

**AIRPORT PRIVATIZATION
ISSUES FOR THE UNITED STATES**

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ABSTRACT

The worldwide trend to privatize airports has led the Congress to direct the US Federal Aviation Administration to experiment with privatization. How should this best be done?

Because there always will be a public interest in the operation of major commercial airports, that are both vital assets to the community and potential monopolies, it is generally impractical to transform airports into wholly private businesses. Most privatization projects involve substantial regulation of the private investors, detailing the design of their services, the prices they may charge, and their openness to users.

Worldwide experience provides three lessons:

1. U.S. airports are among the most privatized in the world. There is little scope for privatization in the United States compared to elsewhere.
2. Major aspects of airport operation must remain under government control, because of the public interest in these facilities.
3. Privatization may take a long time. The process requires considerable negotiation between the stakeholders in the airport business, and there are no simple solutions.

The fundamental choice in the privatization process is how the government should sustain the public interest in open access to and fair rates for airport services. The major alternatives are between:

- Government regulation, an inherently adversarial process; or
- Government ownership and partnership in the development of airports, a more collaborative approach.

The partnership approach, practiced by airport authorities throughout the United States, seems best for assuring the public interest in fair operations and permitting the local community to express its need for sufficient airport capacity.

KEY WORDS

Airports; Privatization; Regulation; Airport Access; Monopolies

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1. INTRODUCTION

There has been a significant worldwide trend worldwide to privatize government facilities since the middle of the 1980s. Britain is largely seen to have led the way: the Government of Prime Minister Thatcher sold off major industrial assets that had been in the hands of the British Government since the socialist governments after the Second World War -- steel mills, power plants, telephone services and, among other things, British Airways the national airline and BAA the former British Airports Authority.

Countries with similarly extensive holdings of industrial assets have followed suit in the ensuing years. Mostly, of course, these are countries whose previous socialist governments had believed that government ownership of industries was an essential political policy. For example:

- Mexico in the early 1990s privatized its banks and telephone system, as well as its ports, and -- since 1997, has been in the process of privatizing its airports;
- Germany has been privatizing its national airline, Lufthansa, as well as its major airports;
- Russia and other formerly communist countries have also been privatizing their industrial activities on a massive scale.

The privatization trend has definitely affected airports. Major privatizations of airports have occurred since the 1980s across the world, the most notable being in Australia, Britain and Canada). Other significant privatization efforts have occurred or are in process in:

- Argentina
- Austria
- Bolivia
- Chile
- Hungary
- Italy
- Macao
- Mexico
- The Netherlands
- Philippines
- South Africa
- Etc., the list keeps expanding.

The major efforts in the privatization of airports have occurred in countries in which airport planning, design, finance and management have been organized completely differently from the way these activities have ever been in the United States. In most other countries airports have been:

- the complete responsibility of the national government,
 - financed by the national government, and
 - entirely controlled by political masters through a national civil service centered on the capital.
- In the countries with centralized national control over airports there has been correspondingly enormous opportunities for the devolution of initiative away from the political capital toward local communities, and away from governmental processes toward a competitive commercial environment.

It must be emphasized that the conditions in the countries that have had major privatizations of airports have been almost totally different from the ones prevailing in the United States. In the United States, commercial airports have traditionally been:

- Independent of national control, being operated locally by municipalities or regional authorities; and
- Decisively influenced by competitive private interests, particularly by airlines that have had the power (through their ability to veto airport projects through the majority-in-interest clauses of their leases) to shape virtually all the major aspects of airport development and management.

Since the conditions of the United States are so different from those of many other countries, it is not evident how or to what extent the United States ought to follow the apparent lead of other countries in airport privatization.

The question of how we should think about the privatization of airports has become salient in the United States because the fiscal year 1996 reauthorization of the national Airport Improvement Program directed the US Federal Aviation Administration to approve up to 5 privatization projects. With this encouragement two projects are under discussion as of early 1998. These are:

- the City of San Diego has reportedly selected a consortium of investors (the Brown Field Aviation Park group) to act as a private developer under a long-term master plan (Airport Report, 1998); and
- Stewart Airport (New York) apparently agreed to be operated under a 30 year lease by a private operator, the National Express bus company of Britain, which also owns the East Midlands Airport in England and several other aviation properties.

Meanwhile, independently of the recent specification in the reauthorization of the Airport Improvement Program, many individual airport authorities have embarked on privatization projects of various sorts, for example:

- The Port Authority of New York and New Jersey has entered into: a contract with private investors to finance, build and operate the new International Arrivals Building at New York/Kennedy airport; a partnership with local gas companies to construct and operate a \$260 million cogeneration plant for central heating and refrigeration; and a master concessionaire contract with a private company (Marketplace Development) to operate in the central passenger building at New York/LaGuardia airport;
- The airport authorities of Pittsburgh, Boston and Washington, DC have similarly entered into master concessionaire agreements, respectively to BAA plc for the whole facility at Pittsburgh, and to Westfield Holdings for specific passenger buildings at Boston and Washington;
- The public authorities for Indianapolis and the Susquehanna Area Regional Airport Authority (Harrisburg) have entered into 10 year agreements with BAA plc to operate and upgrade facilities at their airports;
- The City of Chicago has entered into a contract with Standard Parking to operate the parking garages at Chicago/O'Hare airport;
- Etc., etc.

The question is: how should privatization best be done in the United States, and indeed elsewhere? What are the realistic opportunities for airport privatization in the United States? Specifically the questions for the United States are:

- What lessons can the United States draw from its own extensive long-term experience with private operation of airport functions and activities?
- What lessons can the United States draw from the recent worldwide experience in the privatization of airports?
- What are the benefits of alternative policies toward airport privatization in the United States, compared to their financial and social costs, considering the various different needs of the several commercial and social interests of those concerned with the matter?
- What conclusions can we draw for future American policy-making about airports?

Before addressing these central questions it is almost certainly best to have a clear concept of what privatization can mean in practice. In principle, it would seem to have a simple meaning -- in practice the issue is quite complicated.

2. CONCEPT OF PRIVATIZATION

2.1 Privatization is a complex concept

The simple view of the privatization of governmental activity focuses on the transfer of *ownership*. It refers to selling government owned properties to private interests -- in this sense it is the opposite of the nationalization of private interests, as practiced by the socialist Labour Government of Britain in the late 1940's. This simple view incorporates an important implicit assumption -- that ownership defines control, so that when ownership changes so does the control of all important management and strategic issues.

This simple view of privatization focusing on ownership can be misleading. Control depends not just on the ownership of an operation, but also on its management and strategic direction. As Table 1 suggests, both ownership and management of a public facility do not necessarily go hand in hand. Ownership and control of an airport can either be completely vested in either government or private hands or -- most importantly and possibly best -- be shared.

[Table 1 about here]

The more realistic view of privatization is that it involves the transfer of some control from the public, governmental direction to the private, commercial sector. This can happen either through the transfer of ownership, or the transfer of control.

Privatization can thus also occur through the transfer of management control from government to private groups. For example, the privatization of airports in Australia is being implemented in exactly this way: the Australian federal government has entered into long term, 50 year, leases with consortia of private businesses. In this case the government cedes control over day-to-day and year-to-year operations to the commercial enterprises, while clearly maintaining control over what kinds of long-term facilities and changes to the airport can be made.

Management and strategic direction can be exercised over a variety of factors. These would normally include the:

- Planning for the future expansion of the activity;
- Design of the specific projects;
- Financing of the construction and operation of the facilities;
- Operation of the facilities;
- Pricing of the services; and
- Availability of the services to the public; as well as
- Ownership of the properties.

When thinking about privatization it is thus most useful to think about the degree of government participation in the broad range of the elements of management and strategic direction of an activity, in addition to the simple issue of ownership.

As stated by the 1995 GAO Report on Privatization/Divestiture Practices in Other Nations, "...the term "privatization" can refer to a broad range of activities that, to varying degrees, lessen the government's involvement in the provision of goods and services. ... the privatization spectrum can include:

- contracting out,
- public-private partnerships,
- vouchers,
- and franchising, as well as the

- actual sale -- divestiture -- of government assets and operations.” (page 1)

In short, privatization can occur in many possible ways, over many elements. If an activity is not fully privatized, control will be divided; it will either be shared through some kind of partnership, or the government will regulate the activity, as Table 1 suggests. What the appropriate mode of sharing should be is an important policy issue for privatization.

2.2 Some activities should not be fully privatized

Many kinds of activities involve a substantial public interest, which cannot in practice be delegated totally to private interests. These activities have two features. They are:

- central to the community's welfare, and
- potentially open to monopolistic exploitation of the public.

It is commonly accepted that the operation and management of facilities with these features cannot be totally left to private commercial operators.

In such industries there has thus been a long tradition of government control. This government involvement has been exercised either through direct ownership, or through extensive participation in their design and management. In the United States for example, key aspects of the telephone and electric power services have traditionally been controlled through regulatory processes that define the rates and charges that the industry can levy on its customers, how the customers will be served, and how the industries will provide open access to all potential customers. In such industries in which the government makes key management decisions and defines the strategic development of the industry, it is a virtual partner in the operation of the enterprise even when, as historically in the United States for telephone and electric power, the actual ownership of the industrial assets is in private hands.

Which industries, or which part of an industrial sector warrants public involvement depends on the situation. One key factor is the potential for monopolistic practice by a private owner. If there is real competition in the industry (or a particular segment of it) that will, through market forces, prevent monopolistic practices, then there is probably much less need for any form of government control. If there is potential for monopolistic practice, then there is good reason for some form of government control, exercised either through ownership or regulation.

The centrality of the industry to the public welfare is the other key element in determining the extent that government should exercise some form of control. For example, a region or city may have a compelling interest in assuring that it is adequately provided with good transportation, either internally through highways and subways, or externally through ports and airports. It may believe that such investments are good value for the community, through their promotion of jobs or industrial activity, even if these benefits cannot be captured through the operation of the transportation facility itself. In such cases, private investors would not be motivated to provide as much capacity or services as the region feels it needs.

The desirability of some form of government control of an industry, or portion of it, may obviously change as the situation changes. Thus with the development of alternative forms of generating and delivering electric power, there is the opportunity to deregulate the industry, to lessen the amount of government control. The desirable degree of government involvement in industries thus is not an absolute, but a question that properly needs to be revisited from time to time.

2.3 Many airports should not be fully privatized

Full privatization of major commercial airports is almost certainly never going to be appropriate. There is almost always going to be a strong public interest in their operation, and the government will participate in the control of these airports either through a shared partnership or through regulation. This has certainly been the case so far, as worldwide experience demonstrates (see Section 3).

Full privatization of airports has never occurred. The major British airports operated by the BAA are often thought to have been fully privatized, because their assets are almost fully in private hands. The reality is that the BAA operates in a highly regulated environment: its rates and charges are controlled by the British Monopolies and Mergers Commission, and its plans for major developments (such as its proposed Terminal 5 at London/Heathrow Airport) are subject to major Public Inquiries lasting years and ultimately at the discretion of the British national Government.

Since major commercial airports (as distinct from general aviation fields where they are plentiful) are unique facilities with virtual monopolies in many elements of local air transportation, the public will always be concerned about, and insist on being involved in decisions concerning the:

- Size and level of service available;
- Prices for these services; and
- Accessibility of these services to the public.

Major commercial airports will thus almost inevitably, in almost any context, be managed and operated with some form of public control. This control may be exercised either through public ownership and assumption of the responsibilities for major decisions, or through regulation and incentivization of private companies. Whether the public and the nation are better served by a government agency or a governmentally regulated industry is debatable.

3. LESSONS FROM WORLDWIDE EXPERIENCE

Three immediate lessons can be drawn from the worldwide experience on airport privatization. These are, as described in detail in the following subsections, that:

1. Airports in the United States are, considering all the elements of management control, among the most privatized in the world -- even in comparison to the airports of Britain, Canada and Australia that have recently undergone massive privatization;
2. Major aspects of airport operations remain under government control, even when the airports are supposedly privatized as in Britain, Canada and Australia; and
3. The privatization process takes a decade or more.

The implication of these lessons for airport policy in the United States is twofold:

1. Privatization efforts in the United States should focus on incremental changes to the already relatively high level of privatization that already exists at most major airports; and
2. These changes should be thought out and tested carefully to determine what modifications result in better overall service.

3.1 U.S. Airports are among the most privatized in the World

Airports in the United States are among the most privatized in the world, despite that fact that all the major commercial airports are owned by government entities. Compared to airports elsewhere in the world, compared even to the airports in the countries that have recently privatized their airports, the major U.S. airports involve an extensive degree of private control over virtually all aspects of airport planning, design, finance, operations, pricing and access.

The high level of private participation in the management and strategic development of major commercial airports in the United States is summarized in Table 2. While the degree of involvement of private companies in the control of airports varies widely from state to state, and from city to city, the overall situation is that major American commercial airports are run through a form of partnership between the federal government, local civic interests, and private companies.

[Table 2 about here]

Local governmental authorities normally lead proposals for major new developments, and these plans are typically primed by public money contributed by the US Federal Aviation Administration both for the planning processes and for major elements of the air traffic control and runway systems. Private interests however also participate closely in this process, both because they either have legal rights to veto various investments (for example through the majority-in-interest clauses of airline leases) and because they must agree to provide financing. Thus the development of the new Denver International Airport was pushed by the City of Denver and received around \$800 million in public funds -- however private financing provided about 3 times as much money, and both United and Continental airlines exercised decisive influence over the conceptual and detailed design of the project (United insisted on the automated baggage system, and Continental on the special bridge to the concourse designed for its services).

Private companies and interests are also paramount in the day-to-day operation of the major American airports. Airlines typically control their own check-in counters and baggage systems; private operators are responsible for the cleaning operations; and third parties routinely carry out contracts for the parking and other housekeeping operations. The governmental body that owns the airport in the United States often only employs about 10 to 20% of the workers active on the airport.

The operational situation in the United States is in stark contrast with the worldwide norm. Elsewhere, the traditional arrangement is that government authorities are responsible for both the long term and day-to-day management of the airport. Outside the United States, the Government control over routine airport operations leads to remarkably little cooperation with the users. Airports operated by national governments do not consult extensively either with the airlines or the other private companies that use the airport. By contrast, the situation in the United States is almost a model of extensive public-private collaboration.

The American pattern of extensive cooperation between the airport operators and the range of private interests concerned with the airport also contrasts with the patterns that exist at the most privatized airports elsewhere in the world. For example, the private company that took over from the British Government to run the major airports in Britain, the BAA, has essentially taken over the directive role formerly exercised by the government, and manages the entire airport with comparatively little consultation with airport users. Thus the airlines have had virtually no say in the location, concept or detailed design of the major new passenger building (Terminal 5) that the BAA proposes to build at London/Heathrow Airport.

The airports outside of the United States that appear to be fully privatized (because either the ownership or management is in private hands) are still subject to extensive governmental control. By being "private" as to ownership and management, they do not escape public control, and in fact might reasonably be considered to suffer from more intrusive and disagreeable public control than is the case for airports in the United States.

To illustrate the way the "privatized" airports outside the United States are subject to governmental control, consider the case of Britain. The BAA airports company is subject to strict regulation on two core issues: its charges and its major products as evidenced by the development of major projects. The Monopolies and Mergers Commission decides, with the approval of the British Government, on the overall level of charges the BAA set, and this is done through tough hearings -- in contrast to the flexible formulas which are characteristically used at US airports. With regard to major developments, the BAA must prepare and defend its proposals through adversarial Public Inquiries that last years, and through which there is little opportunity to develop compromises.

The overall status of privatization of airports in the United States is shown in Table 3. As seen by comparing Table 3 to the similar Table 4 prepared for Australia, Britain and Canada, the degree of private control of airports in the United States is about the same as in the most privatized airport systems in the world.

[Tables 3 and 4 about here]

3.2 Major Airport Operations Remain under Government Control

Even the most privatized airports remain under extensive governmental control. This point needs to be stressed. Whatever the definition one chooses to use, whether one focuses narrowly on the ownership of a property or looks more broadly at the degree of control over the business, the fact is that the major commercial airports that are privatized remain under extensive governmental control. Table 5 illustrates the point.

[Table 5 about here]

The worldwide experience is that governments do not permit their privatized major commercial airports to engage in practices that are routine in most other industries:

- Airports cannot set their own standards of performance, as Microsoft can for example. On the contrary, they must adhere to governmentally defined aeronautical standards that specify designs, often in minute detail.
- Airports cannot set their prices in the marketplace, as most businesses are free to do. Through one mechanism or another, privatized airports are compelled to limit their overall and often detailed levels of charges to the users.
- Airports cannot restrict access to their products, as manufacturers and service industries can through licenses or franchise agreements with selected customers. In general, the major commercial airports must be open to all competent users who meet certain minimal criteria pertaining to the size or environmental acceptability of the aircraft.

Moreover, the major privatized airport systems do not in general feature fully private ownership of the airport itself. As indicated in Table 5, the privatized airports in Australia, Britain and Canada are not fully in private hands. The privatized airports in Australia in fact operate under long term leases of government property; the BAA airports in Britain have restrictions on the sale of the property to foreigners, exercisable through the Government's "Golden Share"; and the Canadian airports are actually governmental operations with the license to act like businesses.

In short, because of the public interest in the operation of the major commercial airports, there is no such thing as a fully privatized, completely private operation of these facilities. The question is not whether the airports can be fully privatized, since this is in practice not acceptable.

The question is how the Government control will be exercised? If, as generally agreed in the United States, a fully nationalized system of airports is not politically acceptable, there are two choices, as illustrated by the diagonal corners of Table 1:

- Either the Government will regulate private business, a practice which often leads to continued adversarial proceedings;
- Or the Government as owner will act as a partner in the development of the airport business, in what generally appears to be a collaborative relationship.

3.3 Privatization may take a Long Time

Privatization of governmental operations may take considerable time. This is because governmental operations exist in a web of procedures and practices -- from finance and procurement to hiring and pensions -- that are very different from those of private businesses. It takes time and care to untangle these relationships so that a particular operation can be sold or otherwise transferred to private operation.

The privatization of airports as a whole takes about a decade from the original state of a fully governmental operation to some form of privatized management. This is the worldwide experience.

- In Australia the process of mutation from the Ministry of Aviation, through the Federal Airports Corporation (a Government owned corporation) to the first long-term leases of airports to private investors took almost exactly a decade.
- In Britain, the evolution of the national airports from the control of Government ministries through the British Airports Authority to the sale of shares of this organization as the BAA plc, took well over 15 years.
- In Canada, the transfer of authority from the control of the central government under Transport Canada to the first Local Airport Authorities took almost a decade.

A prime reason the privatization of airports takes a long time is that private investors need to know the financial status of the business that is proposed as an investment. Private investors need first of all to have access to a clear record of accounts of the investments, costs and revenues. This is generally difficult for governments to establish, since they do not normally practice managerial accounting. Typically, national governments budget expenditures in a variety of different ways, depending on whether they are capital projects, current salaries and pensions, and do not relate these expenditures to revenues which flow into the government general treasury. Setting up a reasonable account of the profitability of airports takes years, both in order to do the mechanical work of setting up the accounts and to do the negotiations that change the status of the flows of revenues and expenses. Furthermore, investors like to be able to judge a track record of performance over several years -- a good track record is typically a minimal requirement for any IPO of a new company.

The bottom line is that governments wishing to privatize airports need to anticipate that the process will realistically take many years. This point needs emphasis, as investment bankers are normally anxious to close deals, and get their commissions, quickly; they thereby foster impractical expectations.

Consider for example the privatization of the Mexican airports (made possible by a law passed at the end of December 1995). The investment bankers selected in the fall of 1996 originally proposed to organize a massive public placement of stock to investors within a year, by late 1997. However now in 1998 the process is still years away from the first privatization, and that process will be tightly controlled. Current plans place strong limitations on cross ownership of airports across the country, as well as limit the voting rights of the investors. In the first phase, the privatization of the Mexican airports is now supposed to involve the selection of strategic partners willing to take minority stakes in the operations, starting around 1999. The subsequent transition to majority control by private investors is fuzzy, and of course may never happen in fact. As has happened elsewhere, the privatization process has major implications on the distribution of power among the stakeholders in the revenues and jobs associated with the airports, and this raises substantial political debates, whose vagaries are compounded by national shifts in political power among the competing parties.

Smaller portions of airports may naturally be privatized more rapidly than the entire operation, because they are simpler and have fewer ramifications. Moreover, the privatization of any process is expedited if the airport already operates on a reasonable commercial basis, as most airport authorities in the United States do.

Thus in the United States, where there is extensive experience in contracting for private investment in or operation of facilities, new privatizations can happen relatively quickly. The process is far from instantaneous however: the negotiation of the master concessionaire agreements for Boston, Chicago/O'Hare or New York/LaGuardia airports took years. Likewise, it took years to organize, bid and negotiate the arrangement whereby Amsterdam Airport Schiphol would finance, build and operate the new International Arrivals Building at New York/Kennedy.

4 OPTIONS FOR PRIVATIZATION IN THE UNITED STATES

Because privatization of airport activities is so far advanced in the United States, the range of possibilities for further privatization efforts are limited compared to other countries -- so much of what has yet to be done elsewhere has already been done in the United States. In the United States, the bulk of the financing comes from private sources, either bonds or charges paying directly for airport services; planning is routinely carried out by private consultants; airlines normally design and operate their own passenger and baggage services; and third parties routinely are responsible for all kinds of airports activities such as parking and cleaning. However, because of the size of the market of the United States, there are certainly many opportunities for further privatization of specific activities.

4.1 Shared Partnerships seems preferable

Organizationally, it would seem that airport privatizations in the United States should continue to be seen as shared partnerships. This is the only possibility that seems realistically open of the four displayed in Table 1. Airports in the United States will not be fully controlled by government, as they are in other countries, nor are they likely to be entirely privatized beyond government control (which does not happen anywhere else in the world). In the United States the ownership and management of airports and airport facilities are going to continue to be shared in some degree. As it seems highly unlikely that we would adopt the kind of regulatory process that the country has eliminated for other parts of the transportation system (in abolishing regulatory processes of the Interstate Commerce Commission and the Civil Aeronautics Board), the only organizational option that realistically appears open to the United States is that of shared partnerships.

4.2 Types of Privatization Contracts

The real question for privatization in the United States concerns how the shared partnerships should be organized: what kind of contracts should be drawn up between the public agencies and the private operators?

The chief factor distinguishing the types of contracts is the amount of investment the private contractor contributes. The more the private investors contribute for their own account (as opposed to investing in bonds or borrowings of the government authorities), the longer the contract should be, so that the investors have the opportunity to recoup their investments and make a profit. Naturally, the longer the contract, the more control is passed from the government owner to the private investors.

Three major types of public/private shared partnerships can be envisaged. These are:

- Subcontracting of services -- for short terms. This is done either for special projects (such as the design or building of a facility) or for routine services through yearly or other short-term contracts. Subcontracting is routine at US airports for all kinds of services.
- Master Concessions -- typically to operate existing facilities for medium-terms such as 10 years. Examples are the concessions let to BAA and other operators to organize shopping areas at the Boston, New York/LaGuardia, Pittsburgh and Washington/Reagan airports.
- Build and Operate Contracts -- typically to build projects under long-term contracts such as 25 years. These facilities are generally for the use of the contractor (such as passenger buildings dedicated to specific airlines) but can also be for general use (such as the Cogeneration Plant or the International Arrivals Building at New York/Kennedy airport).

In principle, any of these arrangements can and have provided good value for both the public and the private investors. Under the best scenarios, the public reaps the advantage of skilled designers, with extensive experience and highly motivated by the prospect of financial reward, who can provide superior facilities quickly because they can bypass the restrictions and delays of public bidding; and the private investors get both the facilities they need and a fair return on their investment.

In practice however, a lot can go wrong. Under unfavorable circumstances, either the public owner or the private operator gets hurt badly by the failure of its partner to perform adequately. For example:

- Many airports were hurt when Eastern Airlines went bankrupt. Atlanta in particular suffered because it was unable to use the Midfield Concourse operated under long-term lease by Eastern -- although Eastern was no longer operating, it was not possible for Atlanta airport to make arrangements with the creditors to use the midfield concourse, which stayed empty while a new one was being built.
- The private concessionaires who built up the shopping facilities at the new Denver International Airport faced bankruptcy when the airport was unable to open the airport until about 18 months after the intended opening -- their stores were outfitted and stocked yet no customers were in sight.

Because of the potential difficulties, the contracts for sharing in the responsibility for privatizing various activities on the airport need to be crafted carefully. In particular, both the public and private partners need to protect themselves from contingencies that may arise. The protection can be partially secured by options within the contract itself -- for example a "use it or lose it" clause in the contract between Eastern Airlines and Atlanta airport could have avoided the embarrassment of not being able to make use of a major facility when it was needed. However legal clauses alone are not sufficient -- if a concessionaire for a store is not making a profit and thus fails provide adequate service, a legal suit may simply force the operator into bankruptcy but not remedy the problem of poor service to the passengers and a lack of income to the airport owner.

Persons experienced in making arrangements for public/private partnerships from both sides of the table agree that drawing up the appropriate arrangements between the parties, arrangements that will work well over time, takes considerable management skill. There are plenty of mistakes that can and have been made. Embarking on new arrangements needs to be done carefully and thoughtfully.

4.3 Solutions depend on Circumstances

Experience indicates that the arrangements that work well in one location, at a particular time and for a particular client, may easily not work well under different circumstances. Thus no general rule for establishing public/private circumstances is likely to be universally useful.

The current renovations of passenger buildings at Boston illustrate how the better arrangements depend upon the precise circumstances. Two airlines, US Air and United Airlines, have been in the process of renovating their space at Boston/Logan airport, both for about the same amount of money (\$ 30 million). Yet quite different forms of public/private shared partnership seem appropriate for each case. For the US Air building, it seems best for the airport to raise money through a bond issue and to recover its money through a long-term lease. For United Airlines, however, the airport and the airline agreed that the airline should raise its own money and construct the improved facility as a private project. The decision for the airlines apparently revolved around the relative value each airline placed on the benefits of obtaining cheaper money through the airport (via tax-free municipal bonds) compared to the benefits they could obtain by avoiding the requirements of public bidding. The decision for the airport presumably involved some assessment of the airline's financial health and long-term commitment of each airline to providing service to Boston.

In short, the nature of the public/private partnership, and the extent of the sharing of responsibilities properly depends on the precise circumstances. No single rule as to how these issues should be resolved seems possible.

5. CONCLUSIONS

The fundamental choice in the privatization process appears to be how the government should exercise its control to sustain the public interest in open access to and fair rates for airport services. The major alternatives are between:

- Government regulation, an inherently adversarial process; or
- Government ownership and partnership in the development of airports, a more collaborative approach.

On balance, the partnership approach as practiced by numerous airport authorities throughout the United States seems most suitable for both assuring the public interest in fair operations and, most importantly, in assuring that the local community can express its desire for sufficient airport capacity for its purposes.

The exact way that privatization should be accomplished, and the right balance of public and private involvement in the development of airport properties would seem to depend on the precise context of the project, the potential users, the region and the moment in time.

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LEGEND TO TABLES

Table 1: Control of an operation can be exercised both through management and ownership, and the allocation of these types of control to Government and Private interests determines the type of relationship between them.

Table 2 Level of Privatization for Major Commercial U.S. Airports

Table 3 Status of Privatization of Airports in the United States

Table 4 Status of Privatization of Airports in Australia, Britain and Canada Before (B) and After Privatization (P)

Table 5 Governments Exercise Control of Certain Essential Elements of Control, Even for the Most Privatized Airport Systems

Table 1: Control of an operation can be exercised both through management and ownership, and the allocation of these types of control to Government and Private interests determines the type of relationship between them.

		Ownership	
		Government	Private
Management and Strategic Direction	Government	Fully Government: Complete Control by Civil Service and Politics	Regulated Control: Unilateral, centralized control by Government of rates and access
	Private	Shared Control: Government sets policy as owner, private parties implement	Fully Private: Complete Control by Private Interests

Table 2: Level of Privatization for Major Commercial U.S. Airports

Elements of Control	Typical Status	Details
Planning for expansion	Government/Private	Government leads but private interests shape by their willingness to provide financing or to accept plans under majority-in-interest clauses in leases.
Design of projects	Largely Private	Airlines and users have significant, often decisive control over design. Private consultants typically execute designs.
Financing	Largely Private	Mix of public (mostly federal) and private sources, with a significant fraction of money coming from bonds raised in capital markets.
Operation of facilities	Largely Private	Operation of facilities largely done by airlines and other third parties.
Pricing of services	Government/Private	Set in negotiation with major users and subject to legal controls on increases.
Availability of services	Government/Private	Principle of open access to all qualified users generally holds, subject to airlines and other third parties controlling the use of their facilities.
Ownership of properties	Government	Municipal or regional agencies.

Table 3: Status of Privatization of Airports in the United States

Element of Control	Status			
	Fully Government	Shared Control	Regulated Control	Fully Private
Ownership		√		
Planning		√		
Design		√		
Finance		√		
Operation		√		
Pricing		√		
Access		√		

Table 4: Status of Privatization of Airports in Australia, Britain and Canada Before (B) and After Privatization (P)

Country	Element of Control	Status			
		Fully Government	Shared Control	Regulated Control	Fully Private
Australia	Ownership	B	P		
	Planning	B		P	
	Design	B		P	
	Finance	B			P
	Operation	B			P
	Pricing	B		P	
	Access	B		P	
Britain (BAA Airports)	Ownership	B			P
	Planning	B		P	
	Design	B		P	
	Finance	B			P
	Operation	B			P
	Pricing	B		P	
	Access	B		P	
Canada	Ownership	B	P		
	Planning	B	P		
	Design	B	P		
	Finance	B	P		
	Operation	B	P		
	Pricing	B		P	
	Access	B		P	

Table 5: Governments Exercise Control of Certain Essential Elements of Control, Even for the Most Privatized Airport Systems

Element of Control	Government Control in		
	Britain	Canada	Australia
Ownership	In part	Yes	Yes
Aeronautical Standards	Yes	Yes	Yes
Overall level of Prices	Yes	Yes	Yes
Availability of Access to Users	Yes	Yes	Yes