

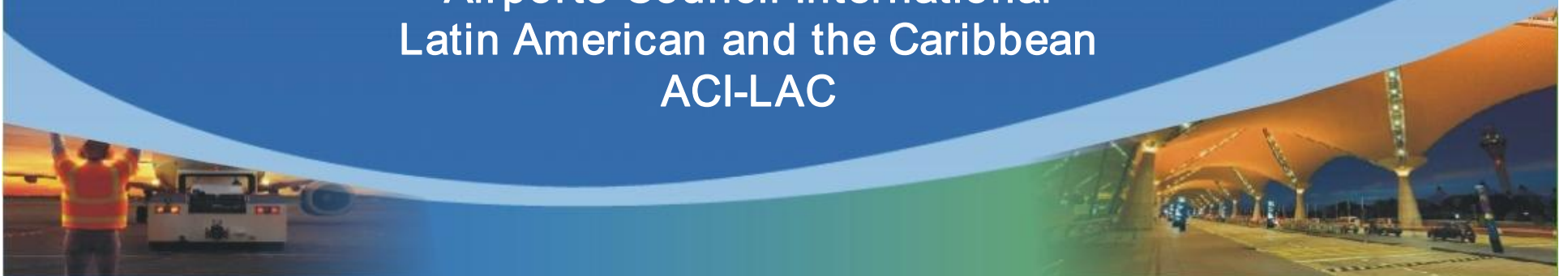


International Seminar on Airport Concession
ANAC
December 2008

The Role of Airport Operators

Eduardo A. Flores

Regional Secretary
Airports Council International
Latin American and the Caribbean
ACI-LAC



Agenda

- ABOUT ACI / ACI-LAC
- AIRPORTS ARE BUSINESS
- AIRPORT CONCESSIONS IN LAC REGION
- FINANCIAL VIABILITY OF AIRPORT CONCESSIONS
- LESSON FROM AIRPORT CONCESSION IN LAC
- FINAL REMARKS





About ACI & ACI-LAC

ACI PROMOTES THE COLLECTIVE INTERESTS OF THE AIRPORTS OF THE WORLD AND FOMENTS THE PROFESSIONAL EXCELLENCE IN THE AIRPORT MANAGEMENT AND OPERATIONS

ACI-LAC IS THE ACI DIVISION THAT REPRESENTS THE INTERESTS OF THE AIRPORT OPERATORS OF THE LATIN AMERICA THE CARIBBEAN REGION AND. FOUNDED ON 1991, ITS FUNDAMENTAL OBJECTIVE IS TO PROMOTE THE COOPERATION BETWEEN THE AIRPORTS MEMBER AND OTHER PARTNERS WITHIN THE AVIATION WORLD.



About ACI / ACI-LAC

AT THE MOMENT, ACI-LAC COUNTS WITH 70 MEMBERS THAT OPERATE 260 AIRPORTS IN 37 COUNTRIES OF THE LATIN AMERICA AND THE CARIBBEAN REGION. THROUGH THIS COOPERATION, ACI-LAC OBJECTIVE IS TO OFFER SUPPORT TO MAKE THE AIRPORT SYSTEM SAFE, STABLE, EFFICIENT AND COMPATIBLE WITH THE ENVIRONMENT

59 REGULAR MEMBERS
5 AFFILIATE MEMBERS
6 ASSOCIATE (COMMERCIAL) MEMBERS





About ACI / ACI-LAC

ACI-LAC MEMBERSHIP BY COUNTRIES / TERRITORIES

ANTIGUA, ARGENTINA, BARBADOS, BELIZE, BAHAMAS, BERMUDA, BRAZIL, CAYMAN ISLANDS, CHILE, COLOMBIA, COSTA RICA, CUBA, DOMINICAN REPUBLIC, DUTCH CARIBBEAN, ECUADOR, USA, EL SALVADOR, FRENCH GUYANA, GUADELOUPE, GUYANA, GRENADA, HAITI, HONDURAS, JAMAICA, MARTINIQUE, MÉXICO, NETHERLAND ANTILLES, NICARAGUA, PANAMA, PARAGUAY, PERU, SANTA LUCIA, ST KITTS & NEVIS, ST VINCENT AND THE GRENADINES, SURINAME, TRINIDAD & TOBAGO, URUGUAY, ESPAÑA, USA





About ACI / ACI-LAC

VISION

IN THE WORLD OF TODAY, AIRPORTS ARE NO LONGER CONSIDERED ONLY (NEUTRAL) INFRASTRUCTURE PROVIDERS. THEY HAVE RATHER BECOME BUSINESS ENTITIES, ACTUAL GROWTH POLES, ENGINES, AND PLAYERS FOR THE LOCAL AND REGIONAL ECONOMIES

MISSION

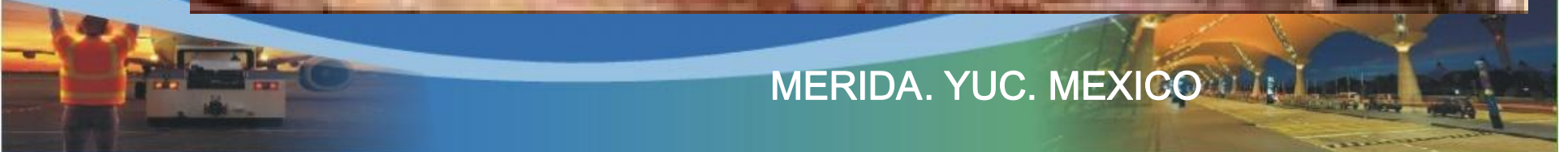
ACI-LAC'S MAIN OBJECTIVE IS TO FOSTER COOPERATION AMONG ITS MEMBER AIRPORTS AND THE OTHER PARTNERS IN THE CIVIL AVIATION INDUSTRY REGIONALLY AND WORLDWIDE, INCLUDING THE DIFFERENT GOVERNMENTS, AIRLINES, AND AIRCRAFT MANUFACTURERS.



Airports are Business



MERIDA. YUC. MEXICO



Airports are Business

INITIAL CONCEPT (ICAO DOCUMENTS 9562 & 9082)

- AIRPORT INFRAESTRUCTURE
 - COST FOR CALCULATION OF AIRPORT CHARGES
 - SINGLE TILL
 - AIRPORT CHARGES TO RECOVER INVESTMENT AND MAINTANANCE
 - INCREASE OF NON AERONAUTICAL REVENUES
 - PROMOTE AUTONOMOUS ENTITIES (STATE) TO RUN AIRPORTS

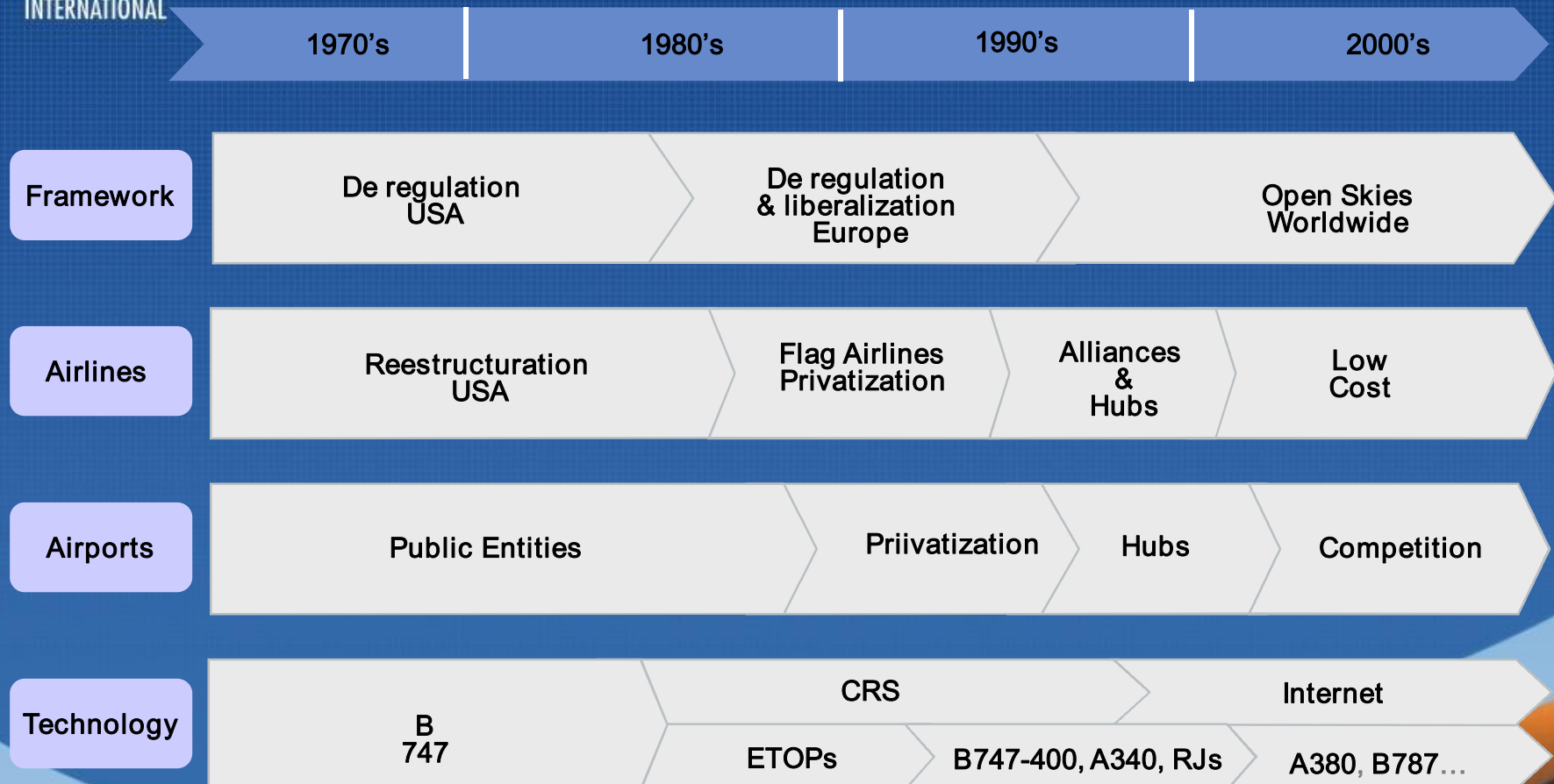
NEW CONCEPT – AIRPORT EFFICIENCY (STATE / PRIVATE)

ICAO DOCUMENTS 9562 – 04, 9764 CEANS, 9082/7

- COST FOR CALCULATION OF AIRPORTS CHARGES
- SINGLE AND DOUBLE TILL
- AIRPORT CHARGES TO RECOVER INVESTMENT, MAITENANCE AS WELL AS BENETIS FOR AIRPORT SHAREHOLDERS
- PRE FINANCING OF AIRPORT PROJECTS
- CHARGES FOR SECURITY AND NOISE
- AIRPORT PLANNING



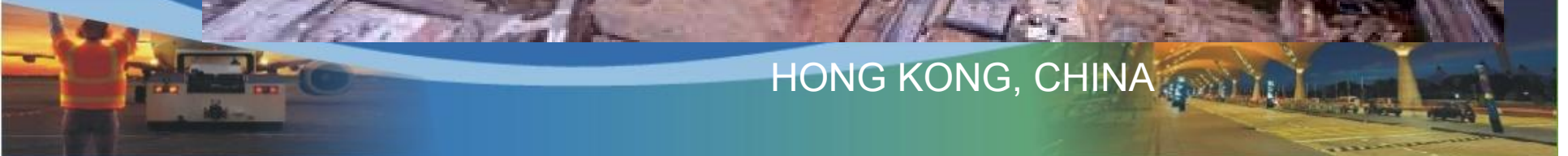
Airports are Business



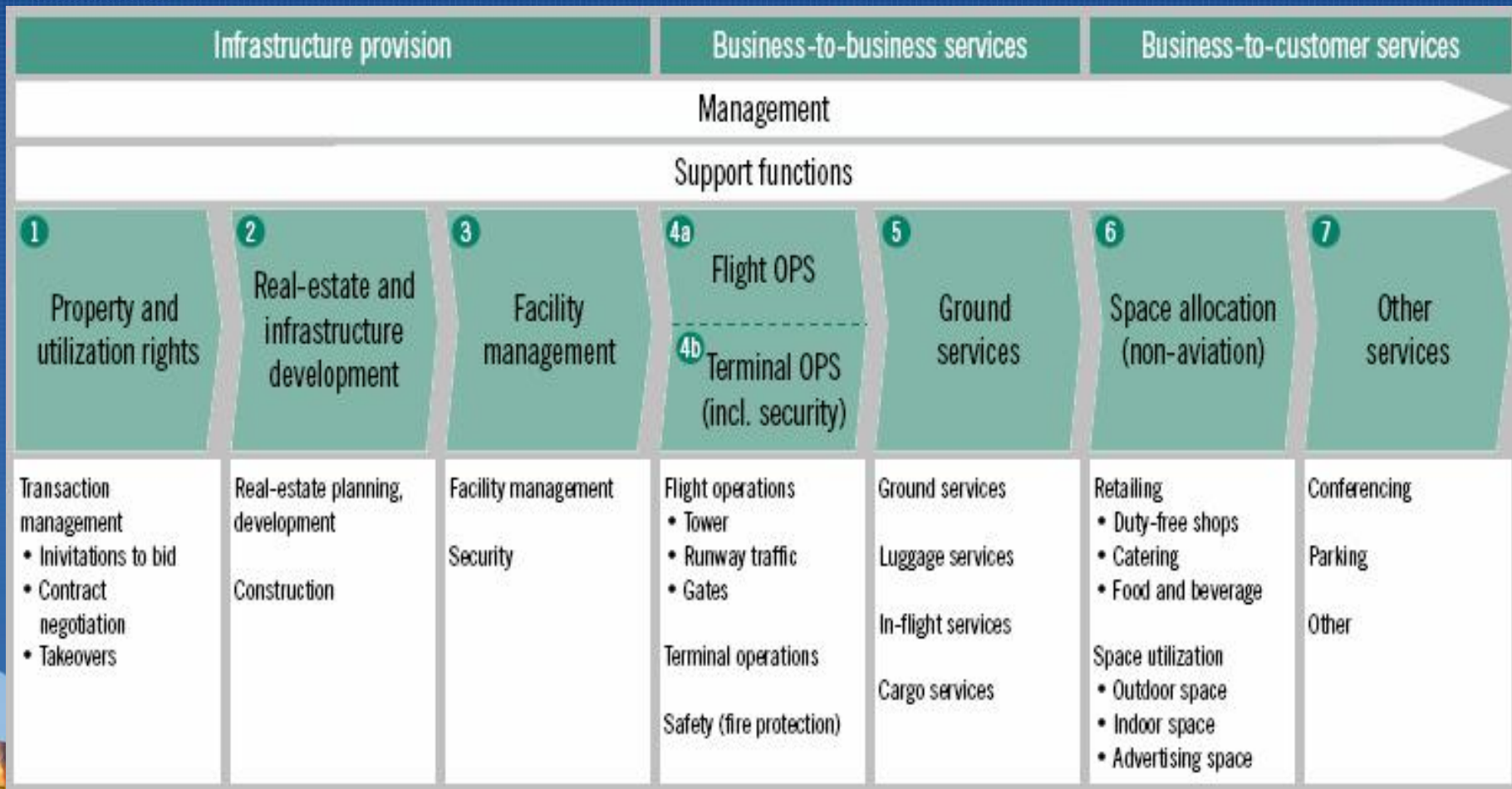
Airports are Business



HONG KONG, CHINA



Airports are Business



Airports Concession in LAC Region

AIRPORTS AS BUSINESS

- TECHNOLOGICAL EVOLUTION
- AIR TRANSPORT DEREGULATION / LIBERALIZATION
- INTERNATIONAL TRADE
- TOURISM
- GLOBALIZATION
- AIRLINE PRIVATIZATION
- AIRPORT PRIVATIZATION (CONCESSION MODEL)
- AIRPORT LAW (NOT AIR LAW)



Airports Concession in LAC Region

- TO ACCESS TO THE FINANCIAL MARKETS
- TO GENERATE INCOME
- TO FINANCE INFRASTRUCTURE PROJECTS – PRIVATE ACCOUNTABILITY
- TO IMPROVE THE PRODUCTIVITY AND EFFICIENCY
- AIRPORTS RECOGNIZE AS COMMERCIAL BUSINESS
- TO STIMULATE COMPETITIVENESS
- TO EXTEND CAPITAL AND TO GIVE ENTRANCE TO NEW SHAREHOLDERS
- TO PRIORITIZE THE PUBLIC EXPENSES
- “KNOW HOW” TRANSFERENCE – INTERNATIONAL AIRPORT OPERATORS
- PHILOSOPHICAL – STATES SHOULD NOT BE DOING AIRPORT MANAGEMENT



Airports Concession in LAC Region

- GOVERNMENTS HAVE BEEN MAKING HUGE CHANGES IN HOW THEIR AIRPORTS AND PORT FACILITIES ARE OWNED AND IN PARTICULAR HOW THEY MANAGED (OPERATED).
- ON 1992 MOST OF THE LAC AIRPORTS WERE UNDER SOME FORM PUBLIC OPERATION.
- ON 2007 AROUND HALF OF TRAFFIC IS HANDLED BY AIRPORTS UNDER SOME PRIVATE OPERATION AGREEMENT.



1992....

Public Operation

Private Operation

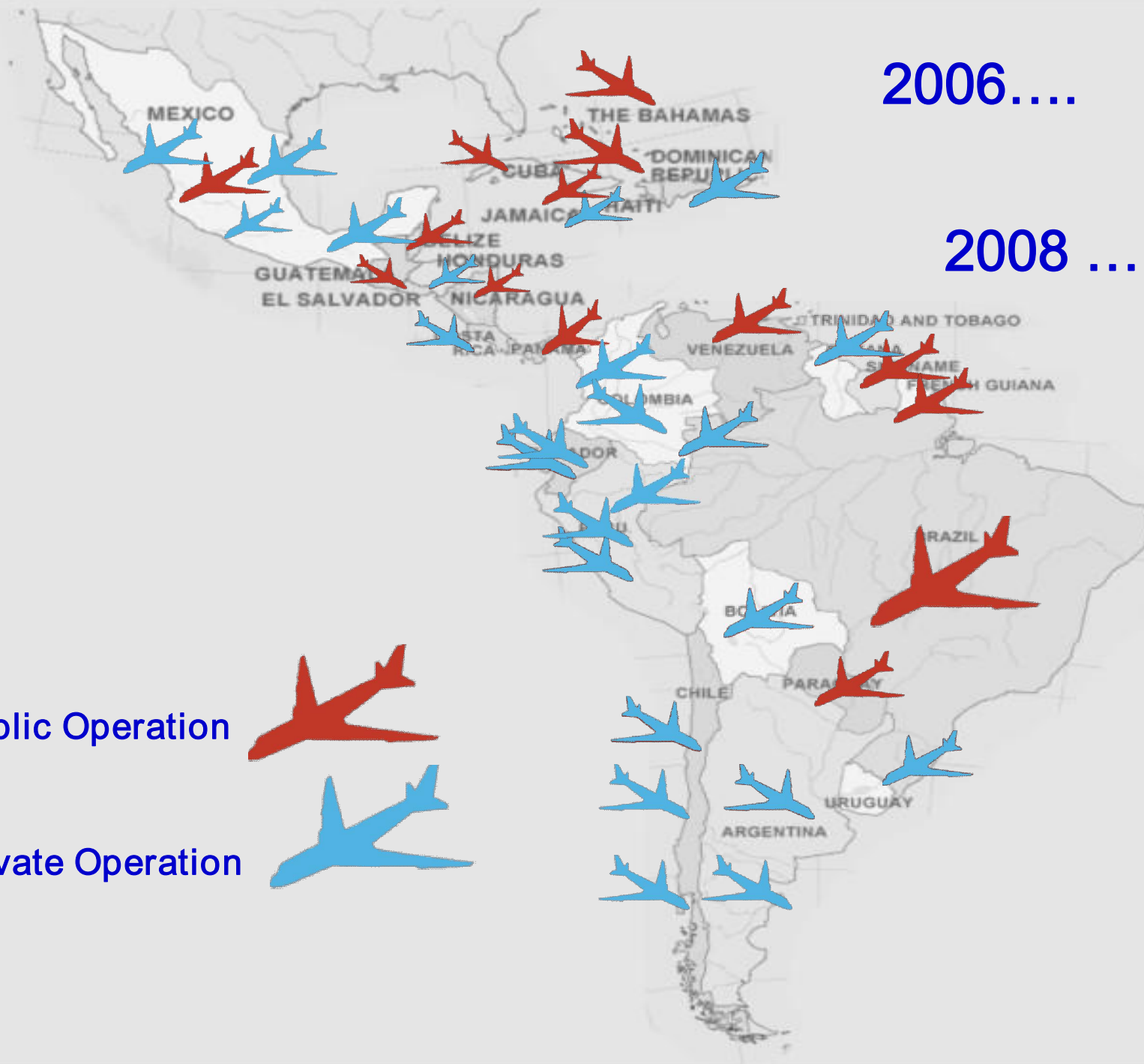


2006....

2008 ...

Public Operation

Private Operation



Financial Viability of Airport Concession

- ❑ PROJECT FINANCE MODEL
- ❑ THERE ARE NO ASSETS FOR GUARANTEE
- ❑ THE CASH FLOW IS THE GUARANTEE FOR THE CREDITORS
- ❑ ANY ISSUE ON THE CONTRACT (NON PREDICTABILITY) IMPACTS IN THE INTEREST RATE OR EVEN REFRAIN ACCESS TO THE INTERNATIONAL MARKET



Financial Viability of Airport Concession

ISSUE 1 - SOVEREIGNTY

- ❑ STATES DO NOT ACCEPT TO BE UNDER FOREIGN JURISDICTION (OF OTHER STATE) - NYC
- ❑ STATES CAN REJECT ACCEPTANCE OF FOREIGN JURISDICTION RESOLUTIONS
- ❑ SEIZURE OF PUBLIC ASSETS ARE NOT POSSIBLE



Financial Viability of Airport Concession

ISSUE 2A – PUBLIC SERVICE VS UTILITIES

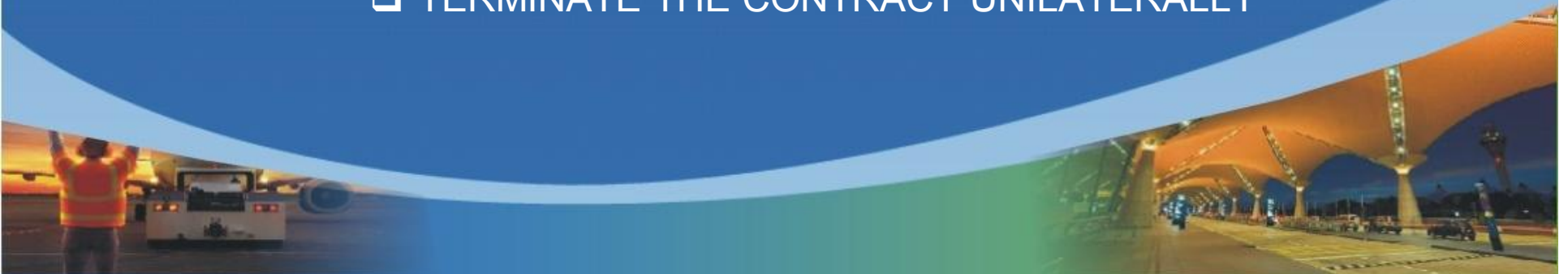
- ❑ PUBLIC SERVICE - REFERS TO THE STATE AS THE ONE ENTITLED TO AND ABLE DELEGATED TO A THIRD PARTY THROUGH CONCESSION (LEASE) THE OPERATION.
- ❑ THE ENGLISH NOTION OF UTILITY ASSUMES, AS PRINCIPLE, THAT THE SERVICE IS PRIVATE



Financial Viability of Airport Concession

ISSUE 2B – PUBLIC SERVICE VS UTILITIES

- ❑ UTILITIES ARE REGULATED BY COMPETITION LAW AND SPECIFIC LAW (WATER, ELECTRICITY, ETC.) – FACILITATE CONCESSION AS GUARANTEE.
- ❑ PUBLIC SERVICE IS ADMINISTRATIVE LAW CONSEQUENTLY STATES ARE ENTITLED TO:
 - ❑ INTERPRETER THE CONTRACT
 - ❑ MODIFY THE CONTRACT UNILATERALLY
 - ❑ TERMINATE THE CONTRACT UNILATERALLY



Financial Viability of Airport Concession

ISSUE 3 – LEGAL FRAMEWORK

- ❑ CONTRACT BETWEEN STATES AND PRIVATE PARTIES
- ❑ LEGAL RESOLUTION OF CONFLICTS
 - ❑ JUDICIAL
 - ❑ ARBITRATION
- ❑ ENFORCEMENT



Financial Viability of Airport Concession

ISSUE 4 – REGULATORY

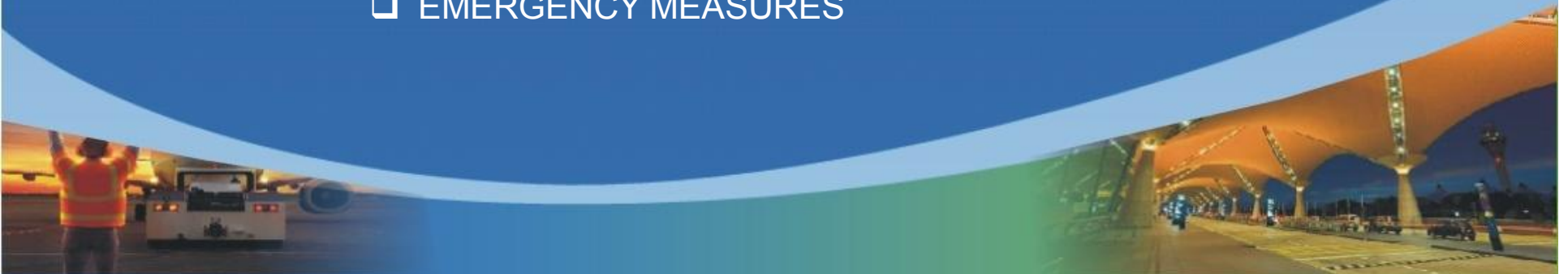
- ☐ INDEPENDENT ENTITY
 - ☐ NOT THE STATE
 - ☐ BALANCE STATE AND PRIVATE INTEREST
- ☐ POLITICAL INTERFERENCE
- ☐ REGULATOR POWERS
- ☐ TECHNICAL SETTING OF CHARGES



Financial Viability of Airport Concession

ISSUE 5 – AIRPORT CHARGES HANDLING

- ☐ CURRENCY – DEVALUATION – STATE LAWS
- ☐ FREE TRANSFER OF INCOMES
- ☐ UNPREDICTED CHANGES ON SETTINGS
- ☐ PAYMENT TO THE STATES AGENCIES
- ☐ KEEPING THE ECONOMIC- FINANCIAL EQUILIBRIUM
 - ☐ TRIGGERS FOR CHANGING THE CONTRACT
 - ☐ EMERGENCY MEASURES



Financial Viability of Airport Concession

USUAL ADDITIONAL CREDITORS REQUIREMENTS:

- CREDITORS AS PART OF THE CONCESSION CONTRACT
- FORCE MAJEURE EVENTS – DEFINITION – PROCEDURES
- STATE COOPERATION IN CASE OF FORCE MAJEURE
- CREDITORS RIGHTS TO CURE THE BREACH OF CONTRACT
- GUARANTEES (MORTGAGE, CASH FLOW, DIRECT CONTRACTS)
- APPROVAL AND CERTIFICATION OF INVESTMENT
- INDIRECT DAMAGES (CONSECUTIONAL DAMAGES)
- STATE LAW (REGULATION) AS FORCE MAJEURE EVENT
- CHANGE OF OPERATOR BY CREDITORS (DEFAULT) STEP IN
- RIGHTS FOR CREDITORS IN CASE OF TERMINATION
- VETO RIGHTS FOR ANY FUTURE CHANGE IN THE CONTRACT



Financial Viability of Airport Concession

RISKS FOR CREDITORS

- ❑ PUBLIC: POLITICAL, LEGAL, REGULATORY, RESOLUTION OF DIFFERENCES AND EXECUTION MECHANISM
- ❑ ECONOMIC AND FINANCIAL : INTEREST RATE, CURRENCY AND MACROECONOMICAL FACTORS
- ❑ MARKET: PROFITS FORECAST OF INVESTMENT – REVENUES



Financial Viability of Airport Concession

RISKS FOR CREDITORS;

- 4. CONSTRUCTION: EXPECTED TERM OF COMPLETION,
“FORCE MAJEURE”
- 5. OPERATIONAL AND MAINTANANCE
- 6. ENVIRONMENTAL
- 7. PUBLIC ACCEPTANCE OF THE PROJECT: LEVEL OF
CHARGES AND FEES



Lessons from Airport Concessions in LAC

2004 – 2006 LACAC SURVEY – POSITIVES

- ADEQUATE OF THE INFRASTRUCTURE
- APPLICATION OF INTERNATIONAL STANDARDS
- MODERNIZATION OF SERVICES
- INCREASE OF CAPACITY
- COMPLIANCE OF REGULATIONS
- GENERATING JOBS
- SAVING FOR THE STATES
- INVESTMENT PLANNING



Lessons from Airport Concessions in LAC

2004 -2006 LACAC SURVEY – NEGATIVES

- PAYMENT DELAY OF CONCESSION FEE / MUTUAL CLAIMS
- TRANSITION / COORDINATION (BETWEEN AGENCIES)
- MASTER PLAN / INVESTMENTS DELAYS
- TARIFF REGIME
- INTERPRETATION OF THE CONCESSION AGREEMENT
- FRAMEWORK SUPERPOSITION (CONCESSION – LAWS)
- WEAKNESS OF THE AIRPORT NETWORK

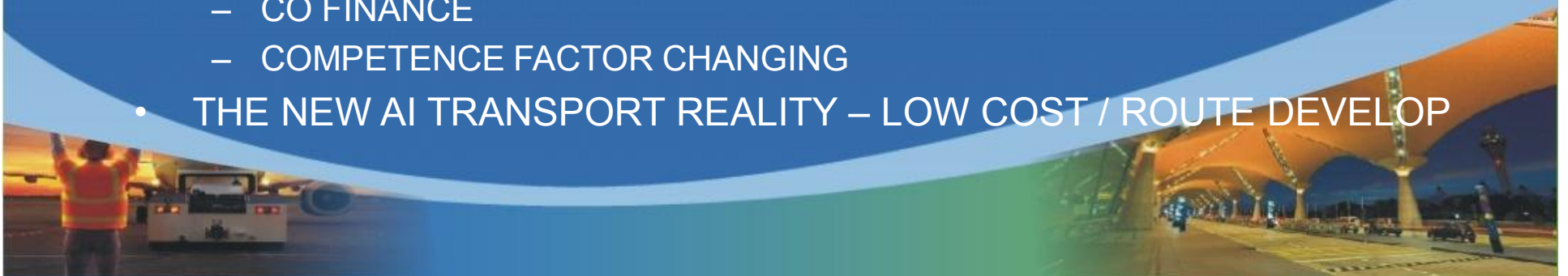


Lessons from Airport Concessions in LAC

THE GOOD THINGS:

CAPACITY INVESTMENTS IMPLEMENTED

- SAFE & EFFICIENT OPERATIONS (COMPLYING INT. REGULATIONS)
- REVENUE DIVERSIFICATION (NON AERONAUTICAL)
- CATALYST FOR ROUTE AND TOURISM DEVELOPMENT
- FINAL USER SATISFACTION – STANDARDS
- LONG TERM INVESTMENTS PROGRAMS IN PLACE
- COMPREHENSIVE REGULATION
- INTERNATIONAL ARBITRATION
- NEW MODELS FOR CONCESSION
 - CO FINANCE
 - COMPETENCE FACTOR CHANGING
- THE NEW AI TRANSPORT REALITY – LOW COST / ROUTE DEVELOP



Lessons from Airport Concessions in LAC

THE BAD THINGS:

- UNCLEAR REGULATORY FRAMEWORK – AIRPORT LAW
- STATE IS NOT ENFORCE TO COMPLIED WITH ITS OBLIGATIONS
- INEFFICIENT RATE-SETTING – LEARNING PROCESS
- OVER-MARKET INVESTMENT / INFRASTRUCTURE REQUIREMENTS
- MIXED ROLE OF REGULATOR, OVERSEER & CONTRACTUAL COUNTER-PARTY
- GREAT POLITICAL INTERFERENCE
- REQUIRE STANDARDS PERFORMED BY THIRD PARTIES
- REGULATORS WITH EXCESSIVE POWERS
- EXCESSIVE CHARGES REGULATION
- REGULATION OF THE AIRPORT SERVICE NOT THE OPERATOR
- BAD CAMPAIGNS LOOKING FOR THEIR OWN INTEREST



Lessons from Airport Concessions in LAC

LACAC RECOMMENDATIONS ON AIRPORT PRIVATIZATION

- STATE TO CLEARLY DEFINE OBJECTIVES – STATE ROLE AND RESPONSIBILITIES TO BE MAINTAINED TO GUARANTEE EFFICIENT AND EFFICACY OF THE AIRPORT SERVICES ACCORDING TO INTERNATIONAL REGULATIONS.
- INCLUDE IN THE CONCESSION AGREEMENT THE REQUIRE ELEMENTS FOR THE OPERATOR TO BE ELIGIBLE FOR INTERNATIONAL FINANCE CONSIDERING INTERNATIONAL APPLICABLE REQUIREMENTS AND PRACTICES.



Lessons from Airport Concessions in LAC

LACAC RECOMMENDATIONS ON AIRPORT PRIVATIZATION

- DEFINE A BALANCE CONCESSION AGREEMENT IN A WAY THAT THE STATE REGULATION DOES NOT UNFAIRLY LIMIT THE AIRPORT OPERATOR
- THE CONCESSION AGREEMENT SHOULD ALLOW FLEXIBILITY TO BE ADAPTED TO THE NEW MARKET CONDITIONS, THE AVIATION INDUSTRY DYNAMISM AND THE LONG TERM OF THE CONCESSION AGREEMENTS
- THE STATE SHOULD DIFFERENTIATE CLEARLY BETWEEN EVERY TYPE OF AIRPORT USERS CONSIDERING ITS OWN CHARACTERISTICS (PARTICULARITIES)



Lessons from Airport Concessions in LAC

LACAC RECOMMENDATIONS ON AIRPORT PRIVATIZATION

- TO DETERMINE THE AERONAUTICAL AND NOT AERONAUTICAL SERVICES, THAT ARE TRANSFERRED TO THE PRIVATE SECTOR AND WHICH ARE KEPT IN THE STATE'S POWER, DESCRIBING THE STANDARDS THAT WILL BE USED TO DEFINE THE QUALITY OF THE RENDERED SERVICES.
- TO ESTABLISH MASTER PLANS AND INVESTMENT PLANS ASSOCIATED WITH THE AIRPORT CONCESSION THAT DEVELOP WITH THE SUFFICIENT AND NECESSARY FLEXIBILITY, TO FACILITATE ITS MODIFICATION IN ACCORDANCE WITH THE BEHAVIOR OF THE DEMAND, CONSIDERING THE NEEDS OF THE USERS, THE STATE REQUIREMENTS AND FULFILLING THE APPLICABLE INTERNATIONAL STANDARDS



Lessons from Airport Concessions in LAC

LACAC RECOMMENDATIONS ON AIRPORT PRIVATIZATION

- THAT THE SYSTEM OF CONCESSION MUST BE BASED ON WHERE, BOTH THE STATE AND THE PRIVATE SECTOR, ASSUME THE RISKS THAT CORRESPOND TO ON EACH ONE IN THE DEVELOPMENT OF THE AIRPORT PROJECTS
- THE STATE MUST OFFER A FEASIBLE BUSINESS TO THE PRIVATE CONCESSIONAIRE, WITH ESTIMATIONS OF TRAFFIC AND CONSERVATIVE PROJECTIONS OF THE BUSINESS
- THE STATE MUST ESTABLISH A NEUTRAL AND INDEPENDENT REGULATORY ENTITY TO ENFORCE THE CONTRACT AND MAKE DECISIONS BASE ON TECHNICAL, TRANSPARENT AND PREDICTABLE CRITERIA



Final Remarks

THE FUNCTION AND CONCEPT OF THE AIRPORT HAS SUBSTANTIALLY CHANGED DUE THE AIRPORT COMMERCIALIZATION / PRIVATIZATION IN THE LAC REGION.

- A VERY IMPORTANT PORTION OF THE LAC AIRPORTS ARE UNDER PRIVATE OPERATION AGREEMENT
- THE PRESENT AIRPORT OPERATION FRAMEWORK IS INSUFFICIENT (LIMITATIONS AND DEFICIENCIES) AND FRAGMENTED – AIRPORT LAW
- SPECIAL CONSIDERATION HAS TO BE TAKEN TO MAKE CONCESSION FINANCIABLE



Final Remarks

LIMITATIONS / DEFICIENCIES / ISSUES

- INTERNATIONAL FINANCE TOOLS
- AIRPORT SERVICE – CONCEPT – BUSINESS PERSPECTIVE
- RELATIONSHIP WITH USERS AND COMMERCIAL PARTNERS
- SLOTS / ENVIRONMENT
- SECURITY / ENFORCEMENT
- AIR POLICY / ROUTE DEVELOPMENT (AIR SERVICE)
- TARIFFS – APPROVAL / ENFORCEMENT
- AIRPORT OPERATOR – DUTIES / RIGHTS
- INTEGRATION OF THE LEGAL FRAMEWORK





Thank You...

Eduardo A. Flores

Airports Council International
Latin American and The Caribbean
ACI-LAC Regional Secretariat
Email: efloresdc@aci-lac.aero
www.aci-lac.aero

