

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND  
AIR NAVIGATION SERVICES**

(Montreal, 19 - 28 June 2000)

**DRAFT REPORT ON AGENDA ITEM 2**

## **Agenda Item 2: Organizational issues**

### **GLOBAL SURVEY**

#### **2.1 Documentation**

**Secretariat** (WP/18 and Addendum No. 1) reviewed the current state of organizational arrangements, including the extent of private involvement in the provision of airports and air navigation services, and new trends emerging in the management of these facilities and services. After noting the development of autonomous entities to manage airports and, to a lesser extent, air navigation services, the paper described the nature and extent of ICAO's guidance on the subject, and suggested strengthening the text on exploring the possibility of establishing autonomous authorities contained in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* (Doc 9082/5).

#### **2.2 Discussion**

2.2.1 The Conference noted the information provided by the Secretariat in its WP/18 and Addendum No. 1, which with a few minor changes would form part of a circular containing selected Conference documentation that would subsequently be circulated to States.

2.2.2 While it was recognized that autonomy of providers may not be appropriate in all circumstances, many delegates expressed support for the proposal to strengthen the text in ICAO's guidance on this matter. However, some were of the opinion that it was of major importance to ascertain, prior to granting autonomy to an operating entity, that there would be improvements in safety and efficiency and also that local circumstances be taken into consideration.

2.2.3 Moreover, it was thought that a distinction needed to be made between privatization and autonomy, a subject which would be taken up later.

2.2.4 The Conference agreed with the action suggested in WP/18 noting that only a minor change was being proposed for paragraphs 6 and 27 of the Council Statements in Doc 9082/5, and accordingly adopted the following recommendation:

**RECOMMENDATION 2/1****THE CONFERENCE**

RECOMMENDS that the introductory text in the Council Statements, namely paragraphs 6 and 27, should be less conditional in tone in order to recommend that States explore the possibility of establishing autonomous entities to operate airports and air navigation services when this is in the best interest of both providers and users.

**COMMERCIALIZATION****2.3 Documentation**

**Secretariat** (WP/6) presented the results of a study conducted by ICAO to assist States regarding privatization of airports and air navigation services. The study clarified the concept and terminology of privatization, analyzed developments taking place in ownership and management of airports and air navigation services providers, described some options available to States, discussed the major issues to be considered in any privatization process and emphasized the retained responsibility of States in the areas of safety, security and economics (particularly as regards equity in charging).

**Australia** (WP/59) provided information on its reforms in ownership and management of aviation infrastructure, including experience with privatization of major airports.

**Chile** (WP/90) described its experience in the granting of concessions for the management of airports with involvement of the private sector. Chile invited ICAO to develop guidance to help States cope with this process.

**Egypt** (WP/86) described the measures taken by its Government for the development and privatization of Egyptian airports through contracts with investors, using the Build, Operate and Transfer method or through the application of market-based operations by airport administrations. This paper also reviewed air traffic growth at Egyptian airports and the measures taken to address the problem of airport congestion. Egypt (WP/102) also described the organizational and legal background to the construction of Marsa Alam International Airport.

**Switzerland** (WP/67) described the organization of its airports and air navigation services provider (Swisscontrol), as well as their modes of financing.

**United States** (WP/41) set out its experience with airport management and regulation, including limited privatization, as well as its views on privatization. The paper supported flexibility in management, operation and ownership types, emphasized the need for States to

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retain oversight of safety and security in operations, and invited the Conference to consider the development of guidance for States when privatizing airports.

**Arab Civil Aviation Commission (ACAC)** (WP/93) provided information on airport management in certain ACAC member States.

**Latin American Civil Aviation Commission (LACAC)** (WP/89) presented the work it had carried out on the subject of privatization of airports. LACAC invited the Conference to draw the attention of States to its list of elements for consideration when developing the airport privatization process.

**Airports Council International (ACI)** (WP/49) invited the Conference to agree that airport operators should have the flexibility to adopt ownership and management structures which permit the highest levels of service to all users and the best access to private capital to improve and expand their facilities; such structures may include forms of privatization. ACI (WP/53) also commented on a number of points made in IATA's WP/26 (see below). Finally, ACI (WP/68) highlighted that airport operators were commercial enterprises that could manage either a single airport, or an airport system or network, with efficiency and cost-effectiveness; moreover, airport networks and airport alliances could bring economies of scale and high standards of service.

**International Council of Aircraft Owner and Pilot Associations (IAOPA)** (WP/64) presented its view that there must be an equitable place for general aviation and aerial work interests in any aviation service privatization scheme, notably as regards charges and regulatory oversight.

**International Air Transport Association (IATA)** (WP/26), while generally favouring the commercialization of airports and air navigation services, expressed concerns that commercialization could often lead to increases in the cost base for charging purposes and thus to higher charges. Accordingly, IATA felt there was a need for proper consultation and transparency and for independent economic oversight. IATA (WP/33) also invited the Conference to agree with its position in favour of cost-related and location-specific charges and against cross-subsidization. IATA stated it did not object to airport partnerships or alliances and cross-subsidization between airports as long as this brings economies of scale to the industry from which the airlines will benefit through lower charges. Finally, IATA (WP/104) provided background information and the text of the "Santiago Statement" (consistent with the elements for consideration in the privatization process presented by LACAC above). The Conference was invited to review the Statement in its discussions and consider its adoption as part of its conclusions.

## 2.4 Discussion

2.4.1 With regard to the findings and conclusions of the Secretariat study, summarized in WP/6, the Conference endorsed the position that there is no single best option for States to follow in contemplating autonomy in the provision of airports and air navigation services, of which there were many forms, including privatization. The Conference also agreed that in any commercialization or privatization process, States should ensure that they retain the ultimate responsibility for service provision and in the areas of safety, security and, taking into account the monopolistic nature of service providers, economic regulation. A number of comments were directed at improving the content of the Secretariat study as well as certain of the definitions in the appended Glossary of Terms (in particular those covering autonomy, civil aviation authority and private entity). These comments would be taken into account in the finalization of a fuller version of the study, to be distributed by ICAO at a later date. The Conference noted that some revisions would also be made to the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161/3) as a consequence of the findings and conclusions in the study.

2.4.2 There was considerable discussion and differences of opinion on the issues of networking of airports and cross-subsidization between airports. Various benefits of and objections to networked airports and cross-subsidization within airport systems were brought out in the discussion. Nevertheless it was generally recognized that States would decide according to their own circumstances on the issue of airport networks or systems. However, while subsidization and cross-subsidization existed, the principle of full transparency should be applied. In view of the different kinds of networking it was agreed to recommend that ICAO should further analyze and define the concept.

2.4.3 With respect to the list of principles on the privatization process presented by LACAC in WP/89 and IATA in WP/104, the thrust was generally endorsed, but a number of reservations were expressed on some aspects. The Conference felt that any guidance on the subject that might be developed by ICAO should take these reservations into account and should not be overly prescriptive.

2.4.4 To give effect to its conclusions, the Conference agreed to the following recommendations:

### **RECOMMENDATION 2/2**

#### **THE CONFERENCE**

RECOMMENDS that States, when considering the commercialization or privatization of airports and air navigation services providers, recall that the State's ultimate responsibility for safety, security, and, in view of the monopolistic nature of airports and air navigation services, economic oversight of their operations.

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**RECOMMENDATION 2/3****THE CONFERENCE**

RECOMMENDS that ICAO, in its further development or guidance on commercialization of the provision of airports and air navigation services, should analyse and address the concepts of airport systems or networks.

**INTERNATIONAL COOPERATIVE AND JOINT VENTURES****2.5 Documentation**

**Secretariat** (WP/5) reviewed the need for and scope of international cooperation in the air navigation services field. It noted that major CNS/ATM systems components were typical examples of facilities and services where international cooperation would be required and that the implementation of such components would make it possible to merge many flight information regions into larger air traffic management regions, consequently reducing the number of area control centres. The paper also indicated other potential areas of cooperation such as planning, research and development, training, technical support, meteorological services for air navigation and aeronautical information services. The paper described different forms of international cooperative ventures and the assistance that could be provided by ICAO. The paper invited the Conference to consider the role of ICAO in assisting States in the establishment and operation of joint ventures to provide air navigation services and to recommend to the Council that the text in the Council Statements in Doc 9082/5 be expanded to give more emphasis to the importance and potential value of such joint ventures, and to identifying their most common forms. The Secretariat (WP/7) also presented a description of the present system of joint financing arrangements for air navigation facilities and services and discussed possible uses of this concept for other applications including implementation of elements of CNS/ATM.

**Secretariat** (WP/22) examined the benefits of joint billing and collection of air navigation services charges, the various mechanisms in place and the assistance that ICAO could provide. It recommended that States participate in such schemes whenever this would be advantageous to them, and proposed to expand the relevant text in the Council Statements to that effect.

## 2.6 Discussion

2.6.1 Some delegates expressed concern as to the validity of ICAO's role in providing assistance to establish and operate joint ventures and, in particular, the recovery of costs of assistance by ICAO through charges for air navigation services. However, following explanations as to the nature of this role and the reasons for the cost recovery the general view was that the cost of providing such assistance could be recovered from users but not be paid for from ICAO's regular programme budget especially since the service provided would generally be limited to a group of States and not ICAO's member States at large. It was suggested that commercial alliances merited consideration as another option in international cooperation ventures. The establishment, with ICAO assistance, of a joint upper airspace management unit by the three States of the East African Cooperation was also cited as an example of international cooperation.

2.6.2 On the issue of joint billing and collection of air navigation services charges, it was agreed that the conditions might vary between States, and that only the States were in a position to consider when participation in joint billing and collection services would be advantageous to them. Furthermore, when contemplating using a charges collection agency, States explore different options and take into account the guidelines provided in WP/22, in order to protect their interests. With regard to the assistance ICAO could provide to States, it was emphasized that this was limited to the establishment of services, not their provision, which was the responsibility of the States individually or collectively. Some concern was expressed over the practicality of participating in joint charges collection services when the provision of air navigation services is delegated to a private company.

2.6.3 Regarding its ATC enhancement and financing service, IATA explained that although there is a clause on confidentiality of data in their agreements with States, the scheme is transparent to the State concerned and is directed towards financing aviation infrastructure in those States. The administrative fee in the contract could be compared by the State with that of other collection schemes whose fees are in the public domain. IATA pointed out that the cost of the service is built into the charges it collects from users.

2.6.4 To give effect to its discussions on international cooperative ventures and joint billing and collection, the Conference agreed on the following recommendations:

### **RECOMMENDATION 2/4**

#### **THE CONFERENCE**

RECOMMENDS that ICAO include in the Council Statements in Doc 9082 and other relevant guidance material, text to encourage international cooperation in the provision and operation of air navigation services, and to advise of the possibility of the recovery of the costs of ICAO assistance, where requested and provided, by means of user charges.

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**RECOMMENDATION 2/5****THE CONFERENCE****RECOMMENDS that**

- a) States or their delegated service providers consider participating in joint charges collection agencies whenever this is advantageous, taking into account the following:
  - 1) the importance of they themselves controlling the collection of their charges;
  - 2) the need for careful study of the terms under which the collection service is to be provided;
  - 3) identification and description of the costs of the services for which they are being charged; and
  - 4) that any administrative fee is included in the charge; and
- b) the Council expand the relevant text in Doc 9082 accordingly.

**MONITORING PERFORMANCE AND PRODUCTIVITY****2.7 Documentation**

**United States** (WP/39) proposed that a set of data measuring performance and efficiency be collected by air traffic service providers and used to assess the value of service provided and help support investment decisions.

**IATA** (WP/29) requested that there be a commitment to the principles of cost efficiency and productivity improvement in the establishment of airports and air navigation services charges. **IATA** (WP/85) also stressed a need for airports and air navigation services providers to adopt service level agreements, especially in light of airport and air navigation services commercialization/privatization trends.

**EUROCONTROL** (WP/66) described the performance review system used for reviewing air traffic management performance in Europe.

Listed for reference purposes was a working paper presented by 38 member States of the European Civil Aviation Conference (ECAC) (WP/69) on the management of airports as commercial entities, which would be substantially addressed under item 5.2.



## 2.8 Discussion

2.8.1 There was widespread support for the proposed application of performance measurement in air traffic management systems for both en route and airport services, with parameters covering safety, delay, predictability, flexibility, efficiency, availability, access, and cost of service. A number of delegates proposed the addition of environmental performance parameters to this list. It was recognized that there were various forms of performance measurement and some practical problems may apply with some of the parameters. Performance targets would have to be discussed with the users.

2.8.2 The proposal in WP/29 to recommend establishment of a principle of efficiency and productivity improvements for airports and air navigation services providers was supported by a majority of delegates. However, a number of delegates did not feel such a principle should be a condition for the establishment of charges. Some delegates pointed out that the main purpose of targets for efficiency and productivity should not be to improve the financial situation of airports and air navigation services. Concerns were expressed about the establishment of efficiency targets for individual airports within an airport network.

2.8.3 The concept of service level agreements for airports and air traffic service providers was recognised as a natural component in an environment of increased commercialisation. It was felt that such agreements should be mutual between different providers and users but should be voluntary only.

2.8.4 To give effect to its discussion on air traffic service performance measurement, the Conference agreed on the following recommendation:

### RECOMMENDATION 2/6

#### THE CONFERENCE

- 1) RECOMMENDS that States encourage their airports and air navigation services providers to:
  - a) develop and collect data on performance in the provision of their services (such as aspects related to safety, delay, predictability, flexibility, efficiency, availability, access, environment, and cost of service);
  - b) use these parameters to evaluate and improve the quality of services provided;
  - c) take these parameters into account to help support their investment decisions;
  - d) undertake consultations with users to achieve mutual understanding and consensus; and
  - e) develop and maintain costing systems that permit users and providers to understand the true costs of providing services.
- 2) RECOMMENDS that the Council include the above concept in ICAO policy guidance.

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