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CAA
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Report on determination of 2017 terminal unit rate - Kosovo

Prishtina, November 2016

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Contents

List of tables

List of Figures

1. Introduction

This report has been prepared by the Civil Aviation Authority (CAA) of the Republic of Kosovo for the purpose of consultation following the application of Kosovo Air Navigation Services Provider (ANSP) to determine the 2017 unit rate for terminal navigation charge for the terminal navigation services they provide in the airspace of the Republic of Kosovo. Final determination by the CAA will be made after review of the comments received during this consultation process.

2. Legal Basis

In accordance with Article 81 *User Charges* of the Law on Civil Aviation, the CAA issues implementing regulations establishing the rate to be charged for the use by owners and operators of aircraft of each service or facility that is provided by the Air Navigation Services Provider. Through Regulation no. 3/2016, Kosovo CAA has fully transposed EC Regulation no. 1794/2006 on common charging scheme for air navigation services also known as "full cost recovery regulation" based on which Kosovo ANSP shall be able to recover all costs incurred either directly or indirectly in the provision of air navigation services.

This is the first year of implementation of the new regulation. This regulation outlines the methodology for calculation of eligible costs, principles of the charging scheme as well as the approval process starting from the submission of the Reporting Tables by the ANSP until the final determination of the unit rate by the CAA. Since provision of services in the upper airspace of Kosovo is until 2019 delegated to Hungary by NATO Council, enabled by Hungarocontrol, this document deals with the determination of the terminal navigation charge only. Because the European Commission (EC) is planning to include all European Common Aviation Area (ECAA) partners in the air navigation services performance scheme as of RP3 in 2020, Kosovo CAA has been advised by the EC to start application of the full cost recovery regulation immediately in order to collect historical data and get acquainted with the charging principles and mechanism, thus get ready for the determined cost method which should be applied as of 2020.

Due to political reasons beyond control of Kosovo CAA, Republic of Kosovo is not a EUROCONTROL member state, hence this consultation process is being undertaken apart from the system established by EUROCONTROL for consultation and determination of unit rates on behalf of its member states. However, as can be verified below, EUROCONTROL manuals on route charging system and on charging principles have been thoroughly consulted during the course of ANSA application assessment. Email communications were also exchanged with CRCO and EC's SES office. Kosovo CAA is working with EUROCONTROL to formalize some kind of collaboration that would include charging issues.

3. Background information on the Kosovo ANSP - ANSA

Air Navigation Services Agency (ANSA) is an independent government agency which provides air navigations services within the Republic of Kosovo. As explained above, currently ANSA is providing terminal navigation services only. ANSA is an independent budget organization and public authority and has its own budget that is administered independently. ANSA is functionally and organizationally separated from the CAA. ANSA was established through the Law no. 04/L-250 on Air Navigation Services Agency beginning of this year

ANSA's financial situation has not been sustainable for the last four years as a result of financial losses due to debts inherited from the previous legal entity and the inability to generate revenue in the upper airspace. Consequently, ANSA is emerging from years of capital underinvestment. However, since the transformation from a publicly-owned enterprise into a state agency in 2016, ANSA has a stronger financial standing due to the possibility of the government to step in case of any losses as well as eligibility for state grants for capital investments. The CAA would like to emphasize that year 2017 will be the first year of implementation of full cost recovery regime at ANSA. In conclusion, the fact that we are in the period where ANSA is dependent on state budget rules and in the same time is trying to adapt to full cost recovery operation creates some uncertainties ahead that we believe will be clarified during the course of the 2017 year.

Since its separation from the airport operator in 2011, ANSA has charged a flat rate of 5.20 Euros/ton (basis: Maximum Take-Off Weight - MTOW of aircraft) that was not sufficient to cover its costs. As a result, the state has continuously supported the previous Company Prishtina International Airport – Air Traffic Control Adem Jashari J.S.C. with financial subsidies. As stated above, on 1 January 2016, based on the Law no. 04/L-250 on Air Navigation Services Agency, the previous company has been transformed to a state agency, respectively ANSA.

On 19 August 2016, Kosovo CAA has certified ANSA for a period of 5 years to provide the following services: air traffic control, navigation and surveillance, aeronautical information and meteorology. The certificate has been issued after fulfillment of common requirements for the air navigation services provision as stipulated in EC Regulation no. 550/2004 on the provision of air navigation services in the Single European Sky and EC Regulation no. 1035/2011 laying down common requirements for the provision of air navigation services. Both regulations are transposed into Kosovo national legal order.

4. Charging Methodology and Principles

Calculation of the terminal navigation charge (TNC) unit rate for 2017 has derived by application of methodology determined in the CAA Regulation no. 3/2016 on common charging scheme for the air navigation services. Based on this methodology, TNC shall be calculated for year "n" based on the estimated costs and traffic for that year. An adjustment mechanism shall be applied to ensure that only the actual costs of the service shall be eventually recovered.

Basic principle of this methodology is that regulated charges such as TNC shall cover all costs incurred by the ANSP, operation and capital, necessary to provide the services. In this manner, it is achieved a balance in which the users will not pay more than the costs for the provision of services and in the other side, the ANSP will be able to cover all eligible costs for all eligible services and activities performed as well as facilities used. The final service price is determined by covering costs for the services provided (air traffic control, navigation and surveillance, aeronautical information and meteorology) plus a reasonable return in the investments made to offer these services.

5. Eligible Costs

According to the Regulation no. 3/2016, ANSPs shall establish the costs incurred in the provision of air navigation services in relation to the facilities and services provided. These costs shall be broken down into:

- Staff costs (gross remuneration, payments for overtime, employer's contribution to social security scheme as well as pension costs and other benefits);
- Operating costs (purchase of goods and service to provide services such as communication, consultants, material, energy, utilities, rental, equipment of facilities, maintenance, insurance costs and travel expenses);
- Depreciation costs (related to total fixed assets in operation for ANS purposes);
- Cost of Capital (product of the a) sum of the average net book value of fixed assets used by the ANSP in operation or under construction and of the average value of the net current assets that are required for the provision of services and b) the weighted average of the interest rate on debts and of the return on equity);
- Exceptional items (non-recurring costs in relation to the provision of services).

6. Calculation of Terminal Charge

Terminal charge for a specific flight according to the Annex V of the Regulation is equal to the product of the unit rate established for this terminal charging zone and the terminal service units for this flight. The terminal service units (TSU) are calculated based on the formula:

$$TSU = (MTOW/50)^{0.7}$$

7. ANSA's Application Assessment

For assessment of ANSA application for determination of the TNC unit rate for 2017, the CAA has taken into consideration the following:

- Information and documents submitted by ANSA during their first reporting (initial cost base using Reporting Tables from Annex II and VI of the Regulation) on 31 March 2016;
- Information and documents submitted by ANSA during their second reporting (final cost base using Reporting Tables from Annex II and VI of the Regulation) on 8 September 2016;
- Information and documents submitted by ANSA on 29 September 2016 for the purpose of the Initial Performance Plan that was submitted by the CAA to Performance Review Body on 1 October 2016. To avoid any confusion, please note that ECAA parties, including Kosovo were requested by the EC to draft an Initial Performance Plan for air navigation services for the period from 2017-2019 as a learning exercise before Reference Period 3 when all ECAA parties are expected to apply the determined cost method;
- Audited Financial Statements of Prishtina International Airport – Air Traffic Control Adem Jashari J.S.C - for the financial year ended on 31 December 2015;
- Information and documentation deriving from several meetings held between ANSA and the CAA as well as electronic communication for the purpose of determining the TNC unit rate for 2017.

The CAA would like to underline that ANSA's application for the determination of the terminal navigation charge was partially completed and detailed. Whereas Reporting Tables from Annex II (Total Costs) and VI (Unit Rate) of the Regulation were filled in, limited information was provided in the Narrative Report accompanying these tables. In several occasions, it was difficult to find out what a specific asset consists of in the List of Assets provided and there was no information given how was the cost of capital calculated apart from the information on the rate of return used. In some of the documents assessed during the evaluation process inaccuracies and inconsistencies were noted. This has happened despite CAA's interventions during meetings or written communications to be provided with accurate information. Notwithstanding the above, the CAA has made efforts and engaged necessary expertise to undertake a realistic assessment of information and documentation provided by ANSA. A comprehensive analysis and information evaluation has been undertaken, accompanied by comparative analyses of the previous years as well as institutional memory of CAA regarding the safety audits and approval of changes at ANSA in order to determine the most realistic estimation for total costs and traffic during the year 2017.

Assessment has been made in the following steps: assessment and determination of eligible costs (staff, operating, depreciation, capital), determination of the capital employed, traffic

forecast and finally determination of the unit rate for the year 2017. Following is the process and the outcome of each of these steps.

7.1. Assessment and determination of staff and operating costs

The CAA has checked and confirmed that only eligible costs for staff and operating costs as described in Section 5 above, have been included in these two line items.

As shown in the Table 1, staff costs show efforts to control costs and reduce costs per unit implying increasing efficiency.

On the other hand, ANSA has proposed a much higher increase of operating costs for 2017 which has been capped by the CAA at 5% over the previous year. This, due to the fact that full cost recovery operation regime will enable ANSA to cover also depreciation and capital cost.

		2014 A	2015 A	2016 F	2017 F	2018 P	2019 P
ANSA Proposal	Staff	2,087,629	2,252,784	2,240,973	2,238,918	2,375,420	2,400,475
			7.9%	-0.5%	-0.1%	6.1%	1.1%
	Other operating costs	646,348	974,454	569,027	791,388	878,580	903,580
			50.8%	-41.6%	39.1%	11.0%	2.8%
CAA Determination	Staff	2,087,629	2,252,784	2,240,973	2,238,918	2,375,420	2,400,475
		0.0%	7.9%	-0.5%	-0.1%	6.1%	1.1%
	Other operating costs	646,348	974,454	569,027	597,478	627,352	658,720
			50.8%	-41.6%	5.0%	5.0%	5.0%

Table 1. ANSA proposal and CAA determination of staff and operating costs

7.2. Assessment and determination of depreciation and cost of capital

7.2.1. Asset base

The CAA has scrutinized the list of assets provided by ANSA to ensure that only those in operation, not yet fully depreciated and being used for the purpose of provided services to users are included. The CAA has also regrouped the assets into five main categories, has evaluated the depreciation period being used and has arrived at correspond value of the asset base. The assessment has revealed that majority of ANSA assets are approaching end of their operating life. However, the asset base was increased due to a major investment project in amount of 7.8 mil Euros going on since 2011 as can be seen in the Table 2 below as a separate line *Navigation equipment* for easy reference and transparency purpose. The book value of 5,831,752 mil Euros in the table represents the finalized part of this investment that is currently and will be in operation for users in 2017. This project includes the following equipment: new Mode S radar, VCSS/VCR and DVOR/DME.

Table 2 below is the book value of assets as of 31 December 2016 as proposed by ANSA and revised by CAA.

Asset category	Unit	ANSA Book value	CAA Book value
Buildings	€	177,058	177,058
Equipment	€	121,920	74,387
Furniture	€	229	229
IT Equipment	€	36,130	36,130
Vehicles	€		
Navigation equipment	€	6,174,796	5,488,708
Total	**€**	**6,375,659**	**5,776,512**

Table 2. Fixed assets to be used in operation during 2017 proposed by ANSA and determined by CAA

7.3. Depreciation

As per the Regulation, historic and linear costs have been used for depreciation.

ANSA depreciated its assets as follows:

- Buildings (20 years)
- Equipment (5-10 years)
- Vehicles (5 years)
- Computer Equipment (5 years)
- Furniture (5 years)

CAA during its assessment has also classified ANSA assets to the categories above.

CAA has accepted ANSA proposal for existing ANS-specialized electronic equipment to be depreciated in the range of 5-10 years as they are approaching end of their operating life. However, for the major investment project entitled *Navigation equipment* which entered into use on 28 March 2014, the CAA has forecasted its operating life for 15 years based on ICAO Manual on ANS Economics example for electronic equipment Any new asset introduced in the future and especially ANSP specific electronic equipment will be reevaluated in continuation jointly by the CAA and ANSA to ensure that depreciation periods to be applied are reasonable and in accordance with the reasonable operating lifetime.

Below is the assessment of the depreciation costs for the two categories: existing assets and new assets.

7.3.1. Depreciation of existing assets

A thorough assessment by the CAA of the depreciation for the assets that will be used during 2017 and beyond revealed the cost of depreciation values indicated in the Table 3 below.

Assets before 2017				
Asset category	**Unit**	**2017**	**2018**	**2019**
Buildings	€	(19,804)	(19,804)	(19,804)
Equipment	€	(54,034)	(7,280)	-
Furniture	€	(33)	(33)	(33)
IT Equipment	€	(30,052)	(1,284)	(478)
Vehicles	€	-	-	-
Navigation equipment	€	(365,914)	(365,914)	(365,914)
Total depreciation	**€**	**(469,837)**	**(394,314)**	**(386,228)**

Table 3. Determination of depreciation costs for existing assets

7.3.2. Depreciation of new assets

ANSA proposed a list of new investments to be carried over the three year period and into 2020. However, only the first investment is to be sourced from own funds during a three year period. The rest will be funded through government grants as can be seen in the Table 4 below.

In January 2016, ANSA has moved into a new tower and office building constructed as part of the Public Private Partnership agreement between the Government of Kosovo and Limak Kosovo International Airport J.S.C. for operation of Pristina International Airport for a period of 20 years. Formal transfer of the building has still to be conducted, but is expected to occur in 2017. The CAA is following closely this issue and will act accordingly once the ownership issue has been properly addressed. This asset has not been included in the asset base.

Asset	Asset category	Entry into service	Total value €	Investment in 2017 €	Investment in 2018 €	Investment in 2019 €
1. Finalization of the system installation to the new Tower and Approach premises	Equipment	2017	1 719 082	1 000 000	469 082	250 000
2. New Radio System (VHF and UHF)	Equipment	2019	3 900 000	500 000	1 500 000	1 900 000
3. New ILS (Instrument Landing System) for upgrade to Cat III B operations and relevant flight procedures (APP)	Equipment	2018	3 130 000	40 000	1 090 000	2 000 000
4. New Meteo System (AWOS) Cat IIIB	Equipment	2018	1 880 000	40 000	840 000	1 000 000
5. VOLMET System and Forecasting tool (Meteo)	Equipment	2018	350 000	150 000	200 000	

Table 4. List of assets planned for the upcoming 3 year period

Kosovo CAA has approved the first project in the Table 4, namely, *Finalisation of the system installation to the new tower and approach premises*. The project approvals were in accordance with internal ANSA decision-making processes. Safety and interoperability aspects were reviewed and accepted by Kosovo NSA. Finalisation of this project is expected to have impact on safety performance as the overall project resulted in a major overhaul of the existing ATM system improving surveillance capabilities, communication networks and systems as well as enhanced navigational systems. This project includes: upgrade and integration of the existing ATM into the new ATM system, replacement of MSRR Mode S test transponder and spare parts, PSR/MSSR Mode M head refurbishment and spare parts, and spare parts and test equipment for the new DVOR system.

Table 5 below shows the investment plan and resulting depreciation schedule of new investment (assets) in 2017 and beyond.

New assets					
		Unit	**2017**	**2018**	**2019**
Useful life	15				
2017	1,000,000	€	33,333	66,667	66,667
2018	469,082	€		15,636.07	31,272
2019	250,000	€			8,333.33
	Acquisition cost	€	-	966,667	1,353,446
	Additions	€	1,000,000	469,082	250,000
	Total Depreciation	**€**	**(33,333)**	**(82,303)**	**(106,272)**
	Net Book value	€	966,667	1,353,446	1,497,174

Table 5. Depreciation cost for the new assets

7.4. Cost of capital

In accordance with the Regulation, cost of capital is equal to the product of the capital employed and weighted average cost of capital (WACC). Based on ICAO Manual 9161 on ANS Economics, the cost of capital has been calculated annually on all capital invested in fixed assets, or other expenditures, which should be properly written off over time, and on working capital.

In order to calculate the capital employed for the purpose of cost of capital, the following formula has been used:

Capital Employed = average value of (net fixed assets + new investments) + net current assets (working capital)

Average value of net fixed assets and new investments have already been identified during the calculation of depreciation costs whereas the working capital has been determined based on difference between current assets and current liabilities as stated in the 2015 audited financial statements.

Based on the EUROCONTROL Guidance on route charges: "The appropriate weighted average cost of capital to be used is a matter for the State (or other national economic regulator) to approve, taking into account the low financial risk of providing air navigation services. The government bond rate, or alternatively rates payable in financial markets by enterprises of comparable low risk, may be taken as a guide."

The formula for calculating WACC is as follows:

$$WACC = Return\ on\ Equity\ x\ \frac{Equity}{Debt + Equity} + Return\ on\ Debt\ x\ \frac{Debt}{Debt + Equity}$$

ANSA does not currently carry any long term debt and therefore return on debt does not contribute to the equation above. Therefore, only return on equity remains to be determined.

Republic of Kosovo does not have a capital market therefore ascertaining the market rate of return on capital is difficult. The bond with the longest maturity the Government issues is the 5-year one of relatively small values and only two sales conducted in 2016 with an weighted average rate of 2.34%.[1]

ANSA has proposed a cost of capital calculated using the average interest rate on loans backed by deposits published by the Central Bank of Kosovo for 2015 of 2.85%.[2] The CAA believes that a fairer rate of return to account for long-term risk is 3.1%. This is also in line with the rates of return used by the neighboring countries whose ANSPs are considered to have the same risk. By extending the depreciation period for the last asset group consisting of Navigation equipment as compared to that proposed by ANSA, capital costs have been reduced, as shown in the tables 6 & 7 below.

Below is the assessment and determination of the cost of capital for two categories separately: existing assets and new assets.

7.4.1. Cost of capital of existing assets

Cost of capital of existing assets has been calculated by multiplying WACC=3.1% with average net value of the existing assets plus the working capital. As explained above, working capital is equal to the difference between current assets and current liabilities.

[1] Auction results of 25 February and 25 August 2016 http://bqk-kos.org/repository/docs/2015/Auction%20Results%2025%20February%202016.pdf http://bqk-kos.org/repository/docs/2015/Auction%20Results%2025%20August%202016.pdf

[2] Monthly Statistics Bulletin 2016/Nr.179, pg. 59. (2016, September 15). Retrieved November 09, 2016, from http://bqk-kos.org/repository/docs/2015/BQK_BMS_179_al..pdf

ANSA Proposal 2.85%	Unit	2017	2018	2019
	€	221,069	223,952	219,279
	Unit	**2017**	**2018**	**2019**
Starting value	€	5,776,512	5,306,675	4,912,361
Additions	€	-	-	-
Depreciation	€	(469,837)	(394,314)	(386,228)
Ending value	€	5,306,675	4,912,361	4,526,133
Average value	€	5,541,594	5,109,518	4,719,247
Working capital	**€**	453,000	453,000	453,000
Assets including Working Capital	**€**	**5,994,594**	**5,562,518**	**5,172,247**
WACC	%	3.1	3.1	3.1
Cost of capital	**€**	**185,832**	**172,438**	**160,340**

Table 6. Cost of capital for existing assets as proposed by ANSA compared to CAA determination

7.4.2. Cost of capital for new assets

Cost of capital for new assets has been calculated by multiplying WACC=3.1% with the average value of the new assets.

		Unit	2017	2018	2019
2017	1,000,000	€	33,333	66,667	66,667
2018	469,082	€		15,636.07	31,272
2019	250,000	€			8,333.33
	Acquisition cost	€	-	966,667	1,353,446
	Additions	€	1,000,000	469,082	250,000
	Depreciation	€	(33,333)	(82,303)	(106,272)
	Net Book value	€	966,667	1,353,446	1,497,174
	Average value	€	483,333	1,160,056	1,425,310
	WACC	%	3.1	3.1	3.1
	Cost of capital	**€**	**14,983**	**35,962**	**44,185**

Table 7. Cost of capital for the new assets

7.5. Total depreciation costs and total cost of capital

Following are depreciation and cost of capital values as proposed by ANSA and determined by CAA.

		2017 F	2018 P	2019 P
ANSA Proposal	Depreciation	796,913	783,329	773,085
			-1.7%	-1.3%
	Cost of capital	379,424	386,136	402,611
			1.8%	4.3%
CAA Determination	Depreciation	503,170	476,617	492,500
			-5.3%	3.3%
	Cost of capital	200,816	208,400	204,524
			-1.9%	-1.2%

Table 8. Total depreciation and cost of capital proposed by ANSA compared to CAA determination

8. Assessment and determination of total costs

Total costs as proposed by ANSA and adjusted by CAA for the years 2017-2019 are in the table below.

		2016 F	2017 F	2018 P	2019 P
ANSA Proposal	Staff	2,240,973	2,238,918	2,375,420	2,400,475
	Other operating costs	569,027	791,388	878,580	903,580
	Depreciation	784,358	796,913	783,329	773,085
	Cost of capital	318,137	379,424	386,136	402,611
	Total costs	**3,912,495**	**4,206,643**	**4,423,465**	**4,479,752**
CAA Determination	Staff	2,240,973	2,238,918	2,375,420	2,400,475
	Other operating costs	569,027	597,478	627,352	658,720
	Depreciation	784,358	503,170	476,617	492,500
	Cost of capital	318,137	200,816	208,400	204,524
	Total costs	**3,912,495**	**3,540,382**	**3,687,789**	**3,756,219**

Table 9. Total costs proposed by ANSA compared to CAA determination

It should be noted that in 2016 there is no full cost recovery regime, i.e. there is no depreciation cost and/or cost of capital recovery applied therefore costs shown in the table for this year were recalculated to take into consideration Regulation no. 3/2016 methodology and to ease the comparative analyses.

The following graph illustrates total costs for the year 2017 proposed by ANSA compared to CAA determination:

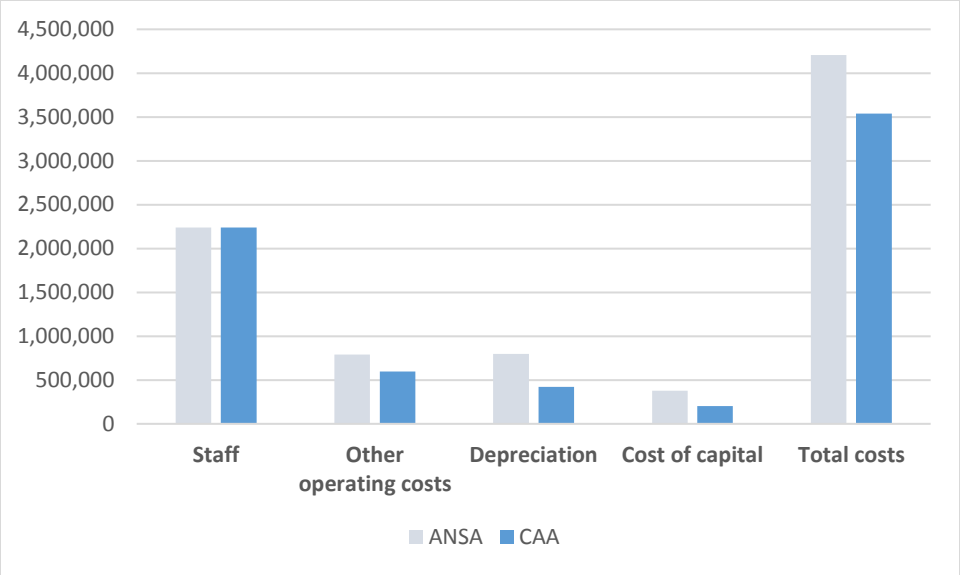

Figure 1. 2017 costs proposed by ANSA compared to CAA determination

Estimated costs for operation in year 2017 as determined by CAA are 3,540,382 Euros.

9. Traffic forecast

Number of TSUs is forecasted on the basis of historical growth during the previous years, ignoring 2014 when there was a drastic decline due to market exit of a major airline which should not be considered part of the trend.

9.1. Economic growth and inflation

Economic growth in 2016 was recovering after a slowdown in 2014 that coincided with an extended political stalemate. The recovery is being driven by accelerating remittance and FDI inflows, stronger bank credit, and solid exports.

According to IMF, Kosovo gross domestic product in constant prices is expected to be 5.947 billion EUR (3.400%) in 2016, 6.201 (4.280%) in 2017, 6.456 in 2018 (4.1%) and 6.691 (3.650%) in 2019.[3]

Kosovo Government see a stronger upside potential, and view a medium-term growth of 4.5-5% to be within reach. A World Bank evaluation in September 2016 put the growth lower than either of these assessments.[4]

[3] Report for Selected Countries and Subjects (n.d.). Retrieved November 09, 2016, from https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/weorept.aspx?sy=2014&ey=2021&ssd=1&sort=country&ds=.&br=1&pr1.x=59&pr1.y=10&c=967&s=NGDP_R%2CNGDP_RPCH%2CPCPI%2CPCPIPCH&grp=0&a=

According to the IMF, low inflation is expected in 2016 of just 0.216% and 1.533%, 1.782% and 1.915% in 2017, 2018 and 2019 respectively.

9.2. Historical traffic

The average increase over the period 2000-2015 in the number of passengers at Prishtina International Airport (PIA) was 19.37% per year, while the number of flights has increased 14.08%. Over this period, number of passengers per flight has increased noticeably, a result of increase in average passenger load and increase in the average size of aircraft operated in line with global trends. 2015 saw a 10.28% increase in passenger traffic whereas 2016 to October has seen an 11.57% passenger traffic growth.

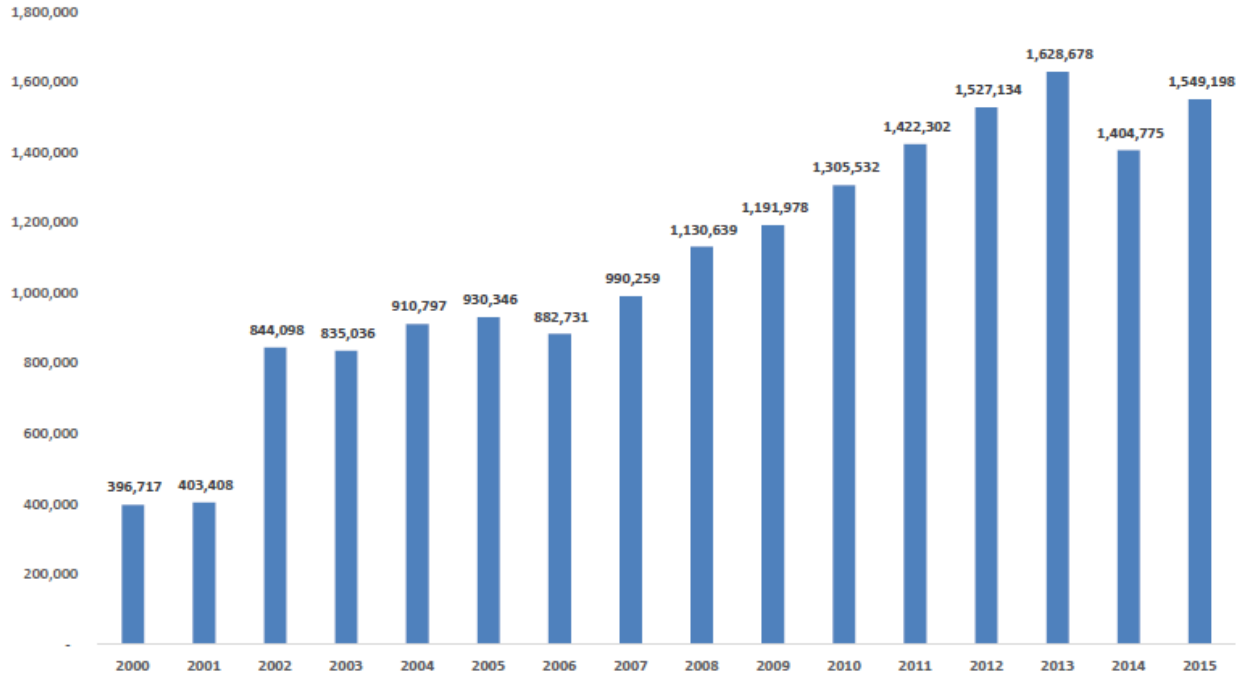

Figure 2. Number of passengers at PIA Adem Jashari 2000-2015

[4] Growth Continues, Unemployment Remains High in Kosovo. (2016, September 27). Retrieved November 09, 2016, from http://www.worldbank.org/en/news/press-release/2016/09/27/growth-continues-unemployment-remains-high-in-kosovo

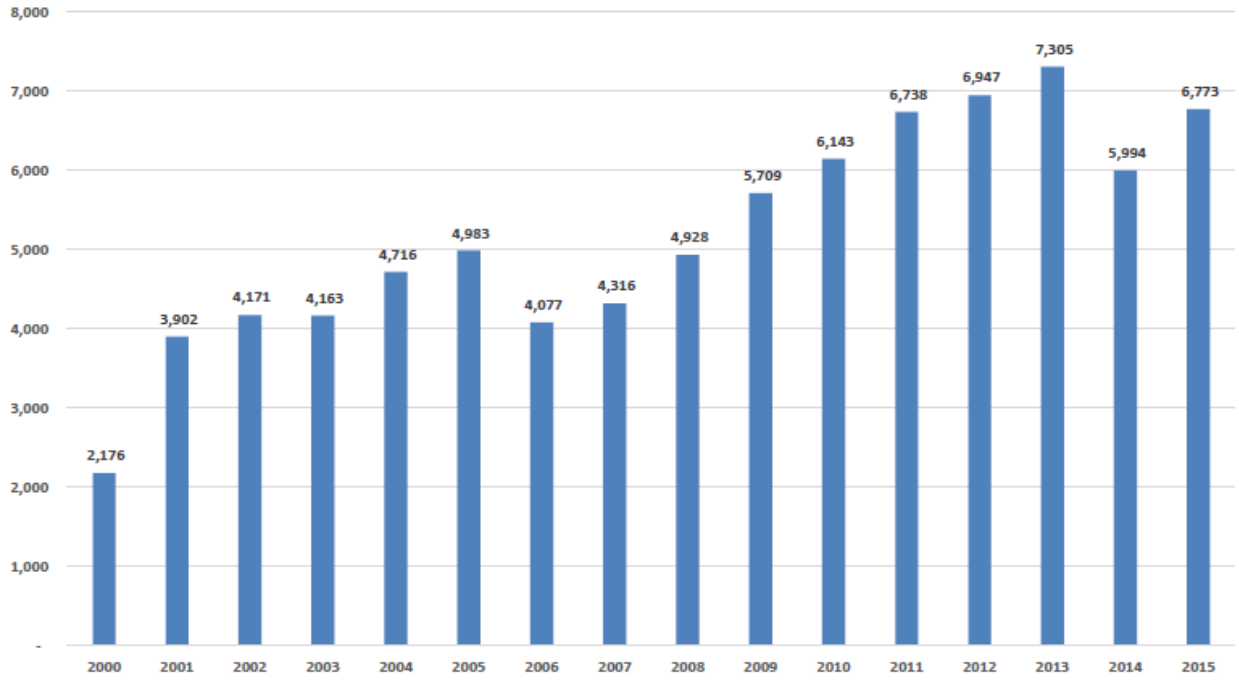

Figure 3. Number of flights at PIA Adem Jashari 2000-2015

9.3. Traffic assumptions

Traffic growth at PIA does not show a close correlation with GDP growth therefore it has not been relied on for the purpose of forecasting. At the same time, ANSA has access to TSU historical data for the purpose of forecasting starting from 2014 only. STATFOR could not also be used for forecasting purpose. Therefore, historical data for the flight numbers have been taken into the consideration for forecasting purpose. A key event expected during the forthcoming 3-year period is the normalization of the lower airspace which will increase General Aviation Traffic within the country and increase overflights with the intention of landing in the neighbouring countries' airports. This change is expected in 2017; nevertheless, due to dependence on external factors (NATO) we are unable to determine the precise timing of this extra traffic.

Baseline scenario is optimistic and has foreseen visa liberalisation regime for Kosovo citizens travelling to EU whereas low scenario is the scenario without visa liberalisation and without normalisation of the lower airspace.

With a resident population of 1.749 million, Kosovo has a large diaspora of around 400,000 people which is a primary driver of air travel.

9.4. Forecasted traffic growth

The CAA has accepted the traffic growth proposed by ANSA for 2017 at a rate of 10% as reasonable taking into the consideration historical data, airport operator's forecast and on the developments in the nearby airports. Traffic forecast for 2018 and 2019 proposed by ANSA (5% increase in both years) has also been accepted by CAA for the purpose of calculations but those may have to be revised based on political events which should increase traffic further. Below is an extract from Kosovo Initial Performance Plan 2017-2019 for air navigation services prepared in September 2016 for submission to the Performance Review Body of the European Commission.

Service Units forecast for terminal

	Prishtina International Airport	**2015 A**	**2016 E**	**2017 P**	**2018 P**	**2019 P**
	ANSA Total **terminal** service units (TSU)	8,114	9,250	10,175	10,684	11,218
	Year on Year variation TSU		14.0%	10.0%	5.0%	5.0%
Baseline	KCAA **terminal** service units forecast (Baseline scenario)	8,114	9,250	10,175	11,701	12,637
Baseline	Year on Year variation TSU STATFOR		14.0%	10.0%	15.0%	8.0%
Baseline	Difference in percentage points		0	0	10	3
Baseline	Cumulative difference in percentage points		0.0%	0.0%	-9.5%	-12.6%
Low	KCAA **terminal** service units forecast (Low scenario)	8,114	9,250	9,990	10,489	11,014
Low	Year on Year variation TSU KCAA		14.0%	8.0%	5.0%	5.0%
Low	Difference in percentage points		0%	-2	-10	-3
Low	Cumulative difference in percentage points		0.0%	1.8%	1.8%	1.8%
	Explanation of the differences (if any), justification, rationale and source	STATFOR does not provide forecasts for Kosovo. Therefore, in addition to the forecast being used by the ANSP, Kosovo CAA has conducted a baseline and low scenario based on historical data and expected political events.				

10. Unit rate

Table 10 below shows unit rate as proposed by ANSA and the unit rate determined by the CAA. For the year 2017, ANSA has proposed a unit rate of 396.23 EUR at an increase of 39.03%. This has been revised down by CAA to 330.75 EUR/unit at an increase of 16.05%.

		2014 A	2015 A	2016 F	2017 F	2018 P	2019 P
ANSA Proposal	**Total costs**	3,950,014	4,127,097	3,912,495	4,206,643	4,423,465	4,479,752
	Income from other sources		2,648,449	175,000	175,000	175,000	175,000
	Chargeable costs	**3,950,014**	**4,127,097**	**3,737,495**	**4,031,643**	**4,248,465**	**4,304,752**
	Total service units	7,348	8,114	9,250	10,175	10,684	11,218
	Chargeable service units	7,384	8,114	9,250	10,175	10,684	11,218
	Unit rate	**282.71**	**285.41**	**285.00**	**396.23**	**397.65**	**383.74**
CAA Determination	**Total costs**	3,950,014	4,127,097	3,912,495	3,540,382	3,687,789	3,756,219
	Income from other sources	-	2,648,449	175,000	175,000	175,000	175,000
	Chargeable costs	**3,950,014**	**4,127,097**	**3,737,495**	**3,365,382**	**3,512,789**	**3,581,219**
	Total service units	7,348	8,114	9,250	10,175	10,989	11,868
	Chargeable service units	7,384	8,114	9,250	10,175	10,989	11,868
	Unit rate	**282.71**	**285.41**	**285.00**	**330.75**	**319.67**	**301.75**

Table 10. Unit rate for Kosovo TNC unit rate proposed by ANSA compared to CAA determination

Unit rate of 285 Euros for the year 2015 was computed as the quotient between the actual charges billed to users (2,315,817 Euros) and the total service units for that year (8114). All the other figures for the years 2014-2016 are not actual due to full cost recovery regime not being in effect; they were computed for comparative analyses. Actual total costs for the years 2014 and 2015 were much higher than the charges billed to users, with the company operating in financial losses. However, figures for 2017 and beyond were calculated based on the Regulation principles.

11. Conclusion

ANSA is undergoing a transformation phase implying moving from a flat rate of several years to full cost recovery, high capital investments to recover for a long period of underinvestment and planning for delivery of services in the upper air space. This will necessitate an increase in the unit cost in the coming years. Due consideration should be given to the fact that Kosovo ANSA has no other significant revenues apart from TNC charge to operate and in order to enable ANSA provision of safe and quality services and at the other side to minimize the burden for the airlines, Kosovo Government has intervened in several occasion with financial subsidies. As can be seen in the new Table 4, there are reasonable expectations that Kosovo Government will continue to invest in ANSA in the medium term acknowledging the difficulties that single revenue source is bringing.

Although allowed by the Law no. 03/L-51 on Civil Aviation as well as Regulation no. 3/2016 on common charging scheme for air navigation services, CAA has not chosen to derive any revenue from the terminal navigation service charges.