

# Airport Privatisation IATA Economics Briefing<sup>1</sup>

## Success must be measured by service levels and cost effectiveness and not by financial gains.

Airports are an essential part of the air transport network. Consequently, the trend for privatising airports is of importance to all stakeholders in the industry. Airport privatisation is not new, but its success so far is often disappointing.

### IATA POSITION

Airports are key partners for IATA and its Member airlines. Without airports, airlines have no business. Without airlines, the airports have no business.

For IATA, whether an airport is in public or private ownership is not the central question. The key factor is that an airport can deliver the cost and service levels that airlines require, regardless of the airport's ownership structure. Therefore, where a decision is taken to privatise an airport, the framework put in place must benefit both the industry and its customers. Privatising airports should not be viewed simply as a short-term revenue raising option for governments. It must be seen as part of a long-term vision for economic development.

Investment in new airport capacity - along with more efficient usage of existing capacity - is essential if the air transport industry is to meet future growth in demand in a sustainable way. A transparent partnership between airlines and private sector or public sector airports is important if we are to meet this challenge successfully.

### KEY LESSONS FOR SUCCESSFUL AIRPORT PRIVATISATION

- 1 Customers as key stakeholders should be engaged from the outset and involved in an ongoing and regular basis through agreed processes.
- 2 A strong focus should be placed on achieving a more efficient management of the airport assets through the transfer to private ownership.
- 3 Good governance is extremely important if the privatisation is to be in the public interest.
- 4 Independent, robust economic regulation is essential in order to create incentives for efficiency improvements. Government interference in airport regulation automatically creates an unacceptable conflict of interest.
- 5 The economic regulator should also be overseen by an independent Competition authority to which airports and their customers have the right to appeal.
- 6 Economic regulators have, so far, been more effective at extracting efficiencies from existing assets rather than ensuring cost effectiveness from new investment.
- 7 Mechanisms to incentivise cost efficiency must be built in to the process from the outset. Regulation must avoid preserving monopoly profits or inefficiencies from the start.
- 8 Service level agreements (or similar systems) must also be put in place to deliver a good quality as well as a cost effective service.
- 9 Controls must be put in place to prevent unjustified asset revaluations or regulatory structural changes that burden airlines and their passengers with substantial charge increases.
- 10 Customer involvement in new investment is essential to ensure it is appropriate, cost effective and delivered on time and on budget. The 'gold plating' of investment must be avoided.