Good afternoon,

I am pleased to give you an overview of privatization in the global airport industry.

To assess the state of airport privatization, a good starting point is to take a look at the ownership structures of the world's largest airports. If you are thinking that the majority of the world's top airports operate under private or mixed public/private ownership, a reality check reveals the exact opposite.

Only three airports, among the top 30, Rome Fiumicino, Sydney and London Heathrow, are 100% privately owned. 19 airports are under strict public ownership while 8 airports operate under some sort of public-private partnership. One reason for that low percentage is the significant number of U.S. airports in the group. Only New York JFK can be considered as a public private partnership with Terminal 4 being owned and operated by the Schiphol Group. The Schiphol Group itself however is not a private company either, being majority owned by the Dutch government and municipalities. An important piece of infrastructure in the U.S. is therefore in the hands of a foreign government-owned entity.

If we look at the top 30 international airports which include only three U.S. airports, the picture is hardly any different. Only four airports, London Heathrow and Stansted, Zurich and Rome are exclusively privately owned. A lot of so called private airports such as Frankfurt, Copenhagen, Brussels and Vienna still have substantial or even majority public ownership as is the case with Fraport where the city of Frankfurt and the Federal State of Hesse are majority owners.

So what's all the talk about privatization?

Full privatization as in full private ownership of airports is the exception, not the rule.

Airports are strategic assets and as such they are very much of interest to local, regional or national governments that prefer to retain a stake in the asset. If we talk privatization today, we primarily mean corporatization. According to Wikipedia, corporatization refers to the transformation of state assets or agencies into state-owned corporations in order to introduce corporate management techniques to their administration. This concept is widespread and common in many regions of the world. Running a public company as if it were private, but the government retains ownership to varying degrees in order to maintain control or influence.

The list of airports or airport networks operating under this model is endless. Aéroports de Paris, Schiphol Group, Fraport, Singapore, Incheon, Malaysia Airports, Manchester Airport Group, Munich, AENA in Spain, Tokyo Narita, Dubai, Abu Dhabi are all corporatized and widely government owned. Of these airport operators currently two are being considered for partial minority privatization. Incheon Airport Corporation will be 49% privately owned in the future albeit it is not clear when exactly the transformation will commence. In Spain, AENA, the world's largest airport operator, will invite bids for private ownership of 30% of the company.

Europe is the region where privatization of airports is most advanced. The process began in 1986 when British Airport Authority was listed under BAA plc at the London Stock Exchange. The UK subsequently became the country with the highest proportion of private ownership of airports worldwide. Currently, 52% of airports in the UK
are privatized representing the vast majority of UK passengers. Of the large UK airports, only Birmingham Airport and Manchester Airport Group remain under public ownership with constant talk of putting them up for sale.

Private sector involvement in airports is also fairly developed in Germany and Italy. In Russia, St Petersburg and Moscow Domodedovo are operated by private companies or consortiums.

Another region where privatization has advanced is Latin and Central America as well as the Caribbean. Here, airports for the most part are being operated under concession models where the operator for the duration of the concession contract virtually owns the airport, manages and develops it and generates a return on its investment. Argentina, Mexico, Nassau, Dominican Republic, Peru, Ecuador, Colombia and Costa Rica, to name a few, have adopted the airport concession model for the management, financing and development of their airports.

In the Asia Pacific Region airports are predominantly run by government entities albeit often corporatized. In China, airport development and financing is undertaken by the Government. A number of airports in China however are under partial private ownership through stock market listings, for example Beijing Capital Airport, Hainan, Guangzhou, Shanghai Pudong and Xiamen. As regards foreign investment in China, Fraport is holding 24.5% stake in the management company of Xi’an airport.

In India, the government has adopted the concession model to develop India’s main international airports. So far, four airports have been awarded to Indian infrastructure companies with a 10% stake reserved for international airport management companies. The concessionaires have already made significant investments in new terminals and airport infrastructure. New airports in Delhi and Mumbai are in the planning stage and the concession model is expected to be applied again. The rest of the country’s airports continue to be run by the Government through the Airports Authority of India. Elsewhere, a concession model was also introduced for three airports in Cambodia.

In Africa, ACSA is the largest airport operator with private involvement. Operating the largest airports in South Africa, ACSA remains majority government owned. In Egypt, the government brought in foreign airport management companies to operate and manage its airports across the country. Airport investment is now starting to flow into Africa from China and Brazil. While China will finance and build a new airport in Karthoum, Sudan, Brazil invests in a new Maputo Airport in Mozambique.

In sum, there exists a whole range of various forms of private sector involvement through IPOs and trade sales on the one side and simple management contracts on the other.

So what drives privatization?

The goals of privatisation are varied and include tapping domestic and foreign capital markets; providing independent financing of large scale projects; reducing the financing requirement of government; avoidance of additional debt; transfer of responsibility or risk as well the introduction of efficiencies and consequential improvement of financial performance and service quality.

All these goals are valid and have applied to varying degrees in transactions over the past 25 years. Yet, the period 2009-10 has been one of the quietest for airport deals in
the last two decades, largely due to the credit crunch and lower valuations of airport assets. But privatization of airports is set to re-emerge. The next wave of privatization however will also be driven by the need of governments to reduce sovereign debt. AENA is the most prominent example in this category expecting to raise 9 billion Euros from a partial transfer of ownership, and others will follow. Athens International Airport already announced its intention to privatize another stake of the airport which is currently held by the Greek government. The latter also intends to privatize the country’s regional airports.

In other parts of the world debt reduction may not be the key driver of privatization. However, the very rapid growth of air traffic in countries such as Brazil, Indonesia, the Philippines and other emerging economies require urgent investment and know how. Instead of making the investment themselves, these governments prefer to transfer risk to the private sector and benefit from airport infrastructure and management that meets international standards. Public-private partnerships in the form of concession contracts frequently put the risk on the investor while governments receive guaranteed concession payments and fees. Moreover, privatization largely removes airports as an issue from a country’s political agenda which may otherwise significantly delay investment and hamper performance.

Investing in airports is not a free ticket to make profits. Air traffic is a very volatile industry vulnerable to external shocks. With the increasing liberalization of the airline industry, the airline business has become more agile and more competitive exposing airports to the risk of air carrier failure.

As a result of the low-cost evolution, airlines also have become more flexible in regard to their operations and routes managing their capacity prudently. As airlines are more focused on yields than on market share, an airport is more likely to be left in the cold. This makes the evaluation of an airport over two or three decades very complex. Investors have to look at fundamentals that reassure them of continuous demand regardless of individual carriers.

Another important factor is the quality and know-how of management. An airport run as part of the government is a public administration. Making it efficient and profitable will require a change of culture and staff to establish expertise and excellence. A financial investor without airport management expertise will hardly be interested in such an investment. Global airport investors with the necessary experience and know-how however are still limited in numbers and in terms of the amount of leverage they can accept.

So, currently there may be more opportunities out there than investors. Credit is still tight, or at least tighter than it was before the crisis. Many infrastructure experts in banks and investment funds lost their jobs during the crisis. And there is a clear distinction to be made between the motivations of investment opportunities arising. Needing money, reducing debt, or avoiding further debt on top of an ailing economy in a mature market is not the framework that looks very appealing for an investment. On the contrary, emerging economies, rapid growth, positive demographics and scope for efficiency gain, will still engender significant interest in the market.

But governments need to provide a sound framework that investors can rely on. Rushing to tender or sell airports before sketching a regulatory framework leads to uncertainty and lack of confidence. India is a warning example of how not to proceed. The Indian government had concluded concessions agreements with two companies for
four airports for 30 years. These agreements are now running the risk of being superseded by a regulatory framework that is detrimental to the investors, upsets their financial planning, and makes non-sense of the multi-billion dollar investment made so far by these investors. In light of the significant infrastructure required in India over the next 10 to 20 years, there is a concern that future private sector investment may be harder to come by in an environment of tight regulation and reduced calculability.

Governments should also be cautious to reach for excessive prices, concession payments or fees. Money must not be the only criteria when it comes to awarding contracts. Expertise, strategic planning, service quality and a long term strategy on growth and capacity are equally important factors. Airport infrastructure is too important an asset for the local and national economy to be simply awarded to the highest bidder.

There are currently around 60 players in global airport investment. The dynamics in this industry are currently such that divestments of stakes outweigh active acquisitions. Macquarie, BAA and Global Infrastructure Partners lately have divested of shareholdings to pension funds or local groups of investors. The global airport privatization activity is still chilled and that is unlikely to change unless AENA or Infraero put forward clear rules of engagement for their privatization going forward.

Investors are not stupid. If they feel that they are engaged to save governments, either to prop up their finances or to make fast track investments in infrastructure that should have been made long time ago, they will simply not engage. Governments are called upon to create long term win-win solutions for all parties stakeholders involved in a transparent manner. Airport privatization has a positive track record and continues to represent a prime way to achieve operational and managerial excellence in a profit generating environment.

Looking ahead, a number of opportunities are currently developing. Peru is tendering six regional airports; further concession contracts are expected in Colombia and Uruguay; and of course Brazil is a space to watch. From IPO to trade sale, concession contracts or terminal privatization, all these options are still on the table in Brazil. Yet it is clear that the Brazilian government will expect substantial investment in the airport infrastructure and time is running out as the World Cup 2014 and the Olympic Games 2016 require substantial airport upgrading.

Elsewhere, France may offer a minority stake in its regional airports, while IPOs of airports are possible in Indonesia. Turkey has announced that it will build more airports and will privatize more existing ones. Africa will be interesting to watch as Brazil and China are hungry for its commodities and depend on effective infrastructure for their production.

In the U.S., Chicago Midway has received another extension to submit a privatization proposal while Puerto Rico examines a private public partnership for the development of San Juan Airport. India, Spain and South Korea, as already mentioned, may provide further impetus to airport privatization and last but not least Russia will privatize more of its airports in the future.

It will be interesting to observe how governments will sway investors. At this stage, the global airport industry seems to be a buyer’s rather than a seller’s market. That is good news for investors and should be good news for airports and their users as well.
Thank you.