Portugal

Air Transport Regulatory Competitiveness Indicators

SUMMARY

- Air transport is a key enabler of economic activity in Portugal, supporting 322,000 jobs and contributing to EUR 12.3 billion to the Portuguese economy, which is equivalent to 6.6% of Portuguese GDP.
- Portugal has the 11th highest level of air connectivity in Europe. Air connectivity grew by 81% between 2013 and 2018 (measured by the IATA Connectivity Index[1]). 26m passengers departed from Portugal's airports in 2017.
- In order to facilitate continued growth of aviation and maximize the value of air transport, Portugal should:
  1. Address urgent Lisbon constraints by increasing operational efficiency and capacity at Lisbon Humberto Delgado Airport while also converting nearby Montijo Air Base to civilian use under a transparent and inclusive consultation process with all stakeholders;
  2. Continuously protect the interests of end users, mainly in economic activities that are natural monopolies, such as airport management and air traffic services provision, ensuring cost-based and cost-effective charges and transparent and meaningful consultation process; and
  3. Implement National Airspace Strategy involving multiple stakeholders, from the Air Navigation Service Providers (ANSPs), airports and airlines, to politicians, military authorities, regulators and local communities, in order to deliver economic improvements, more choice, greater flight frequency, and lower costs for everyone.

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

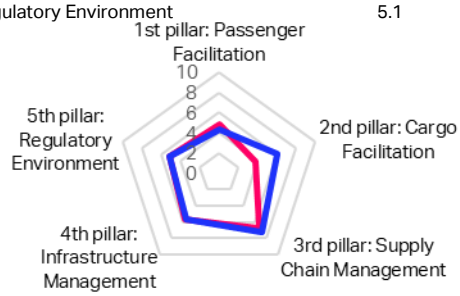
Supply Chain Competitiveness (airport and passenger charges and taxes, airport and air traffic management charging process, fuel supply management, labour efficiency). The competitive, transparent, and reliable supply of services to airlines creates an environment in which passenger demand can be stimulated through more affordable air fares. Effective and clear rules create a stable environment which 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.

PERFORMANCE OVERVIEW

Index Component	Portugal	Regional average[2]
Air Transport Regulatory Competitiveness Index[3]	**5.5**	**5.8**
1st pillar: Passenger Facilitation	4.8	4.4
2nd pillar: Cargo Facilitation	3.8	6.1
3rd pillar: Supply Chain Management	6.7	7.2
4th pillar: Infrastructure Management	5.7	5.6
5th pillar: Regulatory Environment	5.1	5.1



Portugal scores well for infrastructure (4th Pillar) reflecting the investment in airports during the 2000s and also the alignment of airport slots coordination with the World Slots guidelines (WSG). However, operating restrictions mean that Portugal is not able to make the best use of its airport capacity, contributing to recent performance issues and potentially creating a much bigger problem for the future (see more on page 3).

While Portugal has its highest scores for Supply Chain Competitiveness (3rd Pillar), regional peers also score well for this indicator. Airport and passenger taxes represent a brake on competitiveness and significantly increase the cost of traveling by air to, from and within Portugal (see more on page 3).

Similarly, Portugal also scores poorly for the application of Smarter Regulation Principles in rulemaking (5th Pillar). Stakeholder consultation and impact assessments support the creation of a regulatory framework that achieves policy objectives within a competitive regulatory and legal environment that enables business to grow.

Similarly, Portugal scores poorly in Passenger Facilitation (1st Pillar). While Visa rules are relatively open, Portugal has not adopted innovative solutions consistently or effectively with low performance in the implementation of Automated Border Control and Advanced Passenger Information systems. As the border is the first point of contact for an arriving visitor to Portugal, these factors are important in creating first impressions.

Finally, Cargo Facilitation represents the weakest point of Portuguese competitiveness. Portugal should increase the efficiency of customs and border processes for air freight. The score for E-freight Facilitation is very low indicating that significant work remains to be done in order for

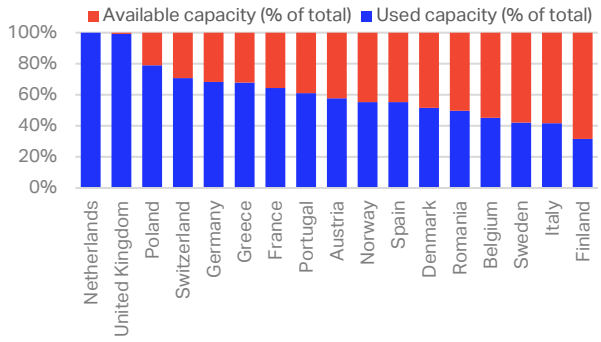
[2] Regional average consists of scores for 17 European countries: AT, BE, DN, DE, ES, FI, FR, GR, IT, NL, NO, PL, PT, RO, SE, CH, UK.
[3] The values for the ATCI range from 0 (worst) to 10 (best). The index consists of 5 pillars and 17 indicators and 26 sub-indicators which are combined together using 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.

shippers of cargo to and from Portugal to be able to benefit from full implementation of e-cargo processes.

KEY CHALLENGES OF AIR TRANSPORT REGULATORY COMPETITIVENESS IN PORTUGAL

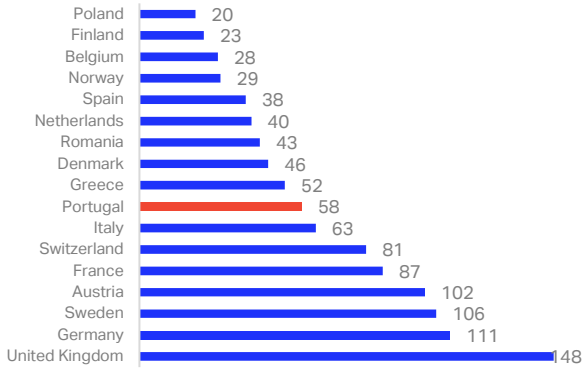
Aviation brings substantial benefits to Portuguese economy. However, there are still substantial barriers to the further growth of air connectivity which would unlock economic potential of the country. The following page provides an overview of the key challenges of Portugal air transport regulatory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

Chart 1. Low runway infrastructure capacity[4]



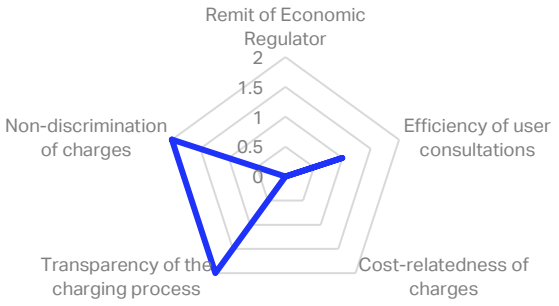
Source: IATA 2018

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

Chart 3. Airport charges process (maximum = 2)[5]



Source: IATA 2018

The main hub Lisbon Humberto Delgado airport is facing congestion issues causing delays on more than 60% of the departures in 2017 accounting for an average delay of 17 minutes per departure. Moreover, Portugal has been facing severe issues with congested runway capacity (Chart 1). The most affected airport is Lisbon Airport with its two crossing runways 17/35. Closing runway 17/35 would, in fact, lead to an increase in throughput and a reduction in delays. As decided by the government earlier in 2019, the closure of runway 17/35 should be finalized in

Charges at Portuguese airports are relatively high (Chart 2). High charges are reflected in the cost of travel and reduce the accessibility of air travel. Also, impact on other industries that depend on aviation such as tourism by making Portugal a less attractive destination. Portugal should redouble its efforts to decrease the level of charges, or at least keep them stable and cost-effective.

Portugal has also significant room for improvement in terms of the regulatory oversight of key airline suppliers. While there is a regulator in place, they have limited powers since the concession contracts specify how charges are set (Chart 3). Given the high level of charges, the importance of an independent economic regulator with genuine autonomy and influence over the setting and implementation of airport charges becomes more pressing. The consultation process for setting the airport and air navigation charges should also be improved, including increased transparency of the charging process.

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

[5] Values for the sub-indicators (0-to-2 scale) are summed together and transformed to 0-to-10 scale to create a single value for the Airport Charges Process Indicator.

FROM PERFORMANCE MEASURES TO RECOMMENDATIONS

Portugal's aviation strategy has an objective to increase air transport connectivity. It is important to create an environment where business can flourish, and new businesses are created. Portugal should therefore focus on:

1. Airport capacity in the Lisbon Region Area

Improve airport capacity in the Lisbon Region Area by maximizing efficiency in Lisbon Humberto Delgado Airport and launching the Montijo Air Base conversion for civil use, under transparent and inclusive processes with all stakeholders. This consultation should result in facilities that only meet the urgent need for capacity but are flexible to future needs and cost effective to develop and operate.

2. Airport and passenger charges and taxes

Continuously protect the interests of end users, mainly in regards to economic activities that are natural monopolies, such as airport management and air traffic services provision, ensuring cost-based and cost-effective charges and transparent and meaningful consultation process.

3. National Airspace Strategy (NAS)

Implement a NAS involving multiple stakeholders in order to deliver economic improvements, more choice, greater flight frequency, and lower costs for everyone.

In 2017, 25.7 million of passengers departed from Portugal's airports. The robust air connectivity is an enabler of economic activity in Portugal creating about 321,000 jobs and supporting almost EUR 12.3 billion to the economy in 2016.[6] In the next 20 years the number of departing passengers from Portugal will increase by 20%.[7] However, if Portugal 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 contribution to GDP.

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

		Passengers	EUR GDP	Jobs
2017		25.7 m	€12.33 bn	321,036
2037	Current trends	30.8 m	€14.8 bn	300,658
	Upside	32.7 m	€15.7 bn	318,700
	Downside	26.9 m	€12.9 bn	261,949

* 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.

IATA Economics
Air Transport Regulatory Competitiveness Indicators
2019 Edition

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.

[6] ATAG 2018

[7] Oxford Economics 2017