



European Commission  
Luc Tytgat  
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Brussels, 12th February 2010

**Subject: CANSO initial comments on the incentive scheme**

Dear Mr. Tytgat,

First of all let me thank you for the open exchange of views we had at our meeting last week.

CANSO has carefully reviewed the second draft of the implementing rule and the first amendments proposed on the charging regulation. A CANSO general position and a table of detailed comments on the implementing rule are attached to this letter.

Hereafter we would like to forward remarks specifically addressing the incentive scheme:

CANSO can support the introduction of such a scheme, including a risk-sharing mechanism and the establishment of the determined cost system, provided that certain conditions are met prior to its implementation. To build this new financial regime on solid basis, a sound economic assessment is required beforehand.

The pre-conditions CANSO believes to be essential are the following:

**Risk-sharing**

- The risk exposure of an ANSP should be regarded as a package. An overall assessment of the risks, which are put on an ANSP, is necessary. Only on that basis a calculation of the appropriate risk-premium is possible.

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- An appropriate and symmetrical sharing of risks and benefits is needed. This means that upside and downside risk should be equal. Whenever financial incentives are applicable, it should be clear how the bonus/malus is actually calculated.
- Risks will affect the financial standing of ANSPs and thus lead to higher interest rates, higher demand for return on equity and consequently higher unit rates.
- The current system of full cost recovery, which is applicable to most ANSPs, will change due to the implementation of the performance scheme and imposing incentives. New financial risks are distributed to the ANSP's which could further endanger the financial stability of ANSP's. Hence as a precondition the commission and states should acknowledge the wide variety of organisational and corporate arrangements amongst ANSP's (state enterprise, government owned stock companies, etc.) and states should ensure either that ANSP's are in the position to bear additional financial risks (e.g. by allowing to establish financial reserves, including risk premium in the unit rate, etc.) or bear these risks by themselves (act as guarantor).
- An overall risk assessment on the financial incentives planned for the KPIs is necessary.
- It is important to differentiate between controllable costs and non-controllable. ANSPs are ready to accept the risk on costs which they can control, but no risk-allocation should be foreseen for costs ANSPs are not in control of (e.g. market valuation of pension assets, capital market developments, pension obligations, bad debts).
- Investment costs should be treated separately in order to avoid under-investments due to cost-pressure or to make additional investments possible if they are deemed necessary.
- ANSPs have no control over traffic volume. Hence, traffic risk-sharing should be treated and discussed with caution. The first reference period should be the basis for trials. When it is applied, the traffic risk-sharing should include a symmetrical sharing of risks and benefits. Also a minimum and a maximum threshold, beyond which losses/gains to ANSPs are limited, should be discussed.
- ATC is not a real market place; therefore ANSPs are not in a position to attract traffic.

## General aspects

- ANSP costs are mainly fixed costs that cannot be adapted to, for example, sudden traffic decreases/increases.
- ANSP investments are of long term nature. The same applies to staff, which needs to be trained specially and can not be replaced on short notice (due to ATCO-licensing).
- Local conditions should be properly taken into account. There is no “one size fits all” in the beginning. The ANSP-organisations are very different regarding their legal status, their ownership and their financial background. Therefore, regulation should start at the national level and the EU should not impose rules which are too tight to give room for maneuver on the national level.
- Simulations are needed to analyse the consequences of risk-sharing (return on equity, etc.)
- A transition phase is required to prepare the implementation of the changes to the current systems.
- Implementation conditions need to be well defined in advance.
- The possibility of setting non-financial incentives on the KPIs for environment and capacity is conflicting with the requirement of a financial compensation for airspace users if the targets are not met.
- The performance scheme IR should be kept flexible; all elements on risk-sharing should be dealt with in the charges regulation.
- Consistency with the charges regulation needs to be ensured.
- From a users’ perspective, the unit-rate might serve as a KPI for cost-efficiency, but ANSPs are not in favour committing themselves on a long term targets solely on this KPI. CANSO does not consider the “unit rate for en route air navigation services” to be a good measure of cost-efficiency; it is only a price indicator. The unit-rate is a conglomerate of many factors, e.g. traffic volume, ANSP-costs, NSA-costs, Met-costs etc. Using only the unit-rate might also compete with other goals, i.e. the goal to shorten route-length. One European KPI “unit-rate” will not be a transparent KPI, because it will be a mixture of several national / FAB – unit-rates.

However, CANSO can support the use of the en-route unit rate as a KPI for national/ FAB target setting provided that it is used in an appropriate framework of cost-sharing recognising that a proportion of the ANSP cost-base is not within the control of ANSPs.

In order to cope with the SES II deadlines, we propose a stepped approach:

- The amended charging regulation sets only the process and principles
- The Member States have the responsibility to determine the figures for the risk-sharing on costs and traffic.
- The Member States have to ensure transparency towards the Commission
- The first reference period is a transition phase
- Adjustments will be prepared for the second reference period based on experience

CANSO intends to produce additional comments on the amended version of the charging regulation in the coming days in time for the workshop of the Single Sky Committee taking place at the end of this month.

We trust this information above will be of interest to you and we are available for any further clarification or discussion you might see necessary.

Yours sincerely,



Guenter Martis  
CANSO Director European Affairs

## **2 Attachments**

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