

HOW WILL INTERNATIONAL CNS/ATM SYSTEMS BE FINANCED AND MANAGED?

[HOW WILL ...] The term and concept CNS/ATM was developed by the Committee on Future Air Navigation Systems established by the ICAO Council, or the FANS Committee, during the 1980s. Several elements of this concept have already been implemented and are therefore part of the existing air navigation system. The only difference in financing and management of CNS/ATM elements compared to traditional air navigation components is their multinational character. Some of the CNS/ATM elements will have to be implemented and operated on an international basis and financed and managed as multinational facilities and services. But apart from that, existing cost recovery and funding principles are still valid. I will first say a few words about the existing international policy on user charges and then come back to the issue concerning financing and management of multinational facilities and services.

ICAO's Policies on Charges for Airports and ANS, contained in Article 15 of the Chicago Convention and Doc 9082 and also expressed in the ICAO Assembly Resolution on Air Transport from 2004, are the international policies on user charges. The policies are supplemented by a comprehensive guidance material in two economic manuals, Doc 9562 and Doc 9161. All these documents are published free of charge on the ICAO web site, with the exception of the Manual on Air Navigation Services Economics where the latest edition is still under production.

DO WE NEED A POLICY? In the 1970s and 80s, the policy served the purpose to encourage States to establish financially independent autonomous entities to operate their airports and air navigation services, which was essential in order to secure the financing of operations and investments. Today, when we have commercialized air navigation services providers established in all regions of the world, ICAO's policies on charges are essential for the globalization and harmonization of the air traffic management systems. Without a uniform charging policy, States and service providers would end up applying all different kinds of charging systems and principles. There would be limited transparency and the users would have to spend a lot of time and resources to follow-up on and understand invoices received from the different service providers. States would probably also seize the opportunity to increase the tax burden on civil aviation.

IS IT A COST RECOVERY POLICY? Sometimes the policy has been criticized for being a strict cost recovery policy without any incentives for improvements in efficiency. Well, it used to be mainly a cost recovery policy. But since our latest economic conference in 2000, the policy has been adjusted to the new commercial environment that ANSPs operate under today. For example, it now contains recommendations on the use of best commercial practices and performance measuring and also emphasizes the need for independent economic regulation considering the monopolistic situation of service providers. The policies allow for a reasonable return on assets, pre-funding of future

investments under certain rules and the application of other economic principles such as marginal cost pricing or peak hour charges.

WHAT IS THE DIFFERENCE BETWEEN CHARGES AND TAXES? Well, charges are levied to recover the costs of providing facilities and services for civil aviation while taxes are levies designed to raise funds for the Government which are generally not applied to civil aviation.

[COST BASIS FOR CHARGES]

As a general principle, the providers may require the users to pay their share of the related costs; at the same time international civil aviation should not be asked to meet costs which are not properly allocable to it. The cost to be shared is the full cost of providing the air navigation facilities and services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration can be included in the cost basis for charges. A problem is of course where we have a country with very limited air traffic. Including all costs in the cost base in such a situation could lead to charges that are so high that they discourage future traffic development and subsequently also economic development in that country. However, this is recognized in ICAO's policies where it is stated that States in developing regions are particularly justified in asking international air carriers to contribute through user charges towards bearing a fair share of the cost of the services. The ICAO Council has also taken it upon itself to continue to take appropriate action to obtain more assistance for the States concerned in planning and financing air navigation services and one result is the establishment of an International Financial Facility for Aviation Safety (IFFAS) which I will come back to later.

What about costs for safety and economic regulation? All such costs directly to the provision of air navigation services may be included in the cost basis for charges provided that such costs are imposed on a service provider, for example through a license fee.

[CHARGING SYSTEMS]

Charging systems should be simple and they should comprise all air navigation services, that is in addition to air traffic control or air traffic management also communications, navigation and surveillance, meteorological services, aeronautical information, AIS, and to some extent search and rescue services. Normally, the main service provider, the provider of air traffic management, will collect charges on behalf of all other services. The policies recommend only two kinds of charges, a route charge and an approach and aerodrome control charge.

[MULTINATIONAL FACILITIES AND SERVICES]

I now come back to the financing and management of multinational facilities and services. The idea here is that some of the future CNS/ATM elements will be operated on

a multinational basis, for example the functional airspace blocks in Europe, regional satellite augmentation systems or even charges collection services. ICAO developed already in the 80s a model on how to establish and operate such multinational facilities and services. In essence, all participating States will have to contribute in a fair way to the financing of such services and the States may recover such contributions through the charges they levy on users in their national airspace. Guidelines on the establishment and operation of multinational facilities and services are included in all regional air navigation plans. There are also some other forms of international cooperation. One that is often referred to is the joint financing agreements for traffic over the North Atlantic. This service is administered by ICAO to finance the services provided by Denmark and Iceland.

[SOURCES OF FINANCING]

Except retained earnings from the revenues obtained from charges, I mentioned earlier pre-funding as a possible source of funding for future investments. But pre-funding is surrounded with some strict safeguards to avoid any misuse and it's not one of the sources that first come into mind. Instead, the most common sources are commercial loans and, where still applicable, government financing. In the context of privatization we see of course that financing through bonds and share capital is increasing. For developing States the most common financing sources are loans from foreign governments as well as loans from regional development banks. Another recent financing source developed by ICAO is the International Financial Facility for Aviation Safety (with the abbreviation IFFAS). But IFFAS is more or less restricted to situations where we have safety deficiencies identified through our universal safety oversight programme.

[COMING UP ...]

Before I come to the end of my presentation, I would like to promote an upcoming event next year. During the last week of March there will be a Symposium on the Performance of the Air Navigation System here in Montreal. The agenda for this symposium will include four fields of performance: safety, economy, operational and technical performance. In the economic field, we will discuss performance from the viewpoint of the ANSP. The intention is to come to a conclusion on what should be considered as minimum reporting requirements for ANSPs on economic performance.

[CONCLUSIONS]

The conclusion of this presentation is that some CNS/ATM elements require a financing and management arrangement on a multinational basis. In other respects the existing cost recovery policy and charging principles are still valid. A uniform user charges policy is essential for the globalization and harmonization of air navigation services around the world as well as for securing transparency, fairness and equity for all users of air navigation services.