

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

AIR NAVIGATION SERVICES (ANS) AND COST IDENTIFICATION AND ALLOCATION

(Presented by the United States of America)

SUMMARY

ANS service providers are beginning to focus on developing more sophisticated methods of cost recovery based on an economic approach to setting ANS charges. However, before any benefits can be realized from potential new charging methods, service providers must first appropriately identify and allocate costs for the various services they provide. Failure to do so could not only result in discriminatory treatment of users and cross-subsidization, but could also reduce the potential benefits of using economic principles to develop an ANS charging system. The Conference is invited to call upon States and other ANS providers to reexamine their cost allocation methodologies as it pertains to ICAO guidance related to the allocation of common and fixed costs across service environments or facilities. Service providers should adopt cost allocations that accurately reflect the actual cost of service provided and avoid allocations that inaccurately assign costs to one service environment vis-à-vis another service environment. The Conference is also invited to recommend that the Council conducts a detailed study of how States and other ANS providers follow the existing ICAO guidance in identifying and allocating costs.

1. Introduction

1.1 ANS service providers are beginning to focus on developing more sophisticated methods of cost recovery based on an economic approach to setting ANS charges. However, before any benefits can be realized from potential new charging methods, service providers must first appropriately identify and allocate costs for the various services they provide. Failure to do so, could not only result in discriminatory treatment of users and cross-subsidization, but could also reduce the potential benefits of using economic principles to develop an ANS charging system. Consequently, before any meaningful discussion on pricing principles can begin, it is essential that service providers implement appropriate methods of identifying and allocating costs.

2. Discussion

2.1 The *Manual on Air Navigation Services Economics* provides general guidance to ANS providers in determining the cost basis for air navigation services charges. The manual states that costs should be allocated so that no users are burdened with costs not properly allocable to them according to sound accounting principles. In situations where there are fixed costs common to multiple facilities, these costs should be allocated on an accounting or statistical basis such as work-hours or other metrics that track with system use. In other circumstances, where costs cannot be allocated on an accounting or statistical basis with any substantial degree of accuracy, and only in cases where the costs involved are low, the cost allocations might be based on fixed, predetermined percentages.

2.2 Some ANS providers may be tempted to allocate fixed costs that are common to both the en-route and terminal environments based on the great circle distance through each environment (or variations on this theme).

2.3 Common costs associated with en-route and terminal control should be allocated on a basis that appropriately attributes costs to each type of service. Time-and-motion studies or other appropriate statistical or cost accounting methods are generally appropriate. Service providers should not attempt to allocate costs between en-route and terminal environments based on the percentage of mileage flown through each environment. Such an allocation can result in a cross-subsidization of the terminal environment by en-route users and therefore be inconsistent with the general principles adopted by ICAO. The amount of service a user receives in the terminal environment is usually significantly more (per mile traveled) than the service an en-route user receives (per mile travelled). This fact, however, would not be reflected if the allocation was based on miles travelled.

3. Action by the Conference

3.1 The Conference is invited to:

- a) call upon States and other ANS providers to reexamine their cost allocation methodologies as it pertains to ICAO guidance related to the allocation of common and fixed costs across service environments or facilities. Service providers should adopt allocations that accurately reflect the actual cost of service provided and avoid allocations that inaccurately assign costs to one service environment vis-à-vis another service environment; and
- b) recommend that the Council conduct a detailed study of how States and other ANS providers comply with the existing ICAO guidance in identifying and allocating costs.

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