

ICAO/IATA/AFCAC/AFRAA/ACI/CANSO Aviation User Charges Workshop, Dakar, Senegal, 13 – 14 March 2023

Report

Introduction

The workshop held from 13 to 14 March 2023, was jointly organized by ICAO, IATA, ICAO, AFRAA, AFCAC, ACI and CANSO is an annual gathering. The event had in attendance 104 participants from regulators, airports, airlines, air navigation service providers, ground handling companies, fuel suppliers and other relevant stakeholders involved in the process of consultations for the establishment of aeronautical user charges. The list of participants is posted on the workshop's link.

ICAO, IATA, AFRAA, AFCAC, ACI and CANSO officials or their representative addressed the workshop (remarks are posted on the workshop's link)

Proceedings

The proceedings were conducted in accordance with the agenda as posted on the workshop's link and was adopted without amendment. The workshop deliberated on the following:

Definition of charge vs tax in accordance with the policies developed by ICAO

A charge is a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation (**Doc 9082**).

A tax is a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis (**Doc 8632**).

Establishment of charges

States are responsible for providing facilities for airport and air navigation services as required under Article 28 of the Convention on International Civil Aviation (Chicago Convention) and should base the recovery of the costs of the airport and air navigation services provided for international civil aviation on the provision set forth in the Article 15 of the Chicago Convention, States are encouraged to establish and revise charges in accordance with the principles defined in Doc 9802 regardless of the organizational structure under which the airports and air navigation services are operated.

Factors leading to the revision of charges

The financial situation of airports, air navigation services providers (ANSPs), and of their primary users, fluctuates with the performance of global, national, and regional economies. Under certain circumstances, particularly during periods of economic difficulty, airports and ANSPs may consider an increase of charges. However, caution should be exercised when considering compensating for shortfalls in revenue through increased charges, in view of the multiplier effects on aircraft operators and other users. Recommendations and conclusions of the ICAO Council on this subject are based on the economic situation of airports and air navigation services provided for international civil aviation.

Practical guidance to States and industry

ICAO has developed the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161) as practical guidance to States, airport operators, ANSPs, and designated charging and regulatory authorities to assist in the efficient management of airports and air

navigation services as well as in implementing ICAO's policies on charges. The practical guidance assists in implementing the *Convention on International Civil Aviation* (Doc 7300) and *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082). The following additional documents are relevant for careful improvement of management: *Manual on Air Navigation Services Economics* (Doc 9161), *Airport Economics Manual* (Doc 9562) *Policy and Guidance Material on the Economic Regulation of International Air Transport* (Doc 9587) and *Manual on Privatization in the Provision of Airports and Air Navigation Services* (Doc 9980).

Other levies of concern to users

The matter of aircraft engine emission-related levies and market-based measures is addressed by the ICAO Assembly separately in:

- Assembly Resolution A41-20, *Consolidated statement of continuing ICAO policies and practices related to environmental protection — General provisions, noise, and local air quality (Aviation impact on local air quality)*, and
- Assembly Resolution A41-21, *Consolidated statement of continuing ICAO policies and practices related to environmental protection — Climate change*

The workshop recognized the continuing work of the Council to progressively formulate recommendations for the guidance of Member States on the principles on which providers of airports and air navigation services for international civil aviation can base the charges levied on air transport. Targets should be provided for the update of critical policies, the formulation of new such policies and their implementation as it is the case in safety and security domains to avoid further delay in bringing the expected results to maturity. Airports and air navigation services providers may levy charges on users for the services provided and derive other reasonable revenue therefrom. The principles of *ICAO's Policies on Charges for Airports and Air Navigation Services* should apply to all charges, including those that are not related to the provision of such services but necessary to aviation.

The Council has adopted policy guidance on the allocation of Global Navigation Satellite System (GNSS) costs to ensure an equitable treatment of all users who can derive benefits from GNSS services.

Update on aeronautical MET charges and other action in progress specific to user charges

The Council is continuing to update, as required, ICAO's policies on user charges and related guidance material with a view to contributing to increased efficiency and improved cost-effectiveness in the provision and operation of airports and air navigation services and a sound cooperation between providers and users, and to strengthen the responsiveness of policies on every charge to future crisis.

In this regard, the Council is continuing to update, as required, guidance on funding of appropriate oversight functions and on the allocation of GNSS costs, as well as to address the cost recovery for provision of aeronautical meteorological (MET) services for international civil aviation.

In addition, the Council is addressing the issues of the appropriateness of a global cost recovery system for the provision of space weather information services for international civil aviation, including the development of a cost recovery mechanism consistent with ICAO's charging principles.

Finally, the Council is continuing to promote ICAO's policies on user charges and related guidance material to increase the awareness of, and implementation by, Member States and their airports and air navigation services entities.

Aviation infrastructure development and cost recovery

States are placing increased emphasis on improving efficiency and cost-effectiveness in the provision of airports and air navigation services.

States increasingly assign the operation of airports and air navigation services to commercial and private entities, which may have less awareness and knowledge of States' obligations specified in the Chicago Convention and its Annexes and of ICAO's policies and guidance material on air transport economics and are using multinational facilities and services to meet the commitments assumed under Article 28 of the Chicago Convention.

States recognize the need to make substantial investments over the long term in the development and modernization of quality aviation infrastructure commensurate with the level of predicted traffic growth, including the future needs of new entrants and relevant Sustainable Development Goals.

The aviation industry has been paying for a vast majority of its own infrastructure costs, rather than being financed through taxation, public investment, or subsidies. There is less attention to aviation in projects of national and regional economic development despite the adoption of the *Declaration and Framework for a Plan of Action for Development of Aviation Infrastructure in Africa (IWAF/3)* by the relevant Specialized Technical Committee (STC) of the African Union (AU).

The development of aviation infrastructure and the global plan for Aviation System Block Upgrades (ASBUs) require necessary business case justification to secure funding and financing to support implementation.

At the last ICAO Assembly, member States have called on ICAO to provide advice and guidance aimed at promoting equitable recovery of airport and air navigation services costs consistent with ICAO's policies while maintaining a balance between the respective financial interests of providers of airports and air navigation services on the one hand and air carriers and other users on the other hand.

Unexpected financial challenges

The recent significant decline in air traffic due to the impact of the COVID-19 pandemic led towards a reduction of revenue from charges for airports and air navigation services and resulted in risks to the financial stability of the service providers. The need to address the financial challenges posed by the COVID-19 pandemic on airports and air navigation services providers, and the medium- and long-term implications on funding and financing for aviation infrastructure development cannot be overemphasized.

Action by States

Ensure that Article 15 of the Chicago Convention is fully respected.

Base the recovery of the costs of the airports and air navigation services they provide or share in providing for international civil aviation on the principles set forth in Article 15 of the Convention and ICAO's policies as contained in Doc 9082, despite the organizational structure under which the airports and air navigation services are operated.

Ensure that airport and air navigation services charges are applied towards defraying the costs of providing facilities and services for civil aviation.

Make every effort pursuant to Article 15 of the Chicago Convention to publish and communicate to the Organization any charges that may be imposed or permitted to be imposed for the use of airports and air navigation facilities by the aircraft of any other Member State. States to timely respond to ICAO survey for annual update of the Doc 7100 – *Tariffs for Airports and Air Navigation Services*.

Adopt the principles of non-discrimination, cost-relatedness, transparency, and consultation, as set out in ICAO's policies in Doc 9082, in national legislation, regulation or policies, as well as in air services agreements, to ensure compliance by airports and air navigation services providers.

Ensure that the current ICAO policies for cost recovery of security measures and functions at airports and by air navigation services providers, as set out in Doc 9082, are implemented so that security user charges are reasonable, cost-effective, and foster harmonization worldwide.

Cooperate in the recovery of costs of multinational air navigation facilities and services and consider the use of the ICAO policy guidance on the allocation of GNSS costs.

Strike an appropriate balance between service providers and users when implementing economic and financial measures in times of crisis, including the revision of charges, through effective consultation and ensuring that difficulties are shared amongst all parties in a reasonable manner.

States are reminded that they remain responsible for the commitments assumed regarding airports and air navigation services under Article 28 of the Chicago Convention, despite the entity or entities that operate the airports or air navigation services concerned.

States are encouraged to consider the establishment of autonomous entities to operate airports and air navigation services providers, considering economic viability as well as the interests of the users and other interested parties.

States to establish good governance, for example, the creation of enabling institutional, legal, and regulatory frameworks, the use of a data-driven approach, and the cooperation and compatible decision-making among transport authorities and ministries in charge of related portfolios, which can provide a strong impetus to boost investment in aviation infrastructure.

States to develop national and/or regional aviation infrastructure programmes and plans, which should be aligned and integrated with an appropriately balanced development of transport modes, linked with national and/or regional development frameworks and strategies, and harmonized with the international economic and financial frameworks.

States to establish a transparent, stable, and predictable investment climate to support aviation infrastructure development, for example, by engaging stakeholders, diversifying funding sources and elevating the role of private sector, including through private investment, business reform, private finance initiatives, public-private partnership, and various incentive schemes.

States to consider the appropriateness of financial and regulatory support to airports and air navigation service providers in response to any unprecedented economic difficulties stemming from the COVID-19 pandemic. Such support should be consistent with the principle of fair and equal opportunity to compete.

States to continue to develop and update, as required, guidance and tools on financing for the development and modernization of quality aviation infrastructure, including mechanisms to support operational improvements as described in the ASBU elements.

States to continue to assess the emerging funding and financing needs arising from the industry technology advancement, including investment in infrastructure to support the operation of unmanned aircraft systems.

User charges in implementing SAATM regulatory texts and AFCAP (AFCAC)

The AFCAC presentation reaffirmed the importance of Member States' compliance with ICAO's policies on charges, of domestication and application of the relevant provisions of the African Civil

Aviation Policy (AFCAP) and the Yamoussoukro Decision (YD), as well as the need to establish strong economic oversight systems.

The presentation emphasized the need for the harmonization of Member States' policies in line with ICAO's policies on charges and other non-tariff barriers as well as for governments to stimulate air transport demand by removing all taxes on air transport and by reducing passenger charges, as excessive and unjustified taxes, charges and other government-imposed fees and levies on international aviation have a negative impact on the industry's competitiveness and on national economies.

The presentation further emphasized the need for continuous focus on a multi-sectorial approach through collaboration, coordination, and communication as the most robust mechanism to comprehensively ensure that continental consensus is reached and political goodwill of States to harmonize aviation taxes, charges and fees is obtained in order to strengthen the foundation of a resilient aviation sector in Africa that will guarantee sustainable development leading to the realization of the socio-economic benefits promised by air transport.

The presentation also called on all stakeholders to cooperate under the renewed impetus on the Single African Air Transport Market (SAATM) and to support its full implementation through the Pilot Implementation Project (PIP) cluster approach to reduce aviation taxes, charges, fees and other non-physical barriers to create a fully connected, prosperous and united Africa as aviation can play a fundamental role in the drive for long-term African economic and social prosperity.

Finally, the presentation noted the need to cooperate to reduce the cost of travel to make it affordable to a larger sector of the African population who are currently excluded from the use of air transport because of the high fares. The presentation furthermore noted that aviation must not be treated as a cash cow for providers or an easy target for taxation by governments, since the negative impact on the economy of unfairly taxing air transport often outweighs the revenue raised. Governments, therefore, should take deliberate steps to address the high costs of aviation in Africa.

Participants concluded that the industry should explore alternative funding sources that could assist in reducing charges levied on air transport. The generation of non-aeronautical revenue and diversification of economy are among the targeted alternatives. In addition, the initiative expressed by the former Prime Minister of Kenya, AU Envoy on infrastructure development in Africa, at the 36th AU Assembly to personally lead the implementation of SAATM in East Africa as a pilot project under PIP could not be disregarded. Industry is encouraged to adopt business models that would lead towards the stimulation of air traffic and reduction of charges. States should enforce air transport economic oversight and consider ICAO charging principles in establishing charges in other domains of aviation with impact on air transport.

Modernizing Global Policy Frameworks on Airport Charges (ACI)

ACI's presentation on modernizing global policy frameworks on airport charges highlighted the following key themes:

- Economics of airports amidst the pandemic and recovery
- Assessing the global competitive landscape – airports and airlines
- Modernizing regulatory frameworks on airport charges
- Debunking the myths on airport charges
- The African case – charges versus taxes

ACI emphasized the need to review and update Doc 9082 – ICAO's policies on airport charges amidst the changes that have occurred in the industry over several decades and the challenges of the pandemic. A distinction is also required between taxes and charges. Based on the data, airport charges represent a smaller proportion of airline costs and ticket prices.

IATA commented on the notions around the recovery of airport losses as a result of the pandemic and that any increase in charges would be an abuse of a dominant position. It was also noted that the elements of risk are being captured in an airport's cost of capital.

ACI emphasized that airports were merely following through on the regulated formula for airport charges that existed prior to the pandemic. It was emphasized that airlines benefit from lower charges during good times (higher traffic growth) whereas airports also need consideration in difficult times as many charges were frozen through the pandemic (with unrecovered costs).

AFCAC sought an insight on whether African context was different vis-à-vis other regions with respect to the competitive pressures faced by airports.

Conclusion

The outcomes of the workshop are for implementation in the respective administration and should constitute the foundation in the process of establishing charges. This means that no relevant stakeholder should be left behind.

Overview of the regional economic performance & trends

Airlines regional performance (AFRAA)

The presentation by AFRAA provided detailed facts and figures concerning regional performance of airlines by focusing mainly benefits of aviation in Africa and challenges faced by African airlines. The disruption caused by COVID-19 outbreak fragilized the intra-African connectivity which was already weak. The high cost of taxes and charges are among factors making the operation cost of airlines higher, therefore affecting competitiveness within Africa and beyond.

Remedies are needed to create a compatible operating environment that could make airlines profitable. In this regard, States should consider the modernization of the regulatory framework which could assist in reducing the cost along the air transport supply chain, encourage collaborative arrangements among airlines, adoption of adapted innovative and disruptive arrangements, adjustment of fleet with the route network. Ultimately, all actions should converge in full implementation of SAATM, the African Continental Free Trade Area (AfCFTA) and Free Movement of Persons and African Passport which are the flagship projects of the AU Agenda 2063.

Economic challenges faced by Airports (ACI)

ACI recognized that the competitive landscape varies from one jurisdiction to the next. For instance, airport competition is more prominent in the European context. ACI emphasized that certain issues around airport charges in the African context relate to scale. Traffic remains at low levels across airports not allowing airports to achieve economies of scale. The progressive implementation of SAATM will increase traffic and facilitate airport and airline competition.

IATA was critical of the ACI presentation expanding on their comments from Day 1. There was considerable debate on the relevance of the impact of airport costs and the impact on consumers (air fares), the recovery of losses from the pandemic, cost of capital and the challenges of the building block approach amidst the pandemic.

ATNS raised the point that the rules and policies regarding charges are catching up with the changes that have occurred in the industry and impact of the pandemic. States will need to act as a neutral party between airports and airlines.

Economic challenges faced by ANSPs (ATNS)

ATNS shared a presentation on challenges faced by air navigation service providers. The presentation focused particularly on regulatory principles and regulatory mechanisms as they relate to the provision of air navigation services in the AFI Region. The importance and incorporation of the four charging principles, namely, cost-relatedness, consultation, non-discrimination, and transparency, as contained in Doc 9082 – *ICAO’s Policies on Charges for Airport and Air Navigation Services* was emphasized through case studies. The case studies encouraged States to strive to strike a balance between their primary mandate as state agencies and the economic challenges posed by the macro environment as well as the operational requirements.

Participants were encouraged to build on this discussion within their Regional Economic Communities (RECs), in order to achieve the SAATM objective of harmonizing economic regulation framework in the AFI Region, and ultimately support the implementation of AFCAP.

User Charges Setting

Charges should be based on the full cost for providing airport and ANSP services. States should incorporate ICAO’s four key charging principles into their regulation, namely:

- Consultation - a good consultation can be defined as one where information is presented, discussed and questions are being answered to reach a better understanding.
- Cost-relatedness, the link of the company’s cost to its revenues,
- Transparency with the information provided, airlines understand the charges proposal and
- Non-discrimination against any users.

Building Blocks

The Building Block methodology is the standard model to determine user charges. ICAO’s building blocks define the standard model to determine the charges level (not the charges structure), they add up all the different cost elements to a total cost, such as cost of capital, depreciation on investments, operational cost or operational expenditure, less commercial revenue which gives the total allowable revenue divided by traffic and results in the allowable revenue per unit, the charge. Then multiplying the charges with traffic, determines the total aeronautical revenue.

There needs to be an understanding of how and why cost has developed in the past and based on an understanding of actual (historic) and current cost, the future cost can be understood and discussed as it forms the base for future charges.

Pre-financing

The concept itself is generally not recommended, why should someone pay for services they receive only in the future? If pre-financing is allowed, the asset is fully paid in advance, and consequently, the building block depreciation for this particular asset cannot apply as it has already been paid, there is nothing to recover. This makes the implementation difficult to monitor.

Lessons Learned

The recovery of losses should not be implemented by service providers. Some airports and ANSPs try to achieve loss recovery for the past years through increases of charges but imagine if airlines were also to ask the travelling public for the same. This is the difference between companies in competition (airlines) and monopolies (airports, of a certain size). Setting up a robust regulatory framework is a key requirement to manage crises and to deal with irregularities and disagreements. Concepts and guidance material exists and can be used. Every country will need an approach that fits its market. The workload to set up a robust and consistent framework can be intense. IATA is available to assist through workshops and other dedicated meetings.

Closing

The workshop was closed by the Deputy Regional Director of ICAO's Western and Central African (WACAF) Office. The closing remarks are posted on the workshop's link.