

**SB**

**125**

# FISCAL NOTE

STATE OF ALASKA  
1998 LEGISLATIVE SESSION

BILL NO. CSSB 125

Revision Date <u>1/8/98</u>	Dept. Affected <u>DOT&amp;PF</u>
Title <u>Airport Duty-Free Concessions</u>	BRU <u>Anch &amp; Frbnks International Airports</u>
Sponsor <u>Senator Ward</u>	Component <u>Airport Operations</u>
Requester <u>Senate Transportation Committee</u>	Component Serial No. <u>1812 1813</u>

**Expenditures/Revenues**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE**

(Thousands of Dollars)

FUND SOURCE	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost: 0.0

**POSITIONS**

POSITIONS	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The Department of Transportation and Public Facilities anticipates no additional costs associated with passage of CSSB 125.

Prepared by Dennis Poshard  
 Division Special Assistant  
 Approved by Commissioner  
 Agency DOT&PF

Phone 465-3901  
 Date 1/8/98  
 Date 1/8/98

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# FISCAL NOTE

STATE OF ALASKA  
1998 LEGISLATIVE SESSION

BILL NO. CSSB 125

Revision Date	<u>1/8/98</u>	Dept. Affected	<u>DOT&amp;PF</u>
Title	<u>Airport Duty-Free Concessions</u>	BRU	<u>Anch &amp; Frbnks International Airports</u>
		Component	<u>Airpct Operations</u>
Sponsor	<u>Senator Ward</u>		
Requester	<u>Senate Transportation Committee</u>	Component Serial No.	<u>1812 1813</u>

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost: 0.0

**POSITIONS**

POSITIONS	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Full-time						
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*

The Department of Transportation and Public Facilities anticipates no additional costs associated with passage of CSSB 125.

Prepared by	<u>Dennis Poshard</u>	Phone	<u>465-3901</u>
Division	<u>Special Assistant</u>	Date	<u>1/8/98</u>
Approved by	<u>Commissioner</u>	Date	<u>1/8/98</u>
Agency	<u>DOT&amp;PF</u>		

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# FISCAL NOTE

STATE OF ALASKA  
1997 LEGISLATIVE SESSION

BILL NO. SB 125

Revision Date: \_\_\_\_\_ Dept. Affected: DOT&PF  
 Title: Airport Duty-Free Concessions BRU: Anch/Fbks International Airport  
 Component: Airport Operations  
 Sponsor: Senator Ward  
 Requester: Senate Transportation Committee COMPONENT SERIAL NO. 18121813

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost: \$ 0.0

**POSITIONS**

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

The Department of Transportation and Public Facilities anticipates no additional costs associated with passage of SB 125.

Prepared by: Sam Kito III  
 Division: Office of the Commissioner  
 Approved by: [Signature]  
 Agency: Department of Transportation and Public Facilities

Phone: 465-3900  
 Date: \_\_\_\_\_  
 Date: 3-12-97

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Bannister  
4/1/97

**CS FOR SENATE BILL NO. 125(TRA)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTIETH LEGISLATURE - FIRST SESSION**

**BY THE SENATE TRANSPORTATION COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): SENATOR WARD**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the extension of contracts for the sale and delivery of in-**  
2 **bond merchandise at international airports."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1.** AS 02.15.091 is amended by adding a new subsection to read:

5 (g) Notwithstanding the other provisions of this section and the provisions of  
6 the contract being extended, the department may extend a contract for the sale and  
7 delivery of in-bond merchandise at an international airport if the contractor agrees and  
8 if the department determines that the extension will maintain or improve the  
9 competitive position of the airport in the marketplace and that during the extension the  
10 contractor will increase its sales revenue or maintain its sales revenue at the same  
11 level, if acceptable to the department. When determining whether the contractor will  
12 increase or maintain its sales revenue during an extension, the department shall  
13 consider

14 (1) the amount of sales made during the current term of the contract;

- 1                   (2) whether the merchandise is competitively priced;
- 2                   (3) whether customer service levels are high;
- 3                   (4) whether the contractor offers a wide selection of products made in
- 4                   the state and prestigious international brands of merchandise; and
- 5                   (5) the level of the contractor's ongoing and planned capital
- 6                   investments to improve the appearance, atmosphere, and layout of the sales facility.

# Alaska State Legislature

## Senate



**JERRY WARD**

State Capitol  
Juneau, AK 99801-1182  
Phone (907) 465-2920  
Fax (907) 465-2766

716 W 4th Ave., Ste. 450  
Anchorage, AK 99501-2153  
Phone (907) 258-8183  
Fax (907) 258-0820

145 Main Street Loop  
Kenai, AK 99611  
Phone (907) 283-7996  
Fax (907) 283-3075

### MEMORANDUM

DATE: April 14, 1997

TO: Senator Bert Sharp, Co-Chair  
Senator Drue Pearce, Co-Chair  
Senate Finance Committee

FROM: Senator Jerry Ward

RE: REQUEST FOR HEARING

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Please consider this request to hear CSSB125 (TRA): Airport Duty Free Concessions at your earliest convenience in the Senate Finance Committee.

Senate Bill 125 is designed to provide the Department of Transportation with the flexibility to extend the term of the duty free concession at the Anchorage International Airport, if deemed in the best interest of the state to do so.

I appreciate your consideration of my request. I have attached a sponsor statement and some backup information for your committee packets. Please let my staff person, Lydia Jones, know if we can provide any additional information.

# Alaska State Legislature

## Senate



**JERRY WARD**

State Capitol  
Juneau, AK 99801-1182  
Phone (907) 465-2940  
Fax (907) 465-3766

716 W. 4th Ave., Ste. 450  
Anchorage, AK 99501-2133  
Phone (907) 258-8183  
Fax (907) 258-0820

145 Main Street Loop  
Kenai, AK 99611  
Phone (907) 283-7996  
Fax (907) 283-3075

### SPONSOR STATEMENT

#### SB 125 -- Airport Duty Free Concessions by Senator Jerry Ward

Senate Bill 125 -- "An Act relating to the extension of contracts for the sale and delivery of in-bond merchandise at international airports."

SB 125 is a rather simple and straight forward bill designed to give DOT/PF the flexibility, should it be deemed to be in the state's interest, to extend the term of the duty free concession at the Anchorage International Airport. This legislation does not require nor mandate DOT/PF to take any action whatsoever; rather, it simply provides the tools and flexibility that may be necessary to maintain or improve the competitive position of the airport in the marketplace.

Anchorage International Airport's duty free/general merchandise concession at one time generated revenues in excess of \$100 million and fees to the state approaching \$19 million annually. Unfortunately, because of the opening of Soviet air space and a new generation of long-haul jets, the market has drastically declined and with it the revenues and subsequent fees to the state.

Now, for the good news. The incumbent concessionaire, a group of Alaskans known as the David Green Group, have almost doubled revenues in their first year and are equally optimistic in their second year of operations.

## Anchorage International Airport Duty Free/General Merchandise Concession

### *Background:*

The duty free/general merchandise concession (DF/GM concession) at the North Terminal of Anchorage International Airport (AIA) is operated by the David Green Group, J.V. (DGG) until its agreement termination in July 2000. DGG is requesting that the State grant an term extension of 40 months to facilitate the expansion and improvement of the retail spaces.

The AIA DF/GM concession at one time produced one of the world's highest revenue per passenger airport operations resulting in an extremely valuable State asset that generated significant revenues for the airport and its operators. In 1988, transit passengers totaled 1.5 million passengers and concession retail sales exceeded \$100 million per year with fees paid to the State approaching \$19 million annually. However, with the opening of Soviet air space and a new generation of long-haul jets coming on-line the market drastically declined by 75% in the number of transit passengers with annual sales plummeting to a low of \$7 million and concessions fees to \$1 million (See attached Charts A through C for passenger traffic, airport concession fees and gross revenue history).

DFS Ltd., the world's largest duty free operator and incumbent AIA concessionaire, did not even submit a bid to the State to retain the concession that it operated for 25 years. It was deemed to have eroded in the value to the point of not worth the effort. In fact, DOTPF had to put the bid proposal out for a fourth time before it even got any interested bidders. At that point, the successful bidder was the David Green Group (DGG).

The DGG was awarded the concession for a term of five years beginning on August 1, 1995. During their first year of operation they increased sales by 50% to over \$10 million with expectations that there will be an additional 50% sales growth in the second year. This has been the result of local management control, a focused marketing strategy, hard work, passenger growth and appropriate investment. The recent increases in international transit passengers present a narrow window of opportunity to revitalize the standing of the DF/GM concession. The increase enhances the credibility of the DF/GM concession opportunity, so that it is once again to viably market the facility to high-end merchandise suppliers. Many of these suppliers expect the surrounding company of other prestige brands. World class brands such as Hermes, Cartier, Coach and Christian Dior have expressed renewed interest in Anchorage, but only if a high-end retail environment is created.

Because of the highly competitive nature of the duty free business globally and the changes occurring in the Asian, European and North American economic market, airports and concessionaires are making significant investments to attract retail sales growth. Consequently, if AIA is to maintain their position in the marketplace or to expect any growth it is essential that the necessary investment(s) be made to insure a competitive presence. DGG believes that additional investment in the infrastructure of their concession would yield a significant increase in retail sales and fees to AIA. However, not enough time remains under the current concession agreement to adequately amortize the investment.

The State directs the airport and its AIA Revenue Fund to be self-sustaining to maximize revenue opportunities where feasible, as is the case with most airports in the world. There is a limit on the amount airports can derive through increased landing fees before discouraging air carriers using their facilities. Increasing competition between airlines has meant that airports have turned to retailing as an alternative source of revenue. A London Financial Times study stated, "the portion of income derived from landing fees fell from 27% in 1983 to 25% in 1993. This reflects pressures from both airlines and regulatory bodies to keep these charges low." In the case of AIA, the State fees derived from the DF/GM concession sales enhances the attractiveness of the international terminal, better serves the traveling public and enables the State to mitigate other operational costs currently borne by the air carriers. While DGG certainly intends to work aggressively to enhance the duty-free concession to the extent economically prudent under the existing agreement, the regrettable reality is that it is not commercially feasible for DGG to undertake the necessary proposed scope of investments under the current contract term.

*Other Airport Duty Free Concessions:*

AIA competes with selected major Asian and North American airports for the discretionary spending of both transit and destination travelers. This international competition for the sale of duty-free/general merchandise has entered a new era of competition, particularly in these airports across the Pacific Rim (See Chart D from trade press, Datamonitor). Other existing airports, such as Los Angeles, New York and Vancouver are also investing capital to improve their passenger facilities. The retail opportunities available to the international travelers are thus being continually elevated. Progressive leasing authorities recognize that to remain competitive they must work with their concessionaire(s) to viably compete for discretionary travel retail sales. For example, at JFK in New York, a group of four major international airlines, i.e., Korean Air, JAL, Lufthansa and Air France, are constructing a world class terminal facility by 1998 to complement the high standard level of passenger service expected of them. This competing facility will contain over 17,000 square feet of retail space, as compared to AIA's current 8,000 sq. ft. of retail space. This is a significant increase of their existing retail areas and improves their competitiveness for air travelers spending on this major route transiting Anchorage.

Examples of Asian airport investments are noted in Chart D (attached) through the year 2000 for new or improved airport operating and retail facilities. The new Chek Lap Kok Airport opening in 1997 will dramatically increase retail shopping space by 15,000 sq. ft. over the current congested facility in Hong Kong. Many of these airports are direct competitors to AIA and its international merchandise concession.

Major international airports in the U.S., such as Sea-Tac, Portland and Las Vegas work with their concessionaires to grant them term extensions when substantial investments and efforts are made to improve merchandise facilities. The airports recognize the necessity to compete for customer spending in order to receive additional fees from cooperative concession agreements as this to operate and upgrade their facilities for expected future growth.

*Legislative Need:*

Conversations with the AIA's staff demonstrate a recognition of the competitive nature of the retail business and a belief that additional investment(s) would yield greater financial and competitive returns. However, they feel that they need the broadened authority under existing statutes to extend the term of the agreement for the benefit of the airport.

The introduction of the proposed amendment would allow the State and DOTPF to extend the term of the duty free concession agreement for 10 months if deemed to be in the best interest of the State and designed to improve AIA's competitive position in the marketplace. Absent this amendment, AIA would be constrained from having the flexibility to react to the already changing competitive environment. Giving DOTPF this flexibility both enhances the value of the concession and the State asset by generating additional fees to AIA, lowers operating costs and rates which would attract further new international air carriers to this airport.

Anchorage International Airport - North Terminal

Chart "A" - Transit Passengers

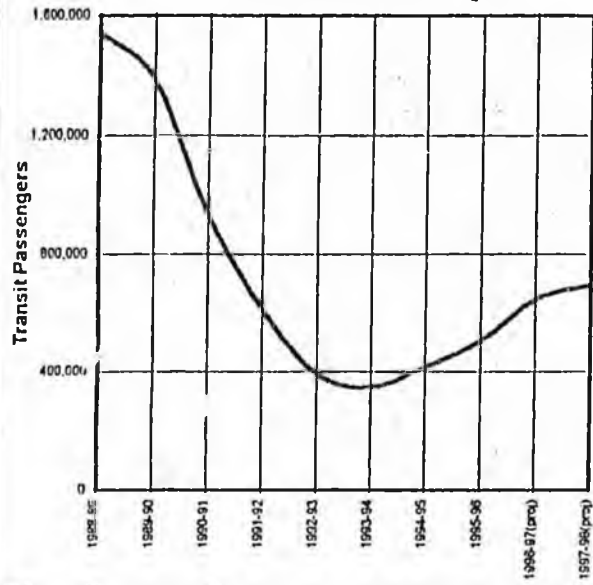


Chart "B" - Gross Revenues

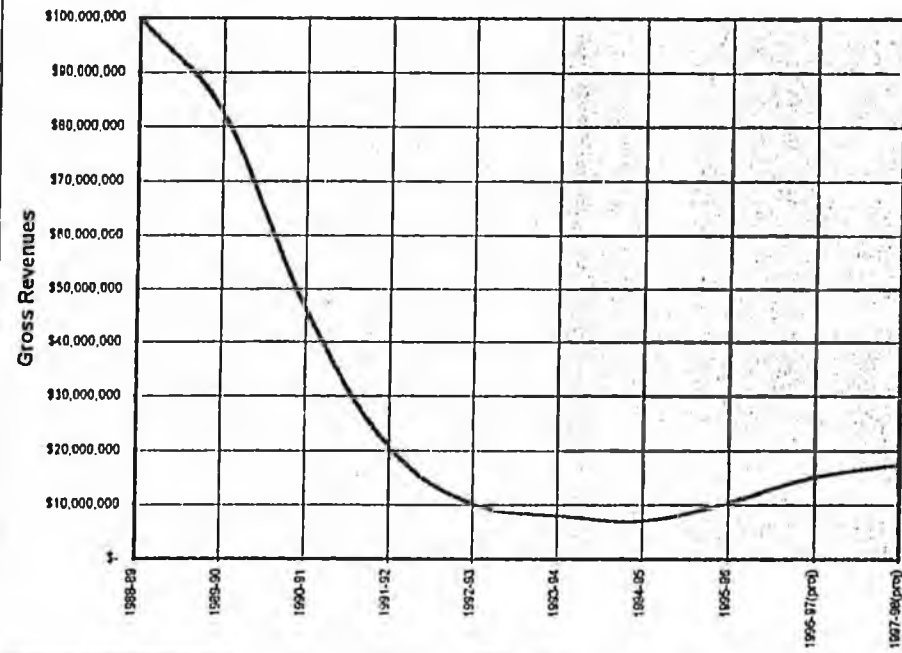
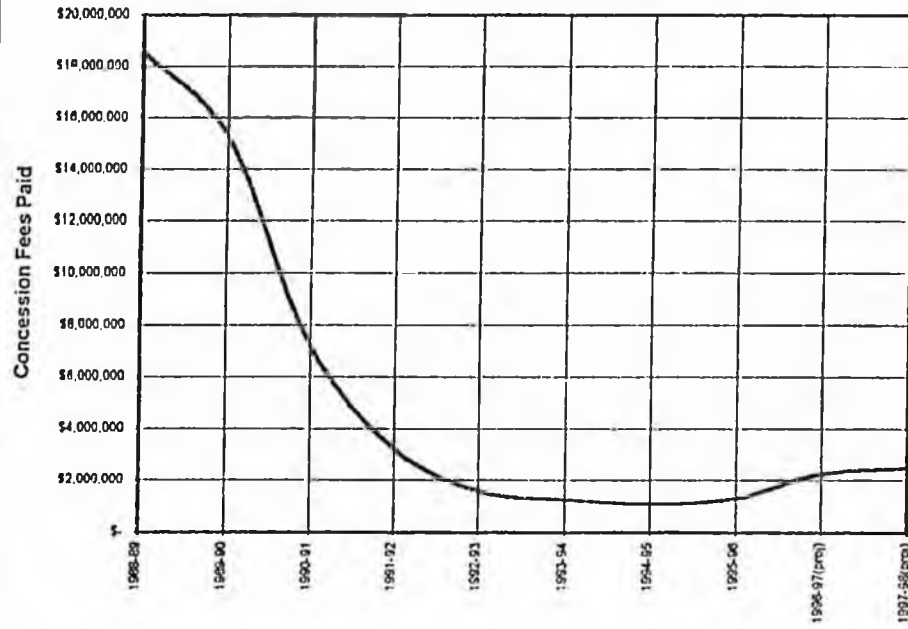


Chart "C" - Concession Fees Paid



▲  
DGG acquires concession (Aug 1995)

It is estimated that spending on airport infrastructure in Asia will amount to \$75bn by the end of the century, with the new airports in Hong Kong, Seoul and Kuala Lumpur accounting for half of this, and China for a further \$10bn. Development is also taking place in the developed countries of the region: in 1995, the new Osaka/Kansai airport was opened in Japan. The region's major airport investment programmes for the rest of the decade are shown in Table 4.4. Beyond this, perhaps another \$50bn of investment will be needed in the period 2000-10.

Table 4.4: Investments in major Asian airports, 1995-2000

Airport	Country	Opening date	Investment \$m
Hong Kong Chek Lap Kok	Hong Kong	1997	21,000
Kansai	Japan	1995	15,000
Seoul Kimo International	South Korea	1997	13,000
Kuala Lumpur	Malaysia	1998	7,500
Bangkok	Thailand	2000	3,200
Shanghai	China	1999	2,800
Kobe	Japan	1998	2,800
Guangzhou	China	1997	1,760
Narita	Japan	2002	1,360
Macao	Macao	1995	913
Taipei	Taiwan	1996	700
Ho Chi Minh	Vietnam	2000	558
Beijing	China	2002	500
Manila	Philippines	2003	484
Singapore	Singapore	1996	300

Source: trade press, Datamonitor

There is also evidence that growth is not only occurring in these large regional airports, but is also spreading to a host of secondary cities such as Kota Kinabalu (Malaysia) and Cebu (Philippines). This growth is being driven by tourism and government programmes to reduce congestion in the largest cities and spread the benefits of industrialisation to other parts of the country. The key countries experiencing this growth are China, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan and Thailand. A third phase of development will occur later in Cambodia, Laos, Mongolia and Vietnam.

#### *China's airports*

This section focuses on China, one of the key growth areas on the continent. Not only is China a rapidly expanding air travel market, it has a huge airport expansion programme and has been a major destination for foreign retailers over recent years. Over the 25-year period to 1993, the growth in air passengers in China averaged 21% per annum to reach 53m passengers.

Chart "D"

**FAX**Date 3-27-97Number of pages including cover sheet 3TO: *Lydia Jones*  
*To Senator Ward's Office*

Phone:

Fax Phone: 907-465-3766FROM: *Lynn Klassert*  
DAVID GREEN GROUP, JV  
PO BOX 220687  
ANCHORAGE, AK 99522-0687

Phone: (907) 249-7229

Fax Phone: (907) 245-0190

CC:

REMARKS:  Urgent  For your review  Reply ASAP  Please Comment*RE: Amendment to SB125**Here is our draft to SB125 amendment  
and the answers to Senator Wilkins questions.*

**Senator Wilkins' questions and answers:****1) What is the revenue to the state from sale and delivery of in-bond merchandise?**

*Answer: Fees paid to the airport from this concession are the greater of the monthly minimum guarantee currently at \$142,058 or a percentage of sales volume in increasing levels starting at 12% up to \$2 million to 19% over \$24 million in sales. At present David Green Group is paying at the 16% of sales level. In year one of the contract David Green Group paid to the state \$1.48 million in revenues and is projecting to pay the state \$2.25 million for year 2.*

**2) What is the customer service history of David Green Group?**

*Answer: David Green Group has built its reputation on providing quality services to its customers with: a) bilingual speaking staff for Korean, Chinese and Japanese customers, b) stocking prestige brands and Alaskan products, c) value priced merchandise, d) acceptance of all major credit cards, e) acceptance of major foreign currencies, f) airline crew member discounts, g) staff training in selling techniques and product knowledge.*

**3) What are the lease payments compared to other concessions at the airport?**

*Answer: The duty free/general merchandise concession is the number one contributor of concession fees to the airport. By comparison, the next highest contractors, Host Marriott and WH Smith paid \$804,000 and \$793,000 respectively in 1995/96.*

**4) Has there been any other expression of interest in the duty free/general merchandise concession?**

*Answer: As stated previously, the airport put this contract to bid four times before getting any interested and qualified bidders. On the fourth time three companies bid. One bid was from a German joint venture (second highest bidder), Host Marriott (submitted minimum bid) and the David Green Group. The incumbent operator, DFS Group, did not bid due to declining traffic.*

Office of the Secretary of Transportation

§ 23.107

(3) Any consideration given by the sponsor, when practical, to structuring contracting procedures so as to encourage and facilitate DBE participation. For example, a sponsor may consider using competitive means to award a concession that would otherwise be renegotiated without competition.

(4) If appropriate, an explanation why the nature of a particular concession makes DBE participation through a sublease, joint venture, partnership, or other arrangement not economically feasible.

(b) The FAA regional civil rights officer approves a plan which does not contain any overall goals of at least 10 percent if he or she determines that based on the information submitted by the sponsor under paragraph (a) of this section and any other available information:

(1) The sponsor is making all appropriate efforts to increase DBE participation in its concessions to a level of 10 percent; and

(2) Despite the sponsor's efforts, the goals submitted by the sponsor represent the reasonable expectation for DBE participation, given the availability of DBE's.

§ 23.103 Obligations of concessionaires and competitors.

(a) Sponsors may impose requirements on competitors for concession agreements as a means of achieving the DBE goals or a portion of the goals established under paragraph (a) of § 23.91 of this subpart, provided that the DBE participation specified in the solicitation or other request is an eligible arrangement, as defined in this subpart.

(b) Nothing in this subpart shall require any sponsor to modify or abrogate an existing concession agreement (one executed prior to the date the sponsor became subject to this subpart) during its term. When options to renew such agreements are exercised or when a material amendment is made to the agreement, the sponsor shall assess the potential for DBE participation and include any opportunities in the goals established under paragraph (a) of § 23.95.

§ 23.103 Privately-owned terminal buildings.

(a) Awards of concession agreements that are made by private owners of terminal buildings are covered by this subpart. Airport sponsors subject to this subpart shall levy the applicable requirements on the terminal owner through the agreement with the owner or by other means, except that certification shall, in the case of primary airports, be performed by the airport sponsor. The sponsor shall ensure that the terminal owner complies with these requirements.

(b) If the terminal building is at a primary airport, the sponsor shall obtain from the terminal owner the overall goals and other elements of the DBE concession plan required under § 23.95. This information shall be incorporated into the concession plan and goals established by the sponsor and submitted to the FAA in accordance with this subpart.

(c) If the terminal building is at a commercial service airport (except primary), general aviation, or reliever airport, the sponsor shall ensure that the owner complies with the requirements in paragraph (c) of § 23.93.

§ 23.107 Prohibition on long-term, exclusive concession agreements.

(a) Except as provided in paragraph (b) of this section, sponsors shall not enter into long-term, exclusive agreements for the operation of concessions. For purposes of this section, a long-term agreement is one having a term in excess of five years. Guidelines for determining whether an agreement is exclusive, as used in this section, have been included in the FAA's "DBE Program Development Kit for Airport Grant-in-Aid Recipients." This publication can be obtained from any FAA Regional Civil Rights Officer or from the FAA Office of Civil Rights, 900 Independence Avenue, SW., Washington, DC 20591, Attention: ACR-4.

(b) A long-term, exclusive agreement is permitted under this subpart, provided that:

(1) Special local circumstances exist that make it important to enter such agreement and

- §23.109

(2) The responsible FAA regional civil rights officer approves of a plan for ensuring adequate DBE participation throughout the term of the agreement.

(c) Approval of the plan referenced in paragraph (b)(2) of this section relieves the sponsor of the need to obtain an exemption under the procedures of §23.41(f) and the Notice of Policy (45 FR 45281, July 3, 1980). The Notice of Policy can be obtained from the FAA Office of Civil Rights at the address given in paragraph (a) of this section.

(d) Sponsors shall submit the following information with the plan referenced in paragraph (b)(2) of this section:

(1) A description of the special local circumstances that warrant a long term, exclusive agreement, e.g., a requirement to make certain capital improvements to a leasehold facility.

(2) A copy of the draft and final leasing and subleasing or other agreements. The long-term, exclusive agreement shall provide that:

(i) One or more DBE's will participate throughout the term of the agreement and account for at least 10 percent of the annual estimated gross receipts.

(ii) The extent of DBE participation will be reviewed prior to the exercise of each renewal option to consider whether an increase is warranted. (In some instances, a decrease may be warranted.)

(iii) A DBE that is unable to perform successfully will be replaced by another DBE, if the remaining term of the agreement makes this feasible.

(3) Assurances that the DBE participation will be in an acceptable form, such as a sublease, joint venture, or partnership.

(4) Documents used by the sponsor in certifying the DBE's.

(5) A description of the type of business or businesses to be operated, location, storage and delivery space, "back-of-the-house facilities" such as kitchens, window display space, advertising space, and other amenities that will increase the DBE's chance to succeed.

(6) Information on the investment required on the part of the DBE and any unusual management or financial ar-

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rangements between the prime concessionaire and DBE.

(7) Information on the estimated gross receipts and net profit to be earned by the DBE.

§23.109 Compliance procedures.

In the event of noncompliance with this subpart by a sponsor, the FAA Administrator may take any action provided for in section 519 of the Airport and Airway Improvement Act of 1982, as amended.

§23.111 Effect on §23.43(d).

Except for commitments made prior to issuance of this subpart as a condition of receiving an exemption from §23.43(d)(1), which prohibits certain long-term, exclusive agreements, the provisions of §23.43(d) shall not apply to any airport, its lessees, concessionaires, or other organizations, if the airport sponsor is covered by the requirements in this subpart. Leasing goals established in accordance with §23.43(d)(2) and approved by the FAA prior to the effective date of this subpart shall terminate as set forth below:

(a) For primary airports, upon FAA approval of a DBE concession plan required under §22.93(b).

(b) For nonprimary airports, at the conclusion of the period to which the leasing goal applies.

APPENDIX A TO SUBPART F—SIZE STANDARDS FOR AIRPORT CONCESSIONAIRES

MAXIMUM AVERAGE ANNUAL GROSS RECEIPTS IN PRECEDING 3 YEARS  
(in millions of dollars)

Competition	Amount
Food and beverage	30.00
Food stores	30.00
Auto rental	40.00
Florist	100.00
Hotels and motels	30.00
Insurance machines and counters	30.00
Gift, novelty, and souvenir shop	30.00
Newspapers	30.00
Shoe shine stands	30.00
Barber shops	30.00
Automobile parking	30.00
Jewelry stores	30.00
Liquor stores	30.00
Travel agencies	30.00
Drug stores	30.00
Furries and related goods	30.00
Luggage cart rental	30.00
Coin-operated T.V.'s	30.00

It is estimated that spending on airport infrastructure in Asia will amount to \$75bn by the end of the century, with the new airports in Hong Kong, Seoul and Kuala Lumpur accounting for half of this, and China for a further \$10bn. Development is also taking place in the developed countries of the region: in 1995, the new Osaka/Kansai airport was opened in Japan. The region's major airport investment programmes for the rest of the decade are shown in Table 4.4. Beyond this, perhaps another \$50bn of investment will be needed in the period 2000-10.

Table 4.4: Investments in major Asian airports, 1995-2000

Airport	Country	Opening date	Investment \$m
Hong Kong Chek Lap Kok	Hong Kong	1997	21,000
Kansai	Japan	1995	15,000
Seoul Kimo International	South Korea	1997	13,000
Kuala Lumpur	Malaysia	1998	7,500
Bangkok	Thailand	2000	3,200
Shanghai	China	1999	2,800
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Source: trade press, Datamonitor

There is also evidence that growth is not only occurring in these large regional airports, but is also spreading to a host of secondary cities such as Kota Kinabalu (Malaysia) and Cebu (Philippines). This growth is being driven by tourism and government programmes to reduce congestion in the largest cities and spread the benefits of industrialisation to other parts of the country. The key countries experiencing this growth are China, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan and Thailand. A third phase of development will occur later in Cambodia, Laos, Mongolia and Vietnam.

#### *China's airports*

This section focuses on China, one of the key growth areas on the continent. Not only is China a rapidly expanding air travel market, it has a huge airport expansion programme and has been a major destination for foreign retailers over recent years. Over the 25-year period to 1993, the growth in air passengers in China averaged 21% per annum to reach 53m passengers.

DRAFT

**SPONSOR STATEMENT**  
**SB 125 -- Airport Duty Free Concessions**  
**by Senator Jerry Ward**

Senate Bill 125 -- "An Act relating to the extension of contracts for the sale and delivery of in-bond merchandise at international airports."

SB 125 is a rather simple and straight forward bill designed to give DOT/PF the flexibility, should it be deemed to be in the state's interest, to extend the term of the duty free concession at the Anchorage International Airport. This legislation does not require nor mandate DOT/PF to take any action whatsoever; rather, it simply provides the tools and flexibility that may be necessary to maintain or improve the competitive position of the airport in the marketplace.

Anchorage International Airport's duty free/general merchandise concession at one time generated revenues in excess of \$100 million and fees to the state approaching \$19 million annually. Unfortunately, because of the opening of Soviet air space and a new generation of long-haul jets, the market has drastically declined and with it the revenues and subsequent fees to the state.

Now, for the good news. The incumbent concessionaire, a group of Alaskans known as the David Green Group, have almost doubled revenues in their first year and are equally optimistic in their second year of operations.

Rather than taking you through the specifics myself, two representatives of the David Green Group are here and with the Committee's indulgence, I would like for them to come to the table and give us a brief historical review of this concession; their current operations and plans; and their position in the global marketplace and why they feel that this legislation is necessary.

Anchorage International Airport Duty Free/General Merchandise Concession

*Background:*

The duty free/general merchandise concession (DF/GM concession) at the North Terminal of Anchorage International Airport (AIA) is operated by the David Green Group, J.V. (DGG) until its agreement termination in July 2000. DGG is requesting that the State grant an term extension of 40 months to facilitate the expansion and improvement of the retail spaces.

The AIA DF/GM concession at one time produced one of the world's highest revenue per passenger airport operations resulting in an extremely valuable State asset that generated significant revenues for the airport and its operators. In 1988, transit passengers totaled 1.5 million passengers and concession retail sales exceeded \$100 million per year with fees paid to the State approaching \$19 million annually. However, with the opening of Soviet air space and a new generation of long-haul jets coming on-line the market drastically declined by 75% in the number of transit passengers with annual sales plummeting to a low of \$7 million and concessions fees to \$1 million (See attached Charts A through C for passenger traffic, airport concession fees and gross revenue history).

DFS Ltd., the world's largest duty free operator and incumbent AIA concessionaire, did not even submit a bid to the State to retain the concession that it operated for 25 years. It was deemed to have eroded in the value to the point of not worth the effort. In fact, DOTPF had to put the bid proposal out for a fourth time before it even got any interested bidders. At that point, the successful bidder was the David Green Group (DGG).

The DGG was awarded the concession for a term of five years beginning on August 1, 1995. During their first year of operation they increased sales by 50% to over \$10 million with expectations that there will be an additional 50% sales growth in the second year. This has been the result of local management control, a focused marketing strategy, hard work, passenger growth and appropriate investment. The recent increases in international transit passengers present a narrow window of opportunity to revitalize the standing of the DF/GM concession. The increase enhances the credibility of the DF/GM concession opportunity, so that it is once again to viably market the facility to high-end merchandise suppliers. Many of these suppliers expect the surrounding company of other prestige brands. World class brands such as Hermes, Cartier, Coach and Christian Dior have expressed renewed interest in Anchorage, but only if a high-end retail environment is created.

Because of the highly competitive nature of the duty free business globally and the changes occurring in the Asian, European and North American economic market, airports and concessionaires are making significant investments to attract retail sales growth. Consequently, if AIA is to maintain their position in the marketplace or to expect any growth it is essential that the necessary investment(s) be made to insure a competitive presence. DGG believes that additional investment in the infrastructure of their concession would yield a significant increase in retail sales and fees to AIA. However, not enough time remains under the current concession agreement to adequately amortize the investment.

The State directs the airport and its AIA Revenue Fund to be self-sustaining to maximize revenue opportunities where feasible, as is the case with most airports in the world. There is a limit on the amount airports can derive through increased landing fees before discouraging air carriers using their facilities. Increasing competition between airlines has meant that airports have turned to retailing as an alternative source of revenue. A London Financial Times study stated, "the portion of income derived from landing fees fell from 27% in 1983 to 25% in 1993. This reflects pressures from both airlines and regulatory bodies to keep these charges low." In the case of AIA, the State fees derived from the DF/GM concession sales enhances the attractiveness of the international terminal, better serves the traveling public and enables the State to mitigate other operational costs currently borne by the air carriers. While DGG certainly intends to work aggressively to enhance the duty-free concession to the extent economically prudent under the existing agreement, the regrettable reality is that it is not commercially feasible for DGG to undertake the necessary proposed scope of investments under the current contract term.

*Other Airport Duty Free Concessions:*

AIA competes with selected major Asian and North American airports for the discretionary spending of both transit and destination travelers. This international competition for the sale of duty-free/general merchandise has entered a new era of competition, particularly in these airports across the Pacific Rim (See Chart D from trade press, Datamonitor). Other existing airports, such as, Los Angeles, New York and Vancouver are also investing capital to improve their passenger facilities. The retail opportunities available to the international travelers are thus being continually elevated. Progressive leasing authorities recognize that to remain competitive they must work with their concessionaire(s) to viably compete for discretionary travel retail sales. For example, at JFK in New York, a group of four major international airlines, i.e., Korean Air, JAL, Lufthansa and Air France, are constructing a world class terminal facility by 1998 to complement the high standard level of passenger service expected of them. This competing facility will contain over 17,000 square feet of retail space, as compared to AIA's current 8,000 sq. ft. of retail space. This is a significant increase of their existing retail areas and improves their competitiveness for air travelers spending on this major route transiting Anchorage.

Examples of Asian airport investments are noted in Chart D (attached) through the year 2000 for new or improved airport operating and retail facilities. The new Chek Lap Kok Airport opening in 1997 will dramatically increase retail shopping space by 15,000 sq. ft. over the current congested facility in Hong Kong. Many of these airports are direct competitors to AIA and its international merchandise concession.

Major international airports in the U.S., such as, Sea-Tac, Portland and Las Vegas work with their concessionaires to grant them term extensions when substantial investments and efforts are made to improve merchandise facilities. The airports recognize the necessity to compete for customer spending in order to receive additional fees from cooperative concession agreements as this to operate and upgrade their facilities for expected future growth.

*Legislative Need:*

Conversations with the AIA's staff demonstrate a recognition of the competitive nature of the retail business and a belief that additional investment(s) would yield greater financial and competitive returns. However, they feel that they need the broadened authority under existing statutes to extend the term of the agreement for the benefit of the airport.

The introduction of the proposed amendment would allow the State and DOTPF to extend the term of the duty free concession agreement for 40 months if deemed to be in the best interest of the State and designed to improve AIA's competitive position in the marketplace. Absent this amendment, AIA would be constrained from having the flexibility to react to the already changing competitive environment. Giving DOTPF this flexibility both enhances the value of the concession and the State asset by generating additional fees to AIA, lowers operating costs and rates which would attract further new international air carriers to this airport.

Anchorage International Airport - North Terminal

Chart "A" - Transit Passengers

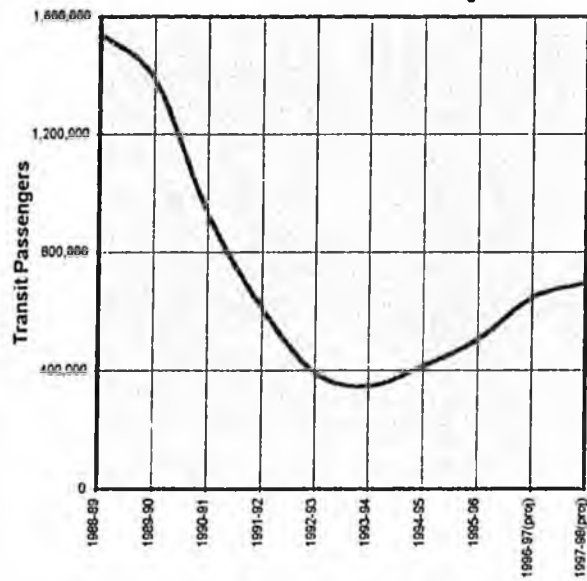


Chart "B" - Gross Revenues

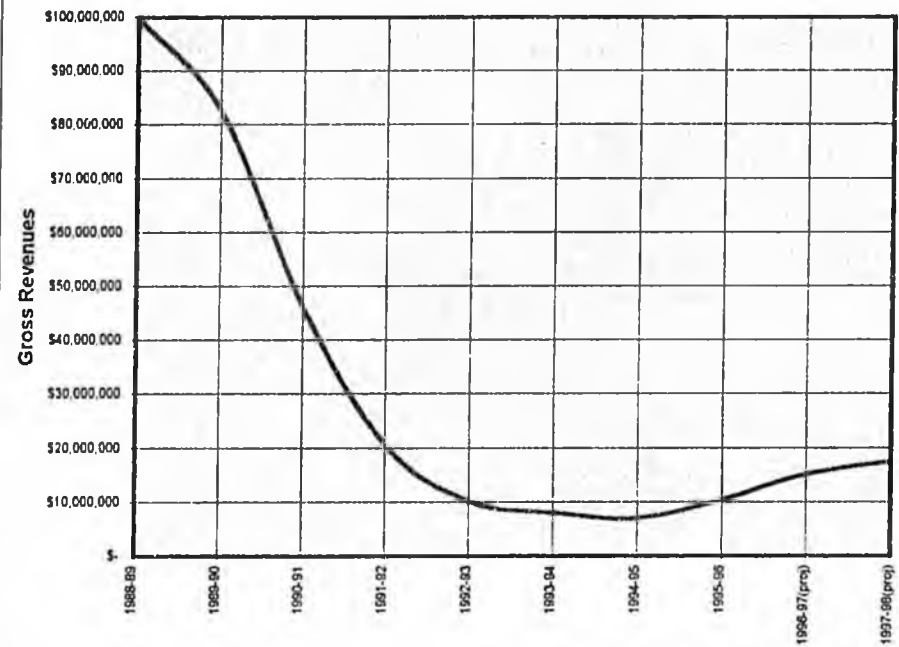
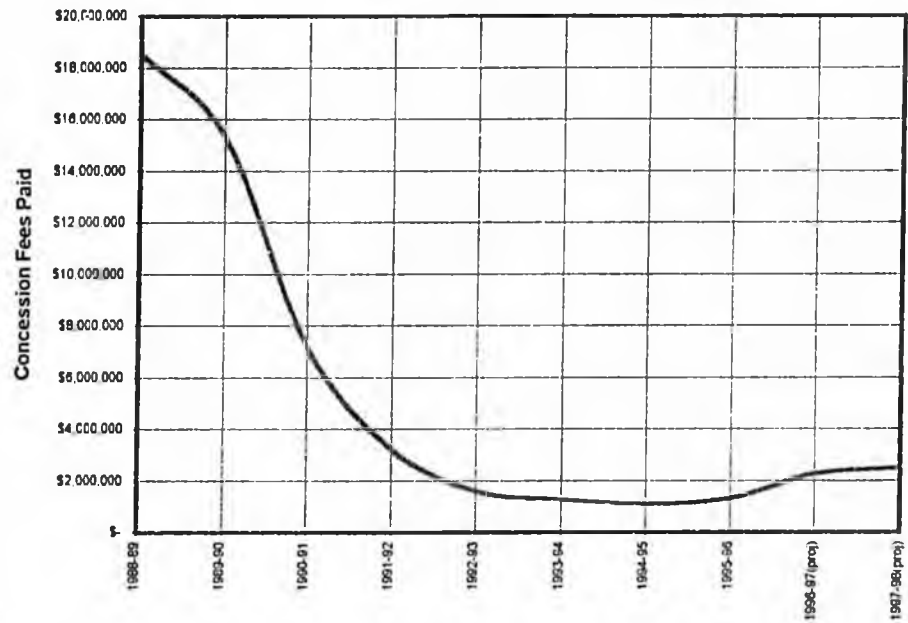


Chart "C" - Concession Fees Paid



▲  
DGG acquires concession(Aug 1995)

**DRAFT**

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Leg Legal.

**SENATE BILL NO. 125**

**"An Act relating to the extension of contracts for the sale and deliv  
merchandise at international airports."**

**\* Section 1. AS 02.15.091 is amended by adding a new subsection to read:**

**(h) Accordingly to define "in the best interest of the state" referenced in new  
subsection (g) the international airports would establish high standards for the  
contractor to maintain or to improve revenues and review prior to a contract  
extension consideration. Standards would include : 1) continuing schedule and level  
of investments in capital improvement program for appearance, atmosphere and  
layout of the stores, and data capture systems, 2) passenger spending productivity,  
3) competitive priced merchandise, 4) high quality customer service levels, and 5)  
wide selection of prestige international brands and made in Alaska products offered.**

Senate Transportation Committee

Please prepare a CS for SB125 incorporating  
the above language adding a new subsection "H."

Thank you.

Any questions, call Lydia at 6641.

# KNOWLES WINS CHALLENGE TO FEDERAL IMMIGRATION POLICY Keeps Jobs, Economic Development on Track at Anchorage International

Gov. Tony Knowles announced today that Alaska's efforts have been successful in delaying full implementation of a new federal immigration law affecting international passengers passing through Anchorage International Airport. The proposed solution will prevent what might have been a loss of jobs and millions of dollars in revenue at the Airport.

"Alaska has secured commitments from the U.S. Immigration Service for a passenger inspection procedure beginning April 1 that will result in little disruption to the short, intransit stops made by international flights," Knowles said. "Our concerted efforts in Washington have changed the Immigration Service's direction and resulted in a policy which creates far less impact on airport operations and revenues. We will now work with Congress and the Immigration Service to change the law and develop viable inspection procedures that are workable for Alaska and other affected states."

\*→ The proposed law would have required all international passengers to go through an immigration check even if their flight is only stopping in Anchorage to refuel. Currently, such passengers are required to stay within a secure facility at the airport while they are on the ground, but are not required to pass through immigration. At Anchorage International Airport, they are able to visit the duty free shop, which generates significant sales to Alaska businesses and additional revenue to the Airport and the State of Alaska.

"Cathay Pacific Airways is very pleased by the efforts of Gov. Knowles and Airport Director Mort Plumb to delay implementation of the federal immigration law," said Russ Fortson, Airport Services Manager for Cathay Pacific. More than 116,000 Cathay Pacific passengers stop over in Anchorage every year en route between Toronto and Hong Kong. "We are delighted our passengers will continue to enjoy a smooth and hassle free transit through Anchorage as they have since we began service in July 1994," Fortson said.

Alaska Attorney General Bruce Botelho, along with attorneys general from other impacted states, met with U.S. Attorney General Janet Reno last week to present the airports' case. "This has been an effective cooperative effort between Alaska's Governor and Attorney General and our counterparts in the other affected states," Botelho said.

The Immigration Service will initiate rulemaking and public comment procedures on additional procedures next month, but will not make any changes to the interim policy until the rulemaking process concludes later this year.

Return to the March listing of Press Releases.

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Posted by: R. Orford, 3/26/97, Alaska State Library

# Alaska State Legislature

## Senate



**JERRY WARD**

State Capitol  
Juneau, AK 99801-1182  
Phone (907) 465-3930  
Fax (907) 465-3766

716 W. 4th Ave., Ste. 450  
Anchorage, AK 99501-2133  
Phone (907) 258-8183  
Fax (907) 258-0820

145 Main Street Loop  
Kenai, AK 99611  
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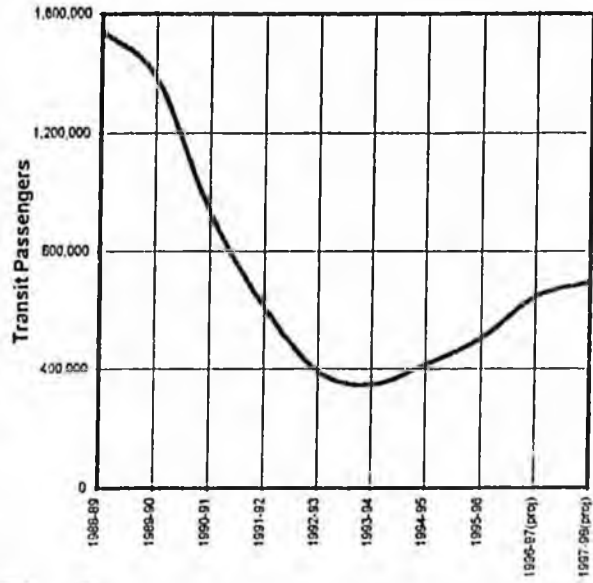


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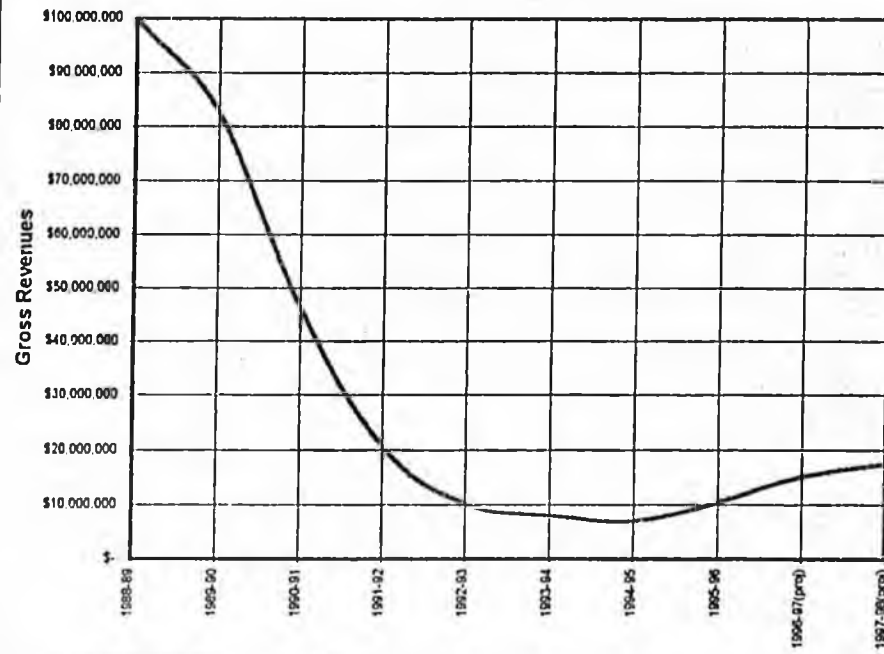
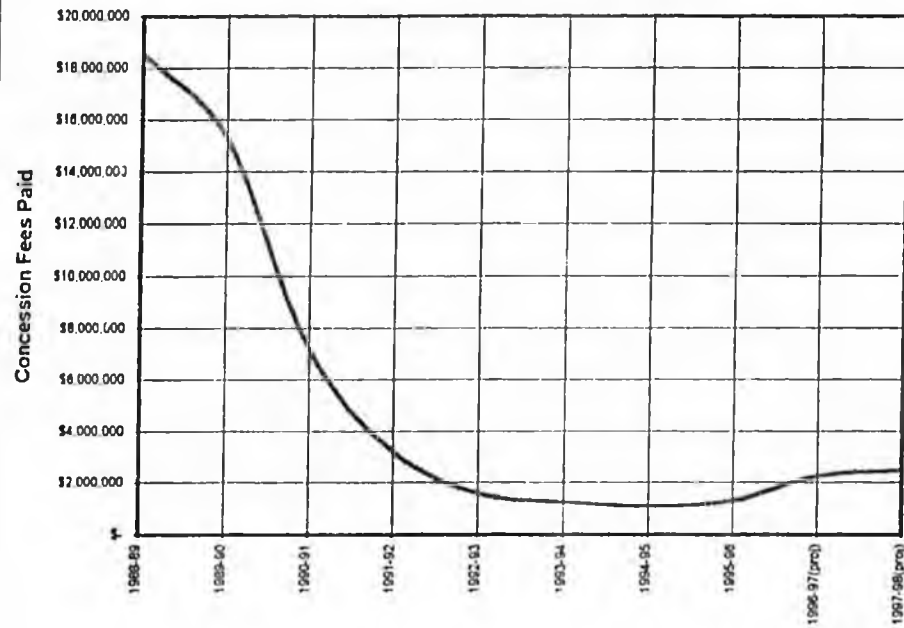


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