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Organization

WORKING PAPER

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REGIONAL WORKSHOP ON AIRPORT AND AIR NAVIGATION SERVICES ECONOMICS

(Vienna, Austria, 2-4 December 2008)

AGENDA

- 1) The outcome of the 2008 ICAO economic conference
- 2) ICAO's policies on airport and air navigation services charges
- 3) Ownership, governance and control of airports
- 4) Financial management of airports
- 5) Ownership, governance and control of air navigation services providers and infrastructure management
- 6) Financial management of air navigation services

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Agenda Item 1: The outcome of the 2008 ICAO economic conference

The Conference on the Economics of Airports and Air Navigation Services (CEANS) was held at ICAO Headquarters in Montreal, from 15 to 20 September 2008. It was attended by 535 participants from 103 Contracting States and 17 international organizations. The Conference adopted a total of 15 recommendations, of which ten concern amendments to ICAO's *Policies on Charges for Airports and Air Navigation Services* (Doc 9082).

In reviewing the ICAO policies on charges, the Conference focused its discussion on improving such policies to take account of the changes in recent years and the experiences gained. The recommended amendments are to be incorporated into ICAO's policies on charges (the eighth edition of Doc 9082, which will replace the seventh edition).

The four main topics of the Conference were: a) economic oversight; b) economic performance; c) consultation with users; and d) implementation of ICAO's policies on charges.

- a) The first topic included recognition by the Conference of the States' responsibility for economic oversight to protect users against potential abuse of dominant position by airports and air navigation services providers (ANSPs). In this respect, the Conference recommended that Doc 9082 be amended in order to clarify the purpose and scope of economic oversight for service providers, with reference to its different forms and the selection of the most appropriate form of oversight.
- b) The second topic assessed economic performance and the importance of establishing performance management systems by service providers. The Conference recommended additional text for Doc 9082 to include the major elements of a performance management system with emphasis on four key performance areas (KPA's) and related indicators, namely safety, quality of service, productivity and cost-effectiveness.
- c) The third topic stressed that a proper working relationship between regulators, providers and users is required for the effective and cost-efficient development of air transport. The Conference recommended the amendment of Doc 9082 to include a clearly defined, regular consultation process, under new paragraphs on consultation with users covering both airports and air navigation services.
- d) The fourth topic stressed the importance of States' adherence to ICAO's policies on charges. The Conference reaffirmed that States should ensure that their airports and ANSPs adhere to ICAO's policies on charges and that ICAO should take all relevant measures to ensure the awareness of the policies. Further, the Conference recommended that ICAO encourage States to include the main ICAO principles on non-discrimination, cost-relatedness, transparency and consultation with users into national legislation, regulations or policies, and into their future air service agreements to ensure compliance by airports and ANSPs.

Agenda Item 2: ICAO's policies on airport and air navigation services charges

The basic policy established by ICAO in the area of airport and air navigation services charges is expressed in Article 15 of the *Convention on International Civil Aviation* (the Chicago Convention). Additional and more detailed policy guidance is provided in the 8th edition of Doc 9082, in paragraphs 8 to 41 and Appendix 1 with respect to airports, and in paragraphs 8 to 28 and 42 to 54 and Appendix 2 with respect to air navigation services. Chapter 1 – ICAO Policy on Airport Charges, of the *Airport Economics*

Manual (Doc 9562, second edition) also focuses on this subject, as does Chapter 1 – ICAO Policy on Air Navigation Services Charges, of the *Manual on Air Navigation Services Economics* (Doc 9161, fourth edition). A Supplement to Doc 9082 containing information on States' implementation of ICAO's policies on charges has been developed and published under "Free publications" on the ICAO website together with Doc 9082.

This Agenda Item is intended to provide the workshop participants with an opportunity to examine the policies and principles advocated by ICAO, obtain clarifications, and raise any other related subject matters. A special reference will be made to security charges.

It should be noted that practical aspects of implementing the principles and practices advocated will be addressed under other Agenda Items below, in particular Items 4 and 6.

Agenda Item 3: Ownership, governance and control of airports

Changes in governance, ownership and control of airports, including cross-border investments in privatized airports, can have implications for a State's obligations in the provision and operation of airport services. While different ownership and control structures might be appropriate for different airports, States should consider the establishment of autonomous entities to operate airports, taking into account the economic viability of the airport as well as the interests of both service providers and users.

Where the operation of one or more airports represents only one of several functions performed by a government entity, States should give consideration to a clear separation of the regulatory and operational functions, with roles and powers that are clearly defined for each function.

States should review the governance structure with regard to their airports, and ensure the use of best practices of good governance with regard to objectives and responsibilities, shareholders' rights and their treatment, responsibilities of the board, power and accountability of the management, relationship with interested parties, and information disclosure.

Whenever an autonomous entity is established, States should ensure that all relevant obligations of the State under the Chicago Convention, its Annexes and air services agreements are complied with, and that ICAO's policies on charges are observed.

Paragraphs 14-16 of Doc 9082 (eighth edition) emphasize the establishment of autonomous entities, separation of regulatory and operational functions, best practices of good corporate governance, and obligations of States. Paragraph 30 includes new sub-paragraph iv) to allow for more flexibility in setting airport charges, in particular the aggregation of airport cost bases but with certain safeguards.

Agenda Item 4: Financial management of airports

Airport accounts serve many important purposes and it has long been recognized that a suitable accounting system, which permits the identification of an airport's revenues and expenses, its debts and the value of its assets, is an essential tool for airport management in exercising proper financial control, including obtaining external financing under the most favourable terms.

Attention is invited to paragraph 29 of Doc 9082 (eighth edition), which states: "The Council considers that as a general principle it is desirable, where an airport is provided for international use, that the users shall ultimately bear their full and fair share of the cost of providing the airport. It is therefore important that airports maintain accounts which provide information adequate for the needs of both

airports and users and that the facilities and services related to airport charges be identified as precisely as possible”.

Guidance on the development of airport accounting systems is contained in Chapter 3 – Airport Financial Management of Doc 9562, which deals with the purpose, scope and inter-relationship of financial control and accounting in airport planning and management, and other basic aspects thereof, gives broad descriptions of accounting systems designed to meet requirements for certain specific functions, and also describes means of measuring performance and productivity. Of relevance to the discussion of this Agenda Item are also Chapter 4 – Determining the Cost Basis for Charging purposes, Chapter 5 – Charges on Air Traffic and their collection, and Chapter 7 – Financing Airport Infrastructure.

Agenda Item 5: Ownership, governance and control of air navigation services providers and infrastructure management

Where States choose not to establish autonomous providers of air navigation services, they should give consideration to a clear separation of the regulatory and operational functions, with roles and powers clearly defined for each function.

States should review the governance structure with regard to their ANSPs, and ensure the use of best practices of good corporate governance with regard to objectives and responsibilities, shareholders’ rights and their treatment, responsibilities of the board, power and accountability of the management, relationship with interested parties, and information disclosure.

Paragraphs 16 and 18 of Doc 9082 (eighth edition) emphasize the importance of separation of the regulatory and operational functions and to include components needed to ensure good governance through the application of best practices.

In addition, the eighth edition of Doc 9082 includes the following amendments adopted by the Conference:

- the word “should” in paragraph 51 is replaced with “could” in order to provide additional flexibility with regard to the role of aircraft weight for air navigation services charging formulae; and
- paragraph 15 emphasizes the need for international cooperation and also refers to regional approaches with a view to facilitating the efficient and cost-effective implementation of the ICAO Global Air Traffic Management (ATM) Operational Concept on the basis of the Global Air Navigation Plan.

Agenda Item 6: Financial management of air navigation services

The most appropriate context in which the Workshop could discuss financial management of air navigation services is that indicated by the opening sentence of paragraph 42 of Doc 9082 (eighth edition), which *inter alia* states that “... international civil aviation should not be asked to meet costs which are not properly allocable to it”. The means for ensuring this is an accounting system that enables costs to be accurately recorded and thereafter equitably apportioned among the various beneficiaries of the facilities and services concerned. Paragraphs 42 to 46 and Appendix 2 of Doc 9082 set forth certain basic principles and other advice relevant to this aim. Additionally, there are the more detailed costing guidelines in Doc 9161, Chapter 6 – Cost Basis for Charges.

Paragraphs 47 to 54 of Doc 9082 (eight edition) set forth the principles and conclusions formulated for the purpose of providing guidance to States in establishing air navigation services charges (approach/aerodrome control and route charges) and charging systems, with supplementary material appearing in Doc 9161, Chapter 7 – Air Navigation Services Charges and their Collection. Of relevance to the discussion of this Agenda Item are also Chapter 3 – International Cooperation, Chapter 4 – Financial Management, Chapter 5 – Financing of Air Navigation Services Infrastructure, and Chapter 6 – Cost Basis for Charges.

The participants may wish to view Agenda Item 6 as an opportunity to discuss and to compare their States' charging methods and experiences. The meeting will in particular discuss ways and possibilities to measure the economic performance of the air navigation system. Participants should be prepared to describe the present situation in this area in their States and assess the appropriateness and practicality to implement economic performance systems.

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**LIST OF ICAO PUBLICATIONS THAT WILL BE USED AS
REFERENCE DOCUMENTS IN THE WORKSHOP DISCUSSIONS
(in addition to working paper(s) issued for the meeting)**

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| 1. | Doc 7300 | Convention on International Civil Aviation |
| 2. | Doc 9082 | ICAO's Policies on Charges for Airports and Air Navigation Services |
| 3. | Doc 8632 | ICAO's Policies on taxation in the Field of International Air Transport |
| 4. | Doc 9902 | Assembly Resolutions in Force (as of 28 September 2007) |
| 5. | Doc 9562 | Airport Economics Manual |
| 6. | Doc 9161 | Manual on Air Navigation Services Economics |
| 7. | Doc 7100 - 2007 Edition | Tariffs for Airport and Air Navigation Services |
| 8. | Circular 284-AT/120 | Study on Privatization in the Provision of Airports and Air Navigation Services |
| 9. | Doc 9660 | Report on Financial and Related Organizational and Managerial Aspects of Global Navigation Satellite systems (GNSS) Provision and Operation |
| 10. | Doc 9908 | Report of the Conference on the Economics of airports and Air Navigation Services (CEANS) |
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GUIDANCE TO ACCESS ICAO DOCUMENTS THROUGH THE ICAO WEBSITE

1. Go to ICAO's website: <http://www.icao.int>.
2. On the left side of the page, navigate down to the heading "Publications", select "Free publications" and "ICAO Doc series" to find the first six documents in the list above. A revised Doc 9082 (eight edition), will be published when approved by the Council.
3. Back on the ICAO webpage, under "Meetings" and "List of meetings", select "Conference on the Economics of Airports and Air Navigation Services (CEANS)" to find all the documentation and the Report of CEANS (Doc 9908 – see point 10 above).
4. Doc 7100, Circular 284 and Doc 9660 are not available on the ICAO web site but can be ordered by e-mailing sales@icao.int.