



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 International Transport Workers Federation (ITF))

SUMMARY

In a world where deep-seated economic problems are impacting on commerce and industry and not least aviation, global capital needs a set of rules to ensure that business, trade and investment are essential pillars for continuing prosperity and peace. Good corporate governance, including corporate social responsibility, is an essential element in that framework of rules. The United Nations' (UN) Global Compact aims to build social legitimacy of business and markets and corporate social responsibility is at the heart of its ten Principles. Any reformulation of policy on corporate governance by ICAO would benefit from incorporating the UN Global Code of Practice and its Principles. The Conference is invited to encourage States to incorporate the UN Global Compact and its Principles into States governance structure with regard to best practices in their airports in order to deliver improved commercial services.

Action by the Conference is in paragraph 5.

1. INTRODUCTION

1.1 In these uncertain economic times with deep-seated global economic problems impacting on commerce and industry, it is increasingly clear that global capital needs a set of rules to ensure that business, trade and investment are essential pillars for continuing prosperity and peace. Responsible business practices need rules to ensure that unscrupulous companies will not undercut them through exploitative practices and just as citizens need a set of rules based on common values so too business needs a fair set of rules based on values which underpin a civilized world. Good corporate governance must include corporate social responsibility and this is at the heart of the UN Global Compact which covers ten principles in the areas of human rights, labour standards, the environment and anti-corruption.

1.2 There are a number of companies in the aviation sector, including airport operators, who are registered participants to the Compact and any reformulation of policy on corporate governance by ICAO would benefit not only from adopting these companies' best practice but also would positively respond to the active encouragement from the UN to its Agencies "to engage in the initiative and to use and promote the Global Compact and its principles wherever relevant in the context of their own programmes".

2. DISCUSSION

2.1 In relation to the growing number of changes in ownership and control of airports, it is becoming increasingly clear that good corporate governance is essential if effective and efficient delivery of services is to be ensured. Governments are increasingly looking to make their airports profit-making enterprises. As a result there has been a substantial increase in the growth of private investment in airports around the world, particularly since the start of expansion in aviation in 2001.

2.2 Patterns of ownership/operators have become diverse, ranging from construction companies such as Hochtief, which has not only been involved in the construction of airports but has also been a partner in their operation, through multinational operators such as Ferrovial which was initially a rail company and now owns and operates a number of airports including BAA, and through banks and private equity funds such as Macquarie with interests in a number of airports around the world.

2.3 Whilst global aviation has recently been a lucrative investment target, this situation is changing fast with the difficult economic circumstances in which airlines and airports are currently operating. Companies are responding to their declining profitability by seeking to recoup their losses from other stakeholders in the industry. For workers this is experienced by cuts in jobs, pay, pensions, and their terms and conditions. It is now increasingly difficult for workers and their trade unions to achieve their two goals:

- a) to participate in the development of prosperous enterprises guaranteeing secure jobs; and
- b) to ensure decent wages, terms and conditions and safe working practices.

The old post-war commitment to provide a public service in aviation, has been replaced. As a result, many aviation companies are seeking to drive wages and conditions downwards in their attempts to compete, which is having a negative impact on good service delivery and a secure well-trained workforce.

2.4 The UN, in its Global Compact, points out that business is often faced with serious dilemmas such as exploitative practices and barriers that discourage innovation and entrepreneurship and the aviation industry is currently experiencing this situation. The Compact offers businesses a framework on which to build trust and social capital, which contributes to broad-based development and sustainable markets. The UN also offers a programme of support through a number of mechanisms such as Policy Dialogues, Learning, Local Networks and Partnership Projects which can benefit both States and Aviation Businesses. For example, core business partnerships have created employment and fostered entrepreneurship, contributed to economic growth, and generated tax revenues, whilst local networks facilitate the implementation of the Compact with local firms and subsidiaries of foreign corporations at the local or regional level, particularly creating opportunities for multi-stakeholder engagement.

2.5 The UN points to a range of benefits which companies, labour and civil society organisations benefit from by adopting this approach and particularly emphasizes the ability to produce

practical solutions to contemporary problems related to globalization, sustainable development and corporate responsibility in a multi-stakeholder context. In addition, sharing good practices is part of the programme and it quotes successes such as improving employee morale, productivity and operational efficiencies, i.e. all factors which are of concern to a successful and sustainable aviation industry.

2.6 The UN Global Compact is based on ten principles which are as follows:-

Human Rights

Businesses should:

- support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- make sure that they are not complicit in human rights abuses.

Labour Standards

Businesses should:

- uphold the freedom of association and the effective recognition of the right to collective bargaining;
- eliminate all forms of forced and compulsory labour;
- effectively abolish child labour; and
- eliminate discrimination in respect of employment and occupation.

Environment

Businesses should:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environment-friendly technologies.

Anti-Corruption

Businesses should:

- work against corruption in all its forms, including extortion and bribery.

2.7 These values provide the framework which underpins the “social legitimacy of business and markets”. The UN Global Compact (March 2008) is essential if economies are to be built on sustainable businesses for the long-term.

2.8 The UN encourages all of its Agencies to engage in the Global Compact initiative and to use and promote the Global Compact and its Principles wherever relevant in the context of their own programmes.

2.9 The ITF and its affiliates, therefore, call upon ICAO and its member States to incorporate the UN Global Compact and its Principles into its definition of best practice of good corporate governance.

3. CONCLUSIONS

3.1 ICAO and its States should incorporate the UN Global Compact and its Principles into its Corporate Governance best practices in order to deliver improved commercial performances in airports.

4. PROPOSED AMENDMENTS OF POLICIES

4.1 In accordance with the conclusion in paragraph 2.8 above, it is proposed to amend the new text of Doc 9082, paragraph 17, proposed by the ICAO Secretariat in WP/7 as follows:

“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 that incorporate the United Nation’s Global Compact and its Principles 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; workers rights and their treatment; responsibilities of the board; power and accountability of the management; relationship with interested parties; and disclosure of information.”

5. ACTION BY THE CONFERENCE

5.1 The Conference is invited to:

- a) encourage States to incorporate the UN Global Compact and its Principles into States governance structure with regard to their airports ; and
- b) make use of the best practices of good corporate governance, under-pinned by the UN Global Compact with regard to objectives and responsibilities, shareholders rights and their treatment, workers rights and their treatment, responsibilities of the board, power and accountability of the management, relationship with interested parties, and information disclosure.

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