Case Study: New Zealand

Background

Because of its geographic location, its dependence on tourism, and the absence of a comprehensive rail network, New Zealand has developed a large international and national airports network over the years. Until 1966, almost all New Zealand important airports were developed by the State and remained under the central Government ownership and management.

There are three main international airports. First, Auckland Airport is the busiest and the main international airport. It is the only airport serving the Auckland metropolitan area, which gathers a third of the country's total population. Second, Wellington International Airport is also a major domestic hub serving mainly business and government. International flights at Wellington Airport are principally from/to Australia. Third, Christchurch International Airport is the major international airport in the South Island, where it acts as the main hub and attracts a significant share of New Zealand's international tourist traffic.

There are other international airports in New Zealand, such as Dunedin, Hamilton, Queenstown, and Palmerston North, which also get flights from other countries (mainly Australia). Other commercial airports serve domestic and regional traffic.

Commercialization/privatization: Airports

The commercialization of New Zealand's airports started early. First, the 1961 Joint Airport Scheme established the principles that resulted in both central and local governments jointly owning and operating airport facilities. The objective of this policy was both to benefit from the expertise of local governments on regional economic needs and opportunities, and to make local government directly invest in airport infrastructure. In 1974, 24 airports throughout New Zealand were under a joint venture ownership. Second, the Airport Authority Act of 19 October 1966 requested the airports to operate on a commercial basis without receiving any financial assistance from the central government. Finally, the Government of New Zealand announced in 1985 a new plan, entitled "Airports – A New Partnership", to encourage the existing joint venture airports to be incorporated into limited liability companies and to operate as such. The three largest airports (Auckland, Wellington, and Christchurch) were the first to become companies in the late 1980s. All other major airports have followed the lead and became airport companies, while some smaller airports still remain under the Joint Airport Scheme.

The Government subsequently began to sell its shares to the private sector or to local governments in a number of airports, including the three most important. The Auckland International Airport Limited (AIAL) was incorporated in 1988, with the central Government as its main shareholder (the rest being held by local councils). In 1998 the Government sold its shares, and AIAL became publicly listed (it appears on the New Zealand Stock Exchange and the Australian Stock Exchange). At that time the major shareholders were Auckland City Council (25.8%), Manukau City Council (9.6%) and North Shore City Council (7.1%). North Shore City Council sold its shares in 1999 and Auckland City Council sold some of its shares in 2002 and still retains 12.8%.

Wellington International Airport Ltd was incorporated in 1990 and privatized in 1998. It is now 66% owned by Infratil, a publicly listed New Zealand-based infrastructure investment company, and 34% is owned by Wellington City Council. Christchurch International Airport Ltd was established as a company owned by the Christchurch City Council (75% of the shares) and by the New Zealand Government (25% of the shares equally hold by the Minister of Transport and the Minister of State-Owned Enterprises) in 1988. It has remained publicly owned since.

Besides Auckland and Wellington, no other major airports have been fully privatized in New Zealand. Some smaller airports have nevertheless been commercialized/privatized under different forms:

- Palmerston North Airport is a limited liability company partly privately and partly local authority owned.
- Far North Holdings is a limited liability company that runs two publicly owned airports with scheduled services.
- After its incorporation into a limited liability company and its partial privatization, Rotorua Airport became totally owned by the Rotorua District Council, which purchased the remaining shares from a private investor in 2003.

Commercialization/privatization: ANSP

Following the recommendations of the 1986 Mason-Morris Review, Airways Corporation of New Zealand Limited (or Airways New Zealand) was created 1987 as a State-Owned Enterprise to provide air navigation services in New Zealand. Airways New Zealand is a commercial entity that manages air traffic for the 30 million square kilometres of airspace over New Zealand, Tonga, Samoa and Cook Islands. There is no share capital or private ownership of Airways New Zealand stock, which remains a fully government-owned enterprise, owned by the Ministry for State-Owned Enterprises and the Ministry of Finance on behalf of the State. It is managed by an independent commercial Board of Directors.

Airways New Zealand is thus a limited liability company governed by the same legislation that applies to all corporations in New Zealand. It is legally bound to operate on a commercial basis, including the requirement to make a profit (Airways New Zealand uses Ramsey pricing). Finally, Airways New Zealand is completely separated from the Civil Aviation Authority, which is the regulatory entity responsible for safety.

Economic oversight: Airports

The Government of New Zealand has used a monitoring system to regulate its main airports. The Government has subjected the airports of Auckland, Wellington and Christchurch to this form of oversight, through which it has kept the right to introduce a price cap regulatory framework if an airport appears to be abusing its market position. The Government can launch a review of pricing at any time. The objective of this monitoring, or light-handed regulation, is to make the airport operators behave as if they were regulated.

The Government of New Zealand initiated a review of pricing at Auckland, Wellington and Christchurch airports in 1998. The Commerce Commission recommended to maintain the monitoring system for Wellington and Christchurch, and to implement a price cap regulation for Auckland in 2002, but the Government rejected this latter proposition in 2003, arguing that such a price cap regulation would engender negative net public benefits and relatively small net benefits to the aircraft operators. The airports continue unregulated since. Auckland International Airport Ltd operates under a dual-till approach.

Economic oversight: ANSP

Airways New Zealand was the world's first fully commercial ANSP, meaning that it is funded entirely by its users. Airways New Zealand generates its revenue from charges to aircraft operators, offshore training, international project management and consultancy services.

There are no explicit controls on either prices or the levels of profit Airways New Zealand can earn. It has nevertheless concluded a memorandum of understanding with its airline customers, covering a consultation process, its investment programme and its profitability. A Partnership Plan was signed in March 2001 between Airways New Zealand and the Board of Airlines Representatives of New Zealand, establishing a formal process for disclosing information on the corporation's business plan and financial performance to its users. Airways New Zealand self-regulates the returns from its services under the form of a rate-of-return regulation. It remains possible to lodge an appeal against Airways New Zealand's charges to the Minister of Transport, who can create a formal rate-making process. No significant appeal has been lodged so far.

(28 June 2011)