

# Opportunities and Challenges of Airport Privatization in the Caribbean Region

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# 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!**

