

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 5.2: Elements for consideration with regard to ICAO policy

FORWARD FINANCING

(Presented by the International Air Transport Association)

SUMMARY

Forward financing vehicles are becoming more prominent, increasing the cost of air transportation. In essence, the airlines and/or the passenger are made to pay for facilities that are not yet in use. It is acknowledged that major capital investments will require external financing, the cost of which should only be included in the cost base for charging purposes when the facilities in question are operational.

1. Introduction

1.1 Major capital investments should not be funded out of current charges income. The type of investment referred to would include only the exceptionally high cost projects such as a:

- new airport,
- new runway,
- new terminal building,
- new air traffic control centre, or
- major electronic facility.

1.2 Funding for such projects should come from external sources appropriate to national circumstances and the cost of such financing can be taken into account in the cost base for charging purposes. The capital costs incurred in building or expanding an airport or air traffic control system, that meets airlines' requirements, should be properly allocated to users only when the new facilities are operational. Some of the reasons for this position are:

- a) There is no guarantee that the airlines paying for future facilities today will be the same airlines obtaining the benefits once the improved or new facilities are operational. Apart from going out of business, airlines can also lose traffic rights or slots in a deregulated environment. New operators will benefit from facilities paid for by the long serving airlines.
- b) It takes so many years to design, obtain approvals, develop and build such projects that, although funded from current income, these projects may be delayed considerably or even cancelled. There is therefore a considerable risk that the airlines would lose the development fund.
- c) Even if the future development is not delayed or cancelled, the funds being accumulated for forward financing of large projects are very attractive to governments, particularly those who are under great pressure to pay off loans or decrease national deficits. There is a risk that the airlines could end up paying for facilities twice, both in advance and after operation.
- d) If airlines are burdened by forward financing charges it would be extremely difficult to justify to passengers that the increase in their ticket price is for better facilities that they may benefit from in the future.

2. Policy Guidance

2.1 For policy guidance we refer to paragraph 14 of ICAO Doc 9082/5. Specifically, paragraph 14 iii) states that *"Only the cost of those facilities and services in general use by international air services should be included..."* in the cost base for airport charges.

2.2 Further, paragraph 14 vii) states that *"Airports may produce sufficient revenues to exceed all direct and indirect operating costs and so provide for a reasonable return on assets to contribute towards necessary capital improvements"*.

2.3 Similar wording can be found in paragraph 34 with respect to air navigation charges.

3. Action by the Conference

3.1 The Conference is requested to recommend the following for Council approval:

That the following text be included in ICAO Doc 9082:

"It is acknowledged that major capital investments require external financing and are to be included in the cost base for charging purposes only when the facilities in question are operational."