

A presentation to the APEC Seminar on Best Practices in Regulation and Promotion of Efficiency in Transport Infrastructure Facilities, Lima, Aug 2008

Airport Ownership and Regulation

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CORPORATE FINANCE & ECONOMICS EXPERTISE

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What is an Airport?

- a “strategic asset”?
- a utility/infrastructure?
- a shopping mall?



Framework for Airports Regulation

- Market failure
 - airports natural monopoly?
 - countervailing market power?
 - sources of revenue: landing charges vs retail revenue
- Public failure
 - political intervention in investments
 - political lobbying on pricing
 - x-inefficiency

Framework for Airports Regulation ctd

- Options for Intervention
 - i. Ownership
 - ii. Regulation
 - a. general competition law
 - b. sector-specific regulation

- Comparative institutional analysis
 - evaluate costs and benefits of different options

Public Policy Objectives

Objective of regulation:

“Economic efficiency - maximise the size of the pie”:

- i. Productive efficiency
- ii. Allocative efficiency
- iii. Dynamic efficiency

Evolution of Regulatory Framework - NZ

- History of government control and ownership:
 - inadequate return on investment
 - lack of commercial development
- Two major airports privatised late 1990s:
 - Auckland: public float of central government's 51%; local government retained around 35%
 - Wellington: trade sale of central government's 66%; local government retained 34%

Evolution of Regulatory Framework – NZ

- Airport privatisations generally regarded as successful:
 - operating efficiency improved;
 - unnecessary investment avoided;
 - quality of service enhanced: e.g., retail;
 - better return for shareholders;
 - no public calls to re-nationalise.

Evolution of Regulatory Framework – NZ

- Government's role moved from ownership to regulatory
- Main remaining concerns:
 - potential market power of airports
 - foreign ownership of airports

Evolution of Regulatory Framework – NZ

- Regulatory environment:
 - general competition law (Commerce Act, 1986)
 - light handed, sector-specific regulation (Airport Authorities Amendment Act, 1997):
 - airports required to **consult** users on pricing and major capital investment for aeronautical (non-retail) activities
 - airports must **disclose** financial statements and forecasts for aeronautical activities
 - “dual till” approach – distinction between aeronautical and retail activities

Evolution of Regulatory Framework – NZ

- Commerce Commission enquiry in 2002 considered Auckland Airport earning excessive rents:
 - but test used by Commerce Commission was partial one (net benefits to acquirers only)
- Price regulation not considered by Government to be efficiency enhancing:
 - net public benefit test highlighted costs of implementing controls

Evolution of Regulatory Framework - NZ

- More heavy-handed regulation now proposed for 3 main international airports: (Commerce Amendment Bill 2008)
 - Financial disclosure proposed, based on mandated methodology including on asset valuation and cost allocation
 - Pricing and cost of capital guidelines to be set
 - Commission to monitor and report on airports
- Labour government's more interventionist approach across infrastructure generally

Issues arising in NZ

- Asset valuation methodology
- Pressures for more regulation
- Foreign investment

Recent Developments

- Auckland airport subject to takeover offers
 - Dubai Aerospace
 - Canadian Pension Plan



Recent Developments

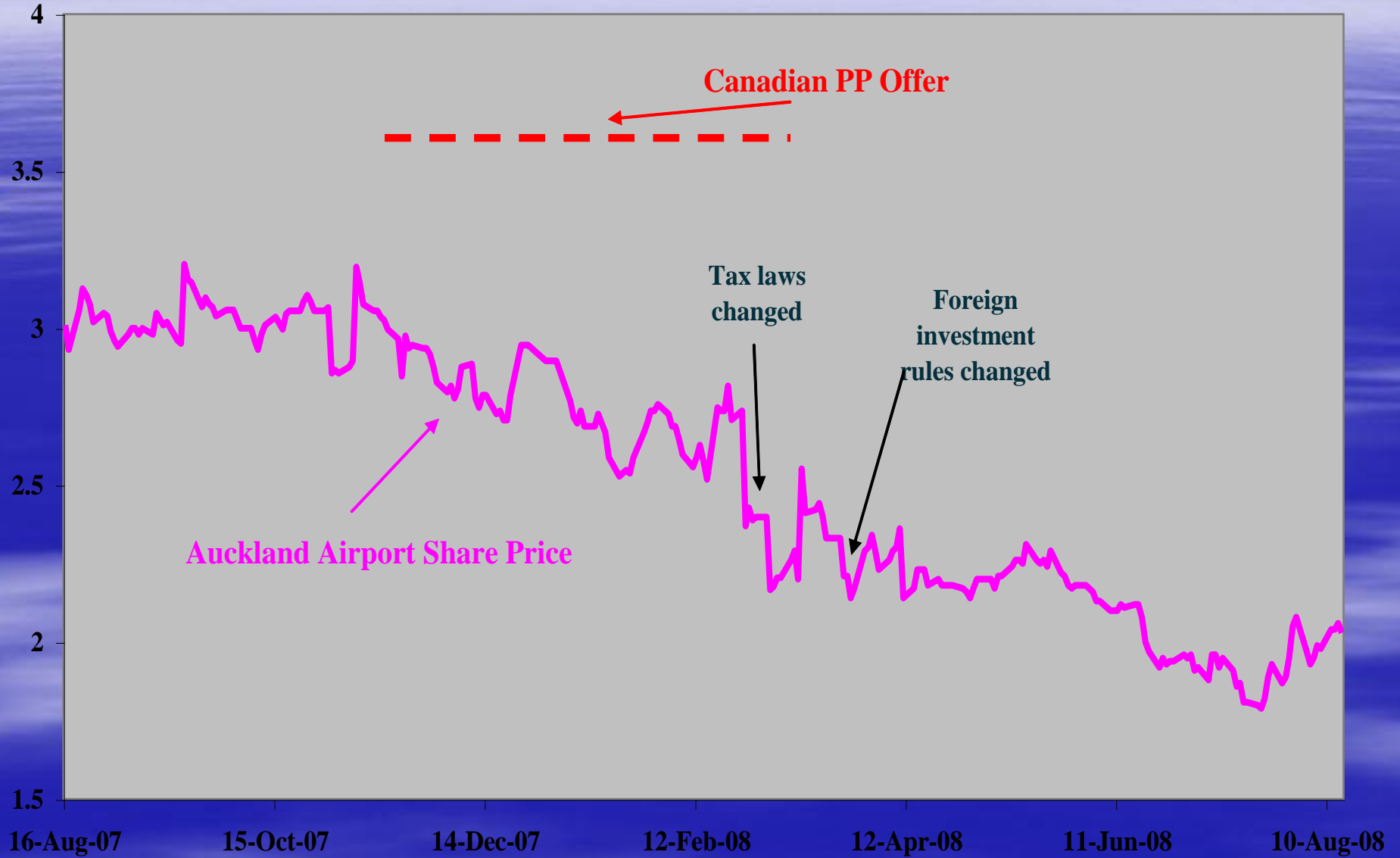
- NZ government prevented foreign control of airport:
 - tax laws changed
 - Overseas Investment Rules changed
- Contrast with UK and Australian approach
- *Contrast with APEC Principles:*

(Leader's Declaration of September 1999) endorsed the following :

- *Application of competition and regulatory principles in a manner that does not discriminate between or among economic entities in like circumstances, whether these entities are foreign or domestic.*

\$NZ

Auckland Airport Share Price



Goodbye



Some Comparisons with Australia

- Mid 1990s - privatisation of airports
- More gradual approach to deregulation
 1. Initially price-cap regulation:
 - Price cap (CPI-X) introduced at all capital city and some regional airports
 2. 2002: light-handed regulation
 - Price regulation removed
 - monitoring of charges for aeronautical and related services at capital city airports

Some Comparisons with Australia

2007 Productivity Commission review:

Concluded regulatory environment generally working well:

- productivity performance of the monitored airports has been high
- price outcomes “not excessive”
- commercial relationships between the parties have been developing
- but: major source of disputation between the parties on asset valuation methodologies
- threat of re-regulation not seen as credible

Lessons Learned

1. *Airports privatisation has been successful in general*
2. Regulation: a gradual approach to deregulation may prove more sustainable
3. *Foreign ownership of airports contentious*

Conclusions – What Role for Government?

- No need to own airports
- General competition law applies
- Is sector-specific regulation necessary?
 - light-handed regulation
 - price control? - perhaps initially
 - risks of regulatory creep

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