Desperate measures?

Airports, strapped for cash, are seriously looking at ground handling as an ancillary revenue stream. But as Len Kirsch reveals, all that glitters is not gold.

Once again, I am forced to bring up the issue about airports providing ground handling, general aviation services (called FBO services in the US) and other airline and aircraft handling services because, since airports are becoming desperate for funds, they are acting desperately.

I am in the midst of several battles at mid-sized airports in the US where Airport Authorities have used federal and state funds to build airport-owned but privately managed FBOs to compete with existing clients. At one airport, after four months, it is obvious that the government owned, privately managed concept does not work. This business has no business and the Airport Manager, whose bright idea this was, has left for a new airport so that he will not have to take the fall, when the powers that be recognise what a mistake this has been. At a smaller airport, the new Airport Manager brought his children to play on the ramp while he personally mowed the lawn. This past weekend, this particular airport ran out of fuel, allegedly because the airport was trying to save $0.06 per gallon. At another airport, in Texas, the City Council voted down the privatisation of an FBO a year ago. Now it has reared its ugly head again, requiring a new political and policy battle.

In my formal challenge to the actions of these airports, I have argued in a written complaint filed with the FAA that it would be unfair for a government to use government monies to fund construction of hangars, fuel farms and other infrastructure without having to account for these costs when determining prices.

Private companies must amortise the cost of construction of infrastructure into an operating budget. This operating budget accounts for costs and profit and is used to determine prices. Even if the owner purchases the business and the infrastructure is in place, the company must amortise the cost of its business purchase. If a company cannot get back its investment into a building or other structure or a business in its pricing, private enterprise will not invest at airports.

If an airport-owned services company does *not* have to amortise its investment or infrastructure into an operating budget, then its pricing will be artificially low, at least in the beginning. This could, over time, force private industry out of business, leaving a governmental monopoly. However, what we have seen in the US is that even when privately managed, government ownership is still government ownership. This means that services deteriorate, employees have no incentive to perform well and new safety risks are created. The problem is during this learning curve, the privately-owned competitor is damaged.

US law does not allow an airport to have an exclusive right to provide aviation services unless the airport uses its own employees and equipment. In other words, it cannot contract out an exclusive operation to a management company. In addition, if the airport wants to become exclusive and a lease or permit exists, allowing a private company to remain in business, it would have to pay the private company its ongoing value to take over its operations. Two aviation services companies have each received or are expected to receive US$2m or more because of the actions of the airport authority in taking over certain land and operations.

About two years ago, in Mobile Alabama, the airport used government funds to purchase ground support equipment to back its bid to perform ground handling services. During discussions with two airport associations, the AAAE and ACI-NA, it seems that part of the reason for this was concerns by airport authorities that ground handlers seem unwilling to enter into certain narrowbody markets, and there may be some truth to this. For this reason and others, I have been after companies in both general aviation services, such as FBOs and commercial aviation services, to see if they will co-operate to ensure that all airports requiring handling services have a private enterprise provider. Since FBOs are usually located in all narrowbody markets, perhaps a sharing/cross utilisation of management, manpower and ground support equipment could make an operation which would not ordinarily be viable, become viable.

However, in the meantime, in those locations around the globe where airports do not engage in ground handling and other aviation services, private enterprise must be on top of this issue. Where possible, all efforts should be made to talk airports out of entering into the aviation services business. Where governments are involved, lobbying should be considered. Constant outreach to the public and media should be undertaken.

Understandably, airports need new funds and these funds are not coming from local or federal governments anytime soon. However, there are better ways to increase funding, and by getting into the aviation services business, it is possible (I would say likely) that the airport will lose money.

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