

Headline: Economics of Airport Development

Publication: Searchlight

Paper Date: July 27, 2007

By Line: Dr. Rudy Matthias

## **“Revisiting the airport project costs”**

It is nearly two years now since on 8<sup>th</sup> August 2005 the Hon. Prime Minister Dr Ralph Gonsalves announced his government’s decision to construct an international airport at Argyle. It is probably a good time to reflect on the progress of the project to date.

In this article, I will focus my discussion on the airport costs, as estimated by the Canadian Engineering and Consulting firm, Marshall, Macklin and Monaghan (MMM), with a view to comparing these with the actual outcomes or revised estimates.

Using information available to them in 2004, MMM estimated the Argyle International Airport project at EC\$480 million. This figure includes the following components: Site acquisition \$84m; Earthworks \$184m; Apron, Runway, Taxiway \$41m; Roads & Support Services \$17m; Terminal Building & Control Tower \$38m, and Project Management & Contingencies \$116m.

To simplify the discussion, the total project costs of \$480m can be divided into hard and soft costs. The soft costs are Project Management and Contingency costs, which amount to \$116m, while the hard costs are the other components, totalling \$364m.

The first point of note is that the cost of Site Acquisition has turned out to be much higher than the MMM estimate. MMM’s estimate of site acquisition of \$84m is \$22m lower than the \$106m that the International Airport Development Company (IADC) will have to pay for properties on the site earmarked for the airport. The actual cost of properties is based on the results of the valuation exercise done by the British firm, Brown and Company, valuation reports submitted by local valuers, and the outcomes of negotiations with built property owners.

In addition to this, the IADC has incurred another \$6m, as a result of government’s decision to grant a number of concessions to affected Argyle property owners. This amount includes a relocation allowance of \$10,000 to be paid to each household, and an amount to cover the loss incurred in buying and developing lands, which are sold at discounted prices to affected property owners.

Secondly, the estimated cost of the Earthworks component may not be as high as the \$184m estimated by MMM. It is now generally known that the governments of Cuba and Venezuela have agreed to collaborate on completing at least up to the earthworks stage of the airport project. Their estimate of the cost of this work, which involves work during the pre-design phase and the actual earth moving, is \$165m. This is \$19m less than the MMM estimate. One likely reason for the lower estimate by the Cubans and Venezuelans is that they may have factored into their cost a lower figure than MMM did for the labour involved in the exercise.

Thirdly, while we do not as yet have the overall cost for the Roads and Support Services component, it seems likely that the eventual cost of this would exceed the MMM estimate. In this regard, one factor is that the new segment of the Windward Highway, which is now to be built by the firm C.O. Williams starting this month, is being done at a

cost of \$13 million. Clearly, therefore, when the tender is accepted for the other support services, it is likely that the overall cost of that component would exceed the \$17m estimated by MMM, although it is impossible at this time to say by how much. An important point to note though is that the MMM estimate of Support Services alone is \$7m. Hence, even if there is a large variation in this part of the project, it would amount to only a small fraction of the overall project cost.

It seems clear to me that apart from the above two components of hard costs (i.e. Site Acquisition and Earthworks), we must continue to use the MMM estimates for the other hard cost components. Hence, based on our discussion above, the hard costs total can now be revised upward to \$373m, or \$9m more than the original MMM estimate of \$364m.

Considering the large scale of the airport project, reasonable persons would agree that this \$9m variation is within reasonable limits and would have been covered by normal allowances for such contingencies.

Indeed, the area in which our country is likely to benefit most, by lowering the overall cost of the project, is in the way we control the project management cost and by avoiding cost escalation or overruns (contingencies). As I indicated, MMM's estimate for these soft costs is \$116m. This is a huge amount by any measure. Indeed, the Project Management share of this amount is \$55m. But Vincentians can rest assured that over the project lifecycle, the IADC, which is the Project Manager, will NOT expend such huge sums on its management activities.

In fact, the MMM estimates assume project management expenditure of about \$9m per year. However, in 2006, IADC's activities cost only \$2.5m, and it is unlikely that in this year, 2007, the figure will exceed \$3m. And even when in coming years, as activity on the project intensifies, and spending escalates, it is still very much unlikely that IADC will expend \$9m in project management expenditure in any year for this project. Clearly, at the international level, the kind of work that we are doing in managing the airport project carries a much higher price tag! It also seems to me that it is unlikely that contingencies will ever amount to MMM's \$61m, given that the largest parts of the project are already accounted for.

One thing is almost certain then is that the cost of the Argyle International Airport will be significantly less than the \$480m originally estimated by MMM. Much of this cost reduction is the result of insightful policy making, proper co-ordination and support of several government departments and skilful use of our intellect. It goes to show that we can achieve much when we make sensible decisions, believe in ourselves and work together.