Intelligence MEMOS

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To: Canadian Travellers

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Re: **Privatizing Infrastructure: Evidence from Airports**

Canada's now-chronic airport problems may result from a systemic problem of a lack of investor discipline in Canada's airport management.

Canada is the only country in the world that has transferred its largest airports to non-profit, non-share capital airport authorities, with the federal government owning and leasing land to the airport authorities. These transfers occurred gradually **starting** in the 1990s. As recently as 2017, the federal government considered changing this model to allow for private equity stakes. It is worth considering the benefits of various models of private ownership compared to governments themselves owning and operating airports (which remains the case in most of the US.)

Privately owned and operated airports are prominent examples of companies running traditionally public infrastructure. As of 2020, nearly 20 percent of the world's airports had been privatized. Private equity, usually through dedicated infrastructure funds, is playing an increasing role in privatization, purchasing 102 airports out of a total of 437 ever privatized.

In our recent NBER **Working Paper**, we compare the performance of 2,444 airports in 217 countries under three types of ownership: public, private equity, and non-private equity. We find that between 1996 and 2019, airports owned by private equity funds improved their performance across many dimensions.

A key metric of airport efficiency is passengers per flight. The more customers an airport can serve with existing runways and gates, the more services it can deliver and the more earnings it can generate. When private equity funds buy government-owned airports, the number of passengers per flight rises an average 20 percent. There's no such increase when other private firms acquire an airport. Overall passenger traffic rises under both types of private ownership, but the rise at private equity-owned airports, 84 percent, is four times greater. Freight volumes and the number of flights, other measures of efficiency, show a similar pattern. Evidence from satellite image data indicates that private equity owners increase terminal size and the number of gates. This capacity expansion helps enable the volume increases and points to financial constraints under previous ownership.

After privatization, the number of airlines and routes served by airports increases. At airports acquired by non-private equity private firms, those outcomes were emerging even before privatization. Private equity firms also tend to attract new low-cost carriers to their airports, which in turn may lead to greater competition and offer consumers better service and lower prices. They also increase new routes, especially international, more than other buyers. International passengers are often the most profitable airport users, especially in developing countries.

A private equity acquisition is also associated with a decline in flight cancellations and an increase in the likelihood of receiving a quality award. When an airport shifts from non-private equity private to private equity ownership, its odds of winning an award rise by 6 percentage points. The average chance of winning such an award is just 2 percent.

The fees that airports charge to airlines rise after airport privatizations. When the buyer is a private equity firm, there is also a push to deregulate government limits on those fees. For example, after three Australian airports were privatized in the mid-1990s, the price caps governing airport revenues were replaced with a system of price monitoring that allows the government to step in if fees or revenues become excessive.

The net effect of a private equity acquisition is a rough doubling of an airport's operating income, due mostly to higher revenues from airlines and retailers in the terminal rather than cost-cutting. The driving forces behind these improvements appear to be new management strategies, which likely includes greater compensation for managers, alongside investments in new capacity as well as better passenger services and technology.

Given these significant benefits, it is time for Canada to again consider opening major airports to private equity investment.

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