Financing Air Traffic Management

Is there a need for a change in approach?

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Starting points

- ATM/ANS is a State responsibility under ICAO
  - public service ≠ publicly financed
  - basic principle for financing is User Pays Principle (UPP)

- What is ATM/ANS: infrastructure or services? What is paid for?
  1. <u>Availability</u> of up-front agreed capacity, environment and safety performance at a set price (cost).
  2. <u>Delivery</u> of services to actual traffic (actual service units times unit rate)

  → EU/SES performance scheme: ANSPs need to plan on 1. and are paid on 2.

  → Deviations between 1. and 2. in costs/revenues, traffic and performance are settled via cost and traffic risk sharing mechanisms and the incentive scheme.

Financing ATM/ANS

- Sources for financing ATM/ANS
  - Airspace users (airlines, business, freighters) → passengers + cargo
  - Exempted flights (MIL, medical, ...) → State to reimburse the costs
  - State budget → tax payer

- Normal situation
  - User pays principle (charging through unit rates times actual service units)
  - Costs for exempted flights are reimbursed by States
  - Differences between planning and actual costs/revenues are limited and are settled through the performance scheme instruments.

Crisis situation

- Crisis situation (e.g. Covid-19 or financial) → big drop in air traffic (global, Europe, local)
  - Applying UPP and charging the actual service units (in conformity with regulation)
  - Costs for ATM/ANS (ANSPs) are largely fixed/structural
  - → drop in traffic leads to loss of revenues and deficits for ANSPs
  - → unit rate is set and may not be changed during a year.
  - Costs for exempted flights are reimbursed by States.

- RP3 approach: adapt cost-efficiency target, combine 2020+2021 and apply exceptional measures for loss of revenues of ANSPs (5-7 years pay-back period).
- States supported ANSPs (not all) to cover the loss of revenues by e.g. financial support, loans, credit facilities, state guarantees.
- States supported airlines (not all) by e.g. staff costs compensation, loans and state guarantees.
- Airlines (all) took cost-cutting measures on e.g. staff, investments and operational costs.

Need for change?

Does the performance scheme and charging scheme need to change?

Observations:

- Execution of RP3 replanning took almost longer than the crisis. What is worth the effort?
- ANSP costs are not very flexible and savings were limited.
- Measures on ANSP staff and investments contain risks for the operational performance when traffic recovers (capacity + delays and environment).
- States stepped in with (financial) support to ANSPs (deficits) and airlines.

Normal situation

- **Keep UPP and cost and traffic risk sharing (address operational performance)**
  - The performance scheme is able to absorb/settle the limited financial differences between planned and actual costs/revenues (with limited reserve funds at ANSPs).
  - Improvements are possible on operational performance (capacity and environment), the relation with charging (incentives, modulation) and the applied KPIs → out of scope for today.
- The financing of the normal situation should not be adapted, nor should it accommodate the (pre)financing of a future crisis in ATM/ANS (no need for additional fund).

Need for change?
Does the performance scheme and charging scheme need to change?

<u>Crisis situation</u>

- **Keep UPP and cost and traffic risk sharing (adapt pay back and handling of deficit)**
  - Airlines to pay for the actual service units and States to reimburse the costs of exempted flights. This will lead to loss of revenues and ANSPs deficits.
  - Apply the traffic risk sharing. Spread pay-back of the loss of revenues by the airlines over time (not N+2).
  - States to ensure the prefinancing of the ANSPs deficits if needed (loans, credit facilities or financial guarantees).
- Cost savings for ANSPs during a crisis are difficult and downgrading ATM/ANS infrastructure (including staff) will lead to high start-up costs by traffic recovery and could cause safety and operational performance issues.
  - Address the high portion of fixed/structual costs of ANSPs and adapt where possible → technology, scalability, cross-border cooperation, staff mobility, virtual solutions, ...
- Crisis is not a reason/argument to adapt the set-up of financing and charging in the normal situation.
- The ATM/ANS system exists to serve the airspace users → airlines should cover what was agreed in the performance plan (except for the traffic risk sharing part for the ANSPs).
- NO legitimate reasons why States should cover the loss of revenues in a crisis situation and/or should (structurally) contribute to the financing of ATM/ANS.

END