

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

(Montreal, 19 - 28 June 2000)

### Agenda item 2: Organizational issues

#### JOINT VENTURES IN THE BILLING AND COLLECTION OF AIR NAVIGATION SERVICES CHARGES

(Presented by the Secretariat)

##### SUMMARY

This paper addresses the benefits of joint billing and collection of air navigation services charges. The paper refers to ICAO policy and related guidance in this area; focuses on the benefits of co-operation among States in the billing and collection of route air navigation services charges; outlines assistance ICAO could provide to States seeking to benefit from the joint collection of route air navigation services charges; and describes various collection mechanisms. Suggested action by the Conference is at paragraph 6.1.

### 1. Background

1.1 This paper supplements ANSTConf-WP/5 (International Cooperative Ventures) which *inter alia* describes different forms of such ventures, including joint charges collection agencies and recommends that text in the *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services* (Doc 9082/5)\* encouraging international cooperation in the provision and operation of air navigation services be expanded.

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\*Proposed by the Secretariat in ANSTConf-WP/4 to be retitled *ICAO Policies on Charges for Airports and Air Navigation Services*.

## **2. ICAO guidance on joint collection of route air navigation services charges**

2.1 The need for States to recover the costs of their air navigation services has increased the emphasis on the efficient and effective billing and collection of air navigation services charges and has led to growing cooperation or joint ventures in their billing and collection efforts. Also, the increased usage of multinational facilities and services, notably communications navigation and surveillance (CNS) /air traffic management (ATM) systems components has given added impetus to joint efforts in cost recovery. The Council Statements in Doc 9082/5 encourage international co-operation in the provision and operation of air navigation services (paragraph 27); and in another context refer to air navigation services being billed on a regional basis on behalf of several States, *inter alia* by a jointly operated agency (paragraph 38 (iv)).

2.2 The *Manual on Air Navigation services Economics* (Doc 9161/3) also addresses specifically "Joint charges collection agencies" in Chapter 2, paragraphs 2.29 -2.34. The essence of these paragraphs is that States individually operating route facilities and charging for the services rendered will be involved in considerable accounting work, and may also encounter collection difficulties where there is a substantial volume of overflying traffic. In such circumstances a group of adjoining States might benefit significantly from the formation of a joint charges collection agency. This agency would collect route air navigation services charges on behalf of all of the participating States, including those which are overflown. The agency would then transfer to each participating State the charges revenue collected on its behalf. Added to each charge levied for each participating State would be a small fee or percentage to cover that State's share of the agency's costs. Thus joint collection agencies may have particular appeal to States wishing to carry out technical functions themselves, that is the provision of air traffic control and associated communication and meteorological services, while at the same time benefiting from an efficient method of promptly collecting the associated charges levied.

## **3. Importance of States controlling collection of their charges**

3.1 Route air navigation service charges are an essential source of revenues for States seeking to recover their costs of providing route facilities. This includes securing funds for investments in new equipment and other infrastructure as well as training of personnel. It is therefore of critical importance, that States themselves remain fully in control of the charges collection function and be in the position to immediately dispose of the funds collected as they themselves deem necessary. Such control is exercised not only when a State bills and collects the charges itself but also when it joins forces with other States to establish a collection agency serving all the participating States. However, such control by a State is of course reduced if the collection function is contracted to an entity or organization controlled by other parties than a State or a group of States. With a joint collection agency the funds collected can be transferred immediately to an account of the participating State which it could hold either at a bank (or such financial institution) in its own territory or in any other country it may designate. This collection approach may also ease access by the participating State to convertible currency.

3.2 ICAO is prepared through its technical cooperation programme to assist States who so wish to establish a joint collection mechanism or agency, the States themselves would operate collectively. The agency would be self-financing as its operations would be financed by a supplement on charges. Start-up funds required for the acquisition of premises and data processing and other necessary equipment as well as pre-operational training, co-ordination and administration could be obtained through a financing institution, including commercial banks. ICAO would be prepared to assist the State(s) wishing to negotiate such loans.

#### **4. Examples of charges collection services**

##### **4.1 Services**

4.1.1 EUROCONTROL operates a separately organized and financed collection agency or office, which serves both EUROCONTROL and other States<sup>\*\*</sup>. Similarly, the office in the United Kingdom which collects en route charges levied by the United Kingdom has been contracted to collect the en route charges levied by Denmark and Iceland for the services they provide on the North Atlantic under the ICAO Joint Financing Agreements as well as the charges levied to recover the costs of the Height Monitoring System Programme operated jointly by Canada, Iceland, Ireland, Portugal, United Kingdom and United States, and administered by ICAO. A third collection scheme is that operated by the International Air Transport Association (the IATA ATC Enhancement and Financing Service) which collects charges for close to thirty, mainly developing, States.

4.1.2 In the case of the EUROCONTROL and United Kingdom schemes, on the basis of information identifying each flight and provided to the collection office by the contracting State concerned, the collection office calculates the applicable charges levied by that State and bills the operators involved, collects the payments and then transfers the amounts received, less an administrative fee, to the contracting State. Under the IATA scheme the service provided does not include the calculation of the en route charges to be levied on each flight, this is to be done by the State itself, which forwards the information to IATA.

##### **4.2 Administrative fee**

4.2.1 Under the EUROCONTROL and United Kingdom schemes the administrative fee is added in advance by the collection agency to the relevant en route charge levied by the State and is paid by the aircraft operator. This results in the whole charges calculation/collection effort not requiring any financial outlays by any State concerned. Under the IATA scheme, IATA deducts its administrative fee from the charges it collects on behalf of the contracting State thus reducing correspondingly the charges revenue accruing to the State, rather than adding the fee to the charge payable by the aircraft operator.

4.2.2 In the case of the EUROCONTROL scheme the administrative fee added to and included in the charge payable by the operator is presently, as a percentage of the charge before the fee, 0.4016 percent (for year 2000) in the case of EUROCONTROL. Under the United Kingdom scheme, for the Danish and Icelandic charges and those collected under the Height Monitoring System Programme the fee is in the range of 3 to 4.7 percent cumulative (that is it covers the collection of three different charges). This administrative fee has remained fairly constant in absolute terms but has fluctuated between years because the charges themselves change from year to year; they are also much lower in absolute terms than the average EUROCONTROL State charge which largely explains the difference in the percentages. It should be noted that EUROCONTROL and the United Kingdom base the percentage applied on actual costs incurred.

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<sup>\*\*</sup>Two other international operating agencies, *Agence pour la Sécurité de la Navigation Aérienne en Afrique et à Madagascar* (ASECNA) in Africa, and *Corporación Centroamericana de Servicios de Navegación Aérea* (COCESNA) in Central America levy and collect charges to recover the costs of the services they provide on behalf of their member States. Unlike EUROCONTROL, however, they do not operate a charges collection service or office for their member (or other) States for recovery of costs incurred by those States.

4.2.3 The IATA fee structure has not been publicized, or its cost basis demonstrated but the fee may differ between States. Taking into account the level of charges in the States contracting to the IATA collection scheme, the fees collected would on the average appear to be much higher than the collection costs charged under the other two schemes. However, more information would be required to make a conclusive assessment.

## 5. **Comments**

5.1 Outside the geographic areas for which billing and collection services are offered by EUROCONTROL and the ICAO Joint Financing Agreements, States wishing to benefit from joint billing and collection have two options: 1) to establish a new joint collection agency (or, in the case of ASECNA or COCESNA areas, perhaps a subsidiary agency); or 2) to use the IATA scheme. The IATA scheme offers an attractive and viable alternative to a State in certain circumstances, in particular when limited human and financial resources as well as geographical location and/or ravages of military conflict make charges collection by the State unlikely to be successful. IATA has the mechanism and resources in place to provide for efficient billing and collection. At the same time the IATA scheme does not have the same degree of transparency as do those of EUROCONTROL and the United Kingdom. The IATA scheme would benefit if, like the two other joint collection schemes, the costs of collection were added to the charge instead of being deducted before transferring the charge collected to the State or party on whose behalf the collection was taking place, and also if the charge to be levied on each flight would be calculated under the scheme.

5.2 At this juncture it is suggested that States contemplating using any charges collection scheme or service for air navigation services (or airport) charges, need:

- (i) to take into account the importance of controlling the collection of their charges (para 3.1 above);
- (ii) to study carefully the terms under which the collection service is to be provided;
- (iii) to insist on identification and description of the costs of the services for which they are being charged; and
- (iv) to ensure that any administrative fee is included in the charge.

## 6. **Action by the Conference**

6.1 The Conference is invited to note this paper and agree to recommend:

- a) that States consider participating in joint charges collection agencies whenever this is advantageous, taking into account the guidelines in paragraph 5.2 above; and
- b) that the Council expand the relevant text in Doc 9082 to reflect this.