



WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

SIXTH MEETING

Montréal, 18 to 22 March 2013

Agenda Item 2: Examination of key issues and related regulatory framework

Agenda Item 2.7: Economics of airports and air navigation services

FUNDING OF OVERSIGHT FUNCTIONS

(Presented by Bangladesh)

EXECUTIVE SUMMARY

This working paper summarizes Bangladesh's experience with sustainable safety and security oversight funding and seeks the development of ICAO's guidance materials for the countries with a similar economic status as Bangladesh to promote a sustainable air transport. It also proposes a way for the permanent funding of safety and security oversight programmes.

Action: The Conference is invited to agree to the recommendations presented in paragraph 3.

References: ATConf/6 reference material is available at www.icao.int/meetings/atconf6.

1. INTRODUCTION

1.1 Bangladesh fully endorses the conclusions and recommendations made in ATConf/6-WP/7 on "Funding of Oversight functions" developed by the Secretariat. Bangladesh would like to reiterate the first point in the conclusions, which reads: "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".

1.2 Countries like Bangladesh have similar problems, for example retaining a vibrant sustainable oversight team because of poor funding due to national pay structures, having office facilities at global standards, or affordability of continuous regulatory training. Because of poor pay structures, an expert inspector will not work for long in any Civil Aviation Authority (CAA) and ultimately the regulatory body becomes weak in expertise, or inspectors engage themselves in corruption. This is the core issue for weaker countries not having a strong regulatory framework. However, the problem can be addressed if provisions can be made to charge the passengers for oversight activities and the funding can be independently managed for the salary of regulatory staff and growing their expertise with adequate facilities and training. Ensuring such a stronger regulatory body can only ensure that the air operators are fully compliant, which will ultimately contribute to the sustainability of air transport.

1.3 It should be noted that the Secretariat is exploring the possibility of developing new mechanisms and further guidance material on the sustainable funding of the safety oversight function at the State level. Based on the policies contained in ICAO's *Policies on Charges for Airports and Air Navigation Services* (Doc 9082), the guidance material is to be included in the *Safety Oversight Manual* (Doc 9734). With respect to airports or air navigation services provider (ANSPs), it is stated in Doc 9082 that costs directly related to the security oversight function for airport services or for air navigation services may be included in the airport or ANSP cost basis for user charges, at the States' discretion and provided that such costs are imposed on the providers of services (Doc 9082, paragraph 2 x) of Section II and paragraph 3 vii) of Section III refer). More comprehensive guidance material on security charges is contained in the *Airport Economics Manual* (Doc 9562) and in the *Manual on the Economics of Air Navigation Services* (Doc 9161). At the national level, it is stated in Doc 9562 and in Doc 9161 that the potential costs (and benefits) related to a particular form of economic oversight such as fall-back regulation, price cap regulation, or rate of return regulation need to be assessed.

2. DISCUSSION

2.1 Bangladesh's aviation industry has suffered throughout, because of its weak regulatory standards, expertise level, implementation and enforcement drawbacks. The air operators were not often compliant because the regulatory body could not deliver up to the expected level independently. As such, ICAO had no option than to put Bangladesh in the list Significant Safety Concern (SSC) in May 2009. SSC by ICAO and Category 2 rating by the United States (USA) FAA displayed a serious negative impact for Bangladesh's airlines, business, investment and tourism. This is an issue that Bangladesh has to resolve for the national interest and for the growth of its aviation industry. However, that being the immediate focus, Bangladesh has to look for the sustainable long-term growth of the industry in a scientific manner. The root causes identified to ensure safety and security oversight are:

- a) qualified manpower cannot be retained due a poor salary structure;
- b) lack of training due to funding crisis; and
- c) weak regulatory performance because of bureaucratic interferences.

2.2 Like Bangladesh, the problem is common to most of the third world countries and States with less economic growth. The question is how these States oversight programmes can be given a momentum. The answer is very simple, firstly arrange a continuous fund with the least bureaucratic process and utilize that fund for a good salary structure and for quality training, in order to continuously produce qualified manpower for the regulatory functions as required. The next question is whether those weak governments can secure such a fund for their CAAs. The answer is no, they would not do it. Ultimately the core issue or the root cause is the smooth flow of funds. A CAA being a government organ, it cannot go beyond the government's pay structure.

2.3 On this backdrop, Bangladesh's appeal is the introduction of a safety and security oversight charge imposed on each passenger. There are different charges and taxes applied for airport development, services and security as per Doc 9082 but nothing for improvement of oversight activities. Current best practice is that all oversight activities are the government's responsibility. It is a government responsibility but weaker nations have so many other priorities that funding regulatory functions for the aviation industry in any capacity is often taken as a luxury or has lower priority. The CAA is also healthy in its own income but the money goes to central treasury and unless government gives authorization to the CAA it cannot move anyway. And it takes way too long to implement after a long approval process.

2.3.1 **Case Study of Bangladesh** — Considering the above, if a charge of only USD 5 per passenger can be introduced for safety and security oversight, and only for regulatory affairs, each passenger would know that the aircraft they are travelling in is fully compliant as per international standards. Some competent regulatory authority would ensure safety and security oversight. As a reference, Bangladesh handled about 5 million international passengers last year. Therefore, if we charge at least USD 5 from each passenger for a return ticket, it should generate a safety oversight income of 12.5 million USD per year (5 million passengers/2(return ticket)x USD 5 = 12.5 million USD per year). This money would be collected by IATA at the moment of ticket purchasing and would be directly deposited in the ICAO Technical Co-operation Bureau (TCB) Bangladesh account. Some countries are doing it through national funding but it is a temporary approach.

2.3.2 **Why ICAO TCB/Any other ICAO arrangements** — Otherwise, it would be the same organizational delay to utilize the fund being kept by the State. Rather, signing a Memorandum of Understanding or a Memorandum of Agreement having terms and conditions with the TCB, this money can be disbursed much faster than by a State's Project Director. The fund should pay the salary to the State's regulatory officials as agreed upon and any support with the expertise and training anytime the State wants it on a cost reimbursement basis. In turn, ICAO TCB may charge a 4-5 per cent service charge. If there are 50-60 countries under the same programme, ICAO can be very flexible in funding even other events utilizing the service charges of those countries. The major advantages are as follows:

- a) ICAO TCB would be ensuring the salaries at international standard of all those States. This would automatically separate the regulatory part from any kind of government influence as those CAA inspectors would not be under the national pay structure anymore;
- b) qualified manpower would continue to stay back in their home countries and there would be a sustainable growth;
- c) ICAO would have less stress in assisting the weaker State's development as soon as a permanent flow of qualified manpower starts in 2-3 years' time;
- d) many less chances of corruption in the utilization of money once monitored by ICAO TCB for recruitment to regeneration process, training standards on a day-to-day basis;
- e) government is no more paying anything for the regulatory functions. So some financial burden is taken out; and
- f) ICAO's endeavor to build a seamless sky and sustainable air transport is likely to be much faster while taking a parental role for the weaker States and directly control those CAAs to develop with specific focus and objectives.

2.4 The next question is whether the government loses anything implementing this concept. Bangladesh thinks government rather gains in other fields much more. For example, if any country is under SSC and utilizing this fund employing international experts, the State can create its own experts within the shortest possible time. As soon as it gets out of SSC, its national aviation industry investment will have a very progressive growth as it happened in the case of Bangladesh. Immediately after the restrictions of SSC were withdrawn in July 2012, about USD 100 million plus were invested instantly and by a year we are expecting another half a billion USD new investment. So, a little more money spent for oversight will prepare the investment ground at the international level with compliance, which will ensure

a healthy growth of the whole aviation industry. Similarly, introducing stronger security oversight may save hundreds of millions of dollars' worth of aircraft and invaluable passenger's life.

2.5 Today, Bangladesh has a B777-300ER but cannot fly to the USA as the country was graded Category 2 under the FAA International Aviation Safety Assessment . But Bangladesh would never enter SSC or Category 2 if this programme could be adopted. Utilizing 12.5 million through a USD 5 project to get to Category 1 would be a matter of maximum one year but we are wasting a few hundred million dollars through under-utilization of assets.

2.6 *Outcome of such funding project.* – Such a project would have the following outcomes:

- a) States would never be pointed out anymore for safety and security issues because international experts would be working side-by-side with local staff, and the CAA would now be able to pay all through this project not putting a single penny pressure on the government. This also means the aviation industry of Bangladesh would have a healthy and sustainable growth because of close monitoring by a very competent regulatory body who was not there before;
- b) all international bodies and passengers around the world would get back the confidence to travel in any State's registered aircraft and feel safe and secure, because they would know someone is watching whether every aspect of the flight and engineering is being fully compliant or if it has not been endorsed by a globally competent regulatory body in terms of safety and security. Generating such confidence for the passenger by a competent regulatory body is also at the end of the day a service given to him;
- c) this is a sustainable program that can give tremendous leverage to the Flight Standard office working independently with national and international experts of safety and security oversight aspects as all staff of the project would be under an ICAO pay scale where government would not have to take any burden of finance;
- d) such programme would automatically separate the regulatory part of the authority from the services as the payment of regulatory staff would be from a separate source;
- e) the pay scale and incentives would be healthy, and all consultants/experts/inspectors would be closely monitored based on their performance for the yearly renewal of their contract. This would generate competition and zero tolerance for corruption; and
- f) the service sector of the CAA and compliance by the operators would automatically gear up as monitoring reports would be most neutral, unbiased and accountable, produced by qualified experts only.

3. **RECOMMENDATIONS**

3.1 The Conference is invited to:

- a) request ICAO to prepare a draft guidance material, or to include it in the *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) in order to support the implementation of charges for safety and security oversight programmes,

so that Civil Aviation Authorities (CAAs) can pursue their own government approval;

- b) request States, after CAAs being granted its own government/presidential approval, to sign up with ICAO through the Technical Cooperation Bureau (TCB) to launch the regulatory functions as a project; and
- c) request ICAO (TCB) to consider establishing a suitable administrative arrangement to accommodate the additional tasks.

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