

**LESSONS FROM THE COMMERCIALISATION OF AIR NAVIGATION SERVICES IN
SOUTH AFRICA**

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INTRODUCTION AND PURPOSE OF PAPER

This paper provides a brief overview of the Air Traffic and Navigation Services ATNS, South Africa, a 'commercialised' ANSP. It describes the company against the backdrop of the South African aviation industry. It reflects on the success the company has had in delivering on its commercial mandate, but notes some of the challenges faced in an environment where capacity and resources are under pressure.

The paper argues that the future of air navigation service providers will increasingly be driven by business orientated relationships with airspace users.

Since its establishment, ATNS has experienced phenomenal growth in demand in excess of 160%. This relates to the political windfall of democratisation, domestic aerservices liberalization, and partial international liberalization.

Growth of more than 5% per annum is forecast over the next five years, on the back of good macro-economic prospects, the development of the low cost carrier market and sustained growth in tourism.

COMMERCIALISATION OF PUBLIC AVIATION

ATNS was established in 1993, following the 'corporatisation' model. It is a statutorily-established, limited liability company under the Companies Act. Government through the Minister of Transport is the sole shareholder. The Minister appoints the Board, made up entirely of non-executive directors except for the CEO. There are no reserved seats for any interest groups.

Presently, of the seven non-executive members, four are from the private sector, while two are from public corporations like ATNS and one from Government. The company is self funded from user charges. The company accesses the debt market against its own balance sheet without Government guarantees. It is fully liable for claims against it.

ATNS is the legislated monopoly ANS provider for upper airspace in the South Africa Flight Information Region.

The Airports Company of South Africa (ACSA) was established on the same date as ATNS. ACSA owns nine ('statutory') airports and operates a further two under contract. ATNS provides terminal services at all of these and a further ten private and municipal airports. It manages three area control centres (including oceanic control).

ATNS' COMMERCIALISATION EXPERIENCE

For ATNS, the commercialisation process has had a dual focus, both to improve service provision and support the capital re-investment process required for improved service efficiency, as well as to effect a "lifestyle choice" or "changing culture" that would manifest itself in all future ATNS business planning.

ATNS has since been in a process of restructuring its business focus to achieve a strong safety culture, good management, client orientation, continuous staff development, robust technology and good governance.

The ATNS commercialisation story reads like a text-book case study, with the company having achieved most of the objectives set for it:

- It is run on commercial (business) principles by professional managers;
- In addition to service standards set by economic regulator, ATNS has developed its own measurable performance targets;
- Its finances are ring-fenced from that of Government, it borrows commercially (gearing stands at about 30%) and is not underwritten;
- Substantial investment in infrastructure. The initial focus was replacement of dated capacity, but from about 2000 investment has been in new capacity and efficiency-generating technology;
- The airspace, route structure, arrival and departure procedures have been completely restructured.
- ATNS now works with a fully automated air traffic management system
- Operational capacity has been expanded.
- On a Purchase Price Parity basis, ATNS ATCOs are remunerated in line with some of the highest-paying European countries.
- The company's safety record has improved from.

COMMERCIALISATION EXPERIENCE OF ATNS vs ACSA

The ATNS commercialization experience is often contrasted with that of the Airports Company of South Africa (ACSA), the airport provider.

Despite very similar safety and economic regulatory regimes, it is fair to say that ACSA has been more commercially aggressive than ATNS and that ATNS' relationship with its clients and with the economic regulator has generally not been as adversarial.

Upon reflection it would seem that some reasons might include the fact that ACSA has a diversified revenue base: landside developments, retail, contract services and investments, while 95% of ATNS' revenue and profit is generated from its core business.

ATNS has assumed a more public good approach to its business than ACSA, with a leadership that generally took quite a frugal approach to running the business. ACSA pursued market-related returns from its inception, whereas it took ATNS nearly ten years to move to its more modest target rate of return. ACSA also had a 30% strategic private equity partner (Aeroporti di Roma) who aggressively pursued return on what was probably an over-valued investment in ACSA.

MOVING TOWARDS SELF REGULATION IN PARTNERSHIP WITH CLIENTS

ATNS is subject to a variety of statutory regulatory requirements.

The South African Civil Aviation Authority oversees ATNS from a safety perspective, while the Regulating Committee oversees the company's non-safety service standards and tariffs applying a forward-looking price cap regime.

As a publicly-owned, private company, ATNS complies with the Companies Act requirements, as well as the requirements of the Public Finance and Management Act.

A shareholders compact sets out the mandated key performance measures and indicators to be attained by ATNS.

ATNS increasingly bases major decisions on client consultation. Client interaction is formalized through an Operations Committee, which is the platform to consult on safety, operational and capital investment matters, as well as a Financial Committee where performance and tariffs are consulted.

ATNS is presently consulting on its next five-year tariff permission in these forums.

It is ATNS' experience that its partners are often more knowledgeable than the regulators. It should be remembered that the actual cost of ANSPs is not primarily measured in terms of their charges to airlines, but by the airline operational cost savings made possible by appropriate and flexible services. Clients have become much more sophisticated in their understanding and requirements of ATNS, and succeed in extracting value for money from the company - possibly more so than the formal regulators. The Regulating Committee acknowledges this by placing a high premium on the company's consultation report on the permission deliberations.

NEXT GENERATION CHALLENGES

After finding its commercialized feet, a next generation of issues now face ATNS. These include:

- Ensuring a smooth pipeline of ATCOs given continued high growth in demand and in the face of international competition for these persons;
- Rolling out a USD 120 million capacity retention and expansion programme. The company's target is capacity two years ahead of demand, but this will not be achieved in the short-term given the demand growth;
- Addressing specific domestic cross-subsidisation issues, including cost-effective and locationally priced smaller airports, the extension of marginal pricing in congested airspace and around congested terminals, and the full cost recovery at non-statutory airports. ATNS will continue with its phasing out of differentiated tariffs between domestic and international movements;
- Introducing corrective measures (such as revenue sharing) with clients, over-and-above regulatory enforced corrections; and
- Regionalisation of services to benefit from seamless sky architecture and supporting non-terrestrial technologies. ATNS has also assumed a senior role in securing the operations and safety standards of flight corridors to and from South Africa, including leading the development of the SADC Upper Airspace Control Centre.

LESSONS

- The air navigation provider is one partner in the aviation value chain. The ANSP's efforts to increase

capacity and efficiency is dependent on other partners in the chain.

- Capacity: increasing runway throughput capacity - high speed taxiways, parking bays, approval for reducing separation on final approach;
- Efficiency: approval for introducing stripless operations; reducing runway occupancy times;
- Cost effective technologies: approval for introducing multilateration as a means of secondary surveillance
- Institutionalising macro aviation planning is critical. The South African aviation industry established a Strategic Industry Forum to ensure co-ordinated capital investment planning.
- Regular reviews of the regulatory environment. It could be argued that with its fixed cost base, the economic regulation (price cap) regime applied to ATNS does not effortlessly accommodate the variability in macro-economic measures and traffic which have an inordinate impact on financial performance.

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