TRAFICOM
Finnish Transport and Communications Agency

Finland's Performance plan for Reference Period 4

20 August 2024

Meeting agenda

- Introduction + tour de table
- Legal background + timeframes
- Draft performance plan + targets on each Key Performance Area
  - Safety, environment, capacity, cost-efficiency
  - Charging policy & traffic risk sharing
  - Incentive schemes
  - Investments (Fintraffic ANS)
  - Questions & Answers
  - Next steps
- 2025 unit rates

Legal background and timeframes

- Commission Implementing Regulation (EU) 2019/317 of 11 February 2019 laying down a performance and charging scheme in the single European sky and repealing Implementing Regulations (EU) No 390/2013 and (EU) No 391/2013
- Commission Implementing Decision (EU) 2024/1688 of 12 June 2024 setting Union-wide performance targets for the air traffic management network for the fourth reference period from 1 January 2025 to 31 December 2029

  - Initial revised cost data from NSA to Commission “June 2023”
  - PRB advice on RP4 Union-wide targets “22 March 2024”
  - Adoption of EU-wide targets (Commission) “12 June 2024”
  - Drawing up performance plans + consultation “June 2024 + today”

Key Performance Area - Safety

Draft performance plan - Safety

- Key Performance Indicator (KPI)
  - The minimum level of the effectiveness of safety management to be achieved by air navigation service providers certified to provide air traffic services. This KPI measures the level of implementation of the following safety management objectives:
    - (a) Safety policy and objectives
    - (b) Safety risk management
    - (c) Safety assurance
    - (d) Safety promotion
    - (e) Safety culture

Level A 'Informal arrangements'
Level B 'Defined'
Level C 'Managed'
Level D 'Assured'

- NSA proposal for targets to be reached by the end of 2029:
  - At least level D in the safety management objective 'safety risk management'
  - At least level C in all other safety management objectives

- This target is in line with the EU wide targets

Key Performance Area - Environment

Draft performance plan – Environment

- Key Performance Indicator (KPI):
  - The average horizontal *en route* flight efficiency of the actual trajectory (KEA)

- EU-wide target:
  - *… shall not exceed the following percentages: 2,8 % in 2025, 2,75 % in 2026, 2,71 % in 2027, 2,68 % in 2028 and 2,66% in 2029.*

- NSA proposal for targets:
  - 3,38% in 2025,
    3,37% in 2026,
    3,36% in 2027,
    3,35% in 2028 and
    3,34% in 2029.

In line with the national reference values

Key Performance Area - Capacity

Draft performance plan – Capacity

- The capacity key performance area includes two KPIs - en route air traffic flow management (ATFM) delay per flight, and terminal and airport ANS ATFM arrival delay per flight

  a. The *en route* ATFM delay is the delay calculated by the Network Manager, expressed as the difference between the estimated take-off time and the calculated take-off time allocated by the Network Manager

  b. Terminal and airport ANS ATFM arrival delay per flight means the average time, expressed in minutes, of arrival ATFM delay per flight attributable to terminal and airport air navigation services

- There are 3 performance indicators, which NSA will monitor throughout the reference period
  - The percentage of IFR flights adhering to their ATFM departure slots;
  - The average minutes of air traffic control pre-departure delay per flight caused by take-off restrictions at the departure airport;
  - The average time, expressed in minutes, of departure delay from all causes per flight

- Member states are also required to adopt financial incentives for the ANSPs in capacity KPA.

Capacity targets

En-route:

3.3 - Capacity targets

3.3.1 - Capacity KPI #1: En route ATFM delay per flight

a) National capacity performance targets

	2025	2026	2027	2028	2029
National reference values	0,05	0,04	0,03	0,02	0,02

	2025	2026	2027	2028	2029
	Target	Target	Target	Target	Target
National targets	0,05	0,04	0,03	0,02	0,02

Terminal:

3.3.2 - Capacity KPI #2: Terminal and airport ANS ATFM arrival delay per flight

a) National capacity performance targets

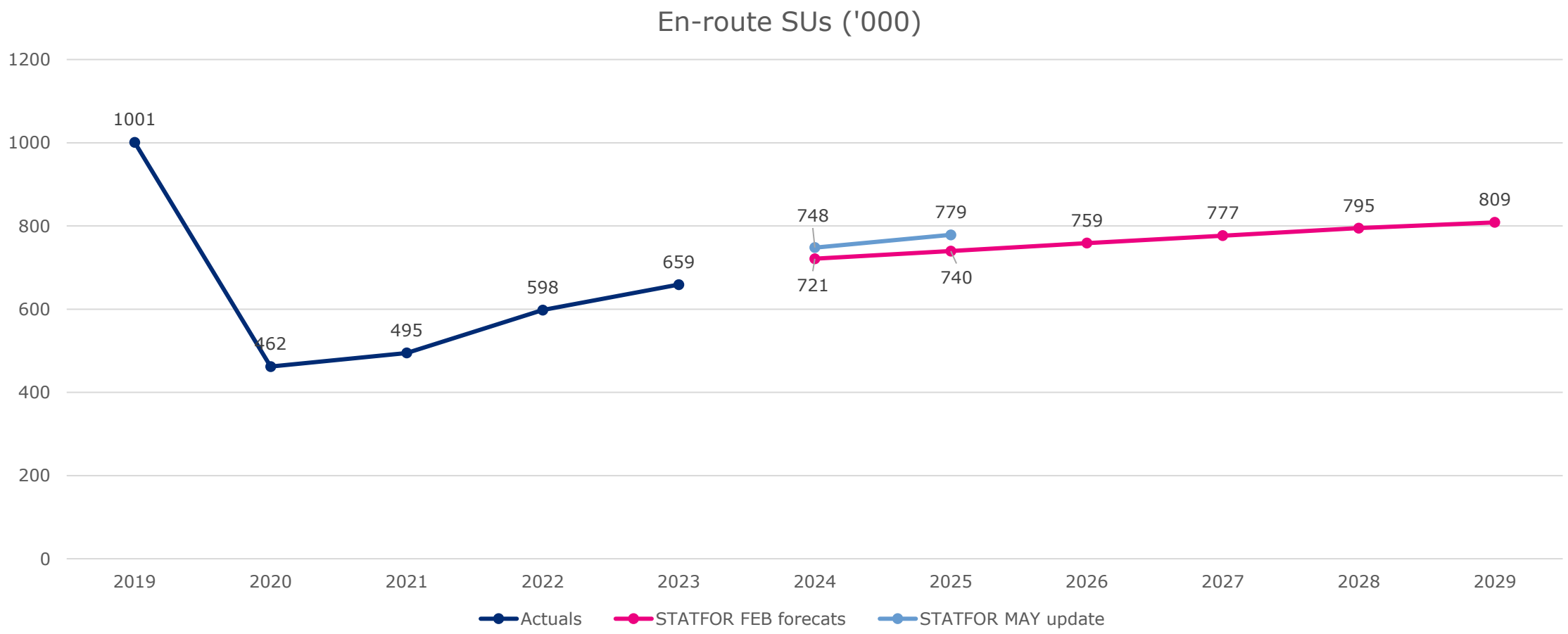
		2025	2026	2027	2028	2029
		Target	Target	Target	Target	Target
National targets		0,15	0,15	0,15	0,15	0,15
Additional comments						
Airport level	***EFHK-Helsinki***	0,15	0,15	0,15	0,15	0,15
	Airport contribution to national targets					

Forecasts for traffic; service units and inflation

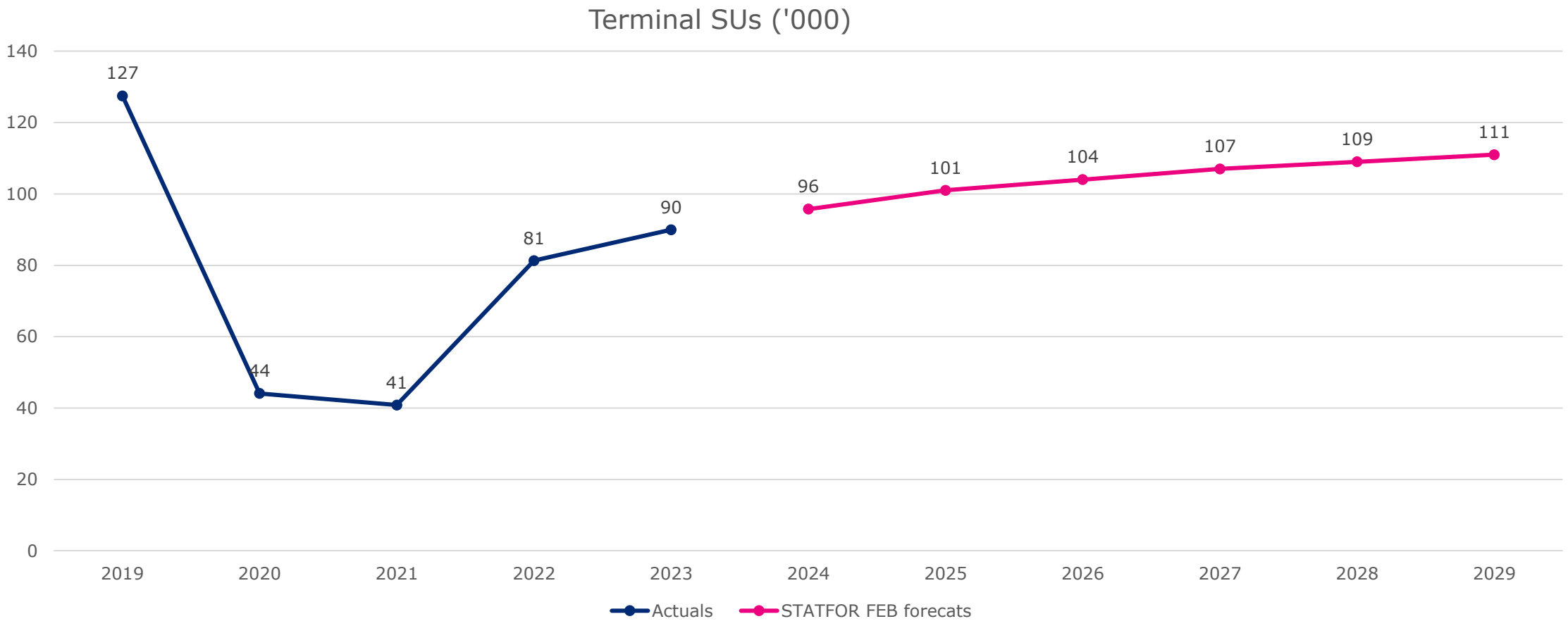
Traffic forecasts

- STATFOR published 7-year-forecast in February; three different forecast scenarios: Low, Base and High
  - → **Baseline** used in Enroute and Terminal unit rate calculations (Any other detailed statistical ”competing” forecasts not available)
- STATFOR published and update (en-route) for the years 2024-2025 in May;
  - → **Updated service units used as the base for the en-route cost-efficiency calculations**
- https://www.eurocontrol.int/forecasting

Total Service Unit (TSU) forecast for En-route



Total Service Unit (TSU) forecast for Terminal (EFHK)



Inflation forecast

- ‘Forecast inflation index’ means the annual inflation index based on the third year before the start of a reference period and computed by using the latest available inflation forecast of average Consumer Price Index percentage change published by the International Monetary Fund for the Member State concerned at the time of drafting the performance plan.
- IMF April 2024 forecast for 2025-2029

2025	2026	2027	2028	2029
1,934	2,00	2,00	2,00	2,00

Key Performance Area – Cost-efficiency

En-route cost base and baseline values

En route charging zone Name of the CZ	Baseline 2019 2019 B	Baseline 2024 2024 B	RP4 cost-efficiency targets (determined 2025-2029) 2025 D	 2026 D	 2027 D	 2028 D	 2029 D	2029D vs. 2019B (CAGR)	2029D vs. 2024B (CAGR)
Total en route costs in nominal terms (in national currency)	43 711 324	47 759 629	52 656 505	56 740 676	60 103 012	62 156 712	66 074 729	4,7%	6,7%
Total en route costs in real terms (in national currency at 2022 prices)	**47 256 932**	**45 724 409**	**49 688 431**	**52 747 796**	**55 132 853**	**56 117 872**	**58 782 582**	2,5%	5,2%
Total en route costs in real terms (in EUR2022) [1]	47 256 932	45 724 409	49 688 431	52 747 796	55 132 853	56 117 872	58 782 582	2,5%	5,2%
YoY variation				6,2%	4,5%	1,8%	4,7%		
Total en route Service Units (TSU)	1 010 679	748 106	778 795	759 000	777 000	795 000	809 000	-2,4%	1,6%
YoY variation				-2,5%	2,4%	2,3%	1,8%		
Real en route unit costs (in national currency at 2022 prices)	**46,76**	**61,12**	**63,80**	**69,50**	**70,96**	**70,59**	**72,66**	5,0%	3,5%
Real en route unit costs (in EUR2022) [1]	**46,76**	**61,12**	**63,80**	**69,50**	**70,96**	**70,59**	**72,66**	5,0%	3,5%
YoY variation				8,9%	2,1%	-0,5%	2,9%		

National currency	**EUR**
[1] Average exchange rate 2022 (1 EUR=)	**1,00**
Forecast inflation index 2024 - Base 100 in 2022	**105,56**

b) Information on the baseline values for the determined costs and the determined unit costs

En route charging zone Name of the CZ	Baseline 2019 2019 B	Baseline 2024 2024 B	Actuals 2019 2019 A	Forecast 2024 2024 F	2019 Baseline adjustments	2024 Baseline adjustments
Total en route costs in nominal terms (in national currency)	43 711 324	47 759 629	42 772 708	46 612 995	938 616	1 146 634
Total en route costs in real terms (in national currency at 2022 prices)	**47 256 932**	**45 724 409**	**46 246 122**	44 627 219	1 010 810	1 097 190
Total en route costs in real terms (in EUR2022) [1]	47 256 932	45 724 409	46 246 122	44 627 219	1 010 810	1 097 190
Total en route Service Units (TSU)	1 010 679	748 106	1 010 679	748 106	0	0

Terminal (EFHK) cost base and baseline values

Terminal charging zone Name of the CZ	Baseline 2024 2024 B	RP4 cost-efficiency targets (determined 2025-2029) 2025 D	 2026 D	 2027 D	 2028 D	 2029 D	2029D vs. 2024B (CAGR)
Total terminal costs in nominal terms (in national currency)	**18 914 599**	**20 023 266**	21 218 585	22 026 169	22 899 648	24 362 851	5,2%
Total terminal costs in real terms (in national currency at 2022 prices)	**17 952 679**	**18 652 552**	**19 395 105**	**19 751 598**	**20 152 177**	**21 084 581**	3,3%
Total terminal costs in real terms (in EUR2022) [1]	**17 952 679**	**18 652 552**	**19 395 105**	**19 751 598**	**20 152 177**	**21 084 581**	3,3%
YoY variation			4,0%	1,8%	2,0%	4,6%	
Total terminal Service Units (TNSU)	95 732	101 000	104 000	107 000	109 000	111 000	3,0%
YoY variation			3,0%	2,9%	1,9%	1,8%	
Real terminal unit costs (in national currency at 2022 prices)	**187,53**	**184,68**	**186,49**	**184,59**	**184,88**	**189,95**	0,3%
Real terminal unit costs (in EUR2022) [1]	**187,53**	**184,68**	**186,49**	**184,59**	**184,88**	**189,95**	0,3%
YoY variation			1,0%	-1,0%	0,2%	2,7%	

National currency	**EUR**
1 Average exchange rate 2022 (1 EUR=)	**1,00**
Forecast inflation index 2024 - Base 100 in 2022	**105,56**

b) Information on the baseline values for the determined costs and the determined unit costs

Terminal charging zone Name of the CZ	Baseline 2024 2024 B	Forecast 2024 2024 F	2024 Baseline adjustments
Total terminal costs in nominal terms (in national currency)	18 914 599	18 341 282	573 317
Total terminal costs in real terms (in national currency at 2022 prices)	**17 947 259**	17 398 824	548 435
Total terminal costs in real terms (in EUR2022) [1]	17 947 259	17 398 824	548 435
Total terminal Service Units (TNSU)	95 732	95 732	0

En-route consistency to EU-wide targets

Target	Union-wide	Finland
Short term (RP4) % annual change	-1,2 %	3,5 %
Long term (RP3-RP4) -1,0 % annual change	-1,0 %	5,0 %
Baseline value* (2024 actual costs)	55,07 €	61,12 €

*Comparison with the average baseline value of the comparator group

- Comparator group F: Denmark, Finland, Norway and Sweden
- *The comparator groups of air navigation service providers with a similar operational and economic environment for the purpose of assessing performance targets in the key performance area of cost-efficiency*
- *No data to calculate average comparator group baseline value*

Justification of the consistency of the local en route cost-efficiency performance targets with the Union-wide targets

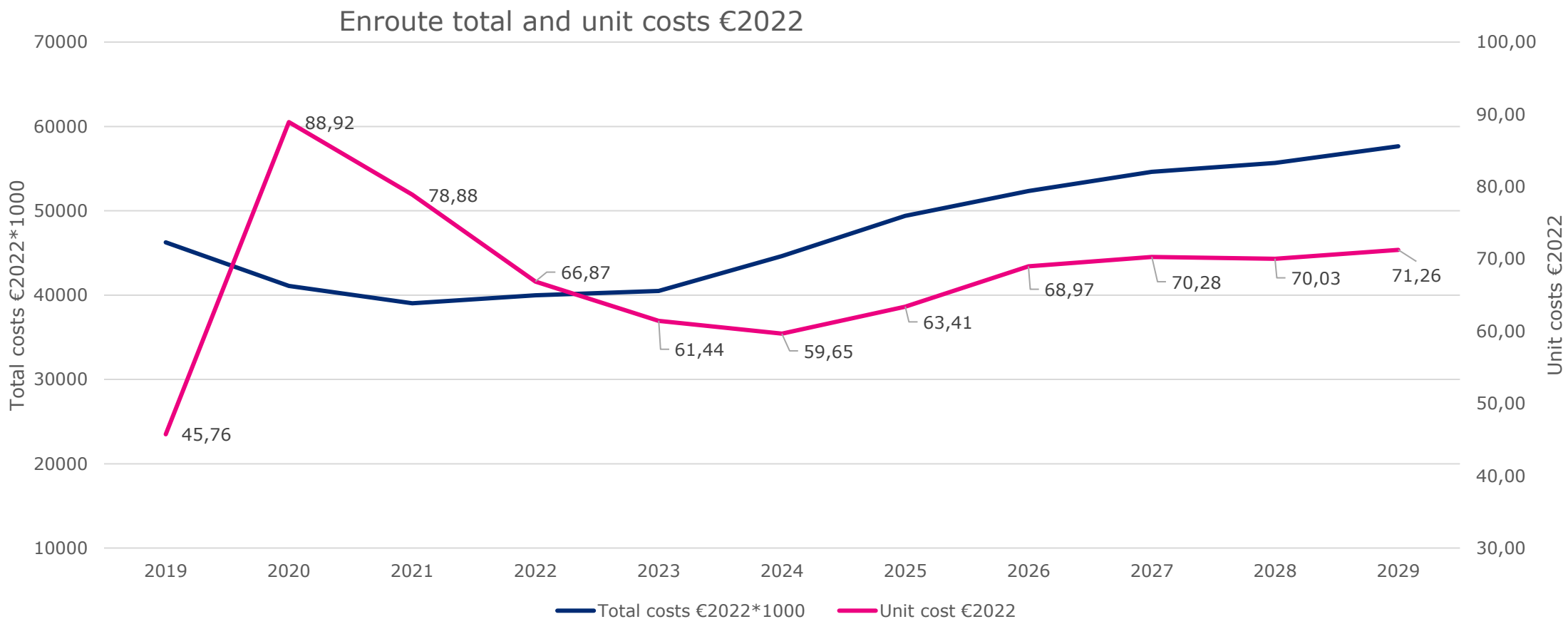
- Traffic in Finland has declined drastically due to the closure of Russian airspace that achieving improvements in unit cost evolution for RP4 is not realistic.
- The traffic forecasts in Finland differ significantly from the rest of Europe and the traffic situation and evolution is not comparable to most of the European countries.
- The ANSP has made remarkable savings during COVID-19 and after the closure of Russian airspace.
- Certain service level has to be maintained even for the lower traffic level and targets aiming for reduction of unit costs are not feasible in this situation.
- Finland is expecting the Commission to take into account these exceptional circumstances as part of the assessment of the consistency of the local cost-efficiency performance targets.
  - *Resital (23):Certain Member States have lost, as a consequence of Russia's war of aggression against Ukraine, a significant share of the air traffic flows which they traditionally used to serve. That traffic reduction continues over RP4 to considerably impact the cost-efficiency of the ANSPs of the Member States concerned. The Commission has already in RP3, in its Decisions (EU) 2022/2423 (8) and (EU) 2022/2426 (9) set out a method for taking into account these exceptional circumstances as part of the assessment of the consistency of the local cost-efficiency performance targets with the Union-wide performance targets pursuant to Article 11(3)(c) of Regulation (EC) No 549/2004*

Cost evolution & Costs by nature

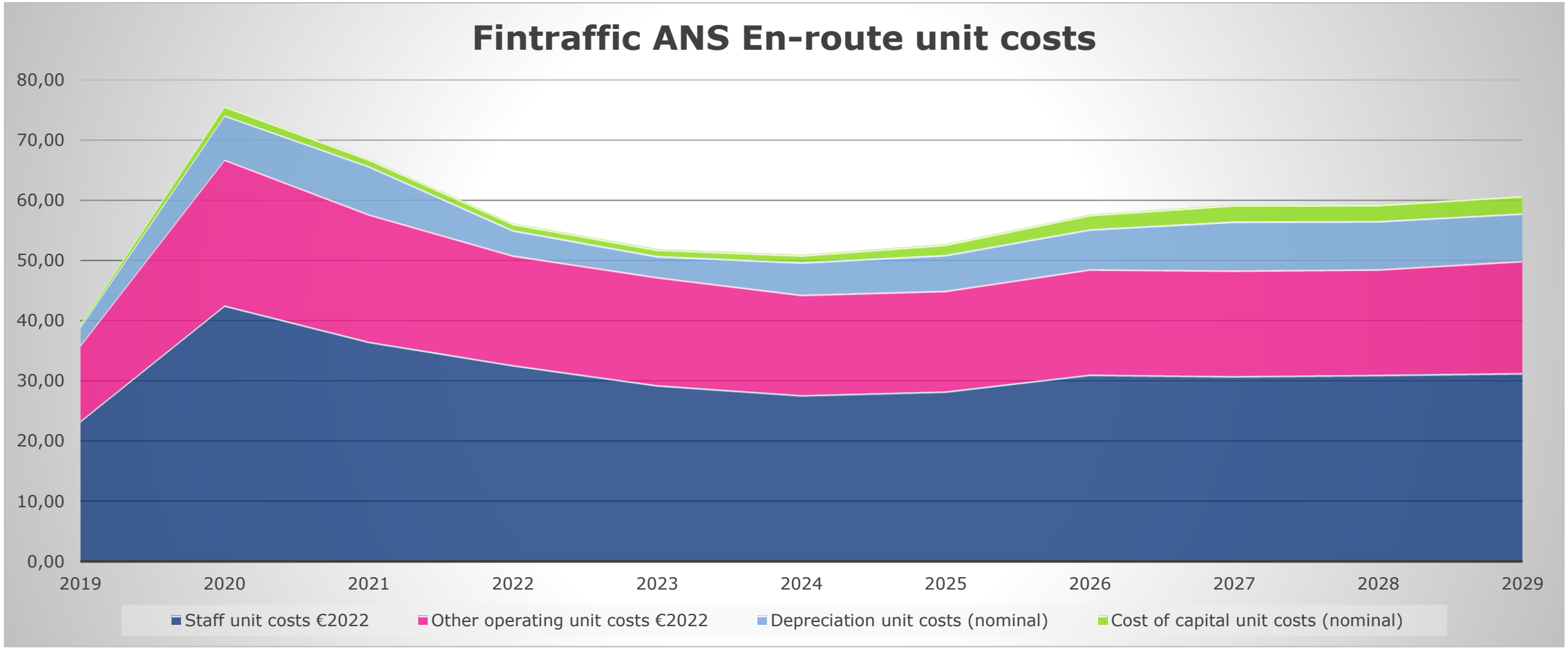
Cost evolution

- Total costs including all entities (*en route* and terminal)
  - NSA – Finnish Transport and communications Agengy
  - MET – Finnish Meterological Institute
  - ANSP – Fintraffic ANS (~ 90 % of all costs)
- Fintraffic ANS – costs by nature

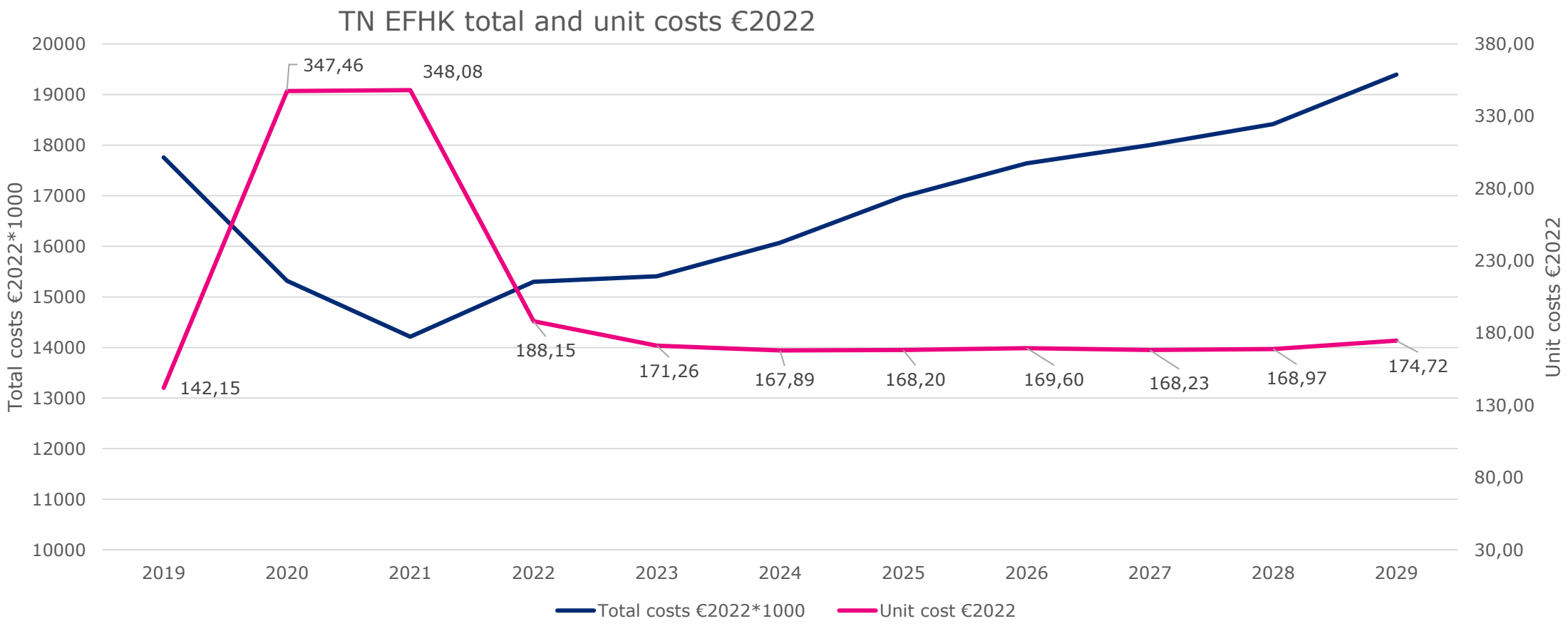
Enroute - All entities – Cost evolution in real terms



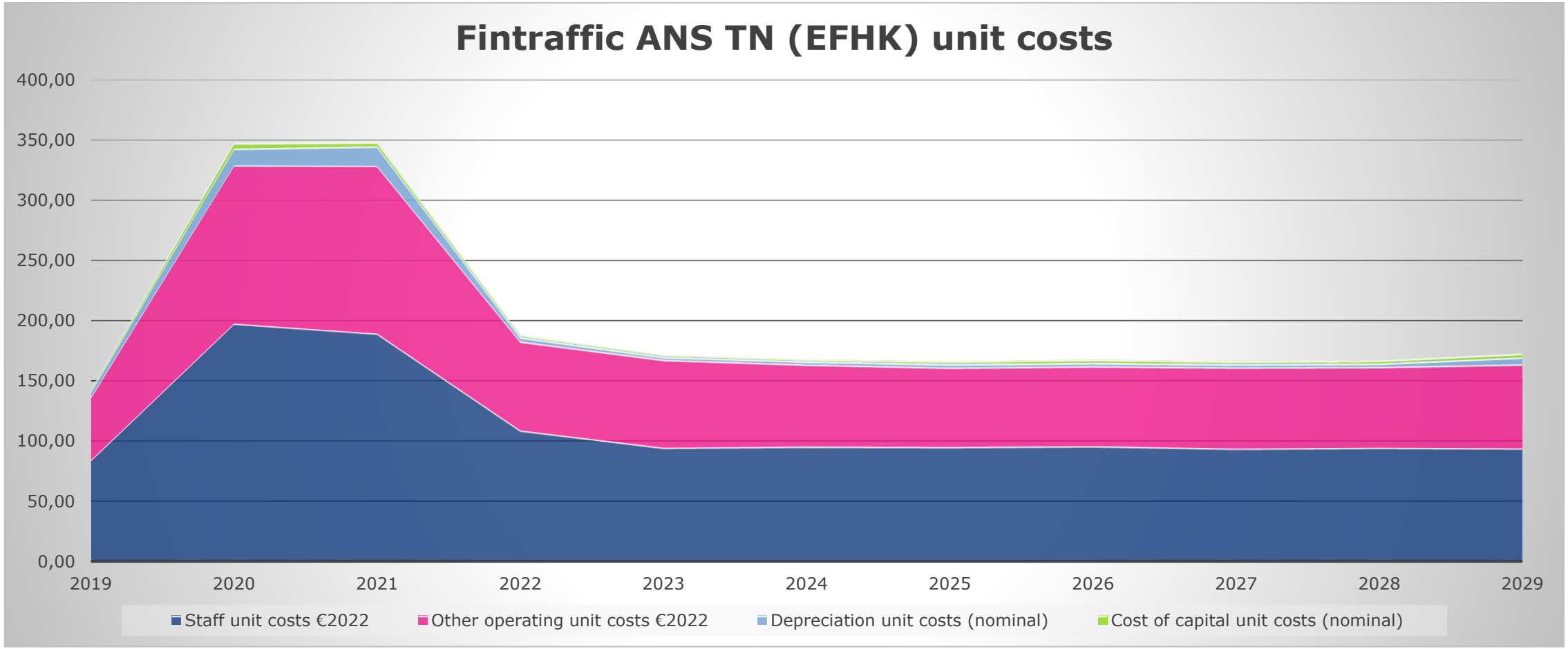
Fintraffic ANS – Units cost evolution – *En route*



All entities - Cost evolution in real terms – *Terminal*

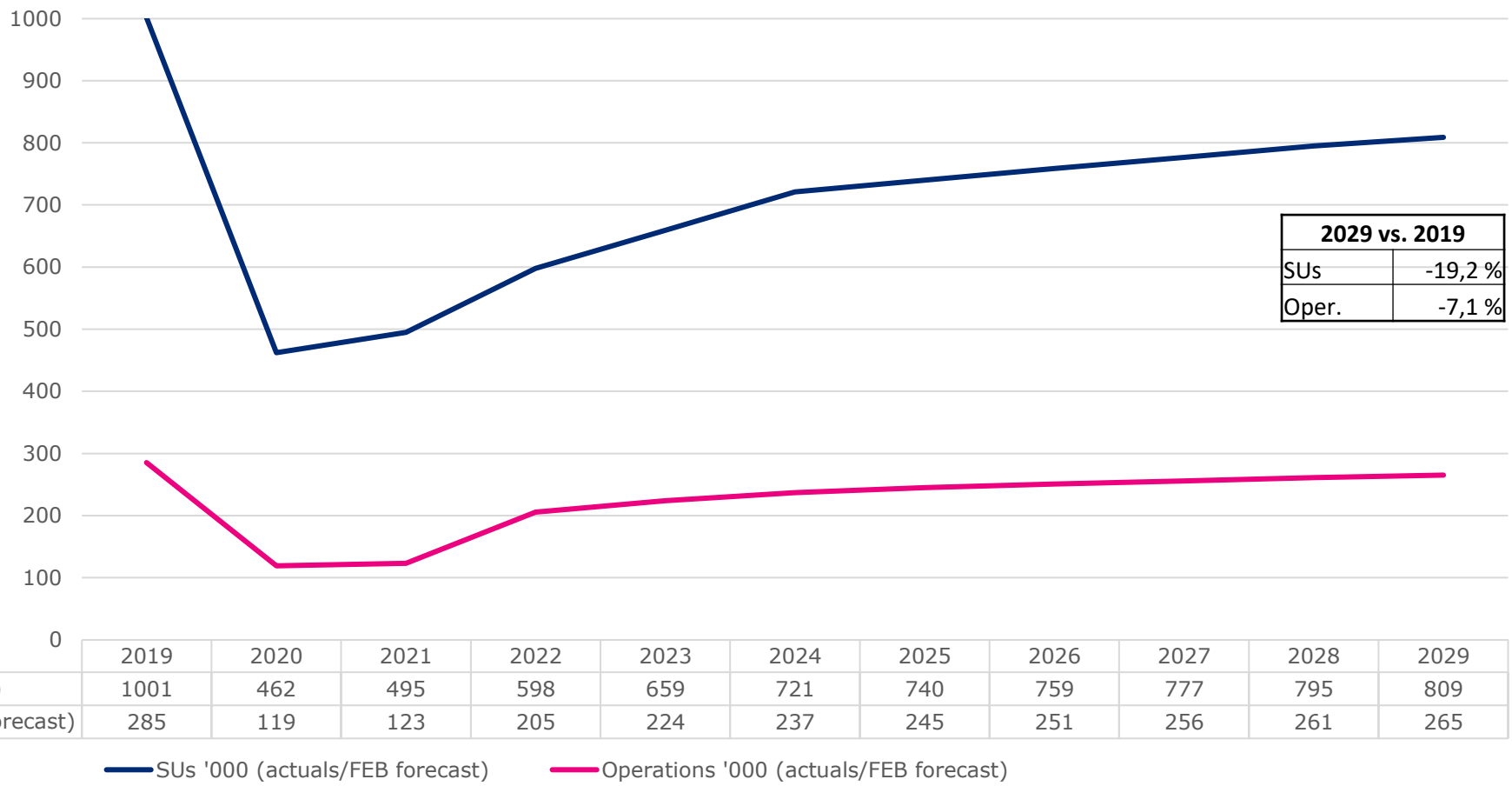


Fintraffic ANS – Units cost evolution - Terminal



En-route: Service units and operations

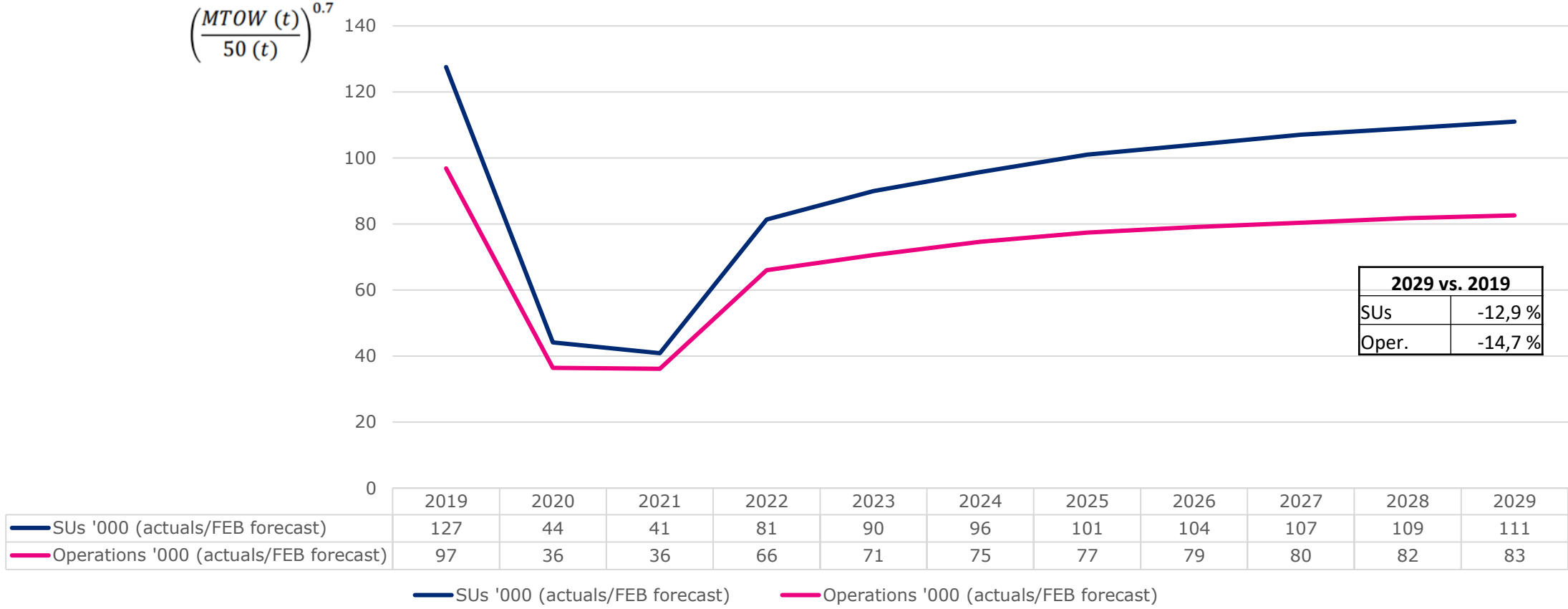
$$\text{En route Charge}_{Flight} = UR \times SU = \frac{Distance\ (km)}{100\ (km)} \sqrt{\frac{MTOW\ (t)}{50\ (t)}}$$



	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
SUs '000 (actuals/FEB forecast)	1001	462	495	598	659	721	740	759	777	795	809
Operations '000 (actuals/FEB forecast)	285	119	123	205	224	237	245	251	256	261	265

TN EFHK: Service units and operations

$$Terminal\ Charge_{Flight} = UR \times SU = \left(\frac{MTOW\ (t)}{50\ (t)}\right)^{0.7}$$

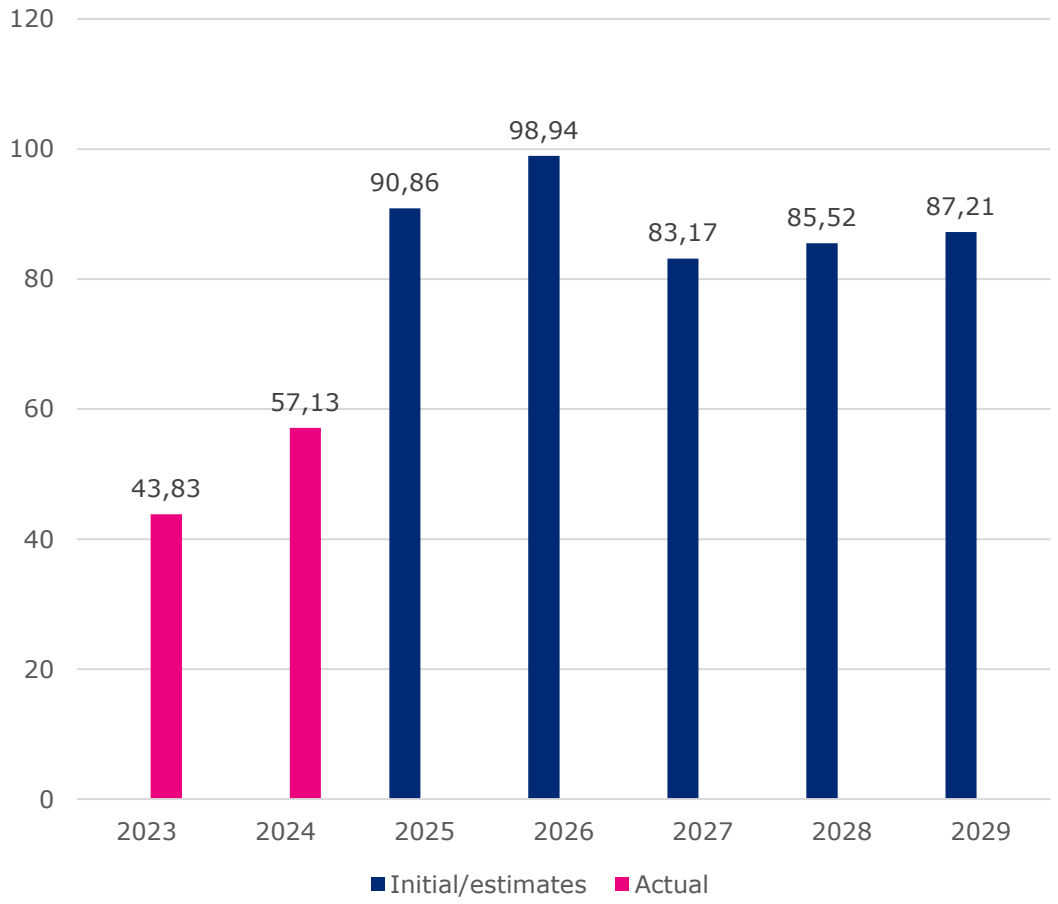


	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
SUs '000 (actuals/FEB forecast)	127	44	41	81	90	96	101	104	107	109	111
Operations '000 (actuals/FEB forecast)	97	36	36	66	71	75	77	79	80	82	83

MET costs

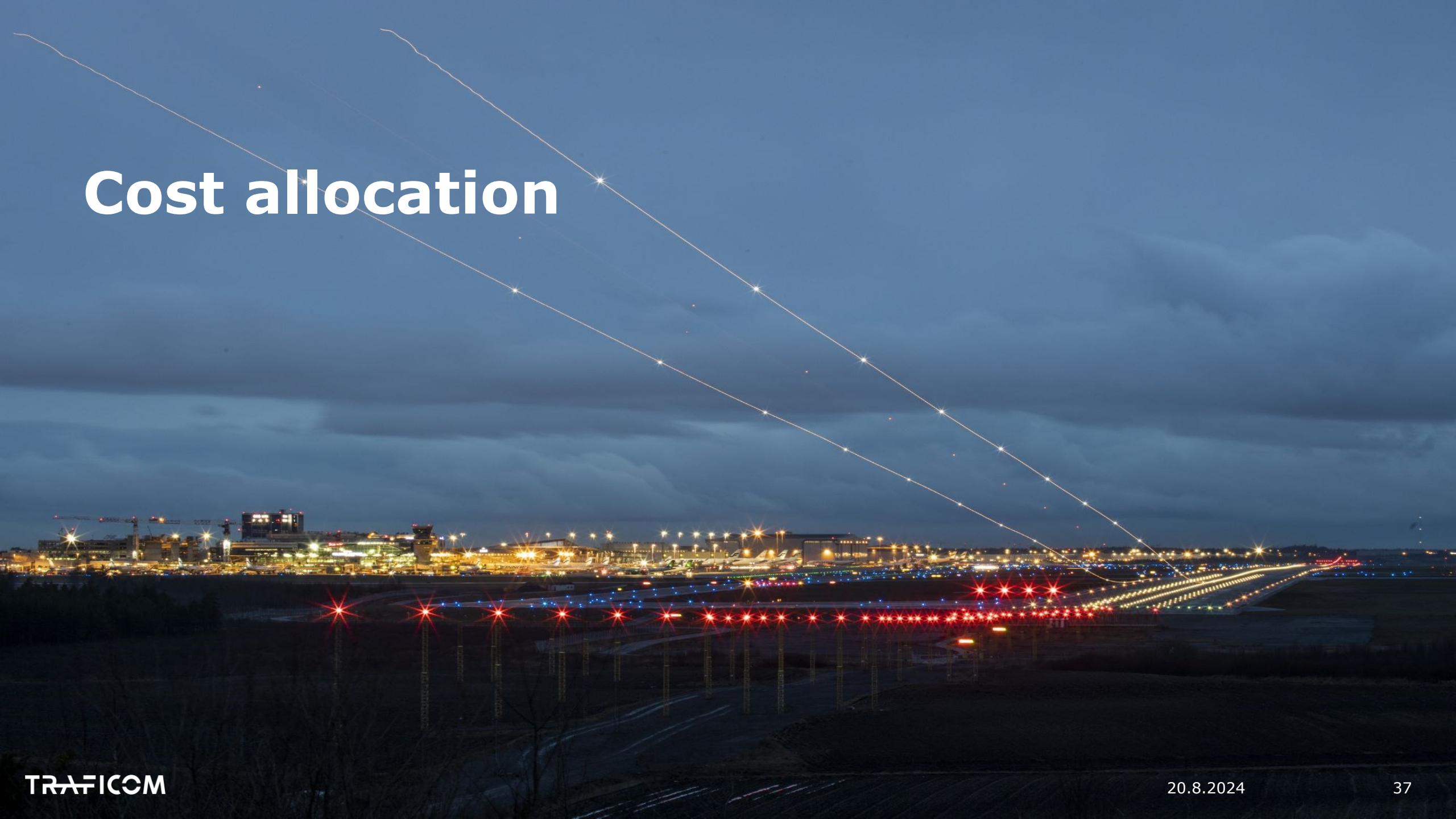
- **MET observations costs** in RP4
  - State financing since RP2
  - Due to state budget savings → costs added to MET cost base
  - Yearly cost impact approx.
    - ENR: 1 M€
    - TN EFHK: 0,5 M€
- **Space weather costs**
  - ICAO global cost recovery system was supposed to be in place by RP4
  - Costs included in the en-route cost base (apr. 520-570 t€/year) → Approx. +0,67 €/SU
  - Negotiations going on to spread a part (costs agreed with the Commission) of European space weather costs among SES-area based on Eurocontrol sharing keys -> CRCO to collect → +0,03 €/SU based on the latest CRCO preliminary calculations

En-route unit price estimates for RP4



- Traffic loss in 2023-2024 → high traffic risk adjustment to 2025-2026
- Proposed actions to even the price peaks in 2025-2026
  - Shift the 2020-2021 UR adjustment (COVID-19 loss) to years 2027-2029 instead of 2025-2027
  - Reimburse EU funds ahead of schedule
  - Reimburse unspent RP3 investment costs all in 2026

Cost allocation



Fintraffic ANS approach service cost allocation

- APP and TWR service costs are posted to the same cost centers. In most cases the ATCOs work for both services.
- Separate approach control in part of the ATC units which deliver also service to en route
  - A part of the APP costs of five ATC units (EFHK, EFRO, EFKU, EFTP and EFJY) are allocated to en route cost base
  - 40 % of APP+TWR service cost allocated to en-route service
- The allocation methodology has remained unchanged since RP1.
- Allocation key based on an estimation on the APP control ATCO's work description

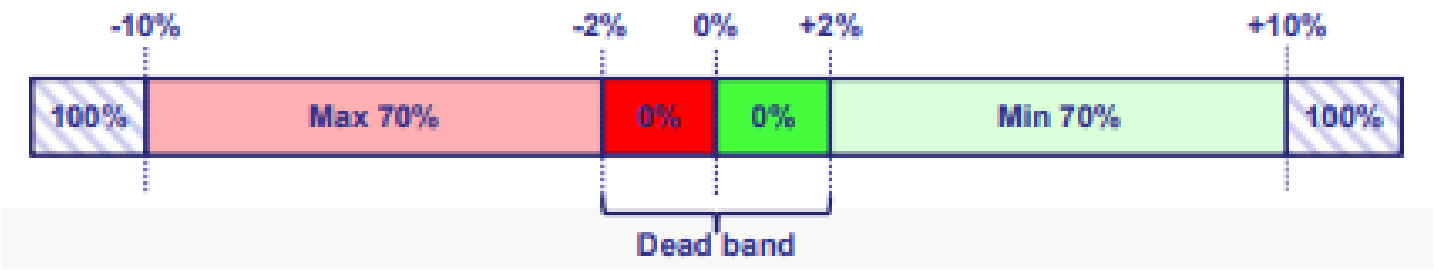
Charging policy & Traffic Risk Sharing

Charging policy

- Charging policy includes, e.g., the timing of adjustments to unit rates and cross-financing between terminal charging zones.
- Finland's policy has always been to make adjustments as soon as possible but to avoid big changes in prices.
  - Adjustments in RP4 planned to even the highest price peaks
- Most of the timings of the adjustments are determined in the regulation.
  - The adjustments made in year n+2
  - In some cases flexibility to spread adjustments to following reference period (Pension and investment costs)
  - The remaining revision of UR 2020-2021 -revenue difference is proposed to be charged in 2027-2029 instead of 2026-2027

Traffic risk sharing

- The values of the parameters are not adapted
  - Applied as set in the regulation (”default”)



  - Carry-overs in year n+2

Weighted Average Cost of Capital (WACC)

WACC

- WACC represents a fair return in a sense of reasonable compensation for the capital supporting the company’s activities
- In economic terms, it reflects the opportunity cost of employing the capital to support another business activity with similar risk
- Setting the WACC at an appropriate level is essential in order to achieve economic efficiency, whereby resources across the economy are allocated optimally

WACC

- PRB has calculated and presented WACCs for all ANSPs in the paper: ”Study on cost of capital, Methodology review and update”, June 2024
- Traficom is of the opinion that WACC method used by PRB shall be used for RP4
- This calculation is based on the assumption that business risk profile of ANSPs is generally low
  - Monopoly position
  - Public ownership and strategic importance
  - Possibility to revise performance targets during RP
  - Traffic risk sharing (max risk 4,4%)
  - Cost risk sharing
  - Inflation adjustment

WACC main equations used

The pre-tax WACC can be expressed as:

$$WACC = RoE * \frac{E}{E+D} * \frac{1}{(1-t)} + CoD * \frac{D}{E+D}$$

$$RoE = R_f + \beta_e(R_m - R_f)$$

$$\beta_e = \beta_a\left[1 + \left((1-t)\frac{D}{E}\right)\right]$$

WACC initial parameter values

1. Calculation of Option 1 (Efficient WACC according to PRB Study)

Member State	Finland	Please select the Member State and specify the ANSP for the reporting tool
ANSP	Finntraffic ANS	

	Estimated parameters - Reference Period 4						
Option 1. Efficient WACC	2025	2026	2027	2028	2029	References to the PRB Study	Formula
Risk-free rate (Rf)	0,8%	0,9%	0,9%	0,9%	0,9%	*Table 5*	
Tax rate (t)	20,0%	20,0%	20,0%	20,0%	20,0%	*Paragraph 56*	
Gearing (G)	33,72%	33,7%	33,7%	33,7%	33,7%	*Paragraph 88*	*Debt/Equity = D/E*
Asset beta (Ba)	54,81%	54,8%	54,8%	54,8%	54,8%	*Paragraph 80*	
Equity beta (Be)	69,60%	69,6%	69,6%	69,6%	69,6%		*Be = Ba * [1 + ((1-t) * D/E)]*
Equity risk premium (ERP)	5,30%	5,3%	5,3%	5,3%	5,3%	*Paragraph 78*	*ERP = Average return of market (Rm) - Rf*
Return on Equity (RoE)	5,66%	5,7%	5,7%	5,7%	5,7%	*Table 3*	*RoE = Rf + Be * ERP*
Risk-free rate (Rf)	0,8%	0,9%	0,9%	0,9%	0,9%	*Table 5*	
Debt premium	1,4%	1,4%	1,4%	1,4%	1,4%	*Paragraph 84*	*Debt premium = 10-year Eurozone BBB bond yield – 10-year German government bond yield*
Cost of Debt (CoD)	2,3%	2,3%	2,3%	2,3%	2,4%		*CoD = Rf + debt premium*
Share of financing through equity	74,8%	74,8%	74,8%	74,8%	74,8%	*Paragraph 89*	Share of financing through equity = 1 / (1+G)
WACC	**4,81%**	**4,83%**	**4,85%**	**4,87%**	**4,89%**	*Table 3*	*WACC = RoE * Share of financing through equity + CoD * (1 - Share of financing through equity)*

WACC options

3. Overview of all Options

Roe overview	2025	2026	2027	2028	2029
Option 1 (Efficient WACC)	4,81%	4,83%	4,85%	4,87%	4,89%
Option 3 (Hybrid WACC)	5,66%	5,68%	5,71%	5,73%	5,75%

Wacc overview	202500,00%	202600,00%	202700,00%	202800,00%	202900,00%
Option 1 (Efficient WACC)	4,81%	4,83%	4,85%	4,87%	4,89%
Option 3 (Hybrid WACC)	5,66%	5,68%	5,71%	5,73%	5,75%

WACC sense check

- a sense check must be conducted on the ratio between the monetary value of the return on equity and the to-tal revenues (or the RoE-to-TCB ratio as assessed by the NSA).

- It should be verified that this ratio aligns with the risk incurred by the ANSP, which is expected to primarily stem from the maximum risk exposure to traffic

- If ANSPs are exposed to additional risks, the NSAs should assess the factors contributing to these risks and provide an explanation in the Performance Plans to justify the proposed ratio.

WACC sense check

4.1 Recommended Option before Sense check

	2025	2026	2027	2028	2029
Outcome of the PRB framework	**Option 1 (Efficient WACC)**	**Option 1 (Efficient WACC)**	**Option 1 (Efficient WACC)**	**Option 1 (Efficient WACC)**	**Option 1 (Efficient WACC)**

	2025	2026	2027	2028	2029
Monetary value of RoE	1 383	1 857	2 191	2 147	2 904
1.6 Total costs (exc. monetary value of RoE)	42 348	45 500	48 397	50 470	53 472
Resulting RoE-to-Total Cost Base (TCB) ratio (2)	**3,27%**	**4,08%**	**4,53%**	**4,25%**	**5,43%**

(2) Member States should verify that this ratio aligns with the risk incurred by the ANSP, which is expected to primarily stem from the maximum risk exposure to traffic. If ANSPs are exposed to additional risks, the NSAs should assess the factors contributing to these risks and provide an explanation in the performance plans to justify the proposed ratio.

WACC sense check

4.2 Sense check

	2025	2026	2027	2028	2029
RoE-to-TCB ratio as assessed by the NSA	**4,4%**	**4,4%**	**4,4%**	**4,4%**	**4,4%**
NSA assessment on the RoE-to-TCB ratio reported above	NSA is of the opinion that the risk incurred by the ANSP is primarily exptected to stem from the maximum risk exposure to traffic (4,4%). NSA is of the opinion that ANSP is not exposed to any justifiable additional risk.				
Resulting RoE (3)	6,48%	5,21%	4,72%	5,04%	3,97%
Resulting WACC	6,48%	5,21%	4,72%	5,04%	3,97%

*(3) Resulting RoE = (RoE-to-TCB ratio * Total costs excluding the monetary value of RoE) / (Share of financing through equity * Total Asset Base)*

Option outcome vs sense check	2025	2026	2027	2028	2029
Suggested approach for RoE	**Option 1 (Efficient WACC)**	**Option 1 (Efficient WACC)**	**Sense check**	**Option 1 (Efficient WACC)**	**Sense check**

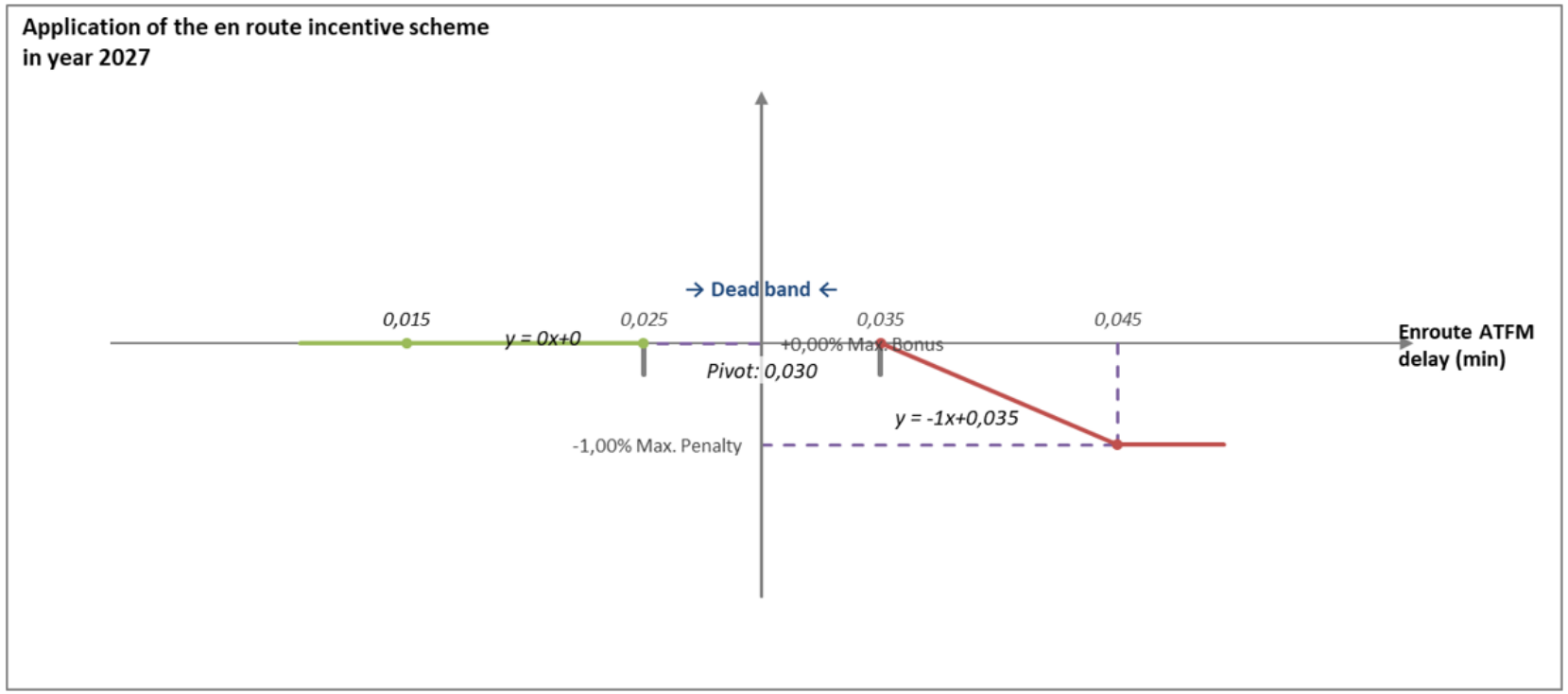
Resulting WACC

Based on the suggested approach	2025	2026	2027	2028	2029
3.5 Cost of capital pre tax rate	4,81%	4,83%	4,72%	4,87%	3,97%
3.6 Return on equity	4,81%	4,83%	4,72%	4,87%	3,97%
3.7 Average interest on debt	0,0%	0,0%	0,0%	0,0%	0,0%
3.8 Share of financing through equity	100 %	100 %	100 %	100 %	100 %

Incentive Schemes

Incentive scheme (en-route)

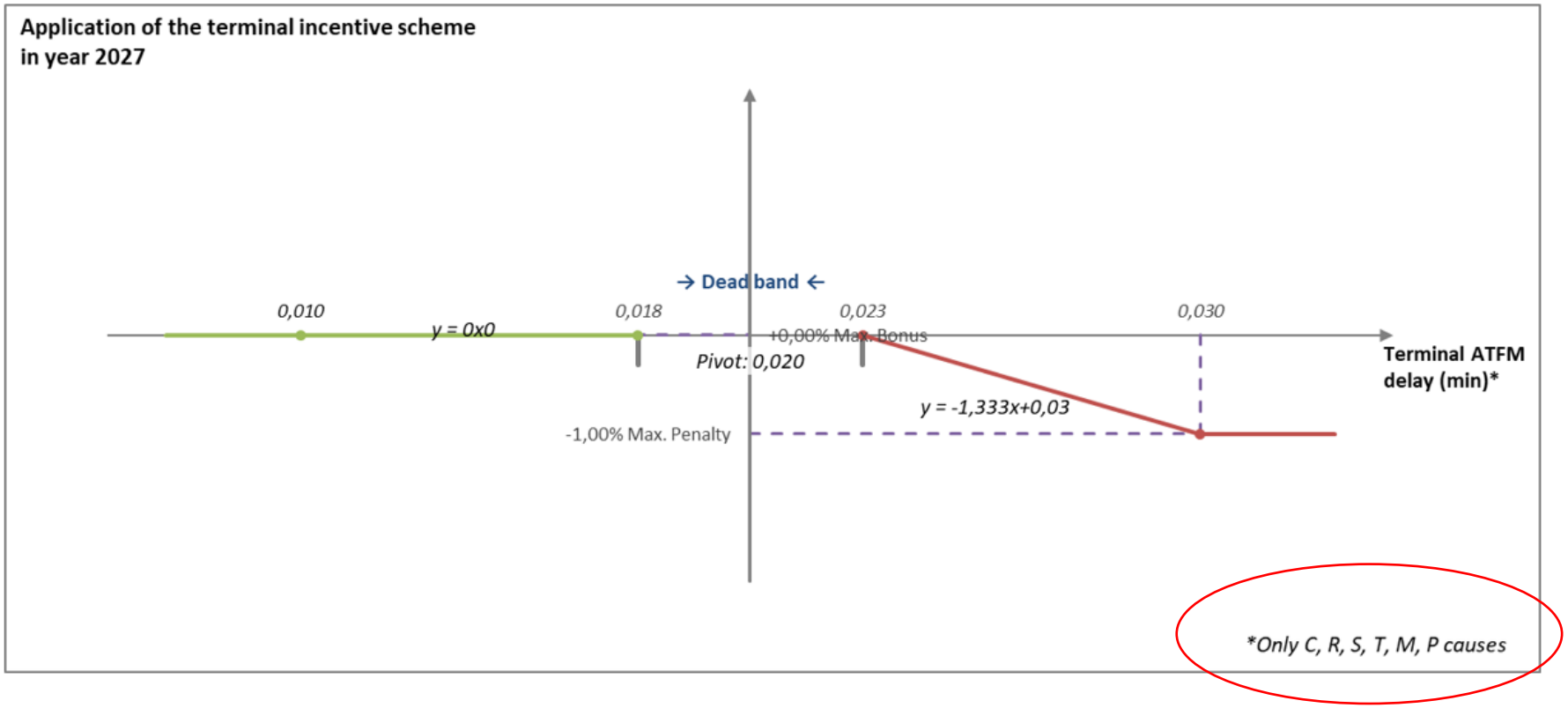
		2025	2026	2027	2028	2029
NOP reference values (mins of ATFM delay per flight)		0,05	0,04	0,03	0,02	0,02
Alert threshold (Δ Ref. value in fraction of min)		±0,015	±0,015	±0,015	±0,015	±0,015
Performance Plan targets (mins of ATFM delay per flight)		0,05	0,04	0,03	0,02	0,02
Pivot values for RP3 (mins of ATFM delay per flight)*		0,05	0,04	0,03	0,02	0,02
Financial advantages / disadvantages	Dead band range	[0,045-0,055]	[0,035-0,045]	[0,025-0,035]	[0,015-0,025]	[0,015-0,025]
	Bonus sliding range	[0,035-0,045]	[0,025-0,035]	[0,015-0,025]	[0,005-0,015]	[0,005-0,015]
	Penalty sliding range	[0,055-0,065]	[0,045-0,055]	[0,035-0,045]	[0,025-0,035]	[0,025-0,035]



Incentive Scheme (TN)

		2025	2026	2027	2028	2029
Performance Plan targets (mins of ATFM delay per flight)		-	-	-	-	-
Bonus/penalty range Δ (in fraction of min)		±0,015	±0,015	±0,015	±0,015	±0,015
Pivot values for RP3 (mins of ATFM delay per flight)*		0,02	0,02	0,02	0,02	0,02
Financial advantages / disadvantages	Dead band range	[0,018-0,023]	[0,018-0,023]	[0,018-0,023]	[0,018-0,023]	[0,018-0,023]
	Bonus sliding range	[0,01-0,018]	[0,01-0,018]	[0,01-0,018]	[0,01-0,018]	[0,01-0,018]
	Penalty sliding range	[0,023-0,03]	[0,023-0,03]	[0,023-0,03]	[0,023-0,03]	[0,023-0,03]

Performance plan target: 0,15min/flt 2025-2029



Incentive Scheme (TN)

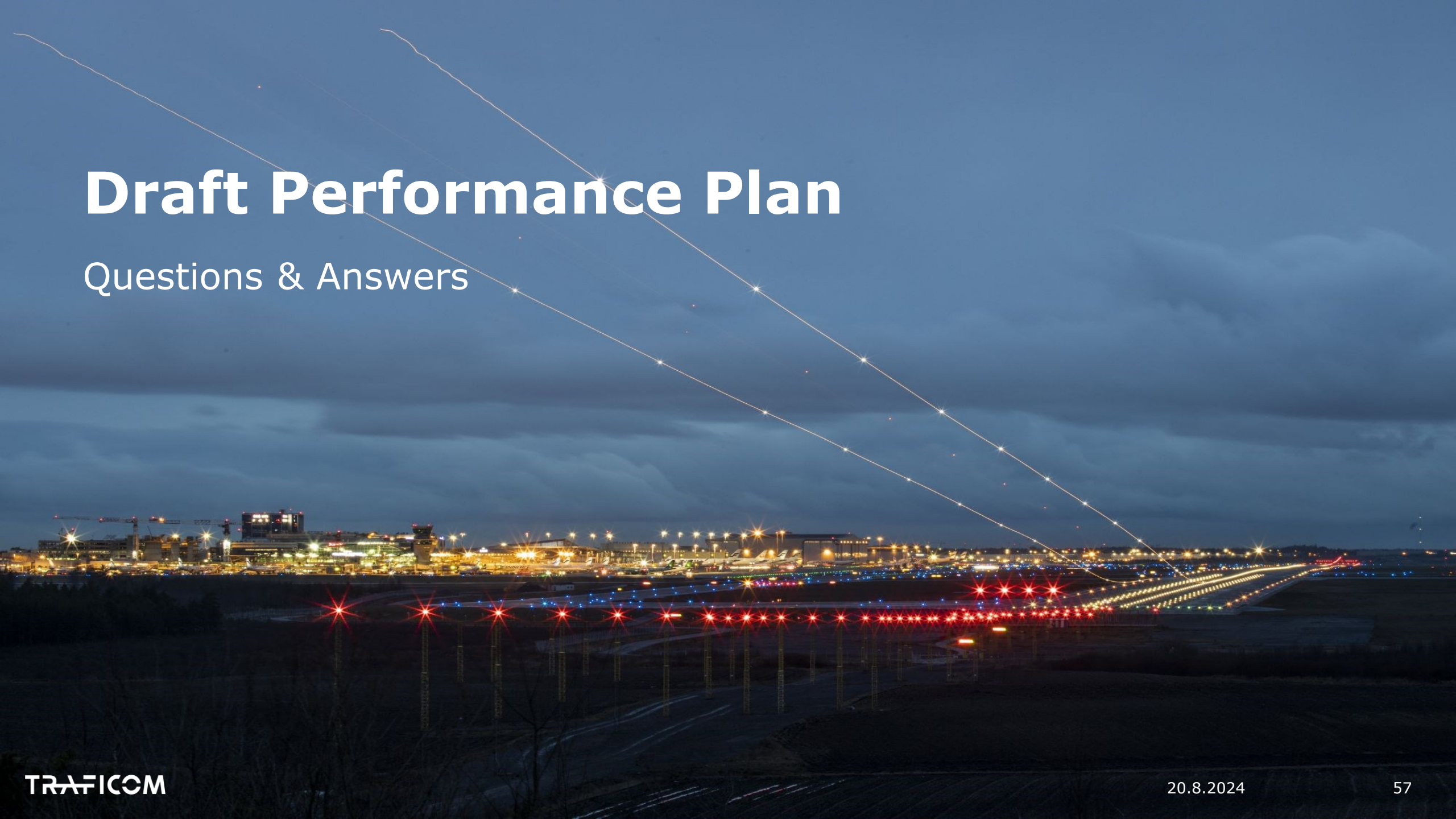
- CRSTMP causes (Network Manager ATFCM user manual):
  - ATCO capacity
  - ATC routeings
  - ATC staffing
  - ATC equipment
  - Airspace Management
  - Special event

Investments

Fintraffic ANS

Draft Performance Plan

Questions & Answers



Next steps

- Consultation period ends on **3rd of September**

→ Traficom will assess outcome of the consultation and adjust the plan as necessary

→ Performance plans must be submitted to the Commission by the 1st October

→ By the end of October, the Commission will conduct a verification process on draft performance plans (”technical check”)

→ Formal assessment of performance plans and national targets by the Commission

→ If the Commission’s assessment is positive, a formal decision will be adopted formalising the performance plan and targets by *May 2025*

Contact

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Fintraffic

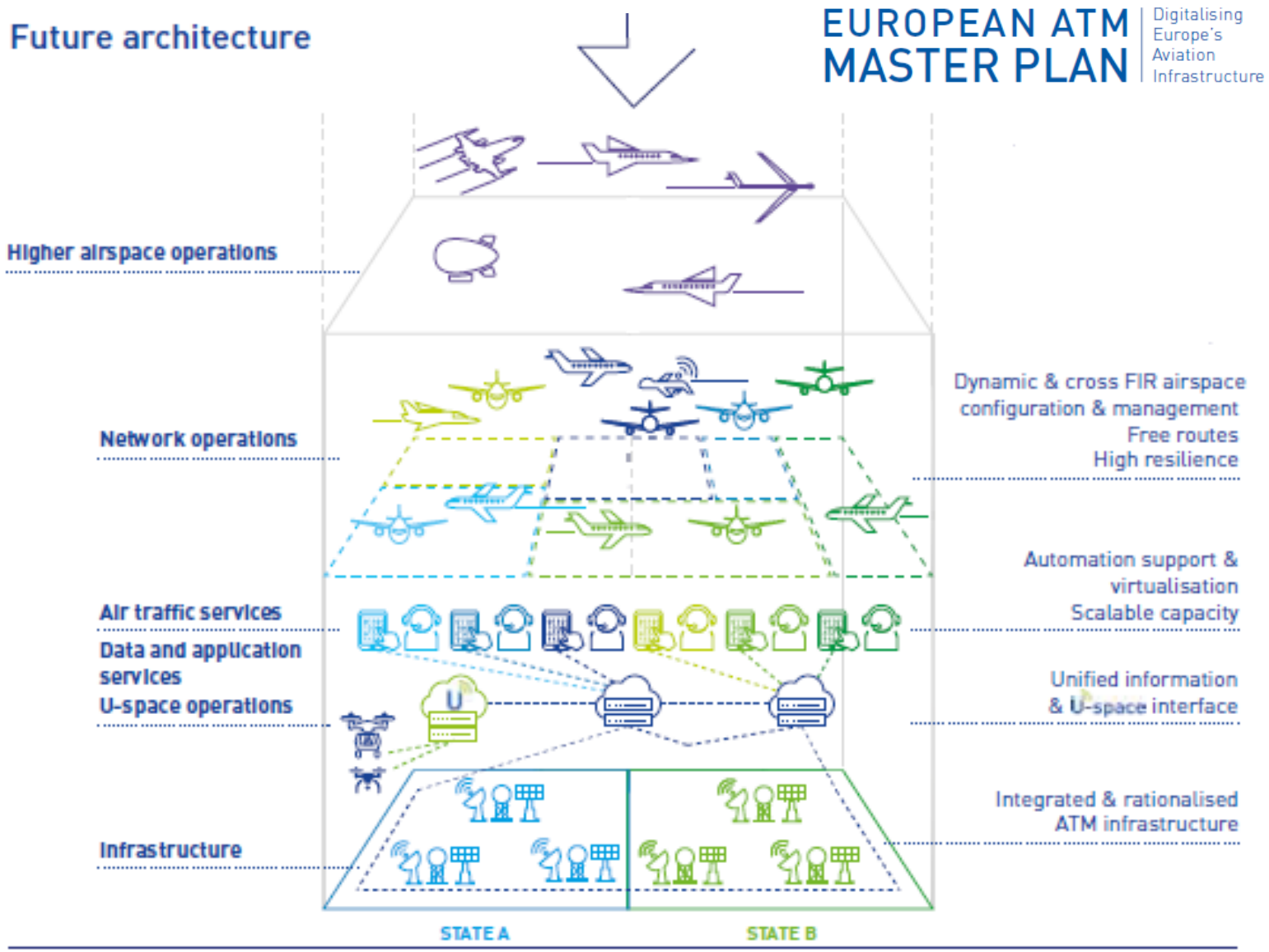
Fintraffic ANS RP4 performance plan consultation

Fintraffic ANS RP4 investment plan

Single European Sky Architecture

Europe aims to have:

- Integrated and rationalized infrastructure by sharing infrastructure elements
- Airspace is designed according to the traffic flows, not restricted by national borders. Provides better safety, environment and effectiveness for customers
- Improved resiliency of ATM service
- Scalability in ATM services for cost effectiveness



Fintraffic ANS investments

Objectives for current and future investments are to:

- **Secure and optimize our ATM network to ensure service continuity of safe operational service provision**
- **Ensure our ATM infrastructure meets all required operational performance and cost-effectiveness requirements.**
- **Provide dynamic ATM service in a fully scalable environment safely, in an environmentally friendly manner**
- **Accelerate the transition towards digitalization of ATM**
- **Comply with EU regulation**

Fintraffic ANS investments

What are the measures we take to fulfil the objectives:

- **We invest in new technology compliant with future regulation**
- **We invest in our infrastructure to mitigate security threats and external disturbances**
- **We will deploy dynamic cross-border en-route service provision to improve cost efficiency, scalability, continuity, safety and mitigation of co2 emission**
- **We invest in digitalization**
  - **data analytics and utilization**
  - **automization**
  - **working environments**

Fintraffic ANS capex/leasing investments for RP4

- The planned investment schedule and content for the coming reporting period has been influenced by the on-going Russian aggressive war against Ukraine
- Some of the planned investments, mainly Surveillance related Investment are post adjustments from RP3 due to lack of finances and reduced number of human resources.
- The main financial focus of the RP4 investment costs falls at the end of the reporting period
- The investments can be categorized as 50/50 substitution and new development
- Financially appx 35% of the investment costs is due to regulative evolution (mainly Common Project 1)
- The costs shares are: SUR 19% ATM 69% COM 7% NAV 3% and other 2%

Fintraffic ANS main investments for RP4

ATM system renewal (Thales TopSky software evolution)

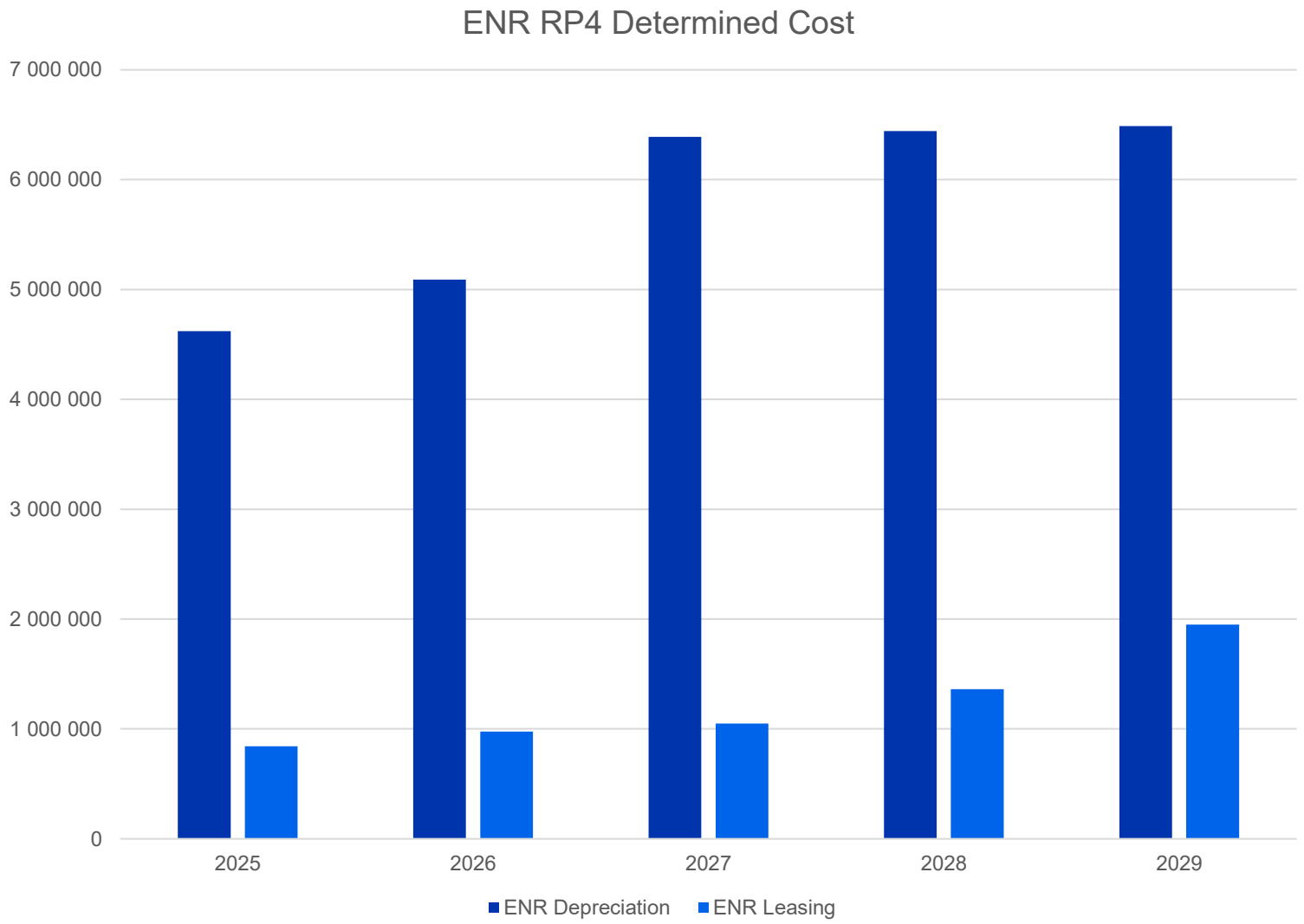
- Thales TopSky legacy system requires major software evolution in order to be compliant with EU Common Project 1 requirements.
- The system supplier offers 1 common system evolution for all customers
- The most economical and risk-free option in terms of continuity of the service production is to update the existing system platform
- The deployment of the system is scheduled for end of 2029
- Fintraffic ANS procurement is done in cooperation with Estonian ANS, EANS

Fintraffic ANS main investments for RP4

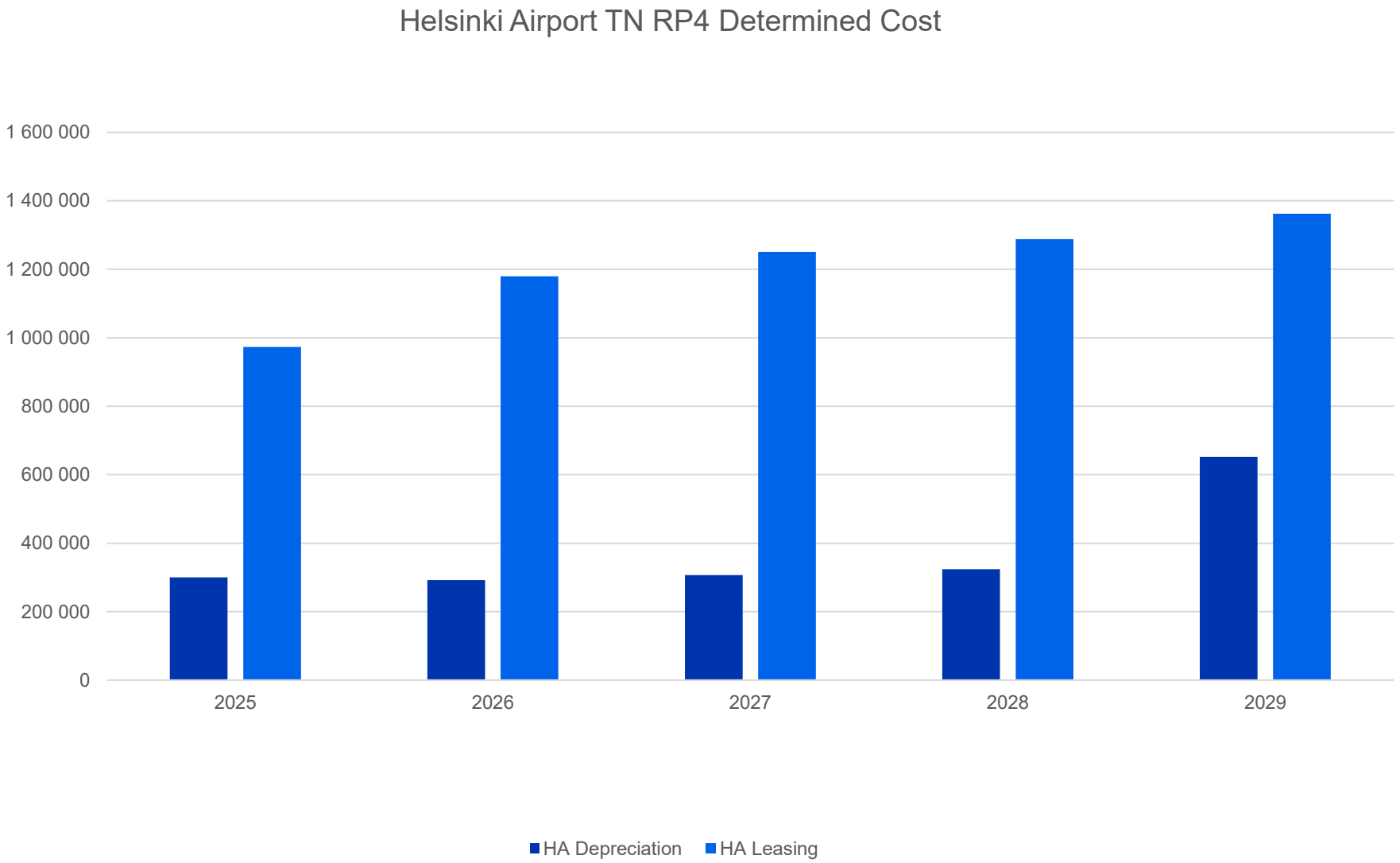
EFHK Remote Tower

- **The physical location of existing Tower does not serve the existing runway infrastrucure**
- **Modernisation of the existing Tower in parallell with continuous service provision is not feasible**
- **The modern digital working enviroment will improve safety, capacity and service continuity**
- **The Remote Tower facilities would allow more effective use of resources**
- **The investment is planned to be activated in the end of the reporting period**

ENR RP4 Determined Cost



Helsinki Airport TN RP4 Determined Cost




Fintraffic
Q&A

Thank You for your attention!

Kari Kerke, SVP CDO

kari.kerke@fintraffic.fi

Mr. Päivi Palokangas
Special Adviser-Finnish Transport and
Communications Agency.

2nd of September 2024

By e-mail to: paivi.palokangas@traficom.fi
CC to Christine Berg christine.berg@ec.europa.eu; Cathy Manion cathy.mannion@prb.eusinglesky.eu

Ref: IATA comments on Finland draft Performance Plan (PP) for RP4, actual costs and cost risk sharing for 2023, and unit rate (UR) for 2025

Dear Mr. Palokangas,

IATA appreciates the productive interaction with the different entities during the stakeholder consultation session on the draft PP for RP4, actual costs and cost risk sharing for 2023 and the UR for 2025, which was held on August 20, 2024.

IATA considers that an increase of 59% and 18% in the UR from 2024 to 2025 for en route and terminal respectively to be excessive, and that measures must be taken to ensure a smooth transition to 2025, as well as a stable UR throughout RP4.

2023 actual vs determined cost, and 2023 adjustment applied to 2025 UR

En route

- All entities: as the actual costs for 2023 are lower than determined ones, we consider the inflation adjustment computed based on the determined costs to be overestimated, as it does not follow the *spirit* of the regulation, which aims to compensate for inflation on the amount spent (i.e. actual costs). You are therefore invited to deduct the difference of 365.7 K€ from the chargeable cost base of 2025.

- All entities: as the actual costs for 2023 are lower than the determined ones, we consider the traffic risk sharing adjustment to be overestimated, as the calculation formula uses the determined costs, instead of the actual costs, which does not follow the *spirit* of the regulation. You are therefore invited to deduct the difference of 1,97 M€ from the chargeable cost base of 2025.

- All entities: we propose the early reimbursement of the adjustments linked to *Art.28 (4) to (6)*, amounting to 1.91 M€ in 2025 instead of 2026.

If the above suggestions were adopted, the 2025 UR would increase by 49 % compared to 2024, instead of 59 %. This remains extreme and requires greater attention to sustainably manage the cost of RP4.

Terminal

- All entities: as above, the inflation adjustment, traffic risk sharing adjustment and early reimbursement of adjustments associated with *Art.28 (4) to (6)* arguments of en route will apply mutatis mutandis to terminal.

- Fintraffic ANS: the amount of the adjustment associated with *new and existing investments (Art. 28(4))* to be reimbursed to airlines should be 24 K€ instead of the amount of 10.2 K€ to be recovered by the ANSP. You are therefore invited to review the calculation of this adjustment.

RP4 Performance plan

Cost efficiency:

Finland's short-term determined unit cost (DUC) target for en route of 3.5% is well above the EU target of -1.2%. As a mitigation measure to reduce the short-term DUC, Finland proposed the application of the DUC recalculation method used by the EC in RP3, based on STATFOR base traffic forecast of October 2021, to assess

the consistency of the local cost-efficiency performance targets of Sweden and Latvia with the Union-wide performance targets, in order to take into account the impact of the war in Ukraine on traffic. (Ref Decisions (EU) 2022/2423 and (EU) 2022/2426). IATA does not support the use of this DUC recalculation method in RP4 for the following reasons:

- There is no EU legal act to support the adoption of this DUC recalculation method. (i.e. the *Decisions (*EU) 2022/2423 and (EU) 2022/2426 are addressed and binding to only Sweden and Latvia, and they do not apply automatically and uniformly to all EU countries).

- The EU targets of RP4 already took into account the special circumstances that trigged the recalculation of DUC for Sweden and Latvia in RP 3 as result of the use of STATFOR traffic forecast of February 2024, which was not the case for the EU targets of RP3.

Staff cost

- Fintraffic ANS: Between 2019 and 2023, the number of total staff increased by 26% from 333 in 2019 to 421 in 2023, compared to a traffic level in 2023 which is 20% lower than that of 2019 in terms of number of IFR movements. (Ref. ACE benchmarking reports and Fintraffic ANS 2023 annual report).
  Since the *staff workload* depends on the number of IFR movements, we consider that Fintraffic ANS staff planning from 2019 onwards to be *not proportional* to traffic forecast, leading to additional staff costs and a reduction of staff productivity compared to 2019 level.

  As a result of extrapolating the above overstaffing trend to RP4, we see a notable increase in en route and terminal staff costs with annual growth rates of 5.6% and 4.2% respectively, while total service units (TSUs), which represent revenue, only increase by +1% and 2.4% per year for en route and terminal respectively.

  We therefore invite Fintraffic ANS to use the 2019 workload level (i.e. number of IFR movements) as reference point for future staff planning, and consequently revise downwards its planned workforce for RP4, taking into account that the expected traffic by the end of RP4 is 7% lower than 2019 level in terms of IFR movements, and consider resorting to *temporary measures* such as overtime, additional shifts for ATCOs. etc, if necessary.

- Fintraffic ANS: IATA does not support the unusual practice of *ANS age bonus scheme for ATCOs*, for the following reasons:

  - Salary increase should not be based on age but rather on productivity and performance (e.g. ATCOs ratings. etc).

  - The current ATCOs' workload is significantly lower than in 2019, taking into account the current and planned RP4 staffing level as well as the traffic forecast for RP4 in terms of IFR movements.

- Fintraffic ANS: IATA does not support any *additional pension for ATCOs*; therefore, the cost associated with the existing additional (non-statutory) pension should not be borne by airlines.

CAPEX

- Fintraffic ANS: according to the information presented during the consultation, the CAPEX RP4 plan of 143 M€ is divided into (2) categories *replacement* and *new* investments which each represent 50% of the total CAPEX. Given the current and anticipated low traffic levels, available capacity, and current level of safety, we request the postponement of all *new investments* and upgrades that are not necessary replacements and/or required by regulation (e.g. CP1).

- Fintraffic ANS: regarding the *ATM System renewal* investment amounting to 30 M€, which consists in a major software evolution, we recommend the deferral of this upgrade, in coordination with Estonia as part

of the FINEST project, because current and forecasted traffic does not require any additional capacity to handle high flights movements, or new features to enhances operational safety.

- Fintraffic ANS: regarding the *HK Remote Tower* investment of 8 M€, we would appreciate more information on the reason(s) behind the allocation of 40% of the cost of this investment to the en route cost base, as remote towers primarily serve terminal traffic.

- Fintraffic ANS: the PP lacks information on new investments below 5M€ for RP4 amounting to 49.4 M€, and on existing investments from previous reference periods amounting to 55.6 M€, which makes it difficult for us to appropriately assess Fintraffic ANS CAPEX situation. We therefore request the missing information.

Cost of Capital (CoC)

- Fintraffic ANS: the new weighted average cost of capital (WACC) calculation methodology presented during the consultation, which differs from the initial WACC calculation methodology shared with airspace users before the consultation, addressed some of our concerns with regards to the *risk free rate (RFR)* calculation which should be based on the average of 10-year Finnish government bond yields over the last ten years instead of the spot rate of the 10-year Finnish government bond, as well as the removal of the *country risk premium (CRP)* from the capital asset pricing model (CAPM) and *Cost of Debt* formulas, because the CRP is already factored in the RFR. Despite these improvements, we believe that the new WACC calculation methodology can be further improved by addressing the following points:

    - Credit spread: the new WACC methodology's credit spread estimate of 1.4% is overestimated and does not reflect the low default risk of Fintraffic ANS, we instead recommend the adoption of the credit spread value of 0.5% estimated by Traficom.

    - Asset Beta: the new WACC methodology's asset beta estimate of 0.55 is overestimated, based on our estimation of Fintraffic ANS's asset beta using a comparable group of companies in the regulated sectors of utilities and telecommunication in Finland (e.g. Telia Finland, Elisa Oyji, Neste Corp,etc), we arrived at a value of 0.4, which is also in line with the estimate presented in Fintraffic ANS's initial WACC calculation

  We therefore invite Fintraffic ANS to revise the RP 4 WACC estimate based on the above listed recommendations.

- Fintraffic ANS: IATA does not support the inclusion of under-over recoveries in the balance sheet, as this practice is not consistent with IFRS accounting standards and may lead to an overestimation of *net current assets.*

Safety:

- Fintraffic ANS: even though the RP4 national safety targets are consistent with the EU targets. We note a slow progress in reaching the SMS maturity level *D* in the area of *safety risk management*, which is expected to be reached till the end of RP4. We therefore request more information on the reason(s) for this slow progress.

Capacity:

Capacity incentive scheme

- Fintraffic ANS: IATA supports the proposed *penalty only asymmetric* capacity incentive scheme for en route and terminal, however, we suggest the increase of the maximum disadvantage value from 1% to 2%, due to the low traffic forecast of RP4 coupled with the increase in staff costs and CAPEX.

- Fintraffic ANS: regarding terminal, IATA considers that the adoption of a pivotal value of 0.02 min/flight (i.e. the highest value of RP2) to be unambitious target and instead suggests a value of 0.01 min/flight to encourage continuous improvement.

Environment:

- Fintraffic ANS: we note that the local RP4 targets have almost tripled compared to RP3 level and are well above the EU RP4 targets. However, we did not get any information, either in the PP or during the consultation, on the measures that will be put in place to achieve the local targets of RP4. We would therefore appreciate more information on Fintraffic ANS's plan to address the environmental challenges of RP4.

Next step:

In summary, Finland's short-term DUC target for en route is 3.5 %, which is higher than the EU target of -1.2 %. We believe that despite the low traffic forecast associated with the war in Ukraine, Finland can further reduce its DUC by revising downwards its planned staffing level and delaying some CAPEX projects in line with the traffic forecast.

We thank you in advance for your careful consideration of these comments, and we remain available for further discussion if necessary.

Yours sincerely,

Yassine El Charkaoui
Assistant Director, ATM Infrastructure, Europe
Regional Safety and Flight Operations, IATA

30th August 2024

To: Traficom Finland

Finland RP4 consultations, Finnair's comments

Finnair would like to thank the possibility to participate to stakeholder consultation concerning Finland's draft performance plan for RP4, cost and risk sharing for 2023 and unit rate for 2025. Finnair would like to make the following comments:

Unit Rate Adjustments for 2025 and 2026

The proposed unit rates for 2025 and 2026 are based on estimates rather than actual traffic volumes for 2023 and 2024. The proposed rates would lead to massive increase of airspace charges for Finnair. According to Finnair estimates cost increase would be from 16,5 M€ in 2024 to 28,5 M€ in 2025 and further to 34,5 M€ in 2026. This is neither acceptable nor reasonable.

Under Article 29.6 of the Performance and Charging Regulation (EU) 2019/317, member states have a possibility to adjust unit rates. It is necessary that the unit rates reflect the operational and business environment of the past four years. As the Finnish aviation industry has gone through its biggest crisis ever, there is an urgent need to strengthen the competitiveness of Finnish carriers. An unreasonable increase in the airspace costs would weaken the connectivity of Finland and fragile recovery of its aviation industry, including Finnair. Therefore, Finland should set unit rates at a much more reasonable level.

Finnair also recommend exploring the possibility of inflation adjustments to mitigate the significant impact on unit rates in Finland.

Staff costs

The consultation materials indicate an increase in ATC staff costs despite reduced traffic levels and the need to cut expenses. Further clarification is needed to justify this increase in staff costs.

Investments

New investment projects are not appropriate given the losses to be recovered, current deficits, and future volume outlook and subsequent impact on user rates. Safety, and maintenance of existing systems should be the expectation

Military traffic

In the consultation did not address military traffic and its associated charges. It would be important to understand the share of these costs to make sure that the user-pays principle is followed. Commercial aviation cannot afford to take additional costs of non-commercial traffic, especially given the deficit caused by COVID-19 pandemic and the decline in traffic figures and lack of overflights in Finland due to closure of Russian airspace.

Futher information:
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Manager Gov. affairs, Timo Koskinen +358405056180 timo.koskinen@finnair.com

Date and time 20 August 2024

Place Hilton Helsinki Airport

Participants Finnair, SAS, Norwegian, Fedex, Qatar Airways, IATA, Finavia, Fintraffic ANS, Finnish Meteorological Institute, Finnish Air Traffic Controllers Association, Finnish Aeronautical Association, Ministry of Transport and Communications, Finnish Transport and Communications Agency, Performance Review Body support

Reference Period 4 consultation meeting

Finland held the RP4 consultation meeting on 20 August 2024. There were participants from airlines, airline representatives, airport operator, air navigation service provider, air traffic control staff representatives, general aviation organization as well as from the ministry of transport and communications.

The meeting focused on the presentation by Traficom, which was based on the previously published draft of the RP4 performance plan. Traficom presented the following topics/key performance areas in the meeting: safety and targets, environment and targets, capacity and targets as well as cost-efficiency and targets.

Several comments/questions were raised from different key performance areas, mostly on cost-efficiency. The comments/questions as well as replies from Traficom are listed below;

<u>Safety:</u>

- Question on safety risk management target level D, and whether the target will be reached sooner than in the end of the reference period.
    - It was noted that the EU wide target is to reach safety risk management level D by the end of reference period and Finland is in line with EU wide targets.

<u>Capacity:</u>

- Question on 2019 capacity figures from 2019, as it was considered that 2019 traffic level was high and there were not much delays, and whether the target for RP4 is ambitious enough.
- Incentive scheme was supported, however, there was request to consider maximum penalty percentages as well as pivot values.

<u>Cost-efficiency:</u>

- Clarifications were asked on the rising costs and the drivers behind that.
    - Rising staff costs and investments are seen as the main drivers behind rising costs. The number of movements is actually very close to 2019 numbers, but as the traffic now is narrow-bodied aircraft compared to the traffic pre-COVID, which was more wide-bodies, the revenues for air navigation service have been reduced.
- On adjustments, Finland was asked to consider investment return in 2025 to smoothen the unit rate peak.

    - It was noted that this needs to be assessed by Commission, but could be considered.
- Question on whether the RP3 recoup could be spread over further timeframe, however, it was noted that it is to be done according to the regulation.
- Comment on inflation and traffic risk sharing adjustments, and whether they could be calculated from actual costs instead of determined to reduce the unit cost increase.
    - The comment was noted and the issue would be further discussed with the ANSP and the ministry.
- The logic behind cost-allocation between ENR/APP/TWR was further clarified, and it was noted that the same allocation keys have been used since RP1.
- Discussion on WACC calculations. It was agreed that written comments would also be provided on WACC calculations.
- It was widely supported to update the traffic forecast to reflect the latest STATFOR traffic forecast.
    - It was noted that the NSA will use the latest STATFOR forecast whether it is allowed by the Commission.

<u>Investments:</u>

- Regarding FINEST project, there were two questions; whether the project is progressing and whether there are any joint procurement plans between Finland and Estonia.
    - It was noted that the FINEST project is under negotiation between the two states and that joint procurement is not planned, however the negotiations will be conducted together.
- More clarification was provided on EFHK remote tower cost allocation to en-route.