



DIRECTORS GENERAL OF CIVIL AVIATION - EUR/NAT REGIONS

2019 MEETING (EURNAT-DGCA/2019)

(Paris, France, 19 to 20 March 2019)

Agenda Item 5: ICAO Business Plan and EUR/NAT Operating Plans for 2020-2022, including priorities for the ICAO EUR/NAT Regions

FINANCIAL MECHANISMS FOR THE CAAS

(Presented by the Secretariat)

SUMMARY

In recent years, the issue of funding for aviation safety, security and economic oversight functions carried out by States has been brought to the attention of ICAO. This paper presents ICAO policy and guidance material regarding various mechanisms by which to fund aviation oversight functions. It also summarizes the actions planned by the ICAO EUR/NAT Office to further develop capacity within the States with respect to funding of oversight functions at the State level.

1. Introduction

1.1 An important aspect when establishing a Civil Aviation Authority (CAA) is funding. The functions of safety, security and economic oversight are a State's responsibility; Government funding is the assumed method by which to finance these functions. However, this is not always possible or practical, particularly for States with limited financial resources. Consequently, ICAO has developed policies and guidance on the issue of funding oversight functions, which are summarized in this paper.

2. Discussion

Safety Oversight Funding

2.1 The responses to the ICAO survey (State letter EC 2/101-10/15 of 2 March 2010 refers) regarding the funding of safety oversight functions, illustrated that government (treasury) was the most important source of funding (49%). Other funding sources were derived from products and services (16%), from airport charges (16%), and from air navigation charges (12%). Other sources of funding represented the remaining 7%. At the regional level, data available for five regional safety oversight organizations (RSOOs) revealed that members' contributions constituted 100% of the funding for three RSOOs; government funding represented only 26% and 20% of the total funding, respectively, for the two remaining RSOOs, with the difference coming mainly from products and services.

2.2 At the airport or the ANSP level, it is stated in *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) that costs directly related to the safety oversight function for airport services or for air navigation services may be included in the airport or ANSP cost basis for user charges at the States' discretion and provided that such costs are imposed on the providers of services (Doc 9082,

paragraph 2 x) of Section II and paragraph 3 vii) of Section III refer).

2.3 It is also stated in Doc 9082 that ICAO policies on charges pertain to airport and air navigation services charges only (paragraph 3 of the Foreword refers). Nevertheless, the policies and charging principles contained in Doc 9082 can be applied in other circumstances, such as for funding of the safety oversight function at the national and the regional level.

2.4 In all circumstances, the four key charging principles of non-discrimination, transparency, cost-relatedness and consultation with users, as well as the requirement that users should only pay for services received, should be observed with respect to funding for safety oversight.

Security Oversight Funding

2.5 The results of the ICAO survey regarding funding of security oversight illustrated that the most significant source of funding for this function (67%) was derived from government (treasury); 8% was derived from airport charges and 12% from air navigation charges; other sources of funding represented the remaining 13%.

2.6 With respect to the airport or ANSP level, it is stated in Doc 9082 that costs directly related to the security oversight function for airport services or for air navigation services may be included in the airport or ANSP cost basis for user charges, at the States' discretion and provided that such costs are imposed on the providers of services (Doc 9082, paragraph 2 x) of Section II and paragraph 3 vii) of Section III refer). In addition, it is stated that civil aviation should not be charged for any costs incurred for general security functions performed by States such as general policing, intelligence gathering and national security; additional costs incurred for additional levels of security provided regularly to users at their request may also be charged to these users. When the costs of security at airports are recovered through charges, the method used should be discretionary, but such security charges should be based on either the number of passengers or aircraft weight, or a combination of both factors (Doc 9082, paragraph 7 of Section II refers).

2.7 More comprehensive guidance material on security charges is contained in the *Airport Economics Manual* (Doc 9562) and in the *Manual on the Economics of Air Navigation Services* (Doc 9161).

2.8 The existing policies and guidance are considered to be adequate and relevant. Nevertheless, the past decade has seen a significant increase in airport security costs that are passed on to users and end-users through security charges, suggesting that States' implementation of existing policies could be enhanced.

Economic Oversight Funding

2.9 The results of the ICAO survey regarding funding of economic oversight for airports illustrated that the majority of funds (76%) were derived from government (treasury), an additional 19% were derived from airport charges, and the remaining 5% were derived from other sources. For ANSPs, results showed that the majority of funds (68%) were also from government (treasury), an additional 23% from air navigation services charges, and the remaining 9% from other sources.

2.10 ICAO has developed extensive policy guidance for the funding of the economic oversight function for airports and ANSPs. It is stated in Doc 9082 (Section I, paragraphs 12-15) that States' exercise of economic oversight responsibilities should be clearly separated from the operation and provision of airports and air navigation services, with roles and powers clearly defined for each function. Furthermore, the main purpose of economic oversight should be to achieve a balance between the interests of airports and ANSPs, including government-operated providers, and public policy objectives, such as preventing the abuse of any dominant position the providers may have, ensuring transparency and non-discrimination, ascertaining that investments meet demands, or protecting the interests of users and end-users. Finally, costs directly related to the economic oversight function for airports or for air navigation services may be included

in the airport or ANSP cost basis, at the State's discretion and provided that such costs are imposed on the providers of services (Doc 9082, paragraph 2 x) of Section II and paragraph 3 vii) of Section III refer). At the national level, it is stated in the *Airport Economics Manual* (Doc 9562) and in the *Manual on Air Navigation Services Economics* (Doc 9161) that the potential costs (and benefits) related to a particular form of economic oversight such as fall-back regulation, price cap regulation, or rate of return regulation need to be assessed. The operation and administration of economic oversight is not cost-free, and the associated cost may increase as the approach taken by a State moves from a light-handed to a more robust form of economic oversight. In the extreme, the regulatory cost may outweigh the expected benefit. The choice of an appropriate form going beyond the application of competition law is, therefore, a matter of searching the spectrum of options with a view to protecting public interests at an acceptable level and at a minimum regulatory cost.

2.11 Potential sources of funds will vary considerably from region to region and State to State. The sources to consider in the context of the services provided by the CAA could be grouped as follows:

- a) licensing, certification, authorization and approval fees;
- b) airport and air navigation services charges;
- c) government funds; foreign sources;
- d) debt financing;
- e) other sources including the ICAO Voluntary Funds.

2.12 More comprehensive guidance material on bilateral and international sources of financing is contained in the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161).

Funding for aviation - challenges

2.13 Civil Aviation Authorities (CAAs) of most developing States do not have capabilities to mobilize national resources for the development of civil aviation in their countries. Within their governments, aviation is in competition with other priorities as defense, health, education and security. CAAs have difficulty in convincing their governments to include aviation in their national development programme, which may facilitate funding from development aid.

2.14 Aviation is still seen as a relatively self-financed sector with substantial capability to generate revenues through fees and user charges to offset capital and operating expenses. The first challenge is to ensure that all aviation income from aeronautical and non-aeronautical charges as well as from privatization of airports, Public Private Partnerships, is re-invested in the aviation sector.

2.15 For Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDs), the traffic is generally too low to generate enough income for necessary investment for infrastructure. Because of that, loans are difficult to obtain.

2.16 Another challenge is that any assistance provided should ensure capacity building and sustainability. Assisting States in improving safety oversight or aviation security may not be enough without considering the holistic situation of civil aviation in the country.

2.17 According to the USOAP CMA ICAO Universal Safety Oversight Audit Programme Continuous Monitoring Approach data for the 56 EUR/NAT States:

- a) 25% of States safety oversight authorities do not have sufficient financial resources to meet its national and international obligations (non-satisfactory PQ 2.051);
- b) 30% of States accident investigation authorities do not have sufficient financial resources to meet its national and international obligations (non satisfactory PQ 6.105); and

- c) 59% do not have sufficient qualified personnel (non satisfactory for PQ 2.053).

2.18 There is a strong correlation between air transport development and the level of effective implementation of the safety (and security) critical elements. States developing their aviation sector will ensure better implementation of ICAO Standards and Recommended Practices and at the same time contribute to their economic development.

2.19 Considering the impact of insufficient financial resources on overall States' capacity to discharge their oversight responsibilities, there is a need for more sharing of information and best practices between the EUR/NAT States. As a way forward, the EUR/NAT Office was called upon by several States to organise a workshop in 2019 to exchange information on various CAAs' funding mechanisms. This workshop can be considered as part of the regional capacity building technical assistance programme.

2.20 Based on the foregoing, the following draft Decision is proposed:

Draft EURNAT-DGCA Decision 2019/1 – Sustainable funding of civil aviation authorities

That the ICAO Regional Director, Europe and North Atlantic, in coordination with other international organisations and States, be invited to organise in 2019 a dedicated workshop concerning the sustainable funding of States civil aviation authorities.

3. Action by the Meeting

3.1 The meeting is invited to:

- a) note the information provided; and
- b) endorse the draft Decision.

— **END** —