



PPP in Airport Infrastructure Business

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Jacques FOLLAIN – Managing Director



PPP in Airport Infrastructure Development

- Major Objectives leading Governments to search for Private Partnership in Airport Business
 - Improving economic performance and level of service by involving an highly experienced Airport operator
 - Funding infrastructure needs by private investments
 - Finding Financial Resources in order to fund other Government projects / priorities
 - Transferring Airport Project Development risk to a private party
 - Improving Airport Profitability

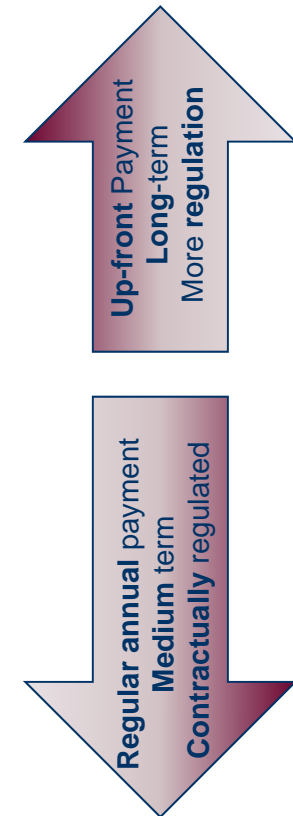
- Specificity of Airport business is that the Traffic, Construction, Operations and Financing risks are usually fully transferred to the Private Partner within the limits of the risk mitigation scheme provided by the government

- **Private Partnership Solutions may apply to ...**
 - Full airport infrastructures – except ATC which can be managed under PPP with different scheme and partners
 - Specific Airport Infrastructures such as Passenger Terminals, Cargo Terminals, Runways ... etc

PPP in Airport Infrastructure Development

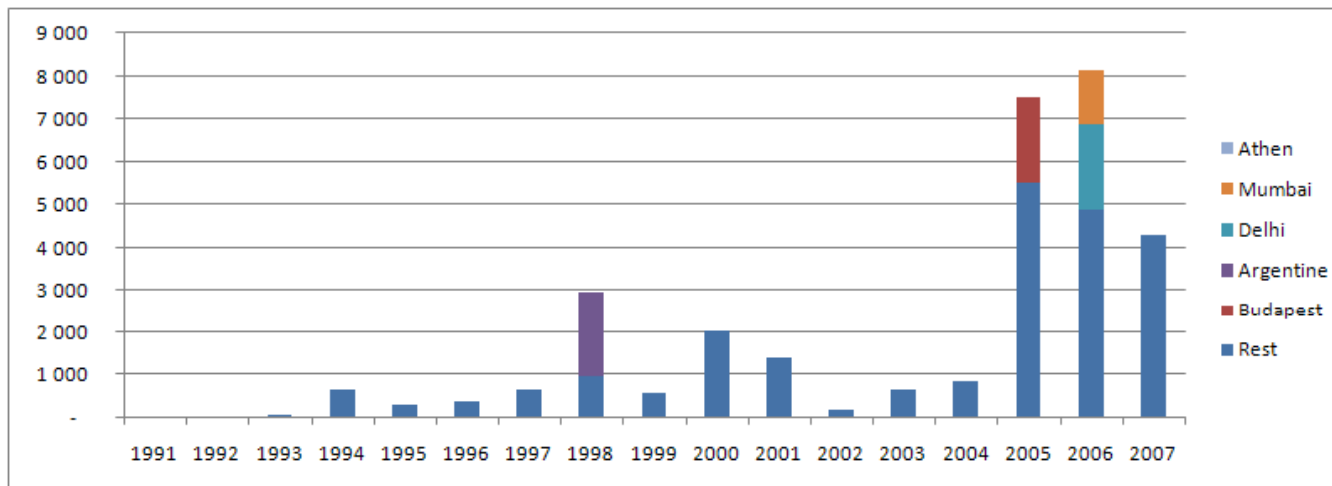
- Involvement of private partners in Airport Infrastructure Transaction may take various forms according to priorities identified by Governments

Transaction Family	Characteristics	Comments
Privatization	<ul style="list-style-type: none"> • Trade Sale 100% or partial IPO 	<ul style="list-style-type: none"> • Priority for up front cash • Framework given by the law • No time limit
Concession	<ul style="list-style-type: none"> • Long term concession with majority to the private partner • Contract defines obligations on level of service • Grantor keeps control and looks for improvement in efficiency and quality 	<ul style="list-style-type: none"> • Government remuneration can be up-front payment, or an annual concession fee, or a combination of both • Framework given by the concession agreement • Long term scheme (from 25 years up to 99 years)
BOT	<ul style="list-style-type: none"> • Medium term agreement focused on the immediate implementation of a capital investment program • Up front cash is not a priority 	<ul style="list-style-type: none"> • Annual fee (initial financial effort is on investment program) paid to the Government • Framework given by the concession agreement • Term is set according to the initial investment (usually medium term from 15 up to 25/30 years) with possible extension • Strong involvement of the financial institutions to fund initial investment with debt



PPP in Airport Infrastructure Development

- Private Partnership Solutions implementation in Airport Business began in the late 80's
 - Between 1987 and 1995, the number of “privatisation” was limited – Only 13 transactions
 - Between 1996 and 2001, due to traffic increase the number of transactions – under various schemes - increased up to 55 transactions over the period
 - After 09/11/2001 till 2004, the number of transactions slowed down significantly
 - After 2004, boosted by the debt market and traffic growth, the number of successful transactions increased again
 - 2009 / 2010 ?



PPP in Airport Infrastructure Development

Most of the successful Airport PPPs have been built on similar scheme :

- Accept preliminary obligations in relation with implementing a concession scheme such as
 - Establishing - if does not exist – a legal framework authorising PPP for airport infrastructures
 - Defining an acceptable Concession Contract – for bidders and lenders
 - Defining a regulatory scheme over the concession period
 - Preparing a concept design (note that design might also be one of the bidding requirements)
 - Proposing an attractive tax exemption scheme
 - Choosing the Public Authority remuneration scheme

- Select a professional team of advisors in order to **secure transaction timing** and propose an acceptable scheme to the potential bidders. Such team of advisors should include
 - Financial advisors
 - Legal advisors
 - Technical advisors

Key decisions for a successful Airport PPP

Design preparation

Alternative	Characteristics	Examples
Design by the government BEFORE the tender	<ul style="list-style-type: none"> Needs to be precise and developed enough to form a clear specification Sometimes lead to adopt too ambitious projects that later cause bankability issues Usually takes more time overall (preparation is not constrained by bidding submission deadline) At Government's cost but can be refunded by the winning bidder concession company 	<ul style="list-style-type: none"> Amman (Jordan) Enfidha (Tunisia)
Design by the bidders as part of their offers AFTER the tender phase is started	<ul style="list-style-type: none"> The tender specifies a technical program in terms of capacity and level of service Allows to start tender earlier and response are usually fast Bidders need to finalize the design after the award and before the construction starts Requires a technical evaluation component in award decision process Faster process overall with continued responsibility of the bidders Fully at bidders' cost 	<ul style="list-style-type: none"> Tirana (Albania) Lima (Peru)

Key decisions for a successful Airport PPP

Tariffs structure and regulation

Alternative	Characteristics	Examples
Fixed in the tender documents	<ul style="list-style-type: none"> • Defines a common base for all bidders • Allows the government to control commercial conditions for airlines serving the country and in particular the national company when it exist 	<p>Solution adopted in the large majority of the projects</p> <ul style="list-style-type: none"> • In Amman project, fees are capped by a defined value indexed on inflation
To be proposed by the bidders in their offer	<ul style="list-style-type: none"> • Allows for innovative schemes to be proposed • Sometimes difficult to evaluate • Poses the issue of responsibility for the implementation of the proposed solution 	<ul style="list-style-type: none"> • Indian Airports BOT tenders requested the bidders to propose the tariff structure

Key decisions for a successful Airport PPP

Remuneration of the government

Alternative	Characteristics	Examples
Upfront payment	<ul style="list-style-type: none"> Not adapted as a major Government mode of remuneration in BOT scheme where initial cash is dedicated to the investment program In some cases, limited initial payment can be done to cover Government design expenses 	
Annual royalty fee	<p>Can be</p> <ul style="list-style-type: none"> a fixed amount (indexed or not on inflation) or an amount proportional to the revenues (commercial risk and upside shared by the government) which usually maximizes the value for all partners 	<ul style="list-style-type: none"> Argentina airport system included a fixed annual royalty fee Cyprus and Amman projects included a % annual royalty fee
Dividends and Profit Sharing	<ul style="list-style-type: none"> Government interested through the profitability of the concession company created Aligns Public and Private economic interests Contributes to the cash equity of the company Include a "Public control" dimension in the company governance but the Private Partner should remain in charge of company affairs 	<ul style="list-style-type: none"> Indian Airports companies include 26% public shareholding Athens Airport company has 55% public shareholding

Key decisions for a successful Airport PPP

Tender selection criteria

- The tender selection criteria result from the decisions on the previous aspects
- Transparent and well defined criteria are key to obtain offers that meet expectations and competitive offers
- An adjustment mechanism can be defined in advance to address the variations of the economic conditions between the award and the financial close and to reduce the risk of additional delay

Alternative	Characteristics	Examples
Single criteria selection	<ul style="list-style-type: none"> • Need all parameters of the bids to be defined in the tender document • Decision is made on 1 single financial criteria such as Remuneration of the conceding authority Level of investment Level of charges for the users of the airport • The evaluation process can include a previous pass or fail technical qualification filter 	<ul style="list-style-type: none"> • Amman project included a single award criteria based on proposed % of the royalty fee (after a pas or fail qualification)
Multiple criteria selection	<ul style="list-style-type: none"> • The evaluation process requires the establishment of marks for each of the selected dimensions in economical, technical, social ... fields in addition to main financial mark <ul style="list-style-type: none"> • Level of service proposed • Technical and Architectural offer • Construction delays proposed • Social and/or environmental proposal • Concession duration proposed • Tariff structure proposal... • The decision sometimes appears less objective and can lead to litigation by evicted candidates 	<ul style="list-style-type: none"> • Indian airports tenders had very complex multiple criteria selection process

Thank you for your attention