



ATM Pricing – some views from the TANS segment

Introduction to the ATM Pricing Session
EAC, Vienna, 08.11.2019

Origins of ATM Pricing?

At Chicago Convention (75 years ago) contracting states recognized **exclusive sovereignty over the airspace above its territory** resulting in

The traditional organisational model for **National & state-controlled ANSP**

And lay ground to ICAO DOC 9082 providing framework for the **establishment of the cost basis for air navigation services charges** and stating that **full cost of providing the air navigation services,**

Can be charged to the user using a **'cost-recovery' philosophy**

The magic formula (Distance-, Aircraft Weight- factor, Unit Rate of Charge)

- Accepted by all stakeholders
- Acknowledging ability to pay the price
- Covers system costs

Still today ANS charges **by far the main source of revenues for any European Air Navigation Service Provider (ANSP)**

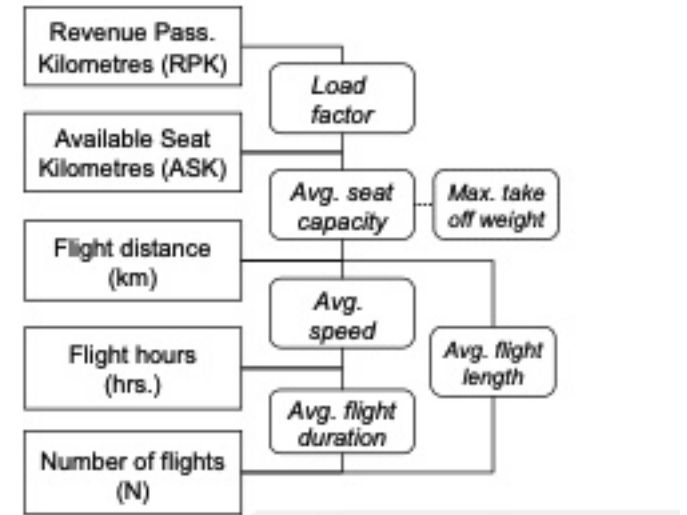


But what's the problem with ATM Pricing?

IATA:

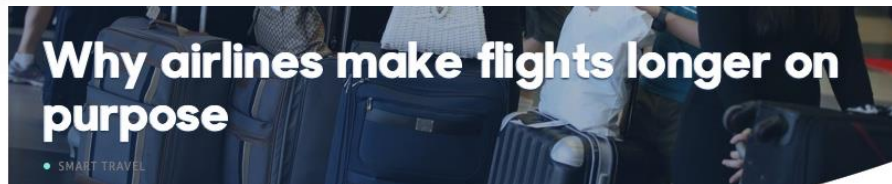
Given the monopolistic nature of such services, its charges need to be regulated and monitored in order to avoid

- inconsistent methodologies,
- unfair or discriminatory practices,
- lack of transparency in cost information, and
- other instances of unfair pricing



NEWS > ANALYSIS: WHY DO ATC COSTS ONLY EVER SEEM TO INCREASE?
ANALYSIS: Why do ATC costs only ever seem to increase?
31 OCTOBER, 2012 | SOURCE: AIR TRANSPORT INTELLIGENCE NEWS |

system for regulation of approach control services, which is currently being rolled out in navigation services (ANS). Certain characteristics of the current system for these charges in the EU have raised particular concerns amongst users including inconsistency of charging methodologies between states, resulting in perceived unfair discrimination between airlines; a lack of transparency in cost information, including attribution methodologies; and instances of explicit price discrimination.



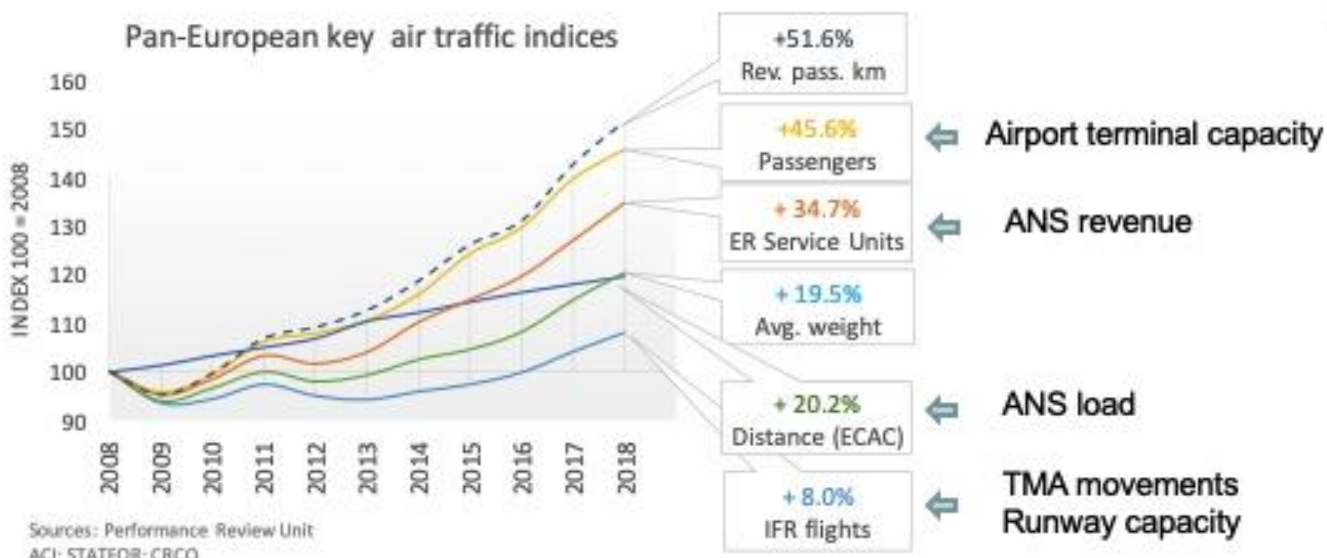
But what's the problem with ATM Pricing?

Direct ANS costs “only” about between **5% - 9% of airline operating costs** (depending on the source) but

Unhappiness with the Pricing system and **the absence of market conditions exercising downward pressure** on the prices, monopolistic behaviour of ANSP led to several efforts to **regulate the pricing on national or European level (cost-plus, price-cap regulations)** and

The Performance Regulation (2010/2013) with the aim to improve overall efficiency of the air navigation services across the key performance areas of safety, environment, capacity and **cost-efficiency**

Air Traffic indicators

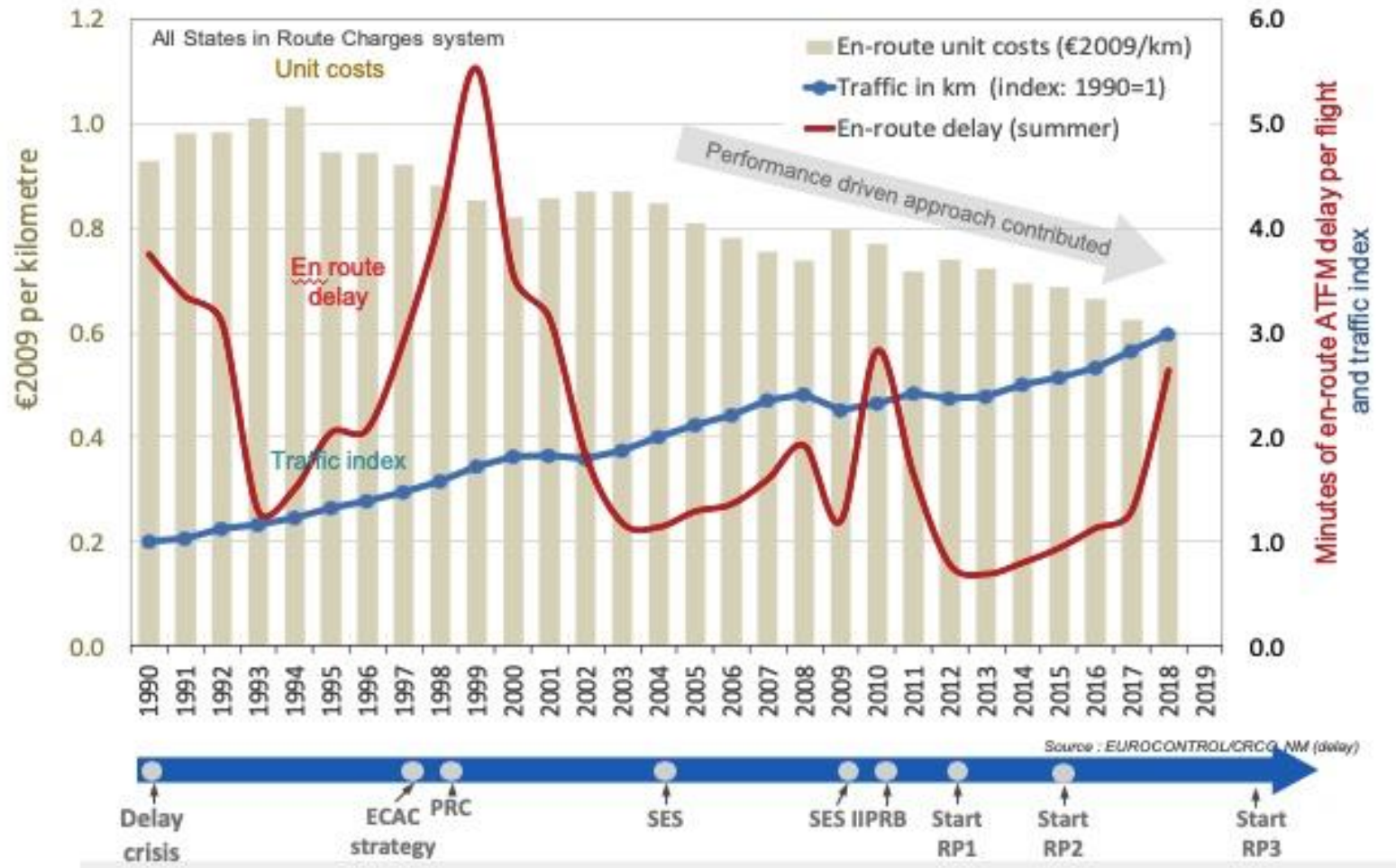


Different indicators required to make situation visible: **ANS revenue increases over** proportionally as Service Units grow faster than flights

As this is factored in, traffic growth will pressure unit rates downwards

Historic development of ANS Unit Costs & Rates

ATC and delay costs



Unit- rate & costs cannot be seen in isolation but need to be seen in context with capacity & delay costs

Until 2011 unit costs equal to unit rates

From 2012 onwards ANSP were allowed to generate surplus

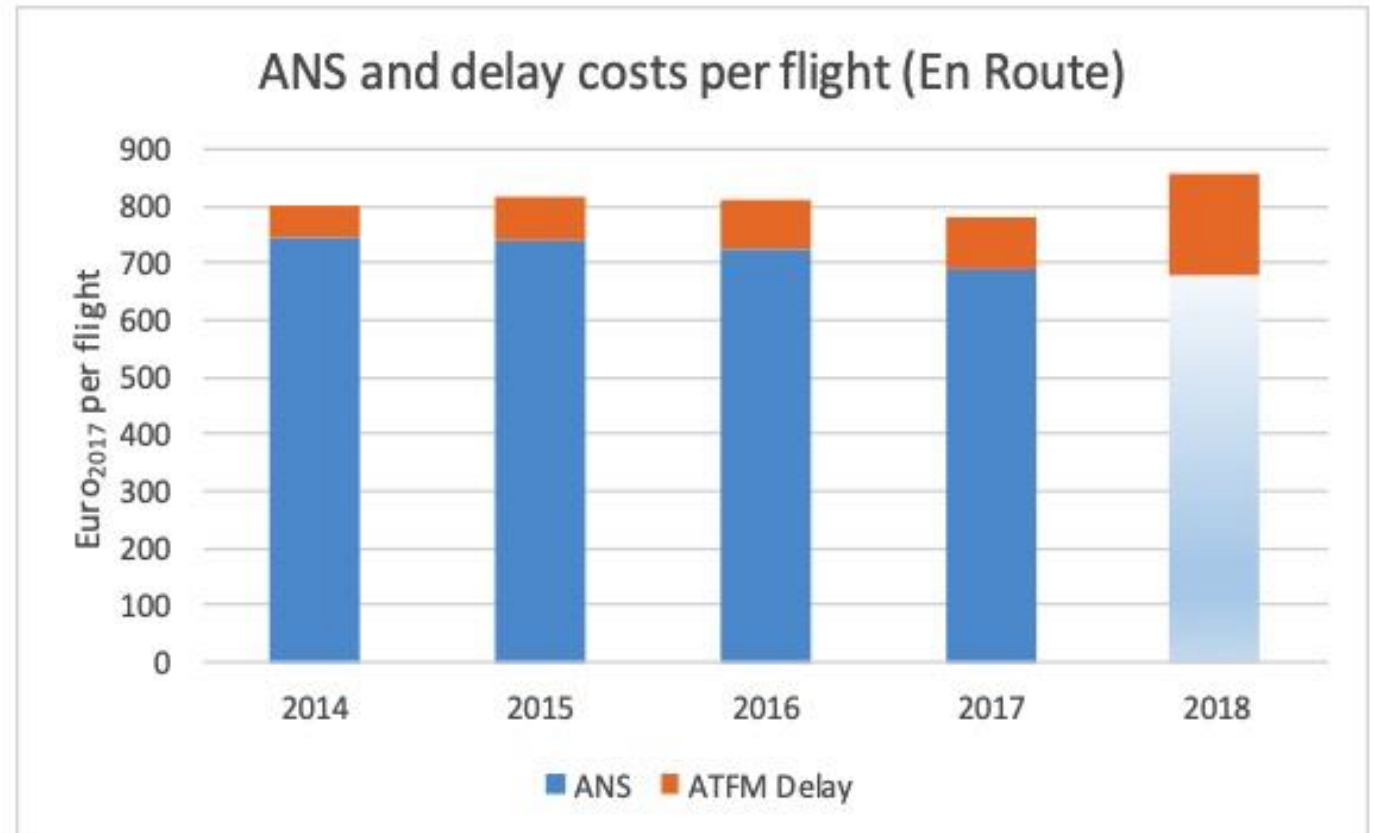
From a User perspective, costs for both have to be acknowledged: **Service and Delay Cost carried by User**

Total Cost for User in a 5 –year perspective

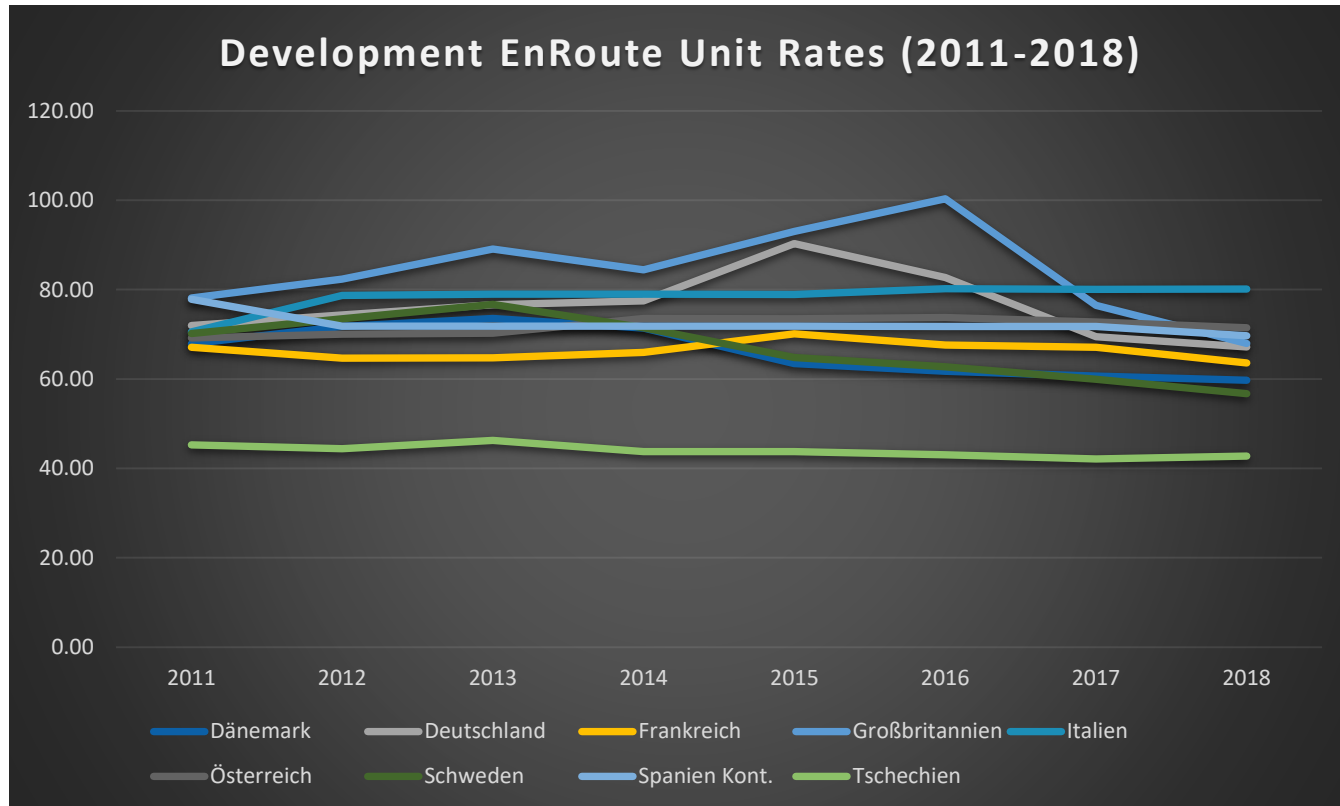
High delay costs cancel Cost-Efficiency improvements

Lower Unit rates alone not good enough indicator of total cost for User

2018 with the highest total cost for the User



Historic development of ANS Unit Costs & Rates since 2011



Overall flat development of Unit Rates since 2011 (-4% from 2011-2016, below the EU-wide reduction set by the Commission)

rather **large variation between ANSP** based on varying cost-levels of member states, airspace 'complexity', equipment standards, type and volume of support activities etc

However: **no significant Unit Rate reductions for the User** despite numerous initiatives and investments by ANSP over the last decades

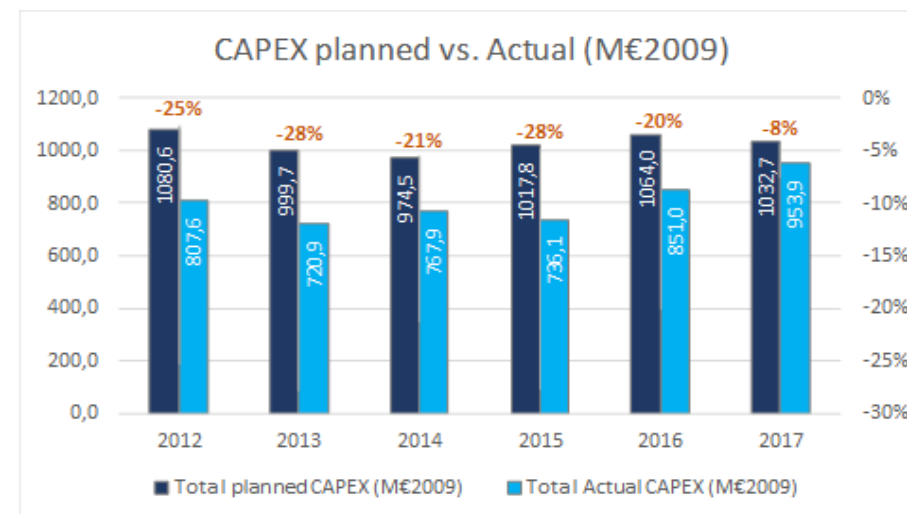
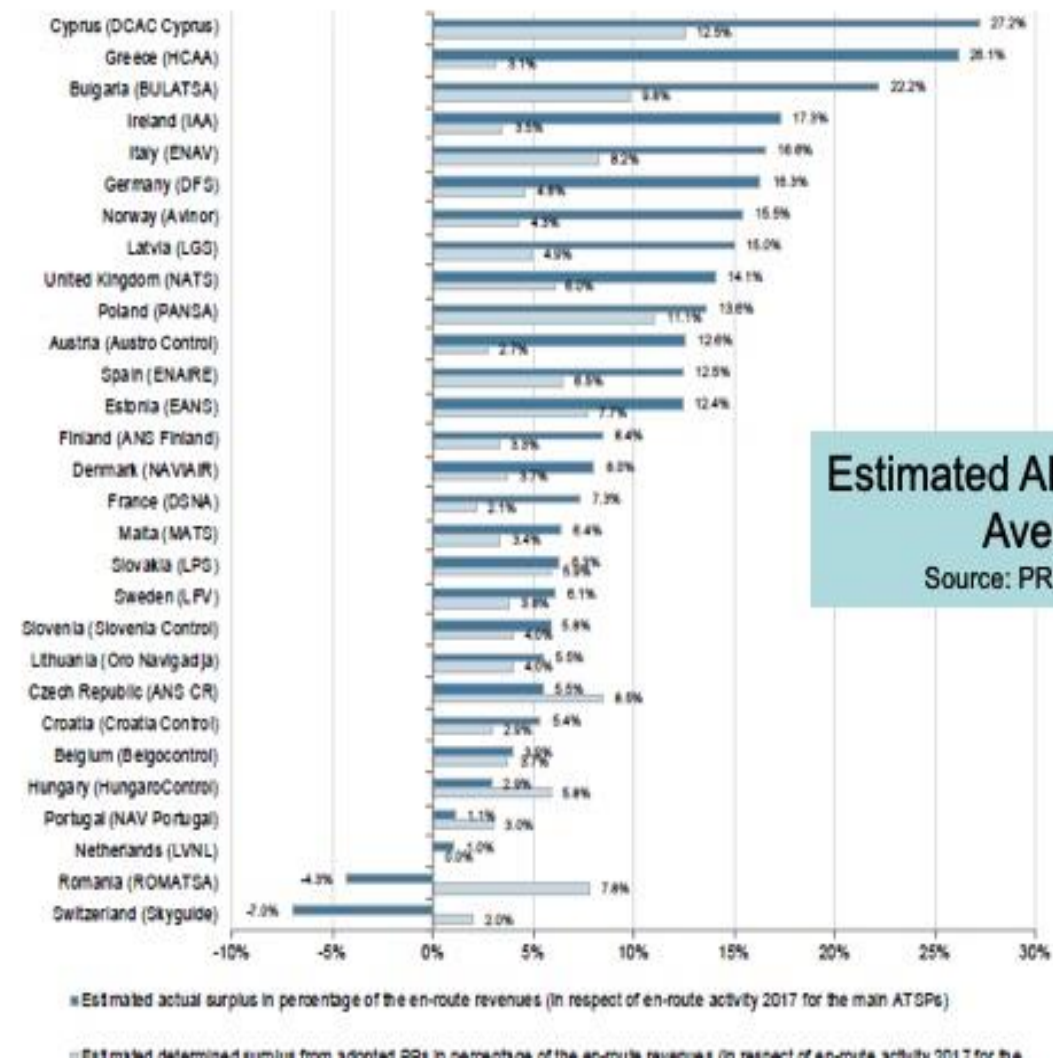
Historic development of ANS Surplus since 2011

Since 2011 **solid surplus from the ANSP** with an average of 11,2% and a top of 27%

Underspending of ANSP in CAPEX (included in performance plans and paid by users through user charges)

May result from **voluntary over-planning, under-investment vs needs** and **more revenue than expenditure**, and

The margin remains with the ANSP/State



Where Cost Reduction has been achieved

Evolution of selected features of the European ATM Master Plan

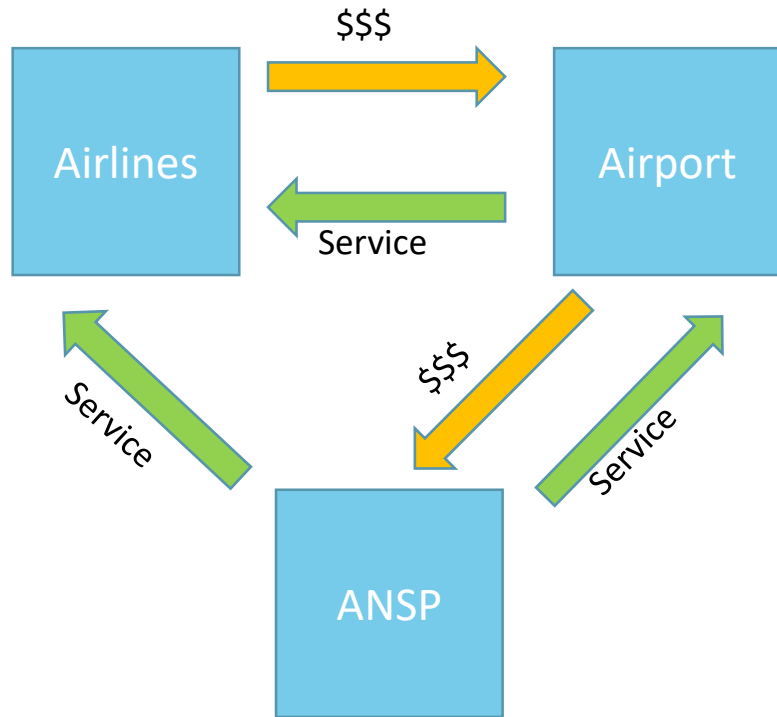
	MP 2009	MP 2012	MP 2015
Performance goals	Baseline: 2004/2005 Target date: 2020 Goals: <ul style="list-style-type: none"> ➤ 73 % increase in capacity ➤ 10 % reduction in environmental impact per flight ➤ 50 % reduction in cost per flight 	Baseline: 2005 Target date: 2030 Goals: <ul style="list-style-type: none"> ➤ 27 % increase in capacity ➤ 2.8 % reduction in environmental impact per flight ➤ 6 % reduction in cost per flight 	Baseline: 2012 Target date: 2035 Goals: <ul style="list-style-type: none"> ➤ 10-30 % reduction in en-route delay ➤ 5-10 % reduction in environmental impact per flight ➤ 30-40 % reduction in cost per flight
Investment costs	32 billion euro over 2008-2020 (of which 22 billion euro for airspace users and 7 billion for ANSPs)	20-29 billion euro (of which 13-17 billion euro for airspace users and 3-6 billion euro for ANSPs)	19-28 billion euro over 2015-2035, (of which 17-26 billion euro for ground investments)

Source: European ATM Master Plans 2009, 2012 and 2015.

Ambitious cost reduction per flight goals not achieved as of 2019

Liberalized Terminal ANS segment, **allowing competitive environment**, as exception

T-ANS: Where ANS costs have decreased



Terminal- ANS segment **with a (average) cost reduction of 30%-40% in liberalized markets**, but:

Cost savings for **contractual partners (airports)** and not (directly) to airspace users

Provision infrastructure with customer – Service Provider with focus on lean delivery of services, reduction of overheads

Contractual **negotiations between business partners** resulting in **Service Level Agreements and contracts** limited to agreed time periods

Adjustments in Service volumes and quality possible

“Real” Customer Relationship

TANS: Business Relationship



En-Route: Where ANS costs have not decreased

In EnRoute segment, interaction between stakeholders

Is an **administrative process**

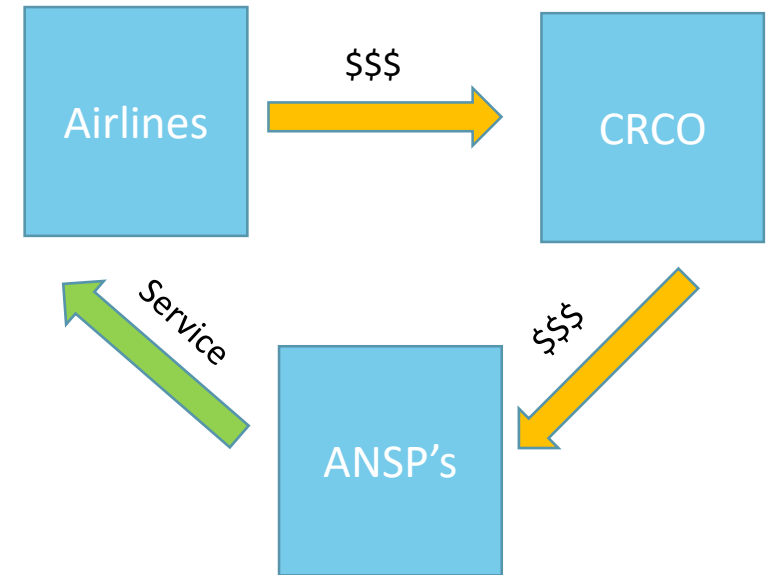
CRCO with 'clearing house' function

No 'real' negotiations and contractual /Service Level agreements between Airlines /ANSP

No real means to impact cost/capacity/service quality for Service User

Service Provision infrastructure with Service Provider resulting in a market with

Monopoly characteristics (and abuse thereof)



EnRoute: Administrative Relationship

Summary and Open Questions to the Panel

Despite all efforts (SES, FAB-initiatives, Performance Regulation, etc.), **no significant overall cost savings for the service user** (and no defragmentation of the airspace) has occurred

Corporatization of ANSP addresses mainly the ANSP governance, **not their monopolistic behaviour**, but likely to be a condition for future competitive market

Liberalized T-ANS segment allowing competition as only area with significant cost reductions

Separation of infrastructure and Service Provision can be seen as pre-condition for more competitive ANS market

- ownership of SUR data by government?
- De-coupling of Data Providers from Service Providers?

Air Navigation is an **element of the air transport system** and provides – in the end – just a **public utility service** (such as electricity, postal service, etc), **it should be treated as such!**