



Ministerial Statement

By

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Airline Incentives

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Mr. Speaker, the House will be aware of this Government's vocal opposition to the Airport deal and our 2017 election platform pledge to review the Project Agreement between the Bermuda Airport Authority, on behalf of the Government, and Aecon and Skyport to see if Bermuda could get a better deal. The report on the review of the Project Agreement, released earlier this year, recommended against terminating the agreement at this juncture and, instead, recommended contract optimizations, or improvements. One such contract improvement is passenger traffic growth and revenue sharing.

Mr. Speaker, I will update the House on progress with all airport project agreement optimizations in the upcoming months. However, today I wish to speak specifically about passenger traffic growth and airline incentives. Airline incentives are tools used to assist airlines with establishing new air routes or expanding existing services and they help to mitigate an airline's financial risk associated with this activity. For many years and up until recently, the Government, either directly or indirectly via the former Department of Airport Operations, has provided airline incentives in the form of a minimum revenue guaranty (MRG). This involved making direct cash payments to airlines to guarantee a pre-determined profit margin.

Honourable Members may recall that the former Progressive Labour Party Government used MRGs as a means by which to grow air service development and to complement the expansion of tourism markets for Bermuda. Flights which have become a mainstay of our air traffic originated with a robust and, ultimately, very successful air service development programme.

Mr. Speaker, airport promotion and development is a complex matter that involves a detailed understanding of airline economics, market analysis and a firm grasp of the operational and competitive environments

that drive airline decision-making. Accordingly, the type of airline incentive, if any, must be aligned with

- a) air service development strategy, goals and objectives;
- b) defined benefits to all stakeholders, including the airlines; the airport operator, Skyport; the tourism, international and local business sectors; and, the Government; and,
- c) a full understanding of the impact of incentives, provided to one airline, on existing airlines and competitors.

Mr. Speaker, the desired outcome of airline incentives is for the airline to succeed in starting a new service or expanding an existing service within a defined timeframe – and not to continue indefinitely. The air service needs to be sustainable and commercially viable without an airline incentive.

Mr. Speaker, as of today, the Government, directly or indirectly, does not provide any minimum revenue guarantees to airlines. Whilst I would like to fully disclose the details of previous revenue guarantee agreements in the interest of transparency, the commercial nature of these agreements, and specifically their contractual stipulations prevent me from disclosing the specific details such as airline names, routes and amounts.

Mr. Speaker, there are several reasons why there are no longer any airline revenue guarantee agreements. First and foremost, as a part of the airport deal, and since March 2017, Aecon and Skyport are now responsible for the marketing, business development and planning to increase the volume of air traffic and passengers to maximize Airport revenues. **Mr. Speaker**, it is important to note that Skyport receives 100% of the airport revenues from what each passenger pays in ticket fees and what each airline pays in landing, cargo and fuel throughput fees. **Mr. Speaker**, this is a deliberate term of the airport deal which means that revenue that used to come to the Government of Bermuda now goes wholly and solely to Skyport.

Mr. Speaker, when MRGs were the responsibility of the Government of Bermuda, the responsibility to pay for them was, as you would expect, the Government's. Honourable Members and the public may be surprised to learn that in spite of now having this responsibility, Skyport has determined that it should not be responsible for making payments under the MRGs. It appears, **Mr. Speaker**, that Skyport is content to have the authority but not the responsibility. The airport deal seems to have empowered Skyport to pass this burden on to the Bermudian taxpayer.

Mr. Speaker, this Government was elected with a mandate to relieve the burdens of the hardworking, taxpaying families in this country. In a deal that has deprived them of a vital, national asset – as well as the significant revenues that it generates – it is unthinkable that we would sit idly by while taxpayers are forced to bear a financial responsibility that rightly rests with Skyport.

Mr. Speaker, this is another part of this airport deal that has the potential to create challenges for the people of Bermuda. I wish to be clear that the Government of Bermuda will continue to support air service development and the strengthening of our tourism product with additional flights and new gateway cities. However, the success of these initiatives depends on all partners, Skyport especially, doing their part.

Thank you, **Mr. Speaker**.