

Airport Privatization: Focus on Concessions

Hemant Mistry

Director,
Global Airport Infrastructure and Fuel

Dorian Reece

Director,
Government and Infrastructure, Deloitte



During our AGM in Sydney last year IATA provided an overview on Airport Privatization: where there have been issues in terms of increased costs or inadequate service levels and also the shortfalls in decision-making which led up to these circumstances.

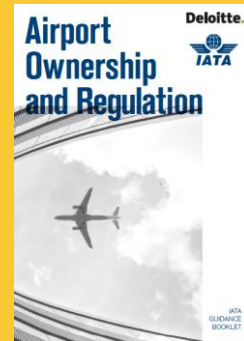
This presentation provides more detailed focus on Airport Concessions and how these can be focused to provide a better outcome for all stakeholders - the airline customers, the passengers and other consumers, the communities the airports serves, as well as the traditional beneficiaries of concessions which are the governments (asset owners) and the private companies taking over the airport service (the concessionaires).

Concerns on Airport Privatization

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

The solutions?



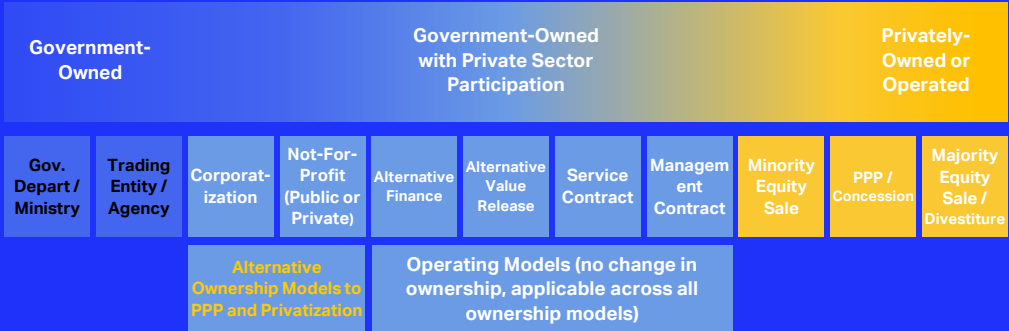
To recap, airport privatizations have broadly failed delivering on expectations because of a range of shortcomings in the process:

- Despite the lack of competition in the airport sector, regulatory safeguards have too often been inadequate to provide the necessary protection for airlines and passengers
- Balanced criteria are rarely used for selection of winning bidders– and often the financial highest bidder is simply selected
- Governments tend to focus on short-term financial gains - from the asset sale or concession
- Alternative models to privatization are not been duly considered
- Governments have not developed or focused on a robust business case to ensure the long term economic benefits from aviation
- There is insufficient consultation with industry (eg the airlines and passengers that are impacted by the privatization)

- There is lack of transparency in the transaction process and influence from unsolicited proposals, interested private parties or financiers.

To address these shortcomings IATA, with Deloitte, launched a report on Airport Ownership and Regulation to provide necessary solutions and ensure better decision-making for the interest of efficient and sustainable aviation growth.

Ownership and Operation Options



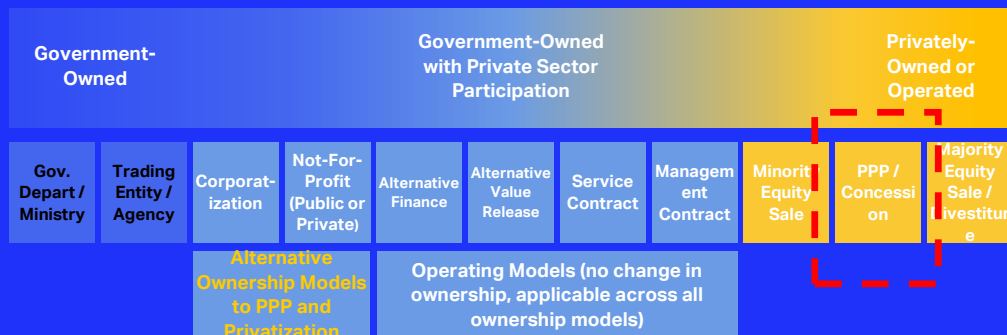
- Singapore Changi Airport
- Incheon International Airport
- Hong Kong International Airport
- Munich Airport



The Ownership and Regulation report details how 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 many instances, corporatization as a model can be combined with other models, to facilitate financing and efficiency improvement, and well as performance improve for an airport.

Ownership and Operation Options



- Singapore Changi Airport
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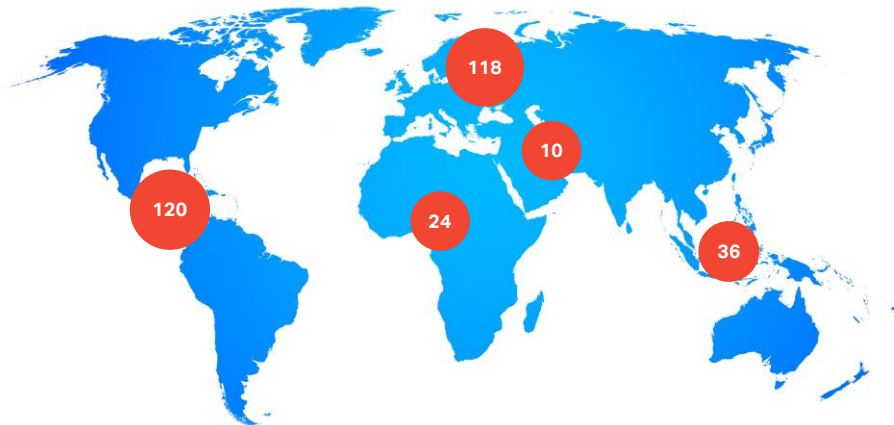


When a government does to decide to pursue privatization, this can be either through a sale of asset (equity sale) or through a concession agreement for the private sector company to build and or operate the airport facility. We strongly recommend this is defined in a business case which justifies the intended benefits for all stakeholders for a move to the private sector.

The large majority of airport privatizations are based on concessions. That is where the government retains ownership of the asset and brings in a private operator to finance, build and or operate the airport.

There are many models of concessions for airports which typically represent a contractual relationship negotiated between the government as the asset owner and the private sector concessionaire.

Concessions – landscape

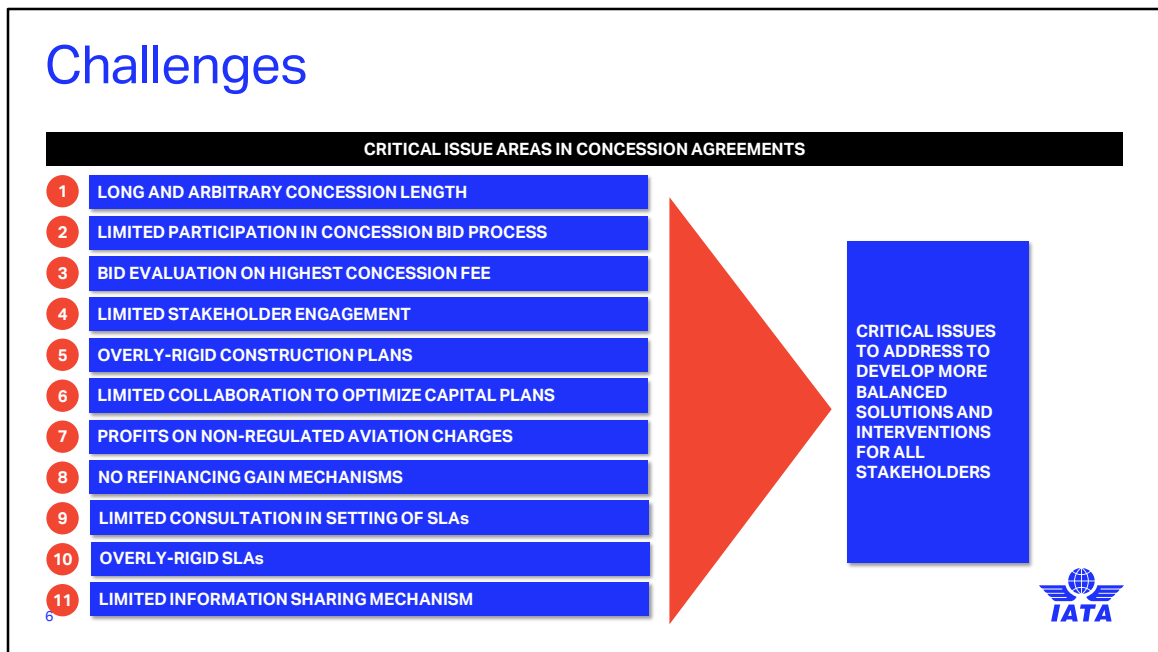


There are already many airport concessions across the world but they frequently suffer from a wide range of issues across the concession lifecycle.

Experience has shown that while these contracts are negotiated between the government and the concessionaire, there is a risk that the interests of these contracting parties can take precedence over those of other stakeholders, including airline customers of the airport, the passengers which use the airport and rely on quality services at fair prices, as well as the wider community and the economic benefits the airports supports.

We expect there to be many more concession contracts coming as new airport infrastructure is built to support traffic growth needs in various regions especially the Far East so it is very important the improvements are made to the concession setting process.

Challenges



Historically airport concessions have suffered from unduly long and arbitrary concession lengths – these can be for the benefit of the government (higher concession fees) and the concessionaire (longer term returns). For example, for Aeroports de Paris we are seeing a concession length of 70 years being proposed. Sydney airports was privatized in 2002 with a long-term lease of 50 years plus a 49 year option for extension.

We seen many examples very high concession fees : where a large proportion of the gross revenue of the airport is diverted to the government and not necessarily reinvested back into aviation. This of course puts substantial pressure on charges increases and/or resistance invest in needed infrastructure. We see many examples of this in LATAM; for Santiago de Chile the winning fee was based of 78% of gross revenue.

We have seen examples where concessions are negotiated with fixed pricing over the concession term – again risking charges which are not reflective of the service or infrastructure provided to the airlines and passengers. Portugal

airports is a case example here.

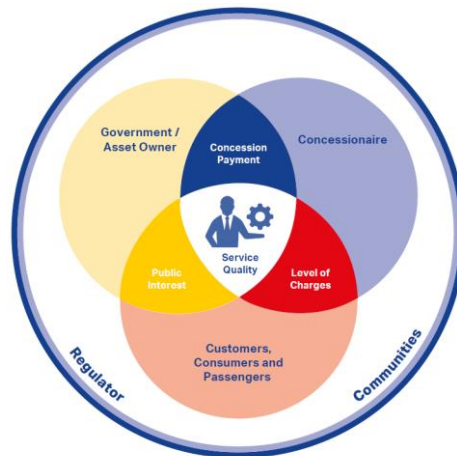
And we've seen examples where infrastructure is agreed in the concession which simply does not meet the operational; requirements of airlines and passengers.

Generally the lack of engagement and information sharing between the airport operator and users of the airport facility need to be greatly improved. But it cannot be improved until the interests of the boarder stakeholders are defined and protected in the concession itself. This also leads to a need for engagement on service levels which the customers and customers expect as the result of paying for the airport service.

New Model Concession Contract

Previous concessions focused on government and concessionaire interests...

IATA model will allow better consideration for Airlines and Passenger interests

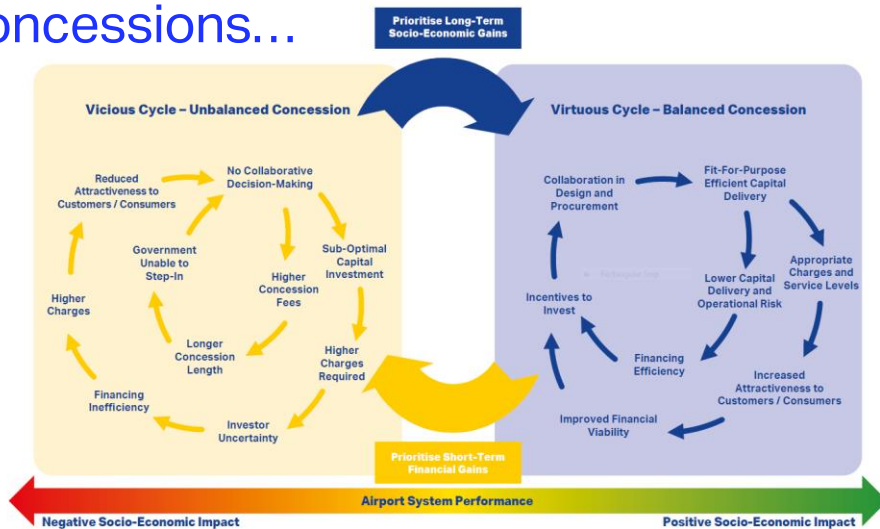


The bad practices cannot continue for the overall interest of aviation. Given the nature of airport assets being built and operated there is a need for substantial touchpoints between concessionaires and their customers for example long-term capital planning and development programs, and in day to-day operations and management. Without this consultation, including business cases agreed by all parties, appropriate regulation, concessions are at risk of inefficiency of infrastructure or increasing costs to customers and consumers.

Without such an approach, we will continue to risk undermining broader economic benefits to the communities the aviation industry serves.

While previous concessions have focused on the interests between the government and concessionaire - the contracting parties - the new model of a balanced concession takes a boarder interest for all stakeholders that are impacted by the airport.

Creating a virtuous cycle for future airport concessions...



A "Balanced Concession" is a new approach that defines new ways of developing and delivering an airport concession based on a wider stakeholder perspective than typically used.

Rather than allowing different and adversarial objectives across the airport concession lifecycle (like the examples previously described), the Balanced Concession identifies similar and aligned interests to target a "virtuous cycle" in airport concessions which benefits the aviation industry, mitigating risk and delivering innovation, better public value, and an improved consumer experience.

Defining a Balanced Concession

Balanced Concession Concept

- 1 Airport concession contracts based on a wider stakeholder perspective than typically used.
- 2 Identifies aligned stakeholder interests, for solutions with "win-win" outcomes for all.
- 3 Focuses on benefit for the aviation industry, delivering innovation, better public value and improved consumer experience.

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Guiding Principles for a Balanced Concession

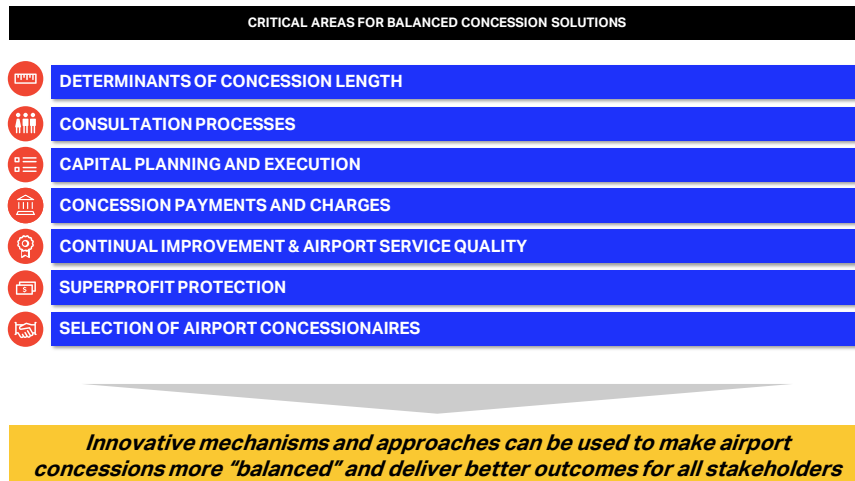


The process of defining the Balanced Concession comes under four main principles – collaboration, Transparency and Information Sharing, Mutual Interest and Balanced Risk and Reward Sharing.

This allows airlines customers, consumers and passengers interests to be taken into account during the definition of appropriate level of services and infrastructure provision for a fair level of charges. This process of collaboration and building of aligned interests creates win-wins for all parties

This in turn can better serve the public interest through the positive macro-economic impact as airports enable expeditious travel connecting people and market through functional timely and technological aligned infrastructure.

Better Solutions for all Stakeholders



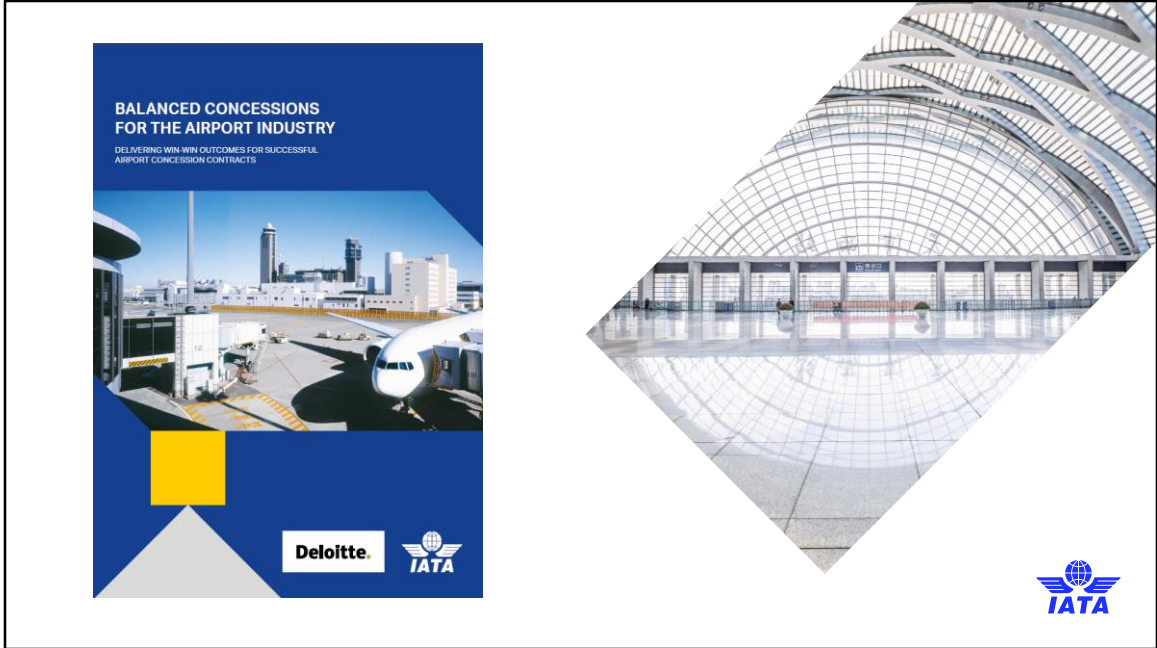
To achieve this: IATA with Deloitte have defined a series of solutions which can be built into future or re-negotiated concessions.

These can be categorized into seven main categories being:

- Determination of Concession Length
- Consultation Processes
- Capital Planning and Execution
- Concession Payments and Charges
- Continual Improvement and Airport Service Quality
- Super-Profit Protection
- Selection of Airport Concessionaires

IATA supports efforts to facilitate appropriate investment in airport infrastructure, and is committed to securing the best value outcome for the

aviation industry as a whole. Airports and airlines succeed or fail together, and the timely delivery of cost-efficient infrastructure and airport services is good for everyone, whether government, airport concessionaires, airlines or the consumer.



A new report available as of today to define the Balanced Concession.

The report explores issues in airport concessions , including specific case studies, review lessoned learned from other industries.

The output is in the form the working solutions for a Balanced Concession for any government considering a concession based privatization

Thank you

Hemant Mistry
mistryh@iata.org
www.iata.org

Dorian Reece
DorReece@Deloitte.com
www.deloitte.com

