

CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES

(Montreal, 19 - 28 June 2000)

Agenda Item 2: Organizational issues

AIRPORT PRIVATIZATION - ELEMENTS TO BE CONSIDERED

(Presented by the Latin American Civil Aviation Commission*)

SUMMARY

This working paper contains information on the work carried out by the Latin American Civil Aviation Commission concerning the "privatization of airports" and presents for consideration by the Conference elements that States should take into account when planning this type of process.

1. Introduction

1.1 Within the framework of the irreversible process of economic globalization, the aeronautical infrastructure has drawn the attention of private investors. As a result, "airport privatization" processes have been undertaken in several countries, both in Latin America and throughout the world, although most of them do not involve a transfer of equity but rather a "concession" prompted by the limited economic capacity of States, which have preferred to hand over airports to private management. These processes usually respond to State policy involving not only airport services but also others, such as telephony, electric power, ports, etc. Each State is sovereign and has absolute freedom to define its economic policy and the role that air transport should play in the political, economic and social development of its people.

1.2 Nowadays, we no longer speak of the economic independence of the aeronautical activity, for Government priorities have changed and the rise in the price of services force State authorities to seek supplementary service marketing alternatives that will allow them to fulfill their task. This transformation brings about important changes in the organisational and functional structure of airports, obliging civil aviation

*LACAC member States: Argentina, Aruba, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

authorities to implement measures and procedures for the sustained development of air transport, without detriment to the commitments undertaken by States *vis-a-vis* the international community; --i.e., the Chicago Convention, its Annexes and ICAO guidelines--, in any case, safeguarding safety, efficiency and cost-effectiveness.

1.3 There is no doubt that the increase in the flow of passengers and freight, in the number of autonomous service management bodies, and in marketing and airport investments by the private sector bring forth a new scenario where actors have diversified; consequently, measures need to be adopted in order to safeguard the healthy balance, the non-discrimination and the effective use of authority for the regulation, supervision and control of the services provided at airports.

2. Latin America and the privatization processes

2.1 This World Conference constitutes an excellent opportunity for exchanging experiences and seeking viable solutions to work out the problems present in the economic aspects of airports and air navigation services. In this line of thought, the Latin American Civil Aviation Commission has deemed advisable present to the international aeronautical community its experience in "airport privatizations", taking into account the work of recent years which resulted in Recommendation A13-4, adopted at its last Assembly, recommendation which contains important factors that States should bear in mind when engaging in privatization processes of their airports.

2.2 On the other hand, it should be noted that, on occasion of the XI International Air and Space Fair "FIDAE 2000" (Santiago de Chile, 27 March-2 April 2000), IATA organized a "Colloquium on Infrastructure Costs", a Conference entitled "Wings of Change - High Level Air Transport Conference for the Americas", and a "Workshop on Regulatory Matters" (30 March 2000). As outcome of these events, a Statement referred to said airport privatization processes in Latin America was submitted. This Statement contains certain criteria on the privatization processes which largely coincide with LACAC Recommendation A13-4, which means that air carriers are also interested in seeking the best alternatives to solve the problems which may arise from the so-called "airport privatization" process.

3. LACAC Recommendation

3.1 The LACAC Recommendation is based on the following considerations:

- Airports, because of their nature, offer "public services" to the users of air transport.
- An airport privatization policy is becoming more prevalent, whereby the private sector is actively participating in airport investments and/or concessions, also undertaking total or partial administration and management of airport services.
- These processes are very useful for they provide for a quick solution of problems related to the lack and obsolescence of facilities which urge for huge investments which the States very frequently are not in a position to finance; nevertheless, certain definitions and criteria need to be adopted so that the costs which might be incurred as a result of these investments neither affect directly air transport operations nor the users of such infrastructure;

- Privatization and/or concession require a detailed analysis of various factors, among which stands out the fact that an airport is essentially a monopoly users depend on, to a large extent, to carry out their activities, thus making it necessary to ensure that the use of this good will not generate an indiscriminate burden for air transportation.
- The obligation of ensuring freedom of action, non-discrimination, transparency in complying with international agreements must apply to all airports, whomever their owners may be.
- The exchange of experiences should be encouraged with the purpose that the States initiating these processes may have sufficient elements of judgement which will help them optimize their projects.

3.2 Based on the considerations stated above, LACAC promulgated the following recommendations to the States which are presented to the consideration of the Conference:

a) Define the role of the State and the responsibilities it must fulfill in order to guarantee the rights of users, as well as airport security and operational safety, in accordance with international standards in force.

- b) Convenience of maintaining public ownership of airports, granting concessions for suitable periods of time in keeping with investments made.
- c) Clearly establish the required infrastructure, whose costs the State and/or the users will be willing to recognize, avoiding surpluses or deficiencies which may be detrimental to them.
- d) Determine the services to be transferred to the private sector and those which will remain in the hands of the State, describing the standards to be used in defining the quality of the services provided.
- e) Inasmuch as possible, the State should aim at establishing a competitive environment for providers of the various services, seeking mechanisms such as public tenders. Maximum allowable rates should be established for monopolistic services.
- f) The State should define the financing of the air transport sector, deciding whether higher-income airports should economically support the less profitable ones or those working at a loss, in order to maintain a self-financed airport network compatible with the national civil aviation needs of the State.
- g) The contract between the State and private airport service operators must give place to an open public tender where the required conditions, evaluation formulae and criteria to be used to award the contract must be clearly established and made known to all interested parties, in an absolutely transparent way.
- h) Reserve the right to implement the relevant measures to follow up and maintain operational control over the concession contract.

- i) Pay special attention to the contract termination clause for its timely enforcement and recovery of relevant values, in case of non compliance.
- j) That the Civil Aviation Administrations have active participation in throughout the entire privatization process.

4. Action by the Conference

4.1 The Conference is invited to take note of the information presented and recommend the Council to invite the States to take due consideration of the recommendations presented in paragraph 3 when developing airport privatization processes.

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