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Section IV. Infrastructure

A. Overview

The private sector's role in the provision of infrastructure received new emphasis worldwide during 1990. In the United States, the Department of Transportation issued its National Transportation Policy in March, endorsing the private ownership, operation, and management of transportation facilities, as well as market pricing as a way of increasing efficiency. And new private toll road projects went forward in a number of states.

Overseas, the Channel Tunnel drilling crews broke through beneath the English Channel, and the world's largest private infrastructure project got back on schedule (though significantly over budget). New private airport, highway, bridge, and tunnel projects were announced in various countries, and existing ports, railroads, highways, and airports moved toward private takeovers in several countries. Water and waste disposal projects are also being privatized.

Five major U.S. conferences addressed privatization of infrastructure in 1990. It was one of several major themes of the Privatization Council's fourth national conference in Washington in June. And it was also a subtheme of the International Bridge, Tunnel & Turnpike Association's landmark New York conference on AVI (automatic vehicle identification), the technology permitting electronic toll collection; with over 500 attending, it was IBTTA's largest-ever event.

Conferences devoted entirely to the private provision of transportation facilities were held by the Institute for International Research (New York), the American Road & Transportation Builders Association (Washington), and the California Engineering Foundation (San Francisco). And ARTBA set up a new division [ck] to promote public-private partnerships in transportation.

B. Airports and Air Traffic Control

1. Sale or Lease of Existing Airports

Britain remained the leader in selling airports to private enterprise. The major 1990 transaction was the sale of 76% of the Liverpool airport by its five local-authority owners to British Aerospace. The firm plans to invest up to $2 billion in runways, terminal, and a business park, to turn the lightly used airport into a major industrial airport.

BAA, the company which owns and operates the three main London airports (and four Scottish airports) purchased Southampton airport from its private owner and plans to add a $500 million business park and hotel, while upgrading the terminal and other facilities.

Fifteen of the largest municipal airports have been corporatized over the past few years, and a confidential government plan has projected possible one-time revenue of over $1 billion if they were sold. The government has neither confirmed nor denied plans to require the airports' sale, but in December Lord Brabazon, the Minister for Aviation, urged local authorities to "structure their development so that the private sector will take the major share in both the opportunities and the risks of expansion." Luton, north of London, is the only local authority

thus far proceeding with plans to sell its airport, seeking bids for an 80% stake.

Elsewhere, a number of other countries are moving toward airport privatization.

o Germany is studying the possible sale of Frankfurt airport and other major airports.

o Denmark in 1989 announced plans to sell the Copenhagen airport via a public stock offering, but the sale has been delayed.

o Canada is corporatizing its airports, setting up Local Airport Authority corporations.

o South Africa's Domestic Air Transport Policy, announced in May, calls for widespread airline deregulation; in addition, it calls for studying privatization of both airports and air traffic control.

o Bolivia signed a 20-year agreement with Aeroports de Paris to manage and expand the country's major airports.

o Mexico plans to co-finance with the private sector new facilities at Cancun, Cuiliacan, Mazatlan, Tijuana, and Zacatecas airports.

o Venezuela's transport minister announced the government's intent to privatize the operation of airport terminals, parking lots, and other commercial services at airports.

o Jamaica is considering the sale of its airports, probably via public stock offering on the model of BAA.

o Malaysia commissioned a study of the best way to corporatize its Department for Civil Aviation, which operates 20 airports; shares in the corporatized body may be offered within three or four years.

o Singapore commissioned a study on the possible sale of its airport.

o New Zealand's change of governments has delayed the planned sale of its three international airports, which were corporatized several years ago.

In the United States, the Federal Aviation Administration raised so many obstacles to the proposed sale or lease of the Albany (New York) airport that the plan was abandoned at year-end. Instead, the county will simply privatize airport parking. Four airlines serving the airport, which had opposed the Lockheed/British American lease proposal, belatedly expressed concern that the county will not be able to develop as large a new terminal as the private team had proposed.

Despite repeated promises that it would do so, the FAA and its parent DOT failed to produce a national policy on airport privatization by year-end. Concerned over the FAA's negativism, Vice President Dan Quayle's Council on Competitiveness is studying the issue. In addition, Rep. Ron Packard (R., Calif.) has drafted legislation to create an airport privatization demonstration program. It is expected to be introduced early in 1991.

Meanwhile, at least two major cities are considering privatizing their airports. Nearly bankrupt Philadelphia has received a report from a business group urging the sale or lease of major city assets, including the airport. And the Los Angeles Department of Airports is continuing with a several-year study of future airport options, one of which is selling the airport, converting it to an investor-owned utility. Los Angeles County, meanwhile, has contracted out management of its five general-aviation airports to Comarco for 20 years.

2. New Airport Projects

Turning its airports into a for-profit sector has stimulated significant new airport investment in Britain. The privately owned London City Airport opened for business in 1987. And 1990 saw the announcement of two additional projects for new airports. Budge Mining plans to develop a $170 million airport and business park near Sheffield, adjacent to the M1 motorway. It will be managed by Airports UK, a subsidiary of BAA. And Covell Matthews Partnership International completed a feasibility study for an investor group considering a $13 billion airport on Crown land at the Thames Estuary. It would provide major new capacity for southeastern England--and would break BAA's near-monopoly on air service in the region.

The private sector is also investing in expanding existing airports. BAA's annual capital spending has doubled since its privatization in 1987, with expansions of terminals at all three of its London airports, addition of airport hotels, and plans for a high-speed rail link from Heathrow to central London. The Euro-Hub consortium, a public-private partnership, is developing and will operate a major new terminal at Birmingham, under a Build-Operate-Transfer (BOT) arrangement. European Land plans to invest $1.275 billion in the Newcastle airport, adding an industrial park and residential complex.

A number of projects in other countries are also moving forward:

o Canada--The new Terminal 3 at Toronto, developed on a BOT basis by a Lockheed Air Terminal/Huang & Danczkay Properties consortium, was set for opening in February 1991. The success of this project inspired an unsolicited proposal from a BAA/Toronto Dominion Bank consortium to redevelop Terminals 1 and 2. The government decided to seek competitive tenders for this $750 million project.

o Turkey--Two BOT projects for new terminals are proceeding. A Lockheed-led team is developing a $200 million terminal in Istanbul, while a BAA-led team is developing a new airport at Gulluk, near Bodrum.

o Macao--The $577 million new international airport is being designed and managed by BAA's BA Services, Ltd.; its shares will be owned by Hong Kong business magnate Stanley Ho, and the Macao and Chinese governments. The Hong Kong government may also own a portion, in exchange for financing a Hong Kong immigrations/customs facility at the airport

o Hong Kong--The government's $16 billion plan calls for a new airport on Lantau Island, plus connecting bridge and port improvements. Though the development is being managed privately (by Bechtel), a plan for private (BOT) development of the bridge was rejected by the government in November. An alternative $13 billion BOT plan for the entire project had been put forward by Gordon Wu's Hopewell Corp., allegedly with support from the Chinese government (which fears the project--as proposed by the Hong Kong government, will drain its financial reserves).

o Japan--The Kansai International Airport Corp. is facing delays and cost overruns on its $7.7 billion project to construct a new airport on an artificial airport in Osaka Bay; the island is settling at a high, and unexpected, rate. The airport will be linked to the mainland by a giant suspension bridge, to be flanked by twin 57-story office towers, developed by the private sector.

Here at home, two forms of new-airport projects are being proposed as private or public-private ventures. One is the conversion of military bases to civilian airports; the other is the development of all-new industrial airports and/or wayports.

o Military Base Conversions

George Air Force Base, northeast of Los Angeles in the high desert, has been proposed for conversion to a privately developed and operated international superhub. The proposal is contained in a feasibility study commissioned by the adjacent city of Adelanto. A key to the project's viability would be high-speed rail access to populous Orange County; a privately developed maglev project (see p. XX) from Anaheim to Las Vegas would pass by the site and could bring passengers to the airport in just 30 minutes.

In Illinois, Scott Air Force Base is to be converted into a $183 million, two-runway commercial airport. St. Clair County plans to own the airport, but is seeking private participation in development, operation, and possibly shared ownership of the facility.

o Wayports

A number of studies are being conducted on the concept of developing free-standing hub airports whose primary function would be transfers of passengers, rather than origin-and-destination service. The idea is to relieve the load on major hubs with airports developed outside high-cost major metropolitan areas.

The proposed Aeroplex is one such plan, in Martin County, Florida, north of Palm Beach. The developer has obtained an option on 35 square miles of ranch land for the project, which is envisioned as a privately owned and operated facility. Another project, this one initially intended as a cargo hub, is being studied in northwest Arkansas with backing from Wal-Mart, Tyson Foods, and J. B. Hunt trucking company, all of which have large facilities in the area. At least a half dozen other wayport projects have been proposed, many envisioned as private enterprises.

3. Air Traffic Control

There was little change during 1990 in the provision of air traffic control services. The only significant 1990 development was the corporatization of Air Traffic Services in The Netherlands. The other countries with corporatized or privatized ATC are as follows:

o Britain: National Air Traffic Services is a separate division of the Civil Aviation Authority, which itself was corporatized in 1972. The CAA is required to be self-supporting from user fees. NATS is structured as a civil-military partnership, so it has not been considered for full privatization.

o Switzerland: In 1988 ATC was spun off to a new corporate entity called SwissControl. The Swiss government owns 71%, with the balance owned by a variety of aviation users--principally airlines, airorts, and aviation organizations. Though partially privatized, SwissControl thus far receives its funding via government appropriation. Though user fees are charged for ATC services, they are collected by the government and are not diirectly tied to SwissControl as revenue sources. In 1990 the government was examining further reforms and possible changes in this arrangement.

o New Zealand: Airways Corporation of New Zealand was set up in

1987. Though 100% owned by the government, it is fully supported by user fees and operated on commercial principles. Military users pay fees just as do civilian aircraft. Airways Corporation is still considered a possible candidate for partial or full privatization.

o Europe: The Asociation of European Airlines proposed in late 1989 the creation of a nonprofit, user-owned corporation to develop and manage a modern, Europe-wide ATC system. In 1990 British Airways and the International Air Transport Association supported the concept, and the European Civil Aviation Conference set up a task force to study ways of harmonizing the ATC systems of its 25 member countries.

o United States: The FAA continues to contract with private firms for the operation of some control towers at small general-aviation (Level 1) airports. In 1990, xx[call Dickerson] airports were added to the program, for a total of YY. The plan is to eventually contract out all 125 Level 1 towers, but there are no plans to extend the program to the 157 Level 2 towers (which are equipped for some degree of Instrument Flight Rule operations, but generally do not have airline service).

C. Highways, Bridges, and Tunnels

1. Tolls, Congestion Pricing, and Privatization

Toll roads gained new respectability in the United States in 1990. The 1987 federal highway bill, which for the first time permitted states to use federal aid on toll highways, received a rave review from the General Accounting Office in a December 1990 report. Three of the nine eligible states had started construction, five others were in the design/review stage, and one (Colordo) had dropped out. GAO found that being able to charge tolls helped the states to increase their total new-highway investment, and also that tolls provide a dedicated source of funds for maintenance. The report also stressed the importance of AVI technology in reducing costs and speeding traffic flow, by automating toll collection.

In July, the American Road & Transportation Builders Association announced the creation of a Private-Public Ventures Advisory Council. The group's first project is a nationwide study on the use of private enterprise for highway projects. The council is chaired by Henry C. Schrader, vice president of URS Consultants, Inc.

In a year-end report, the International Bridge, Tunnel and Turnpike Association anounced that some 48 new toll projects are planned or under construction in the United States. Valued at some $13.4 billion, they will add 1,372 miles of limited-access highway to the nation's system. Six of the projects are private.

The idea of charging directly for highway use, especially in urban areas, gained new support worldwide in 1990. Much discussion was created by a 1989 Brookings Institution book, Road Work, which argued for replacing today's indirect user tax and trust fund approach with direct user charges: demand-based congestion prices in urban areas and axle-weight fees for intercity highways.

The "congestion pricing" aspect has begun to pick up support from environmentalists. The 1990 Clean Air Act's supporting report from the House Public Works & Transportation Committee notes that "tolls have long been recognized control measures which discourage automobile travel demand.... Experience on toll facilities