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The privatization of Argentine airports

Gustavo Andrés Lipovich

Instituto de Geografía, Facultad de Filosofía y Letras, Universidad de Buenos Aires, Puán 480 piso 4. (1406), Buenos Aires, Argentina

Abstract

The significant increase in air traffic in Argentina during 1990s highlighted a need to upgrade the country's airport infrastructure. In the ideological and political–economical context of the period, the heavy investment required could not be carried through without private capital and thus a National Airport System was developed with an accompanying regulatory agency. This article looks at the origin, characteristics, and operations of this system.
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1. Introduction

Argentina's airport privatizations began at the end of the 1990s as part of broader, strategic Federal Government reforms. These reforms can be traced back to 1989 and are part of a pan-Latin American process that changed the functions and reach of national governments. While there had been a de facto shift reducing government involvement in the economy following the demonstration effects of "Reagonomics" in the US and "Thatcherism" in the UK, the important legal change in Argentina was the passing of Law 23,696; the "Government Reform Law", in 1989. This was passed shortly after President Carlos Menem took office with his clear neo-liberal leanings.

The ethos of the law embraced decentralization, deregulation, and outsourcing ideas. In term of decentralization, it named previously state-run entities, institutions, and businesses that would be decentralized, and others that would be privatized. The law also contained a list of institutions and businesses that were going to be privatized or managed by provincial and municipal government bodies. Businesses to be privatized included Aerolíneas Argentinas (airline industry), Empresa Nacional de Telecomunicaciones (telecommunications industry), Empresas Líneas Marítimas Argentinas (shipping industry), Yacimientos Carboníferos Fiscales (mining industry), Ferrocarriles Argentinos (railroad industry), Yacimientos Petrolíferos Fiscales (YPF, oil industry), TV and radio stations, Subterráneos de Buenos Aires (subway system), Administración General de Puertos (the port administration system), water, energy, and gas. Airports, however, were not included and Congress had to pass separate legislation for their privatization.

The first privatization was of Aerolíneas Argentinas, the country's national airline, in 1990. The majority of the new managers of the privatized companies came from Spain, the US, France, the UK and Germany, and were often associated with Argentine businessmen. It is difficult to assess the overall results of this privatization process because of the lack of a sensible counterfactual. Nevertheless, it is notable that shortly after many privatizations renegotiations with the government became necessary. The basic problem being that of the regulatory structures that were put in place to deal with the monopolistic nature of many of these private entities. As Williamson (1989) points out, it can be very difficult to move to optimization in a decentralization process involving a natural monopoly and there are almost inevitable renegotiations after the biddings. The private companies compete during and until the bidding process but after it they tend to renegotiate the situation with state.

The privatization and regulatory developments of this period were not all driven by ideas of microeconomic efficiency. From the beginning of the 1990s, two significant macroeconomic policies were carried through in Argentina. Monetary convertibility was initiated making one Argentine

E-mail address: glipovich@yahoo.com.ar

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Peso (AR$) equal to one US dollar and to support this domestic policies were put in place designed to ensured exchange rate and economic stability. The impact was to stimulate investment in Argentina and especially in the recently privatized companies; foreign direct investment during the 1990s was $67,625 million compared to $5,859 million in the 1980s (Chudnovsky and López, 2001). In particular, many multinational service sector businesses set up offices in Argentina. The macroeconomic policies also led to strong increases in imports and a sharp decline in exports because of the high dollar price of Argentine's product and the high relative purchasing power of the peso. The main consequence was that the upper middle and upper class enjoyed increased buying power, while the lower middle class and poor were hit by the gradual contraction of the public sector and cutbacks in state jobs. Increased social inequality was one of the main characteristics of the decade (Ciccolella, 2003).

This situation reached an abrupt end in 2001 together with a severe political and economic crisis. This finalized the era of monetary convertibility and exchange rate stability. At the same time, this crisis marked the beginning of a new macroeconomic cycle which has led to a decrease in consumption by the upper class and a reduction in poverty and unemployment, thus reducing the gap between the rich and the poor.

2. The airport privatization process

2.1. Objectives of privatization

The significant increase in foreign direct investment, the installation of numerous multinational companies, and the growth of international trade—almost exclusively importation—led to an increase in demand for business trips. At the same time, air transport demand increased exponentially following the implementation of convertibility. The monetary parity in place from 1991 to 2001 reduced relative costs and thus increased demand for pleasure trips. In this way, domestic and international air passengers doubled between 1991 and 1998 (Table 1).

The increase in air traffic demand could be met in the airports outside of Buenos Aires, but in Ezeiza, Buenos Aires' international airport, the passenger terminal was saturated, and in Aeroparque, its domestic airport, the terminal and runway far exceeded the designated operating capacity. The airport installations were essentially the same as when they were originally built; there had been few efforts to modernize since construction in the 1940s. In 1977 and 1978, a moderate modernization project was implemented to cope with the World Cup of soccer held in Argentina but this was limited to cities that hosted games during the world cup: Buenos Aires (Ezeiza and Aeroparque), Cordoba, Rosario, Mendoza and Mar del Plata.

Table 1
International and domestic passengers in Argentina (1991–1998)

Year	International passengers	Domestic passengers
1991	3,200,000	2,989,000
1992	3,900,000	3,695,000
1993	4,352,000	3,706,000
1994	4,979,000	4,538,000
1995	5,134,675	4,991,928
1996	5,556,006	5,904,278
1997	6,087,484	6,581,524
1998	6,342,046	6,995,940

Source: Instituto Nacional de Estadística y Censos (www.indec.gov.ar).

Airport privatization in Argentina was doubly justified due to the deplorable conditions of airport infrastructure and the exponential growth in demand for commercial air transport. The main objective of the airport privatization process was to facilitate significant investments in airport modernization in order to address long-term needs. Due to the lack of financial resources to carry out such a complex airport modernization process and due to the ideological and political–economical context, the Federal Government decided to offer the airports in concession and created the National Airport System, and the Regulatory Body of the National Airport System. The process of airport concession in Argentina was based on similar experiences in other Latin American countries such as Colombia (1993), Mexico (1995), Chile (1997), Bolivia, Costa Rica, Peru, the Dominican Republic and Venezuela.

2.2. Airport concessions

The airport concession process was formally launched when decree no. 375/97 came into effect on April 24, 1997. This provided for the establishment of the National Airport System (Sistema Nacional de Aeropuertos, SNA), designated airports that would be offered in concession through a bidding process, put forward a schedule of action for the auctions, and created the National Airport System Regulating Agency (Organismo Regulador del Sistema Nacional de Aeropuertos, ORSNA). The decree designated 36 airports to be granted under concession for 30 years with possible 10-year extensions. It also highlighted some characteristics for private sector airport operations and emphasized that air traffic services, air traffic control, and flight protection were exclusively in the hands of the Argentine Air Force. The concessionaries, however were to operate independently of the air force, acting only as airport investors, constructors and administrators.

The main obligations of concessionaries include: complying with government-defined investments for 30 years, paying a fixed annual royalty determined in the bidding process, fulfilling obligations established under national and international provisions to properly protect the environment and communities, and guaranteeing equal, non-discriminatory access to airport facilities and services. The concessionaries had the rights to manage and operate, either per se or through third parties, at their sole

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