Privatization: Navigate Carefully

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Privatization is a megatrend that has swept through:

- Airlines
- Airports
- Air Navigation Service Providers
Motivations:

Reduce Inefficiency
Eliminate civil service regulations
Eliminate government procurement policies
Enhance access to capital markets
Stimulate innovation and responsiveness to market needs
Liquidate public investment to pay for the social welfare needs of an aging population
Governmental institutions have had difficulty in keeping pace with the capital needs to accommodate rapidly growing traffic demands and maintain high levels of safety in aviation; governmental institutions usually are restricted in their ability to borrow money in capital markets to finance infrastructure improvements. Governmental institutions are subject to governmental procurement and decisional policies and practices, imposing bureaucratic efficiency impediments; and governmental institutions are subject to civil service labor costs and staffing levels undisciplined by market forces.
Margaret Thatcher: Queen of Privatization

Steel mills
Telephone services
Power plants
Automobile manufacturing
Coal Mines
Railroads

British Airways 1987
British Airports Authority 1987
Many countries have followed suit, including:

- Argentina
- Australia
- Austria
- Germany
- Hungary
- Italy
- Mexico
- The Netherlands
- The Philippines
- South Africa
Many State-owned airlines have been fully privatized.

- Korean Airlines – 1960s
- Air Canada – 1986
- British Airways – 1986
- Japan Airlines - 1993
- Qantas - 1995
- Lufthansa - 1997
- KLM – sold to Air France
- Austrian – sold to Lufthansa

And partial privatization of:
Singapore Airlines, Malaysian Airlines, Philippine Airlines
There are three forms of classical ANS providers:

- Individual State
- Joint States (e.g. EUROCONTROL)
- Non-Governmental Entity on behalf of a State/States
Examples of (fully or partially) corporatized ANSPs

- Skyguide (Switzerland)
- NAVCANADA
- Deutsche Flugsicherung GmbH (DFS)
- Airservices Australia
- Airways Corporation of New Zealand
- Luchtverkeersleiding Nederland
- Irish Aviation Authority
Privatized ANSP: United Kingdom

- UK National Air Traffic Services, Ltd. (NATS) is a public/private partnership
- 49% State-owned (Govt retains a Golden Share)
- 51% private-owned (42% by the Airline Group, 4% by BAA and 5% by UK NATS employees).
Privatization

- The United Kingdom became the first major entrant into the land of airport privatization, with its sale of British Airports Authorities (BAA) which controlled seven major airports: London's Heathrow, Gatwick, Stansted, and Southampton and three airports in Scotland in 1987, in a $2.5 billion public share offering.

- The government continued to provide oversight of airline access, airport charges, safety, security and environmental protection, and veto power over airport investment or divestiture.
Privatized/Corporatized Airports

- Malaysian Airports Berhad
- Most former federal airports in Australia
- Vienna Airport
- New Zealand Wellington and Auckland
Organizational Structures

Organizations

- State Authority (CAA)
- Autonomous State Entity
- State-owned Corporation (Crown corporation)
- Concession/Lease (all or part of the facilities)
- Partial Privatization (e.g. non-aeronautical)
- Not-for-profit (stakeholder owned) Corporation
- Fully Privatized Company (publicly traded shares)

Degree of Commercialization

- 0%
- 100%
Corporatized Organizations can be

- For-Profit
- Non For-Profit
Advantages of NGOs

- Typically, they are financially self-sufficient, weaned from government subsidies; not a burden on the federal treasury;
- They are better able to raise capital in the market, and thereby meet growing capacity needs;
- They may be more efficient, and more capable of reducing costs for users, and subsidy requirements from governments;
- They can have governance structures allowing users greater access and input on decisionmaking; and
- They sometimes move to a more equitable user-charge approach to cost allocation.
Commercialization may have a negative side, in particular when the principal objective is to maximize profits. No matter what organizational form an airport or ANSP assumes through the process of commercialization, it remains by its nature a monopoly on which the users are completely dependent. There are a growing number of cases of abuse of this monopolistic situation by newly created commercial organizations, often with the complicity of the governments concerned. IATA’s experience is that, in many cases, commercialization has resulted in significant increases in the airport and ANS cost base that are used to determine charges. In addition, the promised increases in efficiency and productivity have not always materialized.
ICAO Recommendations

ICAO recommended several of the following requirements for the ANSP:

(1) the organization should be subject to the State obligations under the Chicago Convention;
(2) its Charter should provide for appointment of a Board of Directors;
(3) the organization should be self-financing, obtain funds from commercial markets, and attempt to achieve a financial return on investment;
(4) it should apply commercial accounting standards and practices; and
(5) it should be subject to normal business taxes.
ICAO Position on Airport Privatization

- States cannot delegate their obligations “to ensure safety, security, efficiency and economics of airport services to a private entity.”
- ICAO neither supports nor opposes airport privatization.
- ICAO recommends the establishment of autonomous authorities for the management and operation of airports, with operational and financial independence.
- ICAO recommends the institutional strengthening of the aeronautical authority prior to privatization.
ICAO Recommendations

• ICAO has expressed a general principle in favor of assessing fees in a manner in which "users shall ultimately bear their full and fair share of the cost of providing the airport."

• Cost should include the full economic cost, including depreciation and interest, but allowing for all revenue, aeronautical and non-aeronautical. In setting the fees, airlines are not to be charged for facilities and services they do not use, or otherwise not properly allocable to them.

• Landing charges should be based on aircraft maximum permissible take-off weight. ICAO has also approved a cost-based formula based on separate en-route/in-flight and terminal/approach charges, adjusted for aircraft weight and distance flown. Others have suggested additional factors should be considered, such as the time of day, level of airport congestion, and airspace utilized.

• Two types of charges -- security charges and noise-related charges -- should be designed to recover no more than the relevant costs of providing security and noise-abatement equipment and services. In contrast, other charges may produce sufficient revenue to exceed direct and indirect costs by a reasonable margin.

• Of course, airport and air navigation fees and charges may not discriminate between domestic and foreign carriers.
Full Privatization Is Not Desirable for Activities That:

1. Are essential for the community’s welfare; and
2. Have the potential to result in monopolistic exploitation of the public.

Airports and air navigation services have these characteristics.
Access to private debt or equity requires profitability; private investors will not invest without a profit. This cost must be passed through to users.
Regulation

• Governments which have privatized airports have adopted one of four regulatory approaches
1. Rate of return regulation (e.g., Spain, France, Greece and the Netherlands);
2. Rate of return price caps (e.g., the United Kingdom);
3. Aeronautical price caps (e.g., Australia, Austria, Denmark and Mexico); and
4. Limited governmental oversight (e.g., Canada, New Zealand, and the United States).
Duties of the Regulator

• prevent overcharging and other monopolistic practices;
• ensure transparency as well as the availability and presentation of all financial data required to determine the basis for charges;
• assess efficiency and efficacy in the operations of providers;
• review standards and quality of services providers; and
• monitor investments planned in relation to traffic forecast.
# Strengths and Weaknesses of Airport Regulatory Approaches

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Build-Operate-Transfer (BOT) Airports

Another private sector funding mechanism is the Build-Operate-Transfer [BOT] approach, whereby the contractor commits to financing, construction, operations and maintenance for a specified number of years (known as the "free use period"), after which it transfers the facility over to the government. Examples:

- Athens Spata International Airport (25-year concession)
- Berlin-Brandenburg Airport
Upon privatization as a for-profit corporation, BAA had a regulatory cap on charges the airport could impose on airlines tied to the UK consumer price index.
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