



CEANS-WP/77
17/9/08

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

Montréal, 15 to 20 September 2008

DRAFT REPORT ON AGENDA ITEM 2.2

Agenda Item 2: Specific issues related to airport economics and management
Agenda Item 2.2: Cost basis for charges

Note – Consideration of this item was divided into two parts: 1) Single cost basis for different charges, and 2) Rate of return.

PART I – SINGLE COST BASIS FOR DIFFERENT CHARGES

2.2.1 Documentation

Secretariat (WP/8) addressed the issue of using a single cost basis to cover a basket of charges. This added flexibility would allow airport operators to modulate charges derived from a single cost basis or a few cost bases. However, concerns having been raised about their consistency with the principles set out in Doc 9082, the paper concluded that, under appropriate safeguards, cost-relatedness of airport charges could be applied at another level than what is the practice today. In that context, certain amendments of Doc 9082 were proposed.

United States (WP/33) highlighted potential shortcomings of the approach to allocating costs and setting charges that was introduced by the ICAO Secretariat (WP/8). The paper proposed an alternative approach and an associated amendment of Doc 9082, which would encourage the aggregation of related costs into fewer cost categories and be more consistent with the existing guidance. Such an approach provides the charge-setting flexibility alluded to in WP/8 while at the same time reducing potential inefficiencies in terms of having a large number of separate charging elements.

53 African States (WP/60) recognized that airport charging systems should be flexible enough to allow airport operators to cater for the needs of all categories of users with appropriate safeguards necessary for non-discrimination and transparency.

UNWTO (WP/22) supported transparency and non-discrimination, with fair allocation amongst different types of passengers and between passengers and freight.

ACI (WP/30) expressed the view that airports require flexible charging systems to respond to the dynamics of the aviation industry and the needs of airport users. Raising the level of cost-relatedness of charges simplifies the charging system and introduces a commercial element in setting charges. Appropriate safeguards may be necessary to protect non-discrimination and transparency but should not reach as far as requiring agreement on charges between providers and users.

Mali (WP/42 – information paper), see paragraph 2.1.1.

2.2.2 Discussion

2.2.2.1 There was a general consensus on the intention to give airport operators more flexibility in the setting of airport charges, for example, by aggregating cost bases in certain circumstances. However, as concerns had been raised with respect to cost relatedness, transparency and possible discrimination that could arise from such practices, the Conference agreed that this flexibility should be accompanied by appropriate safeguards regarding consultations and, where possible, agreements with users.

2.2.2.2 The Conference agreed to leave paragraph 23 of Doc 9082 unchanged and to introduce a new sub-paragraph iv) in paragraph 22, as proposed in WP/33 and as amended during the discussion.

2.2.3 Recommendation

2.2.3.1 From the documentation and ensuing discussion on the single cost basis for different charges under Agenda Item 2.2, the Conference adopted the following recommendation:

RECOMMENDATION 5 – SINGLE COST BASIS FOR DIFFERENT CHARGES

THE CONFERENCE RECOMMENDS THAT:

- a) States should consider the need to give airport operators more flexibility with respect to setting charges, for example by aggregating cost bases in certain circumstances and;
- b) ICAO should amend Doc 9082 to allow for more flexibility in setting airport charges.

PART II – RATE OF RETURN

2.2.4 Documentation

Secretariat (WP/9) presented a possible method to determine a “reasonable” rate of return on assets for both airports and ANSPs. Although Doc 9082 does not provide any details on this subject, States should have a clear definition of a reasonable rate of return for their service providers, together with a methodology to assess it. The weighted average cost of capital (WACC) is a commonly-used method to determine a reasonable rate of return for capital-intensive companies, such as airports and ANSPs. Because of the complexity and technicality of the issue, the paper concluded that ICAO should develop additional guidance on this subject.

ACI (WP/31) felt that any guidance material from ICAO on determining a reasonable rate of return should not be prescriptive or specific with regard to methodologies or technical details. The weighted average cost of capital (WACC) is a recognized methodology, but only one possible method among others to determine a rate of return. It should be up to the States to decide if and how to determine a reasonable rate of return on a case-by-case basis in line with the principles of economic oversight. When calculating a reasonable rate of return, the various and potentially significant degrees of risk airports are exposed to must be taken into account.

IATA (WP/49) considered that there are great differences in market conditions for individual service providers. Regardless of the methodology to calculate the rate of return, there should be a stronger focus on the relationship between the risk and the allowable rate of return.

Mali (WP/42 – information paper) provided some information related to this item (see paragraph 2.1.1).

2.2.5 Documentation

2.2.5.1 The Conference agreed that its discussion on the subject of rate of return would cover both the airport aspect and the air navigation services aspect, although the latter was included in Agenda Item 3.2.

2.2.5.2 There was general support for the intent and the value of the proposals presented in WP/9 in dealing with the issue for both airports and ANSPs. Discussions focussed on two specific proposals: one on whether Doc 9082 should be amended to address the relationship between the risk faced by service providers and the reasonable rate of return (as proposed in WP/49); and the other on the need for ICAO to undertake additional work to develop further guidance.

2.2.5.3 As no support was expressed to the first proposal (WP/49), the Conference decided that no amendment was required to the relevant part of Doc 9082 on this topic. With respect to the second proposal (WP/31), while caution was voiced that ICAO guidance for States should not be overly prescriptive, there was general support that further guidance by ICAO could be useful for States in dealing with this complex matter. In agreeing that additional work should be undertaken by ICAO, the Conference recommended that the objective of such work should focus on helping States to address the

issues of how to assess the risk element and the value of assets in the context of the determination of a reasonable rate of return. It was acknowledged that there is a considerable amount of literature available on the subject matter, which should be referenced in the work to be undertaken by ICAO.

2.2.6 Recommendation

2.2.6.1 From the documentation and ensuing discussion on rate of return, covering both Agenda Items 2.2 and 3.2, the Conference adopted the following recommendation:

RECOMMENDATION 6 – RATE OF RETURN FOR AIRPORTS AND AIR NAVIGATION SERVICES

THE CONFERENCE RECOMMENDS THAT:

- a) In performing their economic oversight function, States should, where necessary and in light of the national circumstances, clearly define what is a reasonable rate of return on assets for their service providers; and
- b) ICAO should develop additional guidance material regarding possible methodologies to assess the risk element and the value of assets in the context of the determination of a reasonable rate of return.

— END —