



Molde University College
Specialized University in Logistics

Current Developments and Future Trends in Airport Ownership and Governance

Trial Lecture

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- **Background on airport**
- **Airport Ownership and Governance**
 - **Evolution of governance and airport governance**
 - **Development trends**
 - **Current development models**
 - **Effects of ownership on performance of airports**
 - **Future trends**
 - **Conclusion**



- **Airports:**
 - An essential part of the air transport system
 - As economic engines and gateway to regions
 - As focal points for regional development
 - Not only infrastructure providers for airlines
 - Re-positioned themselves as an integral part of the travel value chain
 - Becoming more entrepreneurial and changing the way of operation
- Traditionally - seen as the responsibility of governments to manage and operate, typically in line with strategic, economic and defense policies (Donnet et al, 2011).
- Therefore, public ownership and governance of airports was not questioned throughout most of the history of aviation.

World's Best Airport (Skytrax 2012)



**Incheon International
Airport, South Korea
(1st)**



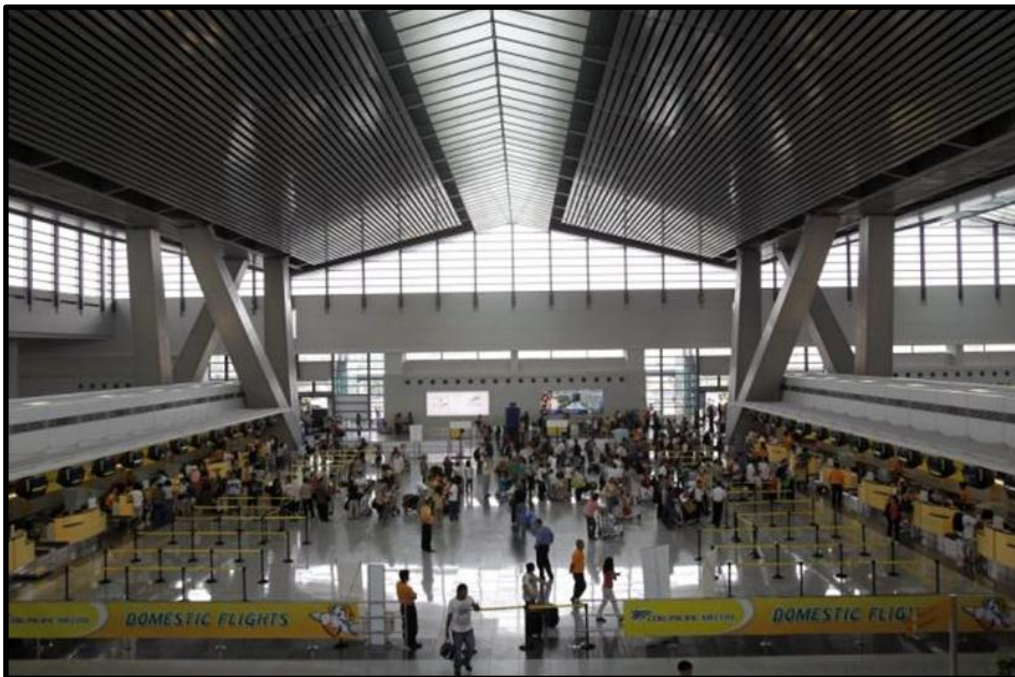
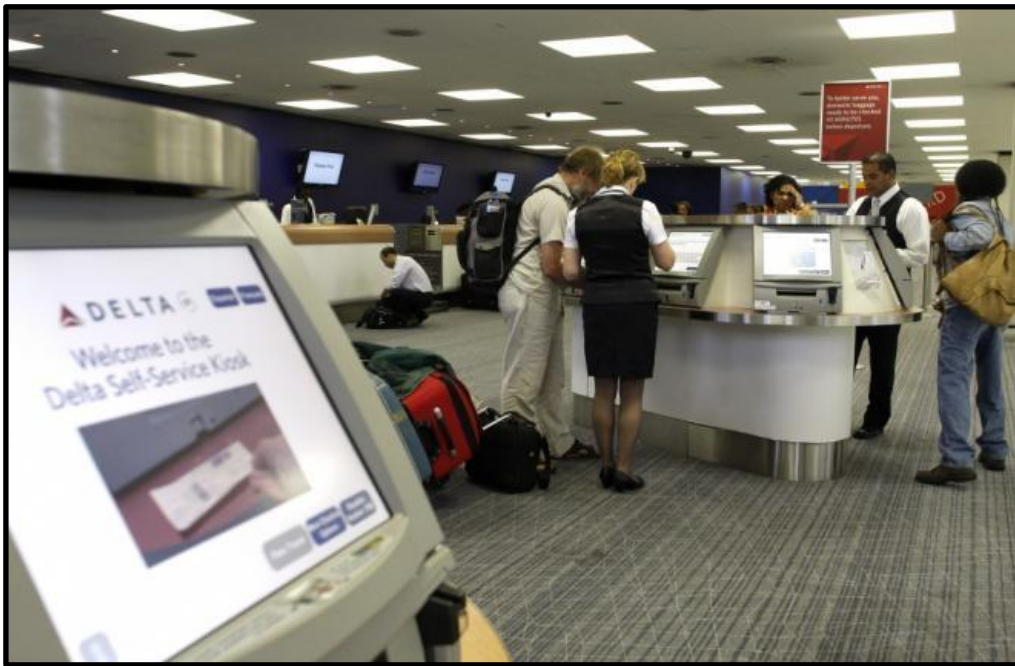
**Changi Singapore
Airport, Singapore
(2nd)**

JFK Airport Terminal 3, New York City (Top Worst, 2012)

Terminal 3 serves Delta exclusively and “is known for endless immigration lines in a dank basement, for an utter lack of food and shopping options, three crowded and confusing entry points, hallways that could have been designed by M.C. Escher and for vomiting international travelers out onto an underground sidewalk with no cabs available,” (frommer.com).

Manila Airport Terminal 1, Philippines (2nd Top Worst, 2012)

Not only did the ceiling at Manila Airport’s Terminal 1 cave in last year, it’s a frequent target of criticism with travelers and the business community who complain that it’s congested, over-crowded, and filthy with toilets that don’t even work, rampant bribery, and taxi drivers scamming travelers on fares (sleepinginairports.net).





What makes an airport 'Best'? (Skytrax)

- The airport experience is made up of numerous service chain factors
 - some related to the direct responsibility of airlines,
 - some to the airport operator,
 - but all integrating to a single experience for the customers.
- Every aspect of airport product and services (39) in the front-line arena that passengers experience from arrival at an airport through transit and departure processes to the boarding gate as a global benchmark of airport excellence.

Ease of terminal navigation,	Shopping malls	World Best Airport
Transportation facilities,	Staff service/language skills	Best Transit Shopping
Immigration systems,	Arrivals, transit, and departures facilities for all kinds of passengers	Best Airport Shopping
Leisure, Business	Washroom facilities	Best Airport Europe
		Best Low Cost Airport



What makes an airport 'Worst'?

- Due to Frequent flight delays, more cancelled flights, long lines, dirty bathrooms, uncomfortable seats, bad fast food, crying children, or.....????????????????????
- safety concerns, lack of comfortable seating, rude staff, hostile security, poor facilities, no (or few) services to pass the time, bribery, being kicked out at night or just general hassles of being in the airport.
- Lack of comfort, convenience, cleanliness and customer service??????
- These all issues associated with the operation, management and development of airport.

Governance

Evolution of Airport Ownership and Governance

- Are often characterized by their ownership, but it is the governance structure that determines how an airport is managed, operated and developed, for instance, an airport can be owned by government but operated by independent authority (Reimer et al., 2009).
- Virtually, all airports traditionally - owned and managed by the public sector (Graham, 2003).

Evolution ...(contd....)

- Beginning of airline deregulation (e.g. act or process of removing or reducing state regulations) in the US in 1978.
- Acted as a worldwide catalyst of change in the philosophy of how airlines and airports are owned and managed (Carney and Mew, 2003).



- Three key developments witnessed within the airport sector (Graham, 2003).
 - Airport Commercialization
 - Airport Privatization
 - Airport ownership diversification

- The deregulation movement - brought a new wave of thinking into the management of airports around the world in the mid 1980s.

- Since then, significant changes - in the way airports are owned, managed and operated.
- Attention turned by policy makers towards reforming airport governance.

Evolution... (contd....)

- In the 1980s, governments around the world – faced enormous pressures from taxpayer or the International Monetary Fund in the case of developing countries to control or reduce government deficits (Tretheway, 2001).
- However the forces of reform - slow to deal with airports for a number of reasons - the pace of change quickened from the mid 1990s (Gillen, 2011).



- And started to be a significant presence of privately, or partially privately, owned airport in the 1990s (Graham, 2003).
- With the exception of the US, corporatization, commercialization and privatization of airports - became worldwide trend (Oum et al., 2006).



Evolution(contd...)

- Increasingly different strategies pursued by countries to liberalise airports (Donnet et al, 2011) by means of two forms of freeing industry from government control - privatization and deregulation (Neufville, 2003)
- Liberalisation refers to a relaxation of government restrictions usually in the area of social or economic policy.
- Rising passenger demand led to (Padova, 2007)
 - Airport congestion
 - The need to invest in additional capacity
 - Innovation to increase the productivity of existing airport infrastructure

- Priorities were established by government for government spending - airports being at the bottom of the list.
- To respond to these needs (Padova, 2007).
 - Countries around the world - moved toward commercialized airport governance.
 - Applying business-like approaches and allowing market forces, incentives and mechanisms to affect the delivery of services.
 - Thus 'commercialization' of the airport industry began to take place.

- The pace of change varied considerably in different parts of the world, with Europe generally leading the way.
- By contrast, airports in areas such as those in Africa and South America - generally held on to more traditional attitudes towards airports and experienced less change (Graham, 2003).



Evolution ... (contd....)

- The growing commercialization of the aviation industry - the major driving force behind airport governance reform, where business principles are applied with more emphasis on the development of commercial activities (Carney and Mew, 2003).
- 1980s - dominated by airport commercialization, due to the dramatic growth in air travel brought about by deregulation in the airline industry in North America (Padova, 2007).



- Focused to make airports (Padova, 2007).
 - More self - sufficient and responsive to growing demand and investment needs.
 - More likely to offer services at a lower cost and further develop their business.
 - To generate revenue for the government from the sale or lease of the asset and promote regional development.

- Airport commercialization models appeared to range from partial to full privatization to some form of public-private partnership.



- 1990s - airport privatization became a reality (Graham, 2003).
- The momentum to privatization of airport - gaining throughout most of the world, however global crisis affected this trends in 2002 and 2007-2008 (Magagi, 2011).
- Privatization means, in a broader sense, usually associated with the transfer of management of an airport, and in many cases the ownership as well, to the private sector by a variety of methods (Graham, 2003) such as
 - Share floatation
 - Trade sale
 - Concession
 - Project finance privatization
 - Management contract

Evolution ... (contd....)

- By 2007, airport privatization - in most every developed country and in many developing economies (Assaf and Gillen, 2012), however still much debate over the rationale of airport privatization.
- For many countries, transferring airports, considered as national or regional assets to the private sector - a politically sensitive policy.



Evolution ... (contd....)

- Issues of airport ownership and governance always remained as a controversial topic.
- Over the last two decades - have been widespread moves to corporatize, privatize and deregulate airports around the World.

Evolution ... (contd....)

- Attention - slowly been shifting to questioning the efficiency of airports and air traffic control systems as deregulation and privatization of the airline industry and its markets became the norm.
- These changes created a great diversity of airport ownership and governance structures in the ways which countries tackle the airport ownership and governance issues, especially since the British government privatized their airports in 1987.
- Thus, the status of airport ownership started exerting considerable influence over (ACI, 2010)
 - How airports are financed
 - And how airports may be managed.



- Governance: (often used as 'corporate governance' in the area of 'corporate management')
 - Refers to a system in which one entity governs or controls another entity.
 - Defines who makes decisions, who is included in the decision making process, and how decision making actors relate to one another (Kooiman, 2003).
 - Legitimises and organises actors and institutions in decision making arenas, actioning authority under different sets of rules, moral orders and rationales (Keast, Mandell and Brown, 2006).



Airport Governance?

(Carney and Mew, 2003)

- Airport Governance - sets the bounds of authority in which airport management can make decisions.
- Essential to attaining long term sustainable growth of airport.
- Provides effective assurance for all interested parties including shareholders and creditors, and uses of funds in an efficient and transparent way.



Airport Governance?

(Reimer et al., 2009)

- An important aspect of airport governance - whether or not the airport is subject to regulation with respect to user charges or business practices.
- Airport Governance took place in an effort to:
 - Access capital markets for development and reduce reliance on general tax levies
 - Create a more efficient and cost effective mission focused organization
 - Reduce political involvement in commercial and business decisions



Airport governance?

- However, Governance – a complicated issue as the definition of airport governance varies across countries to address airport problems (Gillen, 2007).
 - Interested to maximize revenues on privatization than others.
 - Focused on promoting and protecting airline competition.
 - Willing to become involved in detailed economic regulation than others.
 - Protect current or former national carriers.

Some examples of development trends of airport ownership/governance (Padova, 2007)

United Kingdom	<ul style="list-style-type: none">• The first country to fully privatize some of its major airports and pure private sector (for profit) ownership and operation during the period of the Thatcher government.• The first major privatization in 1987 and since a number of other countries, both in developed and developing regions (Graham, 2011)
United States	<ul style="list-style-type: none">• Has not yet embraced privatization, actually quite complicated as it differs for each state.• By and large, US airports still owned and operated by city or county governments in spite of a privatization pilot program being in place since 1996.• Public-private partnerships are more common.
Argentina	<ul style="list-style-type: none">• Most principal airports - owned, operated and regulated by a federal body until 1997.• In 1998, a private, multi-national consortium called Aeropuertos Argentian (AA) won the 30-year contract to operate and administer 33 airports.

Australia

- Sold long-term leases for the airports to private entities (for profit) but retained ownership of the infrastructure.

New Zealand

- Partial privatization that falls between the models used in the United Kingdom and the United States.
- No federal investment.
- City councils continue to hold minority stakes.

Canada

- Private not-for-profit airport authorities.
- Leasing land on a long term basis from the federal government.



Worldwide

In a global study of 459 airports in 2007- 24% airports had full or partial private ownership (ICAO, 2008).

Developing Countries

Between 1990-2005, 38 low and middle income countries entered into short and long-term airport privatization transactions (Andrew and Dochia, 2006).

Classifications based on ACI-Europe (2010)

Model 1:

Publicly owned and operated by an airport operator as part of administration

An airport being functionally dependent on the national and/or regional/local administration (e.g. Ministry of Transport, Regional and/or City Councils).

US, Israel, Greece

Model 2:

Publicly owned and operated by a corporatized airport operator

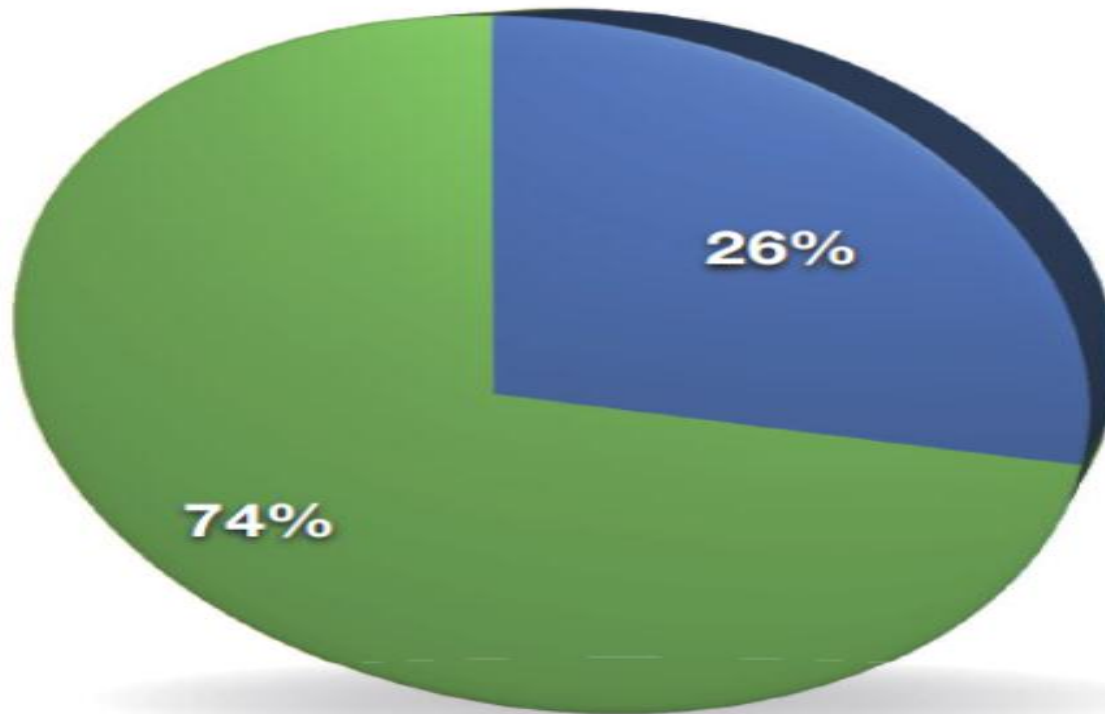
An independently acting economic entity, structured according to and complying with normal commercial law, whose shares are wholly owned by public authorities of the country where the airport is located.

Norway, Sweden,
Finland



Ownership Of Airports (Europe) - Model 1 and Model 2

Specification of the type of ownership in
Publicly owned Airports (N=317)



- Public Airport Operator - Part of Administration
- Corporatised Airport Operator - State owned

Source: ACI-Europe (2010)

Public- Private Partnership Model (Mixed):

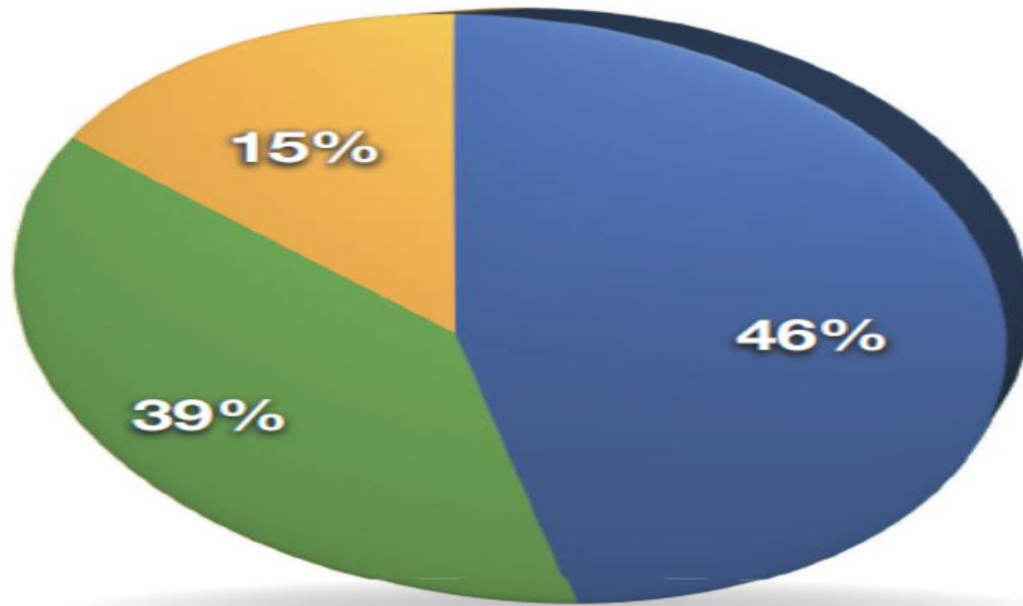
- Collaboration between the public and private sectors to deliver infrastructure and /or services according to and complying with normal commercial law of the country where the airport is located.
- Careful allocation of responsibilities and risks according to capacity and expertise of each party.

Public - Private Partnership		
Model 3	Mixed public-private ownership and operated by an airport operator with the public share owning a majority share	Hamburg, China, Kansai Japan
Model 4	Mixed public-private ownership and operated by an airport operator with the private sector owning a majority share	Denmark, Switzerland
Model 5	Mixed public-private ownership and operated by an airport operator with equal ownership between public and private sectors	Turkey, except Antalya (Private)



Ownership of airports (Europe) - Model 3, 4 and 5

Specification of the type of ownership in Mixed Airports (N=52)



- Mixed public-private airports, with public sector owning a majority share
- Mixed private-private airports, with public sector owning a majority share
- Equal Private and Public Ownership

Model 6:

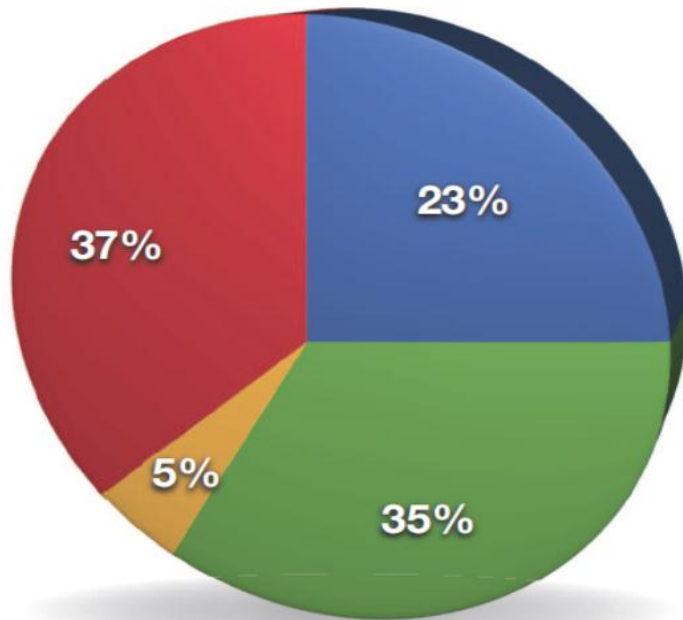
Publicly or privately owned and operated as a concession or BOT (Build - Operate - transfer) project:

<p>BOT: A private entity obtains an equity holding in a company tasked with building an airport, and operating it for a period of time and the facility reverts to the government entity at the end of the term (usually at least 30 years and often up to 100 years)</p> <p>Concession: Airport operator may own the physical asset but may not own the land on which they stand, rather pay a rent on a very long term lease for its use.</p>	<p>Indian Airports</p>



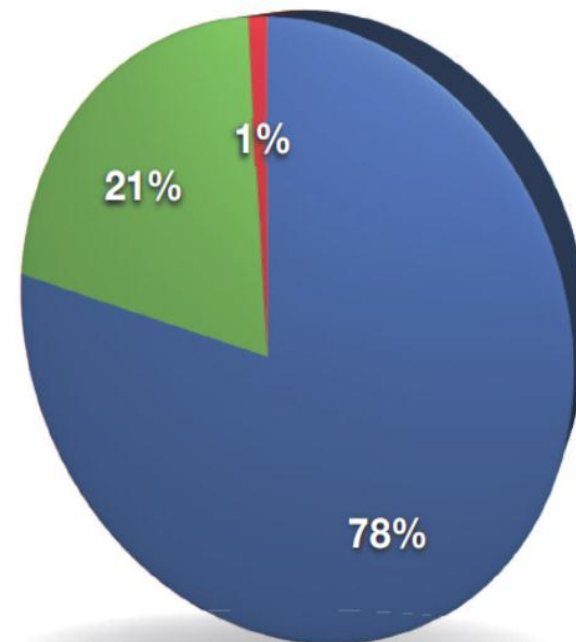
Ownership of airports (Europe) - Model 6

Concessions EU Member States (N=75*)



- 5-20 year Concession
- 20-50 years Concession
- Over 50 years Concession
- Unlimited Concession

Concessions Non-EU Member States MS (N=72*)



- 5-20 year Concession
- 20-50 years Concession
- Unlimited Concession

175 airports from EU-27 countries and 19 from Non- EU do not operate under concession

Source: ACI-Europe (2010)

Model 7:

Fully privatised and corporatized airport owner and operator:

1. Fully private for profit via IPO (Initial Public Offering) with Stock widely held.

- Fully privatised via the sale of all of the government shares using an IPO.

BAA

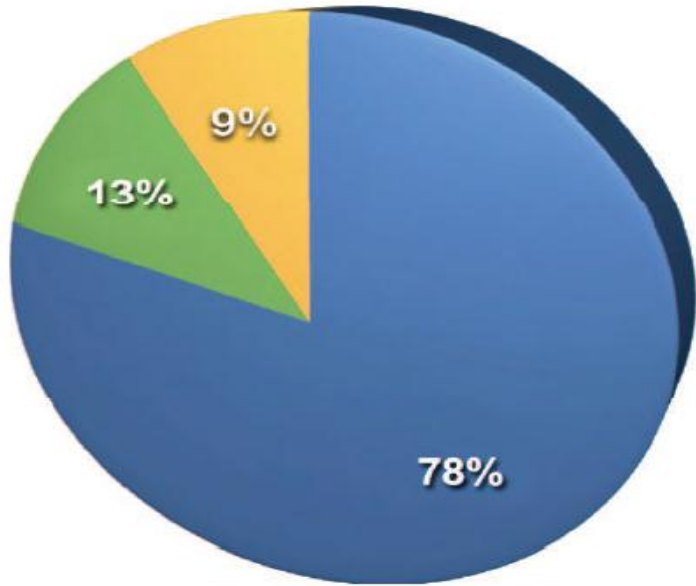
2. Fully Private for profit via trade sale with share ownership tightly held

- Airports sold to private interests via trade sales in which investment consortia bid to purchase airports.
- Sold under a lease agreement of 50 years plus an automatic expansion of 49 years, after which the airports revert to the federal government.

Australia,
New
Zealand

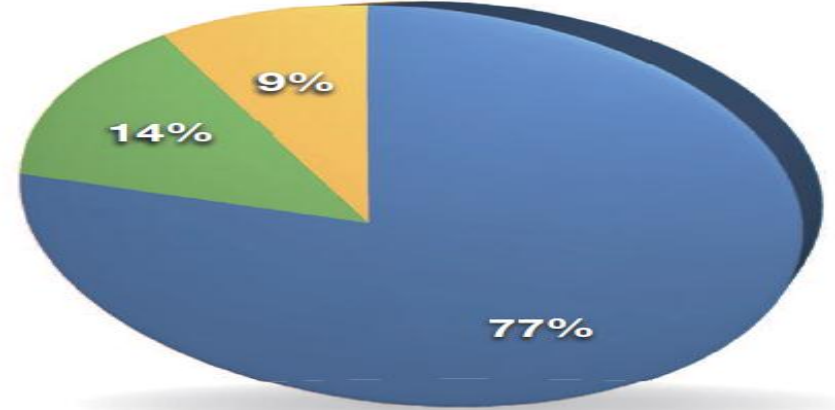
Ownership of airports (Europe)

Type of airport ownership
in all participating airports (N=404)



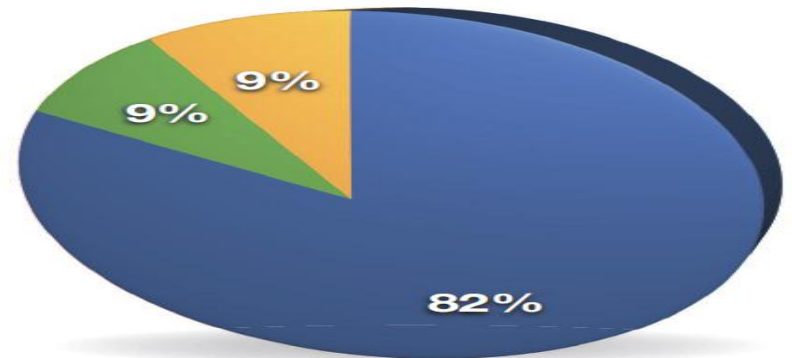
Public Mixed Private

Type of airport ownership
in EU Member States (N=306)



Public Mixed Private

Type of airport ownership
in Non-EU Member States (N=98)

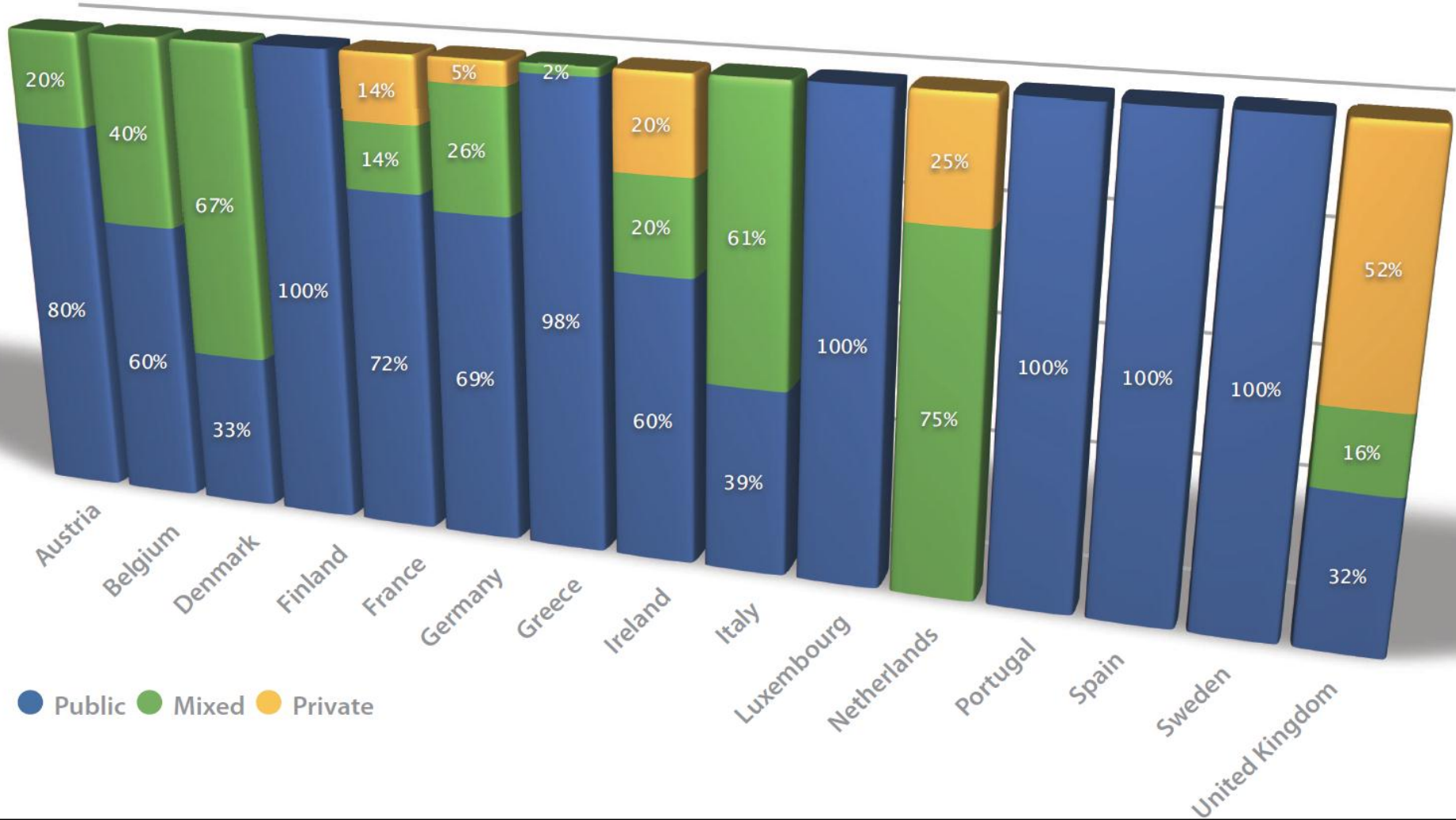


Public Mixed Private

Source: ACI-Europe (2010)

Type of ownership by country (Europe)

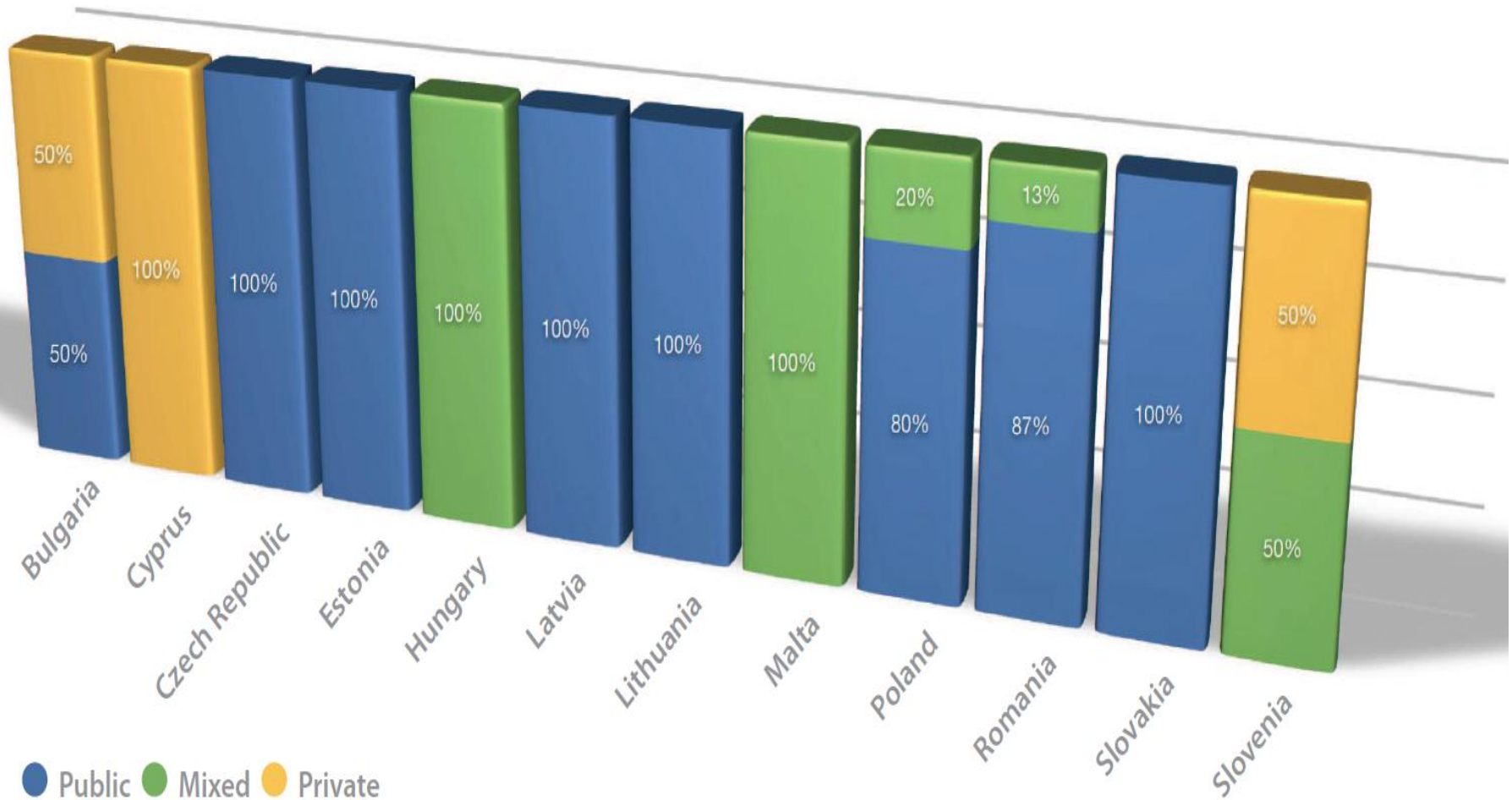
Type of ownership in EU-15 Member airports (N=266)



Source: ACI-Europe (2010)

Type of ownership by country (Europe)

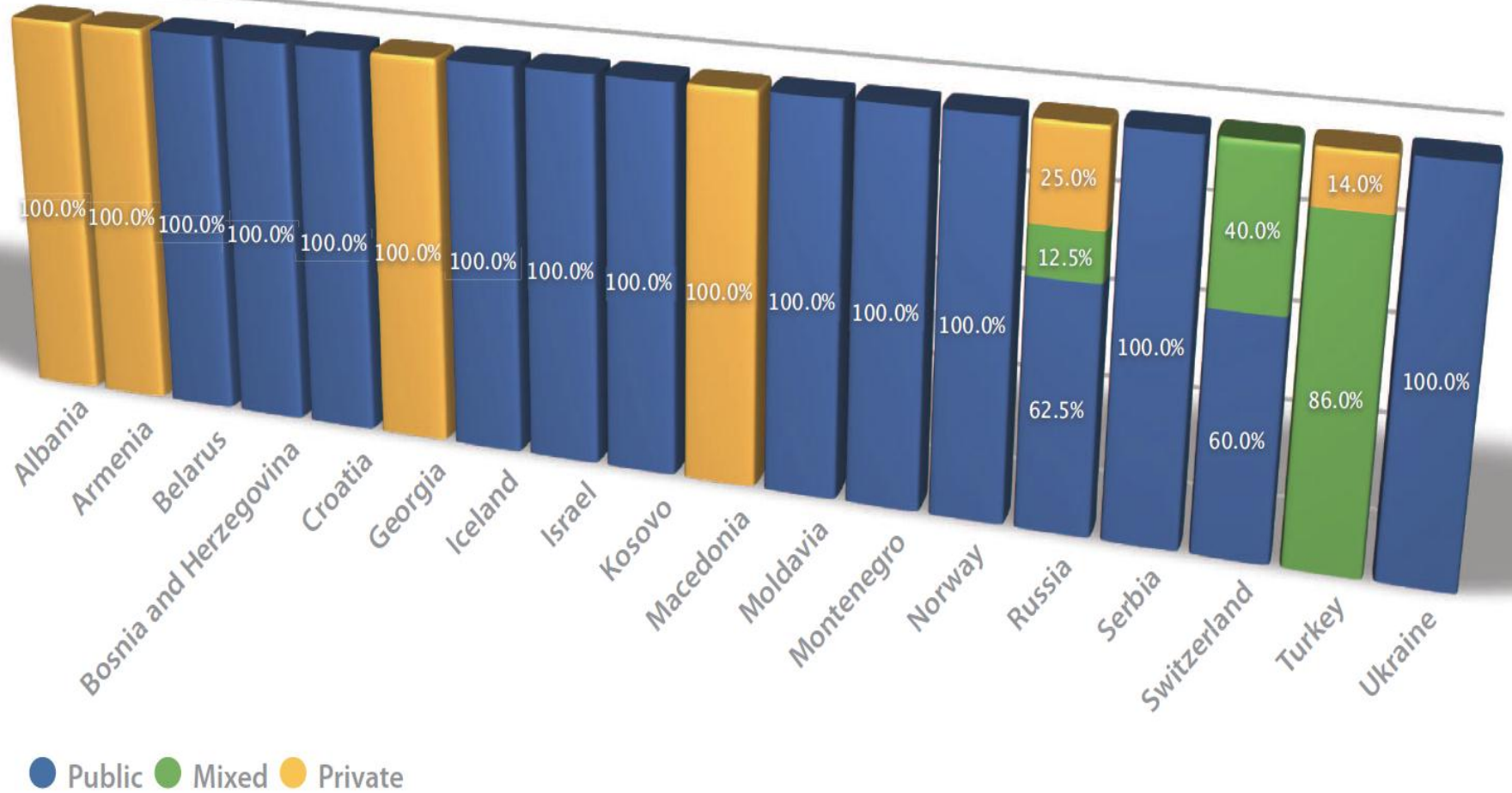
Type of ownership in New EU Member States (N=40)



Source: ACI-Europe (2010)

Type of ownership by country (Europe)

Type of ownership in Non-EU Member States (N=98)



Source: ACI-Europe (2010)

- One of the critical challenges – consider the suitability of airport governance structures is that airports provide a mixture of public goods (e.g. access to city, general economic development and public safety missions) as well as private goods (e.g. specific airline operations, particular consumer trips, concession).
- A number of entities – assessed different forms of airport governance through a combination of statistics, anecdotal information and theory.

Effects of ownership on performance of airports (Oum et al., 2006)

Ownership forms	Performance of airports
Airports owned and managed by a mixed enterprise with a government-owned majority	Significantly less efficient than 100% publicly owned and operated airports.
Airports with private majority, all of which are based in Europe and Oceania	Significantly higher profit margins than airports under other ownership forms.
The airports with government majority ownership and those owned by multi level of government	Significantly lower operating efficiency than airports with a private majority ownership.

Effects...(contd..)

Ownership forms	Performance of airports
Airports with a private majority ownership	<ul style="list-style-type: none">• A much higher proportion of their total revenue from non-aviation services than any other category of airports but significantly lower aeronautical charges than airports in other ownership categories excluding US airports (Oum et al., 2006).
Privately Owned airports in Europe's peripheral areas	<ul style="list-style-type: none">• Significantly higher levels of market orientation than publicly owned airports.• Significant positive effect on market orientation and marketing innovation. (Halpern and Pagliari, 2007; Halpern, 2010).

Ownership forms	Performance of airports
Full private airports with price monitoring mechanism and those that are government owned with no regulation	Most efficient airports
A move from government to private ownership	Improves efficiency
A move from government to partial privatization	Loss of efficiency
A move from partial privatization to full privatisation	Improves efficiency considerably.



- Airports - shifting their business models from government owned public utilities to commercial enterprises with many possible variations within different models as mentioned before for own unique situation of airports- one size does not fit all (Walsh, 2007).
- Increasing number of airport privatizations - throughout the world (Graham, 2003), however almost 50% of the airports in the world are still in the hands of government despite decades of privatization of state enterprises (Qin, 2010).



- The privatization of airports - an ongoing and accelerating global trend over the past two decades and already significantly involved in the operation of European airports and likely to continue (ACI-2010).
- Initiated in the UK, progressing across Europe and the Australia/New Zealand region – likely to be close to the top of Asian government agendas in the near future (Walsh, 2007).



- In the UK, every major and regional airport, except Manchester - privatised and a mix of partial privatizations generally accompanied by some form of price regulation in continental Europe (Assaf and Gillen, 2012).
- Over the past year or so, the trend - picking up in Asia being privatized and likely to be attractive assets from the private investor's view point - both financial investors and airport specialists (Walsh, 2007).
- However, the move to airport privatization in some major economies is just beginning such as Russia, India and China.



Trends...(contd...)

(Assaf and Gillen, 2012).

- India - currently in the process of establishing public-private partnership models for its major airports and imposing price regulation (for instance a 74% share of India's two biggest airports (Mumbai and New Delhi sold to private consortia and several others seem for potential privatization) and China also looking at privatising its airports.
- Looking across the globe - a broad array of ownership types, governance and price regulation combinations but airports in many countries- still publicly owned including the US and some member states of the European Union.

Increasing trends towards airport PPPs (Public-Private Partnerships) in emerging markets

Middle East:

Saudi Arabia	Prince Mohammad Bin Abdulaziz Airport King Abdulaziz International Airport
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Latin America:

Mexico	Riviera Maya Cancun International Airport
Chile	La Florida Airport
Jamaica	Norman Manley Kingston Airport

Asian Countries:

Vietnam	Nội Bài International Airport
Philippines	Diosdado Macapagal International Airport

African Countries:

African countries	Existing: Mali, Senegal, Congo and Planned: Burkina Faso.
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Trends ...(contd...)

- Trends towards complete airport operators such as BAA and Alterra & Specialist operator concept that focus on specific types of activities such as standard parking (Odoni, 2007).
- Airport development teams providing 'Build-Operate-Transfer' (BOT) agreements such as Hochtief and Bechtel and for providing individual facilities within an airport (e.g. terminals, car parks, etc.) (Odoni, 2007).



- **Trends towards consolidation of airports(Forsyth et al., 2011).**
 - Airport alliances (for instance, Schipol engaged in a new alliance with Aéroport de Paris (ADP): know-how transfer and cost savings through standardization of processes and common new developments, joint purchasing in aviation and non- aviation related business areas.
 - Formation of multi airport companies (e.g. companies involving common ownership of a number of airports, or cases in which an airport has a majority holding, or at least a strategic minority holdings in other airports such as Schipol's interest in Brisbane airport).
 - 'Strengthening the development of the dual hub strategy' to reduce hub competition.



- Governance principles (Sydney Airport):
 - Lay solid foundations for management and oversight.
 - Promote ethical and responsible decision making.
 - Safeguard integrity in financial reporting.
 - Make timely and balanced disclosure.
 - Respect the right of shareholders.
 - Recognise and manage risk.

Emerging Industry Trends

(Herrmann and Hazel, 2012)

- Competition among Hub systems is soaring.
 - Intensification of the expansion of hub-and-spoke system in Europe, Asia and Middle East and setting up international alliances.
- The airport 'customer' is changing.
 - Institutionalizing customer and stake holder relations and use of growth of social media.
- Concept about 'more than aviation' increasing.
 - Focus on non-aviation revenues and marketing oriented approach.



- Understanding Business Fundamentals
 - focused on cost effectiveness, value for money, outsourcing of airport activities.
- Reshaping the airport experience with new technologies
 - High-tech products, new technologies, e-commerce, e-ticketing.
- Maintaining airport sustainability practices
 - Environmental, social and economic practices.



- Evolution of airport ownership and governance.
- Current development practices of airport ownership and governance.
- Effects of governance on the performance of airports.
- Trends of airport ownership and governance.
 - Transformation in the nature of airport ownership and operation in recent years.
 - moving gradually from a regulated and public controlled activity towards a liberalized and commercially-oriented activity.
 - Now a diversity of corporate governance structures at airports and likely to continue in future.

Thank You!



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