AIRPORTS

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Greece has historically been a multifaceted commercial and cultural hub. The country is situated at the south-easternmost corner of the European continent. A member of the European family since the late '70s, Greece only very recently acquired land borders with its partners in the European Union, after the accession of Romania and Bulgaria, on January 1st, 2007. For decades from the geopolitical standpoint, Greece has been an "island" of the European continent, linked to it almost entirely by means of air transport in so far passenger traffic is concerned.

Greece has a diversified morphology, mainly characterized by a mountainous – and corrugated – profile landmass. With a total area of 131,944 sqkm, 29% is arable, 39% permanent meadow and pasture and 12% urban area. This geographic profile favored the development of airports of all sizes and categories across the mainland. Furthermore, this mountainous part of the country is becoming steadily ever-more popular in various tourist destinations to Greeks and foreign visitors alike throughout the year.

More importantly, Greece is a peninsula surrounded by the sea and encompassing over three thousand bigger and smaller islands. There are 169 inhabited, which constitute approximately 19% of the total land and are populated by the 17% of the total population. Dozens of these consist vibrant commercial, agricultural and business centers throughout the year, while almost the entirety of the Greek islands have a burgeoning life when the tourist wave comes crashing in at summer, increasingly at late spring through early autumn. Therefore, almost two thirds of the 39 Greek airports are built on islands, supporting, on

one hand, an elaborate hub-and-spoke travel mode between the main international airport of Athens (*Eleftherios Venizelos*) primarily and secondary the *Makedonia* airport of Thessalonica and all peripheral airports, and on the other hand a point-to-point travel, by charter operators straight to the end destinations. In addition, it should be noted that 29 Greek airports are handling international flights, a very high number among other EU countries. Domestic travel to and from the islands is also been handled at a great extend by air travel. On average the load factor of planes carrying passengers exceeds 80% during the year.

Greek airports can be classified from the operational standpoint in three categories – first the two main airports of the mainland, which handle the bulk of the scheduled flights, the Athens International Airport (*Eleftherios Venizelos*) and the Makedonia airport of Thessalonica; secondly, the main airports of the islands which each handles more than one million passengers per year, the *Iraklion* and *Chania* airports of Crete, on the southern part of Greece, the *Rhodos* and *Kos* airports of the *Dodecanese*, on the east part of the country, the *Santorini* airport of *Cyclades*, on the central Aegean, the *Corfu* and *Zakynthos* airports of the Ionians, on the west side; and thirdly, all the other greek peripheral airports of the mainland and the islands, which operate domestic and/or international flights.

In 2006, the Greek airports handled more than 495,000 scheduled and LCC flights, with more than 52,315,000 arriving and departing passengers, with an almost 50/50 ratio. More than 11,200,000 passengers traveled domestically and approximately 41,000,000 were international passengers, out of which 26,000,000 on scheduled flights. From these volumes the Athens and Thessalonica airports handled over 215,000 flights with over 18,000,000 pax and the main island airports over 205,000 flights with approximately 28,000,000 pax.

Taking a closer look at the profile of the Greek airports' national master plan and the way it evolved, one could observe that the two main propelling forces for the development of the Greek airport infrastructure have been an increasing tourism influx during the past 20 years and a fast-growing economy which generated further needs for air travel for cargo, business and leisure people. At the same time the striking robustness of the global aviation market, being able not only to recover from the 9/11 and the outbreak of SARS but gain back its growing momentum at a remarkable speed channeled additional funding towards airports' development. The Athens new International Airport (*Eleftherios Venizelos*) commenced operations in 2001. Completed within a record time of 51 months, at a cost of €2.2billion, the new airport was designed and built according to cutting-edge technology and is by all standards a major international airport which transformed the airport concept from a narrow-perceived transportation asset to an avant-garde service engine for airlines and passengers. Athens airport gained immediate world recognition for its overall customer satisfaction and has repeatedly been acknowledged as one of the most efficient airports in Europe in the few years of its operation. *Makedonia* airport of Thessalonica is the main hub of north Greece. Investments to expand its terminal capacity and runway provide it with the infrastructure to serve as a broader Balkan hub. *Iraklion* airport is the second busiest airport of the country serving the eastern part of Crete and all its popular tourist destinations. Expansion and upgrading programs are in place on an almost permanent nature to cope with its booming traffic. Same stands for the other main island airports which due to the congestion of the *Eleftherios Venizelos'* predecessor – *Hellinikon* airport of Athens - had met a pressing need during the '80s and '90s for direct connections with the tourist markets. As a result the development of those airports allowed carriers to operate flights directly thus supporting on going expansions and modernization.

From the organizational and ownership standpoint Greek airports are classified in two main categories – the State – owned and – run airports and the Athens International Airport (*Eleftherios Venizelos*). Greek airports – except Athens *Eleftherios Venizelos* – are owned and operated

by the State. The Hellenic Civil Aviation Authority ["HCAA"] founded in 1931 is the department of the Ministry of Transport responsible for the licensing, operation, upgrading, expansion and management of airports. The HCAA is currently implementing a 5-year development and modernization program of approximately €1.2billion, in works relating primarily to expansions, upgrading of safety systems and environmental protection. The bulk of the investments are funded by an airport charge on a user-pays basis from departing passengers.

The new Athens International Airport at Spata (*Eleftherios Venizelos*) is an unprecedented Public-Private Partnership greenfield airport development, structured and negotiated in the early 1990s. The story of the Athens airport, widely acclaimed as a financial success – the Economist Intelligence Unit, in 1992, acknowledged it as "a Greek contract with a difference; the structure of the

contract for the new airport could set a trend for other big projects in Europe's" – is an instructive example and a springboard for the other Greek airports in the near future.

The European air transport industry during the past 15 years faced significant deregulation measures. Heavy government constrains were lifted and certain freedom of operation was allowed. Intra European travel was simplified; competition soared and put pressure to prices. Consolidation in the industry happened, alliances were formed and major airlines ensured, through acquisitions of smaller regional carriers, the grandfather rights to takeoff slots in airports of interest. These moves have helped to exacerbate the infrastructure constraints at the major hub airports. At the same time they transformed the airport industry. Airports ceased to be mere transport points of destinations, subject to traffic regulated under bilateral state agreements. They were gradually transformed into service centers, with important non-aviation business, fiercely competing to attract airlines and passengers. The European air transport industry is influenced by the fact that the mass of the European population – around 50% of the total – is within easy reach of the four intercontinental hub airports in London, Paris, Frankfurt and Amsterdam. This inner circle is situated so as to focus better on the transatlantic routines, even though the availability of very long haul aircrafts has increased the number of direct nonstop flights to the Far East, the Middle East and Africa. At the outer circle, which included east and southeast Europe in the early '90s the aviation market lacked a good transit hub to and from these destinations. This was the prime assumption on which the Greek Government in 1990 decided to move forward with a public private partnership to finance, build and operate a new international transit hub in Spata, Athens.

The Athens airport PPP negotiation

process was conceptualized, elaborated and implemented close to the financial community market, in a way that enabled it to "listen" to all the market concerns, carefully and in time. And it managed, at each stage, with discipline, fairness and transparency, to marry those concerns with the objectives and policies of the State. In this way, the tender procedure managed to coordinate the objectives with the requirements and the concerns with security, thus allowing the mobilization of €2.2 billion in equity and debt. The transactional structure between the State and its private partner set expressly the conditions for the establishment of a strong and independent – from its shareholders – new Airport Company, privately managed and benefiting of a balanced allocation of risks, controls and expectations. A clean-cut transactional framework encouraged the inherent benefits of the private sector which reflects value for money, within a long-term and smooth development of a hub airport.

The three parties involved in the Athens airport PPP process – the State, the investor and the lenders – acknowledged early on their roles and limits within the negotiation of the concession. The State clearly separated its two "hats". Under its sovereign hat, it set a stable regulatory environment, avoiding surprises to investors. It defined the "what". What is the service it wished to make available to its citizens, the aviation industry, the economy. Under its "fiscus" hat, the State behaved as a partner in the negotiation process, assuming all related risks and contributions required. The investor defined the "how" and committed his equity on that. This was the seed capital for the project. The "who is he" and "how much' he commited, were critical for the mobilization of the debt market, which was involved early in the process. The State selected as its partner Hochtief, whose financial structure had been approved by the financing institutions, before its binding bid. Therefore there were no off-tail financial close negotiations. The new Athens Airport was built in 51 months with no cost overruns. Operationally the Athens Airport is an ongoing success, having received multiple industry awards. OAG Airport Marketing Award 2006 Winner, Best Cargo Airport for 2006, OAG Airline Marketing 2005 Award, 2005 Aerospace Industry Award, AETRA (IATA/ACI) 2004 Award for Overall Passenger Satisfaction are some of those international distinctions corroborating the rightness of the decision taken by the Greek State to create a hub at southeast gate of Europe.

The Athens International Airport process happened almost 15 years ago, when the airport industry had not yet captured the interest of the international financial community. Equity and debt financing was extremely scarce for airport development, due to various reasons, mainly having to do with the complexity of the industry, the strategic nature and heavy controls each state set to its airport sector, the diverse number of players, from investors, to regulators, airlines, passengers, concessionaires, traffic controllers, environmental organizations, and the long term investment expectations compared to other less complicate markets. Today the story is dramatically different. In the aftermath of the Gulf crisis, the 9/11, the SARS outbreak and the oil price rocketing the Airport industry demonstrated an admirable resistance to crisis. Airports are nowadays at senior positions in the agendas of international financial institutions, strategic investors willing to take up long term engagements and more recently private equity/infrastructure funds and investment banks. Meanwhile, the aviation market is on a firm growth path and airports are considered as top tier investment assets.

The essential elements of Athens Airport's success are more valid today for further airport development in Greece. *Iraklion* airport, *Makedonia* airport and the other major Greek airports are high up in the "shopping list" of the international investment community. The recently-passed law for Public-Private Partnerships in infrastructure building and the overall public opinion maturation regarding the involvement of private enterprise in building and operating public infrastructure allow for extensive investment in regional airports over-and-above the ongoing revamping, extrusion and melioration works undertaken with public funding.

The network of the Greek airports of the new generation would be more genuinely integrated to the local communities and thus better serving their development needs. Either through the Public-Private Partnership development track, or directly through the asset sale and/or management control to international operators with the obligation to bring the airports up to international standards their parallel integration to the European and/or international networks would be optimized, creating additional potential to the Greek economy and enabling it to better meet the challenges of a global market.

USEFUL LINKS

Athens International Airport "Eleftherios Venizelos"
www.aia.gr