



Airport Privatization

Fact Sheet

Overview

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

When the 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. The success of privatization must be measured by service levels and cost effectiveness and not by financial gains for governments or investors.

IATA position

As outlined in IATA's position paper on Airport privatization (*Position paper Airport Privatization: <https://www.iata.org/policy/Documents/airport-privatisation-econ.pdf>*), the ownership structure of an airport is not the central question. The key factor is that an airport can deliver the cost and service levels that airlines require. The private sector can play a meaningful role in bringing expertise and cost efficiencies at airports provided the right framework is put in place benefitting both the industry and its customer.

While airport privatization is not new, the success so far is often disappointing and without the appropriate regulatory controls and balances in place. It is essential to understand the risks that can occur during privatization at airports in order to determine the appropriate regulatory framework.

Potential risks to be addressed during airport privatization

- **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 build big (gold-plating investments) for greater returns 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. (Position paper Single Till: <http://www.iata.org/policy/Documents/single-till.pdf>)
- **Pre-determination of 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 (Position paper: Airline Engagement in Consultation: <http://www.iata.org/policy/Documents/airline-engagement-in-consultations.pdf>).
- **Concession fees paid** to the government may be passed on to 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 (Position paper: Government Concession Fees and Airport Rent: <http://www.iata.org/policy/Documents/concession-fees.pdf>).
- **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 (Position paper: Pre-funding: <http://www.iata.org/policy/Documents/pre-funding.pdf>).
- **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 (Position paper: Cross-Subsidization: <http://www.iata.org/policy/Documents/cross-subsidization.pdf>).
- **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.

Recommendations on Airport Ownership and Regulation

To address potential risks, IATA published a guidance manual which explored airport ownership and regulation (<https://www.iata.org/policy/infrastructure/Documents/Airport-ownership-regulation-booklet.pdf>). The manual highlighted 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.

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.

(Details of Resolution: <https://www.iata.org/pressroom/pr/Documents/resolution-airport-privatization-agm2018.pdf>)

IATA looks forward to continued work with governments and airports to ensure that the risks of airport privatization are properly addressed in the right regulatory framework and privatization can be a success for the entire air transport industry.