

## **CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES**

(Montreal, 19 - 28 June 2000)

### **Agenda Item 2: Organizational issues**

#### **PRIVATE INVESTMENT IN AIRPORTS**

(Presented by Chile)

##### **SUMMARY**

The objective of the present working paper is to demonstrate the Chilean experience with private investment in the national airport network. The paper has been arranged in four major areas. The first part briefly describes the driving force that prompts the State of Chile to work with the private sector. The paper then presents the main characteristics and strengths of the public works concession system of the Ministry of Public Works (MOP). Thirdly, the elements and philosophies that make up the concession model applied in the case of Chile are indicated in order to finish showing some of the results obtained.

### **1. Introduction**

1.1 Chile today is a country which is at the vanguard in the Latin American order with regard to the strength of its economy and the diversity of its non-traditional exports, which is shown by a high degree of commercial openness and growing involvement in foreign investment. As Chile grows and develops, the quality of its transport infrastructure needs to be improved.

1.2 The private sector's involvement in project execution and management in order to equip Chile with the necessary productive infrastructure is fundamental so that the country continues along the path of development upon which it has embarked.

1.3 The airport structure is not exempt from the national need to improve and augment its physical infrastructure capacity owing to the relevance which commercial aviation has acquired in economic development, for both passenger and cargo transport, at the national and international levels.

1.4 This is how the Government of Chile has promoted the private sector's involvement in the construction, maintenance and operation of public works under the Concessions Law in DS MOP No. 900 of 1996.

## **2. The Chilean Airport Network**

2.1 The majority of cities in countries with over 100,000 inhabitants have airports. They make up the Chile's Primary Airport Network.

2.2 Passenger traffic at the country's airports has grown significantly during recent years. For example, during the period 1992-1998 the average growth rate has consistently been about 20% per year.

2.3 It should be pointed out that for the most part international passengers are processed at Arturo Merino Benítez International Airport at Santiago.

2.4 Within this network, the private sector's participation in the development of the airport infrastructure and operation of the associated facilities has so far amounted to approximately 33%. At present, in view of the projects which are currently under study, it is expected to hold over 50% of the primary airport network under the Public Works Concession System.

## **3. Airport policy in Chile**

3.1 On the basis of the sustained growth in the country's economy and the air transport demand, the Chilean Government designed a modern airport policy, in the development of which more and better airport services are being offered to domestic and foreign users.

3.2 The general objectives of this airport policy are basically: a) to improve the infrastructure and management of the airport system and b) to progress towards greater economic rationality and promote private participation in both the investment and management of the infrastructure, equipment and airport services for commercial use.

## **4. Chile's Concession System**

4.1 The success of public-private association in developing Chile's infrastructure is based on the degree of trust which has been generated between the public and private sectors (concession holders and financiers) as well as the users and citizens in general. The elements on which the backing of the Public Works Concession System has been based are indicated briefly below:

- a) The existence of specific regulatory documents for these purposes has made it possible to make rapid progress in meeting the needs for infrastructure development.
- b) A process has been developed which, given the domestic and foreign investors, has shown signs of being a serious and transparent programme.
- c) The community has received adequate and timely information and communication mechanisms have been maintained with users which have made it possible to clearly identify their needs.

- d) The concession contracts contain coverage mechanisms for the different risks, without carrying the fiscal risk to an extreme.

## **5. Transparency of the process**

5.1 A major strength of the Concession System is the transparency of the process. In this regard, the following items stand out:

- a) The pre-qualification process, which makes it possible to make an advance selection of consortia interested in participating in order to subsequently arrange for “work tables” with them where drafts of the bases for tendering and the engineering plans are made available to those concerned.
- b) Awarding the contract is done with only one variable. There may be different sections in which tenderers compete. The main variables that are used are: user charge, concession period, payments to States, subsidies, etc. All these are objective variables.
- c) The contract is the sum total of the concession law, the regulations, the tendering bases and the tenderer’s proposal.
- d) The process of awarding each contract involves MOP, the Ministry of Finance, the Office of the Auditor General of the Republic and the President of the Republic.

## **6. Active participation by players**

6.1 The active participation of the different players involved in the process is vital at the project design stage, in which various activities are considered, of which the following stand out:

- a) The active participation of the players starts early with the presentation to the community of each project to be undertaken. The intention is to present the project to the community from its conception (engineering concept) up to the project being undertaken (final engineering). At each stage, the community’s opinion is sought so that it is taken into account in the final designs.
- b) Meetings are also held to provide information and an analysis of the project with the operators. In the case of airports, it is the airlines themselves that know their needs and requirements better than anyone else.
- c) Various surveys are conducted to identify the actual needs of users. A 1-800 line was set up so that the community can become informed and have consultations on the different projects which MOP is working on.
- d) Seminars are held to provide information on the project to the regional government and community leaders.

## 7. Adequate risk sharing

7.1 It is legitimate and necessary for the State to assume part of the project risks. A successful concession makes it necessary to avoid both projects which are not financially viable and concessions resulting in excessive private profits.

7.2 Some examples of how the risks are shared between the State and concession holders are given below:

- a) The MOP budget sets aside a major percentage to develop the preparatory studies for each tender. The risk of construction cost overruns is diminished by the quality of the prior studies, which to a large degree corresponds to the quality of the final engineering.
- b) The fact that the tariffs are accepted by the users avoids risks for the concession holders. It should be pointed out airport concessions are financed, among others, with income from a percentage of the boarding tax which is collected by the airport authority (State).
- c) To reduce the risk of variations in demand, the State offers a minimum guaranteed income (MGI) for the period of the concession. That is to say, in the face of crises, the State covers the difference between the actual income and the MGI.
- d) There is now an optional exchange rate coverage mechanism which is intended to give the company holding the concession coverage against the risk of exchange rate fluctuations with respect to those contracts with foreign-currency financing that are covered by this mechanism.
- e) In the case of expropriation, the State assumes the cost overruns that may occur.
- f) Finally, all the projects are subject to the environmental impact assessment system. In most of them, the State is the project owner for the environmental authority and directly obtains the appropriate environmental assessment.

## 8. The Chilean Model

8.1 The section below presents some components of the Chilean airport concessions model.

### Main characteristics

- a) In the first place, the main condition for incorporating private participation is the obligation to maintain self-financing of the airport network, i.e. the resources to finance these projects must come from the system itself.
- b) Secondly, the designs for the concession negotiations have placed special emphasis on economic rationality in setting the tariffs.
- c) Technical aeronautical services have been separated from non-aeronautical commercial services, with the State retaining responsibility for the airport area and air navigation safety.

- d) In the light of successful foreign experiences in generating non-operational revenue, the necessary incentives have been established to increase such revenues as opposed to operational earnings.
- e) A fifth element is flexibility. Flexibility in the contracts, flexibility in the designs, in order to be able to incorporate subsequently, i.e. once the contracts have been awarded, all originally-unforeseen requirements (New Investment mechanism).
- f) The “Concession Area” has also been defined for the purpose of delimiting the areas for which the concession holder will be responsible.

## 9. **Tariff system**

9.1 In relation to the tariff system, the following should be pointed out:

- a) In the first place, it has been decided to set a target of not artificially increasing the tariffs for services and for that purpose the tariffs in effect prior to the tendering process have been set as the basis.
- b) For services with monopoly characteristics, maximum tariffs have been set to guarantee the users an established tariff level.
- c) All the tariffs must have a minimum period of validity.
- d) The tariffs are adjusted for inflation every six months.
- e) The tariffs are made known to the users (obligation to publish). Discriminatory tariffs cannot be collected, but allowance is made for special tariffs where the same type of user is entitled to the same type of tariff.
- f) The concession holder may request that the tariff system be reviewed every two years.

## 10. **Regulatory framework**

10.1 The regulatory framework focuses on three main areas: tariffs, non-discriminatory treatment of users and quality of the service provided.

- a) With regard to monopoly services, the following regulations have been established: i) setting of maximum tariffs, as mentioned above; ii) the resource allocation mechanisms receive prior approval by the regulator; and iii) a minimum number of operators is required as an incentive to competition.
- b) With regard to non-monopoly services, the concession holder may freely establish the tariffs since the same market is being regulated, but the regulator reserves the right to intervene in instances of discriminatory conduct that adversely affect the equality of the users.

- c) Furthermore, independently of the concession contract, the anti-monopoly commission has the power to issue special regulations.
- d) The participation of airlines in the concession contracts is permitted, but it is regulated in accordance with the standards established by the body that oversees corporations.

## 11. Service quality

11.1 During the project operation stage, the field audit office is obliged to oversee the concession holder's performance so as to ensure a given level of service. To that end, the field audit office has the following tools:

- a) The DGCA **Standards**;
- b) Predefined operating **Standards** that form part of the contract;
- c) The users' opinions through periodic **surveys** financed by the State;
- d) Other contract **conditions**; and
- e) **Comparison** with other domestic or international airports that have similar characteristics to the airport in question.

## 12. Results

12.1 Private involvement in airports has made it possible to increase the capacity of the facilities, introduce major improvement in the functionality of the areas and incorporate state-of-the-art technology, thus achieving substantial reductions in aircraft and passenger waiting times. This has made it possible to equip the national network with safe, modern and efficient airports.

## 13. Results in figures

13.1 The table below shows the situation before the projects as opposed to the operations under the concession system.

Item	Unit	Situation	
		Before	After
Tariffs for services*	%	100%	30%
Terminal building surface area	m <sup>2</sup>	32 400	140 000
Aircraft on ramp	number	22	55
Boarding bridges	unit	6	37
Counters	unit	99	215
Baggage carousels	unit	7	25

Parking for vehicles	vehicle	550	1 780
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\*Airline and passenger tariffs at AMB airport

13.2 The information presented corresponds to the total for the eight airports under the concession system.

13.3 It should be pointed out that one of the most important results achieved has been that not only has it been possible to maintain the tariff levels, not only for Santiago airport, but also a sizeable reduction in some tariffs such as counters and crowding.

13.4 In general, it should be stressed that the fact that the terminal building surface area at the eight airports has quadrupled and the number of counters doubled.

#### 14. **Future projects**

14.1 The joint effort by MOP and DGCA to modernize the country's airport network does not end here. Today, Chile is facing new challenges. Thus, the present Government's concession programme includes the following projects involving an estimated investment of a further US\$ 300 million.

- a) Relocation of Serena, Copiapó and Temuco airports. Owing to the magnitude of these projects, they will certainly require State contributions to their financing.
- b) Modernization of Arica airport.
- c) Construction of a second landing runway at Santiago airport.

14.2 Additionally, work has been contemplated in the aeronautical area such as the runway and control tower, where the concession holder's sole responsibility is construction, with operation being DGCA's responsibility.

#### 15. **Proposed action by the Conference**

15.1 The international aeronautical community is being informed of the Chilean experience in developing a concession system with private sector involvement, and the Conference and Council of ICAO are invited to develop guidelines which enable the Contracting States to best confront this type of process.