



WORKING PAPER

ASSEMBLY — 38TH SESSION

ECONOMIC COMMISSION

Agenda Item 42: Economics of Airports and Air Navigation Services

**FUNDING OF AVIATION INFRASTRUCTURE AND OVERSIGHT FUNCTIONS
AND FINANCING AVIATION SYSTEMS**

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This working paper reports on economic/financial issues related to the outcome of the Twelfth Air Navigation Conference (AN-Conf/12), held in Montréal from 19 to 30 November 2012, focussing on the challenges associated with funding of aviation infrastructure and oversight functions and financing the air transport system. These issues were discussed during the Sixth Worldwide Air Transport Conference (ATConf/6), held in Montréal from 18 to 22 March 2013. In addition, based on the recommendations adopted by ATConf/6, this paper presents ICAO's plan of action regarding these issues for the next triennium.

Action: The Assembly is invited to:

- a) review the major developments and related ICAO's work presented in this report;
- b) endorse the Organization's plan of future work in the field of funding and financing as presented in paragraph 4; and
- c) consider the information contained in this paper for the update of Assembly Resolution A37-20.

<i>Strategic Objectives:</i>	This working paper relates to strategic Objective C — <i>Environmental Protection and Sustainable Development of Air Transport</i> .
<i>Financial implications:</i>	The activities referred to in this paper will be undertaken subject to the resources available in the 2014–2016 Regular Programme Budget and/or from extra budgetary contributions.
<i>References:</i>	A38-WP/55, Consolidated statement of continuing ICAO policies in the air transport field A38-WP/56, Outcome of the Sixth Worldwide Air Transport Conference (ATConf/6) Doc 10009, <i>Report of the Sixth Worldwide Air Transport Conference (ATConf/6)</i> Doc 10008, <i>Report of the Economic Commission of the 37th Session of the Assembly</i> Doc 10007, <i>Report of the Twelfth Air Navigation Conference (AN-Conf/12)</i> Doc 9958, <i>Assembly Resolutions in Force</i> (as of 8 October 2010) Doc 9734, <i>Safety Oversight Manual</i> Doc 9562, <i>Airport Economics Manual</i> Doc 9161, <i>Manual on Air Navigation Services Economics</i> Doc 9082, <i>ICAO's Policies on Charges for Airports and Air Navigation Services</i>

1. INTRODUCTION

1.1 Existing ICAO policies and guidance can be applied for funding of infrastructure, including the implementation of a new generation of air navigation systems, as well as for funding of safety, security and economic oversight functions. However, a number of developments have taken place regarding the issues of financing of the air transport system. These issues were considered both at the Twelfth Air Navigation Conference (AN-Conf/12), held in Montréal in November 2012, and at the Sixth Worldwide Air Transport Conference (ATConf/6), held in Montréal in March 2013.

1.2 This paper reports on the joint AN-Conf/12 and ATConf/6 outcomes related to these issues and presents the corresponding Organization's plan of action for the 2014-2016 period.

2. FUNDING AND FINANCING ISSUES

2.1 AN-Conf/12 recommended that the Conference conclusions relating to the economic, financial and social aspects of aviation system block upgrades (ASBUs) be referred to ATConf/6 with the aim of developing solutions that would support a safe and sustainable air navigation system. When addressing the challenges of integration, interoperability and harmonization of systems in support of the concept of "One Sky" for international civil aviation, AN-Conf/12 recommended that ICAO, taking a total systems and performance based approach, create a Standards and Recommended Practices development plan for the aviation system block upgrades including the establishment of global priorities between the different blocks and modules.

2.2 Regarding the economic and financial impact of AN-Conf/12 recommendations, ATConf/6 considered two sub-items, funding and financing, as described in the sections below.

2.3 Funding of Infrastructure

2.3.1 In the past decade, it has been demonstrated that the private sector has been essential for the development of airport and air navigation infrastructure worldwide and that good governance and performance benchmarking has driven performance upward. ATConf/6 concluded that the recently updated *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) and guidance material contained in the *Manual on Air Navigation Services Economics* (Doc 9161) can continue to be applied to fund air transport infrastructure. Airport/air navigation services may produce sufficient revenues to exceed all direct and indirect operating costs and so provide for a reasonable return on assets to secure efficient financing for the purpose of investing in new or enhanced infrastructure. At that stage, the contributing capability of States and communities concerned should be taken into consideration, while it should be understood that any State or charging authority may recover less than its full costs in recognition of local, regional or national benefits received.

2.4 Funding of oversight functions

2.4.1 Notably, Doc 9082 reminds States that when considering the commercialization or privatization of airports or air navigation services providers (ANSPs), States are ultimately responsible for safety, security and economic oversight of these entities. Furthermore, costs directly related to oversight functions (i.e. safety, security and economic oversight) for airport and air navigation services may be included in the provider's cost basis, at the discretion of the State. For economic oversight of providers, specific policies related to consultation with users, economic performance and cost basis for charging purposes should be observed. The Conference reconfirmed that the functions of oversight are a State

responsibility, recognizing, however, that for some States with limited financial resources it is not always possible to use Government funding. ATConf/6 also concluded that the ICAO guidance on funding of oversight functions at the airport/ANSP level continues to be relevant and should be kept current for use by States according to their needs.

2.5 Financing the modernization of the aviation system

2.5.1 The economic challenge of Air Traffic Management (ATM) modernization is related to the requirement of a large number of investments that need to be secured over a long period of time. Many of these investments have to be made by airspace users, with their business case being directly dependent on the investments made by other airspace users and ANSPs. It should be noted that some States have implemented a “best equipped, best served” procedure by which priority is given to aircraft equipped with adequate ATM capabilities. Nevertheless, aircraft operators have stated that they cannot afford to absorb all costs incurred and reluctance has been expressed with regard to investing in necessary cockpit technology in view of the fact that the cost/benefit case has not been fully demonstrated. To address such financing problems, States have explored new avenues. For instance, a public-private partnership (PPP) has been authorized in the United States, which will facilitate the implementation of the Next Generation Air Transportation System (NextGen) equipage for general aviation and commercial airlines. Further incentive schemes need to be designed in order to ensure timely and controlled deployment of the block upgrades as well as to drive behaviours from last-mover-advantage to first-mover-advantage.

3. CURRENT ICAO WORK ON FUNDING AIR TRANSPORT INFRASTRUCTURE AND SYSTEMS

3.1 Funding of infrastructure

3.1.1 Detailed policies and guidance material of particular interest in the consideration of issues relating to funding for air transport infrastructure can be found in Doc 9082 as well as in the *Airport Economics Manual* (Doc 9562) and in Doc 9161. These documents address notably the issues linked to the cost basis for airports and air navigation services charges and they discuss various aspects of funding that need to be considered when embarking on an infrastructure investment project required for providing enhanced airport and air navigation facilities and services. With regard to the global navigation satellite system (GNSS), the Council adopted a provisional policy on the allocation of the incremental costs of more advanced GNSS. As a general principle, providers may require users to pay the portion of costs properly allocable to them but, at the same time, international civil aviation should not be required to meet costs which are not properly allocable to it. In that context, ICAO’s policies and guidance remain valid on funding air transport infrastructure through airport and air navigation services charges, through pre-funding of projects and through the allocation of GNSS costs.

3.2 Sustainable funding of Regional Safety Oversight Organizations

3.2.1 With regard to the Symposium on the Regional Safety Oversight Organizations (RSOOs), held in Montréal in October 2011, the Council decided at its fourth meeting of the 195th Session that additional guidance material on the sustainable funding of RSOOs should be developed, in consultation with States and the industry.

3.2.2 An ad-hoc Secretariat Study Group revised Chapter 5 of the *Safety Oversight Manual, Part B* (Doc 9734) – *The Establishment and Management of a Regional Safety Oversight Organization*.

The revision notably took into account the alignment of the structure of this chapter with existing policies and guidance material on the funding of air transport infrastructure. This guidance material was finalized in October 2012, upon incorporation of the comments received from RSOOs, international organizations, the Airport Economics Panel (AEP) and the Air Navigation Services Economics Panel (ANSEP). It will be incorporated in Doc 9734 and circulated to States and RSOOs after editorial review.

3.2.3 As indicated above, and based on ICAO's policies on charges in Doc 9082, additional guidance was developed on funding of the safety oversight function at the regional level through user charges. Nevertheless, given the challenges associated with funding oversight functions at the State and regional levels, ICAO's policies and guidance should be further developed.

4. **FUTURE WORK**

4.1 With a view to advancing its Strategic Objectives, the Organization plans to work in the area of funding aviation infrastructure and oversight functions and financing air transport system in the manner presented below, taking into account the proposed Strategic Objectives approved by the Council as well as implementation of the Council approved related ATConf/6 recommendations.

4.2 ICAO, in cooperation with States, international organizations and the industry, will establish a multi-disciplinary working group to consider the challenges associated with the establishment of operational and economic incentives, such as service priority, to allow early benefits of new technologies and procedures, as described in the aviation system block upgrade (ASBUs) modules, to support operational improvements, while maximizing safety, capacity and overall system efficiency, taking into account the specific needs expressed at AN-Conf/12.

4.3 ICAO will undertake relevant measures to ensure widespread awareness and knowledge of its policies, guidance and other material related to funding infrastructure and oversight functions, ensuring that such measures remain relevant, current and responsive to the changing situation of air transport while also responding to the recommendations of ATConf/6 related to funding and financing issues, as endorsed by the Assembly.

4.4 ICAO will develop guidance on the sustainable funding of the safety and security oversight functions at the State and regional level while monitoring the situation for economic oversight funding. With the objective of ensuring the sustainable funding of the oversight functions at the State and regional levels, ICAO will also explore possibilities for the establishment of new mechanisms that are in line with Doc 9082 while taking into account the various situations encountered by States.