CASE STUDY 05 OCTOBER 2013

Private Sector Participation: Airport Privatisation in Australia

Background

Until 1987, over 80 airports in Australia had been owned and operated by the Commonwealth Government. The Australian government wanted to devolve its services to local authority in order to improve the performance of the airport and also to reduce the dependence on aeronautical revenues by commercial and property development activities. In 1986, government established Federal Airport Corporation (FAC) and by end of 1989 FAC owned and operated 23 airports. By early 1990s, the government changed the economic policy which was inclined towards private participation in Global Business Enterprise (GBEs) to overcome the government's debt. It was decided that privatisation of airport shall take place in two phases. In the first phase, three major airports (Brisbane, Melbourne and Perth) were given on lease for a term of initially 50 years, with further extension option of 49 years. The proceeds (A$3.34 billion) from the deal were better than estimated (A$153 million), showing a percentage rise of 4.6.

The second phase of Airport Privatisation Program was announced in June 1997, where eight major airports and seven regional airports were to be given on lease. The term of lease was same as in first phase where initially the term was 50 years with further extension option of 49 years. Out of the 15 airports, one airport, Essendon Airport failed to attract an acceptable offer. Sydney airport the world's largest airport, was excluded from process because of the environmental problems caused by environment restrictions such as government imposed, traffic cap and night-time curfew.

After the completion of both the phases, the industry structure was radically changed and the ownership was divided amongst ten private consortia. The second phase airports were divided in two groups-10 regular public Transport Airports and five general Aviation Airports.

Regulatory Changes

In 1988, under the Civil Aviation Act, the Civil Aviation Authority (CAA) was constituted which was responsible for both safety regulation and air traffic services. Later on in 1995, to streamline the functioning and operations, CAA was split in two bodies- Airservices Australia and Civil Aviation Safety Authority (CASA). Airservices Australia vests a statutory right to be sole provider of air traffic control, air navigation support, aviation rescue and fire fighting. On the other hand, CASA as an independent statutory authority is responsible for aviation safety, licensing pilots and certifying aircraft & operations.

Economic Oversight of Airports: ACCC

Of all the airports owned and operated by FAC, 12 airports were designated as core airports. The Australian Competition and Consumer Commission (ACCC) was assigned the prime responsibility for economic oversight of core airports. The core regulated airports consist of 11 of 17 airports in first & second phase. The airports are: Adelaide, Alice Springs, Brisbane, Canberra, Coolangatta, Darwin, Hobart, Launceston, Melbourne, Perth and Townsville. Sydney was also part of the core airports, but as was excluded from the lease earlier & was later leased to Sydney Airport Corporations Limited (SACL). The Sydney Airport was subject to price notification and monitoring of aeronautical and aeronautical related charges and quality of service. As the government had ownership & control in Sydney Airport lease, it didn't impose any price cap on aeronautical charges.

For other core airports, price notification consisted of four major elements: price notification for aeronautical services, a price cap (consumer price index CPI minus specific value X) on aeronautical charges for a five-year period following privatisation, price monitoring of aeronautical-related services, and provisions for Necessary New Investment (NNI) at airports.

The starting prices for the price cap were the prices settled at the time of the lease sale, i.e. the FAC price. In determining the weighted average index for prices, a tariff basket approach was used. Each airport's X value, which varied substantially between airports, reflected expected productivity improvements that the Government considered can be made. As a direct result of price cap regulation, FAC's network- wide single till approach was replaced by an airport-specific approach but still with the single till. The value of X varied between airports and was assessed by the regulatory agency, i.e. the Australian Competition and Consumer Council (ACCC). The basis of assessment was the scope for productivity improvements at individual airports.

Later on 2001, the government amended price oversight arrangements at core-regulated airports excluding Sydney Airport. By then the equation of eleven airports had changed as for Brisbane, Melbourne and Perth airports, once-only price increase on aeronautical services up to a specified amount was allowed as a pass-through in the price cap. For airports - Adelaide, Canberra and Darwin- the price cap regulation was replaced by price monitoring system. The remaining five airports were no longer subject to any price regulation, that is, both the price caps and price monitoring were removed. In 2002, the government sought recommendation from Productivity Commission (PC). The recommendations to remove both price notification and price caps were accepted. Price Monitoring was the new system introduced for a period of five years with a review by PC at the end of five years.

Impact of Privatisation

Tremendous growth and positive impact has been witnessed in diverse dimensions. It may be safe to conclude that this exercise of Airport Privatisation Program has yielded good results towards development of Australian aviation sector. Some important highlights are as[1]:

Operational Efficiency

- A significant post privatisation improvement of 42% in revenue per Work Load Unit (WLU)- from $15.54 per WLU to $22.07 per WLU.
- A decrease of almost 7% in operating costs as a proportion of operating revenues from 37.6% pre privatisation to 35.0% post privatisation.
- A reduction of nearly 15% in the average employee cost per WLU.

Financial Performance & Profitability

- An increase in revenue derived from non-aeronautical revenue streams from 62.7% of total average revenue to 65.4%.
- On average the Yield (as measured by EBIT to total average revenue) of the selected airports has risen to 44.9% from 44.0%.

Investment Levels

In absolute dollar terms, the capital investment over the pre and post privatisation period of the participating airports totals $2.00 billion pre privatisation and $2.30 billion post privatisation.

Latest developments: Current position

Till now, the same arrangement is continuing. Government decided in 2007 to extend the current price monitoring system for a period of six years. An interim economic regulation inquiry was conducted in 2011 by PC, where PC recommended continuing the Current Australian Competition and Consumer Commission monitoring of airport pricing and quality of service until 2020. The government agreed in principle with the recommendation of PC with next review scheduled in 2018.

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[1] Report of Tourism & Transport Forum, Australia, available at www.ttf.org.au/DisplayFile.aspx?FileID=6, last accessed on 06th October 2013.