



Case Study

on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers

Australia

Background (until the early 1990s)

Until 1987, over 80 airports in Australia had been owned and operated by the Commonwealth Government. The Government also had borne most of the financial responsibility for smaller airports with regular passenger transport services, although it has been attempting to devolve these airports to local authorities through various measures such as the Aerodrome Local Ownership Plan (for example, Cairns Airport in 1980). The main policy objective was to support national and local airport systems through the Government ownership and the provision of subsidies. However, the need to improve the degree of cost recovery from users became an impending agenda as the financial burden on the Government increased (about 55 per cent of costs were covered by charges in the early 1980s).

In June 1986, the Government established the Federal Airports Corporation (FAC), a Government Business Enterprise (GBE, a wholly Government-owned unlisted public company) with an asset base of A\$1.2 billion. FAC owned and operated 23 airports, 17 of which were vested in January 1988 and six added in 1989. Those airports were the major capital city airports, the secondary airports in those cities and the major regional airports. Since the start of its operation, FAC had been successful in improving the performance of its airports and reducing dependence upon aeronautical revenues through the expansion of commercial and property development activities (average revenue for the group of airports was increased by 12.5 per cent from 1988 to 1997).

Although FAC was allowed to operate its airports along commercial lines, it was a company subject to the Government Business Enterprise's accountability guidelines and was required to earn a fair and reasonable return on investment for the Government. In addition, FAC's airport charges were subject to surveillance and monitoring by the Price Surveillance Authority (PSA) under the Price Surveillance Act 1983. PSA required FAC to notify of any proposed change in airport charges. FAC's charging regime was based on a network-wide single till approach, setting uniform charges for all of its airports with the exception of peak-period congestion charges introduced at Sydney Airport in January 1991.

In the air navigation area, the Civil Aviation Authority was formed in July 1988 under the Civil Aviation Act 1988. CAA was a semi-commercial independent statutory authority, and responsible for both safety regulation and air traffic services. In June 1990, CAA became one of GBEs. As a result, in April 1991, charges by CAA for en route air navigation, terminal navigation and aviation rescue and fire-fighting services became subject to price notification requirements to PSA under the Prices Surveillance Act 1983.

Commercialization/privatization: Airports

By the early 1990s, the Government's overall economic policy shifted towards privatization of or private participation in GBEs, aiming mainly at reducing the Government's net debt. The Airports Privatization Program began in April 1994, when the Government announced its intention, in principle, to privatize the 22 FAC-owned airports (Cambridge Airport was already sold in March 1993). In April 1995, a formal decision was made to lease these airports by way of individual trade sales to private entities in two phases. The stated rationale was to "improve the

efficiency of airport investment and operations in the interests of users and the general community, and to facilitate innovative management". Bills to establish the post-sale regulatory framework (Airports Act 1996) and to facilitate the sale of leases of the airports (Airports Transitional Act 1996) were introduced into Parliament in September 1995, and they were passed with amendments one year later.

The phase I of the Airport Privatization Program included Brisbane, Melbourne and Perth airports, in which the Government called for expressions of interest in September 1996. In July 1997, long-term leases were granted to the Brisbane Airport Corporation Ltd. (Brisbane), the Australian Pacific Airports Corporation (Melbourne), and Airstrialia Development Group (Perth). The duration of the leases is 50 years with an option for an additional 49 years. In total, Phase I raised proceeds of A\$3.34 billion and the direct costs of the sale was estimated to be A\$153 million, or 4.6 per cent of the proceed.

The commencement of Phase II of the Airport Privatization Program was announced in June 1997. Phase II comprised eight major airports (Adelaide, Alice Springs, Canberra, Coolangatta, Darwin, Hobart, Launceston, and Townsville) and seven regional airports. In June 1998, 50-year leases with an optional 49-year extension were granted to nine different consortia, raising proceeds of A\$730 million with the direct costs of the sale estimated to be A\$35.4 million, or 4.8 per cent of the proceed. One of 15 airports, Essendon Airport, failed to attract an acceptable offer.

The sale of Sydney Airport (as well as three smaller airports in the Sydney region) was deferred pending the resolution of noise issues and the completion of an environment impact study for the proposed second Sydney Airport. In July 1998, Sydney Airports Corporation Limited (SACL) and Essendon Airport Limited (EAL) were formed as GBEs to acquire leases (50-year leases having an option of a further 49 years) over the four Sydney basin airports and Essendon Airport, respectively. In September 1998, FAC ceased operations and its residual assets and liabilities were transferred to the Government.

The airport sale process for the remaining five airports began in the early 2000s. In September 2001, all the shares in EAL were sold to a private sector company. In June 2002, the Government sold a 100 per cent stake in SACL to the Southern Cross Airports Corporation at A\$4.233 billion. The sale agreement of SACL granted a 30-year right of first refusal over the development and operation of the second Sydney airport. The Airport Privatization Program was completed in December 2003 with the sale of the remaining three regional airports in the Sydney region (which were separated from SACL in June 2001).

Commercialization/privatization: ANSP

The CAA was not privatized but split into two, Airservices Australia and the Civil Aviation Safety Authority (CASA, an independent statutory authority), in July 1995 under the Air Services Act 1995. While CASA assumes responsibility for aviation safety regulations, licensing pilots and aviation engineers, and certifying aircraft and operators, Airservices Australia has a statutory right to be the sole provider of air traffic control, air navigation support, and aviation rescue and fire fighting. Airservices Australia is not prescribed as a GBE, but is treated as such.

Economic oversight: Airports

The Australian Competition and Consumer Commission (ACCC, a successor of PSA and the Trade Practice Commission) has prime responsibility for economic oversight of airports. Twelve of the 22 ex FAC-owned airports were designated as core-regulated airports under the Airports Act 1996 and were subject to price regulation by ACCC under the Price Surveillance Act 1983. The core-regulated airports comprised 11 of 17 airports in Phase I and II (Adelaide, Alice Springs, Brisbane, Canberra, Coolangatta, Darwin, Hobart, Launceston, Melbourne, Perth

and Townsville) and Sydney Airport. These airports were subject also to the ACCC's monitoring of quality of service provision, which was introduced as a complement to price regulation by the Airports Act 1996, and access regulation of essential airport facilities under the Trade Practices Act 1974.

In the period from the sale of lease until October 2001, price regulation of core-regulated airports excluding Sydney Airport 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 privatization, price monitoring of aeronautical-related services, and provisions for necessary new investment (NNI) at airports. When Sydney Airport was leased to SACL, it was also subjected to price notification and monitoring of aeronautical and aeronautical-related charges and quality of service. Unlike the other core-regulated airports, however, the Government did not place a price cap on SACL's aeronautical charges because of significant re-development and Government ownership.

The starting prices for the price cap were the FAC prices at the time of the lease sale. 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 considers 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 (not mandatory). The further change of setting aeronautical charges took place in October 2000, when SACL proposed an average 130 per cent increase in aeronautical charges by using a dual till approach. After a Government Direction in April 2001 to not take any non-aeronautical services into account, ACCC adopted the dual till approach proposed by SACL.

In October 2001, the Government amended price oversight arrangements at core-regulated airports excluding Sydney Airport. For Brisbane, Melbourne and Perth airports, a once-only price increase on aeronautical services up to a specified amount was allowed as a pass-through in the price cap. The price cap regulation on aeronautical services at Adelaide, Canberra and Darwin airports was replaced by price monitoring of those service. The remaining five airports were no longer subject to any price regulation, that is, both the price caps and price monitoring have been removed. These changes were designed to enable the airport lessees to better manage the major structural adjustments taking place in the market such as the suspension of Ansett and reduced demand after the events of 11 September 2001.

In July 2002, the Government decided to introduce a light-handed approach to price regulation of airport services in line with the recommendations made by the Productivity Commission (PC). Under this new approach, price notification and price caps were discontinued for all airports. Instead, price monitoring for Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports were introduced for a transitional five-year period and with a review of the arrangements to be conducted by PC at the end of this period. Exceptionally, a price notification requirement with a price cap was introduced to aeronautical services for regional airline services at the privatized Sydney Airport.

Five years later, the regulatory approach was again changed in response to the PC's recommendations. The Government decided in April 2007 to continue the current price monitoring for Adelaide, Brisbane, Melbourne, Perth and Sydney airports for a further six years. Canberra and Darwin airports was no longer subject to the formal price monitoring arrangements from July 2007, but the Government continues to monitor developments at all of its leased airports and, if any concerns arise, considers whether further investigation is required.

At the request of the Government, the PC conducted a new inquiry into the economic regulation of Australian airports in 2011. It recommended to continue the current Australian Competition and Consumer Commission monitoring of airport pricing and quality of service until 2020 (with the next review by the PC in 2018), with some enhancements to the monitoring approach. In its response, the Government announced in March 2012 that it agreed in principle

with the PC's recommendations to continue monitoring and improve the operation of the economic oversight regime.

Economic oversight: ANSP

As a successor of CAA, Airservices Australia's provisions of en route air navigation, terminal navigation and aviation rescue and fire-fighting services are subject to price surveillance by ACCC under the Prices Surveillance Act 1983. This means that Airservices Australia is required to notify ACCC of proposed price increase for those services. ACCC is then responsible for assessing the proposed price increases and can either object or not object. It may also suggest lower prices that it considers should apply, but has no power to impose any such prices.

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