

Opportunities and Challenges of Airport Privatization in the Caribbean Region

Presenter: Wendy Francette-Williams
Aviation Consultant



Introduction

- At present the airport business is experiencing tremendous change to meet the ever-increasing growth of air traffic.
- Airports need to expand as and when needed especially for handling larger aircraft carrying more passengers than previously.
- Globally, there has been aggressive investment programs by airports to satisfy this demand.

- Due to the current economic climate, governments are reducing their funding of large airport projects and are shifting this burden of debt to the private sector.

- This evolution is seen in varying stages around the world in the out sourcing of activities such as:
 - award of management contracts of airport facilities, initiating public/private joint ventures,
 - BOT project financing etc.

- In the Caribbean region where tourism contributes significantly to the GDP of our nations, Caribbean airports are slowly accepting the idea of commercialization and privatization of their airport facilities.

Economic Outlook Globally and in the Region

Source: ACI - Economic outlook: 2008 - 2027

- Airports face decreasing financial gains of weak airlines, diminishing government relief packages and tight lending markets.
- There is a significant shift in aeronautical revenue sources from aircraft to per passenger charges.
- Operating expenses reached US\$55b in 2008 consuming 57% of airport revenues

- capital expenditure continues to rise.
- the airport industry is managing US \$250b in debt and has added US \$26b in annual capital cost to the airport industry balance sheet in 2008.
- with the advent of low cost airlines and their demand for no-frills facilities and Alliances, there is a need for consolidated terminal operations and features that suit their model
- these changes adds costs to operations, terminal, equipment and passenger processing.

Latin America/Caribbean Region

- It is forecasted that between 2009 and 2013 LAC region air traffic will grow annually by 4.9%.
- LAC region should have an additional 100m passengers reaching 440m.
- Growth in domestic markets will be faster than international markets.

Source: Traffic forecast Advisory Services (TFAS)

What is Airport Privatization?

It is the transfer of the management ownership of an airport to the private sector.



Types of privatization models

- Share flotation
- Trade Sale
- Concession
- Project Finance
- Management Contract



Share Flotation

- ❑ Airport company's share capital is issued and traded on the stock market.
- Government owner will give up total or partial ownership, while transferring economic risks and effective control to the new shareholder.





Trade Sale

- some or all of the airport will be sold to a trade partner or consortium of investors.
- management and technological expertise of the partners as well as financial capabilities will be taken into account when agreeing on sale.

Concession

- Airport management company or consortium will purchase a concession or lease to operate the “privatized” airport for a defined period of time, commonly between 20 to 30 years.



Project Finance

- A company will usually build or redevelop and then operate an airport or specific facility, such as a terminal, for a certain length of time.
- At the end of this period, ownership will revert back to the government.



Management Contract

- ownership remains with the government and the contractor takes responsibility for the day to-day operation of the airport.
- the contractor will pay a management fee, usually related to the performance of the airport.



Rationale for privatization

- Commercialization of airport operations thereby reducing dependency on state resources.
- Obtain funding for major Airport expansion and development.
- Focus on policy and regulation
- Customer satisfaction



Caribbean Airports experiences towards privatization

BARBADOS

- Government allowed public and private investment into management of airport terminal.
- Separate airport company was established.
- Allowed government to retain sovereignty whilst benefiting from market investment.
- Modern commercial, marketing and operational practices were adopted.



Jamaica

- A consortium of four companies formed a joint venture company MBJ Airport Ltd. to operate and manage Sangster International Airport.
- Operates on a concession basis for a period of 30 years; build own transfer arrangement.
- Total project to cost US 200 million.



Trinidad and Tobago

- Piarco Rainbow International Development Project – Project PRIDE
- Construction value: US 85m
- Proponent: Hughes Airport Systems foundation and Pegasus Associates
- RFP : 1990
- Project cancelled 1995



Trinidad and Tobago

- Proponents: Birk Hillman Inc.
- 2001 – Completion of the Piarco International Airport, North Terminal

Challenges in the Caribbean region

- Entitlements of employees who are employed by government and choose to join the new company. Are they transferees or new employees?
- In terms of raising capital in the markets, what collateral will be available for leverage?
- Composition (independence) of the Board of Directors.



Challenges



- Clear government policies re. salary structure; frequency and levels of increases.
- Human Resource issues re. hiring, firing and staff discipline.
- Independence from government bureaucracy/political influence in the decision making processes of the private operator.
- What capital assets, debt obligations, legal liabilities are transferred to the new company.

Challenges

- The relationship of the independent capital development/ schedule of the airport to the national development plan
- Restrictions and limitations to domestic/foreign private sector and sovereign wealth investment and the scheduling thereof.



Challenges

- Lack of clarity over the regulatory arrangements.
- From the private investor perspective: balancing level of service and capacity requirements with investment returns



Opportunities

- Cost efficiency and outsourcing opportunities.
- Strategic and business approach to long term needs.
- Increase in non-aeronautical revenues.
- Better commercial revenue decision making re. Advertising, land leases, space rentals and marketing airport facility etc.





Opportunities

- Solution to lack of infra-structure/equipment at Caribbean airports.
- Reduce public debt, by attracting private financing.
 - Improve service quality.
 - Encourage retail development

NB: It all depends on the degree of autonomy allowed by the shareholder(the government) to management of the corporation.

Conclusions

- For the regulator improve legal, regulatory and institutional framework before granting a comprehensive airport infrastructure concession programme.
- Implement fair, cost efficient and regulated pricing.
- User charges must be cost based.



Conclusions

- Develop airport policy to guide potential private investors.
- Improve concession oversight in order to reduce re-negotiations and poor performance of vendor or private operator.
- Improve public perception of joint venture arrangement approach to airport management and operations.



- Ownership models and structures continue to evolve in the Caribbean Region.
- Our Human Resource personnel in the industry need to share data among island states on the topic at hand.
- Revival of the Caribbean Association of Airport Executives is a good place to start.



THANK YOU!

