Airport Privatization

Nick Careen
Senior Vice President
Airport, Passenger, Cargo, Security
Recap on findings presented at last AGM:

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
- airline customers (or governments) would not accept it if airline fares increased during airline privatization
- 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 a price - a price which we and our customers have to pay
### 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

- Primarily a major shortfall has been that governments have focused on short term financial gains from the airport sale or concession and often it is simply the highest financial bidder that is selected for the privatization, without the necessary focus on the quality of services to be provided.

- We also find there are inadequate economic regulatory safeguards in place to project airlines and consumers.

- Lastly, there is a lack of overall consultation with users, during the privatization process, on the intended expectations and outcomes.

- 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 interests of efficient and sustainable aviation growth.
The Ownership and Regulation report details how there is a broad range of ownership and operating models that can often meet government objectives for increased financing or service improvement, without the need for sale of assets and loss of strategic control of the airport.

If a government still does to decide to pursue privatization, we now see the large majority of airport privatizations are based on concessions (shown in the red box). That is where the government retains ownership of the asset (it could just be the land for a new airport) 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.

We have found there to many shortfalls in existing concession contracts – mainly because the negotiated provisions tend to more biased to the interests of the government or concessionaire as opposed to the interests of the users of the facility.
### Concerns on Airport Concessions

#### Why?
- Unjustified concession lengths
- Selection based on highest fee
- Limited stakeholder engagement
- Overly prescriptive construction plans
- Overly prescriptive charges
- Higher risks for airlines and consumers
- Minimal risk for concessionaires

#### The solutions

- 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 have seen many examples of 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. 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 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 contract itself 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 needs to be greatly improved. But it cannot be improved until the interests of boarder stakeholders are defined and protected in
the concession itself.

- For these reasons, we launched a booklet with Deloitte on new ‘more balanced’ airport concession model which takes account of boarder stakeholder interests and allows a more collaborative approach throughout the concession.
This shows the major privatization projects ongoing around the world. The guideline booklets helps us to engage airports at three stages.

- **Inception Phase:** for states considering privatization, here we are presenting cases for alternative ownership models, which can drive access to financing and improvement in efficiency/services levels, but which do not require the selling of assets or entering into long-term concession contracts with private operators for the airport.

- **Implementation Phase:** for states in the process of implementing privatization, IATA is encouraging governments to pursue transparent, competitive transactions with balanced bid-selection criteria and fit-for-purpose regulatory safeguards.

- **Post Implementation Phase:** for cases where privatization has already occurred, IATA is advocating to strengthen the regulatory or governance measures to protect against market power abuse by airports.
For states considering privatization:

- **Canada**: Following joint efforts with local airlines and the airline association, the previous attempt of the Canadian Government to privatize airports remains on hold and has not been tabled in the latest budget proposal.

- **Lebanon**: The Government of Lebanon has delayed the privatization for Beirut International Airport. This may be further delayed until the end of 2019 and IATA will continue to advocate for a framework that best protects airline interests.

- **USA**: The FAA is considering reviewing guidelines on Public Private Partnership projects at US airports. IATA’s efforts are focused on ensuring the FAA takes both consideration of its observations and corrective solutions for privatization.
For states implementation privatization:

- **France:** The privatization of Groupe ADP in Paris has become the subject of intense political debate in France. IATA is now engaging to embed regulatory strengthening, ensure a balanced selection process for any privatization effort.

- **India:** In 2018, the government proposed a concession agreement for ‘greenfield’ airports to be awarded based on maximum concession yield for the Government. IATA highlighted the pitfalls of the approach and we expect this transaction structure to now be abandoned. The government also pursued the privatization of six existing airports. This process has since stalled due to concerns raised on the lack of stakeholder engagement prior to pursuing the privatization. IATA will continue to campaign against these plans under the current concession structure.

- **Nigeria:** Due to recent elections in Nigeria, the Federal Airports Authority of Nigeria and the Government have stopped the airport privatization program. IATA will follow up on the issue once the new ministers and cabinet are appointed.

- **Saudi Arabia:** The Saudi Government has suspended the privatization plan, which is under review by the Minister of Transport and the General Authority of Civil Aviation (GACA). GACA may be looking for an operations partner, which fits well with IATA’s alternatives to airport privatization.

- **Bahrain:** The Bahrain Airports Company (BAC) has committed to adopting best
practices in setting user charges and to consider IATA views on airport privatizations.

- **Kuwait:** The Kuwait Government has asked IATA for support in developing a regulatory framework for ongoing privatization plans.
For States which have already implemented privatization:

- **Australia**: The Productivity Commission (PC) has now released its draft report on the economic regulation of airports. IATA does not believe the PC has fulfilled its mandate to undertake a balanced assessment. IATA will now be working with all local airline stakeholders to raise visibility on improvement opportunities in the PC assessment before any Ministerial decision is made.

- **Brazil**: Brazil’s regulator (ANAC) incorporated several of IATA’s recommendations into its 5th round of concessions. This revised approach is more consistent with IATA’s new model for balanced concessions. ANAC is also considering further improving the consultation concept into its 6th round of concessions due 2020.

- **Chile**: During 2018, the Government has started to adopt some changes including a more efficient passenger clearance process and reductions in charges. IATA will continue its efforts for broader improvements.

- **Colombia**: IATA has been engaging with Colombia’s Infrastructure Regulator and the Civil Aviation Authority with the objective of improving the next generation of concession contracts which will include Cartagena and Cali airports.

- **Portugal**: Last year A4E and IATA filed a complaint to the European Commission (DG COMP). IATA is now seeking to engage with relevant Portuguese authorities to discuss the opportunities to resolve issues.
Overall we are making good progress on ensuring:

- Any privatization discussion includes stakeholder consultation
- Alternatives to privatization are duly considered
- Any privatization transaction is transparent and not just based on the highest bidder
- The right regulatory safeguards are in place to protect airlines and consumers.

There are a number of states where progress is slower and we will continue to advocate for better solutions for the interests of all stakeholders.