France
Air Transport Regulatory Competitiveness Indicators

SUMMARY

• Air transport is a key enabler of economic activity in France, supporting 1.1 million jobs and EUR 95.2 billion to the French economy, which is equivalent to 4.3% of French GDP (World Bank 2016).

• France has the 4th largest aviation market in Europe (measured by the IATA Connectivity Index1). Air connectivity grew by 33% between 2013 and 2018. In 2017, 89m passengers departed from French airports.

• In order to facilitate the continued growth of aviation and maximize the benefits of air transport, France should:
  1. Take the opportunity to make the airport privatization process and development of Terminal 4 in Charles de Gaulle airport a success by ensuring a fair and transparent process that engages the users from the initial stages and reinforces the role of the independent regulator;
  2. Implement the National Airspace Strategy (NAS) that includes having air traffic controllers apply pre-notification when they go on strike; and
  3. Implement Smarter Regulation Principles in the rule-making and consultation process to enhance knowledge and the implementation of Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

1 The IATA Connectivity Index 2018 is a composite measure of the number of passengers transferred weighted by a destination measure.
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 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.

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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 IATA Policy Design Principles
As a positive element, in spite of the congested capacity, both policies and practice in France are fully aligned with the World Slots Guidelines (WSG) creating both transparency and certainty in the slot allocation process. Finally, Supply Chain Management (3rd Pillar) remains an issue in France. High passenger charges and taxes increase the cost of traveling by air to, from and within France (see more below).

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN FRANCE

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

France has one of the highest airport and passenger charges and taxes in Europe. The Air Passenger Solidarity Tax is considered to be discriminatory being applied only on the air traffic. The Solidarity tax represents a brake on air connectivity growth making flying to and from France more expensive. It is therefore crucial to abolish the tax or enlarge its base to other means of transport. According to a recent study by PwC, abolishing aviation taxes in Europe would boost European GDP by EUR 215 billion by 2030 and create 110,000 new jobs.\(^5\) France needs to strengthen airport economic regulation and the consultation processes for airport and air navigation charges. By way of example, France has a very limited framework regarding consultation on investments. France is currently considering privatization of the airports in Paris which will undoubtedly affect regulation. There is a high risk of further charge increases due to the absence of economic regulation of investments.

Burdensome regulations remain an issue in France affecting all businesses and airlines equally (Chart 2). These regulations cause confusion and uncertainties. Namely, consumer protection related regulation – EU 261, is not consistent with the Montreal Convention 1999. Moreover, in spite of the number of consultations that France has conducted, there is still a need for a systematic approach that would show how the current consultation process impacts regulatory implementation and delivery. According to the OECD, this also concerns developing more structured guidelines on consultation considering the views of stakeholders and their feedback on consultation.\(^6\)

France has the 5th lowest performance in labour efficiency in the region (Chart 3). Regular strikes have been affecting all aspects of the air transport operations increasing the final costs for companies. Air traffic controllers (ATCs) do not provide pre-notification in case of strikes which results in expensive and inefficient coordination of airspace in France affecting many flights overflying the territory and knock-on effect through the network. A further gripe is the high level of social charges levied on operators in the country.

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\(^5\) PwC. The economic impact of air taxes in Europe European Economic Area. 2017

\(^6\) OECD. Better Regulation in Europe: France
FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

The current France’s aviation strategy has an objective to increase air transport connectivity. It is important to create an environment where existing business can flourish, and new business opportunities are created. France should therefore focus on:

1. Airport and passenger taxes and charges
   France needs to reform airport economic regulation to ensure charges are cost-related and efficient. This is particularly important for privatized airports. These reforms must strengthen the independent economic regulator and ensure that investments are duly consulted and scrutinized for their economic and operational efficiency. It is also recommended to abolish the solidarity tax or extend it to other sectors.

2. National Airspace Strategy (NAS)
   France should focus on full implementation of NAS. Moreover, in order to keep efficiency of ATCs, pre-notification of 72 hours before a strike is important.

3. Smarter Regulations Principles in rulemaking
   Implementation of Smarter Regulations Principles7 in policy design is key. France should promote enhanced knowledge and implementation of CORSIA as a more effective measure to compensate for CO2 emissions, as opposed to taxation.

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

<table>
<thead>
<tr>
<th></th>
<th>Passengers</th>
<th>EUR GDP</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>89.4 m</td>
<td>€95.2 bn</td>
<td>1.1 m</td>
</tr>
<tr>
<td>Current trends</td>
<td>131 m</td>
<td>€139.8 bn</td>
<td>1.4 m</td>
</tr>
<tr>
<td>Upside</td>
<td>142 m</td>
<td>€151.1 bn</td>
<td>1.6 m</td>
</tr>
<tr>
<td>Downside</td>
<td>113 m</td>
<td>€120.1 bn</td>
<td>1.2 m</td>
</tr>
</tbody>
</table>

* 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, 89 million of passengers departed from French airports. The robust air connectivity is an enabler of economic activity in France creating 1.1 million jobs and supporting EUR 95.2 billion in 2016.8 In the next 20 years the number of departing passengers from France will increase by 49%.9 However, if France is able to implement the policies noted in this report, there is an upside potential to substantially increase this value and ultimately deliver wide economic benefits through the higher number of jobs and support to GDP.