

## **PRIVATIZATION OF AIRPORTS – THE ECONOMIC EFFECT ON AIRLINES THE POSITION OF IATA AND AITAL**

Ladies and Gentlemen,

First of all, I would like to thank Mr. Raymond Ybarra, Regional Director of ICAO for the kind invitation to participate in this seminar to discuss this important issue from the point of view of the airlines. It is a pleasure in my capacity as Manager User Charges for Latin America, based in Miami to address this audience to analyse the economic effect on airlines of the privatisation of airports in the region.

Let me start with clear statistics. Last year and according to our estimates, the IATA member airlines and its passengers paid in their regular international services US 13.700 million of which 54 per cent (7.400 million) were landing fees at airports and related charges, and the rest (6.300 million) were air navigational aids charges which translate to 10 per cent of their operating costs. This shows the impact in the region, as Latin America becomes the fastest growing traffic in the world. Air transport is the only industry that pays the total of the infrastructure it uses. However, the services received are deficient and can be proven easily in our region.

The user charge, which is a cost not under the control of the airlines, has generated in IATA member airlines. As a result a Resolution on User Charges was approved by the Annual General Assembly in 1996 and a campaign was launched to increase the conscience in all parties concerned in the air transportation industry, airport and aeronautical authorities set a strict control on their costs, increase productivity and provide a service level according to what they are charging their clients: the airlines.

The airlines support the tendency to commercialise (and in some cases to privatise) the airports in the world, so that the infrastructure used by the airlines and its passengers is not managed by government entities. Today, about 55 States have partially or totally privatised their airports or operate an autonomous manner and in the future more and more airports will be privatised, especially in our Latin American region.

With respect to air navigational services, there are no private entities in the strict sense of the word. Today there are 55 service providers operating under a commercial base which in the future will also expand. The provider ATC NATS in the UK is considering Privatisation. In Latin America, the same tendency exists. However some States consider the protection of their airspace a sovereignty matter, so that privatisation is out of the question.

IATA supports this tendency to commercialise the airports and the air navigational services, if these processes are implemented in a proper manner. And what do we understand as a proper manner? Our experience is that with few exceptions the airports that have been privatised have increased their charges. In some cases the increases have

been drastic, as we shall see further on. There are several reasons for these charge increases. One of them is the lack of adequate economic regulation, the non-application of the ICAO principles in the calculating of fees and tariffs and the excessive profitability sought by the investors.

With the help of international organisations such as the World Bank, the States study possible alternatives to privatise their airports in an effort to obtain the necessary investments to cope with the ever-increasing passenger and cargo traffic. Our Governments do not have the necessary resources to upgrade or build new airports and do not have the money to buy spare parts or buy new air navigational aids. The priorities of the Governments are different and the economic recession in our region affects even more the investment plans on airport infrastructure.

It is the interest of the IATA member airlines to participate in the privatisation processes, due to the importance of the economic changes that are expected. As the world association of airlines, IATA maintains a close vigilance with the co-operation of the local associations of airline representatives, regional associations of airlines, as is the case of AITAL in the different countries where the governments have shown interest in privatising or commercialising their airports. It is expected that during the process all sectors of the air transport industry are present and that the ICAO principles on user charges are observed, especially those on the relation between costs and charges, transparency in the presentation of expenditure and revenue and that the charges are non-discriminatory. In most Latin American countries none of these ICAO principles are applied.

On the contrary of what other industries that have been privatised, the airports and the air navigational services providers are not obliged to increase efficiency and productivity and to reduce unit costs for the airlines and the passengers. One has to remember that the airports and the air navigational services providers are natural monopolies. This is why a regulatory body independent from the airport or aeronautical authority is important to define and control effectively those levels of efficiency and productivity at airports in the benefit of the users.

In several countries the terms and conditions and financial framework of the public tenders have not been disclosed. It is also a fact that that certain government entities that handle the privatisation processes have done it without consulting with the airport authorities. Furthermore, the lack of continuity in public servants in the government bodies, and especially in the civil aviation authorities makes it more difficult to pursue a consultation process and the flow of information from the authorities to the airlines.

The consultants contracted by the government that make the feasibility studies for the financial projects should understand the nature of the air transport industry and the economic environment in which the airlines operate in each country. This is why it is of the utmost importance that the local airlines and their associations participate from the beginning in consultation meetings with the relevant authorities. The consultants have to be very careful in structuring the financial packages in such a way that the levels of the

fees and tariffs reflect the costs and in the case of airports, that the non-aeronautical revenues are developed to balance the equation. The return on investment should be comparable with other industries that operate on a monopolistic environment, so that the profitability is reasonable. We have proven that the high profitability needs result in increases in charges to balance the equation. This case is more so, when the financing of the project is done through long-term bonds for which the profitability has been the prime reason for private individuals and companies to invest in the first place.

Before continuing with this subject, it is better to make clear that the term “airport privatisation” used in Latin America is not correct in the sense of the word, since in most cases the companies will not end up as private entities. The airports being “privatised” are actually leased for periods of 20 or 30 years or under concession contracts will be responsible to manage and operate the installations and participate in the development of its infrastructure. The concession contracts usually upgrade the airports that are transferred back to the government at the end of the concession period.

IATA believes firmly that the key to success is in the relationship between the civil aviation authority, the concessionaires and the airlines:

- Through an adequate consultation process where detailed plans on airport development, budget, finance, costs and charges are discussed, and a total adherence of the ICAO principles on user charges is honoured.
- The airports and air navigational services are subject to a regulation through an independent regulation body. The economic regulation plays an important role in the efficiency of the airport and to counteract the potential abuse in setting fees and tariffs.

AITAL, the Latin American Air Transport Association has presented its own points of view:

- AITAL does not oppose to the privatisation of airports, but fears that this will result in important increases in fees and tariffs which will also increase the operating costs of the airlines. It should be taken into consideration that the airports are pure monopolies, which impose unilateral criteria. (Abuse of the dominant position). This is why the users (airlines and passengers) must have access to a control mechanism and must be heard in the process previous to the public tender.
- It is usual that in a private airport administration, which must show economic results, the fees and tariffs tend to increase so as to recover the investment in a short period of time. This is why a set of official rules and regulation should be in place and the contractual clauses should be clear and precise. The airport authority should have full control of the contract.
- The landing fees and in general all airport charges are an important component of the airlines operational costs. The traditional criteria that for higher costs there are

higher fees are not anymore applicable in most markets. Fees and tariffs depend on the competitive situation of the relevant market and there is no direct relationship with the operating costs. Therefore excessive airport charges imply increases in airline costs, which cannot be compensated with increases in fares. This will endanger the economic and financial situation of the airlines.

- In Latin America airport charges are higher than those of North American airports are. Where Latin American Airlines operate. This implies that the increases in airport costs affect at a larger extent the airlines that operate from their bases in their respective countries. Excessive charges affect in a negative manner the competitiveness of Latin American airlines.
- The privatisation of airports should not become a new source of income for the State. Today some States have important resources to build, maintain and operate large airports. This is why the criteria should not change in the sense that through the privatisation of airports the income is utilised for other purposes, since this would become a new tax to the airlines. When the construction costs have been covered, their transfer to the private sector should not become a source of profit for the State. The users along the years before the privatisation have already covered the airport costs. “Privatisations” are temporary, because at the end the State will receive the airport with improvements.
- Cross subsidies are to be avoided at all costs. The economic results of a good management should not be destined to subsidise unprofitable airports. In a private enterprise the user is to pay for the service rendered and not subsidise third parties. Airports in remote areas with little traffic are justifiable for economic strategies and convenience of State but it is unreasonable to have profitable airports subsidising them, at the expense of the passengers and airlines.
- The example set by the BAA Plc is to be followed. Through the application of the principle of reasonability the charges to users were stabilised and the non-aeronautical revenues were increased to balance the equation.

Lets analyse specific cases of “privatisations” or concessions in some countries in our region and their economic impact on the airlines.

## ARGENTINA

The international public tender for the administration and development of the country’s 33-airport network was awarded to the Aeropuertos Argentina 2000 consortium in January 1998. Under the terms of the contract the consortium is to invest USD 2.200 million in the development of the airport infrastructure. Besides paying ordinary taxes, AA2000 offered to pay royalties of USD 171.2 million. This revenue is to be used to operate and develop the country’s smaller airports

From the very beginning the Director General of IATA, sent a letter to the President of the Argentine Republic warning the government of the increase in charges and the effect on airlines that were expected with the proposed plan. IATA also requested the Argentine Government to apply an economic regulation to avoid the monopoly exploitation of the users by the concessionaire. The Argentine Nation established the regulating body – ORSNA. The purpose of ORSNA is to oversee the financial and operational development of the concessionaire including the control of fees and charges, approving development plans, service and productivity levels. ORSNA does not regulate the non-aeronautical charges and in case of conflict with AA2000, the airlines may request ORSNA for arbitrage. With a costly payroll, the effectivity of ORSNA is still to be proven.

IATA has expressed in several occasions the concern with the problems the airlines have encountered with the concessionaire: lack of transparency, cross subsidies with the non-profitable airports with the concept of airport network, and ever increasing airport charges. Even though the airport charges have been frozen for five years, new charges have been established, others have been adjusted and in the case of office space rentals, the charges went from USD 14 to USD 43 per square meter. Today, over a year gone by, the benefits to the users, both passengers and airlines at the country's main terminals are still to be seen. Even though the revenue figures of AA2000 have been made known, there are no details of the airport costs; therefore the fees and charges are set on objectives and benefits and seem not to have a relation to costs of the services rendered.

The destination of the figure offered by the concessionaire to the Government is still not clear. There have been negotiations to reduce this figure and the financial result show that it will be very difficult to produce the profit, so the fees and charges will have to be increased.

## COLOMBIA

The experience of the concession contract for the construction of the second runway of Eldorado International airport has not been satisfactory.

The international public tender was awarded to the consortium CODAD S.A. The project included the construction of a second runway and complimentary works. The project contemplated the recovery of the investment by the concessionaire by rendering the landing rights revenue of the existing and new runway for a period of 17 years.

The financial plan was based on very ambitious projections of the increase in operations. It is true that for the first five years of this decade, the traffic of aircraft increased at a rate of 10 % per year, as a result of the liberalisation policy of the government, the incentives for new entries into the international market, fleet update and new entries in the domestic market. This trend however decreased in the second half of the decade due to the complicated socio-economic situation in the country.

The financial formula for calculating the landing rights was conceived from the proposal of the concessionaire to be indexed twice a year according to several variables as price index to the consumer in Colombia, price index for the consumer in the USA and the rate of exchange of the US dollar compared with the Colombian Peso, and a component in US dollars on the both international and domestic landing fees. The formula produced increases of almost 80 % in landing fees at the time of starting the maintenance period of the concession contract. For the second semester of 1999, the fees were once again indexed by a different interpretation of the formula, which resulted in a slight decrease of 0.64 % in the international landing fees but an increase of 14 % in the domestic landing fees.

From the point of view of the airlines, the process took place at closed doors, within the civil aviation authority, the Ministry of Finance and the Planning Department and there was no consultation process with the users with respect to charges and the planning of the airport operation. The terms and conditions of the public bid were prepared by an investment bank and were handled privately with the bidders. The financial structure of the concession was made known to the airlines once the contract had been signed. Furthermore, the airlines are now paying for a costly investment of 110 thousand square meters of apron built for the Colombian Air Force.

Once the revision was made for the performance of the second semester of the concession, last July, the conclusion once again was that the minimum revenue guaranteed had not been met. Therefore the civil aviation authority had to use its fiduciary deposit to come up with the requirement of the amount guaranteed in the concession contract. The concessionaire complies with the investor's expectations that have the bonds in hand. The benefit to the civil aviation authority has been negative since they had to disburse for the second time their own resources and the airlines have to pay for costly landing fees which were not set with equity and affect the operational costs at the Eldorado International Airport.

Similar cases have taken place with the airports of Cartagena and Barranquilla where the airports are managed, operated and maintained by private companies. In the case of Cartagena, before the first year of concession, the consortium was on the verge of bankruptcy and did not have the revenues to pay for the royalty fee they had offered to pay the government. The dept had to be re-negotiated and there was a change in the operator partner of the consortium. Today the contract continues. The benefits for the airlines operating at those airports are minimal.

There is no independent regulating body in Colombia to supervise the development of the concession contracts and control the applied fees and charges. The civil aviation authority has the function to intervene in the maintenance phase of the contract acting as judge and plaintiff.

## COSTA RICA

The Government of Costa Rica has just awarded the “Gestión Interesada” contract for the management, maintenance and development of the Juan Santamaría International Airport in San Jose. The contract is for a period of 20 years. It is expected that the concessionaire will invest USD 170 million in improving the taxiways, cargo terminal and main runway. IATA has had the opportunity to work very closely with the DGAC and the Privatisation Commission and to know the financial project and projections. Even though the landing fees are not to be increased, a new airside infrastructure fee was introduced. This is effectively an overcharge in the landing fee. This charge was approved by the ARESEP, established by the government to regulate these contracts. The DGAC will hand over the airport to the new concessionaire in March /April of 2000.

## URUGUAY

The concession of the Montevideo-Carrasco international airport is being awarded. The concession contract is for 25 years and an investment is expected from the concessionaire of USD 170 million. The problem arises because the airlines will end up paying for a new terminal building and the relocation of the Uruguayan Air Force who will have a re-built terminal, and new aprons. The experience in Uruguay has been that the international airport of Punta del Este was privatised in 1996 and the user charges increased by 40 % at this airport.

These are just but few cases in the region. The process continues. Airport groups have been privatised in Mexico, and the international airports of Bolivia and the Dominican Republic. The concessions contract of Lima International airport is to be awarded soon. The privatisation processes in Ecuador, Guatemala and Honduras have been postponed and the process in Panama has been suspended indefinitely.

With this words, I would like to conclude that it is imperative that the airlines continue to participate in the privatisation processes in the different countries, so that their points of view are heard, and that the recommendations on user charges of ICAO are taken into consideration and the most important that the mistakes that have taken place will not repeat themselves when the experiences of other countries become known.

Thank you.