Time for a Paradigm Shift to Privatization and User Fees in the U.S.

A Call for Change

By Edward H. Stevens

The Federal Aviation Administration (FAA) has been the world's premier air traffic service provider (ATSP) in terms of safety, innovation, and efficiency based on the number of flights handled; however, this standing is in jeopardy due to numerous funding and governance issues facing the agency that will impact its ability to continue offering its services in an orderly and cost efficient fashion. These issues include:

• Uncertain and diminishing funding stream on a year to year basis complicates infrastructure investment – now compounded by sequestration cuts
• Congressional oversight's impact on streamlining services
• Instability and continual turnover in leadership – five administrators and at least six acting administrators have served since 1993

The FAA is currently operated and funded under the premise that ATC is a fundamental government responsibility which requires Congressional oversight; however, ATC is a service provided to the air transportation users and only safety oversight is a fundamental government responsibility. As in any service industry, the user decides whether to pay for added value and usually wants the lowest price possible. However, in air transportation it seems like users are not particularly pleased with the service they get and the price they currently pay for it.

Since 1970, the United States Congress and the White House have funded the FAA through a collection of direct and indirect user fees. These fees added up to $11.6 billion in 2012 – approximately 71 percent of the FAA's total budget. Sequestration cuts effectively divert user fees paid by airlines and other users meant for maintaining the air transportation system to pay for other government services.

It is generally recognized that the FAA needs to become more efficient in the future through NextGen, but it appears to be hamstrung by the dysfunctional environment in which it operates. A number of countries have successfully addressed this by privatizing the air traffic service provider (ATSP) including Canada, Germany, and the United Kingdom. Privatization does naturally lead to another contentious issue in our industry – rather than taxes, user fees. Privatizing the FAA and user fees are not new ideas and have been rejected previously; however with the impact of sequestration and the desire for reducing our national budget, maybe now is the...
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PARADIGM SHIFT

time to shift the paradigm and pursue the political will to make it happen. This paper will address many of the concerns previously raised in objection to privatization and user fees.

NAV CANADA Experience

Although more than 35 countries have privatized their ATSPs, the Canadian experience is worth reviewing in particular due to similarities they faced when making the transition. In 1996, the Canadian government was faced with large and continuing deficits similar to our current situation in the U.S. and used a ticket-tax system to fund air traffic control. However, the revenue stream did not keep up with the costs and they had to cover the shortage with general funds. The U.S. is now faced with exactly the same situation.

A private company – NAV CANADA – was created in 1996 as a not-for-profit, non-share capital corporation governed by a board of directors, to own and operate Canada’s civil air navigation service (ANS). Although entirely independent of the Canadian government, NAV CANADA cannot be sold without government approval. Five of the fifteen NAV CANADA directors on the board are elected by customers (four from airlines and one from Canadian Business Aircraft Association), which helps ensure investments are directed at enhancing customer value. Additionally, two directors are elected by the employee bargaining agents, and three by the federal government. The company is regulated by Transport Canada in respect of safety.

NAV CANADA’s current revenue stream is funded by user fees and augmented by selling technology around the world. It’s likely that if the U.S. had a privatized ATSP, it would also be able to compete worldwide by selling its services, training, and technology. The fees for private aircraft are very modest with over flight fees for commercial flights providing the majority of the fees. There has not been a general rate increase since 2004 (see Figure 1).

NAV CANADA has seen a decline in IFR-to-IFR losses of separation, the industry safety benchmark, from 1.36 per 100,000 air traffic movements in 1996 to 0.76 per 100,000 in 2012. By far, the majority of these were technical infringements with no risk of collision. Safety and productivity have been further enhanced through modernization. NAV CANADA has invested $1.9 billion in total, and has a lot to show for it, with modernized domestic and oceanic flight data processing systems (see...
Figure 2), an integrated tower automation system sold around the world, vastly expanded surveillance in remote airspace through the use of ADS-B, and many other successful programs.

NAV CANADA now proudly reports that it handles substantially more traffic (approximately 15 percent of FAA traffic level as expressed in IFR hours) with 25 percent fewer people since 1996. Sid Koslow, Vice President and Chief Technology Officer at NAV CANADA, pointed out at an ATCA Annual Conference several years ago that they had successfully addressed a historical shortage of air traffic controllers inherited from government. Without political interference they were able to reduce costs in the early years of the commercialization of the Canadian system by consolidating unnecessary facilities and avoid reducing the number of controllers.

Another factor often ignored is that NAV CANADA has had the same chief executive, John Crichton, leading them since 1996. During that time the FAA has had approximately 10 Administrators or acting Administrators. This longevity isn’t an exception; Dieter Kaden led Germany’s DFS from 1993 to 2012. In contrast to the FAA, which has a constant turnover of people leaving key positions, NAV CANADA has maintained a key cadre of leadership. This allows for a longer term perspective on the future direction for the ATSP.

NAV CANADA has been selected as the winner of the International Air Transport Association (IATA) Eagle Award as “Best Air Navigation Service Provider” three times in just over a decade.

With so many benefits, why hasn’t the U.S. seriously considered privatization? There have been a number of objections raised:

“Controllers will never accept it.”
Some aspects of NAV CANADA’s organizational transition proved difficult but the private company is now fully accepted by the Canadian ATC union. Average controller salaries have proven to be comparable to their counterparts in the US. However, if privatization is going to move forward, it is critical NATCA be part of the transition and not viewed as a roadblock.

“User and over flight user fees are too expensive and too complicated.”
If highway departments in the U.S. have figured out how to efficiently bill users for using toll roads, it seems over flight fees are a manageable challenge. On 18 June 2013, J Mac McClellan posted online for EAA Sport Aviation an article (macsblog.com/2013/06/time-to-privatize-atc) on how reasonable he found their fees to be and how simple the billing mechanism has proven.

“U.S. air traffic is so much larger (in terms of movements) when compared to Canada.”
This simply seems to be the same argument used anytime someone doesn’t
want the challenge of changing from something they may not like but have grown accustomed to. Additionally, the one thing the FAA has done well is to break the traffic down to manageable units and I believe that many of the advantages from privatization would scale up well. However, the U.S. airspace does have its own unique challenges and simply trying to implement the Canadian approach without consideration would be wrong, but privatization deserves a much more careful analysis than previously provided.

**Right Time?**
For the reasons discussed above, privatization and user fees have not been popular with airlines, private aircraft owners, and air traffic controllers in general. Travelers are constantly upset about delays in air travel, which will only worsen as NextGen continues to delay. However, with the continuing battle over sequestration and its impacts on all these key air navigation stakeholders, is it time for this diverse set of stakeholders to start to pressure Congress to seriously look at privatizing the FAA?

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