France

Air Transport Regulatory Competitiveness Indicators

SUMMARY

- Air transport is a key enabler of economic activity in France, supporting 1.1 million jobs and EUR 100.1 bn to the French economy, which is equivalent to 4.2% of French GDP (2017).
- France has the 4th largest aviation market in Europe (measured by the IATA Connectivity Index[1]). Air connectivity grew by 33% between 2013 and 2018. In 2017, 89m passengers departed from French airports.
- In order to facilitate the continued growth of aviation and maximize the benefits of air transport, France should:
  1. Take the opportunity to make the airport privatization process and development of Terminal 4 in Charles de Gaulle airport a success by ensuring a fair and transparent process that engages the users from the initial stages and reinforces the role of the independent regulator;
  2. Implement the National Airspace Strategy (NAS) that includes having air traffic controllers apply pre-notification when they go on strike; and
  3. Implement Smarter Regulation Principles in the rule-making and consultation process to enhance knowledge and the implementation of Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

[1]The IATA Connectivity Index 2018 is a composite measure of the number of passengers transferred weighted by a destination measure.

ABOUT AIR TRANSPORT REGULATORY COMPETITIVENESS

The Air Transport Regulatory Competitiveness Indicators (ATRCI) is a framework that measures a country's air transport regulatory competitiveness. Air transport regulatory competitiveness is defined as the set of institutions, policies, and factors that determine the economic benefits that the economy can derive from aviation.

Five key determinants of the ease of doing business have been identified, which contribute to the regulatory competitiveness of a country. These five determinants are the pillars that form the ATRCI and for which performance-based assessments have been made:

Passenger Facilitation (visa requirements, open skies agreements, passenger information and border control processes). These measures support easier movement of persons around the globe and contribute to economic development and growth. Regulations that allow for easier and more secure movement of people and aircraft are therefore essential in unlocking the economic benefits of aviation.

Cargo Facilitation (trade facilitation and e-freight). These measures enhance shippers' experience by enabling the seamless cross-border movement of goods.

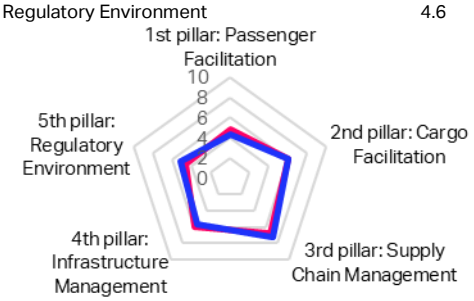
Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated through more affordable air fares. Effective and clear rules create a stable environment which boost economic growth.

Infrastructure (available runway and terminal capacity and slots). Air transport depends largely on available infrastructure and how efficiently congested infrastructure is utilized. Without sufficient capacity, airlines cannot enter the market, enhance air connectivity of the country and create seamless connections and short travel times. Effective infrastructure development and management acts as a facilitator of economic growth unlocking benefits that aviation creates.

Regulatory Environment (regulatory framework, legal framework, regulatory implementation). Without stable, clear and transparent regulations, airlines cannot operate effectively and offer competitive ticket prices or air freight rates. A smart regulatory environment and a comprehensive aviation policy are key drivers of positive economic change.

PERFORMANCE OVERVIEW

Index Component	France	Regional average[2]
Air Transport Regulatory Competitiveness Index[3]	**5.7**	**5.8**
1st pillar: Passenger Facilitation	4.8	4.4
2nd pillar: Cargo Facilitation	6.0	6.1
3rd pillar: Supply Chain Management	6.7	7.2
4th pillar: Infrastructure Management	6.1	5.6
5th pillar: Regulatory Environment	4.6	5.1



The Regulatory Environment (5th Pillar) is one of the weakest points of French air transport regulatory competitiveness. Many regulations that apply in France are inconsistent with the Better Regulation Principles[4] that underpin a favorable operating environment (see more on page 3).

Similarly, **Passenger Facilitation** (1st Pillar) is a brake on further growth in air connectivity. Visa rules remain an issue in France causing restrictive movement of passengers through the lengthy visa application process. France should keep working on the implementation of standard passenger data programs and to keep exploring border control tools in a coordinated manner, towards speeding passenger processing and improving passenger experience. France has successfully implemented Automated Border Control (ABC) systems towards using facial recognition and subsequently expanded the number of travellers who can use such ABC.

While France scores below the European average for overall **Cargo Facilitation** (2nd Pillar), reflecting customs and border processes for air freight, the score for e-freight facilitation is very low indicating that significant work remains to be done in order for shippers of cargo to and from France to be able to benefit from full implementation of e-cargo processes. An important part of the e-cargo use is the level of e-Air Waybill (eAWB) use that is still low in France. The eAWB allows airlines to run the whole transaction electronically and greatly improves the flow of goods across the borders. All the recent initiatives on facilitation of cargo movement will increase the scores and overall air transport regulatory competitiveness of France in the future.

France also lags on **Infrastructure Management** (4th Pillar) with lower optimum capacity use of both runway and terminals which, left unaddressed, will inhibit the growth of passenger numbers in the future. However, France should focus on efficient investment and use of current infrastructure to allow costs and charges to be reduced.

[2] Regional average consists of scores for 17 European countries: AT, BE, DN, DE, ES, FI, FR, GR, IT, NL, NO, PL, PT, RO, SE, CH, UK.
[3] The values for the ATCI range from 0 (worst) to 10 (best). The index consists of 5 pillars and 17 indicators and 26 sub-indicators which are combined together using a simple average (sub-indicators are summed together to create a single value for the indicator). These aggregate values form an index score for the country.
[4] IATA Policy Design Principles

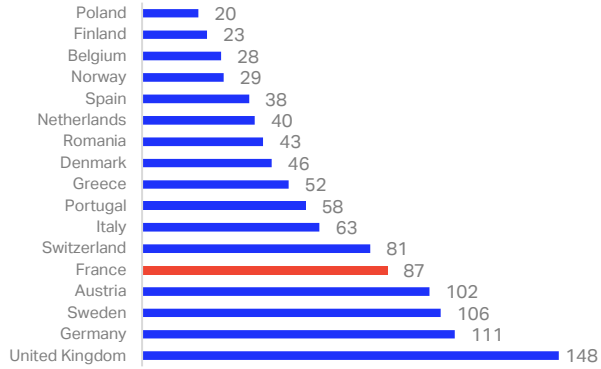
As a positive element, in spite of the congested capacity, both policies and practice in France are fully aligned with the World Slots Guidelines (WSG) creating both transparency and certainty in the slot allocation process.

Finally, **Supply Chain Management** (3rd Pillar) remains an issue in France. High passenger charges and taxes increase the cost of traveling by air to, from and within France (see more below).

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN FRANCE

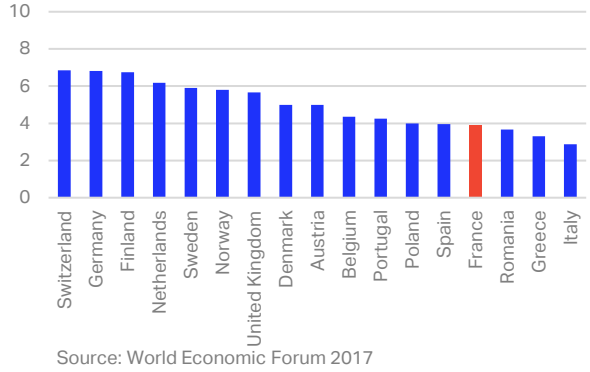
Aviation brings significant benefits to the French economy. However, there are still substantial barriers to the further growth of air connectivity which would unlock economic potential of the country. **The following page provides an overview of the key challenges of France air transport regulatory competitiveness.**

Chart 1. Ranking of countries based on airport and passenger taxes and charges



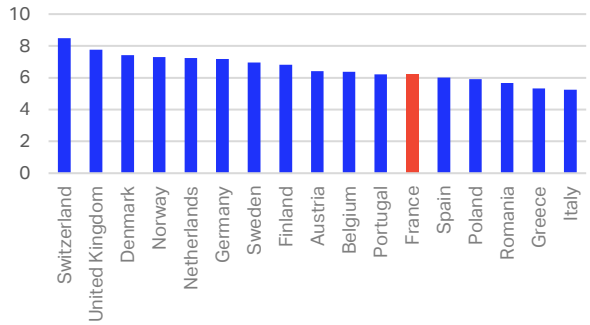
Source: IATA, ACIC, TTBS, IMF 2018
Ranking ranges from 1 to 148 (lowest to highest charges

Chart 2. Burdensome regulations in the regulatory practice (maximum = 10)



Source: World Economic Forum 2017

Chart 3. Labour market efficiency (maximum = 10)



Source: World Economic Forum 2017

France has one of the highest airport and passenger charges and taxes in Europe. The Air Passenger Solidarity Tax is considered to be discriminatory being applied only on the air traffic. **The Solidarity tax represents a brake on air connectivity growth making flying to and from France more expensive**. It is therefore crucial to abolish the tax or enlarge its base to other means of transport. According to a recent study by PwC, abolishing aviation taxes in Europe would boost European GDP by EUR 215 billion by 2030 and create 110,000 new jobs.[5] **France needs to strengthen airport economic regulation and the consultation processes for airport and air navigation charges.** By way of example, France has a very limited framework regarding consultation on investments. **France is currently considering privatization of the airports in Paris which will undoubtedly affect regulation. There is a high risk of further charge increases due to the absence of economic regulation of investments.**

Burdensome regulations remain an issue in France affecting all businesses and airlines equally (Chart 2). These regulations cause confusion and uncertainties. **Namely, consumer protection related regulation – EU 261, is not consistent with the Montreal Convention 1999.** Moreover, in spite of the number of consultations that France has conducted, there is still a need for a systematic approach that would show how the current consultation process impacts regulatory implementation and delivery. **According to the OECD, this also concerns developing more structured guidelines on consultation considering the views of stakeholders and their feedback on consultation**.[6]

France has the 5th lowest performance in labour efficiency in the region (Chart 3). Regular strikes have been affecting all aspects of the air transport operations increasing the final costs for companies. **Air traffic controllers (ATCs) do not provide pre-notification in case of strikes which results in expensive and inefficient coordination of airspace in France** affecting many flights overflying the territory and knock-on effect through the network. **A further gripe is the high level of social charges levied on operators in the country**.

[5] PwC. The economic impact of air taxes in Europe European Economic Area. 2017

[6] OECD. Better Regulation in Europe: France

FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

The current France's aviation strategy has an objective to increase air transport connectivity. It is important to create an environment where existing business can flourish, and new business opportunities are created. France should therefore focus on:

1. Airport and passenger taxes and charges

France needs to reform airport economic regulation to ensure charges are cost-related and efficient. This is particularly important for privatized airports. These reforms must strengthen the independent economic regulator and ensure that investments are duly consulted and scrutinized for their economic and operational efficiency. It is also recommended to abolish the solidarity tax or extend it to other sectors.

2. National Airspace Strategy (NAS)

France should focus on full implementation of NAS. Moreover, in order to keep efficiency of ATCs, pre-notification of 72 hours before a strike is important.

3. Smarter Regulations Principles in rulemaking

Implementation of Smarter Regulations Principles[7] in policy design is key. France should promote enhanced knowledge and implementation of CORSIA as a more effective measure to compensate for CO2 emissions, as opposed to taxation.

Chart 4. Forecast scenarios for passenger traffic, jobs and GDP footprint*

		Passengers	EUR GDP	Jobs
2017		89.4 m	€100.1 bn	1.1 m
2037	Current trends	131 m	€146.9 bn	1.4 m
	Upside	142 m	€158.8 bn	1.6 m
	Downside	113 m	€126.2 bn	1.2 m

* Passengers are counted as departures, including connections. The passenger forecasts are based on the IATA 20-year passenger forecast (October 2018). Data on GDP and jobs 2017 are from Oxford Economics. GDP and jobs forecasts are from IATA Economics.

In 2017, 89 million of passengers departed from French airports. The robust air connectivity is an enabler of economic activity in France creating 1.1 million jobs and supporting EUR 100.1 billion in 2016.[8] In the next 20 years the number of departing passengers from France will increase by 49%.[9] However, if France is able to implement the policies noted in this report, there is an upside potential to substantially increase this value and ultimately deliver wide economic benefits through the higher number of jobs and support to GDP.

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The aim of the ATRCI

The Air Transport Regulatory Competitiveness Index is a framework that assesses the regulatory environment across countries and how governments facilitate or inhibit growth of the air transport sector through their regulations. The framework measures a country's aviation regulatory competitiveness and offers a snapshot of where the potential gaps are in following the international best practice. It provides a guideline to build up a more efficient regulatory environment to unlock the economic benefits that aviation creates.

Methodology

ATRCI uses both quantitative and qualitative data that are normalized to 0-to-10. Qualitative data were collated based on an objective framework. Respectively, quantitative data are used from international organizations and partner organizations. Sources: Eurocontrol, United Nations World Tourism Organization, Verisk Maplecroft, World Economic Forum. All dates relate to 2018 unless stated otherwise.

The index structure and computation

The index contains three levels of values which are combined together applying a simple average (if not stated otherwise). From the highest to the lowest level: Index value, Pillar values, Indicator values and Sub-indicator values. At the lowest level (sub-indicator) the values are summed to create one single value for an indicator. All indicator values within a pillar are then aggregated using an arithmetic mean in order to produce the Pillar score. At the highest level of aggregation (Index value), the score of the five pillars are combined applying a simple average to create one single value for Air Transport Regulatory Competitiveness Index for each country.

[7] Smarter Regulation Principles
[8] ATAG 2018
[9] Oxford Economics 2017