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INTRODUCTION

No one is oblivious to the multiplier effect exerted by air transport on national economic, political and soc development, nor can one ignore the fact that since the aeroplane was invented the world economic system has gro heavily and rapidly. Trade and industry have grown and other related sectors advanced apace; this is the case of touri and corporate operations, which could not have been managed as dynamically had air transportation not been availa to them.

Aeronautical activity involves three key elements that are closely interlinked, for none of these is able to surv on its own. I refer to the aeroplane, aeronautical infrastructure, and human resources. Viewed from the econor standpoint, this triad could be considered the group of elements "endogenous" to the activity, while the remain activities that are directly or indirectly related to this triad but are not a part thereof, could be considered "exogenelements."

These elements, particularly those connected with the aeronautical infrastructure and specifically the so-cal "Airports," have drawn the attention of investors over the past decade because of the significant economic returns tl generate. All of this has taken place within the irreversible process of world economic globalisation. Today, aeronauti activity in general and industry in particular, together with their respective authorities, suffer the impact of the wo forces of liberalisation and privatisation.

In November 1994, ICAO convened the World Conference on Air Transportation, which undertook examination of both present and future regulation. The Conference concentrated primarily on the most notewor changes that were taking place world-wide and addressed them from the outlook of internationalisation multilateralisation; liberalisation; privatisation; transnacionalisation; regionalisation and globalisation. In other wor the highest-level world aviation organisation was already looking ahead to find formulas of understanding that wo enable the sector to advance in as balanced a way as possible and without detriment to the poorest states.

PRIVATISATION

Privatisation is simply the sale of state assets to private investors. Since nationalisation became outdat privatisation operations have proliferated in the Western world. England was the first country to put this policy it practice in 1979, under the then Prime Minister Margaret Thatcher. Other countries in Europe and Asia soon follow suit and were joined later by those of Latin America, which are still engaged in such practices.

The reasons a government may decide to privatise are many; the two most important aims, however, are downsize the public sector in order to boost economic efficiency and to increase state earnings. In some cases, wl utilities are privatised, the State tends to regulate the price policy to be followed in order to keep the company from act against "the interests of the people."

Every State has the sovereign right to define the economic policy for its air transport activity and specifically regard to the development of its aeronautical infrastructure, and to determine whether its ownership and managem should remain in the hands of the State or be transferred to private corporations or joint ventures. Similarly, the St may or may not possess and/or manage aerodromes in its territory, but it may not waive its responsibility for enforc the standards, recommended practices and international procedures in keeping with the Chicago Convention and approved by ICAO.

International airports that were traditionally in the hands of the States have been gradually turned over to private sector. It should be stressed here, however, that it is generally the non-aeronautical areas that have be transferred--that is, stores, parking lots, restaurants, apron services, counters and so forth--, while the State has kept hold on everything connected with air navigation.

On the other hand, attention should be drawn to the fact that for some time now airports and the airling themselves have been offering services that have less and less to do with their given activity, driven by the desire to exthe preference, provide comfort and accommodate the personal and professional interests of passengers and visite By way of example, airports today offer services such as shopping centres, duty-free stores, banks, restaurants, beau parlours, barber shops, etc., that generate considerable "non-aeronautical" earnings.

Today the three elements to which I referred earlier are strictly circumscribed to political and econor developments in each State. We can no longer talk about the economic independence of air transport or assign prior to it as in the past, despite the important role it plays, because air transport has had to be incorporated into the rest of services that are capable of being "privatised" by governments within the context of "globalisation" and "econor flexibility".

The Convention on International Civil Aviation establishes the commitment of each State to "provide airporadio services, meteorological services and other air navigation facilities and services within its territory, in order facilitate international air navigation, in keeping with the standards and recommended practices or those established due time...," as well as other obligations like the regulation and control of aeronautical activity in the areas of navigat and air traffic, to ensure the safety and efficiency of said activity.

Economic opening has reinforced the trend toward the implementation of policies designed to give the State a m prevailing regulatory role and a smaller part to play in the operational provision of services.

Several countries of the Region have included airports on the list of state entities that are to be handed over to private sector for administration, together with telephone companies, seaports, or electric power generating compani In other words, governments, within the liberal orientation of their measures, have decided to eliminate the bureaucra burden created by state entities, augment the fiscal coffers, and leave the management and administration of certain st services in private hands.

In most cases, the aeronautical authority has not been the entity directly responsible for the privatisation concession process. The government, by placing different types of institutions in a single "basket", has entrusted this t to entities created exclusively for that purpose. These entities have largely taken the form of agencies subordina directly to the executive or inserted within other bodies, but always with a sufficient degree of independence and gr decision-making power.

Within the general economic context, most States in the region have started, finished, or are in the process

"privatising" their airports, especially those intended for international traffic.

STATUS OF THE REGION

In order to expedite this analysis, I am presenting as an **Attachment** a table summarising the status of privatisat processes in most of the States that form part of LACAC. This data reveals that 73% of LACAC Member Stat including Guyana and Suriname, have launched or are engaged in a process of this type, encompassing a total of 1 airports. Most of these involve a "concession" arrangement, although each process has its own particular features. O one State in the region (Venezuela) has applied a "regional decentralisation" concept, awarding airport management regional governments, one of which has also carried out a "concession" process with regard to the airport under jurisdiction (Margarita).

The areas handed over to the new private administrators usually correspond to the "ground aeronautical" and "non-aeronautical commercial" sectors. However, it has been noted that the law in some States of the region provi for the possibility of also including air navigation areas in the process. Another important observation is that, in m cases, the spaces and services have been given "in concession" for a specific period of time and under preestablisl conditions. It goes without saying, therefore, that what is involved is not "pure privatisation" or a total or partial deliv of assets, but a "temporary concession".

The income of the new management is generally limited to the earnings from charges or fees on landing, runv lighting, parking, boarding bridges, hangars, passenger services, freight, restaurants, duty-free stores, vending machin bars, cafeterias, fuel suppliers, banks, money exchange agencies, airline catering services, taxi services, car rental, parking, advertising in the airport, mass transport services, stores in general, gas stations for cars, beauty parlou barber shops, hotels, motels, freight consolidators or shippers, lounges, land, etc.

It is also clear from the available information that most States have reserved the air navigation services for the own administration; in other words, they have kept aircraft operations, from take-off to landing. While this separate is valid for economic purposes, great care must be taken to ensure proper application of ICAO standards, practices a procedures, based on the premise that "air safety" does not depend exclusively on compliance with the Annexes to Chicago Convention that deal with operational safety (Annexes 1, 6 and 8), but also with those related to air navigate services: air traffic, aeronautical meteorology, telecommunications, aeronautical information, and others that invo complementary areas such as airport security, facilitation, search and rescue, accident investigation, aerodrom environmental protection and hazardous goods.

Another problem noted in the cited processes refers to the destination of resources generated in this exerci By changing the income distribution system, in most cases this income goes into the general accounts of the State, wh takes charge of returning the funds to the respective entities, based on the budget it has approved. These funds could quite limited, creating the risk that aeronautical activity is not given the importance it requires *vis-à-vis* other States, and significant investments may be delayed or may fail to be made, also affecting "aviation safety."

Obviously, with the reduction of the income allocated to Civil Aviation Administrations, their capacity investment will also be reduced, thus seriously affecting the proper supply and maintenance of air navigation servic the replacement of equipment and, of course, the hiring and training of human resources who, because of their speciali activities, must be highly qualified.

LACAC AND PRIVATISATION

LACAC has made a general analysis of this phenomenon on the basis of studies on the subject carried out in region. As a result, at its last general Assembly, it adopted an important recommendation containing a list of "eleme to be considered by the States before or during airport privatisation or concession processes".

The starting point for this important document is that airports by their very nature provide "public services" air transport users. It also stresses the progressive growth in the Latin America region of a policy of airport privatisati by virtue of which the private sector shares actively in airport investments and/or concessions and assumes comprehensive or partial administration and management of airport services.

While processes of this kind are considered to be highly useful, in that they make it possible to rapidly reso problems of lack or obsolescence of facilities that call for large investments that States are frequently not in a posit to make, certain definitions and criteria must be adopted to ensure that the costs of such investments do not affect transport operations and infrastructure users directly.

As a result of this study, LACAC invited member States that are engaged in or about to start or review airprand aeronautical infrastructure privatisation processes to consider the following aspects:

- a) The need to define the role of the State and the responsibilities it should retain in order to guarantee user rig and operational and airport safety, in keeping with international standards in force.
- b) The desirability of maintaining public ownership of the airport, granting concessions for appropriate periods time, in keeping with the investments made.
- c) The clear definition of the required infrastructure, whose costs the State and/or the users are willing acknowledge, while avoiding excesses or deficiencies that will go against their interests.
- d) The identification of services to be transferred to the private sector and those to be kept by the State, describ the standards to be used in defining the quality of the services provided.
- e) Insofar as possible, the State should seek to establish a competitive environment for the providers of the variservices, through the use of mechanisms such as tenders to third parties. In the case of monopolistic services, maximum allowable rates should be set.
- f) The State should define how the air transport sector will be funded, deciding whether airports with higher inco should provide economic support to those that are less profitable or are losing money, in order to maintain an airp network that is self-financing and attuned to national civil aviation needs.
- g) The contract between the State and private airport service operators should be the result of an open tender wh

the required conditions, evaluation formulas and criteria used to award the contract are established and publicised ame all interested parties with absolute transparency.

- h) The State should reserve the right to take the necessary measures for the follow-up and operational control of concession contract.
- i) The State should give special attention to the contract cancellation clause in order to execute it at the pro moment and recover the corresponding value in the event of a breach of contract.
- j) Civil Aviation Administrations should play an active role in the privatisation process.

In light of the above, I should like to stress how important it is for governments, in their privatisation or concess processes, to clearly define what responsibilities the State will have and the role it will play in order to maintain optim safety levels, considering that both human resources and equipment must reach the appropriate levels of training a technology in order to meet international commitments and to comply with ICAO standards, recommended practices a procedures. By the same token, the right to regulate, monitor and control the various activities of the sector must reserved for the aeronautical authority.

The States in the region have always maintained their airport systems as a single unit--in other words, as airport network--financed basically from the earnings of profitable airports, which are generally classified as internatio airports. It is therefore necessary for governments to provide sufficient funding to keep all airports compatible with c aviation needs.

In order to accomplish this, governments should include the Civil Aviation Authorities in the bodies responsi for the airport privatisation or concession processes from their very onset. Only in this way can there be any assurathat the bidding documents and other legal processes will take into account the financial needs and technical featurequired by international civil aviation.

OTHER CONSIDERATIONS

These processes can also create conditions that affect aeronautical activity itself. Such is the case of the concern expressed by airlines over increased airport charges and fees in some airports following their privatisation. In the regard, both IATA and AITAL have expressed their concern because, in their opinion, airport privatisation process in Latin America have not taken into account in the respective manuals the ICAO criteria on frequent user charges.

It has also been noted that these concessions, because of the very nature of the activity, can become monopoli with the ensuing consequences, such as the setting of high prices to maximise profits. Therefore, the provision of servi by the private sector should be subject to government regulation and control in order to serve "the public interest" a to avoid abuse resulting from a dominant position.

CONCLUSIONS

States freely and sovereignly define the economic air transport policy to be implemented, particularly the pol on airport infrastructure management, keeping it in the hands of the State, handing it over to private entities or creat joint ventures with third parties. In other words, the State may either manage the aerodromes in its territory or entr others with this task, but as a signatory to the Convention on International Civil Aviation, it may not waive responsibility for enforcing the standards, recommended practices and procedures related to this instrument international law.

While safeguarding the characteristics of aeronautical activity, **safety should continue to be the main object** of everyone involved in civil aviation. Therefore, the appropriate authorities should be very cautious in the decisions tl make to keep them from defeating or interfering with said objective.

Airport privatisation or concession **should not affect the resources of civil aviation administrations** that earmarked for the provision of air navigation services. In other words, civil aviation administrations should have necessary economic capacity to sustain their qualified technical staff and ensure that equipment is maintained a replaced.

I should like to conclude this presentation by urging all of you who are in one way or another involved in this no activity to lend a hand to maintain an extremely safe, cost-effective and efficient air transport that is in line with the lc interests of our nations.

Thank you.

AIRPORT PRIVATISATION AND/OR CONCESSION IN LATIN AMERICA

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM
Argentina	*Concession *33 airports (32 handed over, 1 pending) (*) list below *Period: 30 to 40 years	All airport areas, except those corresponding to air navigation and airport security	*ORSNA (Regulates System and User Protection) *FAA (Air navigation and airport security) *Airports/2000 (Airport administration)	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*FAA (Flight protection and approach fees) *Annual tax (US\$ 171 million/year) *Investment (US\$ 2.3 billion)	*ORSNA responsible for regulating and approving airport and flight protection fees and charges
Aruba	* No information available					
Bolivia	*Concession *3 airports (La Paz, Cochabamba and Sta. Cruz) *Period: 25 years	All airport areas, except those corresponding to air navigation	*DGAC *AASANA (Air Navigation) *Transport Superintendency (regulator and user protection) *FAB (AVSEC/Perimeter) *SABSA (Administration)	*Commercial/non aeronautical *Aeronautical ground support *Airport tax (US\$ 20 per passenger)	*AASANA (70% of flight protection fees) *Aeronautical fund (US\$ 5 of airport tax) *State (30% of flight protection fees) *Monthly tax of 20.3% of income *Investment: Maintenance	*Transport Superintendency responsible for regulating and approving airport and flight protection fees and charges

^(*) City of Buenos Aires, Bariloche, Comodoro Rivadavia, Córdoba, Esquel, Ezeiza, Formosa, General Pico, Iguazú, La Rioja, Mendoza, Posadas, Río Gallegos, Río Grande, San Fernando, San Luis, San Rafael, Santiago del Estero, Santa Rosa, Viedma, Villa Reynolds, Salta, Tucumán, Catamarca, Paraná, Río Cuarto, Resistencia, Jujuy, San Juan, Malargue, Puerto Madryn, Reconquista, Mar del Plata.

Attachment - 2 -

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM			
Brazil	_	*There have been no privatisation or concession processes. INFRAERO is in charge of the airport system, except for the Buzios and Porto Seguro airports, which from the very beginning have been private.							
Chile	*Concession *10 airports (Iquique, Calama, Serena, Copiaco, Antofagasta, Santiago, Temuco, Concepción, Puerto Montt and Punta Arena) *Period: from 12 to 18 years	All airport areas, except those corresponding to air navigation, airport security and rescue and fire fighting	*General Civil Aeronautics Bureau	*Commercial/non aeronautical *Aeronautical ground support *Airport tax (Fixed value ranging from 1.5 to 8 dollars per passenger)	*DGAC (Aeronautical fees and charges) *Annual tax *Investment: 332 million US dollars	*DGAC responsible for regulating and approving airport and flight protection fees and charges			
Colombia	*Concession *2 airports (Cartagena and Barranquilla) *1 runway at Eldorado airport (operation and maintenance) *Period: 15 and 17 years	All airport areas, except those corresponding to air navigation	*Special Civil Aeronautics Administration Unit	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*Economic counterpart funds *Quarter-ly tax based on interest rate *1999 Budget: estimated income of 20 million dollars	*Predetermined in the concession contract using indexation formula with inflation over time as the parameter			

- 3 - Attachment

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM
Costa Rica	* Concession (interested party) * 1 airport (San Jose) * Period: 20 years	All airport areas, except those corresponding to air navigation	* Civil Aviation Bureau	* Landing fee * Commercial/ non aeronautical services, except approach	* Percent fee on services * Investment: to be defined in the master plan/80 million dollars * 1 million dollars yearly/trust fund * 7000,000/year for local airport network	* Specific regulatory body from the state sector * Regulation and approval by the State of airport and flight pro- tection taxes and charges
Cuba	* Corporation made up by Cuban capital * Concessions * 9 international airports	All airport areas, except those corresponding to air navigation	* Cuban Aeronautical Airport and Services Company (ECASA)	* Commercial/ non aeronautical * Aeronautical ground support * Airport tax	* All income	* Civil Aeronautics Institute of Cuba
Dominican Republic	* Concession (in process) * 4 airports (Santo Domingo, Puerto Plata, Barahona, Samana) * Period: 20 years	All airport areas, except those corresponding to air navigation. Includes operation, management, expansion and modernisation	* Commissioner/ Airport Commission * Airport Department	* Commercial/ non aeronautical * Aeronautical ground support * Airport tax	* To be defined	* Airport commission

Attachment - 4 -

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM	
Ecuador	*Concession (the State creates corporations for each airport/ business feasibility study/operation of existing and building of new airports *2 airports (Quito and Guayaquil) *Period: not defined	All airport areas, except those corresponding to air navigation	*General Civil Aviation Bureau	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*DGAC will receive taxes per passenger to maintain other airports *Commission on some services *Investment: to be deter- mined	*State responsible for regulating and approving airport and flight protection fees and charges	
El Salvador	* No information available						
Guatemala	* Initial privatization process	s suspended. Currently w	vorking on a "modernisation	on process"			
Guyana	*Concession (in process, to be defined *1 airport (Cheddi Jagan Intl.)	All airport areas, except those corresponding to air navigation	General Civil Aviation Authority	*Commercial/non aeronautical *Airport tax	To be defined.	State responsible for regulations and approving airport and flight protection.	
Honduras	* No information available						
Jamaica	* No information available						

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STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM	
Mexico	* Concession (in process) * 35 airports/4 groups: Pacific, Southeast, Central North, and Mexico City (the first two in process) * Period: between 25 and 50 years	All airport areas, except those corresponding to air navigation	* Civil Aeronautics Bureau * Administrator (private sector)	* Commercial/ non aeronautical * Aeronautical group support * Airport tax	* The highest bid * Development master plan every 5 years	* Tariff Bureau/ Communications Secretariat	
Nicaragua	* Concession (under study) * 1 airport (Managua)	Apron/Flight dispatch commercial areas	* Civil Aviation Bureau * Airport/business certification	* To be defined	* Monthly tax * Investment to be defined	* Civil Aero- nautics Bureau through the Airport Board	
Panama	*Concession (in process, to be defined on 28/10/99) *1 airport (Tocumen) *Period: 20 years	All airport areas, except those corresponding to air navigation	*DGAC *Tocumen Airport Authority	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*DGAC (share of landing fee) *Annual tax, 10 million dollar base, amount to be defined in adjudication *Investment: 250 million dollars for maintenance and replacement	*DGAC responsible for regulating and approving airport and flight protection fees and charges	
Paraguay	*No privatisation or concession process planned.						

Attachment - 6 -

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM
Peru	*Concession (in process) *5 airports (Lima, Cusco, Arequipa, Iquitos, Trujillo) *Period: 30 years	All airport areas, except those corresponding to air navigation	*OSITRAN *DGTA (CORPAC)	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*CORPAC (20% of airport tax) *50% of landing fee *Annual tax to be defined, base: 10 million dollars *Investment: 500 million dollar base	*OSITRAN responsible for regulating and approving airport and flight protection fees and charges
Suriname	*Concession to State- owned corporation * 1 Airport * 25 years	All airport area, except those corresponding to air navigation	*CAD * M.V. Suchthaven Beheer	*Commercial/non aeronautical *Landing fees *Fuel concession *Passenger facility charge (US\$20)	*Annual concession fee *Taxes on profit	* Share in landing and concessions subject to government approval *Airport tax established and collected by the Civil Aviation Bureau
Uruguay	*Concession (one in process) *2 airports (Montevideo and Punta del Este /Different bases) *Period: 25 years	All airport areas, except those corresponding to air navigation	*DINACIA (DGIA)	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*DINACIA (DGIA) *Income based on unit/freight one passenger or 100 kg./freight *5 million dollars a year expected *Investment: 165 million dollars minimum	*Aeronautical authority responsible for regulating and approving airport and flight protection fees and charges

- 7 - Attachment

STATE	PROCESS/ AIRPORTS/ PERIOD	AREAS HANDED OVER	AIRPORT AUTHORITIES	AWARDEE INCOME	STATE INCOME	RATE SYSTEM
Venezuela	*Decentralisation *Concession (one airport regional government)	All airport areas, except those corresponding to air navigation	*DGSTA *Airport Bureau	*Commercial/non aeronautical *Aeronautical ground support *Airport tax	*Regional government (unknown)	*Aeronautical authority (DGSTA) responsible for regulating and approving airport and flight protection fees and charges

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