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# **AIRPORT FOR-PROFIT PRIVATIZATION: A CHECKERED TRACK RECORD**

Airport privatization is not a new idea. Public-private partnerships, and private, for-profit ownership have been introduced for the construction, financing, management and operation of many airports around the world. However, the overall track record of airport for-profit privatization is checkered at best. There are justified grounds for caution, even skepticism, before launching such an initiative in Canada.

## **Experience shows dangers**

A major fault-line is that for-profit airports shift their focus away from service to communities and travelers, to concentrate instead on maximizing profits, cutting costs and delivering earnings to shareholders. Global experience has shown this often has negative consequences, such as higher prices and reduced service levels.

## **Underinvesting in infrastructure and services**

Some private entities taking over airports have failed to invest sufficiently in maintaining and upgrading airport infrastructure. In Sydney, Australia, for example, the country's competition watchdog found that the privatized airport increased profits by running down the quality of its services, and showed low responsiveness when public concerns were raised.

## **Overinvesting in the wrong areas**

Other privatization experience shows over-investment or "gold-plating" investments in areas that prove costly or unnecessary. In Mumbai, India, the privatized airport undertook construction of a second terminal, for which cost over-runs were passed on to users, without previous consultation.

## **Dual or hybrid revenue streams that undermine some airport services**

Some profit-driven airports have sought to maximize revenues and cut costs by separating out their revenues into different streams, known as "dual or hybrid till" systems. These allow them to identify and cut costs and services in activities that produce lower revenues, such as

aeronautical services, while building up those, such as commercial airport concessions, that produce more.

Australian airports now collect far more aeronautical revenue per passenger than a decade ago: Brisbane Airport collects 66 percent more in real terms since 2006-07; Perth, 43 percent; and Melbourne, 31 per cent. Sydney's is up just 16 percent, but its revenue-per-passenger is the country's highest at \$17.27.

Price increases by these airports over the decade have resulted in an additional \$1.6 billion assessed to airlines and travellers. In cases such as these, where revenue-per-passenger rises markedly, travelers wind up paying higher prices for flight tickets, parking, airport hotel bills, and pre-flight meals, among others.

### **Higher borrowing costs**

Analysis shows that lenders are likely to price the financial risk of for-profit airports at higher levels than that of public ones, resulting in interest rate hikes for them. Private ownership of airports means that some cash flows will be diverted from airport operations and reinvestment, to instead pay dividends to shareholders and, possibly, income tax. These pressures, as well as regulations imposed on private owners, results in their showing a weaker credit profile than do public airports which are unconstrained by the need to deliver earnings.

### ***The bottom line: risky and not needed in Canada***

Governments have most often sought a private-sector role in running airports where the state lacks either financial resources or the required technical or management expertise to run airports. This is not the case in Canada, where following divestiture to not-for-profit local airport authorities in 1994, massive user-funded investments have resulted in airport infrastructure that has been ranked among the best in the world.

Our airport governance model, however, does need updating. This should include third-party regulatory oversight of airport spending and fees, and a reduction or elimination of the rents airports pay to the federal government, which takes millions of dollars out of the air transportation system with no benefit to passengers or the system. Keeping for-profit privatization on the table will delay these need changes.