

2001

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Recommended Citation

Soon-Kil Hong et al., *A Study on Airport Privatization in Korea: Policy and Legal Aspects of Corporatization and Localization over Airport Management*, 66 J. AIR L. & COM. 3 (2001)
<https://scholar.smu.edu/jalc/vol66/iss1/2>

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A STUDY ON AIRPORT PRIVATIZATION IN KOREA: POLICY AND LEGAL ASPECTS OF CORPORATIZATION AND LOCALIZATION OVER AIRPORT MANAGEMENT

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I. INTRODUCTION

THE AIRLINE industry is experiencing globalization like other industries due to deregulation. In the future, airlines may choose their base airport with greater freedom. Airport owners and operators who realize this situation are trying to improve their facilities and services to attract major airlines. To achieve such an objective, they need huge amounts of money and efficient management. Most commercial airports belong to the public sector, and it is very difficult to get enough money or construct efficient management teams within the governmental world. Therefore, airport owners and operators are devising the privatization of airports to solve the problem. We may summarize the objectives of airport privatization as follows: economic efficiency, private finance, and aggressive marketing.

It is necessary to understand the legal status of airports within the ownership and operation context to initiate airport privatization in any country. In addition, the public interests related to airport operation and public function of the airport system should also be considered in any country. With a full understanding of the current legal status of airport ownership and operation and the public function of airport systems, we can find a desirable method of implementing airport privatization.

All public airports in Korea are owned by the central government: the Ministry of Construction and Transportation owns

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civil aviation airports, and the Ministry of the National Defense owns the military airports. The Korean Airport Authority (KAA), an independent governmental body, operates the civil aviation airports. Military airports are operated by the Army, Air Force, Navy, or the U.S. Air Force in Korea. The majority of civil airport operation is conducted by the KAA, while the private sector is allowed limited participation in airport operation. The military airports where airlines are allowed to function are jointly operated by the KAA and military authority. The airport use agreement between the Ministry of Construction and Transportation and the Ministry of Defense for the civil use of these airports is established. The operation of the landing field and air traffic control around airports is usually under military authority while the terminal operation is conducted by the KAA. For both civil and military airports, private sector participation in airport operation is limited to passenger and civil airfreight handling, a small portion of commercial activities in the terminal building, and ramp service for civil aircraft.

II. AIRPORT PRIVATIZATION

A. MOTIVATION OF AIRPORT PRIVATIZATION

Generally, privatization refers to shifting governmental functions and responsibilities to the private sector, in whole or in part. The definition and meanings of airport privatization reviewed by empirical cases can include various concepts, such as: (1) change of ownership from public to private sector; (2) change of ownership from central to local government; (3) change of legal status from autonomous governmental authority to public corporate; (4) expansion of the private sector entities' participation in airport operation without ownership; and (5) private sector financing.

Motivation for airport privatization generally has three major bases. First, it is necessary to induce the private sector because government funds are limited to expand airport capacity to meet air transport demand, which is rapidly increasing in total volume and concentrating on hub airports. Second, by inviting the private sector to participate in airport operation, it may be possible to increase economic efficiency, which will result in improved airport revenue and profit performance. In some cases, airport privatization is initiated according to political decisions to privatize overall public organization. Third, airlines have more freedom to choose hub airports for their flight service

networking, according to the recently developed deregulation or open-sky policy of the international air transport industry. Until now, airlines were forced to use certain airports as their hubs or bases, because some business environments are constructed by rigid bilateral agreement of international air service. In the near future, however, airlines may be in a position to choose base or hub airports by focusing on economical reasons with less consideration of regulatory agreements between governments.

Accordingly, airport operators' primary objective should be making their airports attractive to airlines, and they should take steps toward privatization to fulfill this goal. As we all know, a marketing-oriented mind could hardly be secured within a public sector organization. Fortunately, the three major bases for motivating airport privatization—(1) inducing private sector funding, (2) inviting the private sector to participate in airport operations, and (3) allowing airlines to choose base or hub airports for purely economic reasons—have already been initiated around the world.

III. ADVANTAGES AND RISKS OF AIRPORT PRIVATIZATION

A. ADVANTAGES OF AIRPORT PRIVATIZATION¹

We may summarize several advantages of airport privatization by referring to its three motivation bases. We may also infer some additional advantages by examining the benefits gained from the privatization of the British Airports Authority (BAA), which is considered the best example of airport privatization in the world.

First, privatization makes it easier to access private sector capital. The government funds available for airport facilities are usually very limited and private investors are extremely interested in investing in airports because people consider airport revenues to be relatively stable and promising. Prior to privatization, the BAA's capital expenditure was controlled by government fiscal policy and constrained by limits on public-sector borrowing. Since privatization, however, the BAA has been freed from such financial constraints. It is now able to fund its development using normal commercial sources. During the ini-

¹ See Norman Payne, Presentation at AOCI Seattle Conference (1989); Spencer Dickerson, *To Privatize Or Not To Privatize*, AIRPORT MAGAZINE, May/June 1990, at 7.

tial period of its privatization, the BAA doubled its annual capital investment level by modernizing terminals at Heathrow and Gatwick Airports, building a new terminal at Stansted, adding hotels at Heathrow and Gatwick, and planning the construction of a high-speed rail between Heathrow and Central London.

Second, privatization enables airport operators to exploit other organizational opportunities in and adjacent to their airports. Many people come to airports and this makes various businesses possible. People that come to airports are usually neither the poor nor the lower class. Rather, they are relatively affluent and active in their businesses. Such an environment can give airport operators a variety of business opportunities. For example, the BAA rapidly diversified after privatization in 1987. As such, it moved into hotel operation and property development. The BAA also used its airport expertise to win contracts to manage shopping facilities in hospitals. It took advantage of its successful experience in airport consulting work and won several airport management contracts.

Third, privatization will lead to efficient economic operation. This view is based partly on the belief that privately owned utilities are likely to be run more efficiently than publicly owned entities. As private airports would be driven by profit, the allocation of resources would be more efficient, and business judgment, rather than political considerations, would be used to conduct operations. For example, after privatization, the BAA experienced a higher rate of augmentation in operating profit without increasing the airfield user charge. This was achieved through an increase in revenue by market-oriented operation and by a reduction of operation cost. Its former large Head Office was downsized from some 800 to 100 people. In addition, another great incentive created by privatization enables the staff to own shares in the business. Their participation is evident by the fact that over 98% of the staff currently owns shares. Unfortunately, however, the economic efficiency caused by promoting competition, which is usually expected in privatization, has not been achieved through airport privatization. This is due to the monopolistic position of airports in the current system of aviation regulation. But with the trend of international deregulation of the air transport industry, the monopolistic status of airport operation will collapse gradually. Afterwards, airport privatization may improve the economic efficiency caused by competition between airports.

Fourth, privatized airports may pursue marketing-oriented management. This will improve the level of customer-service for airlines and air passengers. Currently, many airports face intensified cost pressure from their carriers. Marketing-oriented management may lead to a reduction of the airfield user charge, thereby complementing the deficit with the income accrued from vigorous commercial activities in the terminal buildings. For example, in phase 1 of the Australian airport privatization, which occurred through the simultaneous trade sales of the Melbourne, Brisbane, and Perth airports, all three successful bidders committed themselves to real aeronautical price reduction between 18% and 24.5% over the first five years. Moreover, Copenhagen airport, privatized in 1993, has also extended its commercial interests over recent years, thereby reducing the revenue portion from airport charge and augmenting the revenue portion from commercial income.

Table 1
Revenue structure of Copenhagen Airport

	1993	1996
Airport Charge	60%	51%
Commercial Income	29%	39%
Property Income	7%	7%
Other Income	2%	3%

Source: Credit Suisse First Boston, *Proposal to KOACA to provide Financial Advisory Service for Incheon International Airport*, Feb. 1999, Seoul Korea.

B. ALLEGED RISKS OF AIRPORT PRIVATIZATION²

Most large commercial airports were constructed by the public sector as public facilities. As such, airport system planners in government organizations have emphasized the public function of airport operations. Therefore, airport privatization inevitably entails some risks. Currently, only around 2% of the world's airports are fully or partially privatized, and the U.S. has hesitated to join the trend of airport privatization for its major airports.

² See RIGAS DOGANIS, *THE AIRPORT BUSINESS* 28-33 (1992); Spencer Dickerson, *To Privatize Or Not To Privatize*, *AIRPORT MAGAZINE*, May/June 1990, at 7; Kwang Eui Yoo, *A Comparative Study of Orlando International Airport's Financial Position Under the Assumption That It Has Been Privatized* (1992) (unpublished Graduate Research Project, Embry-Riddel Aeronautical University) (on file with author).

First, there are risks of monopolistic abuse. Many large airports enjoy a monopolistic status. Through privatization, airport managers may reduce space for passengers and cargo shippers to maximize revenues from a variety of commercial activities. This will necessarily deteriorate the quality of service. Consequently, monopolistic abuse may arise through unreasonable increases in airport user-charges. As demonstrated by the BAA and Australian privatization examples, however, regulators may be able to rectify such problems.³

Second, there are risks associated with the loss of government control over airports. For example, safety standards may be relaxed resulting in a threat to public safety. Moreover, airport systems have a functional role in national defense. With privatized airports, if a national crisis situation arises, the appropriate government officials may not be allowed to take immediate action. Furthermore, there are also some chances that privatized airports would not support a national system of transportation, but rather act for profit-motive as opposed to public utility.

Third, there are risks related to narrow responsibility. When an airport is in the public sector, there is a chance to input citizens' opinions of quality service through the elective process, and airport management teams might be considered to have a responsibility to the general public. Privatized airports' management teams, however, may become over-sensitive to fluctuations in the share price and their decisions may well be influenced by this economic factor. For instance, the BAA has become much more secretive since privatization because of concerns that any information may have an impact on its share price.

Fourth, the diversification of operation pursued by privatized airports may also be dangerous. Diversification away from airport business has proven highly risky in the BAA's experiences. As the BAA moved into other activities, such as property development, senior management's energies became dissipated. Moreover, airports that are part of conglomerates may lose their flexibility and speed of response. As a result, the BAA refocused its efforts on its core airport business in 1990. To this end, the non-airport hotels were sold and the three London airport hotels were leased to major hotel chains. At the same time, the BAA has renewed its emphasis on expanding airport retailing and selling its expertise in this area to other airports.

³ See discussion, *supra* Part III.A.

C. METHODS OF AIRPORT PRIVATIZATION

The definition of airport privatization may vary depending on the countries where it is used. It can range from the sale of an entire airport to the private sector by floating on the stock market, to the change of control related to airport operation from a central to a local government. According to several previous case reviews, the methods of airport privatization can be summarized in the following four ways.⁴

1. *Public Sales by Flotation*

Public sales of an existing airport by floating shares on the stock market is the most fundamental way of privatization. It is agreed that the British government's conversion of the BAA into a private company is the best example of airport privatization by this method. Shares of the BAA, which were previously owned by the British government, were floated through a public stock offering on the London Stock Exchange in 1987. Copenhagen and some other airports also partially sold their shares through the stock market. When this method is adopted, governments should devise a way to reserve the right to control airport operations for the protection of public safety and utility.

2. *Trade Sales*

The advantage of airport privatization through trade sales is that the benefit of privatization can still be profoundly obtained while retaining the necessary governmental control. The most large-scale and recent example of a trade sale is the Federal Airports Corporation of Australia's privatization. The Australian government completed phase 1 sales of three airports—Melbourne, Perth, and Brisbane—in 1997. The sale consisted of fifty-year long-term leases plus 49 year options. Foreign ownership was limited to 49% while a 5% ownership limit was placed on airlines. The winning consortia included the BAA, Amsterdam Schiphol, and Airport Group International as airport operator.

3. *Contract Operation*

Contract operation is the easiest and most popular way to invite the private sector into airport operation. A private company may be contracted to operate selected services or virtually the

⁴ See Norman Ashford & Clifton A. Moore, *Airport Finance* 87-91 (1992).

entire airport operation. The best known U.S. example of a large airport being operated by a private firm is the Burbank Airport in California. Since 1978, Lockheed Air Terminal has operated the airport, with remaining ownership in an airport authority comprised of the cities of Burbank, Glendale, and Pasadena. Similarly, the BAA won a contract to manage the retail activities at Pittsburgh airport and took over the management of the Indianapolis airport system.

4. *Build-Operate-Transfer (BOT)*

The BOT means that a government contracts with a private consortium to finance, design, build, and operate a major facility, with title eventually reverting to the government once payment for the investment is complete. Toronto's terminal 3 was the first major project of this type. In Turkey, a Lockheed-led team, including several Turkish firms, developed a terminal at Istanbul Airport with the expectation to operate it.

IV. AIRPORT SYSTEMS AND ATMOSPHERE RELATED TO PRIVATIZING AIRPORTS IN KOREA

A. KOREAN AIRPORT SYSTEMS, OWNERSHIP, AND OPERATION

In Korea, there are 16 airports that offer scheduled air transport service: four international airports and twelve domestic airports. The central government owns all of these airports. The Ministry of Construction and Transportation and the Ministry of Defense are responsible for these airports. Kimpo International Airport, which belongs to the system of civil airports, handles more than half of the total air traffic. Table-2 shows the summary of Korean airports' ownership and a scale depicting the number of passengers handled annually.

The KAA is the autonomous governmental organization responsible for operating and managing civil airports without ownership. The airport operational works commissioned to the KAA are ranged as follows: (1) maintenance and operation of the landing field, including the runway, taxiway, and ramp area for aircraft movement; (2) management of passenger and cargo terminals; (3) airport security, fire fighting, and accident handling; (4) the operation and maintenance of the Instrument Landing System, Air Navigation facilities, and communication

systems; and (5) Environmental protection—including noise problems as well as water and air pollution.⁵

Almost all of the airport operation commissioned to the KAA is conducted directly by KAA employees or the airlines. The Korean Tourism Authority mainly operates the duty-free shopping; while private sector entrepreneurs conduct governmental organization and only an immaterial portion of duty-free shopping and commercial activities in the passenger terminals.

Table 2
Ownership and control of Korean Public Airports

Rank	Airport	Ownership & Control	Passenger volume (thousand)
1	Kimpo Int'l	MOCT (Ministry of Construction and Transportation)	36,489
2	Kimhae Int's	Air Force	9,956
3	Cheju Int'l	MOCT	9,819
4	Kwangju Domestic	Air Force	2,862
5	Taegu Domestic	Air Force	2,173
6	Ulsan Domestic	MOCT	1,691
7	Pohang Domestic	Navy	1,125
8	Yeosu Domestic	MOCT	982
9	Chinju Domestic	Air Force	967
10	Kangung Domestic	Air Force	900
11	Kunsan	US Air Force	457
12	Sockcho Domestic	Army	437
13	Yechon Domestic	Air Force	390
14	Chungju Int'l	Air Force	371
15	Mockpo Domestic	Navy	298
16	Wonju Domestic	Air Force	122

Source: Korea Civil Aviation Development Association, *Aviation Statistics*, Seoul Korea, 1998.

The appropriate military units operate military airports, and the use agreement between the Ministry of Construction and Transportation and the Ministry of Defense was established for the civil use of military airports. The airlines or civil aircraft operators pay a fee to the Ministry of Defense for using military airport facilities, buildings, and land. The aircraft landing fees for airline aircraft is paid to the Ministry of Construction and Transportation. Revenue collected by landing charges must,

⁵ See Table 2.

however, be used for landing field maintenance and operation. The passenger and cargo terminals as well as the accompanying facilities to be used for the ground handling of civil traffic are constructed and maintained by the Ministry of Construction and Transportation. The KAA and the airlines are responsible for terminal operations.⁶

The Korean government is currently constructing a new Seoul Airport, named Incheon International Airport (IIA). Because of a dramatic increase in air transport demand in the 1980's, the Korean government recognized the urgent need to expand airport capacity for the Seoul area. The existing Kimpo International Airport, however, has limited ability for expansion. The master plan for development for IIA was announced in 1992, and the ground breaking occurred in the same year. The Korean government established the Korea Airport Construction Authority (KOACA) in 1994, an autonomous governmental organization, to facilitate IIA's construction. After the first phase of construction is completed in late 2000, the airport will have an annual capacity of 170,000 flights, 27 million passengers, and 1.7 million tons of cargo. Upon completion of the last phase in 2020, IIA will be capable of handling 100 million passengers using only four runways. It is estimated that the first phase of construction will cost 5.3 trillion Korean Won (U.S. \$4.4 billion). The Korean government's investment is planned to be 3.3 trillion Korean Won (U.S. \$2.7 billion). The remainder, 2.0 trillion Korean Won (U.S. \$1.7 billion) is planned to be raised from domestic and overseas capital markets.⁷

B. ATMOSPHERE RELATED TO PRIVATIZING AIRPORTS IN KOREA

Virtually the entire Korean economic system is undergoing renovation motivated by the International Monetary Fund (IMF), starting in late 1997. The Planning and Budgeting Board, an entity recently established to organize the renovation, has formulated the policy and law for a dramatic renovation of the Korean economic system. As a result, the Board developed laws to privatize public enterprises, such as the airport system. It has been generally recognized that the current airport operation in Korea is very inefficient and the quality of service is extremely low. Only Kimpo International Airport recorded a

⁶ See Korean Government Agreement for the Civilian Use of Military Aerodomes, art. 4, 5, 7, 11 (1998).

⁷ See KOACA, Introduction to Incheon International Airport Project (1997).

profit recently, while the other airports have been consistently suffering. Even at Kimpo International Airport, however, non-aeronautical revenue has been extremely low, which means the airport's financial operation is not desirable.⁸

The Korean government has tried to promote the investment of private sector funds to public facilities with the incentive that investors can operate the facilities and earn profits. Private sector participation in the funding and operating of public facilities may lead to improved economic efficiency. This policy is currently being applied to airport systems. For example, IIA's cargo terminals, fueling systems, and electric power systems are being constructed by private sector investors. The terminal buildings and parking facilities for local domestic airports are also being considered as facilities to attract private investors.⁹ In addition, the Korean government changed KOACA's legal status from a governmental authority to a public corporation named "IIA Corporation" in February 1999 to facilitate the privatization process of the airport. IIA Corporation was created to operate the airport as well as ongoing construction. The Korean central government is also currently trying to change the KAA's legal status to a public corporation to facilitate the privatization process of existing airports. Even though the government has not finalized its detailed proposal, the conceptual outline of the KAA corporation may be summarized as follows: (1) the KAA's legal status is changed from an autonomous governmental authority to a public corporation, temporarily named Korea Airport Corporation (KAC); (2) KAC is composed of shares; (3) KAC will be allowed to issue corporate bonds; (4) KAC will be allowed to commission the right of airport operation to other organizations; and (5) KAC may be allowed to utilize international debt financing.¹⁰

C. KOREAN AIRPORT PRIVATIZATION POLICY

Airport privatization should be pursued in such a way as to maximize the advantages and minimize the risks.¹¹ For existing civil airport systems operated by the KAA, improving economic efficiency and the quality of service should be the main objective

⁸ See KAA, Financial Report (1998).

⁹ See KOACA, Introduction to Incheon International Airport Project (1997).

¹⁰ See *id.*

¹¹ See discussion, *supra* Part III (explaining the advantages and risks of airport privatization).

of privatization. The efficient use of facilities may be considered the prime concern for military airports. For IIA, the endeavor should be focused on inducing investment funds from the private sector.

1. *Privatization Policy For Existing Civil Airport Systems In Korea*

There are four existing public airports in the civil airports system in Korea: two international airports and two domestic airports.¹² All four are operated and managed by the KAA. The objective of privatizing these airports should be directed toward improving economic efficiency. This means minimizing costs and maximizing revenues, improving the quality of service, and developing air transport demand. To strengthen the advantages of privatization, it is desirable to separate these four airports and privatize each of them as independent airports. The separated airports may then compete against each other, which will lead to more efficient operations and higher quality service. The Ministry of Construction and Transportation should coordinate with the local governments where each of the airports are located to establish detailed planning regarding privatizing each airport as an independent entity. Of course, this is based on the assumption that partial ownership of the civil airports has been transferred to the local governments.¹³ As a privatization method, the authors suggest a *selective contract operation* for the privatization of these airports. *Public sales by floatation* or *trade sales* can generate too many problems regarding public interests and safety. For example, the national defense system requires public control of the airport facilities, which might be undermined with privatization via *public sales by floatation* or *trade sales*. In addition, the monetary valuation for *public sales by floatation* or *trade sales* is not easy with the financial data obtained from the current accounting system.

A *selective contract operation* is easy to apply, because it is possible with only an evaluation of the operating costs and revenues. This method can also contribute to the improvement of efficiency. If airport operations are divided into various operational areas and contracted accordingly, it may be simple to estimate the value of assets, and performance improvement can also be easily secured by inviting competent private entrepreneurs to operate within each area of the airports. If it is neces-

¹² See Table 2.

¹³ See discussion, *infra* Part IV.D.

sary to add capacity in the future for existing airports, however, we can consider the *BOT* method to solve problems related to obtaining enough money to overcome the limitations of public sector funds.

2. Privatization Policy For Military Airports

It is impossible to privatize the airside facilities of military airports with the current legal constraints and atmosphere. Therefore, we can introduce privatization concepts for only the landslide operations. Accordingly, *selective contract operation* is the only feasible way to apply privatization to military airports. Thereby, the operation of passenger and cargo terminals as well as ramp service for civil aircraft can be contracted to private entities.

3. Privatization Policy For Incheon International Airport (IIA)

The Korean government cannot provide all the money required to construct IIA. The first phase of construction will cost 5.3 trillion Korean Won (U.S. \$4.4 billion). The Korean government's investment is planned to be 3.3 trillion Korean Won (U.S. \$2.7 billion) and the remainder, 2.0 trillion Korean Won (U.S. \$1.7 billion), is planned to be raised from domestic and overseas capital markets.¹⁴ Consequently, the Korean government will own 63% of the total IIA shares, leaving 37% of the ownership to the private sector. Thereby, the government will retain the power to control the direction of IIA's operation and protect public safety and interests. Therefore, it is realistic to consider the partial privatization of IIA.

There are not enough human resources to operate a hyper-scale international airport in Korea—especially considering Korea does not have a sufficient quantity of experts or business people with profound knowledge and experience in airport operation. Consequently, the privatization of IIA should be pursued to solve the funding problem as well as the airport-operating problem.

It is necessary to invite some consortia with the ability to fund the capital required and the appropriate operating and managing skills. Fortunately, there are some foregoing examples of these kinds of consortia that have formulated and succeeded in winning the airport privatization program bid.¹⁵ The consortia,

¹⁴ See discussion, *infra* Part IV.D.

¹⁵ See also discussion, *supra* Part III.A; Part III.C.2.

composed of international airport operators and financial partners, won the bids for three Australian airports' privatization process in 1997.¹⁶ These consortia included the BAA, Amsterdam Schiphol, and Airport Group International of the U.S. as airport operator. The conversion of the government controlled entity's legal status to a corporation should be accomplished before bidding is initiated to encourage such consortia to fund and operate the IIA.

D. LEGAL ASPECTS OF AIRPORT PRIVATIZATION

1. *Ownership And Control*

According to the current Korean Domestic Aviation Law statute, ownership and control of civil airports belongs to the central government. This might be the main cause of inefficient airport operation. Only the minimum level of government ownership and control of civil airports is required to protect public interests and national defense, while the maximum portion of airport operation control should be transferred to the local government and the private sector. The overall matters related to airport operation should be under the local government's control and it should try to invite the private sector's participation to improve efficiency. That is, the local government will have a more significant economic impact by the airport's prosperity than the central government. In addition, the competition between local governments may stimulate the airport's operational organization to improve efficiency. Therefore, it is necessary to revise the law to transfer a substantial proportion of the ownership and control of existing civil airports from the central government to the local government. The central government, however, may reserve the right to take over the management of any airport in the event of war, or any other national crisis, and also reserve the right to limit the change of airport land uses. The central government should also reserve control over the allocation of landing slots at international airports. These changes are necessary to fulfill the provisions in the bilateral agreements of air services and to protect public interests efficiently.

The same philosophy could be applied to IIA. Currently, the central government has complete ownership and control of IIA. After partial privatization, however, public ownership and con-

¹⁶ See discussion, *supra* Part III.C.2.

trol of IIA will be solely limited to the central government, according to the current law and plan. This might lead to less optimistic policy development than in the case of local government participation. The local government for IIA, Intone City, might have greater interests in IAA's prosperity in some respects than the central government. Therefore, it is necessary to revise the law concerning this matter to secure Intone City's participation through allocating some portion of investment to the city government. The authors suggest that Intone City should have more shares than central government, because the central government's shares are for national defense and to protect public interests while Intone city's shares are for the economic efficiency and prosperity of IIA. The central government may, however, reserve the right to take over IIA in case of a national crisis and the right to limit the change of airport land use. The power to control the allocation of landing slots should also be reserved to the central government. These changes are necessary because the central government must maintain the power to control the utilization of the gateway airport facilities for national security and international relations in aviation.

For the military aerodromes that are co-used with civil air carriers, the control and ownership for airside facilities cannot be transferred to civil authority because of national defense problems. It is necessary to enact new law, however, to secure the landslide facilities for civil utilization, which should be placed under civilian control. The law and regulation regarding the operation of airside facilities and space should also be revised to make it possible to reflect civilian users' opinions easily and timely. The current relevant statutes stipulate that the agreements between the Minister of Defense and the Minister of Construction and Transportation are indispensable—even for trivial operational changes. This has led to a slow reaction time, thereby causing inefficiency. There are quite a few aviation experts in Korea who insist that an authoritative entity should be created to control both the civil and military aviation—like the U.S.'s Federal Aviation Administration (FAA)—for more efficient national airspace utilization.

2. *Abusing Monopolistic Status*

The potential of abuse by a monopolistic entity is one of the most pressing issues with the notion of airport privatization. Especially regarding airport user-charges, it may be necessary for the central government to intervene to protect public interests

from being abused by monopolistic pricing behavior. The U.K. government, for example, controls the amount of aeronautical charges, such as aircraft landing and passenger fees expressed as revenue per passenger. The U.K. government allows the three privatized London airports to raise aeronautical charges each year by an amount equivalent to no more than the increase in the retail price index (RPI) minus 1%. The U.K. Monopolies and Mergers Commission may also examine these airports every five years. The U.K. Civil Aviation Authority (CAA) can investigate complaints against airports of discrimination or abuse of dominant position, when they are made by airport users.¹⁷

It is necessary to enact legislation to prevent abuse by monopolistic, privatized organizations that participate in airport operations. To control monopolistic pricing, it may be necessary at first to establish regulations that require the production of more detailed accounts than are normally required under the Companies Acts. The appropriate governmental department should formulate regulating schemes against monopolistic pricing based on an examination and analysis of these accounting data.

3. Legislative Needs For The Airport System's Financial Integrity

Some civil airports do not have sufficient air traffic demand. For example, Yeosu and Ulsan airports cannot generate enough revenue to cover their operating costs. On the other hand, due to the level of traffic demand, Kimpo International Airport is positioned to generate high profits, and Cheju International Airport may have the ability to generate enough revenue to meet its total operating costs. Therefore, it is necessary to transfer the appropriate portion of revenue generated from Kimpo International Airport to Yeosu and Ulsan airports. To address this problem, the authors suggest that the government enact new legislation to create a revenue pooling system of aeronautical charges, or an aeronautical revenue transfer system among the airports, mutually agreed upon where necessary and available.

V. CONCLUSION

The trend of airport privatization around the world does not have a long history, but it is being widely developed by applying various methods depending on the situations related to individ-

¹⁷ See Rigas Doganis, *The Airport Business* 30 (1992).

ual airports' legal status and operational characteristics. The major advantages of airport privatization are the possibility to access private sector capital and the improvement of economic efficiency in operation. Airport privatization may, however, undermine public interests. For example, matters regarding national defense and safety the integral balancing of the transportation system, the equitable use of airport facilities, maintaining the appropriate quality of service, and abuse by monopolistic corporations are all potentially problematic issues.

National defense is still the major issue in Korea. Airport privatization cannot develop further without considering the national security problem and safety matters. In addition, the economic valuation of airport facilities in Korea is not easy, because the KAA has directly conducted most airport operations. Considering the situation in Korea, this research suggests that there are two realistic and basic methods of airport privatization at the initial stage: *selective contracts* and *Build-Operate-Transfers (BOTs)*. These methods can secure the improvement of economic efficiency by inviting private sector entrepreneurs to participate in airport operations. In addition, the authors recommend that the ownership and control of civil airports should be gradually transferred from the central government to local governments, thus separating the currently consolidated operational responsibilities of the KAA to each independent airport's operational organizations. This de-consolidation will make each airport competitive and serve as an incentive for local governments to try to improve the efficiency and effectiveness of their airport operations.

