

Privatization of Turkish Airports

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CONFERENCE ON PRIVATIZATION AND LIBERALIZATION,
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Outline

- 1. Different Privatization Methods**
2. Reasons of Airport Privatization in Turkey
3. Airport Privatization in Turkey: BOT
4. Assessment of BOT Applications
5. Conclusion and Further Questions

Different Privatization Methods:

1- Management Contracts: (Some US Airports)

Government still has: Ownership, Control of assets, Long term strategy

Private sector: Short term tactical decisions

2- Full or Partial Privatization: (BAA, Frankfurt, Sydney)

- IPO and Trade Sales
- Ownership & Strategic Planning → to the **private** sector

3- Build – Operate – Transfer (BOT): (Toronto T3, Turkey)

- Long term franchise agreements with 3 steps;
i) Constructing, ii) Operating, iii) Transferring back (Walker and Smith, 1996)

Different Privatization Methods:

3- Build – Operate – Transfer (BOT): (Toronto T3, Turkey)

- Betancor&Rendeiro (1999): Period 20 to 50 years
- Different versions: BOOT, DBOT, DBOM, BOO and so on..

- Developing countries;
→ Financing problems and lack of liquidity
- Developed countries;
→ Increase efficiency in construction and operation

Dey and Ogunlana (2004)

-- Both apply to Turkish case

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Reasons of Airport Privatization in Turkey:

General Economic Conditions:

Conditions on Aviation Industry:

Change in the European economy during 1980's

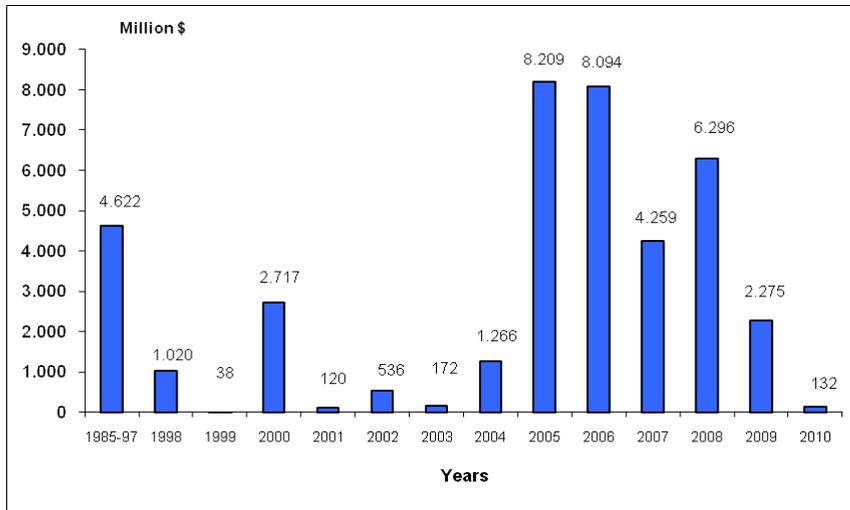
High growth rates → Capacity limits



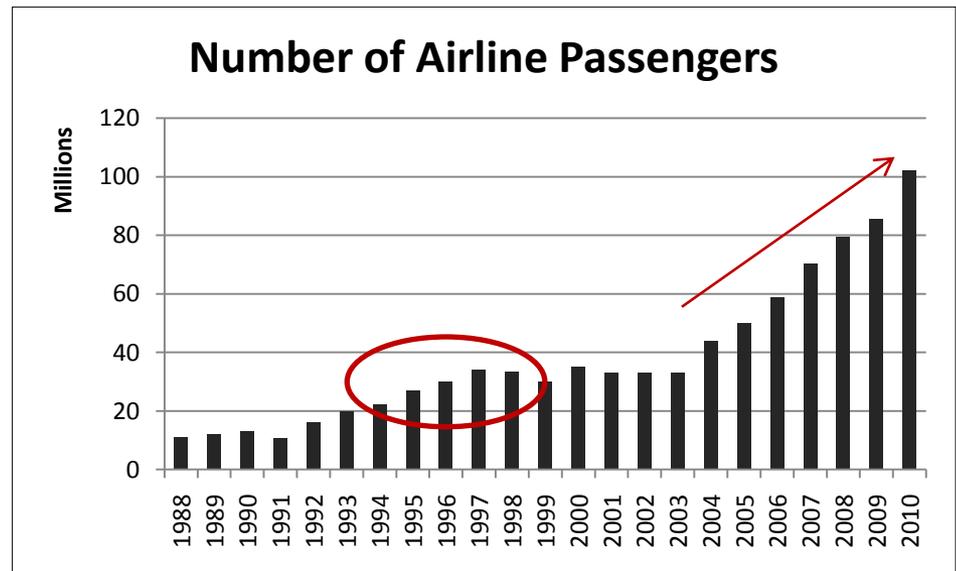
Increasing rate of privatization in Turkey since 90s

Especially terminals in main airports

Privatization Receipts of the State:



Number of Airline Passengers



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Airport Privatization in Turkey:

Main Players:

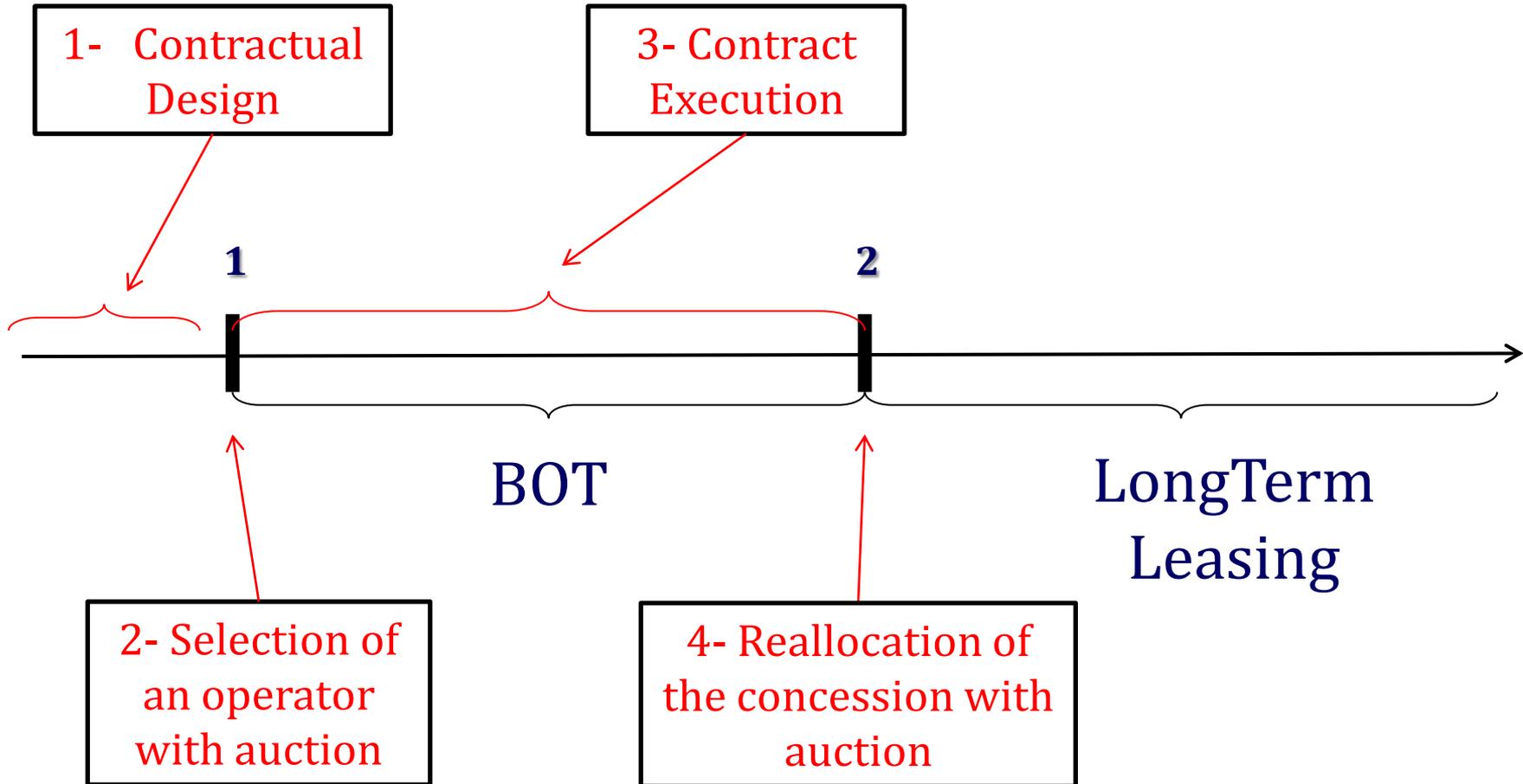
1- SAA (State Airports Authority):

- Government Enterprise operating all airports in Turkey (with couple exceptions)
- Chooses, implements and follows the privatization policy
-independent of the privatization agency-

2- Private Consortia: (TAV, Fraport-ICTAS etc.)

They take place in the auctions to build and operate the airport terminals.

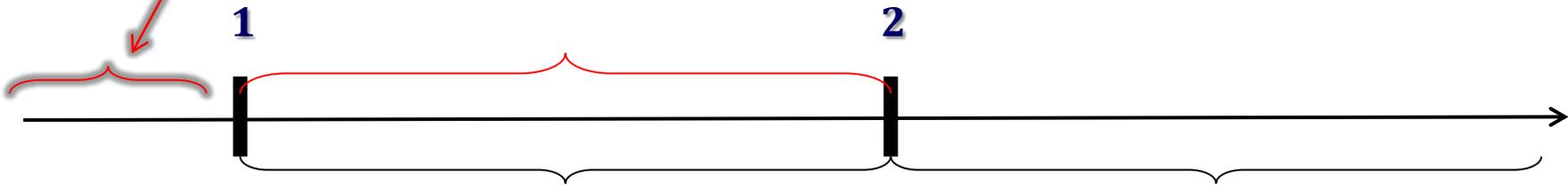
Airport Privatization in Turkey:



Airport Privatization in Turkey:

1- Contractual Design

- BOT only for terminals.
- Airside is still operated by the SAA



For;

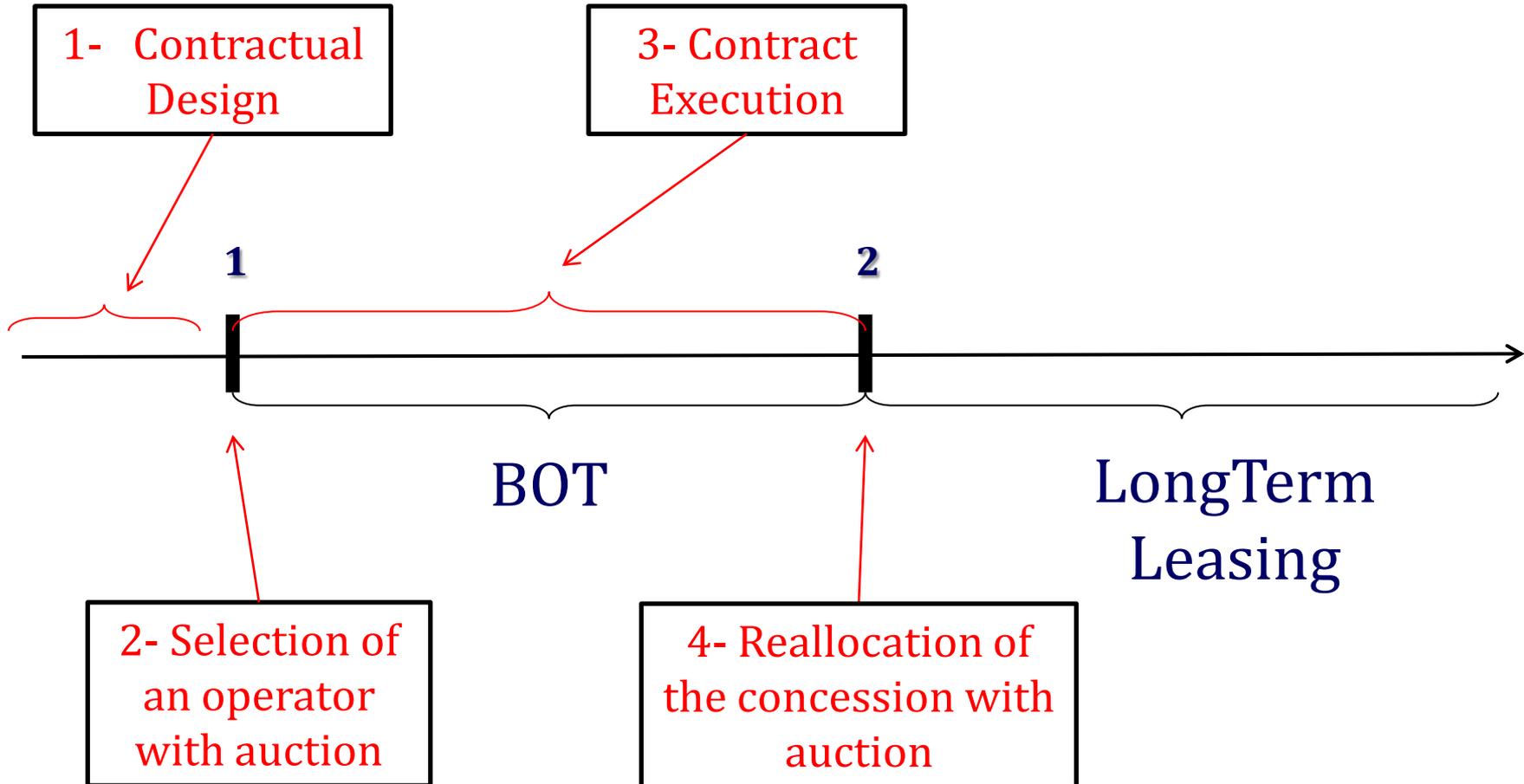
Building
Phase

- The content what to be built (acc. to forecasts)
- The amount of investment

Operating
Phase

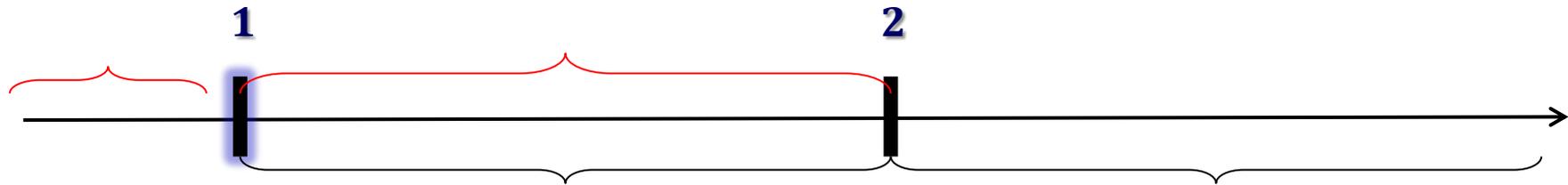
- Revenue sources for the private company
- Revenue proportions for both parties (pax fee)

Airport Privatization in Turkey:



Airport Privatization in Turkey:

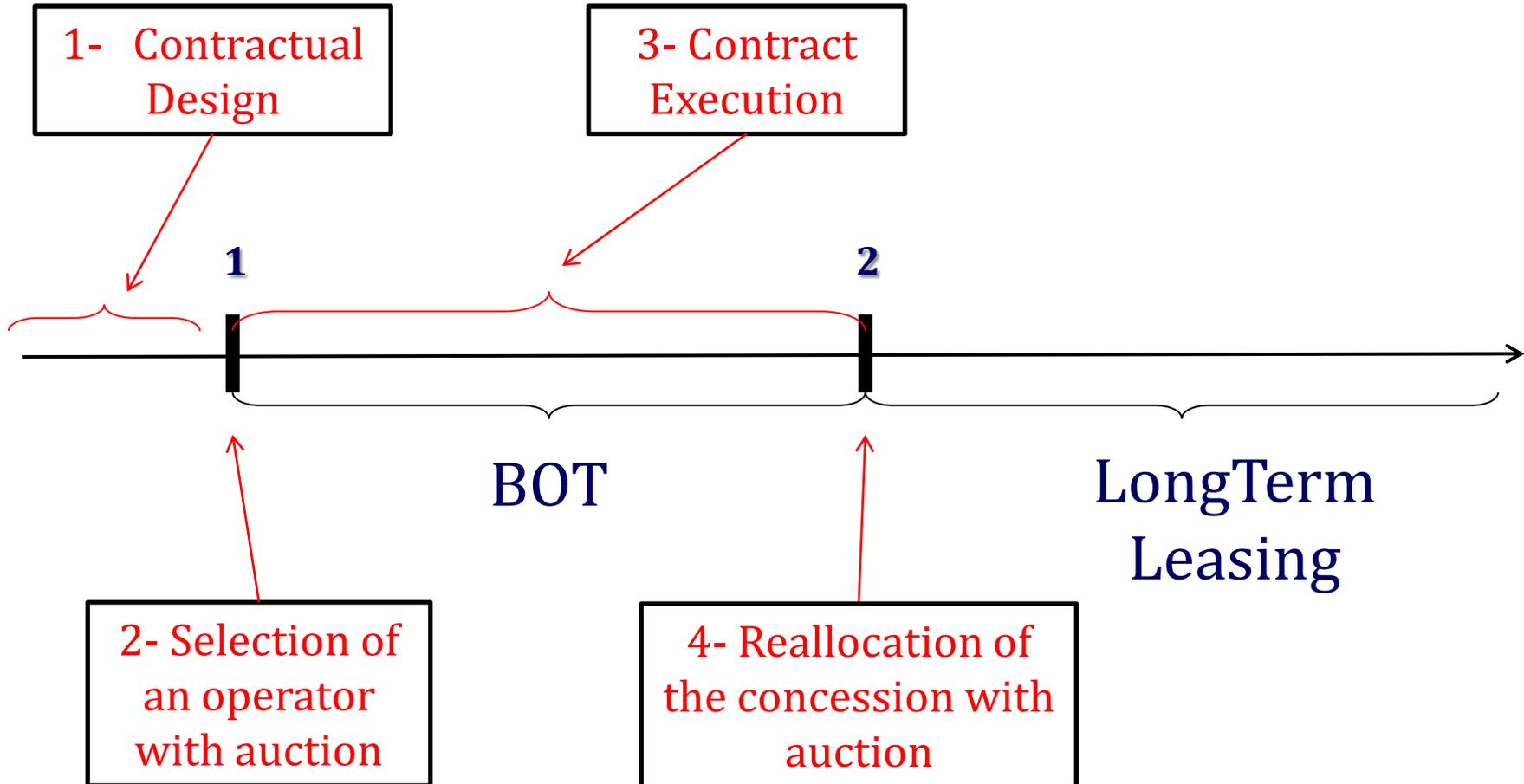
- Sealed bid auction for the **OPERATING PERIOD**
- The consortia bid for the BOT of Terminal in terms of shortest operation period.



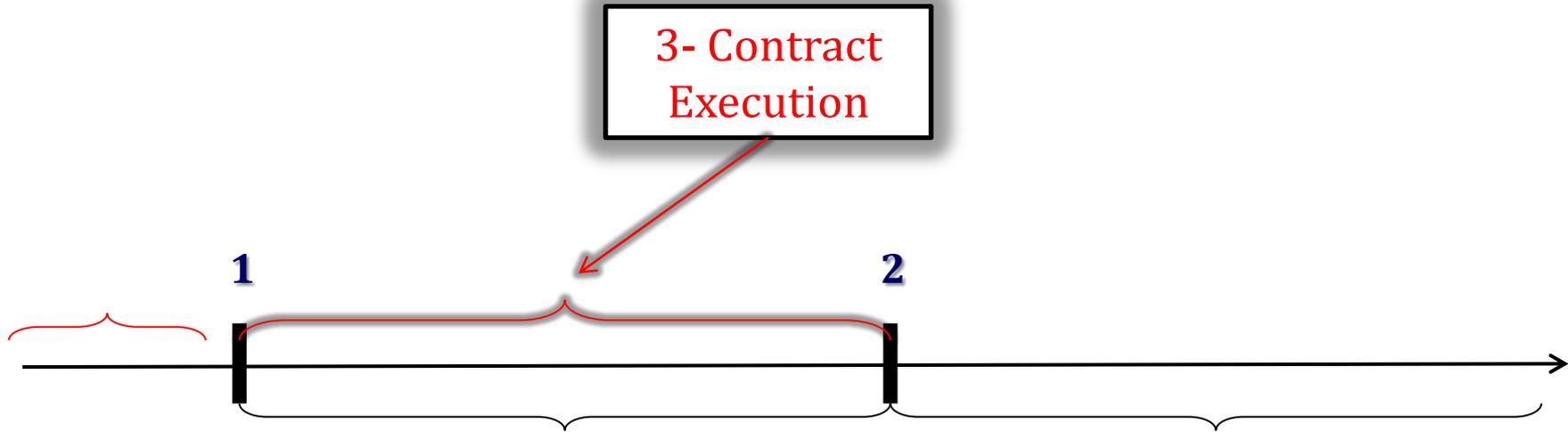
2- Selection of
an operator
with auction

→ Only for participants with:
technical proficiency, experience, financial
strength

Airport Privatization in Turkey:



Airport Privatization in Turkey:



BOT

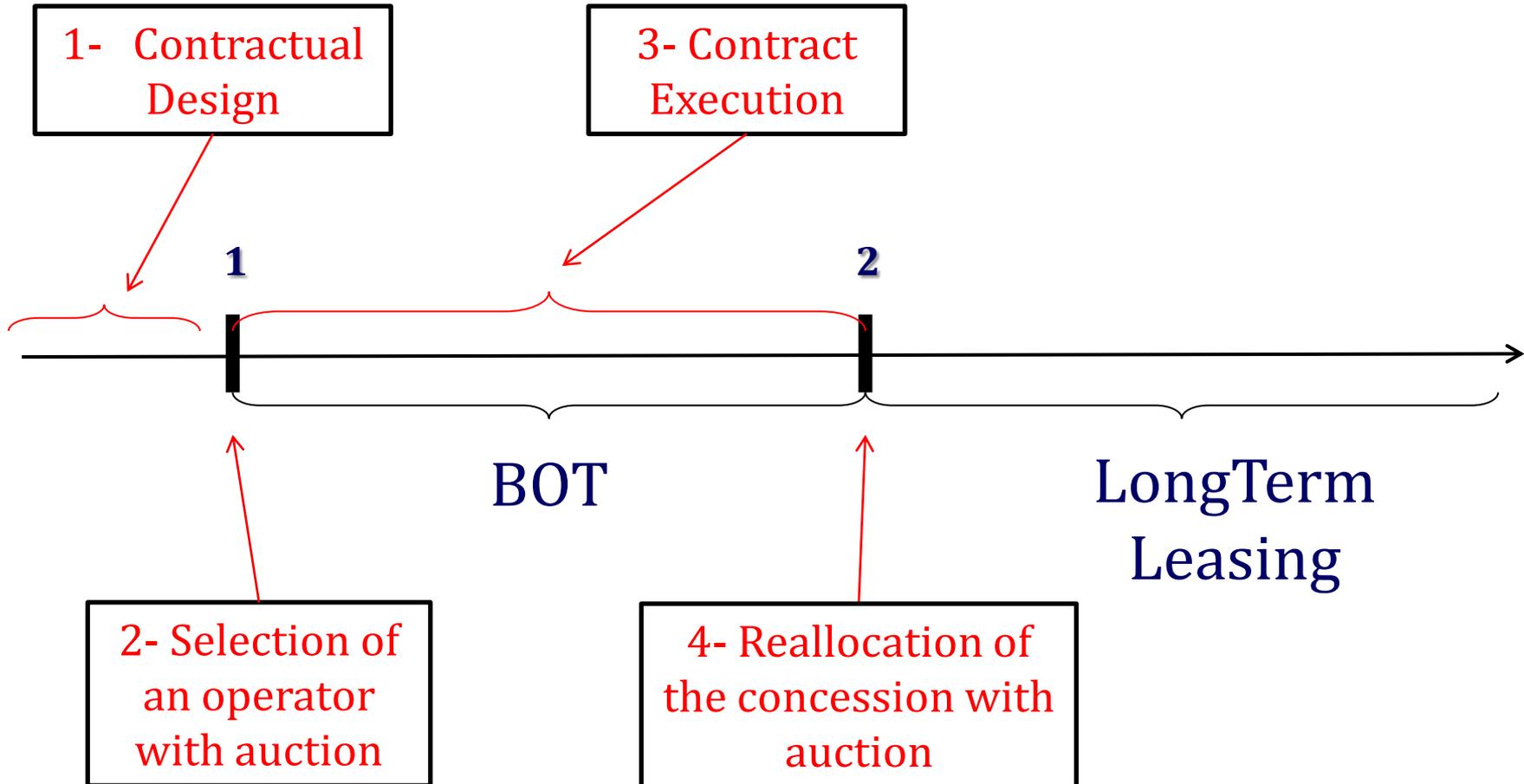
Airport	Istanbul Atatürk	Antalya Terminal 1	Antalya Terminal 2	Ankara Esenboga	Izmir Adnan M.	Dalaman	Milas-Bodrum	Average
Operation Period	3 y 8 m	9 y	3 y, 6m	15 y, 8 m	6 y, 8 m	6 y, 6 m	3 y, 9 m	7 y

- Passenger fee, rents, car parking fees etc.
- A guaranteed number of passengers

Reducing Risk for Bidders

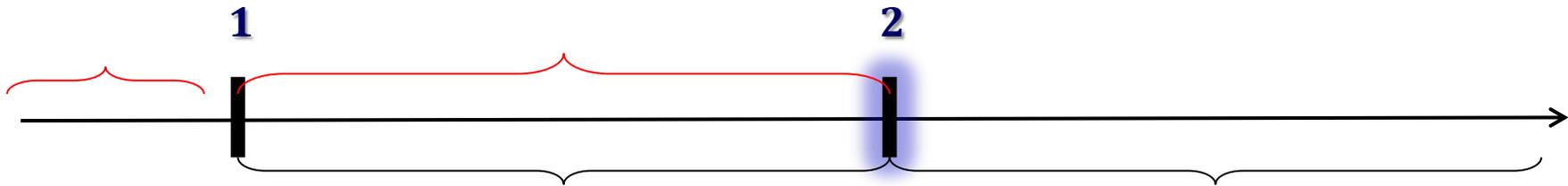
Özenen (2003)

Airport Privatization in Turkey:



Airport Privatization in Turkey:

- The SAA : Instead of taking operating rights back → Leasing
- 2 Stage auction in terms of **THE PRICE OF OPERATING RIGHTS;**
- 1st Stage: Sealed Bid
- 2nd Stage: Separate price negotiations



Istanbul Atatürk:

- For 15,5 years
- 2 participants
- Additional 2 dropped
- TAV wins with 3 billion USD

Antalya Airport:

- For both terminals
- Until 2024
- Ictas-Fraport wins with 3,2 billion USD

4- Reallocation of the concession with auction

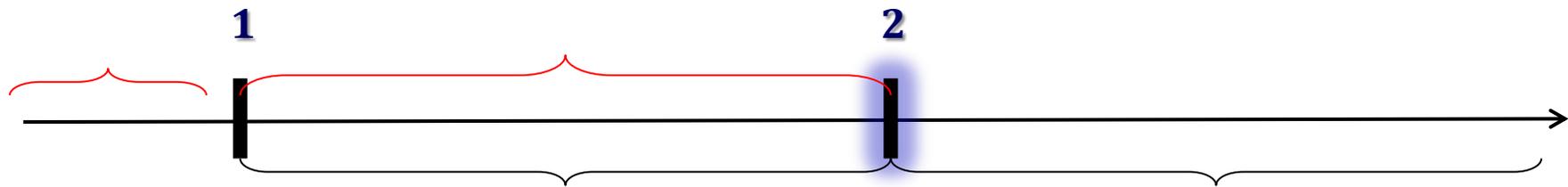
Long Term Leasing

Airport Privatization in Turkey:

Main question:

→ **How big is the advantage of the incumbent in the second stage?**

Fundamental transformation (Williamson (1976)): the fact that one company won the first auction gives it a 1st mover advantage and it will lead in the end to a de facto restriction of the number of potential partners. All the more so true that the specificity of assets is high.



<u>Istanbul Atatürk:</u>	<u>Antalya Airport:</u>
BOT: TAV	BOT:
↓	T1: Fraport
	T2: ICTAS – Celebi
	↓
Lease: TAV	Lease: ICTAS-Fraport

4- Reallocation of the concession with auction

Long Term Leasing

BOT Implementations at Turkish Airports:

Airport	Year of Tender	Winner	Operation Period	Operation Until	Investment Period	Investment Amount	Number of Firms in the Tender
Istanbul Atatürk	1997	TAV	3 y 8 m		30 m	306 mill USD	12
Antalya Terminal 1	1994	Fraport (+Bayindir)	9 y	01.09.2007	2 y	65,5 million USD	2
Antalya Terminal 2	2004	Celebi-ICTAS	3 y, 5 m, 26 d	24.09.2009	N/A	71,1 million USD	N/A
Ankara Esenboga	2004	TAV	15 y, 8 m	Mid 2023	36 m	188 million USD	2
Izmir Adnan Menderes	2004	Havas-Bayindir	6 y, 7 m, 29 d	January 2015	2 y	125 million USD	6
Dalaman	2003	ATM(Aksa-Turkuaz-Manas)	6 y, 5 m, 20 d		2 y	72,4 million USD	4
Milas-Bodrum	2006	Teknotes-Aerodrom Beograde	3 y, 9 m		N/A	N/A	8

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Assessment of BOT:

1) Regarding the **Investment Funding**;

- Access to large sums of investments (Imre, 2001)
- However, cheaper access to capital by State or Private Firms ??

2) Regarding the **Passenger Fees – Contractual Design**;

- Guaranteed number of passengers and division of profits
- Reducing risk for bidders

3) Regarding the **Franchising Period**;

- Around 3-5 years may lead the companies to extreme cost savings?
- → Level of service quality?

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Conclusion

- **Market in Turkey expands due to liberalization in 2002 and the hub strategy of Turkish Airlines.**
 - It may lead to further privatization implementations.
- **Besides, on four airports, the BOT period will come to an end.**
- **The empirical cases reflect the advantage of incumbent consortium in the second stage. How competitive were the auctions? Does the SAA take this into account for the future?**
- **Governments face a variety of privatization methods. Which one to choose is airport (country) – specific!**
- **BOT methodology solves the funding problem of new investments for government! Is it a Win-Win situation?**
- **Privatization of airside considered?**

Thank you for your attention.

GERMAN AIRPORT PERFORMANCE

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