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Gregory N. Golyansky

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Introduction

The airline deregulation of 1978 has created a dynamic and competitive environment for air-travel in America. Lower prices, wider service choices and new destinations have transformed civil aviation from a country club for only the privileged, and made air travel available to those with modest incomes in all strata of society.

The major factors that still create bottlenecks in the system are government owned, heavily regulated and largely inefficient airports and air-traffic control (ATC) facilities. These factors lead to airports and ATC being inflexible, and thus unable to react quickly to changing circumstances in air transportation such as seasonal fluctuations in demand, changes in weather, improvements in aircraft technology and various political pressures. The result of this inflexibility is congestion and delays at many major airports, which costs tens of millions of dollars in lost time, wasted fuel and air pollution.

There is no shortage of ideas on how to resolve these problems. I examined three of what I thought were the most substantial proposals: William Laffer III, "How to Improve Air Travel in America," published by the Heritage Foundation in 1991. Daniel R. Polsby, "Airport Pricing of Aircraft Takeoff and Landing Slots: An Economic Critique of Federal Regulatory Policy," published by the California Law Review in 2001. Michael E. Levine, "Airport Congestion: When Theory Meets Reality," published by the Yale Journal on Regulation in 2009.
All three papers examine primarily the problems of airport congestion, as well as the problems that underlie them. All three, if implemented, would marginally improve the performance of most national airports. The authors discuss a number of overlapping issues that cause the waste of airport resources and lack of airport capacity during the peak hours of operations.

Mr. Laffer suggests possible solutions: privatize airports outright, lease airports to private contractors on the long-term basis, allow government airports to be managed by private contractors, allow airlines to own and trade their time slots or charge premium prices during the peak demand.

Mr. Levine also mentions the need for airport privatization, but his important idea is the need to introduce a "blind auction" during which slots will be chosen at random and made available to all bidders. In his opinion, "this forces the slot owner to explicitly consider the value it places on a slot and to compare it to an actual cash offer that has been revealed by the auction". In addition, Mr. Levine makes an extremely insightful observation: If we simply allow the airport/monopolist to charge premium prices during the periods of congestion, we may create the additional lucrative stream of income for the airport authority without creating the incentive to expand the airport's capacity.

Mr. Polsby suggests a less expensive and more economically rational approach. He wants the Department of Transportation to encourage airports to charge airlines for the opportunity cost of their land and charge more for congestion cost. He does not put much emphasis on any form of privatization. He has also pointed out the potential danger of having congestion charges becoming just another tax. The airport charge for the opportunity cost of their land is a very interesting idea with regard to evaluating feasibility of future investments that may be needed to expand the airport's capacity and addressing congestion problems. As result, however, the cost of airline tickets would likely increase thus preventing some people from being able to afford the air travel.

In the end, however, one must acknowledge that the best way to address congestion, control cost and use airport assets with maximum efficiency is through privatization.

There are numerous potential benefits of privatization: maximum pricing freedom, more efficient management, better cost control and increased tax revenues.

Mr. Laffer, in his paper, does address the possibility of a privatized airport still exploiting its monopoly power, "A related worry sometimes cited that under private ownership, the airports themselves, in contrast to the airlines, might abuse their local monopolies by overcharging their customers". Yet, he thinks the monopoly status of privately owned airports is not likely to be a problem because of competition between airports. Chicago, Dallas, Houston, Los Angeles, New York, Washington, and other cities are served by more than one airport. He further states, "Even in cities with only one major airport, any attempt by that airport to exact monopoly profits would stimulate the expansion of other airports in the area."

I disagree with Mr. Laffer on this issue. In my opinion, the area served by a single airport will simply be dealing with a private monopoly instead of public one. The large metropolitan areas served by several airports, on the other hand, will be dealing with what economists call oligopoly. Oligopoly, a situation when several large companies completely dominate the market, (example: automobile industry) may be preferable to a government monopoly, but even this is not as efficient as rigorous competition.

The United States Congress has also become involved. In 1997, the Federal Aviation Administration Airport Privatization Pilot Program offered to allow up to ten airports of various sizes throughout the country the option to participate in this program. The idea is to gain access to various sources of private capital for airport improvement. I think there will be no difficulty in securing funds for such projects. After all, investing in a government controlled monopoly is almost like printing money. The traveling public, meanwhile, will continue to pay higher prices for the services of an airport monopoly. Such a monopoly is the main problem with all current schemes.

In the United States and Europe it is believed that an airport is a natural monopoly, therefore it must be looked upon as a whole, indivisible. I propose that this view is no longer accurate. I will further demonstrate that an airport may be reorganized, as well as privatized, in such way as to make several of its component parts compete vigorously with each other. Thus, we create a competitive model and, once and for all, abandon the idea of an airport as a natural monopoly.

Specifically, I propose to reorganize airports as a covenant governed group of businesses. Instead of regarding the airport as one whole, the ownership should be broken down, based on the ownership of one or several gates by different owners. This organization should be similar in its form to the way condominium/covenant communities are organized. Each owner owns one or more of the condominium units.

The owners elect a Board of Directors. The Board of Directors collects fees from all of the owners, maintains and repairs common areas and enforces covenants, while subject to the broad policies agreed upon by the majority of the owners. The Board of Directors may, and usually does, outsource the actual day to day management duties to outside professional management companies. In the case of a privatized airport, it may be useful to do the same. The major difference would be the need to include and enforce the FAA safety regulations as part of the airport's covenants. Apart from the FAA safety, noise and pollution regulations, the airport owners should be free to manage their property as they see fit, subject only to the majority vote of the owners and above mentioned covenants.

The owners should have the power to decide independently what kind, if any, concessions they will allow to be located within the areas adjacent to their gates. For example, this could vary from a high end restaurant to a national fast food chain, from shops with expensive items to those with inexpensive souvenirs.

The privatization of a particular airport may be accomplished with the help of an investment banking firm that will underwrite the purchase of the airport from the government authority, and then sell individual gates at the public auction in the manner similar to the initial public offering (IPO) of the new shares of company stock.

Airport Operations

Privately owned gates should be main profit centers for the airport and their owners/chief decision makers. This should apply to all the economic aspects of running the airport. The only exceptions to this rule maybe the outside parking areas and the taxi/shuttle pickup areas. The revenues from these areas should be distributed equally to all the gate owners, and all the gate owners should contribute equally to the maintenance of these areas.

Each gate owner should have the power to enter into the independent negotiations/contracts with any airlines or individual aircraft owners as they may see fit. They should be able to make contracts on any conditions that both sides find suitable.

After the airport is privatized, all of the time slots (take offs and landings) should be auctioned among the gates owners to the highest bidder. These time slots will become the property/inventory of the gate owners. The gate owners will be able to rent these time slots, as well as the use of the gates, to the airlines or perhaps to the individual aircraft owners on a contract basis for a specified period of time. Afterwards, the contracts may be extended, re-negotiated or ended. In case of a contract ending, the newly available time slots may be made available/rented to other airlines or individual aircraft owners.

If during the privatization period there are gates with long term contracts with particular airlines, such gates may be auctioned in a manner similar to the sale of rental property with a rental contract already in place. The gate with a rental contract may be regarded as more valuable during the airport IPO.

The slot/gate owners should be able to freely buy, sell, trade or lease their time slots as well as their gates. One could even foresee the emergence of a new trading businesses, which deals, in real-time, in available time slots as well as gates for sale, among the owners of one or several neighboring airports.

If due to the improvement in the airport capacity or the ATC system, there will be additional time slots available, they should be sold to the gates owners at public auction. This should be used only after the initial privatization or for newly available time slots, in order to remove, as much as possible, any politics from the initial time slot distribution.

Companies specializing in air-cargo should be organized in a similar manner, to participate in the common action for takeoff and landing slots. Perhaps the air-cargo companies might be more interested in cheaper and less desirable slots that would be available at night.

Among the obstacles for reforms, the experts usually site the Airport and Airway Improvement Act of 1982, as well as the Federal Code 49 U.S.C. (2) (12). These require that all revenues generated by the airports be spent on airport related projects. Thus, because airports may not show profits and are required to spend every dollar they generate, they have tremendous incentives to keep their costs high. This law must be repealed, at least with regard to any of the privatized airports.

Fuel Storage and Pumps

The fuel at the airports would be purchased by the airlines from the gate owners with whom they have contracts. The gate owners would be able to make money by allowing the airlines to use the gates for their intended purpose (loading and unloading passengers) as well as by marketing a service package: fueling, restocking and servicing the planes, when needed. The gate owner could outsource some of these services. Fuel, on the other hand, would be purchased by the gate owner but stored at the common airport storage. While the gate owner would have title to his fuel, he would have to pay the airport a maintenance fee for the use of the fuel storage, a fee based on the actual amount of fuel held for a particular gate owner at the common storage. The gate owners would be able to buy fuel from outside sources as well as buy, sell and trade fuel among themselves. Also, the gate owners might be able to attract more business to their gates by offering service and/or fuel discounts.

Fees Charged to the Gate Owners

Today, airports charge airlines landing fees. These fees are based on the number of landings and the weight of each aircraft. The combination of these factors has a direct bearing on the wear-and-tear of the landing strip and the taxiing runways. Under the competitive system, the gate owners and the owners of the aircraft should be free to enter into contracts regarding any conditions as they see fit. If these conditions are unreasonable, the gate owner risks losing the contract to his next door (gate) competitor. The gate owners, on the other hand, should be charged more standardized fees to be collected by the association of the airport owners. These fees will be used to repair, maintain and upgrade airport facilities. The fees should be based on more factors then just the weight of the aircraft. These factors should include not only the weight of the aircraft, but also the time using the runways, ATC facilities, hangars, parking aircraft in the common areas, etc.

If a particular aircraft is causing an unscheduled delay, the gate owner, with whom the owner of this aircraft is contracted, would be charged a late fine. The gate owner might pass this late fine onto the aircraft owner.

Temporary Reduction of Airport Capacity

In case of an emergency or bad weather, the airport's air-traffic control authority might declare a temporary reduction in the airport capacity (for example 10%). It would apply to all of air-traffic across the board. In this case, the gate owners would owe a refund to the airlines or the individual aircraft owners for lost time or for not being able to use their time slots. The gate owners might cover these loses by creating a refund reserve, buying an insurance policy or some combination of both. The premiums of such policy would vary depending on the season of the year, day of the week, time of day, etc.

Conclusion

I wish to emphasize that, in this model of airport privatization, the individual gate owners would be the only decision makers with regard to all economic aspects in the business of running an airport.

Author's note: In this paper, I did not address directly the political issues of privatization. I realize that government owned airport monopolies are often a source of political patronage and sometimes provide funds for the powerful local political interests. Also, I realize that the infrastructure of the United States is in need of repair and upgrade. It is unlikely that the US taxpayers will be willing to spend hundreds of billions of dollars and do so in the old fashioned way, where large sums may be misappropriated or wasted. In light of these facts, I think there will be political pressure for private investments and higher quality of service. Both of these goals can be achieved only by using the competitive model of airport privatization.

Gregory N. Golyansky was born in Kiev, Ukraine under the Soviet Union and is a naturalized American citizen. He graduated from Vanderbilt University with a degree in economics and computer science, and is former president of both the Colorado Jewish Republican Coalition and the Colorado Union of Taxpayers. He currently attends the University of Wyoming College of Law.