

(TRANSLATION)(for Reference Only)

## **Basic Policies on Operation of National Airports Utilizing Skills of the Private Sector**

### I. The Purpose and Objectives in Operating etc. National Airports etc. by Utilizing the Skills of Private Sector

#### 1. Purpose

##### (1) Background

In Japan, the total population already entered in a period of decline from 2005 and the falling birthrate and aging of the population are progressing rapidly. According to the estimation by the National Institute of Population and Social Security Research, the total population of Japan will decrease to around 100 million in 2045 and 40% of the total population will be at the age of 65 or over in 2060 which is creating a deep concern for the future of Japan's economy and society.

The Japanese economy came to terms with low economic growth in general for approximately 20 years to date while other Asian countries achieved sharp economic growth as seen in the nominal GDP of China exceeded that of Japan. Considering the ongoing globalization of economy and expansion of cross-border investments, Japan must not only address strengthening its industrial competitive power but also take advantage of the benefits of growth of other countries in order to survive the international inter-city competition, and in this respect, the air carriers will be playing a significant role.

Under these circumstances, the aviation market is developing and undergoing significant environmental changes as seen in the progress made in aviation liberalization (*open skies*) and appearance of new players such as low cost carriers (LCC) mainly due to the expansion of aircraft movements at city airports, and the airport itself as the "recipient" needs to promote further managerial improvement in order to enjoy to the maximum benefits of these changes to meet the needs of its neighboring region, and to accommodate domestic and foreign aviation demands.

Japan currently has a total of 97 airports nationwide which were gradually

developed accompanying the development of social economy and increasing demands for high speed transportation, and it is enough in view of their location. When considering that the decrease of population and low birth rate and aging of the population will further progress, a constant growth of domestic aviation demand as in the past cannot be anticipated, and accordingly, the present issue is to pursue airport policies with shifting its emphasis from “development” to “operation” in a situation where a further efficient airport management is desired.

An airport is an extremely important public infrastructure that constitutes the international and domestic aviation network and plays a significant role in the development of Japan’s social economy and in revitalizing the region, and in order for an airport to perform its role at its full potential, it is necessary to utilize the knowledge and funds of private sectors in airport management, set flexible landing fees etc. (means the landing fees etc. provided in Article 13, paragraph (1) of the Airport Act (Act No. 80 of 1956), hereinafter the same) based on user needs such as air carriers etc., promote efficient airport management through integrated management of aviation business such as runways etc. (means the runways etc. provided in Article 6, paragraph (1) of the Airport Act, hereinafter the same) and non-aviation business such as terminal buildings etc., and expand etc. of the flight routes and number of flights by actively inviting air carriers etc. However, the airports in Japan, in particular the National Airports, are not fully realizing their potential functions because of the operating entities being different between aviation business such as runways etc. operated by the State and non-aviation business such as terminal buildings etc. operated by third sector companies, and uniform landing fees etc. applied throughout Japan under the control of the pool of a special account.

In order to improve these situations, the Act on Operation of National Airports Utilizing Skills of the Private Sector (Act No. 67 of 2013 (the “Private Utilizing Airport Operation Act”)) was enacted at the 183rd session of the Diet in 2013 which prescribes certain measures such as providing exceptions to relevant acts when an airport administered by the State is to be operated by establishing a right to operate public facility etc. (the operating right provided in Article 2, paragraph (6) of the Act on Promotion of Private Finance Initiative (Act No. 117 of 1999) (the “PFI Act”)) pursuant to the PFI Act for the purposes of realizing efficient airport management by utilizing the skills of a private sector based on actual circumstances of its neighboring region.

## (2) The Focus in Operating etc. of a National Airport

Because an airport is an important public infrastructure for the State and the region, a safe, sound and useful airport needs to be provided to the users and air carriers regardless of the form of airport operation. The operation etc. of a national airport etc. (the national airport etc. provided in Article 2, paragraph (4) of the Private Utilizing Airport Operation Act) should be conducted through mutual close coordination and cooperation among one who establishes and manages the airport, the State, relevant local public bodies, relevant businesses, local residents and other related parties, in such manner that aims to expand the air transport demand in Japan through improving convenience for the users by enhancing and effective use of the functions of an airport, which would contribute to an overall development of aviation, improvement of international competitiveness of Japan's industries and tourism, revitalizing of the regional economy, and otherwise invigorate the regional community, in view of the actual situation of the region. When planning for such airport management reforms, careful consideration must be given so that an operating method suitable to the particular features of each airport is selected.

When a national airport (the national airport provided in Article 1, paragraph (1) of the Private Utilizing Airport Operation Act, hereinafter the same) is to be operated etc. by a private sector, in order to secure the roles of an airport as a public infrastructure where it shall deal with disasters and to assume national security and risk management, etc., the State shall basically maintain ownership in the land etc. as the establisher and administrator, the right to operate public facility etc. shall be established upon the private sector and both of aviation business and non-aviation business shall be integrally managed so that the value of the entire airport shall be improved. Because it is also possible to collectively establish multiple right to operate public facility etc. (a so-called bundling method) for multiple airports to a private sector, a concrete system shall be designed after sufficiently hearing the opinions from local public bodies and airport function facility operators etc.

Although, however, that the decisions on the manner of operation etc. of a municipal airport etc. (the municipal airport etc. provided in Article 2, paragraph (3) of the Private Utilizing Airport Operation Act) should be decided by the local public body which establishes and administers this, efficient operation should aimed to be achieved as like in the efforts made for a national airport.

## 2. Objectives

In operating etc. a national airport etc. utilizing the skills of private sector, adequate efforts shall be made to achieve the below objectives on the basis of the contents of “1. Purpose”.

- (1) In view of the highly public nature of an airport as a public infrastructure, efforts shall be made to allow both the airport and the region to mutually enjoy benefits by improving the attractiveness of an airport for both the air carriers and the users and invigoration of the region through expanded aviation demand, passenger numbers, and numbers of population engaging in domestic and foreign interaction.
- (2) In view of the features of each airport, the convenience for air carriers and users shall be improved through achieving absolute efficiency of airport management by integrated managed of aviation business and non-aviation business, assurance of mobility and flexibility of landing fee etc., and use of the knowledge and funds of private sectors.
- (3) For an airport to be operated etc. by a private sector, reconciliation shall be made with relevant local public bodies and relevant businesses to enable such private sector to realize such operation etc. as soon as possible, and concrete efforts shall be made to improve the value of the entire airport. For an airport that would not be operated etc. by a private sector, efforts shall also be made to promote efficiency and improvement of airport operation such as cost reduction.

## II. Basic Matters Concerning Operation etc. of a National Airport etc. as Qualified Project for National Airport Operation

With respect to operation etc. of a national airport as qualified project for national airport operation (means the qualified project for national airport operation provided in Article 2, paragraph (5) of the Private Utilizing Airport Operation Act, hereinafter the same), concrete contents shall be stipulated in the implementation policy (means the implementation policy provided in Article 5, paragraph (2) of the Private Utilizing Airport Operation Act, hereinafter the same) based on the below concept and in view of the actual circumstances of the region.

## 1. Basic Idea in the Scope of Qualified Project for National Airport Operation

The operating right holder of a national airport (means the operating right holder of a national airport provided in Article 4, paragraph (2) of the Private Utilizing Airport Operation Act, hereinafter the same) shall basically undertake the below business in an integrated basis. At that time, the businesses in below (v) and (vi) shall be implemented by the operating right holder of a national airport or an entity controlled thereby after they acquire ownership in the respective facilities.

- (1) The business of maintaining runways etc., administering obstacles, airport security, and airport fire extinguishment in relation to operation etc. of airport provided in Article 2, paragraph (5), item (i) of the Private Utilizing Airport Operation Act where the operating right holder of a national airport receives landing fees etc. as its own income;
- (2) The business of operation, repair, and maintenance of aeronautical lights and incidental power facilities relating to the operation etc. of airport air navigation facilities provided in Article 2, paragraph (5), item (ii) of the Private Utilizing Airport Operation Act where the operating right holder of a national airport receives usage fee (means the usage fee provided in the same item) as its own income;
- (3) The following environmental measures business provided in Article 2, paragraph (5), item (iii) and (iv) of the Private Utilizing Airport Operation Act:
  - (i) The following businesses when implementing operation etc. by private sector at the specified aerodrome provided in Article 2 of the Act on Prevention of Damage caused by Aircraft Noise in Areas around Public Airports (Act No. 110 of 1967 (the “Noise Prevention Act”)):
    - (a) To create and manage green zone and other buffer zone;
    - (b) To subsidize works for construction work provided in Article 5 and Article 8-2 of the Noise Prevention Act;
    - (c) To subsidize works for construction of joint use facilities provided in Article 6 of the Noise Prevention Act; and
    - (d) To compensate loss arising from relocation or removal of a Building etc.

provided in Article 9, paragraph (1) of the Noise Prevention Act, to purchase land provided in paragraph (2) of the same article, and to compensate loss provided in Article 10, paragraph (1) of the Noise Prevention Act.

- (ii) Other business to prevent damage from the noise of aircraft and other operation of aircraft at surrounding areas of the airport, and to contribute to the improvement of the living environment of the surrounding areas of the airport;
- (4) Incidental business provided in Article 2, paragraph (5), item (v) of the Private Utilizing Airport Operation Act;
- (5) Business of operating parking inside the airport site; and
- (6) Business of operating etc. the airport function facility etc. to be jointly undertaken in coordination with the operation etc. of the airport provided in “III.”

## 2. Basic Idea in the Duration of the Right to Operate Public Facility etc.

The rough indication for duration of the right to operate public facility etc. for a qualified project for national airport operation is 30 to 50 years, and a concrete period shall be set in view of the actual circumstances of the region and to enable the operating right holder of a national airport to realize its creativeness.

## 3. Basic Idea in Assuring Proper Airport Operation by the Operating Right Holder of a National Airport

The operating right holder of a national airport shall comply with the relevant acts such as the Civil Aeronautics Act (Act No. 231 of 1952) and Airport Act that would be applied by the provisions of the Private Utilizing Airport Operation Act, and shall conduct airport operation by laying priority to assure the safety of air transport above all activities.

The State shall prepare in advance the required standards document with respect to operation etc. of airport and cause the operating right holder of a national airport to meet the required standards, and shall confirm by monitoring the operating right holder of a

national airport that it is performing the business in an appropriate manner that assures the safety of air transport and contributes to the convenience of the users.

#### 4. Basic Idea in the Development of Facilities

The operating right holder of a national airport shall execute a public facility operation project agreement (means the public facility operation project agreement provided in Article 22, paragraph (1) of the PFI Act, hereinafter the same (“Project Agreement”)) and shall undertake repair and replacement investment to deal with deterioration of functions as maintenance of runways etc. and airport air navigation facilities in accordance with the stipulations of the said agreement, and shall exercise discretion to invest in airport function facility etc. to improve the functions and convenience of the airport from the view of improving the value of the entire airport. When the operating right holder of a national airport invests in runways etc. and airport air navigation facilities owned by the State, the ownership in such alterations and improvements shall attribute to the State.

On the other hand, because the State continues to maintain ownership in the land etc. as the establisher and administrator of the airport in order to secure the roles of the airport as a public infrastructure, when an operating right holder of a national airport decides not to make an investment, the State may do so if the State decides this to be necessary after scrutiny of reasons of public benefit.

#### 5. Basic Idea in Dealing with Large-Scale Disasters, National Security and Risk Management

In view of the fact that, when there occurs any emergency that requires dealing with large-scale disasters, and national security and risk management (hereinafter collectively referred to as “Disasters”), an airport plays an extremely important role as the point of rescue and medical aid, and the point of transport of emergency goods, the airport functions at times of Disasters shall be maintained to the full extent, and appropriate measures shall be prepared to quickly recover the basic facilities such as runways etc., and airport function facility etc. such as terminal buildings.

The State, as the establisher and administrator, shall assume the responsibility of implementing measures to adjust the use of airport and to protect the citizens at times of

Disasters in accordance with relevant laws and regulations. In this case, the operating right holder of a national airport shall cooperate with the State as requested.

Furthermore, the dealing with recovery from Disasters shall be stipulated in accordance with the type of disaster and the level of damages incurred from fire, earthquake and tsunami, and the damages within such scope shall be borne by the operating right holder of a national airport who shall be obligated to purchase necessary insurance. On the other hand, the damages exceeding the above scope shall be allocated in manner that the State shall implement what the State decides to be necessary or otherwise in accordance with the features of individual airports.

#### 6. Basic Idea in Environmental Measures for Surrounding Areas

As coexistence with the surrounding regions is important for smooth operation of an airport, the operating right holder of a national airport shall basically implement environmental measures for surrounding areas that are closely relevant to airport operation in integration with its airport operation.

The State shall give guidance and shall cooperate with the operating right holder of a national airport to assure that appropriate efforts are made in environmental measures of surrounding areas.

#### 7. Basic Idea in CIQ Operations

The State shall continue to assume the operations of customs duty, immigration and quarantine, i.e., the so-called CIQ operations, after the private sector assumes operations etc., and the State and the operating right holder of a national airport shall mutually cooperate to cause these operations to be absolutely and smoothly performed.

#### 8. Basic Idea in the Level of Service to be Provided by the Operating Right Holder of a National Airport

An airport plays an important role in providing smooth transportation to the users of aviation services and also plays an important role of serving as the foundation of domestic and foreign interaction for the region. For this reason, the operating right holder of a national airport needs to proceed with an overall policy through adjusting



opinions with air carriers etc. to improve the flow of aircraft and passengers, to improve the convenience of facilities such as practical use of ticket counters inside the airport buildings, and to reduce fees and costs for using the airport such as landing fees etc. and office rents.

With respect to fees for using the airport such as landing fees etc. after a private sector implements operation etc., the operating right holder of a national airport shall basically be given discretion in principal to enable it to operate independently and creatively but care must also be made to prevent excessive increase of burden on air carriers and users.

#### 9. Basic Idea in Hearing of Opinions from the Council

In order to realize airport management reform based on actual circumstances of the region, opinions shall be heard from the council (means the council provided in Article 14, paragraph (1) of the airport Act, hereinafter the same) pursuant to Article 5, paragraph (3) of the Private Utilizing Airport Operation Act when stipulating an implementation policy for a national airport. In this regard, efforts shall be made so that the opinion of the Council reflects broad opinions from local relevant parties including local public bodies, economic associations, airport related businesses.

Also, as the operating right holder of a national airport will become a member of the council pursuant to the provisions of Article 8, paragraph (1) of the Private Utilizing Airport Operation Act after a private sector implements operation etc., the operating right holder of a national airport shall report the status of operation of the relevant airport to the council and the relevant parties shall mutually closely coordinate and cooperate to discuss on the improvement of the value of the entire airport.

For airports that do not have a council, a system that allows for the opinions from the region to be reflected shall also be considered.

#### 10. Basic Idea in Selecting an Operating Right Holder of a National Airport

An airport is an important public infrastructure from the view of dealing with disasters, national security and risk management, and it is also a point of broad interaction for the region, and accordingly, unqualified parties must absolutely be

excluded from the selection of an operating right holder of a national airport. For this purpose, the opinions of the council shall be heard before the matters concerning bidding and selection of operating right holder of a national airport will be provided in the implementation policy, and in selecting the operating right holder of a national airport, the participant's corporate information and financial information shall be reviewed in detail, and it shall be confirmed that the participant has sound plans that would assure the safety of air transport, improve convenience of the users, contribute to revitalizing of the region, and which could sustain its business. In addition, because there are high expectations for the aviation business and non-aviation business to be managed on an integrated basis through implementation of operation etc. of the airport by the private sector, promotion of efficiency of airport operation and the users to enjoy the benefit from reduced landing fees etc. (reduced airfare, and increased flight routes and number of flights), the participant's concrete proposals concerning policies for landing fees etc. shall be positively assessed.

Also, appropriate consideration shall be received from the operating right holder of a national airport in order to avoid a situation where national airports that are not operated etc. by private sectors would be prevented from obtaining necessary funds for their development, maintenance and operation.

Furthermore, in order to enhance fairness and transparency in the selection of a private sector, and to allow parties other than the current designated airport function facility operators to equitably participate in the application procedures, the information concerning the process of selection of an operating right holder of a national airport shall be properly disclosed.

#### 11. Basic Idea in the Smooth Commencement of Business by Operating Right Holder of a National Airport

In view of the fact that the private sector currently does not have the knowhow to operate airports in Japan, when a private sector implements operation etc., it is necessary for the State, relevant businesses, and other relevant parties to mutually and closely coordinate and cooperate to smoothly succeed the airport operation to the operating right holder of a national airport. For this purpose, the operating system by the operating right holder of a national airport shall be confirmed and human and technical assistance shall be provided, if necessary, to support the smooth

commencement of business by the operating right holder of a national airport.

## 12. Basic Idea in the Measures to be Assumed if the Continuance of Business Becomes Difficult

If it becomes difficult for an operating right holder of a national airport to continue the business, the State or a third party designated by the State shall be prepared to smoothly succeed the business so as not to interrupt the operation of the airport, and the measures for this succession shall be prescribed in the implementation policy for individual airports.

### III. Basic Matters Concerning Coordination Over the Operation etc. of an Airport and Operation etc. of Airport Air Navigation Facility and Airport Function Facility etc. when a Qualified Project for National Airport Operation is Implemented

#### 1. Basic Matters Concerning Coordination Over the Operation etc. of Airport Air Navigation Facility

The State and the operating right holder of a national airport shall coordinate and cooperate as appropriate in implementing the business by acknowledging that the business of operation etc. of airport air navigation facility undertaken by both are extremely important for assuring the safety of the air transport.

Furthermore, the State shall confirm whether the operating right holder of a national airport has in place an operating system that is necessary to assure the safety of air transport and provide, as necessary, human and technical assistance.

#### 2. Basic Matters Concerning Coordination Over the Operation etc. of Airport Function Facility etc.

##### (1) Basic Idea in Integrating the Management of Aviation Business and Non-Aviation Business

The operating right holder of a national airport shall basically implement integrated management of aviation business such as runways etc. and non-aviation business such as terminal buildings etc., and it shall make its best efforts to coordinate with the

operations of other facilities which contribute to the convenience of the users of the airport.

Basically, the operating right holder of a national airport shall be the SPC that conducts the qualified national airport operation project which shall, by itself or by causing its entity under its control, acquire ownership of the terminal building and conduct the airport function facility business.

Furthermore, a structure shall be secured to allow the operating right holder of a national airport to be able to absolutely acquire the terminal building etc. after the right to operate public facility etc. is established, and the consideration for acquiring such terminal building etc. shall be an appropriate price.

## (2) Criteria for Designating an Airport Function Facility Operator

Pursuant to the provisions of Article 3, paragraph (7) of the Private Utilizing Airport Operation Act, the contents stipulated in “2. Basic Matters Concerning Coordination Over the Operation etc. of Airport Function Facility etc.” are deemed to be provided in the “basic policy concerning establishment and administration of airports” pursuant to Article 3, paragraph (1) of the Airport Act.

As such, when the Minister of Land, Infrastructure, Transport and Tourism designates an airport function facility operator pursuant to the provisions of Article 15, paragraph (1) of the Airport Act after planning the basic policy, such candidate shall satisfy the criteria that it shall, with regard to airport management reform aimed to be attained mainly through the method of adopting integrated management of aviation business of runways etc. and non-aviation business of terminal buildings etc. and implementing operation by the private sector, cooperate with the State’s airport management reform policies, during the designated period, such as by providing information to the Minister of Land, Infrastructure, Transport and Tourism in line with the policies of airport management reform and provide necessary cooperation for the Minister of Land, Infrastructure, Transport and Tourism to use such information for future airport management reform, cooperate with investigations that would become necessary at the time of the bidding and selection process for the operating right holder of a national airport and conform to the results of such investigation, and to assume necessary procedures to smoothly succeed the airport function facility business to the

operating right holder of a national airport.

#### IV. Basic Matters Concerning Achieving Efficiency of Administration of National Airport When the Qualified Project for National Airport Operation is to be Implemented

In view of the fact that Article 3, paragraph (1) of the PFI Act requires that consideration should also be made to promote efficiency of public administration as the fundamental principle in the business concerning provision etc. of public facilities etc., when a private sector implements operation etc. of a national airport, it is necessary to plan for an efficient administration of the airport while the State and the operating right holder of a national airport basically assumes their respective roles indicated in above II.

Also, in view of the purposes of the PFI Act, the operating right holder of a national airport is required to contribute in promoting efficiency of administration of the airport through coordination with the State, local public bodies, and relevant businesses.

#### V. Basic Matters Concerning Solicitation of Proposals Concerning Operation etc. of National Airport Utilizing the Skills of Private Sector

After planning the basic policy, if necessary, proposals shall be broadly solicited concerning the concrete form of operation and management method by explicitly disclosing the subject airport (a so-called market sounding). At that time, efforts shall be made to solicit as many concrete proposals as possible in such manners as by disclosing the maximum amount of information held by the State that could be disclosed and by causing such proposals not to be legally binding.

The results of market sounding shall be reflected in the creation of a concrete system such as the implementation Policy etc. and shall be reflected when reviewing the basic policy as necessary.

VI. Basic Matters Concerning Operation etc. of National Airport Utilizing the Skills of Private Sector in addition to Each of the Foregoing Items

1. Appropriate Review of the Basic Policy

The basic policy shall be timely and appropriately reviewed if this is deemed necessary in consideration of the status of enforcement of the Private Utilizing Airport Operation Act.

2. Operation etc. of a Military-Civilian Airport

With respect to a military-civilian airport, the State and the operating right holder of the military-civilian airport (means the operating right holder of military-civilian airport provided in Article 5, paragraph (1) of the supplementary provisions of the Private Utilizing Airport Operation Act) shall closely coordinate with the Japan Self Defense Forces or the U.S.A. to operate etc. the airport in accordance with the purposes set forth in above I. through V.

3. Basic Policy Concerning Specified Municipal Airport

The basic policy concerning specified municipal airport provided in Article 13, paragraph (1) of the supplementary provisions of the Private Utilizing Airport Operation Act shall be applied *mutatis mutandis* to the basic policy.

The original of this document shall be prepared in Japanese language, and this is only English translation of that. This document shall serve only as a reference and shall be interpreted in accordance with the Japanese document.