CONFERENCE REPORT
3rd ANNUAL ACI-WORLD BANK AVIATION SYMPOSIUM & 9TH ANNUAL AIRPORT ECONOMICS & FINANCE CONFERENCE

20-21 MARCH 2017 | LONDON, UNITED KINGDOM
WHAT’S INSIDE?

This white paper summarizes discussions that took place at the 3rd ACI-World Bank Aviation Symposium (20 March 2017) and the 9th Airport Economics & Finance Conference (21-22 March 2017) in London, United Kingdom. The report covers the information presented and any relevant associated discussions during the panel sessions.

REPORT HIGHLIGHTS

This year marked the third joint initiative between Airports Council International (ACI) and the World Bank Group (World Bank, IFC). For the World Bank Group (WBG), this is the 13th year it has collaborated with the industry to hold an aviation conference. The overall objective was to take stock of developments to assist the WBG’s efforts to develop the air transport sector, exchange knowledge and learn about developments in the industry.

The 3rd ACI-WB Aviation Symposium held on 20 March 2017 recorded more than one hundred participants with affiliations ranging from airport operators, financial institutions, regulators, rating agencies and advisory firms. The 9th edition of the two-day ACI Airport Economics and Finance Annual Conference on 21 and 22 March 2017 followed to the Aviation Symposium. The conference offered several networking events and registered more than two hundred participants coming from airport operators, regulators, advisors, rating agencies and financial institutions.

A broad spectrum of issues has been discussed. The event focused on the major topics of airports’ Private Public Partnerships (PPPs), regulation and financing; it also promoted interaction with the public through an interactive polling session and with the introduction, for the first time, of an innovative Workshop session where attendees teamed to build an action plan to implement an airport PPP.
ACRONYMS

ACI Airports Council International
ADR Aeroporti Di Roma
ANSP Air Navigation Service Provider
APEC Asia-Pacific Economic Cooperation
APEX Airport Excellence (ACI)
ASA Air Service Agreement
ASEAN Association of Southeast Asian Nations
ATC Air Traffic Control
ATM Air Traffic Management
ATNS Air Traffic Navigation Services
BLR Kempegowda International Airport
CAA Civil Aviation Authority
CAPEX Capital Expenditure
CNS Communications, Navigation, and Surveillance
CSR Corporate Social Responsibility
DAA Dublin Airport Authority
DGAC Direction Generale de l’Aviation Civile
E&S Environmental and Social
EAC East African Community
EAP East Asia and Pacific Region
ECA Europe and Central Asia Region
EIB European Investment Bank
FAA Federal Aviation Administration (US Civil Aviation Authority)
FCO Rome Fiumicino Airport
GDP Gross Domestic Product
GIP Global Infrastructure Partners
HKIA Hong Kong International Airport
IATA International Air Transport Association
ICAN International Commission for Air Navigation
ICAO International Civil Aviation Organization
IFC International Finance Corporation
LAC Latin America and the Caribbean Region
LCC Low-Cost Carrier
MDB Multilateral Development Bank
MNA Middle East and North Africa Region
MPPA Million Passengers per Annum
MTR Minimum Technical Requirement
NAC National Airport Company
OPEX Operational Expenditure
PAIP Pacific Aviation Investment Program
PAX Passengers
PFC Passenger Facility Charge
PPI Public Private Investment
PPP Public Private Partnership
ROCE Return on Capital Employed
RSA Runway Safety Area
RVT Remote and Virtual Towers
SAR South Asia Region
SIP Share Issue Privatization
SLA Service Level Agreement
UAS Unmanned Aerial Systems
UTM Unmanned Traffic Management
**A SNAPSHOT OF THE AVIATION INDUSTRY TODAY**

The World’s air travel industry continues on its successful path, which is marked by strong growth especially in specific emerging markets, and healthy consolidation in more mature regions. The current aviation growth rate is being one of the strongest in its history, at a pace that doubles the World’s GDP. Low oil prices, compounded with a solid and continued high demand for air travel, ultimately resulting in forecasted airlines’ revenue in excess of US$736 billion for the year 2017.

Globally, aviation supports 63 million jobs and contributes with US$2.7 trillion to the global GDP. Continued growth in air travel is one of the essential pillars for economic development in emerging markets as it fosters a global marketplace of which all economies can benefit. Sustainable growth however, requires investments in modern infrastructure and technology such as airports, air traffic control systems and security equipment, which need to operate safely and securely in an ever expanding and constantly transforming environment. Airports often need to invest large amounts of funds to meet future demand. However, raising capital to invest in long-term aviation infrastructure can be challenging in some regions, especially where investors are concerned about issues such as effective regulation, good governance and economic sustainability. In addition to that, the highly cyclical nature of the aviation industry brings an additional layer of complexity and diffidence for potential investors in developing markets. Capital markets indeed provide larger amounts of financings and good pricing during a cycles high; being airports long-term investments they may be functional and ready to generate the maximum income during a cycle low and thus be unable to get back the invested value.

The following is a snapshot of the passenger traffic growth for the year 2016:

- Global growth rate: +5.5%, with peaks in Asia-Pacific at +9.0% and Middle East at +9.4%;
• Unfavorable economy in Latin America with a +2.2% growth. Africa is the only outlier having a negative growth of -1.9%.
• Europe’s growth (+5.0%) is below the global average. However, it represents the first market in terms of the World’s airport revenue (35%), followed by Asia-Pacific (30%), North America (19%), Middle East (8%), Latin America (6%) and Africa (2%).

Globally freight has been growing at the slower pace of +3.5%, but with same markets ranking as for the passenger traffic:

• Good performers: 5.8% in Middle East; +4.5% Asia-Pacific; +4.1% Europe;
• Slower growth in North America at +1.7%, Latin America at +1.5% and Africa at 0.6%.

Surprisingly, in the context of this unparalleled air travel growth, most of the world’s airports are unprofitable. Indeed, the sustained strong growth of the aviation sector is much centralized among a small subset of actors that operate in profitable aviation markets that in certain cases have been created by design. Diversity and operational purpose of different airports worldwide (e.g. community service vs major hubs) result in very different outcomes in terms of success and profitability, additionally interconnected with differing ownership structures. In this regard, valuable information presented by Alan Robinson from Convergence International Airport Association reports that:

• 67% of all airports in the world operate at a net loss;
• Out of 3,000 commercial airports worldwide only 19% are PPPs;
• This 19%, corresponding to 570 airports, account for 30% of total passengers.

From this data can be extracted that most profitable airports with high volumes of traffic represent the most fertile terrain for PPPs; they can boost profits and efficiency, and thus can generate a compound impact for profitable airports. In this regard PPPs should be perceived as a tool to achieving these outcomes rather than a goal.

**NEW TRENDS IN AIRPORT REVENUE**

A change in established trends has been experienced recently. In the past years returns on invested capital where traditionally higher by approximately 20% to 25% for an investor choosing an airport rather than an airline to invest in. Today this margin is overturned. However, Brian Pearce, Chief Economist from IATA, stressed on the importance of interdependence between airlines and airports. In analyzing this, it is important to possess a holistic view given that airports are representations of communities and not simply independent businesses. An airport’s success is directly dependent on airlines’ network successes: consultation with airlines is key to achieving a mutual success.
Globally, in regards to aeronautical revenue, it should be noticed that year over year passenger charges have been growing at a faster pace (+8.6%) than landing charges (+3.4%). The different growth rates created a distribution of revenue where passenger charges represented the single largest component among aeronautical charges:

- Passenger charges at 43.3%, double than landing charges (strongest increase year over year);
- Landing charges at 20.8%, double than terminal rentals (little or no growth);
- Terminal rentals at 10.7% (no growth);
- Security charges at 8.1%;
- Others 17.0%.

The single largest components of non-aeronautical revenue are:

- Retail concessions 26.0%;
- Car parking 22.6%;
- Property and real estate rent 15.7%.

GLOBAL PERSPECTIVES IN THE CREATION OF VALUE FOR AIRPORT INVESTMENT

Speakers from airports located in Hong Kong, India, United States and Italy presented their points of view around the process of identifying the real value of airport investments. The exercise has been valuable as it ultimately highlighted the essential components of value identification, creation and retention for a set of airports having very diverse geographies, different traffic volumes and different corporate cultural approaches.

When Hong Kong International Airport (HKIA) opened in 1998, explained William Lo from the Hong Kong Airport Authority, US$5 billion have been injected into this large project. A strong financial commitment from the government, totaling US$4 billion, supported this challenging investment that provided through the years an excellent performance:

- Approximately +150% of traffic growth;
- Average Return On Equity of +13%;
- CAGR of +18% during the last decade;
- Continuous re-investment in upgrades and new technologies (such as service robots and driverless tractors);
- A massive US$18 billion expansion plan including for a new runway and related facilities and services.

A major take away from the HKIA success story is that re-investment is key. Sustained, high-rate, compound growth is only possible through a systematic reinvestment of profits. In the example
of HKIA this has been achieved with constant technology upgrades and substantial moves such as retention of dividends planned to be re-invested in the airport expansion. The retention of dividends is also sign of committed and aligned shareholders that share the vision of postponing dividends in exchange of higher returns in the long run.

Different contexts and geographies result in different successful approaches. The case of Kempegowda International Airport (BLR), Bangalore’s international airport, showed an excellent track-record of achievements. This has been possible through a different approach and in a country with ambitious goals for the aviation sector.

- India aims to become the third-largest aviation market by 2020.
- Approximately 500 brownfield and greenfield airports would be required by 2020
- 3rd year consecutive with +25% growth.

Based on the strong growth of BLR described by Mr. Bakshar from Bangalore International Airport Limited, a most relevant take away is that the success of an airport depends on the success of the airline. In the specific case of Bangalore this has been successfully achieved through a concrete engagement with airlines in the form of a MoU with IATA for the design of new terminal.

Similar has been the angle followed by Aeroporti Di Roma (ADR) with Rome Fiumicino (FCO). ADR’s Chief Strategy and Financial Officer Marco Troncone highlighted during his presentation the importance of users’ engagement in the planning process. Several have been indeed the iterations conducted with airport’s users and stakeholders, a process ultimately resulting in a number of revisions and optimizations of the original project.

**PPPs**

PPPs constituted a topic of central importance in the past editions of the Symposium and Conference. The importance of PPPs lies in the potential that are able to unlock for airports; they can boost growth, restructure the business, redefine a new angle for development approach and dramatically optimize efficiency. Through the Symposium and the Conference, the topic has been re-explored from the multiple angles of airports, investment banks, regulators and consultants, in the light of the most recent industry developments. As explained by Emmanuel Goldstein from Morgan Stanley, PPPs can consistently vary according to the contractual length and degree of involvement of the private sector, two aspects having a direct proportionality. Private sector involvement can take the different forms of a short service contract (1 to 3 years), a management contract (3 to 5 years), a lease contract (10 to 15 years) and a concession contract (25 to 30 years). With a longer involvement of the private sector, there is a consequential reduction of public sector control, which is traded for an increased business improvement opportunity and revenue streams for the governments.
Several variables influence the viability of investment opportunities for airport privatizations. To a certain extent developing markets represent strong opportunities, which bring an intrinsic risk around political instability and growth rates. Besides geography and type of markets, a major discriminator around the investment selection and thus the return on invested capital is the airport’s size in terms of traffic volumes. In the case of an investment bank looking into a potential PPP deal, airports with a traffic below one million passengers per year would be in most cases rejected.
Through the different PPP transactions, investors showed a preference for specific incentives associated to potential privatizations:

- Dual and Hybrid till regimes incentivize private investments at airports;
- 68% of passenger traffic is handled by privatized airports having a hybrid or dual till structure (for major privatized airports).

Privatized airports are not evenly distributed worldwide:

- Privatized airports by region are distributed as follows: Europe 43%, Asia-Pacific 26%, Latin America 25%, North America 2%, Middle East 1%;
- 75% is the passengers traffic handled by airports with private sector participation.

There is indeed a strong European concentration, both in terms of number of privatized airports and the passengers’ flow. North America is instead at the other end of the spectrum.

PPPs are certainly beneficial from multiple perspectives; however, they bring also challenging issues such as deal complexity and the negative public perception of a private entity controlling a “community” asset.
ATTENDEES’ PERSPECTIVE ON PPPs AND THE ROLE OF REGULATION

As already did in the previous years, the Symposium and Conference captured a direct opinion from the public around some of the discussed topics. Through an interactive polling run by Dr. Charles E. Schlumberger, Lead Air Transport Specialist from the World Bank, has been captured the audience’s opinion around the main topics of PPPs, global economy, air transport industry, and the political instability generated by the UK exit from the EU and the new US administration. The attendees’ opinion around the global economy and global environment for PPPs is positive, even though threaten by multiple factors such as unstable financial markets, recessions, conflicts, the refugees’ crisis, and a potential rebound in oil prices. An additional valuable point of view from the public has been provided on PPPs capital requirements. Even though PPPs require consistent capital expenditures, the biggest challenge identified by the audience is not to raise capital, but to convince airport owners to undertake a privatization.

A second initiative intended to engage the public has been a group exercise session. Attendees have been assigned airport cases and have been grouped in teams with the objective of working together to create an action plan to undertake a PPP. A specialist has been assigned to each group to coordinate and guide teams through the process of building and subsequently presenting an action plan. The exercise has been much appreciated by the public, and generated constructive debates around different ways to plan, execute and exit PPPs.

As in previous years, regulation constituted a pillar of the Conference. From many points of view, regulation is often seen as a necessary evil: it definitively needs to be in place as it aims to represent a solid framework where the different aviation actors interact, but it needs also to
possess an underlying simplicity and flexibility. It should be balanced and avoid to dig too deeply into certain details, such for example the cost structure or the financing process.

It has been underlined the need for a regulation that should be able to facilitate businesses and attract financiers. Regulation should seek a dynamic, iterative and constructive engagement across the different stakeholders, establishing an effective consultation resulting in a collaborative planning. In this context, it is ultimately required a substantial regulatory flexibility to sustain growth and for all the involved actors to succeed.

**TOWARDS THE NEXT ACI-WORLD BANK AVIATION SYMPOSIUM & AIRPORT ECONOMICS & FINANCE CONFERENCE**

In the present context of a phenomenal aviation sector growth, with a rate doubling the global GDP as it wasn’t seen for many years, during the Conference and Symposium several have been the success stories, thoughts, takeaways and knowledge exchanged.

However, fear arises around the sustainability of this growth, its underlying solidity and momentum, with uncertainties around oil prices rebounds and international political risks. Growth must be sustained, but preventive measures should be considered too. It is imperative for savvy investors and stakeholders to put in place preventive actions and design cautious strategies to protect investments. What happens if aviation growth slows down to GDP levels or below? A major takeaway is that investments need to be structured in a robust way in order to resist economic impacts, independently from the position in the aviation cycle. It has been also re-explored the role of regulation, with a required flexibility intended firstly to protect and then
to release the potential for specific aviation market. ACI and the World Bank Group will continue to work together to enhance this unique aviation event where numerous high-level sessions, panel discussion and cutting edge presentations will be delivered. From PPPs to regulation, from investment strategies to practical workshops and networking sessions, the 3rd ACI-World Bank Group Aviation Symposium & 9th Airport Economics & Finance Conference event has achieved its objectives of taking stock of the industry’s progress, consolidating what has been learned so far and ultimately paving the way for the upcoming years.