

Agenda Item 2

Organizational Structures of Airports, including Commercialization

Overview

- ANSConf 2000
- ICAO's Policies §§ 10-17
- Chapter 2 of the Airport Economics Manual
- Circular on Privatization

ANSCConf Recommendations

- 1 – Autonomy in the operation
- 2 – State responsibilities
- 3 – Guidance on commercialization
- 6 – Performance parameters
- 9 – Obligations of autonomous operators
- 10 – First resort mechanism
- 11 – General/business aviation airport access
- 12 – Independent mechanism for economic regulation
- 13 – Best commercial practices

Network of airports and cross-subsidization of airports

- ✦ States to decide
- ✦ Full transparency
- ✦ Guidance by ICAO (ANSCConf Recommendation 3)

ICAO's Policies in Doc 9082/7

- ✦ Organizational and managerial issues
 - Autonomy and privatization
 - Independent mechanism for economic regulation
 - Performance parameters
 - Best commercial practices

Chapter 2 of the Airport Economics Manual

- ✦ Airports within a government department
- ✦ Autonomous airport entities
- ✦ Autonomous civil aviation authority
- ✦ Private involvement in airport ownership and operations
- ✦ Systems, networks and alliances

Airports managed by a government department

- ✦ A separate entity or department
- ✦ Separate accounts
- ✦ Internal accounting system
- ✦ Report to DGCA
- ✦ Decision-making authority

Decision-making authority

Head of department

- ☛ Daily operations
- ☛ Purchases of supplies
- ☛ Negotiate concessions and rental agreements

Higher level (DGCA)

- ☛ Approve charges (in consultation)
- ☛ Major purchases or investments
- ☛ Major concession and rental agreements

Reasons for establishing an autonomous airport entity

- Improve efficiency and financial situation
- Investment financing
- States relieved from major investments
- Development of non-aeronautical activities

Charter of an autonomous airport entity

- ☛ Describes services and areas
- ☛ Assets – whose property, value, debt?
- ☛ Financial independence
- ☛ Financing plan, recovery of shortfalls
- ☛ Board of directors or CEO
- ☛ Whom to report to

Autonomous airport entity - Organization

- ✦ Corporation
- ✦ Board of directors
- ✦ General manager

Advantages of financial independence

- Closer control of revenues and expenses
- Negotiate loans
- Stronger negotiation position in concession contracts and industrial relations
- Take advantage of special offers and discounts
- Access to generated convertible currency
- Better financial terms for staff

Additional advantages of autonomous entities

- Breeding a business culture
- Lower expenses per traffic unit
- Reduced financing burden on governments
- Improved quality of service
- Distinction between regulator and provider

Autonomous Civil Aviation Authority

- One airport and limited air traffic activity
- Avoid duplication of costs (administration, overheads etc)
- Avoid rivalry
- Reduced need for public funds
- Financial independence

Private sector ownership and control

Transfer of full or majority ownership of facilities and services to the private sector.

Options for private participation

- Management contract
- Lease
- Transfer of minority ownership
- Private sector ownership and control

Management contract

- Management of airport transferred for a limited period of time and for a fee
- Professional management
- Does not include development projects

Leases/concessions

- ✔ Short-, medium-, long-term
- ✔ Airport transferred for management and development for a fixed period
- ✔ BOT, BOOT, BTO, etc

Transfer of minority ownership

- Partial transfer of ownership to the private sector
- Can be progressive

Private sector ownership and control

- Majority, or
- Full ownership transferred

Reasons for privatization and private participation

- ✦ Financing options
- ✦ Privatization as a source of revenue
- ✦ Major airports considered as commercial entities
- ✦ Emergence of a global airport management industry

Cautionary Factors

- ✦ Airports essentially a monopoly of critical importance for economy
- ✦ Safeguards required to prevent overcharging, and ensure national air transport objectives are met
- ✦ Ensure non-aeronautical profits contribute to aeronautical losses
- ✦ Government able to inspect accounts to prevent abuse

Responsibilities of States

- Provision of airports and air navigation services (Article 28)
- Respect other Articles (Art. 11, 15, 37, etc.)
- Safety and security (certification)

Circular on Privatization of Airports and Air Navigation Services

Contents

- Description of terms
- Developments in ownership and management
- ICAO policies and guidance
- Ownership and management options
- Preparing for change in ownership and management structure, including regulatory aspects
- Selection of private provider and contract documentation

Circular on Privatization - some definitions

- ✦ Autonomous airport authority
- ✦ Privatization
- ✦ Private participation and private involvement
- ✦ Corporatization
- ✦ Commercialization

Privatization – a gradual process

- ✦ United Kingdom: government corporation > government-owned company > shares
- ✦ New Zealand, China, Malaysia and South Africa: government-owned company > shares
- ✦ Australia: government corporation > leases
- ✦ Latin America: private participation directly (leases)

Preparing for change in ownership and management

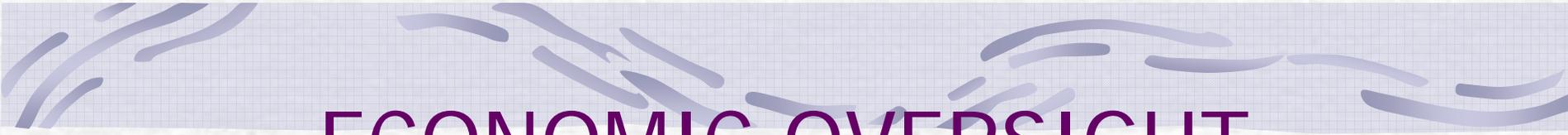
- ✦ Planning and consultation
- ✦ Study of financial and managerial situation
- ✦ State to decide on options
- ✦ Gradual change
- ✦ Management of residual facilities and services
- ✦ Revenues from privatization
- ✦ Change in legal framework
- ✦ Other regulatory aspects
- ✦ Human resources issues

Conclusion

There is no best option for global application

Discussion

- How are airports organized in your State?
- Where do airport-generated revenues go?



ECONOMIC OVERSIGHT

(Chap. 2 of the Manuals)

STATES' RESPONSIBILITIES

- Articles of the Convention (11, 15, 28, 68)
- Air services agreements
- ICAO's Policies on Charges (Para. 13-15)

NEED FOR ECONOMIC OVERSIGHT

- Competition vs monopoly
- Monopolistic situation of airports and ANSPs

OBJECTIVES

- ✔ Protect against overcharging and anti-competitive practices
- ✔ Ensure transparency
- ✔ Protect against discrimination
- ✔ Address efficiency
- ✔ Address adequacy and consistency of service standards and quality
- ✔ Encourage appropriate investment
- ✔ Ensure effective consultation with users
- ✔ Provide for a dispute resolution mechanism

POSSIBLE FORMS

- Minimum government intervention and regulatory cost
- Maximum intervention with significant cost implications

Forms of economic oversight 1

Competitive forces (market regulation)

- Incentive to moderate charges
- Threat of more direct regulation (Fallback regulation)

Forms of economic oversight 2

☛ Institutional arrangements - checks and balance:

- Consultation providers/users
- Stakeholder membership
- Joint ownership
- Debt financing
- Not-for-profit financial status

Forms of economic oversight 3

- ☛ Third party advisory commission
- ☛ Contract regulation

Forms of economic oversight 4

• Economic measures/regulatory body

- Rate of return regulation
- Price caps

- Regulatory body
- Competition watchdog commission

DISPUTE RESOLUTION

- ✦ Two-stage dispute settlement procedure
- ✦ “First-resort” mechanism
- ✦ Ombudsman office
- ✦ Right of appeal to a higher tribunal

Discussion

- ☛ Is economic regulation implemented in your State?
- ☛ What forms does it take?