelling public and private sector investors are considered with respect to affordability;
6. The available capacity and efficiency of the current aviation fuel supplier;
7. The possibility of airlines to reduce their operational costs following the expected improved facilities and infrastructure;
8. The impact of the proposed increase of charges on importance of hastening improvement of infrastructure facilities at our airports and attraction of private sector investments on the sector;
9. The other viable sources of financing that may be available.

We are requesting the stakeholders and the public at large, to give their views with regard to these objectives and in line with the prevailing economic environment. Interested members of the general public, including the stakeholders in the aviation industry, the Government and TCAA Consumer Consultative Council, are invited to give their submissions to the Authority not later than six (6) weeks from the first date of the inquiry notice indicating, with reasons, their views on this TAA's intention, bearing in mind the above mentioned objectives **and issues**.

Please note that a Public Hearing Meeting shall be held at Kilimanjaro Hotel Kempinski, Dar es Salaam on Thursday 11 October, 2007 from 1000 hours to 1300hours to collect the views of Stakeholders, including TCAA's Consumer Consultative Council and the general public.