



International Civil Aviation Organization

South American Regional Office

Third Virtual Meeting of Civil Aviation General Directors of the South American Region on the Response to COVID-19

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RV3/DGAC - WP/05

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Agenda Item 4: Provide guidance on the mechanisms for financial sustainability of the civil aviation system within the framework of the crisis

NEED FOR A COORDINATED ACTION TO ESTABLISH RECOMMENDATIONS TO ADDRESS THE CHARGES TO CIVIL AVIATION

(Presented by Colombia Civil Aviation)

SUMMARY

This working paper requests ICAO to lead a coordinated action with the relevant actors of the sector to promote the principles of Document 9082, to monitor the economic activities and recommend actions that avoid, when possible, to tax the system increasing the costs and differ these effects on time, reviewing current documents and opting for aviation as a development factor and Latin American integration.

1. INTRODUCTION

1.1 Considering that the accelerated development of civil aviation involved the participation of financial resources from the private sector, as investors, they put their capital and assumed the foreseeable risks related to the development of airport infrastructure by concession, and also made inversions to support the development of air navigation systems by air navigation services providers (ANSP), generating a space for the development of the corporative activity and allowing States to focus in their role of aeronautical authority, model which showed to be successful since the beginning, and was widely developed in the world and in our region, especially in airport concessions.

1.2 As an actor of the global air transport system, the International Civil Aviation Organization display its efforts to guide policies on the charges, updating Doc 9082 in view of the changing reality of the sector described above, related to ICAO Policies on airport charges and air navigation services including the recommendations and conclusions adopted by the Council, establishing four key charging principles: non-discrimination, cost relatedness, transparency and consultation with users, in order to guide airport users and air navigation services providers (ANSP), as well as the authorities that supervise or regulate.

1.3 COVID-19 occurred and its impact on the civil aviation system was such that it became an unforeseeable risk, affecting and altering the normal circumstances of aviation systems and the continuous growth of the sector, contributing to a dramatic reduction in the volume of the activity, reflecting today in a decreased demand, and as consequence, all the actors had to assume economic losses.

1.4 In the first meeting of directors in April, we presented a Working Paper titled “Importance of Agreeing on Lines of Action to build a Common Scenario” in which we promoted the need for a common vision as a Latin American region, trying to respond all the questions of the moment on the scenarios:

- *How long would the pandemic last and which will be the levels of seriousness?*
- *How deep will the global recession be and how long last will it last?*
- *How long will the lockdowns and travel restrictions last in each State?*
- *How quickly will the confidence of consumers in air travels be restored?*
- *How long can the air transport industry endure this ordeal?*

The time elapsed and the efforts made by all have been clarifying the horizon, even full of high uncertainty, but it allows to have better models of the global behavior of the demand and of the times to recover the level of activity by all longed for, being still in force the Latin American criterion to find the future paths under a coordinated action.

1.5 Specifically, at that meeting we proposed a series of action lines to be considered in a Latin American environment, among which we emphasized guidelines for the relevant reforms necessary to provide financial sustainability and liquidity to the actors of the system, and recommendations to the Governments so as not to destabilize the institutional and budgetary strength of civil aviation authorities or the international organizations that contribute to it, which is now more relevant and which ICAO should consider through coordinated action. (RV/UAEAC – WP/05)

1.6 In the second meeting of General Directors, we presented the work entitled “*Identification of variables for the civil aviation recovery stage*” (RV2/DGAC - WP/10), including in the introduction how airport concessions have reported the deferral of investments and significant reduction in the value of their revenues; air navigation service providers are surely having their own liquidity problems due to the decrease in the demand for their services; as simple as painful as is, the demand guides the financial performance of our industry and in the analysis we noted the need to consider the financial resources towards civil aviation authorities, indicating:

*“2.4 These variables generate economic decisions, and trends that can be reinforced or mitigated. Consequently, we must together identify all the relevant variables and suggest collaborative actions. This will give us clarity to encourage demand, adjust services and modify regulations where appropriate, mindful of latent risks, such as those resulting from the emergence of a new pandemic or a revival of this one, or a failure in regional or global governance processes, or a severe error in aviation safety processes, **or under-funding of civil aviation authorities as a result of the fiscal crisis in the States and other latent variables that require supportive actions from the directors of the region and from ICAO.**”*

(Underline and bold out of text)

1.7 During the same meeting, we presented the Working Paper entitled “*Vital Role of Multilateral Banks in the Strategic Framework for the Recovery of International Air Transport in the SAM Region in Response to COVID-19*”, in Agenda Item 3 (RV2/DGAC - WP/11), outlining that:

“2.1 In an expectant and timid manner, multilateral banks and other credit institutions are currently monitoring regional activities in the field of aviation. There is an urgent need to incorporate them into our efforts in order to know their vision and policy towards the aviation sector in the post-COVID 19 setting that may contribute to a joint regional scenario for air transport reactivation.”

This condition seems to remain latent in the global environment, recognizing that the IDB has accompanied us as a region, but it is the public treasuries that have ended up contributing financially leveraging the actors of the system or facilitating credit resources, however, the Multilateral Banking, in a coordinated Latin American action are important actors that ICAO should convene.

1.8 The productive chain of service distributes its losses to the ANSPs, the Airports, the Civil Aviation Authorities and the Airlines and from there it passes to other elements of the chain such as the training centers, the MROs, the parts or aircraft manufacturers, fuel suppliers, other actors and finally the investors, but let's look at the affectations of the four main ones within the chain:

1.8.1 The ANSPs, in the airspaces under their responsibility have a monopolistic character, as they are a single provider and in a certain way there are no substitutes for the users, with legal entry barriers, and in general with fixed costs reflected in their specialized human talent, their facilities, the maintenance of the CNS infrastructure and in some cases MET and with high investment requirements to meet the changing aeronautical world due to the dynamics of the technology.

1.8.2 On the other hand, there are the Airports, with monopolistic and in some cases oligopolistic characteristics, governed under concession contracts, where the contractual balance and the management of risk, whether foreseeable or unforeseeable, will be decisive in the relationship between the concessionaire and the grantor, Most probably with differences in interpretation of how to classify the impact of the COVID-19 on that contractual relationship and with negative figures on their balance sheets, there will probably be banks that have put their trust in the future revenues of these concessions and financed long-term works, either from their own resources or from the placement of bonds that have not yet generated a relevant tension due to their long-term maturity.

1.8.3 The airlines, both of domestic and international operation, are the actors in the chain that have received the most direct damage, which affected their funds, reducing their possibilities of obtaining financing and increasing the risk for the investor, and must turn to the States for direct financing or for reorganization processes, using the instrument of Chapter 11 or other local forms, such as the agreement of creditors or processes of debt restructuring, it is there, where there is greater plurality of offers for our users, for travelers, who have been obtaining benefit from the competition and innovation that the liberalization of the markets has been bringing.

1.8.4 The Civil Aviation Authorities, in their regulatory and oversight capacity to ensure safety, in some cases with responsibilities for civil aviation security or accident investigation, are immersed in the revenues they receive from the activity if they are their own, or of those contemplated in the national budgets approved by the corresponding congresses or organisms, and that require to maintain their capacity and competence to safeguard safety and civil aviation security, where applicable, that is, it requires financial sustainability to ensure the public good it safeguards.

1.8.5 All actors have an additional cost, the biosecurity protocols, for their own staff or associated with traveler flows, in some cases it is shared with public health budgets and in others directly assumed by the passengers, as an additional cost of air transport.

1.9 As a result of the Pandemic, each actor has some losses to cover and faces a scenario of lower demand with growth projections, yes, but slower than initially expected, conditioned to the reactivation of other sectors such as tourism and the return of user confidence. This allows us to assert there is a future, which will be promising, but to reach it requires coordinated actions today in the policy that each State undertakes regarding airport charges and navigation services, where ICAO Document 9082 becomes relevant, accompanied by a coordinated action of a Latin American nature.

2. ANALYSIS

2.1 A coordinated action from ICAO should be undertaken with the support of the States, to facilitate dialogue on the financial situation and charges to civil aviation, when it is evident that each actor demands assistance from each State, not only in aviation, but also in other industries, in health or in education, thus, we should make an additional effort to develop a principle contained in Document 9082 that *“recognizes that it is difficult to reconcile the long-term planning horizon of airports and ANSPs with the shorter-term requirements of aircraft operators. Therefore, a mutual understanding between providers and users is important in addressing these challenges.”* This is summarized in the principle of consultation with users, consequent with ICAO's persistence that there should be a balance between the respective

interests of airports and ANSPs, on one hand, and those of aircraft operators and end users on the other one, and we would add the situation of the civil aviation authorities in their role within the sector.

2.2 The greatest asset that the sector has is the future, future flows from air transport activity will be more attractive in a greater volume with accessibility to many users, which would be the ideal scenario for the region, it is clear that some analysts could move away from that vision and promote the idea that a lower volume of activity and high prices is more convenient, returning to an aviation oriented to elite markets.

2.3 Under these circumstances, many airports and ANSP consider necessary to increase the charges and fees to recover their losses, in fact, NAV CANADA has already done so by increasing user service charges by an average of 29.5% due to the lower volume of air traffic, measure announced since May and effective on 1st September, 2020, which increased terminal rates by 30.8%, en-route by 26.4%, North Atlantic Track by 48.5% and international communications by 41%. (Source: <https://www.ainonline.com/aviation-news/business-aviation/2020-08-24/higher-nav-canada-user-fees-coming-september-1>), or the actions of the airport authority of Nigeria increasing airport charges by 100% differentiated by destination. (Source: <https://businessday.ng/aviation/article/nigerias-airports-authority-increases-service-charge-by-100/>), or in India that the Ministry of Civil Aviation decided to charge a higher aviation security fee, or ASF, to domestic and international passengers as of 1st September, (Source: <https://www.india.com/business/flight-ticket-prices-may-increase-from-september-heres-why-4117447/>), actions that moves away from a coordinated action and dialogue with the actors, where, we must join around our Latin American aviation system, avoiding fragmentation and tending to consolidate, understanding it in its role as facilitator of connectivity for development and tourism.

2.4 It is necessary to advance in a strategic line of comprehensive coordinated action that from ICAO promotes guidelines for the current situation, reinforces the principles and maintains the objective of extensive connectivity, affordable for all Latin Americans in the social function of development of peoples and well-being of the communities, seeking solutions from their own capacities and in coordination with the members of the service supply chain (ANSP, Airports, Airlines and Civil Aviation Authorities) gradually allowing the financial consolidation of each actor and obtaining of the required financial support, since we emphasize that the greatest asset is the future flows of the Latin American system itself, which allows to find ways to avoid impacting today's weak demand and to distribute the losses in the long term.

3. **SUGGESTED ACTION**

- 3.1 The Virtual Meeting of General Directors of Civil Aviation of SAM States is suggested to:
- a) take note of the information presented;
 - b) highlight the value of a coordinated action under the principles of Document 9082 that ICAO, States and actors should undertake to avoid the destruction of the demand with the increase in charges to aviation and the potentiality to use future flows of the sector in guarantee of distribution of long-term losses; and
 - c) entrust ICAO to promote a coordinated action task force to organize dialogue on these issues, monitor the decisions of the actors in each State and issue recommendations aimed at returning to the desired volumes of demand before the prevailing COVID-19.