LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REPORT ON

THE FUTURE OF AIRPORTS IN AUSTRALIA CONFERENCE

BY

THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT AND TOURISM

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Committee Members

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1. BACKGROUND

1.1. In June 1994 the Standing Committee on Tourism and ACT Promotion presented a report, outlining the steps necessary for the ACT Government to create an international airport for the ACT, to the previous Assembly.

1.2. A major recommendation of the report was that the Government undertake further detailed cost benefit assessment of the airport in terms of the proposed sale of the airport by the Federal Government; the acquisition of the airport by the ACT Government or in consortium with private interests, or by private interests alone; the economic upgrade of the airport to B767 international designation capability by 1999 having regard to the economic benefits which could derive from the Sydney Olympics in 2000 and the 2001 centenary of Federation celebrations; and the economic viability of the ACT developing the airport to B767 international designation capability forthwith. The committee also recommended that the ACT Government ensure that the further development of Canberra airport be conditional on a full environmental impact study.[1]

1.3. As a matter of continuing interest in these issues members of the Economic Development and Tourism Committee attended *The Future of Airports in Australia Conference* in Sydney on the 28 and 29 June 1995.

1.4. Over the two days the committee had the opportunity to gather the latest information on the Federal Government's privatisation policy regarding the disposal of airports, the proposed regulatory framework, the appropriate methodologies for airport valuation and plans for Sydney West Airport.

2. INTRODUCTION

2.1. The Federal Airports Corporation (FAC) currently owns and operates the airports being put up for sale by the Government. The FAC took over the operation and development of the Federal airports from the Commonwealth Department of Transport in 1988.

2.2. Currently the FAC employs some 1,100 staff at 22 airports, who in 1993/94 handled over 660,000 RPT (Regular Public Transport) and 2.4 million GA (General Aircraft) aircraft movements, and some 50 million passengers, 10.4 million of whom were from overseas. Total revenue for this period was $457 million, with an after tax profit of $36 million. Property plant and equipment were valued at some $2 billion in June 1994.[2]

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[1] An International Airport in the ACT, Report by the Standing Committee on Tourism and ACT Promotion, June 1994.p 29-30

[2] Mike Waller, Australian Airport Privatisation: An Overview of the Framework for the Disposal of Federal Airports, June 1995, p2

3. THE COMMONWEALTH PROGRAM OF AIRPORT SALES

3.1. The Commonwealth Government's plans for disposal of the airports envisages a two-stage process, with Sydney-Sydney West, Melbourne, Brisbane and Perth occurring in the first round in 1996. Sales will occur simultaneously in order to ensure a short sale period and to allow bids by one company for a few airports. The remaining FAC airports including Adelaide and Tasmania and joint FAC Defence airports (Canberra, Townsville and Darwin) will be offered for lease in the second stage in 1997-98.[3]

3.2. The FAC will initially manage the development of the New Sydney West Airport expected to be opened in 1999 after a $327 million investment in on-site development. Sydney West will be offered for sale with Sydney to ensure they complement rather than compete.

3.3. The Government's decision to sell the airports on a leasehold basis means that the Government will maintain an interest in ownership and operation of the airports and that the leased airports will remain Commonwealth places.

3.4. An Airport Sales Taskforce headed by Ross Smith of the Commonwealth Department of Finance will undertake the sales. It will be an open and accountable process with formal information being released to interested parties, the registration of potential investors, a shortlisting and the selection of the preferred bidder. A Strategic Business Plan outlining future uses of the business will be required and there will be post-sale monitoring to ensure the terms of the contract are met.[4]

3.5. The lease of the airports will offer renewal options of up to 49 years (subject to Commonwealth approval), a possible buy-back option at the end of the period and each airport will have at least 51% Australian ownership.

3.6. The Government will seek diversity in ownership of airports to guard against the development of a monopoly and will prescribe separate majority ownership and control of Sydney, from Melbourne and Brisbane.

3.7. Each airport will be leased separately as an ongoing business with services.

[3] Waller op cit p 8
[4] ibid p10,11

4. REGULATION OF AIRPORTS IN THE AUSTRALIAN PRIVATE SECTOR

4.1. Many stakeholders, while not opposed to leasehold as it allows the Commonwealth to maintain legislative control over regulatory controls such as safety and security procedures and environment issues (including curfews in noise management), have expressed concern about the scope of regulation the Government may impose.

4.2. Privatisation of FAC airports is a major undertaking for the Government. To be successful it will require the development of a new framework of regulation to ensure it attracts the confidence of all affected parties - the airlines, the travelling public, other airport customers, the governments, the airport owners and operators, and the investors who are going to assume large and costly risks.[5]

4.3. To provide incentives the new regulatory regime needs to be clear, objective and predictable, enable uniform implementation of decisions (terminal access/night noise), be non-discriminatory, provide continuity, be ownership neutral, avoid politicisation and not be lightly changed. The costs of the new regulatory regime must also not create disincentives.[6]

4.4. The regulation regime is not available yet but should be drafted and introduced into parliament by the end of 1995.

5. APPROPRIATE AIRPORT VALUATION METHODS

5.1. It is widely recognised that an airport contributes substantially in terms of employment and financial gain to its local community; however, the importance to the owner is the value they can extract from the many businesses within the airport.

5.2. The businesses of an airport which lie within the fence include: the aeronautical services (landing charges, provision of gate services and “parking” charges); retail and office rental space, which is an important source of income for major airports around the world; car parking; and airline support services (check-in counters, terminal ground leases, baggage handling facilities). All of these activities return a separate income so it is important that they are valued separately.[7]

5.3. The two most common methodologies used in Australia to assess the value of airports are the Price Earnings (PE) and the Discounted Cash Flow (DCF) techniques. The DCF is the more appropriate and is likely to give more reliable results because it focuses on the detailed operations of the particular businesses being valued.

[5] Hugh King, Phillips Fox, The Importance of the Regulatory Environment, June 1995, pp 2
[6] ibid pp 5-8
[7] John Bastian, Price Waterhouse, Airport Evaluation Methodologies and Issues p 2, June 1995

5.4. Estimating passenger volumes is the key to the valuation of an airport as most sources of revenue are directly related to passenger numbers. Freight is a relatively minor component of airport revenue as the majority is carried on scheduled passenger services. Freight does not shop in duty free stores or park in a car park.[8]

5.5. The ability to quantify the effect of passenger volumes on airport valuations is another major advantage of using the DCF approach.

6. PRIVATISATION

6.1. One of the key potential benefits of airport privatisation is the adoption of an airport specific approach by purchasers of the 50 year leases. This airport specific approach will be reflected in lots of different ways as lessees dependent upon the revenues from individual airports seek to maximise the airport's patronage, whether by passengers, airlines or commercial tenants. [9]

6.2. Airport specific management will also mean a move from network costing and pricing to location specific costing and pricing. This means the FAC regime of cross-subsidies which resulted in higher charges at first category airports (such as Sydney) in order to subsidise smaller airports will no longer apply. The real costs and revenues at individual airports will create pressure to recover these costs through reasonable, fair and equitable rents and charges from operators.[10]

6.3. The Government is also contemplating the introduction of a regulatory framework including regulation of charges at the four major airports (Sydney, Melbourne, Brisbane and Perth), monitoring of fees and rents for aeronautical services closely related to charges at those airports and monitoring of aeronautical charges at other airports. This framework is expected to protect the interests of those users who are captive, such as airlines, which have no competitive alternative.[11]

7. PRIVATISATION IN OTHER COUNTRIES

7.1. The United Kingdom leads the world in privatisation. The British Airports Authority was privatised to form BAA in 1987. BAA has been a resounding success and its original shareholders have seen the values of their shareholding increase by around four times as BAA maximised revenue potential of its airports (expansion of retailing and catering) and the market came to recognise the growth potential available from airports.[12]

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[8] ibid p 5
[9] James Klimpton, Ansett Airlines, The Implications for Airlines of Airport Privatisation, June 1995, p 2
[10] Klimpton, loc cit
[11] Klimpton, loc cit
[12] David Bartnik, AIDC Ltd, Lessons from Previous Privatisations, June 1995 p 2

7.2. Europe has partially privatised airports for eg 27% of Vienna was floated in 1992 with the rest owned by the State, but most airports are still owned by regional or national government.

7.3. Airports in the United States are generally publicly owned, mostly by state or regional authorities, but there are several examples of private sector operation and some private ownership of specific facilities.

7.4. Privatisation is currently being considered in the US and is also being widely contemplated in New Zealand, Germany, South Africa, Argentina, Jamaica and Italy.

8. AUSTRALIAN AIRPORTS

8.1. Australian airports have a major advantage in that most service destination and origin market traffic rather than hub ("through") traffic. They are also seen as having a lot of underdeveloped commercialisation and retail potential.

8.2. The Bureau of Industry Economics (BIE) recently conducted research into comparing performances between airports across the world. Comparisons were made on a number of airports across the world similar in size to the range of airports in Australia.

8.3. On the basis of the performance indicators collected, the BIE concluded that Australia's overall performance was mixed; landing charges at Australia's airports and en-route flight navigation charges are low by world standards; aircraft departure and arrival times was on par with overseas airports but below best observed; the capital productivity of runways and international passenger terminals was well behind that of the more productive airports and Australia's domestic airfares and freight rates are amongst some of the cheapest available.[13]

9. ENVIRONMENTAL IMPACT CONCERNS

9.1. The major environmental impact concern of the 90's is noise.

- Noise Major international airlines have reduced noise levels through the implementation of a range of strategies. UK's BAA reduced the noise *footprint* in the last ten years by accurately measuring noise, by introducing penalties for infringement, direct complaints handling, a noise/control action plan, noise implementation schemes and by placing restrictions on night noise. To control night noise they developed a quota system in agreement with the Government, over the number of flights allowed in and out of the airport at night and early in

[13] Paul Bilyk, Bureau of Industry economics (BIE), Airport Pricing and Performance Indicators, June 1995, p 21

the morning. Because modern aircraft are quieter; they expect the noise level will be the same in 2013 as it is today.[14]

In the United States, San Francisco International Airport (SFO) also reduced their noise problems by attacking noise at its source through the implementation of aggressive noise regulations which restricted night run ups, and phased out older aircraft; by opposing incompatible land uses under their flight paths; and insulating homes already in their flight paths.

- Surface Traffic is also a major critical concern. Major international airports have addressed this issue by improving rail links, and implementing a range of initiatives including car-sharing, park and ride schemes, bus/coach incentives. public transport hotline and by placing signage on the highways to ensure decisions about domestic or international terminal access occurs on the highway. The plan for the new Sydney airport at Badgery's Creek will include a rail link.

- Environmental Structures have been developed to ensure that policies and appropriate mechanisms are in place to monitor and address concerning air and water quality, waste recycling and building issues.

9.2. Most international airports also spend time and money developing "good neighbour" relationships with their local communities and have developed various mechanisms such as the establishment of consultative bodies and working groups to discuss issues of concern and any proposed developments.

10. IMPLICATIONS FOR THE ACT

10.1. The sale of Canberra airport in the second stage of sales in 1997-98 together with the impact of increased tourists arriving during and before the Year 2000 Olympic Games and the 2001 Centenary of Federation celebrations suggests that the future development of the airport and surrounding road system will need to become a priority.

10.2. In this context the following issues will need to be considered:

- Should the proposed Speed Rail train or the Tilt train developments be linked to the airport?

- Will the size of Canberra airport be capable of handling the increased numbers arriving and departing? If not rather than taking a piecemeal approach to extending the airport should the ACT Government explore the possibility of planning for a future in the next century and cater for the longer term increased travelling needs of both the local, domestic and international tourist and business markets?

[14] Des Wilson, BAA plc, People, Planes and Politics, OHP No 26

- With privatisation clearly on the agenda should the ACT Government implement the recommendation of the June 1994 report to organise a Territory government, consortium or private enterprise bid for Canberra airport?

- Should the National Capital Planning Authority's planned extension of the Majura Road into a major freeway to connect with the Federal Highway be reviewed to ensure improved access to the airport? What development should occur in terms of the Queanbeyan connection?

- Should the National Capital Planning Authority's goal of a more impressive entry to Canberra from the Airport site be realised?

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