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AIRPORT PUBLIC PRIVATE PARTNERSHIPS IN TURKEY: A REVIEW OF CURRENT SITUATION

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Abstract

Air transportation is an essential public service for modern societies. Airports are basic infrastructure provider of air transportation service and therefore they have been accepted as public infrastructures beginning from the early years of modern aviation. Because of this reason, they have been managed and owned by central or local government bodies. However, factors such as infrastructure capacity problems, public finance limitations, public management efficiency problems etc. started to seek new managerial alternatives for airports. In many countries, including Turkey, Public-Private-Partnerships (PPPs) have becoming to be a part of airport ownership and management. In Turkey airports have been governed by State Airports Authority (SAA - DHMI). Until 90s, DHMI was the only authority in airport management in Turkey. After those years, PPP implementations started and private airport and terminal management companies were established. Airport PPP implementations have been analyzed based on secondary sources. Historical situation of airport management in Turkey was examined and new governance models under the PPP scheme were examined in terms of implementation cases. Those implementations have been discussed in the last part.

Key words: Airport Public-Private-Partnerships, Airport Privatization, Airport Management, Air Transportation, PPPs

Introduction

Air transport has long been recognized as one of the basic public services required for the comfort of modern people. From the earliest years of air transportation, airports have been considered the main infrastructure providers for this public service. Hence, they were operated and managed by central governments or local governments. However, factors such as increased infrastructure constraints, new investment requirements, public funding constraints, and lack of or limited accountability as well as the problems related to productivity problems and quality led to the search for alternative forms of management of airports.

With a population of 80.3 million and with a per capita income of 10,592 US Dollars, Turkey is a developing country that has the 17th largest economy, according to World Bank data (Worldbank, 2018). Air transport in Turkey is constantly evolving. Air transport industry showed a growth rate of 5.6% worldwide in the last decade. This rate was 14% in Turkey (IATA, 2017). With each passing day, airport capacities need to be increased more in big cities, especially in Istanbul. It is not possible to meet this capacity requirement completely through public funding. In developing countries such as Turkey, PPPs have emerged as an important investment tool for the infrastructure projects such as airports, which require very large capital investments. PPPs are used in many areas such as highways, bridges, health industry, and transportation in Turkey. The present study discusses PPPs in airports in Turkey.

Airport Governance Models and Public-Private Partnerships in Airports

Airport operating models have, in essence, a characteristic in-between completely public and completely private. Operating models between these completely public and completely private models are the ones obtained through Public-Private Partnerships (PPP) in airports. (Gillen, 2011)

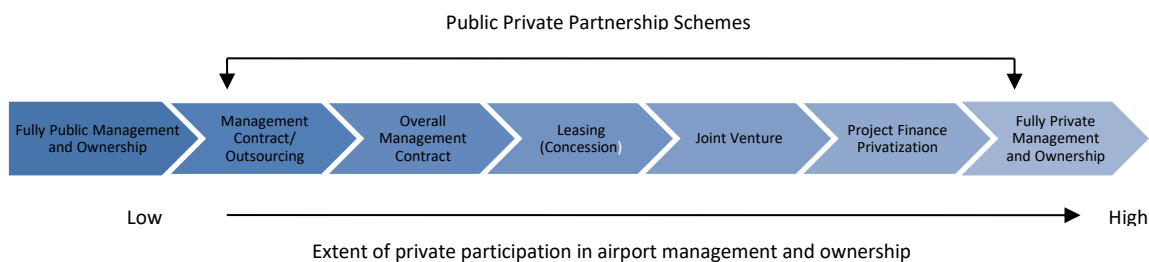
The most common airport operating model is public ownership and operation. The operation of state-owned airports generally takes place in three different forms across the world. These are (Graham, 2011, Kuyucak, F., 2007);

- Public ownership and operation,
- Public ownership and commercial public corporation,
- Regional management ownership and operation.

Public ownership and operation often represent a traditional public perspective. However, the concept of New Public Administration (NPA) in airport management is based on commercialization, corporation and public-private partnership. Because the economic conditions affecting airports require a commercial approach in the case of public ownership and operation, there is also a trend in this direction in the world. Figure 1. presents Public-Private Partnerships in airports.

Figure 1

Airport Management and Ownership Continuum from Public to Private



Source: Kuyucak&Vasigh, 2011.

As can be seen in the figure, airport management and ownership practices are differentiated between full public and full private. Although airports cannot usually be completely privatized, PPPs can also be reviewed under the 'privatization' heading. Despite different classifications, the privatization methods frequently applied in airports include partial or full management contracts, transfer of rights, joint venture companies, project funding or block sales and stock supply. The project funding method is a highly preferred model in recent years due to the need for financial funds. The most well-known among them is Build-Operate-Transfer-BOT, which has various versions such as *Lease-Develop-Operate* and *Buy-Build-Operate*. Through PPPs, economic risk can be shared with investors from the private sector. Therefore, the need for public funding is eliminated or decreased. In addition, this helps to increase the efficiency of airports while providing more modern, new and high quality airports.

Occurring with the effect of the liberalization and commercialization process, airport privatizations generally include partial privatization around the world. There are also commercial airports with completely private ownership and operation model. Although privatization practices at various levels have become widespread in airport operation, complete private ownership is not usually seen especially in large airports. This is usually more prevalent in general aviation airports, which are much

smaller. With the *Build-Own-Operate-BOO* or *Buy-Build-Operate-BBO* models, airports are built by private sector and operated for a certain period of time.

In an environment where there is no competition or very limited competition, consumers may face undesirable results such as high prices, over-investment or poor quality products (Kuyucak Sengur and Vasigh, 2018). To avoid this, states prefer to regulate private sector participation in natural markets. The main regulation methods applied in airports can be listed as *rate of return (ROR)*, *price cap regulation*, *light-handed regulation*. (Starkie, 2002, Kuyucak and Vasigh, 2011) Each method has its own advantages and disadvantages in terms of airport operation and different countries prefer different methods of regulation.

Airport Industry in Turkey

The organization responsible for operating the airports in Turkey is the General Directorate of State Airports Authority (GDSAA herein SAA). SAA was established in 1933 and has been serving with different names and status since then. With the latest legal arrangement, it now operates as a State-Owned Enterprise (SOE) whose services are considered concession. SAA is an SOE with a legal entity, autonomous in its activities, limited by its capital. SAA is primarily responsible for the operation of airports in Turkey and the regulation and control of air traffic in the Turkish air space. SAA provides air navigation and air traffic services to all aircraft flying in Turkish airspace, landing at or departing from Turkish airports, and/or passing through Turkish air space. For many years, SAA has continued its activities as the only airport operator in Turkey. Currently, 49 of the 55 airports open to civil air traffic in Turkey are operated by SAA. 34 of these airports serve both domestic and international passengers. 15 airports serve only domestic passengers. SAA holds the ownership of most of these airports. Some airports, such as Mugla-Dalaman and Malatya, are military airports open to civilian-military use (DHMI, 2018). Table 1 presents other public and private operators other than SAA in Turkey.

Table 1. Other Airport Operators in Turkey

Airport Name	Operator
Istanbul Sabiha Gokcen Airport	ISG Airport Investment Construction and Operation Inc.
Eskisehir Hasan Polatkan Airport	Eskisehir Technical University Rectorate
Istanbul Hezarfen Airport	Hezarfen Aviation Industry Trade Inc.
Antalya Gazipasa Airport	TAV Gazipasa Investment-Construction-Operations Co.
Zonguldak Caycuma Airport	Zonguldak Private Civil Aviation Industry and Trade Inc.
Zafer Airport	IC Ictas Zafer Int. Airport Investment and Operations Co.
Aydın-Cildir Airport	Turkish Airlines
Etimesgut Airport - Ankara	Turkish Aeronautical Association
Selcuk Airport - Izmir	
Inonu Airport - Eskisehir	
Karain Airport - Antalya	

Source: Compiled by the author.

Until the 1990s, SAA was the only airport operator in Turkey. Parallel to the prevailing policies in the world in the last quarter century, airport operations in Turkey have changed and a legal and sectoral infrastructure started to emerge that enables private airports and terminal operations. In this context, various airports were built and terminal operating models were developed according to the Build-Operate-Transfer model and various PPP models.

Public-Private Partnerships in Airports in Turkey

PPPs in Turkey are examined under the different headings in this section. Policy and legal framework, the implementation and role of the government will be given shortly.

Policy and Legal Infrastructure

The construction and operation of airports has long been an activity of the public institutions in Turkey. SAA, operating within the Ministry of Transport, is the organization responsible for operating airports. General BOT law no. 3996, which was issued in 1994 and forms the foundation of BOT practices in Turkey, has also paved the way for BOT models in the construction and operation of airports. Law No. 5335 issued in 2005 has enabled DAA to transfer its property rights at the airports and terminals to the private sector through long-term leasing. Thus, SAA has had two options: operation of the airports transferred to the state after the expiration of BOT periods, or transfer of the operational rights of the airports to the private sector for a period no more than 49 years.

Implementation of Airport PPPs

The first PPPs in the airport industry in Turkey dates back to the early 1990s. The first example of PPPs is the Antalya Airport International Terminal project. The operational rights were transferred to Antalya Airport International Terminal Management Inc.-AYT in partnership with Bayindir Holding and Fraport for a period of 9 years. This was followed by Istanbul Atatürk Airport, Antalya Airport 2nd International Terminal and other terminal and airport projects. Table 2 gives PPP projects in airports.

As can be seen in the table most of the major airports in Turkey are under PPP implementations. Public-Private Partnerships implemented at the airports in Turkey have been realized according to Build-Operate-Transfer and Lease-Operate-Transfer models. These are discussed in more detail in the following section.

Role of the Government in Airport PPPs

SAA, is responsible for the implementation of PPPs in airports in Turkey. SAA undertakes the task of controlling and supervising the compliance of the operation of the airports/terminal, which are transferred to the private sector by the PPP model. While SAA is the authority responsible for the regulation and supervision of terminals within the framework of PPP models, the operation of the airside infrastructure and facilities is also performed by SAA. In exceptions such as Sabiha Gokcen Airport and Hasan Polatkan Airport, SAA is the authority for both the airside and landside facilities. In addition to airport operations, air navigation and air traffic services, SAA functions as the responsible organization in PPPs.

In PPPs, airside and landside service tariffs and concession prices are determined by the company with the operational rights according to the tariffs determined by SAA. Some PPP contracts indicate a margin of 25% (+/-) 25% for landside concessions. Price tariffs applied at airports operated by SAA, at private airports, and at airports built with PPP may enter into force after approval by the Ministry of Transport and Infrastructure Strategy Development Directorate. A tariff with each type of fee for each airport is published annually. When airport operators have to make any changes, they have to apply to the Directorate together with the justification of this change and have to obtain approval.

Table 2. Airport PPPs in Turkey

Build-Operate-Transfer Model in Airports in Turkey	Lease- Operate - Transfer Practices in Turkey
Antalya Airport Terminal I	Atatürk Airport International and Domestic Terminal, Multi-storey Car Park and General Aviation Terminal
Antalya Airport 2nd International Terminal	Antalya Airport 1st and 2nd Phase International Terminals, CIP Terminal, Domestic Terminal and Additional Buildings
Istanbul Ataturk Airport	Antalya Airport 1st and 2nd Phase International Terminals, CIP Terminal, Domestic Terminal and Additional Buildings
Esenboga Airport Domestic and International Terminal	Zonguldak-Caycuma Airport
Dalaman Airport International Terminal	Gazipasa-Alanya Airport
Adnan Menderes Airport International Terminal	Izmir Adnan Menderes Airport International Terminal, CIP Terminal, Domestic Terminal and Additional Buildings
Milas-Bodrum Airport International Terminal	Aydin Cildir Airport
Zafer Airport	Milas-Bodrum Airport, International Terminal, CIP / General Aviation Terminal, Domestic Terminal and Additional Buildings
Istanbul Airport	Dalaman Airport, International Terminal, Domestic Terminal and Additional Buildings
Izmir Alacati Ekrem Pakdemirli Airport	

Source: Compiled by the author.

Conclusion and Recommendations

The airport industry is undergoing a radical transformation around the world. The airports, which have been regarded as providers of public service from past to present, are now undergoing a transformation process wherein the market mechanism and competition rules are being implemented. Albeit at different levels, the airports around the world are undergoing transformation with the influence of commercialization and privatization policies. Therefore, the market and competition in the airport industry have reached a global dimension. The industry is becoming international and global and including the less developed airport markets. Considering these transformations, it is seen that the airport industry in Turkey has also undergone a transformation with new dynamics parallel to the trends in the world. It is observed that commercialization, internationalization and globalization trends emerged and public-private partnerships started to be implemented in Turkey as in the rest of the world.

In fact, different PPP models have been implemented for a long time in Turkey. PPPs are mainly implemented as BOT and Long Term Lease as the main funding and operating model in major airports. It is seen that SAA has increased its experience in PPPs and has occasionally made amendments to BOT contracts according to new conditions. With a PPP experience of about twenty-five years, SAA has quite a lot of knowledge with regards to PPPs. After the introduction of PPP models, airport and

terminal operators have emerged in the private sector in Turkey. These operators have gained international competence in airport and terminal construction and operation.

Air traffic all over the world is increasing day by day. In the markets where air traffic increases more than the world average, airport operation is becoming more attractive. The rate of increase in Turkey is well above the world average. To meet this growing demand, both new airports should be built and existing airports should be improved. Furthermore, the challenges of public funding will have to be tackled. As such, PPP models have become indispensable for airport operations. PPPs started to be implemented mostly in terminals and major airports in Turkey. Small airports with low traffic, which are not attractive for the private sector, are operated by SAA. Temporary transfer of airports to local authorities as in the example of Zonguldak Caycuma Airport shows that this model is also being implemented in small airports. However, it is also necessary to extend this model to include the private sector in the operation of small airports. With the dynamism of the private sector, it may be possible for these airports to reach their real potential. This will reduce the burden on public of the airports, which are constantly making loss and serving a very small number of passengers and aircraft. Furthermore, in this way regional air traffic will be developed and thus regional development can take place. For this reason, it is important that certain incentives are provided by states and PPPs are made more attractive for the private sector. Only in this way will it be possible to talk about 'public interest'.

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Biographical notes

Ferhan Kuyucak Sengur works as an Associate Professor at the Aviation Management Department at Eskişehir Technical University. Her research interests are airline and airport management, innovation in aviation, social responsibility in aviation, and air transport and regional development. She has been working as a senior researcher in several national and international projects in aviation.