FIVE LESSONS FROM RECENT AIRPORT PPPs

Presented by

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Background

- 20-year career spanning the international private and public sectors (IT, transportation, airports), including the UN
- Co-founder / CEO of Airport Development Partners SA, Geneva
- Consulting public and private parties involved in airport privatisation, namely PPP
- Investing in niche airports on our own account
- Assisting public and private airport owners in preparing for sale / PPP concession / management contracts
- Increasing efficiency of operations
- Developing new commercial income streams / alternative use scenarios

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Why Airport Investment ?

- As investment categories, airports are similar to any other infrastructure investment such as utilities, or commercial real estate
- A mix of operating company (airside) and a property company (landside)
- Investors acquire an income stream and pay for a multiple of the income stream
- The value of the income stream is dependent on prices paid for similar assets in the past
- Loss-making airports have *a priori* no financial value to institutional investors (although they may well have substantial economic value)

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Why Airport PPP ?

- '*The purpose of a business is to create a customer*' (Peter Drucker)
- The purpose of an airport is to create an airline customer (whose purpose in turn is to create a passenger and/or freight customer)
- The private sector is best placed to innovate design, operation, financing and business development in order to create demand
- PPP has emerged as the most effective way to establish an efficient airport system
- Private parties bring operator know-how, operational efficiency, entrepreneurial drive

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1. Governments should build PPP Capacity

- Consultants won't do it for them
- Difficulty of reconciling the interests of government and consultants
- PPP capacity also helps select competent consultants
- Put measures in place to prohibit and sanction foul play
- Not doing so will limit your future PPP capacity

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2. Manage Public Expectations

- Establish a communications strategy
- Be (very) wary of traffic forecasts – understand the forecast methodologies
- Don't overestimate bidder interest
- Don't raise unrealistic expectations – even if a future government will have to deliver
- Define, and communicate, what will constitute success and failure
- Have a credible plan B

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3. Re-structure or re-organize projects in response to a changing environment

- Higher private sector risk aversion, interest rates can necessitate restructuring
- Communicate early to stakeholders and the wider public
- Consider conversion into a shorter-duration management contract and re-issue when the environment has improved

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4. Sanction foul play

- Successful non-fair-play bidders can damage the reputation of governments – and of PPP in general
- 'Grey Listed' parties would flag warning signal, not mean automatic exclusion
- World-wide exchange of PPP practices and experience
- Don't just look at the success stories - more is often learned from tough challenges and failures

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5 . Immunize PPP projects from external political influence

- Anticipate high-level political influence for high-value and high-profile PPPs
- Communicate policies and procedures clearly from the beginning
- Refer to them and stick to them

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