



International Civil Aviation Organization

WORKING PAPER

A36-WP/120
EC/20
30/8/07
**English,
French and
Spanish only**¹

ASSEMBLY — 36TH SESSION

ECONOMIC COMMISSION

Agenda Item 41: Regulation of the provision of airports and air navigation services

ECONOMIC PERFORMANCE OF ATM

(Presented by the International Transport Workers' Federation)

EXECUTIVE SUMMARY

The ITF represents unionised aviation workers around the world and speaks for millions of aviation employees globally. The day-to-day safe and secure operation of air transport worldwide depends on their skills and commitment.

This paper reviews the economic impact of the current charging formula on the performance of air traffic service providers. It describes ongoing structural changes taking place in the industry and the impact of these on ANS provision. It proposes solutions to ensure that a sound economic regulatory framework underpins performance targets for safety, efficiency and regularity.

Action: The Assembly is invited to consider that:

- a) it is time to return to the original vision of ICAO in terms of provision of ANS and its funding;
- b) ICAO undertakes a review of the current charging formula to see how it might be revised to meet the new climate; and
- c) such a review should include consultation with all stakeholders including the representative bodies for ATS employees.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objectives C, D and E. It will further Strategic Objective C and D by developing better air traffic control and air traffic flow mechanisms to lessen the overall environmental impact of aviation, and complement Strategic Objective E.
<i>Financial implications:</i>	The work outlined in this Working Paper will be undertaken with resources available in the Budget 2008-2010.
<i>References:</i>	Report from 35th General Assembly A35-WP/154.

¹ English, French and Spanish versions provided by ITF.

1. INTRODUCTION

1.1 Recent fundamental structural changes in the aviation industry have impacted and will continue to impact on the economic performance and efficiency of the air navigation services. Two factors in particular will need to be addressed by States to ensure that ANS providers are economically fit to meet their future performance requirements. Firstly, States will need to respond to the permanent changes now underway in the airline sector, and secondly, States will need to introduce mechanisms to ensure that ANS providers have sufficient financial resilience to better respond to the cyclical nature of the industry.

2. THE CURRENT CHARGING FORMULA IS INSUFFICIENT

2.1 The ITF believes that currently applied weight for distance formula laid out in ICAO Doc 9082 “ICAO’s policies on charges for airports and Air Navigation Services” no longer accurately reflects the cost of providing ATC services.

2.2 The formula is based on an erroneous assumption that the size of the aircraft and distance flown has a bearing on the cost of providing services. In fact, the cost per mile of delivering services declines as the distance flown increases. This is borne out by the fact that the US standard for classification of air traffic facilities recognises that the workload for air traffic controllers, and therefore the cost of providing the service, is greatest during the transitional phase of flight.

2.3 There is also no direct relationship between aircraft size and service cost. Under the current charging formula, operators of smaller aircraft are in effect being subsidised by carriers operating larger aircraft. The cost of providing air traffic services is directly related to the volume of airspace controlled (sectors), as well as the number and variety of aircraft types at any point transitioning the airspace. In this regard, an aircraft that remains within one sector of airspace for several hundred miles does not require substantially greater resources than an aircraft that briefly traverses the sector.

2.4 One of the structural changes in the industry is a shift towards greater use of smaller aircraft with point-to-point operation, for example in the field of low frills carriers.

2.5 It could be argued that the aircraft size criterion is intended to ensure that charges bear some relationship to the number of passengers transported. However, it is far from clear whether the current formula provides the best means of ensuring this.

3. CHARGING AS A PERFORMANCE ISSUE

3.1 The issue of user charges should also be an element in the review of performance. ICAO, in a paper to the 11th ANS conference, noted that the trends in the world economy, in corporatisation of ATM and towards a more structured ATM regulatory environment by States as well as by ICAO, are placing increasing pressure on accountability, not only for service provision, but also for business and safety cases when making implementation decisions. Decisions on efficient and environmentally friendly routings are being undermined because of the charges being levied.

3.2 IATA has also called for a review of the efficiency and effectiveness of ANS. In a paper to the 11th ANS conference (ANS11WP/50) they noted “that when evaluating efficiency of an air traffic services (ATS) provider, the costs associated with providing the service and the resulting benefit to the airspace user must be considered.” The ITF does not disagree with that statement, but we suggest that it is not just the airlines interests that should be taken into account. There must be wider consideration of the public interests. A review of the current guidance on charges would help that approach.

3.3 IATA also noted in the same paper “safety is paramount but efficiency and regularity are crucial to the development of a sustainable, efficient and cost effective air transport system”. Again, the ITF does not take issue with that statement. However, we believe that governments should also play a part in such an approach.

4. WHO SHOULD CONTRIBUTE TO THE COST?

4.1 ICAO Doc 9082 states at paragraph 36 that “The Council considers that as a general principle, where air navigation services are provided for international use, the providers may require the users to pay their share of the related costs.” The current approach in many countries is that the charges mechanism attempts to recover all of the costs associated with ANS provision. Public funding for air navigation is reducing or has disappeared in many ICAO states, and despite the fact that the aviation industry, including general aviation, contributes millions of dollars in taxes and duties, very little comes into the provision of ANS infrastructure.

4.2 In most regions of the world, General Aviation has experienced huge growth over recent times. General aviation now makes a significant contribution to the growth of the world economy. However in most member states they do not pay charges. This needs to be addressed.

4.3 States also need to be clear about who pays for exempt flights and what contribution should be made by the military for the provision of ANS infrastructure. Who pays when the head of state flies by special aircraft from country to country? Similarly how should we cost the delays required when military emergencies arise?

5. THE PUBLIC SERVICE DIMENSION OF CIVIL AVIATION AND ATM

5.1 The final report of the ILO tripartite meeting held in January 2002 (TMICA/2002/11), recognised “that the existence of a vibrant civil aviation industry is in the public interest.” The paragraph concluded, “Therefore the interests of public safety and security dictate that governments play an active role in the protection and maintenance of a civil aviation infrastructure.” We contend that the current charging guidelines do not recognise such an approach.

5.2 Increasingly, it is expected that airlines should cover all of the costs of the ANS infrastructure. This lack of public support increases the pressure on providers to reduce costs and in many cases brings pressure to reduce staff and, with that, an adverse effect on performance targets for safety, efficiency and regularity. This is in marked contrast to the approach towards road or rail signalling and traffic management. If a government sees a need to improve services or reduce traffic jams, it will build new roads or rail links. In the case of aviation it “grants the freedom to borrow money outside of government debt.”

5.3 The problem with such an approach is most marked at times of crisis when governments have acted to guarantee the minimum funding needed to maintain system-wide and integrated provision and reliability even at times where income does not meet operational or investment needs.

5.4 The association that represents commercialised providers, CANSO, argues that the solution to this problem is to release ATS providers to operate as commercial agencies with a capacity to extract profits from the service provided, and to raise capital from the private finance sector. This approach is contrary to the principles contained in ICAO Doc 9082 and the ITF believes that the public sector functions of national ATS systems need to be recognised. These systems provide safety and services not only for the users, i.e. the airlines, but also for citizens more widely in the same way that, for instance, traffic lights protect pedestrians as well as automobile drivers.

6. RESERVE FUNDS?

6.1 States will continue to be the bottom-line guarantor of their national infrastructure, including their air traffic services. One mechanism for managing the business cycle that is an integral feature of the air transport industry would be for States to permit the establishment of Reserve funds, dedicated to financing operational and investment costs, at those points in the business cycle where income from charges declines while costs remain fixed or rise. Such contingency funding could be established on the basis of estimated costs of the service over the entire business cycle. It would, however, require some revision to the current ICAO policies as outlined in Doc 9082.

7. CONCLUSIONS

7.1 The General Assembly is invited to consider that:

- a) it is time to return to the original vision of ICAO that airlines should share in the costs of provision of ANS services, whilst the fundamental role of the State needs to be recognised;
- b) as part of the review of guidance material suggested by the secretariat in doc A35-WP/10 - ICAO undertakes a review of the current charging formula to see how it might be revised to meet the new climate; and
- c) such a review should include consultation with all stakeholders including the representative bodies for ATS employees, the ITF, IFATCA and IFATSEA.