

ICAO CNS/ATM Seminar Honduras, October '02

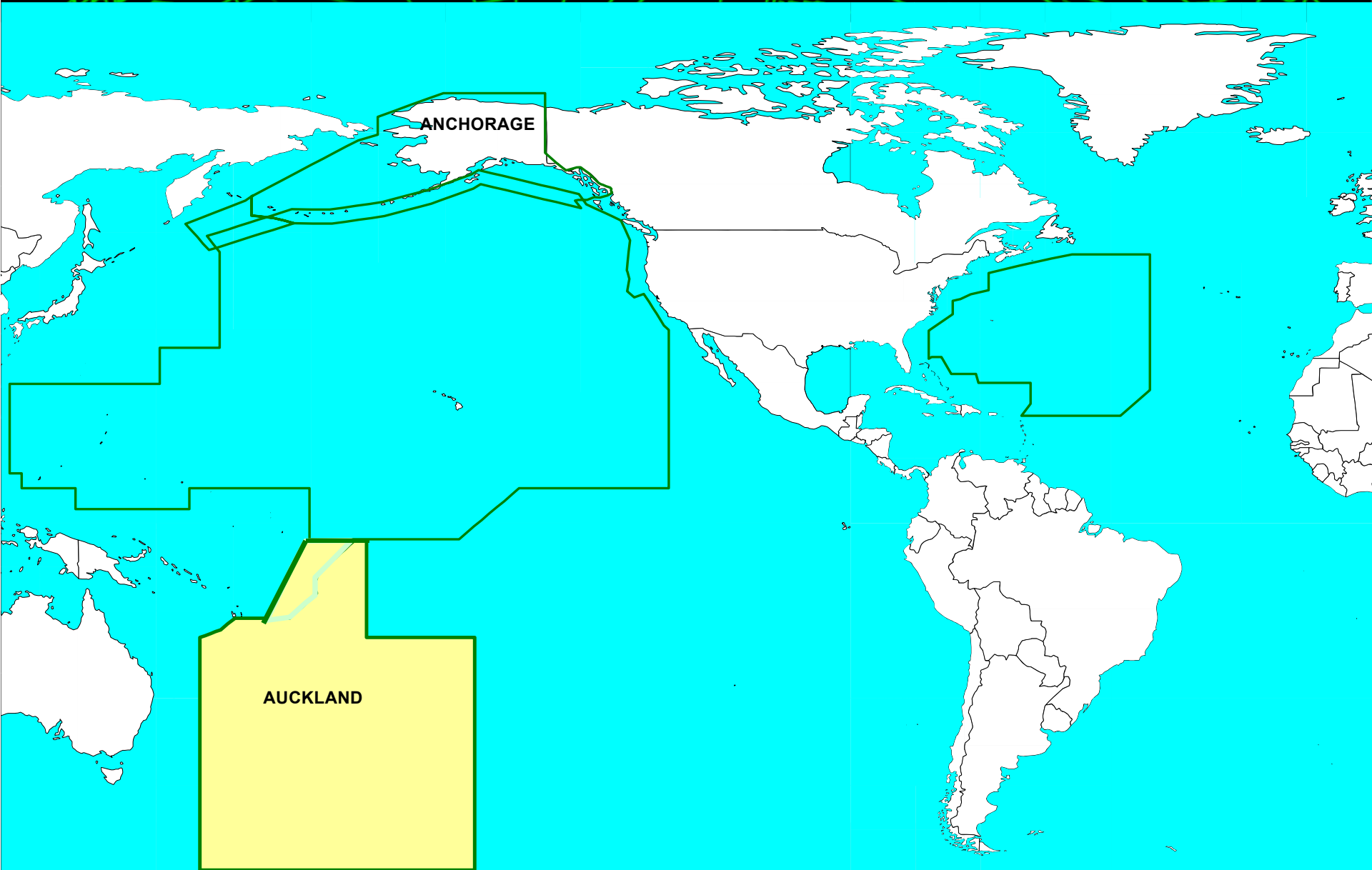


Commercialisation of Facilities/Activities and its Related Transition Issues

**Nick Metson,
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Overview

- Airways New Zealand
- What is commercialisation and what is driving it?
- Why states are looking at commercial models
- The financial drivers for change
- Transition issues
- The New Zealand experience and resulting stakeholder benefits



Airways New Zealand

- Corporatised 15 years ago. Commercial last 10
- Restructured 3 years ago - objective : reduce the cost base
- Manage a large FIR - 34 million sq km.
- 100% state-owned
- Shareholder expects us to operate as if in the private sector, i.e. make a profit
- Light-handed regulatory environment

Airways New Zealand Activity

1 million movements per year

52000 OCA movements per year

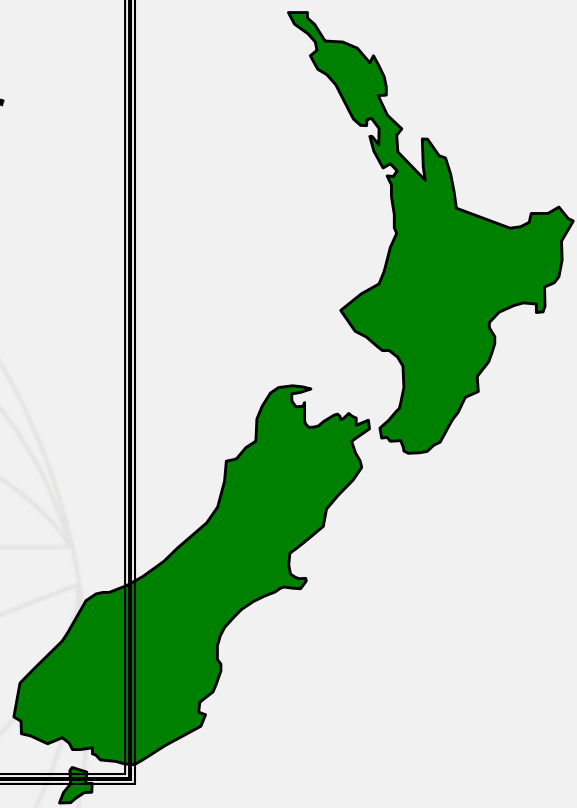
6 International airports

3 ACC (one Military)

16 manned Towers

650 staff

Revenues USD 50M p.a.



2,500 km
by road

What is Commercialisation?

- Corporatisation is 100% government ownership
- Commercialisation takes Corporatisation to a new level - adopt true private sector disciplines. Introduce
 - profit motive
 - financial independence (e.g. borrow externally)
 - light-handed or minimal regulation
 - a different mindset and culture, e.g. growth, risk
 - strong customer focus
 - total freedom to set and negotiate prices

What is Driving Commercialisation?

- Government philosophies are changing. Questioning their direct involvement in infrastructure businesses, ANS included
- Why, primarily the cost of new technology, but also efficiency gains, i.e. is there a better way to do it?
- More difficult to cover ANSP costs by simply increasing prices
- Third party Investors are now showing interest in the sector
- ANSP management are seeking change

Global Trends

- Increasing commercialisation of air navigation services is occurring
- Governments are withdrawing from service delivery, but they are establishing a regulatory framework for others to work within and either:
 - contracting out the service delivery to a third party [private company or another state], or
 - setting up a separate state-owned company to deliver the service

The Financial Drivers for Change

- Cost Pressures

How do we pay for new equipment and the implementation of new satellite based technologies?

How do we meet the demands of ICAO, the government, customers and others for improved levels of safety?

How do we pay enough to retain our ATCs?

How do we afford the cost of insurance?

TRADITIONAL ANSWER = INCREASE CHARGES

The Financial Drivers for Change

- Revenue Pressures

Airline downsizing

- - - demand for reduction in charges

Huge variations in charges

- - - ICAO pricing principles ignored

OR

- - - the ANSP is highly inefficient and lacks commercial focus

Technology enables wider coverage from fewer ACCs. Potentially less revenue

Country	USD / 100NM
United Kingdom	398
Germany	325
Burma	298
Ukraine	276
Netherlands	254
Argentina	203
Peru	166
Pakistan	164
Russia	130
Kazakstan	115
Afghanistan	110
Australia	97
India	41
New Zealand	17
Malaysia	8

Financial Drivers for Change - Profitability

Country X - Actuals			
USD 000's	Advised	Actual	With new equip
REVENUE	40,404	40,404	40,404
LABOUR RELATED COSTS	12,842	12,842	12,842
EXISTING OPERATING COSTS	8,065	9,118	9,118
DEPRECIATION	-	3,872	10,308
UNACCOUNTED OPERATING COSTS	39	2,646	5,816
Capital Charge		464	3,456
EVA	19,459	11,462	(1,136)

Services paid for by another branch of government

No Depreciation

No Capital Charge

New equipment costs not accounted for

Transition Issues

Key issues:

- the cultural and organisational change - many will not cope with the pace of change. People need to be informed and understand
- the implementation of new reporting systems (financial, safety, technical etc.)
- the customer focus - the customer must understand what is happening and why

New Zealand's
experience of ANS
provision under a
Commercial model



Old Government Model

- Multiple layers of authority - decision making hierarchical and slow
- Regulation, policy and service delivery combined
- Decisions political, nobody accountable
- Not customer focused
- Inadequate maintenance
- Limited financial management information
- Project investments mis-allocated, tender based

New Government Model

- Few layers of authority - tactical decisions made at lowest possible level
- Separation of regulatory, policy and service delivery
- Strategic decisions the sole discretion of the directors and executive
- Strong customer focus
- Leading edge technology
- Profit focus - - - without losing sight of safety
- High level of performance measurement

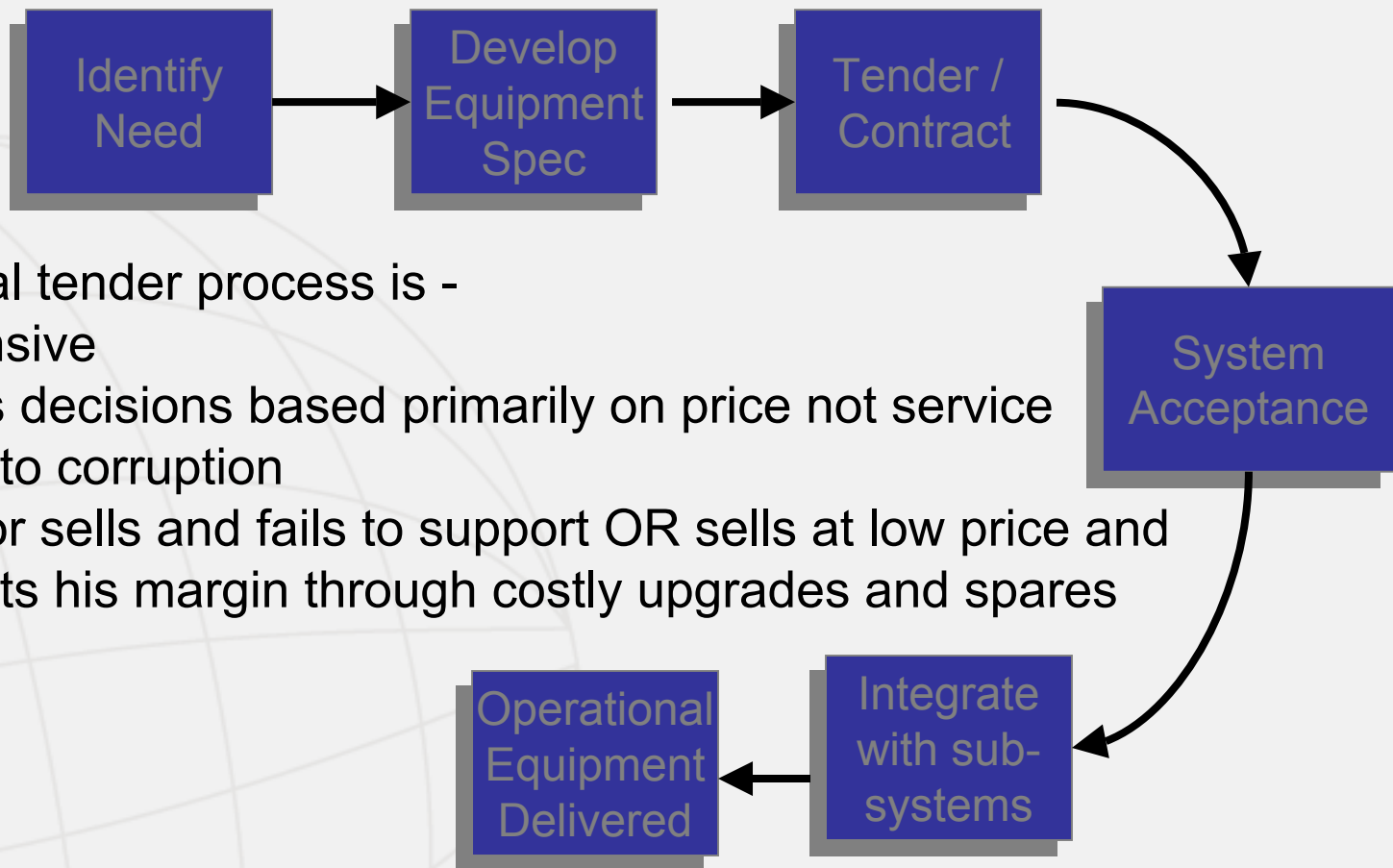
Airways New Zealand

From

To

- | | |
|--|---|
| <ul style="list-style-type: none"> ● Tax payer funding | <ul style="list-style-type: none"> ● Full financial self sufficiency |
| <ul style="list-style-type: none"> ● Central control | <ul style="list-style-type: none"> ● Independence |
| <ul style="list-style-type: none"> ● Integrated Ministry of Transport | <ul style="list-style-type: none"> ● Separate entities – “arms length” |

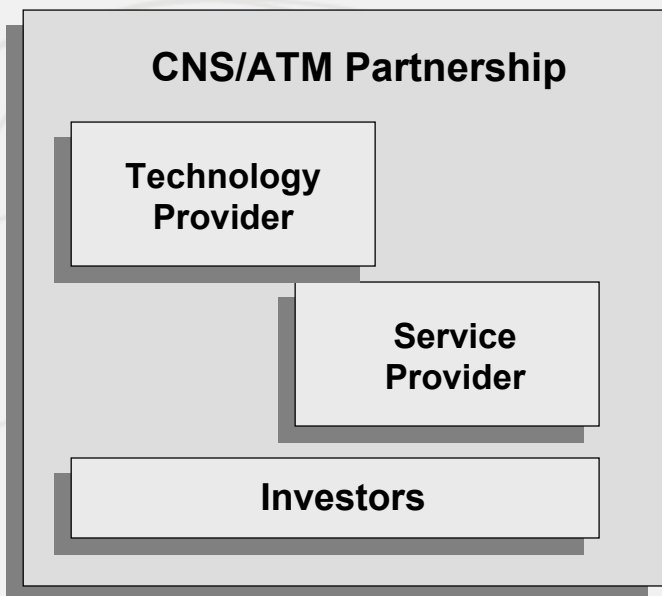
Pre-Commercialisation Equipment Purchase



Traditional tender process is -

- Expensive
- Drives decisions based primarily on price not service
- Open to corruption
- Vendor sells and fails to support OR sells at low price and extracts his margin through costly upgrades and spares

Post-Commercialisation Equipment Purchase

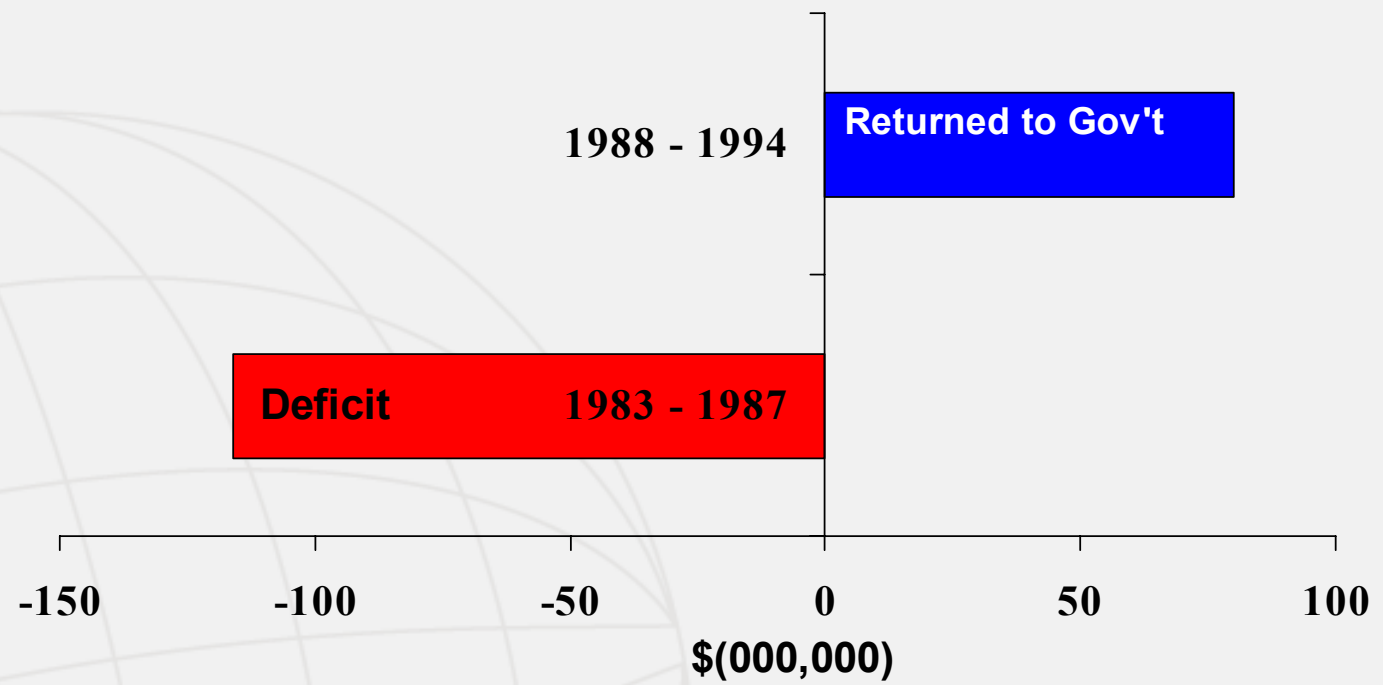


- Partners commit to long term relationship
- Technology partner provides all system needs [sources for best fit / best price - not necessarily their equipment]
- Technology partner commits to ongoing system renewal / refreshment at fixed cost
- Technology partner delivers “total package” - a fully functioning system including training, procedures modification, integration with existing systems

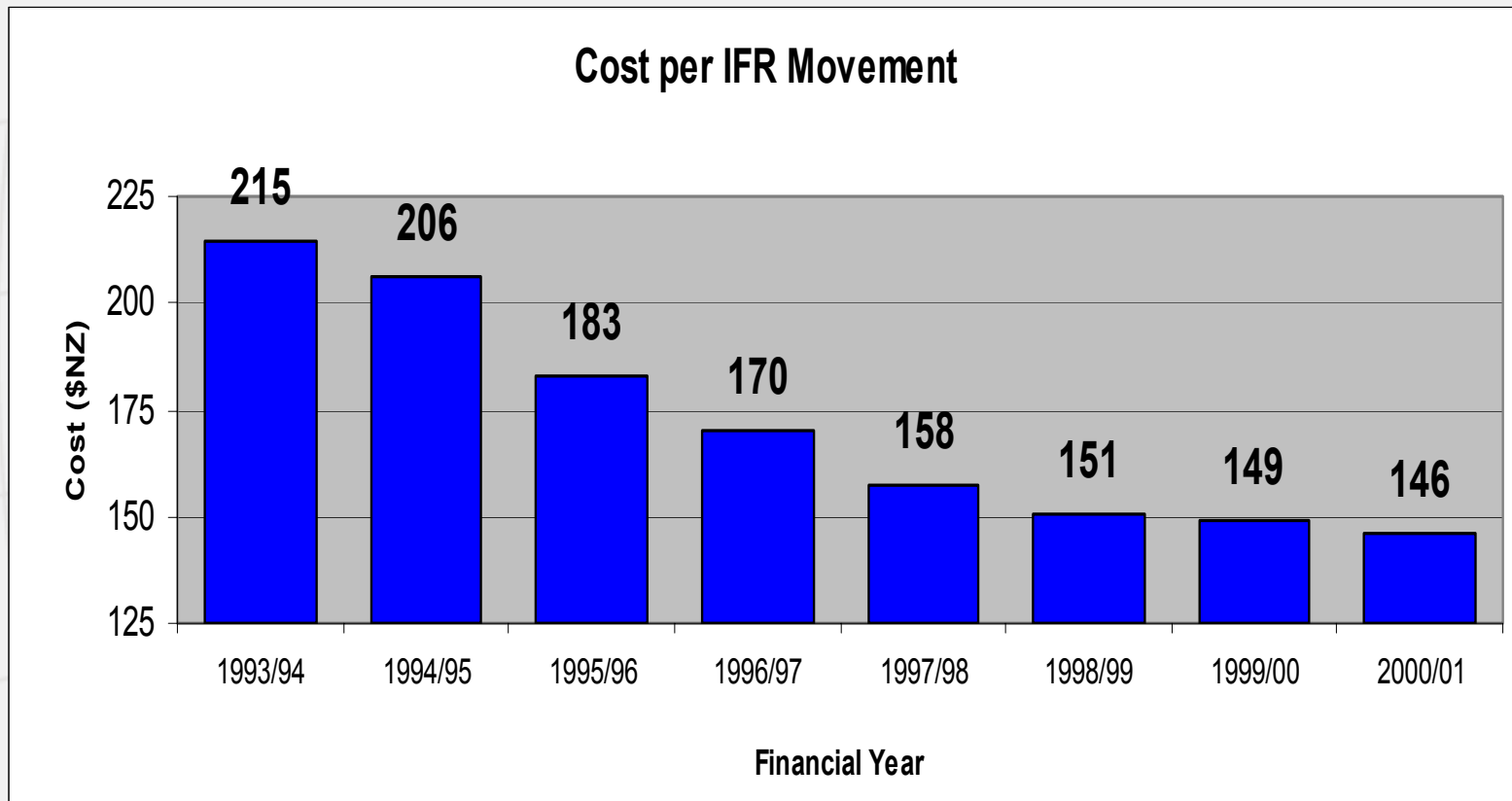
Key Stakeholder Benefits

- ➔ The owners, i.e. the Government
- ➔ The customers, i.e. the airlines that use our services
- ➔ The staff, i.e. the people who deliver the service

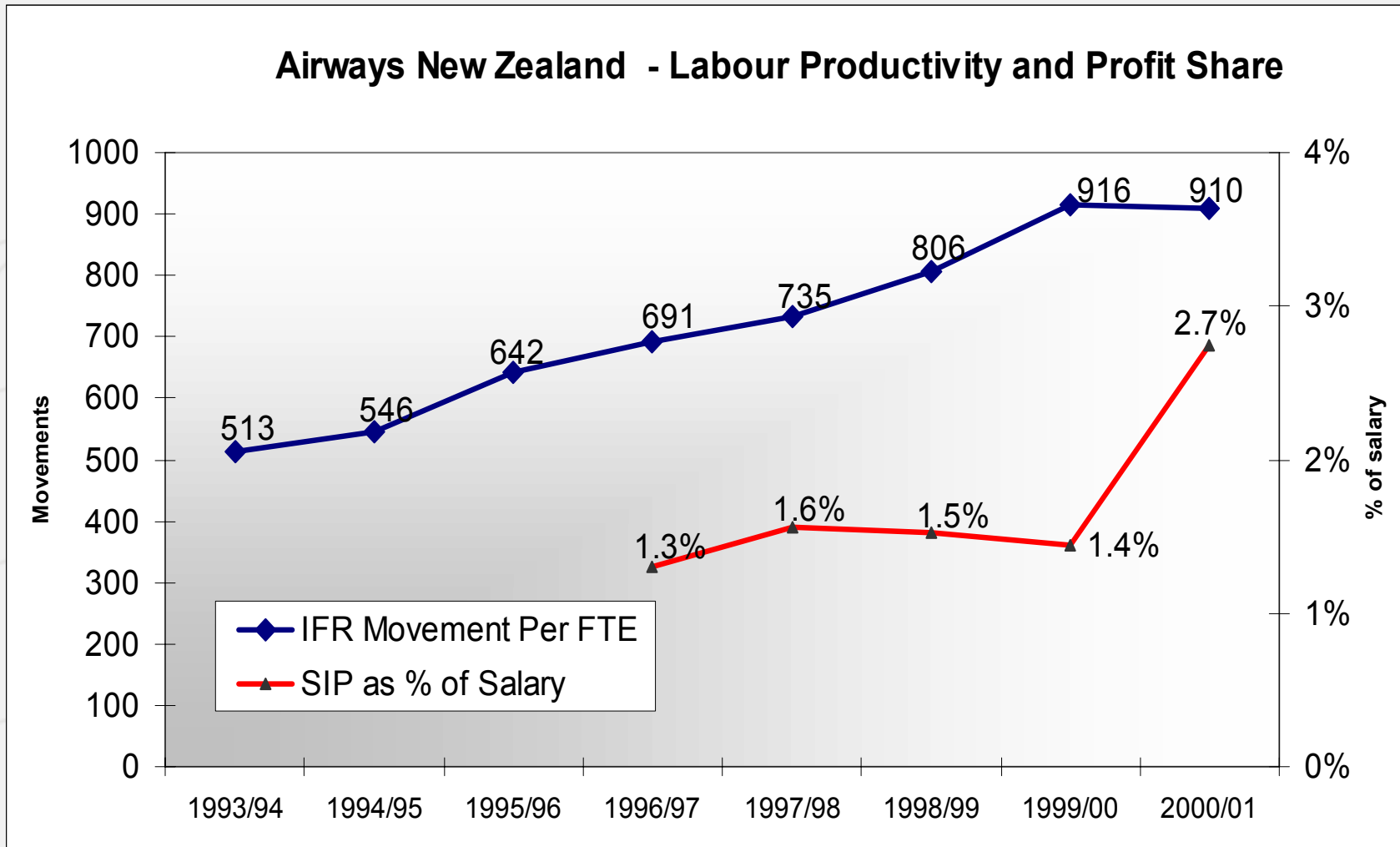
Government - Financial Rewards



Airlines - Costs per Movement



Airways New Zealand - Labour Productivity and Profit Share



Conclusions

- ➔ Further commercialisation of ANS is inevitable
- ➔ The drivers for it are numerous, but primarily financial
- ➔ New Zealand's experience has been very positive
- ➔ The benefits should be available to others - requires a willing government, the appropriate institutional changes and the management drive

AIRWAYS
NEW ZEALAND

THANK YOU