

Session 2b

AIRPORTS

WEDNESDAY 28 AUGUST 1.30 - 3.00PM

**AIRPORT REFORM: EIGHT YEARS DOWN THE
RUNWAY**

Tony Gollin

**INTERMODAL TRANSFER : BRISBANE AIRPORT'S
NEW INTERNATIONAL TERMINAL COMPLEX**

Neil Viney

**OWNERSHIP AND OPERATION OF AIRPORTS : THE
NAMIBIA CASE STUDY**

V Prins, P Lambard & W Van Zyl

Session Chair: Chris Kissling

ATRF 96

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RUNWAY**

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ABSTRACT

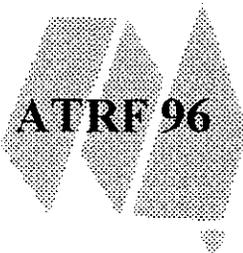
New Zealand's airport corporatisation programme began in earnest in 1988. At the time there were various expectations about the outcome and efficiencies arising from such a reform programme. Now, eight years down the track it is possible to reflect on the outcomes of the reform process, consider whether the original expectations have been met, what problems have been encountered, and what lies ahead.

The author has had the unique opportunity to view the airport reform process in New Zealand from two perspectives. Firstly, from the point of view of an official charged with the primary responsibility to carry-out the reform process. Secondly, as an airport manager operating under the new corporate structure.

Disclaimer: The author accepts full responsibility for the contents of this paper, both in terms of factual accuracy and opinions expressed. The contents should not be construed as representing the views of Auckland International Airport Limited

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INTRODUCTION

It is useful on occasions to take time out from day-to-day issues and reflect on issues, objectives and outcomes that impact on one's work environment. This paper provides a timely opportunity to do so relative to the airport reforms in New Zealand over recent years; particularly with respect to our experiences at Auckland International Airport (AIA). From a personal point of view this process has an added interest because of my former role as a government official responsible for the airport corporatisation programme. This has given me the rather unique opportunity to experience both the theory and practice of airport corporatisation first hand.

My last presentation to the Forum in association with Roger Taylor from the consulting firm Arthur Young, in July 1988 when we presented a paper entitled "Airport Companies in New Zealand: Problems and Prospects" (Gollin & Taylor, 1988). At the time I held the position of Chief Controller Air Services Policy in the Ministry of Transport (MOT), and was just about to take up the position of Commercial Manager at Auckland International Airport Limited (AIAL). AIAL assumed responsibility for the operation of AIA in April 1988.

Now, eight years down the track (or perhaps more appropriately "down the runway" in the current context), what has been our experience under the new structure? How does it compare with the objectives and expectations back in 1988? Has the corporate model worked? What does the future hold, and is the model still relevant for this future? Comprehensively addressing all these questions would be too ambitious an task within the limitations of this paper. nevertheless it is possible to draw some broad conclusions.

WHY CORPORATISE?

The reasons for airport reform in New Zealand were outlined in Gollin & Taylor (1988) and prior to that by the Ministry of Transport in 1985 (MOT, 1985). The airport corporatisation programme was a component part of the comprehensive economic reforms introduced by the 1984 Labour government. These reforms were aimed at introducing a more efficient use of the country's economic resources at both the national and local levels.

In the general economy the government withdrew from providing services where these were more appropriately supplied on a commercial basis. Government trading entities were either sold or converted to state owned enterprise's (SOE). The tax base was broadened through the introduction of a goods and services consumption tax (GST). Trade barriers were removed and financial reform introduced. Subsequently, in 1991 the National government extended the process of reform to the labour market by means of the Employment Contracts Act.

In the transport sector the reform process impacted on all modes of transport. Port companies were established, road and rail competition was encouraged first by removing the protections previously held by the government railways, and then corporatising and eventually selling the railways department.

In the aviation sector, domestic aviation competition was introduced with the arrival of Ansett in 1987. Air New Zealand was sold, air traffic control was corporatised in the form of an SOE (Airways Corporation of New Zealand (ACNZ)), bilateral air agreements were liberalised, and a clear distinction was made between the regulator and provider of services through the establishment of a Civil Aviation Authority (CAA), and a new civil aviation rule structure.

Airport corporatisation was a natural consequence of this economic reform programme. By statute, the overriding responsibility of airport companies was to act commercially as the principal means of overcoming the deficiencies of the past.

Prior to 1988 the deficiencies with the previous Crown and local government joint venture structures were plain to see. Funding imbalances occurred from airport to airport as a result of a national pricing regime which bore little relationship to local circumstances, a 'spend or bust' mentality had developed in airports where surplus funds had accumulated, politics interfered with and delayed commercial decisions, funding appropriations were poorly controlled, and there was no return on the funds committed by either the central or local government joint venture partners. Essentially no economic cost was attributed to the surplus funds accumulated.

Corporatisation, on the other hand, offered many attractions. Real cost efficiencies could be achieved within an unambiguous commercial framework. Pricing policies could be developed to relate specifically to local costs. Tighter cost controls would result from the commercial disciplines facing an airport company. These disciplines would include the requirements of borrowing institutions, shareholders, and competition for services. The companies would be more customer focused and responsive, relative to the type of services and facilities provided, and the timing, because ultimately the airport company would rely on customer support to maintain its commercial revenues.

Finally, the company could develop a long term plan (or masterplan) based on its core business philosophy, without the distraction and associated myopia of political decision making.

ISSUES

Various issues arose from the corporatisation programme. Some of these were anticipated beforehand, others have emerged as the theory makes way for the practical.

day-to-day management of airports under the new framework. Back in 1988 the more significant issues identified were:

- asset valuation
- privatisation
- shareholder monitoring
- subsidiary airports
- competition
- poor performing airports
- airways/airport interface

These and other issues that have emerged are considered below.

Pricing

Pricing was a particularly hot issue between airlines and airports in the early days. This was to be expected as each airport took responsibility for its own charges and went through its own exercise of attributing costs and associated charges to the usage of the aerodrome and terminal facilities. At Auckland this process took extensive consultation from August 1988 through to January 1989. At times the debate was heated and court action was mooted, but eventually a settlement was found. As with Christchurch International Airport at the time, these negotiations were particularly significant as they were the first test of the statutory consultation requirement¹, they involved airports with the most significant international and domestic movements and the greatest number of international carriers. Furthermore, the economic pricing methodology and associated modeling was new to the New Zealand airport environment.

The fact that these negotiations were concluded satisfactorily, and without resorting to legal action, gave good testimony to the workability of the new legislation.

Various issues dealt with in these negotiations however have persisted as a result of more recent debate (and litigation) involving Wellington International Airport

Asset Valuation

The original basis for airport valuations is explained in Gollin & Rodgers (1988). In the case of AIA the opening value of the airport assets was NZ\$350 million compared to a listed historic book value of NZ\$76.1 million. Similar revised valuations occurred for all of the corporatised airports, using an assessed current value based on the earnings potential of each airport. In as much as the earnings potential assumed an increase in charges to the airlines, this approach to valuation of the assets has been criticised as circular.

¹ Section 4 (2) (a), Airport Authorities Act (as amended) 1966

While this point can be debated, it should be recognised that the valuation for Auckland was not limited to a net present value (earnings potential) assessment. Other valuation approaches were used as a check. Admittedly, the circumstances of AIA's corporatisation required a unilateral decision on the airport's value² whereas for Christchurch the final valuation was a negotiated settlement between the government and local council. A less obstructive attitude by the Auckland Regional Authority in the lead up to AIA's corporatisation may have enabled a lower valuation to be negotiated; certainly a lower valuation of NZ\$228 million was recommended by the original ministerial advisory board (AAB, 1987).

Whatever the historical debate may be however, the matter becomes largely academic over time as new capital is invested to replace written down historic assets. In the case of Auckland, for example, only 20% of the AIAL's current total assets of NZ\$450 million can be attributed to airfield assets acquired when the airport was corporatised. A further NZ\$450 million capital expenditure is possibly needed over the next five years. In our latest review of aeronautical charges we concluded that the prices established in 1988 were appropriate, and certainly not excessive, relative to the current and future business profile of AIAL. This is not surprising given that a long term marginal cost approach was used in 1988 to establish the new level of aeronautical charges.

Information Transparency/Disclosure

How much business transparency is appropriate? This question has been an ongoing issue of debate between airports and airlines. No doubt the answer will always depend to a degree on local circumstances and the type and complexity of matters under consultation.

For airport companies, an important consideration is retaining final responsibility for management of the airport in question. Too much disclosure is often expensive, time consuming, and clouds the real issues. It invites a focus on detail, with the real danger that cost management becomes a "committee affair" rather than the proper and ultimate responsibility of the airport company. In today's changing world of aviation there is also greater commercial sensitivity relative to the amount of business information disclosed. In this respect airports are bound to act no differently than airlines, or any other business for that matter.

Also, much of the debate on information disclosure ignores the fact that considerable information on the cost structure and management of each airport is already publicly available, or can be made available through the structured consultation processes already in place.

AIAL, for example, is subject to public audit, produces both an annual report and a statement of intent which are tabled in Parliament (both are subject to review by

² Auckland Airport Act 1987.

Parliamentary Select Committee). and also produces an interim report and various publications on its activities and future plans. In setting charges for use of common areas within the international terminal, for instance, AIAL goes through an annual round of consultation with the airlines based on an agreed formula, using detailed accounts, and with provision for arbitration, in order to arrive at an agreed (negotiated) set of terminal services charges. A similar agreement applies to new common user counter leases in the international terminal.

Single Till

Essentially the argument for a 'single till' approach to airport pricing is that an airport cannot exist without the activity generated by the airlines; therefore all revenues and costs associated with the airport's activities should be considered together in 'one till'. High returns in one area should offset poor returns (e.g. aeronautical charges) from another area.

This is a highly simplistic argument. If adopted it generates the very same cost inefficiencies that airport corporatisation (indeed, the wider economic reforms referred to earlier) were aimed at removing. Nor is it an argument limited to airlines. For example, I have heard it argued by the tour coach industry to justify free access to facilities at the airport. Fundamentally it is a cross subsidy argument used to justify a lower contribution by one party at the expense of another. Carried to an extreme, and combined with the above disclosure requirement, the whole business of the airport becomes committee driven as opposed to commercially focused, based on agendas quite different, and possibly at odds, with that of the airport company.

Consultation versus Negotiation

Litigation³ associated with WIAL's landing charges debate with the airlines has confirmed that the statutory obligation for airports to consult with users does not mean negotiation in the sense that an agreement must be reached. The airport company must present and explain its proposals, give time for and consider the various responses, but ultimately decide itself what action to take on the proposals. This process stops short of pure negotiation where no action can proceed until some form of agreement is reached.

The extent to which this interpretation of the statutory intent is a problem depends both on practical experience, and whether one accepts the existence of countervailing powers as an effective constraint on monopolistic behaviour by airport companies. These issues are considered separately below. Again from Auckland's experience, we argue strongly that effective negotiation has taken place irrespective of the statutory requirements, for the simple and sane reason that the airlines (and other users) are our customers. We are in business for the long haul and need the support of our customers for our long term success as a company. We also have no illusions about the ability of our airline

³ Wellington International Airport Ltd v Air NZ [1993] 2 NZLR671 (CA), pp683, 684

customers to frustrate the company's activities until an acceptable agreement is reached. This brings us to the question of countervailing powers

Countervailing Powers

The existence or non existence of countervailing powers by customers is pivotal to many of the arguments concerning airport regulation. In a perfectly competitive environment customers have the choice between competing services. The ultimate countervailing power is that the customer may take his or her business elsewhere.

Clearly this situation exists to different degrees at an airport. But it does exist. And it exists to a degree sufficient to ensure that airport companies are responsive to customer demands. It takes various forms with respect to airlines. The significance of these forms of countervailing power derives from the relatively unique business and regulatory environment within which New Zealand airport companies operate. Because of this environment, in many areas of business an airport company cannot withhold services from airlines in a practical sense, nor can it dictate the conditions for use of these services.

For example, airports cannot practically or legally, selectively close their runway to non-paying airlines. As with ACNZ, we cannot deny services in the case of an emergency. Nor would we wish to. Even when an aircraft has landed, the airport company faces real limitations to the extent to which it can restrict access to services and facilities: particularly where these are provided by a third party (eg ground handling) which the airport company has very little effective control. Consequently, the airport company is very susceptible to practices such as an airline simply refusing to pay landing charges until an agreement satisfactory to the airline is reached. We do not have powers such as in the UK, where the aircraft can be seized until payment is received.

A simple illustration of this restriction in the case of Auckland, is the airlines refusal to enter into a terms and conditions of use agreement for landing at AIA. They have resisted this proposal since 1988. If they had no countervailing power we could have simply insisted on such an agreement. More recently, the airlines have rejected a default payment arrangement for landing charges, which would be a standard element of any terms and conditions of use agreement in a normal commercial arrangement.

Many other examples exist¹, and continue to arise, sufficient to counter any argument that airports are not subject to effective countervailing powers by the airlines. Similarly, countervailing powers exist in other areas of the airport company's business; including of course the areas of direct competition.

¹ Transport Select Committee hearings May 1993, January 1996

Monopoly Abuse

Clearly an airport can be suggested to have a number of monopoly characteristics. Its core business is very capital intensive. For environmental and other reasons it is hard to duplicate this business, and the marginal cost of providing extra capacity is relatively low compared to the cost for any prospective new entrant. Even these seemingly obvious monopoly features however need to be qualified in order to keep in perspective the activities of airports.

For example, Auckland has had a phenomenal growth in commuter aircraft traffic over recent years as a by-product of growth in the domestic economy. In many respects the price and frequency of this short-haul traffic has acted as a substitute for road transport. This new business is equally very susceptible to a downturn in economic growth and a change in the pricing or frequency of the new services. AIAL needs to be very cautious relative to the cost of new services and associated charges, for this traffic.

In terms of international travel, we have seen the emergence of trans-Tasman flights to provincial airports such as Hamilton. Recent airline schedule advice also suggests that Auckland has lost international flights to Christchurch because we could not provide sufficient border clearance services at the required time. Internationally, we are seeing the emergence of new airline and airport alliances, and regional competition between airports to provide a regional airport hub with feeder services to other airports in the region.

All of these developments suggest that in today's (and tomorrow's) aviation environment, whether or not an airport is a monopoly is largely academic and irrelevant. What is relevant is whether an airport acts like a monopoly. The existence of countervailing powers, and the fact that the airport environment is becoming more and more competitive reduces the claim of monopoly abuse to the realms of popular and convenient myth rather than a reality.

Rate of Return

Finally under the broad heading of pricing is the question of what rate of return is appropriate for airports. This is a topic which could fill many academic journals and on which I am happy to be advised! Nevertheless, airport companies have had to develop a pragmatic approach, appropriate and consistent with normal business practice. In some areas of business there is a higher commercial risk factor than others. This influences the attitude of investors, whether they are financiers or shareholders.

In terms of credit rating, AIAL has a Standards and Poors rating of AA- on long term debt, and A1+ on short term debt. This means that we are a good commercial risk and our cost of capital reflects this risk. From an equity point of view AIAL's Directors originally set a long term aim of achieving at least a 10 percent return on shareholders' funds for aeronautical activities. This target was also agreed with the airlines when the original landing charges were set.

Since that date AIAL's primary focus has been on developing commercial revenues as opposed to aeronautical revenues.

Effective Control

I referred earlier to restrictions on the effective control airport companies have over their business. This is perhaps one of the more difficult constraints to explain, yet it has a profound influence on the way airport companies operate, and mitigates against the various real or potential monopoly problems attributed to airport companies. The significance of this problem was not anticipated prior to corporatisation.

Again, using AIAL as an example.

AIAL currently owns NZ\$450 million of assets spread over 1600 hectares of land. The main concentration of activity is in the vicinity of the current runway which is zoned for airport use. Under the corporate 'model' AIAL has complete commercial autonomy to run the airport as a business. In doing so it must adhere to the laws of the land including the necessary regulatory requirements. The only commercial exceptions in the airport corporate model are the statutory ability to acquire land, recognition as a designating authority within the land zoned for current or future airport use, and the power to set by-laws. In reality the ability to acquire land has limited practical application to AIAL in that it is a torturous legal process, we own most of the land over which we can designate use, and the by-laws, while useful, are unlikely to survive in their current form for very much longer. For example, the by-laws approved for WIAL, are a very much reduced form to those approved for Auckland in 1989 (AIAL (1989)), and the prospect of full privatisation of airport companies places the future of by-law powers under threat.

From another perspective, however, the airport business is complex - ranging from a quasi local authority responsibility for infrastructure and the provision of utility services to various tenancies, at one extreme - through to sophisticated commercial and entrepreneurial dealings, at the other extreme. Also, AIAL inherited a number of contractual obligations in terms of long term and perpetual leases (with associated use rights) which are quite incompatible with the commercial obligations of AIAL.

As noted earlier we are a public aerodrome with no real ability to deny access, nor are we consulted relative to bilateral entitlements for access to AIA. Our business is reliant on the activity of other organisations over whom, while we are held responsible and accountable, we have little real ability to control. For example, Civil Aviation Rule Part 139 holds us responsible for the safe operation of the aerodrome, including local airways control and aviation security. Neither service can be provided by AIAL however because of statutory constraints, nor is there any explicit provision made in law for AIAL to control the quality of such services. Similarly, AIAL has limited effective control over other aviation document holders (such as airlines) who operate at the aerodrome, despite having the overriding statutory responsibility for the safety of the aerodrome environment affected by their operation.

This lack of effective control is further evident when extended to the border control agencies operating at the airport. These agencies have a direct and lasting impact on the quality of freight and passenger facilitation at the airport (a fundamental core business for AIAL), but act quite independently of the airport company. In some cases these agencies claim free access to space at the airport, and argue that no lease arrangement with the airport company is necessary even for the space where rental charges apply.

Further examples can be given. What is clear from those above is that the requirement for airport companies to operate commercially flies straight in the face of the many practical operating constraints placed on airport companies. Not only does this reality highlight the simplicity of claims such as lack of countervailing power, but it also emphasises the importance for an airport company to improve control of its 'product' if it is to position itself better for tomorrow's business challenges. I will return to this point later.

Economic Significance of Airports

Airports also carry a wider responsibility to the community. Airports such as Auckland have a major impact on the regional and national economies.

Since incorporation, AIAL has undertaken two studies into the economic impact of the airport based on an earlier study conducted in 1983⁵. All three studies confirm the major and increasing influence of the airport in the regional and national economies. The latest study (McDermott & Butcher, 1995) showed the following impact (Table 1)

TABLE 1: TOTAL AIRPORT RELATED IMPACT, 1994

	Regional Value Added (\$m)	Regional Employment FTEs	National Value Added (\$m)	National Employment FTEs
<i>(a) Excluding Business Travel Effects</i>				
Airport related Impacts	4.639	92.200	7.026	151.200
Auckland Total	22.644	406.000	80.864	1,331.720
Airport related share	20.5%	22.7%	8.7%	11.4%
<i>(b) Including Business Travel Effects</i>				
Airport related Impacts	6.079	107.600	8.766	168.890
Auckland Total	22.644	406.000	80.864	1,331.720
Airport related share	26.9%	26.5%	10.8%	12.7%

(Source: McDermott and Butcher (1995) Table 10. p11)

⁵ Hugh Consulting Group and PA Consulting Group (1983).

Airports need to place greater emphasis on the important community role they play, to counteract the growing community concern over the environmental impact of airports in urban areas that often (ironically) grow to surround them. This is an area AIAL is currently working hard on.

Light Handed Regulation

Associated with the economic reforms referred to earlier was a deliberate decision to rely on light handed regulatory environment (Bollard and Pickford, 1995). For airports this means no economic regulatory control, but rather reliance on normal market disciplines, statutory consultation requirements, countervailing powers of the airlines, and ultimately the Commerce Act 1986.

Sufficient has been said about the first three influences. The Commerce Act, however has also been the subject of criticism relative to ineffective control over the so called monopoly abuse by airport companies. The basis of this complaint being the inability of the Commerce Commission to address equity issues in the sense of excessive monopoly profits (ie. the transfer of 'consumer surplus' to 'producer surplus').

The persistence of this and the earlier arguments led to a review of airport company economic regulation in 1995; starting first with a public discussion paper (MOT, 1995a), followed by a summary of submissions (MOT, 1995b), and concluding with draft legislation (NZG, 1995) which was the subject of Parliamentary Select Committee hearings in early 1996. The draft legislation provides for regulated information disclosure on nominated monopoly (mainly airside) activities for which the airport company charges, at least five yearly consultation on related charges and capital expenditure, and possible guidelines on an appropriate return on assets for the nominated activities.

At the time of writing we understand the Select Committee has completed its deliberations, but is still to report back to Parliament.

Obviously the airlines and airports took widely divergent views on the proposals; although AIAL did submit in the alternative that it could support many of the proposals, subject to some amendments - particularly to the draft regulations.

Ironically, the process raised yet another very real countervailing power facing airports, namely, the threat of direct regulation as a very real motivation to agree an acceptable working arrangement with airlines.

Perhaps the last word on the need for regulation should go to Bollard and Pickford (p 421, 1995):

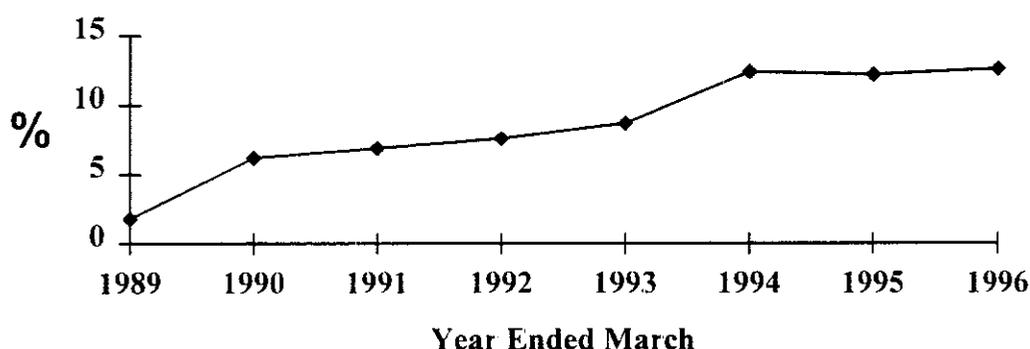
“Time is required for the approach to show its worth, and the costs and benefits associated with it have to be compared with those of other regulatory options available, rather with ‘first-best’ outcomes in an ideal world.”

OUTCOMES

Despite differences in perception relative to issues raised by the corporatisation programme, the overall outcome has to be seen as positive. There can be little doubt that the major airports in New Zealand are now managed more efficiently and profitably as a result of the reform, and are far more responsive to the changes in customer requirements

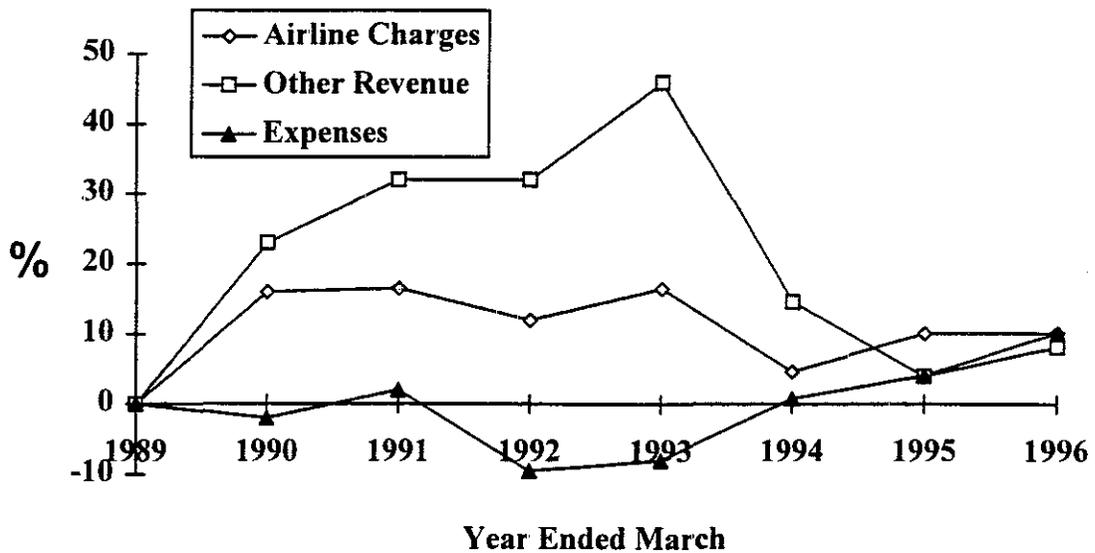
For example, AIAL’s financial performance since 1988 has been impressive. Despite predictions of a negative result in its first year followed by modest improvements over the first few years, AIAL has achieved a continuous improvement in after tax profit and return on shareholders’ funds (Figure 1).

Figure 1
Return on Shareholders' Funds



After the initial resetting of airline charges in 1988 (including a recovery for rescue fire services transferred from ACNZ), the relative growth in non-aeronautical revenues has been matched by a reduction in expenses - first in financial charges, then in operating expenses and labour costs (Figure 2). These relative growth rates have converged in recent years to basically match traffic growth.

Figure 2
Cumulative Revenue and Expense Change



The reduction in labour costs perhaps best demonstrates the drive for greater cost efficiency, assisted in part by the 1991 labour market reforms referred to earlier.

AIAL's initial award settlements in 1989 reduced a range of inherited indirect costs, such as penalty payments plus paid time off in lieu. This was followed in 1992/1993 by a further 10 percent reduction in wage and salary costs, and a corresponding increase in productivity. In a number of areas this meant introducing contractors to replace functions previously carried out by AIAL staff.

The same pressure to reduce labour costs was a key factor in the just concluded wage and salary award negotiations.

On the other hand, airline charges have reduced by 17% in real terms over the years. On top of this a 3% reduction in international landing charges took effect from 1 July 1996. Revenue growth in this area has been generated by increases in airline traffic rather than from charges.

In terms of customer responsiveness, AIAL has made a major investment in new facilities and services over the past eight years. This has involved a \$225 million investment in new terminal facilities, airline facilities, cargo facilities, retail services, facilitation improvements, etc. These facilities have been both timely and cost effective, and funded entirely from AIAL's balance sheet.

AIAL has also been exposed to an independent review of its financial and operational performance⁶ at the behest of the government shareholder. This reviews concluded that AIAL was performing well in both operational and financial terms. It had added value

⁶ Coopers & Lybrand financial, and BAA plc operational reviews

to the shareholders' investment, and was effective in meeting its operational and regulatory requirements.

More recently the quality of the Company's operations have been recognised through ISO 9001 accreditation (the first airport in the world to achieve comprehensive ISO accreditation), and in various customer services awards - the latest being winner of New Zealand's 1996 'Best Practice in Service Excellence' award.

FUTURE

But what does the future hold for airport companies in New Zealand? Some of the earlier issues will take on a new significance given the challenges now facing the airport companies.

Environment

Environmental issues will play a prominent part in the future management of airports such as AIAL. If not handled correctly, environmental concerns over noise and flight paths, and the impact of these events on the surrounding community could curtail the operation of major airports such as Auckland.

Sydney Airport is an example close at hand of how important it is to gain community acceptance of the airport by promoting the positive economic impact of the airport, and reassuring the community that the environmental issues can and are being addressed successfully by the airport company.

Privatisation

The full privatisation of New Zealand's airports remains as unfinished business from the earlier reforms. It has in fact, been a possibility for airport companies in New Zealand since late 1988⁷ when the initial restriction on shareholding (i.e. limited to the Crown, territorial local authorities, and ACNZ) was lifted. In July 1995 1% of AIAL's equity was sold to a private investor, Infratil Investments Ltd.

Ultimately it is a matter for the current owners of the airport companies to determine. It is not so much an issue of further efficiency improvements (the substantive efficiencies were achieved by corporatisation), but whether local or central government ownership continues to be appropriate, and whether the equity funds tied up in the companies could be better employed elsewhere by the current owners. From an airport perspective, the only real concern is that any future owner shares a long term interest in what has to be a

⁷ Finance Act (No2) 1988 (1988, No128)

very long term business, rather than look for short term gains (eg sale of land holdings) at the expense of the long term development of the airport.

Regulation

This matter was referred to earlier, and at the time of writing remains unresolved. A danger with any form of regulation is that the costs associated with it outweigh the efficiency improvements gained from it. One of the costs associated with regulation is the involvement of government in the commercial operation of airports. It is inevitable that greater direct regulation of airport companies will involve more interference in the commercial decision making of airport companies.

The substantial reforms of 1980 were based on an underlying belief that the 'market', despite its imperfections, was a better influence on the efficiency of commercial enterprises than a regulatory environment which had clearly failed in the past. Any move to greater regulation of airport companies potentially undermines the integrity of the earlier reforms.

Airline Alliances

Aviation is a dynamic business. Over recent years, for example, we have witnessed tremendous change in the profitability and business profile of airlines. Carriers have come and gone, new aircraft types have been introduced, airlines have formed regional alliances with other carriers, the traditional 'flag carrier' concept central to many bilateral aviation arrangements between countries has become a thing of the past. Many airlines are now owned, at least in part, by other airlines.

These new alliances mean that the traditional relationship between airports and airlines must change. This change has happened overseas and will happen in New Zealand. Airline/airport associations will be based more on sound business principles, than on past associations between, say, the national carrier and the gateway airports. Consequently, airline commitment and loyalty to a particular airport will change as the business circumstances effecting the airline change. Airports therefore need to be proactive in maintaining and developing business allegiances with carriers, rather than simply rely on historic business allegiances.

Airport Competition

The existence of airport competition was referred to earlier. New technology and changes in the aviation environment will further increase the competitive pressures on airports. Some examples of this competition relative to AIAL are:

- Inter-modal competition (commuter air versus private car, sea freight versus air freight)

- International air services from provincial airports (Hamilton, Dunedin, Queenstown, Palmerston North, Invercargill)
- Other New Zealand international airports (Wellington, Christchurch)
- International regional airport hubs (eg Auckland versus Sydney or Brisbane for long haul Pacific traffic), particularly as a by-product of the single aviation market between Australia and New Zealand.

This competition will continue to place pressure on airport companies to provide competitive services at the lowest cost. It will mean innovation in the type of services provided to attract business where the customer (airline, passenger, freight company, etc) will have greater choice whether or not to use a particular airport. New business opportunities will need to be explored (eg consultancy, airport management, technical services), and strategic alliances may need to be established with both airlines and airports, etc.

Some of these pressures were anticipated eight years ago.

“Service aspects such as facilitation processing time (now significantly improved at Auckland), security, airline servicing, and user facilities, are likely to have considerable influence on demand for the international airport.”⁸

A single aviation market with Australia (and possibly a common border) further reinforces the need for companies such as AIAL to position themselves competitively to meet these demands.

Government Agencies

I mentioned earlier the operational difficulties experienced by airport companies because of the reliance on other parties operating at the airport, over which the airport company often has very little influence. Potentially this will be a major impediment to the airport companies as they attempt to provide a comprehensive service to hold or attract new business.

It serves little purpose for example, for an airport company to provide enhanced facilitation facilities (eg more customs desks, new technology) if the border agencies are unable to respond in kind by supplying additional staff or adopting new technology improvements.

Nor can an airport company successfully manage the cost of using airport facilities if other agencies are charging for services, and in the process are duplicating activities more competently provided by the airport company. Moreover, the actions (or inactions) of these agencies have a direct impact on the service capacity offered by the airport company.

⁸ Gollin & Taylor (1988), p409

Competition between airports will place greater pressure on airport companies to control the airport 'product' they are competing with. This control may mean either actually providing services currently provided by others, or at least having sufficient contractual control over the services provided by others. In this respect the services currently provided by ACNZ (local aerodrome control) and CAA (aviation security) should be contestable, and fall more directly under the control of the airport companies.

Similarly, some of the border agency functions need to be reviewed relative to more cost-effective provision (eg one agency), risk management, and technology improvements to better respond to the competitive pressures placed on the airport company, without compromising the integrity of border control.

Technology

Finally, airport companies must recognise and exploit new technology solutions for providing a better airport service. Technology is changing the face of the aviation (and airport) business. To be competitive, airports need to stay in touch and anticipate what opportunities (or threats) this technology presents.

Some examples of new and emerging technology impacting on airports are:

- New large aircraft (NLA) and very large aircraft (VLA), capable of flying greater distances with up to twice the passenger capacity of existing wide body aircraft
- Ticketless travel
- Smart card and biometric technology as a new electronic passport document for border control processing and other ancillary airport uses
- Common user terminal environments (CUTE)
- Automated baggage systems
- Electronic baggage labeling and recognition
- Category III instrument landing systems (ILS)
- GPS satellite navigation and landing systems

Some of these technologies already exist (eg CUTE and automated baggage systems are currently being installed at Auckland), while others such as the smart card technology are in the final stages of development relative to overseas trials.

Airports have little option but to keep up or they will fall behind. The challenge it presents airports is deciding what technology is appropriate and whether the technology is sufficiently proven to warrant the investment.

CONCLUSION

In this paper I have endeavoured to review the original objectives New Zealand's airport corporatisation programme, whether the corporatisation model has worked, and whether it still remains appropriate for the future challenges facing airport companies.

Many of the issues first signaled have persisted during the history of airport companies. It is fair to say however that a number of these are associated with the debate on airport pricing which was bound to be contentious, if for no other reason that the airport companies were new commercial entities introduced to an environment previously dominated by airlines. Added to this has been the competitive pressures on airlines brought on by deregulation and the added urgency to resist any increase in airline operating costs (of which airport charges represent around 4 percent).

These problems have been managed by the different airport companies, with varying degrees of success, but with an overall business outcome vastly improved over that possible as part of the previous joint venture airport structure. There can be little doubt that the customer (airline, passenger, freight forwarder, local community, etc) has benefited from this element of the aviation reform process in New Zealand.

Obviously 'healthy debate' exists in many quarters, which was inevitable given the introduction of a new (airport company) industry player. Real efficiencies have been achieved however, new facilities and services have been introduced, and commercialism has a new and unambiguous focus for the airports.

From the outset the corporate 'model' has been based on a single airport (company) structure. From the outset therefore issues such as pricing and investment have been localised, and each airport has operated independently with no access to central government or other subsidy assistance.

Consequently, these airports are now in a good position to respond to the competitive challenges facing airports. Part of this response however will require the airport companies to have adequate control over the 'product' they are trying to compete with. In as much as this 'product' involves the activities of other parties, these activities will need close co-ordination by the individual airport companies. Solutions for one airport company may be quite different from solutions required by another airport company. No airports should receive more favourable treatment by the authorities concerned, and each airport company will need to ensure that its 'product' is properly packaged in terms of service quality, pricing and presentation.

My personal conclusion is that the reform process for airports initiated in 1987 has been successful. The intrinsic dynamics of the process have overcome any potential monopoly problems with airports. Finally, the new competitive challenges facing airport companies will ensure that the efficiencies generated by the reform process will be maintained.

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