



Pre-funding

Pre-funding capital projects through charges is costly, unreasonable and it does not reflect the most efficient use of airline investments in airports. A properly structured financing package for new investments will ensure that the costs of financing are kept to a minimum and that airlines only pay for agreed investments on an “as and when used” basis.

SITUATION

Airports and air navigation services providers (ANSPs) should recover their investment costs through user charges, for instance by including amortization or depreciation in the cost basis for charges once the assets become operational. Nonetheless, some airports and ANSPs impose additional infrastructure development/improvement charges in order to pre-fund capital projects that are not yet in use. Airlines and their passengers could therefore be paying for facilities not yet in use and/or could be paying for the same facilities twice through both infrastructure improvement/development charges and depreciation costs already included in charges.

IATA POSITION

Pre-funding through user charges challenges ICAO’s key charging principle of cost-relatedness¹, whereby airlines and their passengers are only charged for the cost of services actually provided. In addition, major capital investments require external financing and airlines should only pay for agreed investments on an “as and when used” basis. Airports and ANSPs have access to more efficient and more cost-effective means of financing.

KEY REASONS TO ELIMINATE PRE-FUNDING OF INVESTMENTS THROUGH USER CHARGES

- ◆ Pre-funding through user charges is more expensive for airlines because of the higher cost of capital for airlines, compared to airports which have a lower risk and therefore lower financing options.
- ◆ Pre-funding is unreasonable as there is no guarantee that the airlines paying for future facilities today will still be using the service when the facilities become operational.
- ◆ Providing an upfront pool of money does not encourage investments to be delivered in a cost effective and timely manner.
- ◆ Pre-funding through user charges is unnecessary and is generally not applied in other transport sectors where either public funding through governments or private sector financing is available for sound business cases. There are better and more cost-effective financing options, such as loan/borrowing, institutional lending or subsidies, or closely monitored public-private partnerships (PPPs)².

¹ ICAO Doc 9082 (ninth edition), paragraph 1 of Foreword refers.

² An exhaustive list of sources of bilateral and international sources of financing is provided in ICAO Doc 9562, Appendix 5.