

**74<sup>th</sup>**  
**IATA ANNUAL  
GENERAL MEETING**  
WORLD AIR TRANSPORT SUMMIT  
**SYDNEY > 3 – 5 JUNE 2018**

## **Airport Privatization**

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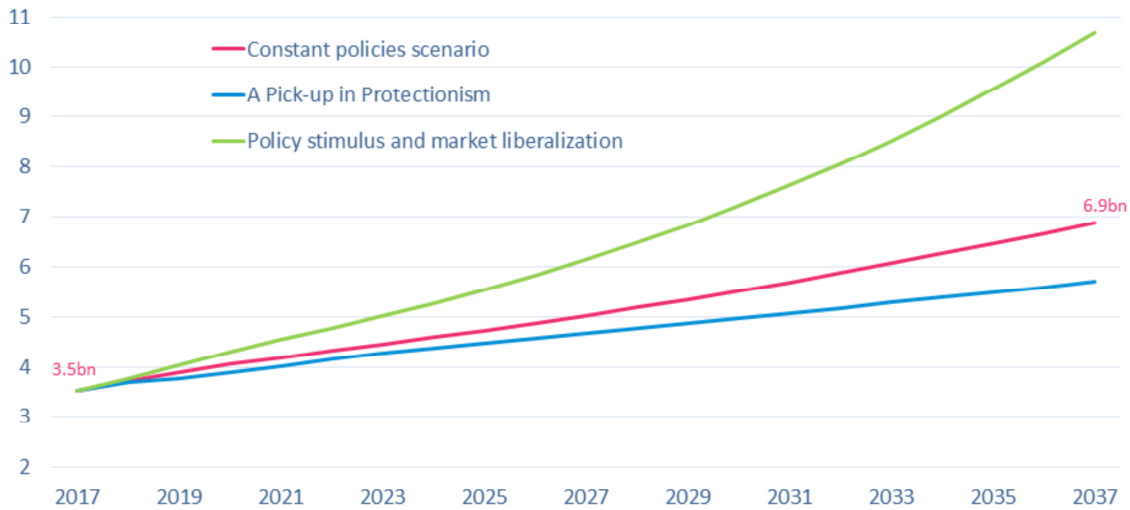
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## Demand for air travel to double over the next 20 years

Global passengers (billion, O-D basis)



Source: IATA/Tourism Economics

[www.iata.org/economics](http://www.iata.org/economics)

2

IATA/Tourism Economics *Air Passenger Forecast Service* (a commercial product) see [www.iata.org/pax-forecast](http://www.iata.org/pax-forecast) (April 2018 update)

Forecasts relate to O-D trips, under 3 broad scenarios

CAGR: constant policy 3.5%pa, liberalization 5.7%pa, protectionism 2.4%pa



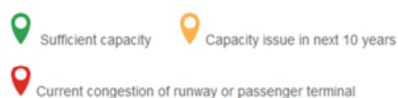
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## 100 Biggest Airports

Runway and passenger terminal capacity assessment for airports with more than 20 million passengers per year



We are facing a capacity crisis - the majority of airports are already facing capacity constraints.

Airport infrastructure investment is need to solve it.

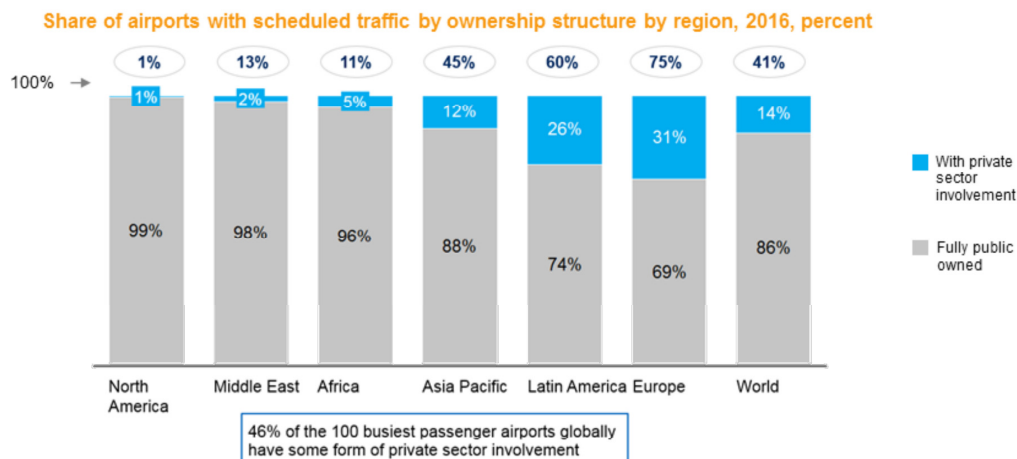
Governments struggle to move quickly and the cash-strapped state of their finances is fueling a trend of looking to the private sector for solutions.



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## Airports with private sector involvement, handle a disproportionate share of traffic



- 14% of the airports worldwide, handling 40% of the world's traffic, have private sector involvement
- 46% of the 100 busiest passenger airports globally have some form of private sector involvement

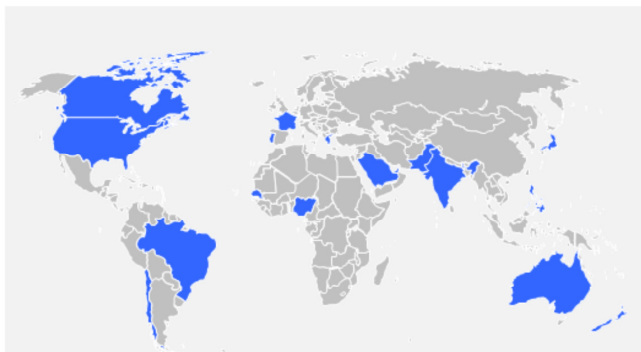


# Major Airport Privatization Projects

Action needed to ensure focus on long-term economic benefits

## INCEPTION PHASE

- Bahrain
- Canada
- Philippines
- USA



## IMPLEMENTATION PHASE

- France
- India
- Japan
- Nigeria
- Saudi Arabia
- Pakistan

## POST IMPLEMENTATION

- Australia
- Brazil
- Chile
- Greece
- New Zealand
- Portugal
- Senegal



## Airport Privatization Concerns



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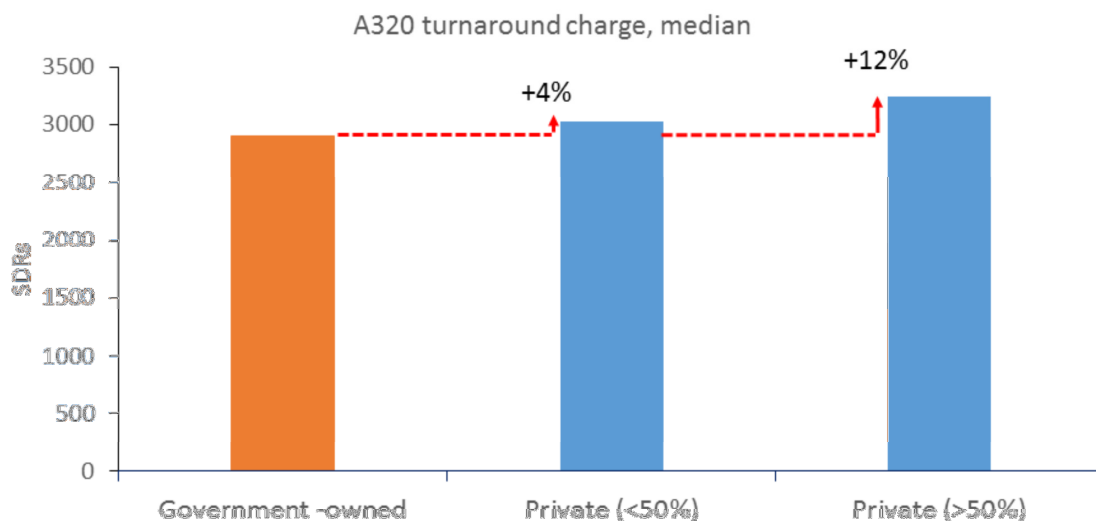
## Privatization Objectives

Successful airport privatizations should deliver:

- A more efficient, cheaper and better service for passengers and shippers
- Cost effective and fit for purpose investment
- Normal returns on capital for investors
- Economic benefits for the local community and the wider economy



## Privatized airports are more expensive for users



We have concluded an important study to quantify the performance of airports before and after privatization. The work covers nearly 90 airports around the world. This is important because we want to ensure our positions and actions are backed by self-standing data-driven evidence.

In these charts you can see: (on LHS) evidence of how privatized airports are more expensive than public and; (RHS) evidence that efficiency of privatization airports is not much better than public airports but, unsurprisingly, profits for privatized airports are much higher.

Clearly the generally accepted perceptions of introducing privatization have not held true in the airport sector:

- charges are higher for privatized airports -this is not what we should accept from privatization in any sector – our customers (or governments) would not accept it if airline fares increased during privatization in our sector
- operating efficiencies are not much better for privatized airports – contrary to the expectation of introducing private sector practices
- but even though efficiency is not better, profits are significantly higher – clearly airport privatization comes at the price - a price which we and our customers have to pay

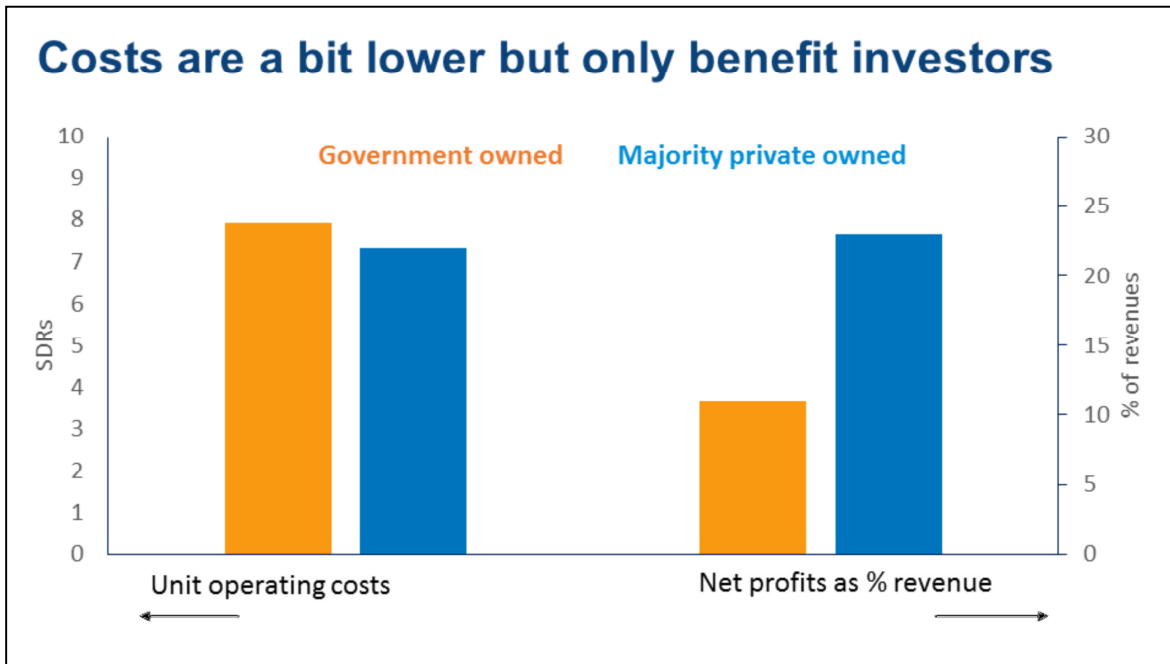


Our goal is to explain to aviation stakeholders why privatization in the monopoly airport sector is not working for the best interests of long-term social-economic benefits and consumers, and why this is different from the successes seen in the competitive airline sector.



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## Privatized Airports Have Failed to Deliver

### Why?

- Lack of competition
- Ineffective economic regulation
- Short-term financial gains instead of best consumer/public interest
- Alternative governance solutions not considered
- Insufficient consultation with industry
- Lack of transparency in transaction process

**Airport privatizations have inevitably failed delivering on expectations because of a range of shortcomings in the process including....**

- Governments have focused on short-term financial gains
- Alternatives have not been considered
- Governments have not developed a robust business case;
- Insufficient meaningful consultation with industry
- There is lack of transparency in the transaction process and often the process is driven by unsolicited proposals, interested private parties or financiers;
- There are poor regulatory safeguards;
- There is a lack of bidder selection criteria – and often the highest bidder is simply selected; and/or
- There are vague or provider-biased concession contract terms.



## Long-term Economic Benefits Should be Put at the Heart of Airport Privatization Decision Making Process



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## Airports are a critical part of national infrastructure

### Governments should maintain an ownership interest

- No “one size fits all” solution to airport ownership but corporatization—where the government maintains its skin in the game—generally provide better outcomes for consumers and the wider economy
- Airports shouldn’t be seen as quick ways to raise cash – focus should be on consumer and economy
- 5 out of the top 6 airports in the Skytrax ranking are public
  1. Singapore Changi Airport
  2. Incheon International Airport
  3. Tokyo Haneda International Airport
  4. Hong Kong International Airport
  5. Hamad International Airport
  6. Munich Airport

Airports are a critical part of national infrastructure and as such governments should maintain strong interest in ensuring connectivity and economic growth.

This means looking at ways by which to **improve investment, improve service levels and drive efficiencies which can be passed onto consumers.**

There is no one size fits all solution but what we have learned through a study undertaken by Deloitte is that **corporatization as a model can be combined with other operating models to achieve the main objectives of privatization without sale of assets, loss of strategic influence or potential negative impact on airlines, end consumers and the economy.**

Airports should not simply be used as means to raise cash for governments - the decision to privatize or not privatize should always focus on consumer benefits and the wider economy

And actually when you look at the results from the skytrax survey 5 of top 6 airports are public – even in the case of Toyko Haneda it is only the terminals which are privately owned and operated,



# Privatization Options and Alternatives Should be Considered

A broad range of ownership and operating models can often meet government objectives without the sale of assets and loss of strategic focus



There is a broad range of ownership and operating models that can often meet government objectives without the sale of assets and loss of strategic focus.

In the middle blue shaded boxes:

**Corporatization as an ownership model (or not-for-profit variants) can be combined with other operating models to achieve one of the main objective of privatization (increasing access to financing). These include:**

1. There are various form of alternative financing including government or municipal bonds (which is typically cheaper than corporate debt),
2. alternative value release models (such as real estate investment trusts),

**Where a priority is to improve the performance of the airport and management capability, Service Contracts and Management Contracts should be used to access private sector expertise and efficiency.**

**And here you can see how airport such as Singapore, Incheon, Hong kong and Munich have been successful because of this**



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**Specific details of how a government can best make the right decision is provided on the  
'Guidance Booklet which Deloitte have developed at our request**



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## Delivering a PPP or Privatization Program

- Focus on long-term socio-economic benefits
  - Avoid past mistakes
  - Build on international best practices
  - Clear bid evaluation guidelines
  - Concession contract guidelines
  - Needs for stakeholder consultation and regulatory safeguards
- ...to avoid mistakes of past airport privatizations

**If a government still determines a need to privatize via asset divestiture or introducing a long term concession contract for operation of the airport (primarily this could be to raise cash for the government budget) the clear steps must be taken:**

So the booklet also provides best practices for undertaking airport privatization to avoid past mistakes

This includes details on how to have a competitive, transparent tender process

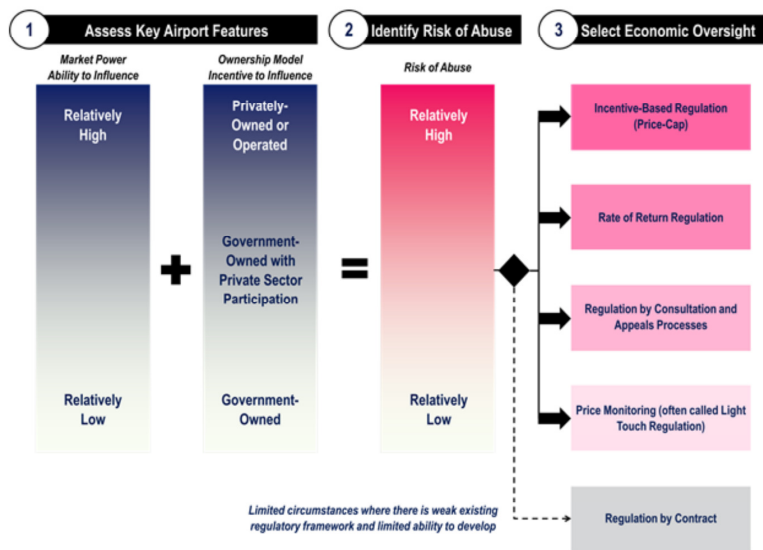
How to have balanced selection of bids – not just select the highest bidder

What provisions to have in a concession contract

And of course the needs for timely stakeholder consultation and regulatory safeguards.



# Regulating privatized airports



Airports can have strong market power – where they do they must be independently and robustly regulated from the outset

Protection of customers is paramount and the right regulatory solutions are required based on the ownership of the airport and on its specific market power.

**Theoretically, the choice of regulatory model should not be impacted by the ownership model. However, the reality is there is higher risk of abuse of market power from privatized operators – in the monopoly airport sector- as their action will be focused on shareholder benefits as opposed to consumer and wider economic benefits.**

Most importantly, **in the Guidance Booklet we have now defined regulatory solutions to avoid the mistakes of the past when regulating privatized providers.**





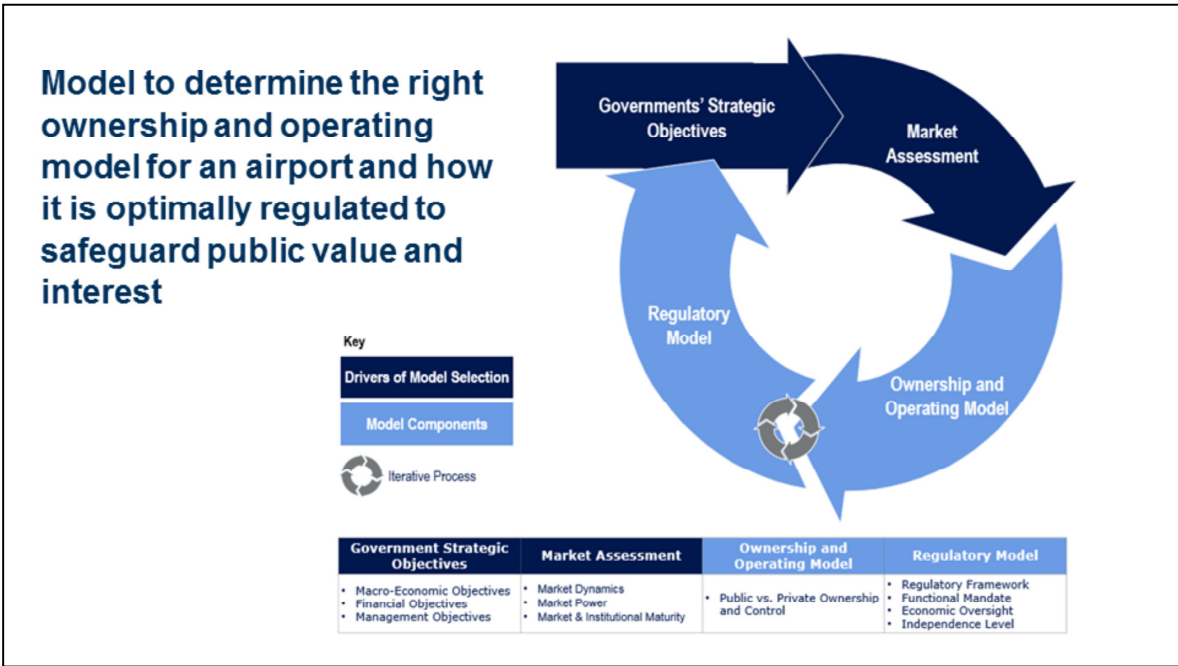
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Overall we are recommending governments to **be careful in assuming privatization is the simple solution to infrastructure crisis**

**Government should take a much more considered approach to assessing the wide choice of airport ownership and operating models**

There needs to be a clear assessment of the airport market power and careful selection of the airport ownership and operating model which best meet government's defined strategic objectives.

and based on the choice of this model, the right regulation has to be put in place to protect consumers.



**Thank you & questions**



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