Airport Privatization
Fact Sheet

Overview
Airports are an essential part of the air transport network delivering benefits to the wider economy and airport users. It is in neither airports’ nor airlines’ interest for the other to be unprofitable; there is an inherent mutual interest among them to deliver effective, efficient capacity and service levels for passengers and cargo to allow sustainable growth. Consequently, the trend toward privatizing airports is of importance to all stakeholders in the industry.

When the decision is taken to privatize an airport, the framework put in place must benefit both the industry and its customers. Privatizing 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, which is even more important in following the impact of COVID-19 and potential financing gaps related to infrastructure projects. The success of privatization must be measured by service levels, cost effectiveness and long-term economic viability and not by short-term financial gains for governments or investors.

IATA position
As outlined in IATA’s position paper on airport privatization: the private sector can play a meaningful role in bringing expertise and cost efficiencies at airports. Unfortunately, the outcomes to date often have been disappointing and without the appropriate regulatory controls and balances in place to ensure the benefits are shared among all parties. Governments often fail to explore the range of different options that allow private funds or expertise to contribute to airport development and ignore best practices in terms of governance of such agreements.

Potential risks to be addressed during airport privatization
(All IATA’s positions on airport charges and regulation can be downloaded at iata.org/airport-charges)

• Conflict of interest may occur in the absence of independent regulatory intervention, if governments have to act as an approval entity for charges decisions while benefiting from airport revenues / profits at the same time.
• Pre-determining airport charges evolution in concession contracts may lead to a focus on profit maximization and unjustified charges and does not allow users to meaningfully engage in the process of setting airport charges or leave room for any regulatory intervention such as passing on efficiencies to consumers.
• Concession fees paid to the government may be recouped from airlines and their passengers through artificially higher charges, while governments do not necessarily provide any additional service in return for the concession fees. This can be considered as an additional tax on air travel restricting economic growth and tourism.
• Under-investment when there is a push from shareholders to extract profits from existing assets, while negatively impacting service quality at the expense of the airlines and their passengers.
• Unnecessary investments with a desire to over-invest for greater returns ("gold-plating") may be prioritized without agreement and consultation with the users, while costs for those investments can be passed on to airlines and passengers.
• Shift in the till from single to hybrid or dual till can be used to attract more private bidders or receive higher bids but this also allows investors to extract commercial revenues at the expense of aeronautical facilities and costs. As a consequence this can lead to substantial increases in aeronautical charges and does not reflect the fairest pricing mechanism for consumers.
• Increase in non-regulated aviation fees such as fuel fees, airline office space, lounges, check in desks, can occur during airport privatization in order to increase profits outside of any regulated charges area.
Prefunding of airport investment can result in costly and inefficient funding of investments, removing an incentive to deliver in a cost effective and timely manner while applying higher costs to airlines and their passengers paying for infrastructure. It also defeats one of the main drivers for engaging in privatization which is access to capital markets.

Commercial agreements may be pushed as part of the privatization process which can lead to non-equitable charges without the necessary transparency provided to the airline community to assess whether the charges level paid for the services and infrastructure they use are justified.

Cross-subsidization in airport networks can occur during privatization of multiple airports in a network, leading to cross-subsidization from the profitable airports to the less profitable ones and deviates from the user-pays principle.

Safeguarding consumer interests when pursuing privatization
Recognizing that when airport privatization is pursued, a key determinant of success is the effective balance of the interests of consumers, airlines, investors, citizens and economies, IATA’s member airlines called for:

- Governments to protect consumer interests by establishing robust regulatory safeguards to ensure cost efficiency in charges and improvements in investments and service levels
- Expectations for performance improvement to be set in consultation with airport users and the consumers
- Periodic monitoring of airport privatization through public consultation, with corrective action taken to ensure benefits are realized for the passengers, for airlines and for cargo consumers

Guidance on airport ownership and regulation
To address potential risks, IATA has published a guidance manual which explores airport ownership and regulation. The manual highlights opportunities for better decision-making when governments address changes in ownership, financing and management of airports, towards a greater role for the private sector.

When combined with limited or weak economic regulation, all models (public or private) can lead to adverse impacts or outcomes on customers and end consumers. However, airports where greater control rests with the private sector carry a higher risk of adverse outcomes. Strong safeguards are required to prevent market abuse, secure efficiencies that are passed on to users, and ensure service quality expectations are met.

Spotlight: balanced airport concession agreements
IATA frequently engages with governments which plan to privatize airports by way of a concession agreement. Experience has shown that airport concessions can suffer from an ‘agency problem’ whereby the interests of the contracting parties, the government and concessionaires, take precedence over those of other stakeholders. To provide solution to these shortfalls, IATA published a guidance booklet on developing Balanced Concessions.

This Booklet sets out common issues in airport concession contracts, defines the concept of a Balanced Concession and the opportunities to structure contracts with “win-win” outcomes through aligned incentives for all stakeholders, which include customers, consumers, communities, asset owners and concessionaires.

Coming up: airport governance
Airports are unique intersections where numerous stakeholders and frameworks need to interact for air travel to be possible. In IATA’s work on privatization, several gaps in airport governance have been identified with actors in various markets showing a lack of understanding of the complexity of the environment or all the factors at play. IATA’s upcoming publication tries to identify the different facets of airports which affect their governance. The study also presents key principles to ensure decisions at and around airports are made soundly and provides checklists for governments to ensure the frameworks in place correspond to international best practice. The publication is expected to be released in late 2020.