Privatising Bratislava: Small Airport - Big Problem

Anna Tomová

University of Žilina, the Slovak Republic

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Key words: airport, Central and Eastern Europe, privatisation, public-private partnership, spatial competition

In the paper we describe genesis of decentralisation and corporatisation of airport sector in the Slovak Republic to reveal circumstances influencing expected decision about Bratislava airport privatisation in 2011. Special attention is devoted to unmasking the political umbrella of process in which - as it is known from other privatisation cases worldwide - there is not sufficient space for expert opinions and judgment. We confront various attitudes regarding to Bratislava Airport privatisation. We also explain Bratislava Airport privatisation in light of overall privatisation status of Slovakian airports. In quantitative way we compare Bratislava Airport performance with the main competitor Vienna Airport that is very often seen as the key problem of Bratislava Airport privatisation with regard to overlapping catchment areas of the airports. Comparison of economic performance, as well as airport charges of both airports is made in the paper. The paper does not try to identify the best privatisation arrangement for Bratislava Airport as it is primarily focused on documenting perplexity and intricacy of privatisation of a small airport that could be a big problem and fiscalized matter. In the paper also some considerations are made with regard to some airports competition issues.

Introduction

Privatisation of airports is an inherent part of changing nature of airports. (Graham, 2008) Airports privatisation extends globally, stemming from various motives and following a broad portfolio of privatisation schemes. (Tomová, 2011) In spite of different political (pro-and-con) attitudes towards airports privatisation present within political circles and among citizens in countries, airlines as primary customers of airports do not refuse airports privatisation itself. For IATA (2006), whether an airport is in public or private ownership is not the central question. ACI (2007) keeps similar attitude and does not advocate any ownership model for its members, strengthening that privatisation can bring a spirit of innovation and entrepreneurship to airport management and release airport operation from political consideration and agenda. Full privatisation of airport assets is still very rare in the world, so in airports privatisation models of mixed public/private coexistence are predominantly used. There is none generally adopted and unambiguous typology of airports privatisation modes, although Cruz – Margues (2011) provide rather simple way how to orient in intricate

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1 Anna Tomová, PhD., Department of Air Transport, Faculty of Operation and Economics of Transport and Communications. Univerzitná 1, 010 21 Žilina, the Slovak Republic. anna.tomova@fpedas.uniza.sk
schemes of public/private partnerships emerging with airports privatisation. They mention institutional and contractual forms of public/private partnerships showing how both these modes are used in European airports. Participation in ownership or (only) management of airports creates a dividing line in this typology. Thus, airport privatisation can be led through airport assets sale or through transfer of some ownership powers to private subjects keeping in this privatisation form airport assets ownership in public hands. The latter form is represented by a broad gamut of diverse contracts – management contracts, lease contracts, concessions contracts which have different preference in world regions (Tomová, 2009) Various countries used various approaches to privatisation of their airports and as any airport is unique social-economic system with typical distinctive features (Yang, 2011), any cross-airports global privatisation manual can not be recommended with regard to ways how to privatise airports. Main portfolio of options for country’s strategic decision about airports privatisation is contained in Figure 1 in which we mark airports privatisation strategy changes in turbulancy of political changes in the Slovak Republic.

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<tr>
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<td>multi-airports privatisations</td>
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Strategic Portfolio for Airports Privatisation (and Slovakia privatisation strategy evolution)

Fig. 1
Bratislava Airport Privatisation Peripetia

The Slovak airports passed over typical stages in airports devolution from public governance (ICAO, 2006). In 1991 the Slovak Airports Authority was established with some autonomy, then airports started to be corporatised. Bratislava Airport, j.s.c. fully in state ownership was created in 2004. Bratislava Airport privatisation effort (or non-effort) changes like governments in the Slovak Republic change, so privatisation is re-starting or re-stopping fore and aft. Some consider Slovakia’s golden years of privatisation came between 1998 and 2006, when a liberal attitude prevailed that led to the extensive privatisation of substantial part of economy, infrastructures included. (Weston, 2011) In 2006, Košice Airport - the second largest airport in the Slovak Republic was privatised at the end of liberal government. 66 % of the shares were sold to KSC Holding consisted of Airport Vienna and Reiffeisen Zentralbank Gruppe. After new government came to power in 2006, prepared privatisation of Bratislava Airport through assets sale was abonded. And again, new - again liberal - government decided to privatise Bratislava Airport through long-term lease with strategic private partner that ought to be chosen through transparent international tender. Initially designated concession period has been prolonged to motivate investor (now 30-50 years) and time for privatisation story has been shortened (now June 2012, however, Ministry of Finance requested March, 2012). We deem that any airport privatisation strategy ought to result from country’s airports development strategy as primary document for future privatisation decisions not regarding which government (and how) is horse-whipping. Absence of such development strategy enables to change strategic decisions in privatisation issues ad hoc and prohibit to evaluate benefits (or disbenefits) of privatisation in future. According to the actual governmental materials, three options were evaluated in the case of Bratislava Airport privatisation, assets sale, long-term concession and reciprocal transfer of shares between Vienna Airport and Bratislava Airport (sic! with regard to the comment 2). Just shared
catchment area of Vienna and Bratislava airports, i.e. a multi-airport system in which airports are subject to different regulatory and governmental policy (Figure 2) gives Bratislava Airport privatisation really unique incomparableness against other such systems in Europe, like Berlin, Frankfurt etc.

Vienna Multi-Airport System

*Source: Bonnefoy, 2007*

Fig. 2

Any (airports) privatisation process is nor easy, neither ideal or impeccable. However, naked privatisation effort and naked liberal certitude are insufficient for achieving privatisation success that ought to be driven not primarily by fiscal aims. We consider Bratislava Airport privatisation as very intricate process due to really very specific features that are stemming through Vienna-Bratislava coexistence in shared catchment area, both being capital airports. Taking into account this intricacy, we think that process of Bratislava Airport privatisation

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2 The Antimonopoly Office of the SR (AMO) issued professional and independent decision resulting from the competition rules when it prohibited concentration grounded in acquisition of control by the airport Vienna, company PENTA and Ministry of Transport, Posts and Telecommunications over the Bratislava airport in September 2006. The Office considered in this administrative proceedings the economical conjunction of the airport Vienna (airport VIE) and the Bratislava airport. Based on the competition analyze, the Office came to the conclusion that the competitive interaction exists and that the both airports are competitors at market of providing infrastructure to regular regional flights defined by the Office. The Office found out that the subjected concentration results in the elimination of the single competitor for the airport VIE, while considering fast growth of the eliminated entrepreneur, high barriers to enter market and non existence of potentional competitor led the Office to the conclusion that the subjected economical conjunction of two direct competitors would lead to the structural change of the market, which would create one entrepreneur without any competitive pressure.
should not be hurried, fiscalized, videlicet it should be thoroughly and well prepared. Now then let us evaluate qualities of governmental materials that served as a base for Government of the Slovak Republic to resolve upon Bratislava Airport privatisation.3

Comments on Governmental Material on Bratislava Airport Privatisation

The Slovak Republic Government adopted decision on Bratislava Airport privatisation pursuant to the material named as “Development Project of Bratislava Airport“. According to our opinion, this document shows some internal disagreement, data and opinions inconsistency, viewiness from old times of directive economy as well as something that is more political-economic journalism than careful economic analysis.4

Within the material we can find the statement about “different options of airport belongings and leasing“ which the authors indicate as “airports in majority state/public ownership“, airports in private ownership, airports with the share of public and private ownership, and airport leasing“ (p.13). It is really bewildering that the authors do not see in their typology that airports in majority state/public ownerhips fall within airports with the share of public and private ownership. The authors continue in this nullity in further part of the text when they try “to describe advantages and disadvantages of the above-mentioned options“ starting with “airports in public ownership“ , describing airports in total public ownership as the first option. Similar messiness we can find at the following page (p.14) where the authors describe in the form of table “basic characteristics“ of various airports ownership forms stating three forms “state/public ownership, public-private ownership and private subjects/long-term leasing by private subject“. In this ownership forms identification we again find some terminology vagueness. Reading the explanation about basic characteristics of these forms we

3 Our critique of the governmental material is not critique of privatisation itself , we raise objections towards quality of privatisation materials that served for privatisation decision.

4 We highly appreciate those parts of the documents they relate to technical development of infrastructure that have been elaborated by the Slovak Technical University.
can read within public/private ownership option also “leasing/concession form“. The authors this ownership option “public/private ownership“ label synonymously as Public Private Partnership so it is not really clear whether they do distinguish sufficiently or anywise between institutional and contractual form of public-private partnerships. “Long-term leasing“ mentioned as the third option in the table is without any doubt one of the forms of public-private partnership of contractual type, however, only the second option named “public/private ownership“ is indicated by the authors as public private partnership. One can only misdoubt that the term public-private partnership for designated long-term lease of Bratislava Airport is considered by the government as not very politically comfortable as just the Fico’s left-wing government decided to use contractual public-private partnerships for highways construction in Slovakia and this was rejected as bad option by contemporary right-wing (liberal) government. The authors of the material continue in this terminological chaos in the following text by sudden introducing “management contract, concession and financial project of BOT type“ (p.15) into airports privatisation schemes not mentioning some of them before in the list of privatisation options. We can again argue that BOT is considered to be a concession and concession according to the authors in this list of privatisation options is then explained as long-term lease. Indication that all three they are contractual public-private partnerships is absolutely missing in the text. But let us break with airports privatisation termenology and typology and discuss some of ideas and arguments included in the material. We shall see how post-socialist reminiscences emerged in the material that tries to find capitalist track for the Bratislava Airport development. The authors write that “after splitting Czechoslovakia the process of creation and functioning of domestic airline ... did not occured and it is still the main problem of Bratislava Airport functioning...“ (p.2) However, just in the next sentence the authors introduce the information that „some good project was

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5 To be objective, we are obliged to add that just Fico’s government did not consider (again only politically motivated) public-private partnerships as privatisation options in infrastructure development.
SkyEurope Airlines that suffered by low purchase power of Slovakians. By contrast, as contraproductive we see the existence of Slovak Airlines with state share created on the base of state decision. This company deformed market and it has negative influence on development of private airlines. “(p.2) It is really astonishing that low purchase power of Slovakians is blamed for market failure of SkyEurope Airlines. This is a typical argument symptomatic for socialist period of our country when external factors were generally adopted as objective reasoning of all subjective failures and abortions. Moreover, the bankruptcy of SkyEurope Airlines occurred when Slovak Airlines did not exist, so none deforming influence of state airline on private domestic airlines was not present that time in markets. We can find in the text also an argument about “excessively low prices that were not sufficient to cover all operation costs of SkyEurope Airlines“ (p3.) and “some deformity in perception of air transport service value is further privation of this development when flying public accustomed to low prices.“ (p3. and 4.) What a devilry of customers we could add rather ironically... Value and price: interesting twins, however, just market is who is valuing goods and services through price in competition. This part of the material really suffers by phenomenon that we label as post-socialist reminiscences in which sound knowledge of market mechanism and current (market) status of air transportation is apparently absent. Confronting the above-mentioned statement of the authors with strenghts and opportunities of the Bratislava Airport described by the authors in SWOT analysis “large, economically strong catchment area ...“ and also „strong charter market“ ...“interest in charter flights“ (p.11), we must again admit further at least information and ideological controversy of the material.

We cannot agree also with the statement that “low-cost carrier is a regional matter“ (p.10) anyway we try to comprehend it within the context. Low-cost carriers develop their activites in over-regional scope, they use also primary, not only regional airports. The authors explain
criteria for low cost carriers airport choice, mainly those of direct financial impacts. The authors with almost ideological impassionedness cry for "cooperation and activities of subjects (i.e. regions, municipalities, business entities that have benefits from airport activities) ... to attract new destinations ... it is seen only as a role of the airport and its management that is absolutely improper looking at the mater... the need for such cooperation will raise in future... Airport itself will never have sufficiency of financial sources and other capacities for complex development of new lines. Therefore it will be necessary to include all subjects benefiting directly or indirectly from air transport so they invested some of their resources in development of demanded new lines... “ (p.9 and 10) “Weak support of regions and municipalities as well as non-active support of tourism organisations“ is also mentioned within SWOT analysis of the Bratislava airport (p.11). Regardless of what non-active support actually means we seem as very illusory to cry for this type of “direct financial cooperation“ when designated concession between the current state owner and private concessionare will be signed and configuration of relationships of stakeholders will be more complicated as it is under public status of both Bratislava Airport ownership and management. How could active (according to the authors direct financial) support of regions, municipalities and business subjects be incorporated in contract between the contractual partners – state as the airport owner and private concessionare? Moreover, taking into account problems with public finance in all levels within country, one can hardly anticipate that regional public finance sources would be at disposal for such type of support. And whether the Bratislava airport privatisation itself is not a solution covering both new capital sources needs as well as needs of new managerial skills in business airport policy (attractiveness of the airport included)?

As rather naive we apperceive the statement that "besides cooperation with business and non-business entities within the town and the region it will be necessary to create succesful domestic carriers... strong dependance of the airport on foreign carriers in this way would be
limited“ (p.11). It is really deep non-understanding the matter in such situation in which operation of the airport is decided to be transferred (we can assume it) to a foreign entity. Moreover, the authors state in other part of the material (p.8) that „for foreign carriers without any relation to the Slovak Republic, the Bratislava airport is only one of the destinations and destinations to and from Bratislava are operated by these carriers only if it will be profitable.“ They are the same authors which were annoyed by market deformity due to operation of the state-owned Slovak Airlines in other part of the text...

Alike we have strong objections against quantitative data contained in the document that are unbalanced from the point of time scale and details and visually very inconsistently presented. And although any privatisation is particularly political and economic matter, none serious analysis of financial-economic performance of the Bratislava airport is done in the material, doing with the information that “airport achieves operational profit, in 2009 9,3 mil. Eur.“ (p.8) Somewhat smiling is the statement about the advantages of combined ownership at the conclusions for the Bratislava Airport privatisation “the largest advantages are shown in costs efficiency, revenues generation and financing of own capital structure“, really financing of own capital structure is very interesting terminological innovation that has emerged in this material. We could also mention that potential of the airport in cargo transportation mentioned in the text is not included in the airport opportunities within SWOT analysis, as well as some missing infrastructure (hangars, cargo terminals) mentioned in the text again absent in SWOT analysis, so as charges policy and overall price payed at the Bratislava airport for services (fuel surcharges as an example) mentioned as weakness in the text, not included in SWOT of Bratislava airport etc...

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7 Comparison of Vienna and Bratislava Airport revenues from charges of one turn-around of ATR 72-500 and Boeing 737-800 (status summer 2010 75 % load factor) is presented in Annex B to this paper.
In further part of the material we can found three SWOT analyses as a base for comparison of three considered privatisation options – assets sale, concession and reciprocal transfer of shares between Vienna and Bratislava airports. Again, one cardinal methodological objection can be raised against this methodology. In these three SWOT analyses there are overlapping strengths, weaknesses, opportunities and threats mentioned for all three privatisation options, so they must be inevitably weaknesses, threats, strengths and opportunities of privatisation itself, not only those attributable to some concrete privatisation option (development of airport, secondary effects of know-how transfer, synergetic impact on regional development...) In our opinion, differential SWOT analyses approach would be more appropriate when distinguishing among privatisation options. Moreover, similar nullity as it has been alleged for previous parts of the material labels also SWOT matrices of considered privatisation options. In preferred concession option for privatisation for instance “higher influence and control level of state over the airport“ is stated as strength, in weaknesses “limited influence over the airport development“ etc. In all three options threats risk of Antimonopoly Office decision is mentioned with regard to situation in which Vienna would be a winner. However, none serious arguments about competition status of Bratislava Airport with Vienna Airport is done here.

**Vienna and Bratislava spatially competing (?)**

Frohlich and Niemeier (2011) try to explain the models of spatial economics and apply them on airports with overlapping catchment areas. Following their approach, we can state in line with postulates of Hotelling model of spatial competition that Bratislava and Vienna airports are characterised by sufficiently low surface transportation costs, so they can compete with each other in price. However, demand substitutability as a function of surface transportation costs between airports is not so straightforward in the case of airports, as there are two demand substitutability aspects. The UK Competition Commission (2008) states that the
demand for airport services is a derived demand and change in price or quality of airports services can affect demand for airports services directly or indirectly. Directly, as a result of substitution by airlines and indirectly, through downstream effects, by affecting airline fares and inducing substitution by airline customers. We fully agree with findings of the UK Competition Commission (2008) that both direct and indirect demand substitutability are relevant for airports competition assessment. Therefore, surface transportation costs can partially explain (together with price/quality of air transportation service) choice of airlines customers (downstream substitutability) in situation of existing product/quality substitutes of airlines at competing airports, however, taking into account different time elasticities within passengers segments. When explaining this phenomenon, also frequencies of destinations ought to be taken into account as providing more frequencies, schedule displacement elements in total trip time are decreasing (Belobaba, 2009) that could be relevant choice determinant for time sensitive passengers. Also irrationale ignorance of surface transportation costs (Forsyth, 2003) by some passengers (or some segments of passengers) may play some role in substitutability effects in down stream. According to us, quantitative relation of surface transportation costs as mentioned before and airport charges per passenger can provide some jump-off when considering airport prices and surface transportation costs as elements of demand substitutability in down stream.

As for direct airports substitutability, i.e. a change in prices by one airport causes airlines to switch to competing airport, this issue deserve also attention. Existing models of spatial competition distinguish various aspects – two centres or one centre spatial competition, product differentiation models etc. Bratislava and Vienna is - according to our viewing the problem – two centres spatial competition case, however, with fundamentally different

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8 Frohlich and Niemeier (2011) suggest to work with value of time, but they do not mention explicitly the role of frequencies in airports competition. This can be very important for business passengers segment and can influence airports competition in considerable way in this market segment.

9 Frohlich and Niemeier (2011) in our opinion do not distinguish sufficiently direct and indirect demand substitutabilities.
negotiation positions of competing airports towards airlines, Vienna more price – maker and Bratislava more price - taker with all consequences resulting from it. Vienna is a primary centre of the region and Bratislava a secondary one, i.e. two centres unbalanced gravitational case, accordingly switching airlines demand from Vienna to Bratislava through competition (price/quality) clashes against economies of scale and economies of scope and consequent costs limits and depends on airlines sensitivity towards airport price. Moreover, existing spatial competition models prove that if demand substitutability between airports is very low, even two independent firms with different owners could charge higher prices. This is just also a case of two centres competition with the same welfare effect whether under separate or join ownership. (Frohlich and Niemeier, 2011). Thereto,Vienna prices are regulated by price cap dual till system and this fact is nor considered neither discussed within existing modelling literature till now with regard to competition and welfare issues. If Vienna will obtain concession for operation of Bratislava, two regulatory systems will met, discretionary regulation of Vienna and contractual one of Bratislava as concession will probably contain some regulatory provisions relating to airport prices. Another fact that is interesting for modelling of airport spatial competition is an existence of restrictions in airport capacity. Consequently, spill over effect of increasing demand to neighbouring airport under join ownership/management versus increasing of existing capacity of dominant airport within catchment area keeping separate ownership/management of two competing airports could be another challenge for modelling approach in this field. Also multiproduct and multisided platforms of airports ought to be more considered in models of airports spatial competition.

**Conclusion**

Small airport, big problem, insufficient analyses, absence of development strategy, fiscalization and acceleration – these characteristics are – according to our opinion –
attributes of prepared Bratislava Airport privatisation. Summarizing, Vienna and Bratislava airports according us now compete in down stream in very limited air transport markets and market segments, negotiation position of airports towards airlines is fundamentally different, direct substitutability of airports by airlines is highly influenced also by operational characteristics of both airports as well as some inbuilt demand stabilizers in Vienna resulted from two centres system that cannot be so easily overcome by “a slight change in price“ as it is hypothesized in spatial competition models. Direct airports substitutability is according to us rather low. When judging Vienna as possible future concessionaire of Bratislava airport, all these and in all conscience other factors ought to be taken into consideration during privatisation process. Unfortunatly, just they absent in Bratislava Airport privatisation materials. The dominant importance is given to fiscal impacts and consequence of privatisation, therefore privatisation models are only analysed (with all objections we have raisen) and market/competition/welfare impacts of potential joint – operation airports system versus single airports operation are not taken absolutely into account through consideration of gains and costs of such options (Forsyth et al., 2010). So as grid Vienna – Bratislava – Košice is another, over – regional competition aspect of potential “soft acquisition of Bratislava airport operation“ by Vienna that calls for research attention.

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10 However, it can be something like kingking clutter, sly negotiation tactics against future concessionare.
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DECISION OF ANTIMONOPOLY AGENCY OF THE SLOVAK REPUBLIC NO. 2006/FH/3/1/105


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Annex A

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Source: Annual Reports of Bratislava and Vienna airports.
Comparison of revenues from airport charges in EUR
Bratislava and Vienna (2010)/ATR 72-500
Fig. 3

Comparison of revenues from airport charges in EUR
Bratislava and Vienna (2010)/Boeing 737-800
Fig. 4