

Consultation with Stakeholders On the Proposed National Performance Targets for RP2

Minutes

17 April 2014
Vilnius

Participants: 22 were present out of 26 registered on the internet (the list is attached to the Minutes); 6 attendees represented the staff associations, 2 participants represented interest of airlines, the members of IATA, 2 participants represented Military and 1 attendee - the Ministry of Transport and Communications.

Consultation was conducted by Rūta Vaigauskaitė (CAA/NSA).

All participants were welcome and proposed draft agenda was approved (attached).

The participants were requested to introduce each other and to feel free and comfortable in forwarding comments and questions.

Expert in Safety domain presented related KPIs

Effectiveness of Safety Management (EoSM) was established for all objectives (safety policy and objectives, safety risk management, safety assurance, safety promotion and safety culture) to be reached from 2019 the level C at NSA level and level D at ANSP level, except the safety culture which should be at level C. It was planned that Lithuanian CAA as NSA will reach the level C for all safety objectives by the end of 2019. Oro Navigacija has already reached the level D for the management objectives in safety policy, safety risk management, safety assurance and safety promotion, as well has already achieved the level C in safety culture management objectives. It was possible to define the level by answering EASA questionnaires. IATA representative inquired whether there be extra costs to reach the targets and what level of EoSM has been reached by Lithuania. Explanation was given that no significant extra costs foreseen and Lithuania has reached the level B of EoSM. Another IATA question dealt with foreseen projects related with safety. Answer was that for the time being no specific implementation project was preplanned.

The second KPI established for application of the severity classification based on the Risk Analysis Tool (RAT). Lithuanian CAA performed analysis of investigations, verified the correctness of severity established but did not use RAT directly for the establishment of occurrence severity. It was planned by CAA for gradual introduction of the RAT methodology for the classification of at least 80% from 31 December 2017: the methodology for the separation minima infringements, runway incursions and ATM-specific (ATM-S) with categories A, B and C, and 100 % for ATM-S occurrences with the categories AA, A, B and C by the end of December 2019. Oro Navigacija has been using RAT methodology 100% from 2012 for severity classification of each reported ATM safety occurrence.

IATA representative inquired which level achieved now by Lithuania. Explanation was provided that CAA monitored safety performance indicators in ATM occurrences in line to CAA approved safety level as number of occurrences and safety level (during the flight) for 2012-2016 and the ATM occurrence statistics met CAA approved ALOS for 2012-2016 period: no accidents, serious incident, major incident occurred through 2012-2013, 1 significant incident occurred in ATM in 2013. With regard to ATM-S occurrences, the statistics also met CAA approved ALOS for 2012-2016 period in regard to number of occurrences and safety level (in operational hours).

Expert in Capacity and Environment domains presented local situation and related KPIs

Traffic in Vilnius ACC was going to reach increase by +25% - +30% in 2019 vs 2013 as presented in Eurocontrol Seven-Year Forecast (February 2014). It related with the traffic orientation along North-Balkan axes. That was really challenging in order to not deliver under-capacity or over-capacity. Traffic base line trend in total en route SUs for the Baltic FAB calculated by NM was 31% to be reached by 2020. That increase was average annual growth 4.30% 2014/2011 in RP1 and 3.80% - 2014/2019 RP2. Total base line growth of SUs forecasted for Lithuania was to reach 30% 2020/2013 or 4.10% average annual growth 2014/2011 RP1 and 3.70% 2019/2014 in RP2. With the reference to the European Network operations plan for 2014-2018/2019, sufficient capacity was going to be provided by Vilnius ACC in order to meet increasing traffic demand.

Capacity was delivered due to logical and well organized airspace and responsibilities. Lithuanian airspace is at the European network boarder, thus decrease of actual core traffic by 1% will affect Lithuanian airspace by decrease of 10% therefore Lithuania had to be very well organized. That was a reason to carry out a study for airspace restructuring; as a consequence to it a third ATC sector was established which is closed or opened in accordance to deviations in actual demand. Lithuania never ever generated delays in FIR.

In order to reach capacity annual reference values in the Baltic FAB Lithuania with an assistance of NM has established following delays per min values for the monitoring performance purpose: 0.01 – 2015; 0.02 – 2016; 0.03 – 2017; 0.04 – 2018; 0.04 – 2019. Currently and for RP2 Lithuania was below the European average en-route ATFM delay, and is in line with the Baltic FAB targets.

IATA representative raised comment which traffic scenario had been used. The answer was that the base line scenario of SUs traffic was considered in Lithuania in establishing cost efficiency area in order to be in line with the capacity base-line forecasts and the establishment of proper incentive scheme in order to reach the targets.

Lithuanian route structure is very sophisticated. The only 2 air routes are outside the great circle routes and compose the only 26 kilometers and 0.29% of routes extension. Having analyzed the traffic movements in Lithuania, it was noted that number of IFR flights on these 2 air routes was increasing too what has generated additional distance, fuel consumption and CO2 emission. Average MTOW was also growing along these routes. Despite this positive trend of flights increase on these 2 air routes in terms of cost efficiency, the total distance flown was increasing, the same as cumulative extension, but the constituent of non great circle routes extension was still less 1% (2013 – 0.62%, 2012 – 0.49%) of total traffic. The main reason was increasing flight numbers on these routes to Vilnius International Airport. Therefore there was nothing to deal more without

implementation of the Free Route Airspace (FRA). According to the Feasibility Study on FRA implementation what regards the only Vilnius FIR (implementation planned in 2015): it could not bring sufficient performance benefits in terms of Environment KPI without contribution of neighboring states and any changes to eliminate existing route extension what consists only 0.62% of traffic, would negatively impact or affect route network segment for arriving/departing traffic in Vilnius Intl (by 15.3%). CO2 emission could not decrease highly as the Baltic FAB has a common board with Warsaw FIR just 62 nautical miles. With implementation of FRA within Baltic FAB (from 2017+ with the new ATC system in Vilnius ACC) the situation could be slightly improved, but the main effect could be visible with FRA implementation on the regional level with neighboring states. In this regard Oro Navigacija cooperates with Kaliningrad area, big contribution is expected in cooperation with NEFAB in Regional FRA implementation. This is one option in improvement of environment indicators. Another option is lowering level below 245.

IATA representative inquired what kind investments are required in order to achieve regional FRA from 2017+. The explanation was that the only procedures would be implemented by 2015 (common harmonized procedures). The conductor contributed that capacity and environment reference values for FAB level were calculated and proposed by NM relying on strategic data provided by ANSPs.

Expert in Cost Efficiency domain presented local situation and related KPIs

Presentation started with the actual performance in RP1 and comparison with RP1 targets. Actual en route unit costs in 2009 prices were following: 2012 Union-wide target has increased by +1% and reached EUR 58.47 (adopted target-EUR 57.88) while the national unit costs decreased by -2.5% and reached EUR 45.84. Actual Union-wide 2013 unit costs were unknown yet but the national has increased by +0.5% due to evaluated up Eurocontrol costs as a matter of fact of the higher national GDP what has influenced reallocation of the actual contribution costs between all member states with decreasing costs of those member states with lower GDP.

Calculation of inflation reference values for RP2 was done in the same way as for RP1: taken average of local data produced by Ministry of Finance, Bank of Lithuania and the biggest commercial bank and then calculating the average of sum of IMF forecast with the forecasted national average value. Annual average inflation RP2 was 2.4%. Calculation would be updated with the latest forecast of IMF and local data.

Latest traffic forecast was of February 2014 produced by Eurocontrol STATFOR. Lithuania chosen the base-line traffic forecast scenario for en route to be in line with the capacity data forecast produced on base-line scenario and low traffic forecast for the terminal traffic forecast. The annual average traffic increase is +3.7% for both en route and terminal. Low-case scenario was chosen for terminal because the terminal base-line scenario was over optimistic and not based on known locally and other available conditions reflecting the more real situation. Traffic risk sharing will not be applied for terminal services in line to Article 13 (6) of IR 391/2013.

Annual average en route costs change in nominal terms is +2.2% and decrease by -0.2% in real terms. Costs of Eurocontrol and ANSPs increased by 2.3% in nominal terms or decreased by -0.1% in real terms, while costs of NSA decreased by -1.9% in nominal terms and by -4.3% in real terms. The biggest share of costs by nature constitute staff costs which supposed to increase by +2.9%, other operating costs by +1.5% mainly due to post warranty contracts, and the cost of capital by +2.1%. IATA considered the raise of staff costs in 2014 comparing to 2013 actual costs and

inquired what the reason was. Expert explained that figure of actual 2013 staff costs was lower due to the fact that other costs had to increase due to post warranty contracts and therefore it had to be kept lower than forecasted in RP1. Another comment of IATA was given on raise of staff costs in 2015. The explanation was that salaries would be growing during the period 2015-2019 mainly due to forecasts of increase of average annual salaries by 6% in Lithuania as foreseen by the Ministry of Finance, but the average increase by 3% in RP2 is much lower. IATA representative reacted that it was still higher than the rate of inflation.

In case of terminal costs, the situation was the same except that the costs base did not contain costs of Eurocontrol. Costs of Oro Navigacija represented 96% of total costs. The proposed annual average decrease in real terms was by -0.03%. What regards the annual average change in nominal terms of costs by nature – it was +2.4%. The difference was presented in depreciation costs because of big investments put forward into the terminal services. However such increase was of the level of actual 2013 costs.

Main 7 investment projects forecasted for RP2 constituting 92% of total capex; they are very closely each other related: a new ACC and administration building, installation of new ATC system in new ACC, installation of AFTN/AMHS system in the new ACC, DME implementation in Vilnius, modernization of A-SMGCS in Vilnius, installation of new ATC equipment in Kaunas Aerodrome Control Center and the rest other kind of capex. IATA wondered how these costs were split between en route and terminal services. The explanation in costs allocation for en route and terminal services was given together with the duration of projects implementation. No further question on this item was raised.

Cost of capital proposed was flat as for RP1 – 3% for both en route and terminal what constitute 4 MLTL for both in annual average. The latest auction of the long-term Government Bonds showed interest of 3.9%. No comments were received on this item.

With regard to en route cost efficiency target in real terms (2009 prices), the starting point is slightly below than unit costs of 2014 – EUR 43.60 while the 2014 unit costs established was 44.23. Meanwhile the Union-wide proposed starting point target of 2014 was EUR 58.09 – significantly above of that of 2014 (EUR 53.92). The annual average decrease relying on available statistics was -3.7%. IATA representative expressed their gratitude for this stable evolution of unit costs and the starting point which was not a jump, but the extension of the forecasted in RP1.

Proposal for terminal unit costs in EUR real terms (2012 prices) was 201.84 in 2015 with annual average decrease by -4.2% reaching 169.76 in 2019. This target covered all 4 international airports of Lithuania and the single terminal charging zone – these airports would be subject for the performance scheme in RP2 and exempted from the traffic risk sharing as the EC was notified accordingly. IATA representative expressed dissatisfaction of the existence of the single terminal charging zone where the biggest airport cross subsidies other smaller airports, and asked Lithuania to reconsider this issue that users would not have paid for other airports and therefore site specific terminal charges would have been applied, especially for the Siauliai airport which is almost military airport and where the NATO Air Police mission was based. It was also dealt with a question how efficient were other airports. Director of Finance and Economic Department of Oro Navigacija explained that cost base of terminal charges has been always transparent and included all costs related with terminal services provision in 4 airports. The decision of split terminal charging zone has to be taken on the highest managerial and political level. IATA representatives reiterated that it had to be taken by the Ministry of Transport. They also noted that it could be

visible that a new trend started in Europe a year ago in separation of single terminal charging zones. The UK has established a few terminal zones many years ago. Now Italy has introduced 3 zones, some of them site specific, also Croatia was supposed to moving into 2 charging zones, the Switzerland with establishment of 2 charging zones and there were discussions in France, the Netherlands and Norway – what was in line with the ICAO Principles; and even Poland was looking for not specific, but at least 2 zones: for Warsaw and another one for other airports.

The latest forecast of inflation was presented using different sources: IMF of April, of the Ministry of Finance, the Bank of Lithuania and one of the biggest commercial bank of Lithuania (SEB). Forecast provided for 2014 was almost the same, however the trend was diverging from 2015 onwards. Annual average inflation forecasted was 2.2%. The rate of inflation for the PP scheme was established by determining of average rate of national forecasts and then this reference value was used in combination of IMF forecasted figures determining the average which was applied in the tables. The expert reminded that the latest available data were used for preparation of draft PP and this presentation.

Lithuania proposed following incentive scheme for the capacity targets. The bonuses for $x=0$ min of delay shall be 0,1% of revenue from en route air navigation services (approx. 23'000 EUR) with a dead band within the range $0,0 < x \leq 0,1$ min of delay with a meaning of presence no bonuses, no penalties. Penalties within the range $0,1 < x \leq 0,2$ min of delay shall be 0,1% of revenue from en route air navigation services (approx. 23'000 EUR). Penalties for $x > 0,2$ min of delay shall be 0,2% of revenue from en route air navigation services (approx. 46'000 EUR) and additionally corrective action plan set in order to improve such situation has to be submitted to NSA. NSA had email correspondence with PRB and EC regarding the common understanding whether the ANSP which had never ever generated delays was yet subject to the incentive scheme. The response was not received at that time from the EC. IATA representative welcome such initiative.

IATA raised a question what would be the costs and the benefit achieved if CPDLC investment project would have been implemented in 2015. The response was that this was the EC initiative laid down by the regulation. Oro Navigacija had inquired the most active airspace users in written consultation on necessity of such project implementation; moreover it foresees to install a new ATM system thus the capacity in Lithuanian airspace would be sufficient with increasing traffic over RP2. Having received all responses Oro Navigacija would apply to the Ministry of Transport in order to delay this project with endorsement of the EC as no added value would be generated by the end of RP2 - just increase of national cost base: depreciation costs were included in 2015-2016 cost base. If the EC would endorse delay, Oro Navigacija would decrease the cost base by these related amounts. IATA representative reiterated that was a wise decision because many aircraft crossing Lithuanian airspace belong to the third countries without such equipment on board and the capacity in Lithuanian airspace is sufficient. On behalf of LH the explanation was that CPDLC system is necessary only when all aircraft equipped with certain devices. Positive attitude of the users would enable Oro Navigacija to start the procedures in delaying the start of CPDLC project implementation, and especially when such projects would give only minor benefits. Despite diverging internal views within IATA, that is clear that big states would have to start such projects immediately.

IATA representative expressed gratitude for the draft PP which was one of the best what had been seen by now, but was a bit worried about the staff costs development. As it could be seen from the past that was the highest raising type of costs. Also that inflation taking historic data has raised and forecasted to be increasing by more than 20% during last years, but the staff costs in the meantime even more. It had to be understood that efficiency in service provision had to be

increased too and especially in TNS provision where there is more of uncertainty. In IATA view, the main actions for the next years should be taken in view of the staff costs. Looking at actual 2013 costs they have already increased significantly. Justification was given that starting from 2015 increase in 3% was considered taking into account the forecasted average increase in price of labour power and forecasted average rate of inflation what had been agreed with the trade unions – increase would be in line with inflation. Besides, salaries comparing with other states were still very low. There is also uncertainty in Siauliai Int. military airport due to more active NATO performance of Air Police Mission in the Baltic States it could be that additional ATCO would be employed to provide services there. Another issue was Lithuania's possible join the Eurozone from 2015. Moreover, the level of paid off salaries was linked to the main constant part and another one depending on actual traffic. IATA representative reiterated that the wages system was a good one and Lithuania was requested to keep eye close on staff costs development.

Another issue was raised by IATA towards MET depreciation costs. They jumped up in 2015 then went down and then up and down. The explanation was given that new upgrades are projected in order to improve services for aviation. IATA wondered what terms of depreciation were applied in forecasts for such investments and offered to review and update depreciation costs for RP2. Representatives of MET service provider promised to review the terms of depreciation currently approved by the Ministry of Environment in order to be in line with the International Standards and the Eurocontrol Principles applicable in Lithuania and to submit revised depreciation costs as soon as possible to be within the deadline given by NSA – 22April.

IATA inquired what kind of incentives would be applicable for Environment area. It was explained that they would be of non financial nature. In case of poor performance ANSP would be asked to provide corrective measures.

The conductor inquired whether representatives from staff associations had issues to be raised. None of participants from the staff associations provided any comment or raised question.

IATA representative inquired on TNC what would have happened if there would be more traffic than expected. The reply was provided that in this case the users would benefit of it – extra revenue would be returned to users. That also was an issue that the state applied the low traffic scenario for terminal services. In case the ANSP would have gained losses, airspace users would have to reimburse them.

Representative from the Management Office presented current situation in the Baltic FAB developments. IATA representatives expressed their view that a lot of money had been spent across the FABs but benefits were expected just at the end of RP2 or in RP3 at the earliest. Response was given that so far Lithuania did not bear additional costs related with FABs. Both Baltic FAB states work on synchronization projects and gaining additional benefits from synchronized activities. The benefit in the Baltic FAB is that the only 2 states involved in this project.

The conductor made following conclusions of this consultation and summarized following actions:

1. Question on necessity of incentives scheme applicable to Oro Navigacija in area of capacity which has never ever generated any ATFM delay, whether it would be applicable in order to promote sufficient capacity in the circumstances of highly increasing en route traffic.
2. Rationality of investments related with CPDLC implementation through 2015-2016 – has to be further elaborated and if the delay in implementation would be endorsed by the Ministry of Transport – to officially request the EC of this project delay till the end of RP2.

3. Staff costs of Oro Navigacija to be kept flat for the whole RP2.
4. Issue in separating the single terminal charging zone to be reviewed once more.
5. MET service provider to review their investment depreciation costs by 22 April.
6. Elaboration of the Baltic FAB Performance Plan with the Polish NSA colleagues. FAB level consultation foreseen on 15 May in Warsaw, on line registration was created and opened for the stakeholders.

IATA representative sincerely thanked the participants not only on the elaborated draft performance plan with targets in line with the union-wide targets or contributing to achieve them but also for the way Lithuania is coordinating and cooperating with in order to be in a close dialogue with the users. The representative of the Ministry of Transport was requested to deal with the very important issue of separation of terminal navigation charges zone and to make a top urgent decision already for the RP2 what means by 1 July when the final Baltic FAB PP is submitted.

All participants were thanked for their effort and contribution to this successful consultation.

Minutes were recorded by Rūta Vaigauskaitė, CAA/NSA.



Enclosed:

Draft agenda for the stakeholder consultation (1 page);
List of participants presented at the consultation (1 page).

Thursday 17 April 2014
Commencing at 10.00 am

**Stakeholder Consultation on Proposal of the National Performance Targets
Reference Period 2 (2015-2019)**

PROPOSED DRAFT AGENDA

- 10.00 Welcome
- 10.10 Adoption of the Agenda
- 10.20 Introduction of the participants
- 10.30 Key performance areas and national targets for RP2:
 - Safety;
 - Environment;
 - Capacity;
 - Cost efficiency.
- 11.20 Tour de table: view / expectations of stakeholders
- 11.50 Wrap up and next steps

Consultation on National Performance Targets for the Second Reference Period (2015-2019), 17 April 2014, Vilnius