

**The Canadian Airport Ownership Model
at the Crossroads**

**Report submitted by Aéroports de Montréal
in the context of the review of the
Canada Transportation Act**

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AÉROPORTS DE
MONTREAL

TABLE OF CONTENTS

FOREWORD

OVERVIEW OF THE CANADIAN MODEL

MERITS OF THE CANADIAN MODEL

CONSTRAINTS OF THE CANADIAN MODEL

EVOLUTION OF THE ROLE AND NATURE OF AIRPORTS

CORPORATIZATION AS A WAY TO DEVELOP THE CANADIAN MODEL

THE NEED FOR A COMPETITIVE FRAMEWORK

ANNEX — PRIVATIZATION SCENARIOS

FOREWORD

Aéroports de Montréal is pleased to be able to contribute to the current review of the Canada Transportation Act. We are of the opinion that this review comes at a most appropriate time, particularly in view of the Canadian ownership model for large airports.

Aéroports de Montréal was one of the first four airport authorities to be created in the wake of the *Canadian airport divestiture program* launched at the end of the 1980s. It has therefore been a quarter of a century since the Canadian ownership and governance model for major airports was developed. While it is true that the objectives of the Government of Canada have been largely achieved and that the model has so far performed well, some aspects of the model raise questions today.

In fact, as we will demonstrate later, the Canadian model has some fundamental limitations that make it financially unsustainable because of the requirements of the land lease agreements entered into with Transport Canada. Although the option to extend the leases for a further 20 years would postpone the problem, it will inevitably resurface in 20 years' time. Sooner or later, the Canadian model will have to evolve, otherwise the airports are likely to fall back into the same state of under-funding that led to the divestiture in the first place.

This model, in which the government of Canada retains ownership, is unique in the world. The model currently dominant globally is full or partial privatization, either via an outright sale or via corporatization followed by the sale of the share capital immediately or in phases. Aéroports de Montréal wishes to demonstrate to the Commission that Canada should also adopt this model, or at least start to consider it.

The evolution of the Canadian model toward complete privatization based on corporatization of the existing airport authorities would be advantageous for the Government of Canada and would solve the challenges inherent in the Canadian model:

- The Government of Canada would have the opportunity to monetize the net value accumulated over the years in the airports (equity), either all at once or in stages.
- The lease would be cancelled and the rent currently paid to Transport Canada, which is a subject of controversy, would therefore be eliminated. The compensation that the Government of Canada would receive in exchange could take several forms, i.e. dividends on the shares it would retain or some form of monetization.
- The method of appointing administrators, which is currently criticized by some, would be simplified by the establishment of a more traditional corporate structure that is more easily understood.
- Finally, the external financing of corporatized airports would no longer be based only on debt but also on share capital.

This exercise also provides an opportunity to propose or reiterate some policy and regulatory changes likely to improve the efficiency and competitiveness of air transport in Canada, particularly taking note of the increased competition to which airport authorities and airlines are subject today. Given the importance of air transport for trade, business and tourism, the Government of Canada must seize this opportunity to seriously consider relieving the burden of taxes and charges that weighs on the development of air transport in Canada as well as for greater movement of passengers and goods in transit.

OVERVIEW OF THE CANADIAN MODEL

Toward the mid-1980s, the Government of Canada, faced with growing deficits, began to consider commercializing enterprises of which it was the full or part owner that were active in various key sectors of the economy such as energy, natural resources, telecommunications and transportation.

Several Crown corporations were thus privatized through public offerings or sold to existing private companies, creating significant funds. The vast majority of these privatizations have been extremely successful. Whether you look at Air Canada, Canadian National Railway Company, Petro-Canada or Canadair, privatization enabled significant expansion in terms of operations, staff, products and services and increased the markets served. It thus permitted the development of large Canadian corporations on a global scale.

For the airports, however, the Government of Canada opted for another form of commercialization, assigning them to not-for-profit corporations created specifically to manage, operate and develop designated infrastructures under long-term leases. The Government of Canada therefore remains the owner of the airports, including the property. At the end of the lease, it will resume full ownership of the entire infrastructure developed, without any compensation and without debt.

Aéroports de Montréal thus began operating in 1992 tasked with managing, running and developing Montreal-Trudeau and Mirabel International Airports. In all, two dozen airports with over 200,000 passengers per year constituting the national airport network have been transferred to airport authorities across the country.

This Canadian model, which is the result of several policies and laws adopted over the years, is unique in the world: It is the only model to rely on not-for-profit corporations. The Canadian airport authorities are in fact private corporations without share capital, managed by a board of directors whose rules of basic operation are defined by the lease and certain laws, regulations and associated policies.

In addition to having to comply with the terms of the lease relating to various aspects of airport management, use and development, the Canadian airport authorities must pay rent to Transport Canada and make payments in lieu of municipal taxes. They are financially autonomous and the largest airports do not receive government subsidies. Airport improvements are financed by self-generated funding and by debt. Although the Canadian airport authorities may issue debt securities, they cannot issue share capital.

MERITS OF THE CANADIAN MODEL

It is an undeniable fact that the Canadian model has allowed to achieve the prime objective of the government, i.e. the reduction of the administrative and financial burden related to the management, operation and development of the national airport network. At the same time, the Canadian model has enabled the establishment of a network of efficient airports, distributed across the vast Canadian territory. According to the World Economic Forum, Canadian airports rank first in the world for infrastructure quality. Across Canada, the capacity of the airports has followed the increase in traffic.

However, we emphasize that at the time of divestiture, the airport infrastructure was sometimes weak or under-funded. In the case of Aéroports de Montréal, for example, appropriate business decisions and considerable investments have been necessary to streamline the initial airport system, which made connecting flights difficult, and to upgrade, modernize and expand the facilities. Today, Montréal-Trudeau and Montréal-Mirabel are world-class platforms, one for passenger transport and the other for all-cargo carriers and the aerospace industry. Montréal-Trudeau has also seen its air service improve considerably since 2004 and is increasingly used as a passenger transport hub.

On the whole, the major Canadian airports are designed to deal with three types of traffic—domestic, cross-border and international—in a safe and efficient manner, and the shared use of the airport facilities by the various airlines translates into efficiency gains and cost savings. They are also at the forefront in using advanced technologies to simplify and accelerate passenger movement and baggage handling. Montréal-Trudeau is a world leader in the field of winter operations, aircraft de-icing and sustainable development. Finally, customer satisfaction is currently at its highest.

Cumulative investments in airports, since the first divestitures in 1992, exceeded \$19 billion by 2014. Since their establishment, the airport authorities have paid several hundred million dollars in rent to Transport Canada, i.e. far more than the value of the assets transferred at the time of divestiture.

So far, the sources of funding have proved sufficient to meet requirements. The flexibility enjoyed by the airport authorities in setting tariffs has led to high credit ratings and favourable financing terms. The financial situation of the Canadian airports is generally sound.

Furthermore, divestiture has proved a very efficient form of decentralization. The airport improvement programs are determined based on local needs and priorities, and not on the basis of any political agenda or pressures. Similarly, the administrative autonomy of the local authorities allows rapid decision-making suited to their particular situation, for example in relation to operational needs or commercial development priorities.

Finally, the Canadian model is distinguished by a system of governance that combines professionalism and sensitivity toward the local community. The board of directors, which does not include elected officials or active staff members, is composed of experienced administrators mostly put forward by local authorities; they have a fiduciary role toward the airport authority

and collectively possess a set of key skills. In addition, governance of the airports is based on transparency and consultation of stakeholders. Over the years, as a general rule, the authorities have been able to efficiently and harmoniously reconcile the various interests at stake. In its *Report of the future growth and global competitiveness of Canada's airports* in June 2012, the Standing Senate Committee on Transport and Communications also rightly concluded that the governance of the airports was adequate.

CONSTRAINTS OF THE CANADIAN MODEL

No model can lay claim to perfection and, while recognizing the merits of the Canadian model, we can agree that it contains some intrinsic constraints that could possibly become problematic.

The main constraint stems from the maturity of the leases, which will occur in 2072 for Montreal (taking into account the 20-year extension already granted). This horizon may seem distant, but in the airport sector as in real estate, 40-year terms are the norm. Investments in the airports, as well as those of industrial customers operating on airport sites are usually amortized over 40 years. Aéroports de Montréal will therefore once again be facing a problematic situation in around fifteen years, in other words, probably before the next review of the Canada Transportation Act.

Similarly, a requirement of the model is that at the end of the lease the airport assets are transferred to the Government of Canada "in good condition and free of debt." In other words, as the maturity date draws closer, the airport authorities must cease to subscribe to new debts and use a growing share of their auto-generated funds to pay off the existing debts, with the expected impact on investment levels.

It is also important to emphasize that the current model does not allow equity financing. Since the debt burden is not unlimited and cannot always be realized in advantageous conditions, this constraint may also become problematic.

The Canadian model is therefore not sustainable. Sooner or later, it will be necessary to change it, and we believe that the exercise carried out by your Committee constitutes the best forum for initiating reflection on this subject.

The rent paid to Transport Canada also poses a problem. In terms of the principle itself, it is surprising that the Government of Canada as a direct or eventual owner of the infrastructure requires payment of rent while still retaining the full equity accumulated over the years in the airports. The calculation formula based on a percentage of revenues is also inequitable since the government thereby harvests the fruits of massive investment in the airports to which it has not made any contribution whatsoever. Several voices, including the Senate Committee on Transport and Communications, have also called for cancellation of the rent. In the short term, we suggest that if it is not reformed, it should at the very least be given an upper limit.

Furthermore, the fact that the Canadian model is unique in the world, and unusual in some respects, perhaps explains why it is not always well understood. The nominating bodies, which propose candidates for the administrator positions but do not have any financial interest in the

company, do not always understand their role, especially when new teams take over after elections.

The municipal agencies in particular have a tendency to want to appoint elected officials, whereas the *Public Accountability Principles for Canadian Airport Authorities* enacted in July 1994 formally prohibit this. Recently, for example, a Montreal Council commission suggested that the Mayor of Montreal should be automatically appointed to the board of directors of Aéroports de Montréal, along with three other elected officials. However, the ban on appointing elected representatives is entirely correct and sensible, and at Aéroports de Montréal we work to apply the principles and rules of governance strictly and consistently.

In addition, it seems that some find it difficult to accept that administrators have a role of fiduciary duty to the company and not a role of representation or promotion of the interests of the nominating body. The reality is that the company is far better served in this way. In addition, in some cases, a nominating body may have interests that are in conflict with those of the airport. Montreal Council, for example, collects a very high amount of municipal taxes from Aéroports de Montréal (the highest per passenger out of the eight major Canadian airports) and would probably not be inclined to support the efforts of the Company aimed at reforming the municipal taxation system.

Although these perceptions arising from the governance of airport authorities are usually manageable, there is reason to be concerned about possible problems.

EVOLUTION OF THE ROLE AND NATURE OF AIRPORTS

This review of the Canada Transportation Act must take into account the significant changes that have occurred in the airport business since divestiture, particularly since 2000, both in Canada and throughout the world.

It is important to realize that the role of airports has changed profoundly: from mere infrastructure providers, airport authorities have been transformed into genuine commercial enterprises with diversified activities. Among other things, non-aviation related activities—retail, catering, entertainment, parking and transport services, rental of land and industrial buildings, etc.—today represent a significant share of their income, sometimes more than 50%.

The airports are also involved in numerous activities previously assigned to airlines, including the provision of shared check-in and luggage deposit facilities, outbound baggage handling, as well aircraft de-icing.

Competition between airports has also increased over the years. To attract airlines and develop their services, airports must offer competitive rates as well as financial incentives for the establishment of new routes. The major Canadian airports also face unfair competition from American border airports, which are heavily subsidized.

This competition between airports takes place on a global scale. For example, the major European hubs, in competition with each other for international long-haul flights, are now

suffering the onslaught of new hubs established in the United Arab Emirates among other places.

The ownership of airports in the world has also evolved. According to Airports Council International, there are currently more than 450 private or partially private airports in the world. This phenomenon is growing, with several countries such as Japan beginning to privatize their airports recently.

The dominant model today takes the form of for-profit corporations with share capital. Several of these entities such as Aéroports de Paris and Beijing Capital International are listed on the stock exchange, while others such as Heathrow Airport Holdings have closed their capital. We are also seeing the formation and development of large groups, such as Fraport, Vinci and Vantage Airport Group, that hold several airports and operate in several countries. The recent sale of AENA (*Aeropuertos Españoles y Navegación Aérea* — Spanish airports and air navigation) led to the creation of the largest private group with combined traffic of 250 million passengers. One thing is certain, there is a dynamic market for airport transactions, and institutional investors such as pension funds are very interested in investing in this sector.

The world of airports is quite different to how it was in 1992.

CORPORATIZATION AS A WAY TO DEVELOP THE CANADIAN MODEL

In view of the foregoing, Aéroports de Montréal is of the opinion that the time has come to consider the evolution of the Canadian model toward real privatization, based on corporatization. This evolution could take place in various ways, either in a single operation as has happened elsewhere in the world, or in successive stages.

The annex contains a document prepared at our request by Osler that presents in detail four privatization scenarios for Aéroports de Montréal.

For example, the airport authorities would be allowed to transform on a voluntary basis into private for-profit corporations with share capital, with the Government of Canada as shareholder. The lease agreements would be cancelled and ownership of the airports would be transferred. The rent, considered too high by many stakeholders who have expressed themselves in this regard, including the Standing Senate Committee on Transport and Communications, would therefore be eliminated and replaced, at least in part, by a dividend. Subsequently, as was the case for Aéroports de Paris for example, the government could offer parts of share capital to institutional investors and the investing public. The government would have the choice whether or not to maintain a certain proportion of the shares.

Such a transformation would entail several advantages. The Government of Canada would benefit since it would collect the proceeds of the eventual sale of tranches of equity capital. As the net value of the major airports (based on a multiple of EBITDA less the debt) amounts to billions of dollars, the government would be able to use this equity as it chooses. If it decides to remain a shareholder, it would receive a dividend on the shares that it holds and also benefit

from the capital gains on the shares. Of course, the level and form of participation of the Government of Canada would be negotiable.

The airports would have access to a new source of funding, i.e. share capital. While ensuring that they maintain an appropriate debt/equity ratio, they could issue new share capital to reduce debt or obtain the funds required for new investments. The corporatized airports would be better equipped to meet their future needs in terms of capital, while benefiting from greater flexibility in financial management.

Governance would be simplified with a more traditional organizational model, which would be more easily understood by the stakeholders. The board of directors, which would retain its apolitical and professional nature, would report to the meeting of shareholders. The presence of shareholder representatives on the Board would ensure constant concern for the corporation's financial performance and particularly for developing new sources of income and controlling operating costs.

On the other hand, full privatization should possibly be accompanied by an economic mechanism for regulating prices and tariffs. The challenge will be to design a mechanism capable of ensuring proper control while remaining flexible and not representing too much of a constraint on the operation and development of the airports. In this regard, the model used in Australia based on self-regulation and a system of arbitration of complaints seems to be the way to go, while the British experience shows the pitfalls to be avoided in terms of over-regulation.

THE NEED FOR A COMPETITIVE FRAMEWORK

Regardless of the airport ownership model, it is an undeniable fact that air transport needs a competitive tax and regulatory framework in order to prosper and achieve its full potential.

In recent years, the airport authorities and many other parties have called and are still calling for the Government of Canada to review its policies in this regard.

Among them are the airlines, the IATA, the National Airlines Council of Canada, the Canadian Airports Council, the Hotel Association of Canada, the tourism industry, etc. There is, therefore, a very broad consensus on this issue to which the Government of Canada, still concerned about economic development, can no longer remain indifferent.

The C.D. Howe Institute summarizes these positions fairly well in its commentary entitled *Full Throttle: Reforming Canada's Aviation Policy*. The picture is clear: The policies of the federal government are a major cause of the high costs of air transport in Canada. Here is an excerpt: *"High fuel taxes and onerous foreign ownership and airline-specific policies are harming the competitiveness of airlines. Meanwhile, airports have been transformed from the rundown state they were in when operated by the federal government to become world leaders in customer service and quality. However, Canada's airports are now handicapped by federal government policies that result in otherwise higher costs for travellers."*

In its Report on the future growth and international competitiveness of Canada's airports, the Standing Senate Committee on Transport and Communications agrees wholeheartedly: *"... Canada needs a single, cohesive National Air Travel Strategy... to chart a new course towards increased air travel in Canada. The Government of Canada should stop treating airports as a source of public revenue and start treating them as economic spark plugs. To this end, it should stop charging airports ground rent and transfer Canada's main airports to the authorities that already operate them."*

Annex

This memorandum briefly describes potential privatization structures for Montréal-Pierre Elliott Trudeau International Airport and Montréal-Mirabel International Airport (collectively, the “**Montréal Airports**”) and the airport authority that currently operates and manages the Montréal Airports’ facilities, Aéroports de Montréal (“**ADM**”), with reference to examples of airport privatization in other countries.

Current Context of the Montréal Airports and ADM

Under the terms of a ground lease by and between ADM and Her Majesty the Queen in Right of Canada (“**Canada**”) dated July 31, 1992 (the “**Lease**”), ADM – a private, not-for-profit, non-share capital corporation – was granted the rights and responsibilities relating to the operation, development, management and maintenance of the Montréal Airports.

Pursuant to the Lease, ADM acquired, for the term of the Lease, the entire control, on an absolutely net basis, of the Montréal Airports’ then existing land, buildings and infrastructure, although ownership of same remains the property of Canada. In addition, any improvements, existing buildings/infrastructure that ADM acquires from a third party, or new infrastructure built during the term of the Lease are the property of ADM until the end of the Lease, at which time ADM’s rights, title and interest in all buildings and infrastructure located at the Montréal Airports will be transferred to Canada for \$1.00.

ADM does not pay income taxes¹ or declare dividends, but it must pay rent to Canada and make payments in lieu of municipal taxes. Rent is determined as a percentage of gross revenue and increases annually in the same proportion as gross revenue.

ADM’s main sources of financing are its cash flow from operations, airport improvement fees, and the issuance from time to time of debt securities.

Privatization scenarios for ADM

The airport governance model in Canada has unique characteristics, but can nevertheless be situated along a spectrum of privatization structures worldwide. Existing governance models that include private sector involvement in other parts of the world range from the complete transfer of airport infrastructure to private investors by sale or concession, to variants combining both private sector participation and government investment and control.

¹ Section 8 of 1992 Airport Transfer (Miscellaneous Matters) Act (Canada) provides that a corporation’s taxable income derived from an airport business is exempt from tax under the Income Tax Act (Canada) if no part of the income or capital of the corporation was or became payable to, or otherwise available for the personal benefit of, any member or shareholder of the corporation. Similarly, section 1143 of the Taxation Act (Québec) provides that such taxable income is also exempt from tax thereunder. The 1991 Act respecting Aéroports de Montréal (Québec) exempts ADM from the payment of certain municipal taxes.



We understand that according to ADM, the following factors now favour increased participation of the private sector in the governance of ADM and in the Canadian airport system:

- The Lease provides for the return of the Montréal Airports' facilities to the government without debt or encumbrance at the end of the Lease term. Even though the Lease term will only expire in 2072, ADM's capacity to invest in infrastructure development would be significantly reduced in 2030 at the latest by the need to allocate funds to the reimbursement of its debt. A review of the national airports policy will thus be required, most probably in the next few years, in order to provide a predictable framework for existing airport authorities and holders of debt securities.
- Privatization offers a more classic corporate structure and governance model, understood by the public and likely to better respond to the criticisms of the current governance model by allowing increased oversight of performance and financial decisions by shareholders and the directors appointed by shareholders.
- A sale of the government's airport assets would enable it to immediately monetize cash flows from rental income to be collected and that this is a favourable time to do so due to low interest rates.

Under all scenarios, a privatization of ADM itself would likely unfold in one of two ways:

- the federal government enacts legislation which converts ADM from being a non-share capital, not-for profit corporation existing under the *Canada Not-for-profit Corporations Act* to a share capital, for-profit business corporation governed by the *Canada Business Corporations Act* ("CBCA"); or
- the federal government enacts legislation which causes the assets, liabilities and employees of ADM to be transferred to a share capital, for-profit successor corporation governed by the CBCA. Other structures allowing equity participation could also be considered.

In either case, the shares of the "new" ADM, which we refer to as "ADM2", would initially be owned entirely by the federal government. The government would then sell all or a portion of the shares it holds in ADM2 to a single or limited number of private investors (pension funds, private equity funds, institutional investors, etc.) or to a broader range of retail and institutional investors through an initial public offering.

The government has used legislation to effect previous privatizations (Petro Canada, CN, Cameco Corporation) and would likely do so in this case as well. This would be necessary for the continuance of ADM from the *Canada Not-for-profit Corporations Act* to a for-profit corporation under the CBCA. The legislation might also be used by the government to impose restrictions on a privatized ADM, such as restrictions on foreign ownership, a limit in the size of any one shareholder's ownership interest, and restrictions on ownership of the privatized ADM by airlines or by other airports.



We have reviewed the federal legislation regarding the transfer of airport property, the provisions of the Master Trust Indenture (“MTI”) establishing ADM’s capital markets funding platform, and the Lease. This legislation and these agreements would not preclude the privatization of the Montréal Airports under the scenarios described below, provided that (i) the consent of ADM and the Minister of Transport required under the Lease is obtained; (ii) the Government in council approves the transfer of the Montréal Airports, or more likely, adopts separate legislation to effect such transfer.

The consent of the holders of ADM’s outstanding bonds would also need to be obtained pursuant to an Extraordinary Resolution (as defined in the MTI and representing no less than 66 2/3% of the votes of ADM’s bondholders). We note in this regard that it is unlikely that either a conversion of ADM from a non-share capital corporation to a share capital corporation, or the transfer of ADM’s assets to a new corporation, would be viewed as ADM maintaining its “corporate existence” or would be considered a dissolution, liquidation, amalgamation, consolidation or merger under the MTI (which are the only permissible exceptions to the prohibition in the MTI on ADM ceasing to maintain its corporate existence). Similarly, the scenarios involving the transfer of Airport Lands to a privatized ADM (and therefore the termination of the Lease, since an entity cannot be both lessor and lessee) would also require the consent of bondholders. The transfer of all of ADM’s assets to a new entity would also be viewed as a contravention of the prohibition in the MTI on the sale, lease or other disposal of any substantial portion of its property or assets.

The MTI would also need to be amended to reflect the new structures. If agreement with ADM’s bondholders could not be reached on these matters, the bonds would have to be repaid at the time of the privatization. New bonds might be issued at that time by the privatized ADM that would contain terms consistent with the activities which the privatized ADM would be permitted to undertake.

The establishment of a regulatory regime would be required in order to ensure a proper balance between the interests of the shareholders and users (passengers and air carriers) of these service infrastructures. It is also to be expected that a privatized ADM would be regulated to prevent any abuse by it of its dominant market position in generating revenues. Regulatory regimes currently in place elsewhere in the world provide examples (including those mentioned below) of mechanisms to monitor service quality levels of key aspects offered to users. The development of an appropriate governance oversight structure would need to be given special attention so that it does not result in a burden preventing the airport authority from proceeding with agility in the deployment of the required infrastructure or precluding an adequate return on investment.

If a privatized ADM were made subject to a regulatory regime which would allow it to cover its costs, including the cost of servicing its debt, and earn sufficient profits to enable it to pay reasonable dividends to its shareholders, ADM’s bondholders should feel that their bonds remain a secure investment following privatization and the privatized ADM should be able to repay the bonds. The bonds would rank ahead of the shares of the privatized ADM. The extent to which any such legislation restricts the liquidity of a privatized ADM’s equity or the scope of activities which a privatized ADM could undertake, and the nature and extent of rate regulation, will have



a significant impact on the value proposition for an equity investor (and therefore the feasibility of the privatization).

On a privatization of the Montréal Airports, the Airport Lands (as defined in the MTI to include the property of both Montreal Airports) would cease to be federal Crown property. This would require a reassessment of the federal and provincial laws and regulations applying at the Montréal Airports.

Scenario 1: The Montréal Airports and ADM are fully privatized

- The Lease is terminated, the federal government sells all of the Montréal Airports' infrastructure to a new corporation ("ADM2").
- The shares of ADM2 are held by private investors. An initial public offering would be possible.

Example: This scenario is similar to the case of the United Kingdom, which was the first country to privatize, by way of an outright sale, some of its major airports. In 1986, the British Airports Authority ("BAA"), which was then a public entity, was dissolved and all of its assets, rights and liabilities were transferred to a new company, the BAA, which later became publicly traded. In 2006, the BAA was acquired by Airport Development & Investment Ltd., whose name was changed in 2012 to Heathrow Airports Holdings Ltd.

To ensure that the BAA would act in the public interest, the United Kingdom passed new legislation – the *Airports Act 1986* – enabling a government body, the Civil Aviation Authority (the "CAA"), to apply economic regulations to airports generating revenues greater than one million pounds. In order to impose charges on users, the BAA airports must apply for permission from the CAA and provide information about their financial statements, current charges and anticipated changes to the charges. Also, the CAA, with advice from the applicable competition commission, sets a "price cap" limiting the allowable growth in airport charges at these airports to the projected rate of inflation less the productivity growth.

Scenario 2: The Montréal Airports and ADM are privatized, but the government holds a portion of ADM's shares

- The Lease is terminated, the federal government sells all of the Montréal Airports' infrastructure to a new corporation ("ADM2").
- A portion of ADM2's shares are held by the federal government or other levels of government, whether as minority or majority shareholders, and another portion is held by private sector investors. The federal government's holdings could require financial consolidation. An initial public offering would be possible.
- A variation of this structure would be for the federal government to gradually divest its shares, in tranches, in favour of private investors or through a public offering.



Example: The airport of Frankfurt is owned and operated by Fraport, a German corporation listed on the Frankfurt Stock Exchange. Before the airport's commercialisation in 1997, most of Germany's airports belonged to one of country's three levels of government. The current shareholder structure includes 31.35% of Fraport's shares owned by the State of Hesse, 20.02% owned by a private holding company, 8.45% owned by the airline company Lufthansa, 5.27% owned by an infrastructure unit trust and the remaining 34.91% owned by other public shareholders.

Petro Canada is another example in which the federal government retained a majority of the shares of the privatized entity.

Scenario 3: Federal government retains ownership of the Montréal Airports; ADM becomes a corporation with share capital

- The federal government remains the owner and lessor of the Montréal Airports. The Lease and other assets and liabilities are transferred from ADM to a new corporation ("ADM2").
- Shares of ADM2 are held by private investors. A public offering would be possible.
- Amendments to the Lease would be required since ADM would become a for-profit corporation and its income would become taxable. The rent formula would need to be entirely revised.

Example: Since 1997, Melbourne Airport is controlled and operated by Australia Pacific Airports Pty Ltd ("APAM"). APAM is a private company controlled by five institutional entities: AMP Capital Investors Limited (27.66%), Industry Funds Management (23.67%), Future Fund (20.00%), Deutsche Australia Limited (19.97%) and Hastings Funds Management (8.70%). APAM has signed a 50-year lease with the federal government of Australia with the option of renewal for another 49 years.

Most of the Australian privatized airports were initially subject to a price cap regime administered by a governmental organization. In 2002, the price regulation was replaced with price monitoring at the major airports. This was intended to allow the monitoring agency to take external factors into account when evaluating an airport firm's prices, reducing the volatility of its profit and its risk of failure².

This scenario and the following scenario, in which the Lease is left in place and equity interests in ADM2 are sold to private purchasers, seem less likely because when the Lease terminates, the Montréal Airports would return to government ownership. This appears inconsistent with an overall objective of privatization; however, an extension of the Lease could be envisaged that would permit the continuation of what is essentially the privatization of ADM's income stream.

² Canada, Library of Parliament of Canada. *Airport Governance in Canada and Abroad*, September 5, 2007 (Allison Padova) [online] <http://www.parl.gc.ca/content/lop/researchpublications/prb0712-e.htm>.



Scenario 4: Partial privatization of ADM into a corporation, Federal government retains ownership of the Montréal Airports

- The federal government remains the owner and landlord of the Montréal Airports. The Lease and other assets and liabilities are transferred from ADM to a new corporation (“ADM2”).
- ADM2’s shares are owned by the federal government or other levels of government, whether as minority or majority shareholders, and some private investors are also shareholders.
- Amendments to the Lease would be required since ADM would become a for-profit corporation and its income would become taxable. The rent formula would need to be entirely revised.
- A variant would be for the federal government to gradually divest its shares in tranches in favour of private investors or by way of a public offering.

Example: In Argentina, a federal entity owned, operated and regulated most major airports in the country until 1997. That year, the federal government announced its intention of transferring the operation and administration of 33 airports nationwide to a single private entity. In 1998, a private multinational consortium, Aeropuertos Argentina (“AA”), was granted the 30-year contract for the operation and management of the 33 airports. Under the term of such lease, AA pays a license fee of \$171.2 billion and has a contractual obligation to invest \$2.2 billion over the life of the contract. The federal government recently revisited the ownership structure of AA and proposed a federal participation of 20%.

SCHEDULE A

Ownership Structures of Major International Airports³

Ownership Structures of Major International Airports		
Publicly Owned and Operated	Europe	Barcelona International (BCN)
		Dublin International (DUB)
		Geneva Coitrin International (GVA)
		Helsinki Vantaa International (HEL)
		Lisbon Portela (LIS)
		Madrid Barajas International (MAD)
		Munich International (MUC)
	United States	Hartsfield-Jackson Atlanta International (ATL)
		Denver International (DEN)
		Dallas/Fort Worth International (DFW)
		Fort Lauderdale Hollywood International (FLL)
		New York John F. Kennedy International (JFK)
		Washington Dulles International (IAD)
		Los Angeles International (LAX)
		Chicago O'Hare International (ORD)
		Miami International (MIA)
		San Francisco International (SFO)
	Asia-Pacific	Jakarta Soekarno-Hatta International (CGK)
		Dubai International (DXB)
		Hong Kong Chek Lap Kok International (HKG)

³ See Productivity Commission 2011, Economic Regulation of Airport Services, Inquiry Report no. 57, Canberra (Australia) at p. 368, [online] <http://www.pc.gov.au/inquiries/completed/airport-regulation/report/airport-regulation.pdf>

		Incheon International (ICN)
		Ninoy Aquino International (MNL)
		Shanghai Pudong International (PVG)
		Shanghai Hongqiao International (SHA)
Public ownership and management by independent non-profit corporation (Canada)		Montréal-Trudeau (YUL)
		Vancouver International (YVR)
		Calgary International (YYC)
		Toronto Pearson International (YYZ)
Ownership Structures of Major International Airports		
Corporatized	Europe	Manchester International (MAN)
		Oslo International (OSL)
		Stockholm Arlanda International (ARN)
	Asia-Pacific	Singapore Changi International (SIN)
		Christchurch International (CHC)
Concessioned	Europe	Istanbul Ataturk International (IST)
	Asia-Pacific	Kuala Lumpur International (KUL)
		Phuket International (HKT)
Partial Privatization	Europe	Amsterdam International Schiphol (AMS)
		Athens International (ATH)
		Brussels International (BRU)
		Paris Charles de Gaulle International (CPH)
		Flughafen Dusseldorf International (DUS)
		Rome Fiumicino International (FCO)
		Frankfurt Main International (FRA)
		Hamburg International (HAM)
		Milan Malpensa International (MXP)

		Paris Orly International (ORY)
		Vienna International (VIE)
		Zurich International (ZRH)
	Asia-Pacific	Auckland (AKL)
		Guangzhou Baiyun International (CAN)
		Osaka Kansai International (KIX)
		Tokyo Narita International (NRT)
		Beijing Capital International (PEK)
		Wellington International (WLG)
	Full Privatization	Europe
Edinburgh (EDI)		
London Gatwick International (LGW)		
London Heathrow International (LHR)		
London Stansted (STN)		
Asia-Pacific		Adelaide (ADL)
		Brisbane (BNE)
		Melbourne Tullamarine International (MEL)
		Perth (PER)
		Sydney Kingsford Smith International (SYD)