

A GLOBAL INDUSTRY

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The aviation industry is, by its very nature, a global industry. Airports and airlines link cities and countries and rely on global standards to ensure that the system runs efficiently. ACI plays a vital role in bringing the world's airports together, calling for and coordinating worldwide standards and ideals. This paper covers ACI positions in the global fields of liberalisation and airport ownership.

Air transport liberalisation

Since its founding 15 years ago, ACI has consistently supported the concept that market forces should determine air traffic flows.

Liberalisation of the worldwide air transport industry is good for the passenger, in terms of providing a broad choice of flights and destinations at competitive prices. Liberalisation is also good for airports, which generally welcome higher levels of traffic, as do airline partners. And liberalisation is good for the global economy in that it enhances tourism and supports cross-border investment and trade.

The organisation has supported liberalisation of market access for both passenger and cargo services. In the area of cargo logistics, broader market access makes for a more seamless and efficient transfer of finished and intermediate goods essential in the interdependent global economy.

It is interesting to quantify the impact of liberalisation. A recent study by the Air Transport Action Group determined that even limited liberalisation would provide a tremendous economic boost.

Liberalising just 320 bilateral markets of the 2,000 in ICAO's database would lead to growth in air transport services which would support 24 million new jobs and create almost US\$500 billion in additional Gross Domestic Product within several years.

Historical data supports these conclusions, with notable examples being the liberalisation of the EU and US/Canada markets, where the economic benefits continue to build years after the agreements were signed.

Privatisation of airports

ACI does not advocate any one ownership model for its members. That would be too simplistic in a sophisticated air transport industry. However, the corporatisation and privatisation of airports has been of great interest in the past two decades, within the industry and, increasingly, outside our industry.

Airport privatisation began in the mid-1980s with the privatisation of the British Airports Authority (now BAA). Several waves of privatisation have since taken place in New Zealand, Australia, Latin America and in Europe. One of the most recent in Asia is Tokyo's Narita. The takeover of BAA in 2006, the sale of Budapest and the likely sale of Prague has brought the focus back to Europe lately.

Yet, only a small number of ACI airport members are totally privatised, as many 'corporatised' airports are private/public ventures with the government maintaining a controlling interest. Around 20 airport companies are publically listed and traded on stock exchanges around the world.

What are the benefits of airport privatisation?

Privatisation can bring a spirit of innovation and entrepreneurship to airport management. It can release an airport operator from political considerations and agendas. It can also lead to gains in productivity of employees, once

"Liberalised market access could create new international point to point services, alleviating pressure on congested hubs and spreading growth more evenly over the entire airport system. In addition, liberalisation would allow low-cost services to move into previously unserved city pairs, as has been the case in North America and Europe, providing a boost to tourism and opening air transport up to previously untapped large markets such as those in China and India. We have only to look around us here in Dubai to observe the remarkable results that can be achieved when governments open their skies. To ensure that liberalisation proceeds along these lines, and does not simply create more congestion but promotes sustainable and environmentally responsible development of necessary capacity, airport requirements need to be considered at every step in bilateral and multilateral air transport negotiations."
- Robert J Aaronson



they accept changes in corporate culture. In Australia, operational efficiency was enhanced after the 19 FAC airports were privatised, with estimated gains of 25 percent in employee productivity. Privatisation can also open up new sources of capital to build capacity, which in today's growth market is a very positive factor.

What are the negatives?

We do not see "negatives". There are skeptics who say that privatisation is driven by the needs of short term financial results in a business that must plan for the long term. But in practice, this would lead to underinvestment, and the evidence is, on the contrary, that privatised airports indeed do invest heavily in infrastructure to meet future demand and ensure customer service levels.

The experience of airport privatisations

Whatever the ownership model chosen, the goal is to enable the airport operator to run an efficient business that brings customer satisfaction. We operate in a competitive marketplace and airports compete with one another for traffic, particularly transit traffic. Privatised or mixed private/public owned airports are motivated by viable business models that will help them establish and maintain their reputation long term. Few that have privatised have gone back to government ownership. Ownership may evolve, for business and investment purposes, but the goal remains the same: operate with sound business principles.

Privatised airports may have more flexibility for introducing new business models when freed from government bureaucracy.

On the other hand, privatisation seems unlikely for airports that have very low traffic volumes and would not be able to attract private investment. Indeed, they need government subsidies to continue to operate. In developing countries the value of smaller airports can be calculated in terms of opportunity cost. The cost of not having air services could mean political and economic isolation for the country, particularly where poor road and rail infrastructure make air transport the backbone of trade and tourism and provides links to global partners.

Why airport owners consider privatisation

Governments see airports as highly attractive assets which can be sold off at a premium. Recently we have seen a number of airports, including Budapest, sold at over 20 times earnings. Some would say that, as airports are opened up to more global competition, those in the private sector perhaps handle the global marketplace more comfortably than a government bureaucracy.



But some governments do quite well running their airports, Singapore and Dubai examples of government-run airports which deliver a high levels of service while keeping costs, and user charges to the airlines, to a minimum. Another remarkable example was Aer Rianta, the former Irish Airports Authority, a 100 percent government-owned entity. Aer Rianta not only pioneered duty free sales, but it took over duty free operations for many airports in other regions due to its reputation for solid management.

Factors that precede privatisation

International investors do not miss much. They look for opportunities where an airport is doing well, but perhaps has room for more efficient operations. If the traffic forecasts are robust and the infrastructure capable of handling more capacity, the scenario for a private investor is ideal.

Global ownership in a global industry

Recently, the airports industry has become seen as financial stable in a volatile aviation marketplace. Sales of airport assets at a considerable premium demonstrate the high regard that financial markets have for the earnings potential of airports, which have diversified revenues and take innovative decisions to shield themselves from the gyrations of the cyclical aviation industry.

Until recently, such purchases were undertaken by investors with considerable aviation involvement (Copenhagen's investment in Mexico and Infratil's investment in airports in New Zealand, the UK and Germany are two examples). In a sign of confidence in the industry, airlines have begun investing in airports, a strong indication of the high quality of airport investments (for example the purchase of a block of Fraport stock by Lufthansa and Thai International Airways' recent announcement that it is evaluating airport investments in Southeast Asia).

Financial sector investors have joined the airport investment trend as well (for example Macquarie Airports Portfolio's acquisition of majority stakes in Sydney, Brussels and Copenhagen airports). In the Sydney acquisition a major investor was a Canada-based teachers' pension fund, yet another indication that prudent, risk-averse investors appreciate the stable performance of airports.

At the same time, this latest development raises a serious issue for the industry and its regulators. Will a new breed of non-aviation investors focus purely on the bottom line, or will they respect the airport's community service role by taking firm decisions to build for the future? Realistically, the probability of a widespread outbreak of hostile takeovers in the airports community is minimal.

Conclusion

The majority of ACI's member airports worldwide have fairly low volumes of traffic and must be subsidised to serve the public efficiently. For many of these airports privatisation is not an option, but it can, however, bring an ethos of entrepreneurship to a company, drive down costs and also open up new sources of capital for investment.

"Privatisation in London's airports acutally resulted in lower charges to the airlines. But that is not always the case, as an investor may find it necessary to raise charges to fund new capacity and other improvements that have been neglected by the public sector management. When charges do increase, it is generally because the airport is performing at an enhanced level."

- Robert J Aaronson