Italy

Air Transport Regulatory Competitiveness Indicators

SUMMARY

- Air transport is a key enabler of economic activity in Italy, supporting 714,000 jobs and contributing EUR 46 billion to the Italian economy, which is equivalent to 2.7% of Italian GDP.
- Italy is the 6th largest aviation market in Europe (measured by the IATA Connectivity Index[1]). Air connectivity grew by 8% between 2013 and 2018. 87.3m passengers departed from Italian airports in 2017.
- In order to facilitate the continued growth of aviation and maximize the benefits of air transport, Italy should:
  1. Focus on implementation of the National Airspace Strategy to further modernize Italian airspace;
  2. Remove or at least reduce the Council Tax; Avoid implementing the Italian Noise Emissions Tax for Civil Aircraft (known as IRESA); and
  3. Align the airport charges process with international best practice by ensuring efficient consultation and transparent, fair and cost-related charges.

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

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.

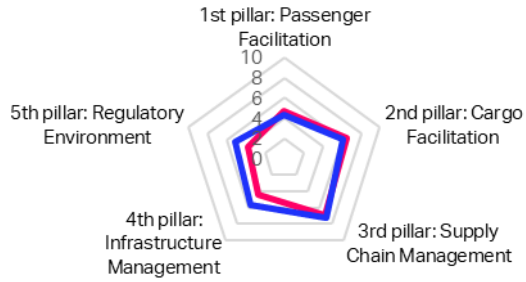
Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated 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 Practice (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	Italy	Regional average[2]
Air Transport Competitiveness Index[3]	**5.2**	**5.8**
1st pillar: Passenger Facilitation	4.7	4.4
2nd pillar: Cargo Facilitation	6.6	6.1
3rd pillar: Supply Chain Management	7.0	7.2
4th pillar: Infrastructure Management	4.4	5.6
5th pillar: Regulatory Practice	3.8	5.1



Regulatory practice is the lowest point of Italian regulatory competitiveness. Italy scores poorly among its regional peers on the application of Smarter Regulation Principles[4] in rulemaking (5th Pillar). Meaningful stakeholder consultations and impact assessments help create a regulatory framework that achieves policy objectives whilst also enabling the industry to grow. Simple and coordinated rulemaking is key for the industry to flourish.

Infrastructure (4th Pillar) in Italy is below the European average which is largely due to the temporary closure of two terminals at Rome Fiumicino airport. Reopening the terminals will positively impact the future score of Italy.

Ineffective **Passenger facilitation** (1st Pillar) also hinders Italian competitiveness. Visa rules are restrictive and defined at the EU level. Despite the fact that Italy scores above the regional average, Italian immigration authorities have not been able to streamline border control efficiently by planning and deploying human resources coherently based on the traffic flows and seasonality. This causes bottlenecks at the border control. As the border is the initial point of contact for an arriving visitor to Italy, this would be important to create a favourable first impression.

Italy scores above the European average for overall **cargo facilitation** (3rd Pillar), reflecting relatively good customs and border processes for air freight. Furthermore, the current implementation of the 'one stop shop' customs check (Sportello Unico Doganale e dei Controllli – SUDOCO) will impact positively Italy's score for cargo facilitation. While Italian customs have reached an acceptable level of digitalization, significant work remains to be done in the implementation of paperless cargo processes for other government agencies.

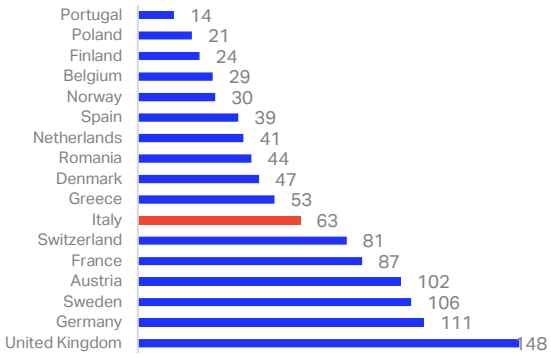
Finally, Italy's score for **Supply Chain Management** (3rd pillar) is slightly below the European average, reflecting concerns related to high passenger and aircraft charges and taxes and the airport and air navigation charges process (see below).

[2] Regional average consists of scores for 16 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 (except sub-indicators which are summed together to create a single value for each indicator). These aggregate values form an index score for the country.
[4] IATA Policy Design Principles

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN ITALY

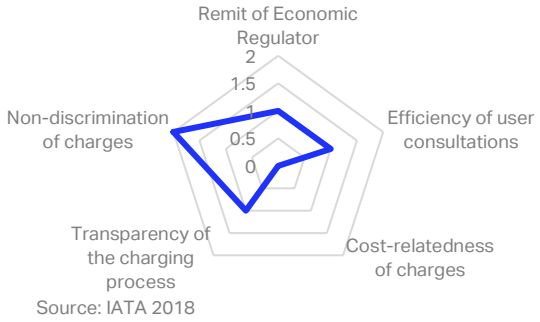
Aviation brings significant benefits to the Italian economy. However, there are still substantial barriers to the further growth of air connectivity. Lowering these barriers would help, amongst else, to unlock further economic potential of the country.

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



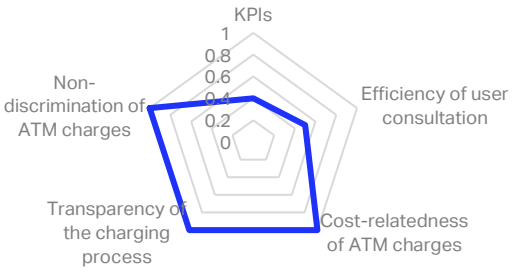
Source: IATA, ACIC, TTBS, IMF 2018
Ranking ranges from 1 to 148 (lowest to highest charges

Chart 2. Ineffective airport charges process (maximum = 2)[5]



Source: IATA 2018

Chart 3. Air Traffic Management (ATM) charging process (maximum = 1)



Source: IATA 2018

Italy scores low on cost competitiveness as its airport charges and passenger taxes are the 7th highest within the region (Chart 1). Italian ticket taxes represent additional costs for leisure and business passengers making Italy more expensive as a business destination and a less attractive choice for tourists. According to PwC and Airlines for Europe, abolishing air passenger taxes in Italy would increase GDP by €1.74 billion per year and create 7,500 new jobs by 2030.

Moreover, proposals aiming to introduce the Italian Noise Emissions Tax for Civil Aircraft (known as IRESA) are resuming at the regional level. While seeking to address the noise aspects from aircrafts is a laudable goal, it is important to note that IRESA, as a tax, does not achieve this. Notably, effective environmental levies should be based on the cost of measures aimed at mitigating environmental impacts. IRESA has no cost basis and is set at an arbitrary level.

IRESA seems to go against the commitments Italy has made to international organizations: it is inconsistent with the ICAO Balanced Approach and ICAO policies on levies. Any noise related measures should be tailored to the specific situation of each airport and the resulting revenues generated should not be used for fiscal purposes. Airlines should be consulted and be given the opportunity to work with the authority, the airport and the local community to address noise at the airport and evaluate all available measures before any tax is introduced.

Furthermore, Italy has an opportunity to fully align the airport charges process with international best practice, as set out by ICAO[6] (Chart 2). Major airports (Rome, Milan, Venice) have contracts in place that are misaligned with the ART's[7] approach, meaning that even if charges are not set – many inputs are, de facto limiting airline-airport dialogue. Transparency remains a problem as actual and forecast information is only available when the multi-year regulatory framework is negotiated.
Moreover, the proposed increases to airport and navigation charges in the coming years will affect Italian regulatory competitiveness. Italy also has some room to improve in the implementation of ICAO principles into the

Air Traffic Management (ATM) charging process. As set out by the national plan to fully implement a new national airspace strategy, that is being deployed with ENAV, it is

[5] Values for the sub-indicators (0-to-2 scale) are summed together and transformed to 0-to-10 scale to create a single value for the Airport Charges Process Indicator

[6] ICAO's Policies on Charges for Airports and Air Navigation Services
[7] Independent Supervisory Authority

important to make sure that users' views are taken into account.

FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

In order to reap the economic benefits of air transport in Italy, it is important to create an environment where existing businesses can flourish and new business opportunities are created. Italy should therefore focus on:

1. Airport and passenger taxes and charges

Italy should abolish the Council Tax that represents a financial burden, hinders the development of air connectivity and makes Italy a less attractive destination for leisure and business travellers. Italy should also avoid implementing the IRESA tax and continue supporting ICAO and EU law on aircraft noise management.

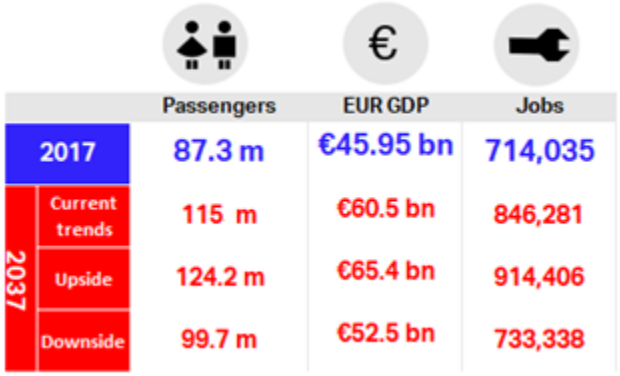
2. Alignment of airport charges process with international best practice

Italy should align airport charges with ICAO's international best practices on cost-relatedness, transparency, non-discrimination and conduct efficient consultations to create a robust and effective regulatory framework. Concession agreements should not supersede the regulator's authority.

3. National Airspace Strategy (NAS)

Italy should continue to focus on developing the implementation roadmap for the National Airspace Strategy to further modernize Italian airspace and increase capacity and air connectivity.

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



* 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 are from Oxford Economics. GDP and jobs forecasts are from IATA Economics.

In 2017, 87.3 million passengers departed from Italian airports.[8] Robust air connectivity is an enabler of economic activity in Italy supporting around 714,000 jobs and almost EUR 46 billion of GDP for the economy in 2016.[9] In the next 20 years the number of departing passengers from Italy is expected to increase by 32%.[10] However, if Italy is able to implement the policies noted in this report, there is an upside potential to increase this value and ultimately deliver wide economic benefits through an even higher number of jobs and contribution 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.

[8] SRS Analyzer 2017
[9] ATAG 2018
[10] Oxford Economics 2017