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"Airport operating revenues and sources of income"

Only a few persons might know that airport operations in St. Vincent and the Grenadines are generating for the government a surplus of revenue over operating expenditure. Even so, there is a widely held view that the revenue generated from the new Argyle International Airport is unlikely to be sufficient to cover the cost of operating the airport. But what sort of revenue stream can we expect from the international airport operations, and how would the revenue and cost streams for the E.T. Joshua Airport differ from that of Argyle International?

This sort of analysis can be done in any number of ways. I choose to start at first base, by examining the revenue and cost streams of the four state-controlled airports—E. T. Joshua, Bequia, Canouan and Union Island. The data used in this analysis came from the Estimates of Revenue and Expenditure for several years, up to 2007.

The first point, which might come as a surprise to many, is that over the five year period, 2002 to 2006, government made a total surplus of EC$15.9 million from the operations of state-controlled airports. This is, on average, a surplus of EC$3.1 million per annum, at a 10 percent annual rate of growth. The surplus, of course, does not account for capital expenditure on airports, but merely matches recurrent revenue and recurrent expenditure. A surplus of a similar magnitude—EC$3.5 million—is forecast for Fiscal Year 2007.

The main sources of these revenues are aircraft landing and navigation fees, airport service charge, direct entry tax to the Grenadines, and rental of shop space. The operating expenses for the airports are similar to those incurred by most commercial concerns: staffing expenses, utilities, communication, insurance, supplies, material and maintenance. The recurrent revenue and cost relate to 275,000 international passengers, on average, that passed through the airports between 2002 and 2006. Over this time, international passenger volume grew by 5 percent per annum.

Naturally, while most revenue streams vary in direct proportion to passenger volume, this is not the case for most of the airport cost items, many of which, as we know, remain fixed over a defined period. Furthermore, while revenues have been growing by 10 percent per annum, costs have been growing at the much slower rate of 7.1 percent over this same period.

These are important pointers; they suggest that as passenger volume grows to a certain limit, revenue will also grow without any substantial increase in operational cost. As a result, over the period 2002 to 2006, the surplus grew by an average annual rate of 16 percent per annum. Assuming prices and cost factors remain in stable proportion to each other, and assuming also that passenger volume continues to grow at the normal rate of 5 percent per annum, we can expect a surplus of revenue over expenditure of EC$7.5 million by December 2011, the year the international airport is expected to begin operations.

This scenario, although it may seem wonderful, is simply a continuation of a trend borne out by actual numbers, but more importantly, is perhaps the worst case scenario for us. In all likelihood, the surplus would exceed EC$7.5 million, as the Canouan airport is completed and activity on the island takes off; the new hotels on mainland at Buccament, Mount Wynne, and Orange Hill begin to operate, and planned investments on Bequia materalise. All of these are likely to generate an increase in visitors and passengers through the airports.

The point of all of this is that, by the time the International Airport begins operation, the number of passengers passing through the airports would have risen to a level to generate a substantial amount of surplus, which surplus could be applied to meeting the higher cost of operation of all airports, including the new Argyle International Airport.

I know that this is a fairly simple argument. It is made only to address the widely held view that government may not be able to meet the cost of airport operations in the future. It does not say what the actual cost of airport operations is neither does it say how government would finance those expenditures to which the airport surplus is now applied.

But there are also other likely sources of new revenue. Government may bolster its airport revenue stream by raising airport fees. At present, St Vincent and the Grenadines is collecting only EC$23 per passenger at our airports. It is widely accepted that a competitive fee is US$20 or EC$54 per passenger. In fact, our fee structure is somewhere close to the lower end of the chart in the Eastern and Southern Caribbean, where most of the airports charge fees in excess of US$20 per passenger. But this situation presents St Vincent and the Grenadines with much room to raise fees and still remain competitive within the region.

Furthermore, government's policy decision to attract an experienced airport operator, which must take a small equity stake in the Argyle International Airport, will also undoubtedly add to the likelihood of success of the airports' operations and their maintenance.

Finally, since the government's revenue base is likely to be larger in future as a result of new investments in the hospitality industry and an expansion of business activity occasioned by the enhanced air access, government may justifiably divert some of its new tax revenues to support airport operations, if that need ever arises.

To me, the future does not appear the bleak one some paint!