

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 5: ICAO policy

ELEMENTS FOR CONSIDERATION WITH REGARD TO ICAO POLICY

(Presented by the International Business Aviation Council)

SUMMARY

This paper presents the views of business aviation on a number of issues which warrant consideration in updating of the ICAO Policy on cost recovery to take account of the contemporary economic environment.

1. Introduction

1.1 The Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services (Doc 9082/5) contain only two specific references to the levying of charges on international general aviation. One reference relates to Airports, the other to Air Navigation Services. The thrust of both references is the same i.e."charges levied on international general aviation should be assessed in a reasonable manner, having regard to the cost of the facilities needed and used and the goal of promoting the sound development of international civil aviation as a whole".

1.2 This enlightened, well intended statement was adopted at a time when States were generally the providers of Airports and Air Navigation Services and at an early juncture in the progression towards full cost recovery. With the latter well established and the privatisation of airports and/or air navigation services becoming more widespread, further consideration of this statement is appropriate with a view to augmenting it in such a way as to ensure that its objectives can be fulfilled in the contemporary environment.

1.3 This Paper presents proposals submitted by the International Business Aviation Council (IBAC) for proposed amendments to be made to Doc 9082/5 with the goal of clarification.

2. Discussion

2.1 Doc 9082/5 (Part II paragraph 35 i)) acknowledges circumstances where less than full cost recovery for air navigation services might be warranted by particular local circumstances i.e. “...in recognition of local, regional or national benefits.” Whilst this is practical in the case of State provided services (either airport or air navigation services) it may well not be viable in the case of privatised services, especially when these are provided on a purely commercial basis.

2.2 The International Business Aviation Council (IBAC) contends that any commercial provider entity, which is delegated responsibility for delivery of aeronautical services, must be committed to the goal of “promoting international civil aviation as a whole” Such commitment must be provided for in legislation or in lease or contract agreements and should be stated as a guiding principle in order for commercial provider entities to accommodate local, regional or national benefits relevant to one or more categories of users.

2.3 IBAC proposes that clarification is required regarding what constitutes “in a reasonable manner” in the assessment of charges levied on international general aviation. If one were to take the view that general aviation is a marginal user of air navigation services, the cost base for user charges should be weighted in favour of recovering variable costs as opposed to both fixed and variable costs.

2.4 The manner in which aircraft weight is recommended for use as a parameter in the en-route cost allocation process gives rise to inequities among users. The recommended use of aircraft weight based on a “less than proportionally” formula, although intended to ensure that ‘heavy’ aircraft are not treated inequitably, has the effect of under-recovering from users with the ability to pay and correspondingly increasing the charges for ‘smaller’ aircraft, including those typically in the general aviation user category.

3. Pre-funding of projects through charges

3.1 IBAC is concerned with the principle of pre-funding capital infrastructure through the advanced introduction of levies and charges. Aviation is a rapidly evolving industry, exploiting advancing technology and is characterised by continuous change in operational requirements and infrastructure needs. Long term plans often change with the rapidly changing demand and traffic flows. Pre-funding results in accumulation of capital that, as the demands change, often will be channelled to projects other than those originally intended. The result is that users are not provided with an adequate role in determining the use of capital funding which they have contributed. IBAC believes the system must be managed with full attention to a “User Pay – User Say” principle.

3.2 Commercial enterprises customarily finance replacement and /or expansion of plant out of reserves available from net earnings. Such reserves, if insufficient to finance the project, should be augmented by debt financing, equity financing or a combination thereof.

Individual business aviation users of airports and air navigation services are, by and large, not “regular” users, at least in the same sense as air carriers. In the context of considering pre-funding it may therefore be appropriate to make some distinction between “regular” and other users.

4. **Recovery of GNSS costs**

4.1 Two main issues are involved:

- allocation of cost among civil aviation users
- allocation of costs between civil aviation and other users

4.2 Consideration of these issues, notably the second, is being driven largely by the European Galileo Project and the “extremely high costs involved”. (ICAO AT-WP/1869 paragraph 2.4)

4.3 Within the first issue is the question of allocation between en route and approach/aerodrome control. IBAC contends that en-route and terminal services must be provided by the same ANS service provider. Approach/Aerodrome control services should not be provided by the airport operator. (Where aerodrome control is provided separately, under a contract arrangement, charges and fees should be included within the total costs of the system such that users are not required to pay multiple ANS service providers.)

4.4 IBAC proposes that clear principles of ‘User Participation’ be established for the allocation of GNSS costs among civil aviation users.

4.5 The second issue embraces inter alia the method of cost allocation. IBAC contends that aviation is a relatively small user of GNSS in consideration of the broad applications across all sectors of society. The aviation industry should not be expected or required to pay for more than its proportional use.

4.6 Based on discussions in Europe, the so-called “requirements-driven” method has emerged in that community as the recommended method of user pay. In other words, any given user group should pay only for the services that it actually uses. Each user will have different levels of need, and as such each user should pay the incremental costs necessary for providing these services. An example would be the costs of providing augmentation system such as LAAS and WAAS.

4.7 IBAC also contends that costs for the provision of GNSS should reflect an overall cost savings to the industry. The total user costs should be lower than what they would be if the existing ground based navigation system were to be continued.

4.8 IBAC views on these two issues are:

- a) GNSS systems should be commercially developed.
- b) Research and development costs should be capitalized and funded through debt financing.
- c) Users should have a full role in planning for future GNSS systems.
- d) Aviation should pay a fraction of the total GNSS costs, in proportion with actual use compared with society as whole.

- e) Users should pay in accordance with the principle of a fair allocation of fixed costs, with variable costs determined in accordance with marginal use, based on clear cost accounting principles.
- f) That the composition of the ICAO Air Navigation Services Economics Panel should be expanded to include wider representation of GNSS users.

5. SAR services provided by the military

5.1 IBAC is seriously concerned about the proposal that user charges should be admissible to cover costs of SAR services provided by the military. It is IBAC position that these charges should not be accepted for inclusion in the cost base for air navigation services charges.

5.2 IBAC regards the provision of SAR services as essentially a humanitarian undertaking on the part of States. Whilst civil aviation is one of many beneficiaries of these services, it is one of the few that prescribe a requirement for the availability of SAR. Moreover, it is the most readily targetable in the context of any aspirations to recover costs. Yet civil aviation is unique among the beneficiaries in that aircraft operations are highly regulated and conducted in accordance with rules and procedures, the objective of which is to ensure safety i.e. eliminate, insofar as practicable, the need for SAR. Furthermore, civil aviation is not in a position to monitor military services to ensure a level of efficiency.

5.3 Many of the services and the equipment deployed by the military for SAR are required for its own (i.e. military) purposes, and are more often required for and called upon for SAR activity unrelated to civil aviation events. SAR is largely a service of benefit to society as a whole.

5.4 IBAC contends that the costs of search and rescue should be borne by society as whole.

5.5 The IBAC position is that civil aviation should not be allocated costs incurred by States for SAR facilities and services provided by the military.

6. Action by the Conference:

6.1 The Conference is invited to:

- a) Consider the views presented above; and
- b) Recommend that the Statements by the Council to Contacting States on Charges for Airports and Air Navigation Services be updated to take account of the contemporary economic environment.

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