



ICAO



Air Transport Meeting

Panel 5: Stimulating Investments in the Development of Aviation Infrastructure

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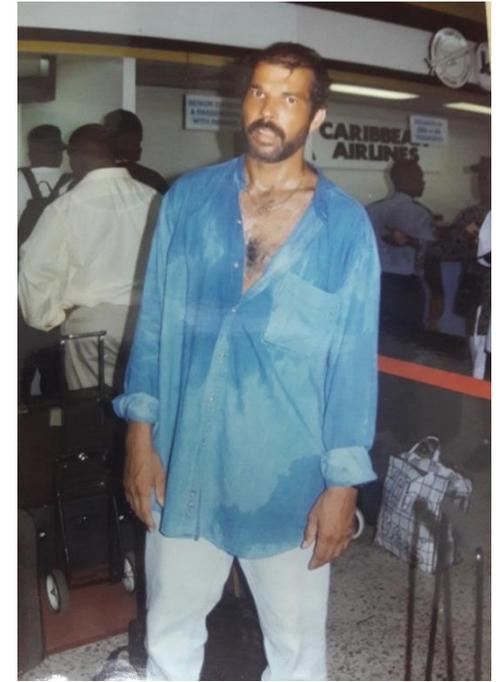
Agenda

1. Airports can provide “negative encouragement”
2. Lively global debate on airport PPPs
3. International airports: Everyone wants one
4. Private capital to public airports
5. Unlocking the commercial potential
6. Time to re-think traditional definitions
7. Too many non-transparent deals
8. Meanwhile on the air side...
9. Time to break the vicious cycle



Airports can provide “negative encouragement”

- No one will visit a country because they’ve got a nice airport
- **But...**
- People will NOT visit if the airport is truly awful!



*Departing Montego Bay
Airport, December 1998!*



Lively airport PPP debate

- Only 14% of airports globally have private sector participation
- IATA urging governments to take a cautious approach*. *“Airlines have not yet experienced an airport privatization that has fully lived up to its promised benefits.”*
- Five of the top six passenger ranked airports by Skytrax are in public hands.
- *“IATA research shows that **private sector airports are more expensive**. But we could not see any gains in efficiency or levels of investment.”*

* <https://www.iata.org/pressroom/pr/Pages/2018-06-05-04.aspx>



The counter argument

- **Airport Council International (ACI)**
*“privatisation has been shown to be a successful means to fund infrastructure development, while government spending cannot be relied upon”**
- **Size matters:** Of the top 500 airports, 39% have some level of private sector participation (compared to 14% overall)
- **Private airports invest more:** *“Airports with private sector participation invested 14% more in CAPEX compared to their public counterparts”*

* <https://aci.aero/news/2018/06/19/privatization-can-provide-a-viable-solution-to-global-airport-infrastructure-gap/>



Everyone wants an international airport...

- Demand for direct long-haul flights are a key driver of airport developments (no one wants to transit through Barbados/LIAT!)
- **“Build it and they will come”** – but is it true?
- Saint Vincent opened Argyle International Airport: an expensive gamble
- Dominica, niche destination with 78,000 arrivals in 2016, planning a US\$220 mill international airport
- **BUT: “Will they come?”**



Private capital



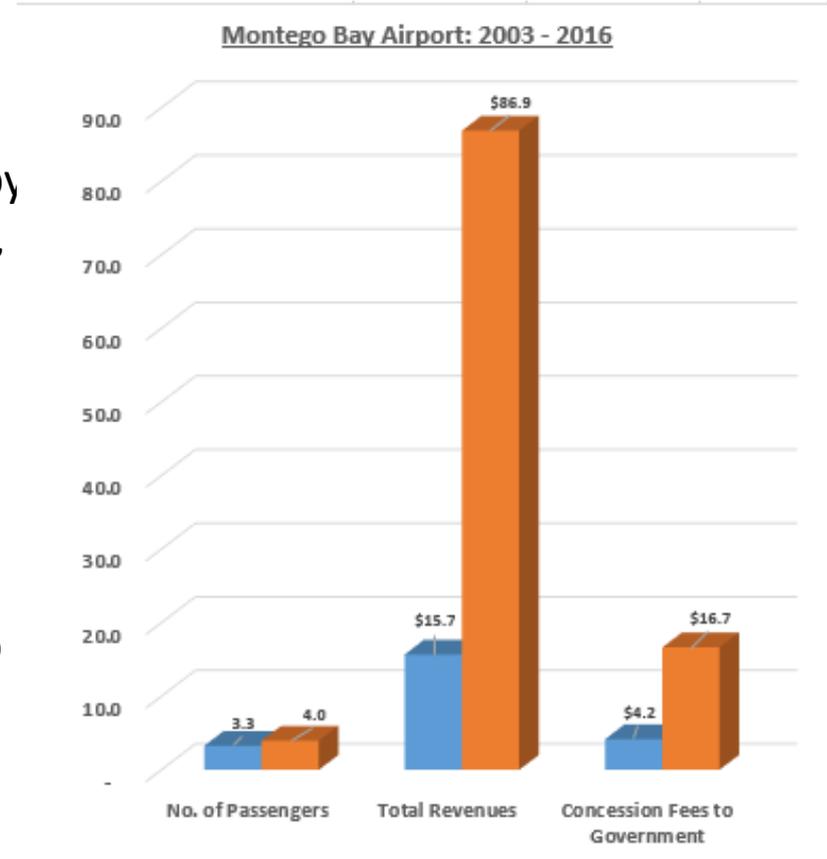
Public airports

- Airports are under pressure to expand to meet demand, but fiscal constraints make this unattainable for the public sector
- Cash-strapped governments could privatise airports to increase investment without impacting their national coffers
- **Sangster Airport** in Montego Bay: poster child for Caribbean airport privatization. Over US\$220 million in initial expansions, with further improvements currently underway and a vastly improved airport experience
- Potential airport PPPs in the news:
 - Kingston
 - Tobago
 - Barbados



Unlocking commercial potential

- Montego Bay Airport's passenger traffic grew by 21% from 2003 to 2016, but...
- Total Revenues grew by **454%** (almost all due to increases in non-aeronautical revenues), and...
- Concession Fees paid to Government grew by **300%***



* Source: Airports Authority of Jamaica (AAJ)



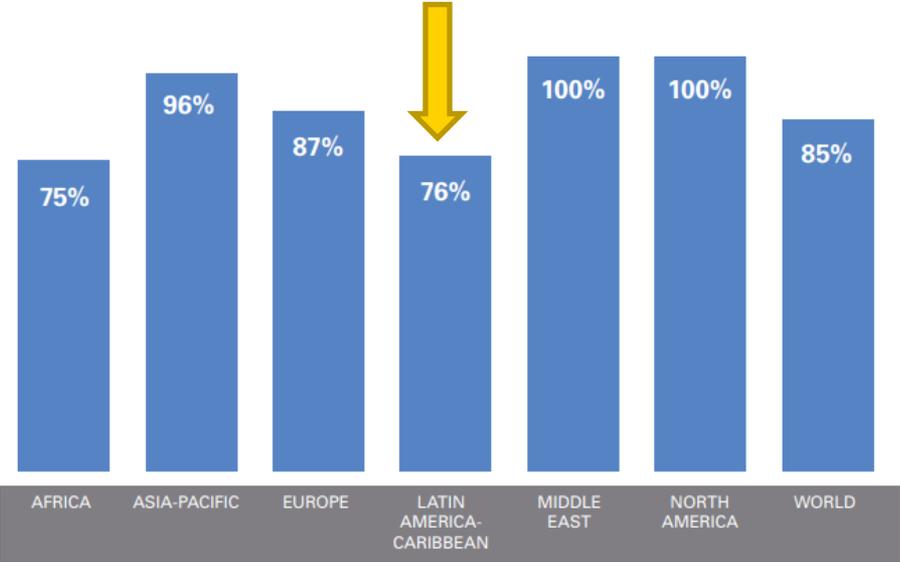
Time to re- think traditional definitions

- Too much government domination of the sector; private sector must be encouraged to deliver world-class service at economical costs
- Airport developments must be **demand-driven**
- Are we taking advantage of commercial potential? (airport hotels, shopping, cargo...)
- Smaller airport PPPs: how low can you go?
 - Conventional wisdom of not <1 million passengers: still relevant?
 - Bundling of smaller airports (e.g. Bahamas Family Islands, OECS)?



Too many
non-
transparent
airport deals

SHARE OF PRIVATIZATIONS WITH AN OPEN BID PROCESS BY REGION



Note: Sample size is 93 airports
Source: World Bank PPI Database, ACI Inventory of Privatized Airports, online research



Meanwhile on the air side...

- Apart from brief periods of private ownership; all major Caribbean airlines continue to be government owned
- CAL & LIAT accounts (i.e. losses): Why the secrecy?
- What are the prospects for attracting private airlines to acquire/merge with regional carriers, and what would be the likely benefits and costs?
- The region is almost devoid of cooperation amongst aviation players (e.g. needless security checks in transit)



Time to break the vicious cycle

- “Over 5 years the accumulated deficits for CAL, LIAT and Bahamasair is about US\$1 Billion”
- **But...**
- “The aviation sector contributes US\$2.5 billion to GDP and supports 112,000 jobs”
- **So...**
With taxes at 50% of ticket value, wouldn't tax relief stimulate air travel, obviate the need for airline subsidies?





THANK YOU!

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