Switzerland

Air Transport Regulatory Competitiveness Indicators

SUMMARY

- Air transport is a key enabler of economic activity in Switzerland, supporting 207,000 jobs and contributing CHF 26.8 billion to the Swiss economy, which is equivalent to 4.1% of Swiss GDP.
- Switzerland has the 10th highest level of air connectivity in Europe (measured by IATA Air Connectivity Index[1]) Air connectivity grew by 30% between 2013 and 2018. In 2017, 27.9 million passengers departed from Switzerland's airports. There were 54.9 million terminal passengers.
- In order to facilitate continued growth of aviation and maximize the value of air transport, Switzerland should:
    1. Ensure that further infrastructure investments, both on the ground and in the air, are cost-efficient and developed in consultation with users;
    2. Limit any night time restrictions that affect airports' and airlines' operating hours to increase consumer choice; and
    3. Avoid introducing any additional environmental taxes and implement the Carbon Offsetting Reduction Scheme for International Aviation (CORSIA) as an effective tool to reduce aviation's carbon footprint on the environment.

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

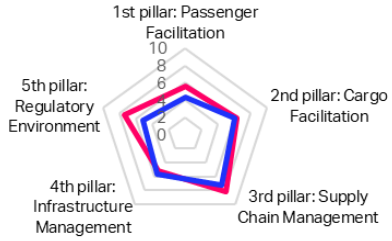
Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated through more affordable air fares. Effective and clear rules create a stable environment which boosts 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	Switzerland	Regional Average[2]
Air Transport Regulatory Competitiveness Index[3]	**6.7**	**5.8**
1st pillar: Passenger Facilitation	5.5	4.4
2nd pillar: Cargo Facilitation	6.3	6.1
3rd pillar: Supply Chain Management	8.2	7.2
4th pillar: Infrastructure Management	5.3	5.6
5th pillar: Regulatory Environment	7.5	5.1



Switzerland's score for Supply Chain management (3rd Pillar) is slightly above the European average despite having one of the highest airport charges in Europe. Any further introduction of environmental taxes will reduce the future score and will impact negatively air connectivity and ultimately the competitiveness of Switzerland. With regard to the process of the airport and air navigation charges, Switzerland has not managed to align the charges setting process with ICAO guidelines[4]. The proposed increases to airport and navigation charges in coming years will affect Switzerland's competitiveness, particularly relative to the regionals peers who have been able to make cost reductions.

As for infrastructure (4th Pillar), congested airports are becoming a problem and will be a brake on further growth of air connectivity. It is therefore important to utilize the current infrastructure efficiently and focus on its cost-effective development in order to accommodate future growth in the number of passengers. Furthermore, Switzerland should limit any other night flight restrictions and use their assets efficiently to enhance Switzerland's competitiveness.

Switzerland has improved its systems to facilitate passenger movements across borders (1st Pillar). Both major gateways (Zurich and Geneva Airport) are already preparing their infrastructure for the upcoming Entry-Exit System which will be implemented as of 2021. However, visa rules still remain an issue applying restrictive policies on passengers arriving and departing Switzerland.

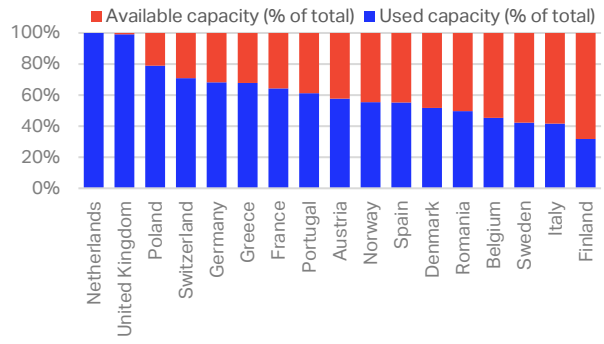
While Switzerland scores well for overall Trade Facilitation (2nd Pillar) reflecting customs and border processes for airfreight, the score for e-freight facilitation is still low indicating that significant work remains to be done by the customs authority to fully facilitate movement of goods across the borders. The customs authority in Switzerland should therefore focus on implementation of electronic customs tools.

[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] ICAO's Policies on Charges for Airports and Air Navigation Services

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN SWITZERLAND

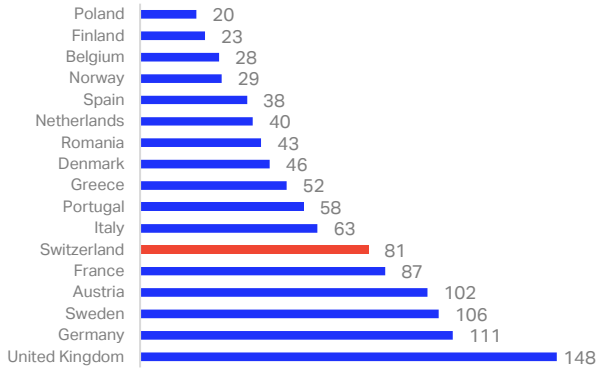
Aviation brings significant benefits to the Swiss economy. However, there are still substantial barriers to the further growth of air connectivity would help to unlock the full economic potential of the country. The following page provides an overview of the key challenges of Switzerland air transport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

Chart 1. Low runway infrastructure capacity[5]



Source: IATA 2018

Chart 2. 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

The runway and terminal capacity at Switzerland's main hub, Zurich airport, is reaching its limits, especially during peak times (Chart 1). Zurich airport is currently using 70% of the capacity. Respectively, Geneva airport is also approaching full capacity with 79% of used capacity. This not only acts as a brake on the development of new connectivity but also means that there is little operational resilience to recover from delays or disruption. Cost-effective airport expansion is, therefore, a priority, ensuring all the safety requirements are met. Moreover, a development strategy for new infrastructure that will meet forecast passenger growth and aircraft movement is key. This is critical to maintain and enhance Switzerland's competitiveness in air transport. Moreover, a long-term strategy for new infrastructure developed in consultation with users that will meet forecast passenger growth and aircraft movement is key.

Zurich airport has the most restricted operating hours of airport of its kind causing inefficient use of its assets. Extension of night flight restrictions or further limitation of airport operating hours will significantly impact Switzerland's competitiveness and reduce its air connectivity.

Switzerland has currently the 6th highest level of airport and passenger charges and taxes (Chart 2). Higher ranking is indicative of higher charges. And therefore, Switzerland's effort to introduce new environmental taxes to address the negative effect of carbon emissions on the climate might hinder their air transport competitiveness making flying to and from Switzerland more expensive. The Swiss government should, therefore, focus on the international instruments that represent an effective measure to reach the goals of lowering the aviation carbon footprint such as CORSIA or the ICAO CO2 standards and avoid introducing any environmental taxes.

[5] The main hub for each country: AMS, ARN, ATH, BRU, CDG, CPH, FCO, FRA, HEL, LHR, LIS, MAD, OSL, OTP, VIE, WAW, ZRH

FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

Switzerland's current aviation strategy has an objective to increase air transport connectivity and make Switzerland a regional hub. It is important to create an environment where business flourish and attract new businesses. Switzerland should therefore focus on:

1. Infrastructure capacity

Switzerland should move forward with cost-efficient expansion of Zurich and Geneva airports strictly subject to the condition that charges remain cost-related.

2. Night flight restrictions

In order to utilize Switzerland's current infrastructure capacity efficiently any further night time limitation will damage air transport competitiveness of Switzerland.

3. Airport and Passenger charges and taxes

In order to minimize the negative effects of aviation on environment, Switzerland should fully implement CORSIA and follow its guidelines as an effective way of reducing negative environmental effects. Switzerland should avoid introducing any environmental taxes that increase the price of flying to and from Switzerland.

Chart 3. Forecast for passenger traffic, GDP and jobs growth

		Passengers	EUR GDP	Jobs
2017		27.9 m	€ 24,6 bn CHF 26.8 bn	206,723
2037	Current trends	38.0 m	€ 33.5bn CHF 36.5bn	223,073
	Upside	41.2 m	€ 36.3 bn CHF 39.6 bn	242,317
	Downside	33.0 m	€ 29.1 bn CHF 31.7 bn	193,778

* 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, 27.9 million passengers departed from Switzerland's airports[6]. There were 54.9 million terminal passengers[7]. The robust air connectivity is an enabler of economic activity in Switzerland creating almost 207,000 jobs and supporting CHF 26.8 billion to the economy in 2016.[8] In the next 20 years the number of departing passengers from Switzerland will increase by 36%.[9] However, if Switzerland is able to implement the policies noted in this report, there is an upside potential for Switzerland to substantially increase this value and ultimately deliver wide economic benefits through the 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.

[6] SRS Analyzer 2017
[7] ACI 2017. Departing passengers includes passengers connecting through Switzerland and terminal passengers includes both arrivals and departures.
[8] ATAG 2018
[9] Oxford Economics 2017