Airport Privatisation

The Effects of Take Off

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Interesting Findings

Privatisation is mainly successful because it leads to investment and modernisation in infrastructure.

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For every increase of a million passengers, one thousand employees are required.

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The modernisation of Delhi airport was denied to AAI on the basis of technical reasons and the fact they did not do it earlier.

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AAI's total yearly revenue from Mumbai and Delhi airports will be Rs. 280 crore more than if AAI were to run the airports.

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It is the importance that businesses give to profit which will maintain the safety levels at privatised airports.

Executive Summary

In the past few decades, airports have been privatised in attempts to make them more efficient and for the government to find extra funding. Airports are shifting from being seen as public services to being viewed as attractive private enterprises. This trend towards privatisation has taken place in almost every corner of the world under various degrees of privatisation from outright sale of the airports to listing them as public companies on national stock exchanges. This study investigates the general area of airport privatisation and specifically goes in depth with the recent privatisation of Delhi's Indira Gandhi International Airport.

In order to determine the general effects of privatisation, four airports from across the globe were selected for a "before and after" comparison of air traffic, service quality, and financial reports. These airports include: London's Heathrow International Airport, Sydney's Kingsford Smith International Airport, Buenos Aires' Ministro Pistarini International Airport, and Bangkok's Don Muang International Airport. With the exception Buenos Aires, all the airports had improved traffic, services, and financial health. In the case of Buenos Aires, traffic and services have improved, but massive amounts of investment are required to bring the airport up to date.

The report then also discusses a selected five types of privatisation: Greenfield, long-term lease, government corporation buy out, partial share sale, and privatisation of services. As for Delhi's privatisation plans, a private consortium led by GMR-Fraport was accepted for a long-term lease in which it will be responsible for modernising and improving the airport. In exchange for a thirty year lease, the consortium will be giving 46% of its gross revenue to the Airports Authority of India (AAI). Over the term of the agreement, GMR-Fraport has promised to invest over Rs. 10,724 crore. A comparison of Delhi's long-term lease to long-term leases in Buenos Aires and Sydney, leaves us unable to fully predict the outcome of Delhi's privatisation.

Finally, by discussing and analysing the Left's claims of employment loss, lowered safety standards, and loss of government profits, we see that the Left is unjustified in

opposing the recent airport privatisation in India. Interestingly, it is their argument that businesses put profit first, which will cause the airports to maintain safety levels while increasing profits. The conclusion can be drawn that airports improve after privatisation mainly because there is an increase in investment and modernisation of infrastructure.

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Introduction

The recent privatisation of Delhi's and Mumbai's international airports has left many in India wondering what effect this will have on airport services. Will the currently dismal infrastructure get a new facelift? Will safety of the passengers be compromised for corporate profits? This study seeks to answer these questions, and supports the answers with the experiences of other international airports which have been privatised.

Airport privatisation first began in 1987 when former British Prime Minister, Margaret Thatcher, decided to privatise many of the country's public services to raise public funds. From this time, the concept has spread to over 20 countries across the globe[1]. Only 2 percent of the world's commercial airports are managed by private parties. However, since many of these have been successful, we can expect this trend to continue to increase. From a business perspective, airports make for smart investments, since they generally have good credit ratings, earn substantial revenues, and have almost a full monopoly on the market.[2] From a public sector perspective, airport privatisation has the following benefits:[3]

- **Alleviates budget constraints**

These days, governments face increasing financial obligations in all sectors of public services. If airport development can be done through commercial means, state funds can be redirected to other public financial obligations. This point is highlighted by the case of Sydney's Kingsford International Airport, which was privatised in order to finance part of the Australian government's debt.

- **Increases efficiency**

Changing airport operation to an enterprise, rather than a public service, creates a financial incentive for companies to deliver the best possible services.

- **Diverts increasing investment costs**

As airports get older and passenger flow increases, more investment is needed in infrastructure to maintain service levels. As discussed earlier, governments' fiscal responsibilities are stretched far enough, so using private party funds to improve necessary state facilities becomes attractive.

- **Increases the possibility of airports boosting local economic development**

When airports are run as businesses, they have a financial incentive to create more demand for facilities. Thus, we can expect airport operators to work with local tourism boards and businesses to attract more travellers. On these grounds, the Government of India decided to privatise its two main international airports in Delhi and Mumbai. Following a bidding process,which was quite controversial, the Empowered Group of Ministers (EGoM) awarded the GMR-Fraport consortium the Delhi contract and the GVK-South African Airports consortium the Mumbai contract.[4] As of May 3, 2006, both airports have been running under private management.

1.0 Methodology

In order to understand airport privatisation, it is important to note that there are many types of privatisation. I have selected five types, Greenfield, long-term lease, Government Corporation buy out, partial share sale, and privatisation of services, and will explain and give examples of each. Afterwards, I will focus on similarities amongst the varieties to see if any general conclusions about airport privatisation can be drawn.

To determine if privatisation has led to improvements a "before and after" comparison of key data will be done. This review will cover Britain's Heathrow International Airport, Australia's Kingsford International Airport, Argentina's Ministro Pistarini International Airport, and Thailand's Don Muang International Airport. The key data are air traffic, quality of airport services, and financial reports. Table 1.1 describes the parameters that will be used to evaluate the changes that have taken place since privatisation.

Table 1.1 Comparison Parameters for Airports

Comparison Parameters for Airports	
	• Percent change in total passengers

Air Traffic	• Percent change in transit passengers • Percent change in freight business
Quality of Services	• Infrastructure (parking spaces, check in facilities, hotels, etc) • Any Additional Services
Financial Reports	• Airport's revenue EBIT • Percent profit going to government • Fees charged by the airports

After evaluating the success of these airports, a comparison of Sydney's airport and Buenos Aires' airport will be done, the two cases which have similar schemes as Delhi's. By looking at their performance and their situation before privatisation, I will try to draw conclusions about the future of Delhi airport. Further, I will discuss the relevant business details of the privatisation of Delhi's Indira Gandhi International Airport. These include contract agreements and the private consortium that has acquired the facility. Finally, I will discuss and refute the eight complaints the Indian Left has with privatising India's airports.

3.0 Selected Types of Privatisation

There are many ways to introduce the private sector to airport operations. The five chosen for discussion are Greenfield, long term lease, government corporation buy, partial share sale, and privatisation of service, are most relevant to the airports and issues that will be discussed in this paper. Table 1.2 gives a brief summary and examples of each of these types of privatisation. It also indicates the level of private sector influence in the system. "Private influence" is determined by the amount of influence private parties have in management of the airport. It is important to note that these privatisation types are not mutually exclusive, and that one airport could fall under several of these categories. For the sake of clarity, examples of airports are put in the categories they are most aligned with.

Table 1.2 Selected Airport Privatisation Schemes

	Greenfield[i]	Long Term Leases	Government Corporation Buy	Partial share sale	Privatisation of Services
Key Traits	Building a brand new airport with both private and government cooperation	Private interests lease management, financial, and ownership rights	Private interests buy the government corporation that currently runs the airport	A sale of a share percentage of a government corporation, to private parties or on the public stock exchange	Contracting out services such as cleaning and maintenance to private companies
Private Influence	High	High	High	Medium	Low
Examples	Cochin Airport, New Bangkok International Hyderabad	Buenos Aires Ezeiza Intl, Delhi Intl, Sydney Intl	London Heathrow International	Bangkok International Airport	Atlanta Hartsfield International, Chicago O'Hare Intl

Source: *Privatisation Issues*[5]

[i] Greenfield projects can also be pursued with purely private investment. However, since this is not the norm, the Greenfield projects discussed in this paper will be those with both private and government investment.

With the exception of Greenfield, each of these privatisation categories uses pre-existing airport facilities. According to GMR Corporate Communications Officer, Rajesh Vetcha, this creates the obstacle of compulsorily renovating existing structures, while still allowing them to be functional for services. Management capacity is also similar across these five categories. With the exception of Greenfield, the same employees conduct the general management and operations of the airport that did before the privatisation. By keeping many of the same employees, airport operators can ensure a smoother transition after privatisation.

The two main factors in any transportation business would be infrastructure and management. Since most of these privatisation types are similar in regards to these two factors, we can draw general conclusions about airport privatisation across privatisation types. As for Indian airports, according to the Reason Foundation, there is a general pattern to use long term leases in developing countries where the primary focus is to expand and modernise the existing airports[6]. As a developing country, India falls in line with this trend.

4.0 International Experience

Across the globe, airports have been shifting from a public service that is to be provided by the government, to an enterprise that can benefit the government.[7] For the developed countries, privatisation is seen as a way to reduce the government's financial responsibilities, while in developing countries the focus is on modernising and developing world class airports[8]. Noticeably missing though from the fuller privatisation trend are the American airports. Nevertheless, most American airports do fall under the "privatisation of services" category. The reason most American airports are not more fully privatised is due to the fact that there are still many legal and economic obstacles in the heavily regulated US airport industry[9].

Four case studies from across the globe have been taken and analysed to observe the effects of privatisation. I will be analysing London's Heathrow International Airport, Sydney's Kingsford International Airport, Buenos Aires' Ministro Pistarini International Airport, and Bangkok International Airport. These airports fall under a range of different schemes that were discussed above. The following analyses the various airports on a case by case basis.

4.1 Heathrow

In 1987, the British Airports Authority was turned into the private corporation BAA Public Limited Company (BAA plc)[ii]. This new enterprise, falling under "partial share sale", was responsible for operating London Heathrow International Airport, Gatwick Airport, Prestwick International Airport, and Stansted Airport. Heathrow airport was sold to BAA plc but is still heavily regulated by the British Civil Aviation Authority. Such regulations include expansion plans, passenger fees, and airline fees.[10]

Over the last nearly 20 years, Heathrow has thrived as a privatised airport. Currently the busiest in Europe with over 67 million passengers a year, Heathrow seems to be the poster child of privatisation. The airport has been exceptionally successful in the financial arena. In 1987, BAA plc. had an initial market value of 1.2 billion pounds, and was sold in 2006 for 10.3 billion pounds[11].

In the first 15 years of privatisation, BAA plc was able to continuously decrease airport charges. These charges include fees paid by airlines and passengers to cover the cost of airport operations. This trend has recently changed due to major investment in building Heathrow's new Terminal 5 by BAA plc.[12] However, customer satisfaction is still high as the 2005 BAA annual report shows a 3.97/5.00 overall customer satisfaction rating. Since the historic privatisation, Heathrow Airport has seen an increase across all areas of air traffic. There has been a 54% increase in passengers, 34% increase in aircraft movement, and 10% increase in freight business.[iii] As the increase in passengers has far exceeded the number of aircraft movements, we can say that Heathrow has not only expanded its business, but has become more efficient while doing so.

[ii] It is a common misconception that BAA plc is an abbreviation for British Airports Authority, the company from which it was created. However, BAA plc insists that BAA does not actually stand for anything.
[iii] See Annexure F: Comparison of Bangkok's Air Traffic (2001 & 2005)

Heathrow Airport also has 48,000 square metres of retail space and employs 68,000 people, 4,500 of which are direct employs of BAA.[13] There were also 2, 29, 836 transit passengers, showing that Heathrow is one of the largest airports hubs in Europe.[iv] There are 531 check-in desks and 34,603 parking spaces available.[14] Growth projections predict that by 2016 Heathrow will have 85 million passengers and there will be over six billion pounds of investment[15]. Over the last ten years BAA has invested over 3.5 billion pounds and plans to invest nearly 6.4 billion pounds in the next ten years.[16] A large sum of which will be directed towards the building the airports fifth terminal, which alone would be considered the third largest airport in Europe. The construction of T5 will cost 2.4 billion pounds[17] and at its peak create 6,000 jobs.[18]

4.2 Sydney

Sydney's Kingsford Smith International Airport was privatised under a 99 year "long term lease" in June 2002. Before privatisation, the Airport Authority of Australia (AAA) was responsible for the airport, but in attempts for the Australian government to pay off some of its public debt it began privatising airports in 2000. This led to the decision for the Government of Australia to privatise 100% of Sydney's airport and management for AUD $5.396 billion. The winners of the bidding were Southern Cross, a consortium led by Australian banking firm, Macquarie. [19]

Southern Cross Holdings Limited is comprised of Macquarie Airports, HOCHTIEF AirPort, Ferrovial Aeropuertos, Macquarie Airports Group, Abbey National Treasury Services, Ontario Teachers' Pension Plan Board, The Motor Trades Association of Australia Superannuation Fund, and Macquarie Global Infrastructure Fund.[20] Since privatisation Sydney Airport traffic has become more efficient as the passengers have increased by 34% while the number of aircraft movements has remained nearly the same with only a slight increase of 0.12%. Freight loads however have not seen much improvement as there has only been a 0.14% increase. There has however been an 11% reduction in labour, a loss of 160 jobs[21].

[iv] Annexure B: Before and After Comparison of passengers, aircraft movement, and freight business

The earning before interest, taxation, depreciation, and amortization (EBITDA) profit for 2004 was AUD $423 million.[22] In 2000, before privatisation, the EBITDA profit for Sydney AUD $286 million. The first year profit was AUD 380 million, just a year after privatisation before which it was barely breaking even[23]. Since privatisation Sydney has worked to improve customer services. There has been a "revitalized food court with new stores and 150 new jobs (for those stores)".[23] Another step towards improving services is the announcement that Sydney Airport will have wireless internet throughout the complex.[24]

4.3 Buenos Aires

Ministro Pistarini International Airport, also known as Ezeiza, was privatised under a "long-term lease" agreement in February 1998. The Argentine government leased 100% of management of 32 of its airports for 30 years to a private consortium named Aeropuertos Argentina 2000 (AA2000). As part of the agreement with the Argentine government, AA2000 promised to invest USD $562 million in the first four years as well as pay an annual concession fee of USD $171 million. Aeropuertos Argentina 2000 is led by Argentine media giant, Eurnekian, Societá Esercizi Aeroportuali, and American ground-services firm, Ogden Corporation.[25] The remainder of the consortium is comprised of: Societá Esercizi Aeroportuali, La Banca Statal Italiana Simest, and Amadeo Riva.[26]

Before privatisation, the Argentine airports were in dismal financial and physical shape. Of the 32 airports leased, only two were profitable. Since 2002, AA2000 has poured USD 1.4 billion more than the USD 2.2billion which was expected into the 33 airports, a major chunk of which has gone into Ezeiza Airport. Such a large investment is necessary considering the airport had not been renovated since 1978.[27] Privatisation has made air traffic more efficient at Ezeiza Airport. Between 2002 and 2005 the total number of passengers has increased by 17.9% while total aircraft movement has decreased by 18.3%.[v] These numbers show that though more passengers are using the airport, there are overall less number of flights, thus fuller flights are leaving.

[v] Annexure E: Comparison of Ezeiza's Air Traffic (2002 & 2005)

The financial situation is not as bright though. On top of the added investment costs, projected expenses, such as the royalty fees AA2000 pays to the Argentine government are much more than expected. Three to four times as much, causing increases in the charges the airport has for the airlines.[28]

4.4 Bangkok

Bangkok International Airport, also known as Don Muang, was privatised under the "partial share sale" type in June 2002. Before privatisation, the Airports Authority of Thailand (AAT) was responsible for Bangkok International Airport, Chiangmai International Airport, Hadyai International Airport, Phuket International Airport, and Chiangrai International Airport. As a result of the Corporatisation Act, AAT was privatised into a public company, Airports of Thailand, with the Thailand Ministry of Finance as the sole shareholder. Later, 30% of the new company was floated in an initial public offering in 2003.[29] Airports of Thailand were financial set up by financial advisor, Merrill Lynch Pattra, while the management structure was designed and audited by the Office of the Auditor General of Thailand. As part of the privatisation deal, all current AAT employees kept their jobs and benefits. The new company even kept the same board of directors.[30]

Since privatisation, Bangkok International has seen an increase across all areas of air traffic. There has been a 28% increase in passengers, 37% increase in aircraft movement, and 25% increase in freight business.[vi] Total mail loads have also increased by nearly 8,000 tonnes respectively. The Government of Thailand will receive 70% of the revenues as the Ministry of Finance holds 70% of the shares. Passengers are charged 500 baht (approximately USD $ 13) service charge for using the airport.[31] Such a low service charge makes the airport attractive to airlines, which are competing to deliver the lowest possible cost in order to win customers. Despite these positive indicators for the future of the airport, on September 28, 2006 the new Suvarnabhumi International Airport will take over all international flights and some domestic business

[vi] See Annexure F: Comparison of Bangkok's Air Traffic (2001 & 2005)

as well.[32] This obviously will significantly decrease future air traffic statistics and revenue for Bangkok International Airport.

After discussing the experiences of these airports, Table 4.1 provides a comparison of passengers, aircraft movement, and freight business

Table 4.1: Before and After Comparison of passengers, aircraft & freight movement

port	Total Passengers before Privatisation	Total Passengers after Privatisation	Total Aircraft Movement before Privatisation	Total Aircraft Movement After Privatisation	Total Freight Before Privatisation (tonnes)	Total Freight After Privatisation (tonnes)	Sc
athrow*	31310000	**67618492**	294000	**477877**	5371445000	**1305685000**	
eiza*	6,327,717	**6746414**	64,079	**62,473**	---	**---**	
dney*	18343331	**27936217**	221208	**251746**	289597	**337740**	
ngkok*	26688940	**37162241**	168345	**267955**	847714	**1130298**	
lhi*	10,165,965	-----	105,540	**-----**	295,805	**-----**	

- Data from Heathrow from 1986 & 2005
- Data from Ezeiza from 1998 & 2005 from Gabriela email
- Data from Sydney from 1995-1996 & 2004-2005
- Data from Bangkok from 2000 & 2005
- Data from Delhi from 2005

5.0 Delhi's Airport Privatisation Plans

Once the Indian government decided to take the privatisation route in modernising its two main airports, it opened up a bidding process in which the highest and most qualified bidder would receive the contracts. The provision was laid out that any joint venture company would receive only one airport contract. Before the bidding process began, the government decided to allow for the private share to be 74%. The remaining 26% will remain under control of the current operators, Airports Authority of India (AAI). In order to ensure that the airports stayed under Indian control, Foreign Direct Investment was capped at 49%.[33]

GMR-led Consortium Takes Control of Delhi

The Empowered Group of Ministers (EGoM) awarded the GMR-Fraport consortium the contract from the five bids which were made for Delhi International Airport.[34] The five bids came from the following consortia: GMR-Fraport, Reliance-ASA Mexico, D.S. Construction- Munich Airport, Macquarie-Airport de Paris, and the Essel Group-Turkish Airports.[35] These companies along with GVK-South African Airports also submitted bids for Mumbai airport.

The winners were Indian based infrastructure business house, GMR Group, who teamed up with German based airport operators, Fraport, to head a consortium of GMR Infrastructure Ltd., GMR Energy Limited, GVL Investments Private Ltd., FraportAG Airport Services Worldwide, Malaysia Airports, Sdn. Berhad, and India Development Fund to take control of Delhi's Indira Ghandi International Airport (IGI).[36] The consortium paid an upfront sum of Rs. 200 crore and has promised 46% of the yearly gross revenue.[37]

The controversy behind the decision stemmed from the fact that the EGoM decided to offer the contract to GMR-Fraport, since they were the only technically qualified bidder for Delhi. The only stipulation was that GMR-Fraport had to raise their revenue share offer from 43.6% to the top bidder's 46%.[38] Reliance, the highest bidder, felt "utter shock and surprise" over this change in the tender as they were unaware that bidders had the option to match the highest bid. A court battle soon began over the changes which Reliance claim to be "untenable and unconstitutional."[39]

In the end, GMR-Fraport received the contract and Delhi airport officially changed hands on May 3, 2006. Over the next three months, management at the airport will transition from AAI employees to GMR-Fraport employees. Table 5.1 explains how GMR-Fraport and AAI employees will work together during the transition period.

Table 5.1 Management Control during Transition Period

Month	1st	2nd	3rd
Management Control	AAI will still run day to day operations while GMR-Fraport observes	AAI and GMR-Fraport will work together in daily operations	GMR-Fraport will assume all daily operations, with back up support from AAI

Source: GMR Corporate Communications Officer, Rajesh Vetcha.

This transition period will allow for a smoother management transition and ensure that passengers continue to receive the best possible service.

Since the bidding, GMR has increased its stake in the consortium from 41.1% to 50.1% by acquiring partner GVL Investments for Rs. 400 crore.[40] This change occurred May 16, 2006, less than two weeks after Delhi changed hands.[41] Modernisation of Delhi airport has taken on full steam since GMR-Fraport assumed control. GMR has said that it is focused on revamping the infrastructure of the airport, such as terminals and restrooms, as well as speeding check-in and security clearance times.[42] According to the Centre for Asia Pacific Aviation, as of May 18, 2006 Delhi International Airport Ltd. (DIAL) was negotiating with several parties to improve the air traffic control system. Further, Mott MacDonald Group has been hired for Rs. 60 crore to "provide technical advice" during the modernisation process. The Indian Institute of Technology has also been hired to "improve both passenger and automobile traffic flow" at the airport.[43]

Furthermore, Terminal IB will soon be upgraded and there are plans for a second parallel runway by 2008.[44] By 2025, there are plans to introduce three new terminals, a metro link, and handle 85 million passengers.[45] As for quality of service improvements, the contract stipulates both Mumbai and Delhi airports are to achieve a 3.5/5 quality rating by the International Air Transport Association (IATA) at the end of stage I in 2010, and a 3.75/5 by the end of stage II in 2026.[46]

Mumbai Airport

The process for Mumbai airport was concurrent with Delhi's and very similar in that private share, AAI's share, and foreign direct investment allowances were exactly the same. However, the Empowered Group of Minister's (EGoM) decision to award the contract to the GVK-South African Airports led consortium was without controversy. The consortia agreed to an upfront initial payment of Rs. 200 crore and 38.7% of the yearly gross revenue.[47]

The winning consortia for Mumbai's Chattrapathi Shivaji International Airport (CSI), is comprised of Indian based business house, GVK, who teamed up with South African based airport operators, South African Airports, to lead a consortium of GVK Industries Ltd., Airports Company South Africa, and The Big Vest Group Ltd.[48]

Long Term Lease Airports and the future of Delhi

Delhi's privatisation type is that of a "long term lease". Since both Sydney and Buenos Aires share this type of privatisation, we can observe their performance and situation before privatisation to collect a few observations that may be helpful in determining the future of Delhi's Airport. Both Sydney and Buenos Aires' management consortiums have a full 100% stake in their ventures. Thus, we can not compare their management operations to Delhi's which only have a 74% stake in the venture.

Similar to Buenos Aires, Delhi airport was privatised in an attempt to massively reconstruct and modernise the airports. We have seen however that this is occurring slowly in Buenos Aires while project costs are spiralling upward. On the brighter side, we can conclude that part of the obstacle in modernising the Argentine airports is that AA2000 is responsible for 33 airports. In the case of both Sydney and Delhi, one consortium is responsible for one airport. This "one on one" attention will make it much more likely that Delhi will be successful.

From these observations we can conclude that the private parties in Delhi's venture have a tough job ahead of them as the current situation in Delhi is similar to that of Buenos Aires. However, the fact that one of the main companies in the venture

(Fraport) has experience in running airports should make the road much less difficult. It remains to be seen in the days to come how successful the effort has been without incurring unnecessary costs.

6.0 Why the Left is wrong about privatisation

Throughout the entire privatisation process, the Left voiced its discontent with the measure. They teamed up with the labour unions and staged well-publicised protests at both Delhi and Mumbai airports. Their main issue is that they want to modernise the airports through the government's Airports Authority of India (AAI), rather than through private parties. On the website of the Communist Party of India (Marxist), the Left clearly spells out their reasons behind Delhi's airport privatisation.[49] After explaining each point, I will offer a counter-argument in favour of privatisation.

1. AAI's proposal was not given full consideration both before and during the bidding process.

Back in June 2003, AAI presented a plan to the Government of India to modernise Delhi and Mumbai airports at a total cost of Rs. 3905 crore. These plans were forgotten when the cabinet of the National Democratic Alliance (NDA) government decided to privatise the airports in September 2003. Even after AAI re-submitted slightly modified plans during the bidding process, AAI was not considered in the final round.

Refute: The reason AAI's bid did not make it to the final round was due to the fact that it only earned 49% marks on technical parameters. It has to be noted at this juncture that this proposal was only slightly modified from the original one submitted back in June 2003. Given that the point of Delhi airport's privatisation is to improve infrastructure and services, and that AAI's proposal fell far short on these technical parameters, why should the government grant them the contract?

2. The government privatised a profit making company and conflicted with labour management relations– a violation of the NCMP.

The National Common Minimum Program (NCMP) of the United Progressive Alliance (UPA) states that "profit making companies will not be privatised" and there would be no confrontation in "labour-management relations but consultation, cooperation and consensus". First, there were obvious labour-management confrontations as demonstrated by the employee strikes which took place at both airports. Secondly, Mumbai and Delhi airports generate 65% of AAI total revenue. Therefore, the privatisation of these airports is in conflict with the promises of the National Common Minimum Programme.

Refute: Yes, Prime Minister Singh did go back on his party's promise as part of the UPA's National Common Minimum Programme. However, it is important to consider the benefits of such actions. As stated earlier, AAI will still receive 46% of Delhi's gross revenue and 38% of Mumbai's gross revenue. The revenue projections for Delhi and Mumbai's airports are between Rs. 900-1000 crore a piece. This means that AAI's total yearly revenue from these airports will be Rs. 840 crore. Compared to AAI's 2004-2005 profits before tax of Rs 600 crore, the reasons behind privatisation become more obvious.[50] Not to mention the 26% share which AAI will maintain.

3. The bidding processes yielded a monopoly since only two bids were proposed and each consortium could win only one airport.

Before the bidding process began, the Government of India stated that no consortium would win more than one airport. After all the bids were submitted and considered, there were only two consortia which qualified. This situation created a monopoly in which the government was at a disadvantage.

Refute: Originally, there were five bids made for Delhi's airport and six for Mumbai's airport. The reason only two entered the final round is that those two consortia submitted the most desirable bids. Though this might have created the opportunity for private interests to have the advantage, the fact that GMR-Fraport raised its bid to secure the contract shows that the government still had control of the situation.

4. The government is selling profit making companies when it needs the revenue to invest in smaller airports.

As stated earlier, Delhi and Mumbai account for 65% of AAI's total revenue. These funds are needed to support and modernise the country's other airports which are not so successful. The Ministry of Civil Aviation gives “absurd projections” about the costs it will take to modernise the country’s 122 airports, when at present only 50 airports are operational.

Refute: Nearly all of India’s airports are in desperate need of modernisation and investment. The AAI had plenty of time to improve these airports before talk of privatisation even began, but they did not. Furthermore, if only 50 airports out of 122 are currently operational under AAI’s management, why would the government allow them to continue to have full management control?

5. Airports have national security and strategic importance and should not be under private control.

With Delhi being the country’s political capital and Mumbai being the country’s business capital, it is unsafe to allow foreign parties to have a stake in such a necessary service as air transportation. Furthermore, within the Delhi airport area are the technical and operational area of the Indian Air Force, facilities used by the Special Protection Group, Border Security Forces, and the Aviation Research Commission. Mumbai’s airport is also vulnerable in that the Oil and Natural Gas Commission (ONGC) uses it for operations to Bombay High are the Ministry of Defence uses the airport’s hangers. It is not in the national interest to allow these assets to fall into foreign hands.[vii]

Refute: It is true that the nation’s two largest airports have strategic value. And the government must be careful in how it allows the foreign parties to operate in the case of a hostile situation. However, the current hostilities between India and Germany are not cause for alarm, nor are they likely to be in the next 30 years.

6. **The government has already proved that it can provide world class profitable airports as proven by Cochin Airport.**

The new Cochin Airport is a shining example of how the government can provide profitable efficient airports. Back in June 1999, the government of Kerala along with

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[vii] Even though foreign direct investment was capped at 49%, this still leaves the opportunity for a foreign private company to have the largest percentage of ownership.

on-resident Indians, and private corporations built Cochin International Airport in Kochi. This airport has proved itself to be very successful. In the 2005-2006 fiscal year, Cochin International Airport Ltd. (CIAL) had a 9% increase in net profit and 18.2% increase in passengers.[51] The Government of Sri Lanka has even invited CIAL to develop the country's second international airport. Since Cochin began operation in 1999, aircraft movements have nearly quadrupled[19].

Refute: Though Cochin maybe a great example of what the government can do with a brand new airport, its achievements do not mean that Delhi and Mumbai airports would also be successful. Most importantly, the two airports are operating under different privatisation types. Cochin was a Greenfield airport, whereas Delhi's privatisation falls under the long-term lease type. Of course if you build a brand new airport, it is going to be easier to run than an airport that you have to simultaneously renovate and operate one.

The Left is also misguided in that they were pushing for central government involvement in Delhi airport, while their example of Cochin had no central government involvement at all. Table 6.2, shows the investment pattern for Cochin Airport, and the only level of government involvement is by the state government which has a 35% direct share in building the airport.

Table 6.2 Investment Pattern for Cochin Airport

Investment Pattern for Cochin Airport	
Govt. of Kerala	52.04 crore (35%)
Central PSU*	10.25 crore (7%)
Commercial Banks	8.75 crore (6%)
Investor Directors and Relatives	55.37 crore (37%)
Facility Providers	1.50 crore (1%)
Public and NRIs**	21.00 crore (14%)

Source: Ministry of Civil Aviation[52]

* PSU - Public Sector Banks

**NRI – Non-resident Indians

7. Privatisation will cost many employees their jobs

As with many privatisations, the initial step of many companies is to cut the number of employees. The same was true for the AAI employees at the Delhi and Mumbai airports. During the bidding process, the government required that the bids maintain at least 40% of the current workforce. Though the winning consortium promised to retain 60% of the employees, this would still mean 800 job cuts for Delhi.

Refute: After the labour unions joined with the Left to protest and strike, the government finally conceded that no AAI employee would lose their job. After the first three years in which AAI employees are promised their jobs, those that are not hired by the private consortium will be absorbed by Airports Authority India or will be of retirement age.[53] This is to see that no existing jobs are lost due to the privatisation process. However, according to GMR Communications Officer, Rajesh Vetcha, a general rule of thumb is that for every increase of a million passengers, 1000 employees are needed. If projections show that Delhi airport is expecting 85 million passengers by 2025, then 75,000 new employees will be needed to meet the demand.

8. Passengers and Safety will suffer because businesses will put profit first.

The main goal for businesses is to make money. This will be the companies' foremost goal, making businesses more apt to taking potentially dangerous cost cutting measures. Such measures will leave passengers and employees at risk.

Refute: Businesses do place a high premium on profits, but if they were to produce an unsafe airport, then no airlines or people would want to patronise it. In order for airport management businesses to be successful, they must maintain safety levels. Ironically, it is the Left's claims that private companies will put revenues first, which will ensure that safety is maintained at the airports.

7.0 Observations & Recommendations

For the most part, it seems that airport privatisation is successful because of increases in infrastructure development and investment. In cases such as Delhi's, the call for privatisation stemmed from the poor condition of existing airports, thus it is expected that the new investment will lead to a better delivery of services. It can also be observed that the Left's claims for Delhi airport's privatisation were unjustified. It is exactly what they claim will be the airports downfall (paying great attention to profits) that will protect passengers, not hurt them.

As mentioned earlier, since most of these privatisation types have this in common we can draw general conclusions about airport privatisation. Thus, since with the exception of Argentina, most airport privatisations have been successful, we can say that privatisation in general is successful if well managed and operated.

Notes

The figures from the airports may not exactly reveal the whole story. For the western airports of Heathrow, and to some extent Sydney, traffic declined from 2001 to 2002 as a result of the September 11th attacks. However, in the case of Frankfurt and Heathrow they were privatised long before this event and thus numbers could be used from 2000 to observe changes. However, these numbers would be 6 years old.

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