Airport ownership through the lens of ACI World

(Presented by Airport Council International - ACI)

Until relatively recently, nearly all major commercial airports were government-owned and government-operated, primarily on a cost-recovery basis. Initially, deregulation in the aviation sector predominantly focused on airlines, although several countries have also divested their airports and air traffic control services.

The evolution of ownership patterns in the airport sector reflected the changing government attitudes towards airports. The view that airports are a quasi-public utility to be run and financed by local or central government has progressively been replaced by the view that airports could be run as commercial enterprises.

ACI does not prescribe any specific type of ownership model, appreciating that a range of ownership models have proven to be effective in achieving the value an airport brings to a community or state. Local circumstances vary but ownership and governance structure should allow the airport operator flexibility in its business and ensures that the interests of passengers are protected by the application of sound business and operating principles.

Realistically, however, in an economic climate where States are increasingly cutting government expenditures to reduce the growing debts that hang over many of their economies, the continuation of government financing and full ownership of airports may not be sustainable and in many cases, is not necessary. In addition, the surge in air transport demand in many jurisdictions is outstripping the infrastructure available to accommodate it and non-traditional sources of capital and implementation capacity may be available.

A brief history of privatization

In chronological terms, the bifurcation point occurred in the mid-1980s, when a White Paper on Airports Policy was published in the UK. It emphasized the government's commitment to non-subsidization of airports, arguing that (a) airports should operate as commercial undertakings, and (b) airports policy should be directed towards encouraging entrepreneurship and efficiency in the operation of airports by providing for the introduction of private capital. This position materialized shortly after the full-scale divestment of the former British Airports Authority. Since then, the genie got out of the bottle and the world witnessed over three hundred successful privatization transactions resulting in full or partial transfers of over six hundred airports to the private sector.

However, the largely overlooked trend that preceded and facilitated privatization was corporatization – the process of transforming government units and the associated public assets into corporations, mostly with independent legal status, financial and operational autonomy. Corporatization was viewed as a means to improve efficiency of service delivery and often as a step towards a potential privatization. Corporatization, as an interim step or a transitory period, aimed at putting an airport enterprise on commercial rails to achieve greater cost control and efficiency. These encompassed relying on maintenance and other service provisions by governmental entities, not accounting for and hence not recovering their respective costs; having inadequate or no provision for depreciation; excessively depending on government's grants and subsidies and so on.

That's how we can see the bigger picture of the airport ownership issue and the entire historical context for the privatization phenomenon.

Nevertheless, it is important to mention that still nowadays most airports around the world are directly owned and operated by the public sector, most often via some kind of an airport authority. The rationale behind such scheme is retaining ownership at large but allowing management and operation of airports with greater autonomy at an arm's length from the government.

Policy choices – Creating fertile grounds for private investment

The air transport sector has been growing in line with the overall economy and even at an accelerated pace in the recent years. Just like with any other sector, the question of economic efficiency and competitiveness became of paramount importance. That is why corporatization and privatization were focused on establishing airport administrations with greater professional skills to radically improve short-term performance but also to undertake long-term plans of expansion, development and sustainable operations. The airport sector is competing with the other infrastructure as well as non-infrastructure sectors for the best human capital as well as finances. In the case of financial capital, the industry demonstrated that it is relatively easy to get the right expertise and high professionalism even for corporatized government-owned airports. This is very much the case for the developed Asia, North America as well as other parts of the world. However, capital is more difficult to attract since it requires competitive returns, which are measured on a large scale given the size of airport infrastructure. The real economic question is why investors should put their money into airports, rather than IT, for example, in case the returns are higher in the latter sector? What would make airports a lucrative investment opportunity? The stumbling block in this entire process is well-known, it is economic regulation.

Privatization is one way to fund needed infrastructure investment. Privatization is one option for governments—they may choose not to privatize their airports and fund airport investment themselves. The decision whether to privatize is subject to social, economic, political and other factors unique to each nation and each airport and is the sole prerogative of the government that owns/operates the airports.

The most important theme to understand is the current context of facing a capacity crunch in various parts of the world. Many airports, regardless of their ownership structure, require more capital investment to accommodate growing passenger and cargo traffic. However, the world now has more than 30 years of experience with airport privatization, which testifies to the fact that it is a viable option for sustainable infrastructure development. Privatization of airports is an accomplished fact; it is a robust trend supported by facts. Out of 100 busiest airports in terms of passenger traffic throughput, over a half have some form of private sector participation, with some 43% of global passenger traffic handled by airports with private sector participation.

Indeed, one can notice that these are mainly large airports that attract private investment, except for privatized networks where small airports also benefit from the private capital injections. Big challenges reflect big opportunities, while high traffic throughput ensures economic viability of an investment.

ACI has released two Policy Briefs in two years which touch upon the subject of ownership and private sector participation, a reflection of the relevance in the context of a commercial aviation capacity crunch and uncertain future of sustainable infrastructure development. If we look at the US – the largest economy in the world generating over USD 18 trillion annually in Gross Domestic Product, we will also note that it requires over USD 4 trillion in the short- and medium-terms to bring its infrastructure to an acceptable standard. The lesson that we can learn from here is very simple: you shouldn't neglect your infrastructure for too long; you need to plan and build today to ensure economic growth in the future.

In this regard, the airport sector is no different from any other infrastructure – be it roads, seaports or basic utilities such as water and electricity supplies. The demand for air transportation is growing twice as fast as the global GDP. What differentiates airports from the other infrastructure in terms of commercial attractiveness is the fact that airports are a two-sided business, with a good balance of aeronautical and non-aeronautical service lines. This is an important fact in the context of airport ownership, as the inherently low returns on the aeronautical side can be offset by higher profit margins on the commercial side of the business. Even with the increased competition, a constant passenger traffic throughput is a lucrative opportunity to generate money through an array of services, such as retail, parking, dining and so on. This is what many private companies have in mind when it comes to investing in airports.

Contemporary approaches to privatization

As for the actual mechanics of privatization, the recently issued Policy Brief - *Creating Fertile Grounds for Private Investment in Airports* highlights the most important points. First of all, governments need to identify clearly what they are seeking to achieve with privatization – be it efficiency in operations, building new infrastructure, minimizing public expenditure or generating revenue for other sectors of the government. The specific policy objectives should guide the choice of privatization model, such as a management contract, a Build-Operate-Transfer (BOT) concession or trade sale or lease. Second, any successful privatization will depend whether a government ensured clear and consistent legal framework prior to the privatization process, complying with national legislations as well as international policies. Third, privatization models should include incentives for investors. From a regulatory perspective, these can encompass the till regime, which accounts for the treatment of non-aeronautical revenues – with hybrid and dual tills being more desirable for investors, but also determining the right level of the weighted average cost of capital (WACC) to ensure fair returns to both equity- and debt-holders.

If privatization processes are well-planned, with a win-win paradigm in mind, then not only the government will achieve its objectives and the private investors will generate fair returns, but also the wider economic benefits will be attained. These is referred to the catalytic effects of improved connectivity on trade, tourism, foreign investment and so on that eventually impact the national economy.

Privatization or private form of airport ownership is not a panacea for a particular set of challenges present in the airport business. Any form of ownership has its merits, and we see equally successful public and private airports. The issue of ownership, however, becomes more heated in the context of a capacity crunch and constrained public budgets: in certain cases, governments just do not have enough money to invest into the airport infrastructure to meet the growing demand. That is when the private sector can shoulder the required large-scale finances as well as bring the efforts of the private sector, such as efficiency, innovations, ingenuity and entrepreneurship.

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