



WELCOME  
TO IX WALA

Bologna, Italy,  
January 18-20, 2017

BAA Privatisation  
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Gatwick Airport Limited  
January 2017

# BAA Since Privatisation – A Brief History

- BAA, former British Airports Authority was privatised by public flotation in July 1987 with government retaining a golden share to prevent control–redeemed in 2003 as a result of ECJ judgment
- At privatisation BAA owned Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Prestwick and Aberdeen and accounted for over 70% of UK pax
- Pre privatisation BAA regulated by government and CAA on cost plus basis
- Post privatisation BAA regulated in respect of Heathrow, Gatwick and Stansted on RPI-X basis on revenue yield per pax on airport charges – commercial revenues not regulated but taken into account when setting the cap on the single till principle
- X set ex ante so BAA was incentivized to make efficiencies and to seek out unregulated revenues elsewhere
- 2006 BAA Plc acquired for £10.1bn by a consortium led by Ferrovial of Spain
- 2009 Competition Commission orders BAA to sell Gatwick and Stansted and one of the Scottish airports following a market investigation that finds adverse effects on competition of joint ownership
- 2009 Gatwick Airport sold to GIP consortium
- 2012 Edinburgh Airport sold to GIP consortium
- 2013 Stansted sold to Manchester Airports Group

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# Impact of Privatisation and Regulatory System on development of UK Market

- BAA privatised as a whole because London Airports constitute an integrated airport system – advantages of having a competitive structure for privatised industries not recognised in 1980's. Advantages of competing airports in terms of choice product and price not realised until break up of BAA
- Did RAB based price regulation incentivize inefficient or gold plated capital expenditure?
- Did planning system and continued requirement for Government policy support for major expansion inhibit UK airport infrastructure investment?
- Did management's focus on share price performance impact facilities and service at UK airports. On privatisation its first objective was "to achieve a consistent growth in earnings per share and in the return on net assets employed putting our performance amongst the highest of FTSE 100 companies."

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# How the regulatory incentivisation to expand non price capped revenues led to a cycle of expansion and contraction – The Expansion

- BAA freed from state control set out on a policy of expanding into related businesses to earn non regulated revenues
- 1989 BAA acquires property developer and owner Lynton plc just before property slump
- 1989 BAA sets up its own hotel division to develop hotels on and off airport including downtown Ghent! Wants to create a chain and considers acquiring a worldwide hotel chain from Ramada Hotels
- 1989 BAA acquires Scottish Express cargo handling company and Roy Bowles a cargo operator at Heathrow and Gatwick
- By 1990 8 contracts for managing shopping facilities in hospitals!

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# The contraction followed by further expansion

- 1992 annual review “In line with the strategy of concentrating on the core airport business” BAA sold its non airport hotels
- 1993 BAA sells off non airport and some non core airport properties
- 1993 “in line with our strategy of divesting peripheral activities we sold our cargo handling business”
- It didn’t last long expansion round 2
- 1993 BAA announces JV with McArthur Glen to develop manufacturers’ outlet malls throughout Europe
- BAA is poised to grow internationally–retail management contract at Pittsburg, 10 year management contract Indianapolis system
- 1996 launches World Duty Free to run its own duty free airport outlets
- 1997 acquires stake in Melbourne
- 1997 acquires Duty Free International for £429m duty free operator with 200 stores in UK including Mexican border!
- 1997 Acquires majority stake in Naples airport operator
- 1998 contract to run retailing Newark
- 1999 entered into contract to run duty free for Eurotunnel

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# contraction round 2

- 1992 annual review “In line with the strategy of concentrating on the core airport business” BAA sold its non airport hotels
- 1999 CEO “ Having looked carefully at each aspect of our business it is clear to me that we perform best for all our stakeholders when we concentrate on quality management of our core airport business.”
- 2000 off airport and non core property disposals
- Dispose of inflight duty free and Eurotunnel contract
- Sells WDF US operation further write down of £190m
- 2002 sells stake in McArthur Glen

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# Expansion not finished yet

- 2002 acquires stake in Perth and Northern Territory Airports
- 2003 Retail management Contract Baltimore
- 2005 Acquisition of Budapest Airport

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# The fun finally ends

- Ferrovial consortium acquires BAA plc for £10.3bn and begins disposal of all non UK airport interests and WDF duty free business

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# Some concluding comments on impacts of privatisation

- Profit and market expectations lead to perception that airport had moved from utility to profit oriented monopolist
- Dilemma how to pursue profit without worsening relationship with all stakeholders and impacting long term strategy
- Diversification -businesses may be more volatile than core airport business led to large write downs on property developer £36.7m and duty free operator and in 2000 write down of £147m on World Duty Free
- Culture- does the culture of the organisation blend with culture of acquired businesses
- Life in commercial world lead to focus on customer service
- Realisation that airports need to have support of a number of stakeholders- 1998/9 BAA added fourth key objective” growing with the support and trust of our neighbours”

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# Nothing much changes on the next London runway question

→ From 1988 Report and Accounts Chairman's statement

“There has been much debate concerning the provision of runway capacity in the South East. It is our policy to make full use of existing runway system at Heathrow and we are legally committed to a single runway policy at Gatwick. Both these airports are nearing their ultimate runway capacity...”

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**British  
Airports**

British Airports Authority Annual Report & Accounts 1977/8

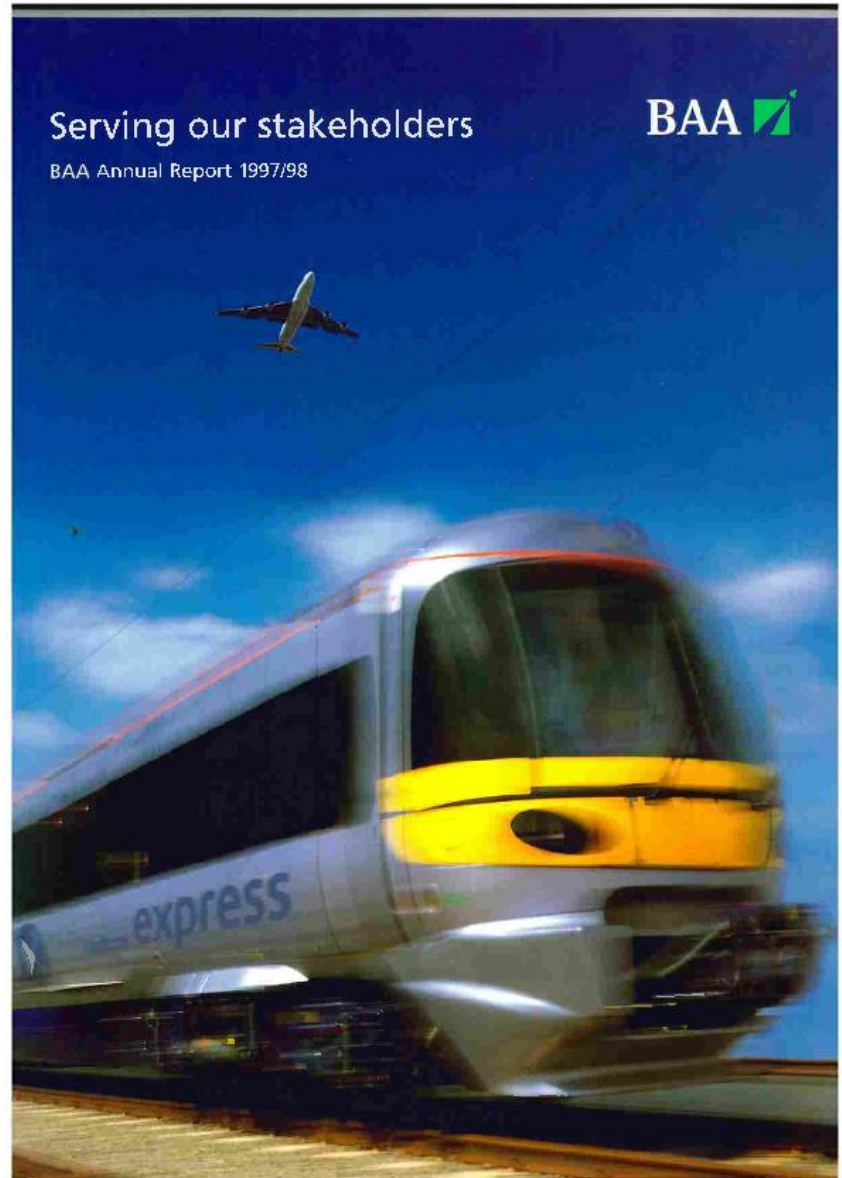
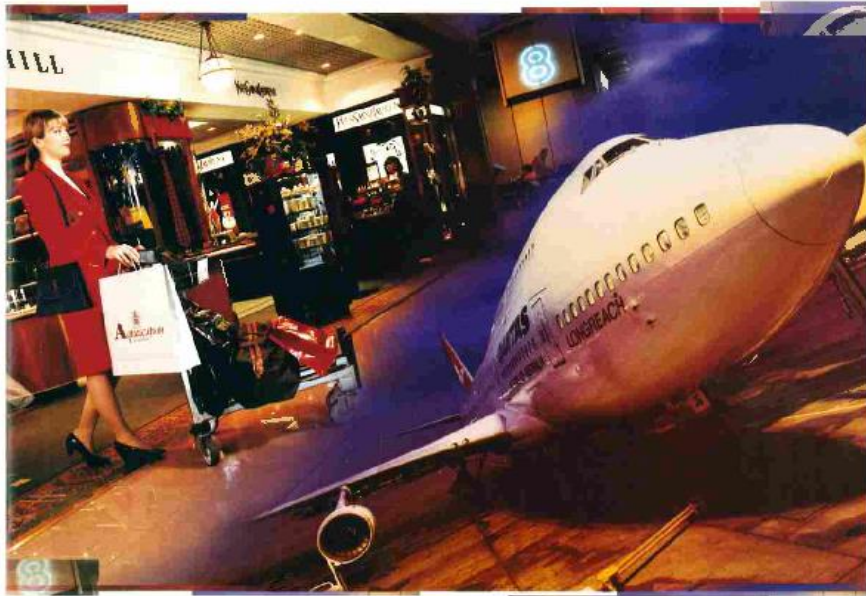


**B·A·A** 

1989 REPORT AND ACCOUNTS



THE WORLD LEADING INTERNATIONAL AIRPORT GROUP



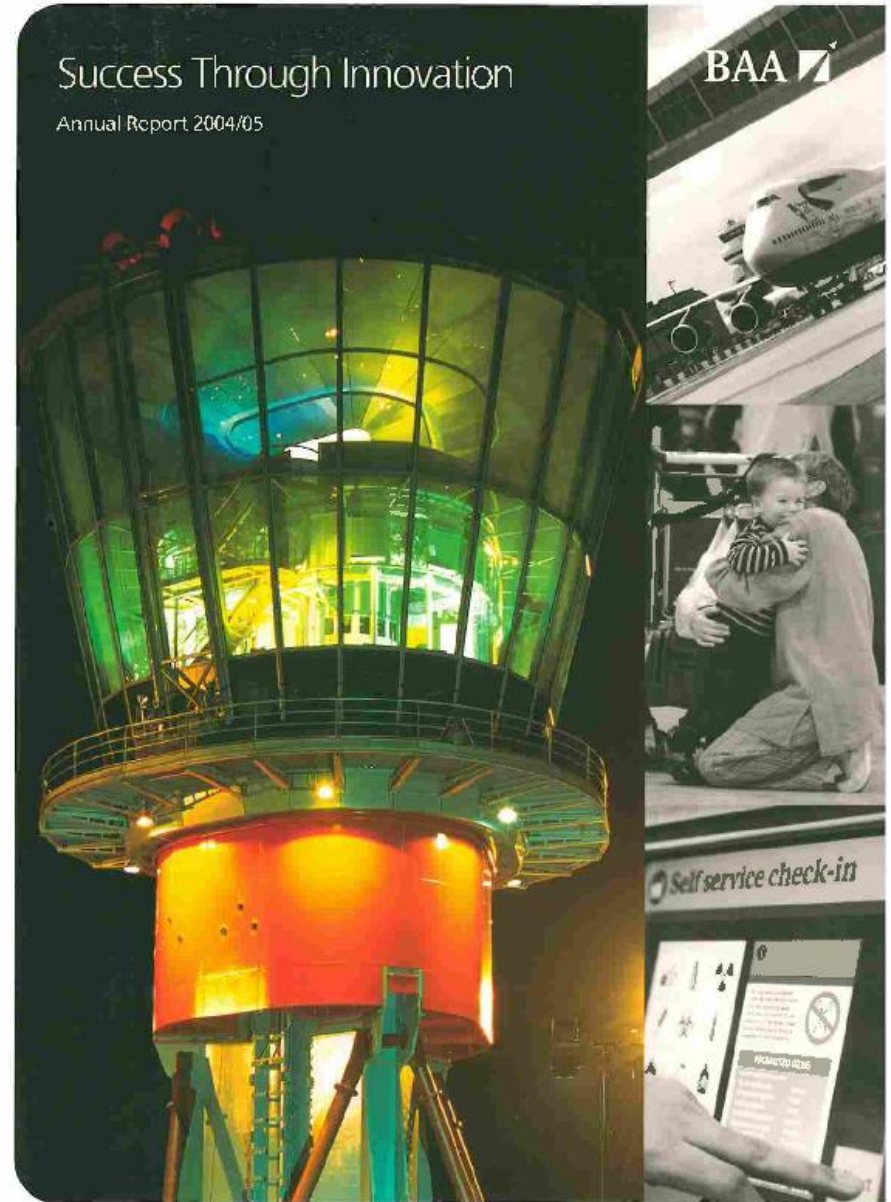
Serving our stakeholders

BAA Annual Report 1997/98

**ALWAYS  
FOCUSING ON OUR  
CUSTOMERS' NEEDS  
AND SAFETY.**

Success Through Innovation

Annual Report 2004/05



BAA 

Annual Report 2005/06



How does the world's  
leading airport company  
stay ahead?