



# **Airport Ownership and Management**

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# Airport Revenues and Charges

## ❑ Objective:

- Review briefly international practices concerning airport ownership and management

## ❑ Topics:

- Alternative “models” of airport ownership and management
- The privatization trend
- Examples of privatization
- Advantages and disadvantages of privatization
- Organizational structures

***Reference: Chapter 7 of de Neufville and Odoni***

# Governance, Privatization and Impacts

- ❑ Objective: Review the evolution of airport governance arrangements and the main features of the relationship between airports and airlines
- ❑ Outline
  - Changing governance practices, the trend toward privatization and related impacts
  - Reasons for privatizing
  - Resultant “models” of ownership and management
  - Advantages and disadvantages
  - The airline-airport relationship
  - Some areas of contention between airports and airlines

# The Past (to the 1990s)

- ❑ Airports were owned by national, regional or local government and managed either by government organizations or by independent, government-owned Airport Authorities
- ❑ Often heavily subsidized by national governments, especially with respect to capital costs
- ❑ Essentially not-for-profit organizations, with principal aim to provide infrastructure for air travel
- ❑ Change began in the 1980s
  - Growing commercialization of some airports
  - BAA privatization (1986)

# The Present

- ❑ Dramatic restructuring of the airports as an “industry” during the past 25 years
- 1. **Commercialization:** From “public utility” to “commercial enterprise”; a private sector management philosophy.
- 2. **Privatization:** Transfer of management and, often, of ownership to private sector.
  - Share flotations
  - Private management contracts
  - Outright sales to private or public-private partnerships
- 3. **Diversification of ownership**
  - Financial institutions and investors\*
  - Construction/infrastructure companies
  - Operators of other airports
  - Pension funds\*, airlines, various others

# Factors Contributing to Privatization Trend

- ❑ The economic results of some publicly-owned airports that emphasized commercialization in the 1980s indicated that the airport industry held great potential for private investors
- ❑ Need for airport management to react quickly and flexibly to rapid change in the airline industry (privatization, mergers)
- ❑ Airports became “mature” as economic entities and no longer required government subsidies to survive
- ❑ For several reasons, governments have become increasingly reluctant to allocate large amounts of public funds to capital expenditures at busy airports

# What is “Privatization”?

- ❑ **Privatization**: the transfer of partial or full **ownership** to private organizations
- ❑ A more “liberal” definition includes “transfer of **management** to private organizations”
- ❑ The term “**corporatization**” is often used to refer to a restructuring of government and public organizations into corporate entities that introduce business management techniques to their administration.
- ❑ The typical result of corporatization is the creation of state-owned corporations where the **government retains a majority ownership** of the corporation's stock.

# Airport Privatization Trend

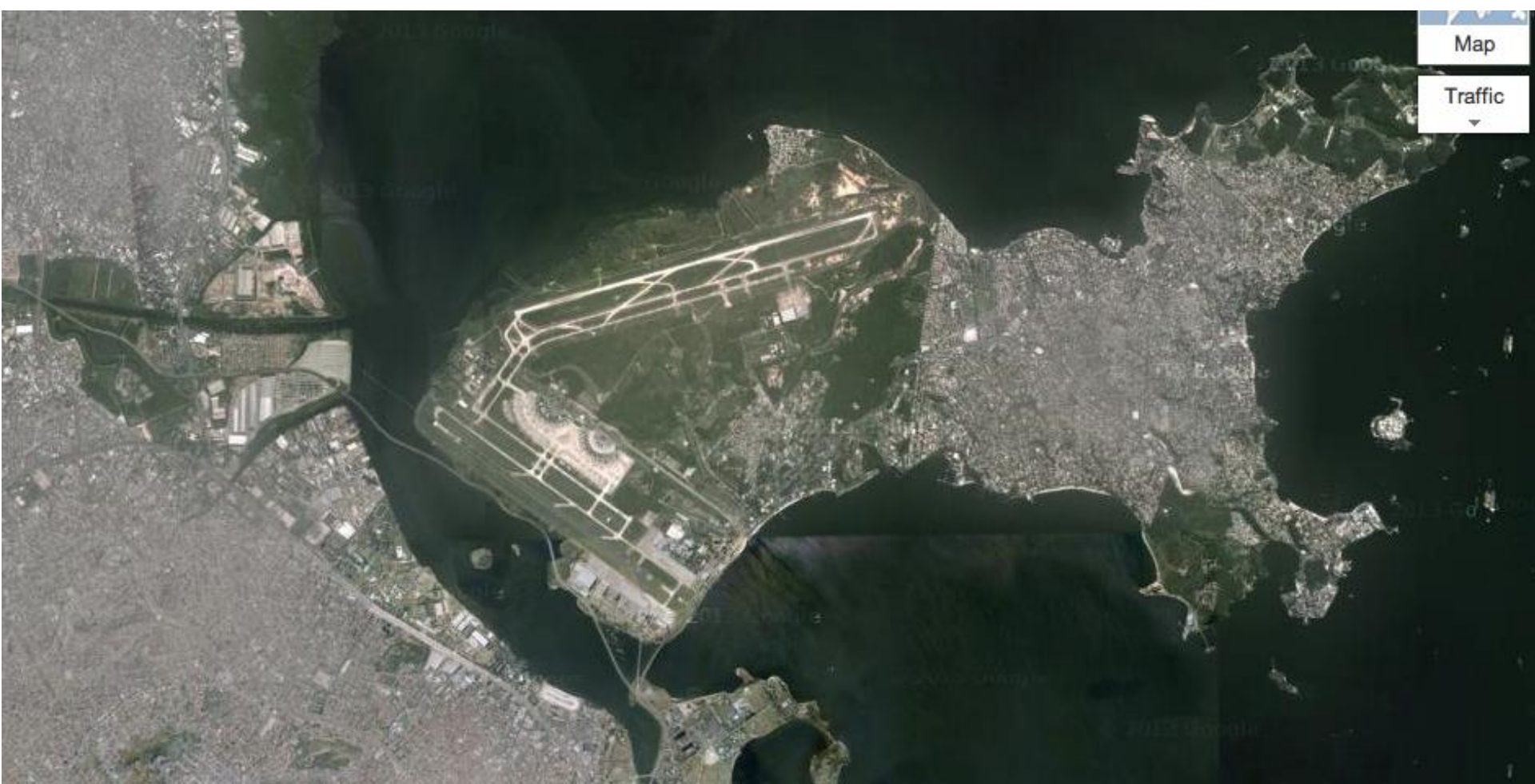
- ❑ Natural evolution from earlier commercialization trend
- ❑ Growing private participation in airport ownership  
[about 300 privatized airports world-wide as of 2014]
- ❑ Equally important, private-sector management practices are replacing traditional government-style management in an environment demanding economic self-sufficiency
- ❑ Trend toward “outsourcing” of airport activities, lean airport organizations (“US model”)
- ❑ *Accompanied by improved understanding of need for regulatory safeguards to protect public interest and prevent monopolistic practices*



# Types of Privatization

- ❑ **Share flotation:** initial public offering (IPO) with shares issued and traded on stock exchanges (BAA - 100%, Vienna - 27, Zurich - 22, Auckland - 52, AdP - 28, etc.)
- ❑ **Trade sale:** Sale of all or part of the airport through a public tender (many UK airports – 51-100%, Dusseldorf – 50%, Australia excluding Sydney – 100%, Hannover – 30%, etc.)
- ❑ **Concession:** Sale of lease to operate airport for a defined period (20 – 40 yrs), usually through public tender, ROT-rehabilitate-operate-transfer (Argentinean Airport System, Santo Domingo, Antalya, Izmir, St. Petersburg, Zagreb)
- ❑ **Project finance:** BOT – build-operate-transfer agreement (20 – 40 yrs) with private group or PPP (public-private-partnership) ( Athens, Izmir, Manila, Amman, Tirana)
- ❑ **Management contract:** Assign responsibility for operating airport (Cairo, Riyadh, Bahamas, Algeria)

# Rio de Janeiro/Galeão–Antonio Carlos Jobim (GIG)



2013: 25-year concession to consortium of Oderbrecht (Br, 60%) and Changi Airport (Sin, 40%); ~\$8 billion for 51% share; forecast: 175% growth in 15 yrs (~7.5/year); ~17.5 mio pax in 2012

# Forms of Ownership and Management

- A. Government-owned; operated by Department or Agency of national government
- B. Government-owned; operated by a municipal or regional Department or Agency
- C. Government-owned, possibly with some private participation; operated and managed by a contractor
- D. Operated by an autonomous Airport Authority, fully owned by municipal and/or regional and/or national government
- E. As in 'D' but with minority private shareholders (some shares may be publicly traded)
- F. Privately-owned (fully or in majority, possibly with some or all shares publicly traded); operated as autonomous airport authority

# Typical Provisions for Type D Airports in US

- ❑ Board of Directors appointed by shareholders
- ❑ Tax exempt or privileged tax status
- ❑ Authorized to acquire land via “eminent domain”
- ❑ Authorized to undertake construction, manage the airport, and be responsible for all services
- ❑ Authorized to issue tax-exempt revenue bonds
- ❑ Typically expected to be economically self-supporting; authorized to adjust user charges to this effect
- ❑ Can make “contributions” to owner in lieu of taxes
- ❑ Possibly also operate other infrastructure (e.g., seaports, bridges, tunnels, etc.)
- ❑ All property reverts to owner if Authority is dissolved

## Ownership and Management of Airports: Comments

- ❑ Tendency toward D - F as airports become busier and critical to local and national economies [40 of top 100 are in F; \$41 billion revenue in 2013]
- ❑ Many variations within categories
- ❑ “Build, operate and transfer” (BOT) or “rehabilitate, operate and transfer” (ROT) agreements are often associated with E and F
- ❑ BOT arrangements may also be made for individual facilities within an airport (e.g., terminals, car parks, etc.)
- ❑ Airport privatization decisions (E and F) are often the subject of significant political controversy

# Sample European Airports: Ownership + Operator

Airport	Type	Operator	Ownership
Amsterdam	D	Schiphol Group	Dutch Govt. 69.77%, City of Amsterdam 20.3%, City of Rotterdam 20.3%, ADP 8%
Berlin	D	Flughafen Berlin Schönefeld, GmbH	German Govt. 26%, State of Brandenburg 37%, State of Berlin 37%
Brussels	F	Brussels Airport Co.	Ontario Teachers 39%, Macquarie Fund 36%, Belgian Govt. 25%
Copenhagen	F	Copenhagen Airport	CAD ApS 57.7%, Danish Govt. 39.2%, free float 3.1%
Dublin	D	Dublin Airport Authority	Irish Govt. 100%
Frankfurt	E	Fraport AG	State of Hessen 31.5%, City of Frankfurt 20.1%, Lufthansa 9.9%, Artio Global Investors 10%, free float 28.5%
Greece (except Athens)	A	Ministry of Transport	Greek Govt. 100% [may change to F in 2015, Fraport]



# Sample European Airports: Ownership + Operator

Airport	Type	Operator	Ownership
Lisbon	F	ANA	Vinci Group 100%
London Heathrow	F	Heathrow Airport Holdings, Ltd.	Ferrovial Consortium 62%, Cdp du Quebec 28%, Baker Street Investment 10%
London Gatwick	F	Gatwick Airport, Ltd.	Global Infrastructure Partners (GIP) 100%
Madrid	D	AENA	Spanish Govt. 100% [may change]
Manchester	D	Manchester Airport Group	Council of City of Manchester 55%, 9 Borough Councils 45%
Milan (Malpensa+Linate)	E	SEA	City of Milan 54.8%, F2i investment fund 44.3%, various 1%
Moscow Domodedovo	F	East Line Group	East Line Group 100%
Moscow Sheremetyevo	D	Joint Stock Company	Russian Govt. 100%
Munich	D	Flughafen München, GmbH	German Govt. 26%, State of Bavaria 51%, City of Munich 23%
Paris (Charles de Gaulle + Orly)	E	Aéroports de Paris (ADP)	French Govt. 52.4%, various institutional investors 29.1%, Schiphol Group 8%, free float 8.5%, ADP employees 2%
Prague	D	Joint Stock Company	Czech Govt. 100%

## Commercialization and Away-from-Home Ventures

- ❑ Fast-growing non-aeronautical revenues as a result of emphasis on commercial activities and other landside services (due to growing traffic and to numbers and longer dwell times of connecting and departing passengers)
- ❑ Ventures away from home, sometimes in activities not directly related to airports (e.g., real estate)
- ❑ “Global airport operators” (Fraport -- \$500 million revenue from airports elsewhere in 2011, Vinci, TAV, Vantage, GMR, etc.)
- ❑ Evolving organizational structures reflecting these trends

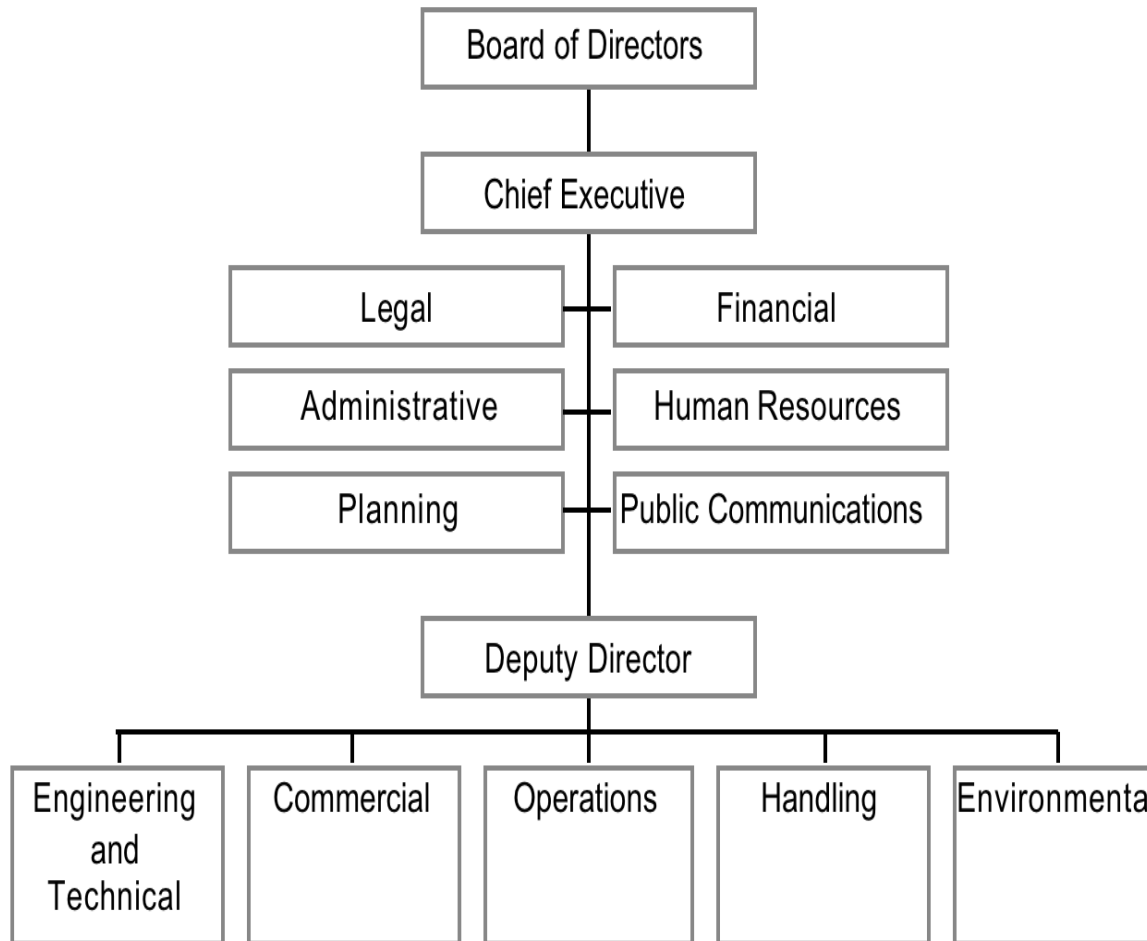


# Fraport's International Holdings

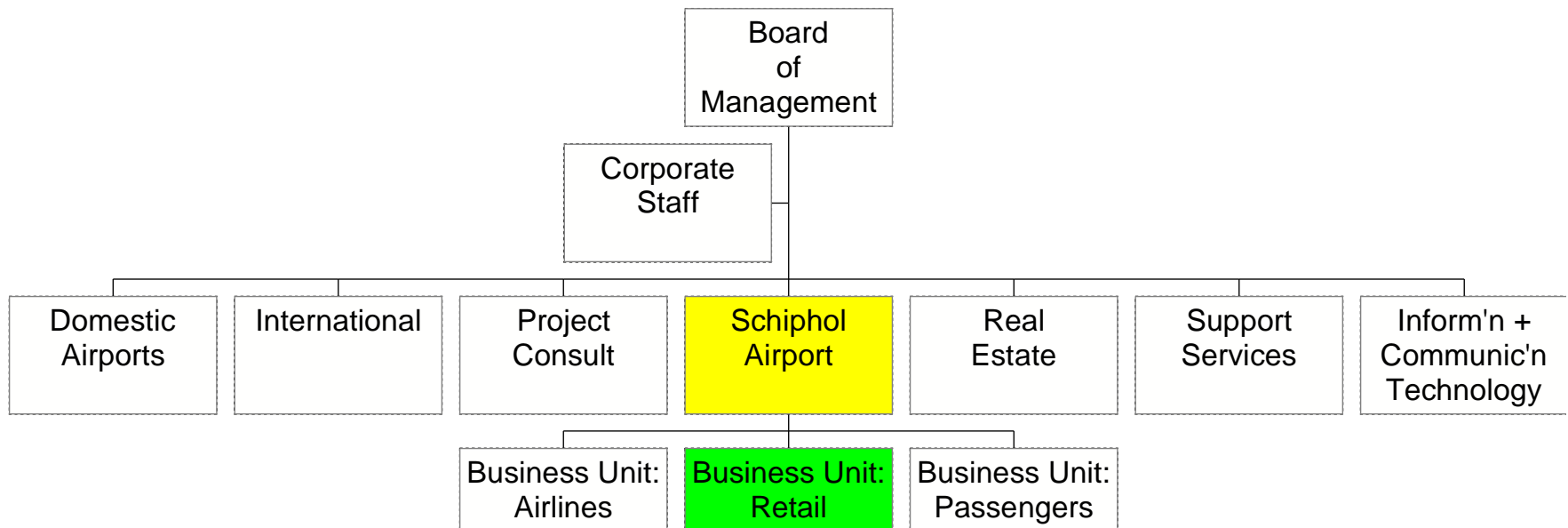
	% Share of Airport's Operator	Date of Initial Involvement	No. of pax in 2011 (millions)
Delhi	10	2006	35
Hanover	30	1998	5
Antalya	51	2007	25
Varna and Burgas	60	2006	3
Lima	100	2001	12
St. Petersburg, Pulkova	35.5	2010	10
Xi' an	24.5	2007	21

Source: Graham (2014)

# Traditional 2-Tier Organizational Chart



# Organizational Structure: The Amsterdam Schiphol Group



# Perceived Advantages of Privatization

- ❑ Reduced need for public investment
- ❑ Access to commercial capital markets
- ❑ More flexibility in tailoring financing schemes
- ❑ Less government control and political interference
- ❑ Private sector management may improve efficiency, increase competitiveness
- ❑ Incentives for management and employees to perform well
- ❑ Governments may gain financially from converting public assets and from company taxes
- ❑ More responsiveness to change
- ❑ Timely investments at right scale

# Criticisms of Privatization

- ❑ May create a private monopoly with
  - Excessive focus on “bottom line”, overcharging for services
  - Less concern for externalities
  - Reluctance to make additional investments, especially near expiration of concession period
  - Insufficient attention to quality, level of service
- ❑ Less emphasis on public interest, overall economic effects (e.g., “high user charges” vs. “attractiveness to low-cost carriers”)
- ❑ Poor employment conditions, “extra-lean” organization
- ❑ Ownership and management teams may change during concession period, often several times

# Setting the Rules

- ❑ Initial contract with (fully or partially) privatized Airport Operator is extremely important in setting framework for airport development and operation
- ❑ Typically specifies:
  - Facilities to be built, if any (what? when?)
  - Constraints on charge increases or return on investment
  - Timeline for future investments (often tied to traffic growth)
  - Quality of service (LOS) requirements
  - Management appointments
  - Reporting requirements
  - Length of concession period, conditions on renewal
  - Conditions for share trades, rights of shareholders
- ❑ Regulatory environment, monitoring mechanisms during concession period are also critical

# Current Situation re. Privatizations

- ❑ Focus on promising primary airports
- ❑ Secondary / regional airports typically sold/leased in groups
- ❑ Weak prospects for sale of individual secondary/regional airports
- ❑ Huge international investment funds (private equity/venture capital/hedge funds) increasingly dominate
- ❑ Investors increasingly focus on airports in emerging markets where growth forecasts are significantly higher
- ❑ Wide fluctuations in what investors will pay (many surprises)

# Questions? Comments?