



Brussels, 8 February 2021

To:
Professor Regula Dettling-Ott
Chair, Performance Review Body
of the Single European Sky

cc:
Ms. Christine Berg
Head of Unit E3
DG for Mobility and Transport
European Commission

Letter sent by e-mail

Subject: Revision of RP3 targets

Dear Professor Dettling-Ott,

On behalf of CANSO, I would like to thank you for inviting us to participate in and to contribute to the stakeholder consultation meeting on RP3 revised targets which took place last week.

We welcome the PRB's confirmation that safety remains the highest priority in the revision of the EU-wide targets. This is of course also the top priority of CANSO's members, and it is worth recalling that in Europe they have an excellent safety record.

As a follow-up from last week's presentations and the Q&A session with our members, we would like to address some additional observations as well as to underline our major concerns in respect of the described RP3 EU-target development process.

Cost Efficiency targets

On Cost Efficiency, we would like to emphasise that CANSO members are taking the situation extremely seriously. ANSPs have applied significant cost-cutting measures since the start of the crisis, such as postponement of investments, placing staff on furlough, staff redundancies and salary cuts, among many others. They are continuing to tighten budgets as a response to the ongoing crisis.

Nonetheless as we expressed in our presentation, this is enormously challenging when the uncertainties regarding the timing and pace of the recovery are so extreme. All parties agree that traffic will return, and in this context the greatest fear among our members is that they will be compelled to make cost reductions that seriously impact their modernisation and decarbonisation programmes that we all agree are so vital for the longer term.

Considering the substantial uncertainties about a potential recovery of the traffic development, it is difficult to determine a realistic cost level for the coming four years. We however know for certain that the proposals of a reduction at EU level of between 9% and 15% of the 2019 actual costs, to a total cost base of €5.7 billion or €5.3 billion respectively, is simply not achievable without serious and undesirable consequences – neither in 2020 and 2021 nor later in RP3. As we said at the consultation meeting, we would like to invite you to explore with our members in greater depth the issues they are dealing with and the challenges they face in navigating the current situation.

We would also like to re-iterate some specific points that we made in our presentation:

- You will be aware that ANSPs have a legal obligation to maintain a full and continuous service no matter what the level of traffic or their actual revenues. They have successfully met this challenge for nearly a year in the middle of an unprecedented public health crisis. This availability of services means our members cannot suspend operations at an air traffic control centre to save costs at a percentage reflecting the fall in traffic or revenues. A comparison with cost reductions achieved by airline operators is in this context completely inappropriate.
- In the context of this RP3 revision, we would also like to recall Recital 11 of Implementing Regulation 2020/1627:

'For the purpose of ensuring the proper application of the performance and charging scheme in RP3, and considering the forward-looking nature of performance target setting, the revision of cost-efficiency performance targets at Union-wide and local level should cover the determined costs of calendar years 2020 and 2021 as a single period. In setting those revised cost-efficiency targets at Union-wide and local level, due account should be taken of the actual costs incurred by air navigation service providers and Member States.'

This cannot be ignored – it places on the PRB the responsibility to justify in precise terms any divergence between proposed EU-wide targets and actual costs. If cost efficiency targets for 2020/2021 were to deviate substantially from actual costs and have a retroactive effect, it would put ANSPs in a financially unstable position. They would have to take money from annual budgets later in RP3 to pay to Airspace Users, jeopardising forward planning and future investments.

- In our view, the comparison between 2019 actual costs and the 2020 reported costs is not appropriate, as the negotiation process between the European Commission and Member States on the required further tightening of ANSPs' cost bases had been stopped at the outbreak of the pandemic crisis, and the Performance Plans submitted in October 2019 remained at the status of adoption by the Member States. In 2020, CANSO members started to implement those Performance Plans, which included an overall higher cost base. This enabled them to continue to address and solve the capacity issues identified in the course of RP2 which resulted from cost pressures in the earlier

years of that Reference Period. Comparison therefore in our view rather needs to be made against the draft RP3 Performance Plans submitted to the European Commission in November 2019. Against those planned cost bases, the revised 2020 costs represent a notable 10.5% reduction, which is no small effort considering the above-mentioned framework conditions.

- The PRB's initial proposal for Cost Efficiency targets, both the high range and low range and that they should remain at the same level throughout RP3, are not achievable figures. CANSO notes the lack of analysis and justification from the PRB in the consultation, even in response to questions regarding the underpinning assumptions. It is not clear to us what the concrete basis or rationale are for the PRB's numbers. Given the sensitivity of this issue for the financial stability of ANSPs, we believe it is essential to provide full transparency in the form of justifications and rationale for any proposals made. We expect that the announced forthcoming report will provide this.
- Our members' current cost-cutting efforts are largely based on emergency measures which cannot be repeated in future years. Under the current traffic scenario assumptions, we do not consider it realistic for ANSPs to operate in 2022-2024 on a flat Determined Cost basis.
- We would like to clarify that maintaining investment levels means that depreciation costs will not decrease – this needs to be taken into account when proposing coherent Cost Efficiency targets.
- Finally, we would like to recall that collectively, our members had a good record in reducing average Actual Unit Costs in RP2, down from €52.87 to €44.61.

Capacity targets

Our members' ability to reach capacity targets is closely linked to their ability to invest for the future.

We fully support the expectations raised by Daniel Weder on Capacity and by Ulrich Schulte-Strathaus on Environment regarding ANSPs taking advantage of the current low traffic figures to increase investments to prepare for improved service delivery when traffic is coming back.

However, this unfortunately would not be possible if at the same time ANSPs are asked, maybe retroactively, to reduce their costs in a way which will force them to postpone further or even cut down on investments to enable the requested operational performance improvements. By way of example, in RP2 our members were under pressure to reduce costs: as this became the priority, they had to cut back on the number of Air Traffic Controllers and were not able to provide the capacity needed by the airlines. If traffic approaches 2019 levels by 2024, ANSPs will again be expected to provide additional capacity to reach the targets. We do not believe this will be possible if Cost Efficiency targets are 9-15% below the 2019 baseline.

Environment targets

CANSO supports the high range KEA proposed by PRB, i.e. maintaining the current targets. The current situation has shown how challenging it is for ANSPs to exceed Horizontal Flight Efficiency of 97.5% even in periods of extremely low traffic due to

factors beyond their control, namely military airspace constraints, weather factors or flight route optimisation choices made by airspace users.

Conclusion

CANSO therefore calls on the PRB to:

- Consider the additional observations and concerns raised in this letter and respect the spirit of the legal framework for the revision of the targets, specifically in relation to the reference to actual costs in 2020/2021
- Provide more transparency regarding the assumptions supporting any recommendation that it makes for new targets
- Take greater account of the difficult realities ANSPs are facing in addressing the unprecedented crisis within their individual operational and legal obligations. This would mean respecting on the one side their current infrastructure requirements, investment portfolio, traffic mix, tax law, labour law and so forth, and on the other side addressing the impact of financial and operational uncertainty that lies ahead.
- Use this background to propose EU targets that are both challenging and realistic

We believe that our members' financial plans can only be understood with a knowledge of the principles on which they are based. We would therefore like to repeat the offer which we made at the PRB Stakeholder Workshop last week, and above in this letter, to set up a meeting with CANSO very soon so that you can discuss these themes with our members in more depth.

Yours faithfully,



Tanja Grobotek
Director Europe Affairs