



ASSEMBLY — 37TH SESSION

ECONOMIC COMMISSION

Agenda Item 53: Economic Analysis

DEVELOPING A METHOD FOR CALCULATING THE RATE OF INFLATION IN THE
AERONAUTICAL SECTOR

(Presented by Venezuela (Bolivarian Republic of))

EXECUTIVE SUMMARY

The purpose of this paper is to improve the macro-economic data on the aeronautical market and to analyze its evolution in order to highlight the importance of Air Transport services in both the national and global economies. It also aims at promoting the adoption of decision and policies that contribute to the sustainable and effective development of international civil aviation, while avoiding economic waste, as stipulated in Article 44 of the convention on international civil aviation. The goal is to develop an indicator that permits the measurement of price variation in the aeronautical sector and also allows for a global diagnosis that takes into account the factor affecting activities in this sector, and thus enabling the authorities concerned to develop strategy and take timely action without seriously and permanently affecting the stability of the sector. This indicator would allow for the optimal use of human, financial and environmental resources.

Action: The Assembly is invited to:

- a) urge ICAO to undertake studies and devise a method for the calculation of the inflation rate in the field of aviation; and
- b) call upon member States to report on their experiences in calculating the Economic indicator for the aviation sector.

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| <i>Strategic Objectives:</i> | This working paper relates to Strategic Objective D — Efficiency — Enhance the efficiency of aviation operations, paragraph 2: “Study trends, coordinate planning and develop guidance for States that supports the sustainable development of international civil aviation”. |
| <i>Financial implications:</i> | Not applicable. |
| <i>References:</i> | Doc 7300, <i>Convention on International Civil Aviation</i> , Ninth Edition Doc 9902, <i>Assembly Resolutions in Force</i> (as of 28 September 2007) |

¹ Spanish version provided by Venezuela.

1. INTRODUCTION

1.1 In view of the increasing importance of the role played by the aeronautical sector in the development of countries, the economic and social advantages of an effective system that allows for the identification of the necessary future requirements and the human and financial resources should be considered.

1.2 It is no secret that the aeronautical sector represents a large part of the global economy and the GNP of every nation. It is a sector that brings in huge investments and represents the largest industrial sector in the world, because it is not limited to air transport alone, but includes airports, which are considered to be an effective economic factor, maintenance facilities, training centers, etc.

1.3 With the passing of time, the rate of variations, whether positive or negative, of the difference elements that make up the “basket of products and services provided by the aviation sector”, became clear with all its implication on the global air traffic, regardless of the reasons for such variations.

2. ANALYSIS

2.1 Studies have been undertaken for the purpose of assessing and analyzing the air traffic economies in various regions, but no studies had been completed on a global scale to include the various aspects of the civil aviation sector

2.2 It is important to know the context within which the trade policies regarding aviation are to be applied before they are developed, since there must be, in the first place, an assessment of the market, requirements and conditions of every country, as well as its social, economic and political interests that allow the formulation of policies and the preparations of measures designed to anticipate the potential effects of such policies.

2.3 In this respect, it is important to know the rate of inflation, i.e. the variation in price of different items included in the cost structure that are being borne by enterprises in the aeronautical sector, and the effects of such variation. Arising prices affects the sector because the service fees are determined on the basis of costs, while the pumping in of new capital is contingent upon demand.

2.4 The calculation of the rate of inflation in the aeronautical sector will allow for considerable improvement in the macro economic information and facilitate decision-making regarding trade policies and economic measures. It will also permit better planning with the aim of reaping maximum benefits from aviation activities, as speculated in the strategic goal of ICAO.

2.5 A noticeable reduction in Air-Traffic flow has been observed starting late 2008, due to the crisis that is still plaguing countries' economies. IATA statistics for 2009 show a decline of 3.5% in air traffic compared to 2008, and a seat occupancy rate of 75.7% this led to losses for the aviation sector, and consequently to poorly planned, urgent compensatory measures, such as the decision to raise rates and charges.

2.6 It is equally important to take stock of the economic and financial situation of the companies achieve in civil aviation sector, as this would help in increasing the efficiency of investments feared towards the improvement of programming and policies in the field of aviation safety and security and environment protection

2.7 Article 44 of the Chicago Convention provides for “the safe and orderly growth of international civil aviation throughout the world and on preventing economic waste”. Had the inflation rate in the sector been known, economic and operational measures would have been taken for the mitigation, to the maximum, of the impact of the financial crisis, which directly affected aviation and caused significant losses to airlines, airports, and air navigation service providers in particular. It also led to reduction of revenues and the orderly problems in the field of aviation security.

2.8 Inflation rate is the most suitable indicator for allocating, adjusting and updating the values that need to be corrected. Since the inflation rate reflects cost evolution, it may contribute to the enhancement of the integrated statistical database, thus providing enterprises with additional criteria for the elaboration of more accurate strategies for optimizing gains or reducing costs. This in turn, will allow for a better operational planning, enabling companies to be in a better position to assess their purchasing power in terms of basic goods essential for their operation. Such benefits will ultimately result in more stability and growth opportunities for the sector.

3. CONCLUSION

3.1 The severity of the impact of economic fluctuations and the other factors adversely affecting operations, are dependant upon the measures taken for the mitigation of the impact. Knowing the rate of inflation allows for corrective measures to be taken on time, in order to prevent the disruption of activities and the dwindling of the quality of services provided by airlines and other actors active in the sector, thereby contributing to the development and growth of the civil aviation.

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