

## AIRPORT SYSTEMS: PUBLIC SERVICE AND PRIVATE INITIATIVE

This issue was prepared by Bernardo Sánchez Pavón, consultant to the Transport Unit, Natural Resources and Infrastructure Division. For further information, please contact: [trans@cepal.org](mailto:trans@cepal.org)

The importance of air travel among other forms of transport has greatly increased, offering a viable option for the movement of people and goods. In the late twentieth century, voices were raised urging greater private-sector involvement in the provision of transport infrastructure, and that provided by airports was no exception. In the following pages, which form part of a more extensive document soon to be published, various points of view are put forward supporting the establishment of policies that allow for the creation of airport systems that are sustainable and open to participation by different social actors.

### 1. Privatization and economic policy

The guiding principle behind the privatization of public corporations, and consequent public-sector readjustment, is that public resources will be freed up from loss-making firms, so ensuring balanced budgets along with fiscal resources focused on social expenditure. It is important, however, to take into account the consequences of selling off State-owned corporations.

- (a) The State permanently loses an asset that could be exploited in times of acute economic difficulties.
- (b) Privatizing profitable State-owned companies (which are more appealing to private investors) and maintaining public ownership of loss-making firms creates a complex situation for national exchequers, unable to use surpluses generated by the former to cover the deficits of the latter. The profits generated by a country's main airports, for example, have helped compensate for the financial losses that may occur in local airports or other services.
- (c) Selling off companies that have good market prospects can worsen budgetary results in the long term, particularly if the State maintains its commitment to guaranteeing loss-making public firms (some of which have a clear social function and may at times involve a legal mandate). This may force the State to implement new programmes, albeit with less resources. Impetuous restructuring of the public sector may in time lead to substantial political upheavals.
- (d) The private sector is, understandably, not attracted to companies running at a loss. Before privatization, governments must therefore go through the costly process of financial restructuring of State enterprises, which will involve significant amounts of public funds. Consequently, when evaluating privatization processes, the authorities must take into account financial restructuring, direct financial outlays (including publicity, commissions and financial intermediation) and indirect outlays (financial incentives). Fiscal returns also need to be taken into account, however, because when State-owned companies are sold off, revenues are generated by the taxes that result from the activities and performances of the newly-privatized firms. Additionally, if improved management of privatized enterprises leads to an increase in staffing levels, this will increase the number of people paying income tax and social security contributions. If, on the other hand, privatization is followed by staff reductions, the cost to the State will increase owing to the provision of grants, the implementation of retraining programmes and the diminished number of taxpayers.

- (e) Faced with the possibility that a completely privatized firm may fall under the influence of a foreign government, some countries have created a stable hard core of shareholders or have established “golden shares”. However, both measures are of doubtful effectiveness, as well as being legally and economically questionable. The “golden share”, a concept derived from the privatization system in the United Kingdom, is created in order to protect national interests in strategic industries by providing that country’s government with powers to block takeovers, curb foreign investment and set down conditions regarding the operations of privatized firms. Despite their advantages, golden shares have not been used frequently, and the government of the United Kingdom refrained from using this instrument to block Ford’s takeover of Jaguar in 1989. The non-use of the golden share may have signified a backward step in the privatization process, underlining the belief that good regulation is always more effective than the best of golden shares.

In conclusion, if a privatization process is not handled with maximum efficiency, it may lead to the loss of credibility in the eyes of a country’s citizens.

## 2. Privatization of natural monopolies

Experience has shown that privatization has a high chance of success when it takes place within a competitive context and involves an efficiently run private company. The purchase of a State-owned enterprise by a large private-sector corporation may open up more markets, strengthen the technological base and increase the desire to optimize the final product.

The existence of a competitive environment and highly efficient private firms is feasible in air transportation, but more problematic in the case of airports. This is why the privatization of airports can be more easily justified in terms of management efficiency and improvements to physical and technological infrastructure.

The change in ownership of companies does not always lead to the same outcomes; when such changes lead to exposure to competition, significant increases in productivity generally result, although this does not occur when natural monopolies are privatized.

It is clear that the sale of a natural monopoly generates more income than that of a company exposed to competition, as it offers significant incentives to the buyer (guaranteed market share, low threat of bankruptcy and little danger of a takeover). The privatization of such monopolies, however, should be accompanied by special regulations to ensure that businesses maintain their willingness to maximize efficiency and service quality.

## 3. The possibilities still offered by the public system

The market system, as opposed to the traditional public-services approach, promotes free access to the sector

for operators, the opportunity to share infrastructure, the free creation of networks and the chance for these to be interconnected.

Scientific progress and economic development have provided consistency to these considerations based on reduced economies of scale, the role of costs and the existence of large private corporate groups that are able to replace the State in the provision of public services. Taking into account certain considerations, however, allowing the public-services approach to be dropped is a risky issue.

The prevailing right of different operators to use networks, which is one of the pillars of the market system, is possible today thanks to the efforts made by public authorities to provide such networks with a solid foundation. In other words: the market system is now possible thanks to the appropriate conditions having been established by the public-service system. This confirmation raises the question as to whether the market system will be able to accept the significant challenge of improving infrastructure quality and network operations without negative consequences for users.

There is no easy response to this issue given that it involves two approaches that are difficult to reconcile: financial considerations (concerns about business profitability) and social concerns (determining what is a social entitlement). The difficulty of offering an explicit answer to this issue is reason enough for not rejecting the usefulness of the public-service system for the future. There may be a need to admit that both systems (public-service and market-driven) are equally valid if considered from an abstract perspective, and only the contextual details make them more or less appropriate in each particular case. Only in a particular context can the intrinsic advantages of one system or the other be determined.

The public service system has demonstrated its suitability for large projects associated with the creation and modernization of infrastructure and services in cases when the private sector has not been able to take on the huge financial and organizational challenges involved, as is the case of local airports or airfields, which play an important role at a social level and help to connect a particular area with the rest of the country. On the other hand, it is also true that users have benefited when certain sectors have been exposed to competition. However, if market dynamics are unable to properly satisfy social needs, is there any justification in opening up a sector to different operators, or would it make more sense to use a public-service model? Numerous studies have warned about the “cost of public services” but the exact cost of non-public services remains to be determined.

This is not to suggest that private enterprises should manage only public services that are consistently profitable or that such enterprises should reap the benefits whenever public-sector firms are highly cost-effective; this would involve taxing the whole of society to compensate for State budgets in permanent deficit, with harmful consequences for economic development. The proposal, rather, is that following a thorough analysis, a system should be chosen for each sector and retained for as long as necessary to carry out a proper and objective evaluation.

#### 4. Airport competition

Various international economic organizations, such as the Organisation for Economic Co-operation and Development (OECD), have pointed out the advantages of introducing competition in a particular sector, which include: fostering innovation and business efficiency; increasing the choices available to consumers; reinforcing the differentiation of products and services; providing a better response to consumer demand; and limiting excessive regulation.

The feasibility of establishing competition between airports is a contentious issue and a proper response can be found only once each case has been assessed; the studies conducted have, however, provided some general conclusions. Research in Europe has shown that large airport hubs compete with similar-sized airports and, in some cases, with large regional airports. The latter, in turn, may compete with others having similar characteristics, with the large airport hubs and with overland transport. According to these same studies, small airports do not tend to compete with each other, unless they are close to each other in terms of distance, of similar size and competing for the same customers.

The appropriate context for establishing competition between airports would be as follows:

- (a) Provision of equal or comparable transport services.
- (b) Airport management's ability to influence costs (especially the charging system), so that such costs are eventually reflected in the prices offered to customers by airline carriers.
- (c) An airport must be easily accessible, otherwise passengers may choose an alternative airport regardless of the facilities offered, if that means the total cost of transport (air travel plus airport access) is lower.

In a context of open competition, it is to be expected that the airport selected by users is the one which offers the lowest "total transport cost", that is, the total cost involved in the journey of passengers or merchandise to the final destination. Consequently, the demand for the services of an airport will depend on the total cost in relation to that which users may be offered by alternative facilities. The cost of using a more distant airport will be acceptable if it is compensated for by lower prices or waiting times.

There are four basic factors that influence the potential appeal of a given facility: the physical and technical infrastructure, costs, management and geographical location. If prospective analysis is carried out regarding these factors in relation to airport infrastructure, the following considerations should be taken into account:

- (a) In terms of costs, it will be difficult to create opportunities for competition if the authorities managing airports are unable to influence the prices passengers have to pay. If airport management has no control over the rates charged, an important competitive element is missing.

- (b) As for geographical location, although optimum location certainly creates important advantages, improvements to intermodal connections to give better access to facilities can have a positive effect. Airport authorities have little room for manoeuvre in geographical terms, as they cannot decide on the location of roads or railways. As long as airport access depends on other infrastructure and forms of transport, effective competition between airports is impossible. One solution to this problem would involve enabling airport authorities to take part in designing overland transport infrastructure that will decisively influence the competitiveness of the airport. Another geographical factor to take into account is the economic characteristics of the surrounding area and their influence on an airport's viability, given that the volume of passengers and goods passing through an airport depends to a great extent on the economic development of its surroundings.
- (c) Regarding management, this aspect depends on the organizational skills of the managers, although a poorly-designed legal and administrative model (defects in organizational structure) would make airport managers less able to respond to the changing demands of the market. That aside, all other administrative aspects are the responsibility of airport managers. It is important not only to manage efficiently, but also to be seen to do so, which is why good marketing is so essential. Once public enterprises have been privatized, marketing becomes one of the most significant areas.
- (d) Lastly, facilities are an external component any changes to which are subject to decisions by airport management. This is the area that is least dependent on subjective evaluations, given that any improvements are easily observable.

All the factors indicated would allow comparisons to be made between different infrastructures on a case-by-case basis; administration and facilities, however, are the responsibility of an airport's management. It would be logical to conclude, therefore, that if the airport system is opened up to competition, one of the immediate consequences would be increased investment in improving and extending facilities.

Investment in facilities is certain to have beneficial consequences for the overall economy and the modernization of infrastructure, with a knock-on effect that will help reactivate different sectors (particularly construction and services). Moreover, there is always room for improving installations with the aim of making them more competitive, although this is not the only requirement for increasing air-traffic volume. In addition, infrastructure investment that rises at a faster rate than an airport's growth is possible only for a limited period (an initial phase of structural reforms in order to adapt facilities to a competitive market), given that such investment cannot be sustained indefinitely.

Effective competition can bring about a form of “natural selection” of more competitive infrastructures, although this will take place only in return for major investment in other non-profit-making facilities. Accordingly, if such investments are paid for with public funds, the opportunity cost (the cost of not investing in more urgently needed transport infrastructure such as ports, railways or roads) may become unsustainably high, and a more sensible approach would be to opt for rational selection by a public authority rather than natural selection by the market.

It may be in the implementation of a competitive system that more private-sector involvement may be anticipated, shouldering operational risks and identifying important benefits that result from successful management. Since the final aim is to safeguard national budgets and avoid opportunity costs that are not in the public interest, there is enough justification for the total or partial privatization of the sector.

Contrary to the belief that competition should be introduced, partnerships have been concluded between some airports, such as the Pantares alliance between Frankfurt and Schiphol (Amsterdam) airports, the objective of which is to share their experience in the business and real-estate areas and create a joint platform of information technology services. Such partnerships can be useful instruments for correcting the deficiencies in airport systems and working together to improve connections between various subsystems.

In conclusion, the decision to introduce competition into an airport system offers the clear attraction of combining the elements that make up such systems into a structure which will be more competitive, modern and with good possibilities for the future. However, it must be given prior consideration to ascertain whether the system really is able to compete, and even whether encouraging competition really is the best way of improving airport management.

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