

The Privatisation of Australian Airports: An Evaluation

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Abstract- The private versus public ownership of enterprises and assets is a principle fundamental to every community or state which will have to take a decision as to where to position itself on the private/public spectrum. Whilst the decision can often be made on ideological grounds of “private is good/public is bad”, or “private is bad/public is good”, in reality each decision has its merits and demerits so that it should be evaluated within the terms of its own specificity. In the case of Australia, the decision has been taken to privatise all major airports, and this is evaluated in terms of the unique set of conditions that apply, namely distance from the rest of the world, geographic dispersal of population and a federal system of government. A less than favourable response by airport users is observed.

Keywords- Privatisation, Airports, Airport Privatisation, Australia

I. INTRODUCTION

Privatisation is the process of taking a publicly owned asset such as a state-owned enterprise (SOE) into private ownership by investment firms, institutions or members of the public acting as investors. Private versus public ownership is a fundamental and universal organizing principle which every state has to decide. The choice is subject to powerful ideological underpinnings, as shown in the Cold War confrontation between the Western democracies, (particularly the United States), and the Soviet bloc.

In ancient times, state-owned enterprises existed such as those controlling grain in the Roman Empire, while privatisation was the predominant policy in China under the Han and Ming dynasties. Privatisation has also taken the form of contracting out: in 1492, Queen Isabella of Spain outsourced the exploration of the Atlantic Ocean to an Italian contractor, Christopher Columbus, while the British contracted a private army of Hessian mercenaries to fight in the American War of Independence[1].

Before and after World War II, privatisation was eclectically adopted by many states. In 1961, the Adenauer government of the Federal German Republic (West Germany) began a large-scale program of privatisation with the sale of its majority stake in Volkswagen and VEBA, the United Electricity and Mining Corporation. In 1978, China privatised land ownership by deregulation, and this was followed in 1979 by the election to government in Great Britain by the Thatcher Conservative government, who enacted the sale of such publicly owned industries and corporations as telecommunication, the rail network, British Aerospace, Cable and Wireless, and airports[2].

II. PRIVATISATION

The rationale of privatisation is that it provides incentives that generate efficiency by creating a risk of bankruptcy, a risk from which public ownership is exempt. It also frees an enterprise from political interference, which can lead to corruption. Corruption has the negative affect of undermining the rational basis for decision-making, and it also brings a state of collective depression to an organisation. [3]. The support for the beneficial effects of market-driven decision-making was famously stated by Margaret Thatcher when she commented that “nobody bucks the market”[4].

In many countries, the siting of airports has been a process made extremely difficult by the machinations of the political process[5]. An example of this is also found in the running of airlines. In the case of British Airways, their operating costs were made significantly higher by the imposition of a politically determined policy of “buying British” in regard to aircraft[6-7].

In addition, with the criterion of profitability, privatisation provides a clear and definable measure of performance. The profitability criterion also has, in the view of some, the advantage that it weakens the power of the public sector unions, whose members’ earnings and tenure are not related to the criterion of profitability[7]. The implications for employment and the role of union power has made privatisation an ideological battleground in many industries in numerous countries, and sometimes countries fluctuate between privatisation and nationalisation. In 1973, the new government of Pinochet in Chile reprivatised many of the industries that had been nationalized by the previous Allende government. When Chile entered a debt and repayments crisis in the early 1980’s, these industries were renationalised again. In the mid 1980’s, a second and more successful program of privatisation was commenced[2, 7].

Case for privatisation is also made on the grounds that by vacating an area of activity, a government can be enabled to improve welfare services in such key areas as health and education. The movement of welfare resulting from privatisation has been described as welfare gravitation and has also been seen to operate between countries as well[8].

Privatisation can also be a method of solving environmental issues, by taking them out of the public arena. [9]. An additional important argument for the privatisation of airports is that privately-owned airports are more passenger-friendly, as one survey has indicated[10].

III. CORPORATISATION

An intermediate stage in the privatisation of state-owned assets is corporatisation, the process of making a State body into an independent commercial company. In many countries it has been considered appropriate to corporatise such formerly State-owned providers of services such as energy, public transport, telecommunications, airports, even prisons, and more recently, institutions of higher education[11]. Corporatisation is often the first stage in a process of privatisation where the ownership of a former State body is transferred to private individuals and institutional investors generally through the floating of shares available to the public and subsequent listing on a stock exchange. The privately-owned corporation will then operate in a market place under normal commercial conditions and hopefully return a dividend and appreciate in the value of its shares.

Whilst the decision is often made on ideological grounds of “private is good/public is bad”, or “private is bad/public is good”, in reality this characterization of the decision-making process can over-simplify, or, in the words of one commentator, be “equally daft” [12]. Some governments have experimented with the concept of the “private/public partnership” with results that are unclear [13]. Therefore, the case for each industry or activity has its own merits and demerits and should be evaluated within the terms of its own specificity. In the case of Australia, there can be little doubt that the decision to corporatise all major airports by the Hawke Labor government in 1987 was seen as a requisite step towards their full privatisation, an action that was taken by the Howard Coalition government in 2002, which was carried out without significant parliamentary opposition. How is this to be explained?

IV. CONVERGENCE

The explanation of why airport privatisation became a policy widely accepted in Australia and many other countries world-wide (with the notable exception of the US airports) is found in the process that has been called convergence. The modern world has seen fundamental change brought about by the information technology revolution, the end of ideological confrontation between world powers (though not economic confrontation), the acceptance of the neoliberal economic paradigm, and the rise to dominance of the English language, in a process called globalisation[14].

As part of globalisation, policy paradigms such as airport privatisation have been adopted in this process of convergence. The factors leading to policy convergence are, therefore, similarity of problems confronting different states, pressure from international organisations, harmonisation through international and supra-national law, shared lesson-learning from one state to another, and communication between cross-national elites[15].

V. AIRPORT PRIVATISATION WORLD-WIDE

The privatisation of airports has been adopted as a legitimate and desirable policy by more than 100 countries, while the share of Gross Domestic Product produced by state-owned enterprises across the board has dropped, for instance, it dropped from 9 per cent in 1978 to 6 per cent in 1994[2].

The general assessment of airport privatisation is that passengers see more choice and an improvement in service quality but the impacts of privatisation on airports and other aspects of the transport industry have not been consistently predictable[16]. In some research, it was found that airports with the highest volume of traffic charge higher prices to airlines as did those where intermodal traffic was not present. In this regard, island-based airports have been found to impose significantly higher charges than continent-based airports which face competition from other airports[17].

Another factor influencing airport charges is cross-subsidisation by airport concessions and these must be taken into account by governments as they determine the nature and extent of airport regulation in the context of privatisation [18]. The extent of airport privatisation has thus become the predominant paradigm, but in Asian countries and the United States, governments have often retained majority control, thus avoiding the extremes of economic behaviour coming from private ownership [19].

VI. PUBLIC OWNERSHIP OF AIRPORTS IN THE UNITED STATES

Although there is some high-profile support for the privatisation of American airports, mainly based on the view that they would be more passenger-friendly, the vast majority of American airports remain publicly owned and operated. In 2007, 63.9 per cent of commercial service airports were owned by local governments, and the rest by a single-purpose authority[20].

In the world's largest economy, and in a society deeply committed to capitalism and the free market, the absence of privatised airports is an interesting question[21]. A number of factors seeking to explain this situation have been put forward. An important factor is that in the United States, airlines have historically, and still currently, played a key role in the management and financing in the operation of airports, unlike other countries[17]. Airlines and other users of airports have become accustomed to wielding a major influence in the management of airports and are reluctant to consider new or different business models. Another factor is the argument that US airports are currently managed in an efficient way, and therefore the perceived need for privatisation is much less pressing than in many other countries[21].

In addition, there is in the United States an intense level of competition between airports, and between air transport and other modes of transport, both of passengers and of freight, which means that airports must provide efficient and cost-effective service in a highly competitive market. Furthermore, US airports that are in the public ownership of local government, government departments or public authorities have the greater part of their operation contracted to private enterprise, which is providing a market-driven discipline[22]. This is to be contrasted with the already noted finding that island-based airports, by being much more exempt from other modes of transport, can and do charge higher fees to the airlines that service them[17].

This notwithstanding, the privatisation of US airports is under active consideration by a Federal Aviation Authority Privatisation Pilot Program, but with weighty opposition from the airlines[21]. Thus, the desire for improvements in efficiency and the need for ever-greater investment in airport construction remain key motivations but evidence of actual improvement in efficiency remains inconclusive[13].

VII. THE PRIVATISATION OF AUSTRALIAN AIRPORTS

In the early days of aviation in Australia, airfields were generally seen as part of the national defence infrastructure. A change occurred in 1987 when the Hawke Labor Government created the Federal Airport Corporation (FAC) with responsibility to manage, operate and facilitate 22 major airports. This was an important part of the overall corporatisation of major government involvement in the Australian economy, along with the corporatisation of major utilities in telecommunications, water, gas, electricity, ports and harbours[23]. This was done with very little or no criticism by the Opposition, State governments, the media or the general public. After it came to power in 2002, the Howard Liberal-National Coalition government sold the airports at Melbourne (MEL), Brisbane (BNE) and Perth (PER) to consortia of private investment bodies specifically set up for the purpose, with Sydney (SYD) and then all other major airports soon following. [9]. After privatisation, the Federal government adopted a policy of minimal intervention in the running of airports, which was called a "light-handed approach", and with an added condition that the cross-ownership of airports be restricted.

Since privatisation, Australian airports have become the subject of strong concern and complaint by members of the public, the media, corporate users such as airlines, and international bodies, but not for the major part, political parties.

VIII. THE EVALUATION OF AUSTRALIAN AIRPORT PRIVATISATION

The Australian Competition and Consumer Commission (ACCC) is an important government agency tasked with providing regular reviews of industries, including in its scope the four major airports, SYD, MEL, BNE and PER. In its report for 2016/2017, the ACCC assessed selected airports for quality of service in a range of "very poor, poor, satisfactory, good or excellent" and found that PER and BNE were rated as "good", and SYD and MEL were rated as "satisfactory"[24].

The operating profit from aeronautical services for the four airports was AUD 757.6 million for 2016-2017, with that of SYD being AUD 360.8, nearly twice as high as the next airport, with aggregate annual passenger numbers of 115.2 million. Profit from car parking at SYD was AUD 97.0 million while that from MEL was AUD 86.7 million. The cost of car parking was the most important issue of public complaint, closely followed in the case of SYD by airport noise [9]. It is a matter of urban lore that a few hours in a short-term car park near a terminal can cost more than an actual airline ticket[25].

Another issue is land transport linkages servicing airports. Roads can be congested and mass transit options such as rail and bus can be expensive, infrequent, of poor quality, or non-existent, meaning that passengers are forced to rely on taxis which can be expensive. A major cause of this problem is that while the control of privatised airports is the

responsibility of the Federal government, road and rail links and ground congestion management is the responsibility of State and Territory governments, and these have shown themselves to be reluctant to assume infrastructure costs associated with airport operation.

Sydney, Australia's largest city and tourist gateway, is still only served by one airport, with the result that there are significant constraints resulting from aeronautical congestion. Public outcry has resulted in the imposition of a curfew on take-offs and landings between 11.00 pm and 06.00 am, which can be problematic for long-haul flights across many time zones and weather conditions, sometimes made worse by fuel exhaustion caused by severe unforeseen headwinds. Another issue specific to SYD is that caused by the imposition by government of quotas of slots for regional airlines. These constraints impose significant extra costs on users and the broader economy[25].

Despite many calls for the building of a second airport for Sydney, the Hawke Labor government and the subsequent Howard Coalition government both decided not to proceed with this project. The decision to build a second airport for Sydney, the Western Sydney Airport at Badgery's Creek, was finally taken by the Abbott Coalition government, but only as recently as 2014.

Airlines using Australian airports have made sustained criticism of present arrangements. Through their representative body, The Board of Airline Representatives of Australia (BARA), have raised a number of issues [26]. Firstly, long-term service agreements have no incentive mechanisms to help avoid reductions in airport service standards. Secondly, it is easy, in the view of BARA, for an airport operator to blame problems onto airlines or other third parties, so that areas of responsibility need to be defined. Thirdly, under the present regime, airports are able to limit their financial responsibilities in regard to equipment failures, and fourthly, the problem of excessive baggage mishandling, particularly at SYD. At this airport, domestic and international terminals are some kilometres of distance apart. Although at SYD transfer of bags between international and domestic terminals are only 7 per cent of all baggage, this category represents half of all mishandled bags, costing an estimated AUD 30 million in 2017-2018[26]. Furthermore, BARA has stated that 69 per cent of its 38 members did not believe that they were getting "value for money", and described the "bussing operation" where passengers are bussed between international and domestic terminals as "chaotic". In reply, the Australian airports, through their representative body, the Australian Airports Association (AAA), describe the present system as "working well" and delivering improved efficiency[27].

It is also significant to note that Federal and State governments are actively considering a rail link between the city of Melbourne and Melbourne Airport. With the new Western Sydney Airport (SWZ), due for completion in 2026, responsibility for the construction of a rail link by State government is still under debate. However, SWZ is not expected to have a curfew on its operations. In the popular media of the press, radio, television and social media, Australia's airports are a matter under frequent unfavourable discussion. In one account, the sale of Sydney Airport was described as "the most inept privatisation we have seen from any government, federal or state"[28].

IX. AIRPORT PRIVATISATION: A WORLD-WIDE PERSPECTIVE

The key motivations for airport privatisation are the need to improve efficiency and gain increased investment, but in the view of one investigator, evidence of improved performance in achieving targets is inconclusive [29]. A similar conclusion is reached by other observers. The chief executive and director-general of the International Air Transport Association (IATA), Alexandre de Juniac, has been reported as stating that airports performed better in public hands and IATA's members are struggling with costs at privatised airports as widely dispersed as Paris, Sydney and Santiago. De Juniac noted that those airports that regularly topped the survey of the world's best airports, specifically Amsterdam, Dubai, Hong Kong, Seoul Incheon, and Singapore Changi, were all in government hands[30].

X. CONCLUSION

The privatisation of Australian airports was a result of an acceptance by governments, both major political parties, the media and an unmobilised public opinion, of an internationally prevailing belief that private ownership is always more efficient than public ownership. This policy was reinforced by the convergence of its acceptance by the majority of countries in the developed world, with the particular exception of airports in the United States. Whilst privatised airports are accepted as successful in many countries, the application of this paradigm in Australia has been made more problematic by Australia's situation as an island continent populated with geographically dispersed concentrations of population. This also means that air transport has very little competition from other modalities. The reality of its curfew-restricted hours of operation at the end of long-haul flights is an added problem at SYD. The existence of a federal system of government has meant that responsibility for infrastructure development such as rail and road links is dependent on shared levels of government. Unlike the United States, Europe and Asia, there is no element of competition between airports, leading to monopolist behaviour. Whilst it is likely that privatisation in Australian airports will remain predominant for the foreseeable future, there is a strong case for the present "light

handed” approach to be replaced by acceptance by government of a much greater role in the planning, operation and infrastructure provision in the running of airports.

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