



**WORKING PAPER**

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND  
AIR NAVIGATION SERVICES**

**Montréal, 15 to 20 September 2008**

**Agenda Item 2: Specific issues related to airport economics and management**

**2.2: Cost basis for charges**

**2.3: Cost allocation and charging systems**

**SETTING CHARGES AND ESTABLISHING APPROPRIATE COSTS**

(Presented by the United States of America)

**SUMMARY**

The purpose of this paper is to highlight potential shortcomings associated with the approach to allocating costs and setting charges that is introduced in WP/8. This paper offers an alternative approach which is more consistent with ICAO's policies. The benefit of the approach outlined here is that it provides the charge-setting flexibility alluded to in WP/8 while at the same time reducing potential inefficiencies associated with having a large number of separate charging elements. Finally, this paper proposes amendments to ICAO's policies.

Action by the Conference is in paragraph 4.

**1. INTRODUCTION**

1.1 One of the primary goals of *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) is to ensure that airport and air navigation charges are based on fairly allocated costs. To ensure that charges are reasonable, the ICAO Council recommends that States permit charges only for services and functions provided for, directly related to, or ultimately beneficial for, civil aviation operations. Furthermore, charges should not discriminate against international civil aviation in relation to other modes of international transport.

1.2 As a first step in setting charges, the *Airport Economics Manual* (Doc 9562) provides detailed guidance on how airport owners/operators should establish individual cost basis. As noted in WP/8, the airport manual identifies 11 different cost bases from which the airport owner/operator can then set charges. The benefit from establishing this level of granularity is to ensure charges are closely related to the cost of service. In addition, this level of detail can often facilitate user consultation and accountability. On the other hand, using a large number of individual cost categories as the basis for

setting charges may introduce administrative inefficiencies for both airport owner/operator and the airport users.

1.3 WP/8 proposes to allow the airport owner/operator the flexibility of creating a single cost basis from which numerous airport charges could be established.<sup>1</sup> While this approach could reduce the administrative burden to the airport owner/operator in identifying and establishing the various costs basis as noted above, this practice, even in the presence of safeguards, is likely to have a number of negative consequences. Primarily, the approach as outlined in WP/8 appears to violate the fundamental principle of “cost relatedness”, which has driven much of ICAO’s policies on cost recovery.

1.4 The purpose of this paper is to highlight potential shortcomings associated with the approach to allocating costs and setting charges that is introduced in WP/8 and to offer an alternative approach to setting charges – an approach that is already consistent with the existing guidance. The benefit of the alternative approach is that it does provide the flexibility in setting charges as alluded to in WP/8 while at the same time reducing the inefficiencies associated with having a large number of charging elements. Finally, this paper proposes amendments to Doc 9082.

## 2. DISCUSSION

2.1 Cost relatedness is a fundamental principle of ICAO’s policies and supporting documentation. As described in paragraph 2.5 of WP/8, ICAO’s proposal appears to weaken the reliance on this fundamental principle. By allowing airport owners/operators to establish a single cost basis from which the airport owner/operator can then derive a multitude of charges, the linkage between the cost of service and charges is severely weakened or even eliminated. While the stated purpose for allowing the airport owner/operator to establish charges in this manner is to create an opportunity for the airport owner/operator to modulate charges and influence user behavior, this type of pricing is already allowed for and is described in detail in Doc 9562. Consequently, the proposed amendments are unnecessary and redundant and would have a number of additional unintended consequences.

2.2 First, adopting the proposed amendments could significantly reduce transparency between charges and the cost of service. Establishing a strong and visible link between airport charges and cost of service has been an ICAO priority. Second, without a clear link between charges and airport services, the ability of States to conduct meaningful economic oversight and encourage user consultation is diminished.

2.3 If the Conference would like to encourage more flexibility in how airport owners/operators set charges, the existing guidance can be amended to reflect this desire while at the same time preserving transparency, economic oversight, and user consultation.

2.4 Rather than encouraging airport owners/operators to consolidate their costs into a single cost basis and then derive a multitude of charges from a single basis – creating charges that bear little relationship to the services provided – an alternative approach could encourage the aggregation of related costs into fewer cost categories. Where appropriate, the airport owner/operator could reduce the number of cost basis from 11, as noted above, to a more manageable size. Reducing the number of cost basis can reduce the administrative burden for all parties and encourage pricing flexibility. Airport charges could

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<sup>1</sup> WP/8 suggests that an additional rationale for setting charges based on a single cost basis would allow small and medium size airports the ability to modulate charges to influence user behavior. However, existing guidance already allows this practice within the confines of ICAO policies (see Doc 9562, paragraphs 5.3 through 5.8.). Consequently, the proposed amendments to ICAO Policies as described in WP/8 appear unnecessary and perhaps redundant.

then be established on a more aggregated cost basis while at the same time retaining the one-to-one correspondence between costs and charges.

2.5 For example, airport owners/operators could aggregate all relevant air-side costs into a single cost category and then establish a single charge to recover these costs. The difference between this approach and the one suggested in WP/8 is that in the latter case there is no correspondence between the charges and the services provided while in the former case that relationship is retained. Moreover, to ensure consistency with current ICAO guidance, care must be taken when aggregating costs to ensure the process of aggregating costs does not result in the cross-subsidization of one user group by another user group. Arguably, existing guidance already allows this type of aggregation, but further guidance in this area could highlight its appropriateness in certain circumstances. It should be noted that while this paper endorses the aggregation of costs into fewer cost categories for the purpose of setting charges, the airport owner/operator should retain the ability to disaggregate costs into more granular categories to help promote user consultation and allow the State to conduct effective economic oversight.

### 3. CONCLUSION

3.1 From the foregoing discussion, it is recommended that no change be made to paragraph 23 of Doc 9082 as proposed by the WP/8. Instead, this paper proposes to add some clarifying guidance to ICAO's policies by inserting the text cited below within paragraph 22 of Doc 9082. The proposed text reads as follows and could be inserted as a new sub-item after item iii):

*iv) While airports should maintain cost data in sufficient detail to encourage consultation, transparency, and economic oversight, it may be beneficial to develop more aggregated cost basis in certain circumstances for the purpose of setting charges. However, the aggregation should be done in a logical and transparent manner to avoid cross-subsidization and discrimination among users in setting charges.*

### 4. ACTION BY THE CONFERENCE

4.1 The Conference is invited to:

- a) consider the need to give airport owners/operators more flexibility with respect to setting charges;
- b) review and endorse the proposed amendments to Doc 9082 in paragraph 22; and
- c) reject the proposed amendments as cited in WP/8 to Doc 9082 in paragraph 23 for the reasons noted above.

— END —



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