

## CHAIRMAN'S REMARKS

### PMC'S FORUM ON AIRPORT POLICY

By

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#### OUR AIRPORTS AT ARGYLE & ARNOS VALE: OUR DEVELOPMENT

On August 8<sup>th</sup> 2005, the Honourable Prime Minister, Dr. Ralph Gonsalves announced two key policy decisions, taken by his government, in relation to airports on mainland St. Vincent.

- (a) The first was to build a new international airport at Argyle.
- (b) The second was to convert the old Arnos Vale Airport site into a new commercial centre.

Tonight, I want to discuss these two far-reaching policy decisions.

I want to start, by exploring in a perfunctory way, the role of governments in the economy.

There are two main views on the role of governments in economic development. One on hand, there is a view that economies in which governments spending is comparatively small, tend to be more efficient, than those in which governments spend more.

People who hold this view argue that "big governments" tend to create distortionary economic effects, as the public sector, in most countries, is inherently inefficient. Hence, the bigger the government is, relative to the private sector, the more inefficient is the economy.

But even people who prefer smaller governments, and less public sector spending, still argue that there is a core set of goods and services on which governments should spend. These include:

- (c) Law and order – to secure private property and create functional societies;
- (d) Education – for income distribution and poverty alleviation;

- (e) Health services – for a healthy work force; and
- (f) Public goods – when the private sector fails to provide these goods.

So, even those who prefer to downsize governments, still recognise certain basic goods and services that governments should provide.

In our case, one of the best examples of a service our government must provide, on mainland St. Vincent, is an international airport.

It is highly unlikely that a private investor would ever be interested in this project, as he is unlikely to make a suitable return on his investment.

## 2. Argyle International Airport and its impact

Even so, some of my countrymen still argue that the government's decision to build the Argyle International Airport is not a good one.

Their views in this regard are founded on two main premises:

- (g) First, that the Argyle airport is not likely to make a profit (at least, not in the foreseeable future) and for this reason should not be built; and
- (h) Secondly, that it would leave us with too much debt, which would become a millstone around the necks of our children.

I want to address these two mistaken notions.

Let me say at the outset: Our government did not undertake this \$600 million dollar investment in the Argyle International Airport simply because of the profit that could be made at Argyle, now, or in future.

When we analyse the government's decision to build the Argyle International Airport, our focus should not be on this narrow consideration of profitability. Instead, we need to focus on the broader economic impacts the airport could have on our economy.

It is useful to compare the views of a private investor, who seeks profit from his investment, and a government that seeks economic growth.

A private investor will invest in an airport mainly to make a profit. For this investor, the revenues generated from airport operations, over the life cycle of the project, must be some factor over the operating costs, in order for him to make a profit.

If, as most of us expect, the operating costs of Argyle International are higher than the revenues in the early years, we know the investor will make a loss in those years. But as more planes and passengers use the airport, the revenues will grow, and the bottom line will improve.

But the Argyle International Airport is NOT being built by a private investor; it is being built by the Government of St. Vincent and the Grenadines. Unlike the private investor, who only gets revenues from the airport operations, the government benefits tremendously from increased economic activity throughout the country.

And how does the government benefit?

There is a range of economic impact models that are used to gauge economic impacts of investments in new and expanded airport infrastructure.

For example, in 2005, the Milwaukee County in Wisconsin retained *Breitenbach Weiss and Martin Associates* to measure the economic impact of the activities generated by their airport.

The firm used a model that captured four main types of impacts. These are:

- *Revenue impact -:* This is the business revenue generated by airport businesses that provide air passenger service, freight service, and ground support services.
- *Employment impact -:* This is the impact from job creation.
  - (i) Direct employment generated by airport activity that would vanish if the airport were to cease operation;
  - (j) Indirect employment generated as a result of the purchasing of goods and services by firms dependent on airport activity;
  - (k) Induced employment created throughout the economy because individuals who are directly employed spend their wages locally on goods and services; and
  - (l) Related employment by firms that use the airport for air cargo shipments, among other things.
- *Personal income impact -:* This is a measure of the personal wages and salaries received by individuals directly employed as a result of airport activity. This income is re-spent in the country and creates multiplier effects in the economy.
- *Tax impact -:* This is the payment to governments, by both firms and individuals involved in providing services in support of airport activity.

These are four (4) kinds of economic impacts that we can try to measure over time, in order to get some sense of the impact of the airport on the economy and the wisdom of the government's decision.

You notice, that in this context, the profitability of the airport was never mentioned.

Let us look at our own circumstances more closely.

Does anyone think we could have attracted investments such as the Buccament Resort Hotel without investing in the Argyle airport?

Could the Buccament Resort be properly serviced by E. T. Joshua?

Are we not more likely now to attract other large tourism investments as a result of our investment in the Argyle airport?

Would the growth in the tourism sector not be a fillip to our agricultural sector?

Would our farmers not now be better able to export perishables more cheaply and retain a higher surplus for their labour?

Would there not be more opportunities to produce goods and services to supply the hotels, restaurants and shops that our visitors would frequent, and locals would go when they have more money to spend?

The Argyle International Airport will create an abundance of opportunities. And this is what we need: We can look forward to greater employment, higher incomes and more taxes for government.

Now to the next concern: Are we going to be forever burdened by debt because of the government's policy decisions on airports?

#### 4. Converting Arnos Vale into a gold mine

To address this, we need to go back to the Hon. Prime Minister's policy speech on the Argyle International Airport made on August 5<sup>th</sup> 2005. Back then, he said:

*Part of this aggregate bundle of 831.3 acres of state-owned lands [that is, lands that were to be transferred to the IADC] are the lands, and buildings thereon, at the E. T. Joshua Airport and at the Public Works Department at Arnos Vale, which total 63.4 acres of land. These lands would not be sold, but rather would be capitalised on the books of the IADC, and used as government's initial capital to attract other investors for the development of Arnos Vale into a commercial centre, in accordance with a Cabinet-approved Master Plan.*

*(Pp. 22. "The International Airport Project at Argyle", Speech delivered by Hon. Prime Minister, Ralph Gonsalves at the Methodist Church Hall, August 8<sup>th</sup> 2005).*

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The two projects, that is, the new Argyle International Airport Project, and the Arnos Vale Airport Commercial Centre development are therefore inextricably linked.

The policy decision to invest in the new Argyle airport was tied to the decision to develop Arnos Vale into a commercial centre: The airport at Argyle is a replacement of the airport at Arnos Vale.

If these two properties were owned by a businessman, and he was to make these two decisions, his financial analysis would have considered the values and cash flows of both assets. In economic jargon, the opportunity costs of the decisions on the two assets are relevant.

Clearly, the easiest way to incorporate Arnos Vale into the financial analysis is to evaluate the market value of the asset at the date the investment is made in the new asset (i.e. the new Argyle Airport).

Assuming that this date is taken as January 2012, then, the market value of the property at Arnos Vale should be deducted from the amount invested in the new Argyle International Airport project.

[For example: A man trading in a used car for a new car]

National Properties has established a Committee to arrange for the conversion of Arnos Vale into a commercial centre. They have hired one of Canada's top architectural firms to prepare a Master Plan for the development of the 63 acres of land. I expect that pretty soon, we will get a look at what National Properties plans to do at Arnos Vale.

But one could well imagine that the Master Plan for Arnos Vale would include: hotels, residential villas, condominiums, restaurants, shopping and business centres, and entertainment and recreational complexes.

For businesses that have been looking for space, this new commercial centre would be more than welcome. We have all noticed that Kingstown is breaking at its seams. And we have noticed too, that Arnos Vale is already becoming a commercial centre.

The 62 acre site at the Arnos Vale Airport is an ideal area for expansion of our overcrowded city.

This new city can also become a tourist attraction in its own right. Its seaside location captures the relaxing feel and dramatic scenes of the Grenadines and Caribbean Sea, in the delightful way that many cricket commentators have commented upon, over their many years of watching cricket from the Press Box at the Arnos Vale Playing Field.

But the conversion of Arnos Vale is more than just an expansion of Kingstown. It is also a *gold mine* for the government and our country.

Why do I say this?

Lands in Kingstown are being sold now at between \$450 and \$600 per square foot.

With a well conceived Master Plan for Arnos Vale, I believe that by 2011, when airport operations move to Argyle, demand for lands at Arnos Vale would push the price of those lands close to the price of lands in Kingstown.

Actually, I believe that lands in the Arnos Vale commercial centre would become more valuable than lands in Kingstown.

I hold this view, because our current knowledge of city planning affords us now a good opportunity to pursue a more orderly development of Arnos Vale, as a city, than we were able to do with Kingstown.

I therefore expect Arnos Vale to become a far more attractive city, for businesses of all sorts, than Kingstown is today.

Considering the price range of lands in Kingstown, let us assume that the land price in Arnos Vale rises to \$500 psf.

Let us also say that we lose about 15 percent of the land to roads, drains and green areas. This means that we would have about 53 acres of land available for sale.

At a sale price of \$500 psf, this means that the 53 acres of saleable land would have a value of about \$1.15 billion.

Let us also say that we incur infrastructure cost, including the proposed tunnel through Cane Garden, altogether costing \$150 million.

The government could still have developed lands valued at \$1 billion.

When one remembers that the total estimated cost of the new Argyle International Airport is about \$600 million, one can see right away that if we were to sell off the developed lands at Arnos Vale, we should be able to pay for the Argyle Airport. But we are not doing it so.

One thing this analysis makes clear though, is that, when we consider the policy decisions on the two airport projects, the policy decisions are mutually supportive.

What I mean by that is, even if we have to borrow to help build the new Argyle International Airport, the funds that we generate from the development of the old Arnos Vale Airport site will be available to the government to pay down the debts incurred at Argyle.

And we would have funds remaining. Perhaps then, we can build our new Hospital without seeking help.

#### 4. Closing remarks

The exercise in which the IADC, the government and our country, are together engaged, is an exercise in levelling the playing field with our more fortunate sisters in the Eastern Caribbean and Caricom.

The financial difficulties that we might experience in the short term should be matched only by our determination to push on.

When we accomplish our long-held dream of an international airport, I am confident that the realisation would help to instil in us greater confidence, as a people, and make us greater believers in ourselves.

For too long, we have underestimated our ability to do big things; for too long, we have diminished ourselves, relative to others.

After Argyle, none of us must again question our ability, as a people, to accomplish great things.

But, for our confidence and our National pride, if nothing else, we must complete these big things that we have started.

May God help us; Good night.