



WORKING PAPER

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND
AIR NAVIGATION SERVICES**

Montréal, 15 to 20 September 2008

Agenda Item 2: Specific issues related to airport economics and management

2.1: Governance, ownership and control

**GOVERNANCE, OWNERSHIP AND CONTROL
OF AIRPORTS**

(Presented by the Secretariat)

SUMMARY

This paper discusses the ownership and control structures of airports, the selection of the appropriate format of ownership and control, relevant safety aspects at airports and the importance of good corporate governance. While different formats of ownership and control may be appropriate to the particular situations of different airports, the paper reaffirms that autonomous entities should be established where it is in the best interest of providers and users. Where an airport is controlled directly by a governmental authority, it is necessary to ensure that there is a clear separation between regulatory and operational functions. In the context of good corporate governance, which could lead to better performance, the paper recommends that best practices be applied in certain areas.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 The change of ownership and control of airports with regard to commercialization can have implications on their governance and performance. Commercialization is defined as an approach to management of facilities and services in which business principles are applied or emphasis is placed on development of commercial activities. The ownership of some of the commercialized airport entities has been transferred partly or fully to the private sector.

1.2 This paper discusses the ownership and control structures of airports, the selection of the appropriate format, relevant safety aspects at airports and the importance of good corporate governance. It also reviews the current relevant text of *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082).

2. DISCUSSION

2.1 The various organizational formats used by States can be regrouped into two main types. The first type falls under government or public ownership and control, and the second type is where private interests are involved.

2.2 Government or public ownership may take the form of direct control and management, but government control can also be exerted through an autonomous (or commercialized) entity with financial and operational autonomy. The second type includes both *private participation* in the form of management contract, lease or concession, transfer of minority ownership and private sector ownership and/or operation of parts of the activities of an airport, and *private sector ownership and control* where the majority or full ownership of the airport is transferred to a private entity. The decisions made by individual States as to the organizational format under which their airport should operate will depend on the situation in the State concerned and will often be strongly influenced by government policy. In this context, reference is made to WP/18 containing the results of an ICAO survey on the organizational and regulatory aspects of airports and air navigation services.

2.3 It is recognized in paragraph 10 of Doc 9082, where airports have been operated by autonomous entities (public or private), that their overall financial situation and managerial efficiency have generally tended to improve. The Council recommends therefore in paragraph 11 the establishment of autonomous entities to operate airports where this is in the best interest of providers and users. A number of recent studies conducted by academics, governments and industry organizations indicate that the ownership and control change is normally considered as a means to improve corporate governance and that better performance is achieved as a result of good corporate governance (i.e. how the board oversees the running of a company by its management and its accountability to shareholders and to the different interested parties).

2.4 Corporate governance becomes even more important where the control and management of an airport is separated from the ownership and in situations where an airport is more dependent on external capital for the financing of its activities and investments. For example, a sound corporate governance system could provide effective assurance for all interested parties, including shareholders and creditors, that management acts in the best interest of the airport and uses funds in an efficient way, thereby making it easier to raise capital. Conversely, without good corporate governance the management may seek to maximize its own interests at the expense of those of other interested parties, and there may be less transparency in the use of available funds.

2.5 Corporate governance principles and codes have been developed worldwide. Some of the most influential guidelines are the *OECD Principles of Corporate Governance* (2004) by the Organization for Economic Co-operation and Development (OECD). The application of the OECD principles and the results of recent studies on the commercialization and privatization of airports may serve as the basis for the establishment of the best practices needed to ensure good corporate governance of commercialized airports. These include:

- a) clearly defined objectives and responsibilities as set out in a legislation or license;
- b) an equitable treatment of shareholders and protection of shareholders' rights (where all or a part of the capital is held by private shareholders);
- c) an independent, professional supervisory board to provide overall direction to the management;

- d) empowered and accountable management to make timely decisions regarding finances, operations, technology, human resources, investments and services in line with corporate objectives and board directions;
- e) good relationship with all interested parties through consultation; and
- f) timely and accurate disclosure of information to enhance transparency.

2.6 Currently, paragraph 17 of Doc 9082 deals with best commercial practices in a general context. With the purpose to improve performance of airports, a specific recommendation on the application of best practices of good corporate governance should be included. The text of paragraph 17 recommends that best commercial practices should be applied in areas such as quality of services, investments, accounting and development plans. Considering that some of these areas are covered by other relevant paragraphs of Doc 9082 (for example, quality of services and investments are dealt with in paragraph 16) and that, best commercial practices can be applied to many other areas as well, it is not necessary to single them out in this context. (As discussed in WP/12, best practices for good governance for air navigation services providers are identical to those for airports.)

2.7 The best practice of good corporate governance could equally apply to airports fully owned and directly controlled by government. Where the operation of one or more airports represents only one of several functions performed by a government entity, consideration needs to be given to a clear separation of the regulatory function and the provision of service. This is because too close a relationship between the regulator and the service provider can result in conflicts of interest and undermine confidence in the system. In order to emphasize the need for such a separation, paragraph 15 of Doc 9082 should be amended. It is to be noted that the proposed amendment to paragraph 15 is common to both airports and air navigation services because the same rationale applies to both types of service providers (see WP/12).

2.8 With regards to the responsibility of States for safety as referred to in paragraph 13 of Doc 9082, States should ensure that airports undergoing a commercialization process are subject to a certification procedure in accordance with the Standards and Recommended Practices in ICAO *Annex 14 – Aerodromes*, Volume I – *Aerodrome Design and Operations*, to the *Convention on International Civil Aviation* as well as other relevant ICAO specifications, and as outlined in the *Manual of Certification of Aerodromes* (Doc 9774).

3. CONCLUSIONS

3.1 From the foregoing discussion, the following conclusions may be drawn:

- a) While different ownership and control structures might be appropriate to different airports, States should consider the establishment of autonomous entities to operate airports. Where the airport is controlled directly by the government, regulatory and operational functions should not be performed by the same authority.
- b) States should review the governance structure with regard to their airports, and make use of the best practices of good corporate governance with regard to objectives and responsibilities, shareholders' rights and their treatment, responsibilities of the board, power and accountability of the management, relationship with interested parties, and information disclosure.

- c) In order to safeguard the interests of the travelling public and the States' safety obligations under the Chicago Convention, States should ensure that airports undergoing commercialization are subject to a certification procedure in accordance with ICAO's Annex 14, Volume I.
- d) ICAO should amend Doc 9082 to include the components needed to ensure good governance through the application of best commercial practices and to emphasize the importance of separation of regulatory and operational functions.

4. PROPOSED AMENDMENTS OF POLICIES

4.1 In accordance with conclusion d) of paragraph 3.1, it is proposed that the text in the current paragraphs 14, 15 and 17 of Doc 9082 be replaced with the following text:

14. The Council also wishes to stress that whenever an autonomous body or entity is established, whether by a government or by private interests, to operate airport(s) or air navigation services, the State should stipulate as a condition for its approval of the new body or entity that it observe all relevant obligations of the State specified in the Convention on International Civil Aviation and its Annexes. In order to fulfil their obligations with respect to safety, States should ensure that certification procedures are implemented in accordance with the Standards and Recommended Practices of ICAO Annex 14 – Aerodromes, Volume I – Aerodrome Design and Operations, to the Convention on International Civil Aviation. Furthermore, States should require, as necessary, that an autonomous body or entity also observe obligations of the State specified in other ICAO policies and practices, such as those contained in the present policies on charges, and in air services agreements.

15. The Council considers it important that States exercise their economic oversight responsibility functionally separated from the operation and provision of airports and air navigation services, not least in situations where autonomous entities have not been established.

Best commercial practices

17. The Council endorses the application of principles of best commercial practice for airports and air navigation services in order to promote transparency, efficiency and cost effectiveness in the provision of an appropriate quality of services and facilities. Best commercial practices should therefore be applied by States and/or airport and air navigation services providers in all areas of their business. The Council observes that good corporate governance of airports and air navigation services entities leads to better performance and recommends therefore that States, in particular, apply best commercial practices of good corporate governance with regard to: objectives and responsibilities of the entities; shareholders' rights and their treatment; responsibilities of the board; power and accountability of the management; relationship with interested parties; and disclosure of information.

4.2 It should be noted that in WP/4, it is proposed that two new paragraphs under the new sub-title "Economic oversight" be inserted between the current paragraphs 14 and 15 (with the above new text proposed for the current paragraphs 14 and 15).

5. **ACTION BY THE CONFERENCE**

5.1 The Conference is invited to:

- a) review and adopt the conclusions in paragraph 3.1; and
- b) review and endorse the proposed amendments of Doc 9082 in paragraph 4.1.

— END —