

## **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**

### **GENERAL AVIATION AND AERIAL WORK CONCERNS FOR PRIVATIZATION OF AIRPORT AND AIR NAVIGATION SERVICES**

(Presented by the International Council of Aircraft Owner and Pilot Associations)

#### **SUMMARY**

There must be an equitable place for general aviation and aerial work interests in any aviation service privatization scheme. Determination of equity or access based solely on ability to pay will create a system destined to provide poor service, high prices and neglect of minority users.

#### **1. Background**

1.1 General aviation and aerial work (GA/AW) operations form the foundation of the world's air transportation system. Airline pilots are created through its training, critical care is provided to the populace through emergency medical service aircraft and business aviation supports national and international commerce; GA/AW forms an essential and significant force in the world of air transportation. The more than 600,000 pilots and 300,000 aircraft engaged in general aviation and aerial work operations throughout the world comprise a majority of aviation operations; they contribute significantly to national and international economies. Their needs must be accommodated when planning and operating the aviation infrastructure.

1.2 The great majority of worldwide aviation facilities and systems are designed and operated for the benefit of the airlines. GA/AW generally operate at the margins of this system, taking advantage of capacity unused by air carriers. Therefore, any discussion of funding the aviation infrastructure must realize that GA/AW operations command only a small fraction of all services provided in the total system. Further, the majority of GA/AW operations are able to operate safely without using many air navigation or traffic

services.

## 2. Discussion

2.1 **Privatization.** Our understanding of the term *privatization* is the sale, lease, change of management or release of a government owned or operated enterprise, such as an airport or air traffic service, to private organizations or government corporations. In reality, few aviation infrastructure assets are fully privatized, rather they are *corporatized* or commercialized, with governments retaining substantial amounts of control over the entities. For purposes of this paper the term *privatized* will be used interchangeably with *corporatized*, with the understanding that the net effect involves aviation infrastructure and services being transferred in whole or part to a non-sovereign agent.

2.1.1 As governments have found it difficult to operate public infrastructure responsively, efficiently and cost-effectively, they have resorted to the sale, lease or change of management of public facilities. The common rationale for these actions is greater efficiency, increased responsiveness to user needs and to reduced costs. Inherent in these transfers are a series of conditions dictated to the new enterprise that will ensure the safe and reliable continuation of the availability of essential facilities and services.

2.2 **Overview.** Providing certain essential services and facilities is generally considered to be the responsibility of governments: military, police, fire protection, elementary education, and, increasingly, social services. Traditionally, air traffic services and some airports have been included in this group of essential facilities and services, to be provided by a government organization and staffed by government employees.

2.2.1 The worldwide privatization revolution of the past decade has dramatically changed the relationship between citizen/recipient and government/provider of these traditionally government-provided services. While some aspects of privatization have proved successful, privatization as a whole is not viewed as a success by the general aviation and aerial work communities.

2.3 **General Aviation and Aerial Work Needs and Desires.** General aviation and aerial work activities traditionally have operated at the margins of an air transportation infrastructure, which is principally designed for the world's airlines. This arrangement has, for the most part, worked well since GA/AW operations tend to avoid large hub airports and busy terminal areas during peak periods. Yet, GA/AW interests have always protected their ability to operate in the air traffic system and at major airports. They have retained airport and airspace access largely through political and public opinion processes, by actively advocating the value and utility derived from GA/AW operations.

2.3.1 With large scale privatization of airports and air traffic services the principal access determinant may become the ability to pay. Because of this shift GA/AW interests are concerned with their continued ability to freely operate within the aviation infrastructure.

2.3.2 Of great concern is the effective double taxation of GA/AW operations. Virtually every country imposes an aviation fuel excise tax, yet provision to apply these revenues to the aviation infrastructure is employed in few countries. With privatization a formal fee-for-service structure is imposed for most aviation services, adding costs for the GA/AW operator with little demonstrable benefit.

2.3.3 Access to and equity in use of aviation systems are the principal concerns of GA/AW interests when considering privatization.

2.4           **Airports.** Within the past fifteen years roughly 100 airports have been privatized worldwide. In doing so the governments of the United Kingdom, Australia, New Zealand, Canada, South Africa, Mexico, Argentina, Germany and others have essentially cashed-in their aviation infrastructure investments. While these divestitures ostensibly were accomplished for reasons of increased efficiency and service levels, in reality the sudden infusion of cash from the sale of valuable infrastructure and inability to meet the demands of users may have greatly contributed to the privatization rush.

2.4.1           What have these changes meant to GA/AW?

- Increased fees. Mexico recently imposed high passenger and handling fees on general aviation flights at their newly privatized airports, yet few services or facilities are provided.
- Loss of access. Toronto's Pearson International now bans general aviation during certain periods. In other cases, high landing fees for small aircraft form an effective barrier to the use of metropolitan area airports.
- Loss of airports. Canada's large scale sale of air carrier airports may make it economically infeasible for some municipalities to operate their airports.

2.4.2           These are just a few of the negative effects that airport privatization have had on GA/AW operations. In general, privatized airports mean higher fees and reduced access for general aviation.

2.4.3           The primary alternative to major metropolitan area airport access is to use conveniently located general aviation airports. Yet, this type of airport is rapidly being lost to real estate development and environmental concerns. And, the desirability of well-situated general aviation airports has been discovered by smaller/startup airlines, causing a new round of competition for increasingly scarce metropolitan airports.

2.4.4           While some may see increased fees and reduced access as the inevitable consequence of efficiency measures and free enterprise, the change comes as a bitter blow to GA/AW operators who lose substantial utility for their aircraft. More significantly, many communities' link to the world of business and commerce flows through its airport; economic viability may be stunted or eliminated with the loss of a small municipal or rural airport.

2.4.5           For all the negatives associated with airport privatization, the privatization/commercialization of a few municipally-owned airports, notably in the United States and Australia, has improved access and reduced fees at those facilities for GA/AW. The key to these successes appears to be the involvement of community leaders and aviation interests in improving the value of the airport asset for both user and community. While these isolated examples are encouraging, the required personal involvement will be difficult to insure on a broad scale.

2.5           **Air Navigation Services.** Canada, Australia, New Zealand and a number of European nations have privatized/corporatized their air traffic services systems to varying degrees since 1987. While isolated examples of reduced delays and increased efficiency in these systems are touted, it is difficult to develop an overall opinion about such activity.

- As the air traffic controller workforce has been trimmed, GA/AW access to Toronto and other terminal airspace segments have been reduced due to lack of controller capacity.

- IFR fees for small general aviation aircraft appear reasonable within Canada but may increase substantially when improvements are needed.
- Germany recently attempted to impose a DM7000 annual system access charge on all aircraft.
- New Zealand has recently instituted charges fees for weather briefings and flight plan handling, a significant safety issue.
- Small aircraft pay no IFR route charges in Eurocontrol (largely due to its inability to account for the large number of general aviation aircraft in Europe) but access to the system is often difficult to obtain due to system inefficiencies.
- In countries charging for air traffic services aircraft may attempt to avoid enroute and terminal charges by operating in marginal VMC conditions, creating a safety hazard.

2.5.1 In many countries less than five percent of all IFR flights are flown by GA/AW. Because of this it is difficult for them to have a significant voice in planning and operating the ATC system. If as in Eurocontrol they pay no route fees, they have little standing in the control/operation of the system. These dilemmas raise significant questions of equity and access for GA/AW interests.

2.5.2 As noted above, significant safety concerns arise from the imposition of charges for enroute and terminal charges for IFR and controlled VFR operations. A more insidious and potentially severe hazard is created by emerging fees for weather briefings and aeronautical information services for VFR operations; avoiding these essential preflight elements for the sake of economy is a strong temptation for operators.

## 2.6 **Privatization Concerns**

- *Economic viability of privatization agents.* Operations and capital funding is easily obtained in good economic time, but will privatized entities survive during economic downturns? Deficit spending/financing may only be available through governments in bad times -- will they be willing to bail-out private enterprises or government corporations?
- *Financing less popular facilities/sectors.* Major airports and associated air traffic services will always enjoy sufficient funding to remain "non-profitable"; what of small commuter airline or general aviation airports/air traffic areas? If a government wishes to divest itself of all or its least profitable facilities, will it be possible to continue to operate them privately without subsidy?
- *Governance of the privatized entity.* Will the board of directors of the airport or ATC corporation adequately accommodate the needs and desires of all users or just those who pay the most? Does the government impose some form of social or community responsibility on the privatized entity?
- *"Non-profit margins".* Most airport and ATS corporations are financially classified as either governments or non-profit entities. Gold-plating facilities, poor contractor/project monitoring and excessively high staffing levels are a few examples of organizational faults leading to increased charges. Will it be possible to ensure effective oversight of these elements, especially if controlling authorities are airline or government dominated?

- *Access.* Maintenance of equitable access to airports and air traffic services is essential to the continued viability of GA/AW, regardless of who provides those services. Will the ability to pay or fee levels become the principal access determinant?
- *Service levels.* The sheer numbers and economic power of airlines and their passengers may dominate customer service goals and concerns for privatized entities. The needs and desires of GA/AW operators must share a place within those concerns.
- *Safety.* While all privatized entities profess a strong allegiance to safe operations, the drive to economic success may unduly influence that dedication. Strong oversight by regulatory authorities and legislated safety goals are increasingly important in a privatized system. Conversely, this motivation should not cause system gold plating or over-design; both risk and cost-benefit analyses must be employed to determine an appropriate safety balance.

## 2.7 **Conclusions**

2.7.1 Privatization/corporatization of the aviation infrastructure contains both benefits and detriments for GA/AW interests. Our greatest concern is that user fees will become the principal determinant of access and service levels in privatized systems. In all be a few of the public discussions on the subject the terms "general aviation" and "aerial work" are seldom heard; the predominance of airline interests is overwhelming.

2.7.2 There must be an equitable place for GA/AW interests in any aviation service privatization scheme. Determination of equity or access based solely on ability to pay will create a system destined to provide poor service, high prices and neglect of minority users.

2.7.3 Approximately three-quarters worldwide general aviation and aerial work activity is conducted for some business, economic or government service purpose. GA/AW brings *value* to the communities they serve. But, that value may be stifled or even eradicated if excessive charges or reduced access to essential facilities are imposed under the guise of efficiency or economic incentive.

2.7.4 Finally, profit motive must be tempered not only with a dedication to service excellence but primarily to a service designed to provide the highest levels of safety to all users.

## 2.8 **Action**

2.8.1 The Conference is invited to note the conclusions and act to promote and protect the interests of international civil aviation regarding privatization/corporatization of aviation facilities and services. The areas of equitability of charges and regulatory and safety oversight are of particular concern.

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