Privatization of Turkish Airports

Tolga Ülkü
Ph.D. Student
Humboldt University, Berlin
tolgaul@yahoo.com

CONFERENCE ON PRIVATIZATION AND LIBERALIZATION,
with a focus on
NETWORK INDUSTRIES AND EASTERN EUROPE
Stockholm, Sweden, 16th June 2011
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
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
Reasons of Airport Privatization in Turkey:

**General Economic Conditions:**

- Change in the European economy during 1980’s
- Increasing rate of privatization in Turkey since 90s

**Conditions on Aviation Industry:**

- High growth rates → Capacity limits
- Especially terminals in main airports

Privatization Receipts of the State:

Number of Airline Passengers
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
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:

1- Contractual Design

3- Contract Execution

2- Selection of an operator with auction

4- Reallocation of the concession with auction

BOT

LongTerm Leasing
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:

1- Contractual Design

3- Contract Execution

2- Selection of an operator with auction

4- Reallocation of the concession with auction

BOT

Long Term Leasing
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:

1. Contractual Design
2. Selection of an operator with auction
3. Contract Execution
4. Reallocation of the concession with auction

BOT

LongTerm Leasing
Airport Privatization in Turkey:

3- Contract Execution

---

**BOT**

<table>
<thead>
<tr>
<th>Airport</th>
<th>Operation Period</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Istanbul Atatürk</td>
<td>3 y 8 m</td>
<td></td>
</tr>
<tr>
<td>Antalya Terminal 1</td>
<td>9 y</td>
<td></td>
</tr>
<tr>
<td>Antalya Terminal 2</td>
<td>3 y, 6m</td>
<td></td>
</tr>
<tr>
<td>Ankara Esenboga</td>
<td>15 y, 8 m</td>
<td></td>
</tr>
<tr>
<td>Izmir Adnan M.</td>
<td>6 y, 8 m</td>
<td></td>
</tr>
<tr>
<td>Dalaman</td>
<td>6 y, 6 m</td>
<td></td>
</tr>
<tr>
<td>Milas-Bodrum</td>
<td>3 y, 9 m</td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>7 y</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

Reducing Risk for Bidders

Özenen (2003)
Airport Privatization in Turkey:

1- Contractual Design

3- Contract Execution

2- Selection of an operator with auction

4- Reallocation of the concession with auction

BOT

Long Term Leasing
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

---

<table>
<thead>
<tr>
<th>Istanbul Atatürk:</th>
<th>Antalya Airport:</th>
</tr>
</thead>
<tbody>
<tr>
<td>-- For 15.5 years</td>
<td>-- For both terminals</td>
</tr>
<tr>
<td>-- 2 participants</td>
<td>-- Until 2024</td>
</tr>
<tr>
<td>Additional 2 dropped</td>
<td>-- Ictas-Fraport</td>
</tr>
<tr>
<td>-- TAV wins with 3 billion USD</td>
<td>wins with 3.2 billion USD</td>
</tr>
</tbody>
</table>

4- Reallocation of the concession with auction
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.

---

<table>
<thead>
<tr>
<th>Istanbul Atatürk</th>
<th>Antalya Airport</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOT: TAV</td>
<td>BOT:</td>
</tr>
<tr>
<td>Lease: TAV</td>
<td>T1: Fraport</td>
</tr>
<tr>
<td></td>
<td>T2: ICTAS – Celebi</td>
</tr>
<tr>
<td></td>
<td>Lease: ICTAS-Fraport</td>
</tr>
</tbody>
</table>

4- Reallocation of the concession with auction
Airports operated by the SAA:

- **Red** BOT Model under SAA
- **Orange** BOT with a second stage
- **Light Orange** Not SAA or Another Model
## BOT Implementations at Turkish Airports:

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

A Joint Project of:
University of Applied Sciences Bremen
Berlin School of Economics (FHW)
Int. University of Applied Sciences Bad Honnef

Contact:

Tolga Ülkü
tolgaul@yahoo.com

www.gap-projekt.de