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INTERNATIONAL CIVIL AVIATION ORGANIZATION

ASSEMBLY — 32ND SESSION

EXECUTIVE COMMITTEE

Agenda Item 20: Financial and organizational aspects of the provision of air navigation services

REPORT BY THE COUNCIL ON A PROPOSAL FOR AN INTERNATIONAL AERONAUTICAL FUND

SUMMARY

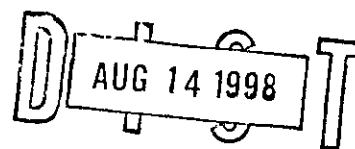
In this paper the Council presents a progress report and plans for future work on a proposal for an international aeronautical fund. Action by the Assembly is in paragraph 4.

REFERENCES

A32-WP/49
Doc 9659, A31-EX
Doc 9656, A31-EC
Doc 9082/5, *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*
Doc 8632 (1994) and Supplement (1997), *ICAO's Policies on Taxation in the Field of International Air Transport*
Doc 7300/7, *Convention on International Civil Aviation*

1. BACKGROUND

1.1 The 31st Session of the Assembly considered a proposal by eight States for the establishment of an aeronautical monetary fund to finance investments in airport and air navigation services infrastructure as well as airline fleets under conditions that would be more flexible than those usually available in the financial markets. The proposal envisaged that the Fund would be financed by annual contributions from sources such as users of civil aviation (perhaps through a levy of, say, \$1 per passenger) or any other interested institution.



1.2 While there was widespread sympathy for the objectives of the proposal, there were reservations regarding specific aspects of the particular approach chosen, including legal considerations, the perceived nature of participation, and compatibility with ICAO's policies on taxes and charges. The Assembly concluded that the proposal was a most valuable contribution to the pressing problem of aviation financing which merited further study but that the means of doing this should be left to the Council. In so doing, the Council should take into account the resources required for study in the context of other tasks in ICAO's work programme and should consider whether a separately proposed conference on CNS/ATM systems implementation, although limited to these systems, would be a suitable forum to discuss the proposed Fund and related financing issues.

2. WORK CARRIED OUT DURING THE PRESENT TRIENNium

2.1 Given the demands already imposed upon the Organization's Work Programme in the Air Transport Field, it was not possible to initiate a study on the proposal for some time. However, the Council took up the subject during its 153rd Session on the basis of a preliminary study conducted by the Secretariat. The Council agreed that more in-depth work should be carried out by the Secretariat as a matter of priority¹. The Secretariat accordingly undertook an intensive examination of all aspects of the proposal and presented the results of this preliminary study to the Council in the 154th Session.

2.2 The Council noted the Secretariat's view that in order to make the proposal more broadly acceptable, more focussed and more immediately effective the original concept could be amended so that:

- a) participation in the Fund could be voluntary, at the discretion of each individual State or, in the case of contributions, each other party concerned;
- b) only States which participate in the Fund could be the direct beneficiary of disbursements;
- c) the Fund could primarily support safety-related projects, excluding safety oversight audits (which are carried out within ICAO's Regular Programme Budget);
- d) the Fund need not be used for aircraft fleet financing, because of the existence of such financing from other sources and the potential for introducing competitive inequities; and
- e) while there could be certain benefits in having a legal convention to govern the Fund, no such convention need necessarily be required to bring the Fund into effect, solely an administrative decision by each State or other party which decides it wishes to participate.

¹The Council decided at the same time that the evaluation of the proposal was not sufficiently mature to refer to the World-wide CNS/ATM Systems Implementation Conference, which took place in Rio de Janeiro from 11 to 15 May 1998 (that is between the Committee and Council phases of the 154th Session). However, the subject was raised at the Conference by States and the Conference recommended that work on the study be expedited and given adequate resources.

2.3 The Council noted that potential uses of the Fund as redefined by the Secretariat would include financing for:

- a) the global implementation of CNS/ATM systems components;
- b) projects directly related to the ICAO safety oversight programme; and
- c) improvement and expansion of airport and air navigation services infrastructure, where this is aimed at overcoming identified safety deficiencies and shortcomings.

2.4 The key issues that were addressed by the Secretariat in developing the proposal were:

- a) the scope of funding requirements;
- b) which States or groups of States would be likely to participate in the Fund, given its voluntary nature (which would primarily be influenced in proportion to existing levels of traffic and of cost recovery from the provision of air navigation and airport services for the States concerned), the consequent viability of the Fund and its possible application on a regional rather than global basis;
- c) the nature of contributions to the Fund;
- d) purposes and criteria for disbursement from the Fund;
- e) the manner in which the Fund could be administered and its cost-effectiveness;
- f) how the Fund could fit within the framework of ICAO's existing policies and programmes; and
- g) what equity issues the Fund could raise, including cross-subsidy between participants.

3. FURTHER WORK

3.1 The Council felt that the study of the Fund proposal as presented by the Secretariat was a point of departure which merited further development. Given that the Fund, as refined, would primarily address the issue of the collection of monies for disbursement towards the provision of air navigation services, the Council has directed the Secretariat to undertake further work, *inter alia* on: the identification of the funding requirements in different States that are not met from other sources; the justification, administrative and legal provisions for States to participate in the Fund; the relationship of the Fund to ICAO's role under the Chicago Convention; the viability of the Fund should major traffic generating States not participate in it; the feasibility of the Fund being established on a regional basis as required and, where available, using the mechanism of existing multinational air navigation service providers; the equity of passengers on the same flight possibly paying different levies or some paying levies and some not; the manner in which monies would be collected; the cost of collection and possible reimbursement of this cost; the administration and operation of the Fund; the criteria, priorities and means for disbursement of monies for projects; and the evaluation/audit of project implementation.

3.2 This is a complex and substantial task, which will involve input from ICAO's Planning and Implementation Regional Groups (notably as regards the costing of identified shortcomings and deficiencies) and consultation with States as to their funding requirements and potential participation in the Fund, as well as input from a variety of disciplines within the Secretariat. Nevertheless, the task has been given appropriate priority and resources. The Council will receive progress reports at each Session and the completed evaluation at its 158th Session (October-December 1999). The Council may subsequently refer the evaluation, together with its comments, for consideration at a world-wide level by the *Conference on Airport and Air Navigation Services* which the Council has included for planning and budgetary purposes in the programme of meetings for the first half of the year 2000 (see A32-WP/49, which provides more general information on the Organization's work on financial and organizational aspects of the provision of air navigation services). Assuming broad acceptance and an indication of a viable level of participation, contributions to Fund might be made effective from 1 January 2001.

4. ACTION BY THE ASSEMBLY

4.1 The Assembly is invited to endorse the Council's actions for continued work on the proposal for an International Aeronautical Fund and provide further guidance as required.

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