

THIRD MEETING OF THE ALLPIRG ADVISORY GROUP

(Montreal, 6 – 8 April 1999)

Agenda Item 4: Financing issues

FINANCIAL AND ORGANIZATIONAL ASPECTS – ICAO PLANS

(Presented by the Secretariat)

SUMMARY

This paper addresses ICAO plans with regard to: a) identifying situations where the establishment of autonomous bodies and multinational cooperative ventures would be effective; b) development of business cases, facilitation of financing, cost recovery and charges collection; and c) the development of related policy and other guidance by the forthcoming Conference on the Economics of Airports and Air Navigation Services (ANSCConf 2000). Proposed action by ALLPIRG/3 is at paragraph 6.1.

1. INTRODUCTION

1.1 At ALLPIRG/2, the Secretariat presented documentation for the World-wide CNS/ATM Systems Implementation Conference (Rio, 11-15 May 1998) on planning for the financing of CNS/ATM, drawing particular attention to:

- a) the role of financial issues in the establishment of homogeneous ATM areas of major international traffic flows;
- b) the sources of financing and financing mechanisms;
- c) the role of user charges in cost recovery;
- d) the potential evolution of joint charges collection agencies and ICAO-administered cost recovery schemes; and

- e) the potential expansion of the scope of ICAO's Regional Planning and Implementation Groups (PIRGs) to encompass financial issues.

1.2 The relevant Conclusions of ALLPIRG/3 and follow-up actions are presented in ALLPIRG/3-WP/2 under Agenda Item 1, while the follow-up actions on the Recommendations of the Rio Conference are presented in ALLPIRG/3-WP/3 under Agenda Item 3. The potential expansion of the scope of PIRGs to encompass business issues is presented in ALLPIRG/3-WP/7 under Agenda Item 5.3.

1.3 The present paper is more general in nature, providing information on financial and organizational issues. Such non-technical issues have become a major factor in the implementation of airport and air navigation facilities and services. As a consequence ICAO has been actively engaged in developing policy and practical guidance material and providing direct assistance on such issues to States. The paper describes ICAO's policies and plans with regard to a number of such issues which are considered to be of special interest to ALLPIRG.

2. ORGANIZATIONAL ISSUES

2.1 ICAO's approach towards the identification of situations where the establishment of autonomous entities and/or multinational cooperative ventures in the provision of air navigation services would be effective and advantageous has focussed on policy as well as practical aspects. On the policy side the ICAO Council in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* (Doc 9082/5) supports the establishment of autonomous entities with regard to both airports and air navigation services.

2.2 ICAO does not so much itself actively pursue the identification of situations where the establishment of autonomous bodies would be effective and advantageous. Instead it has focussed on describing factors that States need to consider in order to determine where such conditions exist, and on practical steps and issues that need to be considered in the establishment of such bodies, be that at the national or multinational level. To that effect specific guidance has been developed on organizational structures in the *Airport Economics Manual* (Doc 9562), the *Manual on Air Navigation Services Economics* (Doc 9161/3) and the *Report on Financial and Related Organizational and Managerial Aspects of Global Navigation Satellite Systems (GNSS) Provision and Operation* (Doc 9660). Also, ICAO regional air navigation plans contain in their introduction general guidelines on the establishment and provision of a multinational air navigation facility/service. ICAO guidance and information is disseminated to States through various means, including regional workshops and seminars on airport and route facility management, missions by various ICAO officers, and documentation provided to regional air navigation meetings. Where the solution to a technical problem involves the establishment of a facility/service that has the capacity to serve the needs of many States but is too costly for one State to implement, ICAO assists States in identifying an efficient cooperative approach.

2.3 ICAO through specific projects under its technical cooperation programme is also active in identifying situations where the establishment of autonomous entities for operating airports and/or air navigation services would be the most efficient solution, and in advising how such solutions should be implemented.

3. DEVELOPMENT OF BUSINESS CASES

3.1 Guidance material on cost-benefit analysis is contained in *Economics of Satellite-Based Air Navigation Services - Guidelines for cost/benefit analysis of communications, navigation and surveillance/air traffic management (CNS/ATM) systems* (Circular 257).

3.2 The development of a business case for the implementation of the CNS/ATM systems by a service provider or a user involves taking financial cost-benefit analysis a step further. In particular, changes in revenues resulting from changes in the prices of the product or service sold must be taken into account. At the Rio Conference, the Secretariat presented how a business case study could be developed for establishing future CNS/ATM systems, using as an example the six flight information regions (FIRs) managed by the Agency for the Security of Aerial Navigation in Africa and Madagascar (ASECNA), comprising 16 Member States. Several other presentations were made to the Conference concerning the development of business cases. The methodology for business case studies for CNS/ATM systems implementation is still being discussed and further developed. On the basis of Recommendations 3/9 and 3/16 of the Rio Conference, the Secretariat intends to update the guidance material on cost-benefit analyses and extend it to include methodology for the development of business case studies.

4. FINANCING, COST RECOVERY AND CHARGES COLLECTION

4.1 Financing

4.1.1 In addition to guidance on cost benefit analysis and business cases, ICAO has developed extensive guidance of airport and air navigation services infrastructure financing contained in the *Airport Economics Manual*, *Manual on Air Navigation Services Economics*, and *Report on Financial and Related Organizational and Managerial Aspects of Global Navigation Satellite Systems (GNSS) Provision and Operation*. Apart from an overview of financial and economic analysis, the guidance includes advice on the preparation of financing plans, repayment of loans, and identifies various sources of financing. ICAO will continue to update this material. Its dissemination takes place in the same way as for guidance on organizational issues.

4.1.2 The Secretariat, moreover, is undertaking a study on the feasibility of the establishment of an International Aeronautical Fund that would provide financing for air navigation services projects in situations where financing could not be obtained through other sources. The study includes identification of funding requirements in different States that are not met from other sources; potential participation in Fund (including justification, administrative and legal provisions for States to participate); structure, administration and operation of the Fund. The study is due to be completed and presented to the Council towards the end of this year.

4.2 Cost recovery and charges collection

4.2.1 ICAO has also developed extensive guidance material on determining the cost basis for airport and air navigation services charges and the collection of such charges, which is contained in respectively the *Airport Economics Manual* and the *Manual on Air Navigation Services Economics*. As was noted with regard to guidance on financing, ICAO will continue to update and disseminate this material.

5. CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES (ANSCONF 2000)

5.1 This, the seventh ICAO conference addressing financial and organizational aspects of airports and air navigation services, will be held in Montreal, 19-28 June 2000, including a one and a half day preparatory seminar. The provisional draft agenda, reproduced in the **Appendix** (which is presently with States for comments) calls for the Conference to review the economic situation of airports and air navigation services providers, and then focus on organizational issues, funding issues, determinants of the economic regulation of airports and air navigation services, ICAO policy on cost recovery including its status, structure and form, and guidance and assistance provided by ICAO.

5.2 On the basis of the recommendations of the Conference, the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* will be reviewed and so will guidance in the *Airport Economics Manual* and the *Manual on Air Navigation Services Economics* as well as in other ICAO guidance documents, which would be affected by the recommendations of the Conference.

6. ACTION BY THE ALLPIRG

6.1 ALLPIRG is invited to note the above information.

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APPENDIX

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

Provisional Draft Agenda

1. **Economic situation of airports and air navigation service providers**

Overview of ownership and control (including transnational investment and ownership/management of multiple entities), financial and organizational structure and financial situation.

2. **Organizational issues**

Address of commercialization, privatization, obligations of autonomous entities, methods of regulating charges and monitoring performance (including data requirements), international co-operative or joint ventures (in financing, operations and/or charges collection), distinguishing between airports and air navigation services.

3. **Funding issues**

Evaluation of needs, sources and mechanisms; preparatory requirements including sound and transparent accounting and cost recovery practices, cost-benefit analysis and development of business cases.

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

Examination of the role of the State, international obligations including those arising from Articles 15 and 28 of the *Convention on International Civil Aviation* (Doc 7300/7), and such features as monopoly characteristics, non-discrimination, scope of user charges, equity in cost recovery, and competition in service provision (including, in the case of airports, ground handling). Particular attention will be given in this context to capacity constraints and the issue of slot allocation.

5. **ICAO policy**

Broad-based evaluation and development of the principles contained in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* (Doc 9082/5), encompassing:

5.1 **Status, structure and form of ICAO policy**

Clarity, precision and form of presentation of the *Statements*; dissemination and application of the principles in the *Statements*; need for transparency and publication of policy and practice on airport and air navigation service charges in States; related desirability for feedback and dissemination of application of the *Statements* (including the possibility of presenting some or all of them as Standards or Recommended Practices).

5.2 **Content of ICAO policy**

Major principles such as cost basis for charges, cost allocation, charging systems including currency aspects, and consultation with users, notably in the light of developments in, for example, marginal cost pricing, pre-funding of projects through charges, recovery of costs of search and rescue services provided by the military, with distinction where required to focus on:

5.2.1 **Airport charging principles**

Airport-specific charges such as landing, parking, passenger services, security and noise charges, and non-aeronautical revenue development and its relationship with charges.

5.2.2 **Air navigation services charging principles**

Charges specific to air navigation services such as route, approach and aerodrome control charges.

6. **Guidance and assistance by ICAO**

Review of adequacy of documents and activities such as Manuals and Circulars; workshop and seminar programme; assistance in cost-benefit analysis, development of business cases, seeking of financing, and in co-operative cost-recovery, billing and collection schemes.

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