

INTERNATIONAL CIVIL AVIATION ORGANIZATION
Seventh Meeting of the Civil Aviation Authorities of the SAM Region
(RAAC/7)

(Salvador, Bahia, Brazil, July 1-3, 2002)

Agenda Item 1: New Scenario of the Air Transport and Airport Privatization

**Evolving Scenarios for Airport Development and
Airport Privatization**

INFORMATION PAPER

SUMMARY

The opinion of the United States of America (U.S.A.) is that the best approach for improving aeronautical infrastructure is through a strong national civil aviation program combined with public/private partnerships designed to fit individual aeronautical markets

References:

- a. ICAO Airport Economics Manual, Doc. 9562
- b. Airport Privatization, Transportation Research Record 1662
by Richard De Neufville.
- c. Airport Charging Principles, ANS Conference WP/30
- d. Privation of Airports, ANS Conference WP/41

1. Introduction

- 1.1. Since the mid-1980s, governments that converted their public airports to private ownership have anticipated that the result would nourish their aeronautical infrastructure. However, many governments within the SAM Region have found that their privatization initiatives have resulted in significantly less aeronautical investment than anticipated. This disappointing result may be attributable to the form of airport privatization that some nations adopted. In particular, some nations may have created privatization programs that made owners independent of their sponsoring public entities. This independence may have created a disconnect between the public sectors' need for improved aeronautical infrastructure and the private sectors' need to operate profitably. Privatization in the U.S.A. succeeds because the private sector does not operate independent of the public sector. Rather, the Federal civil aviation program of the U.S.A. encourages cooperation between the two sectors.
- 1.2. The volatility of the air transportation industry in the SAM Region has made it difficult for private airport owners to remain profitable while absorbing the high costs associated with infrastructure expansion. The missing ingredient has been public-sector participation in the planning, financing, and guaranteeing of aeronautical projects. As a result, many countries are now re-assessing privatization and others are delaying privatization initiatives.

2. ICAO Position on Privatization

The position of the International Civil Aviation Organization (ICAO) is that full private-ownership or private-majority ownership of airport facilities and services may not serve the public interest. Their primary concern is that full private-ownership may result in monopolistic pricing, poor service, or the restricting of airport access.

3. The Working Model for Privatization in the United States.

Privatization in the U.S.A. is loosely interpreted as the move away from public ownership and management. It has taken the form of transferring airport functions to private entities while leaving ownership and control with the public sector. This type of arrangement is more accurately characterized as private participation rather than private ownership.

4. Public/Private Partnerships in the United States

- 4.1. Public/private partnerships in the U.S.A. vary from airport to airport depending on the needs of a given aeronautical market. At the Federal level the Federal Aviation Administration (FAA) supports the public/private partnerships. The FAA's regulatory program ensures the integrity of the 789 commercial service airports that enplane 700 million passengers per year. Also, the FAA contributes in excess of \$3 billion per year through its Airport Improvement Program, and the FAA fully funds and operates the nation's air traffic control system.
- 4.2. The need to be more efficient caused the public sector to develop this the public/private business model. Public/private partnerships include the financial institutions that provide financing for aeronautical projects, architect and engineering firms that design the

projects, construction firms that build the projects, management firms that operate airport facilities, fixed-base operators that provide repair, maintenance, fueling, and storage services; concessionaires that provide food, retail, and transportation to the traveling public; and air carriers that provide ticketing, baggage, aircraft services, and often financial support for the airport.

4.3 The Federal funding for airport infrastructure and operations derives from the following sources.

- a. General U.S.A. tax revenues. General tax revenues support operations and maintenance of air traffic facilities.
- b. The Airport and Airway Trust Fund. The trust fund derives tax revenue from levies on domestic and international airline passengers, air cargo, and aviation fuel. It also earns interest on its fund balance. The trust fund supports the Airport Improvement Program, Essential Air Services, the air traffic control system various research and development programs, and some of the FAA's operating costs.
- c. The Passenger Facility Charge Program. The FAA permits eligible airports to impose a passenger facility charge up to \$4.50 for each domestic flight segment (one take off and landing) to finance eligible airport development projects.
- d. Federal Security Surcharge. On February 1, 2002, the Federal Security Surcharge of \$2.50 per enplanement in the U.S.A. went into effect. This fee is used to fund the operations of the Transportation Security Administration.

4.4. Notable examples of public/private partnerships include:

- a. The Port Authority of New York and New Jersey contracted with investors to build the International Arrivals terminal at the Kennedy airport in New York.
- b. Pittsburgh, Indianapolis and Harrisburg entered into agreements with BAA International to manage terminal facilities.
- c. Boston and Washington-Reagan entered into master concession agreements with Westfield Holdings.
- d. Chicago, Detroit, and many other airports entered into parking management agreements.
- e. The City of Denver, collaborated with the FAA and the private sector to design and finance its new airport. The public sector (including the FAA) contributed \$800 million. The private sector contributed another \$2.5 billion and both United and Continental airlines exercised decisive influence over the airport's design.
- f. Air carriers often guarantee the financial integrity of airports by entering into residual rate setting methodologies.

5. Full Private Airport Operation in the U.S.A.

The U.S.A. is experimenting with a model that will go beyond the typical public/private partnership because this program will permit the sale or lease of entire airports. The program permits up to five airports to be sold or leased to private operators, and private operators will have greater independence in developing the airport. However, even this program will provide only a limited form of privatization because the airports in this program will continue to be eligible for participation in the FAA Airport Improvement and the Passenger Facility Charge programs. The FAA approved Stewart airport in New York for participation in this program and four other airports remain under consideration. None of these are large commercial service airports. However this program greatly expands the traditional business model for operating airports in the U.S.A. It will be sometime before the results of the program can be fully evaluated, so at present the U.S.A. does not specifically endorse this model.

6. CONCLUSION

The most appropriate form of airport privatization is one that adapts to the aeronautical market of a given location, consequently, the public sector should be flexible in developing their privatization methodologies. Regardless of the type of public/private partnership the public sector should be vigilant in ensuring proper over site of airport accessibility, price, and environmental practices. Full private ownership of major commercial airports may not be the most efficient means of developing aeronautical infrastructure. In the U.S.A., Federal participation in the form of regulation and financial assistance contributes to the success of the public/private partnerships.