

Air Traffic Control Commercialization: A Window of Opportunity?

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By Paul J. Gessing
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Most Americans are abundantly aware of the recent difficulties that have plagued the airline industry. The current economic slowdown, 9/11, war in Iraq, and volatile fuel prices have all contributed to significant declines in traffic, additional security concerns and expenses for the airlines and their passengers. The financial situation is so dire that Congress recently spent \$3 billion bailing the airlines out for the second time in the span of just over 18 months. All told, Congress has authorized \$18 billion in government assistance to the airlines since September 11, 2001.

Congress should make a serious effort to reduce the inordinate tax and regulatory burdens that hurt the airlines and in turn force taxpayers to bail them out from time to time. In recognizing the need for methods of reforming the industry without reaching further into taxpayers' pockets, President Bush issued an Executive Order on June 4, 2002 stating that Air Traffic Control (ATC) is "not inherently governmental."¹ This modest step only restored the implicit non-governmental status of ATC prior to an Executive Order signed by President Clinton upon leaving office. Since the FAA and Department of Defense have been contracting out control tower operations for more than a decade, Clinton's Executive Order in retrospect seems more like a political favor to the aviation unions than an attempt to set policy.

Of course Bush's reversal has opened the door for privatization, which, although it is not predicated on cutting jobs, nonetheless frightens labor. To this end, Democratic allies of big labor in both the House and Senate recently introduced legislation that would further hinder America's already-ossified aviation infrastructure by mandating that air traffic control systems be federally run.

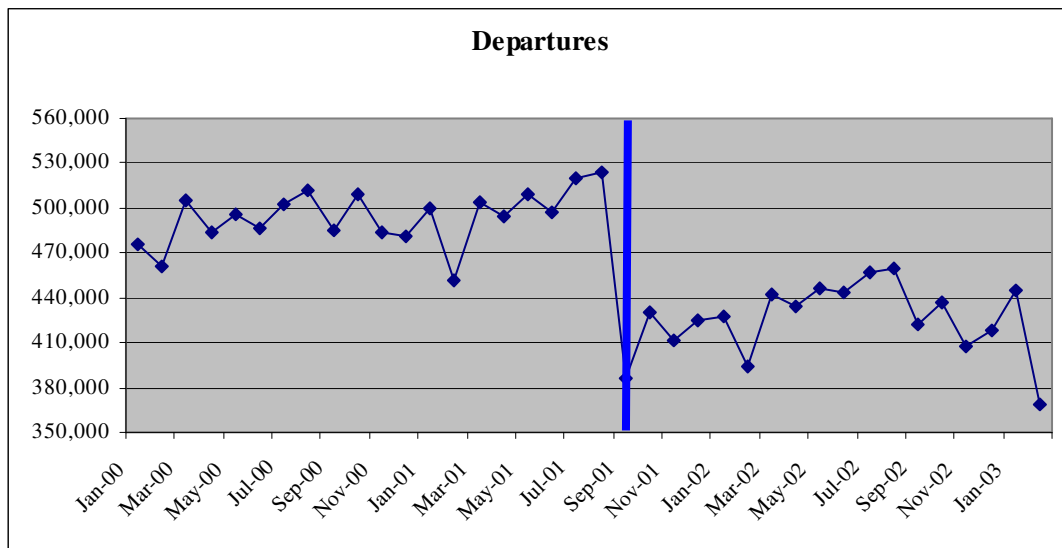
Instead of finding new ways to stymie reform of an aviation system that is clearly broken, inefficient, and wedded to burdensome taxes on the flying public, Congress should consider privatization of Air Traffic Control functions as part of a comprehensive effort to reform the industry. The aviation industry needs a top-to-bottom re-evaluation of the role of government – from the ill-advised federalization of airline security to government management of airports – but ATC reform is an obvious first step.

In July of 2000, NTU’s research affiliate explored the topic of Air Traffic Control reform in the NTUF Policy Paper “Flying Blind: How Tax-Financed Air Traffic Control Has Taken American Aviation Off Course.” That paper was published as air traffic delays were reaching unbearable levels nationwide. Its recommendation at the time was that the U.S. should follow the example of Canada by commercializing its Air Traffic Control system.² Several features of the Canadian system known as Nav Canada, particularly the fact that it is the most thoroughly privatized ATC system in the world, make it the most logical model to follow. However, it is more important that President Bush and Congress realize the significant advantages of privatizing ATC functions (and begin the reform process) rather than coming to agreement on the model immediately.

Why Commercialization is Still Important

The collapse in air travel that has taken place over the last two years has dramatically reduced the number of delays at American airports, and temporarily taken some of the pressure from an ATC system that was buckling under increased demand and was hindered by government inefficiency. Although most news stories have focused on the financial difficulties facing airlines and aviation security, the fundamental ATC problems that came to the forefront in 2000 and early 2001 have not actually gone away. As indicated in the figure below, the number of airline departures collapsed after 9/11 and have not recovered to date. A comparison of full-year departure data showed that total commercial flights dropped 11.8% in 2002 relative to 2000.

Figure 1.

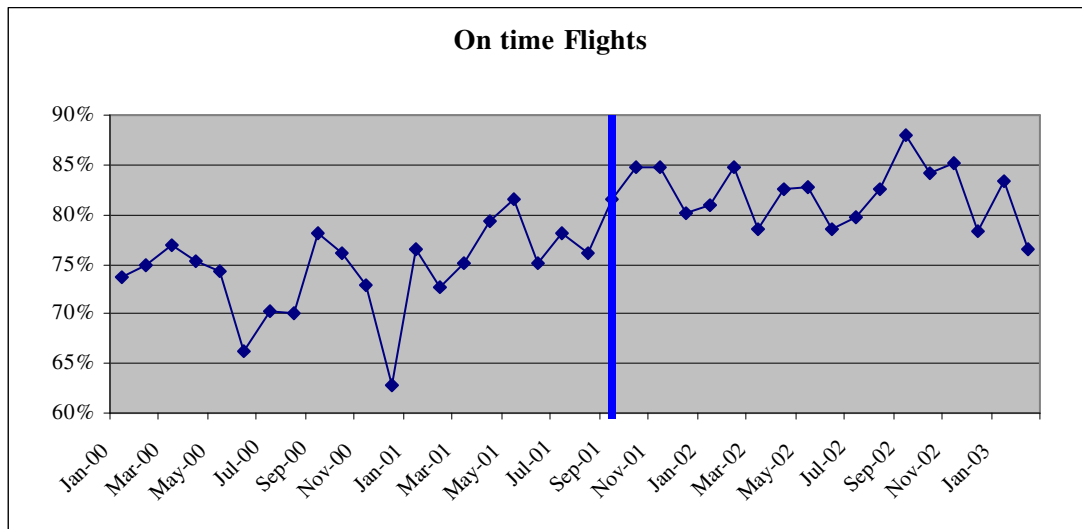


Source: Air Transport Association’s Passenger Traffic Reports.

Naturally, fewer departures would ease demands on the ATC system and increase the numbers of on-time arrivals, but a comparison of 2000 data with 2002 data indicates that the ATC system is likely to struggle when air traffic returns to normal levels. In fact,

a review of 2000 and 2002 “on-time” data indicates a 9.6 percent improvement in 2002, but with nearly 12 percent fewer flights to deal with, the FAA’s capacity to deliver flights in a timely fashion has actually deteriorated. The figure below shows how on time arrival rates have fared since January of 2000.

Figure 2.



Source: Air Travel Consumer Reports March 2000-April 2003 (Department of Transportation).

Congress and the American people should not be lulled into complacency. It is more than likely that the aftermath of 9/11 and the current economic recession will be seen as a brief interruption in the ever-increasing demand for air travel and ATC services. The introduction of additional low-fare airlines will continue to make air travel more accessible to moderate-income Americans. Furthermore, demand for air travel is likely to rebound far beyond 2000 numbers once the economy is back on track and fears of war and terrorism fade.

An additional factor that will boost air traffic delays is the rapid and continued substitution of small regional jets for larger jets. U.S. Airways is only the first airline to announce that it will be increasing its reliance on regional jets.³ Airline analysts expect several other “legacy” airlines to increase their reliance on these aircraft in their efforts to become more cost effective. This trend means that as passenger traffic recovers, the same number of passengers will be flying in larger numbers of smaller planes.

Benefits of Reform

There are several good reasons to go ahead with privatization of our ATC system right away. Most important are the safety improvements that would be provided via privatization. The current system that places the Federal Aviation Administration in charge of both operating the ATC system and regulating aviation safety creates inevitable

conflicts of interest.⁴ Instead, ATC is best placed at arm's length from safety regulation. Additionally, safety will also be enhanced because a privatized ATC system will be modernized much more rapidly than the FAA, an organization with a long track record of delays, cost overruns, and safety problems.⁵ Lastly, if ATC restructures in the form of a government or nonprofit corporation, that entity can and should obtain liability insurance, as many of the overseas corporations have done, thereby creating an additional layer of safety oversight.⁶ Privatized management of America's aviation system would be more efficient and effective than the federal government operating it through the FAA.

Security, particularly post 9/11, is of utmost importance in all facets of aviation. Notably, the 29 other nations that have corporatized their ATC systems have had no security issues relative to privatization. On 9/11, for example, Nav Canada cooperated smoothly with military aviation authorities and the FAA in bringing all planes down safely.

The cost savings of privatizing ATC functions could be several hundred million dollars each year, not to mention the economic benefits of more efficient air travel. As indicated in the following charts, Nav Canada has saved Canadian passengers and airlines significant sums of money.

Figure 3.

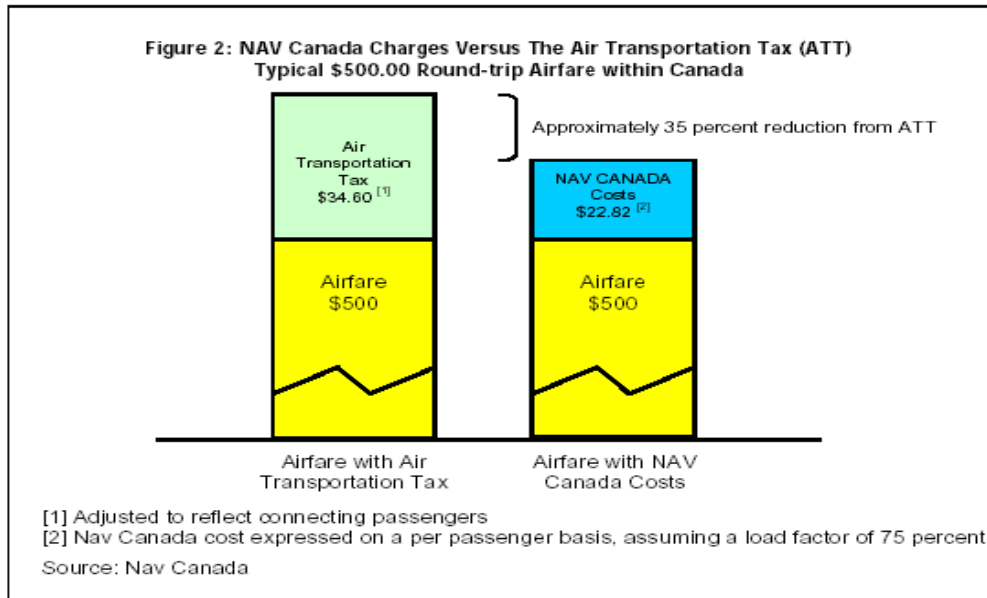
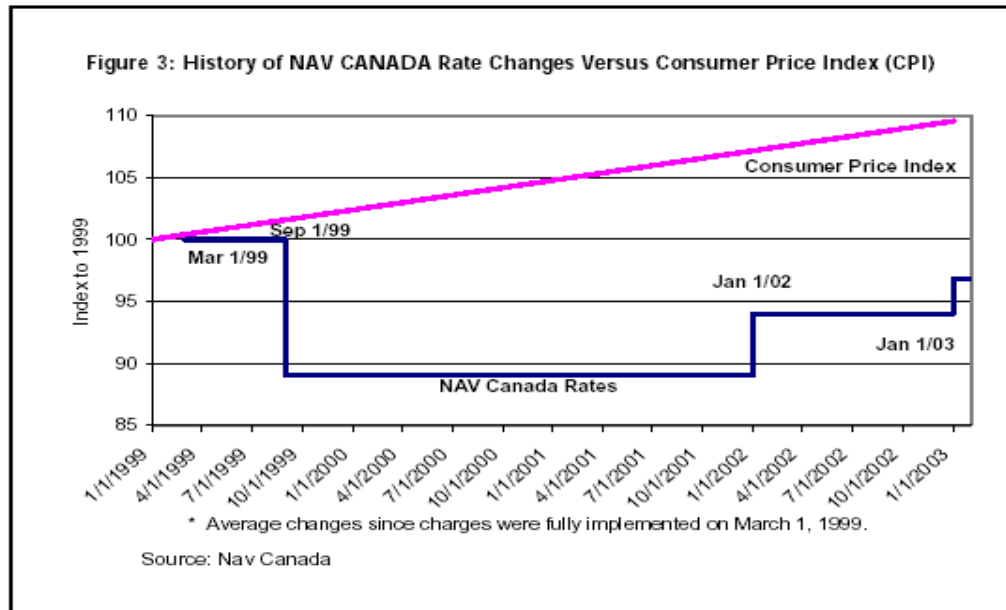


Figure 4.



Privatization will vastly speed up ATC modernization and stabilize funding because the collection of user fees provides a bondable revenue stream. It will also allow the system to avoid dealing with government procurement regulations that are ill suited to a customer-service organization like ATC. A constant flow of revenue will likewise provide more flexibility to plan and invest for the future free of the constraints of the annual federal budgeting process – a key to any successful business model.

Conclusion

It is of utmost importance that Congress not allow unions and other groups that are defending the status quo to derail important reforms by passing laws that governmentalize ATC functions. Although it might be easy to simply put off reform on the misguided assumption that air travel will not rebound from the current slump, historical factors make this an unlikely scenario. The window of opportunity is open, ready to let fresh air into an economic sector that Congress has stifled for too long.

Paul J. Gessing is Director of Government Affairs for the National Taxpayers Union (www.ntu.org), a non-profit, non-partisan organization founded in 1969 to work for lower taxes, less wasteful spending, and accountable government at all levels. Gessing wrote a NTUF Policy Paper on the prospects for privatizing air traffic control in 2000 entitled “Flying Blind: How Tax-Financed Air Traffic Control Has Taken American Aviation Off Course.”

¹ George W. Bush, “Executive Order Amendment to Executive Order 13180, Air Traffic Performance-Based Organization,” June 4, 2002, <http://www.whitehouse.gov/news/releases/2002/06/20020606-5.html>.

² Paul Gessing, “Flying Blind – How Tax-Financed Air Traffic Control has Taken American Aviation off-course,” July 19, 2000, http://www.ntu.org/taxpayer_issues/ntuf_policy_papers/pp_ntuf_129.php3.

³ “U.S. Airways Emergence,” March 31, 2003, <http://www.usairways.com/about/emergence/index.htm>.

⁴ “A Statement Concerning the Future of the U.S. Air Traffic Control System,” Statement of former senior FAA officials on the safety and efficiency of current air traffic control system, May 1, 2001, <http://www.rppi.org/atcletter.html>.

⁵ “Weak Computer Security Practices Jeopardize Flight Safety,” U.S. General Accounting Office, May 1998, <http://www.gao.gov/archive/1998/ai98155.pdf>.

⁶ Robert W. Poole, Jr., “Why an Air Traffic Control Corporation Makes Sense: A Response to the NATCA White Paper,” Reason Public Policy Institute, May 2003, <http://www.rppi.org/ps307.pdf>.