

**Address by the Secretary General of the
International Civil Aviation Organization (ICAO)**

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**at the
ICAO Airport Privatization Seminar/Forum for the NAM/CAR/SAM Regions
(Guatemala, 13 to 16 December 1999)**

It gives me great pleasure to join you today for this very important and very timely seminar on the privatization of airports.

This meeting is important because airports are critical to the economic development and prosperity of countless cities, regions and countries. It is also timely because of the speed at which the privatization process is unfolding in many parts of the world. In fact, the privatization of airports may be progressing too quickly in some cases.

In my opinion, we need to reflect more carefully on the various options and consequences of integrating the private sector to airport operations. This is not to unduly delay the process but rather to ensure that all issues have been considered thoroughly before a decision is taken. Once taken, these decisions will be binding for a long time to come.

Of course, some of the basic principles I will highlight also apply to air navigation services, although these involve special considerations such as international coordination, boundaries and other more sensitive issues.

In my presentation, I would like to outline the policy of ICAO on the ownership and operation of airports. I believe this must begin with a clear definition and understanding of the nature of airports and of airport services.

I say that because I have attended many conferences and private meetings on the privatization of airports. Often I was surprised and sometimes alarmed at how differently States, regulators, users, operators and investors viewed airports. It became evident to me that we lack a common language, a common understanding. For that reason, I recently made contact with IATA and ACI and the three organizations have formed a consultative group to address this question and to develop an appropriate communications strategy.

For the purposes of today's meeting, however, I offer the following definition for your consideration:

Airports are a service industry, the primary objective of which is to provide safe, secure, efficient and economical service to airlines, passengers and other users. The ownership and management structure of the airport should be considered as a means to achieve this end. An overall guiding principle should be to ensure optimum efficiency and safety of airline operations, while maintaining a sound financial structure.

As to the role of ICAO relative to airports and airport operations, it is clearly defined in the *Convention on International Civil Aviation*. ICAO was established to promote the safe and orderly development of international civil aviation. It does so by formulating and updating the required Standards and Recommended Practices that we refer to as SARPs. These SARPs are contained in the 18 Annexes to the Convention and one of these annexes, Annex 14, deals specifically with aerodromes.

The Convention emphasizes a fundamental principle which we need to keep in mind when addressing the issue of privatization. It is contained in the very first article of the Convention and reads as follows:

The Contracting States recognize that every state has complete and exclusive sovereignty over the airspace above its territory.

A direct consequence of the sovereignty of States over their airspace is a number of well-defined responsibilities, notably in the provision of airport services. For example, under Article 28 of the Convention, each Contracting State undertakes to provide in its territory, airports and other air navigation facilities, and to adopt and put into operation appropriate standard systems of operational practice and rules as recommended or established by the Convention.

Let me emphasize that a State cannot delegate that responsibility to a private entity. It can delegate the **operation** of facilities and services but the **responsibility** for their provision, including the quality of the provision and safety oversight, remains with the State.

This notion of sovereignty and of related responsibilities provides the rationale for the position of ICAO relative to privatization.

Briefly stated, ICAO is neither for or against privatization. Beyond the sovereignty issue, ICAO feels that States are in the best position to determine the validity of privatization in their own territory. What is paramount is that States continue to fulfill their responsibilities under the Convention for the safety and security of their civil aviation infrastructure.

Our policy on selecting the optimum ownership and management arrangements for airports and of airport services is based on the recommended option of **autonomous authorities**, where this is in the best interests of providers and users

An autonomous authority is basically an independent entity established for the purpose of operating certain facilities and providing specific services. These entities are granted operational and financial freedom to carry out their functions. And they must integrate specifications to ensure that safety and security are not compromised.

Our experience has shown time and time again that where such autonomous bodies have been established, the financial situation of the airports concerned has generally improved. And so, let us take a close look at some of the main characteristics and advantages of this recommended option.

First, autonomy empowers the service provider. It releases the shackles of bureaucracy and sometimes conflicting departmental interest.

Second, autonomy can provide a clear distinction between regulator and operator. This enables transparent and effective performance audit of safety, security and economics.

Third, autonomy breeds a business culture. It promotes efficiency and productivity, without forgetting the motivation to generate revenues.

Fourth, autonomy helps to ensure that aviation user charges are recycled into aviation products and services.

Fifth, autonomy reduces the financing burden on governments for aviation infrastructure. Private sector participation is encouraged by the assurance of cash flow from user charges. and,

Sixth, combining all the above, experience worldwide demonstrates that autonomy improves both quality of service and the bottom line, the financial results.

Having said this, I would like to make two important distinctions.

One distinction is that ICAO does not equate autonomy with privatization. There are many examples of autonomous entities, the large majority of which are not privately owned, that reflect all the benefits I have just listed. This is the case of municipally-owned airports, whose objectives may focus on the total regional economic impact of the airports rather than solely on the bottom line of the airport operation.

A second distinction is between privatization *per se* and private participation. Privatization implies majority ownership of equity, but it can also take the form of a minority equity stake or even of part of the physical plant, such as an airport terminal. Private sector participation, however, is by no means limited to ownership of equity or facilities. It can take many other forms, including management and operation concession, management contract, retail concession, or Build-Operate-Transfer (BOT).

Over the years, we have observed that government-owned autonomous entities continue to be established around the world. But there has also been much more active interest shown by governments in the involvement or participation of private enterprise. This has been mainly in two forms: the sale of equity capital or long-term leases.

Sale of equity has been partial, such as in the case of Copenhagen and Vienna airports, or it has been complete as in the case of British Airports, which operates the major international airports serving London and Scotland. Long-term leases, however, are more common, probably because they provide the government with more control.

Major privatization undertakings in Australia and in many States in Latin America, for example, have been in the form of granting long term leases or contracts to operate the airports concerned to private ventures. Often these ventures are formed with foreign participation where a leading partner has been a major airport operator in Western Europe, or to a lesser extent United States or Canada.

Whatever the formula adopted, there are certain prerequisites to the successful operation of an autonomous service provider, privatized or not. These include:

- evidence of a sound management structure, development of cost/benefit and business cases to justify investment,
- a transparent and effective cost and revenue accounting system,
- a sound and equitable methodology for the determination of user charges, and
- an effective mechanism for the collection of these charges

On this last point, I highly recommend that you consult a document titled *Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*. It covers a number of key elements of the ICAO policy, such as:

- non-discrimination amongst users
- cost basis
- charging only for services provided
- equitable cost allocation to civil aviation of shared services (for example, Meteorology, Search and Rescue, Global Navigation Satellite Systems)
- “single till” for aeronautical and non-aeronautical revenues
- user consultation, notably at major project planning stage and in advance of changes in charges

You might be interested to note that ICAO’s policy on user charges will be reviewed at a worldwide *Conference on the Economics of Airport and Air Navigation Services* (ANSCConf 2000) to be held in Montreal next June. I am sure many of you will want to attend the important meeting given the changing environment of ownership and operation. The Conference will also address organizational issues as well as slot allocation and ground handling.

There is another extremely useful ICAO publication that I wish to recommend, the ICAO Airport Economics Manual. It contains a goldmine of information on the intricacies of managing airports. It covers the complete range of issues that you will be dealing with, including

ICAO policy on airport charges
organizational structures of airports
airport financial controls
determining the cost basis for charging purposes
charges on air traffic and their collection
development and management of non-aeronautical activities
financing airport infrastructure

Before I conclude my presentation, I would like to raise a few more economic and regulatory issues for your consideration during the seminar.

One is that airports are a natural local monopoly. Consequently, there is a need to consider whether generic antitrust and competition law is adequate for dealing with this monopoly or whether specific regulation is required. The question should perhaps not be one of government versus private ownership, but

rather under what organizational format would the operation of the airport monopolies be most beneficial to users and the State.

A second one is that airports may operate as a group and there may be value in considering the validity of cross-subsidy amongst individual airports.

We must not forget that airports are providers and that there is a need to consider the potential conflict of interest in control of provider services by their users, particularly a restricted group of users.

We must also remember that governments have international legal obligations regarding the provision of airports and equitable access to services.

All this suggests that economic regulation must remain in place, irrespective of the form of autonomous provision of airports services. by governments. Such regulation is required both in the process of establishing autonomous service and for the ongoing operations by the providers.

The primary objective of economic regulation will be to curb abuse of natural monopoly and ensure equitable access to services. A primary focus has to be user charges. In addition to regulation of user charges, some other pro-competitive regulation might be necessary to ensure “fair and equal opportunity” of access to limited supply. This applies most notably to slot allocation at congested airports. Market forces alone may not be adequate to sustain access for small carriers or to nurture new entrants.

In short, the safety-related responsibilities of the State under the Convention and the strong impact of airports on a State’s economy make it imperative for the State to establish a strong regulatory presence.

Ladies and gentlemen, I realize that I have covered quite a number of issues that deserve reflection during this seminar on the privatization of airports. Let me conclude my presentation my summarizing the main points.

- ICAO is neither for against privatization. That is a decision which rests with each State and that must take into account the needs of the users and the State.
- The establishment of autonomous authorities is the recommended option by ICAO.
- There are distinct responsibilities associated with the privatization process. A critical one is the generation of adequate revenues and assuming costs.
- It is imperative to evaluate and to be fully aware of the financial situation of an airport facility before engaging in the privatization process..
- There are distinct advantages in dealing with expert consultants in preparing for autonomous authorities or privatization, as they are in appointing professionally qualified people to operate facilities.

- And Finally, safety and security regulation are a *sine qua non*, but economic regulation also has to be an essential ingredient both in the process of establishing autonomous service providers and in their ongoing operation.

I wish to thank you for your attention and I wish you a most profitable seminar.
