

First EANS comments:

As we are aware of CANSO's position and we are CANSO member we will not repeat all comments proposed already by CANSO.

1. Restructuring process (section 2):

There must be ANSP-**internal will** to improve the current situation by integrating upper and lower airspace; this could be initiated by proper setting incentives to management for improvement.
Consultant sees a economy of scales as a strong positive issue – before to contribute to the economy of scales we should mention that somehow it doesn't work in European ATM and this is a issue to further investigation.

2. Price regulation (section 3)

On page 26: ***“For so long as the businesses of suppliers/providers are subject to direct political influence, credibility is likely to remain an issue, and private sector investment will be impaired -- either funds will not be available or will be available at an unnecessarily high cost of capital”*** – as many of ANSPs have already AAA rating they have very good opportunities to get funds from financial markets at low interest rate; while ANSPs have the highest possible ratings AAA the airlines have lower ratings that makes their cost of financing more expensive.

On page 30: consultant sees safety as the threat in price-cap regulation – do not be afraid of quality vs. profit because ATM-business is highly standardized/regulated and with strong supervisory mechanisms (much stronger than most of other businesses included food industry which has direct “access” to people's health); in addition to abovementioned there are several good examples of experiences of current business-oriented ANSPs. We should bear in mind that in case of private entrepreneurship (as well as business entities under the State control) focuses its profit/return on long-run (not short-run), which secures required investments into people and technology.

3. Contractualisation (section 4):

Page 66: *Potential developments*: I would like to mention that there are discussions / sharing information / harmonization during the process of compiling LCIPs.

4. Coordination and infrastructure management (section 5):

Installing new centralized bodies would probably complicate the process and not be cost effective.

We are totally agree that creating additional fund will cause more inefficiency.
EANS sees no use of any reserves:

1. Arguments against the reserves:

- this is not obviously fully understood the terminology by ANSPs. The reserves are on the Liabilities and Equity side of Balance Sheet, but everybody explains it as something in Assets.
- the ANSPs are not the best places to create monetary reserves. According to the agreed practice of humankind the Banks are established to be the efficient financial institutions to keep the reserves and lend the money.
- monetary reserves within ANSP could be established only through the higher than necessary prices from customers i.e. airlines. As we all know, airlines are largely financed by debt and they pay interest for it. If ANSP would like to get more money from airlines (to create reserves) the airlines have to borrow more money from financial markets. As we know the credit ratings for airlines are lower than for ANSPs (mostly AAA) which mean that they pay higher interest rate. As conclusion - establishing monetary reserves in ANSPs will cause higher costs in aviation sector while revenues don't change.

2. Solutions instead of the reserves:

- to create preconditions, which allow ANSPs to become real commercialized entities, providing the services which – in fact are commodity
 - with their own assets and appropriate liabilities
 - institutionally being able to make long-term forecast of their operational, investing and financing activities
 - with the freedom to establish prices for their services
 - to borrow money from financial markets
- to use borrowed funds to survive downturns (commodity-service providers are trustworthy and low-risk partners for banks)
- borrowing the needed funds from efficient financial institution (banks) is much cheaper from utilizing funds from established inefficient “financial institutions” (ANSPs)
- this is also preferred by Airlines – if they were to borrow it would be more expensive because of applied them higher interests due to higher operational risk
- higher debt ratio would probably put some pressure to ANSPs financial management and therefore could lead to some overall improvement in efficiency..

On page 86: *“Applying the points raised regarding system operation and integration in the European railways network to the case of European ATFM suggests that congestion charges might provide a mechanism for the more efficient operation of the ATFM network, as **may the introduction of charges for those who book system capacity but do not use it.**”* - we can not take this approach as client-oriented.

5. Risk sharing & benefit sharing (section 6):

On page 106: *“However, the viability of this type of smoothing mechanism depends greatly on the access to, and terms on which, service providers are able to obtain financing. For example before providing finance, capital markets may require some form of institutional changes or guarantees possibly in the form of independent regulation or government security.¹ In addition, the use of credit to finance their activities exposes service providers to the typical risks associated with capital markets such as unexpected interest rates movements, which potentially introduces another element of financial instability to the sector.”* – please bear in mind that airlines already are subject to such risks!

Proposed formula (pg 115) contains three subjective constants (how they will be computed? By whom? When?) that leads to very probable situation where “required by state/ANSP” unit rate/revenue will be implemented; at the same time consultants are on the position that the change of charging mechanism itself doesn’t put any incentives to reduce costs, which is actually desirable.

There should not be any ceilings in motivation system to cut the costs (and make higher revenues/profit). Instead, the profit-sharing mechanism should be developed to satisfy all stakeholders.

We are supporting situation where profit sharing mechanism takes into account the customers in accordance of their participation in profit forming i.e. if there will be some excess of revenues or profit, it will be paid back to those customers who paid for services for that period, not for the next period by reducing next period’s unit rate.

6. Structure and options for charges (section 7-8):

Section 7:

Consultant argues on different possible charging methods but does not analyse MTOW 50 component and does not analyse the position of clients in case of possible change in charging systems (for example, how the possible changes have an influence to airlines long term leaseings of aircrafts?)

May we ask consultants to make some concrete proposals on their formulas with some examples?

Consultant does not analyse the situation where, for example, ATS is separated from COM (institutionally)?

Section 8:

Pg 137: charges should still be activity-based (cost reflected) according to ICAO principles, therefore charges cannot be too simplified just for simplicity.

Pg 138: *"In terms of preliminary results, we find that: There is no evidence of significant, long-run economies of scale in ATM provision"* – our question to consultant – there is no evidence, but should be (theoretically)?

Consultant builds the conclusions on the results of the research which is based on existing (inefficient?) system, which is subject to change in accordance with this study.

Consultant proposes that *"...it may be feasible to reduce en-route charges across all EUROCONTROL member states to just three or four rates, linked reasonably closely to well-defined characteristics of the airspace that affect costs."* - if nothing else will be changed, this mean higher rates in average because in other way the states with higher rate will not survive (while setting rate lower than it had before).

Pg 139: consultant seems to looking for a possible changes for making changes without any reason + pg 140: *"Consequential compensatory arrangements would therefore likely need to be made"* means some more complicated system than now without any certain benefit to the system.

Pg 140: *"By allowing ANSPs to vary, according to defined principles, origin and destination rates among airports in their territory, it is possible that such charges could be lower at regional and at less congested airports. As well as potentially improving the effects of cost-reflectivity – since substitution amongst airports is a feasible option for most airlines – this would tend, on average, to benefit the smaller airlines which rely more on these airports than do bigger companies."* – because of large proportion of fixed costs the smaller airports should have higher unit rates because of fewer service units to be served (if no cross-subsidies taken into account).

Pg 142: Because of activity based/cost reflective principles URL should be equal to URU???

Pg 143: consultant thinks that according to proposed principles origin+destination+en-route charges will be accurate – how can consultant be sure on it? Because at the moment, according to ICAO principles, the TNC and ENC should be 100% cost reflective, which in reality is not the case.

Overall comments:

In many cases consultant refers to NATS as an example (of good management): NATS has highest unit rate in Europe (and has very poor cost-effectiveness according to PRU benchmarking reports) therefore we should be very careful while suggesting something similar what NATS has/does.

Consultant hasn't looked for incentives for ANSPs to manage more effectively. One could be economic value added concept together with motivation system where positive EVA will be shared between ANSP owner, employees and customers. Sharing mechanism should be quite long in time perspective because of the fact that infrastructure enterprises should bear in mind long term total benefits (i.e. positive EVA will be shared during 10 following years, not during next year).

EANS, in overall, supports RPI' conclusion that there are not so much problems with charging rather than ANSPs activities and appropriate incentives to make right things in effective way should be put in place instead of reorganizing revenue collection process. As EANS is business oriented company and values highly clients' positions we suggest to change terminology used and use "pricing" instead of "charging".