

Civil Air Navigation Services Organisation



Deficiencies ATM Finance syst.

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Since Sept. 2001 CANSO recognises

5 System Deficiencies in ANS

- 1. Impossibility to build financial reserves**
- 2. Particularities of ANS charging regulations**
- 3. Cross-subsidising of services**
- 4. Inconsistent decision making process**
- 5. No compensation for compulsory services**

1. Impossible to build financial reserves

- When traffic drops, revenue falls instantly
- Regional variations in ability to build reserves
- Particularly in Europe ANSP cash flow operator
- Others have Stabelisation Funds: NavCanada

ANSP Economics Explained

\$ **ANSP Finance – Mostly based on ‘Cost Recovery’**

Revenues

Costs

**Excess Revenue handed back to
Customers – US \$ 100’s Millions**

-- No Savings for a rainy day --

Jan.

Dec.



ANSP Finance in Recent Years

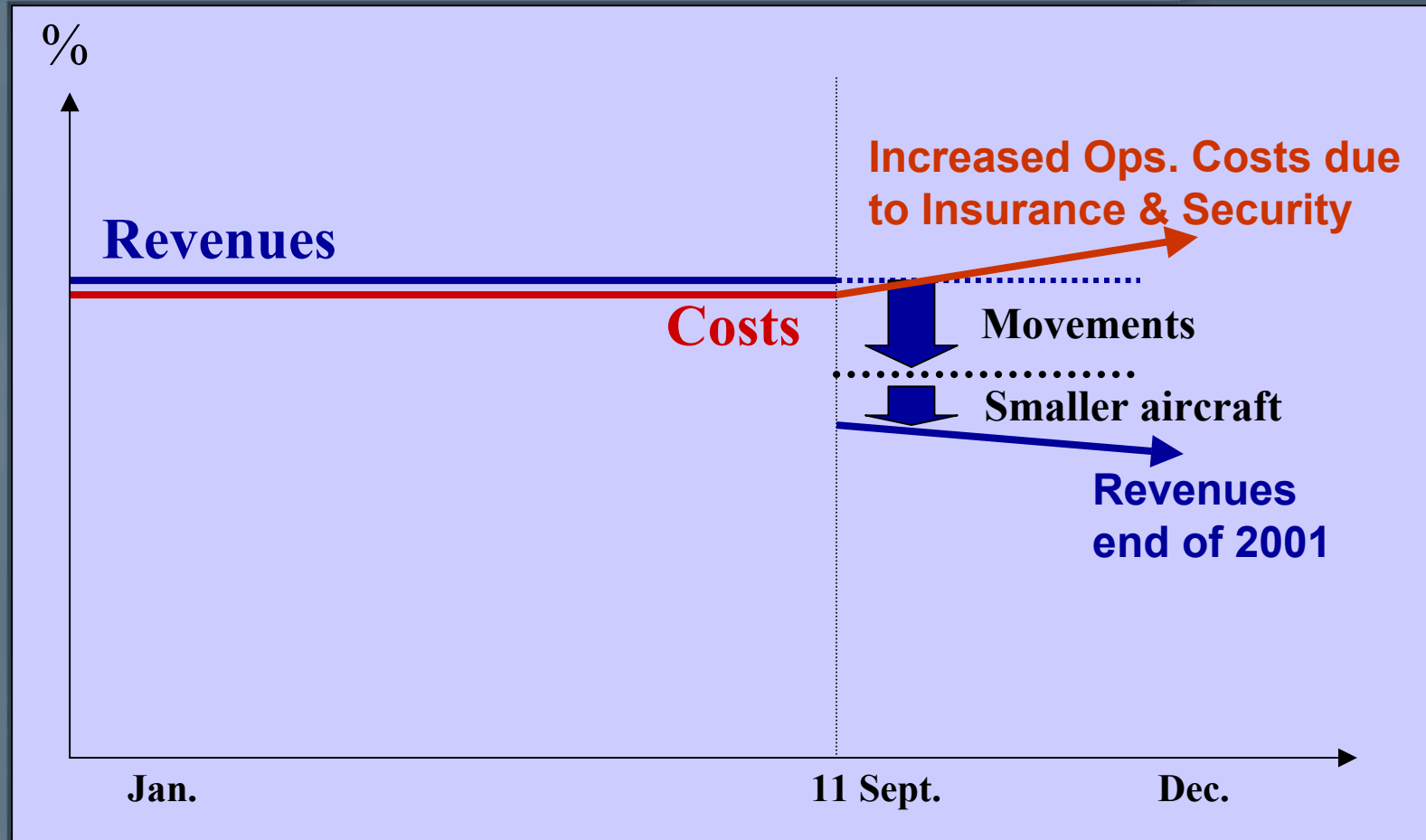
High growth rates resulted in 'over-recovery' and significant paybacks. Since 2001 the reverse is true.



Situation aggravated by:

- Airline bankruptcies, default on Nav Charges
- Lost income 'recovered' from remaining carriers
- Freezing of charges is only a delay in payment
- Inflexibility of 'cost recovery' system

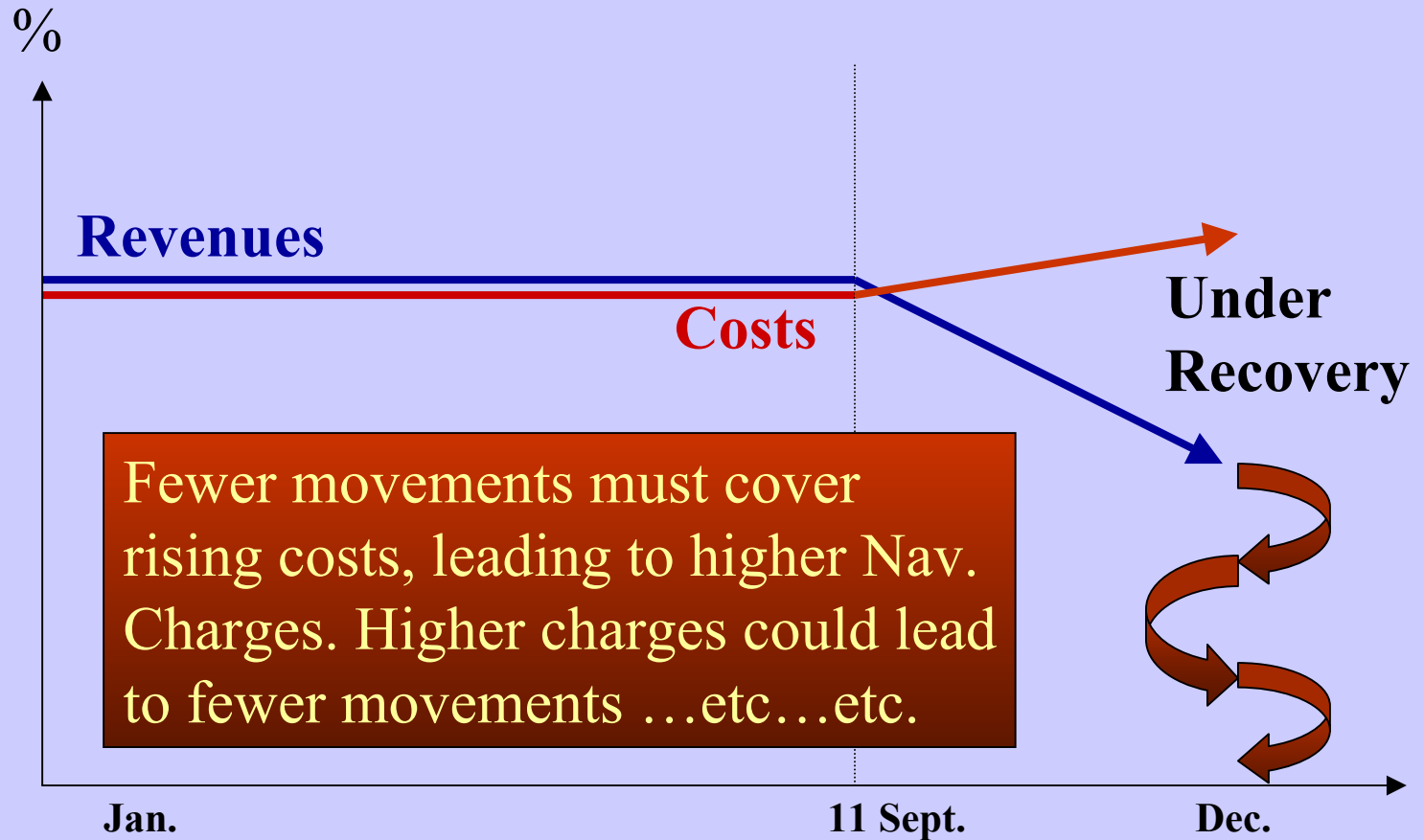
Charging system weakness exposed



Our Airline Customers

- Receive ANSP pay-backs in high growth years
- Are able to build financial reserves in fat years
- But pay **higher** charges when air traffic **falls** !
- ATM finance is NOT designed for a downturn

Cost recovery weakness exposed



2. Particularities of Charging System

- Financial framework predates service separation
- Regulatory charge elements still in ANSP budget
- ANSP limited control over Regulatory & State costs
- Require financial separation Provision & Regulation

ANSP Cost Recovery System

- ANSP = Pure Cash Flow Operator
- Full recovery of operating cost from customers
- When revenue falls, costs must fall instantly
- Without financial reserves no 'Safety' margin
- Some Governments accept 'margins' and 'funds'

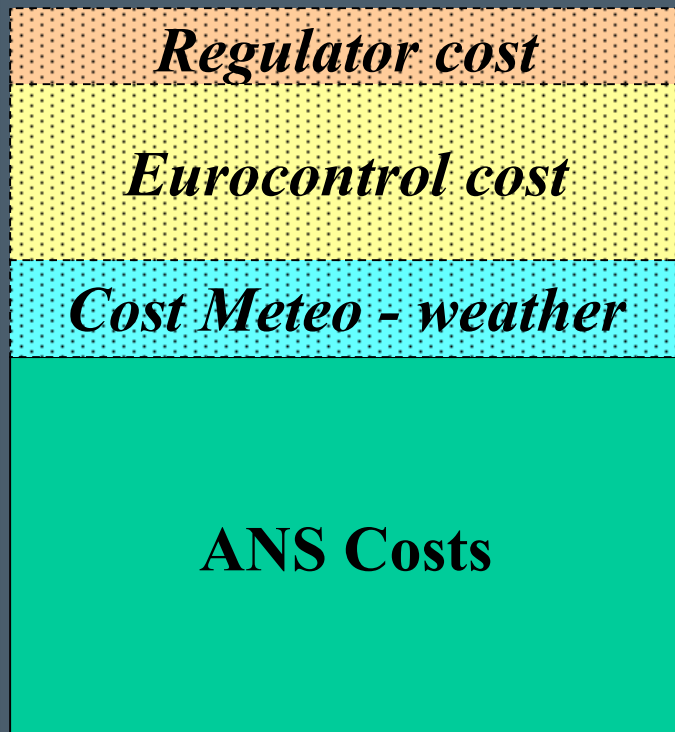
3. Cross Subsidising of Services

- En-route money maker, Terminal money loser
- Civil airlines pay, others do not, or pay too little
- Large aircraft use exact same service as small a/c, but pay much higher prices
- Standard pricing used widely, price differentiation?

4. Inconsistency in decision making

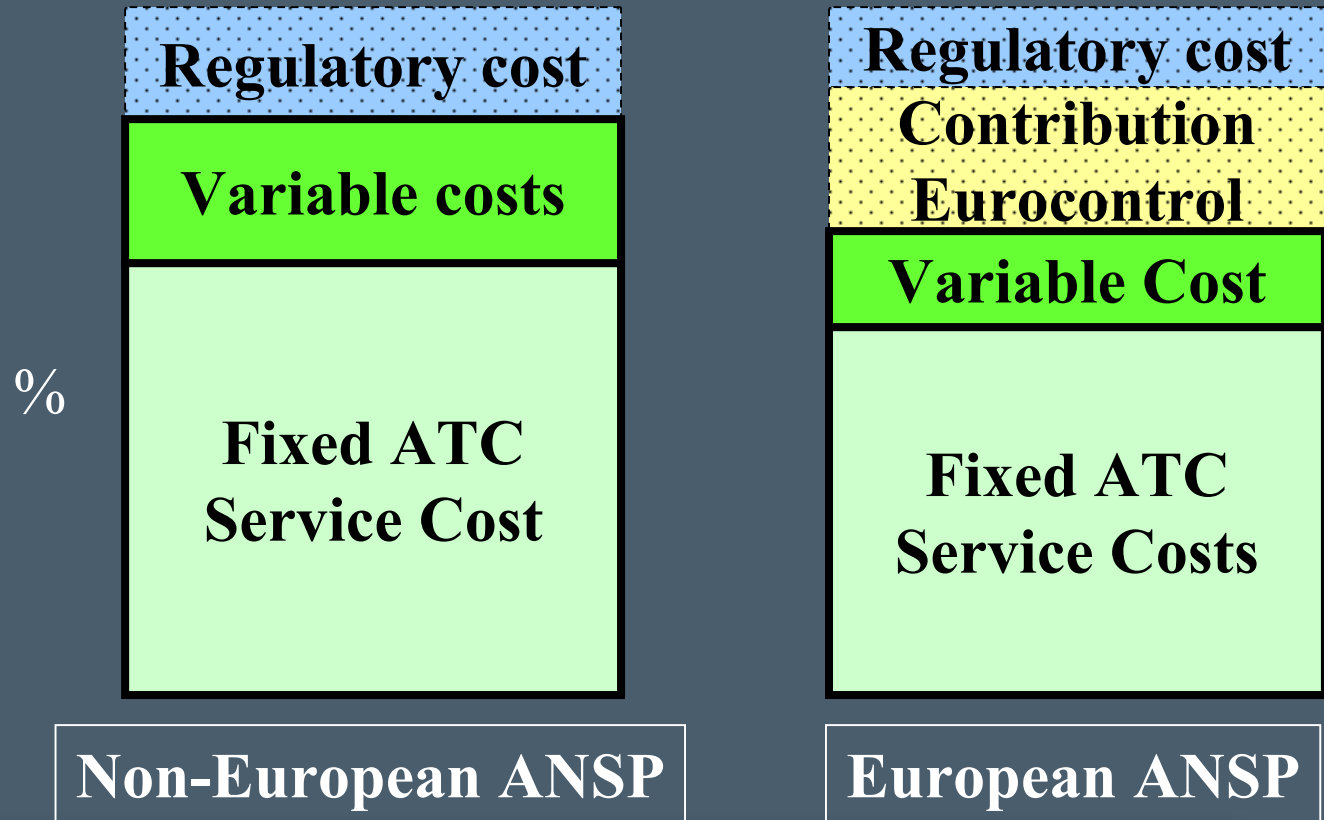
- Government still sets/approves Nav Charges
- So ANSP management no control over revenues
- Government sets ANSP contribution to Regulator
- Many ANSPs have little control over own business

Breakdown of Nav Charges



An ANSP has only partial control over Nav Charges

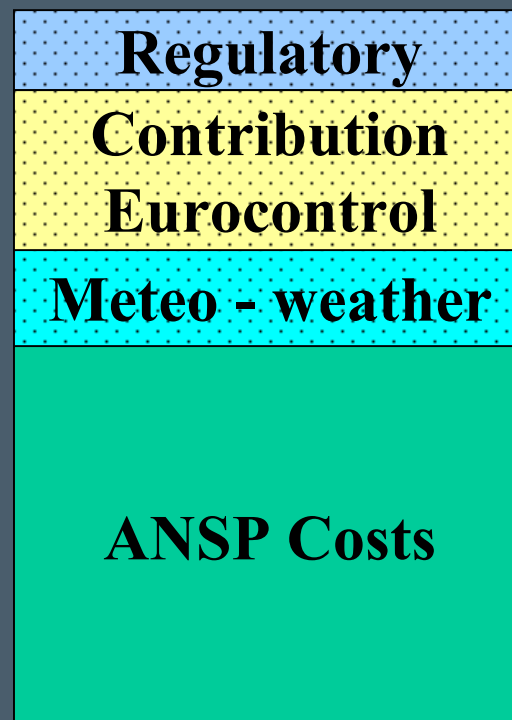
ANSP Budget Cost Breakdown in %



Nav Charges compared



Non-European charges



European charges

Nav Charges differ around the world

5. No compensation Compulsory Services

- ANSP required to provide services free of charge
- User does not realise cost of service
- Question of 'Public Service' versus market pricing
- Investments require adequate income

Our Message to the Audience

- Corporatisation introduced ANSP independence
- But did not introduce **full** financial independence
- ANSPs: Businesses without proper business tools
- ANSPs are not masters of their financial destiny

Our Message to the Audience

- Introduce full separation of State & ANSP budgets
- Greater transparency of all individual charges
- Separate Regulation & Provision in all institutions
- State contributions outside ANSP budget

Our Message to the Audience

- The 'cost recovery' system is designed for growth, not for a downturn
- After 57 years of growth, the 'economic pricing' system has clearly failed in 2001
- Like every other industry, ANSPs require proper financial instruments & incentives

Conclusions

Users finance the ATM system

ATS charges policy ready for review

ATM financial framework ready for review, as well



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