# Airport Ownership and Regulation

## Fact Sheet

## Overview

The provision of effective and efficient airport infrastructure is essential to the industry. A government's central responsibility is to ensure that the best interest of passengers, cargo customers, as well as the continued development of the economies and communities it serves are at the heart of decision-making pertaining to these matters.

In that regard, there has been a long-term move away from direct government ownership, financing and management of airports towards greater involvement of the private sector. This trend is likely to continue, driven by governments' search for economic growth and competitiveness, a need to meet and overcome fiscal objectives and constraints, and belief that the private sector can provide management efficiency allowing government to focus on its regulatory role. There are a range of ownership and operating models that can meet these requirements, and there is no optimal "one size fits all" solution for airport ownership.

When the decision is taken to privatize an airport, the framework put in place must benefit both the industry and its customers. Privatizing 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, which is even more important following the impact of the COVID-19 pandemic and potential financing gaps related to infrastructure projects. The success of privatization must be measured by service levels, cost effectiveness and long-term economic viability and not by short-term financial gains for governments or investors.

## IATA position

As outlined in IATA's position paper on airport privatization: the private sector can play a meaningful role in bringing expertise and cost efficiencies at airports. Unfortunately, the outcomes to date often have been disappointing and without the appropriate regulatory controls and balances in place to ensure the benefits are shared among all parties. Governments often fail to explore options besides privatization to which the private sector can contribute and/or ignore best practices in terms of governance of such agreements.

## Potential risks to be addressed during airport privatization

- **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.
- **Pre-determining airport 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.
- **Concession fees paid** to the government may be recouped from airlines and their passengers through artificially higher charges, while governments do not necessarily provide any additional service in return for these fees. This can be considered as an additional tax on air travel, restricting economic growth and tourism.
- **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 over-invest for greater returns ("gold-plating") may be prioritized without agreement and consultation with the users, with investment costs 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. This can

lead to substantial increases in aeronautical charges and does not reflect the fairest pricing mechanism for consumers.

- **Increase in non-regulated aviation fees** such as fuel fees, airline office space, lounges, check in desks, can occur 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 privatization, which is access to capital markets.
- **Commercial agreements** may be pushed which can lead to non-equitable charges, with insufficient transparency provided to assess whether the charges level paid for the services and infrastructure they use are justified.
- **Cross-subsidization** from profitable airports to less profitable ones can occur in a privatization of multiple airports in a network. This deviates from the user-pays principle.

There have been a number of concerning developments where countries seem to be adapting their economic regulation and safeguards to fit the needs of the bidders rather than bidders adapting to regulatory frameworks. This has included changing which activities are regulated in airports, privatizing airports in groups or networks with cross-subsidization, or even the promise of fixed charges to the detriment of airlines and consumers for 15 years or more.

## The need for independent and robust economic regulation to safeguard consumer interests when pursuing privatization

A key determinant of success of an airport privatization is the effective balancing of the interests of consumers, airlines, investors, and economies. Achieving this balance requires:

- 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 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

# Guidance material

## Airport ownership and regulation

IATA has published a guidance manual which explores airport ownership and regulation. The manual highlights opportunities for better decision-making when governments address changes in ownership, financing and management of airports, towards a greater role for the private sector.

## Balanced concessions for the airport industry

To provide guidance to successfully balancing the interests of all stakeholders impacted by a concessions agreement, including airlines, passengers, and the wider community, IATA published a guidance booklet on developing Balanced Concessions. This booklet sets out common issues in airport concession contracts, defines the concept of a Balanced Concession and the opportunities to structure contracts with "win-win" outcomes through aligned incentives for all stakeholders, which include customers, consumers, communities, asset owners and concessionaires.

# Airport Governance

IATA's Toolkit on Airport Governance outlines best practices based on a review of the landscape of airport governance globally. Areas addressed include community, environment, safety, security, operations and capital project aspects. This toolkit will support governments and aviation industry stakeholders to define and implement effective airport governance solutions that create "win-win" outcomes, reduce risk and maximize value to all parties.