A review of the privatization of Canadian airports

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Introduction

On June 25, 2014, the federal Minister of Transport launched a review of the *Canada Transportation Act*. Chaired by David Emmerson, the committee presented *Pathways: Connecting Canada's Transportation System to the World* (the Emmerson Report) to the Minister of Transport in February 2016. In it was a recommendation to review the privatization of Canadian airports. The Union of Canadian Transportation Employees (UCTE) represents members at most federally-regulated airports across Canada. UCTE is of the opinion that privatizing airports involves surrendering control of economically important facilities for Canadians. There are many lessons to be learnt from other jurisdictions who have already gone down that path – and success was limited at best.

This paper explores in more depth the potential impact should Canadian airports be privatized. Research demonstrates that proponents of privatization are short-sighted in their want to generate revenue from these vital Canadian economic drivers. It is well known that Canadian airports rank amongst the best in the world; they are efficient and infrastructures are well-maintained and regularly upgraded. UCTE strongly believes that not-for-profit status needs to remain in place to solidify the leadership role that Canada places in all realms of aviation.

Background

The Emmerson report recommends that government consider multiple options with regards to the privatization of Canadian airports. In particular it emphasizes either the transformation of airports into a for-profit entities or selling them to private entities.[i]

According to McGill University Institute of Air and Space Law, Dr. Paul Dempsey notes that there are four regulatory approaches to the privatization of airports:

1. Rate of return regulation – a system for setting the prices charged by government-regulated monopolies (e.g. Spain, France, Greece, and the Netherlands)

2. Rate of return price caps - adjusts the operator's prices according to the price cap index that reflects the overall rate of inflation in the economy, the ability of the operator to gain efficiencies relative to the average firm in the economy, and the inflation in the operator's input prices relative to the average firm in the economy. (e.g. the United Kingdom)

3. Aeronautical price caps – based upon revenues from both aeronautical and commercial services or revenues from aeronautical services only (e.g. Australia, Austria, Denmark and Mexico)

4. Limited governmental oversight – this can take the form of either joint ownership, mixed enterprise or not-for-profit financial status. (e.g. Canada, New Zealand, and the United States)

Among the top 30 busiest airports in the world, only 3 could be considered as privately-owned: Rome Fulmicino, Sydney and London HTR. 8 are under strict public-private partnerships and 19 are under public ownership but with some degree of private sector involvement. It is interesting to note that only one US airport in the group can be considered a 3-P: New York JFK with Terminal 4 owned and operated by Schiphol Group which is controlled by the Dutch Government and the City of Amsterdam. Generally speaking, governments hesitate to completely let go of strategic assets such as airports.[ii]

A case study in privatization

United States

Almost all commercial service airports in the United States are owned by local and state government, or by public entities such as airport authorities or multi-purpose port authorities. In 1996, the American Congress established the Airport Privatization Pilot Program (APPP) to explore the prospect of privatizing publically owned airports and using private capital to improve and develop them. Participation in the APPP has been very limited. Only 2 airports have completed the privatization process and one of them later reverted back to public ownership. Owners of other airports considered privatization but eventually chose not to proceed. The lack of interest in privatization in US airports could be the result of readily available financing sources for publically owned airports, barriers or lack of incentives to privatize or the potential implications for major stakeholder.

A public sector owner may see few benefits from selling or leasing an airport to a private operator unless the facility is losing money. In that case, private investors might not find the airport an attractive investment. It is important to note that the Federal Aviation Administration considers that airport revenues include any sale or lease proceeds that local and State Governments may obtain, and thus that those Governments are only entitled to recover its reimbursed capital and operating costs from such proceeds. The rest must be invested in the airport. This removes financial any financial benefits associated with the airport sale or lease.[iii]

Air carriers would like to keep their costs low. They also want to have some control over how airport revenues are used specially to ensure that the fees paid by themselves and their customers are used for airport related purposes. Their interests in low landing fees and low rents for ticket counters and other facilities may be contrary to the interest of potential private operators in increasing revenue.

The Federal Aviation Administration (US), the body that administers the APPP, and is likely to carefully examine privatization proposals that might risk closures of runways or airports or otherwise reduce aviation system capacity or that appear to favour certain airport users over others.

The APPP has had a very limited success in increasing the number of privately run airports. Since inception 10 airports have applied to enter the APPP but only 2 have completed the entire privatization process. One of these later reverted to private ownership.[iv]

Participation in the APPP
(as of April 2014)

Status	Airport	Location	Application Results
Inactive	Brown Field Municipal Airport	San Diego, CA	withdrawn 2001
Inactive	Chicago Midway International Airport	Chicago, IL	Withdrawn 2013
Inactive	Gwinnett County Briscoe Field Airport	Lawrenceville, GA	Withdrawn 2012
Active*	Hendry County Airglades Airport	Clewiston, FL	Preliminary application approved 2010
Inactive	Louis Armstrong New Orleans International Airport	New Orleans, LA	Withdrawn 2010
Privatized *	Luis Muňoz Marin International Airport	San Juan, Puerto Rico	Privatized under long-term lease, 2013
Inactive	New Orleans Lake Front Airport	New Orleans, LA	Terminated 2008
Inactive	Niagara Falls International Airport	Niagara Falls, NY	Withdrawn 2001
Inactive	Rafael Hernandez Airport	Aguadilla, Puerto Rico	Withdrawn 2001
Inactive	Stewart International Airport	Newburgh, NY	Privatized 2000, reverted to public operation 2007

Source: Federal Aviation Administration
Notes: The rows marked with an asterisk represent the two active participants as of Jaunary 2016. FAA terminated New Orleans Lakefront Airports application when the airport missed the deadline to submit additional materials.

Of interest is the participation of Chicago Midway Airport, an airport that is comparable to Tier 1 airports in Canada, used the only position reserved for a large hub commercial airport under APPP. On October 8, 2008, Chicago City Council agreed to a 2.5 billion 99-year lease with Midway Investment and Development Corporation, a consortium that was composed of Citigroup Inc. (which owned 50% of Vantage Group in 2008) and the Vancouver Airport Authority (owned the other 50% of Vantage Group in 2008) as well as John Hancock Life Insurance Co. The lease agreement was terminated when the group missed the April 6, 2009 payment deadline. A renewed effort to lease Midway was abandoned in 2013 after one of the two bidding groups dropped out. The City withdrew its preliminary privatization application.

The APPP, over its 20-year history, has not been successful in stimulating wide interest in airport privatization. It is ironic to note that in the United States, a bastion of free enterprise, the big airports are still largely publically owned.

Europe

According to a 2010 study by Airports Council International, approximately 13% of European airports are owned by mixed public-private shareholders and 9% are fully privatized.[v]

Airport privatization started to build momentum when British Prime Minister Margaret Thatcher's administration privatized the former British Airport Authority (BAA). The privatization of BAA has not been without its critics. Some economists argued that by selling BAA's 7 airports all together the UK government had in effect converted public assets into a regulated private monopoly. In 2009 the UK Competition Commission required BAA to divest itself of 3 of the airports in order to maintain a competitive market. Not all airport privatization has been successful. For example, Cardiff Airport in Wales was bought by a private Spanish consortium but had to be purchased by the Welsh government after passenger traffic fell to less than half of annual passenger traffic and, as a result, the airport became unprofitable. Likewise, Prestwick Airport in Scotland was sold to a private New Zealand operator in 1992. In 2013, it was purchased by the Scottish government in 2013 for £1 after passenger numbers had fallen sharply.

Conclusion

The current Canadian model for airport management has proven effective with major Canadian airports ranking amongst the best, efficient and whose infrastructures are well maintained and regularly upgraded. Most airports are 100% common-use for improved utilization. Furthermore, financing is simple and expansion projects are tied to community needs and not government agenda.[vi]

Privatizing airports should not simply be viewed as a short-term revenue raising option for governments. In fact, recent case studies from around the world demonstrate that there is no reason to risk privatizing these critical economic and transportation infrastructure assets.

Despite recommendations in the Emmerson Report, the long-term disadvantages outweigh any possible benefits that may be achieved by the privatization of public assets. UCTE strongly believes that not-for-profit status needs to remain in place for all airports.

References

[i] Emmerson Report, page 195
[ii] Pierre Gagnon, Vice-president Legal Affairs and Secretary, Aéroports de Montréal *Privatization of Airports – The Canadian model*
[iii] International Civil Aviation Organization, Air Transport Bureau*, Case Study on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers*, February 18, 2013
[iv] Rachel Y. Tang, Analyst in Transportation and Industry, *Airport Privatization: Issues and Options for Congress*, February 3, 2016
[v] Airports Council International, Europe, *The Ownership of Europe's Airports, 2010* p.6
[vi] Pierre Gagnon, Vice-president Legal Affairs and Secretary, Aéroports de Montréal *Privatization of Airports – The Canadian model*