



Norway

Air Transport Regulatory Competitiveness Indicators



SUMMARY

- Air transport is a key enabler of economic activity in Norway, supporting 159,490 total jobs and NOK 153 billion (EUR 16.1 billion) which is equivalent to 4.8% of Norway's GDP.¹
- Norway is the 13th largest aviation market in Europe (measured by IATA Connectivity Index²). Air connectivity grew by 19% between 2013 and 2018. 28 million passengers departed from Norway's airports in 2017. This is equivalent to 34 million terminal passengers.³
- In order to facilitate the continued growth of aviation and maximize the value of air transport, Norway should:
 1. Ensure Fair and cost related charges abolishing, or at minimum, avoiding increasing the Air Passenger Tax. To decrease carbon emissions in Norway, it is important to foster the implementation of the Carbon Offsetting Reduction Scheme for International Aviation (CORSIA);
 2. Establish an independent regulatory body for setting airport charges;
 3. Ensure that further infrastructure investments, both on the ground and in the air, are cost-efficient and developed in consultation with users;
 4. Develop the Norwegian Aviation Strategy in consultation with Industry to ensure predictable market conditions, increase competitiveness and improve efficiency. Act according to the National Airspace Strategy document plan to ensure successful adoption; and
 5. Raise the awareness of the benefits that aviation can bring to the economy and the society. The government should take steps to enable the sustainable development of air transport and inter-modality. This includes modernization and implementation of standardized systems for better passenger facilitation as well as promotion of innovative technology and processes, harmonization with EU frameworks and digitization.

¹ World Bank 2016

² The IATA Connectivity Index 2018 is a composite measure of number of transferred passengers weighted by a destination measure in all the airports

³ Departing passengers includes only passengers departing and connecting through Norway. Terminal passengers includes both arrivals and departures.

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.

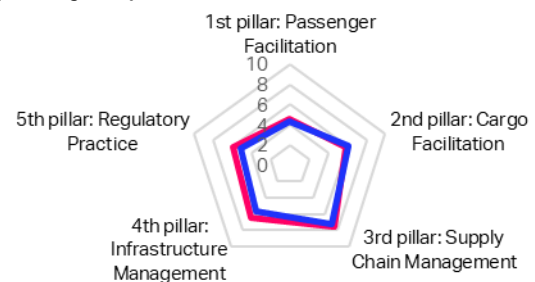
Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated 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	Norway	Regional average ⁴
Air Transport Regulatory Competitiveness Index ⁵	6.3	5.8
1 st pillar: Passenger Facilitation	4.6	4.4
2 nd pillar: Cargo Facilitation	5.9	6.1
3 rd pillar: Supply Chain Management	7.5	7.2
4 th pillar: Infrastructure Management	6.5	5.6
5 th pillar: Regulatory Practice	5.9	5.1



Norway's score for Supply Chain Management (3rd Pillar) is above the European average with the charging process that is almost fully aligned with the recommended practice. However, Norway still has some room for improvement in the consultation process to be fully aligned with the international guidelines. Furthermore, Norway should also avoid introducing any additional taxes and charges, and abolish, or at a minimum decrease, the current Air Passenger Tax. In spite of the good overall performance, Norway's Air Passenger Tax and the drop-in requirement for biofuel represent additional costs for businesses and make flying more expensive for passengers. Also, as domestic traffic is vital for Norway's economy, domestic the CO2 tax is a brake on further economic growth. (see more on page 3).

Norway's passenger facilitation (1st Pillar) represents a weak point of the air transport competitiveness of Norway. Norway lags behind in the facilitation of passenger movement across the border due to its restrictive visa policies, with the visa application process for visitors from many countries being complex, time-consuming and expensive. That said, Norway has been successful in implementing passenger facilitation systems aligned with international best practise.

Similarly, Norway's score is below the European average in Cargo Facilitation (2nd Pillar) as there is still much to do in order to enable full implementation of e-freight (paperless cargo) in Norway. Nonetheless, Norway has made considerable improvements in a number of key air trade facilitation metrics, facilitating the smooth transport of cargo across borders.

As for Infrastructure (4th Pillar), congested airports might become a problem in the future and slow down further growth of air connectivity. It is therefore important to both utilize efficiently the current infrastructure and invest in future development in order to accommodate the future growth in the number of passengers. Any further infrastructure development should be aligned with the

⁴ 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.

⁵ The values for the ATRCI 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.

industry needs following extensive consultation with all the relevant stakeholders. Furthermore, Norway should ensure a more efficient and non-discriminatory usage of airspace and make sure that introduction of new technology is aligned with the operational needs of the industry.

Finally, Norway scores above the European average for Regulatory Practice (5th Pillar), however certain national

regulations do not comply with aviation-related international treaties that Norway has signed. For example, Norway has consumer protection rules which are at odds with the Montreal Convention 1999 and also apply to both non-Norwegian business and travellers outside of the territory of Norway.

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN NORWAY

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

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

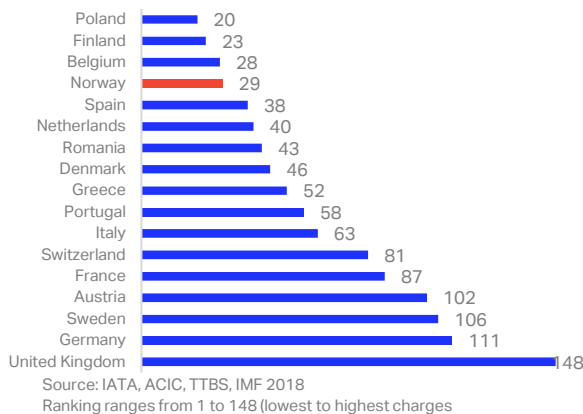


Chart 2 Airport charges process (maximum = 2)⁶

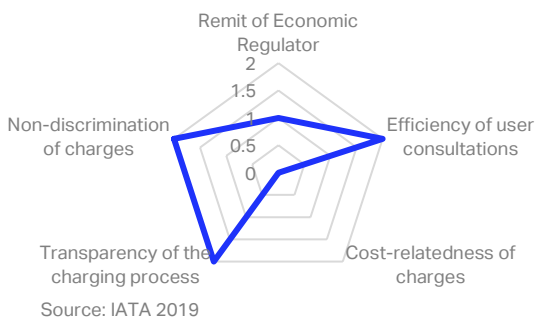
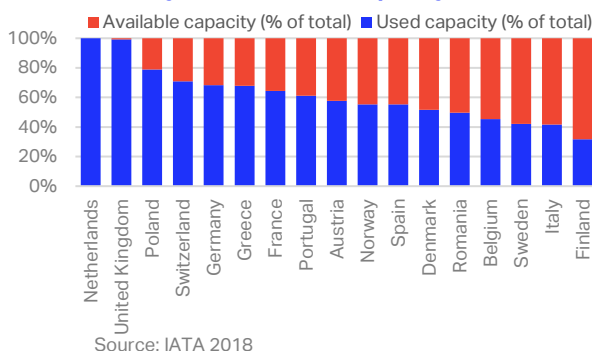


Chart 3. Runway infrastructure capacity⁷



The level of taxes and airport charges in Norway is the fourth lowest in comparison with its regional peers (Chart 1). In order to keep the competitive advantage, it would be important to abolish, or at a minimum reduce, the Air Passenger Tax that creates additional costs for airlines and hinders future connectivity growth. Environmental protection has been a subject of discussion in Europe resulting in the levy of so-called environmental taxes to reduce aviation's environmental footprint. In order to tackle the environmental problem, there are a number of solutions possible without compromising the economic and social benefits that air transport creates. To reduce the negative impact of air transport, it is crucial to focus efforts on the successful implementation of the Carbon Offsetting Reduction Scheme for International Aviation (CORSIA) and supporting the use of biofuels. Offsetting has proved to be more effective than a tax, as a carbon tax merely requires companies to pay for their emissions, into state budgets without any guarantees that the payment will lead to any emission reductions.

Norway partially aligned the charging process for airport charges with the international best practice creating a competitive environment with efficient user consultation, fair and transparent airport charges (Chart 2). However, in order to achieve full alignment, it is important to create an independent regulatory authority for setting airport charges.

Norway has currently no runway capacity constraints at any of its airports (Chart 3 demonstrates Oslo airport). Should Norway plan further infrastructure developments, it is more than crucial to do so in consultation with airlines and all relevant stakeholders to ensure cost-effective and optimal utilization of the infrastructure.

⁶ Values for the sub-indicators (0-to-1 scale) are summed together and transformed to 0-to-10 scale to create a single value for the Airport Charges Process Indicator.

⁷ 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

In order to increase economic benefits from aviation, it is important to create an environment where business can flourish, and new business opportunities are created. Norway should therefore focus on:

1. Fair and cost related charges

In order to keep the competitive advantage that Norway has achieved, it would be crucial to abolish or avoid increasing the Air Passenger Tax. This tax seems to be only aimed to increase government budget without contributing to tackling the CO₂ emissions. To decrease carbon emissions in Norway, it is important to foster the implementation of the CORSIA and to promote the availability and uptake of renewable aviation fuels.

2. Establishing an independent regulatory body for setting airport charges

To increase the competitiveness of Norway's air transport sector, it is crucial to create an independent regulatory authority. The government should also continue tendering ATM services to deliver faster results. Competition brings down prices, improves service quality and creates space to focus more on customers as providers compete with one another for the market.

3. Consultation process for further airport development

Norway should continue to keep the airport charging process aligned with international best practice to ensure fair, cost related and also transparent charges. Norway should further improve the consultation process to ensure that airport development is cost-effective and provides optimal infrastructure capacity. This should also apply to any new airports, such as the ones planned in

Mo i Rana and Bodø. Meaningful consultation with the airport users is required before any construction decision is taken.

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

			
	PASSENGERS	GDP	JOBS
2017	28.4 bn	€16.14 bn NOK152.9bn	159,490
2037	Current Trends	€21.2 bn NOK200.5bn	172,665
	Upside	€22.2 bn NOK210.5bn	181,344
	Downside	€18.8 bn NOK178bn	153,117

* 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, 28 million passengers departed from Norwegian airports. This is equivalent to 34 million terminal passengers⁸. Robust air connectivity is an enabler of economic activity in Norway supporting almost 160,000 jobs and NOK 152.9 billion (EUR 16.1 billion) in 2016.⁹ In the next 20 years the number of departing passengers from Norway is expected to increase by 31%.¹⁰ However, if Norway is able to implement the policies outlined in this report, there is an upside potential to increase this value and ultimately deliver wide economic benefits through the higher number of jobs and support of 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 tool 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 Departing passengers includes passengers connecting through Poland and terminal passengers includes both arrivals and departures.

⁹ ATAG 2018

¹⁰ Oxford Economics 2017