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ITEMS 2 & 4

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 2: **Organizational issues**
Agenda Item 4: **Determinants of the economic regulation of airports and air navigation services**

PRIVATIZATION OF AIRPORTS

(Presented by the United States of America)

SUMMARY

Airports throughout the world have experimented with increased commercialization in various forms and degrees ranging from total privatization of landside services to the provision of specific services by the private sector. Greater private involvement in the management and operation of airports can potentially generate efficiency benefits for both government and users. However, the international civil aviation community must be mindful of the need for adequate government oversight to maintain safety, security, and open access to all airport users at rates and charges consistent with ICAO guidance contained in the Statements by the Council (Doc. 9082/5) and the Airport Economics Manual (Doc. 9562).

1. Introduction

1.1 The 1991 Conference on Airport and Route Facility Management (CAFRM) formulated the background for the ICAO's Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services, which recommended policies on organizational and financial aspects of airports and navigation services.

1.2 Since the CARFM conference in 1991, U. S. airports have increased the availability of financial resources such as non-airline revenues and Passenger Facility Charges (PFCs). These changes in the United States have been caused by the enormous growth in passenger traffic resulting from airline deregulation. This growth caused publicly owned airports to expand facilities and to seek additional financial and business resources other than public funds to finance the expansion. The United States' experience with airport privatization projects has been largely successful. We support the broad concept of privatization, where appropriate, to enhance efficiency and provide financial resources for additional infrastructure. However, States must maintain regulatory oversight of airports to ensure safety, security, competition, and open and fair charging systems for all airport users. Given the wide variety of private participation in the operation of and investment in airports, we support a policy that gives member States the latitude to determine the precise mechanisms that will be employed to bring these private resources to bear.

2. **Discussion**

2.1 A general definition of privatization refers broadly to transferring government's direct involvement in the delivery, development, and risk assumption associated with airport products and services to private providers. Although a transfer of control from the government would ordinarily be associated with elimination of governmental involvement, governments need to retain some oversight responsibilities while reducing operating costs and maintaining or enhancing access to private capital markets and other resources. The term "privatization" can also refer to a broad spectrum of lesser reductions in government involvement in the provision of goods and services such as contracting out, public-private partnerships, franchises, as well as the actual sale of government assets and operations.

2.2 Only the largest airports can finance a capital project solely with existing revenue sources. Most airports have increasing needs for financing major airport capitalization projects. Consequently, airport owners need to find new revenues, lower costs, and new investment strategies. These issues have induced airport owners to continue to examine the trend of shifting the public airport ownership and functions, in whole or part, to the quasi-public or private sectors since the 1970s. The trend toward increased involvement by the private sector can be expected to continue and requires flexibility in the approaches taken concerning ownership of airport facilities. The forms of airport governance can range from national, regional, or local ownership, to quasi-public agencies such as airport or multipurpose authorities, or private owners.

2.3 The United States is experimenting with a limited privatization program that will permit up to five airports (including only one large commercial airport) to be sold or leased. Airport users will have a significant role in determining the public owner's share of sale proceeds and of future rate increases. Government oversight will assure the private operator continues to maintain safety and security, act on environmental and noise concerns, and ensure reasonable access to users, and these airports will be eligible for federal financial assistance and approval of passenger facility fees. To date, four privatization applications are pending consideration by the U.S. Government.

2.4 Although almost all air carrier airports in the United States are publicly-owned by regional and local government, the private sector also extensively participates as a partner to deliver a range of essential services and supplies for landside, as well as some airside operations. Private companies often provide, under contract, services and goods to landside and aeronautical activities such as terminal cleaning, concessions, baggage loading, hangar storage, aircraft parking, and aircraft fueling. The private sector may also provide management services on a contract fee basis for the entire airport, terminal management, or some specialized sector of airport operations such as security or airport rescue and fire fighting. In addition, the private sector provides investment capital for airport infrastructure through the purchase of airport revenue bonds, backed solely by the revenue generating capability of the airport.

2.5 Regulatory oversight of an airport's safety and security programs is the responsibility of the nation-state such as the case in the United States. The regulatory oversight costs are borne by the State's citizens. Each US air carrier airport must develop and have an established airport safety and security program in accordance with the national requirements. These national requirements are developed with consultation of all aeronautical users. Where an individual airport user requires additional safety or security facilities or procedures, the airport expenses to provide for the additional requirements are passed along to that user.

2.6 Airports in the United States are required to adopt business practices to become as financially self-sufficient as possible in response to market demands, and to become less dependent on government assistance. The largest air carrier airports are generating revenue that exceeds their expenses. (*The World of Civil Aviation - 1998-2001*). However, some commercial airports remain underutilized.

2.7 Smaller airports often are not able to meet their investment needs by solely increasing airport revenues. The smaller publicly owned airports have generally relied on State funding or local bond financing for capital needs. The private sector also has provided additional funding sources for capital investments. Privatized airports, however, may be excluded from access of public financing resources such as government issued or airport tax-exempt bonds, which are available to government-owned airports.

2.8 Some national, regional, or local governments may attempt to use airport revenue for general purposes of government unrelated to aviation. Such practices would have an adverse effect on airport revenue and airports' ability to finance needed airport infrastructure investments. In the United States, there are Federal laws governing the operation and taxation of airports and airport related business which generally require that the proceeds of such taxes be applied to uses that relate to the airport.

2.9 Beyond the problem of taxes, privatized or partially privatized airports are expected to generate profits for their owners and/or operators consistent with Statements of the Council, Chapter 1.14, section vii. Further, airports should not exploit circumstances of local monopoly for their own advantage or the advantage of certain operators.

2.10 In the United States privately operated airports are still subject to regulatory oversight. Oversight ensures that airport owners/operators adhere to federal and local regulations regarding safety, security, and the environment. Additional oversight ensures airport charges are based on a fair and reasonable rate of return and that competition among air carriers is fostered at the airport.

3. **Conclusion**

3.1 Airports should be permitted to operate under a range of types of ownership. The type of ownership and private capital participation varies from airport to airport depending on local circumstances. The type of ownership at any individual airport should allow for flexibility in the management and operation of the airport.

3.2 When supporting private investments in airports, States need to carefully ensure that the private sector does not earn more than a reasonable return on their financial investments. States need to maintain appropriate oversight to eliminate the possibility of an airport exercising monopoly power so as to adversely affect the quality and pricing of airport services.

3.3 Airport revenues should be used generally for airport-related expenses, and airports should be encouraged to consult with the airport users prior to increasing the airfield rates and charges.

4. Action by the Conference

4.1 The Conference is invited to:

a) consider the development of appropriate guidance for States to consider when privatizing airports, in whole or in part; and

b) ensure States retain appropriate oversight of airports to ensure safety and security of operations, promotion of competition, and fair access to users at rates and charges consistent with current ICAO guidance contained in the Statements by the Council and the *Airport Economics Manual*.

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