

ADVANTAGES AND DISADVANTAGES OF PRIVATIZATION AND AIRPORT LEASING

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The problems of airports in the 21st century is more actual than ever before because the market has noticed an enormous increase over the recent years. The characteristics of airport is based on the theory of natural monopoly that is why this paper is based on the theoretical knowledge. We analyze the positives and negatives of direct foreign investments and the effects of the investment incentives in the operation of the airports. We are defining the forms of privatization of airports and are analyzing their advantages and disadvantages. We are dealing with the types of airport leasing and are analyzing their advantages and disadvantages. Consequently we are trying to find relevant facts from the practice about the privatization and airport leasing in the world and in Slovakia. The aim of the paper was to find a well-founded standpoint to these questions which would be understandable for the public.

Key words : Natural monopoly, Direct foreign investments, Privatization, Leasing

1 INTRODUCTION

In Slovakia, privatization and airport leasing are very specific problems which has not so far been dealt with much attention, except few cases. In the world economics, however, air transport is of concern to economical and political interests of every state, as an important mover of globalized power. It has significant quantitative and qualitative impacts on tourism, foreign trade, direct foreign investments, economic structure and productivity on national and international level.

Considering the multidisciplinary character, globalism and the necessity of cooperation of many subjects and the essential high professionalism of employees, airports are areas of the most complex economic activities. Therefore, its further development is driving force of innovation in many other fields, too. The state ownership in the air transport of the developed countries is declining to private proprietary and the state is, by the increasing measure, concerning only the regulatory functions. Deliberately the very essential contribution to the international cooperation and tourism the investments for the air companies do not have by no means such economical impact as it is possible to achieve in other fields. The motivation of the investors is often rather the effort to take part in the attractive projects than to gain the consistent profit.

The economic development, the increase of the direct foreign investments and the development of airports are bearing on each other, so it is not possible to say which of these factors is the generator of others.

2 CHARACTERISTICS OF AIRPORT- DEFINITION OF TERMS

The airport is modified engineering-transport building provided the air transport. It is divided on airside which serves to secure the start, the landing, the rolling and the parking of the

airport and the economic- social section (landside)-accommodating objects, store, objects of health care, objects for cultural activities of people at the airport, the parkings.[11]

The airport contains the elements of modern transport infrastructure. By the essential way, we divide it into the services closely connected to the maintenance of air transport means, transport of people (air services) and the additional activities realized in favour of their needs at the airport (no-air services).[12]

2.1 The economics of airport

The economics of an airport is difficult system of financial flows between the airport companies and the airport, between the supplying subjects and the final customer participating in the process to be effectively managed by the company any with the aim of making the profit. Good economical environment provides the main intention of airport:

- high security of air transport,
- high quality of provided services for the air transporter and for the public,
- production of economic profit of the airport company. [8]

2.2 The natural monopoly and the regulation of charges policy

The airports are classical examples of natural monopoly. The insufficiency of competition leads to the „fears about the potential misuse of the trade power“ because the investment costs to build the airport are very high.[6]

The existence of regulation at the airports is very important, particularly when the airports are privatized. It is to prevent from the uncontrollable growth of the charges from the part of the private monopoly. On the other hand, the rules of regulation provide to investors the reliability of the

legal ambit. Among the basic regulative mechanisms belong:

- the regulation on the basis of the rate of return,
- the regulation on the basis of the price ceiling,
- the regulation of the expenses.[8]

The problems of privatization and the regulation of natural monopolies resonate in the slovak society from the beginning of the transformation process and it is the subject of significant political and economical discussions. The dominant influence of the state on the economy of monopolies is expressed by the execution of the proprietary laws in these companies and by the regulation of their activities. The combination of executive and regulative activity leads to the inefficient functioning of the natural monopolies and this has the negative impact on economic progress.[14]

3 DIRECT FOREIGN INVESTMENTS IN THE AIRPORT SERVICE

The direct foreign investments is one of the realization form of long-term international capital movement. These investments provide the investors the long-term active participation on the control of company abroad, by means of the proprietary right. The direct foreign investment constitutes the category of international investments which expresses the intention of subject, who is the resident of one economics (direct investor), to gain the permanent share with the corporate in other economics (company of direct investment). The permanent share expresses the existence of long-term relation between the direct investor and the company of direct investment and the significant degree of the influence for his management.[2]

3.1 The advantage of DFI

The direct foreign investments allows the transfer of technologies, namely the new method of capital input that cannot achieve through the medium of foreign investments and the trade with goods and services, might promote the economic competition in the home market, they contribute to the development of human capital in the host country, the profits generated by the direct foreign investments contribute to the fiscal profits of host country, the stimulation of the infrastructure development, to toughen the new manager methods and experiences, the entrance of new production technologies, the growth of export, the amelioration of the payment balance, the growth of the company competitiveness and competitive, the regional development.[3]

3.2 The disadvantages of DFI

The main disadvantages of DFI: breach of the local market, disconnection on the local economics, additional expenses on investments stimulus, the quality of investment stimulus- unfair competition, domination of foreign proprietors in the key sectors, the possibility of sudden leave with the all impacts, aversion from the local inhabitants.[13].

The effects include the height of investments, the number of newly-formed working place, structural characteristics, export power, connection with the local companies and the impacts of investments for local public and companies.[1]

3.3 Investment incentives

The investment incentives are one of the factors influencing the investors in deciding about the investment. Investment incentives are appropriate tool of economic policy that contributes to the growth of the wealth of state.[1]

The governments uses three main categories of investments stimuli to lure on FDI and to use their positive contributions:

- financial incentives - direct grants and loans with the reduced bank rate,
- fiscal incentives - tax holidays and reduced scheduled charges,
- other incentives - supported infrastructure or services, market preferences and regulation easement inclusive of the exemption of labour or environmental laws.[6]

4 PRIVATIZATION OF AIRPORTS

Essentially, there exists three possible variants of proprietorship and long-term lease, which are used around the world:

- airport in major state/social ownership,
- airport in private ownership,
- airport with the stake of social and private ownership, airport lease or some of his parts. [5]

Privatization is the transformation process of social ownership to the private. It is the tool to gain investment means for the infrastructure development, but it has not direct connection with

the development of transport, growth of the amount of passengers and with the opening of new air lines.

Through the definition of privatization, namely the privatization of airport we understand large scale of forms (from the partial privatization to the absolute privatization of subjects. Furthermore, the key problem which we need to emphasize is between the privatization of subject that is owner of the airport and privatization of subject of the management operation at the airport.[5]

4.1 Forms of airport privatization

The franchising operation to the private sector (consortium, operator, financier and developer) means to carry on and develop airport for the limited period of validity of trading licence at intervals 20-50 years.

The franchising operation to the private subject means to develop and carry on the system of several airports on behalf of one or several strategical investors, or on behalf of general public as the actionary of defined trading licence.

Sale of shares in the inland airport to the private sector (completely or with the cooperation of the government) that the authority become the subject in the private sector.

The franchising operation to the private sector is the development and operation of equipment in the propriety of state (personal terminal, cargo center) until the limited period after which the equipment can be return to the state.[5]

4.2 Advantages of airport privatization

From the point of view of public sector, the airport privatization has next advantages:

- it mildens the budget restrictions,
- it increases the activity of airport operation as the company and the financial motivation to provide the best services for the companies,
- it redirects the augmentation of the investment expenses- it is needed more investments to the infrastructure for the maintenance of services level so the utilization of private funds leads to the improvement and it is becoming more attractive,
- It increases the possibility of airports to support local economic development. So we can so expect that the providers of airports will cooperate with the local tourism to attract more passengers.

Privatization increases the ability to gain the capital for the development of the infrastructure projects of airport. Furthermore, privatization can be the mechanism for the generation of incomes for the local, state or international governments. Privatization is also generally connected with the improvements and to make the operation more effective.[3]

4.3 Disadvantages of privatization

The disadvantages of privatization are:

- contradictory aims between the public assets and the profit of energies,
- natural monopoly, corruption, lack of transparency and responsibility,
- potential deletion in the essential services.[3]

As the biggest risks of privatization by the means of public competition, we can consider these:

- minor interest assigned to privatization will not be attractive for the foreign investors,
- ungovernableness of public competition (advertise, control and evaluation) can invoke bad image between the investors,
- succumbing to the political and populist tension, whereby there is a threat of spending the income from the privatization to the liquidation of common expenses,
- absence of suitably adjusted regulative range can evoke disfavoured impacts on economics in form of the increase of prices etc.[14]

4.4 SWOT analysis of airport privatization

Beside the evaluation of the internal field, the stronger sides gently prevail over the weaker ones. The strong side of the privatization is the improvement in the operation activity and the implementation of new controlling styles and marketing abilities may lead to the increase of activity of airport operation and to the increase of possibilities of airports to support local economic development. Beside the evaluation of external field, according to our analysis, the threats prevail over the opportunities. The augmentation of the tax avoidance, the reduction of tax income for the state cashbox, succumbing to the political and populist tension may contribute to the threats, so the risk of

income consumption from the privatization on compensation of ordinary expenses is high.

The use of privatization by the private sector may have as the result the exploitation from the side of rich, the increase of prices and the dismissal to decrease the production costs.

Tab. 1 SWOT analysis of airport privatization

Strong points	Weak points
Improvement of operation	Contradictory aims between the public goods and the profit
Installation of new controlling styles and marketing abilities	The lack of the transparency and the potential deletion
Better investment decisions	Minor part for the investors
Larger potential earning	Ingovernableness of the public competition
Moderating budgetary restrictions	Unfavourable impacts on economics
Increase of investment expenses	
Support of local development	
Opportunities	Threats
Preparedness to privatization	Augmentation of tax avoidance
Range of privatization and the establishment of accurate price	Reduction of tax income for the state cashbox
Form of privatization	Succumbing to the political and populist tension
Economical and specialized problem	Concentration of wealth in private hands
	Use of privatization by the private sector
	Exploitation from the part of rich people, increase of prices, dismissal to decrease the production costs.

Source: own analysis.

5 AIRPORT PRIVATIZATION

Airport leasing is the relationship (between the provider, renter and charterer) beside which the charterer, on the basis of the contract, pay to the renter (proprietor of the equipment), during the negotiated period, established lease payments as the compensation for the free utilization of the subject of rent. The renter remains the owner,

after the payment of the last ante, the ownership right overpass, under the negotiated conditions, to the charterer. [14]

We differentiate two main essential types of leasing: operation lease, financial lease that we can further divide into the direct , indirect and leverage.

The lease of airport may generally divide into these main categories:

- air lease and non air lease,
- long term lease,
- lease done by the operator,
- lease of specialized air services of the the operator,
- lease of hangar,
- sublease,
- air lease. [15]

5.1 Advantages of lease

The advantages of lease are:

- the possibility to use the possession without the necessity of impulsive spending of all the financial means for the investment, that allows to put the investment more quickly into operation, technologically innovate and to increase the competitiveness of the company,
- lease financing is flexible and it is considered as more flexible than in the relations to the internal sources, loan or the obligation,
- lease financing permits the charterer to include the rent ante to the expenses, thereby to decrease the tax base,
- the possibility to use the property without the necessity to risk connected with his provision and owning,
- possibility to provide the property for the lower price because the leasing companies often have signed contract about the cooperation with several supply, insurance and forwarding companies, so they gain various rebates,
- leasing company gains from the banks mostly cheaper loans than small and moderate entrepreneur,
- besides the fixed payment, the leasing company takes over from the charterer the inflated risk.[9]

5.2 The disadvantages of airport lease

The disadvantages of airport leasing are:

- high expenses opposite the other forms of financing,
- after the ending of financing lease, the property goes over to the charterer completely or almost charged-off and this loses tax allowance,
- restrictions of charterer's rights with connection to the use of property and his possible reconstruction or modernization,
- impossibility to expel from the contract in case of financial leasing or under the threats of high sanction,
- in case of financial problems and nonpayment of ante, the charterer may lose the leasing object because he is not his proprietor,
- in case of the bankrupt of the leasing company, the rented property would be deprived from the charterer and then he would have to undergo various negotiation about the reconciliation and recompense of damage.[18]

5.3 SWOT analysis of airport leasing

Besides the evaluation of the internal field in case of airport leasing strong points prevail over the weak points. The leasing permits higher flexibility of state how to control and realize the contributions from the future development of airport. It provides regular income to the state cash and the major influence and the higher degree of airport control remains to the state. The leasing gives large time scope for the improvement of current position of airport at the market. The weak point is the restricted influence on development of airport and the contribution from the leasing are divided into the longer time period.

Besides the evaluation of the external field, the opportunities prevail over the threats. State has the possibility to take part in contribution from the developing potential of airport. The leasing allows know-how at the operating of the airport and technological development.

Leasing decreases the unemployment in the country and may provide larger flexibility for the business. In case of the leasing for more than 30

years, there is the necessity to change the legislation and there is also the risk of the PMÚ SR's decision. Financial problems of charterer may have for the consequence the nonpayment and the threats of the state budget.

Tab. 2 SWOT analysis of airport leasing

Strong points	Weak points
Flexibility of state how to control and realize the contribution from the future development of airport	Restricted influence for the airport development
Time scope for the improvement of current position of airport at the market	Contribution from the airport leasing divided into the longer time period
The transfer of business risks which can be operated effectively by the private subject	Lower impulsive income to the state budget in moment of gaining the competitiveness
Regular income for the state budget	More exacting process of leasing attendance in comparing to the sale
Economic effect from the leasing is more favourable than by the sale	
Possibility of repetition of leasing under the more profitable conditions for the state	
The property remains in the hands of state	
The state has major influence and higher degree of control over the airport	
Opportunities	Threats
To contribute from the developing potential of airport, possibility of know-how's transfer beside the operating of airport and technological transfer	The necessity to change the legislative, threats of PMÚ SR decision, impossibility to expel from the contract in case of financial leasing
Development of business opportunities in form of new air connections	Financial problems and nonpayment of
Synergic effect for the region development	

Source: own analysis.

6 SUMMARY OF KNOWLEDGE ABOUT THE PRIVATIZATION AND AIRPORT LEASING IN PRACTICE

From 404 European airports, 306 are in the European Union, of which 78% completely expropriated by the state, 9 % is v the private sector and 13 % is carrying on by the form of mixed ownership. From the airports which are in the state ownership, only 226 % are carried on under the public administration, but 74 are carried on as legally autonomous companies, and/or by the form of lease competitive or private manager companies. 75 of 306 airports of the European union signed the concessionary contract, whereby the long term concession for the period over 20 years prevail. From all the airports in Europe (404), the concessionary contract has 147 from them, 35 are in the private sector. [6]

Air market of EU is second biggest market at the world and the increase of prices inside and dehors the EU and in the other parts of the world were also out of the prognosis. In 2004, the overall number of passengers in EU has increased to 8, 8%, to the 650 million eur; 24 % were inland flights, 42% the flights within the EU. In 1987 the British government privatized three London airports together with BAA also the Scottish airport, so they have started the trend of airport privatization. Major British airports are privatized and the industry is inferior to the style of generally beneficial regulation of the United Kingdom.[9]

7 CONCLUSION

As to the relationship of the ownership form and the effectivity of functioning, it is necessary to assert that it was not possible to demonstrate which form of ownership would influence this factor. It is clear that private form of ownership does not lead to the fact that the actionary may have the profit from that. When we look at the level of the airport privatization in Europe, it is apparent that the most frequent model is combined ownership which connects the advantages of private approach with the state one, public interest. The biggest advantages are in the effectivity of expenses, the production of revenues and financing of proper capital structure.

Financing will be the main factor of the development project's succes, if the sponsor of airport is responsible for the financing, it may depend on financially available sources. The maximalization of income should be the main aim for the airport sponsor and it must be the first point of view before the leasing contract. As it was mentioned, external people involved may provide

valuable sources, whether material or immaterial, and they could get involved in the development of projects in the early phases of the privationaion process.

Beside the complete privatization, there is a smaller conflict of interests in comparing to the partial privatization, besides whose the state executes the role of proprietor and the regulator as well. Complete privatization increase the trustworthiness of privatization process and it creates more stabile investment environment for the private investors because there are estimated damages caused by the intervention of state in case of complete regression of state. Privatization strategy should be developed in line with the aim of public sector, concerned airport organes, private investors and the precaution which are necessary for the defense of essential public interests. The structure of relationship between the management and proprietors of airports can be created more transparentially, in case of complete privatization. This fact leads to the higher transfer of know- how, it stimulates the effectivity of expenses and the maximalization of income. From this mentionned fact, we can conclude that the complete privatization is more effective than the partial.

Long term privatization, for more than 30 years, shows similar features as its sale. Basically, it is the sale of licence for the airport operation for the earlier agreed period. Beside the complete sale of airport, the state would gain more money than beside the long term leasing. The airport would be privatized. It allows higher profit for the state and more qualitative from the point of view of investor. According to him, the 50 years period of leasing may appear as enough long, however the the leasing itself and the plans of investors will be always dependent on the quality of leasing contract. The risk may arise, the investor will have to later enter other negotiations with the real proprietor what can restrict his development plans or decrease the income from the leasing.

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