

Orbital-use fees could more than quadruple the value of the space industry

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The space industry's rapid recent growth represents the latest Tragedy of the Commons. Satellites launched into orbit contribute to—and risk damage from—a growing buildup of space debris and other satellites. Collision risk from this orbital congestion is costly to satellite operators. Technological and managerial solutions—such as active debris removal or end-of-life satellite deorbit guidelines—are currently being explored by regulatory authorities. However, none of these approaches address the underlying incentive problem: satellite operators do not account for costs they impose on each other via collision risk. Here, we show an internationally harmonized orbital-use fee can correct these incentives and substantially increase the value of the space industry. We construct and analyze a coupled physical-economic model of commercial launches and debris accumulation in low-Earth orbit. Similar to carbon taxes, our model projects an optimal fee that rises at a rate of 14.8% per year, equal to roughly \$250,000 per satellite-year in 2040. The long-run value of the satellite industry would more than quadruple by 2040—increasing from around \$600 billion under business-as-usual to around \$3 trillion. In contrast, we project that purely technological solutions are unlikely to fully address the problem of orbital congestion. Indeed, we find debris removal sometimes worsens economic damages from congestion by increasing launch incentives. In other sectors, addressing the Tragedy of the Commons has often been a game of catch-up, with substantial social costs. The infant space industry has a rare opportunity to get out ahead, if the right incentives can be put in place.

satellite tax | common-pool resources | externalities

In 2017, 466 new satellites were launched—more than double the previous year's launches, and more than 20% of all active satellites in orbit in 2017 (1, 2). Rapid space industry growth is projected to continue, driven largely by commercial satellites (Fig. 1). This growth is driving buildup of debris in low-Earth orbit, currently including over 15,000 objects (3). Collision risk from debris is costly; collisions damage or destroy expensive capital assets that are difficult or impossible to repair. Debris buildup could eventually make some low-Earth orbits economically unviable and other orbits difficult or impossible to access (4). In the worst case—though uncertain and occurring over long time horizons—debris growth could become self-sustaining due to collisions between debris objects, a tipping point called Kessler Syndrome (4, 5).

Proposed solutions have so far largely been technological and managerial, aimed at mapping, avoiding, and removing debris (6, 7). These include end-of-life deorbit guidelines and “keep-out” zones for active satellites, and nets, harpoons and lasers to deorbit debris (6). However, with open access to orbits, reducing debris and collision risk incentivizes additional satellite launches, which eventually restores the debris and risk. For instance, if firms were willing to tolerate a 0.1%

annual risk of satellite loss before a technological improvement in debris removal, they will be willing to launch more satellites until the 0.1% annual risk of satellite loss is restored.

Thus, the core of the space debris problem is incentives, not technology. Since satellite operators are unable to secure exclusive property rights to their orbital paths or recover collision-related costs imposed by others, prospective operators face a choice between launching profitable satellites, thereby imposing current and future collision risk on others, or not launching and leaving those profits to competitors. This is a classic Tragedy of the Commons problem (3, 8–10). It can be economically efficiently addressed via incentive-based solutions, such as fees or tradable permits per year in orbit, analogous to carbon taxes or cap-and-trade (8). Incentives should target objects in orbit—rather than launches—because orbiting objects are what directly impose collision risk on other satellites (11). We provide the first analysis, to our knowledge, quantifying the economic benefits of implementing such incentives.

We use a coupled physical-economic model combining rich physical dynamics with satellite economics to quantify the benefits of an internationally harmonized ‘orbital-use fee’ (OUF) relative to a business-as-usual (BAU) open-access scenario, and relative to a scenario with active debris removal. Our model accounts for the effects of each scenario on satellite launch decisions (see Materials and Methods, and Supporting Information). While we focus on an orbital-use fee for analytical convenience, it is conceptually equivalent to other mechanisms for pricing orbits, such as tradable permits.

Our physical model of satellite and debris evolution in orbit

Significance Statement

The commercial satellite industry is rapidly expanding. A side effect of this expansion is a growing buildup of space debris that imposes costly collision risk on satellite operators. Proposed solutions to this debris have been primarily technological, but the core of the problem is incentives—satellites are being launched without consideration of the collision risks they impose on other operators. We show this incentive problem can be solved with an internationally harmonized ‘orbital-use fee’ (OUF)—a tax on orbiting satellites. Using a coupled physical-economic model, we project an optimally-designed OUF could more than quadruple the long-run value of the satellite industry by 2040.

A.R. and D.K. conceived the project; A.R. performed the analysis, with input from M.G.B. and D.K.; A.R., M.G.B., and D.K. wrote the paper.

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obeys relevant accounting identities and utilizes reduced-form approximations of physical processes validated in other works (12, 13). We fit and calibrate the model using data on collision risk and orbital debris produced by the European Space Agency (ESA) (14), and data on active satellites from the Union of Concerned Scientists (UCS) (2) (see Materials and Methods, and Supporting Information). The ESA dataset covers 1958–2017, and the UCS dataset covers 1957–2017. Our physical model assumes that runaway debris growth (Kessler Syndrome) cannot occur, which likely leads our model to understate the benefits of OUFs (see Methods). Our economic model assumes satellites are launched and operated to maximize per-satellite private profits, net of any fees, subject to collision risk. We calibrate the model by fitting the BAU scenario (no fees or debris removal) to historical industry data and launch trends (2, 9) (see Materials and Methods, and Supporting Information).

We project future launch rates to 2040 under the BAU scenario using our fitted model and published projections of future growth of the space economy (15). We then calculate launch rates that would maximize the long-run value of the industry, and we calculate the time series of OUFs that would incentivize these optimal launch rates. The industry value is measured as net present value (NPV)—the long-run value of the entire fleet of satellites in orbit, accounting for both the financial costs of replacing satellites due to natural retirement and collisions, as well as the opportunity cost of investing funds in satellites rather than capital markets. For instance, an NPV of \$1 trillion in 2020 means that the sum total of the stream of net benefits, looking from 2020 into the future and accounting for the timing of the net benefits, is \$1 trillion.

Though our models are deliberately simplified for tractability, they are based on previously-validated approaches to orbital object modeling (12, 13), and our calibrations allow us to reproduce observed trends and magnitudes in the growth of orbital debris and satellite stocks, as well as the calculated collision risk (Figure 3). Nonetheless, our projections should be interpreted as order-of-magnitude approximations that can be refined as needed by more detailed models. In these respects, our approach mirrors integrated assessment modeling approaches that have been useful in developing solutions to other natural resource management problems (e.g., ref (16)).

Results

We project that shifting from open access to the optimal series of OUFs in 2020 would increase the NPV of the satellite industry from around \$600 billion under business-as-usual to around \$3 trillion—a more than four-fold increase (Fig. 2) (3.61 to 8.4-fold increases in 90% of parameter sets randomly drawn from their calibrated distributions; see Figure 2d). Assuming a 5% market rate of return, an increase of \$2.5 trillion in NPV would be equivalent to annual benefits of approximately \$120 billion in perpetuity. The large immediate increase in NPV that we project in each OUF scenario, relative to BAU (Fig. 2a), comes primarily from the immediate effect of reducing launch activity while the satellite and debris stocks are sub-optimally high (see Supporting Information).

Based on our calculations (see Methods), the optimal OUF starts at roughly \$13,500 per satellite-year in 2020 and escalates at roughly 14.8% per year to around \$244,000 per satellite-year in 2040. Rising optimal price paths are common

in environmental pricing such as carbon taxes (17). The rising price path in this case partly reflects the rising value of safer orbits (resulting in rising industry NPV; see Fig. 2a) created by the OUF. For comparison, the average annual profits of operating a satellite in 2015 were roughly \$2.1 million. The 2020 and 2040 OUF values we describe amount to roughly 0.6% and 11% of average annual profits generated by a satellite in 2015.

Forgone NPV from the satellite industry in 2040—which is the cost of inaction under BAU—escalates from around \$300 billion if optimal management begins in 2025 to around \$750 billion if optimal management begins in 2035. Without OUFs, losses remain substantial even when active debris removal is available. In a best-case analysis where we assume debris removal is costless (i.e., it is provided for free, and requires no additional satellites to implement), debris removal can only recover up to 8.6% of the value lost under open access. At worst, debris-removal can exacerbate orbital congestion via a rebound-type effect, causing additional losses on the order of 1.8% of the value already lost from open access (see Figure 4 and Supporting Information). The inability of debris removal to induce efficient orbit use is driven by open-access launching behavior and underscores the importance of policies to correct economic incentives to launch satellites.

Discussion

The costly congestion in low-Earth orbit, caused by a buildup of debris and satellites, is fundamentally a problem of incentives—satellite operators currently lack the incentives to factor into their launch decisions the collision risks their satellites impose on other operators. Our analysis suggests that correcting these incentives, via an orbital-use fee, could have substantial economic benefits to the satellite industry, and failing to do so could have substantial and escalating economic costs.

Escalating costs of inaction is a common feature of the Tragedy of the Commons, evident in several other sectors in which it went unaddressed for long periods of time (18). For example, tens of billions of dollars in net benefits are lost annually from open-access or poorly-managed fisheries around the globe (19). Similarly, open access to oil fields in U.S. at the turn of the century drove recovery rates down to 20–25% at competitively drilled sites, compared to 85–90% potential recovery under optimal management (20). Open access to roadways—somewhat analogous to orbits—is estimated to create traffic congestion costs in excess of \$120 billion a year in the U.S. alone (21). In contrast, there is a rare opportunity to get out ahead of the Tragedy of the Commons in the young space industry.

The international and geopolitically complex nature of the space sector poses challenges to implementing orbital-use pricing systems, but these challenges need not be insurmountable. Theory suggests countries could each collect and spend orbital-use fee revenues domestically, without losing economic efficiency, as long as the fee's magnitude was internationally harmonized (22). An example of such a system is the Vessel Day Scheme (VDS) used by the Parties to the Nauru Agreement (PNA) to manage tuna fisheries. Under the VDS, PNA countries each lease fishing rights within their waters, using a common price floor (23). The European Union's (E.U.) Emissions Trading System (ETS) provides an example of an

173 internationally coordinated tradable permit system (24). Notably, each of these pricing programs is built on a pre-existing international governance institution (the Nauru Agreement and the E.U.).

177 An OUF could also be built within existing space governance institutions, such as the Outer Space Treaty (25). For example, Article VI states that countries supervise their space industries, which provides a framework for orbital-use fees to be administered nationally. Article II prohibits national appropriation of outer space, but it does not prohibit private property rights, thus potentially allowing for tradable orbital permitting.

185 Military and other non-commercial uses of satellites are also important to consider in designing any incentive-based orbital management policy. In December of 2018, 430 of 1957 satellites in orbit had acknowledged military users (2). Some ostensibly-commercial satellites may also fill national security needs. Further, governments provide satellite-based public goods to their citizens, such as remote sensing and GIS. In addition to collision risk, satellite and debris buildup may impose costly interference on ground-based space observation systems. OUFs targeting the commercial sector should account for these interests and monitor, as best possible, any "leakage" (see ref (26)) from the commercial sector to the government sector. Antarctica and the Arctic Circle offer two models of internationally managed regions in which commercial interests, environmental interests, and geopolitical interests interact (e.g., ref (27)).

201 Despite the simplifying assumptions of our model, its key qualitative results may be robust to geopolitical and other complexities. Experience in other resource contexts supports our projection that technological or managerial solutions to the space debris problem are unlikely to be as effective as incentive-based solutions. For instance, in fisheries, attempts to restrict entry have led to "capital stuffing," where existing vessels heavily invest in harvest capacity (28). Similarly, catch limits led to the "race to fish" phenomena (29), whereby fishermen exert extreme effort to harvest as much as possible before the catch limit is reached. Attempts to build new highway capacity to reduce traffic congestion have been frustrated because new capacity induces new demand for travel (30). By contrast, policies such as individual tradable quotas (31) and congestion charges (32) directly target the underlying incentive issue and have proven more successful, though are not without some controversy due to distributional effects (33).

218 The Tragedy of the Space Commons is an international incentives problem and therefore needs an internationally coordinated incentive-based solution. Our analysis suggests such solutions could add trillions in value to the industry. Programs such as the EU Emissions Trading System and the PNA's Vessel Day Scheme offer potential models for success.

224 SI Datasets.

225 Materials and Methods

226 Here we describe the data sources, calibration procedures, and dynamic optimization model used to quantify the economic benefits of orbits under BAU and under optimal management via an OUF.

229 **Data.** We use data on collision risk, orbital debris counts, and satellite counts provided by the European Space Agency (ESA) (14) and the Union of Concerned Scientists (UCS) (2) to calibrate our physical models of aggregate active satellite and debris evolution.

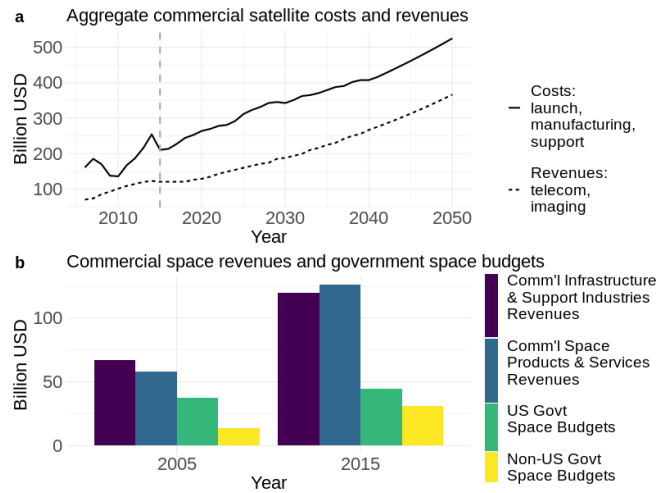


Fig. 1. State of the industry (data from refs. 6, 7, 17). a: Projected growth of satellite industry costs and revenues. Revenues and costs are yearly flows. Costs are not annuitized over the satellite lifetime. b: Observed growth in commercial space sector revenues and government space budgets.

We calibrate our economic model of open access launching using historical aggregate returns and costs for the space industry obtained from ref. (9) and launch data calculated from ref. (2). Our physical data cover 1957–2017, while our historical economic data cover 2005–2015.

For each year, the ESA data provides counts of the number of debris objects in orbit within a specified 50 km. altitude band (average orbital altitude) beginning at 100 km. above mean sea level and extending to 2000 km. above sea level, as well as the estimated probability that a collision occurs in the same bands. Each observation in the ESA data corresponds to a year, and each column corresponds to an altitude band. The UCS data describe all known active satellites currently in orbit, including variables for stated purpose, date of launch, and date of deorbit (if applicable). Each observation in this dataset corresponds to an active satellite, with corresponding variables describing that satellite. This dataset is spread over a series of files, released at roughly quarterly to semi-annually frequencies between 2005–2018, from which we reconstruct yearly counts of the number of active satellites in the 100–2000 km. range from 1957–2015.

The economic dataset we use comes from refs. (9) and (15), with data from ref. (9) representing historical data. An observation in the original dataset represents a year, with variables for dollars spent on different space sector activities, e.g. satellite construction and launch services, ground observation services, government spending by different national governments, etc. We classify these entries into yearly revenues flowing to satellite owners, and yearly costs of building, launching, and operating satellites (which we refer to as "launch costs" for brevity). We merge these data with the estimated collision probability data from the ESA dataset (14).

An observation in the final, merged dataset we use for physical model calibration represents a year in 1957–2015, which includes variables for active satellite count, debris count, estimated collision probability, and estimated returns to and costs of launching a satellite in the 100–2000 km. range. An observation in the final, merged dataset we use for economic model calibration represents a year in 2005–2015, with variables for aggregate satellite sector revenues and costs, the yearly gross rate of return on a satellite, the year-over-year change in launch costs, and the estimated collision probability. We describe our data and variable construction procedures in greater detail in the Supporting Information.

Calibrating the physical model. We construct the laws of motion for aggregate active satellite and debris stocks from accounting relationships. We assume that a) a constant fraction (3.3%) of undestroyed active satellites naturally deorbit each period (without creating additional debris), b) a constant fraction (49%) of debris deorbits each

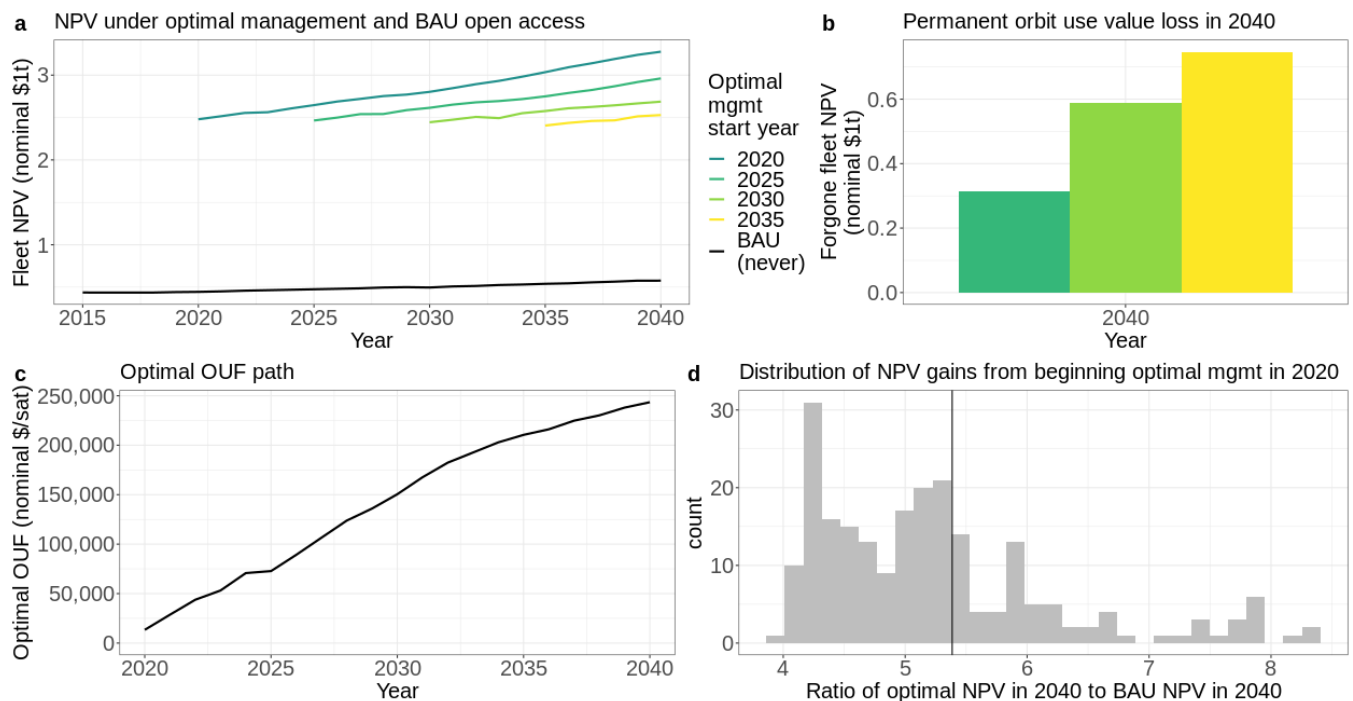


Fig. 2. Projected gains from optimal management via orbital-use fees. a: NPV of orbit recovery, with optimal management beginning in different years. BAU is shown in black. The NPV gain is the difference between optimal management and BAU. b: Loss in permanent orbit use value from delaying optimal management, relative to 2020 optimal management start. c: Time path of the optimal OUF. d: Distribution of the ratio of optimal NPV in 2040 (assuming optimal management begins in 2020) to BAU NPV in 2040 using 250 draws of alternate parameter sets. The distribution is calculated via a residual-bootstrap resampling procedure which illustrates the effect of calibration uncertainty. We describe the bootstrap in more detail in section 1.4 of the Supporting Information.

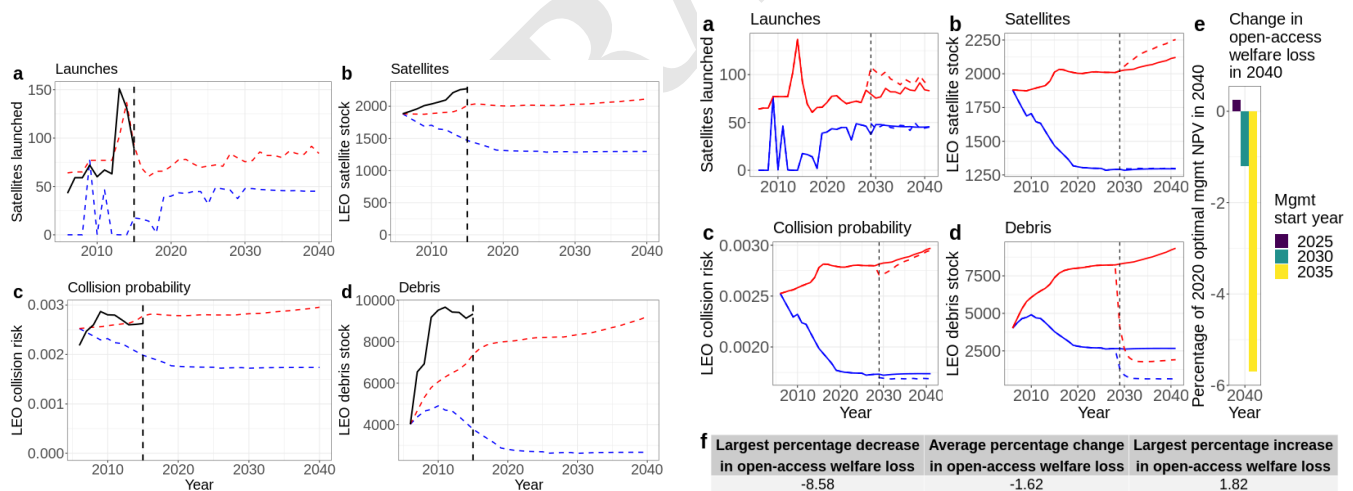


Fig. 3. Historical and future model simulations. a-d: Time paths of satellites launched, the satellite stock, collision risk, and the debris stock over time in both open access and optimal management simulations. The solid black lines show the observed data from 2006–2015. The vertical dashed black line shows the end of the historical sample in 2015. The red dashed lines show the fit of the open-access model simulation, and the blue dashed lines show the fit of the optimal model simulation. Simulation paths begin from the initial condition of observed satellite and debris levels in 2006 to emphasize that the open-access model is consistent with the observed data from 2006–2015. Simulation procedures and discussion of the discrepancies between observed and modeled outcomes are found in section 1.3 and figure S1 of the Supporting Information.

Fig. 4. Model simulations with debris removal. a-d: Time paths of launches, satellites, debris, and collision risk with 50% debris removal beginning in 2029. The red lines show open access paths, while the blue lines show optimal management paths. The dashed lines show time paths with debris removal. The vertical dashed black line marks 2029, when removal begins in the simulation. e: Change in fleet NPV in 2040 with debris removal and open access, relative to a baseline of switching to optimal management in 2020 with debris removal beginning in 2029. f: Summary statistics for changes in open-access welfare loss 50% debris removal for free beginning in each year from 2021–2034. Positive values in panels e and f indicate increased losses due to open access (debris removal makes open access worse), and negative values indicate reduced losses due to open access (debris removal makes open access better). We discuss the intuition for the results in section 1.8 of the Supporting Information.

period, and c) new fragment creation occurs due to launch debris, anti-satellite missile tests, and collisions between orbital objects. We parameterize the probability that an active satellite is destroyed in a collision using an approximate form validated in other works (12, 13), and from that functional form derive an expression for the number of new fragments created in collisions. The parameters in these functions are calibrated separately. Specific formulas are presented in the Supporting Information.

We first calibrate the collision probability function by fitting it to data on the estimated probability of a collision between 100-2000 km provided by ESA, using constrained nonlinear least squares. We constrain the parameter estimates to be positive, which is consistent with the physical interpretation of the collision probability parameters as products of positive values: the magnitude of velocity differences between colliding objects, the total cross-sectional area of the collision, and scaling constants that relate object counts to object densities.

We then calibrate the debris law of motion, using the estimated collision probability parameters, by constrained ridge regression. We use ridge regression to improve the debris model fit, given that we have relatively few observations for the number of parameters. We constrain the parameters to comply with their physical interpretations: parameters representing numbers of fragments created in collisions must be positive, while the debris decay rate must be between 0 and 1. Given the uncertainties involved in modeling and calibrating the potential for Kessler Syndrome, we disallow the possibility of debris objects colliding with each other. This likely makes our conclusions conservative, as it likely understates the growth in collision risk over time due to debris-debris collisions. Consequently, the estimated optimal OUF is likely less than what a model with debris-debris collisions would predict, as are our estimated benefits of implementing the OUF.

Finally, we calibrate the fraction of active satellites that naturally deorbit by fitting the active satellite law of motion using ordinary least squares. This yields an estimated average lifespan of approximately 30 years (the 3.3% deorbit rate mentioned above), which is consistent with an average mission length of 5 years followed by compliance with the IADC's 25-year deorbit guideline (34). We assume full compliance with the guideline to be conservative in our estimates of debris production. We describe our physical calibration procedures in greater detail in Supporting Information. We show sensitivity analyses of our calibrations in SI Figure S3, and of our model projections in SI Figures S4-6. We describe our sensitivity analysis procedure in the Supporting Information.

Calibrating the economic model. Economic theory predicts that the collision probability will be determined by the excess rate of return on an active satellite (11). However, the excess rate of return includes the internal rate of return on a satellite asset, which we do not observe, as well as factors relating to the economic structure of the various satellite-using industries involved, which we do not model. To account for these issues, we model the excess rate of return using observed aggregate revenues and costs for the satellite industry, and then include the various unknown and unmodeled factors as parameters to estimate. We then fit this model to the estimated collision probability data using ordinary least squares. Since the signs of the parameters representing the unknown and unmodeled factors are ambiguous, we do not constrain the estimates. The estimated parameters are incorporated into the economic model and used to adjust for unmodeled economic factors. The adjustment produces estimated "implied aggregate costs", shown in Table S5 of the SI. We describe this adjustment procedure and discuss the relevant unmodeled factors in the Supporting Information. We assume a market discount rate of 5% (35). The economic gains from an OUF would be even larger in magnitude at lower social discount rates.

Projecting open access and optimal launch rates. To project the launch rates under BAU and optimal management via an OUF, we solve the dynamic optimization problems associated with launching new satellites. Under open access BAU, each firm wishes to maximize their own lifetime satellite profits, and the optimization problem determines each firm's decision of whether to launch or not, which in turn determines the total launch rate across all firms. This involves calculating whether the expected lifetime revenues from

another satellite exceed the cost of launching it and aggregating up from the individual decisions to the total launch rate. Under optimal management, the optimization problem directly determines the total launch rate which maximizes the NPV of the satellite fleet. This involves calculating whether the expected lifetime revenues from another satellite exceed the marginal industry-wide costs of launching it, including the expected costs of replacing other satellites lost due to collision risk created by the new satellite and its associated debris.

Solving these dynamic optimization problems yields "launch policy functions", which map the possible orbital states – satellite and debris counts, given current revenues and costs – into an annual launch rate. As the launch policy functions encode behavioral and institutional assumptions, the launch rates they generate are more realistic approximations of orbit management behavior than simple sensitivity analyses over all possible launch rates. That is, the launch decisions are consistent with, and respond to changes in, economic and orbital conditions. By using the launch policy functions along with the laws of motion for the satellite and debris stocks and an initial condition, we can project the number of satellites and debris in orbit each year under a specified type of management institution. We describe the computation of the launch policy functions in more detail in Algorithms 1-3 in the Supporting Information. Figure 3 compares optimal and open-access projections from the calibrated model assuming no debris removal against the observed data, while figure 4 compares projections with and without debris removal.

Calculating the optimal orbital-use fee and its benefits. To calculate the optimal OUF for each year t , we compare the expected cost of satellite-destroying collisions in year $t + 1$ under BAU and under optimal management (see Equation 18 in Supporting Information). The OUF is positive whenever the optimal management solution maintains a lower collision probability than what would occur under open access BAU. The OUF is simply the marginal external cost of another satellite launch, which is the additional industry-wide cost of another satellite in orbit (additional collision risk and debris production now and in the future) that is not internalized by individual firms under BAU. By charging firms the marginal external cost of their satellite launch through an OUF, each firm's incentives and thus their launch rates are aligned with those under industry-wide, NPV-maximizing optimal management.

To calculate the benefits of imposing the OUF, we use the launch policy functions described above to compute the NPV of the entire satellite fleet under BAU and optimal management. These NPVs reflect the value of the entire satellite fleet, in perpetuity, assuming society stays on the BAU or optimal management path. The difference between the NPVs yields the gains from implementing the optimal OUF and moving from BAU to the optimal management path.

Although we abstract from many of the economic and physical complications in modeling orbit use, we consider how those factors would affect our analysis in the Supplementary Methods and Supplementary Discussion. In particular, Supplementary Methods details our sensitivity analyses with respect to physical parameter uncertainty, and Supplementary Discussion considers how these concerns may impact our conclusions. Our conclusions are likely robust to the complications we abstract from, with our calculated optimal OUF and the NPV benefits of implementing it providing the correct order of magnitude with the correct qualitative features. Future research will improve our estimates and provide more detailed guidance to policymakers.

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