

FOURTH MEETING OF THE ALLPIRG/ADVISORY GROUP

(Montreal, 6 – 8 February 2001)

Agenda Item 5: Recent developments in the area of airport and air navigation services economics

**ECONOMIC DEVELOPMENTS IN EUROPE
RELATING TO THE PROVISION OF AIR NAVIGATION SERVICES**

(Presented by EUROCONTROL)

SUMMARY

Past initiatives in Europe have failed to adequately address the economic components of air navigation service (ANS) provision. EUROCONTROL is currently investigating the concept of an incentive pricing system within the framework of economic regulation. Incentivising airspace users and ANS providers may promote best use of airspace capacity and ensure an appropriate quantity and level of service.

1. INTRODUCTION

1.1 While air traffic management in Europe has achieved a high level of safety, delays have reached unacceptable levels. Air traffic within Europe is expected to continue growing at an annual rate of 5 to 7%.

1.2 EUROCONTROL initiatives over the last years have had notable effects in curbing the level of delay; these initiatives have however failed to adequately address the economic components of air navigation service (ANS) provision.

1.3 The present information paper briefly outlines recent developments in this respect.

2. EUROCONTROL INITIATIVES

2.1 Incentive pricing system

2.1.1 Addressing the **supply** side of ANS provision, EUROCONTROL has introduced a “pricing option” in the Route Charges System, as an alternative to the traditional cost recovery mechanism, thereby providing an incentive for ANS providers to be more cost efficient and responsive to user needs.

2.1.2 Prices can be set by an independent regulator separate from the service provider, for a number of years on the basis of projected demand and costs (including the scope for cost efficiencies) and to allow a reasonable rate of return (instead of a pre-determined cost of capital) that encourages investment.

2.1.3 Concerning **demand** management, EUROCONTROL has set up a Task Force, composed of States and Airspace Users, investigating possible pricing mechanisms which may promote a better use of airspace capacity by (airspace) users.

2.1.4 At this stage, the Task Force has determined that a (more) cost reflective charging formula would send pricing signals to the airspace users which could possibly have a long-term effect on the distribution of demand for ANS. The Task Force also concluded that a more direct effect on the distribution of demand could be achieved by introducing a price differentiation scheme. Consequently, the Task Force identified various price differentiation criteria for possible further study, e.g. upper vs. lower airspace, by ACCs, by Sectors, according to service level, peak/off-peak.

2.2 Economic regulation

2.2.1 At present, only the costs and remuneration of en route ANS are regulated within the EUROCONTROL Route Charges System, through the application of commonly agreed principles which are in conformity with the relevant ICAO recommendations (Doc 9082/5 in particular).

2.2.2 Comprehensive economic regulation, as described in ANSConf-WP/88 presented to the Conference by EUROCONTROL Member States, also includes the quantity and quality of ANS and, moreover, market access and competition aspects.

2.2.3 EUROCONTROL is currently following and contributing to a consultants study on Economic regulation on behalf of the European Commission, which may lead to further clarification of the concept and set the required legal and institutional framework in Europe. Indications are that, where it concerns the 15 States of the European Union, the competence for the general regulatory framework lies with the European Community, whereas EUROCONTROL would be involved in the “technical economic regulation” (e.g. the definition, monitoring and enforcement of an incentive pricing scheme).

3. ACTION BY ALLPIRG

3.1 The meeting is invited to note the information contained in this paper.