

IBAC Technical Report Summary

Subject: User Charges

Meeting: ICAO Conference on the Economics of Airports and Air Navigation
Services, Montreal, 19-28 June 2000.

IBAC File: Airport Access **Reported by:** Peter Ingleton

Summary:

The objective of the Conference was a comprehensive review of a range of issues relating to the economics of Airports and Air Navigation Services and the development of proposals for the updating of related ICAO Policies, particularly in the light of the continuing trend towards privatization.

IBAC was represented by Don Spruston and Peter Ingleton.

IBAC presented three working papers in the context of two of the six Agenda Items considered by the Conference.

Based on the IBAC submission the Conference adopted a recommendation (Recommendation 4/3) that ICAO undertake a study of the measures that can be taken to ensure that general and business aviation can establish, maintain and preferably expand its access to airports, as appropriate.

A detailed report is attached hereto.

Implication for Business Aviation:

The conduct by ICAO of a study on business aviation airport access should pave the way for and comprise part of a long-term strategy on this vital issue.

Rejection by the Conference of the position that general and business aviation are marginal users of aviation infrastructure and therefore should be charged accordingly necessitates a thoughtful review of that premise.

Decisions Required:

GB/POC to:

- facilitate ICAO study
- review premise of marginal use and charges commensurate therewith.

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IBAC Report

Introduction

Almost ten years have elapsed since ICAO last convened a Conference Charges and Route Facilities Management. Significant structural and organizational changes relating to airports and air navigation services have taken place in the interim. Most notable amongst these has been the trend of privatization.

The Agenda for the meeting was composed accordingly.

The Conference was attended by over 600 participants representing 113 States and 22 Observer Organizations.

A total of 102 working and information papers were submitted for consideration.

IBAC submitted three working papers which included IBAC positions on Pre-funding of projects, Recovery of GNSS costs and SAR Services provided by the military for consideration under Agenda Item 5. Copies of these papers are available on the IBAC website.

Recommendations to modify ICAO policy guidance will be submitted, via the Air Transport Committee, to the ICAO Council for approval. The revised guidance should be available by December 2000.

Agenda Item 1. Economic situation of airports, air navigation service providers and their financial relationships with air carriers and other users

Consideration was given to three papers presented by the ICAO Secretariat comprising;

- a study on the financial situation of airports and air navigation services based on data from 1998,
- advance data from the next edition of an annual circular entitled *The World of Civil Aviation*, and
- longer term traffic forecasts indicating, *inter alia*, that air traffic is projected to increase by a factor of 2.7 during the period 1997- 2020 in terms of passenger-kilometres, resulting in a doubling of aircraft movements and number of aircraft with consequent implications for the provision and management of capacity.

It was concluded that the Secretariat should continue to monitor and analyse the economic situation of airports and air navigation services providers and study some identified aspects in greater depth.

Agenda Item 2. Organizational issues

Under this Item consideration was given to the following;

- the current state of organizational arrangements and the emerging new trends in managing facilities and services,

- commercialization,
- international cooperative and joint ventures, and
- monitoring performance and productivity.

Respective conclusions, in the form of Recommendations were;

- Rec 2/1, that the Council Statements be less conditional in tone in order to recommended that States explore the possibility of establishing autonomous entities to operate airports and air navigation services when this is in the best interests of providers and users.
- Rec 2/2, that States, when considering the commercialization or privatization of airports and air navigation services providers, bear in mind that the State is ultimately responsible for safety, security and, in view of the monopolistic nature of airports an air navigation services, economic oversight of their operations.
- Rec 2/3, that ICAO further develop guidance for States that wish to commercialize their airports or air navigation services and, in this context, address the concepts of airport systems and networks.
- Rec 2/4, that the Council Statements include text to encourage international cooperation in the provision and operation of air navigation services, where appropriate.
- Rec 2/5, that States or their delegated service providers consider participating in joint charges collection agencies whenever this is advantageous.
- Rec 2/6, that States, at their option, encourage airports and air navigation services providers to
 - 1) develop and collect data on performance in the provision of their services
 - 2) use these parameters to evaluate and improve the quality of services provided
 - 3) take these parameters into account to help support their investment decisions
 - 4) undertake consultations with users to achieve mutual understanding and consensus
 - 5) develop and maintain costing systems that permit users and providers to understand the true costs of providing services

Agenda Item 3. Funding issues

An ICAO Secretariat review of sources of financing for airports and air navigation services and of new trends in infrastructure funding formed the basis for consideration of this Item. Self-financing had replaced government financing as the most frequently quoted source of funds, clearly linked to the growing number of autonomous entities and evidencing the need for greater accountability.

Whilst the need was recognized for updating of existing guidance material on infrastructure financing, any new guidance should be flexible, taking into account that each State takes its own decisions in the light of its own circumstances.

In view of the problems faced by some States in obtaining finance for infrastructure development, it was suggested that there was a need for the international aviation community to develop a collective responsibility for financing – particularly for CNS/ATM systems – either through the International Financial Facility for Aviation Safety (IFFAS) concept , currently under consideration by the ICAO Council or through some other mechanism.

Two Recommendations were adopted:

- Rec 3/1, that the guidance on infrastructure financing contained in the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161/3) be revised and updated.
- Rec3/2, that the Council consider the feasibility of providing assistance to States, where requested, in determining the true costs of operating their air navigation services, in order to facilitate both cost-recovery and the financing of implementation of new services, such as CNS/ATM.

Agenda Item 4. Determinants of the economic regulation of airports and air navigation services

Under this Item consideration was given to the following;

- Dispute resolution,
- Interests of general aviation,
- Economic regulation,
- Ground handling, and
- Capacity management

Respective conclusions, in the form of Recommendations were;

- Rec 4/1, that ICAO include in the Council Statements in Doc 9082 advice to the effect that where an autonomous body or entity is established , whether by a government or by private interests , to operate an airport(s) and/or air navigation services, the State should stipulate as a condition for approval of the new body or entity that it observe all relevant obligations of the State specified in the Convention on International Civil Aviation . The observance by autonomous bodies or entities of other ICAO policies and practices, such as those contained in Doc 9082, should be recommended or required, as necessary, by States.
- Rec 4/2, that the concept of a “ first resort” mechanism for dealing with complaints be included in the Council Statements and other guidance material, as appropriate.
- Rec 4/3, that ICAO undertake a study of the measures which can be taken to ensure that general and business aviation can establish, maintain and preferably expand its access to airports, as appropriate.
- Rec 4/4, that in order to assist States that may wish to establish an independent mechanism for the economic regulation of airports and air navigation services, ICAO include guidelines on the establishment of such a mechanism in the Council Statements in Doc 9082 and other relevant guidance material. Such a mechanism would oversee economic, commercial and financial practices.*

- Rec4/5, that ICAO include in the Council Statements in Doc 9082 and other relevant guidance material, as appropriate, guidance on the best commercial practices for airports and air navigation services in order to promote transparency, efficiency and cost effectiveness in the provision of an appropriate quality of services and facilities.*

* both Recs contained a non-exhaustive list of items to be included in such guidance material

- Rec 4/6, that States whose airports are subject to slot coordination consider the need to ensure the independence of the functions of the slot coordinators in order to achieve a balance between the interests of the various parties concerned, and

That ICAO undertake the development of further guidance on the procedural aspects of slot allocation, with respect to equity and non-discrimination consistent with Article 15 of the Chicago Convention and including possible mechanisms for dispute resolution and also continue to monitor developments in capacity management of airports, capacity management of airspace and their inter-relationship.

In the context of deliberations regarding the Interests of General Aviation and on the basis of papers submitted by IAOPA and IBAC, the Conference questioned whether there were any significant differences between general aviation and other users for the provision of air navigation services or runway occupancy at airports. The view was expressed that users should be charged for services received and it was at the discretion of States to decide to subsidize certain user groups.

In the process of adopting Recommendation 4/3, based on an IBAC proposal, an unexpected initiative of IAOPA supported by the USA and several other States resulted in the Conference expanding the scope of the study to include general aviation as well as business aviation.

In the context of discussions regarding Ground Handling, a suggestion that guidance material be amended to permit general aviation to undertake its own ground handling did not attract support.

Agenda Item 5. ICAO Policy

5.1 Status, structure and form of ICAO policy

Consideration was given to suggestions from the ICAO Secretariat regarding certain changes to the structure, form and title of the Council Statements in Doc 9082 as well as the separate identification of basic principles of cost recovery applicable to both airports and air navigation services. These suggestions were endorsed. The Conference did not however endorse the Secretariat suggestion that there was a need for States to advise ICAO with regard to the application of at least the basic principles of cost recovery and for ICAO to disseminate this information.

5.2 Elements for consideration with regard to ICAO policy

Subjects addressed hereunder included;

- Cost basis for charges and cost allocation,
- Application of economic principles,
- Pre-funding,

- Search and Rescue,
- Economics of CNS/ATM Operation,
- Consultation with users,
- Proliferation of charges and revenue diversion, and
- Environmental charges.

Conclusions on the above subjects, in the form of Recommendations were:

- Rec 5.2/1, that States consider the application where appropriate of internationally accepted accounting standards for airports and providers of air navigation services, which maintain separate accounts and that ICAO guidance material be amended accordingly.
- Rec 5.2/2, that States re-examine the cost allocation methodologies they apply for their airports and air navigation services providers as they pertain to ICAO guidance related to the allocation of common and fixed costs, for example, between different stages of utilization of services such as terminal or en route.
- Rec 5.2/3 that ICAO study how States and other providers of air navigation services comply with existing ICAO guidance in identifying costs.
- Rec 5.2/4, that ICAO expand the guidance on cost allocation between en route, approach control and aerodrome control to reflect recent developments in air navigation services organizations and charging practices.
- Rec 5.2/5, that the Council insert the following text in the Council Statements in Doc 9082 (in relation to both airport and air navigation services charging systems):

“ Charges should be determined on the basis of sound accounting principles and may reflect as required other economic principles provided that these are in conformity with Article 15 of the *Convention on International Civil Aviation* and other principles in the present document.”
- Rec 5.2/6, that States urge their service providers that adopt economic principles to report details on both the level and allocation of fixed and variable costs, and to consult with users on how marginal costs are estimated and used in setting charges; and, that ICAO
 - 1) supplement guidance in the *Manual on Air Navigation Services Economics* (Doc 9161/3) and the *Airports Economics Manual* (Doc 6562) aimed at ensuring the use of economic pricing for capacity management does not result in over- recovery of costs while at the same timer providing a reasonable return on investment; and
 - 2) examine whether the traditional approach to measuring discrimination and cross-subsidization needs to be revised given the increased interest in applying economic principles in setting charges.
- Rec 5.2/7, that the present para 5.6 of the *Airport Economics Manual* (Doc 6562) be modified to read as follows and that para 5.7 of the *Manual on Air Navigation Services Economics* (Doc 9161/3) be aligned correspondingly:

“The application of economic principles to setting charges which are consistent with the Council Statements in DOC 9082 should emphasize the need to recover costs in an efficient and equitable manner from the users of airport services. Within an economic context, charges should be set to recover costs, provide reasonable return on investment, where appropriate, and to provide additional capacity when justified.”

- Rec 5.2/8, that the Council in its review of ICAO guidance on the issue of pre-funding of projects through charges should retain the principles of cost-relatedness for charges and of the protection of users from being charged for facilities that do not exist or are provided (currently or in the future) and, indicate that pre-funding of projects, including from non-aeronautical revenues, may be accepted in specific circumstances where this is the most appropriate means of financing long term, large -scale investment , provided that strict safeguards are in place.
- Rec 5.2/9, that ICAO undertake further study as to the position of States and the implications of amending ICAO policy with regard to recovery of cost for civil aviation related search and rescue services provided by other than permanent civil establishments.
- Rec 5.2/10, that ICAO develop guidance material on the establishment of organizations at the regional level for search and rescue activities and, conduct a study the establishment of regional and sub-regional search and rescue mechanisms and how that might be funded as regards civil aviation.
- Rec 5.2/11, that ICAO continue and expand the scope of study of the allocation of GNSS costs among user groups in coalition with non-aeronautical users and taking into account all possible methods for the allocation of costs, including the “requirements-driven method”.
- Rec 5.2/12, that ICAO strengthen the text on consultation with users in the Council Statements in DOC 9082 be and study and develop for inclusion therein the concept of giving users the right to appeal to an independent body, where available failing agreement with providers, and further guidance on the appeal process to be used consistent with the regulatory regime in the State concerned.
- Rec 5.2/13, that ICAO encourage States to permit imposition of charges only for services which are provided for, directly related to, or ultimately beneficial for civil aviation operations.

Regarding Environmental charges or levies, the Conference agreed that substantive discussions should take place in the Committee on Aviation Environmental Protection, the body to which the Council had assigned such functions.

In the context Pre-funding of projects, Recovery of GNSS costs and SAR Services provided by the military related IBAC positions received favorable consideration. The adoption by the Conference of Recommendations 5.2/9 and 5.2.10 was essentially to accommodate the views of a number of developing States who are experiencing resource problems with the provision of SAR.

An IAOPA paper which explained that because general aviation and aerial work activities operate at the margins of airport operations and use only a small proportion of airport infrastructure, related charges should be based on the marginal value of facilities and services actually used was not endorsed by the Conference.

5.2.1 Airport charging principles

Consideration was given to three issues; Single Till, Passenger Service Charges and General Aviation. The former was the most controversial issue to arise throughout the Conference.

Recommendations were agreed respectively as follows;

- Rec 5.2.1/1, that ICAO undertake, as a matter of priority, a study on the application of the “single till” principle for airports as well as air navigation services, with a view to mainly identifying the elements included in it as well as determining whether any amendment is required to the Council Statements in DOC 9082 or there is a need for additional guidance for States. The study should also focus on economic implications, including return on investment, and the impact on charges, take account the need for transparency in financial accounting and flexibility to accommodate differing circumstances in different States and service environments as well as regulatory oversight or the application of generic competition law.
- Rec 5.2.1/2 that States endeavour to ensure that the levying of passenger service charges does not create additional queuing and delays at airports, if appropriate, by avoiding the collection of these charges directly and separately from passengers at the airports and,

That the following text be deleted from the first sentence of paragraph 19 of the Council Statements in Doc 9082 ..” reaffirms that passenger service charges are not objectionable in principle”.

5.2.2 Air navigation charging principles

Based on an ICAO Secretariat paper which noted that incorporating the cost basis and charges for approach and aerodrome control into the en-route charges structure would lead to inequity because traffic over-flying without landing would be charged for the costs of approach and aerodrome control, the Conference reaffirmed the principles addressing approach and aerodrome control in the Council Statements in Doc 9082.

Agenda Item 6. Guidance and assistance by ICAO

The Conference noted a paper presented by the ICAO Secretariat which summarized the main ICAO activities in the field of economics of Airports and Air Navigation Services. In view of the inter-related tasks of the ICAO Airport Economics Panel and the Air Navigation Services Economics Panel the paper also suggested that consideration be given to merge these Panels into a single body.

Regarding the collection and reporting by States to ICAO of traffic and financial data for Airports and Air Navigation Services, the importance of such data for States to exercise economic oversight of these operations was emphasized as was the need to align such data with the ICAO Statistics Programme, in which States were urged to participate.

Of significance, the Conference noted that all Recommendations for studies and other tasks were contingent upon the availability of resources.

Meeting Documentation and Report

Copies of all Conference working papers and the Final Report are on file at the IBAC office in Montreal. Copies can be made available to IBAC member associations on request. (info@ibac.org or tel 514-954-8054).

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