

ASSEMBLY — 35TH SESSION

ECONOMIC COMMISSION

Agenda Item 28: Regulation and organization of airports and air navigation services

REPORT BY THE COUNCIL ON REGULATION AND ORGANIZATION OF AIRPORTS AND AIR NAVIGATION SERVICES

SUMMARY

This paper reports on developments in regulation and organization of airports and air navigation services since 2001 and envisions the need for further guidance on commercialization and privatization in this field as well as guidance on international cooperation regarding implementation of a global air navigation system.

Action by the Assembly is in paragraph 6.

REFERENCES

Doc 9082/6, ICAO's Policies on Charges for Airports and Air Navigation Services
Doc 9562, Airport Economics Manual
Doc 9161, Manual on Air Navigation Services Economics
Circ 284, Privatization in the Provision of Airports and Air Navigation Services

1. INTRODUCTION

1.1 Since the 33rd Session of the Assembly a number of developments have taken place with regard to the regulation and organization of airports and air navigation services. Due to a series of unfavourable factors (economic recession, events of September 2001, outbreaks of hostilities in Iraq and severe acute respiratory syndrome (SARS)), airports and air navigation services have had to cope with a severe reduction in overall air transport activities. In view of this, service providers have reacted by either

freezing or even decreasing user charges, while trying to offset losses by attracting more traffic, or by raising charges in order to maintain revenues through the application of increased rates.

1.2 While the trend to establish autonomous entities operating airports has continued, although at a lower pace than before, the privatization process of airports has slowed down. Compared with airports the trend to establish autonomous air navigation services entities has been slow and private involvement is still rare.

1.3 Airports and air navigation services providers are generally not subjected to competitive market forces. Hence, in an increasingly commercialized and privatized environment the need has emerged to introduce economic oversight and regulation to monitor their commercial practices and efficiency.

1.4 This paper reports first on recent developments within States and at the ICAO level in the field of commercialization and privatization and stresses the consecutive need for further ICAO guidance. Thereafter, it addresses issues related to the implementation of a global air navigation system, together with the more specific issues of the problems encountered in the collection of air navigation services charges and the allocation of global navigation satellite system (GNSS) costs to the various users of these services.

2. THE COMMERCIALIZATION PROCESS AND THE NEED FOR ICAO GUIDANCE

2.1 The trend towards commercialization and privatization in the ownership and management of airports is a part of the general process of globalization and liberalization of the economies of the world. The financial problems faced by many States in airport development and the realization that privatization can be a source of revenue to cover or reduce budgetary deficits created, together with other factors, incentives for private involvement. Furthermore, the recognition of the business community and financial institutions that an airport can be a sound investment has led to the emergence of a global airport management industry with the formation of alliances between airports and participation in the management of airports in other States. With regard to air navigation services many States around the world have already evaluated the commercialization option and taken a decision based on their specific situation. Primarily because of the high proportion of fixed costs and the limited potential of revenues from non-aeronautical activities, the few privatized providers of air navigation services have had a harder financial struggle than airports during the economic downturn.

2.2 In States where privatization or private participation in the provision of airports (or air navigation services) has taken place, there may be a need to establish an economic regulatory mechanism to ensure that monopoly power is not abused, especially with regard to airport or air navigation services charges. The nature of the regulation required depends on the degree of commercialization/privatization, the existing legal system in the State, including constitutional provisions, the legal structure for civil aviation and the objective of the proposed changes. A clear separation between regulatory functions and those of providers of airports and air navigation services is highly desirable. The body responsible for regulatory functions should be supported by appropriate legislative framework and preferably be independent to avoid conflicts of interest. In States where the establishment of a separate regulatory mechanism is not feasible it is essential that the Government itself through its civil aviation authority supervise and control the charging system and the level of charges imposed.

2.3 The commercialization process of airports and air navigation services is still in its development phase. Guidance material on key aspects related to commercialization, such as economic oversight and regulation, best commercial practices, benchmarking, measuring performance/productivity and application of economic pricing principles, will therefore need to be kept under review, revised and expanded as necessary considering the experiences gained over time in different States. This is essential in order to promote and increase the efficiency and cost effectiveness in the provision of airports and air navigation services. (An estimate made in Europe showed that a 10 percent improvement in cost-effectiveness in the air navigation services field would be worth some 6 billion euros over 10 years in that region alone).

2.4 The Council has recognized a need for feedback and dissemination of information on States' implementation of ICAO's cost recovery policy. Such information will be published as a supplement to *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082), and made available on the ICAO website free of charge. In order to make ICAO's policy and guidance material readily accessible to commercialized or privatized entities, both the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161) will be published on the website free of charge as well.

2.5 In the wake of the economic downturn and falling revenues for providers of airports and air navigation services the existing cost recovery policy has raised some questions, not least by airlines. Paragraph 20 of Doc 9082/6 states that there should be a balance between the respective interests of airports and air navigation services on one hand and of air carriers on the other, particularly during periods of economic difficulty. The Council has therefore recommended that States encourage increased cooperation between airports and providers of air navigation services and air carriers to ensure that economic difficulties facing them all are shared in an equitable manner. The criticism of the existing cost recovery policy focuses on its lack of flexibility to deal with situations of economic difficulties such as the present downfall of air traffic. With a strict application of cost recovery principles providers tend to rather increase charges to compensate for reduced revenues than strive to improve the efficiency and cost-effectiveness in their operations.

3. IMPLEMENTATION OF A GLOBAL AIR NAVIGATION SYSTEM

3.1 General

3.1.1 The implementation of a global air navigation system will require an extended and large-scale international cooperation at all levels to secure an efficient, gradual and region-by-region transition process. A comprehensive ICAO policy and guidance material on organizational and economic aspects of the provision and operation of air navigation services already exists, including guidance on international cooperation between States at a sub-regional as well as at a regional level in the form of international operating agencies, joint charges collection agencies, multinational facilities and services and joint financing arrangements. General guidelines on the establishment and provision of multinational air navigation facilities and services are now contained in all regional air navigation plans. Based on the establishment of an international treaty or an administrative agreement, all these forms of international cooperation could technically be applied to include a whole region.

3.1.2 In the short and medium term, ICAO's role in fostering the development of international cooperation will focus on the practical guidance and assistance to States (and regions). As mentioned above (paragraph 2.3), the commercialization process of air navigation services is still in its development phase and the guidance material on key aspects of commercialization will therefore need to be expanded. This material is essential also for the understanding and active participation of all parties concerned (national regulators/providers, regional regulators/providers and all airspace users) in the planning, implementation and operation of the future global air navigation system.

3.2 Collection problems

3.2.1 Following a recommendation by the 33rd Session of the Assembly the issue of the recovery of unpaid air navigation services charges was added to the terms of reference of the Air Navigation Services Economics Panel (ANSEP). The Panel has accordingly developed a proposal on new policy guidance and expanded guidance material on collection problems. The proposal emphasizes the need for an established collection policy and outlines the essential functions of a successful collection machinery. In this context, in paragraph 18 of Doc 9082/6, the Council recommends that States or their delegated service providers consider participating in joint charges collections agencies whenever this is advantageous.

3.3 GNSS cost allocation

3.3.1 The issue concerning the allocation of GNSS costs among the various user groups has been included in the work programme of the organization during the last few years. ANSEP, which has been assigned the task to assist the Secretariat in undertaking the study, has agreed that the cost allocation of GNSS between civil aviation and other users should take place at the regional level and that it should be based on the requirements of different user categories. Coordination with other organizations and non-aeronautical users will be necessary to obtain support for proposals in the ICAO study.

4. FUTURE WORK PROGRAMME

4.1 High priorities during the 2005-2007 triennium include further development of policy and guidance material for airports and air navigation services on: economic oversight and regulation; benchmarking and measuring performance and productivity; cost allocation and cost recovery of security measures. Such an enhancement of the policy and guidance material is essential for airports and providers of air navigation services worldwide in their efforts to respond to the requirements of airlines and other airspace users to increase the efficiency and cost-effectiveness in the operation of the infrastructure system for civil aviation.

4.2 Further development of this policy and guidance material is crucial also for the implementation of a global air navigation system, where the active participation by all parties concerned and their understanding of the commercial approach required are prerequisites for the realization of the potential embedded in regional and global cooperation. The work programme of the organization will at the same time provide for practical assistance and guidance to regions and sub-regions around the world, where necessary, in order to facilitate the timely implementation of the global air navigation system.

4.3 Other related areas where substantial work will be required during the next triennium are: the development of a data base for the annually published *Tariffs for Airports and Air Navigation Services* (Doc 7100) (with the purpose of publishing it as an interactive document on the Web); workshops and training courses; and assistance to States in cost determination and cost allocation of aeronautical meteorological services. Regarding security measures (mentioned in paragraph 4.1) and aeronautical meteorological services it is important to ensure that civil aviation is not burdened with costs which are not properly allocable to it according to sound accounting principles.

5. **FINANCIAL IMPACT OF THE PROPOSED ACTION¹**

5.1 The proposed work set out in paragraph 4 would be undertaken within the resources available under Programme 3.4, Airport and Route Facility Management, of the draft Programme Budget 2005-2007. Programme 3.4 includes a reduction of one Professional post compared to the current triennium.

6. **ACTION BY THE ASSEMBLY**

6.1 The Assembly is invited to note this report, endorse the Council's plans for the future work programme on regulation and organization of airports and air navigation services, and provide further guidance as required.

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¹ This information is presented only to indicate the estimated financial impact of the proposed action. The funds allocated to this proposed action will depend upon the final form of the Programme Budget of the Organization for 2005-2006-2007 approved by the Assembly.