



## ASSEMBLY — 40TH SESSION

### ECONOMIC COMMISSION

#### Agenda Item 36: Other issues to be considered by the Economic Commission

#### FINANCING MECHANISMS FOR CIVIL AVIATION AUTHORITIES

(Presented by Ukraine)

#### EXECUTIVE SUMMARY

In recent years, an increasing number of States are facing the issue of sufficient and sustainable funding of the activities related to their main oversight responsibilities in the sphere of civil aviation: aviation safety, security and economic oversight. Limited financial resources dedicated to these activities in some States often result into a lower indicators related to flight safety as well as show inability of the Civil Aviation Authorities to properly address constantly increasing air transport needs (increase of passenger flow, fleet, civil aviation personnel etc.). This paper considers ICAO's existing policy and guidance material regarding various mechanisms by which to fund aviation oversight functions and therefore by which such issues could be addressed by each State individually. In addition, the paper refers briefly to the issue of RSOO funding.

**Action:** Considering the information presented in this paper and in accordance with ICAO's existing policies and guidance summarized in this paper, the Assembly is invited to:

- a) take note of the information presented in this paper;
- b) reconfirm the main principles related to the proper financing of CAAs in compliance with the existing ICAO policy (including the example of Ukrainian CAA as provided in this paper), ensuring that such policy 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;
- c) note that there is a direct correlation between the level of CAA financing and the levels of air transport development, as well as the effective implementation of safety critical elements;
- d) consider the fact that lower level of CAAs financing when compared with the industry level of financing over which CAAs are responsible for oversight, is a ground for safety and security concerns;
- e) call upon all Member States to take all necessary steps to provide adequate and sustainable sources for CAAs financing to enhance oversight functions on aviation safety and security and the development of civil aviation;
- f) request the Council to conduct under the *No Country Left Behind initiative* dedicated workshops/seminars for Member States on regional levels, with the purpose to ensure widespread awareness and knowledge of ICAO policies, guidance and other material related to the funding of oversight functions, share best practises among States, and assist them on the ways to go forward according to ICAO policies in this sphere.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives — <i>Economic 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 2020–2022 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 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> Doc 8632, <i>ICAO's Policies on Taxation in the Field of International Air Transport</i>

## 1. INTRODUCTION

1.1 An important aspect of a proper functioning of a Civil Aviation Authority (CAA) is funding. In some regions of the world with limited aviation activities, the issue of funding may be crucial to securing the continued operation of such an organization.

1.2 According to the ICAO policies and guidance materials, the functions of safety, security and economic oversight are a State's responsibility. Government funding is the assumed method by which to finance these functions. However, this is not always possible or practical, particularly for States with limited financial resources. Consequently, ICAO has developed policies and guidance on the issue of funding of oversight functions, which are summarized in this paper. There might also be cases where the CAA could decide to delegate some of their oversight functions – while retaining the ICAO responsibility on them – to a Regional Safety Oversight Organizations (RSOO).

1.3 More comprehensive guidance material on ICAO policies on charges is contained in the ICAO's Policies on Charges for Airports and Air Navigation Services (Doc 9082), Airport Economics Manual (Doc 9562), ICAO's Policies on Taxation in the Field of International Air Transport (Doc 8632), Manual on the Economics of Air Navigation Services (Doc 9161), and Safety Oversight Manual/funding of RSOO (Doc 9734).

1.4 Therefore it is recommended to ensure widespread awareness and knowledge of ICAO policies and encourage each State to apply the policies set out in the relevant Docs listed above.

## 2. UKRAINIAN CASE OF CAA FUNDING

2.1. Regardless the form of ownership of the various civil aviation organizations (airports, ANSPs, airlines, etc.) in each State, whether they are owned solely by the State or controlled by private entities it is States which constantly remain ultimately responsible for their safety, security and economic oversight. As it was considered by the Sixth Worldwide Air Transport Conference (ATConf/6), costs directly related to security, safety and economic oversight functions for airport and air navigation services may be included into their cost basis, at the discretion of the State. It was confirmed by the ATConf/6 that

despite the fact that some States may have limited financial resources, the functions of oversight are a State's responsibility and therefore it has to find appropriate solutions needed to fulfill its main responsibilities. In all circumstances the four key charging principles of non-discrimination, transparency, cost-relatedness and consultation with users, as well as the requirement that users should only pay for services received, should be observed with respect to funding for oversight functions.

2.2. The ICAO survey conducted under cover of State letter EC 2/101-10/15 dated 2 March 2010 on the funding of the three oversight functions (safety, security and economic), regarding funding of the safety oversight illustrated that government (treasury) was the most important source of funding for this function (49 per cent). The remaining 51 per cent were derived from products and services (16 per cent), from airport charges (16 per cent), and from air navigation charges (12 per cent); other sources of funding represented the remaining 7 per cent. The results regarding funding of security oversight illustrated that the most significant source of funding for this function (67 per cent) was derived from government (treasury); 8 per cent was derived from airport charges and 12 per cent from air navigation charges; other sources of funding represented the remaining 13 per cent. With regards to funding of economic oversight, the majority of funds (76 per cent) were derived from government (treasury), an additional 19 per cent were derived from airport charges, and the remaining 5 per cent were derived from other sources.

2.3. The ICAO EUR/NAT Office in coordination with Ukraine has prepared a Working Paper and presentations for the EUR/NAT DGCA 2019 meeting describing main challenges faced in the area of sustainable availability of financial resources and qualified personnel to enable the effective functioning of State safety, security and economic oversight financing issues. During this meeting, Ukrainian Delegation presented its own example on how Ukraine tackled the issue of limited financing of the State Aviation Administration of Ukraine in the past and how this system works for the sake of civil aviation safety and security in Ukraine. In case of Ukraine, a State Specialised Fund for Financing National Expenditure on Aviation Activities and Participation of Ukraine in International Aviation Organizations is the only source of financing and almost 83 per cent of its income derives from passenger and cargo charges, which are levied respectively from each international/domestic passenger and each ton of international/domestic cargo. Other 17 per cent comes from certification, registration and continuous support services provided by the State Aviation Administration of Ukraine as well as from air navigation charges. Functioning of the Fund mentioned above allows Ukrainian CAA to appropriately fulfill its main oversight responsibilities, hire and retain qualified staff, be up to date with the speed of industry growth, fund staff training etc.

2.4. In this paper Ukraine shares its own example of the way how, according to the Ukrainian legislation in the sphere of civil aviation, the State Aviation Administration of Ukraine receives necessary financing for fulfillment of its oversight responsibilities in accordance with the ICAO policy.

### **3. EUROPEAN UNION (EU) EXPERIENCE**

3.1 It is also worth to mention an example of regional cooperation of different states through a RSOO, the most important purpose of which is to collaborate, share best practices, safety oversight tasks and resources, with the aim to establish and maintain an effective aviation safety oversight system.

3.2 In case of EU and its associating States, such RSOO functions are performed by the European Union Aviation Safety Agency (EASA), through which the 28 EU Member States, Iceland, Liechtenstein, Norway and Switzerland agreed to cooperate in the field of aviation safety, including delegation some of the State's oversight responsibilities. EASA carries out tasks, which have been

transferred from States to the EU and is assisting States in the implementation of the safety regulatory framework.

3.3 Such delegation of the safety oversight responsibilities by the EU and its associating Member States to EASA allows them to effectively minimize their oversight expenditures by sharing such costs among them through contributions to EASA as well as to maintain high level of safety in the region.

3.4 ICAO has included guidelines for the financing of the RSOOs in Part B, Section 5, of Safety Oversight Manual (Doc 9734).

#### **4. CHALLENGES IN CAA FINANCING**

4.1 Civil Aviation Authorities (CAAs) of most developing States do not have capabilities to mobilize national resources for the development of civil aviation in their countries. Within their governments, aviation is in competition with other priorities as defense, health, education and security. CAAs have difficulty in convincing their governments to include aviation in their national development programme, which may facilitate funding from development aid.

4.2 Aviation is still seen as a relatively self-financed sector with substantial capability to generate revenues through fees and user charges to offset capital and operating expenses. The first challenge is to ensure that all aviation income from aeronautical and non-aeronautical charges as well as from privatization of airports, Public Private Partnerships, is re-invested in the aviation sector.

4.3 For Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDs), the traffic is generally too low to generate enough income for necessary investment for infrastructure. Because of that, loans are difficult to obtain.

4.4 Another challenge is that any assistance provided should ensure capacity building and sustainability. Assisting States in improving safety oversight or aviation security may not be enough without considering the holistic situation of civil aviation in the country.

#### **5. CONCLUSIONS**

5.1 This paper has presented the issue of funding for aviation oversight functions carried out by States particularly for those with limited financial resources. Insufficient financial resources impact on overall States' capacity to discharge their oversight responsibility.

5.2 The functions of safety, security and economic oversight are a State responsibility, but for some States with limited financial resources, it is not always possible or practical to use Government funding for these functions;

5.3 According to data extracted from USOAP results (PQs) concerning the EUR/NAT region, there is a direct correlation between the level of CAA financing and the levels of air transport development, as well as the effective implementation of safety critical elements.

5.4 Lack of CAA financing will lead to the following consequences:

- a) Inability to hire and retain qualified staff since they will most likely “migrate” to the industry, where their work will be paid at a higher level. In addition, there will be a constant need to train new personnel which is also financial and time consuming;
- b) Inability to properly fulfil three main oversight responsibilities which leads to lower USOAP audits results;
- c) CAA will lose “competition” with the industry growth as it would require more oversight actions to be taken by the CAA while the level of financing will be based not on the market needs but rather on the allocated financial resources of the State;
- d) Overall aviation safety and security levels in the State will decrease since oversight functions would not be fulfilled properly.

## 6. **RECOMMENDATIONS**

6.1 Each State has to take all necessary measures in order to develop a sustainable policy which would allow CAAs to properly finance its three main oversight functions regardless financial/treasure resources allocated from their respective Governments.

6.2 ICAO should consider to undertake relevant measures to support States and 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.

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