



Case Study

on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers

France

Background

In France, three categories of airports can be distinguished: Aéroports de Paris (ADP), major regional airports with an international vocation, and local airports.

Aéroports de Paris was created in 1945 as a *sui generis* public corporation subject to a specialty principle: building, managing and developing airport infrastructure around Paris. ADP manages and develops France's most important airport platforms: Paris/Roissy-Charles de Gaulle Airport (hub of Air France) and Paris-Orly Airport. As a state-owned company, ADP was able to use two resources for its financing: the French State's budget, and debt.

Since the 1930s, major regional airports have been managed by local chambers of commerce and industry (CCI) in a concessionary regime, a regime that was criticized by the European Commission in 2000. These airports play an important role for the economic development of their region, both domestically and internationally, and they attract international traffic. Airports in this category are Lyon, Nice, Marseille, Montpellier, Toulouse, Bordeaux, Nantes and Strasbourg. Local airports, attracting mainly domestic traffic, are also managed by local chambers of commerce with the support of local governments (about 120 airports).

Finally, air navigation services in France are provided by the Air Navigation Direction at the General Directorate for Civil Aviation.

Commercialization/privatization: Airports

The government began the liberalization of airport management in the mid-2000s. On one hand, major regional airports expressed their will to have a dramatic policy change. Their top management created in 1999 a joint Committee for the implementation of airport companies, with the mandate to formulate propositions to the government in order to adapt the governance and the corporate structure of regional airport operators. The Committee published a White Book in 2002, asking for the creation of airport limited companies, a simpler legal framework, and the State performing regulatory functions (away from its owner role). On the other hand, ADP created its own committee in 2001 to examine the parameters of French airport economic oversight and its possible evolution. A report from this committee published in 2002 recommended the implementation of a price-cap economic oversight model (instead of the current cost-plus regulation model) in order for ADP to adjust its charges and fees to its financing needs.

In 2004, all airports and airfields owned by the French government were devolved to local authorities (municipal, departmental or regional governments) willing to assume this responsibility. Another policy was decided for larger airports in 2005, which incorporated most of the conclusions of both major regional airports and ADP's committees recommendations.

The Law 2005-357 of 20 April 2005 contains several new provisions for the French airport policy. First, Aéroports de Paris is transformed into a limited company fully owned by the State, with the possibility for the latter to sell no more than 50 per cent of the shares. In June 2006, the Government partially privatized ADP through a € 600 million increase of capital: 29.2 per cent of the shares were sold to private investors and 2.4 per cent to ADP employees, while the Government kept the remaining 68.4 per cent. In June 2008, ADP and the operator of Amsterdam-Schiphol airport concluded a strategic alliance, leading each company to

acquire an 8 per cent stake in the other (it is the French Government who sold the stake to the Schiphol Group, and it subsequently retained the ownership of 60 per cent of the shares of ADP after the operation). Finally, in 2009, the French Government sold another 8 per cent stake to the Fond Stratégique d'Investissement, the French investment sovereignty fund. The ownership structure of ADP is thus as follows: a) French Government, 52.1 per cent; b) Schiphol Group, 8 per cent; c) Fond Stratégique d'Investissement, 8 per cent; d) private sector, 30.3 per cent; and e) ADP employees, 1.6 per cent.

Second, the Law 2005-357 creates airport limited companies to manage the twelve most important regional airports, yet owned by the State, the local chambers of commerce and industry, and local governments. These airport companies can open their shares to new public and private partners and it is expected that the French Government will sell a certain amount of its shares in these companies. Third, the economic oversight of airports is modernized with the shift from a cost-plus to a price-cap economic oversight model, implemented through five-year regulatory contracts signed by the State and airport operators.

Commercialization/privatization: ANSP

The provision of air navigation services was neither corporatized, privatized, nor commercialized. However, functional separation occurred in 2005 within the French Civil Aviation Administration (DGAC), whereby the Direction des Services de la Navigation Aérienne (DSNA) was set up as the Air Navigation Services provider branch of the DGAC, under safety, security and economic oversight by functionally separate DGAC directorates (namely Direction du Transport Aérien (DTA), and Direction de la Sécurité de l'Aviation Civile (DSAC)). DGAC/DSNA is also responsible for providing air traffic services at a number of aerodromes. At other aerodromes, aerodrome flight information services are provided by designated providers regulated by DGAC. Meteorological services are provided by Météo France, which is legally separate from and regulated by DGAC.

Economic oversight: Airports

Before the Law 2005-357 of 20 April 2005, the economic oversight of French airports was assumed by the General Directorate for Civil Aviation, along with the General Directorate for Competition Policy, Consumer Affairs and Fraud Control. They calculated together the level of airport charges and fees on an annual, cost-plus basis and submitted their proposition for approval to the Minister of Transport and the Minister of Economy. The Law 2005-327 and its subsequent application decrees create a new mechanism for airport economic oversight. Major airport operators are to sign an economic oversight contract with the Government that would contain the parameters of a price-cap regulation formula, with application of the single-till principle. The process of negotiation implies that the airport operator first proposes a regulation contract after consulting its users. This proposal is then submitted to an independent Airport Consultative Committee in charge of evaluating the proposal, conducting public hearings, and formulating its own proposal. The Minister of Transport and the Minister of Economy then receive the Airport Consultative Committee report and decide of the parameter of the economic oversight formula. The final word lies thus in the hand of the Government.

The first economic regulation contract was signed between ADP and the French government in February 2006, covering the 2006-2010 period. The contract allows a maximum charges increase of 3.25 per cent per year plus inflation. A second economic oversight contract was signed between ADP and the French government for the 2011-2015 period in July 2010, which allows a maximum charges increase of 1.38 per cent per year plus inflation. This second contract also signals a change in the principles of the economic regulation of ADP, with the transition toward an "adjusted single-till" in which non-aeronautical real estate is not subjected to economic regulation.

In March 2009, Toulouse-Blagnac airport became the first major regional airport to sign an economic oversight contract with the French government. The contract allows a maximum charge increase of 2.50 per cent plus inflation for the first year, 1.00 per cent for the second year, and then 1.90 per cent for 2011, 2012, and 2013. Other major regional airports are still completing their transformation into companies and negotiating the parameters of their economic regulation contracts with the State. The French government, which owns 60 per cent of the share of major regional airports, has not engaged any move toward their partial privatization.

Economic oversight: ANSP

DGAC/DTA conducts economic oversight of DGAC/DSNA and regulates air navigation services charges.

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