The Development and Performance of Airports in New Zealand as Commercial Entities.

A thesis submitted in partial fulfilment of the requirements for the degree of Doctor of Philosophy at Massey University by David Keith Lyon. October 2011.

Abstract

This investigation sets out to identify what commercialisation has meant within a New Zealand airport context and how the requirements of the Airport Authorities Act 1966 have been achieved. Section 4 (3) of the Airport Authorities Act 1966 states that “[e]very airport operated or managed by an airport authority must be operated or managed as a commercial undertaking.” No definition of what commercial, managed or operated means is provided within the Act.

This objective will be achieved by initially outlining the developments of airports in New Zealand from the end of World War I until 1985, discussing the drive to commercialise them from 1985; providing a contemporary management perspective of managers within some of those airports; considering case studies of the largest seven airports in New Zealand, and analysing the sum of these seven companies for the first 20 years. The thesis concludes with a discussion of the commercialisation that has occurred.

Since the mid-1980s the airport industry in New Zealand has been substantially reformed. This occurred as part of the public sector reforms during the 15 year period from 1984 and was intended to decrease the role of central government in business activities and to foster a more commercial perspective to various sectors. These developments can be traced back to the fourth Labour Government that came into power in 1984 and instigated wide ranging economic reforms.

In terms of the management and operation of airports within New Zealand a major policy development occurred in 1985 when the Minister of Civil Aviation announced airports, owned at that time as joint ventures by both local and central government, would be encouraged to become limited liability companies. This commercialisation of the principal airports subsequently took place during a three year period from 1998-1990 (Minister of Civil Aviation and Meteorological Services, 1985).

Following to this commercialisation the ownership of these companies has undergone significant change to include private and institutional shareholding. In some instances central government no longer has any equity in major New Zealand airports, such as Auckland and Wellington, but local government ownership has increased.

There is currently no clear and articulated national airport policy within New Zealand. Since the initial commercialisation, and subsequent partial privatisation in some cases, the major airport companies have largely chosen their own paths to follow in terms of how they develop individually as commercial entities. A consequence of the ability of the airport companies to develop as businesses in the absence of price regulation

has been of increasing concern to airlines, wary that airport companies may be abusing their position as monopoly providers in particular regions, in terms of charges imposed upon airline users. These concerns resulted in the New Zealand Commerce Commission completing a study in August 2002, that had earlier been initiated in 1998, regarding the need, or otherwise to regulate airports. The Commerce Commission (2002) in its report recommended price regulation at Auckland Airport but did not state the form that such regulation should take. This recommendation has not subsequently been implemented by central government. However during the life of the study, the government implemented a set of Disclosure Regulations that applied to companies earning more than $10 million per financial year. Later in 2007 the government announced that it was commencing a study into ways in which the aeronautical charges levied by the major airport companies could be controlled via new provisions in the Commerce Act 1986. It is not anticipated that any such changes to the existing legislation will come into effect before 2012.

Acknowledgements

I would like to formally acknowledge the following persons who have assisted me in completing this study:

The managers of the various airports who made themselves available for interview, attending the focus group meeting at Wellington Airport, and the administration staff at the airports who responded to my requests for information.

Staff within the Ministry of Transport for supplying information on joint venture airports and staff within the Parliamentary Law Office for supplying copies of repealed legislation.

Fellow staff members within the Bay of Plenty Polytechnic for advice and practical support.

My supervisors from the College of Business at Massey University - Andy Asquith and Andrew Gilbey.

My wife Diane for all her help.

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Chapter 1 - Overview of thesis

1.1 Introduction to the study

The primary motivation for this study is a personal interest in aviation and a desire to gain a better understanding of how New Zealand (NZ) airports have been managed and/or operated on a commercial basis since the requirement to do so was introduced in the 1986 amendments to the Airport Authorities Act 1966. This amendment introduced the requirement that NZ airports be managed or operated on a commercial basis.

Airports are an important part of the social fabric and economic wellbeing of NZ society because of the importance of air travel both domestically within NZ and as an international link to other countries. This importance is evident both in terms of the movements of people and of air freight. Airport companies are, however, a relatively recent phenomenon and none of the current NZ airport companies existed prior to 1988. Despite their relatively short period of existence they have developed into an important component of the transport infrastructure of NZ. Evidence of this importance was demonstrated in April 2008 when the New Zealand Government stepped in to stop the Canadian Pension Fund purchasing a 40% stakeholding in Auckland International Airport on the basis that it was not in the best interests of the country for such a large shareholding of this airport company to be owned outside NZ (Parker, 2008; Land Information New Zealand (LINZ), 2008).

Air transport is of particular importance to NZ given its geographical isolation and its reliance on trade with other nations. Sankaran (2000) states that although less than 1% of freight by weight is carried by air, in value terms it represents 25.1% of imports and 15.4% of exports. Additionally 99% of tourists travel to and from NZ by air (Ministry of Transport, 2008). Despite the importance of air transportation to NZ there does not appear to have been a significant amount of research conducted in relation to the commercialisation of the NZ airport system to this point in time.

The potential contribution this study makes to the literature is threefold: firstly no other study of this type is known to have been conducted within a NZ context and it is intended to provide a record of the development over time of the airport system. Secondly it records and discusses the commercialisation of seven major airports from 1988, and thirdly it discusses and comments on whether or not the commercialisation of NZ airports realised the objectives of those politicians who initiated it from 1985.

1.2 Background

This study is set within the reforms of the NZ public sector from 1912 and the developing airport industry from 1918. The period of airport development from 1918 to 1985 was notable for its gradual but steady moves towards commercialisation, including an increasing user pays philosophy. This move towards commercialisation accelerated in 1985 when new government policy directed that existing legislation would be amended to enable airport companies to be formed. As part of the policy these new companies would remain in public ownership but would have a clear requirement to be managed or operated on a commercial basis (Minister of Civil Aviation and Meteorological Services, 1985). This was to result in the 1986 amendments to the Airport Authorities Act 1966 which created the legislative environment for airport authorities to be formed as companies, and an associated requirement that they be managed or operated on a commercial basis. These NZ airport developments occurred within a context of major economic transformation of the NZ public sector that was initiated by the fourth Labour Government from 1984 onwards.

1.3 Problem statement

Despite the fact that the Airport Authorities Act 1966 states that all airports must be managed or operated on a commercial basis, there has been little research at a NZ wide level to identify how best this requirement can be effected in practice, or what benchmarks it might be most appropriate to use. This legislation applies to all airports that are operated by an airport authority and there are no exclusions made for airports that may be maintained for social reasons, such as access to remote areas. In this regard a legislative requirement has been established that may not necessarily be able to be achieved in all situations.

The Airport Authorities Act 1966 does not state what is meant by the inclusion of the requirement to manage or operate airports on a commercial basis. The purpose of this research therefore is to identify what the expectations are of such a type of commercial enterprise are and how this requirement may best be realised in terms of the requirements of the Act.

It is the intention of this thesis to research the following questions:

1. How has the airport system within NZ developed and why did it develop in this manner?
2. What were the history and circumstances behind the development and implementation of legislation requiring that airports should be operated or managed on a commercial basis?
3. How has the airport system developed within NZ since the passage of this legislation, both singly in terms of the principal airports, and collectively as an industry?
4. What is the level of commercial performance of the NZ airport industry, both individually and as an industry grouping?
5. What further developments may it be appropriate to recommend as a consequence of answering the previous questions?

1.4 Research context

The concept of the commercial airport is a relatively recent development in most countries and is generally associated with the retreat of governments from being the primary provider of such infrastructure. From 1985 NZ was very much at the forefront of this commercialisation of airport infrastructure. Commercialisation has remained the dominant model by which airports in NZ are managed to this day. New Zealand now has 20 years' experience of operating its major airports as commercial entities in the form of limited liability companies, with a variety of ownership arrangements.

There are differing opinions as to the relationship between commercialisation and privatisation with regard to airports. Betancor and Rendeiro (1999) viewed commercialisation as synonymous with privatisation. They suggest that "[t]he arrival of the private sector into airport operations has led to what is called the commercial airport model, where the infrastructure is regarded as a business opportunity, and as such, something beyond a traditional airport " (p. 3). This was not the case in NZ from 1985 when no reference was made to privatisation when commercialisation was introduced as government policy. As part of this initial commercialisation process no airports were transferred from public to private hands despite this occurring in other countries. Public ownership was to remain the dominant ownership model in NZ as commercialisation was formally introduced for at least the first 10 years. For all major airports, total public ownership or a significant minority public ownership remains the dominant model. The Minister of Civil Aviation and the Meteorological Services confirmed that the objective of the government in 1985 was commercialisation with ongoing public ownership rather than commercialisation as a precursor to privatisation (Prebble, personal communication, June 12, 2010).

An alternative perspective put forward by Doganis (1992) reflects the NZ view of the opportunity that commercialisation of the airport sector was seen to represent:

> The aim here is to maximise income from any appropriate activity at the airport. This in turn means that one regards the airport as a business activity which not only serves its direct and traditional customers – airlines, passengers, cargo shippers and so on – but also a wider range of potential airport customers including airport and airline employees, visitors, people meeting passengers, local residents in the surrounding communities as well as local businesses and industries (p. 113).

New Zealand can be seen in many regards as a leader in terms of the commercialisation of airports. As early as 1929 the Local Authorities Empowering (Aviation Encouragement) Act 1929 meant that local government could borrow to fund airport development. In 1948 the Air Department proposed that airports could ultimately become economically self sufficient and made reference to changes for the use of aerodromes and services provided. Further support is found in the recommendations contained in the Tymms Report of November

1948, which provided a guide for airport development within NZ for the next 30 years, including an increased emphasis on commercialisation (McGreal, 2003).

From 1990 government policy was changed to allow for the privatisation of airport companies and the Airport Authorities Act 1966 was amended in the same year to enable this to occur. This would subsequently enable a private interest to acquire either all or part of an airport company. The first such private shareholding did not occur until five years later when a private company purchased a 1% shareholding in Auckland International Airport Limited in 1995. Since 2000 no further privatisation of NZ airports has occurred and two partially privatised airport companies have reverted to full public ownership. During 2008 the government moved to stop a cornerstone shareholding in Auckland Airport being sold to an overseas party, the Canadian Pension Fund, demonstrating that there was no appetite for further privatisation of the airport industry within NZ at that time. The subsequent and current National Party led government stated that would be no privatisation of publically owned assets during its first term in parliament.

1.5 Measures of success of commercialisation

For the purposes of this study a number of numeric measures will be used to ascertain whether or not the commercialisation of the principal airports within NZ has been successful over the initial 20 year period of airport companies. These measures will be used in relation to individual airport companies in Chapter 8 and aggregated for the airport system, as represented by the seven largest airport companies in Chapter 9.
The following measures will be used as indicators of whether or not airport commercialisation has been a success in NZ:

1. Operating surplus after tax – should increase over time.
2. Dividends paid – should increase over time, or show a corresponding increase in equity.
3. Average return on shareholder equity – should remain constant or increase over time.
4. Shareholders' equity ratio – should remain relatively constant at an appropriate level.
5. Total revenue – should increase over time.
6. Total expenses – should decrease over time relative to total revenue.
7. Total equity – should increase over time, or have been paid out as dividends.
8. Total assets – should increase over time.
9. Total workload units – should increase over time as a measure of activity.
10. Total workload units per employee – should increase over time as a measure of productivity.
11. Percentage of non-aeronautical revenue – should increase over time to reflect the diversification of the businesses and the development of alternative sources of revenue above and beyond the traditional aeronautical fees.

1.6 Background of the researcher

My personal interest and involvement with aviation has been longstanding. I commenced training as a private pilot in 1970 and gained a licence in 1973. After flying for recreational purposes for some 15 years I gained a commercial pilot's licence in 1987 and have held it since. I am currently a member of the Tauranga Aero Club, the Tauranga Gliding Club and am a shareholder in an aircraft used for both recreational and business purposes. My involvement with airports as a pilot has been to utilise airport facilities across NZ as a customer and consumer.

Following the purchase by the Tauranga City Council of the shareholding of the Western Bay of Plenty District Council and the Crown in 1998, in the former joint venture airport, the Tauranga City Council became the sole owner and operator of Tauranga Airport. This also meant that the Council became an Airport Authority within the meaning of Airport Authorities Act 1966. The Tauranga City Council subsequently decided to form an Airport Committee to manage its airport asset as a business unit within the overall council organisation and meet its statutory obligations.

The Council decided that the Airport Committee would comprise of three councillors and three community representatives. The community roles were publicly advertised. I successfully applied for such a position and served as a member of the committee for the ensuing six years. The Airport Committee met on a monthly basis and provided both oversight of the airport itself and direction to the Chief Executive appointed to manage it. Committee members were paid a meeting fee similar to the city councillors and were awarded the same rights and obligations in terms of managing this asset on behalf of the owners and stakeholders as if they were councillors.

During the six year period that I was a member of the committee, the future strategic direction of Tauranga Airport was debated, finalised, planned and put into effect. Of particular interest to me was the legislative requirement under law that the airport is managed or operated on a commercial basis and how the committee would give effect to this requirement. In seeking more information on this topic I became aware that there was only a limited amount of academic literature on the commercial development of the NZ system and the legislative environment within which it operates.

Both Tauranga City Council, as the airport owner and operator, and my current employer, the Bay of Plenty Polytechnic, are members of the New Zealand Aviation Industry Association. As a consequence from 1998 onwards I attended annual conferences on a regular basis and participated in Airport Division meetings both as a participant and as a presenter.

I subsequently commenced academic research in the field of airport development and operation within a NZ context and with a co-author from the University of Waikato, Graham Francis, wrote airport related journal articles that have been published in the Journal of Air Transport Management in 2006 and the Journal of Airport Management in 2008. Also in conjunction with Graham Francis I presented papers that we had co-authored at Air Transport Research Society annual conferences in Japan in 2006 and Greece in 2008. On my own behalf I had earlier in 2005 presented a keynote address to the Australian Airport Association 2005 annual conference in Australia on the commercialisation of the NZ airport system.

For periods between 1995 and 2010 I acted as consultant for Sunair Aviation Limited, a small regional airline, on projects involving marketing of their services, attempting to secure a contract as an air ambulance operator and seeking approval for that airline to operate commercially from a current military airport in NZ. During 2010 I was engaged as a consultant for a short period by the New Plymouth City Council to investigate potential alternative arrangements to the current joint venture it operates with the Crown at New Plymouth. Since February 2011 I have been engaged by Massey University as a contract lecturer within the School of Aviation.

1.7 Reflections on how this may have influenced my approach and findings

The approach that I have taken to this study has been influenced by my very limited knowledge of airports as a distinct type of aviation entity before to my involvement with the Tauranga City Council. As I had not conducted any prior academic research I engaged with dialogue with my lecturers at Waikato University about different methodologies while completing a Post Graduate Certificate in Business Research in 2002 and subsequently with my supervisors at Massey University after I entered their PhD programme.

As I did not have a particular methodology in mind when commencing this study it was developed in consultation with my supervisors at Massey University as a greater knowledge of the topic was achieved through initial reading around the topic of airport commercialisation. During this reading the importance of the decisions made by the fourth Labour Government that came into power in 1984 became increasingly evident and I decided to base my research on decisions made during this period and their long term consequences for airports.

I consider that it has been the advice of and ongoing dialogue with my successive supervisors at Massey University that has influenced the approach taken to this study, rather than my prior or current involvement with the airport industry itself. I similarly do not believe that my previous involvement with the NZ industry has influenced my findings instead it has stimulated my interest in the topic. What I have learnt as a result of this study is that different countries have variously chosen to view their respective airport systems across a broad spectrum from being public utilities to businesses. The system that currently exists in NZ is a consequence of both developments over time and the successive policy decisions of respective local and national governments. My principal interest in conducting this research has been my personal interest in learning more about the success or otherwise of the major initiative to commercialise NZ airports that occurred from the mid 1980s, and whether or not it can be considered to have been successful in hindsight. In summary I believe that my experiences within aviation have stimulated my interest and informed this study but have not influenced the outcomes of it.

1.8 Structure of the thesis

The thesis is comprised of nine chapters as follows:

Chapter 1 – Overview of thesis.

Chapter 2 – Methods.

Chapter 3 – Public sector reform.

Chapter 4 – A history of the development of New Zealand airports from 1918 to 1985.

Chapter 5 – Commercialisation in New Zealand.

Chapter 6 – Organisation, ownership, governance and management of the airport system in New Zealand.

Chapter 7 – A management perspective.

Chapter 8 – Case studies of the commercialisation of seven airport companies in New Zealand.

Chapter 9 – Analysis of the performance of the New Zealand airport industry since commercialisation and conclusions as to the success of this policy.

Chapter 2 – Methods

2.1 Research methodology

This research project is centred on the significant developments that occurred with respect to the NZ airport system from 1918-2008, with a particular emphasis on events that took place from 1984-1990 as a consequence of a concerted movement towards commercialisation and corporatisation through policies of the government of the day. The government document that formally announced this policy direction for NZ airports was *Airports - a new partnership* (1985), which clearly stated the intention of the government to establish airport companies and to subsequently operate these on a commercial basis. The Airport Authorities Act 1966 was subsequently amended to enable this corporatisation to occur in December 1986 and the first New Zealand airport company was established in 1988.

These developments in relation to the manner by which New Zealand airports were to be operated and managed took place within broader changes to the public sector that occurred during the six year period of the fourth Labour Government from 1984-1990. The wide sweeping changes that occurred during this tenure have frequently been reported in the academic literature as representing a significant and uniquely New Zealand change to the manner by which former publically owned and managed departments, corporations and other government entities were to be subsequently owned and operated.

To complete this study a sound conceptual framework needed to be identified in order to be able to critically review the changes in airport ownership, structures and objectives. The conceptual framework that was chosen for this study is public sector reform over the period from 1912, when the Public Service Act 1912 was passed into law, until 2008, by which time airport companies had been operating for 20 years in New Zealand. This conceptual framework forms the basis of Chapter 3.

The corporatisation of the seven largest airports took place over a three year period from 1988-1990. In order to be able to form an opinion as to whether or not these changes can be considered to have been successful the performance of these seven airport companies over the first 20 years of operation has been researched and is assessed. The study concludes with a series of statements discussing whether or not the corporatisation and commercialisation of major New Zealand airports can be considered to have been a success in terms of the public sector reforms within which it occurred, and the objectives set in place for the new airport companies.

The following is a description of each chapter within the study and a detailed description of the specific methods used.

2.2 The methods used

This research project was supervised by four different primary supervisors who influenced and guided the processes used and the findings obtained. Where reference is made to individual primary supervisors it is in chronological order from 1-4.

The initial research plan was to develop a theory on how best New Zealand airport companies could operate in order to meet a legal requirement that they be managed or operated on a commercial basis. This requirement became part of the Airport Authorities Act 1966 in late 1986.

The original means by which data was to be collected was via semi-structured interviews with airport managers and a subsequent focus group. The seven airports identified as being the subjects of this study being those that provided both domestic and international services. This sample was chosen as representing the major New Zealand airports. These airports provide all the commercial international air links and more than 85% of domestic commercial services. The initial plan was to use a Grounded Research methodology and this agreed with Supervisor 1.

Following the development of research instruments, and their approval by the Human Ethics Committee of the University, the research commenced. As per the plan a formal written approach was made to the chief executive officers of the seven airport companies seeking their agreement to participate in the project. Only four of the seven airport companies agreed to participate in the research project, and these companies provided a lesser number of individuals to be interviewed than had initially been sought. This situation was discussed with Supervisor 2 and despite the change in nature of the research sample it was agreed that the data collected would still be adequate for the project. The project progressed through the interview, data analysis, focus group and initial theory generation stages until Supervisor 2 was replaced by a third following a review of research projects underway at that time within the Massey University School of Aviation.

Supervisor 3 challenged the research method that was being undertaken and expressed the opinion that the number of persons who had been interviewed did not constitute a sufficient sample to proceed with the original research design. He recommended a number of changes to the research project which were discussed in the supervision process and agreed to. These changes included an analysis of all the annual reports of the seven airport companies from incorporation until financial year ending 2008. This analysis was undertaken to provide a governance perspective that could be compared and contrasted with the earlier managerial perspective. It also allowed a financial analysis of the airports, both singly and collectively, to be undertaken in order to be able to discuss as to whether or not the performance reported orally by airport managers was consistent with their financial performance over time. A number of appropriate financial measures were discussed, agreed upon, and are discussed in chapters 8 and 9.

In conjunction with Supervisor 3 it was also agreed that a historical analysis of the development of New Zealand airports should also be undertaken to both provide a record of their development over time and to ascertain how they had operated prior to the to the amendments to the legislation that took place in 1986. It was also agreed that each of the seven airports would be treated as an individual case as well as aggregating the data to be able to discuss the sum of the performance of the seven companies as representative of the New Zealand airport industry. This use of case studies for such a purpose is supported by Yin (2003).

The research project proceeded along these lines until Supervisor 3 left the University. After a period of some months a further supervisor was appointed. Supervisor 4 endorsed the research methods that had been used to date but in addition recommended that as the developments within the New Zealand airport industry had occurred within a context of broader public sector reform and that the project would be strengthened by reviewing the relevant literature in this regard and also discussing New Zealand airport development within this context.

With each new supervisor I engaged in a robust debate that recognised the different specialist knowledge that each brought. At no time did these discussions detract from the core of the research project but rather added to the richness of it. The changes in research methods that occurred during the life of the project are consistent with what Robson (2002) describes as "flexible designs" where a variety of methods are used and the methodology develops over the life of the project. Section 2.4 of this chapter provides greater detail of the various steps in the research project on a chapter by chapter basis.

2.3 Ethical issues

This research project has gone through the standard university ethics approval process.

Potential ethical issues that were identified in respect of this research project relate to both the airport companies being studied and individual persons within these companies. As the initial research design centred on interviewing up to 28 managers from seven airport companies emphasis was placed on the processes that would be required to protect the identity of individuals and any information that could be considered commercially sensitive. The plan that was developed was to initially write to the chief executive officers of the seven airport companies seeking their approval to participate, and for both themselves and members of their staff to be interviewed. An information package was prepared that included a letter requesting that the airport company participate in the research project, an information sheet and a copy of the questionnaire that had been developed. The research plan and the documents were made available to and approved by the Human Ethics Committee of Massey University before they were used.

The method used included a follow up telephone call to the office of each chief executive officer one week after the information package was sent. As a consequence any questions about the project were able to be addressed and four of the seven chief executive officers agreed for their company to participate at this point. The chief executive officers of the three companies that declined to participate cited current work pressures on themselves and senior managers as being the reason that they were not prepared to participate at that point in time. **None of the chief executive officers that agreed for their companies to participate raised any concerns about commercial confidentiality.**

In terms of individual employees who were subsequently interviewed, including two chief executive officers, the process that had been approved by the ethics committee was followed. Each person being interviewed was presented with an information package including the information sheet and a copy of the questionnaire. Prior to the interviews they were invited to ask any questions about the project and then to sign a form agreeing to participate. This included a provision that they would be supplied a copy of the draft transcript of the interview and invited to either confirm it as correct or make any changes that they considered appropriate. Some of the persons interviewed made amendments to the transcriptions while others accepted them as presented.

The next step in the research plan was to conduct a focus group to obtain a collective response to each of the same questions following the preparation of a analysis of individual responses by the researcher. Prior to the focus group taking place the participants were similarly requested to ask any questions and to sign a prepared form giving their permission to participate in the exercise. This occurred. The offer was also made for individuals to be able to comment on the material generated during the focus group but singly the participants agreed at the end of that exercise that the information generated represented their collective viewpoint, and that they did not require further opportunity to review it. This process is described in greater detail in Chapter 7.

The venue for the focus group was supplied at no charge by Wellington Airport and the researcher provided air tickets for participants from Auckland, Christchurch and Dunedin to participate. It is not believed that such travel provided an inducement as these managers had all previously been personally interviewed at their respective airport locations and were aware from that time that a focus group was a subsequent part of the research method.

All other information used in the thesis is from public sources and the use of it **does not raise any ethical concerns**. These sources of data are principally the relevant literature, legislation and parliamentary records, airport company annual reports, and publically available statistics.

In summary it is not considered that the thesis itself is commercially sensitive in that comments by airport managers are anonymous and all the financial data sets have been derived from publically available information. The comments of individual managers are protected by a coding system that allocated each manager of the alphabet and each airport a number.

The next section of this chapter provides more detail as to the structure of the thesis and the research method followed on a chapter by chapter basis.

2.4 Chapters that comprise the study

The following is an overview of the methodology that has been undertaken in Chapters 3-9.

Chapter 3

This chapter provides the conceptual framework for the study and explores and discusses the development and reform of the public sector in New Zealand from 1912 to 2008 as it applies to airports. The period analysed and discussed is from the beginning of the 20th century as this coincides with both the development of the modern public service in New Zealand and the birth of aviation. The chapter examines how the establishment of airports occurred within what is referred to as traditional public management, the pressures for change that arose from concerns as to the efficiency of public sector delivery of goods and services, and the changes that were to subsequently occur to airport ownership and management during the period from 1984-1990. These changes to airport ownership and management are then analysed against the broader changes that were occurring to the manner in which goods and services were delivered in New Zealand. The chapter concludes with discussion of the post reform period from 1990 and discusses how ongoing public sector reform affected airports during the first 20 years as companies. The chapter also includes and discusses the academic literature on public sector reform in New Zealand, the legislation that impacted upon both the public sector and airports, and the various New Zealand Government departmental and political publications that played a significant role in the reforms.

Chapter 4

This chapter records and discusses the development of airports in New Zealand from 1918, when the first aviation related legislation was passed in New Zealand, until 1984, when the fourth Labour Government came into power and initiated reforms that would subsequently affect how airports were owned, operated and managed. The chapter is a review and discussion of the literature on the development of New Zealand aviation in general and airports in particular. Because aviation developments in New Zealand were occurring at the same time as those in other countries, and in some cases was dependent upon these developments, such developments are described and discussed where they are considered to be of particular relevance to New Zealand. In particular, developments in Australia, the United States of America (USA) and the United Kingdom (UK) form part of the discussion as these countries are closely related to the developments that occurred within New Zealand, both in terms of domestic and international aviation, during this 66 year timeframe.

This chapter also includes discussion on the distinctively New Zealand development of a joint venture airport scheme from 1953 until 1974, and the operation of this scheme until 1984. This joint venture scheme constituted a partnership between central and local government in the ownership and administration of airports and was particularly significant in how it later impacted upon the economic reforms relating to airports that were to occur in New Zealand from 1984 onwards. During this lengthy period the New Zealand airport system was almost exclusively developed by the public sector.

Chapter 5

Chapter 5 uses the academic, aviation, parliamentary and government literature to discuss the changes to the manner by which New Zealand airports were owned, administered and managed following the election of the fourth Labour Government in 1984. A year later, in 1985, the Minister of Civil Aviation and the Meteorological Services announced an intention to corporatise and commercialise existing joint venture airports in *Airports-a new partnership* (1985). In order to achieve its airport reforms the government needed to amend the Airport Authorities Act 1966 and the passage through parliament of these amendments is discussed in detail as it provides both the rationale for the planned changes and reflects the concerns of both opposition members of parliament and local government joint venture partners regarding this course of action.

During the period from 1984 until 1990 when these major policy and operational changes were occurring in relation to the ownership and operation of airports, other major changes were occurring to the manner by which goods and services were delivered by publicly owned bodies. This period also represents the major change from traditional public administration to new public management in New Zealand.

Chapter 6

Chapter 6 makes use of both the New Zealand aviation literature and data obtained from individual airports to initially describe in detail the major elements, characteristics and capability of the New Zealand airport system. The discussion then moves to describe airport by airport, the corporatisation process that occurred between 1988-1990 in respect of the seven largest airports within the New Zealand airport system, including their ownership structures both at the time of incorporation and subsequently in 2008.

Next, the discussion focuses on the airports that remained part of the joint venture airport scheme. Airports that receive particular attention are those identified by the Minister of Transport in 2006 as potentially further candidates for corporatisation (King, 2006). The future of the joint venture airport scheme itself is also discussed.

The chapter concludes with a discussion of transport policy in New Zealand and contrasts this with transport policy in two other countries. It also discusses the extent to which the New Zealand Government was constrained in terms of its economic reform agenda from 1984-1990 relating to airports because of the existing joint venture scheme, and because the government was not the exclusive owner of any of the major New Zealand airports.

Chapter 7

Chapter 7 undertakes a more contemporary analysis of the corporatisation and commercialisation of New Zealand airports via semi-structured interviews with senior airport managers from nominated airports and a subsequent focus group convened during 2006-2007. These individual interviews and the focus group session are used to develop a set of propositions that can be taken as a collective airport management viewpoint as to whether or not commercialisation has been successful as these airport companies approached the end of the first 20 years of corporatised operation. The chapter addresses the 28 questions that were initially posed to individual airport managers and provides a discussion of the collective responses that were achieved via a focus group process. Where they add value to the discussion, comments made by individual managers are included in the discussion but the anonymity of the subjects is protected via a coding system. Further details regarding the protection of the anonymity of subjects of the research is included in this chapter.

The chapter concludes with a discussion about how a group of senior New Zealand airport managers view the corporatised and commercialised environment within which they currently operate.

Chapter 8

Chapter 8 provides a detailed analysis of seven airport companies as individual cases. The seven airports analysed are Auckland, Hamilton, Palmerston North, Wellington, Christchurch, Queenstown and Dunedin. These airports were selected because they were the only airports providing both domestic services within New Zealand and international services to and from New Zealand at the time the study was commenced. These airports are hereafter referred to as the major airports. Since the study commenced Palmerston North lost its international services on 30 March 2008. International services also ceased at Hamilton Airport in April 2009 (Ihaka, 2009) but started again four months later when the airline Pacific Blue launched new services to Sydney and Brisbane in September 2009 (New Zealand Aviation News, 2009).

A major source of data collected and used for these individual case studies are the company annual reports that have been published following the end of each financial year since incorporation. All the annual reports published by these seven companies were collected and analysed. Depending on whether the particular airport company had been incorporated in 1988, 1989 or 1990 either 18, 19 or 20 reports, from each of the seven major airports were obtained for this study.

The case study method undertaken in respect of each airport company involved a number of elements. Firstly the narrative contained in each report provided by the chairman and the CEO, or in some instances commentary attributed to both was read, analysed and discussed in terms of the matters being reported, themes that were recurring, and matters that were being reported by other airport companies in the same time period. A financial analysis was then undertaken across a range of measures to establish the economic performance of each airport company over periods of 18-20 years. The financial data was normalised to 30 June 2008 values using the published Reserve Bank of New Zealand inflation figures to ensure that comparisons across years were valid (Appendix N). Other airport specific data in relation to aircraft, passenger and freight movements were obtained from sources such as the Airways Corporation of New Zealand Limited and the Civil Aviation Division of the Ministry of Transport and Statistics New Zealand. These are reported, analysed and discussed in concert with the financial data supplied by the individual airports.

At the end of each case a discussion is provided how the individual airport has developed and the challenges that it is considered the airport company was facing at the end of the first 20 years of airport corporatisation and commercialisation in New Zealand.

Chapter 9

The final chapter in the study provides an overview of the performance of the corporatised New Zealand airport sector by aggregation of the financial and performance data in each of the measures reported for individual airport companies in Chapter 8. While the seven airport companies discussed are not the only New Zealand airport authorities, in June 2008 they collectively provided 100% of the civil international passenger air services, all the international air freight and over 85% of the domestic passenger movements within New Zealand.

The purpose of aggregating and reviewing the performance of the airports collectively was to provide an overview of their collective performance as an industry grouping in order to draw conclusions as to whether or not commercialisation and corporatisation can be considered to have been successful in New Zealand. As in the previous chapter all data sets involving dollar values were normalised to June 2008 values using Reserve Bank of New Zealand inflation statistics. This was done in order to allow meaningful comparisons of their aggregated performance over successive years.

The second and concluding part of this final chapter summarises the findings of the study regarding the commercialisation of New Zealand airports and the issues and challenges that the airport system has faced and addressed. The chapter also provides a set of recommendations that may be of assistance to stakeholders charged with the governance or management of New Zealand airports, or the development of policy regarding the manner by which this core component of the transport infrastructure is owned, developed, managed and operated into the future.

Chapter 3 – Public sector reform in New Zealand

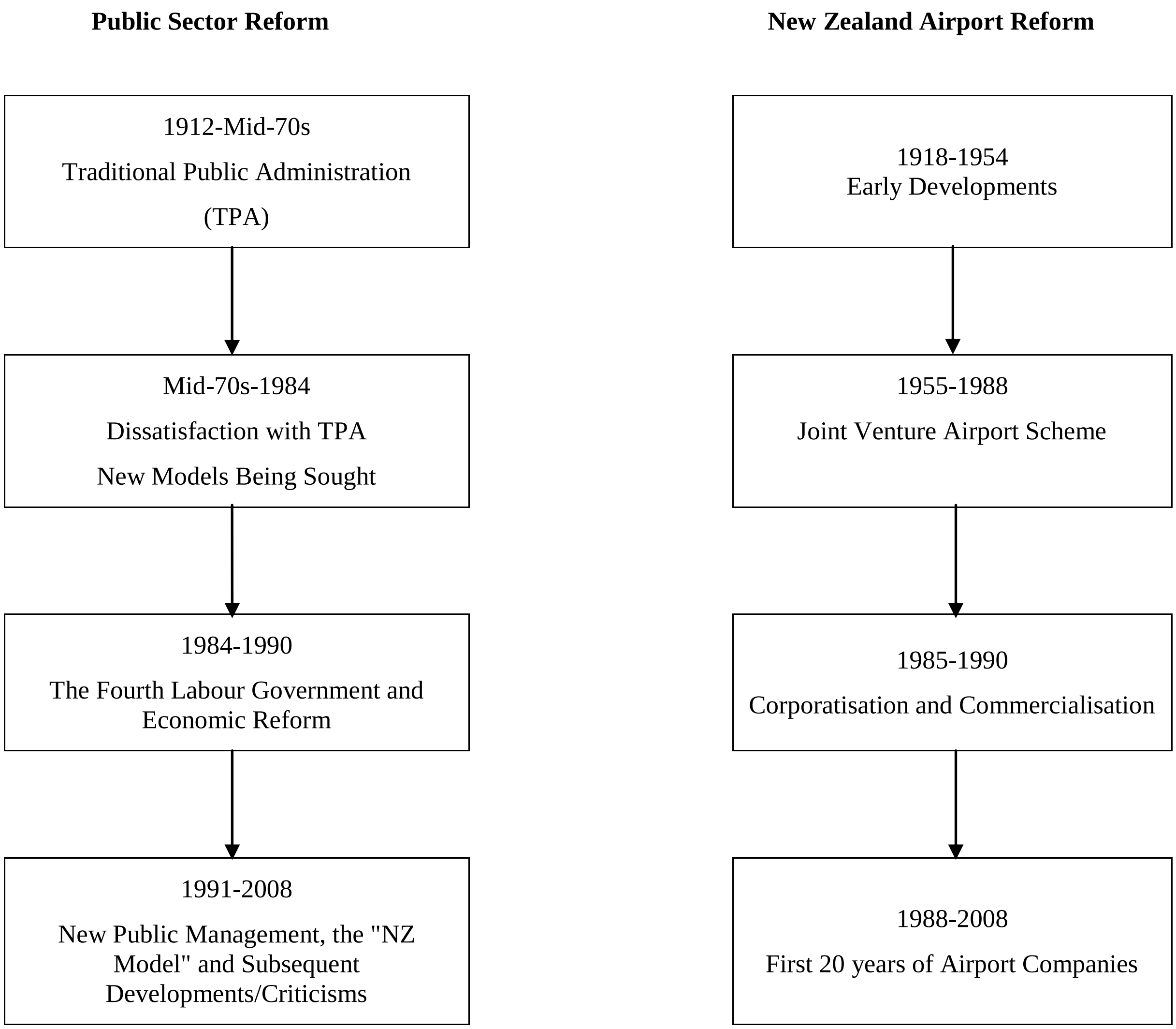
3.1 Introduction

Airports in New Zealand were almost exclusively developed by public bodies; either central or local government, or in many cases a combination of both (McGreal, 2003). This chapter, like most of the literature about public management, is descriptive rather than theoretical (Pollitt and Bouckaert, 2004). It discusses what was happening in terms of the development of airports in New Zealand and why these developments occurred (Robson, 2002). This chapter traces the development of New Zealand airports from 1918 until 2008 with a particular focus on their development as part of public sector reforms that were occurring over the same period of time. It examines and discusses how changes in the public sector influenced how airports were developed, maintained, and operated.

The term "conceptual framework" is sometimes defined rather more widely, for example as "the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs ..... research" (Robson, 2002, p. 63). Such a conceptual framework can be in diagrammatic form and Figure 3.1 has been developed for that purpose (Robson, 2002). Figure 3.1 uses a chronology to display both the changing nature of airports in New Zealand and the reforms that were taking place within the public sector over the same timeframe to provide a mechanism for comparison. It therefore enables discussion about how changes in the New Zealand public sector over time impacted upon the development and operation of New Zealand airports.

To discuss how the evolving public sector influenced New Zealand airport development and operation the chapter has been divided into five parts. Firstly the development of airports is examined during a period of "traditional public administration" (Hughes, 2003) in New Zealand from the passage of the Public Service Act 1912 (Boston et al., 1998; Scott, 2001). Secondly the rationale for changes to the way the public services were organised and delivered prior to the 1984 election will be discussed. Thirdly the rapid public sector reforms that occurred over a six year period between 1984 and 1990 will be discussed and the impact of these changes on airports examined. Fourthly the way airports have developed as a result of these government reforms in a uniquely New Zealand manner will be discussed. Finally the chapter examines whether or not ongoing changes in public sector administration and management post the 1984-1990 period have impacted upon the commercialised airport model that was adopted and put into place.

Figure 3.1 - Conceptual Framework for Analysis



∗ Conceptual framework adapted from **Robson** (2003, p. 63)

In this chapter the words landing ground, airfield, aerodrome, and airport are taken to have the same meaning. Similarly "Public policy, public administration and public management are terms all referring essentially to the same thing, which is how the administrative parts of government are organised, process information and produce outputs on policies, laws or goods and services" (Hughes, 2003, p.7). The words "administration" and "management" are, however, taken to have different meanings. Administration means "following instructions"; "management" means "the achievement of results and taking personal responsibility for doing so" (Hughes, 2003, p. 45) and includes administration.

The literature reports that governments have always had an intention to improve the efficiency and effectiveness of the public service (Boston, 1998; Henderson, 1990; Hughes, 2003; Scott, 2001). Peter

Drucker (1967) suggests that high performance in an organisation is made up of two important components: effectiveness and efficiency. Drucker describes effectiveness as "the ability to choose appropriate goals and achieve them" and efficiency as "the ability to make the best use of available resources in the process of achieving goals" (p.20).

3.2 The development of the modern public service

The theory and practice of public administration began in the late nineteenth century (Hughes, 2003) but it was not until the Public Service Act 1912 that New Zealand saw the development of a "modern" public service that was to last until 1988 (Boston et al., 1998, p. 54; Henderson, 1990, Scott, 2001). The 1912 Act transferred responsibility for the personnel management of the public service and the efficient and economical operation of the public service from individual departmental ministers to a statutory officer, the Public Service Commissioner (1913-46), the Public Services Commission (1946-62) and lastly to the State Services Commission from 1963 onwards (Henderson, 1990). The first Act of Parliament relating to aviation in New Zealand, the Act to Control Aviation 1918 brought aerodromes under the control of this "highly organised" public service which was "carefully regulated and centrally controlled" (Campbell, 1956, p. 157; McGreal, 2003).

For the purposes of this study public administration in New Zealand from 1912-1984 will be referred to as "traditional" public administration (Hughes, 2003). The theoretical foundations of the traditional model of public administration were "mainly derived" from four sources: Woodrow Wilson's principle of separation between politics and administration; Fredrick Taylor's theory of scientific management; Max Weber's theory of bureaucracy and the Northcote-Trevelyan Report of 1854 in the UK (Hughes, 2003).

One of the characteristics of the traditional model of public administration was that it is "an administration under the formal control of the political leadership, based on a strictly hierarchical model of bureaucracy"(Hughes, 2003, p. 17, Boston et al., 1998). Boston et al. expand on this characteristic within a New Zealand context:

> [A] complex plethora of rules, variously sourced from determinations, manuals, circulars, and Treasury instructions closely constrained the behaviour of public servants in almost every conceivable situation. There was of course more discretion at upper levels, but even senior officials, having served their time at lower levels, did not readily shed the caution imbued in them by that experience (p. 56).

The Public Service Act 1912 established the office of the Public Service Commissioner. This position was charged with two main responsibilities being first "… to ensure the efficient and economical operation of the public service, and second, to act as an employing authority for the public service" (Boston et al., 1998, p.

54). Henderson (1990, p. 82) makes it quite clear that this responsibility was not "accompanied by any executive authority outside the realm of personnel management" until the passage of the States Service Act 1962.

The second characteristic of traditional public administration was that the administration was staffed by permanent, non-political, and anonymous lifelong career officials who were "motivated by the public interest" (Hughes, 2003, p. 17), had a "long-term perspective on policy-making" and "served the interests of the government of the day" (Boston et al., 1998, p. 56; Henderson, 1990).

Hughes (2003, p. 17) identifies as a third characteristic of traditional public administration the fact that "public servants did not contribute to the development of policy but rather administered those policies that had previously been decided upon by politicians". The separation of the political and administrative functions of government in New Zealand occurred with the passing of the 1912 Act (Henderson, 1990).

Central government established its control over aviation in New Zealand with the Act to Control Aviation 1918. From 1918 onwards the government was the only body that could identify and license landing grounds for aircraft but it was not until 1920 that it established the Air Board as an advisory committee, which like the commissioner had no executive powers. Ross (1955) comments that one of the Board’s requirements was "to advise the Government with respect to [the] purchase, rent and preparation of key aerodromes". The board was "frustrated" by its lack of power and the "slowness" of central government to act on its recommendations (p. 11). The Air Board committee was made up of nine public servants who represented the Defence, Post and Telegraph, Public Works and Lands and Survey Departments (Civil Aviation Authority, 2003; Ross, 1955). It could only submit recommendations for joint approval by the Minister of Defence and the Postmaster-General (Civil Aviation Authority, 2003; McGreal, 2003; Ross, 1955). The Air Board was abolished in 1922 and its limited authority was transferred to the position of Staff Officer Air Services (later "Director of Air Services") in the Defence Department. From 1923 until 1937.

The public sector consists of central and local government (Birks, 1992), and traditionally airports in New Zealand have been developed and administered by both. By the 1920s the number of local authorities (municipalities and counties) had increased to 246 (Bush, 1995) and many were responding to pressure from the public to improve communications. In the case of airfields, central government was reluctant to finance the development of airfields despite the growing pressure for airmail services. The ministers argued that their electorates as local authorities had no power to set aside finance for aviation purposes (McGreal, 2003). Finally the government passed the Local Authorities Empowering (Aviation Encouragement) Act 1929 to empower local authorities to establish and maintain aerodromes, make charges for their use and administration, pay towards the cost of establishing aerodromes and to contribute to the "Funds of Recognised Aviation Authorities" (Local Authorities Empowering (Aviation Encouragement) Act 1929; McGreal, 2003).

Local authorities continued to establish and operate airports in the 1930s while the Defence Department became responsible for their licensing, inspection and regulation in an attempt to ensure that national standards were established and maintained. Many of these aerodromes were developed by the Aerodrome Services Branch of the Public Works Department as described in Chapter 4.

The Air Department Act 1937 was passed and created a separate Department of State to administer aviation. This department was responsible for the administration of both military and civil aviation and was modeled on the lines of the British Air Ministry. It was headed by an Air Board dominated by the military. It was comprised of the Minister of Defence, the Chief of Air Staff, the Air Force Member for Personnel, the Air Force Member for Supply, and the Air Secretary. This board was responsible for advising the government on military and civil matters and for the administration of the department. The Civil Aviation Branch was headed by the Controller of Civil Aviation who sat as a member of the new Air Board when matters under discussion involved civil aviation. This enabled the sharing of resources such as aerodromes and emergency landing fields (Archway, 2008; Henderson, 1990; McGreal, 2003; Ross, 1955).

From 1939 until the end of World War II (WWII) the focus of aviation in New Zealand was on military objectives. Land was requisitioned for airport purposes and the major airport infrastructure to service larger and more complex aircraft was constructed by both the Aerodromes Services Branch of the Public Works Department and the Air Services Department of the New Zealand Military Force.

After the war the government was left with a large number of airfields, a demand for more sophisticated airports, a complex airport ownership structure made up of local authorities, land acquired for military purposes and land held by the Crown, and a reluctance to assume this financial burden. The airport system at this time appears to have grown "almost by chance" as there was no "long-term centralised planning" (Rendel, 1975, p. 104) and by 1948 the government was administering 82 aerodromes throughout the country. This system had both financial and administrative drawbacks as both central and local government owners had to agree on development plans and on occasions central government blocked capital developments (McGreal, 2003). In 1952 a new policy was initiated when central government announced that "local authorities should be required to contribute to the cost of construction and maintenance of aerodromes serving their districts" (Ministry of Transport, 1983, p. 2). The Local Government Commission Act 1946 had reduced the number of local authorities and these bodies were now invited to take over the management of their airports on the basis of a sharing of construction and maintenance costs with central government. These airports were to become known as "joint venture" airports. The joint venture airport scheme is discussed in detail in Chapter 4.

There was little difference in the way that the private and public sectors were administered until the 1950s and 1960s (Hughes, 2003). Both were structured on a command and control model of management with a few at the top giving orders and many at the bottom obeying them. The first need for change, according to Drucker

(2003) came during World War I (WWI) when productive workers were needed immediately. Businesses in both the USA and the UK began to apply the theory of scientific management developed by Frederick Taylor (1885-1910) to the training of this large number of workers. Businesses analysed the tasks they required the workers to do and "broke them down into individual unskilled operations that could be learned quite quickly" (Drucker, 2003, p.6). Later during the 1920s and 1930s management pioneers at the Harvard Business School began questioning the way in which manufacturing businesses were being organised. Their "managerial innovations represented the application of knowledge to work, and the substitution of system and information" for "working harder" (p. 7). While Hughes (2003, p. 48) suggests "it is hard to delineate exactly when management as a word began to take over from administration in the public sector", Drucker (2003, p. 7) identifies post WW II as the time that management was recognised as a "distinct kind of work, one that could be studied and developed into a discipline".

The reforms introduced in 1912 were modified during the 1960s (Scott, 2001). The McCarthy Royal Commission of 1962 criticised the then Public Services Commission for failing to ensure the "efficient and economical management of the public service" (Boston et al., 1998, p. 55) and by 1963 it had been replaced with the State Services Commission (Henderson, 1990). There was little change in the way the public service was managed as the Commission appeared to be preoccupied with its struggle to deal with industrial unrest over the next 26 years (Boston et al., 1998). Other modifications suggested by Scott (2001, p. 8) include the introduction of "regular general pay movements for public servants based on private sector movements" and the gradual increase of delegating "routine personnel decisions to individual departments". Boston et al., (1998, p. 56) states that from 1962 until 1988 the public service continued to constrain the "behaviour of public servants in almost every conceivable situation" and although "[t]here was more discretion at upper levels" they too were restrained, by their own history of experiences within the public sector.

Despite continued criticism of a lack of government policy and a reported inability to make any decisions with regard to airport development (Rendel, 1975) the 1950s and 1960s saw "a string of runway building projects for smaller centres" and the "paved runways for the new aircraft types" constructed under the 1953 joint venture scheme (McGreal, 2003, p. 154-155). The 1960s were to see changes in the way in which airports were administered. In 1962 a government committee of inquiry investigated the extent to which the user pays philosophy could be implemented without adversely affecting the development of airports. In 1963 the Auckland Regional Authority (the first regional council) was given the power and responsibility to administer Auckland Airport (Bush, 1995). The following year the Air Department (1937-1964) was disestablished and a short lived separate Department of Civil Aviation (1964-1968) was established by the Civil Aviation Act 1964. The Department of Civil Aviation replaced the Civil Aviation Branch of the Air Department (1937-1964). The government’s committee of inquiry (1962-1964) had advised the government that domestic airports’ dues should be based on the gross operating revenue of domestic operators and that other charges should also be adjusted. Most of their recommendations were implemented in the Civil Aviation

Charges Regulations 1965. Two years later the Ministry of Transport Act 1968 established the Ministry of Transport to develop and administer "an efficient and economical transport policy for New Zealand". The Transport Department and the Civil Aviation Department merged into the new Ministry of Transport (Archway, 2008; Henderson, 1990; McGreal, 2003) which now had responsibility for managing government shares in joint venture airports and government owned airports (Ministry of Transport, 1983).

During 1966 the Local Authorities Government Empowering (Aviation Encouragement) Act 1929 was repealed and replaced by the Airport Authorities Act 1966. This act established the role and function of an airport authority that with the approval of the Governor General by Order in Council could "establish, improve, maintain, operate or manage airports" (Airport Authorities Act 1966). This act provided the structure and authority for existing airports, the additional joint ventures that were to be established up until 1974, and was amended in 1986 to provide for the subsequent commercialisation and corporatisation of airports in New Zealand as government policy. The 1986 amendments to the act are discussed in full in Chapter 5.

The so called boom period of the 1950s and 1960s was followed by the economic stagnation and inflation of the 1970s. The first indication of this in New Zealand was the collapse of the wool price in 1967. This was followed by industrial unrest, rising oil prices, increasing overseas debt, unemployment, inflation, a price and income freeze (Dalziel and Lattimore, 1991) and a fall of productivity in both the private and public sector. The world economy moved into recession (Williams, 2008) with a corresponding need for governments to review how our goods and services were being delivered.

3.3 Changing public sector management

Hughes (2003, p. 50) suggests that there is "an explicit link between improving public sector management and re-structuring the national economy". The government needs to be seen to put its own house in order when it encourages the private sector to improve its efficiency and effectiveness. New "economics-based theories and managerialist systems" (Whitcombe, 2008, p. 8) and the deteriorating economic situation of the 1970s and early 1980s created an interest in New Zealand in looking at ways of improving the national economy (McKinnon, 2003). During this period "steps were taken towards the liberalisation of the economy in trade and finance" (Scott, 1996, p. 5) and this led many to question the commercial performance of government trading activities such as airports.

The government agreed to its share of operating surplus being retained in joint venture airport accounts to be used for airport development in 1971. At the same time it was decided to charge each person leaving New Zealand a $2 airport development charge which was to be shared between the Crown and the three international airport authorities to provide funds for airport facilities and services (Ministry of Transport, 1983, p. 3). The Ministry of Transport reported in 1972 that the joint venture airports were meeting their objectives. There is reference in the same report to the possibility of commercialising airports by applying "business principles" to airports and that airports could be "self supporting" (Ministry of Transport, 1972).

The way in which public servants were being recruited was also changing. McKinnon (2003) notes that Treasury staff were no longer coming straight from school and gaining professional qualifications on the job, instead high-achieving university graduates, especially in economics, were being recruited for their contribution towards improving economic performance. Bush (1995) suggests that similar changes occurred at a local government level between 1975 and 1985. Local government services began to work on improving their efficiency and effectiveness by increasing the salaries they paid to attract more highly qualified staff. Bush cites two surveys to illustrate change in attitude. The 1974 survey of 174 town and county clerks showed that they favoured "caution over independence and cooperation over forcefulness". Four years later a survey of 43 managers employed by the Dunedin City Council in 1978 revealed that they valued attributes like "experience, specialist knowledge, communication and personal relationships" (p. 74).

By the late 1970s frustrations began to emerge as a result of the differences between the aspirations of local authorities for their airports and their joint venture central government partner. An example of this was the decision of the Christchurch City Council to fund and extend Christchurch Airport despite opposition from the then Prime Minister, who believed that such a development was unnecessary. This challenge to the power of the Minister of Transport to veto developments was unprecedented. McKinnon (2003) suggests that while the National Government had changed little the rest of the world in the 1970s was moving towards a "trust in markets".

The Local Government Act 1974 made "better provision for the administration of those functions [like airports] which can most effectively be carried out on a regional basis" (Local Government Act 1974; Bush, 1995). It was intended that the costs involved in providing regional airport infrastructure were to be recovered by charging those who used the airports (McGreal, 2003). The following year the airports were reviewed as part of a total review of aviation policy. Although the 1975 review continued to "affirm the existing systems" (Ministry of Transport, 1983, p. 4) in the same year the airport management unit of the Ministry of Transport made it clear that its policy was to encourage "the prosperous development of aviation as a blend of public and private enterprise industry" (Fraser documents cited in McGreal, 2003, p. 156).

By the early 1980s the New Zealand Government owned, operated and controlled a wide range of trading services. The government had begun to re-examine the role of the state in some of these sectors and make changes (Brash, 1996; Deane, 1986;). It adopted a policy of deregulation in transport. In 1983 domestic air transport was deregulated to create the potential for competition (Duncan and Bollard, 1992). The economy continued to perform poorly and the government tried to counter these problems with a number of interventions (Pawson, 1993). A crisis point was reached in 1982 when the fiscal deficit rose to 9% of gross domestic production (Dalziel and Lattimore, 1991). The government attempted to control inflation by reversing some of its earlier moves to liberalise prices, wages and interest rates and entered into some large industrial developments which subsequently failed when oil prices did not continue to rise as anticipated.

During the same year that the government had deregulated domestic air transport the Ministry of Transport (1983) issued a discussion document *A Review of the Financing of Airport and Airways Facilities in New Zealand.* This review noted that the government considered the present system of funding airport development to be "unstable" and "possibly untenable" (Ministry of Transport, 1983, p. 4), and wished to make changes to the way in which airports and airways were funded. The Ministry acknowledged the downturn in the aviation industry and the pressure that this placed on users of airport and airways facilities. It advised the government to go ahead with a policy of full cost recovery of airport and airways expenses from users of these facilities at both international and domestic airports while "minimising any adverse effects on the development of all segments of the aviation industry" (p. 65) as the "most efficient and equitable means of financing New Zealand's airports and airway facilities" (p. i). These recommendations were not put into effect before a change of government occurred in 1984 but indicated that the government was already considering whether or not airports should meet the full costs of their operation.

3.4 Rapid changes to the public service 1984-1994

In July 1984 the fourth Labour Government was elected to govern New Zealand. The incoming government published a briefing titled *Economic Management* which had been prepared by Treasury (Dalziel and Lattimore, 1991). This document summarised Treasury's 1970s growth research programmes findings and made it very clear that it considered New Zealand's present poor performance to be a consequence of a reluctance to initiate change, and that major decisions needed to be made immediately (McKinnon, 2003). Treasury proposed "a radical solution, consisting of economic deregulation, privatisation of many state-owned enterprises and public management reform" (Borins, 2003, p. 183).

Prior to the 1984 election the Labour Party had made clear their intention to reorganise the public service. They were dissatisfied with the constraints placed on the government's ability to take action (Boston et al., 1998; Scott, 1996) . Their political motive for reform coincided with pressure from Treasury and other quarters (Boston et al., 1998; Scott, 1996) for a "cheaper, more efficient government , with higher-quality services and more effective programmes"(Pollitt and Bouckaert, 2004, pp. 6-7). This view was shared by a group of newly elected "key ministers, senior civil servants and businessmen" (Pollit and Bouckaert, 2004, p. 278). These individuals proceeded to drive through a "rapid and radical reform of economic policy and government management" (Scott, 2003, p. 5) which redefined the role of government in the economy and society (Hughes, 2003; Scott, 1996, 2003), and transformed the public sector (Boston et al., 1998; Schick, 1996).

The Treasury (1984) briefing papers expressed concern over the inefficiency, ineffectiveness and lack of accountability within the public sector, and suggested that state trading enterprises and government departments needed to be reorganised (Boston et al., 1998): "The aim of management should be the implementation of systems in the public service that can perform broadly the same role for the public service as the price system does in the private sector" (Treasury, 1984, p. 287).

The reforms were "shaped by certain bodies of economic and administrative theory" (Boston et al., 1998, p. 16) proposed by "a group of reform-minded policy analysts in the Treasury" and implemented by senior ministers despite "the political risks involved" (p. 28). These theoretical ideas in turn were influenced by "public choice theory, organisational economics - especially agency theory and transaction-cost economics and managerialism or the new public management (NPM)" (p. 16) . Compromises had to be made as some of the theoretical ideas did not go together well in practice (Boston et al., 1998; Pollitt and Bouckaert, 2004).

A policy framework for corporatisation, which involved the establishment of companies owned by the government, was developed to address the causes of poor performance in state enterprises "through clarification of roles of the parties, clear commercial objectives, good information, performance monitoring, and a fully competitive market environment" (Scott, 1996, p. 23; Pallot, 1998). In 1985 the government announced its intention to apply the following principles to government businesses:

- Non-commercial functions are to be separated from trading functions.
- The principal objective is to be run as successful business enterprises.
- Managers are accountable to ministers for agreed performance and free to make all management decisions.
- Enterprises are to operate without competitive advantages or disadvantages.
- Boards of directors would be established on private sector lines using commercially experienced individuals (Scott, 1996, p. 23).

The subsequent reforms took place in distinct phases. The first was the separation of central government functions from other state functions. This structural reform was in part carried out though the passage of the State-Owned Enterprises Act 1986 (Henderson,1990). This legislation was subsequently to result in the commercialisation, corporatisation, and in many cases the privatisation of numerous state-owned entities. The "clearest statement" of its intention can be found within the Act itself (Collins, 1987; Scott, 1996):

4 Principal objective to be successful business

(1) The principal objective of every State enterprise shall be to operate as a successful business and, to this end, to be—

(a) as profitable and efficient as comparable businesses that are not owned by the Crown; and

(b) a good employer; and

(c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so (State-Owned Enterprises Act 1986).

The State-Owned Enterprises Act 1986 would require that the nine new and five existing corporations created out of former government departments and statutory trading corporations operate as successful businesses. Collins (1987, p. 69) noted that many of the ideas included in the Act "are being applied in the rest of the public service in the policies of user pays, setting clear objectives for each agency, and holding managers responsible for achieving them". This certainly proved to be the case for airports. The passing of the Airport Authorities Amendment Act 1986 (part of the Airport Authorities Act 1966 as of 18 December 1986) enabled the Crown and local authorities to form and hold shares in airport companies and airport authorities to operate and manage airports on a commercial basis (Airport Authorities Amendment Act 1986; Thomas and Clements, 2003). Following the passage of the State Owned Enterprises Act 1986 there were differences of opinion as to whether or not airports were local authority trading enterprises (LATEs). The Ministry of Transport was of the opinion that they were while at least one council obtained legal opinion advising that they were not (McKinlay Douglas Ltd, 2010). This meant that they needed to be treated differently in terms of the public sector reform process that followed.

The first airport subjected to the commercialisation process was Auckland Airport. The Establishment Board of Auckland International Airport Limited (made up of six Auckland business leaders) was "charged with evaluating the pros and cons of replacing the airport's existing joint venture administration with a limited liability company in March 1987 (Thomas and Clements, 2003, p. 184). Despite an initial reluctance to leave the joint venture agreement, the 29 councils that made up the Auckland Regional Authority were eventually persuaded by the board’s report in July 1987 to vote for corporatisation. The report made a number of points:

- Auckland Airport can and should be run on commercial grounds and that a company structure is more suitable for achieving this objective.
- The airport operation is essentially a business concern and should be operated according to sound business practice. This requires a clear perception of the needs of its clients, the users of the airport, and the ability to respond to these needs in a commercial manner.

- An airport company would have a legal identity quite distinct from its shareholders and has a greater degree of remoteness from central and local government politics and the bureaucratic decision-making process involved with these structures.
- An airport company would be able to proceed to resolve problems or pursue commercial opportunities without being subject to the changing fortunes of its shareholders. Neither the Crown nor the local bodies as shareholders will have a say in the day to day affairs of the company.
- The company will provide the contributing local authorities with more say, as part owners, in the airport operation than has existed in practice under the joint venture arrangement (The Establishment Board of Auckland International Airport Limited report of July 1987 cited in Thomas and Clements, 2003, p. 185).

By the end of 1987 the Auckland Airport Act 1987 had been passed to enable the corporatisation of Auckland Airport and the new company, Auckland International Airport Limited, took responsibility for the operation and management of New Zealand's largest airport the following year. The other airport companies formed from 1988 onwards were established on a similar basis.

3.5 New public management

A new model of public administration evolved as a result of the reforms occurring during the 1980s, and was influenced by public choice theory "concerned with the application of micro-economics to political and social areas" (Hughes, 2003, p. 11). Initially it had had several names including "managerialism" (Hughes, 2003) but eventually encouraged by articles by Aucoin (1990) and Hood (1991), most of the literature settled on the term "new public management" (NPM) (Whitcombe, 2008). Hood (2001, p. 12553) used this term "to denote a new (or renewed) stress on the importance of management and "production engineering" in public service delivery, often linked to doctrines of economic rationalism." There has been a great deal of discussion concerning the features of "NPM" and most in general seem to agree on the following features (Boston et al., 1998; Hood, 1991; Hughes, 2003):

- From a management perspective both public and private sector entities are similar and should be managed on more or less the same basis. As a consequence management principles and tools can be equally applied to both.
- There should be accountability for results, rather than processes, that can be quantified, controlled and measured.
- There should be an emphasis on management rather than policy and the recognition that management skills are generic. Managers must be free to manage if they are to be held accountable for results.

- Management control should be devolved but with improved reporting and accountability mechanisms. There should be clear standards and measures of reporting against clearly defined and explicit targets.
- There should be "disaggregation" of "large bureaucratic structures" into smaller manageable units and agencies, the separation of policy advice from the delivery and regulatory functions of government, and the separation of commercial and non-commercial functions.
- A shift to greater competition for the delivery of public services in order to achieve lower costs and better standards. A preference for contracts, public tendering and in many situations private ownership.
- A move to shorter length and more specific contracts for the delivery of services.
- The adoption of private sector management practices such as the development and implementation of mission statements, strategic plans, management information systems and performance agreements linked to remuneration.
- The implementation of monetary incentives over traditional non financial incentives such as ethics and status.
- As emphasis on keeping costs down and being efficient by doing more with less (Boston et al., 1998, Hood, 1991; Hughes, 2003):

As well as adopting the above principles and practices, the succession of government reforms from 1984 produced a model of new public management that was unique to New Zealand (Boston et al., 1998). This model has been labelled "the New Zealand model of public management" and has attracted world-wide interest and discussion. Some have applauded "its radicalism, boldness, coherence, and innovative methods" (p. 3) while others have remained more sceptical. How New Zealand airports developed as a consequence of these changes from 1984 onwards is described in Chapter 5.

Duncan and Chapman (2009, p. 1) report that disaggregation was one of the "outstanding features of the so-called New Zealand model". In respect of New Zealand airports this would result in the establishment of discrete companies that, for the first time, could establish and implement their own business strategies and plans separate from the Ministry of Transport and its Ministers. Until that time the Minister of Transport had the power to both fix prices that airports were able to charge and veto any proposed capital developments. They also report that rapid corporatisation, frequently followed by privatisation, was another outstanding feature of the New Zealand model. The corporatisation of the major airports was rapid with the policy being announced in 1985, legislation to allow this to occur passed by parliament in 1986, the first airport specific legislation passed in 1987, and the incorporation of the seven major companies from 1988-1990. Thus within five years of the New Zealand Government announcing a corporatisation policy it had been effected. As discussed fully in Chapter 5, privatisation of airports was not so much a feature of the New Zealand model because not being the sole owner of these assets constrained the options available to the government of the day.

A Labour government was re-elected in 1987. The briefing document *Government Management* (1987) prepared by Treasury for the incoming government has been described by Hood (1991, p. 6) as being the "closest to a coherent NPM manifesto." It identified the ongoing public service reform programme as the single most important issue that the government needed to address during its next three years in power. The Treasury (1987, pp. 55-6) identified the "key elements of the management process" as "clarity of objectives; freedom to manage; accountability; effective assessment of performance; and adequate information flows".

The Treasury briefing was complimentary in respect of the performance of the nine recently established SOE's but identified a "lack of distinction between commercial and non-commercial activities" of other parts of government, and recommended that consequently the commercialisation agenda should be extended (Treasury, 1987, p. 74). The mechanism to extend commercialisation to New Zealand airports was already in place following amendments to the Airport Authorities Act 1966 the previous year.

As well as recommending the commercialisation of central government functions the Treasury briefing also recommended the commercialisation of many of the trading activities of local authorities because these were considered at that time to be "sub-optimal"(Treasury, 1987, p. 117). In the Treasury briefing, airports are given as an example of where the intended restructuring into commercial entities was not progressing in a satisfactory manner. This may have reflected the reluctance of some local authorities at the time to alter the existing joint venture arrangements that they considered to be operating satisfactorily (Treasury, 1987).

Having corporatised those departments and activities deemed commercial the government now turned its attention to the way in which the remainder of the public service was to be managed and performed. Bryson and Anderson (2007) suggested that this was the start of the second phase of the reforms. The State Services Act 1988 changed the structure of the public service from a unified sector to one that centred on individual departments (Boston et al., 1998; Bryson and Anderson, 2007). These departments were to be headed by chief executives on limited term contracts (with the possibility of renewal) instead of permanent heads of department. Each chief executive would now employ their own departmental staff, manage them and be "accountable for managing their department efficiently and effectively"(Pollitt and Bouckaert, 2004, p. 280), a job previously carried out by the State Services Commission. The State Services Commission now assumed the role of employing the chief executives, reviewing their performance and the performance of the department, and advising the government (Boston et al., 1998; State Services Commission, 1998).

Some of the recommendations for reform of local government contained in *Government Management* 1987 were initiated by the government on 17 December of the same year in an attachment to the *Economic*

Statement titled a "*Review of Local Government"*. The government made it clear in this document that it intended to reform local government functions, structure, funding and organisation within a two year period (Boston et al., 1998; Bush, 1995; UN ESCAP, 2011). This period is described by Bush (1995, p. 84) as "turbulent and intensive". The same principles that had informed central government were now to be applied to local government including:

- The quest for clear linear accountability
- Transparency in policy formulation
- Greater operational efficiency (Boston, 1998, p. 191).

A key change as a result of the reforms was the reduction of local bodies. Twenty-two regions were reduced to 12 regional councils, 231 territorial bodies were reduced to 60 districts councils and 12 city councils, and 98% of the ad hoc boards (e.g. roads boards, catchment boards, drainage boards, pest control boards, harbour boards, domain and reserve boards) were abolished (Boston et al., 1998; Bush, 1995). However the 24 airport authorities that existed at this time were not included in these reforms (Bush, 1995). This was presumably because the policy and legislation already existed to transform the joint ventures into airport companies and this process was underway.

The power to create local authority trading enterprises (LATE) was included in the Local Government Amendment Act (No.2) 1989. This Act put in place the accountability and other reforms which went hand in hand with the major restructuring of local government in 1988/89. A number of services previously supplied by local government to joint venture airports would as a result of these changes be supplied by LATEs on a commercial basis. These LATE’s were to be established as companies in which a local authority or any combination of local authorities held greater than 50% of the voting rights. Local government legislation provided a code of operation for LATEs: in addition to accountability provisions they were required to pay tax and to operate as successful businesses. Airport companies could not themselves be established as a LATE if there was a central government shareholding. A LATE could, however, hold the shareholding of an airport company on behalf of the local government owners. For example Christchurch City Holdings Limited holds and manages the 75% shareholding that Christchurch City Council has in Christchurch International Airport Limited (Christchurch City Council, 2010).

As the public service, at both a national and local government level, was undergoing change so too was the ownership and administration of the airports with the first of the new airport companies, Auckland International Airport Limited being established in January 1988 (Thompson and Clements, 2003). In the same year four of the seven major airports that constitute this study were corporatised. These were the airports at Auckland, Christchurch, Dunedin and Queenstown. The first three had directors appointed by both their respective local authorities and the Crown. Queenstown Airport was managed by a LATE from 1989 due to there being no Crown interest in this airport.

Another important component of the reform programme was the Public Finance Act 1989. It brought about significant changes to the accountability of the public service and established which public sector entities would thereafter be subject to audit by the New Zealand Audit Office. Because all the seven airport companies within this study had significant or total public ownership they are listed as entities and are subject to audit under this Act (Boston et al., 1998):

> The Public Finance Act 1989 specified a new set of reporting requirements for departments, for Crown entities, and for the Crown as a whole, introducing much greater consistency across the central government sector. Departments, offices of Parliament, and Crown entities are now required to prepare annual financial statements in accordance with generally accepted accounting practice (Boston et al., 1998, pp. 266-7).

3.6 A change of government but continuing reforms

> By the time the fourth Labour Government (1984-90) had politically self-destructed, allowing the election of a centre-right government, the economic and NPM reforms were well entrenched. The centre-right National Government (elected to office in 1990) generally followed through with and advanced the reforms of the 1980s (Chapman and Duncan, 2007, p. 5).

The public service reform programmes were not confined to the fourth Labour Government. Despite the Labour Party’s defeat in the 1990 elections because of their unpopular policies and the outcomes of these policies (Easton, 1997) the incoming National Government continued the economic reforms (Duncan and Chapman, 2009) "even more vigorously than before" (Pollitt and Bouckaert, 2004, p. 279) causing social hardship. Unemployment continued to rise and by March 1992 it stood at 11.1% (Easton, 1997, Pollitt and Bouckaert, 2004).

A year later in 1991 the government commissioned an evaluation of the public sector reforms to date. A steering group was set up under the leadership of a businessman, Basil Logan, and *A Report of the Review of State Sector Reforms* was published in 1991 by the State Services Commission. While this report noted that there were areas of concern (Boston and Eichbaum, 2005; Schick, 1996) "the framework is sound and substantial benefits are being realised" (Steering Group 1991, p. 11 cited in Pollitt and Bouckaert, 2004, p. 280). By this time all the major airports had been corporatised and the other joint venture agreements remained in place.

1991 is reported by some as marking the start of the final phase of the public service reforms (Bryson and Anderson, 2007). The Employment Contracts Act 1991 was introduced by the National Government and applied to both the private and public sectors. This legislation made significant changes to industrial relations in New Zealand and had a direct impact upon the power of the trade unions. Redundancies in the public service and lower membership numbers in local government trade unions led to some unions voluntarily dissolving and joining the Public Services Association (Bush, 1995).

During the same year the Local Government Act 1991 introduced significant new requirements of local government entities and was intended to achieve greater accountability and transparency. The local bodies were now required to prepare annual plans in consultation with their communities, to set out their objectives, policies and performance standards, and to report publicly on their performance against these criteria (Boston et al., 1998). The airport companies that many local authorities were shareholders in were similarly establishing and reporting against their objectives and performance from incorporation onwards. Chapter 8 provides a discussion of this planning and reporting activity by analysing the narrative within the annual reports of seven airport companies.

The concept of Crown entities was introduced in 1992 as part of the ongoing public sector reform. A Crown entity is a legal entity that has been established by the government and is usually funded by them to carry out certain functions. If a government function is established as a Crown entity it is an indication the function should be distanced from direct government while still being an instrument of the Crown, which in reality is the government in power. The Crown had retained 50% of the shares in Auckland International Airport Limited when it was incorporated in 1988. The shares were held equally by the Minister of Finance and the Minister of Civil Aviation. The remainder had been allocated among Auckland's 29 local body councils (seven after 1989). In 1990 the Crown bought another 1.6% of the shareholding in the airport, giving the government a majority of 51.6% (Thompson and Clements, 2003). Wellington International Airport also became a Crown entity and operated as company (Boston et al., 1998). Agents of the government participate in the governance of Crown entities. One such mechanism to enable this to occur is the Crown Company Monitoring and Advisory Unit established in 1993 which was a unit within the Treasury that advised the ministers, appointed directors to represent the Crown's interests and monitored their performance (Boston et al., 1998; Bush, 1995; Cabinet Manual, 2008)

3.7 Political reform and mixed member proportional representation

A number of events caused New Zealanders to gradually lose confidence in their politicians and the existing political system, resulting in constitutional changes that made it harder for any one political party to implement change on the scale that had occurred from 1984-1990. A catalyst occurred when Labour Party candidates won more votes in the 1978 and 1981 elections but National Party candidates won more seats and therefore remained in power. This led to disillusionment with the two party system. Voters began to look at alternative parties but it was clear that nothing was going to change under the traditional first past the post system which favoured strong, single party governments of National and Labour and often excluded minor parties. A Royal Commission on the Electoral System was set up in 1985 and reported back in 1986 that New Zealand should adopt the German-style mixed member proportional representation (MMP) system:

> Each elector would get two votes, one for an electorate Member of Parliament (MP) and one for a party. The size of Parliament would increase to 120 MPs: half would be elected in single member constituencies (as before); the other half would be selected from party lists so that in general each party's share of all 120 seats corresponded to its share of the overall vote (Electoral Commission, 2006).

Although neither the Labour Party or the National Party welcomed these electoral recommendations they both promised to hold a referendum should they be elected in 1990. Public support for these reforms continued to grow and finally in 1992 the National Government kept their promise to hold a referendum, one that was not binding on the government. A large majority of the voters supported MMP. A second binding referendum at the general election in 1993 was vigorously contested but 54% of voters on the day voted for a change to MMP in 1996 (Boston et al., 1998; Electoral Commission, 2006; Pollitt and Bouckaert, 2004).

A consequence of the change to MMP was that it was no longer as easy for a single political party to form a government without coalition partners and that consequently the nature and speed of the public sector reforms that the fourth Labour Government had implemented, many of which proved unpopular, were unlikely to be repeated by a future New Zealand coalition government.

3.8 Slower paced evolutionary change 1994-2008 .

From 1994 the New Zealand public sector was showing signs of what Pollitt and Bouckaert (2004) describe as "reform fatigue". It was a "period of slower evolutionary change" (OECD, 1999, p. 1) with the pace and scope of reform being reduced. Pollitt and Bouckaert (2004) suggest that since the implementation of MMP in 1996 subsequent coalition governments have been more conservative in terms of economic reform and "elite" groups have found it more difficult to action such reforms.

In contrast to the general slowdown in the public sector reform process from 1993-1994 onwards there was a significant burst of reform that affected airports during the period between 1995-1998. The earlier reforms from 1985 had established the mechanism to create airport companies with the original joint venture partners as shareholders. As discussed in Chapter 5 legislation to allow for the privatisation of airport company shareholding had been passed by the National Government during 1990 but not acted upon immediately.

The first private shareholding, being the sale of part or all of a public asset to private interests, in a major airport company occurred in 1995 when the Rodney District Council sold its 1% shareholding in Auckland Airport to Infratil Limited. Further privatisation was not to occur until three years later in 1998. While the government did not commence the privatisation of its own shareholdings at this point in time, it began selling its shareholding in a number of airports to its local government partner shareholders in existing companies and joint ventures. In 1996 it sold its interest in Hamilton, Oamaru and Te Kuiti airports to various local authorities. The sale of the government interest in Timaru Airport to the local authority followed in 1997 (Treasury, 1999).

During 1998 the government continued the process of selling its interest in airport companies and jointly owned airports to local authorities and commenced the privatisation of its shareholding in others. Following earlier sales to various local authorities in 1996 and 1997, during 1998 the government sold its shareholding in Masterton, Tauranga and Hokitika airports for amounts ranging from $1 to $1,060,603 (Treasury, 1999). The joint ventures were disestablished at the time of each sale.

On 14 May 1998 the government announced its intention to sell its shareholding in Auckland International Airport Limited, of which it owned 51.6%, by way of a public float. The airport company was listed on 28 July 1998 and the government realised some $390 million from this sale (Treasury, 1999).

In March 1998 the government and Wellington City Council announced their intention to market test their respective shareholding of 65% and 35% in Wellington International Airport Limited. A consortium successfully purchased the government shareholding in Wellington Airport on 14 August 1998 (Treasury, 1999). The Wellington City Council has retained its 35% shareholding in this company. The proposed sale of Wellington Airport caused a serious rift between the National-New Zealand First coalition government at the time as cabinet members of the latter party were opposed to the sale of this airport company (Chapman and Duncan, 2007).

On 29 October 1998 the government sold its minority shareholding in both Rotorua Regional Airport Limited and Palmerston North Airport Limited for $2.5 million to a private company Central Avion Holdings Limited. These sales were conducted by competitive tender (Treasury, 1999). As detailed in Chapter 8 both these airport companies have since reverted to full local authority ownership.

Aside from the subsequent sale of a small government owned airport at Paraparaumu, identified by the government as surplus to requirements in 1988, the only partial privatisations by central government that have occurred are the four listed above which all occurred within the space of one year.

The next significant development regarding airport ownership was not to occur for a further eight years until 2006 when the Minister of Transport announced the government's wish to corporatise a further two of the remaining six joint venture airports (King, 2006). These developments are described in detail in Chapter 5.

3.9 Review of the public sector reforms

During 1996 the government commissioned a broad evaluation of the economic reforms that had taken place to that point in time. The evaluation was undertaken by Professor Alan Schick (1996) and titled *The spirit of reform*. According to Pollitt and Bouckaert, (2004) Shick reported positively on the reforms that had taken place but also identified some areas of continuing concern.

Schick concluded that "the reforms have lived up to most of the lofty expectations held for them" (Shick 1996, executive summary) and that there was little appetite for returning to former arrangements. "Both within government and among outside observers interviewed for this study, there is overwhelming consensus on the superiority of the reformed system and hardly any sentiment for dismantling the new arrangements and going back to centralised control" (Schick, 1996, p. 4)

Schick (1996) reported that during the 1980s the New Zealand Government had "applied bold ideas and cutting edge theories to reform its economic policies and management practices" (p. 11). That these reforms resulted in major productivity and efficiency gains is supported by other academics (Boston et al.,1998; Scott 1996; Spicer et al., 1996).

3.10 Reflecting on the reforms 1999-2008

> During the period that the Labour Party spent in opposition, it tried to distance itself from the "new right" policies that it had imposed during its period in office from 1984-1990. Nonetheless, since taking office in 1999, Labour under Clark’s leadership has shown itself to be fiscally conservative and unwilling to dismantle many new right, monetarist reforms, while seeking to introduce a number of socially progressive, left-wing initiatives (Chapman and Duncan, 2007, p. 5).

The Labour Party manifesto prior to the 1999 election had identified a number of problems in the public sector that needed to be addressed. Once elected, successive Labour led coalition governments set out to restore public trust in the public service, rebuild the capacity of the state sector, avoid rapid or radical changes, and take a conservative line on fiscal policy (Duncan and Chapman, 2009; State Services Commission, 2001, 2002; Whitcombe, 2008).

During November 2000 a State Sector Standards Board was set up work on the government’s expectations of the state sector and to identify any problems (Whitcombe, 2008). However this was soon overtaken by the government commission in the "Review of the Centre" in 2001. This review identified the following issues:

- The need for better co-ordination in what had become a fragmented system of state sector organisations.
- The need to concentrate more on the formulation and pursuit of desired outcomes, rather than simply mechanically pursuing outputs.
- The need to involve citizens and communities more with policy making, service design, and service delivery.
- The need to strengthen the public service culture and invest in public service leadership (Pollitt and Bouckaert, 2004, p. 280).

As a result the State Sector Act 1988 and the Public Finance Act 1989 were reviewed. In 2003 the Public Finance (State Sector Management) Bill was introduced. It was intended to "maintain and strengthen the public service and the wider state sector" (Whitcombe, 2008, p. 9).

During 2004 the Labour Party led coalition government amended and enhanced a number of key acts of parliament. These included the State Sector Act 1988, the Public Finance Act 1989 and the Fiscal Responsibility Act 1994. According to Duncan and Chapman (2009) these acts, plus the State Services Act 1986, had been the power behind much of the public sector reform that changes made to these acts were refinements rather than substantive changes.

Despite these minor refinements commercial operations in public ownership are still constituted under the State-Owned Enterprises Act 1986, and the essential objectives of the 1986 Act remain in place. If the government stipulates social responsibilities imposed on SOEs these are reimbursed by government (Duncan and Chapman, 2009). As airport companies are in many cases Crown entities, rather than SOE's, they have remained subject to the provisions of the Airport Authorities Act 1966. Changes to that legislation since 1986 have primarily been to curb the potentially monopolistic behaviour of airport companies while the essential commercial focus has remained unchanged. Discussion on these changes are contained in Chapter 5.

Writing in 2005 on the New Zealand reforms, Chapman and Duncan (2007) report:

> At this stage (late-2005), while there have certainly been changes in wide areas of social and economic policy, the NPM reforms have largely been left intact. There has been no suggestion of undoing the reforms effected by the State Sector Act 1988 and the Public Finance Act 1989, and any legislative changes have been more on the scale of refinements (Chapman and Duncan, 2007, p. 12).

In a refinement to the existing corporatised model for larger airports and joint venture scheme for some of the smaller regional ones, during 2006 the Minister of Transport announced that the government wished to continue with the corporatisation of two of the six remaining joint venture airports at Napier and New

Plymouth (King, 2006). This action can be taken as a sign of continuing confidence in the commercialised and corporatised New Zealand airport model. The minister signalled that if corporatisation proceeded that the existing joint venture owners would become shareholders in the new companies, and that privatisation of these assets was not being considered. Napier Airport was subsequently corporatised in 2009 and the future of New Plymouth Airport in this regard has yet to be announced. Detailed discussion of both these airports and the corporatisation developments are contained in Chapter 6.

The year 2008 represents the end point of this study in that it coincides with the first 20 years of the operation of corporatised airport operations in New Zealand. This year was also the end of the Labour led coalition government as a National Party led coalition came to power in November of 2008.

During the nine year term of the Labour Party led coalition from 1999-2008, in contrast to the 1994-1990 term, there was no longer a dominance by rational economic theories and competitive markets were not seen as being the appropriate mechanism in most circumstances. Privatisation was less favoured and as discussed earlier, while further corporatisation of airports was considered appropriate it was intended that such assets should remain in public ownership. Of the original NPM principles, some were retained, others were improved or modified and still others were abandoned. The re-nationalisation of key transport assets in the form of Air New Zealand and Kiwi Rail took place and the government took decisive action to prevent the sale of a cornerstone shareholding in Auckland Airport to an overseas party. Chapman and Duncan (2007) report on moves away from privatisation in the New Zealand transport sector:

> Further evidence of a shift away from any strict preference for privatisation comes from the transport sector. Here there have been two major re-nationalisations of assets that were privatised during earlier reform processes. A large shareholding in Air New Zealand was acquired to keep the company viable. This formerly state-owned national airline was publically listed and sold to private shareholders in 1988, and domestic routes were opened up for competition. The subsequent purchase of a shareholding by the Government was a direct intervention in the market aimed at preventing the company from going bankrupt, thus effectively refusing to "let the markets decide". And, more recently the Government has negotiated the buy back of the railway network, promising to invest in upgrading and maintaining it, while the Australian-owned company that previously owned the rails will continue to operate the trains (Chapman and Duncan, 2007, p.13).

While the policy of corporatisation has not been seriously challenged and has remained a cornerstone of the public sector reforms, by the end of the Labour led coalition government in 2008 there had been a retreat from the former privatisations of important transport assets such as rail and the national airline. While the programme of airport privatisation had been less vigorous there is still less central government ownership of airports than before the reforms that were initiated from 1984 but a greater degree of ownership of airport assets by local government across New Zealand.

3.11 Summary

The process of public sector reform that has occurred in New Zealand since the Public Service Act 1912 has provided a benchmark against which the development, operation and ownership of airports can be compared and contrasted. Since as early as 1929, New Zealand airports have been a blend of central and local government ownership and consequently provided particular challenges to public sector reformers at different times. Airports in New Zealand have had from very early days a focus on cost recovery and "user pays". As a consequence the move to a commercialised model from 1985 onwards did not represent the same challenges that existed for other public bodies, and a significant number of smaller airports remained as joint ventures expected to only cover their costs. By the time that the major airports were commercialised from 1988-1990 they were already operating in a business-like manner and the largest of them were generating significant operating surpluses. In contrast with other elements of the public reform process the privatisation of airports was not part of the agenda of the fourth Labour Government and it was the subsequent National Government in 1990 that legislated to allow for private ownership of airport companies. Only limited privatisation took place and in respect of two of the major airports in this study, it has subsequently been reversed. The commercialised and corporatised New Zealand airport model has stood the test of time and as referred to earlier in this chapter, an intention to corporatise further airports was announced in 2006. The changes in the operation of the public sector, of which New Zealand airports are very much a part, has proved to be a useful way of both understanding and discussing the development of and changes to the manner in which they were developed, owned and operated over the 90 years from 1918-2008.

Chapter 4 - A history of the development of New Zealand airports from 1918 to 1985

4.1 Introduction

This chapter traces the historical development of domestic, international and military aviation from 1918 to 1986 and identifies its impact upon the airport development in New Zealand. As aviation became more established politicians identified the need for systems and legislation to guide and control its development. When aircraft became more sophisticated it became necessary to plan, fund, manage and operate airports that could accommodate them. The development of airports is reviewed until 1985 when the fourth Labour Government announced new policy that would result in the Airport Authorities Act 1966 being amended in 1986 and result in the corporatisation of the major airports from 1988-1990.

This review identifies the direct relationship between airlines and the development of airports within New Zealand. In particular Air New Zealand Limited (Air New Zealand), and the companies from which it originated, merit significant mention because the type of services they delivered. The aircraft operated have also had a significant impact upon the development of the airport system within New Zealand.

The evolution of airports is traced from a public service and social development perspective to an increasingly more commercial orientation. In broad terms it can be argued that the former period spanned the years from 1918 to 1985. The latter period from 1985 to the present day has had a much more commercial focus. This study cites and discusses New Zealand legislation that made provision for, influenced, or controlled the development of the operation of airports on a chronological basis.

There is a limited but significant body of literature addressing the development of the airport sector within New Zealand. This chapter relies heavily on the contributions of Aimer (2000, 2009), Driscoll (1979), Ewing and Macpherson (1986), McGreal (2003) Rendel (1975), Thompson and Clements (2003), Waugh and Layne (2000), Waugh, Gavin, Layne and McConnell (2003) and Wright (2002) to New Zealand aviation literature.

4.2 Developments from 1918

New Zealanders quickly embraced the idea of flight and by the end of WWI aviation was established in New Zealand (Aimer, 2000; Rendel, 1975). The first act of parliament relating to aviation in New Zealand was the Act to Control Aviation 1918. On 18 March 1919 the first aviation related regulations were gazetted (Ewing and Macpherson, 1985) and made provision for the award of licences to pilots, the establishment of flying schools, the registration of aircraft and the licensing of aerodromes. The legislation empowered the Governor-General to control the use of aircraft within particular areas and "[d]eclare[d] any area of land or water to be a landing-place for aircraft” (Act to Control Aviation 1918 s6(1)(c)). There was little immediate growth in aviation in New Zealand following the passing of this Act. Ewing and Macpherson (1986) suggest that "after an initial growth period fostered by a small number of visionaries" on a personal and aero club level, civil aviation in New Zealand faltered and became to all intents and purposes, extinct during the mid-twenties" (p. 60).

In June 1920 the government announced its intention to establish an Air Board made up of the Defence, Post and Telegraph, Public Works and Lands and Survey Departments (Civil Aviation Authority (CAA), 2003) to advise it on matters of defence, commercial undertakings and aviation in general. On 25 September 1920 the government approved its “first positive aviation policy” (Ross, 1955, p. 11). The policy acknowledged the cost of developing defence aviation and recognised that it could not be effectively progressed without the parallel advancement of commercial aviation. It therefore recommended the development of civil aviation for commercial needs on the understanding that such systems could be adapted to meet future wartime needs. The only mention in the policy regarding aerodromes was in the defence section where the Air Board was instructed to advise the government on the “[p]urchase, rent and preparation of key aerodromes”. Hence the focus of the government until 1928 was primarily on creating or maintaining capability that would be available in time of war rather than the development of civil aviation for other purposes.

4.3 The first aviation companies

A number of companies tried to establish commercial services within New Zealand during the period from 1920-1923 but all had collapsed by mid 1924. Despite their short lived initiatives to provide airmail services, aerobatic displays, joyrides and business air trips these companies made a significant number of citizens and businesses aware of the opportunities that civil aviation could potentially provide (Ewing and Macpherson, 1986). These companies had operated from “parks, racecourses, paddocks and beaches” (Aimer, 2009a) and although this was hard on their machines (Aimer, 2000b) it did not stimulate any need for an improvement in aerodromes. Perhaps the reason for this was that despite the provision to license airports in the regulations gazetted to give effect to the Act to Control Aviation 1918, the legislation provided no financial assistance to support such development. The literature makes no mention of any progress in relation to the development of a civil airport infrastructure prior to the Local Authorities Empowering (Aviation Encouragement) Act of 1929.

The only flying of any significance taking place in 1924 was at Wigram, New Zealand’s only military airfield at Christchurch (Ewing and Macpherson, 1985). Previously known as Sockburn Airfield it was renamed Wigram a few days after its purchase by the government on 21 June 1923, in recognition of Sir Harry Wigram’s gift of £10,000 towards the purchase price. Wigram, a strong advocate for the development of military aviation in New Zealand, had found that he was unable to maintain Sockburn Airfield and so made repeated approaches to a reluctant government to suggest they buy the airfield (Sandrey, 2008). The first responses were very negative. In 1922 the Minister of Defence made it very clear to Wigram that “the question of purchasing land for aerodromes was not submitted to Cabinet, as it would only have been a waste of time to do so” (Ewing and Macpherson, 1985, p. 73). A year later in 1923 the government’s attitude had changed; it decided to buy the aerodrome, buildings and equipment of the Canterbury Aviation Company at Sockburn, to establish the New Zealand Permanent Air Force (NZPAF) in June 1924 to administer military and civil aviation in New Zealand (Ross, 1955) and to create the position of Staff Officer Air Services in the Defence Department (CAA, 2003). In 1925 the government also bought 167½ acres of land at Hobsonville for another military aerodrome and a flying boat base near Auckland. However construction did not begin at Hobsonville until 1927 because of a lack of finance (Ross, 1955). In the ensuing years the NZPAF undertook a range of both military and civil aviation roles, including mapping, aerial photography, and the transport of non military individuals (Ewing and Macpherson, 1986).

Public enthusiasm in aviation was rekindled on 11 September 1928 when Charles Kingsford Smith, with a New Zealand navigator and radio operator, made the first successful flight across the Tasman Sea from Sydney to Wigram Airfield at Christchurch in an aircraft called the Southern Cross (Ewing and Macpherson, 1986). This event and the importation into New Zealand in the same year of the practical and affordable De Havilland Moth aircraft revived civil aviation in New Zealand. The government was persuaded to support aero clubs with financial grants and the loan of aircraft to foster the development of aviation for military purposes (Aimer, 2009b), and the first of these aircraft were delivered to various aero clubs in 1929. Private and aero club flying began to develop rapidly. By May 1930 there were 14 aero clubs in existence in New Zealand and the New Zealand Aero Club was formed to coordinate their activities (Ewing and Macpherson, 1986). Rendel (1975) notes that the “sustained growth and strength of the[se] aero clubs” provided a foundation for the “expansion and support of the aviation industry” (p. 24).

The passage into law of the Local Authorities Government Empowering (Aviation Encouragement) Act 1929 on 1 November 1929 was in part a government response to a growing public interest in an airmail service and the need for aerodromes to provide this service (McGreal, 2003). This Act empowered “certain Classes of Local Authorities to establish and maintain Aerodromes; and to make Charges for the use thereof and Administration of the public thereto”. It also empowered "all Classes of Local Authorities and Public Bodies towards the cost of establishing such Aerodromes, and to contribute to the Funds of Recognised Aviation Authorities (Local Authorities Empowering (Aviation Encouragement) Act 1929)".

This legislation gave local authorities the power to establish and maintain aerodromes with the prior consent of the Governor-General and any conditions that person might impose. It made special provision for the development of aerodromes at Auckland, Wellington, Christchurch and Dunedin by allowing local authorities to borrow up to £5,000 to establish aerodromes at these locations without the need to take a poll of the ratepayers. Local authorities were able to spend in excess of this amount on the establishment of these aerodromes if they could fund it in ways other than by borrowing it. For the first time, provision was made for local authorities to pass the charges for using airports on to the users of the facilities. The passage of this legislation was important for three reasons. Firstly it established that central government was not going to carry the cost of developing the airports, that local authorities could borrow to develop them and that the users of these facilities would be expected to pay charges. Secondly rather than using the words "regulation" and "control" found in previous legislation, the Act used positive language like "empowerment" and "encouraging" to give statutory support for the development of aerodromes. Thirdly the establishment of the aerodromes at the various locations was seen as action that would be undertaken by the relevant local authorities. The result was that local government entities were now responsible for the development of civil aviation in their respective areas and given the means to do this.

Two years later the Air Navigation Act 1931 repealed the first Act to Control Aviation of 1918. It was “[a]n Act to enable Effect to be given to [the 1919 Paris] Convention for regulating Air Navigation and to make Further Provision for the Control and Regulation of Aviation in New Zealand”. It redefined an aerodrome as “any definite and limited ground or water area intended to be used, either wholly or in part, for the landing or departure of aircraft” (s2) and made provision for the “licensing, inspection, and regulation, of aerodromes, for access to aerodromes and places where aircraft have landed” (s5 (b)). It also made the first mention of a scale of charges “at licensed aerodromes” and referred to “regulating the publication or notification of such charges” (s5 (i)). The Act supported the development of the user pays approach to airports established in the Local Authorities Government Empowering (Aviation Encouragement) Act of 1929.

Between 1928 and 1931 New Zealand’s income from exports fell by 40% and so did the government’s revenue until it was half the normal amount. The government responded by cutting costs to balance the budget. The Public Works Department cut its expenditure, staff were laid off and then reemployed at relief rates, and public service wages and pensions were cut resulting in a reduction in purchasing power (King, 2003). King suggests that “at the height of the Depression ... over 100,000, or around 40% of the male workforce”, were unemployed (p. 347). The numbers of aircraft imported into New Zealand during this period slowed significantly, aero clubs ceased their rapid growth, small charter operators found it difficult to get work and the numbers of pilot licence holders and licensed ground engineers fell. The government recorded in 1932 that there had been no new developments in civil aviation for the year ending in May and suggested that the increasing involvement of aero clubs in providing commercial services was “detrimental to the natural development of air services” (Ewing and Macpherson, 1986, p. 93).

The appointment of the Director of Air Services, Thomas Wilkes, to the newly established post of Controller of Civil Aviation in 1933 (McGreal, 2003) coupled with a large pool of available labour as a result of the depression was to prove the catalyst for a major programme of airfield development. This programme was initiated by a civil engineer named Esmond Allen Gibson (McGreal, 2003) who had a keen interest in aviation. He encouraged representatives from the aero clubs in 1933 to propose a scheme “to create an aerodrome near every town ... [to] serve the nation’s needs in the event of war or disaster” to the Minister of

Defence while he pointed out to his employer, the Minister of Public Works that it would be the ideal project to absorb a large number of unemployed with inexpensive wheelbarrows and shovels (p. 62). As a result of his scheme some 80 airfields were created across New Zealand over a period of three years. At the same time the military aerodrome at Wigram near Christchurch and the newly established combined land-based and amphibious aircraft military base at Hobsonville near Auckland were further developed (Driscoll, 1979). The merging of Plumpton Park and Wigram airfield had been organised by Gibson and P. R. Climie, secretary of the Canterbury Aero Club and member of a government board dealing with unemployment. This first project led to the government accepting responsibility for the construction of these airports when it established the Aerodrome Services Branch of the Public Works Department in 1934. This “major airfield development programme” addressed the need for an improved airport infrastructure to service more sophisticated aircraft (Ewing and Macpherson, 1986, p. 112) and “created a defence and commercial airline communications system throughout the country” (Driscoll, 1979, p. 20). It is of interest to note that this skilled workforce was then offered to the United Kingdom (UK) to assist with the establishment of international air links in other countries.

Another significant milestone in the development of commercial aviation in New Zealand was when the government decided to regulate local and overseas interest in establishing air services by restricting such services to licensed operators. The Transport Licensing (Commercial Aircraft Services) Act 1934 controlled airline services until they were deregulated in 1983 (Collins, 1987). A number of companies made applications early in February 1935 to the newly established Transport Coordination Board for licences to operate scheduled passenger services across various routes within New Zealand (Ewing and Macpherson, 1986). These companies had to satisfy the Board that they had the ability to finance these services and the business expertise to operate them. National Airways of New Zealand (later renamed Union Airways) which was owned by the Union Steam Ship Company was granted a licence to develop domestic airline services between Palmerston North and Dunedin, via Blenheim and Christchurch. Great Pacific Airways was licensed to operate daily Auckland, New Plymouth, Wanganui, Wellington, Blenheim, Christchurch, Timaru and Dunedin services as the Transport Coordination Board intended there to be some competition on the main-trunk service. Licences were also granted to three regional airlines in which the Union Steam Ship Company had a major interest: Cook Strait Airways on the Wellington, Nelson, Blenheim route; Air Travel (NZ) Ltd on the West Coast of the South Island; and East Coast Airways on the Gisborne to Napier service with links to the main-trunk route between Auckland and Dunedin (Aimer, 2009; Ewing and Macpherson, 1986). Union Airways began scheduled commercial air services from Dunedin and Palmerston North airports on 16 January 1936 (Palmerston North International Airport) but Great Pacific Airways collapsed in mid 1936 without taking up its licence leaving Auckland and Wellington, the largest city and the capital city, without a scheduled air link until mid-1937 (Ewing and Macpherson, 1986; Rendel, 1975).

Union Airways wished to purchase the newly developed American Douglas DC3 but a requirement of their licence from the Transport Coordination Board restricted their purchase of aircraft to those of British manufacture. This was subsequently relaxed and from May 1937 Union Airways was also operating newly purchased American Lockheed Electras on major domestic routes (Ewing and Macpherson, 1985). In spite of the government plan to license more than one airline on these routes to stimulate competition, Union Airways had gained control of all the major scheduled air transport routes by 1938. All the principal New Zealand cities were now linked by scheduled air transport (Aimer, 2009c).

By 1939 a basic airport infrastructure had been constructed throughout the country to support these air routes (Ewing and Macpherson, 1986). The Air Services Department of the New Zealand Military Force had carried out construction work at Mangere Aerodrome in Auckland between 1935 and 1937 (Thompson and Clements, 2003). The Palmerston North City Council had raised a loan and purchased Milson Airfield in 1936 from the Aerodrome Society and became the owner-operator from 1937 (Palmerston North International Airport, 2008). The Christchurch City Council had selected the present international airport site at Harewood in 1935 and the following year purchased 227 hectares on which to build the airport. By 1937 a 915 metre paved runway and the 60 square metre terminal were being constructed (Christchurch International Airport, 2009). In 1938 Nelson Airport opened, Omaka Airfield at Blenheim had been improved, Greymouth was being upgraded, and Rongotai Airport at Wellington was the busiest airport in the country (Ewing and Macpherson, 1986). Christchurch Airport finally opened for commercial operations in 1940 only to be curtailed by WWII (Christchurch International Airport, 2009). A similar fate was experienced by other civil airports across New Zealand.

During the same period international developments began to affect New Zealand (Rendel, 1975). There was Anglo-American rivalry over landing rights in the Pacific. The British Government disapproved of the agreement that had been signed between the Pan American Airways (PAA) company and the first New Zealand Labour Government for landing rights in New Zealand in 1935 without consultation with Britain (Driscoll, 1979). Although the agreement was subject to any British company being given reciprocal landing rights in the USA (Cowman, 1996) it had not insisted “on a reciprocal concession in Hawaii for a British airline” (Driscoll, 1979, p. 21). Nothing was to come of this agreement but in 1937 PAA reopened discussions with the New Zealand Government over the possibility of a flying boat service from San Francisco via Pearl Harbour and Pago Pago to Mechanics Bay in Auckland (Aimer, 2009d; Driscoll, 1979). Subsequent proving flights in 1937 and 1938 by both the Americans and the British continued to use amphibious aircraft and New Zealand harbours. Establishing the New Zealand route was delayed by PAA when a design fault caused the aircraft testing this route to explode in flight (Driscoll, 1979; Rendel. 1975). Regular weekly services across the Pacific were finally established by PAA on 12 July 1940 shortly after the trans-Tasman link between New Zealand and Australia had been established by Trans Tasman Empire Airways Limited (TEAL) (Thompson and Clements, 2003).

Although 23 crossings were made in the 11 years from 1928 to 1939 between New Zealand and Australia, none of them took place on a purely commercial basis. The potential to link New Zealand and the UK would not be realised until aircraft technology enabled it to occur safely from the late 1930s (Ewing and Macpherson, 1986). Even then, pressure from the British Government through Imperial Airways and the aspirations of both the New Zealand and Australian governments for a jointly owned airline stopped people like Kingsford Smith and Charles Ulm from establishing regular, scheduled services across the Tasman. In late 1937 the first British aircraft was in New Zealand to survey the trans-Tasman route at the same time as a PAA aircraft arrived on a second proving flight (Rendel, 1975). For the first time New Zealand was linked by amphibious aircraft to both the USA and the UK.

During 1937 the Air Department Act 1937 established “a Department of State to be called the Air Department”. It was one of three service branches of the Defence Department, the other two being the army and the navy. It administered both military and civil aviation and was responsible for advising the government on all matters affecting aviation from 1937 until 1964 (Archway, 2008). The new department was modelled on the British Air Ministry; its board was made up of the Minister of Defence; the Chief of Air Staff, the Air Force Member for Personnel, the Air Force Member for Supply, Air Secretary and the Controller of Civil Aviation when civil matters were discussed (Ross, 1955; Ewing and Macpherson, 1986). The Air Secretary was responsible for the general administration of the Air Department and the Air Force Act of 1937 while the Controller of Civil Aviation of the Civil Aviation Branch of the Air Department administered the Air Navigation Regulations 1933 (Archway, 2008). The Air Force Act 1937 had “provide[d] for the Establishment, Organisation, Discipline, and Maintenance of an Air Force to be called the Royal New Zealand Air Force” (RNZAF). Prior to this the (Territorial) New Zealand Air Force, renamed the New Zealand Permanent Air Force (NZPAF) in 1934, had been under the control of the New Zealand Army (Ewing and Macpherson, 1985). Two and half years before New Zealand declared war, work was carried out at on the military bases at Wigram and Hobsonville and construction began on new military bases at Whenuapai at Auckland, Ohakea near Palmerston North and Woodbourne at Blenheim. By the end of 1939 most of the civil domestic aircraft had been requisitioned by the government and over the next five years 55,000 New Zealanders passed through the RNZAF creating a skilled aviation workforce (Rendel, 1975). For the first time large numbers of people and goods were being transported over long distances and ground facilities needed to be developed to permit this (ICAO, 2009). The war created a need for more aerodromes and modifications were made to existing civil airports. In the last years of the war New Zealand aerodromes that had previously met the requirements of the British aircraft using them now needed to have longer concrete runways constructed for the larger American military aircraft (Ross, 1955).

Civil air services continued to operate during the war on a limited scale. Trans Tasman Empire Airlines (TEAL) was established on 20 April 1940 (Thompson and Clements, 2003) and registered as a company five days later in Wellington (Driscoll, 1979). It was owned by the New Zealand Government (20%), Union Airways (119%), Imperial Airways(38%) and Qantas (23%) (Ewing and Macpherson, 1985). TEAL had ordered three Shorts Empire flying boats and on delivery of the first aircraft commenced its first scheduled service to Sydney on 30 April 1940 (Gunston, 1992). By the end of WWII, TEAL had flown approximately

1000 services across the Tasman Sea using the two aircraft that had been delivered (Ewing and Macpherson, 1986). PAA began an airmail service between San Francisco and Auckland on 12 July 1940 and by 13 September 1940 was flying a scheduled international passenger service across the Pacific on the same route. This service was discontinued in December 1941 after the outbreak of war between Japan and the USA (Gunston, 1992). Union Airways also continued to operate on domestic routes during the war with a skeleton air service and by 1945 had “only nine aircraft, capable of seating about 68 passengers” in total (Aimer, 2009c, p. 1).

The development in military air transport created an awareness of the possibilities and problems of large-scale peacetime international air travel. New Zealand was one of 54 nations invited by the USA to attend an International Civil Aviation Conference in Chicago from 1 November to 7 December 1944 to secure international co-operation (ICAO, 2009). Prior to this the Labour Party led governments in Australia and New Zealand had undertaken to co-operate on issues of mutual interest and signed the Canberra Pact on 21 January 1944. They had “concluded that world air travel should be run under an international authority, but the Chicago Conference took the opposing view, i.e., that air travel should be operated by competing and preferably national owned airlines” (Ewing and Macpherson, 1986, p. 167). The conference signed an interim agreement at its conclusion which led to the creation of a Provisional International Civil Aviation Organisation (PICAO) which operated from “August 1945 to 4 April 1947 when the permanent International Civil Aviation Authority [ICAO] came in to being” (ICAO, 2009). New Zealand subsequently adopted the ICAO principles in terms of the establishment and operation of its national airlines and the systems necessary to support the orderly development of international air travel after the war (McGreal, 2003). The legislation subsequently passed to endorse the principles of the ICAO is discussed later in this chapter.

British Commonwealth countries had met during the Chicago Conference in 1944 to discuss mutual civil aviation interests (ICAO, 2009). As a result of their discussions the Commonwealth Air Transport Council (CATC) was established as an advisory body. At the first meeting of CATC in London on 9 July 1945 it was proposed to establish a South Pacific Regional Council. Six months later at a meeting in Wellington the South Pacific Air Transport Council (SPATC) was established to review and promote civil aviation in the South Pacific region (Meyer and Huggins, n. d.). As a result of these discussions the UK, Australia and New Zealand agreed to form a tripartite organisation to establish, operate and develop air services between Australia and North America, and New Zealand and North America. This organisation was registered as a company in Australia under the name British Commonwealth Pacific Airlines Limited (BCPA). Shareholding in this new company was Australia 50%, New Zealand 30% and UK 20% (Australasian Legal Information Institute (AustLII), n. d.). BCPA was to have a short life as the result of a number of incidents which left it in financial difficulties. It was finally dissolved in 1954 (Guide to Australian Business Records (GABR), 2006) when the Australian owned Qantas Empire Airways commenced trans-Pacific flights between Sydney and Vancouver (Gunston, 1992).

4.4 Developments post World War II

Immediately following the end of WWII Air Commodore A. de T. Nevill, the Vice Chief of Air Staff, RNZAF presented the Minister of Defence with a report that recommended the government control of commercial air services as a public utility (Aimer, 2000, 2009e). At the end of June 1945 the Labour Government announced that all domestic civil air services in NZ would be state owned and operated (Aimer, 2000; Driscoll, 1979). This policy was largely to remain in place until the National Airways Corporation of NZ Ltd (NAC) was merged with Air New Zealand in 1978 (Aimer, 2000, 2009e; Thompson and Clements, 2003). The National Airways Act 1945 made:

> [P]rovision for the Incorporation of the New Zealand National Airways Corporation for the Purpose of Establishing and Operating National Air Transport Services to meet the Needs of the People of New Zealand and for the Purpose of Fostering and Encouraging the use of Air Transportation within New Zealand and between New Zealand and other Countries; and to make Provision for other matters incidental thereto.

At the time the legislation was passed there were only nine commercial aircraft in New Zealand capable of carrying a total of 68 passengers, however, the war had left military aircraft that could be converted for civil use and numerous men keen to continue their aviation careers. The war had also left the country short of money, materials and skilled labour which hampered the development of airfields (Aimer, 2000). Ewing and Macpherson (1986) and Rendel (1975) suggests that this slow post-war development was also due to the confusion created by the National Airways Act 1945 in respect of how far the authority of the NAC extended into the establishment, development and operation of airports. Rendel (1975) and Aimer (2000) are in agreement that airfield development was not the corporation’s responsibility. The corporation could merely identify inadequate key aerodromes and request that they receive immediate attention from the government departments of Air and Public Works (Aimer, 2000). In 1947 the government established the Aerodromes Committee with the expectation that it would address these issues and charged it with the responsibility of preparing a co-ordinated plan for airport development (Rendel, 1975). The work of this committee was to be significantly influenced by the recommendations of the United Kingdom Civil Aviation Mission to New Zealand led by Sir Frederick Tymms in 1948. The committee finally produced a "seven-year plan for the development of an airport system" in 1953 but it was never implemented (p. 104). Rendel believes that this lack of planning worked in New Zealand’s favour as it was able to avoid "the errors of prediction inherent in long-term centralised planning".

By 1947 there were 16 airports approved for civil use within New Zealand, all of which are still in use today. A further 23 were available for use subject to Ministerial approval (Ewing and Macpherson, 1986). The pre-war condition of major airports like Rongotai Airport at Wellington and Mangere at Auckland no longer met the requirement of the post-war airline services. The Civil Aviation branch closed Rongotai (Aimer, 2000) in

September 1947 for the construction of sealed runways. The grass runway had often been unusable during winter; it was considered unsuitable for current and future commercial operations and no longer met the safety standards of ICAO. NAC had to move its air operations to the former military base at Paraparaumu further north (King, 2009) which quickly became one of the country's busiest airports. The grass runway at Mangere aerodrome in Auckland closed at the same time and all civilian air operations were moved to the military base at Whenuapai in Auckland (Ewing and Macpherson, 1986).

New Zealand's acceptance of the international standards and recommenced practices and procedures of the Chicago Convention 1944 were ratified in the Civil Aviation Act 1948 which passed into law on 26 August 1948. This Act authorised the issue of regulations, and created the position of Director of Civil Aviation under law (CAA, 2003). It now restricted the definition of an aerodrome to "any area of land or water normally used for the taking off, landing, and alighting of aircraft" and "include[d] any buildings or installations on or adjoining any such area used in connection with the aerodrome or its administration" (Civil Aviation, 1948 No 12, s2, p. 130). Provision was made in section 3 (2) (f) for regulating charges for the use of aerodromes and the facilities or services they provided. This ability to impose and set charges was part of a movement towards the users of airports meeting at least part of the cost of developing and operating them.

The British Civil Aviation Mission to New Zealand was invited to review New Zealand aviation and advise the Minister in charge of the Air Department in 1948. It presented its formal report, which is also known as the Tymms Report, two months later in November of the same year. In this report the mission made recommendations to the government as to how civil aviation in New Zealand could be developed both domestically and internationally. Although some parts of the Tymms Report (1948) were never implemented by the government, the literature credits it with providing guidance (CAA, 2003) and influencing the development of civil aviation in New Zealand over the next 30 years (McGreal, 2002; Rendel, 1975). Thompson and Clements (2003) go further; they suggest that the Tymms Report "provided New Zealand, for the first time, with a comprehensive and cohesive blueprint for its future civil aviation needs. Not a vision, but a practical plan" (p. 57).

The Tymms Report (1948) investigated and advised "[w]hether any change should be made ... in the organisation, administration, and control of civil aviation in New Zealand". The government wanted the report to look at four areas in particular. One of these areas was " [t]he standards required of aerodromes in New Zealand for the operation of internal and international civil air services, and the economic principles governing the provision of aerodromes and air route organisation" (p. 3). It confirmed that Auckland, Wellington and Christchurch should be served by international air services. The report recommended international land aerodromes for both Auckland and Christchurch and the use of Wellington harbour for trans-Tasman amphibious aircraft because "the topography of country surrounding Wellington made it "impossible ... to provide an aerodrome of international standard for landplanes" (p. 34). The report suggested that although few flying boats were being built now Wellington's needs might "justify the retention of seaplanes" (p. 36). The authors therefore recommended the government establish "both landplane and seaplane services across the Tasman" (p. 35) and supported TEAL's decision to replace their Sandringhams with the more modern British Solent flying boats. The Australian Government, a minority shareholder in TEAL, disagreed, favouring instead the purchase of American DC4 landplanes. The decision to purchase the flying boats was to limit the number of direct air services to Australia and some Pacific Islands and delay the development of ground based international airports in Auckland and Wellington for some years. The team suggested in the report that the NAC domestic operational and base headquarters be at the "natural geographical hub" Rongotai aerodrome at Wellington rather than the more expensive option, Palmerston North (p. 37). NAC subsequently moved to Wellington in the early 1950s. The Mission also recommended the use of small domestic amphibian aircraft as a cheaper option in some areas because of the need to construct costly land aerodromes as a result of the natural terrain.

The Tymms Report addressed the need for aerodrome construction and development in New Zealand and acknowledged the increasing cost of building landing areas, runways and other necessary airport facilities in difficult terrain. It recommended that a clear policy should be adopted "regarding ownership and the responsibility for development of aerodromes required for civil aviation" (p. 97) and suggested that the government should accept responsibility for the ownership, "construction, maintenance, and operation of the aerodromes" (p. 98) while local authorities should establish local advisory committees to provide passenger terminal facilities and amenities for the public. The British Civil Aviation Mission found that there was no "unified control of the administration and all activities of the aerodrome" in New Zealand. To remedy this situation it proposed that the Director of Civil Aviation assume responsibility for administration and operation, the Director of Air Routes and Aerodromes control the organisation, and an officer be appointed to be in charge of each aerodrome.

Of particular interest to this study are the Tymms Report's (1948) evaluation and recommendations concerning aerodrome revenue and charges. The Mission acknowledged that at that time, cost of providing and operating most aerodromes exceeded the revenue being derived and "the ability of the limited number of users of the aerodrome to meet the cost" (p. 100). It suggested that while the government should meet part of the cost, the user "that is, the passenger, the consignor and the consignee of goods, the user of the air mail system, and the operator of private aircraft – should bear a fair proportion" of the true cost of air transport (p 101). The report makes mention of Article 15 of the Chicago Convention which states that "there shall be uniform charges for the use of aerodromes and air navigation facilities... as between national and other aircraft engaged in similar operations" (p.101) and recommended that the international system of landing based on the weight of the aircraft and housing charges be used. It also encouraged the development of services for the public such as restaurants and car parks by local aerodrome committees (Tymms; Spencer and Warcup, 1948).

After the war most aerodromes only had basic facilities and grass runways (Rendel, 1975). The Tymms Report had highlighted the need for these aerodromes and aviation equipment and procedures to be upgraded to keep pace with the aircraft replacement programme (Ewing and Macpherson, 1986, Aimer, 2000). The closure of two inadequate key airports Rongotai (Wellington) and Mangere (Auckland) in 1947, had created problems, however. Passengers were now faced with bus rides of over an hour from city depots to makeshift terminal buildings at Paraparaumu (Wellington) and Whenuapai (Auckland). Aimer (2000, p. 41) suggests that "no single factor damaged the [National Airways] Corporation's profitability [in its first three years] more than the closure of Rongotai and Mangere airports" as the densest air traffic in the airline's network was that between Nelson, Blenheim, and (Rongotai) Wellington. The travelling public now viewed alternative methods of transport such as the train, the Cook Strait ferry and small chartered aircraft from Rongotai as cheaper and more efficient options. Further damage was done to NAC's reputation and finances when severe flooding closed Gisborne airport from May to December 1948 and in addition three of its planes crashed. The National Government attempted to sell the struggling airline without success but eventually the "crisis passed" (Wright, 2002, p. 100) and by 1952 NAC was showing a profit.

In the early 1950s major developments occurred in relation to the ownership and operation of airports with the introduction of a scheme that would result in shared ownership, cost, and revenue between the Crown and local authorities. The government also amended the Local Authorities Government Empowering (Aviation Encouragement) Act 1929 in 1956 to remove the limit on the amount of money NAC could borrow, and then amended it in 1957 to allow it to borrow on the open market. The same incentive was also used 30 years later when amendments to the Airport Authorities Act 1966 in 1986 enabled the new airport companies that were to be established to borrow on the open market.

Graham (2003) suggests that historically "the influence of the private sector on the airport industry was very limited" (p. 9). In New Zealand small private licensed airlines like Northwest Airlines (1950–1951) (McConnell, 2003), South Island Airlines (1953–1956) (Waugh, 2003a), and Trans Island Airways (1956-1959) (Waugh, 2003b) operated in aircraft that were easily accommodated by the existing airport infrastructure. Waugh (2000a) is adamant one of the reasons these small airlines experienced difficulties was the licensing regulations of 1948 which favoured the national airline:

> Not only did applicants for licences have to prove they had adequate capital, evidence indicating a need for the service, sound organisational acumen and stringent safety systems, they also had to prove that "the necessity or desirability of the proposed service" was not detrimental to NAC (p. 11).

Almost all the small airlines subsequently ceased to operate for various financial reasons. One exception appears to have been the West Coast Airways, a subsidiary company of Southern Scenic Air Services (1947-1967) (Waugh, 2003c) whose longevity could be attributed in part to the fact that it operated on routes that

NAC had found uneconomic. The airline consequently enjoyed at least the tacit support of the national domestic carrier (Waugh, 2003d).

South Pacific Airlines of New Zealand (SPANZ) acted as a catalyst for the development of some provincial airports. The airline gained a great deal of public support from many who were pleased to see a privately owned major domestic airline challenge the monopoly position held by the state owned NAC. The airline operated from 14 December 1960 (Waugh, 2000b) until 28 February 1966 (Waugh, 2000c). SPANZ was a public company that obtained investment from shareholders across New Zealand, and subsequently internationally when Ansett Australia Limited bought a 33% share in the company (Waugh, 2000a), later increasing it to 49% (Ewing and Macpherson, 1986; Waugh, 2000a). The original route established by the airline was from “Auckland to Hamilton, New Plymouth, Nelson, Christchurch, Oamaru and Alexandra and back to overnight at Christchurch ... The following day the aircraft flew to Blenheim, Wellington, Masterton, Napier and Matamata and back to Auckland” (Waugh, 2000b, p. 29). At first the route was operated by two DC3 aircraft and ultimately three were used (Layne, 2000b). The DC3 could land on undeveloped provincial airfields but did require a long runway (Wright, 2002). Although SPANZ was keen to include more potentially lucrative tourist destinations like Rotorua, Taupo and Queenstown in 1960 it was unable to do so as these airports were not suitable or licensed for DC3 operations.

Small communities, like Matamata and Taupo, were keen to acquire a scheduled air service and as a result financed, maintained and developed their own airports. SPANZ made a financial contribution towards both airfields; paying £500 towards the cost of preparing the Matamata airfield to bring it up to DC3 standard in 1960 (Layne, 2000b; Waugh, 2000b) and 50% of the total funding required for a temporary runway on Lochinver Station at Rangitaiki 25 miles east of Taupo on 1961. SPANZ struggled from the start in a highly regulated environment. The airline was opposed by many who considered it a threat to NAC and there were difficulties with insufficient passengers, unproductive routes and the payment of airport and airways dues. The company also faced a requirement for it to charge 10% more than the fare offered by NAC on any route on which they both competed directly with each other. In 1963 SPANZ appealed to the government for financial help. The government responded by agreeing not to press for the payment of airport and airways dues for a period of two years (Layne, 2000a). Ansett withdrew from the company in August 1964 (Layne, 2000b) and by 1965 the airline had fallen further into debt with its two major creditors, the government and NAC. The former was for “deferr[ed] airport and airways dues and providing loan assistance” and the latter was offering “to take shares in SPANZ” for unpaid and continuing engineering services (Ewing and Macpherson, 1986, p. 193). Questions were raised in parliament about SPANZ continuing to operate in competition with NAC when the government was in effect propping it up (McGreal, 2003). The major creditors withdrew their support and SPANZ ceased trading and went into receivership in 1966 (Waugh, 2000c).

Mount Cook Airlines built two private airfields at Mount Cook; one for ski planes and the Tasman Airfield with a sealed runway which is still used today (Sheehan, 2003) and prompted airport development in tourist areas like Queenstown. NAC may have felt less threatened by the tourist focused Mount Cook Air Services, a subsidiary of the private Mount Cook and Southern Lakes Tourist Company which had flown non-scheduled services in the South Island prior to 1961 (Driscoll, 1972). The airline bought three DC3s from NAC during the early 1960s and began services to Queenstown from Dunedin and Christchurch and later Rotorua and Auckland (Ewing and Macpherson, 1986). These services were a success and on 1 January 1968 (Driscoll, 1972) the company officially took over New Zealand Tourist Travel of Queenstown which gave them an extensive light aircraft operation (Sheehan, 2003). Later the same year in November the company was renamed Mount Cook Airlines and added a Hawker Siddeley 748 turbo-prop aircraft (Driscoll, 1972) to its fleet. By the mid-1970s Mount Cook Airlines had given up its amphibious operations, added more HS748s to its fleet, and sold 15% of its shares to NAC. It was now the largest private scheduled operator in New Zealand (Ewing and Macpherson, 1986) and had extended its services to include Taupo, Hamilton, Palmerston North and Wellington in the North Island and Invercargill, Mount Cook, Milford Sound and Te Anau in the South Island. In July 1985 Air New Zealand was given approval to purchase a 77% share of the Mount Cook Group Ltd which it secured in October of that year. Six years later on 18 April 1991 Air New Zealand was finally able to acquire a 100% interest in the Mount Cook Group (Air New Zealand, 2006).

4.5 The joint venture airport scheme

The upgrading of airfields in New Zealand to meet the minimum standard required and the time scale for this development was a continuing problem for the state-owned airline NAC. The rapid growth in air travel, the need for airports to accommodate more sophisticated aircraft and the need for funding to pay led to the setting up of a partnership at a local and national level to finance the development of airports (Doganis, 1992; Graham, 2003). The Ministry of Transport (1972) suggests that a partnership scheme was initiated in New Zealand as a consequence of the cost involved in the major reconstruction of Rongotai Airport at Wellington. The Director of Administration in the Civil Aviation Administration 1951-1952 had proposed "that airport development should be funded equally by government and the local body concerned" and that the use of airport facilities should be paid for "on a reasonable basis" by the users (McGreal, 2003, p. 154).

The scheme became known as the joint venture airport scheme and was a "series of joint venture arrangements" between the local authorities and government "to develop New Zealand's airport infrastructure" (King, 2006, p. 1). The government and one or more local authorities would agree to form a partnership to manage the joint venture airport. The government would share the cost of any capital expenditure and future improvements and any deficits or surpluses were shared equally between the parties. Despite the government retaining a 50% shareholding in the venture it had no role in the day to day running of the airports; this was left to the local authority partners. The aerodromes were handed over to the local authorities in their pre-war condition and any assets acquired during the war "were to be held in trust" by that airport (McGreal, 2003, p. 155). The joint venture airport policy was implemented over some 21 years and by 1974 there was a peak of 24 airports involved in this scheme (Lyon and Francis, 2006).

The Ministry of Transport (1972) suggest that “[t]he purpose of the joint-venture management was two-fold – to slow demand and obtain a local contribution towards costs; and to expand local interest and pride in the aerodrome as a local asset” (p. 3). Some authorities were reluctant to take on this responsibility while others saw it as an opportunity to develop their regional airport. At the time the government “decided that local bodies should contribute to the cost of providing aerodromes in their localities on the basis of the community’s ability to pay ... this policy was difficult to implement because communities ... tended to claim inability to pay” (p. 2). The Wellington City Council agreed to pay one third of the cost of providing the new Wellington Airport while the Christchurch City Council agreed that the cost of developing Christchurch Airport would be shared on an equal basis. Equal sharing was subsequently to become the basis of the national joint venture policy and the only other significant departure from this prior to 1972 was the development of the new airport at Auckland during the early 1960s. In this case the government had agreed to contribute more than 50% of the costs. The broad principles contained in these agreements were as follows:

- The Crown and the local body both pool all assets.
- All future expenditure is shared equally between the two parties.
- The local bodies have autonomy in management and maintenance matters but annual estimates are to be provided to the Ministry of Transport.
- All future capital expenditure is to have the prior approval of both parties.
- The Crown will continue to have responsibility for aircraft operational matters.
- The Crown will continue to be responsible for the provision, operation and maintenance of airway facilities. (Airways facilities are defined as all technical en route approach and aerodrome facilities designed for the safety of flight, and include aeronautical communications, meteorological services, navigation aids, air traffic control, lighting systems, and search and rescue services).
- The Crown will continue to prescribe airport dues on a national basis.
- The local body is to keep separate airport accounts on a commercial accounting basis, as determined by the Ministry of Transport. All annual surpluses or deficits are to be shared equally between the parties (Ministry of Transport, 1972, p. 4).

The scheme had some problems as the Minister of Civil Aviation and Meteorological Services, Richard Prebble pointed out when announcing new airport policy in 1985 (Minister of Civil Aviation and Meteorological Services, 1985). A requirement that existed for both parties to agree on all capital expenditure caused difficulties because local authorities and central government sometimes had different objectives. The government also constrained the potential revenue of the airports, a major source of income, by fixing airport and airways dues nationally. Airport dues were normally set at between 3-5% of the gross revenue generated by an airline using a particular airport and were paid by airlines to the respective airports in arrears (Manager G Airport 6, personal communication, March 27, 2009). The joint venture scheme was to remain the principal way by which airports were owned, developed and operated from 1953 until the 1986 amendments to the Airport Authorities Act 1966 that resulted in the commercialisation of the major airports between 1988 and 1990 (Lyon and Francis, 2006).

In October 1953 the UK withdrew from TEAL leaving it in the joint ownership of the governments of Australia and New Zealand (Aimer, 2009f; Sheehan, 2003). When BCPA liquidated in the same month TEAL received three land-based Douglas DC6 aircraft as payment for its investment (Sheehan, 2003). The transfer from flying boats to land-based planes meant TEAL had to move its Auckland operations to Whenuapai Air Force Base. In July 1955 a civil engineer named J. Wright "warned that the advances in aircraft technology were producing bigger, heavier, more powerful aircraft, effectively out-dating conventional airport design" (Thompson and Clements, 2003, p. 67). The same year the government finally announced that Mangere would be the site of the major domestic and international airport for Auckland but that it would not be needed for another 10 years. PAA, a licensed international airline, disagreed with the government's decision and suggested that airport development within New Zealand was already lagging behind the need and that the international airport should proceed as quickly as possible (Rendel, 1975). It had been the original intention of the government to share the cost of the construction of the new Auckland Airport at Mangere on an equal basis with its local authority joint venture partners in 1959 but this plan was subsequently abandoned. The government then agreed to fund the bulk of the development of this particular airport in the expectation that airport charges would be levied against the airport users to recoup the development costs over the first six years of its operation (Thompson and Clements, 2003).

During the late 1950s the domestic airline NAC decided to replace its reliable unpressurised DC3 Dakotas which were able to land on grass and tarmac with pressurised turboprop airliners. Not all the airports could accommodate these aircraft and some services had to wait until the runways had been improved (Wright, 2002). The first Vickers Viscount 807 was delivered on 10 January 1958 and could only operate on the trunk route from two airports, Whenuapai at Auckland and Harewood at Christchurch. They were finally able to land in Wellington in 1959 and Dunedin in 1962 (Sheehan, 2003). The larger and heavier Fokker F27 Friendships needed for provincial services were delivered from December 1960 but could not operate as intended either until the mid-1960s (Ewing and Macpherson, 1985; Rendel, 1975; Wright, 2002) when runways had been built to "more-or-less standard specification: usually a single black bitumen strip, about 1400 metres long by 45 metres wide, with unobstructed approaches to each end of the runway" (Ewing and Macpherson, 1986, p. 212).

The Civil Aviation Administration of New Zealand published a document containing the principles and procedures of joint-venture airports in 1961. At this time of this report there were 12 New Zealand airports within the scheme. The Air Department (1961) comments in this document, on the increasing acceptance of air travel during the immediate post-war years creating a need for substantial improvement to airports to accommodate modern aircraft, an acceptance of the need for subsidising improvements relating to air transport and a clear intention of eventually implementing a user pays approach to developing air transport infrastructure. “The "user who pays" and the community are entitled to the assurance that effective promotion and commercial development, associated with efficient maintenance and operation, will show some prospects of airports eventually becoming self-supporting if not self-liquidating” (p. 3). By the mid-1960s the government was advocating a "user pays" policy and examining ways by which the cost of providing airports and airways could be passed on to those who benefitted from them. The objective of this policy was to recover full costs where it was practical to do so (Ministry of Transport, 1972; McGreal, 2003). This required a change in financial thinking within the Ministry of Transport to account for such costs and revenues.

Various local authorities, as joint venture partners with the government, were now faced with the significant cost of building new runways and terminal facilities. As the joint venture airports could not borrow the money the different partners were obliged to supply or borrow the necessary funds. Rendel (1975) suggests that this financial constraint was the principal reason the developments were not completed on time and subsequently the services and delivery of some new aircraft wwere held up. Eighteen months after the arrival of the first the Fokker F27 Friendship in 1960 the aircraft were finally able to use the first of the new or reconstructed aerodromes. The first, Momona at Dunedin, was completed in July 1962 and others followed; Whakatane in December 1962, Rotokawa in Rotorua and Napier in October 1963, Onerahi Airport at Whangarei in June 1964, Wharekawa in Taupo in June 1965, Mangere in Auckland in January 1966 and Tauranga in July 1967 (Ewing and Macpherson, 1986; McGreal, 2003).

Domestic services were transferred back from Paraparaumu Airport, some 60 kilometres north of Wellington City, to the completely reconstructed and more centrally located Rongotai Airport in October 1959. Despite the rebuilding, geographical constraints still placed limits on the size of aircraft that could operate out of Wellington Airport. Later this would require Air New Zealand to retain single models of older aircraft to service this airport when it upgraded its fleet from the Electra to the DC8 and again from the DC8 to the DC10 to meet the political requirement to have an international airport at Wellington (Francis and Lyon, 2008). Christchurch continued its own development path ensuring that it remained the second most important airport in New Zealand. In 1962 its runway was extended to 2,442 metres and 12 years later it again extended the length of its principal runway to 3,287 metres.

In 1960 the last TEAL owned and operated Solent flying boat ceased operations (Sheehan, 2003) and construction finally started on the new international airport at Mangere near Auckland (Thompson and Clements, 2003; Wright, 2002). A number of key New Zealand politicians and civil servants at this time were finding it increasingly unacceptable that Australia was allegedly dictating aviation policy to New Zealand (McGreal, 2003). New Zealand’s aspirations for TEAL to expand internationally were not supported by its partner, the government of Australia and owner of Qantas, because of conflicting interests. New Zealand and

Australia agreed that New Zealand would become the sole owner of TEAL and 1 April 1961 full ownership of the airline was acquired by New Zealand. The company was subsequently renamed Air New Zealand. It developed steadily during the 1960s, was financially successful and expanded its routes (Ewing and Macpherson, 1986). On 4 April 1963 the first international scheduled pure jet service commenced with the arrival of a British Overseas Airways Corporation (BOAC) Comet jet at Whenuapai Airport. The air-force base at Whenuapai continued to operate as the international airport for Auckland until Air New Zealand made the first flight from the new domestic and international Auckland Airport at Mangere to Sydney in November 1965. This airport was officially opened in late January 1966 (Rendel, 1975; Thompson and Clements, 2003) completing the three international airport model recommended by the Tymms Report in 1948. This three international arrangement was to remain in place for 19 years until 1994 when Kiwi Airlines was established and flights to Australia from Hamilton established it as the fourth international airport (Lyon and Francis 2006).

On 17 November 1964 the Civil Aviation Act 1964 was passed into law. This was "[a]n Act to constitute the Department of Civil Aviation and to consolidate and amend the law relating to civil aviation". Part 1: Department of Civil Aviation: Sections 3, 4, 5, 12, 13 and 25 of this Act are of particular interest to this investigation. Sections 3 and 4 provided for a Department of Civil Aviation to be established under the control of a Minister of Civil Aviation. Prior to this civil aviation had been part of the Minister of Defence's portfolio. Section 5 (1) (a) makes it clear that the principal function of the Act is "[t]o promote and encourage the orderly and economic development of civil aviation". Section 12 (1) of the Civil Aviation Act 1964 explains that one of the "functions" of the Minister of Civil Aviation is to:

> [D]o all that is necessary or convenient to be done for ... the establishment, maintenance, and operation ... of any aerodrome under his complete or partial control... as if the operation of the aerodrome or of the services or facilities were a commercial undertaking.

This is the first reference in legislation that requires the minister to regard aerodromes as commercial entities. It predates the announcement of government policy to form airports into companies in conjunction with its local government partners by some 21 years. The Act goes on to clarify what authority the minister had regarding the management of airports and the commercial operations within them. Firstly section 12 (4)(a) allows the Minister of Civil Aviation to enter into "joint venture" arrangements and secondly to "transfer... the management of any aerodrome under the control of the Minister ... to any other ... parties" in subsection (4)(d). Thirdly subsection (4)(g) makes provision for commercial activities to be carried out at aerodromes "for the operation of the aerodrome or for the convenience of persons using the aerodrome". Section 13 goes on to make provision for the setting of charges and dues and indentifies who should meet these charges. It makes provision for the charges to be levied against those owning or operating aircraft and other parties. Section 25 of this Act made provision for the sale of liquor at international airports provided that any such liquor purchased was not consumed in New Zealand or provided to any other person who remained in New

Zealand. From 1964 there was the statutory basis for commercial matters to be taken into account with regard to the operation of the airport system in New Zealand. The facility now existed for the private sector to become involved and both the private sector and public owners to treat the airport as a "commercial undertaking". At this time the owners of all the major airports within New Zealand were either the government or the government in partnership with one or more local authorities.

The Minister of Defence had been responsible for the administration of civil aviation within New Zealand since the establishment of the Air Department Act 1937 but this changed when the Civil Aviation Act 1964 reaffirmed the need for a Department of Civil Aviation, provided for the "appointment of a Secretary for Civil Aviation as the administrative head of the Department" and created the first Minister of Civil Aviation portfolio (CAA, 2003, p. 10). Its primary function was "to promote and encourage the economic and orderly development of civil aviation in New Zealand" (Rendel, 1975, p. 94). However within four years airport management was to become a division of the Department of Transport (Swarbrick, 2009).

4.6 The Airport Authorities Act 1966

On 19 October 1966 the Airport Authorities Act 1966 was passed. It was "[a]n Act to consolidate and amend the Local Authorities Empowering (Aviation Encouragement) Act 1929 and its amendments and to confer powers on certain local authorities and other persons in respect of airports". It allowed the airport authorities to obtain licences to operate airports under the rules associated with the Civil Aviation Act 1964. Although this Act has been subsequently amended on a number of occasions it remains in force today.

Section 3 **Airport Authorities may establish and carry on airports**

> (1) Any local authority, with the prior consent of, and in accordance with any conditions prescribed by, the Governor-General by Order in Council, may establish, improve, maintain, operate or manage airports (including the approaches, buildings and other accommodation, and equipment and appurtenances for any such airports) and may acquire land for any such purpose either within or without its district.

This legislation was similar in many respects to the act that it replaced, in terms of the mandate it provided for local authorities to establish and maintain airports, but it goes further and includes the authority to "operate or manage airports". The most significant of the amendments made to the Airport Authorities Act 1966 took place in 1986, when airports were required to be operated or managed "on a commercial basis".

The Ministry of Transport Act 1968 was "[a]n Act to establish the Ministry of Transport to provide for the development and administration of an efficient and economical transport policy for New Zealand and to provide for matters incidental thereto". The newly created ministry was responsible for "advising the

Minister" (s4 (2)(a)), "undertaking research" (s4 (2)(b)) and maintaining a "close liaison with the ... New Zealand National Airways Corporation, Air New Zealand Limited, and other Departments of State and public corporations ... concerned with transport" (s4(2)(d). Section 14 of this Act established the position of the Director of Civil Aviation Division to replace the Director of the previously independent Civil Aviation Department that had previously reported to its own Minister. The Minister of Transport was now responsible for administration of both the Civil Aviation Act 1964 and the Airport Authorities Act 1966. Rendel (1975, p. 96) suggested that this new "monstrous centralised" Ministry of Transport was inefficient. Ten years later he was still extremely dissatisfied with its performance. Rendel (Ewing and Macpherson, 1986) argued that aviation was growing rapidly and becoming more sophisticated and could not be compared to the shipping or road transport industries. He felt that "the subordination of the Civil Aviation Division to the Ministry of Transport had completely inhibited any long term planning" (p. 259) and that while aviation remained in the hands of the Ministry of Transport it would not develop freely.

Advances in the aircraft industry continued to influence the development of major airports in New Zealand during the 1970s. Wellington's Rongotai Airport received an extension in 1971 to meet the requirements of the larger and heavier DC8. Auckland International Airport's runway was extended in 1973 to prepare for Air New Zealand Jumbo Jets (Ewing and Macpherson, 1986).

Despite opposition from various government departments NAC went ahead with its purchase of American Boeing 737s. It appeared to its critics that the New Zealand National Airways Act allowed the airline to do exactly what it wanted without government approval while Air New Zealand which was operated more directly by the government was constrained by both Treasury and Civil Aviation. The government reacted by directing NAC to make a profit ending the airlines days as a public utility (Ewing and Macpherson, 1986). The early 1970s were not easy for the airline with fuel and wage increases resulting in increased passenger and freight charges. NAC was forced to release some of its third-level sectors and new small commercial operators like Air Central, Eagle Air and Capital Air emerged on these routes (Ewing and Macpherson, 1986).

In 1972 the Ministry of Transport produced a report on the joint venture airport scheme. It recorded that the scheme was achieving its objectives and would continue to be the principal manner in which airports would be owned and managed. The report (Ministry of Transport, 1972) stated that "[a]n airport is now recognised as a complex entity, which, if business principles are applied, can be developed into a self supporting undertaking" (p. 11). It showed further evidence of the trend towards the continuing development of the commercialisation of airports. At this stage the airports were not expected to return a profit to their shareholders but they were expected to at least meet their costs**.** Airports continued to be added to the scheme and the total number peaked in 1974 when there were 24 joint venture airports. Taupo was the last airport to join the scheme in 1974 (Lyon and Francis, 2006) and is one of the remaining five joint venture airports (King, 2006). Lyon and Francis (2006) suggest that the joint venture airport scheme was becoming increasingly cumbersome to manage during the 1970s and 1980s. All the parties to the various joint ventures had to agree on developments, and any associated capital expenditure, but there was no facility for the airport to be able to borrow to fund developments. There was also disagreement between central government and local owners as to how they should be developed. At Christchurch Airport the local government owners wanted to significantly increase the capability of that airport but central government would not agree to do so.

The government published a Policy Review of Civil Aviation in New Zealand in 1975. The review identified that there was still a need for central government to “exercise a substantial measure of control over the airport complex, air services, and the industry as a whole” (Minister of Civil Aviation and Meteorological Services, 1975, p. 4). It identified the need for users and beneficiaries to meet their fair share of the costs so that the airport and airways system could become commercially viable over time. The review, however, recommended that the government remain in control of the manner in which airports were to be developed and operated. This situation was to prevail for a further 10 years until the government issued a new policy titled *Airports -a new partnership* in 1985.

New Zealand airports had been largely designed to accommodate the national domestic carrier NAC and international carrier Air New Zealand. The government merged these companies on 1 April 1978 (Aimer, 2009f; Air New Zealand, 2006) to create Air New Zealand Limited and this newly formed state-owned company continued to operate as a monopoly provider of domestic air transport until such air services were deregulated by the National Government on 1 April 1984. Ewing and Macpherson (1986) suggest that the reason for this was that:

> [T]he deregulation of America’s internal airlines and Australian’s decision to opt out of a coordinated South Pacific air tourist policy and to go it alone ... [had]had a flow-on effect impact on countries like New Zealand, and ... effectively forced New Zealand to do the same (p. 249).

This open skies policy was to have a significant impact upon the development of the airport system, which was now expected to service airlines owned by foreign parties operating both domestically within New Zealand and internationally. Deregulation allowed any applicant to apply for an air services licence to operate in New Zealand provided certain safety and financial conditions were met. The new legislation represented a change from controlling the quantity of air services within New Zealand to controlling the quality of those services delivered. Deregulation also paved the way for competition on domestic routes and shortly afterwards on international routes as agreements with Australia were forged to allow the growth of competition on air routes between the two countries, and the opportunity for Australian airlines to operate domestically in New Zealand. An airport system was now needed that was capable of identifying and responding to these new challenges and opportunities and it arrived a year later in the shape of a new government policy.

4.7 Summary

The period from 1918 to 1985 resulted in airports developing from paddocks and harbours to a network of domestic and international airports. These changes were driven by the developments in aircraft technology and increasing recognition of the importance of both domestic and international air transport.

During the 1930s domestic air travel was developing steadily and international air links were being investigated. Rapid advances in airport capability and air transport technology to meet military requirements during WWII created resources that could be utilised by the New Zealand aviation industry post-war. The government then took control of the development of civil aviation, including airports, and rapid growth in air transport capability and activity took place.

In an effort to share the increasing cost of airport development and operation, and to moderate the demands of different communities for airport development the government initiated the joint venture airport scheme in 1953. This scheme was to form the principal manner in which airports were owned, managed and developed until a new policy initiative was announced in 1985, two years after domestic aviation had been deregulated. A major element of the joint venture scheme was that both central and local government became joint owners of the airports. The joint venture scheme continued to grow until 1974 when it comprised a total of 24 airports throughout New Zealand. From the mid-1970s the scheme became increasingly difficult to manage because the partners in some instances had different objectives which meant that they were unable to agree on how individual airports should be developed and financed. In 1985 the government proposed a new scheme by which the airports would be formed into companies and thereafter operate on a commercial basis.

What is evident from the literature is that the commercialisation of New Zealand's airports has been an emerging and consistent theme from as early as 1929 (Local Authorities Empowering (Aviation Encouragement) Act, 1929), and that over the period until 1985 there was an increasing emphasis on airports becoming self-sufficient and meeting their own developmental and operational costs. What was to change from 1985 was a new expectation of profit from their activities and a financial return to the shareholders in these entities (Minister of Civil Aviation and Meteorological Services, 1985). These developments form the basis of Chapter 5.

Chapter 5 - Airport commercialisation in New Zealand

5.1 Introduction

This chapter discusses the traditional and commercial perspectives of the airport as a type of entity: how and why the change from the former to the latter has occurred both internationally and in New Zealand. The chapter is divided into four main parts. First it discusses the perspective of the traditional airport, how the purpose and role of airports have changed, and the reasons for these changes. It contrasts the results of this change in New Zealand with examples from Australia, UK and the USA. Secondly it traces and discusses the development of the economic policies that resulted in the New Zealand Government's decision to commercialise airports in 1985, and the prevailing political climate that resulted in significant amendments to New Zealand legislation in 1986 to include the requirement that airports be managed or operated on a commercial basis. Thirdly the chapter examines the implementation of these policies in relation to the establishment and operation of commercialised airports as the dominant model of airport ownership and operation in a New Zealand context from 1986 to the present day, and the actions taken to control the potential monopoly behaviour of commercialised airports. Finally the chapter discusses whether or not there is a need for a national plan, or strategy, to guide or control the development and operation of airports in New Zealand.

5.2 The traditional view of New Zealand airports

The definition of a New Zealand airport has slowly evolved in the legislation. The first act relating to aviation in New Zealand, the Act to Control Aviation 1918 had merely "[d]eclare[d] any area of land or water to be a landing-place for aircraft". Thirty years later the growth of aviation and New Zealand's acceptance of international standards, practices and procedures had resulted in aerodromes being much more regulated by legislation. The Civil Aviation Act 1948 defined an aerodrome as "any area of land or water normally used for the taking off, landing, and alighting of aircraft" and "include [d] any buildings or installations on or adjoining any such area used in connection with the aerodrome or its administration"(No 12 s2, p. 130). This definition was slightly amended in the Airport Authorities Act 1966. An airport was now declared to be "any defined area of land or water intended or designed to be used either wholly or partly for the landing, departure, movement, or servicing of aircraft; and includes any other area declared by the Minister to be part of the airport; and also includes any buildings, installations, and equipment on or adjacent to any such area used in connection with the airport or its administration" (Airport Authorities Act 1966 s2).

The literature suggests that like most traditional airports around the world, New Zealand's airports were strictly regulated public utilities (Doganis, 1992; Ewing and Macpherson, 1986; Graham, 2003; Rendel, 1975; Waugh and Layne, 2000) "owned, designed, financed, built and operated" by a government department (de

Neufville and Odoni, 2003, p. 8). The aviation industry was first regulated in New Zealand by the government in 1918 (Swarbrick, 2009). Since then it has been operated by various government agencies; the Air Board which consisted of representatives of various government departments (1920-1937) (Ross, 1955), the Civil Aviation Branch of the Air Department within the Defence Department (1937-1964), the Department of Civil Aviation (1964-1968) (Archway, 2008) and a division of the Ministry of Transport since 1968 (Swarbrick, 2009). Little reference is made in the literature regarding the design and building of New Zealand airports until the depression in the early 1930s when “earth moving and surface levelling at aerodrome sites" was carried out by a Ministry of Public Works relief scheme (McGreal, 2003, p. 64). This led to the ministry creating the Aerodrome Services Branch of the Public Works in 1933. This group of New Zealand airport specialists designed, constructed and developed most of the airfields throughout New Zealand over the next 40 years. The literature also briefly mentions another government agency, the Air Services Department of the New Zealand Military Force, which carried out construction work in the late 1930s at Mangere aerodrome in Auckland (Thompson and Clements, 2003). The earliest civil airfields appear to have been owned and maintained privately or by aero clubs. The first aerodrome to be owned and financed by the New Zealand Government was Wigram aerodrome in 1923 for military purposes; this was closely followed by the purchase of land at Hobsonville in 1925 for the same reason (Ross, 1955). From the beginning successive New Zealand Governments have been reluctant to assume sole responsibility for the funding of civil aerodromes. In 1929 the government passed the Local Authorities Empowering (Aviation Encouragement) Act 1929 giving local authorities the power to borrow a limited sum to help establish and maintain their own aerodrome (McGreal, 2003). From 1946 most of the government owned and financed RNZAF airfields were transferred to civil use or joint military and civil use (Rendel, 1975). By 1953 a new government policy encouraged one or more local authorities to form a partnership with central government and share the cost of any capital and future improvements of the joint venture airports. The government retained a large shareholding in the various joint ventures but the airports were managed on a daily basis by the local authority or authorities (Ministry of Transport, 1972; Rendel, 1975).

5.3 Why the purpose and role of airports has changed

The oil crisis in 1974 put an end to more than 20 years of economic growth and resulted in many governments having to address the issues of rising unemployment and inflation and falling productivity. By the end of the 1970s countries like the UK, the USA and Germany had responded by making "a political shift in ideological leadership from centre left to centre right" (Williams, 2006, p. 10). There was a call:

> [F]or the liberalization of much of the administrative activity that had for so long been the province of public sector management. Market reform was to mean the active and extensive withdrawal of the state in terms of the design and implementation policy directions. But it also had a secondary effect brought about through the systematic deregulation of what had become the state sector (p. 11).

The deregulation of airlines, largely led by the USA from 1978, had created a need for airlines to act more commercially and placed increasing pressure on the rest of the aviation industry to do the same (Button, 2008; de Neufville and Odoni, 2003). As a result the purpose and role of airports was to change in many countries. Airports were no longer seen as public utilities but rather as commercial enterprises (Doganis, 1992; Graham, 2003) in a market environment (de Neufville and Odoni, 2003; Williams, 2006). On 14 June 1985 the Hon. Richard W. Prebble (Minister of Civil Aviation and Meteorological Services, 1985) publically identified the main role of New Zealand airports as commercial businesses. The method by which this policy would be put into effect was announced by Prebble as being the creation of airport companies.

Airports can adopt a commercial focus irrespective of ownership. They can be corporatised by becoming separate legal entities, with public or private owners, or privatised, where some or the entire airport is transferred from public to private hands. Privatisation as one means of commercialising airports is discussed in more depth later in this chapter. In 1985 the New Zealand Government viewed airports as "community owned commercial enterprises" (Minister of Civil Aviation and Metrological Services, 1985, p. 7) and proposed that with local authority approval the existing joint venture airports should be restructured into airport companies owned by both local and central government. These new companies would, according to the minister, provide greater autonomy to airport managers, independent legal status to airports, and airports would be managed to produce a return to their owners.

Graham (2003) identifies three developments that occurred within the international airport industry. First was commercialisation, the adoption of a more businesslike management philosophy. This was explicit government policy in New Zealand from 1985. Secondly was privatisation, involving the transfer of the management of airports to private owners. This became the policy in many countries but was not so evident in New Zealand. A clear distinction can also be drawn between privatising the management of an airport and privatising the entire airport. In New Zealand the management of airports has not been privatised except those airport companies that have a majority private shareholding; for example Auckland and Wellington airports. In Australia the Federal Government has entered into long term leases with private companies to manage and operate government owned airports (Forsyth, 2006, 2008). Thirdly airport globalisation, the emergence of global companies operating at significant airports around the world (Graham, 2003). This has not occurred in terms of parties external to New Zealand either owning or managing airports in New Zealand. In fact the reverse has happened to some degree with a New Zealand infrastructure company, Infratil, owning and operating airports in England and Scotland (Infratil, 2007).

5.4 The economic deregulation of airlines in the United States of America

de Neufville and Odoni (2003) suggest that the changes to airports worldwide occurred as a result of the economic deregulation of airlines in the USA in 1978. This deregulation removed government controls and enabled the airlines to make their own decisions about the price, services and routes that they flew. The primary motivation for the economic deregulation was a "public desire for effective competition and lower prices" (p. 98) coupled with the political climate of the time. It "led to rapid innovation in services, big increases in productivity, and significant fare drops ... and spread to major markets worldwide" (p. 17). The move to deregulate New Zealand's domestic aviation market followed some five years later in 1983 with the introduction of the revised Air Services Licensing Act 1983. This Act shifted the regulatory emphasis from the quantity to the quality of air services. A restriction in the 1983 Act regarding foreign applicants for licences was subsequently removed by the Air Services Licensing Amendment Act 1986 (Goh, 2001). The significant growth in air transportation and the increasing deregulation and commercialisation of the aviation industry changed the way in which airports were viewed (Graham, 2003), owned and managed (Ashford and Moore, 1992; Garner and Mew, 2003). Policy makers identified that the commercialisation of airports would limit their financial responsibilities with regard to airport development and operation, and were of the opinion that there existed a potential for airports to be better managed commercially and in some cases by private entities (Graham, 2003). These changes have occurred to different levels and at different rates in various countries. New Zealand had largely adopted the airport development model of either local or central government entities initiating and controlling the development of aviation, and the development of airport infrastructure, until 1953 (Ewing and Macpherson, 1986; Render, 1975). The New Zealand experience had, however, been one of increasingly expecting airports to meet their own costs, and raise their own funds, from 1929 onwards (Local Authorities Empowering (Aviation Encouragement) Act 1929), and the subsequent identification of the commercial opportunities available to airports from 1948 (Tymms, Spencer and Warcup, 1948).

5.5 A contrast between airport development in New Zealand and the United States of America.

Air transport and airport businesses have developed differently in the USA from New Zealand and many other countries. In the USA the airlines have always been privately owned and financed and the airports mostly financed, constructed and operated by the public sector. The federal government pays for runways, air traffic control facilities and safety measures through the Federal Aviation Administration. The capital to build the rest of the airport infrastructure at major airports principally comes from fees charged to passengers and bonds offered to private investors. The Airport and Airway Trust Fund in the USA was established to levy passengers to provide funds for the development of airways and airport systems (de Neufville and Odoni, 2003; Horonjeff and McKelvey, 1993). Horonjeff and McKelvey suggest that access to this capital has negated the need for USA airports to privatise, and contend that the absence of similar arrangements in other countries may have driven the move to privatise. Wells (1999) indicates that another significant reason that the USA airport system has evolved differently is the involvement of the airlines in the management and operation of the airports that they operate from. The use of a dual till system, which accounts for aeronautical and non-aeronautical revenue and expenses separately at an airport, means that the airlines are able to play a significant role in determining the aeronautical charges they pay. Since USA airports are essentially considered a public resource, rather than a profit making enterprise, the costs incurred by airlines are likely to be closer to the actual costs of delivering the service. Airports can also apply for and receive federal assistance for major capital projects (Wells, 1996).

New Zealand operates a different system and does not use the dual till method for separating aeronautical and non aeronautical revenue. Airport companies do not receive any government funding and are required to operate commercially and generate financial surpluses. Again by way of contrast airline companies do not play any role in the management of New Zealand airport companies or the charges that they levy against airlines. Airlines are customers of airport companies and as such are required to meet the charges levied against them. On a number of occasions airlines have contested such charges in the High Court of New Zealand.

5.6 A comparison between airport development in New Zealand and the United Kingdom

Until the early 1960s civil aviation in the UK had been controlled by the Ministry of Defence. Similar arrangements were in place in New Zealand and there is in many regards a common history to early systems and processes between the two countries. In 1966 the British Airports Authority was established by legislation and the Authority awarded ownership and management responsibility for Heathrow, Gatwick, Stansted and Prestwick airports. By 1971 the Authority had also acquired Edinburgh, Aberdeen and Glasgow airports (British Airports Authority, 2009). The 1970s had seen a significant downturn in world economies and by the 1980s there was a call for market reform. This affected airports in the UK and airlines in the USA (Williams, 2006). In the UK there were clear indications in the Conservative Party's 1983 General Election Manifesto of its intention to privatise as many publically owned airports in the UK as possible (Butcher, 2009). Exactly two years after the Conservatives had been returned to government (Rubinstein, 2003) in June 1983 they repeated their commitment to privatise airports in a White Paper on *Airport Policy* (Butcher, 2009; Doganis, 1992).

> 3.1 [T]o encourage enterprise and efficiency in the operation of major airports by providing for the introduction of private capital"

> 3.2 It also continues to be the Government's policy that air transport facilities should not in general be subsidised by the taxpayer or the ratepayer. Airports, whoever their owners, should normally operate as commercial undertaking (HMSO, 1985, p. 5).

Some two years after the election of a Conservative government in the UK the fourth Labour Government in New Zealand issued a major policy statement *Airports – a new partnership.* New Zealand amendments to the Airport Authorities Act 1966 made in 1986 included a requirement for airports to be operated on a commercial basis, similar to the UK government directive. Since the passage of the Airports Act 1986 (UK) a significant number of major airports within the UK have continued to operate successfully following privatisation and the UK developments have been seen as a possible model for privatisation by other countries. In 1999 legislation was passed within the UK that enabled publically owned airports to borrow from the private markets. There is evidence in the literature that the key to the successful development and operation of airports is as much the ability to be able to access the required capital as the actual ownership of the entity (Francis, Humphreys and Fry, 2000). This is important because it is potentially the conditions under which airports operate rather than ownership structures that can determine their commercial success. In New Zealand the ability for airports to borrow came with the commercialisation of the airports and the passage of the Airport Authorities Amendment Act 1986. As a consequence publically owned New Zealand airport companies that were established between 1988 and 1990 enjoyed this facility for some 10 years before it became available to publically owned airports in the UK, and it may be a reason why there was not a similar emphasis placed upon privatisation within a New Zealand context.

Following the earlier deregulation of the airline industry, Gerber (2002) considered that the privatisation of the British Airports Authority in the UK was the first significant example of the privatisation of airport infrastructure worldwide. Since the privatisation in the UK he reports that a number of other countries have chosen to partially or completely privatise their airports by selling equity in them. In contrast with the deregulation of airlines he contends that in some cases the necessary regulatory frameworks were not put in place before these sales were affected. The British Government in fully floating the British Airport Authority retained a single *Golden Share* which was a model not followed by other governments (The World Bank, 1999).

Forsyth (1999) suggests that there are different reasons for deciding to privatise airlines and airports. He indicates that in the UK's case the government felt that private interests could control the power of the unions and be more efficient than the state in operating such entities. A further motivating factor was a desire for governments to withdraw from industries that could be run by the private sector. In 1986 the Airports Act 1986 (UK) was passed into law and a year later in 1987 the British Airports Authority (BAA) became a private company (de Neufville and Odoni, 2003, p. 94). In New Zealand the Airport Authorities Act 1966 had been amended in December 1986 to allow for the corporatisation of New Zealand airports, and a year later the Auckland Airport Act 1987 provided for the creation of a company to own and operate Auckland Airport

(Thompson and Clements, 2003). In 1988 Auckland International Airport Limited was incorporated and commenced trading as the first of the new airport companies to be established in New Zealand. While the commercialisation of airports was proceeding at the same time in New Zealand and in the UK, in the New Zealand case public ownership remained the preference as government policy. The New Zealand model of airports that was to be developed closely resembled the description by Doganis (1992) in that it "involved the creation of autonomous airport companies or corporations able to operate as independent commercial enterprises while remaining under government ownership" (p. 5).

5.7 The nature of airport commercialisation

Airports have moved from the traditional model, which involved governments developing, owning and managing them, to more commercially orientated models. This move has occurred at different rates in various countries (Hooper, 2002). Airport commercialisation is generally seen as viewing an airport as a business. Francis, Humphreys and Fry (2000) define commercialisation as "[t]he introduction of commercial objectives to a publicly owned enterprise" (p. 4). Graham (2003) suggests that it represents "[t]he transformation of an airport from a public utility to a commercial enterprise and the adoption of a more businesslike management philosophy" (p. 6). Both of these elements were present in the commercialisation of New Zealand airports. Freathy (2004) describes an alternative perspective to the traditional view of airports as public utilities as being one that "…views airports within a broader framework of economic change and commercial opportunity" (p. 91). What is common to all these definitions is the emphasis placed on a more businesslike approach to managing the airport and the expectation that it will provide a commercial return on behalf of the owners. Changes which were to take place in a New Zealand context from 1985 were primarily driven by the economic policies of the fourth Labour Government which came to power the previous year. These changes were also consistent with an evolving view as to how public service entities should be managed in many OECD countries.

The first edition of the ICAO Airport Economics Manual (1991) recognised a number of benefits that could arise from commercialisation and privatisation. These include freeing states from the capital burdens associated with airport ownership and giving management direct access to capital markets. It also identifies opportunities for airports to develop non-aeronautical revenue streams. The manual also reports that if government owned airports are given the same opportunities then similar benefits would result. The benefits identified are therefore potentially seen to arise from commercialisation rather than necessarily privatisation provided that the right operating conditions are in place. These statements are consistent with New Zealand Government policy that was announced in 1985 to commercialise and corporatise New Zealand airports (Minister of Civil Aviation and Meteorological Services, 1985). The World Bank (1999) provides an alternative perspective to the view that commercialisation can occur with public ownership, suggesting that it was the arrival of the private sector into airport operations that led to what it describes as the "*commercial airport model"* (p. 3) in which the infrastructure is then seen as representing business opportunities that are not present with the traditional airport model. This view is not shared by other writers, such as Forsyth (1999) who do not see that it is essential to have private sector involvement to operate airports on a commercial basis. Similarly Francis, Humphrey and Fry (2000) argue that airports that have remained in local government ownership within the UK have demonstrated that they can operate commercially and grow without cost to the taxpayer. Their study shows that while the initial move to privatisation in the UK was in part to access finance, this changed in 1999 when legislation was passed that also enabled public airports to also borrow from private markets. This new department gave publically owned airports the means to fund development and to some extent negate the perceived advantages of privatisation. A significant element of the debate regarding the change from the traditional airport model to one of commercialisation is whether or not the improvements sought by policy makers can be achieved with subsequent public ownership or whether it is necessary to move further to privatisation.

5.8 The size of the airport industry

de Neufville and Odoni (2003) and Doganis (1992) all agree that the airport industry is big business. Airports have become commercial enterprises capable of improving their profitability even when airlines are experiencing difficulties (Doganis, 1992). Airports have benefitted from cheaper, safer air services which have stimulated an increase in air traffic, aviation passengers and cargo traffic (de Neufville and Odoni, 2003; Doganis, 1992). The aviation industry has transported over 25% of the world's population each year since 2000 and there appears to be an increasing demand for long-distance travel (de Neufville and Odoni, 2003). This has resulted in airport facilities being better utilised and their costs being spread over larger numbers of aircraft and passengers (Doganis, 1992). Doganis (1992, p. 4) makes the point that "[t]he more congested, crowded and uncomfortable an airport the more likely it is to be highly profitable".

In New Zealand the gradual movement towards commercialisation accelerated from 1985 when it became the formal policy of the fourth Labour Government. Graham (2003) suggests that as a result of commercialisation "various airports loosened their links with their government owners" (p. 10). In a New Zealand context this "loosening" was achieved by corporatisation while existing ownership patterns remained largely unchanged for a significant period. There was some resistance from a number of the joint venture parties regarding the commercialisation and corporatisation of New Zealand airports. Some owners wished to retain the existing joint venture arrangements but the government vigorously pursued its own policy objectives and achieved them. Horonjeff and McKelvey (2000) suggest that the government's objective in commercialisation was to free themselves from the financial burden of having to provide large investments in airports. This was certainly the intention of the New Zealand Government which sought to not only free itself from additional financial commitment but to also receive both dividends and taxes from previous investment in the airports. de Neufville and Odoni (2003) explain that state ownership in a regulated environment is being replaced with business management in a market economy. The "increased orientation to profits and economic efficiency is overtaking political considerations" (p. 14-15) and governments are choosing to hand over responsibility for the operation of airports to companies and airport authorities. Carner and Mew (2003) agree that the major rationale behind the reform of airport governance has been the increasing commercialisation of aviation as an industry. They further see the benefits of the review of governance as being "the application of a commercial mentality to the entire airport enterprise. A commercial mentality entails a focus not only upon operation skills and facilities renewal and expansion but also upon a wider array of related commercial opportunities" (p. 228).

Most of the major airports in New Zealand and the UK moved from being public utilities to commercial enterprises from the mid-1980s. By way of contrast the USA has, however, continued to view its airports primarily as a public service, even after the deregulation of its own airline industry in 1978 (Hooper, 2002). It is interesting to note that while Graham (2003, p. 10) suggests that Europe led the commercialisation of airports worldwide there is ample evidence of commercialisation initiatives as early as 1929 within New Zealand legislation, and that commercialisation had developed as an element of the New Zealand system over time. By the end of 1986 legislation was in place to fully commercialise the major elements of the airport system. It can therefore be argued that these developments in New Zealand were occurring at the same time, or earlier, than those in the UK, and that consequently New Zealand can be considered as one of the leaders in airport commercialisation worldwide.

5.9 Airport privatisation as one means of commercialising airports

Airport privatisation is often described as the transfer of the ownership, management or operation of airports from the public sector to the private sector, and involves creating the airport as an entity that has a legal status in its own right (Francis, Humphreys and Fry, 2000). Graham (2003) broadens the description of privatisation to include “share flotations, the adoption of strategic partnerships or the introduction of private management contracts” (p. 6) as the means by which this can be achieved.

The privatisation of publically owned airports can potentially take a number of forms. These may include privatising some aspects of its operations e.g. the provision of food and drink services, privatising the management of the airport via some form of contractual arrangement, leasing the airport in its entirety to a second party while retaining ultimate ownership, or in the most extreme form selling the airport. Australia is an example of a country that has leased major airports to private interests for substantial periods and a number of airports in the UK were sold in their entirety to private interests from the mid-1980s as government policy.

In considering a policy of privatisation planners need to take into account their motivation for doing so. Doganis (1992) suggests two objectives for the privatisation of airports; firstly they bring in much needed "additional private money for investment" (p. 203) and secondly it is intended to increase profits. Those profits, however, are passed to private owners and the former public owners gain only through the initial sale of the asset, unless a proportion of the airport remains in public hands. In a New Zealand context only two of the major airports have a significant private shareholding therefore it could be argued that the public owners of these companies also potentially benefit from the profit driven behaviour of the private owners.

In a New Zealand context only Auckland Airport was floated on the New Zealand Stock Exchange, and subsequently the Australian Stock Exchange. It remains the only major Australasian airport so listed (Forsyth, 2006). The management of all the airport companies in New Zealand have remained with the shareholders and in no case has the management or operation of a major airport been contracted out to other parties. There are no known strategic partnerships that have been formed by New Zealand with other airport companies. Airport companies appear, however, to form strategic partnerships with related companies, such as exists in Christchurch between Pratt and Whitney and Air New Zealand in the form of the Christchurch Engine Centre. During interviews conducted from 2006 for this investigation, airport managers described a number of joint initiatives with airlines and local authorities for marketing and commercial purposes.

The question as to whether publically owned and operated, commercialised or privatised airports are more efficient is being reviewed in airport benchmarking studies that have been conducted to date by organisations such as the Air Transport Research Society (ATRS). Generally it is reported in these studies that privatised airports perform best, those in full public ownership less well but that the worst performing are those in joint private and public sector ownership, particularly those in joint public private ownership with a majority public ownership (ATRS, 2007). This study, however, recognises the difficulty and potential inaccuracy in comparing airports across countries. An alternative perspective put forward by Francis, Humphries and Fry (2000) is that if publically owned airports have the same access to capital as privately owned airports they can be just as successful as commercial entities. The conclusion that publically owned enterprises can be as cost effective as privately owned entities was also reported by Boston, Martin, Pallot and Walsh (1998) in their discussion of New Zealand economic reforms from 1984.

Graham (2003) suggests that privatisation provides freer access to the commercial markets, a reduction in control by governments, improved efficiency, more competition and a broader ownership of shares in these companies. Graham further argues that privatisation could be seen as an evolutionary step after commercialisation and states that commercialisation has generated "healthy profits and market orientated management" (p. 13). Forsyth (1999) argues that there are different reasons for deciding to privatise airlines and airports. In the case of the UK he argues that these reasons were the cash it received from the sale of assets, gains in efficiency from the private sector managing the operation and a desire to control the power of unions, which it was felt private owners could do better than state owned and operated entities. He also felt a further motivating factor was a desire for government to withdraw from industries that could be run by the private sector. While there is evidence within the literature of support for commercialisation there is less compelling evidence of the benefits of commercialised airports being in private rather than public hands.

In New Zealand there was a period of some seven years after the first airport companies were established until there was any private shareholding, and this was to be only 1% of Auckland Airport in 1995. Twelve years after legislation to commercialise airports was passed by parliament, significant privatisation was to occur in relation to major airports at Auckland and Wellington. During the same period from 1988 to 2000 the government also moved to sell its minority shareholding in airports such as Rotorua and Palmerston North to private interests. This partial move towards privatisation had ended by 2000 and there has subsequently been a move back to full public ownership in relation to major airports other than Auckland and Wellington.

5.10 Funding airport development

Since 1929 successive government publications and legislation have provided evidence that the government intended New Zealand airports to become increasingly self funding and not rely on the taxpayer to support airport development and ongoing expenses any more than was necessary. Despite this it spent large amounts of money between 1945 and 1985 to expand and maintain the network of airports. However it was not until 1985 that the government announced its explicit policy to commercialise airports. An analysis of the annual reports for the seven major New Zealand airport companies from incorporation to the financial year ending 30 June 2008 confirmed that there had not been a need for central government to inject further funds into the airport system, and that the government, as a shareholder in some of the major airports, has received dividends from these companies, and taxes. According to a manager at Palmerston North Airport (Manager I Airport 5, personal communication, April 19, 2009) from the time of incorporation the government expected that the new airport companies would be profitable and would pay 40% of their after tax operating surplus to their shareholders as a dividend on an annual basis.

Freathy (2004) suggests that the way various countries view their airport systems also dictates how they view commercialisation and privatisation. In New Zealand's case the airports have maintained the traditional role of moving passengers efficiently between destinations but they no longer exist for this purpose alone. Since 1985, and perhaps earlier as evidenced by legislation and policy, New Zealand airports have been viewed "within a broader framework of economic change and commercial opportunity" (p. 191), and become "complex industrial enterprises" (Doganis, 1992, p. 7). However while New Zealand governments have remained fully supportive of commercialisation and the operation of airports as commercial entities they appear to have been less committed to privatisation. The ownership of airports is often linked to the nature and amount of return that they generate (ATRS, 2007). Forsyth (2006) considers airports with more local government ownership to "act as if encouraging regional economic activity is one of their key objectives. Up to a point, they are trading regional development off against profit" (p. 15). This certainly appears to be the case with some local authority owned airports in New Zealand choosing to retain profits to develop the airport rather than pay dividends.

5.11 The perceived need to regulate airports

Forsyth (1999) contends that airports by their very nature have significant market power and are locational monopolies. Kapur (1995) identifies a need to put in place regulatory systems before proceeding to the commercialisation and/or privatisation of airports. These measures are seen as being necessary principally because airports are considered monopolies that will exploit this position if not held in balance. As such Forsyth (1999) considers that airports have the power to potentially set charges well above costs if they are left unchecked, and that it is this monopolistic aspect of airports that has caused reluctance by many countries to privatise their airports. Tretheway (2001) disagrees, he argues that airports do in fact face competition in respect of most of the commercial activities that they undertake and that therefore regulation of their activities is not in fact warranted or necessary.

Unlike Australia where there is only one airport servicing each large metropolitan area and therefore very limited competition (Forsyth, 2006) many airports in New Zealand are close enough to compete with each other, particularly as the capability of the smaller airports increases. During an interview for this investigation one airport manager suggested that it "is a popular myth that New Zealand airports are unfettered monopolies" (Manager D Airport 3, personal communication, March 13, 2006). For example within 200 kilometres from Auckland there are four airports capable of servicing aircraft of a Boeing 737/A320 size. In addition there are eight international airports competing for short-haul international services in a country with a population of less than five million. In relation to long haul international air services Auckland and Christchurch compete with each other for business, and managers from both recognise the negative consequences if long-haul services were to be routed to and from Australian airports, such as Sydney or Melbourne, with short-haul links to New Zealand airports. Airport managers interviewed for this investigation expressed concern that New Zealand potentially faces the prospect of being a "branch line" from Australia, and consequently consider that Australian airports form part of the same airport market.

Various countries have taken different approaches to regulation. When the government commercialised the major airports in New Zealand it took a very light handed approach to regulation (Forsyth, 2006). This was in contrast to what has happened in Germany and the UK where a heavy handed form of regulation has been imposed (Gillen and Morrison, 2005). Australia operated price regulation for five years post privatisation before moving to the current lighter handed regime (Forsyth, 2006). The situation in New Zealand may be to some extent the result of the speed with which the commercialisation policies of the fourth Labour Government were implemented, and because at the time airport commercialisation was being effected there was no associated policy of privatisation. Price control regulation may not have been seen as necessary because as a partial owner in all the major airports the government would have been in a position to influence the behaviour of the new companies. The ongoing investment in New Zealand airports since corporatisation can be contrasted with Australia, where according to a senior manager there was "[b]asically no investment during that whole period because airport companies couldn't invest and get a return on those investments" (Manager F Airport 4, personal communication, July 12, 2006).

There have been two principal stages of liberalisation in aviation; first the airline industry was deregulated and then the airports (Gerber, 2002). The New Zealand domestic airline industry had been deregulated in 1983 by the National Party led government then in power. The policy to commercialise airports was announced and implemented in 1985, following the election of the fourth Labour Government. Gerber suggests that governments put a regulatory framework in place to control airlines but regard airports as a "refuge in privatisation". He explains that "public hands sell their shares [in airports] *and* withdraw from active regulatory participation, without having due regard for accompanying political and legal arrangements" (p. 30). No specific airport related regulations were put in place in 1986, when legislation to corporatise airports was passed in New Zealand. The government was confident that provisions within the Commerce Act 1986, passed in the same month, were adequate to deal with any monopoly behaviour by the new airport companies.

The International Air Transport Association (IATA) is supportive of airport privatisation if there is "an effective set of controls on market power" prior to the sale, and it results in the "construction of required capacity" and "gains in efficiency" (Hooper, 2002, p. 299). In New Zealand there was no evident airport privatisation agenda in place when the airports were commercialised via corporatisation. Some airports were partially privatised from 1995 onwards, as the result of a less coherent strategy and occurred on a case by case basis. As a result due consideration may not have been given to the controls necessary to regulate monopoly behaviour although the information disclosure regime imposed in 1999 can be considered as the New Zealand response to such an apparent regulatory necessity. By way of contrast Australia introduced price regulation at each of the 22 airports it privatised during a five year period from 1998. McKenzie-Williams (2005) supporting this discussion suggests that "[a]irlines tend to emphasis the point that airport charges should not only reasonably be related to costs but that the costs themselves should be reasonable, an argument not always accepted or acted upon by airports" (p. 123). This is clearly an argument in favour of regulating or controlling prices at airports.

Francis, Humphrey and Fry (2000) indicate "that appropriate regulation complemented by a coherent policy framework of goals that reflect the economic and environmental needs of a country is also required to guide privatised and commercialised airport development" (p. 25). In a New Zealand context there was a clear policy of the commercialisation of airports that was linked closely with the economic objectives of the government that initiated this development. Government policy regarding privatisation was less coherent and only partially instigated. At the same time that the airport commercialisation agenda was being put into effect the government also passed legislation to control business in the form of the Commerce Act 1986. As amendments to the Airport Authorities Act 1966 to allow privatisation were not passed until 1990 and the first minority private shareholding did not occur until 1995 it can be argued that it was considered that there was no need for regulations specific to airports. A senior manager stated during an interview that "there has been a host of reviews and not one of those has come out refining the need for some form of legislation or regulation over airports,[or] the way airports set charges" (Manager A Airport 1, personal communication, February 24, 2006).

5.12 The political climate that led to the commercialisation of major airports in New Zealand

Prior to the snap election called by the Prime Minister, Robert Muldoon, in 1984 the New Zealand economy had been regulated; wages, dividends, rents, prices, interest rates, and the exchange rate had been frozen:

> [A] freeze superimposed on an economy already subject to extensive import protection, exchange controls, export subsidies and initiatives, compulsory ratio requirements for all financial institutions, qualitative and quantitative credit guidelines, and an array of other regulatory interventions by the [National] Government … (Deane, 1986, p. 11).

The Deputy Governor of the Reserve Bank of New Zealand, Dr R. S. Deane notes that the process of decontrol "commenced with a number of important changes in 1983–84 … especially the termination of the price freeze in February 1984, but was greatly accelerated after the change of government in July 1984".

The first sign of change in the New Zealand aviation industry had come a year earlier when the National Party led government deregulated domestic air transport in 1983. Now privately owned companies were able to compete with Air New Zealand on domestic routes (Collins, 1987) ending "[t]he licensed monopoly of a single airline on the main trunk ..." which had been a distinctive feature of domestic air transport to this time (Aimer, 2009, p. 5).

The literature supports Deane's suggestion that the election of the fourth Labour Government coincided with opinion from within the New Zealand Treasury and the Reserve Bank of New Zealand that significant change was needed in the way in which the economy was managed. Collins (1987), Aberach and Christenson (2001), and Easton (1997) are in agreement that the economic policies of this government were initiated by public officials rather than politicians.

> The drive for commercialisation came from Treasury, the chief economic and financial advisers to government. Certainly the ministers they advised, and who led government policy, were-at the very least-compliant, while ... the business sector, when it saw the opportunities, became enthusiastic (Easton, 1997, p. 85).

James (1989) attributes more responsibility for the new economic policy to Roger Douglas; Labour's Minister of Finance than Collins and Easton but acknowledges the key role that the Treasury and the Reserve Bank played:

> Within the Labour Party, was Douglas, nursing his ideas for a "better way". Waiting for Douglas were a Treasury and Reserve Bank full of ideas close to Douglas' thinking and inviting him farther down that route. Once in office, the two fed each other, led each other on. (p. 8).

Aberach and Christensen (2001, p. 403) credit Douglas with having a "conscious strategy and determined approach to influencing the [political] process, primarily inside the Cabinet and the Labour Caucus". They suggest that he was probably able to convince them of "the need for economic deregulation" because "the economic crisis seemed more severe in 1984" and the "lack of reform measures from Muldoon had accumulated needs for radical reform" (p. 416). A contrary view put forward by Goldfinch and Malpass (2005) suggested that New Zealand was not in crisis at the time of the change in government in 1984 but that it suited the proponents of quite radical economic change to represent it in that light. The previous National Party led government had commenced transport deregulation in 1983, including domestic aviation. If air transport had remained tightly regulated there may not have been the opportunity to commercialise the airports as early as 1985.

The circumstances that led to the economic restructuring right across the economy also changed the way in which major New Zealand airports were to be owned and managed. With this economic restructuring came the expectation that airports would make a financial return upon the capital invested in them, including both the payment of taxation and dividends to shareholders.

Brash (1996, p. 34) explains that before "... the reform process began in the mid-1980s, the New Zealand government provided a very large range of goods and services which in many other predominantly market economies are supplied by the private sector." Although the role of central government in airports had been somewhat diluted since the joint venture airport scheme was established in 1953 it was still involved as part owner in all the airports. Central government was in partnership with various local authorities sharing the costs of developing the airports and the revenue. Local government partners were charged with the administration and maintenance of the airports while central government retained control of the air traffic control system and the pricing of both airways and airport charges on a national basis. Most of the heavy maintenance and construction of airports continued to be undertaken by a central government department, the Ministry of Works.

Following the passage of the State Owned Enterprises Act 1986 many of the goods and services previously provided by the New Zealand Government were thereafter supplied by either privatised businesses or SOEs. Airports could not easily become SOEs as they were already in a joint venture airport scheme. In this scheme airports were owned in varying percentages by the Crown and various local authorities across New Zealand. The government had to find another way of formally commercialising airports because it was not the sole owner of these assets. This was to result in commercialisation via corporatisation from 1988, and limited privatisation from 1995.

On 14 June 1985 the Minister of Civil Aviation and Meteorological Services, Richard Prebble, released a document, at a meeting with representatives of various airport authorities, outlining how the government intended to advance to a more commercial arrangement regarding airports. The document is titled *Airports -A New Partnership.* The significance of this was to give airport managers more autonomy and in return expect improved economic performance.

In the introduction to the document the minister set out his rationale for the proposed new structure as follows:

> The Crown and local authorities have substantial assets invested in airports with substantial further investment likely in the future. The government is determined to ensure that airports, along with all other sectors of the economy, make the most efficient use of resources. To this end the government is inviting its partners to participate in a new partnership arrangement which will place much greater responsibility and autonomy with airport managers (Minister of Civil Aviation and Meteorological Services, 1985, p. 0).

The proposed model was for existing joint venture airports to be formed into companies that remained in the ownership of the existing parties. No mention is made in the document of any future intention to allow private interests to own shares in these companies. The new model was also outlined in the introduction to the document by the minister:

> This paper proposes a new option for airport structures. The government is prepared, where local authorities approve, to make joint venture airports into an airport company with both local and central government holding the shares. This proposal will give airport managers greater autonomy and give the airports themselves independent legal status. Decision making on airports will be made by the airport company rather than central government (Minister of Civil Aviation and the Meteorological Services, 1985, p .0).

The minister then outlined a number of principles that were considered central to the way the government wanted to proceed:

1. Airports are a vital link in the transport infrastructure of the country, and as such make a significant contribution to the country’s social and economic development.

2. That the predominant role of an airport is commercial and should be operated as a community owned commercial enterprise.
3. That sound management is required and that the present system of having to obtain approval from central and local government for decisions is not consistent with good commercial performance.
4. That airports are a large commercial endeavour and as such should be managed in a way to produce a return to the owners and to provide efficient services.

In a departure from existing practice the paper proposed that the new companies would also set their own charges in consultation with users. This requirement to consult was subsequently included in the 1986 amendments to the Airport Authorities Act 1966 and has remained a significant feature of the legislation.

This new policy introduced by the Minister of Civil Aviation and the Meteorological Services resulted in the passage of legislation to enable it to be put into effect in late 1986. This policy of commercialisation of airports has remained the principal manner by which airports are managed and operated in New Zealand. The only significant change in policy post 1985 was the opportunity for private sector involvement in some of the new airport companies. Legislative amendments to enable this to occur were passed by the New Zealand Parliament in 1990. The first private sector shareholding in a major airport company occurred in 1995.

The Airport Authorities Amendment Act 1986 was passed into law on 16 December 1986 and in the same time period as the State-Owned Enterprises Act 1986 (date of assent, 18 December 1986). The Airport Authorities Amendment Act provided for airport authorities to be established as companies, and for each airport to be operated or managed on a commercial basis. It could be argued that the same commercial outcomes were now expected of airports as were expected of State Owned Enterprises (SOEs). The only significant difference was that the new airport companies were to be owned by central government and local authorities (Thomas and Clements, 2003).

During the course of the second term of the fourth Labour Government there were disagreements over economic direction between the Prime Minister, David Lange, and the Minister of Finance, Sir Roger Douglas:

> The Ministry it had worked to put into office in 1984 with expectations of a more intelligent and more compassionate – more social democratic – injection of the state into economic and social life had instead injected market forces into the economy and postponed social policy review until its second term, with strong hints that even there the state might not be as persuasive a participant as Labour tradition expected (James, 1989, p. 1).

This disagreement ultimately resulted in Douglas resigning from his ministerial portfolio and the Assistant Minister of Finance, and Minister of Civil Aviation and Meteorological Services, Richard Prebble, who had initiated the corporatisation of New Zealand airports, being sacked by the Prime Minister.

Simon Upton (1989), a National Party opposition member during this period of economic reform, wrote that:

> After four years of frenzied change two questions hang over the liberalisation experiment: can reforms to date be maintained and will deregulation be extended to new areas? The bulk of the liberalisation is irreversible, at least for a generation. To a large extent, these measures have assisted the integration of a small, highly protected country into the international economy. The price of retreat from a much more outward-looking society spearheaded by the opening of New Zealand's capital markets would be too high for a nation which has an appetite for the living standards that much wealthier countries enjoy (p. 45).

His comments suggest a general level of support within the National Party opposition for the economic reform that was being initiated and implemented by the policies of the fourth Labour Government. A generation has now passed and while there remains an appetite for commercialisation, as evidenced by the government announcement in 2006 of an intention to corporatise two further airports (King, 2006), there has been a clear indication of a move back to public ownership since 2000 in respect of Air New Zealand, Kiwi Rail and some of the airport companies that had been partially privatised between 1995 and 2000. This suggests a greater acceptance of public ownership in the supply of many core services, and that the earlier privatisation of these assets did not bring greater benefits.

Upton's (1989) predictions were to prove correct. The commercialisation of airports continued at a steady pace and all the major airports were formed as companies from 1988-1990. In the case of Auckland and Wellington airports this required separate pieces of legislation to be passed by parliament.

Authors Duncan and Bollard (1992, p. 34) note that "[t]he 1984 Labour Government was united in their policy of corporatisation, and encountered relatively little opposition to this except from employees likely to be made redundant". Subsequently airport companies were established over the ensuing six year period. "Privatisation, however, was a more contentious issue, and one the government was never completely united on, nor completely consistent on." This resulted in a situation in which some of the new airport companies were partially privatised; for example Auckland and Palmerston North, and others remained with their original owners, the government and a local authority; for example Christchurch and Dunedin.

5.13 The Airport Authorities Amendment Bill 1986

On 3 June 1986 the Minister of Civil Aviation and Meteorological Services introduced the Airport Authorities Amendment Bill 1986 into the New Zealand Parliament. In introducing the Bill, Prebble stated that:

> The Airport Authorities Amendment Bill is the outcome of a wide-ranging consultative exercise with airport authorities. It has arisen out of the recognition of confusion about the role and function of airports. In essence, it embodies the view that airports are community-owned trading enterprises that should be regarded in a similar manner to commercial enterprises such as Air New Zealand (New Zealand House of Representatives, (1986). *Parliamentary debates,* 471, 1848).

A year earlier in 1985 the minister had released a policy document titled *Airports-A New Partnership.* This document had clearly stated the intention to establish airport companies and the positive results that the minister believed would accrue from such a development. This matter had therefore been subject to some significant debate before the first reading of the Airport Authorities Amendment Bill 1986 in Parliament.

The minister informed parliament that while the existing Joint Venture Airport Scheme had been an effective vehicle for the establishment and development of airports, new arrangements were now necessary. He stated that the existing scheme was limited. Either party could veto developments. Both parties had to agree to invest the capital necessary for airports to be developed in an orderly fashion. There was no ability for the joint venture airports to borrow money themselves to fund developments, and if money was to be borrowed to fund developments the owners had to do so separately.

The minister then stated that the new airport companies would circumvent these problems by establishing them as "limited liability public companies". He made it clear that:

> The limited liability public companies will delineate commercial objectives for each airport manager. Airport companies will have the right to borrow as they think fit, without the Government’s guarantee. They will have the means to set charges for airport users that reflect the cost of providing the facilities in question (New Zealand House of Representatives. (1986). *Parliamentary debates,* 471, 1849).

The minister assured parliament that arrangements would be put in place to ensure that airport companies consulted with their customers and did not abuse monopoly positions. The new companies would be subject to the provisions of the Commerce Act 1986, and any customer who felt the airport company was abusing a monopoly position could bring a case of predatory pricing to the Commerce Commission.

Prebble made it clear that “[t]he Government expects such enterprises to operate in an efficient, businesslike fashion and to make a reasonable return on investment” (New Zealand House of Representatives. (1986). *Parliamentary debates,* 471, 1850).

In the ensuing debate the opposition speakers argued that the real reason for the introduction of the Bill was to enable the government to gain access to the considerable reserves, some $100 million, held in various joint venture airport accounts to offset a deficit in the government budget. These reserves were subsequently distributed to the joint venture parties upon corporatisation. They further argued that the Association of Airport Authorities did not support the amendments contained within the Bill, and that improvements to the current joint venture airport scheme could achieve the outcomes that the minister was seeking via commercialisation.

In response to questions in the house, the minister stated that the government intended that the new airport companies would be owned on a 50-50 basis by the Crown and the relevant local authorities, and that there was no plan to alter that shareholding arrangement in future. While the fourth Labour Government created the opportunity for privatisation it was ultimately to be a National Party led government that partially privatised a number of airport companies between 1995 and 2000.

In response to questions by the opposition as to whether or not the newly commercialised airports would be required to pay tax the minister stated that this would be the case. At the end of the debate the Bill was read for the first time and referred to a select committee for consideration.

On 18 November 1986 the select committee report on the Airport Authorities Amendment Bill was presented to parliament and debated. The report reinforced the notion of a return upon an investment to respective shareholders.

> What are the needs of the 24 joint venture airport authorities throughout New Zealand? The answer is that the taxpayers and ratepayers of New Zealand are entitled to have their commercial investments managed on a profitable and effective basis. Furthermore, the owners-the taxpayers and ratepayers-are entitled to a return on their investment. That cannot be achieved under the confinement of the existing joint venture agreement. The empowering legislation promises to enable local authorities involved the management, joint ownership, and operation of airports to establish those enterprises on a new and effective basis” (New Zealand House of Representatives. (1986). *Parliamentary debates,* 475, 5407).

The select committee chair made it clear to parliament that the new airport companies were intended to remain in public ownership and that the Crown and relevant local authorities would only be able to sell their shareholding to the other partner. The committee assured the house that such arrangements should eliminate any concerns the house might have concerning the privatisation of New Zealand airports, and that the Bill had been strengthened in regard to the requirement to consult when setting charges with significant customers to ensure that a monopoly position was not abused.

The opposition continued to argue that the main government motivation for the Bill was that it would allow it access to significant financial reserves in the accounts of various joint venture airports. It also continued to argue that the Bill was not supported by the Airport Authorities Association, and that some confusion existed as to whether or not the Auckland Regional Council or some 20 local authorities in Auckland were in fact the actual non-government owner/s of Auckland Airport. The vote was subsequently passed in the house that allowed the Bill to proceed to a second reading.

The Airport Authorities Amendment Bill was returned to parliament for its second reading on 11 December 1986. The minister restated that airports are community owned trading enterprises and must be operated on a proper commercial basis. He maintained that the establishment of a company structure would benefit the shareholders because they would receive an annual dividend and the ability to withdraw funds that had accumulated in reserve accounts. The minister reinforced that there was no intention to privatise airports but rather that it was intended to operate them on a more businesslike basis. He stated that as there was no "airport market" in New Zealand, proper provisions would be put into place to ensure that the new airport companies did not in fact exploit a known monopoly position with regard to charges to users.

The opposition continued to argue that the ability of the government to access airport reserves for other purposes was the main motivation behind the Bill, and that the improvements it sought as to how airports were managed could be addressed by improvements to the existing joint venture airport scheme. The vote was subsequently passed that allowed the Bill to be read for a second time.

On 16 December 1986 the Bill was introduced to parliament for its third and final reading. In introducing the third reading of the ill the minister again spoke about the opportunity for dividends to be paid to the owners of the new airport companies. The opposition expressed concerns that rather than providing dividends what the government was actually intending to do was to strip capital from the airports. Subsequent discussion centred upon the question of the appropriateness of the government being able to access reserve funds held in airport accounts for other than airport purposes. The vote was then taken that allowed the Bill to be read a third time and passed into law 16 December 1986.

Thompson and Clements (2003) suggest that "[t]his simple piece of legislation paved the way for the corporatisation of New Zealand's airports, amending the original 1966 Act by authorising the Crown and local authorities to form and hold shares in airport companies and to provide for the transfer of airport assets to those companies" (p. 184).

The amended act made provision for airport companies to be established in the interpretation section. The functions of an airport company were still linked at this time to those of a local authority and the legislation was again to be amended in 1990 to enable airport companies to accommodate private shareholders:

> "**Airport Company** means a company registered under the Companies Act 1955 or the Companies Act 1993, as the case may be, that is for the time being authorised under section 3(3) of this Act to exercise the functions of a local authority under that section"

With the legislative basis for airport companies to be established in place, provision was also included for the new airport companies to be able to borrow money and acquire, hold and dispose of real and personal property. At the same time the additional requirement that they must be operated or managed as a commercial undertaking was added to section 4 of the Act as follows by inclusion of new sections 2 and 3 as follows:

Airport Authorities Act 1966 section 4(2)

"(2) Every airport company may-

(a) Borrow such amounts of money on such terms and conditions and from such persons as it from time to time thinks fit ; and
(b) Acquire, hold, and dispose of such real and personal property as it from time to time thinks fit.

(3) Every airport operated or managed by an airport authority must be operated or managed as a commercial undertaking."

Subsections (2) and (3) of the original section 4 were inserted, as from 18 December 1986, by section 5(3) of the Airport Authorities Amendment Act 1986 (1986 No 128).

The 1986 amendments to the Airport Authorities Act 1966 were a significant development in that they not only established a new system by which airports could become companies but also included the requirement that they be "managed or operated on a commercial basis". Thus by the end of 1986 the facility was fully in place to allow for the formalised commercialisation and corporatisation of the New Zealand airport system, but not yet privatisation. This placed New Zealand very much as one of the world leaders in this regard. The first of the new companies were established in 1988, and by the end of 1990 all the major airports had been corporatised. From 1990 these arrangements were to remain largely unchanged until 18 years later, in October 2006 when the government announced its intention to corporatise two of the largest remaining joint venture airports at Hawke's Bay and New Plymouth (King, 2006). The corporatisation of Hawke's Bay Airport was effected 1 July 2009, and that of New Plymouth Airport is at present being considered by the joint owners. As had occurred earlier in 1985 it was a Labour Party led government in power in 2006 that once again made the decision to advance the commercialisation of airports while retaining them in public hands.

Details of the corporatisation of the major New Zealand airports are contained in Chapter 6, and the seven major airports are discussed as individual case studies in Chapter 8.

A very important component of the development of airport companies in New Zealand has been political arrangements with Australia in terms of aviation. In contrast with Australia, New Zealand has operated a domestic open skies policy since the then National Government deregulated domestic aviation in 1983. This meant that airport companies were being established that could service both New Zealand and foreign owned airlines on an equal basis, and could engage with them to advance their own commercial objectives.

The first aviation agreement between New Zealand and Australia was signed between the two countries in 1961 and subsequently amended and updated on a number of occasions (Macleod, 2002). In 1992 the two countries agreed to a broad agreement that included the rights of airlines of one country to operate domestically within the other. This agreement was unilaterally cancelled by Australia in October 1994, just one month before it was due to take effect. According to Macleod (2002) agreement on a single aviation market was ultimately achieved in 1996:

> Agreement on a Single Aviation Market (SAM) was finally reached in 1996 that enabled airlines to offer unlimited services between and within the two countries, although the issue of beyond rights remained outstanding until the negotiation of an open skies policy in late 2000 (p. 56).

The agreement between the two countries regarding a single aviation market was to have a significant impact upon the development of airport companies in New Zealand, as well as enabling Australian airlines to fly domestically with New Zealand. It also created the opportunity for a rapid increase in the number of international airports. As a consequence the number of New Zealand international airports increased from three to seven over the three year period from 1994-1996 (Francis and Lyon, 2008).

A New Zealand airline, Kiwi International, was the first to establish scheduled international services from Hamilton and Dunedin. Air New Zealand established a subsidiary, Freedom Air, shortly thereafter and the competition from this airline led to the demise of Kiwi International within two years of it being established (Wilson, 1996). Freedom Air, owned by Air New Zealand, was the airline that established the first scheduled international services from Palmerston North. Air New Zealand and Qantas were both subsequently to establish Queenstown as the seventh New Zealand international airport in 1996. Of these seven airports only Palmerston North is not currently active as an international airport since Air New Zealand ceased operating Freedom Air from 31 March 2008. In terms of domestic services both Jetstar, owned by Qantas, and Pacific Blue, owned by Virgin Blue, compete with Air New Zealand and its Link airlines.

One of the problems in the New Zealand relationship with Australia, according to Goh (2001), is that any restrictive trade practices that Australia may operate in relation to other countries can potentially have negative consequences for New Zealand because of geographical location, and because many air services access New Zealand via Australia. This means that to some extent New Zealand can be considered to be at the mercy of transport policy in Australia given both international air routes and the relative size of the aviation markets of the two countries. In Australia constraints remain to protect the interests of Qantas as the national flag carrier. Duval (2008) describes how such constraints operate on routes such as Sydney to Los Angeles which Singapore Airlines is presently seeking the right to service. The consequences of such policies for airport companies in Australia is that, unlike New Zealand, they may not necessarily be free to work with any airline company to develop both domestic and international services that are mutually beneficial to both parties.

5.14 The perceived need to control airport companies

Nine years after the Airport Authorities Act 1966 was amended to enable the creation of airport companies the Minister of Transport initiated a review of New Zealand airport regulation in order to ensure that adequate consultation was taking place so that airport companies could not use any monopoly power to set excessive charges to users. The principle reason for this review was the challenges being made by Air New Zealand to charges being imposed by airport companies. The review document made reference to other industries that were similarly assessed as having strong market power at that time (Ministry of Transport, 1995). The document stated that it was considered that current requirements for airport companies to consult with airlines when setting charges were weak. Despite this review the legislation regarding the consultation clause, as opposed to negotiation or prices being set by regulation, was retained. Airlines have continued to argue that airports are exploiting monopoly pricing in relation to their charges. One significant change that did occur as a result of this review was a new requirement within the Airport Authorities Act 1966 from 1998 for airport companies to consult with customers who represent more than 5% of their gross revenue on capital projects over a specified dollar amount (Ministry of Transport, 1995).

A definition of what was meant by the term of "substantial customer" was now included in section 2A of the Act, and the associated requirement to consult when setting or reviewing charges established under section 4B of the Act as follows:

2A Meaning of substantial customer

(1) For the purposes of this Act, **substantial customer,** in relation to an airport company, means any person that paid, or was liable to pay, that airport company in relation to identified airport activities in that company’s last accounting period an amount that exceeded 5% of the revenue paid or payable to that airport company during that accounting period in relation to those activities.

“Section 2A was inserted, as from 26 November 1998, by section 3 Airport Authorities Amendment Act 1997 (1997 No 90)”.

One of the most significant matters of concern to airline companies is that under law New Zealand airport authorities are required to "consult", rather than negotiate the fees that are charged to the airline users. This has led to a number of challenges to airport charges by airlines which have ultimately been resolved in the high court.

The following section of the Act deals with this requirement to consult:

4B Charges

(1) Every airport company must consult with every substantial customer in respect of any charge payable by that substantial customer to the airport company in respect of any or all identified airport activities-
   (a) Before fixing or altering that amount of that charge; and
   (b) Within 5 years after fixing or altering the amount of that charge.

(2) Every airport company must consult with every substantial customer in respect of any direct charge payable to the airport company by any passenger in respect of any or all identified airport activities-
   (a) Before fixing or altering that amount of that charge; and
   (b) Within 5 years after fixing or altering the amount of that charge.

A concurrent amendment to the Airport Authorities Amendment Act 1997 was in the interpretation section by the inclusion of the term "Specified Airport Company". The three original international airports, Auckland, Wellington and Christchurch, subsequently have had different requirements to consult with customers over significant capital expenditure than the smaller ones. A manager interviewed at one airport reported that Air New Zealand had successfully used these provisions to reduce the size and cost of a new terminal being built at his particular airport (Manager E Airport 4, personal communication, March 20, 2006).

A "specified airport company was defined as being:

> **Specified airport company** means an airport company that, in its last accounting period, received revenue that exceeded $10 million or such other amount of revenue that the Governor-General may from time to time prescribe for the purposes of this definition by Order in Council.

This interpretation is then given effect in the Act by the following provisions in section 4C:

4C Specified airport companies must consult concerning capital expenditure plans

(3) A specified airport company must not approve any identified capital expenditure if the amount of that identified capital expenditure (and the amount of any related capital expenditure) will, or is likely to, within the following five years exceed an amount which is equal to 20% of the value of the identified assets of that airport company at the commencement of the then accounting period unless the airport company has consulted with all its substantial customers in respect of that capital expenditure (and all related capital expenditure).

Until the end of the 2007 financial year only Auckland, Wellington and Christchurch airport companies met these revenue criteria to be a "specified airport company". Financial data for the 2008 financial year suggests that the airport companies at Dunedin and Queenstown will also be subject to these requirements as a result of their increased revenue. This means that these airports will no longer enjoy the freedom to spend capital on major projects without consulting with their substantial customers. While no action has been taken to regulate prices at airports, as has happened in other countries such as Australia and the UK, there was by the end of 1998 a range of measures available to substantial customers to curtail potential monopoly behaviour. These were to be strengthened again in 1999 when financial disclosure regulations were put into place.

In 1997 Paul Swain (New Zealand House of Representatives. (1997). *Parliamentary debates*, 565, 5488.) was among the opposition members of parliament who expressed concerns regarding the 1997 Amendment Act. Swain suggested that the Airport Authorities Amendment Act 1997 "… provided a framework for the privatisation of airports in New Zealand". Up until this time the only significant private shareholding was the 1% of Auckland Airport owned by Infratil Limited. Despite the reassurances of the National Party led government in power at this time that a privatisation agenda was not the reason for these amendments, the same government acted shortly thereafter to partially privatise both Auckland and Wellington airports, and to sell its minority shareholding in both Rotorua and New Plymouth to Central Avion Holdings Limited.

The opposition also expressed concern in parliament that its recommendation to have an arbitration process contained in the Airport Authorities Amendment Act 1997 was not acted upon by the government. It argued that the arbitration panel could act in cases of disputes over charges or valuations, as it was considered that airport companies could potentially benefit from over valuing their assets. Airport managers interviewed at two different airports (Manager F Airport 4, personal communication, July 12, 2006 and Manager D Airport 3, personal communication, March 13, 2006) stated that their companies had difficulty in setting airport charges that return more than the average weighted cost of capital. There is obviously, therefore, a benefit for airport companies in having asset values as high as possible for this purpose when setting charges.

Forsyth (2002) suggests that companies may behave as if they are regulated even in the absence of explicit regulation. The Minister of Civil Aviation, in introducing the third reading of the Airport Authorities Amendment Act 1997, gave a clear indication as to why they might choose to behave in this manner:

> The Commerce Commission investigation will provide further comfort to users that the Government takes their concerns very seriously indeed, and we will watch it. This package of measures puts companies on notice to keep their house in order. That is what it does. It gets the balance right. The airport companies do not want to go as far as this (New Zealand House of Representatives. (1997). *Parliamentary debates,* 565, 5487).

The minister went on to state that the airlines did not think that the legislation went far enough to control the behaviour of the airports. Given the level of disagreement between the airlines and the airports he stated that the government was achieving the right balance. He then advised parliament as to how the provisions of the Commerce Act 1986 would address any inappropriate behaviour by airport companies:

> But I say to the members opposite that if we have not, we will be watching that behaviour so closely, the Commerce Commission's review will kick in, and anybody who did get too smart with a monopoly pricing regime will pay the price. The airport companies know that very clearly and, accordingly, I believe that they will act responsibly, just as any business knows that someone will come down on it like a ton of bricks if it starts to misbehave (ibid p. 5487).

As can be seen from this debate in parliament there was good reason for airport companies to assume that despite any specific pricing regulation they were not necessarily free to exploit any monopoly position that they might occupy. The constraints upon airline companies were to be further strengthened in 1999 with the imposition of disclosure regulations applied to those companies with gross revenue greater than $10 million per year. As well as applying to such airports, the regulations gave the Governor-General the power to set a lesser trigger point and consequently the threat of having to comply with this information disclosure scheme potentially existed for all airport companies from that point in time.

That the government was primarily interested in the manner in which aeronautical charges were levied against substantial customers, rather than non-aeronautical revenue, was evident from comments made by the Minister of Transport in parliament:

> All companies will need to need to consult substantial customers on charges at least every 5 years. Substantial customers are those who contribute more than five percent of an airport company's revenue – that is, not the contestable stuff like McDonald's and all of those things that go with airports these days, but the monopoly side (New Zealand House of Representatives. (1997). *Parliamentary debates,* 565, 5485).

It is hardly surprising, therefore, that most New Zealand airport companies realised the potential and importance of non-aeronautical revenue. By 1997 Auckland and Christchurch airports were deriving approximately 50% of their revenue from commercial activities such as McDonalds. This trend towards a greater proportion of revenue being derived from non-aeronautical sources has continued and is consistent with international developments (ICAO, 2007). In Chapter 8 the performance of individual companies in this regard is discussed and Chapter 9 reports the aggregated performance of the seven major New Zealand airport companies.

Notice was given in the New Zealand Gazette of 13 August 1998 that the Minister of Commerce required the Commerce Commission to report to him by 14 December 1999 on whether or not price controls should be introduced at Auckland, Wellington and Christchurch airports. The Commerce Commission report, however, was not completed and submitted until 2002. The chairman of Auckland International Airport Limited suggests in his airport's annual report (2002) that the government chose to delay the Commerce Commission reports because it wanted to observe the effects of the Disclosure Regulations (1999) on the pricing practices of Auckland, Wellington and Christchurch airport companies. An airport manager (Manager D Airport 3, personal communication, March 13, 2006) suggested that the Commerce Commission review was actually the result of a deal struck between the National Party led government and its parliamentary partner, New Zealand First, to obtain the latter's support for the subsequent partial privatisation of some airports.

The information disclosure regulations were enacted on 26 July 1999, during the life of the Commerce Commission pricing review, in the form of the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 under the authority of the Airport Authorities Act 1966. Similar regulations had already been in existence for some five years for power companies in the form of the Electricity (Information Disclosure) Regulations 1994.

The Airport Company Disclosure Regulations 1999 require a report to be completed for each "specified airport company" for each financial year of the company ending after 1 January 2000. The completion of these reports places an additional burden upon the companies and the beneficiaries of the reports are almost certainly the "significant customers" with whom the airport companies were already required to consult in relation to aeronautical charges and major capital expenditure.

The identified airport activities which it is required to report against include:

(a) Airfield activities
(b) Aircraft and freight activities
(c) Specified passenger terminal activities

In addition the specified airport companies must report according to guidelines published in the New Zealand Gazette:

(d) The valuation of assets in disclosure financial statements

(e) The allocation in disclosure financial statements of revenue, costs, assets, liabilities, and other items to an identified airport activity. The calculation of the weighted average cost of capital (Airport Authorities (Airport Company Information Disclosure) Regulations 1999).

At present these activities and guidelines require reporting by Auckland, Wellington and Christchurch as "specified companies" because their turnover is greater than $10 million per year. As other airport companies grow in terms of revenue they will also have to meet these disclosure requirements. In addition the Governor-General has the power to alter the trigger point for reporting and consequently the potential exists for all airport companies to be made subject to this reporting regulation.

The chairman of Auckland Airport acknowledged the forthcoming benefits for "substantial customers" in the new disclosure regulations in the annual report for his company for the period ending 30 June 1998.

> The Airport Authorities Amendment Act 1997, currently expected to come into force on 26 November 1988, will require all New Zealand's international airports to consult further on certain charges and will impose new requirements for disclosure of financial information for identified airport activities (i.e. those airside activities for which the company is the monopoly provider e.g. the runway). Such disclosure is intended to more easily highlight any inappropriate charging of costs to identified airport activities or any excessive return from identified airport activities (Auckland Airport Annual Report 1998).

In the subsequent 1999 annual report the chairman of the same company announced that the disclosure regulations were coming into effect and that Auckland Airport was required to make its first such report for the year ending 30 June 2000. He stated that he did not expect these requirements "… to disadvantage the company in any material way" (p. 10). Similar sentiments were expressed in the annual reports of the other two largest airport companies which suggest that they were not unduly concerned that such a new requirement would adversely affect their businesses.

The Commerce Commission submitted its report on airport pricing to the minister in 2002. The report recommended price control at Auckland, that a watching brief was necessary with regard to Wellington, and that no price control was warranted at Christchurch (Commerce Commission, 2002). The government did not move to implement the recommendation of the report by implementing price control at Auckland and to date it has not been put into place in respect of any New Zealand airport company. This is in contrast with countries such as the UK and Australia in which, at least initially, regulated aeronautical prices at airports followed privatisation, and may reflect the fact that none of the major New Zealand airports have to date been completely privatised.

Price controls were put in place in Australia as airports moved from federal ownership to private ownership, the only major exception being Canberra Airport, which is owned by local government (Forsyth, 2001). After the initial five year period they were removed and replaced with a system of "price monitoring" (Forsyth, 2006). Possibly a significant difference in New Zealand was at the time that the major airports were corporatised, and then in some cases partially privatised; the Crown was never the sole owner, and in no case owned more than 50% of the joint venture airports. Consequently it was not in a position to have implemented complete privatisation without the agreement of its joint venture partners in all the airport companies, and given the remaining public ownership not considered that price control was necessary or warranted, as occurred in Australia with Canberra Airport.

The fact that there is no formal price regulation in New Zealand does not, according to Forsyth (2002), mean that they are free from such constraints. He comments:

> One might expect that the airports would use their market power and set very high prices; however, they do not seem to be doing this. The reasons lie in the peculiar nature of the New Zealand system. Firstly, the airports have only recently (1998) been fully privatised. Prior to this, there was a majority public ownership. Only now have there been owners which have incentives to maximise profits. Even now there remain substantial minority holdings by local government, which are unlikely to support profit maximisation. The objective of local government is to bring business to their region, and they can support this objective by keeping charges low. Secondly there is provision for price controls should they prove necessary (p. 21).

The New Zealand Government has obviously been reluctant to implement price regulation to this point and has continued to rely on the provisions contained with the Commerce Act 1986 to deal with any monopoly issues associated with airports, in addition to the information disclosure regulations which came into effect in 1999.

Starkie (2002) discusses the merits of regulating industries such as airports:

> The reason for regulating utility industries, such as airports, has been to curb market power. However, economic regulation introduces its own distortions and at the end of the day there is a trade-off to be made between imperfect competition and imperfect regulation (p. 63).

He further comments that it is only when markets are not operating well and when regulation can be expected to "improve matters" that it is worthwhile implementing it. From the previous comments by Forsyth (2002) that New Zealand airports do not appear to be abusing their monopoly positions and that as there are mechanisms in place to control their actions, via disclosure regulations and the Commerce Act 1986, it could be argued that there appears to be little need to alter the current situation and impose price controls.

At the time that the commercialisation, corporatisation and partial privatisation began in New Zealand no airport specific regulation was put in place to counter potential monopoly behaviour by airports. The provisions of the Commerce Act 1986 were considered adequate protection for consumers of airport services. By 1995 it was felt that controls were weak and ineffective and a review of airport regulation was initiated. This resulted in a set of disclosure regulations being put in place that required additional reporting by specified airport companies from their financial year ending in 2000. On 14 October 2008 the Commerce Act 1986 was amended to incorporate airport specific disclosure requirements into that legislation for the first time, as well as these also remaining a part of the Airport Authorities Act 1966. These companies are now subject to the regulatory provisions of Part 4 of the Act but the requirements are in relation to information disclosure only. At the present time the Commerce Commission is charged with determining how these requirements will apply to each of these three specified airport companies by 1 July 2010, and must report to the Ministers of Commerce and Transport as to the effectiveness of the information disclosure regulation as soon as practicable after 2012 (Commerce Commission, 2009).

In contrast with most other countries New Zealand has followed a commercialisation process without the associated constraints of price regulation. This situation is one which airport managers interviewed report as being conducive to meeting their commercial objectives and the ongoing investment necessary to develop the airports system in New Zealand. Forsyth (2006) states that both Australia and New Zealand have been rare cases in terms of the light handed approach to regulation since commercialisation and privatisation. It could be argued that New Zealand is even more of a rarer case than Australia in that there has never been any price regulation. Australian airports were corporatised in the 1980s but according to McKenzie-Williams (2005) a significant aspect of the operation of major Australian airports, prior to privatisation, was the policy by the Australian Government to value airport assets at low levels so that airport charges to airlines could be kept low to encourage business and tourism. This obviously meant that airport charges were in fact being subsidised in favour of the airline users and did not represent a proper commercial undertaking in this regard. The Australian federal airport system also made provision for the more profitable airports to cross-subsidise others that did not operate profitably (Forsyth, 2006). This is not a situation that existed in New Zealand where there was no similar provision for discounting prices to users or cross-subsidisation, and each airport company was expected to be profitable and make a positive return to shareholders.

5.15 Summary

This chapter first discussed the traditional view of the airport being developed and owned by public hands and being seen as public utilities. It then discussed what commercialisation can be taken to mean and the manner in which such a policy is put into effect, including corporatisation and retaining public ownership or privatisation.

The chapter then reported the economic environment that gave rise to a marked drive to commercialisation that took place in New Zealand from 1985 and has remained the prevalent manner by which the major airports are owned, operated and managed. It also traced the partial moves to privatisation from 1990 and the retreat from that policy from 2000. In contrast with other countries such as Australia and the UK, New Zealand did not follow through past the first privatisation initiatives and all the major airports are in either total public ownership or public owners are significant minority shareholders. Details of the shareholding of these seven major airports are contained in Chapter 6.

In comparison with most other countries, including Australia, New Zealand has steadfastly avoided price regulation and airport companies remain subject to information disclosure requirements only. The threat of regulation can, according to Forsyth (2002), cause companies to act as if regulated but this has not been proven in a New Zealand context. Airport companies in New Zealand are further characterised by being completely independent of each other and free to pursue their own commercial plans and objectives. Again this can be contrasted with Australia where, according to Forsyth (2006), post corporatisation they were cross-subsiding each other, and post privatisation are still required to submit master plans to the Federal Government, which has leased rather than sold its major airports.

While what may be missing in the New Zealand context is an airport system wide approach, the companies have retained the freedom to operate independently, and as will be shown in Chapters 8 and 9, have developed both capability and capacity while remaining consistently profitable. This freedom from price regulation and the enabling provisions of the Airport Authorities Act 1966 is appreciated by the airport managers interviewed. Their concerns about future potential political interference are discussed in Chapter 7.

In the absence of a New Zealand national aviation or airport strategy there do not currently appear to be any standardised measures which the government could use to measure the performance of airport companies as a distinctive industry grouping. There similarly appears no standardised way of assessing whether or not airport companies, as airport authorities under the Airport Authorities Act 1966, are meeting the statutory requirement that they be "managed or operated as a commercial undertaking". At the present time their financial reporting requirements are the same as any New Zealand company.

The main aviation focus in the current Transport Strategy 2008 document, prepared by the Ministry of Transport, is the continuation and development of arrangements with other countries regarding airline access to various routes both within and external to New Zealand and bio security matters. This current state is in contrast to other periods when clear airport related strategies were evident and implemented by various governments. Possibly the current government perspective is that the airport industry is mature and that no significant intervention is warranted or necessary at this point in time. This view is held by airport managers interviewed who reported that they were happy with the current political and regulatory environment, which they felt was enabling rather than restrictive.

The absence of a clear national strategy does, however, mean that each airport company faces issues on an individual rather than a collective basis. This can be potentially wasteful in terms of costs and time to implement improvements, with a consequential lessening of commercial performance. A recent example of this was the differing costs incurred by airport companies for border services as there was no central government policy regarding the number of international airports that New Zealand should have. It may also mean that New Zealand is not identifying or developing opportunities that could lead to improved economic performance. For example the development of a second airport at Auckland using a currently underutilised military base could generate competition and result in more efficient delivery of airport services to customers. A second potential development could be in the arena of air freight to and from New Zealand, which is currently dominated by Auckland Airport in terms of export and import volumes.

Caves (1991) questions whether or not individual airports can plan in an adequate manner in the absence of a national plan. He then queries whether or not a national plan can give guidance without unnecessarily constraining initiative at the local level. He refers to requests made by airports and other pressure groups for the development of a national airport plan for the UK which was subsequently presented in 1978. Caves argues that the plan presented was largely a categorisation of airports, and was thus limited in that there had not been a full analysis that could inform future directions. Caves reports that at the next major review the concept of a national plan was abandoned and airports must identify their own roles. This has certainly proven to be the case in a New Zealand environment. New Zealand has an airport by airport approach to developing the national airport system and there is no known national airport plan, or strategy, as such. To at least some extent the ability to control the development and operation of airports was lost by the government from 1955 when it commenced entering into joint venture agreements with local authorities as part of the joint venture scheme. The level of control was further weakened when following the introduction of the commercialisation policy. airports started to become companies from 1988. Subsequent decisions to allow partial privatisation from 1995 resulted in even less central control (de Neufville and Odini, 2003, p. 67).

Since 1985 New Zealand has followed a policy of establishing airport companies as the principle means of providing this type of transport infrastructure. It has remained committed to the commercialised airport model, and this was reaffirmed in 2006 by the Minister of Transport (King, 2006). Only limited privatisation of airports has occurred and government policy in this regard is less well defined and evident. Airport companies in New Zealand operate completely independently of each other as commercial entities, and have been free to pursue their own commercial objectives in a absence of any constraining national airport plan or strategy. In contrast with many other countries New Zealand has never implemented price controls on the airport companies which have enjoyed considerable freedom in this regard.

Chapter 6 - Organisation, ownership, governance and management of the airport system in New Zealand

6.1 Introduction

This chapter firstly describes the structure and arrangement of the airport system of New Zealand. It then traces and discusses the ownership of the airport system post announcement of the corporatisation policy in 1985 to the present day in order to demonstrate the commercialisation that took place, and the various forms that it has taken.

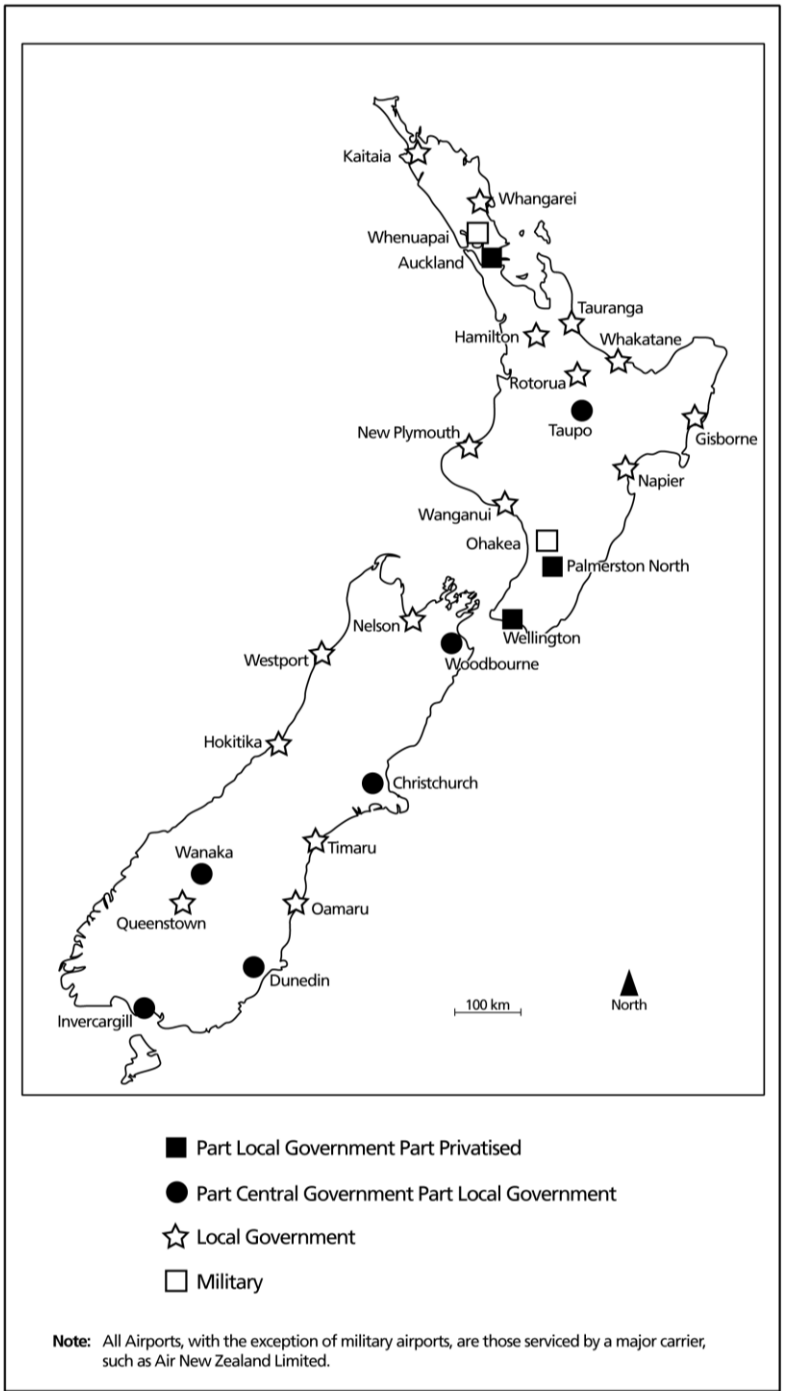
The chapter provides details of the current major airports that were corporatised from 1988, their ownership at the time of incorporation and as at 30 June 2008. It then discusses airports that for the purposes of this investigation are characterised as neither major airports nor joint venture airports, and what commercialisation has meant for them. This chapter precedes a detailed analysis of the commercialisation of the seven major airport companies as individual cases in Chapter 8, and discussion of the aggregate performance of the seven major airports in Chapter 9 in terms of various output measures and financial performance. In this chapter a particular focus is placed on the two largest joint venture airports as at 30 June 2008, Napier and New Plymouth, as a contrast to those that have been commercialised since 1990. Napier was subsequently corporatised 1 July 2009.

This chapter also discusses the lack of a distinctive air transport policy for New Zealand. It contrasts this situation with Canada and Australia, as examples, as those countries have moved to commercialise their airport systems but central government has retained ownership of the airports themselves, and therefore has the ability to steer their development both individually and as a system. This is contrasted with New Zealand where ownership is distributed between central and local government, and private interests (Lyon and Francis, 2006).

6.2 Distribution and capability of New Zealand airports.

As shown in Figure 6.1 New Zealand has 24 domestic airports with scheduled services by Beech 1900D aircraft or larger aircraft. A twenty-fifth airport, Woodbourne, operates as both a domestic and military airport. Of these 25 airports eight are either currently providing or capable of providing scheduled international air services. Palmerston North provided international services until Air New Zealand withdrew Freedom Air from this airport 30 March 2008 and Air New Zealand commenced international services from Rotorua 1 December 2009. There are two military airports at Whenuapai and Ohakea. Both support international and domestic services for military purposes. In addition Ohakea, approximately midway between the largest international airports at Auckland and Christchurch, acts as both a bad weather and emergency alternative airport for large civil aircraft that can only operate into these two New Zealand airports.

Figure 6.1 - The New Zealand Airport System



Source: Company annual reports and literature review.

The airports shown, with the exclusion of the two exclusive military airports, are all those currently served by scheduled domestic air transport provided by Air New Zealand, Jet Star or Pacific Blue. The comprehensive network of 25 domestic airports servicing a population of less than five million persons can be taken as an indication of the importance of air travel links across New Zealand.

At the present time New Zealand has eight designated civil international airports, despite Palmerston North not having had scheduled international services since the end of March 2008. International services from Rotorua began 1 December 2009 to Australia, thereby creating the eighth and newest international airport. Rotorua Airport is owned exclusively by the Rotorua Lakes District Council. The airports at Auckland, Wellington and Christchurch were the traditional international airports, until 1994 when a further four were added in the ensuing three years. Table 6.1 lists the international airports and their periods of operation. Prior to the current Auckland Airport opening in 1965 international services operated from the Whenuapai Air Force Base and Auckland Harbour. Similarly the redeveloped Wellington Airport opening in 1959 international air services operated from a former military airport at Paraparaumu and Wellington Harbour.

Table 6.1 - New Zealand International Airports

International airports	Period of operation
Auckland	November1965 to present day
Hamilton	August 1994 to present day
Rotorua	1 December 2009 to present day
Palmerston North	29 April 1996 to 30 March 2008
Wellington	October 1959 to present day
Christchurch	1945 to present day
Dunedin	28 May 1995 to present day
Queenstown	1995 to present day

Source: Airport company annual reports.

In contrast with many other countries the New Zealand Ministry of Defence does not allow the use of the military airports for scheduled commercial air transport operations. Ohakea, in the central North Island, is only available for use as a bad weather diversion for both Auckland and Christchurch airports, as there are no other airports that can accommodate very large passenger aircraft, such as the Boeing 747. A number of commercial airlines have sought the opportunity to use Whenuapai Airport, at Auckland, for commercial purposes but such requests have been declined as government policy is that this airport will be reserved for military purposes (Minister of Defence, 2009). Woodbourne Airport at Blenheim is the only airport facility used for both commercial and military purposes on a regular basis. The RNZAF have training and engineering operations located at this airport and it is serviced by Air New Zealand Link airlines.

More than 50% of the population of New Zealand lives north of Taupo Airport. This coupled with the largely north to south orientation of the country places Auckland Airport both at the centre of the largest population base and also the city geographically closest to most of the international destinations to which the country is linked. It is for these reasons that Auckland Airport is the largest and most important airport in New Zealand, as demonstrated by its total contribution to the industry, discussed in Chapter 9. Auckland Airport does, however, face significant and increasing domestic and short haul international competition from B737/A320 capable and developing airports at Hamilton, Tauranga and Rotorua. This can be contrasted with Australia where major cities are typically only serviced by one airport of this size (Forsyth, 2006).

Within New Zealand three airports act as the main domestic hubs and two as the main long haul international hubs. The domestic hub airports are Auckland, Wellington and Christchurch. The two principal international hubs are Auckland and Christchurch. The other five current international airports are currently limited to serving destinations within approximately four hours from New Zealand due to runway length constraints. Hamilton Airport has the potential to challenge the dominance of Auckland Airport if it continues to develop its capability, being less than 100 kilometres to the south.

6.3 Corporatisation of New Zealand airports

With the passage of the amendments to the Airport Authorities Act 1966 in 1986, a formal policy of commercialisation was enacted and the facility created for those joint venture airports that chose to do so to enter into a company structure, with the existing partners retaining their shareholding (Thompson and Clements, 2003). It is evident from the parliamentary debate at the time the Airport Authorities Amendment Act 1986 was passing through parliament that not all local authority shareholders were of the view that corporatisation was necessarily the best model for their particular airport to adopt. This tended to be the case at airports where the existing local authority ownership was spread across a number of local authorities. The government held significant power in terms of pursuing its policy of corporatisation in that it was usually a 50% owner in each airport, and had the power to veto any significant development or expenditure at the various airports via the joint venture deed provisions. It is understood to have used this power to pursue its agenda of corporatisation according to parliamentary debate. As an alternative to corporatisation a number of airport authorities proposed that changes to the existing joint venture scheme could similarly achieve the objectives that the government stated it was seeking. These alternative plans were not successful in stopping the implementation of the commercialisation policy of the fourth Labour Government and all the seven major airports had been corporatised by late 1990.

6.4 Ownership of New Zealand airports

There have been and are currently a number of different ownership arrangements in place with regard to the New Zealand airport system. For a 35 year period from 1953 until 1988 the dominant model was the joint venture airport scheme, whereby both the Crown and one or more local government authorities owned and operated each airport as a separate entity. This scheme was comprised of 24 airports by the time that the number peaked in 1974 (Lyon and Francis, 2006). In 1985 the government announced new policy regarding how airports were to be owned and managed in *Airports -a new partnership* (Minister of Civil Aviation and Meteorological Services, 1985). The essence of this new policy was that the government would form companies with its current joint venture partners, where they chose to do so, to own and operate airports in ongoing public ownership (Lyon and Francis, 2006). From 1988 the first airport companies were established and the number of airports in the joint venture airport scheme declined. The commercialisation policy statement did not, however, specify how many of the existing joint venture airports would be corporatised and in what time frame. This lack of clear direction may be the reason why there are presently so many different types of ownership arrangements, and owners, from what was in 1985 a network of 24 joint venture airports. Similarly the move towards airport privatisation was not the consequence of a coherent and comprehensive policy and has resulted in a variety of ownership configurations. For example it is unclear why the government would choose to sell its shareholding in Wellington Airport, the third largest, and yet retain its shareholding in Christchurch, the second largest New Zealand airport. As discussed later in this chapter, this lack of a clear plan to corporatise and address issues of privatisation would appear to have been a consequence of a lack of a coherent strategy beyond the policy announced in 1985, and the subsequent corporatisation of a number of airports between 1988 and 1990.

While the majority of airports are either companies, with different ownership patterns, or remain as joint ventures, some airports left the joint venture scheme by the local authority buying out the Crown shareholding and dissolving the joint venture. These airports are operated by various councils. In addition two former Ministry of Transport airports were sold to private parties, Ardmore and Paraparaumu. Neither of these airports has scheduled air transport comprising aircraft of a size of the Beech 1990D or larger.

The ownership structure of the 25 largest airports, including the eight international airports, does not impact upon the nature of the service delivered by them. Airlines are free to provide services to any, or all, of them and the airports, as independent airport authorities, are free to develop whatever air services they consider appropriate. A number of the smaller airports have only one carrier providing scheduled domestic services. In every case this is one or more of the Air New Zealand Link airlines owned exclusively by that company. The current Link airlines are Mount Cook, Air Nelson and Eagle Air.

To demonstrate ownership the 24 former joint venture airports are divided into three categories and discussed. These categories are; major airports (international), airports other than international or joint venture, and the remaining joint venture airports. There are eight airports in the first category, nine in the second and seven in the third.

6.5 New Zealand international airports

Of the eight international airports shown in Table 6.2 all have local government shareholding and 50% are owned exclusively by local government entities. The New Zealand Government has a shareholding in two of the eight airports but in no case a majority interest. The private sector has a majority interest in two of the eight airports. Local government owners have increased or retained their shareholdings since corporatisation, while central government has reduced from a shareholding in all airports to 25% of this sample, and the private sector involvement has remained stable since 1998 when the government sold its shareholding in Auckland and Wellington airports. The changing ownership patterns of these eight airport companies since corporatisation is discussed as follows:

Table 6.2 - Ownership of International Airports

Airport	**Ownership as at 30 June 2008**
Auckland	Majority private minority local government
Hamilton	100% local government
Rotorua	100% local government
Palmerston North	100% local government
Wellington	66% private 34% local government
Christchurch	75% local government 25% central government
Dunedin	50% local government 50% central government
Queenstown	100% local government

Source: Airport company annual reports for financial year ending 30 June 2008.

6.5.1 Auckland

From incorporation in 1988 until 1995 Auckland Airport was publically owned by the government and all the former joint venture partners. The first such private shareholding in a major airport took place 30 June 1995 when Infratil Investments Limited purchased the 1% shareholding held by the Rodney District Council in Auckland Airport. At the time of this sale the Rodney District Council was the smallest of six local councils in Auckland that held shares in the airport company (Auckland International Airport Limited annual report, 1995).

On 14 May 1998 the government announced it would sell its 51.6% shareholding in Auckland Airport and that the company would be publically listed on the New Zealand Stock Exchange. On 22 February 1999 Auckland Airport was also listed on the Australian Stock Exchange (Thompson and Clements, 2003). This was to be the first airport company floated on any stock exchange in the Asia Pacific region.

During July 1998 the New Zealand Government sold its shareholding in the largest and most important airport in New Zealand and has had no direct shareholding in this airport for the past 11 years. The trustees of the New Zealand Superannuation Fund have, however, purchased approximately 3.9% of the shareholding in this company as at 30 June 2008. Despite there being no central government direct ownership as at 30 June 2008 the Auckland City Council owns 12.7% of the company and the Manukau City Council 10% of the company (Auckland Airport annual report 2008). The New Zealand Accident Compensation Commission also has a minority shareholding in this company and so it remains at least 25% in public ownership.

6.5.2 Hamilton

A former joint venture airport, corporatised 15 November 1989, Hamilton Airport has been completely owned by a number of local authorities since 1996. Prior to that it was owned 50% by the Crown and 50% by these local authorities. During March 2009 the Waikato Times reported that the owners of Hamilton Airport were considering selling part of their shareholding to the private sector (Waikato Times 20 March 2009). If this were to occur it would be the first sale of shares in a 100% local government owned airport to private interests, rather than the previous sales by central government to private parties. To date no such sale has occurred.

6.5.3 Rotorua

The 50% shareholding that the government held in Rotorua Airport after corporatisation in 1990 was sold to Central Avion Holdings Limited, a private company, during the year ending 31 March 1999. This company held this shareholding for four years until it was purchased by the Rotorua Lakes District Council, the other 50% shareholder to gain complete ownership of Rotorua Airport in 2003. Rotorua Airport has been steadily developing its potential to be an international airport and Air New Zealand commenced scheduled flights to and from Australia from this airport in December 2009, thereby establishing Rotorua as the eighth international airport.

The Air New Zealand international services may be considered a response to Pacific Blue commencing flights to Australia from Hamilton Airport after Air New Zealand announced its intention to withdraw international flights from that airport during early 2009. It remains to be seen if there is sufficient market to support these services over time.

6.5.4 Palmerston North

At the time of incorporation, 21 December 1989, the shareholding in this joint venture airport was 87.7% Palmerston North City Council and 14.3% central government. On 20 October 1998 the government sold its shareholding to a private company called Central Avion Holdings Limited. Some eight years later on 30 November 2006 the Palmerston North City Council purchased the shareholding of Central Avion Holdings Limited to gain 100% ownership of the airport company (Palmerston North International Airport Limited annual report, 2007).

6.5.5 Wellington

From incorporation until 1 December 1998, Wellington Airport was owned 33% by the Minister of Finance, 33% by the Minister of State Owned Enterprises and 34% by City Investments Limited (a company owned 100% by Wellington City Council). On 1 December 1998 the Crown sold its 66% shareholding in this airport company to Infratil Limited 1 December 1998 via a trade sale. The Wellington City Council retained its 34% shareholding in the airport and these shareholding arrangements have remained unchanged since.

6.5.6 Christchurch

At the time of incorporation,1 April 1988, Christchurch Airport was owned 25% by central government and 75% by the Christchurch City Council. Prior to incorporation the Crown had owned 50% of the airport and the Christchurch City Council the other 50%. This changed to 75% ownership by the Christchurch City Council, 12.5% ownership by the Minister of Finance and 12.5% ownership by the Minister of State Owned Enterprises from 1 April 1988. This means that central government has owned a total of 25% of this airport since incorporation and the Christchurch City Council the other 75%. In its first annual report for the period ending 31 March 1989 the company recorded that the government had stated its intention to sell the remaining 25% that it held (Christchurch International Airport Limited annual report, 1989). Although this intention to sell is mentioned again in the subsequent annual report in 1990 it was never acted upon and the shareholding of the company has remained the same since incorporation.

6.5.7 Dunedin

At the time of incorporation, 30 September 1988, Dunedin Airport was owned 50% by central government and 50% by the local city council. In contrast with some other airports no mention is made in early annual reports of any intention by the government to sell its 50% shareholding in this airport company, and the shareholding has remained constant since incorporation. The ownership arrangements of this airport company are, however, somewhat unusual in that the Crown has committed to offering its 50% shareholding to the Ngai Tahu Iwi, as part of a Treaty of Waitangi settlement, should it decide to sell (Dunedin International

Airport Limited annual report, 1999). Ngai Tahu is a Maori tribal authority that is also the owner of significant commercial interests. There is therefore a constraint on the potential sale of the Crown shares in this airport.

6.5.8 Queenstown

Since incorporation Queenstown Airport has been owned exclusively by the Great Lakes District Council. There has never been any private shareholding in this company. In July 2010, however, both Auckland Airport and Queenstown Airport announced that they had agreed to the former purchasing a 24.9% shareholding in the latter. This partial sale is being contested by business and community interests in the Queenstown area but if confirmed it will be the first partial acquisition of one New Zealand airport company by another.

6.6 Airports neither international nor joint venture

The airport authorities listed in Table 6.3 are those servicing smaller provincial cities and towns. They are only serviced by Air New Zealand Link airlines with aircraft types such as the Beech 1900D or Bombardier Q300. These airports are typically former joint venture airports whose ownership has either been transferred to a company or their ownership has transferred to a local authority, which either manages the airports as part of its own operations or uses a separate company to manage the airport on its behalf. Tauranga is an example of the former and Gisborne an example of the latter arrangement.

In contrast with the joint venture airports, whose charges are set by the Minister of Transport, these airports are required to set their own fees pursuant to the provisions within the Airport Authorities Act 1966. Achieving a reasonable rate of return from their airline users can be problematic as even the much larger international airports find this process difficult given the size of the airline companies that they are consulting with (Manager F Airport 4, personal communication, July 12, 2006). These airports are, however, not constrained by the provisions of the joint venture scheme in that they do not require multiple parties to agree on development plans and borrow separately to fund any developments. Tauranga is the largest of these airports and the Tauranga City Council has invested significantly in this airport to develop its capability and earning potential over the last 10 years.

Table 6.3 - Neither International nor Joint Venture Airports with Scheduled Domestic Services

Airport	**Ownership as at 30 June 2009**
Kaitaia	Not a company. Owned by Far North District Council and central government
Tauranga	Not a company. 100% local government
Gisborne	Company owned by Gisborne District Council
Wanganui	Not a company. Owned and operated by Wanganui District Council
Nelson	Company owned and operated by the Port of Nelson
Timaru	Not a company. Owned and operated by Timaru District Council and central government
Oamaru	Not a company. Owned and operated by Oamaru District Council
Wanaka	Company. Owned by Great Lakes District Council. Managed by Queenstown Airport Limited.
Invercargill	Company. 50% local authority 50% central government

Source: Individual district councils and Ministry of Transport

6.7 Joint venture airports

As shown in Table 6.4 central government ownership at 50% of each airport reflects the arrangements that have been in place since the first airports joined this scheme in 1953, and it continued to grow until reaching a peak of 24 airports in 1974. This scheme continued to operate as originally implemented until 1988 when the first companies were established as a consequence of government policy announced in 1985. Subsequently the number of joint venture airports was to reduce quickly and generally only smaller regional airports have remained part of this scheme. By 2006 the number of airports in this scheme had reduced to seven, and the government intention to corporatise a further two of these airports was announced that year (King, 2006). On 1 July Napier Airport was established as a company and left the scheme (Manager H Airport 7, personal communication, November 3, 2009). According to an official within the Ministry of Transport (Ministry of Transport official, personal communication, March 20, 2009) it was anticipated that New Plymouth Airport would be corporatised during 2010. This official stated that the reason for the delay in corporatising New Plymouth Airport was because the local authority wished to gain 100% ownership of the new company while government policy, announced in 2006, is for it to remain a shareholder.

Table 6.4 - Joint Venture Airports

Airport	**Ownership as at 1 July 2009**
Whangerei	50% Whangerei District Council 50% central government
Whakatane	50% Whakatane District Council 50% central government
Taupo	50% Taupo District Council 50% central government
New Plymouth	50% New Plymouth District Council 50% central government
Westport	50% Westport District Council 50% central government
Hokitika	50% Hokitika District Council 50% central government

Source: Ministry of Transport (Ministry of Transport official, personal communication, November 3, 2009).

If New Plymouth Airport is ultimately corporatised only five airports will remain within the joint venture scheme. At the time the government announced its intention to corporatise the two additional airports in 2006 it also restated its commitment to retaining ownership in the remaining joint venture airports with local authorities (King, 2006). The five airports that it is likely will remain as joint venture airports are located in small provincial towns and cities that are serviced solely by scheduled Air New Zealand Link airlines. These airports are located at Whangerei, Whakatane, Taupo, Westport and Hokitika.

A significant issue with the joint venture airport scheme, according to a Ministry of Transport official (Ministry of Transport official, personal communication, March 20, 2009), is that the original deeds to establish the individual airports as joint ventures have not been updated since these arrangements were first formed. As a consequence a Ministry of Transport official reported that these structures do not necessarily reflect the needs of managing and developing these airports at this point in time. This was reported as being one aspect of their ownership and operation that needed to be addressed once current work to corporatise the largest two of the remaining seven airports had been concluded.

One of the reported frustrations associated with the joint venture arrangement has been that both the central and local government owners must agree on any capital expenditure. This has proven to be problematic given the potentially different objectives and/or priorities of the different partners to the agreement. Such concerns are expressed in the Napier Airport Authority annual report for the year ending 30 June 2008, exactly a year before it was corporatised. It can be expected that some aspect of the joint venture airport scheme may need review and modernising as the scheme has now been in place for some 47 years since 1953.

6.7.1 Limitations and opportunities of joint venture airports

Only six of the 24 joint venture airports now remain within the scheme that commenced in 1953 and continued to grow until 1974. These airports are not operated as companies but as Airport Authorities pursuant to the Airport Authorities Act 1966, and are owned by their joint venture partners. The largest of these six airports is at New Plymouth. At a national level the joint venture agreements are managed by the Ministry of Transport, as opposed to airport companies that are legal entities in their own right. At a local level the operational responsibility rests with the relevant local authorities that keep the airport set of accounts, employ the staff charged with managing and maintaining the facility, and manage their daily operation. One of the most significant aspects of the management responsibility of the Ministry of Transport is that aeronautical charges at these airports are set by the Minister of Transport on the advice of officials (Ministry of Transport official, personal communication, March 20, 2009). This is in contrast with the situation at corporatised airports and potentially one of the significant impediments to the commercial development of the joint venture airports, particularly as one 50% owner has no say in what is likely to be one of the largest sources of revenue at each airport.

During the period since corporatisation 1988-1990 all the major airports have extended their capacity and capability in terms of runway and terminal developments. This can be contrasted with the remaining joint venture airport scheme airports that have seen little development in this regard. Table 6.5 details the principal runway dimensions at each of the six joint airports as at 19 November 2009. This illustrates that the capacity and capability of these airports have not increased to any significant degree since these runways were built in the late 1950s and early 1960s to accommodate the Fokker Friendship aircraft that NAC was introducing. This lack of development has meant that these airports are limited to the smaller aircraft types operating scheduled domestic air transport such as the Beech 1900D at four of these airports and the larger Bombardier Q300 at the other three. As only Air New Zealand owned Link airlines, such as Eagle Air and Air Nelson, operate these aircraft types Air New Zealand is at present the sole supplier of air transport at these airports. This coupled with Air New Zealand being majority owned by the New Zealand Government and the authority resting with the Minister of Transport to fix charges at these airports means that the opportunities for commercial development are limited, and must be agreed upon and funded by the owners if the airports do not have financial reserves. This can be contrasted with airports operating as companies which have seen sustained development in capability over the time since incorporation.

Table 6.5 - Runway Dimensions of Joint Venture Airports.

Airport	Dimensions of largest runway
Whangerei	1097 x 30 metres
Whakatane	1280 x 30.5 metres
Taupo	1386 x 30 metres
New Plymouth	1310 x 45 metres
Westport	1280 x 30 metres
Hokitika	1314 x 30 metres

Source: http:/www.aip.net.nz/NavWalk.aspx?section=CHARTS Accessed 19 November 2009.

6.7.2 Hawke's Bay Airport

Hawke's Bay Airport is an example of a former joint venture airport that has recently transitioned to a company. Prior to 30 June 2009 it was one of the seven remaining joint venture airports and since 1 July 2009 has been trading as a company in its own right.

The joint venture deed for this airport is dated 13 January 1963 and, according to the Ministry of Transport official who supplied it under the Official Information Act, remained the base document that the parties worked to until corporatisation. The deed had no termination date and was to remain in force whilst the airport is in use as a public aerodrome (Ministry of Transport official, personal communication, March 20, 2009). Although there is no termination date to the deed each party to it could call for a review of the deed agreement or part of it (Hawke's Bay Aerodrome Deed, 1963).

In the deed the costs of developing the airport were to be shared between the owners on the same basis as their ownership. Subsequent costs to operate the airport and the revenue generated by it are also to be shared proportionally. The annual report for the airport for the period ending 30 June 2008 states that the airport authority is a joint venture partnership that was formed under the Airport Authorities Act 1996. It further records that ownership of the joint venture is 50% Crown, 26% Napier City Council and 24% Hastings District Council (Hawke's Bay Airport Authority annual report, 2008).

As the joint venture airports are not able to borrow, they retain any operating surpluses as the means to fund further developments. In the case of Hawke's Bay Airport any capital expenditure required the approval of the three owners. Any borrowing to fund capital projects would subsequently be undertaken individually by the joint venture partners.

The performance targets established by the owners of this airport prior to 1 July 2009 do not include any statement about the payment of dividends, as there is no facility to pay them, but do set targets for earnings before interest, tax and depreciation to revenue, the return on funds employed and profit for the period as a percentage of total equity. They also record a budget for the percentage of revenue from landing charges to other income. These targets are indicative of a commercial focus to the operation of the joint venture. By way of illustration for the year ending 30 June 2008, the profit for the period as a percentage of total equity was 4.5%, and the total percentage of revenue from landing charges was 47%, down from 57% the previous year. Profit after taxation for the year ending was $736,000 compared with $734,000 for the 2007 financial year (Hawke's Bay Airport Authority annual report, 2008). This suggests that the new airport company established 1 July 2009 has the potential to be profitable.

In relation to the matter of setting charges for users, the 2008 annual report records that the 2005 charges were overturned by the Appeal Court on 22 February 2008 on the grounds that government officials had "failed to properly brief the minister when making his decision" (Hawke's Bay Airport Authority annual report, 2008, p. 1). This meant that for this airport the airlines have continued to pay the charges that had been set as far back as 1998. Subsequent to this decision the Airport Authority reported that it reached agreement with Air Nelson on a set of charges for the ensuing three years which, it is reported, generate reasonable income for the authority. It was also reported, however, that these charges are less favourable to the airport than those that had been initially fixed in 2005. As an airport company from 1 July 2009 the new entity now has the facility to set its own charges as provided for in the Airport Authorities Act 1966.

That there was concern with the conditions under which this airport authority operates is evident from comments made within annual reports. These include frustration with achieving agreed development plans between the various owners as indicated by the following statements in the 2008 annual report for Hawke's Bay Airport.

> It is regrettable that there is not a greater degree of cooperation and sense of common purpose amongst the Hawke's Bay Airport Joint Venture partners. The two local authority partners making up 50% of the Airport Joint Venture appear to have a common view of how they would like to see the airport developed in the future but the Crown on the other hand has made no commitment to support any of the development proposals put forward by the Airport Authority or even expressed an opinion on the proposed strategic direction (Hawke's Bay Airport Authority annual report, 2008, p. 5).

This level of frustration and lack of a joint coherent plan for the airport is indicative of the type of issues that the Minister of Civil Aviation made reference to in 1985 when he presented the rationale for commercialising the bulk of the airports within New Zealand (Minister of Civil Aviation and Meteorological Services, 1985).

Since 1 July 2009 Hawke's Bay Airport has no longer been a part of the joint venture airport scheme and is the most recent airport company to be established in New Zealand. The new company is owned by the former joint venture partners with the same proportional shareholding. Manager H (Manager H Airport 7, personal communication, October 29, 2009) reported that the former joint venture was dissolved on 1 July 2009 and that a new company had been formed. He reported that no money changed hands and that the assets and reserves of the former joint venture airport were handed over to the new company. The company was reported by the manager as having approximately $5 million in reserves so no immediate borrowing was anticipated. These arrangements can be contrasted with those at other airports, corporatised from 1988, where the reserves were distributed to the joint venture partners upon incorporation and each company was established with approximately 60% debt owed to the former partners (Manager I Airport 5, personal communication, November 20, 2009).

The new board for the company is comprised of four persons. Two board members have been appointed by the Crown, as 50% owner, and one each by the Napier City Council and the Hastings District Council. The manager reported that the owners do not expect immediate dividend payments and that operating surpluses will be retained to develop the business.

6.7.3 New Plymouth Airport

New Plymouth Airport is now the largest and busiest airport remaining within the joint venture scheme. It is discussed at a time when consideration is being given to corporatisation it according to Manager J (Manager J Airport 8, personal communication, November 3, 2009).

The deed to establish the joint venture airport at New Plymouth between the Crown and the New Plymouth District Council came into effect 1 April 1960 (New Plymouth Airport: Deed between the Crown and the New Plymouth City Council, 1960). This deed has not been updated since 1960 and remains the founding and current document for this joint venture (Ministry of Transport official, personal communication, March 20, 2009). The deed has no end date but provides the facility for either party to seek a review of it, or parts of it.

It is not yet known if the ownership structure of this joint venture airport will change if and when it is corporatised. According to a Ministry of Transport official (Ministry of Transport official, personal communication, March 20,2009) corporatisation is proceeding at a slower pace than at Napier Airport and is not likely to occur until 2011 at the earliest. This was reported as being due to ongoing discussion between the Crown and the local authority as to the potential ownership structure post corporatisation.

With regard to New Plymouth Airport the Statement of Objectives and Performance, for the year ending 30 June 2008, contain the following objectives:

(a) To provide airport facilities to serve the needs of the Taranaki region
   - To maintain facilities to avoid any diversion or cancellation of scheduled flights other than for weather or airline problems.
   - To meet all operating and maintenance costs from revenue.
   - To prepare a Business Plan for the Airport's future development needs.

(b) To operate the New Plymouth Airport in full compliance with the approved operating procedures so as to achieve a clean audit report from the Civil Aviation Authority of New Zealand

(c) To determine new landing charges (New Plymouth Airport Authority annual report, 2008, p. 6).

In commenting upon the achievements of the previous financial year the Airport Authority reported that it had operated satisfactorily during the year, and that there were no cancellations or diversions to services due to the actions of the airport itself. It further stated that all operating costs and maintenance were met from revenue, and that the development of a business plan was in progress. The annual report also recorded that a new schedule of landing charges for the airport had been implemented from 7 November 2007 after consultation with the airlines and receiving the approval of the Minister of Transport.

What is evident from the objectives stated above is that there is no clear intention to operate at a profit and the airport is expected to meet its costs from revenue. For the year ending 30 June 2008 the airport had a net profit after taxation of $115,000. For the previous year ending 30 June 2007 it had reported a net deficit after taxation of some $25,000. At this point in time New Plymouth Airport does not appear to be as profitable as that at Napier and post corporatisation, if this occurs, may take longer to be profitable.

What is evident with regard to this joint venture airport is that it sees its primary responsibility as serving the aviation needs of the region within which it is located, thereby providing a social service, and matching revenue to expenditure to service those needs without an evident strong commercial focus. Manager J reported that the current objective of the airport was to break even financially rather than make a profit (Manager J Airport 8, personal communication, November 3, 2009).

Four years after the announcement by the government of its intention to corporatise New Plymouth (King, 2006) it is now less certain as to whether or not this will eventuate. Manager J reported that previously the New Plymouth District Council had wanted to gain full ownership of the airport and corporatise it. He stated that this may no longer be seen as a good idea within the Council. A senior manager within the New Plymouth District Council (Senior Manager New Plymouth District Council, personal communication, November 3, 2009) reported that the council had no policy as such on corporatisation, and that developments were being driven by whatever government was in power. He further stated that some staff within the council are eager for corporatisation to occur in order to enable a more of a management perspective to be taken in respect of the airport, and aviation services to be developed.

6.7.4 Potential for mixed objectives of joint venture airports

As previously mentioned the retention of airports within a joint venture type arrangement can result in frustrations when one or more owners wish to develop the airport commercially and the other does not, or an acceptance by the parties that the principal purpose of the venture is the provision of airport facilities, without a strong commercial focus, to meet the aviation needs of a particular region. In many respects it would appear that the current joint venture airports occupy a role similar to the smaller of the New Zealand airports prior to their corporatisation from 1988 to 1990. Possibly it is having a corporate structure, rather than necessarily ownership, that makes the most difference about how the airport is viewed and operated by its owners. Manager I of Palmerston North Airport (Manager I Airport 5, personal communication, March 20, 2009) advised that he believed there was merit in corporatisation because it "ring fenced" the operation and both revenues and expenses were then properly accounted. The entity could either be profitable or losses accepted by the owners because of the services it provided to various stakeholders. In a subsequent interview Manager I stated that New Zealand may have now reached the stage where all the airports of a sufficient size to be profitable have been corporatised, and that the remaining joint venture airports have little prospect of operating profitably (Manager I Airport 5, personal communication, November 20, 2009).

There does not appear to be any reason why the larger airports at Napier (Hawke’s Bay Airport) and New Plymouth cannot operate successfully as airport companies and provide a financial return to their shareholders, in the form of dividends, while developing the airport services in their respective regions. This may not, however, hold for some of the existing joint venture airports serving smaller towns at locations such as Whakatane or Hokitika. At these locations the provision of airports is probably well served by their remaining as joint venture airports. An alternative scenario may be for the ownership of these airports to rest solely with either the Crown or a local authority but this has not yet occurred to any significant degree.

6.7.5 Discussion as to the future of joint venture airports within New Zealand

It is anticipated that the joint venture airport scheme will remain in place for some years to come as it was reinforced as government policy as recently as 2006 (King, 2006). It is not, however, known whether or not further airports will leave the scheme. Given the scale of the remaining airports there does not appear to be any significant rationale for commercialising them at this point in time, except possibly New Plymouth Airport. What may be appropriate, however, is a review by the Ministry of Transport and the relevant local government owners to modernise their operating deeds to address quite fundamental matters such as how developments can be planned and implemented in a more systematic matter, and how commercial opportunities might be identified and acted upon in order to ensure that at least the airports are self sustaining and not a financial burden to their respective owners. This review could include a change to the regime by which aeronautical charges are established at these airports. Because the Minister of Transport establishes aeronautical fees, and the government is also the majority shareholder in the airline that services these airports, the current arrangements might preclude them achieving a commercial rate of return on their assets. These joint venture airports are subject to the statutory requirement that they be operated or managed on a commercial basis, and those responsible for them need to take account of this requirement under law.

6.8 New Zealand transport policy – 2002 onwards

The earlier parts of this chapter suggest that there are three broad groupings in terms of the way that airports are owned and managed in New Zealand at present. All of the airports discussed have been in place for over 30 years and it is unlikely that further airports will be added to the existing network as New Zealand already has a comprehensive network servicing each significant centre of population. The most significant change since 1994 has been an increase from three to eight international airports, and the associated significant expenditure to transform these former domestic airports into international airports with the associated infrastructure and services. The number of joint venture airports continues to decline slowly and there is some indication that central government might divest its ownership in the remaining airports over time (Ministry of Transport official, personal communication, November 3, 2009). A significant number of airports are neither international nor joint venture and are required to choose their own development paths. The question then arises as to whether it is appropriate or necessary for there to be some form of national aviation, or airport, strategy to guide and possibly control the ongoing development and operation of this important element of the transport infrastructure of New Zealand.

The first New Zealand Transport Strategy was released by the government in December 2002. The current strategy replaced the original document and is titled the *New Zealand Transport Strategy* 2008. It attempts to project forward for the next 32 years to 2040. The strategy states:

> As a trading nation heavily dependent on tourism and primary production, New Zealand's international transport connections are critical to sustaining the economy. In 2006/7, 29 percent of New Zealand's export and import tonnage travelled by air and 99 percent of international visitors arrived by air (New Zealand Transport Strategy, 2008, p .41).

The strategy further states that "New Zealand will continue to liberalise its air agreements with other countries to open up new opportunities and markets for trade and tourism" (p. 41). This includes an open aviation market with the European Union and an ongoing commitment to the current "open skies" policy that New Zealand operates as government policy. With regard to airports as an industry there is little actual commentary or direction within the New Zealand Transport Strategy to guide or manage the development of this type of enterprise. This is surprising given the emphasis within the strategy on other forms of transport both within New Zealand and in terms of international transport linkages.

The transport strategy does not make comment about the type of ownership structures that could best deliver the types of air services that New Zealand requires. It makes no mention of the plans to corporatise further airports, and is silent on aspects such as the models of ownership and/or operation of airports that would best realise the broad aviation related objectives that it states. Kimpton (2009) has provided an analysis of the aviation issues likely to be addressed in briefing papers to the incoming government in late 2008 and no reference is made by him to any issues associated with the management or operation of airports. It could therefore be concluded that either there are no airport related issues that require the immediate attention of the new government or alternatively that insufficient consideration is being given to this important aspect of the transport infrastructure.

6.9 Does New Zealand need a more comprehensive airport strategy?

Should the New Zealand Government have a more comprehensive strategy in relation to aviation in general and the various key sectors within that field, including the airport system? During the course of interviews with airport managers they expressed satisfaction with the current situation with regard to their industry in that it was considered free to set its own path and define its future on a commercial basis. These were of course managers of commercialised airports that are generally operating profitably and this body of opinion may not take into account frustrations found in the other parts of the airport industry, such as those airports still within the joint venture airport scheme. Unlike New Zealand, Canada has a National Airport Plan and the USA has the Airway and Airport Trust Fund that evaluates the merits of projects within the entire airport network and provides funding in support of those seen as having the most merit. It is suggested by de Neufville and Odini (2003) that the availability of these trust funds to airports is largely the reason why the USA has not moved to privatise its airport system. Australia is currently in the process of establishing a National Aviation Policy, with infrastructure as a major element of the plan under development.

A significant aspect of the USA airport system according to Kaps (2000) is that a national airport plan and strategy is maintained and the national airport system is viewed as being a strategic asset in terms of economic activity and growth. Within the USA there is considerable Federal Government involvement in funding infrastructure, and consequential limitation on the operation of airports receiving this funding (Wells, 1999). The policy of having a national levy on all passengers to fund infrastructure at airports is considered by Wells as being a double edged sword, in that while it provides for capital expenditure it also places constraints on the activities of those airports that receive such funding.

6.9.1 Canadian national airports policy

Canada has established and operates a National Airports Policy. It is noteworthy that the place of central government in the ownership and operation of airports is still poorly defined:

> There is no statutory, regulatory or policy framework that defines a clear role for the federal government in the operation of airports in Canada. The absence of a clearly-defined policy for the operation and/or funding of airports has led to ad hoc decisions. It has led the federal government to assume increased responsibility for airports over more than 60 years with no consistency or focus on a clearly-defined system or role to guide these decisions (Transport Canada, 2009).

New Zealand had a clear and distinct policy from 1985 that was put into effect and resulted in central government taking less responsibility for the oversight and operation of major airports. Where the policy was less clear was in relation to the privatisation of the new airport companies, which was only partially carried out, and the lack of development of policy and practice with regard to the remaining joint venture airports until an announcement of the decision to corporatise a further two airports as government policy some 21 years later in 2006. In large part the New Zealand system has developed free of central government control or intervention since the commercialisation policy was put into effect.

Under the Canadian model the ownership of the 26 largest airports is retained by the government but leased to Canadian airport authorities to achieve the objectives that they are safe and commercially orientated. The ownership of regional airports will be transferred to local interests and remote airports will continue to be maintained for social purposes. In many respects the New Zealand system preceded the Canadian model in that from largely central government management until 1953 most airports moved to a joint venture model and from 1988 to a commercialised model.

Rather than in concert with an airport strategy, most recent interventions by the New Zealand Government have been on an ad hoc basis and often required government departments to establish policies to sort out issues within the airport system, such as potential monopoly pricing debates or an external party seeking to buy a large shareholding in Auckland Airport. It has, however, also been necessary for the government to establish and state its policy regarding the potential civil air transport use of current military air bases as a number of airlines have sought the approval to do so.

It could therefore be argued that it is time for a comprehensive review of how airports are owned, operated and managed within New Zealand, whether the current network of provision meets the economic and social needs of the country and how the system might operate in the future. This could also usefully include a review as to whether or not the policies that have been in place for many years still remain the optimum arrangements for a nation so dependent on the use of aviation to move passengers and freight both to and from New

Zealand. Such a review might highlight potential developments without unduly constraining airports. The alternative view might be that current arrangements are fully meeting the needs for airports in New Zealand and that therefore no intervention is warranted or necessary.

6.9.2 Australian national aviation policy

By way of a contrast with New Zealand, Australia is currently actively engaged in the in the process of developing a National Aviation Policy (Duval, 2008; Kimpton, 2009).

The principal airports in Australia were operated from 1986, when the Federal Airports Corporation was established, as a government owned business enterprise. Privatisation, as government policy, commenced in 1997, and in the ensuing six year period, 22 major airports were privatised. In privatising the airports the federal government leased them for periods of up to 99 years but in adopting a similar strategy to Canada has retained ownership of the land and infrastructure. In the executive summary section of the current Green Paper the following statement is made:

> Australia's aviation industry is essential to the development of the nation's economy. We depend on it to connect to each other and the rest of the world. Whether moving tourists, families, freight or business people the industry is critical to Australia's ongoing economic and social development (National Aviation Policy Green Paper, 2008, p. 7).

It could be argued that these comments apply equally to a New Zealand context as a nation even further distanced than Australia in geographical terms from its significant trading partners and large population centres. The green paper goes on to state that the purpose of developing a National Aviation Policy:

> The government's aim is simple – to give the industry the certainty and incentive to plan and invest for the long term, to maintain and improve our excellent safety record, and to make clear commitments to travellers and airport users, and the communities affected by aviation activity (National Aviation Policy Green Paper, 2008, p. 8)

This argument could also equally be applied in a New Zealand context and it is possible that similar benefits would accrue to those that have been identified as applying to Australia. While currently New Zealand airport companies enjoy a large amount of freedom, which is appreciated by airport managers, this may not necessarily be the best way to develop a national airport system in an integrated manner. For example it may not be in the best interests of New Zealand to have eight international airports, and the associated costs of border control.

In terms of airports the green paper notes the level of investment post privatisation and the need for this to continue, stating:

"There is no intention to over regulate, or to make planning and approval processes so cumbersome as to deter investment. A coordinated approach to planning brings benefits for both the airport and the community" (National Aviation Policy Green Paper, 2008, p. 16).

These statements are also relevant in a New Zealand context as one of the major issues constraining developments reported by airport managers interviewed was the cost and time associated in complying with the requirements of the Resource Management Act 1992. They do, however, acknowledge that they have enjoyed freedom from airport pricing regulation that was imposed in Australia for the first five years after privatisation.

The Australian draft policy includes an intention to monitor proposals for non-aeronautical commercial developments by airports as it is considered that these have the potential to undermine developments planned by surrounding communities. Most airports are placing increasing reliance on the non-aeronautical aspects of their operations and any policy developments that constrain such developments in future have the potential to restrict the commercial developments of airports. A recent report by ICAO on the financial situation of airports in 2007 revealed that of 347 airports surveyed, the average non-aeronautical percentage of total revenue was 53% of their total income (ICAO, 2007). Obviously any policy development that could potentially limit such revenue sources for airports would be of concern to them, and this would equally apply in a New Zealand context.

The green paper goes on to state that a new level of co-operation is required between governments at the national, state and local levels. To some extent this co-operation would have the potential to critically review developments, particularly non-aeronautical, and ensure a more integrated approach to planning and subsequent development. This is more feasible in Australia, as opposed to New Zealand, as that country retained ownership of its airport infrastructure, and the right to approve airport master plans, whereas in the case of New Zealand the principal airports actually belong to the airport companies that operate them. Presumably, therefore, in the Australian environment there may be a greater potential to steer and control the development of the airports as part of an overall system than currently exists in New Zealand.

With regard to airport pricing the green paper states that the intention is to continue the monitoring system that is in place rather than return to regulating prices as occurred for five years post privatisation. It is also intended to introduce a "show cause" clause provision into the Trade Practices Act 1974. This would require an airport entity to show cause why it should not be exposed to more detailed examination of its pricing if there was evidence of an airport abusing a monopoly position. In Australia car parking at airports is also subject to price monitoring. This is not presently the case in New Zealand.

To date New Zealand has steered away from price regulation at airports and relied upon the provisions contained within the Airport Authorities Act 1966 and the Commerce Act 1986 as mechanisms to control any monopoly behaviour.

6.10 Summary

Post the end of WW2 the New Zealand Government took the lead role in establishing domestic and international air transport and was pivotal in the development of both the airlines and airports. Ownership and operation of both the airlines and airports was seen as being a central government function and responsibility.

From 1953 until 1974 the government operated a policy of establishing joint ventures with local authorities to both own and operate airports, and shared the responsibility of developing the airport system with them. In some cases the government partnered with one local authority and in other cases with a number. As well as joint ownership and operations, joint financial decision making was a feature of this arrangement, although the government retained the sole right to fix aeronautical charges. By 1974 all the major airports were owned and managed via this scheme.

Between 1974 and 1985 problems were becomingly increasingly evident in these arrangements as local and central government entities often had different objectives and as a consequence had difficulty agreeing on and implementing major development projects. The financial reserves of some airports were also becoming large but no facility existed for these funds to be used to develop other airports within the airport network, or to be passed on to the respective owners as a return on their investment (Lyon and Francis, 2006).

In 1985 the government announced a clear policy of corporatising airports and passed legislation to enable this to occur in 1986. During the ensuing period from 1988-1990 the most significant airports were corporatised and the airport as a company has remained the dominant model since within a New Zealand context.

From 1990 the government began to pursue a less coherent policy of privatisation by passing the necessary legislation but the first small private shareholding, 1% of Auckland Airport, did not occur until 1995. This policy resulted in the public listing of Auckland Airport in 1998 and the sale of the government's shareholding in Wellington Airport to a private company the same year. The privatisation programme was not, however, subsequently implemented in a comprehensive manner and government decisions in this regard would appear to have been made on an airport by airport basis. For example there would appear to be no evident reason why the government would sell its shareholding in Auckland and Wellington airports but retain it in Christchurch Airport, the second largest in the country (Francis and Lyon, 2008).

The end result of not developing and implementing a clear and coherent policy has meant that New Zealand has a significant number of different airport ownership structures in place, with presumably differing commercial objectives, and therefore it may be difficult for the country to develop and implement a coherent national aviation policy with regard to the optimum supply and capability of the national airport system.

To some extent the New Zealand Government lost the ability to form and implement a national airport plan as a consequence of the decisions made by successive governments to share ownership and management with local authorities from 1953, to commercialise the airport system from 1985 and then to allow private ownership into key airports from 1990. There would, however, appear to be significant potential benefits from developing a national aviation policy, similar to that being developed in Australia, within a specifically New Zealand context in order to ensure that the importance of aviation to the social and economic wellbeing of the country is critically reviewed and opportunities to develop the future potential and capability of the ideal airport system are identified, recorded and acted upon.

The current ownership and management arrangements of the New Zealand airport system have their roots in 1953 when the joint venture airport scheme commenced. When the subsequent decision to corporatise airports was made as government policy, in contrast with other countries such as Canada and Australia, the government was not the sole owner of any of the joint venture airports. As a consequence the New Zealand airport system has developed as a partnership between central and local government, with some private sector involvement in a small number of airports from 1995 onwards. As a result developments might be considered piecemeal but the freedom to operate afforded by the Airport Authorities Act 1966, and the open economy and open skies policies of successive governments have left the major airports free to pursue their own commercial interests, including significant investment and the provision of a positive return to shareholders. The performance of individual companies is discussed in Chapter 8 and the aggregation of that performance as an industry grouping in Chapter 9.

Chapter 7 - A management perspective

7.1 Introduction

This chapter sets out to explore a management perspective of the New Zealand airport industry using semi-structured interviews with a number of airport managers and a subsequent focus group to assess whether or not commercialisation has been successful from their point of view. This process was chosen in order to enable the researcher to both gain data from individuals at specified airports and to subsequently develop a set of propositions that could then be further tested in a focus group regarding the success or otherwise of commercialisation. This management perspective of the commercialisation of airports is supplemented by a governance perspective in the ensuing chapter.

7.2 Research process

The development of a questionnaire was undertaken by the researcher to contain a list of questions that would cover a range of issues associated with the commercial operation of airport companies from a management perspective, including the legal requirements of the Airport Authorities Act 1966. The questionnaire was comprised of 28 questions and was structured along similar lines to an earlier study undertaken in respect of reviewing New Zealand port companies post commercialisation (Charles River Associates, 2002). Prior to being used the questionnaire was submitted to and approved by the Human Ethics Committee of Massey University. (**Appendix R**)

The design of this part of the research project was centred on the researcher being able to gain access to and interview the most senior managers at the seven largest commercialised airport that form the basis of this study. The process undertaken was for the researcher to initially write to the CEO of each of these companies seeking their permission to interview both the CEO and persons holding the positions of Chief Financial Officer (CFO) and Business Development Manager (BDM), as these were identified as key management roles within commercialised airports. Included with the original letter to the CEO was an information sheet about the project (**Appendix O**) and a copy of the questionnaire.

The research design then called for researcher to follow up the initial letter to the CEO with a telephone call to the office of each of the seven CEO's one week later to establish the interview schedule and answer any queries regarding the project and hopefully gain the commitment of the company to participate in the research project. This took place as planned.

The result of the initial letter and subsequent phone call was that four of the seven identified airport companies agreed to participate in the research project and three declined to do so. The three companies that declined to participate all reported work pressure as being the reason that they were not prepared to participate. One of these three companies subsequently agreed to participate in the research project but this occurred after both the individual interviews had been held at individual airports and the ensuing focus group at Wellington Airport.

In respect of the responses received from individual airport companies that agreed to participate in two cases the CEO delegated responsibility to one or more senior managers to represent the airport company rather than being personally available for interview. In respect of the two other airports, in one case the CEO chose to be the sole person interviewed and in the other, both the CEO and the CFO were interviewed. As a result of the varying responses from the airport companies six formal interviews were conducted involving two CEO's, two CFOs and two BDMs across four airport companies at Auckland, Wellington, Christchurch and Dunedin.

Detailed records were kept of the conversation with each airport company during the process of making initial contact, when subsequently arranging and conducting interviews, and the establishment and facilitation of the focus group. The log used for this purpose includes records of all phone contacts, emails and correspondence with the seven companies.

In order to protect the anonymity of participants in the interviews and focus group they are not named in the study. Instead where it was considered appropriate to include comments recorded during the interview process, the identity of the interviewee is protected by a coding system. Each individual manager was awarded a different letter of the alphabet and each airport a number, and the quotation reported as a personal communication e.g. (Manager F Airport 4, personal communication, July 12, 2006).

7.3 Individual interviews with managers

This stage of the research process was undertaken as planned with visits by the researcher to the four airports that had agreed to allow senior managers to be interviewed during the period from February to July 2006. One visit each for this purpose was made to Auckland, Christchurch and Dunedin airports and three visits were made to Wellington Airport due to problems of availability of one of the senior managers who had agreed to be interviewed. All six individual interviews were conducted on the business premises of the respective airport companies.

Prior to conducting each interview the interviewee was presented with a form (**Appendix P**) that sought their formal agreement to participate in the research project and asked them to sign it after any questions had been answered. As each interview was to be taped and subsequently transcribed, each interviewee was also advised that they would be supplied with a copy of the interview transcription for amendment as necessary and confirmation that it represented a true and correct record of the interview. All six interviewees agreed to participate in the interviews on this basis and completed the documentation.

The interviews were conducted by the researcher asking each of the questions in sequential order. Due to the semi-structured nature of the interview process, supplementary questions were asked to clarify particular points or to encourage further response and both the questions and the responses were recorded and later transcribed. Following the completion of the six interviews, the tapes of the interviews were transcribed by a person employed for that purpose and then returned by the researcher to the respective subjects for amendment if necessary and confirmation as a correct record of the interview. The six subjects all subsequently confirmed by email that the transcript was correct or sought some minor alterations that were subsequently made by the researcher to the transcript and returned to the subject and confirmation obtained of an accurate record.

7.4 Analysis of individual interview transcripts

The individual interview transcripts were analysed by the researcher to identify the main points made by individual interviewees in relation to each of the questions asked. Question by question these were grouped as themes by looking for commonality between the responses and also any significant divergence. The method used to do this was to list all the responses from the first interview question by question and to then add to them progressively as each subsequent interview was analysed. All responses were recorded onto one document before any collation was attempted. These collated responses then formed a set of themes for each question.

From the set of themes in respect of each question the process undertaken was to then develop either a single proposition or a set of propositions that could be considered to provide a collective response to each of the 28 questions and be capable of later testing in a focus group. The questions and the set of propositions developed from analysis of the interviews are contained in **Appendix A**.

7.5 Conducting the focus group.

The next stage of the process was to invite one person who had previously been interviewed as an individual from each airport to participate in a focus group and for this group to collectively consider the set of propositions that the researcher had drafted as a potential response to each question in order to derive a collective managerial response on the success, or otherwise, of commercialisation. The CEO at each of the four airport companies was invited to nominate the representative from his respective company to participate in the focus group and this occurred.

The focus group took place on 15 June 2007 at Wellington Airport. Airline tickets for the three participants resident outside Wellington were arranged and provided to the participants at no cost to them.

The planned output of the focus group was an agreed set of propositions that the participants believed represented a collective airport industry response to the set of 28 questions. It is important to note that while this collective response could be taken as a representative response by managers of the four largest airport companies in New Zealand it could not be taken as representative of the airport companies that had not agreed to participate in the study to this point in time.

In conducting the focus group an outline of the research project to date and its intended future path was provided by the researcher to the participants and an agreement to participate in the focus group on the terms outlined in the information sheet was discussed with the group and questions answered. The participants were then asked to sign a consent form agreeing to participate and for the focus group to be recorded. All participants signed the form and agreed to participate in the focus group (**Appendix Q**).

Each of the focus group participants was supplied with a printed copy of the initial questions and draft propositions. In conducting the focus group each question and the associated propositions were presented visually using a laptop and data projector and discussed. Some sets of propositions were accepted as providing a collective response as presented and others were amended as the focus group proceeded. In each case that amendments were made, they were recorded during the focus group and adopted by consensus. The focus group achieved its intended objective by generating an agreed set of propositions that represented the collective views of those who had participated in the process.

7.6 A discussion of the agreed set of propositions

The following part of this chapter includes firstly the original set of questions asked of managers in individual interviews, secondly the agreed set of propositions as a collective response to those questions from an industry perspective, and thirdly a discussion of those propositions in light of the other sources of data used in the preceding chapters and the analysis of that data. It also includes some specific quotations from the original interview transcripts where it is considered appropriate to stress a particular point.

This part of this chapter therefore seeks to bring the debate and analysis to a point where it can be discussed in light of the quantitative and qualitative material in Chapters 8 and 9 in order to ascertain whether or not the objectives of commercialisation can be considered to have been achieved.

Question One

What is the primary commercial objective of airport companies within New Zealand?

Propositions

- The primary commercial objective of New Zealand airport companies is to deliver a satisfactory financial return relative to the needs of shareholders.
- Airport companies also provide economic value for some types of owners beyond investment in the airport company itself.

Discussion

This objective to make a satisfactory financial return was clearly identified by Manager B “[t]he objective is to make a commercial profit in line with comparable businesses” (Manager B Airport 2, personal communication, February 20, 2006).

All airports have generally operated profitably since incorporation and only on very few occasions have additional shareholder funds been introduced. Those with a majority private or minority government shareholding regularly pay dividends while those in 100% local government ownership tend to retain the surpluses within the business to fund future development in order to meet other social or economic objectives of the shareholders. That airports have a responsibility greater than simply making a profit is reinforced by Manager A when he stated "I think it's to give a satisfactory return to the shareholders on their investment. But the businesses they are really in is the shareholders and investors in a business that [is] actually making a significant contribution to the economy of New Zealand and it requires that network of airports to be able to provide the air services” (Manager A Airport 1, personal communication, February 24, 2006). There are a large number of references in the annual reports studied as to airports acting as economic engines for their respective regions, and for the three largest airports, their contribution to the broader New Zealand economy.

Question Two

Who are the principal customers of airport companies in New Zealand?

Propositions

- The principal customers of airport companies are both the airlines and the passengers that utilise the airport. These two cannot be separated.

Discussion

Annual reports consistently make reference to the requirement to meet the needs of these two groupings, and via separate commercial dealings with the airport companies they represent the bulk of the income generated. The linked nature of passengers and airlines is demonstrated in the following comment by Manager D “….. ultimately the customer of the airport is the passenger, the airline carries the passenger but they in turn rely on the passengers to have the demand for travel” (Manager D Airport 3, personal communication, March13, 2006).

Evidence of significant power by the airlines is demonstrated in the way in which landing and terminal charges have been held down at New Zealand airports and in some cases reduced over time. The passengers themselves are possibly more likely to be negatively impacted by the commercial objectives of the airport companies and have faced significant price increases as non-aeronautical revenues have increased steadily as the percentage of total revenue.

Question Three

What is the nature of the relationship between airport companies and their principal customers?

Propositions

- The nature of the relationship with airlines is formal and commercial but not driven by contracts. The nature of the relationship with passengers is not formal.

Discussion

Airport companies and airlines tend to argue over landing and terminal charges but little else, recognising their mutual dependence. Any significant increase in airport fees is usually responded to by the threat of a Judicial Review of the consultation process by Air New Zealand but resolution is ultimately achieved. Some airport managers reported that they would prefer to deal directly with their airline customers rather than through the Board of Airline Representatives of New Zealand (BARNZ) acting as an intermediary. Within a New Zealand context it is generally Air New Zealand, or its subsidiary airlines, that contest the charges for domestic and international fees, and once fixed they become payable by all airlines operating from the individual airports. Each airport is responsible for its own charging regime under law, and the charges appear to vary considerably between airport companies. Manager F described the processes associated in dealing with airlines "... you inevitably come up against issues where you have a different view on things and there's always the debate about airport charges, even though they are a relatively small part of the cost of travel they get an extraordinary level of focus" (Manager F Airport 4, personal communication, July 12, 2006).

Airports do not consider they engage directly with passengers as clients in a face to face manner other than through the provision of facilities and commercial outlets at the airports. Departure charges are increasingly being levied by the airlines on behalf of the airport companies, as part of a total travel cost, and then this revenue passed to the airport company.

Question Four

What are the determining factors in choice of airport for airport customers?

Propositions

- The choice of airports by airlines is market driven. But the airlines influence markets. Market share for airlines at particular airports is a consideration. The choice of airport by passengers is driven by the type of airline service delivered, convenience and price of travel. There is a difference between long haul and short haul.

Discussion

Many references in annual reports are made of the need to attract airline services to the airports as the lifeblood of the business. This also extends to trying to get new start up airlines to establish their bases at particular airports. Airport companies report engagement with airlines and local tourism/economic development agencies to market their respective airports as destinations. A major feature of the smaller regional international airports at Hamilton, Palmerston North and Dunedin, has been their reliance on one international airline, usually a low cost carrier, and consequently the potential to lose all international services quickly if the owners and operators of that airline consider that there is no longer a viable market to service.

Airport managers report that customers choose airports for a variety of factors including the service delivered and the price of travel. Manager D describes the importance of customer choice "... the airport itself, is largely just an intermediary product, the choice of that airport would be largely driven by what access that airport gives to wherever they want to go" (Manager D Airport 3, personal communication, March 13, 2006).

Some airports are primarily leisure driven in terms of international services and have experienced significant swings in passenger numbers as aspects of the broader economic, social and political climate change. Five of the seven international airports are short haul, three because of the nature of the traveller and service offered and the fourth, Wellington, because of runway constraints. The two long haul airports at Auckland and Christchurch report that they have competitors in the form of Sydney (Auckland) and Auckland (Christchurch). The current reduction in services from Hamilton, Palmerston North and Dunedin by Air New Zealand, is also concentrating such short haul services at the three largest airports. Queenstown considers itself a high value airport because of the attractions of its region and believes that passengers are prepared to pay a premium to visit the resort area. As such it does not see itself competing with the low cost leisure based travel at other small international airports.

Question Five

To what extent are airports exposed to effective inter-airport competition? What impact does this have upon the commercial performance of airport companies?

Propositions

- There is a small leve of competition between airport companies for domestic and more for short haul international passengers. For long haul it is important to definite competition.
- There may be too many airports servicing short haul international passengers and consequential inefficiencies in the airport system. Instead it's the market that decides.
- Competition is based on services and price and not necessarily market dominance.

Discussion

Airport managers and directors reporting in annual reports believe that competition exists for domestic, short haul and long haul international travel between airports in New Zealand. The greatest competition is considered to exist for long haul traffic. The following quote from Manager B indicates his belief that New Zealand airports are exposed to significant competition: "We believe we’re exposed to effective inter-airport competition. Take for example 75% of our international passengers and about a third of our domestic passengers are overseas visitors. Now they don’t have to come to Christchurch they can go to Auckland, Wellington, Queenstown, Dunedin. We believe we are in competition with other airports for those" (Manager B Airport 2, personal communication, February 20, 2006).

Manager D said that his company was concerned to ensure that Sydney did not become the predominant regional hub and airports such as Auckland become “branch lines” feeding that hub “...we don’t want to be an Adelaide Airport to a Sydney Airport, we want to be an airport that provides those direct international linkages out of Auckland” (Manager D Airport 3, personal communication, March 13, 2006).

The chairman of Christchurch Airport in a recent annual report expressed similar concerns in relation to Auckland Airport. For smaller international airports, other than Queenstown, the challenge seems to be to get an airline, predominantly Air New Zealand and its subsidiary companies, to keep servicing them as destinations. Auckland Airport is, however, aware that the growth of services also has the potential to damage its business “...every time Christchurch introduces a major long haul destination that may be at the expense of Auckland” (Manager D Airport 3, personal communication, March 13, 2006).

Concerns expressed that there may be too many airports serving short haul international markets have proven to be likely correct with Palmerston North losing its international services from 30 March 2008, Hamilton temporarily from 25 April 2009 and significant reductions in services from Dunedin from 16 April 2009. In the case of Hamilton the CEO of Hamilton Airport reported that it was an oversupply of seats to Australia from Auckland that had caused the demise of Air New Zealand services from Hamilton (New Zealand Aviation News March 2009).

Question Six

To what extent do airport customers invest in infrastructure at the airports that they operate from? What impact does this have on the commercial performance of airport companies?

Propositions

- Airlines typically do not invest significantly in airport infrastructure. This is accepted by airport companies that prefer to own most airport infrastructure and make it available to airlines on a common use basis on a charge for use basis. It’s more economic for the airports to own the infrastructure.

Discussion

The prevailing commercial model operation in New Zealand is for airport companies to own the principal infrastructure at airports, such as terminals and air bridges, and to rent to airline customers on a common use basis. That this is the preferred option for airport companies is indicated by Manager F in stating "... most airport owners would rather control and own all their own facilities and then provide those ... through a common use basis" (Manager F Airport 4, personal communication, July 12, 2006).

There have been some examples of build-operate-transfer at New Zealand airports, such as the Ansett New Zealand terminal at Auckland that became Auckland Airport property after 10 years operation by that airline. In terms of building their non-aeronautical revenue streams, most airports appear to be prepared to build structures for their clients, including hangars, and rent or lease them to airlines or other business clients. The exception to this rule would appear to be Air New Zealand that has significant engineering facilities at Auckland, Wellington and Christchurch airports and, with the exclusion of Wellington, has continued to own, operate, and develop these facilities.

The general view expressed by airport managers was that airlines do not seek to have large investments at the airports they operate from. The following quotation by Manager E expresses this viewpoint "... airlines invest in the airports. I guess as little as they have to is, I believe the answer" (Manager E Airport 4, personal communication, March 20, 2006).

Question Seven

What are the underlying objectives of New Zealand airport companies? Is it profit maximisation, maximisation of trade flows, regional development, promoting international competitiveness? Are these appropriate? If not, why not?

Propositions

- The primary focus of airport companies is profit maximisation and a sustained return to the shareholders.
- A continuum exists encompassing publicly owned and managed airports, corporatised airports and privatised airports. The company objectives tend to be a consequence of where an individual airport is on that continuum.

Discussion

It does not appear that the analysis of the annual reports of the seven airport companies would support the contention of "profit maximisation". While they have generally all been profitable over the 20 year period commentary in the reports varies as to the amount of emphasis placed on achieving profit relative to other economic and social objectives that the companies may have. The dividend policy of the airports varies from Auckland at 90% of after tax profit to others at 60% and 40%, and at least two airports where all profits have been retained in the respective businesses to develop them in order to achieve other purposes. Those with a majority private ownership appear to be most driven by profit maximisation, those with a proportion of central government shareholding were profit focussed but not profit maximising, and those with a 100% local government shareholding are more interested in how the airport can stimulate and support the local economy.

These outcomes would appear to support the second bullet point that the various airports lie along a continuum, and the place on that continuum dictates the focus on profit maximisation of the respective companies. This is supported by Manager C who stated “[o]ur ultimate objective is to provide long term sustainable value to our shareholders ...” (Manager C Airport 2, personal communication, February 20, 2006).

Question Eight

What are the most important performance indicators for airport companies as businesses within New Zealand?

Propositions

- The most important non-financial indicators are aircraft, in terms of seat capacity, passenger numbers and cargo throughput (with passenger numbers being the biggest driver of value). Growth over time of passenger numbers is also an important indicator of value.
- The most important financial indicators for airport companies are bottom line profit and return on the shareholders investment. The economic development of the region is an important factor for the shareholders.

Discussion

The central role of passenger throughput to the commercial wellbeing of the airport is evident in the following statement from Manager E: "..... it’s passenger numbers is key driver absolutely and what happens with those. And, well not putting aside the financials but once you’ve got the people in the door it’s about maximising charges for passengers and concession rates, have a concession income per passenger. You can’t get away from the people" (Manager E Airport 4, March 20, 2006). Similarly Manager F:."..... passenger volumes, are the biggest driver of value" (Manager F Airport 4, personal communication, July 12, 2006).

Analysis of annual reports reveals a strong focus on aircraft numbers and passengers, and freight, and discussion of increasing or decreasing trends over time. Less comment is made in annual reports of seat capacity on various routes although a number have commented on the trend towards larger aircraft making fewer flights having negative consequences for airports with only weight based landing and terminal charges. With an increasing percentage of revenue derived from non-aeronautical means airports consistently report on the number of domestic and international passengers as customers, making use of the facilities at the airports.

As stated in relation to Question Seven there seems to be varying importance given to “bottom line profit” depending upon the shareholding structure of the company. There does, however, seem to be a strong emphasis placed on remaining profitable and the airport companies consistently achieve this irrespective of their ownership structure. There is also a strong emphasis placed in annual reports on airports being able to manage their own affairs and fund their developments through normal commercial activities rather than making calls on shareholders for funds. Palmerston North would appear to have been the exception to this when in two recent years it has called up partly unpaid shares to increase funds available for development projects.

In annual reports all airports comment upon the importance of economic development within their region, and the larger ones, the importance of their contribution to the national economy. None of the airports see themselves as divorced from their communities and all recognise the two way street between the strength of the economies that they operate within and their own levels of economic activity. For this reason many report active involvement with local or national tourism and/or business initiatives.

That airport managers are monitoring a number of indicators is evidenced by the following statement made by Manager A. “Obviously, bottom line, profit and return in the shareholders investment [are] very important but things like passenger growth [are] one of the key measurements that we would have” (Manager A Airport 1, personal communication, February 24, 2006).

Question Nine

How could the commercial performance of airport companies within New Zealand be improved?

Propositions

- The commercial performance of airport companies can be improved by being a corporate entity and the associated clarity of focus and motivation to act commercially. All airports are corporate entities. The success is in how the business is managed, and the expectations of the shareholders.
- Corporatised or privatised airport companies perform better than those that are not. The ability to access capital is easier for a privatised company. Its corporatised airports may be restricted in terms of the capital markets they can access.
- Diversification of income into non-aeronautical revenue streams is an important factor in improving commercial performance.

Discussion

"It’s a challenge, it’s about sort of finding ways to stimulate a market I think and to try a way to keep the airlines growing. I mean at the end of the day it’s really the only long-term objective that’s going to keep growth in the industry ... if you want more passengers you need more seats. The airline’s got to make money as well" (Manager E Airport 4, personal communication, March 20, 2006).

All the airports in this study are corporate entities in the form of companies registered in New Zealand under the Companies Act 1991. The government continues to believe that this is an appropriate way to manage airports as evidenced by the announcement of the Minister of Transport in 2006 that she was working with the owners of two current Joint Venture Airport Scheme airports to corporatise them, with this action being taken some 20 years after the initial legislation was passed. Support for airports being companies was evident at both the interviews conducted and in the annual reports of the various companies over time. What is less evident is whether or not privatisation is necessarily the means to improve the commercial performance of companies. Writers such as Oum (2003) have argued that publically owned corporatised airports can perform as well as privatised ones provided that they have a free hand to operate and the means to acquire the capital needed to develop.

"... it's diversification of revenues around your core business. ...you're actually trying to find out what other sustainably commercial revenue strengths are there to actually help grow the business but also act as a foil to those variabilities" (Manager C Airport 2, personal communication, February 20, 2006).

New Zealand airport companies have shown strong patterns of diversification into non-aeronautical streams over time. This development has been protracted in length and consistently applied, and many of the companies consistently report these trends in the "Highlights" or "Trends" sections of their annual reports. This move away from a reliance on aeronautical charges would appear to have blunted the calls for regulation of the airport industry within New Zealand, as some airports have held charges for a significant numbers of years and even on some occasions reduced them. Many of the airports report their non-aeronautical revenue streams as both having a smoothing effect upon their income and meaning that they do not face immediate revenue losses when air travel is curtailed due to events such as September 11, the war in Iraq, SARS, and volcanic ash. The significant revenue streams that all airports receive from non-aeronautical sources can possibly be one reason that nearly all airports have been consistently profitable.

Question Ten

What New Zealand laws impact upon the commercial performance of New Zealand airport companies?

Propositions

- The laws that airport managers consider have the most impact upon how they conduct their business are the Civil Aviation Act 1990**,** the Airport Authorities Act 1966, the Commerce Act 1986 and the Resource Management Act 1991.

Discussion

Somewhat surprisingly no mention was made by those interviewed or attending the focus group of the Financial Disclosure Regulations that came into effect in 1999, and required additional reporting for financial years ending 2000 and beyond.

In annual reports consistent reference is made to any forthcoming new act or regulations, and any notable changes to those in place. Airport companies make significant representation on these matters and record the cost of doing so in their annual reports. Managers are generally supportive of the provisions contained in the Airport Authorities Act 1966, and enjoy what was described as "an enabling environment" that allows them to develop their respective businesses. Airport managers are supportive of the political and legislative environment within which they operate according to Manager A:

"I think generally our government ...., has done a pretty good job and the governments over the years I mean, we've had a focus on actually deregulating a market on so many fronts and in terms of air transport it has been included in that. So largely I think airports have been encouraged by the government's attitude there" (Manager A Airport 1, personal communication, February 24, 2006).

Frustration was expressed with delays and costs associated with meeting the requirements of the Resource Management Act 1991 but these frustrations are recognised as not being unique to airport companies.

Question Eleven

What is the impact of these laws upon the commercial performance of airport companies as businesses in New Zealand?

Propositions

- Consultation with major airline customers is comprehensive and detailed with regard to the establishment of aeronautical charges. However this is a robust and acceptable process.
- There are constraints on earning more than the weighted cost of capital because it will generate claims that airport companies are exploiting monopoly positions.
- There are significant costs of complying with legislative and rule requirements. This is common to all infrastructure businesses.

Discussion

Airport managers support the process contained within the Airport Authorities Act 1966 with regard to the current processes for setting aeronautical charges. They are not in favour of this process being subject to regulation, or by possible changes to the Commerce Act 1986, as was proposed by the government in power until November 2008. They often cite frustration at the time it takes to conclude successive rounds of charges to airlines, and the tendency of Air New Zealand in particular to seek a Judicial Review of the consultation process before accepting and paying the new set of charges.

Airport managers are also mindful of appearing to earn excessive returns in the fear that it can then be argued that they are exploiting monopoly positions and thus inviting regulatory intervention by the government. For this reason it appears that the revaluation of assets is an important process for airports as charges set can reflect a reasonable return on the assets used without a claim of monopoly pricing. These revaluations have resulted in significant changes in the asset values of airports e.g. total assets for Auckland Airport for year ending 30 June 2005 were $1.298 billion and for year ending 30 June 2006 were $2.758 billion. See Auckland Airport annual reports for financial years ending 2005 and 2006 and NZAA section in Chapter 8.

Airport managers cite significant cost and time associated in dealing with the requirements of the various pieces of legislation to which they are subject, and in particular stated that the Resource Management Act 1991 could significantly slow down developments and add considerable costs to various projects planned or undertaken. One manager gave an example in which the resource consent process to gain approval to update the sewerage system at the airport cost more than the actual project itself.

Question Twelve

What international conventions or laws impact upon the commercial performance of airport companies within New Zealand?

Propositions

- The international laws or conventions that impact upon the commercial performance of New Zealand airport companies are ICAO requirements, duty regimes and regulatory functions that are carried out at the border.

Discussion

As managers of international airports the interviewees are supportive of both the international agreements that New Zealand is party to and the various processes in place to protect the borders of New Zealand. They are mindful of the fact that significant changes to these processes e.g. more stringent screening of passengers or baggage, has significant impact upon their operations in terms of space required to conduct these functions and consequently the cost to their operation.

Question Thirteen

What is the impact of those international laws or conventions upon the commercial operation of airports as commercial entities within New Zealand?

Propositions

- There are significant costs to airport companies in complying with ICAO requirements and standards. It requires additional capital investment.
- There is a potential loss of income from duty free sales if there was a change in regimes and common borders established.

Discussion

Airport managers operating as “hosts” of border agencies report that this is a significant cost to their businesses and that more stringent regimes can require significantly more cost that is not passed on to the border agencies and is borne by the airports themselves. This can have implications in terms of the space needed to complete these functions, and that slowing down the processing of passengers or baggage for security purposes can lead to crowding and less efficient throughput of passengers, their baggage and freight.

Airport mangers are mindful of changes that could adversely affect their revenue streams, such as a loss of duty free revenue if, for example, New Zealand established a common border with Australia or other nations. Changes in such practices in the European Union were cited by managers as a relevant example.

Question Fourteen

Are you aware of any proposed amendments to laws or conventions that might have either a positive or negative impact upon the commercial performance of airport companies in New Zealand?

Propositions

- The potential exists for a move towards a more regulated environment which would have negative consequences for airport companies.
- There are constant pressures by airlines to get governments to regulate prices at airports.
- Major world events can have significant financial impacts in terms of disruption to travel and costs in areas such as airport security.

Discussion

Airport managers do not want their industry to be regulated and have consistently argued against any initiatives to do so. As indicated by Manager D "... one that you know we always have to be conscious and wary of is whether there is any move to a more prescriptive regime" (Manager D Airport 3, personal communication, March 13, 2006). This concern about government prescription of prices was also of concern to Manager E "... if the government steps in too much and constrains prices then no one's going to invest. Equally if the airports go mad [to] where the airlines say we're not flying there then those airports are stupid" (Manager E Airport 4, personal communication, March 20, 2006). This suggests a need for airport companies to voluntarily monitor and control their pricing to avoid driving business away.

The most recent examples would be the arguments against regulation as part of the Commerce Commission investigation that was concluded in 2002, and more recently arguments against the potential imposition of some form of price control as part of the current review of the Commerce Act 1986. Airports' annual reports detail the levels of expenditure to counter these initiatives, which for the three larger airports has at times been greater than $1.0 million per airport per year. Airport managers are aware of the ongoing efforts of airlines to try and get the government to regulate prices at airports as they consider it in their best interests to so.

Airport managers are mindful that events external to New Zealand, such as terrorism, can potentially have an immediate effect as to the security regimes imposed in New Zealand, and that this can have significant cost implications for airports that are probably not recoverable from the agencies that implement these changes.

Question Fifteen

What changes to New Zealand laws or regulations could be made to enhance the commercial performance of New Zealand airport companies?

Propositions

- Reductions in both time and costs associated with the Resource Management Act 1991 would have positive financial consequences for airport companies.

Discussion

This single piece of legislation is often cited as slowing or stopping development, and in adding to the cost of cost of such developments. The current National Government, that came to power in 2008, has stated its intention to improve the processes contained within this piece of legislation to ensure that it does not impede developments unduly. Airport managers stated that this particular legislation was not unique to airports and also impacted upon all business activity in New Zealand.

Question Sixteen

What is the impact of government economic policy upon the commercial success of airport companies in New Zealand?

Propositions

- The current political environment may not enable further significant development of additional corporatised or privatised airport companies.
- Greater regulation of the airport industry has negative consequences for the commercial performance of airport companies. More immediately the impact is on investment at airports.
- Airport company performance is linked to the level of economic activity within the broader community.

Discussion

The first bullet point above reflects the view that the radical economic changes that were implemented by the fourth Labour Government, in power from 1984, were partly a reason that New Zealand moved to an electoral system of Mixed Member Proportional Representation (MMP), and that under such a system further wholesale commercialisation or privatisation of state assets was less likely to occur. It is, however, interesting to record that prior to the focus group agreeing on these propositions the government had announced its intention to corporatise a further two airports. No further privatisation of airports has occurred although the prospect of the private sector becoming a potential shareholder in Hamilton Airport was raised by shareholders in a media report in the Waikato Times 20 March 2009.

The present National Government has not released any policy statements to indicate its policy on the ownership or management of airports within New Zealand. Airport managers see the potential for greater regulation of their industry as having negative consequences, and in particular that there would be less incentive to invest in airports if the potential return on that investment was constrained.

Airport managers are mindful that the performance of their airports is linked to the economic wellbeing of the broader community and various annual reports cite many examples of how they interact with their relevant communities and play an active role in stimulating tourism and other income generating activities.

Question Seventeen

What is the impact of government environmental policy upon the commercial success of airport companies in New Zealand?

Propositions

- Environmental issues are increasingly receiving attention, and undertaking projects that have a potential environmental impact will become harder to achieve going forward. Climate change is a critical factor in terms of the future.
- Costs associated with emissions will have an impact upon airport companies but there is uncertainty as to the nature or magnitude of that impact.

Discussion

Airport managers are mindful of the constraints placed upon them in developments that could potentially have negative consequence upon the environment. They are also aware of increasing requirements over time as reported by Manager D "... you've got to anticipate that as you go forward it's always going to be harder and harder to do things that in the past you took for granted" (Manager D Airport 3, personal communication, March, 13, 2006).

A large amount of effort is also expended by managers protecting their respective airports from such threats as urban encroachment that could ultimately impact upon their operations. Airport managers appear to be particularly aware of the need to be proactive in this regard to ensure that their respective airports maintain their existing or potential capability in future years. For a number of airports this has included buying land to protect future expansion plans or to create buffers between the airport and potentially conflicting land use or restrictions.

Managers are aware of the issues such as global warming and aware of the way that aviation contributes to such problems. What they consider to be less evident at this point in time is how such matters will impact upon the airport companies, and what roles airport managers will play in this regard in the future.

Question Eighteen

What is the impact of government bilateral agreements with other countries upon the commercial success of airport companies in New Zealand?

Propositions

- Airport companies support the “open skies” policy of government as being good for business.
- A lack of “open skies” policies in other countries may restrain opportunities for New Zealand airport companies in terms of the available markets that they can access.

Discussion

Airport managers are supportive of the “open skies” policies of the government with regard to both domestic and international aviation. They are also supportive of the Single Aviation Market of Australia and New Zealand that has been negotiated by the respective governments.

The deregulated nature of both domestic and international aviation, from a New Zealand perspective has, however, meant that airport companies have had to bear the cost of both domestic and international airline company failures in the form of bad debts and loss of revenue. Despite this, airport managers appear to typically engage with enthusiasm with any new domestic or international airline entrant and seek that services be offered to their respective airports by such entities.

Airport managers appear mindful that the policies of other nations may restrict opportunities for the development of air services if they are heavily constrained and possibly protected the interests of a particular carrier. For example Duval (2008) discusses how Australian services on the Sydney to Los Angeles route are constrained, which may also limit services from New Zealand to Australia to link with these trans-Pacific services offered. They see this as being a consequence of the geographical location of New Zealand relative to Australia and some of the major air routes to Asia.

Question Nineteen

What is the impact of international trends regarding ownership of airport companies upon the commercial success of airport companies in New Zealand?

Propositions

- Airport companies have benefited from New Zealand being an early mover in terms of corporatisation and privatisation.
- Privatisation and corporatisation of airports is having a positive effect in terms of the management focus of the airport companies on the commercial outcomes. That whole movement has created the necessary investment environment.

- Having a mix of privatised and government owned airports has no negative consequences for the New Zealand airport industry as a whole.
- Privatisation of airport companies is beneficial because it allows better access for finance.
- Investment companies that own airport assets on an international scale may increasingly be involved in the ownership of New Zealand airport companies.

Discussion

The corporatisation of the largest airports occurred from 1988 to 1990. They were all operating successfully before the first small private sector shareholding from 1995, in the form of a 1% shareholding in Auckland Airport by Infratil Investments Limited, the subsequent listing of Auckland Airport, and the trade sale of the government's 66% shareholding in Wellington Airport to the private sector in 1999. Other limited privatisations occurred at Rotorua and Palmerston North but were subsequently reversed by the local authority buying the shareholding of the private owner.

It could therefore be argued that it is the commercialisation rather than privatisation that has benefitted the New Zealand airport industry in terms of the financial results achieved. Airport managers do agree on the focus on commercial outcomes and that the necessary investment climate has existed. Airport managers do not appear to have any difficulty with the airport system being comprised of a mix of corporatised and privatised airport companies. The possibility that overseas airport companies may acquire stakes in New Zealand airport companies has not yet been evident. This may be a consequence of only Auckland Airport shares being listed and directly available for purchase, and the awareness that the government will not allow control of this strategic asset to be dominated by overseas interests. During 2008 the government moved to stop the Canadian Pension Fund purchasing a 40% share of the airport.

Shares in Wellington Airport are not traded as the 66% private shareholding is held by Infratil, itself a publicly listed company with interests in other airports overseas and other infrastructure assets. It is of note that it is in fact a New Zealand company, Infratil Investments Limited, which has become an international investor in airports rather than any overseas company acquiring a shareholding in a New Zealand airport company.

Question Twenty

What future political decisions could most assist airport companies operate more effectively as commercial entities within New Zealand?

Propositions

- Airport companies and passengers benefit from the current regime with regard to regulation and believe that greater regulation would have negative consequences on their commercial performance.
- Airport companies will perform better financially if the government does not intrude into the industry.

- Limiting the number of international entry and exit points would benefit some airport companies at the expense of others and constrain growth in the travel market.
- The improvement by government of processes associated with the Resource Management Act would benefit airport companies in terms of their commercial performance and investment opportunity.

Discussion

Airport managers clearly value their current freedom from regulation and do not believe that it will be beneficial for the government to intrude. The desire to remain with the status quo was reported by Manager D who stated “[w]ell, from our point of view, it would be we pretty well continue with the status quo. Not introducing any more regulations and not having a disincentive to invest” (Manager D Airport 3, personal communication, March 13, 2006).

In most regards the government has adopted a hands off approach and did not move to regulate prices at Auckland Airport in 2002 despite a recommendation from the Commerce Commission to do so. There would appear to be significant evidence that the airlines do have countervailing power by the length of time aeronautical charges to them have remained unchanged, their reduction in some cases over time, and the increasing focus and success of airport companies is achieving a large proportion of their revenue through non-aeronautical means. At present there is uncertainty as to how the present National Government will follow through with earlier initiatives to potentially control airport charges by mechanisms within the Commerce Act 1986. According to Kimpton (2009) such matters did not feature in the briefing papers to the incoming Minister of Civil Aviation in late 2008. From the perspective of Manager F airport price regulation by the government will not produce good results for airport companies: "I don’t think government involvement in presetting prices is going to help at all. And I’ve worked in an environment where prices were set through the ACCC in Australia and it was a dreadful time really. I mean basically there was no investment during that whole period because airport companies couldn’t invest and get a return on those investments" (Manager F Airport 4, personal communication, July 12, 2006).

Airport managers note that any government action to limit the number of international airports would benefit some at the expense of others. It was earlier noted that it is the market that should decide such matters and that certainly seems to be the case at present where international services are being withdrawn from airports at which the airline servicing them does not feel that there is a sufficient market to continue operating. There does not appear to be any government policy that would limit the number of airports able to supply international services.

As stated earlier, improvements to the Resource Management Act promised by the new government in power since late 2008 are consistent with the wishes of the airport managers in this regard.

Question Twenty One

What differences exist between regional and national politics that impact upon the commercial success of airport companies in New Zealand?

Propositions

- There may be an optimum number of international airports for New Zealand, but it should be market first. The market will determine an optimum number of airports. The issue of the "stranded investment" needs to be addressed, e.g. government funds for capital projects.
- Airports are locked into the fortunes of their regional economies and politics.
- Strong links between airport companies, airlines, regional development initiatives and tourism initiatives are predictors of success for airport companies.
- National and regional interests clash from time to time.
- Significant capital investment by airports ahead of apparent demand can have long term financial benefits.

Discussion

While the number of international airports increased from three to seven during the period 1994 to 1996 it subsequently decreased to six from 30 March 2008 and five in April 2009 when international services were removed from Palmerston North and then Hamilton airports. It returned to six when a different airline entered the Hamilton market from 1 September 2009 and seven from 1 December 2009, when Air New Zealand commenced international services from Rotorua. Manager E stated that the first priority was to get people to fly to New Zealand and only secondly "argue" about which airports they use:

> I mean the number one driver should be getting people from wherever they want if there’s a market. And then the number two is we can fight over where they come in. But let’s get them here first and if it took airports from Invercargill to the Bay of Islands to get people here well let’s get them in (Manager E Airport 4, personal communication, March 20, 2006).

Airport managers are writing in annual reports that strong links with airlines and other regional bodies are important to ensure the future of the airport company. Airports are clearly at the mercy of airlines choosing to introduce or withdraw services, and to consolidate services from other larger airports. This is certainly the case for those airports served by only one airline that will lose all services if that airline withdraws or collapses.

Annual reports do not indicate any significant conflict between national and regional interests except in the arena of border charges where the smaller airports felt that they were being discriminated against by paying more for the same services than the three largest airports. The smaller regional international airports and Freedom Air Limited were ultimately successful in their appeal to the Privy Council in 2003 in getting these discriminatory practices overturned. Because airport companies have been free to choose their own development pathways there has not been the need to choose, for example, how many international airports New Zealand should have. Airports have been able to plan and effect those plans on a case by case basis without interference.

Airport managers are clearly aware that the nature of investments in airports are lumpy and often significant increases in capability follow constraints, with the issue that the new increase in capability may not be immediately fully utilised. Airport managers appear to be proactive in developing their airports for future demand and this is routinely reported in annual reports. Airport companies have typically been able to fund these developments through internal means or by borrowing. In the case of Palmerston North extra revenue for development purposes has been gained by both the injection of capital from the City Council owner and the calling up of partly paid shares on two recent occasions.

Question Twenty Two

What is the impact of any such differences upon the commercial performance of airport companies in New Zealand?

Propositions

- Some airports are subsidised by their regional owners and are therefore inefficient.
- Conversely regional initiatives can result in the development of significant markets for air travel with positive consequences for the airport company and regional economy.

Discussion

Aside from Palmerston North none of the other regional international airports appear to have received capital injections from their owners. Despite this, however, Palmerston North has been the only 100% local authority owned airport to consistently pay dividends. The fact that the airport companies at Hamilton and Queenstown have retained all profits in their respective businesses while in 100% local authority ownership could be considered a form of subsidisation. From 2009 newspaper articles it would appear that Hamilton Airport may be experiencing financial difficulties and require an injection of funds from its local authority owners within the near future.

A feature of the New Zealand airport industry has been the initiatives taken by various airport companies, and reported in annual reports, to stimulate air traffic to their region by collaborating with other parties including airlines and tourism/economic development agencies. All of the airports appear to be aware of the need to take such actions. What is worthy of note is that no collective approach seems to have been taken with regard to this matter and airports have acted individually rather than as part of a network e.g. facilitating the arrival of tourists at one airport and the departure from another.

Question Twenty Three

What potential events within New Zealand represent the greatest threat to the commercial success of airport companies within New Zealand? What would be the impact of these threats occurring?

Propositions

- The threat of regulation or regulatory interference is continually present.
- Airlines can potentially collude to control markets to the detriment of airport companies.
- Both government protections of Air New Zealand and the sustainability over time of that airline have significant potential impact upon the commercial performance of New Zealand airport companies.
- Natural disasters have the potential to impact significantly on the commercial performance of specific airport companies. The impact is likely to be short term.

Discussion

Managers remain concerned about the potential negative consequences of regulation or regulatory interference and developments in this regard are frequently recorded in annual reports, along with the actions being taken to counter these threats. According to Manager E “[t]he greatest threat to success is regulatory interference I think. Or regulatory involvement” (Manager E Airport 4, personal communication, March 20, 2006). This manager further argues that the consequence of that regulatory could be a disincentive to invest because:

> If the Commerce Commission get in there with unrealistic constraints, for instance, the returns they said they were willing to accept were too low or whatever, the asset value they chose was out of step with the rest of the market and that sort of stuff. Well people will turn around and say well I’m not going to put money in there anymore (Manager E Airport 4, personal communication, March 20, 2006).

The closing down of Freedom Air by Air New Zealand, the immediate withdrawal of international services from Palmerston North and Hamilton, and the significant reduction in international services from Dunedin from April 2009 show the power of a single airline to affect services at particular airports. It would appear likely that the previous level of service will only be reinstated if a new entrant enters these markets and Air New Zealand decides to compete with it. At the present time there would appear to be a move by Air New Zealand to consolidate its services from fewer airports but this cannot be seen as collusion.

The relatively recent Air New Zealand plan to co-operate and code share with Qantas, both within New Zealand and on the trans-Tasman route, was rejected by the New Zealand Commerce Commission on the basis that it would significantly reduce competition. Such an agreement would presumably reduce the number of aircraft owned by these two companies operating from various airports as the co-operation would presumably have led to increased load factors. How this would have impacted upon the number of airports serviced by the two airlines is unknown.

Airport managers are concerned that the perceived importance to New Zealand of Air New Zealand and the fact that it is majority owned by the government, may mean that it is not expected to operate on a fully commercial basis and therefore could be protected to the detriment of airport companies. Speaking about the negative consequences of the protection of airlines, Manager F stated:

> Well I would say one of them would be ... this excessive protectionism in the airline arena which would actually drive down passenger volume so you know if Qantas and Air New Zealand, as the principal competitors get together and controlled the market I think that would have a very adverse effect on passenger volumes (Manager F Airport 4, personal communication, July 12, 2006).

Airport managers are aware of the potential impact that significant natural disasters can have but generally believe that these impacts will be localised and generally short-term in impact.

Question Twenty Four

What potential events external to New Zealand companies represent the greatest threat to the commercial success of airport companies within New Zealand? What would be the impact of these threats occurring?

Propositions

- Pandemics or terrorism would have a significant impact upon the commercial performance of New Zealand airport companies. The impact is variable as to whether these were isolated incidents or sustained over time.
- Greater connectivity to the world results in greater exposure to the impact of world events.
- Further rationalisation of the airline industry would have significant consequences on the commercial performance of airport companies.
- The economic situation in other countries impacts upon the commercial success of New Zealand airport companies. The impact varies according to whether these are isolated variations or sustained.
- Airport companies do not operate in isolation and events that impact upon New Zealand as a country typically impact upon airport companies as well.

Discussion

Annual reports indicate significant planning in order to prepare for such events as pandemics or terrorist acts. Airport managers appear mindful of their responsibilities at the borders of New Zealand and appear to work well with the various border protection agencies. They are mindful that New Zealand is connected via multiple entry points to other parts of the world and that the time difference between an event impacting in another country and the potential impact upon New Zealand is very small. According to Manager E: "I mean obviously the greater connectivity of the world I guess that all those things become, you know, New Zealand’s not so isolated anymore" (Manager E Airport 4, personal communication, March 20, 2006).

Airport managers do not favour the rationalisation of the airline industry and seek to encourage as many services as possible by multiple carriers to their airports. They recognise the importance of being a hub airport for an airline, and also the benefits of getting the airline to establish its headquarters and engineering base at a particular airport e.g. managers at Christchurch Airport reported their success in getting Pacific Blue to make Christchurch its base when it commenced operations within New Zealand in 2004.

A significant number of comments by managers in annual reports indicate that they are well aware of the impacts of the state of the broader international and domestic economy upon the commercial success of their operations. From their annual reports it is also evident that managers clearly see themselves as part of the economy of New Zealand and that domestic events external to them as companies have significant impact upon their fortunes. It is presumably for this reason that airport companies frequently report the importance of working collaboratively with other agencies to stimulate the economy in their respective regions by working with airlines, economic development and tourist development agencies.

Question Twenty Five

How could the effects of these events upon the commercial performance of New Zealand airports be minimised?

Propositions

- Effective contingency planning and implementation of those plans will minimise the impact of many significant adverse events.
- Diversification of revenue streams by airport companies minimises the exposure to solely aviation related revenue sources that may be impacted by events external to New Zealand.
- Currency fluctuations have different impacts upon different traveller markets.

Discussion

Airport managers appear well prepared to get alongside other agencies to plan for known threats in order to minimise the impact upon their businesses should these events occur in or impact upon New Zealand. They clearly take the view that the better the planning and implementation of necessary measures the less severe the impact will be upon their business.

A notable feature of the management of New Zealand airport companies over the past 10 years has been the increasing emphasis on developing alternative revenue sources so that should there be disruption to aircraft or passenger flows the finances of the companies are less adversely affected. This is identified for individual airport companies in Chapter 8 and for the sum of these companies in Chapter 9. The requirement for diversification by airports was reported by Manager C as requiring the company to “[s]pread across the different markets and groups as much as possible and we’re a bit overexposed to Australia at this airport” (Manager C Airport 2, personal communication, February 20, 2006).

Airport managers report that patterns of travel are influenced by factors such as the exchange rate for the New Zealand dollar. When the value of the New Zealand dollar is low New Zealand becomes an attractive market for inbound tourism and when it is high New Zealanders tend to travel abroad.

Question Twenty Six

What potential developments within New Zealand represent the greatest opportunity for the commercial success of airport companies? How would this impact upon airport companies in New Zealand?

Propositions

- A move to high volume low cost air travel within New Zealand would benefit airport companies.
- Greater government investment through the New Zealand Tourism Board in tourism within New Zealand would benefit airport companies. This is trickle down.
- More marketing by local government of different tourism destinations within New Zealand would stimulate internal travel and have a beneficial impact upon airport companies.

Discussion

Managers support the concept of multiple airlines offering cheap domestic flights within New Zealand to stimulate demand. Some argued at interview that New Zealand has not yet experienced the low cost carrier model evident in other countries or for international travel. After its rebirth in 2002 Air New Zealand boosted domestic travel with low cost express fares. This initiative found favour with airport managers who reported favourably on it as a stimulus to travel in annual reports at that time. According to Manager F “... I don’t think the airline industry in New Zealand has made the shift completely to high volume, high frequency, low cost travel that you see in other parts of the world” (Manager F Airport 4, personal communication, July 12, 2006).

Airport managers would like to see more marketing of New Zealand as a tourist destination. Even if this marketing effort resulted in larger tourist numbers at the main entry points they see this as beneficial as tourists also use other airports while travelling within New Zealand. It is unlikely that airports other than those at perhaps Auckland and Christchurch are of a size to be in a position to influence this desired activity directly. Airport managers would also like to see more marketing undertaken by their respective local government entities within their own regions, and in this regard encourage multiple activities and events to achieve this in a co-operative and contributory fashion.

Question Twenty Seven

What potential developments external to New Zealand represent the greatest opportunity for the commercial success of airport companies? How would this impact upon airport companies in New Zealand?

Propositions

- The more airline capacity to and from New Zealand the greater the benefit to New Zealand airport companies.
- New aircraft developments provide opportunities for new routes, and new services from smaller airports.
- The type of passenger using an airport is a determinant of the type and level of spend that will occur.
- Dominance of airlines in specific markets impacts upon the commercial performance of airport companies.
- Lack of competition on specific routes may have a negative impact on some airports if airlines withdraw services from these routes to concentrate elsewhere.

Discussion

Airport managers are strongly in favour of increased linkages and multiple services to other countries. Towards this end they have actively built the runways, terminals and other infrastructure to facilitate this to occur at five new international airports since 1994. What they seek is the airlines to fly as many routes as possible and to make use of the facilities that they are able to offer.

Managers at runway length constrained airports see significant potential in forthcoming new aircraft types, such as the B787, which they believe will have the capacity to operate direct from airports such as Wellington to the western seaboard of the USA. Similar opportunities exist for the other four regional airports with their relatively short main runways. Reporting on this opportunity Manager E stated "... if we can get 230 to 250 seat aircraft that can fly the long distances off the shorter runways then it creates a new aircraft model that has the economies to make it sustainable on the different markets" (Manager E Airport 4, personal communication, March 20, 2006).

Managers see the type of passengers using airports as having a direct impact on the spending patterns at airports, and consequently their concession and car parking incomes. They are eager to encourage passenger numbers and characteristics that deliver the greatest economic return for their respective businesses.

Airport managers are concerned about the lack of competition on specific routes and generally favour multiple airlines operating in competition with each other. Since these interviews were conducted their concern that a lack of competition may have significant impacts on an airport company if a single carrier withdraws have certainly proved to be the case with Palmerston North from March 2008 and Hamilton from April 2009.

Question Twenty Eight

How could the opportunities represented by these developments be acted upon to improve the commercial performance of New Zealand airport companies?

Propositions

- The commercial performance of airport companies is determined by their ability to get airlines to service them.
- Under-utilised airport infrastructure exists within New Zealand that could be utilised to increase the level of air travel both within and to and from the country.
- Airport companies can potentially exploit emerging aircraft technologies by stimulating different services to new markets.
- The greater participation in air freight represents a significant potential commercial benefit for airport companies. Road transport is subsidised and the airlines have an interest in reinforcing their hubs.
- The greater use of technology to change the nature of the customer relationship and reduce costs will benefit airport companies commercially. This will improve long term capacity management and investment.

Discussion

Airport managers from all airports see it as being very important to be able to attract airlines to utilise their facilities. This even extends to Auckland Airport where managers are concerned that airports such as Sydney or Melbourne could become regional hubs at the expense of their airport. No New Zealand airports are capacity constrained and all could cope with additional aircraft movements and passenger numbers. According to Forsyth (2006) Sydney is the only capacity constrained airport in Australasia.

Airport companies are aware of the commercial opportunities that new aircraft technologies can offer and are keen to work with airlines as partners to realise this potential.

Despite significant air freight movements from Auckland and Christchurch the potential for air freight has been discussed by managers in various annual reports but plans have not been realised. In particular airports such as Hamilton and Palmerston North have consistently identified air freight as a business opportunity but have not been successful in achieving any significant increases in activity at their respective airports in this regard. In terms of air freight the market is dominated by Auckland which has regular services by pure freight aircraft. Despite Christchurch being the second largest freight airport by tonnes Manager B reported "I guess the whole air freight is one that we tend not to focus on too much because airports our size are not big enough to have a fleet of pure freighters coming through" (Manager B, personal communication, February 20, 2006). In an interview with Manager I of Palmerston North Airport (Manager I, personal communication, March 20, 2009) he stated that the cost per tonne was three times greater for pure freighters as opposed to belly cargo in passenger aircraft. He gave this as a reason why international air freight was presently largely the domain of Auckland Airport and represented a lesser opportunity for the smaller major airports.

Airport managers see the advent of new technologies changing the nature of how they interact with their customers. Much of the technology used at airports is introduced and operated by other parties but managers are aware of and supportive of these developments.

7.7 Summary

The purpose of the chapter has been to discuss the agreed set of propositions developed as a consequence of individual interviews and the subsequent focus group. It set out to evaluate the commercialisation of airports from a management perspective.

The airport managers interviewed were strongly supportive of the commercialisation of New Zealand airports and the opportunities that the subsequent corporatisation has provided for their respective companies. They were clearly focussed on providing a sound financial return to their shareholders and a return on investment. This is seen as the primary responsibility of this type of business while recognising the broader economic and social importance to New Zealand.

While there is strong support for commercialisation the perceived benefits of privatisation were less evident. This could of course be at least in part a reflection of the ownership structure of their respective companies. Of the four airport companies at which interviews were conducted two were partially privatised, with a minority local government shareholding, and two were jointly owned by local government and the Crown.

The airport managers were agreed on the need to plan ahead and seek an operating environment that is free from regulation and other considerations that constrain their business objectives. They are very supportive of the light handed regulatory approach that central government has taken to their industry and the fact that their industry has never been subject to price regulation. They see the existing operating environment as enabling rather than restrictive and appreciate the freedoms contained within the Airport Authorities Act 1966 to set prices subject to consultation with their substantial customers. Airport managers are also very supportive of the government open skies policies that allow multiple airlines to provide services both internationally and domestically. They seek opportunities to increase passenger numbers, and this is seen as directly linked to commercial success and the opportunity to service as many airlines as possible. They are concerned about the dominant role of Air New Zealand both in terms of domestic and trans-Tasman operations. This also includes the majority ownership of Air New Zealand by the New Zealand Government and the concern that in protecting the interest of this airline the government may act at the expense of the airport companies.

New Zealand airport managers are mindful of the potential influence of Australia upon air transport activity in New Zealand. In particular managers of the largest airports at Auckland and Christchurch do not want long haul flights to terminate in either Sydney or Melbourne and for New Zealand to be a “branch line”. As well as the impact of developments in Australia airport managers acknowledged that at times regional and national interests may conflict on issues such as the number of international airports that New Zealand should have. In the absence of any national aviation or airport policy there does not seem to be any current solutions to this other than letting the market decide the number that can be sustained, provided that airport companies continue to be economically viable.

The initial interviews with managers and the subsequent focus group did not result in any major conclusions that would warrant changing the status quo regarding the manner in which the major airports are owned and managed. Airport managers are largely happy with the status quo and the only aspect of their operations in which they saw change as worthwhile would be amendments to the Resource Management Act 1991 to enable airport related developments to proceed more quickly and with less expense in gaining approvals. They noted that these frustrations were not exclusive to the airport industry.

Chapter 8 - Case studies of the commercialisation of seven airport companies in New Zealand

8.1 Introduction

This chapter sets out the current capability of the New Zealand airport system via a detailed case analysis of each of the seven major airports, their development and current capability, and the issues that they face at the end of the first 20 years of operation as commercial entities.

With regard to each of the airport companies the first part is a brief history of the airport. This is followed by a section showing the ownership and governance/management structure of each company in mid 2008. Subsequent parts present an analysis of several airport outputs and efficiency measures for the 10 year period to mid 2008. This period is used because the information is not available for all these measures for a longer period.

The financial performance of the airports over the period since incorporation will be discussed. Financial data has been collected for 20 years for those airports incorporated in 1988, and 19 and 18 years for those incorporated in 1989 and 1990 respectively. In each case the last report is for the year ending 31 March or 30 June 2008.

Annual reports were obtained for each of the airport companies from the first produced to those for the financial year ending either 31 March or 30 June 2008. Key points about the development of the airport or issues facing it, raised by the chairman of the board or the CEO in the various reports, are noted and discussed. For each airport company these reports have been divided into four five year periods.

Period 1, 1989-1993, deals with the establishment of the airport as a company.

Period 2, 1994-1998, deals with the internationalisation of four of the seven airports as well as their maturation as commercial entities.

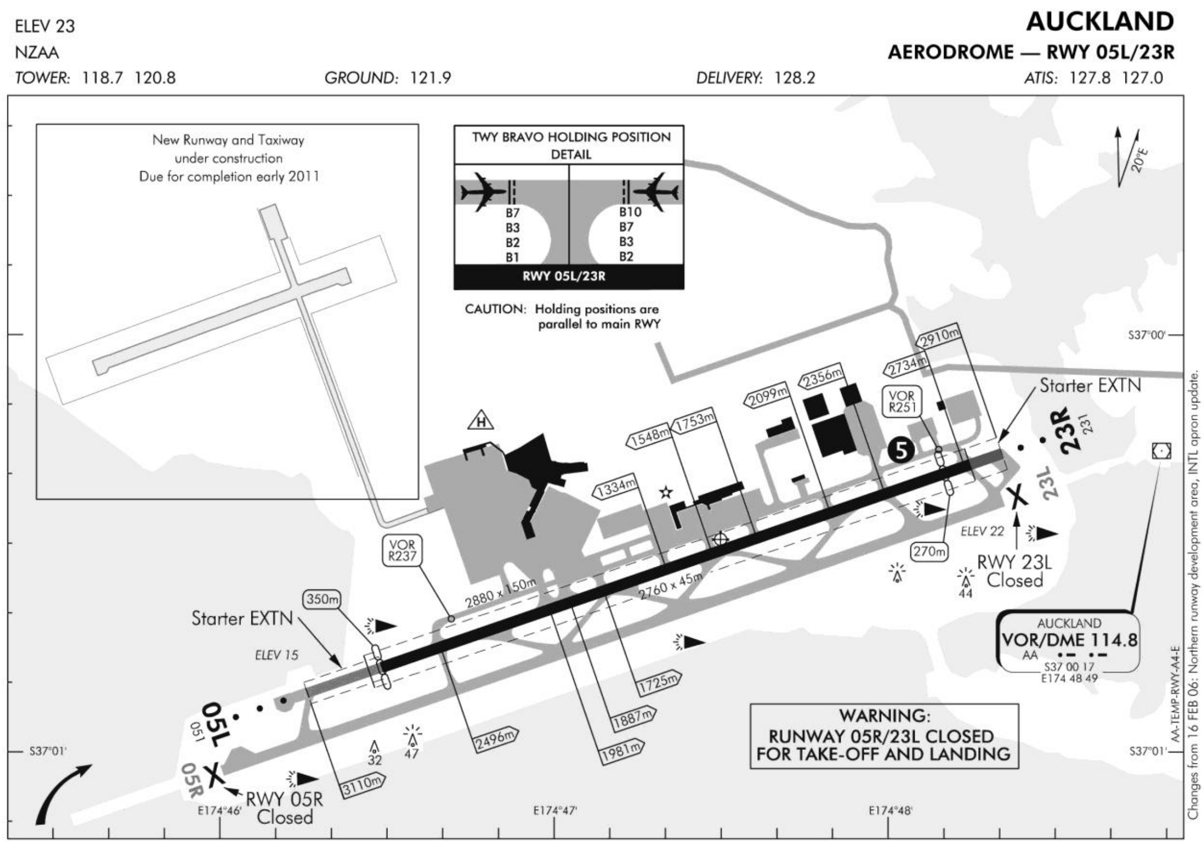
Period 3, 1999-2003, deals with the airports as mature entities and discusses development plans and significant external issues that impact upon their operations.

Period 4, 2004-2008, deals with more contemporary issues and challenges faced by the companies as they complete their first 18-20 years as commercial entities.

8.2 Auckland Airport – Case Study

ICAO Code NZAA

NZAA Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Auckland
Accessed on 17 July, 2009

8.2.1 Brief history

The site of Auckland Airport, at Mangere to the south of the city centre, has remained the same since the 1930s and was the New Zealand landfall for a number of ground breaking flights to New Zealand prior to WW2.

The development of scheduled domestic services to and from Auckland somewhat surprisingly lagged behind that of other parts of New Zealand and it was not until the late 1930s that modern aircraft began linking Auckland to other significant centres of New Zealand population. These aircraft were capable of operating from the grass runways available at that time. The ongoing emphasis on amphibious aircraft operating from2Auckland harbour meant that there was little call for an airport capable of commercial international operation prior to WW2.

During WW2 the military aerodrome at Whenuapai, to the west of the city centre, was extensively developed for military purposes. This modern airport also became the base of military aircraft commencing international flights northward to the Pacific and to Australia to support New Zealand military objectives. These military international flights from Whenuapai also continued post the end of WW2 to support New Zealand military operations in occupied Japan and the Korean war.

Following the end of hostilities the aerodrome at Mangere remained in use for small aircraft and general aviation. During January 1947 NAC began post war operations from Mangere but then transferred its operations to Whenuapai in September of that year. The principal commercial domestic operations were based at Whenuapai and international services to and from New Zealand, other than by amphibious aircraft operated by TEAL, also operated from this airport.

During the early 1950s there was considerable debate about the need for a modern domestic and international airport for Auckland. After inspecting a number of possible sites government officials decided that the available but underdeveloped airport at Mangere was the best location. In 1955 the government began to acquire additional land for the proposed new airport at Mangere and in November the Cabinet formally announced it as the site for the new Auckland Airport. Some five years later construction began in 1960 and the redeveloped airport reopened five years later on 24 November 1965. Runway length at the time of opening was 2,590 metres and this was subsequently increased to 3,292 metres in 1973.

Developments at Auckland Airport since 1965 have been continuous to increase its capability and accommodate the bulk of international travellers to and from New Zealand. It is also New Zealand's second largest export port by value. In 2008 the construction of a second runway was commenced and is due for completion in 2012.

Auckland International Airport Limited (AIAL) commenced trading as a New Zealand company on 1 April 1988, being the first previously joint venture airport to attain this status.

8.2.2 Ownership and governance/management structure - 2008

Auckland Airport is the only New Zealand airport listed on both the New Zealand and Australian stock exchanges. At the time of incorporation the shareholders were as listed in Table 8.1 and as at 1 August 2008 in Table 8.2.

Table 8.1 - Shareholding in Auckland Airport at incorporation in 1988

Owner	**% shareholding**
Minister of Finance	25
Minister of Civil Aviation	25
Auckland City Council	15.4
Manukau City Council	7.8
Waitemata City Council	2.4
27 other local authorities	24.4

Source: Company annual report year ending 30 June 1989.

Table 8.2 - Shareholding in Auckland Airport 1 August 2008

Owner	**% shareholding**
New Zealand Central Securities Depository Limited	41.11
Auckland City Council	12.74
Manukau City Investments Limited	10.04
National Nominees Limited	2.34
Custodial Services Limited	1.53

Source: Company annual report year ending 30 June 2008.

New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members (Auckland Airport annual report 2008).

Table 8.3 - Shareholding of NZCSD in Auckland Airport 1 August 2008.

Seven largest shareholders	**% shareholding**
New Zealand Superannuation Fund Nominees Limited	9.45
HSBC Nominees (New Zealand) Limited	8.83
National Nominees New Zealand Limited	5.78
ANZ Nominees Limited	5.17
HSBC Nominees (New Zealand) Limited	2.96
Accident Compensation Corporation of New Zealand	2.09
Citibank Nominees (New Zealand) Limited	1.36

Source: Company annual report year ending 30 June 2008

The board of directors of Auckland Airport comprised of six members in 2008. The senior management team of Auckland Airport was included of the CEO and eight other senior managers who report directly to that position.

8.2.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.1-8.6.

At Auckland Airport both domestic and international passenger numbers have increased each year contributing to a steady increase in total passengers through the airport over the 10 year period. Airfreight volumes have fluctuated over the 10 year period although there has been an overall positive trend showing growth of approximately 20,000 tonnes. Auckland Airport is the largest in New Zealand in terms of passenger numbers and is the dominant hub for air freight, which has been increasing at Auckland while decreasing at the two second largest airports.

When total domestic and international passenger growth are combined with an increase in airfreight there has been a steady increase in total workload units delivered each of the 10 year period. The overall increase has been a 38% increase in workload units over the period.

Total employee numbers have fluctuated annually however there is a strong overall positive trend with a 13% increase in employee numbers over the 10 year period. Overall workload units per employee delivered have increased by 29% over the 10 year period, indicating that Auckland Airport has become more efficient in the use of human resources.

Aeronautical revenue has decreased from 51.6% of total revenue in 1999 to 45.6% in year ending 2008. The percentages have been relatively stable for the last six years of the period. The first year that non-aeronautical revenue exceeded aeronautical revenue was the year ending 2003. Non-aeronautical revenue has remained the greater in each subsequent year, indicating a move away from excessive reliance on aeronautical revenue sources. This trend is consistent across New Zealand’s major airports as demonstrated in subsequent case studies.

Figure 8.1

NZAA Total Passengers

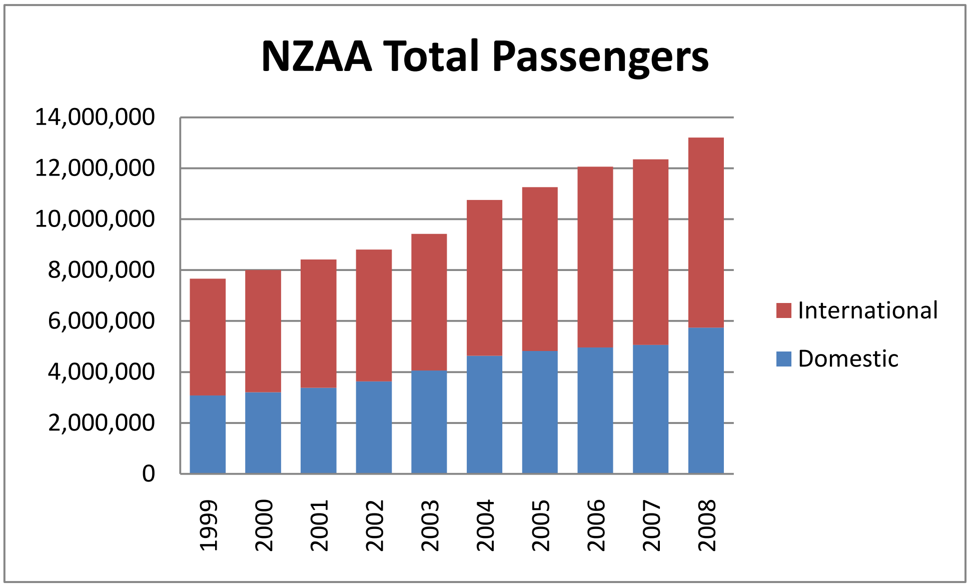


Figure 8.2

NZAA Total Airfreight (Tonnes)

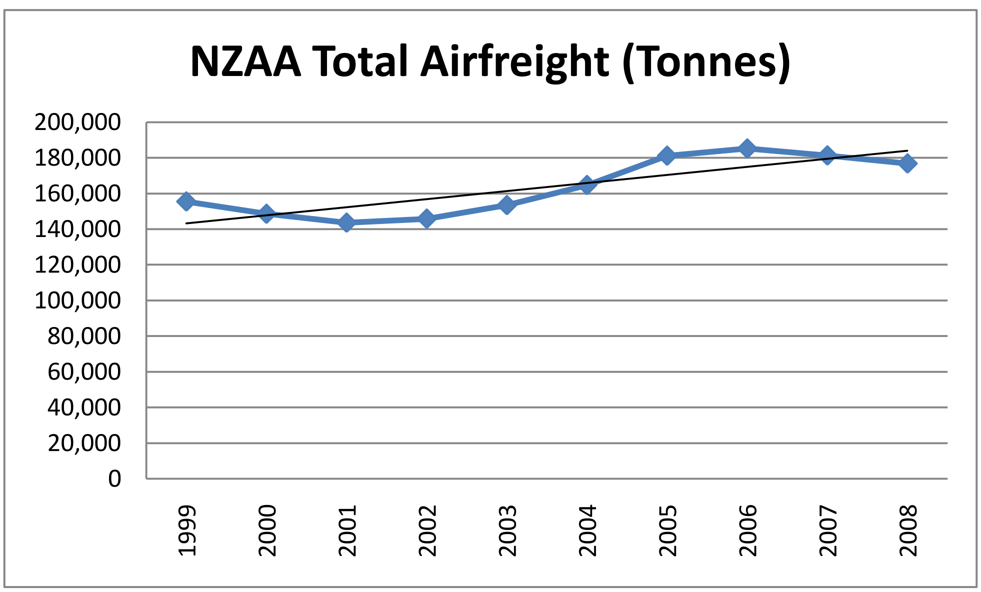


Figure 8.3

NZAA Total Workload Units

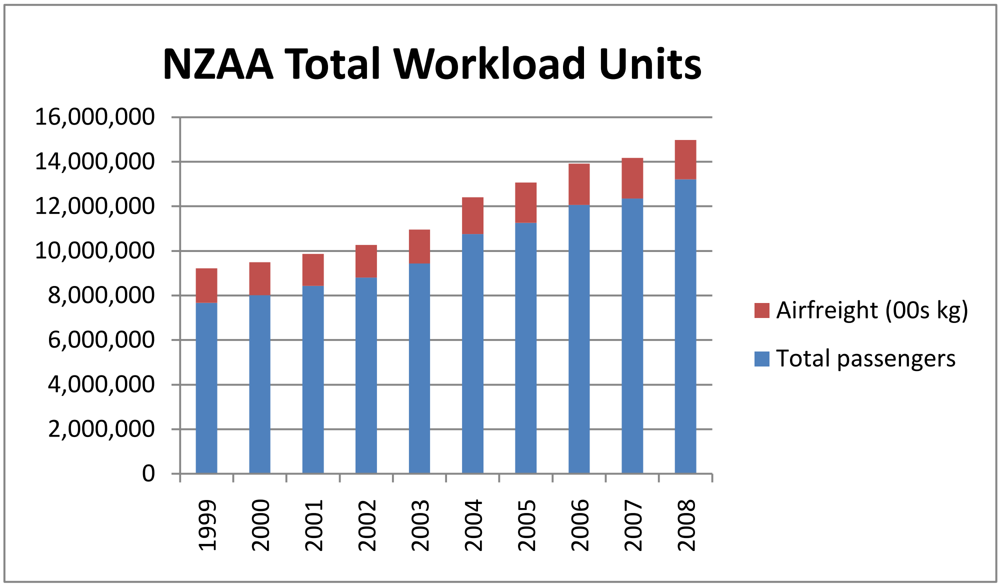


Figure 8.4

NZAA Employees

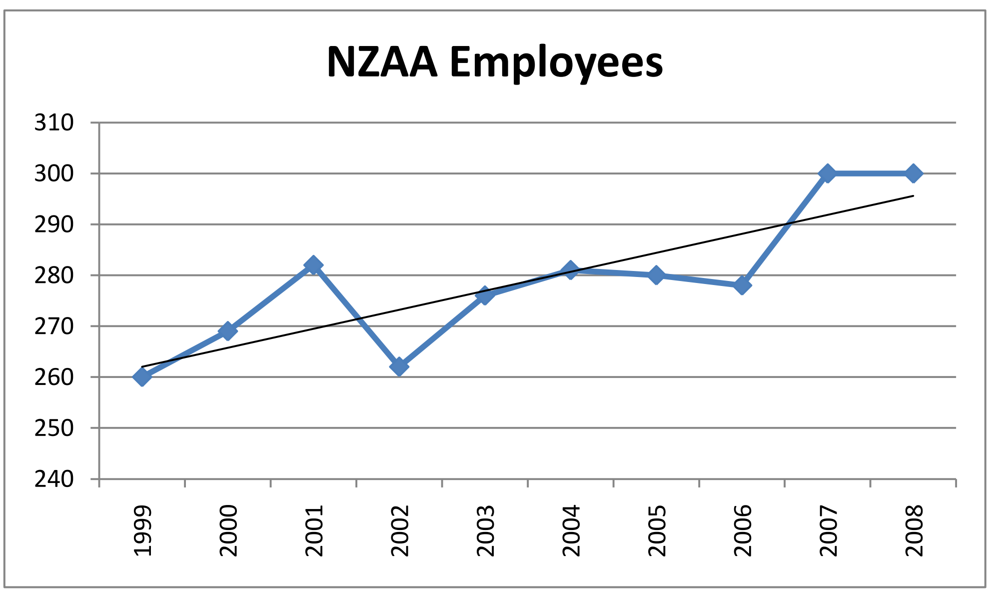


Figure 8.5

NZAA Workload Units per Employee

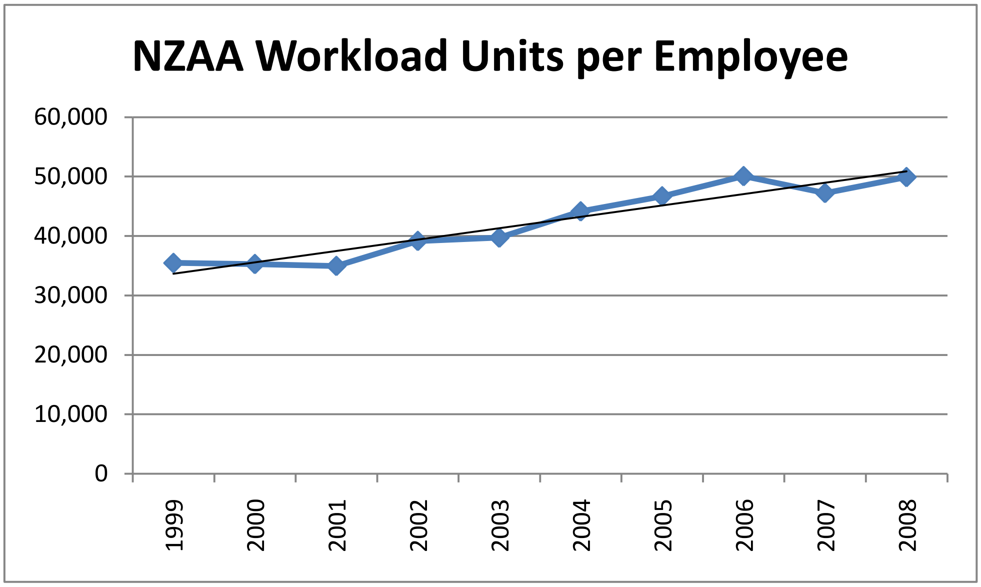
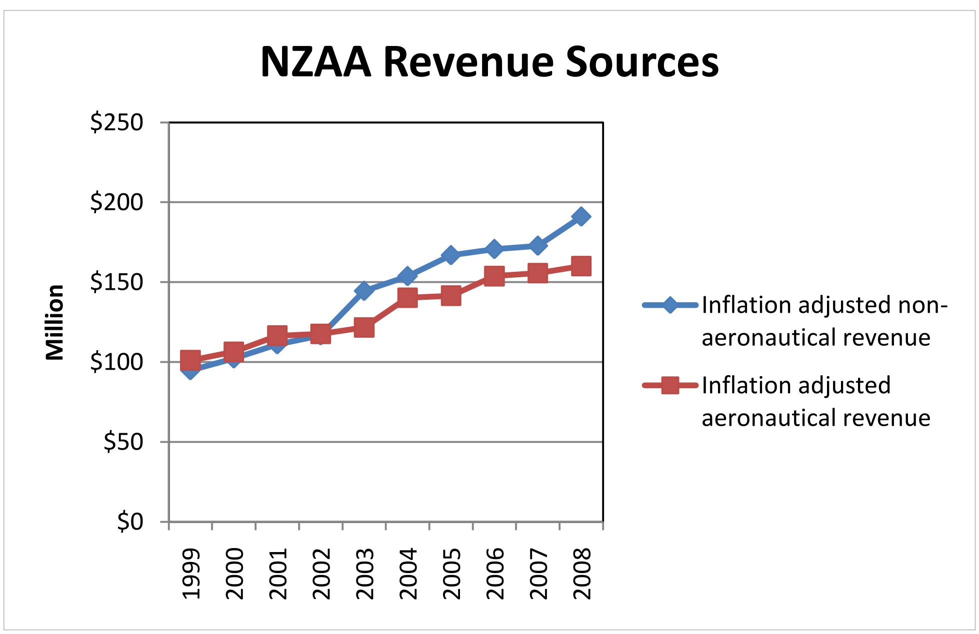


Figure 8.6

NZAA Revenue Sources



8.2.4 Financial performance for the first 20 years since corporatisation

As shown in Figure 8.7 revenue at Auckland airport has increased each year since the year ending 1994 and by a total of some $200 million in real terms. By way of contrast expenses have been more variable but declined markedly in the year ending 2001 and have subsequently been held at levels lower than the first 12 years after corporatisation. As a consequence the positive split gap between revenue and expenses has widened markedly.

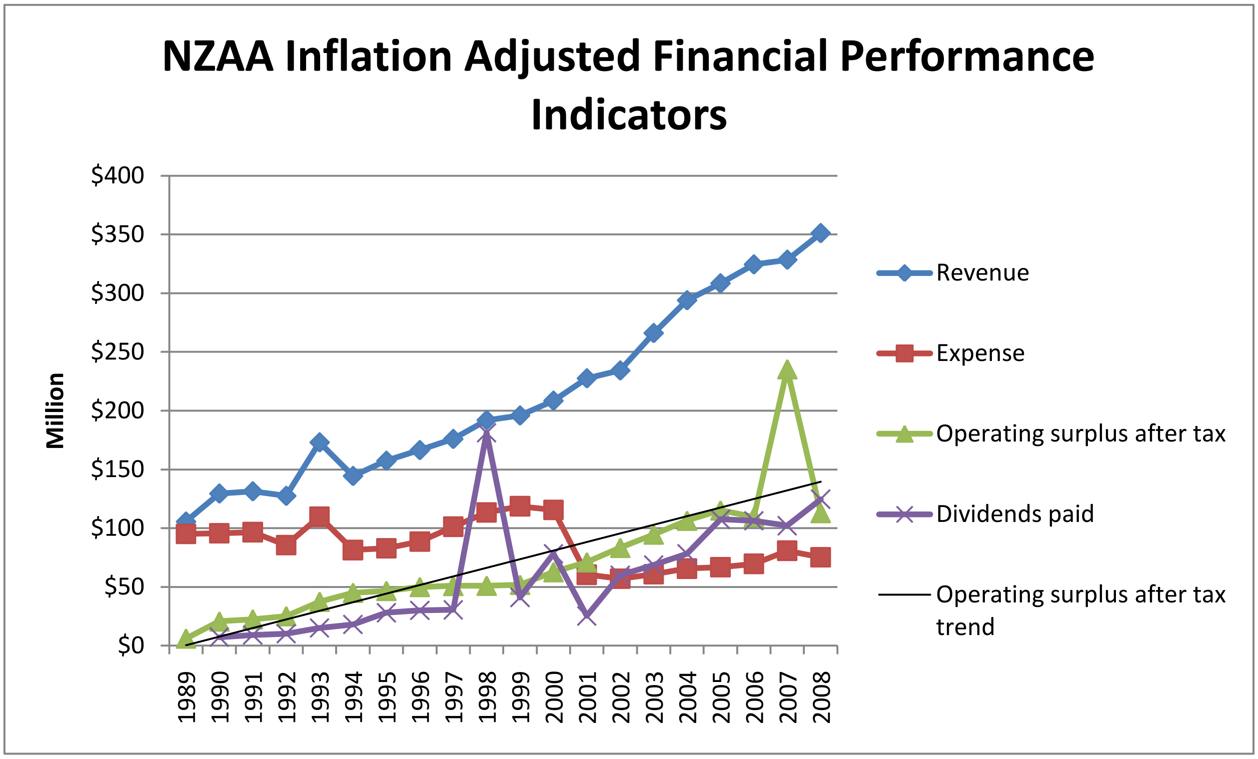
The operating surplus after taxation has increased steadily over the 20 year period with a significant peak in the financial year ending 2007. The overall trend line for operating surplus after taxation is strongly positive and the greatest overall increase of the seven airports that form this study.

Auckland airport has made dividend payments for each of the last 10 years of the period and these have averaged 75.8% of the sum of operating surplus after income tax for the same period. This is the highest percentage rate of dividend payment of the seven major airports.

For the last five financial years of the 20 year period Auckland Airport has generated revenue of $1.525 billion. This represents 63.3% of the total revenue for the seven airports in the study. For the same period expenses totalled 22.3% of total revenue and the operating surplus after taxation was 42.5% of the total revenue. For the same period dividends of $494 million were paid out, which represents 32.4% of the total revenue for the same five years and 87.4% of the total dividends paid by the seven airports.

Figure 8.7

NZAA Inflation Adjusted Financial Performance Indicators



8.2.5 Analysis and discussion of annual reports

1989-1993

The 1989 report records that it was the first for the new company that had been incorporated 20 January 1988, and commenced operating 1 April 1988. The new company reported being profitable in its first year of operation. In terms of the need to form positive relationships with airlines the chairman stated that "[o]ne does not have to be in the business of airport operating very long to realise that a successful operation in essence, consists of a partnership between the airport operator and the airlines. Any airport that does not embrace the partnership philosophy is likely to be in for a difficult time" (pp. 5-6).

It was noted in the report that the government had announced its intention in July 1989 to divest its 50% shareholding in Auckland Airport. This was ultimately not to occur until 1998.

The operating surplus after taxation for the first year of operation was reported as being $3.8 million and this was kept as retained earnings by the company. Total borrowing at the first balance date was $141.3 million from total assets of $367.3 million, reflecting the government practice of establishing each airport company with approximately 40% debt owed to the former joint venture partners.

The 1990 report records that there were 25 international airlines servicing Auckland Airport and four international cargo operators. In discussing the future development potential, comment was recorded about the somewhat unique aspect of its location “[u]nlike most airports in the developed world, Auckland Airport is bordered by rural land designated for airport expansion. As a result it is possible to plan for its development as an efficient airport capable of serving the needs of Auckland and New Zealand well into the next century” (p. 4).

The report clearly identified the need for the business to operate profitably and to provide a return to the shareholders and reported this as being “The *Level of Commercial Return* required to fund the continuing development necessary to maintain a modern, cost effective and efficient airport and to provide an appropriate return to shareholders” (p. 7).

In March 1990 the government restated its 1989 intention of selling its shareholding in the airport but this was ultimately not to occur for a further eight years.

Refurbishment of the terminal was reported as having been completed in January 1990, a joint venture company was established with the Marriot Corporation of the USA to provide food and beverages at the airport, and the airport took over the provision of rescue/fire services. A land use plan was also being prepared for release in August 1990 to provide a vision of the airport to 2010 and beyond.

The company reported an after tax surplus of $13.5 million and made provision for a maiden dividend of $4.7 million.

The 1991 report records that an upgrading and refurbishment programme of existing terminals had been completed. The international terminal was reported as being operated near to capacity and redevelopment was anticipated to start in 1992. The development of commercial facilities on airport land was reported as continuing to be a priority for the company, and it was reported that 45% of revenue was now derived from non-aeronautical activity. This was seen as being important to the company because “[t]he travel plans of many are being impacted by economic concerns which in turn affect the levels of activity experienced by the airlines - our major customer. To maintain revenue our main efforts continue to be placed on non-aeronautical and commercial development” (p. 15). This trend to non-aeronautical interests was to become increasing evident across all the major airports as reported in subsequent case studies.

The shareholding of the company changed during the1991 reporting year with the Crown purchasing the Papakura District Council shareholding of 1.6% to hold a total of 51.6% of the shares. The balance of the shareholding remained with six Auckland regional local authorities.

The company reported that it had established a policy that dividend payments would be 40% of after tax profit this year and thereafter to be reviewed annually. Such a policy was similarly to be adopted by other major airports upon corporatisation. For the 1991 financial year the company reported an operating surplus after taxation of $15.8 million and paid dividends of $6.3 million.

The 1992 report records that the long term development plan for terminal had been completed in September of the previous year. Stage one of this project was scheduled to commence in July 1992 and to be completed in early 1993. The international terminal project redevelopment was reported to be the largest project to be undertaken by the company to date.

A western extension of the runway of 382 metres had been undertaken to allow essential maintenance to be carried out on the eastern end. This extension was to eventually form part of the total runway to give an overall length of 3,673 metres. Planning for the future second runway was outlined and it was recorded that some 93% of the land needed to build it had already been acquired.

Mention was made of the opportunities that could be afforded by a single Australasian aviation market, and some concerns were expressed by the CEO about possible implications, including potential competition with Australian airports.

The company reported an operating surplus after taxation of $18.1 million and in accordance with its 40% of profit after tax dividend policy, dividends totalling $7.4 million.

The 1993 report records a change in the balance date to 30 June as being due to the percentage of government shareholding meaning that the airport company is considered to be a Crown company. It was recorded that the main runway length was now 3,835 metres and that this was the longest in New Zealand.

The report highlighted the importance of the forthcoming Single Aviation Market of Australia and New Zealand, providing unrestricted access is available to both Australian and New Zealand airlines, and the opportunities that this would present.

The operating surplus after taxation was reported as being $27.3 million and that the proposed dividends of $10.9 were approximately 40% of the after tax profit in accordance with the dividend policy.

1994-1998

The 1994 report records that aeronautical revenue was now only 31% of total revenue.

It was stated that the opportunity for unrestricted trans-Tasman operations would come into effect in November 2004 but no significant change to airline activity was anticipated. Similar sentiments were not expressed by smaller airports which reported the agreement as the opportunity to launch international services to Australia and the Pacific.

The report states that the largest challenge seen as facing the company was the forthcoming three year redevelopment of the international terminal, due for completion in 1997. A land use development plan was reported in place to 2030, with the second runway reported as being required in the time period 2010-2015. The second runway is presently being constructed and will come into use in 2011.

The company reported an operating surplus after taxation of $33.3 million and recommended dividend payments of $13.3 million, consistent with its dividend policy.

The 1995 report recorded that the increase in profitability the company was experiencing was not a consequence of increased landing charges but rather reflected the increasing importance of non-aeronautical revenue.

The report noted the sale by the Rodney District Council, via a public tender, of their 1% shareholding to Infratil Limited representing the first private sector shareholding in this or any other major New Zealand airport.

Comment was made in the report about the current review of New Zealand airport regulation initiated by the government, which was seeking comment from interested parties. The company perspective was that the current legislative framework provided ample protection for users. It was not accepted by the company that airports are necessarily a natural monopoly and it was consequently considered that airline customers do have effective countervailing powers.

The company reported an operating surplus after taxation of $34.8 million and reported an alteration in its dividend policy to be in the range of 40-60% of after tax profits. Consequently the directors recommended that dividends of $20.9 million be paid.

The 1996 report states that new airline user charges had been set and would come into effect from 1 July 1996, representing the first changes since 1992 and a reduction in international charges by some 20%. Similar action in reducing international charges also occurred at Christchurch Airport.

A new eastern access to the airport was reported as being opened and resulting in increased interest in commercial developments at the airport. In terms of aircraft and passenger movements the company reported that it is within the top 25 airports in the world. Auckland Airport also claimed to be the arrival or departure point for some 85% of New Zealand's international passengers and 80% of New Zealand's airfreight by value, making it the second largest port by value in the country.

The company reported having made submissions in relation to a bill currently before parliament. The company position was that current provisions in the Airport Authorities Act 1996 are adequate to protect the interests of users. The company also reported that it considers the Air New Zealand acquisition of 50% of Ansett Australia would have positive benefits on the aviation industry within New Zealand. Ansett Australia was subsequently to fail financially and the New Zealand Government mounted a rescue package to save the parent company, Air New Zealand in, 2001, indicating this level of confidence may have been ill placed.

The company reported that it was the first airport in the world to gain ISO 9001 accreditation for a wide range of activities within airport operations.

For the reporting year the company noted an operating surplus after taxation of $39.0 million and paid some 60% of this amount as dividends totalling $23.4 million.

The 1997 report recorded that the company had adopted a new constitution in June 1997 and re-registered under the Companies Act 1993.

With the rebuilt international terminal now scheduled for completion in December 1997, upgrading of the domestic terminals was now considered to be a high priority. It was also reported that the capacity of the single existing runway should be fully utilised by around 2005.

It was reported that Brisbane, Melbourne and Perth airports were now under private ownership as the first phase of Australian Federal Airports Corporation’s privatisation programme, and that a further 15 airports were now for sale. Auckland Airport, together with Westfield Holdings, won the right to participate in the first phase of this programme but subsequently withdrew. Concern was expressed by the CEO as to the potential negative impact that this privatisation programme might represent for Auckland Airport in that “([t]he new owners of the current privatised Australian airports will doubtless market themselves aggressively and compete not only with themselves but also with Auckland for a greater share of the airline business. AIAL must therefore recognise these possibilities and develop strategies to minimise any potential risk from such activities” (pp. 26-27).

The company reported an operating surplus after taxation of $40.5 million and paid almost exactly 60% of this amount as dividends totalling $24.3 million.

The 1998 report recorded that the fully redeveloped Jean Batten International Terminal had opened, the total cost of this major development having been $183.0 million to the company. It was also reported that the company had received approval to build a second runway from the Manukau City Council.

The company reported a successful public float and listing 28 July 1988 attracting over 67,000 shareholders. A special dividend of $135.0 million had earlier been paid to the government and the other joint venture partners 22 May 1998. This listing meant the end of central government ownership of Auckland Airport.

The company reported that the Ministry of Transport had released draft information disclosure regulations which, if implemented, would require the release of additional financial and forecast information to interested parties on an annual basis.

For the 1998 financial year the company recorded an operating surplus after taxation of $41.1 million and paid total dividends of $145.8 million.

1999-2003

The 1999 report states that the revaluation of the assets of the company resulted in the value of fixed assets increasing from $281.0 to $813.0 million. Company borrowings, however, were reported as having increased as a consequence of the $135 million special dividend paid to the shareholders prior to the public offering.

The company was listed on the New Zealand Stock Exchange 28 July 1998 and the Australian Stock Exchange 22 February 1999. The largest shareholders at the end of the 1999 financial year were recorded in the report as being Auckland City Council (25.8%), Manukau City Council (9.6%) and North Shore City (7.1%) as the company’s major shareholders. The company share register stood at 59,454 with approximately 20% of the shares held outside New Zealand.

The commencement of a six year project to rebuild the single runway was reported.

The company reported an operating surplus after taxation of $42.4 million and that 80% of this surplus would be paid as dividends. The company, however, stated that this was not to be taken as necessarily indicative of future dividend percentage payments. Dividends totalled $33.6 million for the period.

The 2000 report stated that passenger numbers had exceeded eight million for the first time. It also reported the completion of year two of a five year project to rebuild the main runway at a total cost of $140.0 million.

Reference was made to a new requirement to consult with significant customers as per the Airport Authorities Amendment Act 1997. As a consequence of this process it was reported that landing charges would increase by 8.5% on 1 September 2000, 5% on 1 September 2001, and 5% on 1 September 2002. It was also noted that such charges had last been increased in 1992 and that the international charges had actually been decreased in 1996.

The directors stated that they were recommending a new constitution be adopted at the forthcoming annual meeting due to the number and extent of changes required by the New Zealand Stock Exchange as a result of listing the company.

The operating surplus after taxation was reported as being $51.1 million and that dividends equal to 80% of the surplus were paid, totalling $63.8 million.

The 2001 report stated that international passenger numbers had now exceeded five million for the first time.

The company acknowledged in the report that airfield services were being supplied in a market where competition was limited. Discussion was also recorded of the price control study currently being undertaken by the Commerce Commission. In an earlier draft report the Commission had indicated that price control might be necessary at Auckland. The company stated that it disagreed with this recommendation.

The company reported that Air New Zealand had not agreed with the notified increases in landing charges, had refused to pay them, and had initiated court action requesting a judicial review of the consultation process.

At the time of this report it was noted that the Auckland City Council was the largest shareholder at 25.8% followed by Commonwealth Bank of Australia with 10.2%, Manukau City Council at 9.6% and Changi Airport Enterprises Pte Limited at 7.1 %. Total shareholders were reported as totalling 54,954. At this point in time the two local authorities held a total of 35.6% of the total shareholding and constituted two of the largest four shareholders.

It was reported that the company had lost $600,000 when Tasman Pacific Airlines of New Zealand Limited (Ansett New Zealand) went into receivership. It was further noted that this was not the first time the company had been left with bad debts due to airline failures.

The operating surplus after taxation was $59.1 million and dividends of some 80% of this surplus were paid totalling $47.3 million.

The 2002 report records significant upheavals in international aviation as a result of the September 11 2001 attacks in the USA. Despite this event the company reported that both the revenue and surplus was up for the year under review.

The chairman reported that due to the state of aviation market the 1 September 2000 increase in airport charges had been reduced to 7.5%, the 1 September 2001 increase confirmed at 5% and the 1 September 2002 increase foregone. It was also reported that the company had agreed to hold landing charges at these prices until 2007. In light of these of these actions it was noted that Air New Zealand had withdrawn its request for a judicial review of the consultation process.

The chairman reported that in its report to the Minister of Commerce 1 August 2002 the Commerce Commission recommended price control at Auckland Airport. The chairman stated that the company did not agree with this recommendation and as a consequence had highlighted a number of issues to the minister.

The CEO reported that revenue remained almost evenly divided between aeronautical and non-aeronautical. Retail concessions are the company's major source of income representing 29% of total revenue. He further stated that "[t]he company's diversity of income means it is not totally reliant on aeronautical-based activities and, while it does benefit from growth in aircraft and passenger activity, it is less affected by any downturns, as well illustrated this past year" (p. 13).

The chairman reported that a revaluation had increased the value of the company by $142.6 million. The company planned a return of capital by cancelling seven shares in every 25 and paying $1.80 for each share cancelled. This was reported as part of a plan to increase shareholder value through a more efficient capital structure, and would result in a repayment of capital to shareholders of approximately $212 million in October or November 2002.

The company reported an operating surplus after taxation of $71.5 million and its intention to pay out 80% of this amount as dividends. Dividends actually totalled $51.548 million which was actually 72% of the total surplus after tax.

2003

The 2003 annual reportrecords that domestic and international passenger numbers were both up. Revenue was also reported as being up, including revenue from retail activities.

It was reported that capital repayments of $212.714 had been made 25 October 2002 and financed by borrowing. This action reduced the shares on issue from 422.0 million to 304.4 million. Also reported was the sale by Auckland City Council of half its 26.5% shareholding in the company to institutional and professional investors. This represented a significant reduction in the public ownership of this airport company

The report recorded that in May 2003 the Minister of Commerce had announced that no controls would be placed on the pricing of airfield charges at any of the three major airports and that "[p]articular consideration was given to the negative net public benefits of control and the relatively small net benefits to the airlines and indirectly airline passengers" (p. 7). The airport company recorded that it was pleased with this decision.

The company reported an operating surplus after taxation of $76.8 million and paid dividends of $66.954 million, representing some 87% of the total surplus.

2004-2008

The 2004 report records that the surplus after tax was up and that the payment of dividends would be increased to 90% of tax paid profit, and that the directors were confident that this could be maintained.

The chairman reported that the company had completed a record 10 new investment property projects during the preceding year.

With regard to company shareholding it was reported that the Commercial Bank of Australia was now the company's major shareholder with 15.8%. Auckland City Council held 12.6% and Manukau City Council 9.6%, with the Sydney based fund manager UBS Nominees Pty Limited holding 8.7%. Approximately 38% of the shares in the company were reported as being held outside New Zealand.

In relation to a proposal to create the existing Whenuapai Air Force base as a second international airport for Auckland, the company reported its view that the proposal was unrealistic, and was simply bad economics in a region that is struggling to get its whole infrastructure working. The airport company was subsequently to provide funding to an action group opposed to the commercialisation of this military airport and the development has not proceeded.

The company reported an operating surplus after taxation of $94.3 million and dividends of $84.8 million.

The 2005 report includes statements by the company chairman as to the importance of Auckland Airport. "Auckland Airport is New Zealand's international gateway airport and one of its most important infrastructure assets. Every year we welcome 70% of international visitors to New Zealand. We are also the second-busiest freight port by value in the country" (p. 16). In terms of the commercial objectives of the company he went on to state "[m]aximising yield the company aims to maximise returns across all aeronautical and non-aeronautical activities, conscious always of the long-term interests of the business" (p. 16). The chairman reported that a review of the capital of the company had been undertaken and that on 25 June the directors had announced that a distribution of $200.0 million would be made to shareholders. This was to be comprised of a special dividend of 12 cents per share and an on market share buyback of up to $53 million.

The chairman reported that for the 2005 financial year dividends would be increased to 95% of after tax surplus but that the formal dividend policy would remain at 90% of the surplus. The company recorded an operating surplus after taxation of $105.6 million and ordinary and special dividends paid to shareholders of $246.9 million.

The 2006 report records that Auckland Airport was Australasia's second busiest airport for international passengers, and New Zealand's second largest port by value. The company also reported that the main runway and taxiways were ready for A380 operations, that the expansion of the Jean Batten International terminal had been completed, and that work had commenced on upgrading the domestic terminal.

The chairman reported that the planned $100 million dividend payout would mean that since listing the company had paid out over one billion dollars out in dividends and capital repayments. Market capitalisation of the company was reported as being $2.4 billion.

The chairman also reported the 40th anniversary of the opening of the airport and stated that in Australasia, Auckland Airport was second only to Sydney in terms of international passengers. He also reported that "[o]n a global basis, AIAL, is benchmarked as one of the most cost-efficient and best-performing airports in the world" (p. 9).

In reporting on the airport master plan the CEO stated that passenger numbers were predicted to reach 24 million in 2025, up from 11 million in 2006. The key conclusion drawn by the CEO was that Auckland has the aeronautical, commercial and land capacity to accommodate anticipated growth until 2050, and by implication a second airport servicing the Auckland area would not be required in that time frame. This latter comment was a consequence of the possible commercial use of the existing military airport at Whenuapai.

The CEO reported ongoing consultation with substantial customers over airport charges, which were last reviewed in 2000 and due for review in 2007. He reported that a separate aeronautical division had been established within the company on 1 July 2006 to group all aeronautical activities within one unit to enable engagement with airline customers in a seamless manner.

The operating surplus after taxation was reported as being $103.2 million and the dividends paid to be $100.1 million.

The 2007 report contains the statement by the chairman that "[d]uring the last 12 months, the board and senior management of Auckland Airport have given detailed consideration to the next five year stage of the evolution of the company from 2008-2012" (p. 10). He further reported that the research had highlighted that Auckland Airport has a significant opportunity and obligation to serve as New Zealand's premier gateway airport.

With regard to aeronautical charges the CEO reported that the new prices would take effect from 1 September 2007. That landing charges would rise 2.5% per year for the next five years from 1 September 2007. The departure tax would remain the same at $25 but this would be renamed a passenger service charge and collected by airlines on behalf of the airport company. As part of the consultation process the CEO reported that "[a] number of important concessions were made on both sides as part of the consultation process. Auckland Airport will credit the airlines with more than half of the unanticipated gain in the value of the airfield land and has agreed on a 10 year asset revaluation moratorium" (p. 17). He then stated that given the efforts of all those involved in the negotiations it was unfortunate that Air New Zealand had subsequently sought a judicial review of the consultation process and its outcomes.

The CEO commented on the current review being undertaken by the government of the Commerce Act 1986 in relation to airport pricing and stated that the company supported a number of proposals but believes that they should supplement rather than override industry specific regulations which are already in place, and that they have resulted in airport charges which are appropriate against relevant international benchmarks and timely investment in new capacity.

The CEO reported that the “makeover” of the domestic terminal was continuing with completion scheduled in December 2007. He reported that Air New Zealand is contributing $13 million of the $42 million cost. The return to Auckland Airport would be in the form of additional rent, aeronautical charges and retail income.

The CEO reported that in relation to the potential for civil use of Whenuapai military airport that the company continues to play a full part in the debate. He stated that the company is not against competition but has put forward a number of arguments as to why this development should not proceed, and how Auckland Airport can accommodate requirements of the city until 2050.

The company reported an operating surplus after taxation of $92.0 million and dividend payments totalling $100.1 million.

The 2008 report recorded that total passenger numbers were up 6.9%, comprised of increases in domestic passengers of 13.2% and international passengers of 2.5%.

The company reported that the airport was the first in the country to have become Airbus A380 capable and the first scheduled flights were scheduled to commence in February 2009.

The report commented on the Royal Commission inquiry into the governance of Auckland Airport and stated that it believed significant changes were required. The company reported that it believed that there were serious issues with Auckland Airport’s current governance arrangements. The CEO believed that there is a need for “one voice for city-wide or Auckland-wide issues” (p. 13), and that a regional approach for transport, planning and other key community services was imperative. Such a regional approach would make it less likely that a second commercial airport would be developed to service Auckland.

The 2008 report included a statement about the government’s rejection of a plan by the Canada Pension Plan investment board to purchase 40% of the shareholding in the company during the financial year. As a consequence of the government’s decision on foreign ownership, and the current weakness in global markets, the company reported that there is no merit in pursuing a cornerstone shareholder at this time. The report stated that in March 2008 the company had established $550 million of new syndicated bank facilities to refinance debt maturing in 2008, and further enhances the company's funding sources and balance sheet position.

The company reported a surplus after taxation of $113.0 million and paid dividends totalling $124.6 million.

8.2.6 Summary

Auckland Airport is currently the only large airport servicing the Auckland metropolitan area and the 50% of New Zealand's population that live within 300 kilometres of this airport. It does face a potential threat from a second potential airport within the Auckland metropolitan area if plans to convert an existing military airport at Whenuapai to civil use are realised. This new civil airport would potentially provide competition for domestic and short haul international services. Hamilton Airport, some 100 kilometres to the south, is also a potential threat for both domestic and short haul international services. Hamilton Airport currently operates as a short haul international airport.

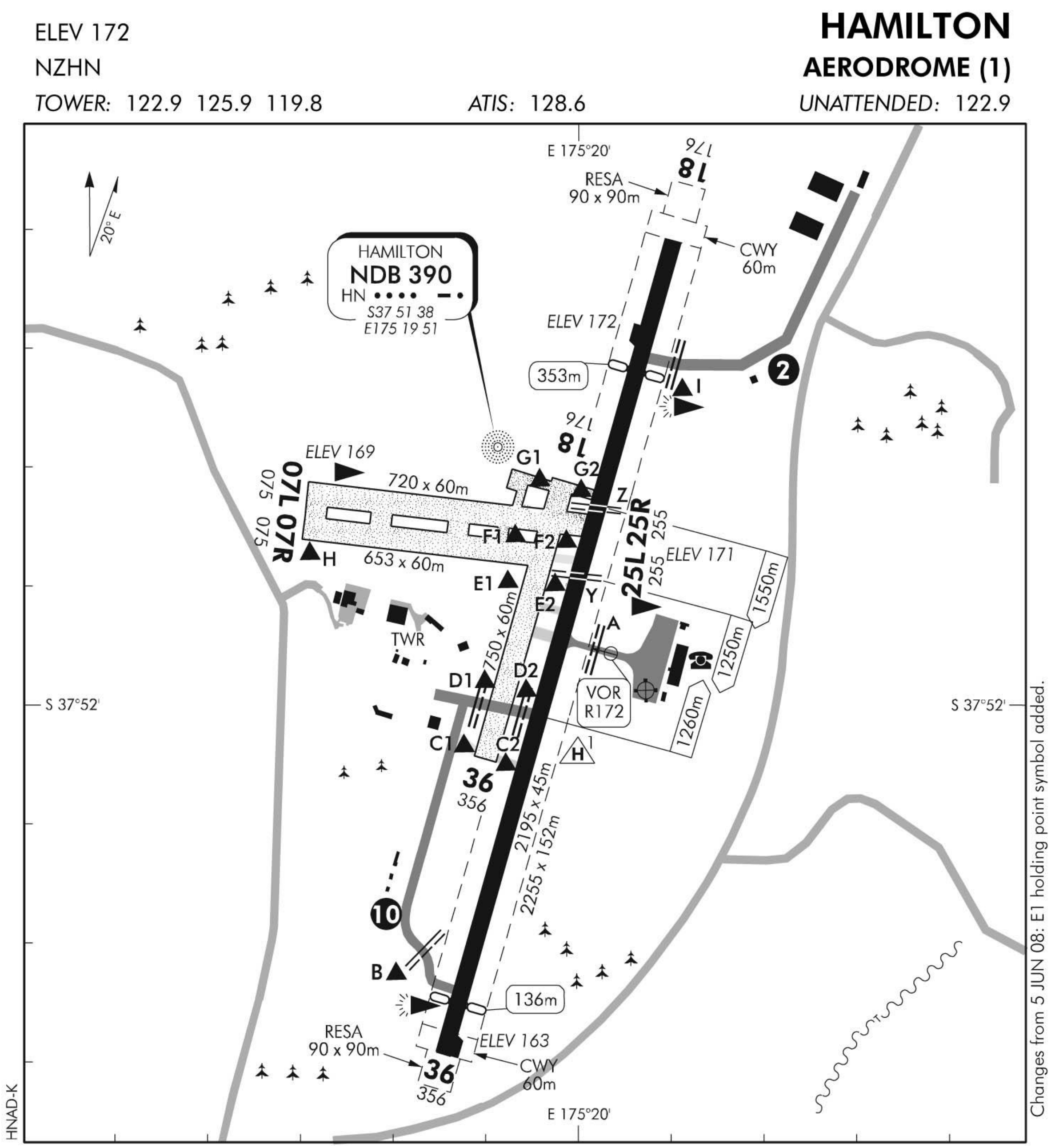
A further concern expressed by Manager D of Auckland Airport is that it continues as the main link into Auckland from Asia, the USA and South America, and it should not become a feeder airport for Australian airports such as Sydney. It is for reasons such as this that Auckland Airport has upgraded infrastructure to accommodate aircraft such as the Airbus A380.

At the time of incorporation Auckland International Airport Limited was owned 50% by the Crown and the other 50% was owned by a number of local authorities. The Crown sold its shareholding in 1998 when the company was listed and subsequently the largest public sector equity has been held by the Auckland City Council and the Manukau City Council. The company has been consistently profitable for the 20 years since incorporation to the end of the 2008 financial year. The company has paid dividends to shareholders for each of these years except for the first year of operation.

8.3 Hamilton Airport – Case Study

ICAO Code NZHN

NZHN Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Hamilton
Accessed on 17 July, 2009

8.3.1 Brief history

Hamilton Airport at Rukuhia has been the airport for Hamilton city and the Waikato region since the 1930s. During WW2 it was used almost exclusively for military purposes by the RNZAF, and buildings constructed during that wartime period remains in use by Pacific Aerospace Limited, which has built some 400 aircraft at Hamilton Airport for domestic use and export since the 1970s.

A former joint venture airport, Waikato Regional Airport Limited was formed on 15 November 1989, and the new company purchased the assets of the former entity. At the time of incorporation the ownership of the airport was as shown in Table 8.4.

Table 8.4 - Ownership of Hamilton Airport at Incorporation 15 November 1989

Shareholder	% ownership
New Zealand Government (Two Ministers)	50
Hamilton City Council	31.92
Waipa District Council	12.18
Matamata-Piako District Council	3.0
Waikato District Council	2.35
Otorohonga District Council	0.55

Source: Company annual report financial year ending 30 June 1990.

8.3.2 Current ownership and management structure

Hamilton Airport is in 100% local authority ownership and has never had any private sector ownership. As shown in Table 8.5 50% of the shareholding in this airport company is held by the Hamilton City Council with the balance held by adjoining local authorities.

Table 8.5 - Ownership of Hamilton Airport as at 30 June 2008

Shareholder	% ownership
Hamilton City Council	50
Matamata-Piako District Council	15.65
Waipa District Council	15.625
Waikato District Council	15.65
Otorohonga District Council	3.125

Source: Company annual report for year ending 30 June 2008.

All shares carry equal voting rights and are fully paid. None of the shares carry fixed dividend rights.

The board is comprised of the chairman and four other directors. The company is managed by a CEO and four second level managers comprising a chief financial officer, operations manager, marketing manager and commercial growth and development manager.

8.3.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.8-8.13.

At Hamilton Airport domestic passengers grew steadily except for year ending 2002 when there was a slight reduction. International passenger numbers similarly grew each year until year ending 2002. They peaked in 2006 and declined steadily in the two subsequent years. Total passenger numbers using the airport grew each year until a peak in year ending 2006 and declined in each of the two subsequent years. According to Statistics New Zealand there is insignificant international freight to or from Hamilton Airport. There are no known records of domestic air freight.

As total workload units are the sum of passengers and freight in this case they closely follow passenger numbers and after peaking in 2006, declined in each subsequent year.

Employee numbers only grew by two persons over the initial nine year period until the year ending 2007. Of the 11 additional positions created in 2008, 10 were employed in a retail outlet operated by the airport company within the main terminal building. The overall trend of workload units per employee is slightly positive but for the year ending 2008 declines rapidly. This represents a potential threat to future financial viability if the retail outlet operated by the airport is unsuccessful.

Aeronautical revenue decreased from 29% of total revenue in year ending 1999 to 24% in year ending 2008. This airport reports non-aeronautical revenue as the percentage of non landing charges to total revenue. This may lead to a distortion with regard to the high proportion of non aeronautical revenue as other airport companies report aeronautical revenue as the sum of landing charges, terminal charges and passenger departure taxes. Hamilton Airport consistently reports the highest percentage of non-aeronautical revenue of the seven airports in the study.

Figure 8.8

NZHN Total Passengers

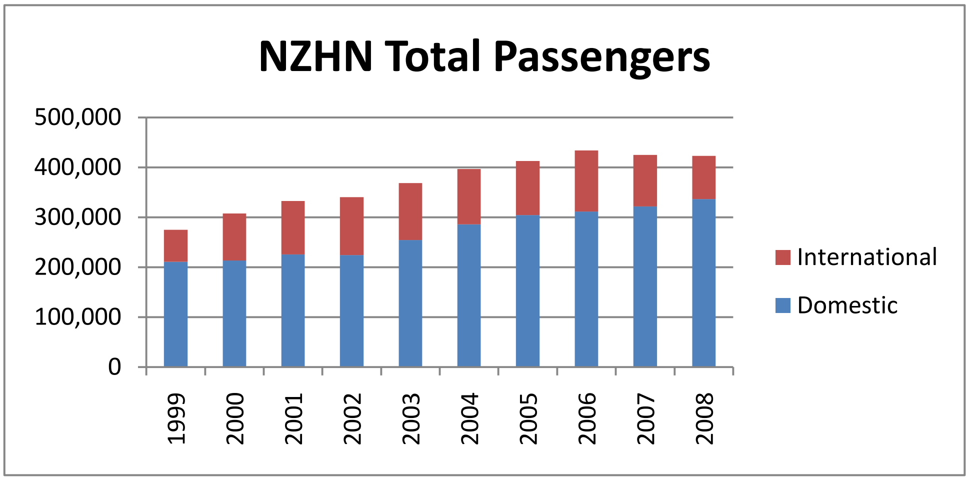


Figure 8.9

NZHN Total Airfreight (Tonnes)

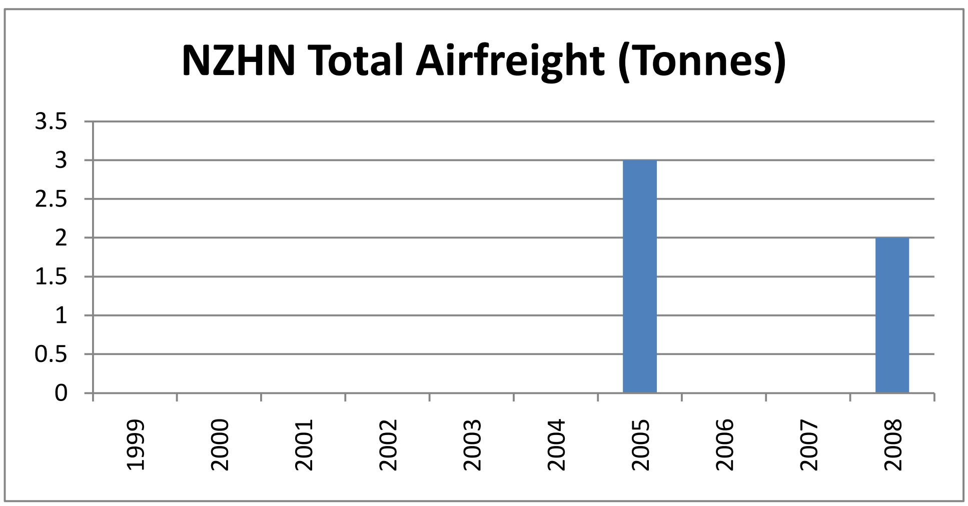


Figure 8.10

NZHN Total Workload Units

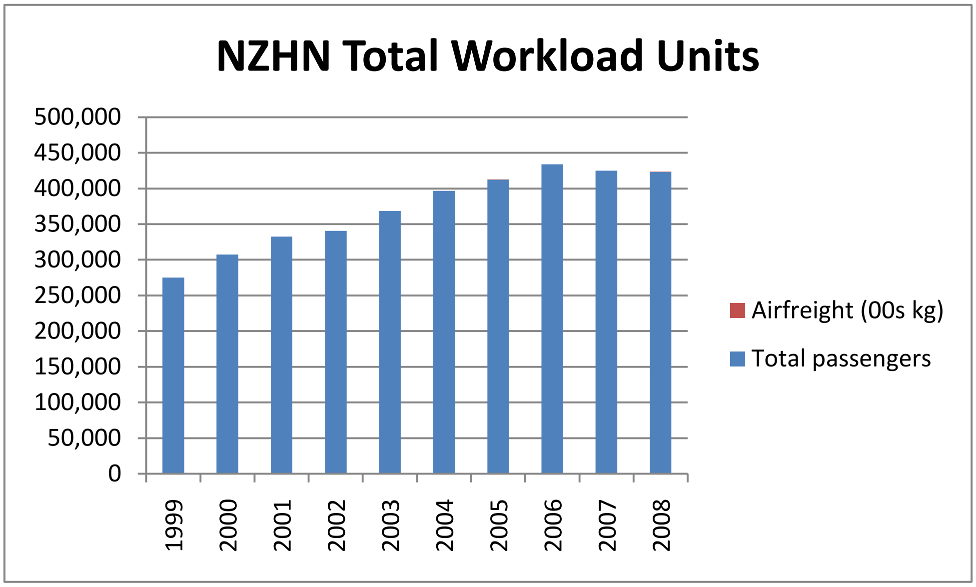


Figure 8.11

NZHN Employees

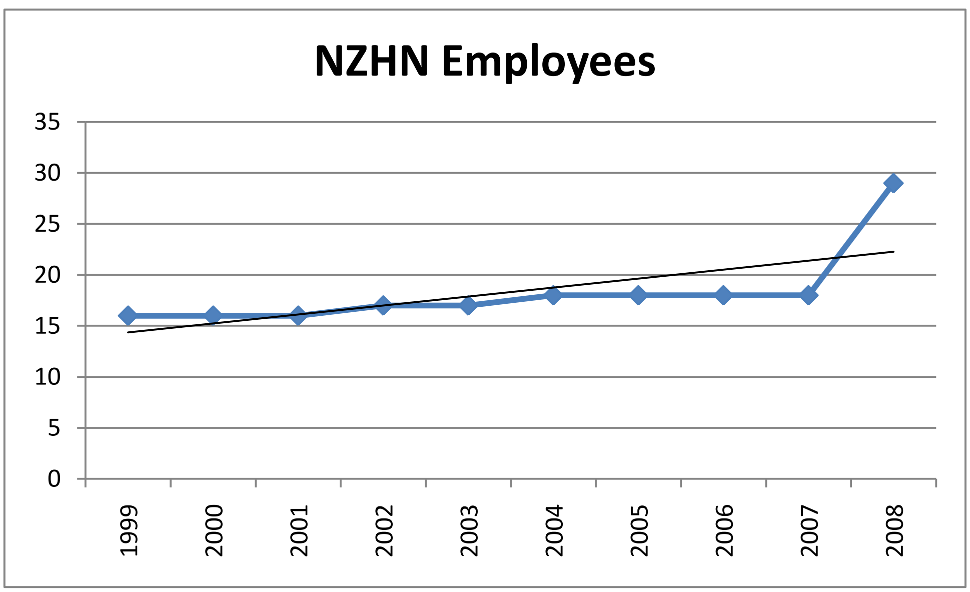


Figure 8.12

NZHN Workload Units per Employee

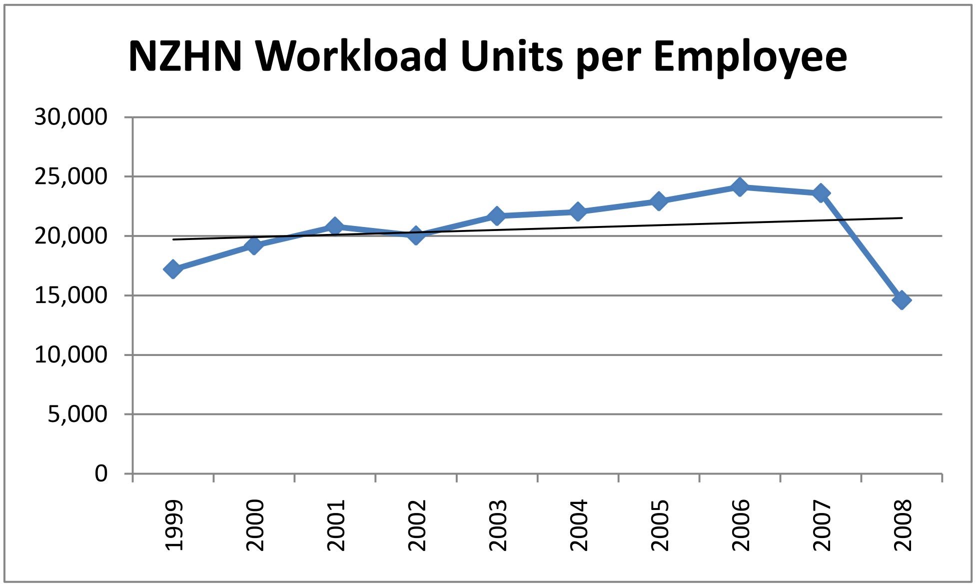
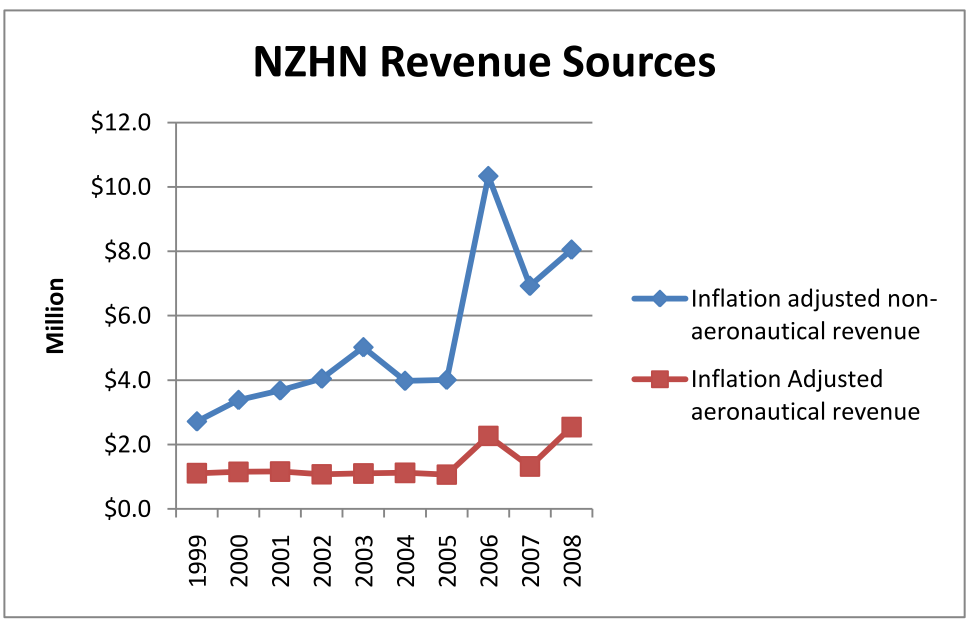


Figure 8.13

NZHN Revenue Sources



8.3.4 Financial performance for the first 19 years since corporatisation

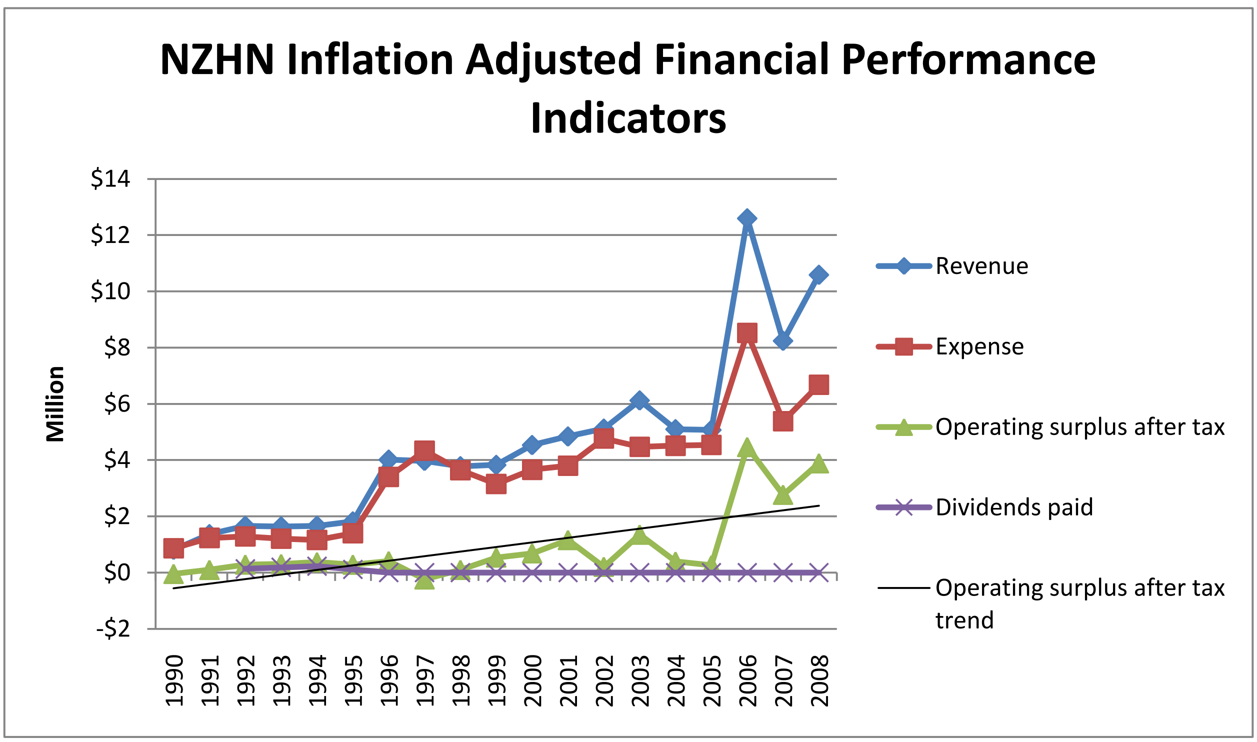
As shown in Figure 8.14 revenue at Hamilton Airport has increased steadily over time to peak in the year ending 2006, which was also the year that passenger numbers peaked. Expenses have similarly increased over time but have only been greater than revenue in one year, that ending 30 June 1999.

The operating surplus after taxation has increased over time but with some significant fluctuations. It peaked in 2006, the same year as passenger numbers peaked. Following corporatisation dividends were paid in some years but not since the airport became wholly owned by a number of local authorities, whose policy has been to reinvest operating surpluses back into the business. The operating surplus after taxation trend line is positive.

No dividends have been paid over any of the past 10 financial years, which is consistent with the policy of the board to reinvest profits with the company.

Figure 8.14

NZHN Inflation Adjusted Financial Performance Indicators



8.3.5 Analysis and discussion of annual reports

1990-1993

The first annual report produced by the company was for the financial period ending 30 June 1990 and represented the first seven and a half months of operation. A loss of $30,000 was recorded but it was anticipated that the company would be profitable in subsequent years. From the statement of corporate intent the financial objective of the company was stated as being "[t]o operate a successful commercial business and, in particular, to strive to be as profitable as comparable businesses" (p. 3). Under the property section of this statement it was recorded that the objective was "[t]o maximise non-aeronautical revenues by attracting appropriate tenants to the airport facility" (p. 4).

In the 1991 report the company reported a profit after taxation of $273,000. The board reported considering a dividend but decided to forgo it in favour of retaining funds to strengthen the capital base of the company.

The 1992 report recorded statements to the effect that while scheduled passenger services would remain the cornerstone of the company's operations, general aviation offered the best prospect for expansion. The report goes on to state that serious research was being undertaken with regard to making the airport attractive to general aviation operators and that "[t]he Board is mindful that the need to operate a commercially successful business which rewards shareholders for their investment must be balanced against the need to adequately maintain the airport assets in the longer term" (p. 3). In the same report the company recorded its first dividend payment of $93,000.

In the 1993 report further statements are made to the effect that the board continues to look to increased general aviation activity to generate growth for the company. Also recorded was that it had investigated the potential for the airport to be used for scheduled international or trans-Tasman operations.

The report records that the directors were proposing to pay a dividend of $132,500, being 60% of the tax paid profit. This is reported as being consistent with the company statement of intent, which sets 40-60% of after tax profit as the target for dividend payments.

1994-1998

The 1994 report records the intention to establish international services from Hamilton by a Hamilton based tourist agency, later to become Kiwi International Airlines Limited. The report further states that this initiative had refocused the company on the prospect for trans-Tasman air services, and that the company had decided to support this initiative. Hamilton was shortly thereafter to become the fourth New Zealand international airport.

The directors recommended a dividend of 60% of the after tax profit be paid totalling $164 000.

The 1995 report records that trans-Tasman charters had commenced in August 1994. By year ending 30 June 1995 there had been 21 international departures and arrivals. These charters were reported by the company as being a significant event in its history, and that the board had noted the public enthusiasm for them. It was also reported that the opportunities for trans-Tasman operations could not be properly realised until the main runway was extended by some 544 metres to 2,250 metres. The company reported that it did not have the resources to undertake this development at that time. This reflects the new operating environment for the airports post commercialisation in that they could no longer rely on central government to fund airport developments.

The operating surplus after taxation was reported as being down on the previous year and dividends of 40% of profit after tax paid, totalling $84,000, would be paid.

In the 1996 report the company records its mission as being "[t]he Mission of the Company is to operate a successful commercial business providing safe, appropriate and efficient services for the transportation of people and freight in and out of the Port of Hamilton" (p. 1). While the numbers of both domestic and international passengers continued to grow until 2008 there has been virtually no freight activity recorded by Statistics New Zealand in relation to this airport. The company reported in the same year that revenue had increased by 131% alongside the introduction of scheduled trans-Tasman services by both Kiwi International Airlines Limited and Freedom Air Limited, an Air New Zealand subsidiary. Ansett New Zealand was reported as having commenced domestic services from its newly constructed terminal, and a new international terminal was being constructed by extensions to the existing terminal structure.

It was also recorded in the 1996 annual report that on 20 December 1995 the Crown had indicated that it was intending to sell its 50% shareholding in the company, and that subsequently that shareholding had been purchased for $2.125 million on 29 March 1996 by the existing local authority shareholders. Table 8.5 records the June 2008 shareholding of this company, which had not changed since 1996.

Concern was also expressed in this report that the charges being levied by Crown border agencies were considered discriminatory in that the same charges were not levied against the other three other existing international airports at Auckland, Wellington and Christchurch. Hamilton was the fourth international airport to be established in New Zealand and the matter of border charges was to be resolved in favour of the company some years later following an appeal to the Privy Council by Palmerston North Airport, supported by Hamilton Airport and Freedom Air.

Despite an operating surplus after taxation of $319,000 the board recommended that shareholder value would be strengthened by the retention of these funds. Accordingly no dividend was recommended for the 1996 year.

The 1997 report records an operating loss after tax of $193,000 for the reporting year. This loss was attributed to the failure in September 1996 of Kiwi International Airlines Limited, which had gone into receivership. The company reported that it had incurred an immediate bad debt of $141,000, and that the associated loss of turnover had also impacted severely upon profitability. The report noted that the debt to equity ratio of approximately 70:30 was assessed as being a major concern due to associated financing costs and reduced revenue from under utilisation of the newly redeveloped terminal.

The 1998 report records a return to profitability with after tax earnings of $78,000. Also of note in this report was that the local government shareholders had agreed to fund the construction of a starter strip of some 200 metres to improve capability of the airport in certain weather conditions. This represented the first injection of capital since the company was established.

1999-2003

The 1999 report records a significant improvement in operating profit with the surplus after taxation being $439,000. It was reported that the main runway had been extended 254 metres to a total length of 1,960 metres and that this now enabled unrestricted trans-Tasman operations by B737 aircraft. It was also recorded that this $1.5 million project was funded by $1.0 million of capital from the shareholders and the balance from internal cash flow.

The 2000 report records that border control charges were still considered contentious. With regard to the Ministry of Agriculture and Fisheries (MAF) charges it was reported that the matter had been argued in the High Court in June 2000 and that a decision was expected in September of that year.

The company reported an operating surplus after tax $559,000.

The 2001 report expressed concern at the collapse of Tasman Pacific Airways Limited (Ansett New Zealand), an associated bad debt of $40,000 and a loss of revenue.

The operating surplus after taxation was reported as being $963,000.

The 2002 report outlines ongoing growth in international passengers but a small decline in domestic passengers. It was also reported that the company had lost the case against the Crown regarding the legality of the MAF charges and that these had been paid. The company recorded that it was considering taking this matter to the Privy Council in concert with the other airports similarly affected by the differential in border charges.

A modest operating surplus after taxation of $176,000 was reported.
In the 2003 report there is post balance date information to the effect that the appeal to the Privy Council had been successful. This was to result in a return of costs paid of some $800,000 to the company. It was also recorded that a number of commercial developments had occurred at the airport during the year, and that development of the non-aeronautical aspects of the airport business continued to be a high priority.
The company reported an after tax operating surplus of $1.19 million.

2004-2008

The 2004 report records that as a result of a strategic planning exercise the decision had been made to proceed with major upgrades of the terminal, the principal runway and associated services. Also reported was a decision to undertake a major initiative to develop the extensive non-aviation land holdings that comprise the airport.

The company stated that its objective was to remain the number two international airport in the upper North Island. This comment may stem from the decision of Rotorua city, some 70 kilometres to the east, to develop its airport to cater for international services.

The report records that district plan changes that had imposed restrictions on the owners of land to the north had been appealed by some land owners. A mediated settlement was reported as having been achieved in September 2003 that protected the rights of adjoining landowners to undertake some development while the airport approaches were protected and 24 hour per day operations could be sustained.

An operating surplus after taxation of $350,000 was reported for the year.

The 2005 report records capital expenditure of $3.5 million on progress work for the terminal upgrade, apron and runway extension, and that a tender for $15.5 million had been let for this work.

The company reported that it was pleased with government plans to implement a single border charge that would apply equally at all airports. It stated that it had previously joined with other regional airports to lobby the government regarding this matter.

This annual report recorded that CTC Aviation Limited were in the process of establishing their pilot training facility at Hamilton Airport, and also recorded the decision of Alpha Aviation Limited to set up a second light aircraft manufacturing plant at Hamilton Airport. Alpha Aviation subsequently collapsed.

The company reported an operating surplus after taxation of $238,000 for the financial period.

The 2006 report records revenue and passenger numbers up on the previous year. A $17.2 million positive property revaluation was recorded.

Stage one of the terminal upgrade was reported as having been completed, and the main runway had been extended to 2200 metres. The company also reported that it now owned all the land necessary to enable a future extension to 2720 metres.

This report included the company statement that "Hamilton International Airport (HIA) is increasingly being seen as an important gateway to the Waikato and central North Island region, and this has been enhanced further in the past year by increases in both domestic and international passengers to record levels" (p. 3). These comments are made in relation to a year in which international and total passenger numbers peaked. They subsequently declined markedly.

Also reported in 2006 was significant interest in the Aviation Cluster being established around the airport as the region continued to grow its aviation significance within New Zealand. This Major Regional Initiative (MRI) received central government funding. Hamilton Airport is the base for aircraft manufacturing in New Zealand and also a major pilot training location. Comment was also made in the report about the opportunity for a freight and distribution hub based on airport land, and that a review of the need for a central North Island freight hub and air freight out of the region was underway. These plans have yet to be realised with regard to air freight and Statistics New Zealand record virtually no international air freight moving through Hamilton Airport.

The operating profit after taxation for the reporting year was recorded as being $3.843 million.

The 2007 report records international passenger numbers down 16%, likely due to the loss of services to Melbourne and Suva. Domestic passenger numbers were, however, up 3% for the period.

The report records that Hamilton Airport and the Katalyst Group (the Waikato Region Economic Development Agency) had commissioned a study to gauge the freight and distribution needs of the Waikato and Bay of Plenty regions. More work was seen as being necessary to conclude this matter, this project being funded by central government.

The operating surplus after taxation for the reporting year was recorded as being $2.7 million.

The 2008 report recorded domestic passengers up but international passenger numbers down by some 15.8% over the previous year. A $21.85 million property revaluation gain was recorded, and the new terminal was completed. Concern was expressed in the report that "[g]iven increased competition domestic and international passenger leakage to Auckland is a significant issue for HIA going forward. This issue is contributing to the risks of reduced international services, or in the worst case scenario losing international flights altogether – as seen at other regions in New Zealand" (p. 8). This concern has subsequently come to pass with the New Zealand Aviation News (March 2008) reporting that Hamilton Airport was to lose its only international services from April 2009 when Air New Zealand was scheduled to withdraw. Pacific Blue, however, entered this market late in 2009 and Hamilton Airport has retained limited international air links to Australia.

The 2008 report recorded that the initial studies on the potential for airfreight through Hamilton Airport "show a substantial quantity of New Zealand's exported airfreight is being produced or transported through the Waikato –with the two largest markets being Australia and Asia" (p. 8). This is not supported by Statistics New Zealand which has recorded virtually no airfreight either inbound or exported via Hamilton Airport. The air freight data shows that overall international air freight has been declining at airports other than Auckland, suggesting that Auckland Airport was meeting the air freight requirements of the Waikato region.

The 2008 report noted the growth in general aviation activity at the airport, and the growth of pilot training operation in particular. The report recorded that an economic benefit study would be commissioned by the airport to look at economic benefits to the region of runway extensions, new domestic and international routes and the effects of any increased services at the airport. It was stated, however, that any new developments would only take place if there was a clear market for them.

The operating surplus after taxation was recorded as $3.887 million for the 2008 year.

8.3.6 Summary

Hamilton Airport is seen as being of significant economic benefit to its shareholders according to statements in successive annual reports. Profits have consistently been retained within the company to fund the business with no dividends paid since the company moved into 100% local authority ownership. Hamilton Airport is home to the aircraft manufacturing industry within New Zealand and is also the home base of a significant English airline pilot school.

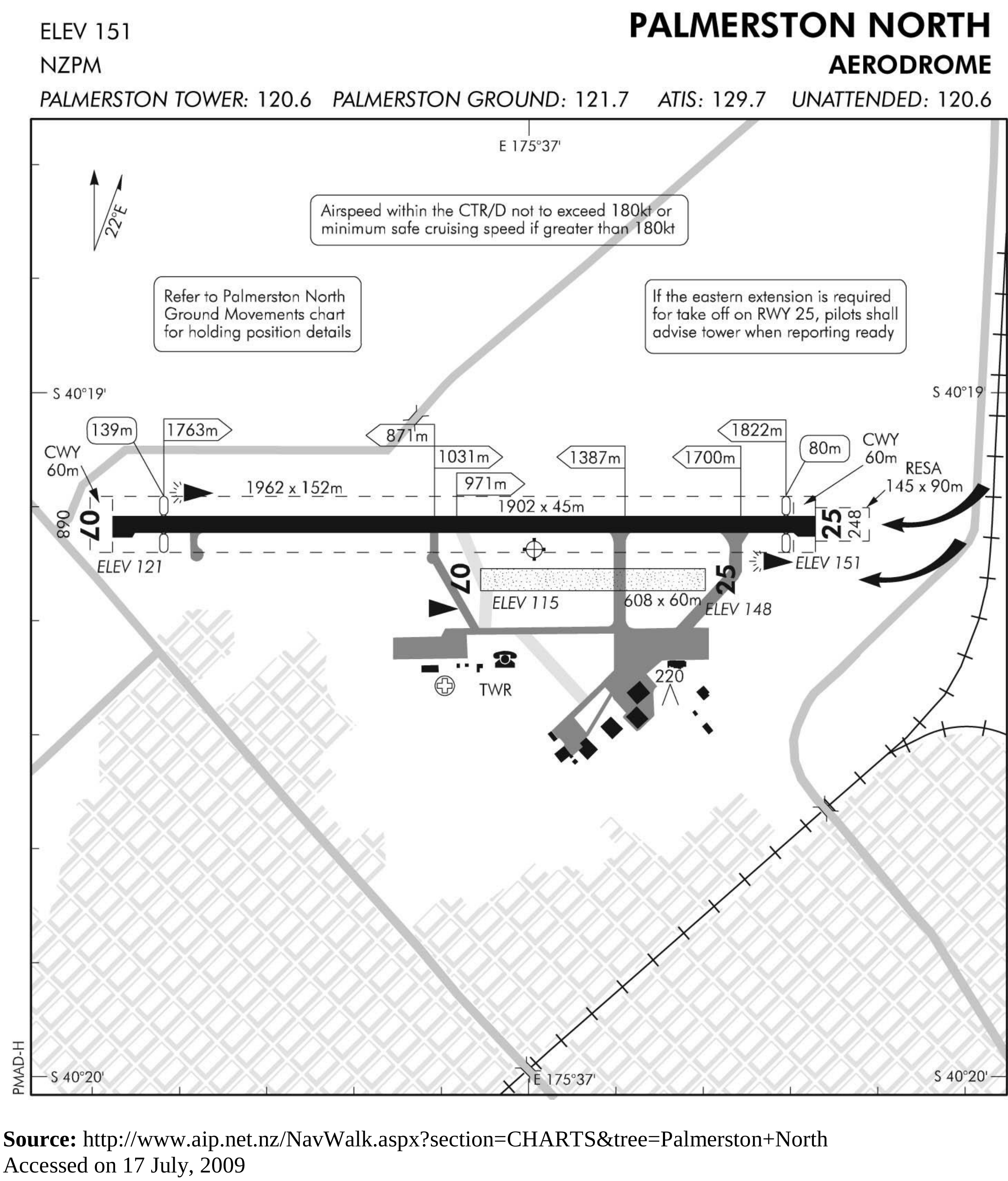
The airport company has significantly developed its capability over time in order to attract international services. The previous CEO reported that Hamilton was "Auckland's second runway" and due to its proximity to Auckland would continue to develop over time (Manager K Airport 9, personal communication, March 16, 2006). Being only some 80 kilometres south of Auckland means that most domestic air travel is southward orientated towards less populated areas of New Zealand. In 1995 Hamilton Airport became the fourth international airport in New Zealand.

At the time of incorporation Hamilton International Airport Limited was owned 50% by the Crown and 50% by a number of local authorities within the Waikato region. In 1996 the Crown sold its 50% shareholding to the existing local authority shareholders who have retained it since. The largest single shareholder is the Hamilton City Council with 50% of the total equity. This airport has been profitable for 17 of the 19 years between incorporation and the financial year ending in 2008, with small losses having occurred in the first and eighth year of operation. The company commenced dividend payments in the financial year ending 1992 and also made payments for the ensuing three years. No dividend payments have been made since the company has been owned exclusively by local authorities as a policy of reinvesting profits in the business has consistently been maintained.

8.4 Palmerston North Airport – Case Study

ICAO Code NZPM

NZPM Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Palmerston+North
Accessed on 17 July, 2009

8.4.1 Brief history

Palmerston North Airport has been at its current location at Milson since before WW2. During the course of WW2 the primary developments to accommodate military requirements took place at the Ohakea Air Force Base some 25 kilometres from Palmerston North Airport. In contrast with some other cities the RNZAF has continued to occupy and use Ohakea after WW2 and consequently this airport has not featured in the commercial development of aviation post 1945. Immediately after WW2 Palmerston North Airport became an important engineering base for the new NAC and it was the location at which a significant number of military aircraft, principally DC3's, were transformed from military transports to airliners to meet the demand for commercial air transport across New Zealand.

8.4.2 Current ownership and governance/management structure

Prior to incorporation on 21 December 1989, Palmerston North Airport was a joint venture airport owned by the Palmerston North City Council and the Crown. During the year ending 31 March 1999 the 13.5% Crown shareholding was sold to a private company called Central Avion Holdings Limited. On 30 November 2006 the Palmerston North City Council purchased the Central Avion Holdings Limited shareholding to gain 100% ownership of the company.

During the year ending 30 June 2006 an earlier call of 35 cents of the 5,800,000 partly paid shares was made on 30 September 2005 with the stated intention "… of advancing the first stage of development to construct runway and safety areas" (Annual Report, 2006). During the financial year ending 30 June 2008 the 35 cents uncalled balance of the 5,800,000 shares was called up "… in anticipation of progress in the first stage of maintaining and developing runway capacity" (Annual Report, 2008). All shares in the airport are now fully paid.

The board of directors is comprised of a chairman and four other directors. The airport company is managed by a CEO and two second tier managers: being an operations manager and the finance manager/secretary to the board.

8.4.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.15-8.19.

Domestic passenger numbers have grown over time but with some variations year on year. International passenger numbers grew each year until year ending 2002, and grew each year again from 2003 to year ending 2006, but declined both in 2007 and 2008 from their earlier peak. Palmerston North lost its scheduled international air services 31 March 2008 and has not been able to find an airline willing to provide international services from the airport. Total passengers peaked in year ending 2005 but have declined each year thereafter.

There is no recorded air cargo for this airport company by Statistics New Zealand. An unknown amount of domestic air cargo is serviced by the airport but for this study is discounted in terms of total workload units. These were to grow steadily to peak in year ending 2005 but have declined in each subsequent year. This will provide a significant challenge to the airport to remain profitable if the downward trend continues.

Total employees have increased by two over the 10 year period. Employee efficiency has increased significantly over the 10 year period but not evenly, demonstrating good utilisation of human resources.

The percentage of aeronautical revenue to total revenue has decreased steadily over time from 76.8% in year ending 1999 to 62% in year ending 2008. This airport has the lowest ratio of non-aeronautical to aeronautical revenue of the seven airports over this 10 year period. This means that it is the most vulnerable to reductions in air services such as happened in year ending 2008 when Air New Zealand, as the sole international operator, withdrew such services at the end on March 2008, so that the airport will need to continue efforts to derive non- aeronautical revenue.

Figure 8.15

NZPM Total Passengers

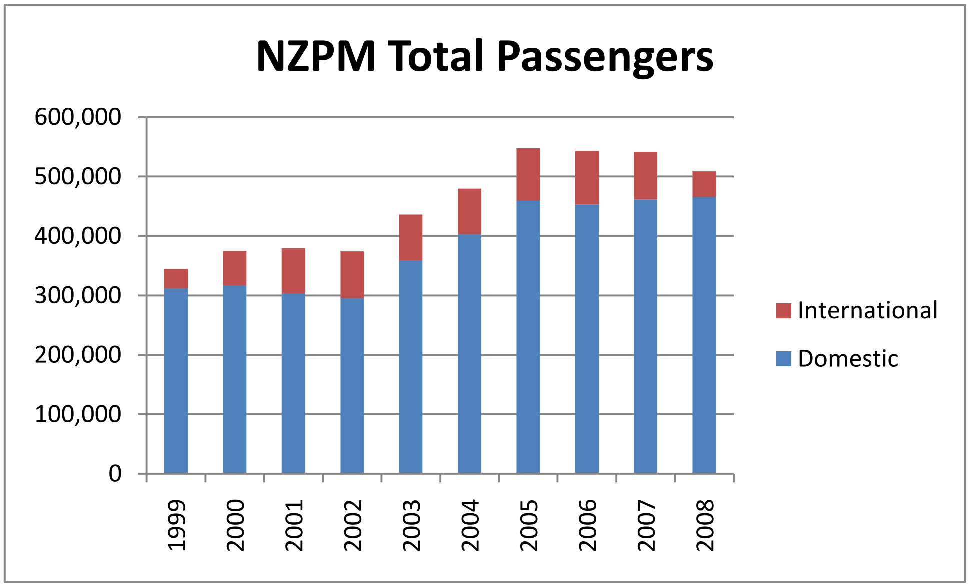


Figure 8.16

NZPM Total Workload Units

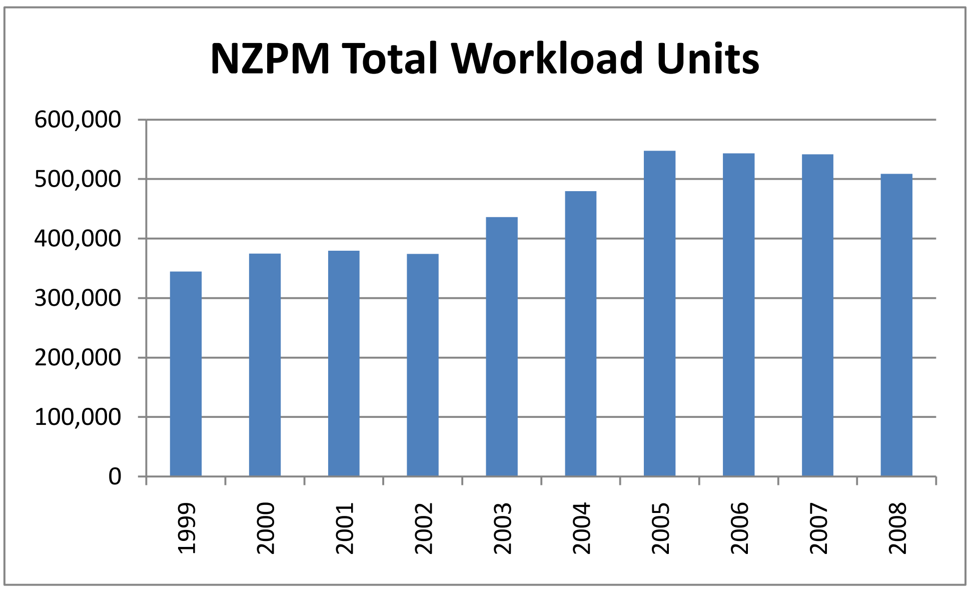


Figure 8.17

NZPM Employees

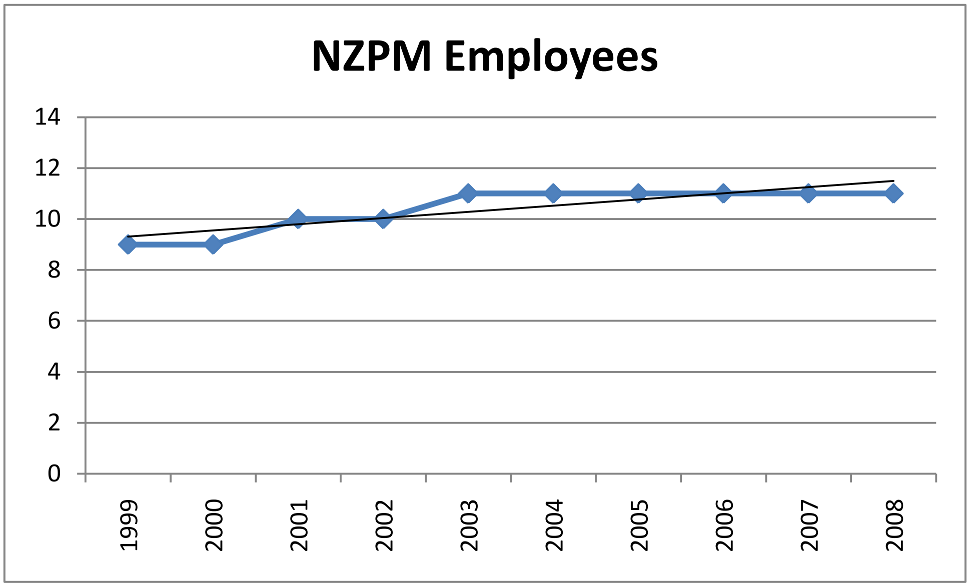


Figure 8.18

NZPM Workload Units per Employee

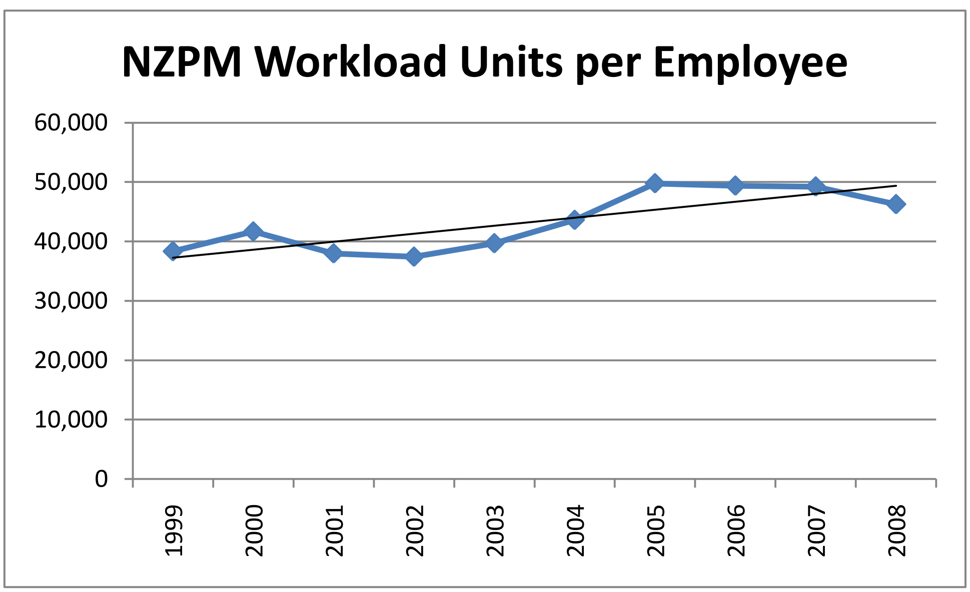
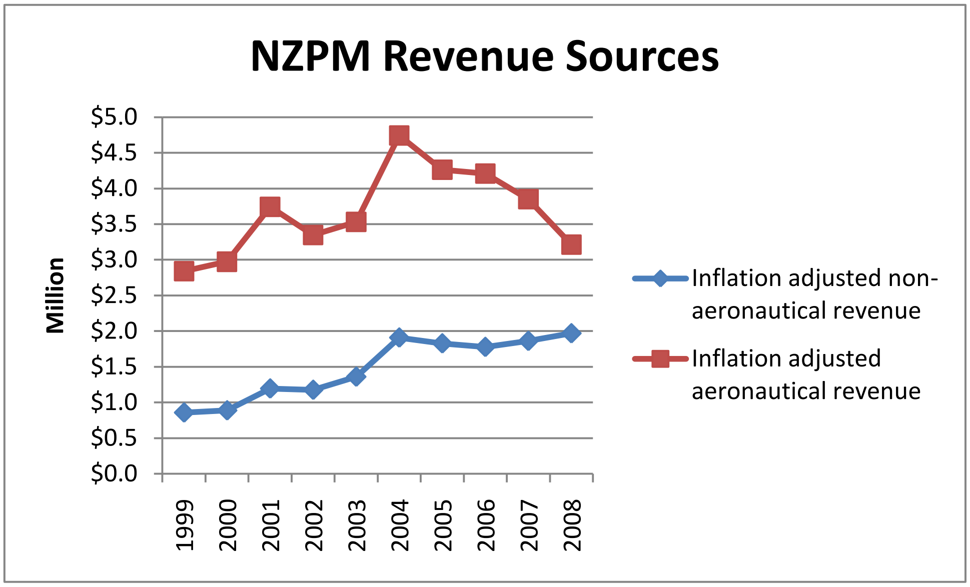


Figure 8.19

NZPM Revenue Sources



8.4.4 Financial performance for the first 19 years since corporatisation

As shown in Figure 8.20 revenue at Palmerston North Airport has increased steadily to peak in the financial year ending 2004. Since then it has declined steadily. Expenses increased until reaching a peak in year ending 2001. Since then they have trended downwards and remained markedly less than revenue suggesting prudent financial management.

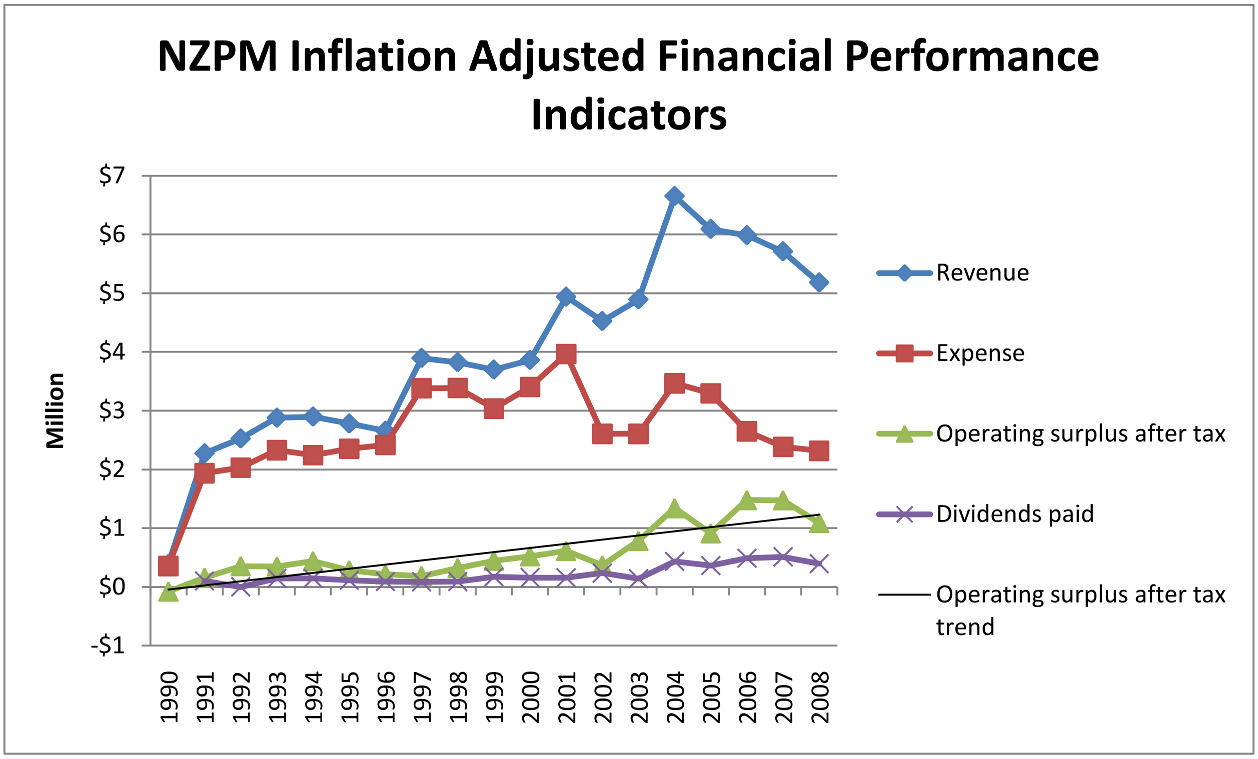
The operating surplus after taxation has increased over time to peak in the financial year ending 2007. It then reduced for the financial year ending 2008. The overall trend for the 19 year period has been positive.

Dividends have been paid each of the last 10 financial years, in line with company policy, and have averaged 33.8% of the sum of the operating surplus after income tax for the same 10 year period.

For the five financial years to 30 June 2008 Palmerston North Airport generated revenue of $30 million. This represents less than 1% of the total revenue for the seven airports in the study, and Palmerston North has the lowest total revenue for this five year period. For the same period expenses totalled 47.5% of total revenue and the operating surplus after taxation 21.4% of the total revenue. For the same period dividends of $2 million were paid out, which represents 7.4% of the total revenue for the same five years.

Figure 8.20

NZPM Inflation Adjusted Financial Performance Indicators



8.4.5 Analysis and discussion of annual reports

1990-1993

The first report produced by the company covered the financial period ending 31 March 1990 (two months) and the year ending 31 March 1991. The company had purchased the assets of the former joint venture entity on 31 January 1990 and began operating from that date. In the report the company recorded the introduction of a passenger departure charge of $3.00 and noted that this was the first such charge imposed at a New Zealand domestic airport. The stated purpose of the charge was to assist with funding the proposed new terminal. The company reported that it had entered into a contract with the Palmerston North City Council for the provision of management and administrative services. This unique arrangement was to remain in place until 2000 when the first CEO was appointed. As part of its mission statement, which was repeated in a number of annual reports, the company stated that its purpose was to "... create and promote the premiere New Zealand domestic airport company – By being a significant New Zealand transportation hub for the benefit of Palmerston North and environs; By striving to maximise return on shareholders' funds and company assets over a minimum five year period; By striving for excellence in the service which it provides" (p. 5).

For the period ending 31 March 1990 the operating surplus after tax was a loss of $52,000 and no dividend was declared. For the 12 month period ending 31 March 1991 the operating surplus after tax was reported as $110,000 and the directors recommended a maiden dividend of $72,000.

The 1992 report recorded that a tender had been let for a new terminal building for $1.9 million. It was also reported that the debt/equity ratio was higher than the company would have otherwise promoted. The board reported that it would reduce this ratio via retained earnings over the next few years, and that consequently no dividend was recommended for this year. The company reported that it had issued a further ordinary 5,800,000 shares that were paid to 0.11 cents.

The 1993 report recorded the opening of the new terminal building. It also recorded the introduction of parking charges at $1.00 per car. The company reported that the landing charges had remained unchanged since July 1989.

The operating surplus after taxation was reported as being $253,000 and the directors proposed dividends of $106,000.

1994-1998

The 1994 report recorded steady growth in passenger numbers, an increase in light aircraft movements of 33% since 1990, and that further growth would occur when the Massey University pilot training facility opened. An increase in domestic air freight was also recorded. The landing charges were again reported as unchanged since 1989 but it was noted that "[t]hese still form a sound commercial basis upon which to conduct the company's primary business" (p. 3).

The company reported that the operating surplus after taxation was $324,000 and that because debt had been reduced the directors were recommending the payment of dividends of $106,000.

The 1995 report recorded a reduction in passenger throughput as a consequence of Air New Zealand replacing B737 aircraft with smaller aircraft. It was also reported that freight movements had increased, and that a new air freight building had been opened for Ansett New Zealand Airfreight, and a freight complex opened for Parcel Line.

The company reported an operating surplus after taxation of $211,000 and recommended that dividends of $84,000 be paid.

In the 1996 report the company recorded that research had been undertaken on the opportunities associated with trans-Tasman services and that these services would commence in April 1996. Concern was expressed about the inequity of the application of border charges between the three longstanding international airports and the newer regional international airports. It was reported that this inequity would be pursued by the company.

The operating surplus after taxation was reported as being $167,000 with the directors recommending that dividends of $70,000 be paid.

The 1997 report recorded that the first year of trans-Tasman operations from the airport to Australia had been successful. Freedom Air Limited, an Air New Zealand owned company, had commenced these operations on 29 April 1996, establishing it as the fifth New Zealand airport with scheduled international services.

It recorded that the company was faced with capital intensive expenditure to fully develop trans-Tasman services. These costs included extending the operating length of the main runway and upgrading the terminal. The company reported an operating surplus after taxation of $140,000 and recommended that dividends of $70,000 be paid, representing 47% of the after tax profit.

The 1998 report records that the main runway had been lengthened to enable direct flights from Palmerston North to Australia. Construction had commenced in January and the project was due for completion April 1998, extending the runway from 1522 metres to 1902 metres. It was also reported that a decision had been made to change the name of the airport to Palmerston North International Airport, "… better reflecting its place in the aviation network and reinforcing the company's view of it being the gateway to the Lower North Island" (p. 1). The chairman reported that the selective cost recovery for border services at provincial airports continued to be of concern, and that airports such as Hamilton and Palmerston North were being treated differently by government agencies than those at Auckland, Wellington and Christchurch, in that they were expected to meet the full cost of these services.

The directors recommended that dividends of 27.7% of the after tax profit of $259,000 be paid, totalling $72,000.

1999-2003

The 1999 report records that direct trans-Tasman scheduled services had begun the previous June following completion of the runway extension. Growth had occurred in domestic operations in terms of number of flights and numbers of passengers. Origin Pacific Limited had commenced domestic services from January 1999. It was recorded that the company was active in promoting the use of the airport for aviation related businesses for the lower half of the North Island, including being a central location for a freight distribution centre, and to provide a hub to consolidate regional airline passengers. The latter has not occurred.

It reported that on 29 October 1998 the government had sold its minority shareholding in the airport company to Central Avion Holdings Limited, and that a director of that company had joined the board. The government also sold its shareholding in two other major airports, Auckland and Rotorua, in the same year.

Concern was expressed that regional international airports were still being singled out by government to meet border control costs but it was considered that Palmerston North "... remains competitive and commercially viable, a recipe for long term success" (p. 4).

The directors recommended dividends for the year of 39% of the after tax profit of $366,000, being $141,000.

The 2000 report recorded that it was 10 years since the company had been incorporated. Highlights of the first decade were reported as: the construction of a new terminal; the main runway extension to 1900 metres; and the establishment of the Massey University School of Aviation. It was reported that the directors were confident that the investment in infrastructure would provide an economical platform for the development of transport services in the lower half of the North Island.

It was reported that border control expenses were being charged to the airport by government agencies on a full cost recovery basis. The company was awaiting the outcome of a judicial review of these charges, sought in conjunction with Hamilton Airport and Freedom Air.

Directors recommended payment of dividends for the year of 30% of profit after tax of $426,000, being $129,000.

The 2001 report records a successful year despite a number of setbacks and challenges. The major achievement reported was the completion of the new terminal which had been opened on 11 June 2000 by 12 mayors from the 22 districts served by the airport.

International operations were reported as having grown by 91% over the previous year but the collapse of Qantas New Zealand on 21 April reported (post balance date) had required that provision be made for potential bad debts.

The chairman reported a focus on developing the airport as the international gateway for the lower half of the North Island, with Australia as the principal market to develop. The chairman further stated "[t]he company sees a link between the regional economy and the future growth opportunities of the airport. Continuing progress on a multi-transport mode freight facility in the vicinity of the airport will underpin the development of not only freight services, but a more competitive environment for all freight distribution for the lower North Island" (p. 3). While the airport has developed as a freight hub for domestic air freight Statistics New Zealand data shows no development of inward or outward international freight over the 10 years ending 2008.

The report records that the company had appointed its first CEO on16 October 2000, and that the appointee was in the process of establishing a management team.

The directors recommended payment of dividends of 40% of after tax profit of $510,000.

In the 2002 report the chairman reported that the previous year was challenging for businesses involved in aviation as a result of issues such as the financial collapse of Qantas New Zealand, September 11, and uncertainty around Air New Zealand's commercial position. As a consequence the chairman reported that the board has decided to consolidate and retain market share. The company was therefore not following the original capital plan and the raising of associated capital equity.

It was reported that the Court of Appeal 27 March 2002 had reversed the earlier decision, regarding border costs that had been in favour of the company. The company had decided to join Waikato Regional Airport and Freedom Air Limited in appealing this decision to the Privy Council.

FreightGate Limited was reported as having been established by the airport company during the reporting year and trademark protected in both New Zealand and Australia. The company had been working with several parties on projects that support the concept of the inland port freight hub. The CEO reported his vision for the airport as being "[t]he Company is striving to develop Palmerston North International airport as a leading New Zealand and international transport hub" (p. 6).

The directors recommended that dividends of 40% of after tax profit of $316,000 be paid. Dividends of $202,000 were paid.

In the 2003 report it was recorded that each key performance indicator in the statement of intent had been exceeded. Revenue growth was reported across all sectors, with the greatest growth in non-aeronautical revenue.

The report recorded that a decision was expected from the Privy Council on border control costs, the case having been heard 29-30 April 2003.

The company reported continuing to plan for a major multi mode transport freight hub based at the airport. Two major freight handling facilities had been completed and a new access road developed.

The statement of intent for the coming year was reported as having been prepared on the basis of a high level business case for aeronautical developments from the strategic business plan, and that a detailed case would be presented to the shareholders during the coming year, including extension of the main runway up to 2100 metres and investment in other facilities.

The company reported that it has commenced a review of aeronautical pricing, and that it is intended that revised charges would come into effect on 1 July 2003. The directors recommended dividend payments of $122,000 from after tax profits of $693,000.

2004-2008

The 2004 report records that the balance date had changed to 30 June as a statutory requirement of the Local Government Act 2002 because of the Palmerston North City Council shareholding.

It was reported that the appeal to the Privy Council had been successful and that all international airports would be treated on the same basis in relation to border costs. As a consequence of this decision the airport reported having received a refund of some earlier charges that had been paid.

Also recorded was that total passenger numbers had increased during the reporting year. Total revenue was reported up 10.4% on the previous year, with the greatest increase in non-aeronautical revenue which had increased by 17.4%. The board recommended further investment to the shareholders to ensure that the company has the capital capacity and commercial freedom to undertake further airport developments.

It was recorded that aeronautical charges had been reviewed and new charges implemented with effect from 1 August 2003. In addition the departure tax charged had been increased from $3.00 to $5.00 per person, being a major source of revenue for this airport company.

The directors recommended dividends of approximately 40% of after tax profit of $1.201 million (15 month period) be paid, being $387,000.

The 2005 report records growth in all aspects of the company’s business. Passenger numbers were reported as being up 14.2% on the previous year, revenue 17% on the last year, including a 23% increase in non-aeronautical revenue.

It was recorded that the government had concluded a review of border agency charges and intended to implement a common system across all seven international airports, with the government meeting 50% of the costs and the airport companies the other 50%. The company reported that its international charges would be reviewed to reflect this new environment.

Shareholder funds were reported as increased by $1.1 million from a call on the partly paid shares. It was stated that this money would be used to protect the existing business by the provision of runway end safety areas. Also reported was that during the forthcoming year a further $2 million of shareholder equity would be raised together with further borrowing.

The profit after taxation was reported as being $837,000 and the directors had recommended dividend payments of $334,000

The 2005 report recorded that a claim by Central Avion Holdings Limited, the minority shareholder, regarding the capital structure of the company and distributions, and the status of a transaction, was currently before the court with hearings scheduled for September 2005.

The directors recommended that dividends of approximately 40% of after tax profit of $837,000 be paid. Dividends totalling $334,000 were paid.

The 2006 report recorded what the chairman and CEO considered to have been another successful year. It was reported that the company had made an increased surplus; domestic passengers were down 1.4% but international passengers were up 2.2%. Total revenue was reported as up 1% (non-aeronautical up 13% and is now 33% of total).

Ten years of international services, since 26 April 1996, were celebrated in conjunction with Freedom Air Limited, the only supplier of international services to the airport.

The report records that the High Court had dismissed the claim by Central Avion Holdings Limited and found no fault by the airport company or its directors.

To fund the further development of the airport the company made a call on partly paid shares during the year "[i]n anticipation of advancing the first stage of the development to construct runway end safety areas, a further 35 cents of the 5,800,000 partly paid shares on issue was called on 30 September 2005, leaving 30 cents remaining uncalled at this time" (p. 9).

The directors recommended dividend payments of $459,000 from the increased after tax profit of $1.395 million.

The 2007 report records that since 30 November 2006 all shares in the airport had been owned by the Palmerston North City Council. This was a consequence of the council purchasing the shares of the previous minority shareholder, Central Avion Holdings Limited, and returning this airport to 100% public ownership.

Overall passenger numbers were reported as similar to the previous financial year with domestic up 1.9% and international down 11.1%. The company reported disappointment with the reduction by 15% of the international seats available. Origin Pacific was reported as having collapsed as a domestic airline 10 August 2006 leaving the airport with a bad debt of $67,000.

The report records that all land, except one property, had now been purchased to allow the runway to be extended to 2500 metres, and that this planned extension would proceed when it could be commercially justified.

The company reported that the after tax surplus was up despite a decrease in revenue of 0.8% over the previous year. The directors recommended dividend payments of $502,000 from an after tax profit of $1.448 million.

The 2008 report records that net profit of $1.1 million was down 25% on the previous year. This was recorded as satisfactory considering the challenges faced by the company during the year, including the decision by Air New Zealand to withdraw Freedom Air services from 30 March 2008. This meant that there were no international air services from the airport post 30 March 2008. It was reported that the Australian based Ozjet had planned to replace the Sydney and Brisbane services but this had not as yet eventuated. The company reported that it believes that there is a market for trans-Tasman airline services centred on Palmerston North, and that this would ultimately be provided by another airline.

The report records that capital projects were reviewed and that 74% of planned capital work of $3.7 million had been deferred. The company reported that it is working with the City Council to rezone land to allow a rail line to be extended to the airport, which will also link neighbouring industrial land, to the “main trunk” railway line. This development supports the objectives of the company to become a major freight hub although its relationship with air freight opportunities is unreported.

During the 2008 financial year the company increased its capital by “[t]he uncalled balance of 5,800,000 partly paid shares was called up during the year in anticipation of progress in the first stage of maintaining and developing runway capacity. Commencement of subsequent changes will be subject to the business case being updated and shareholder approval. All shares issued are now fully paid” (p. 5). It is not anticipated that further aviation related infrastructure developments will occur until there is a strong prospect of an airline prepared to reintroduce international air services at Palmerston North.

The directors recommended dividend payments of $395,000 from an after taxation surplus of $1.09 million.

8.4.6 Summary

Palmerston North was one of four new airports that commenced international operations during the period from 1994 to 1996. All international services were provided by Freedom Air Limited, a low cost carrier owned 100% by Air New Zealand that operated to various Australian cities and Pacific Island states. On 31 March 2008 Air New Zealand closed down Freedom Air and international air services ceased from this airport. Palmerston North Airport has tried to find another international airline to service the airport but has been unsuccessful to date.

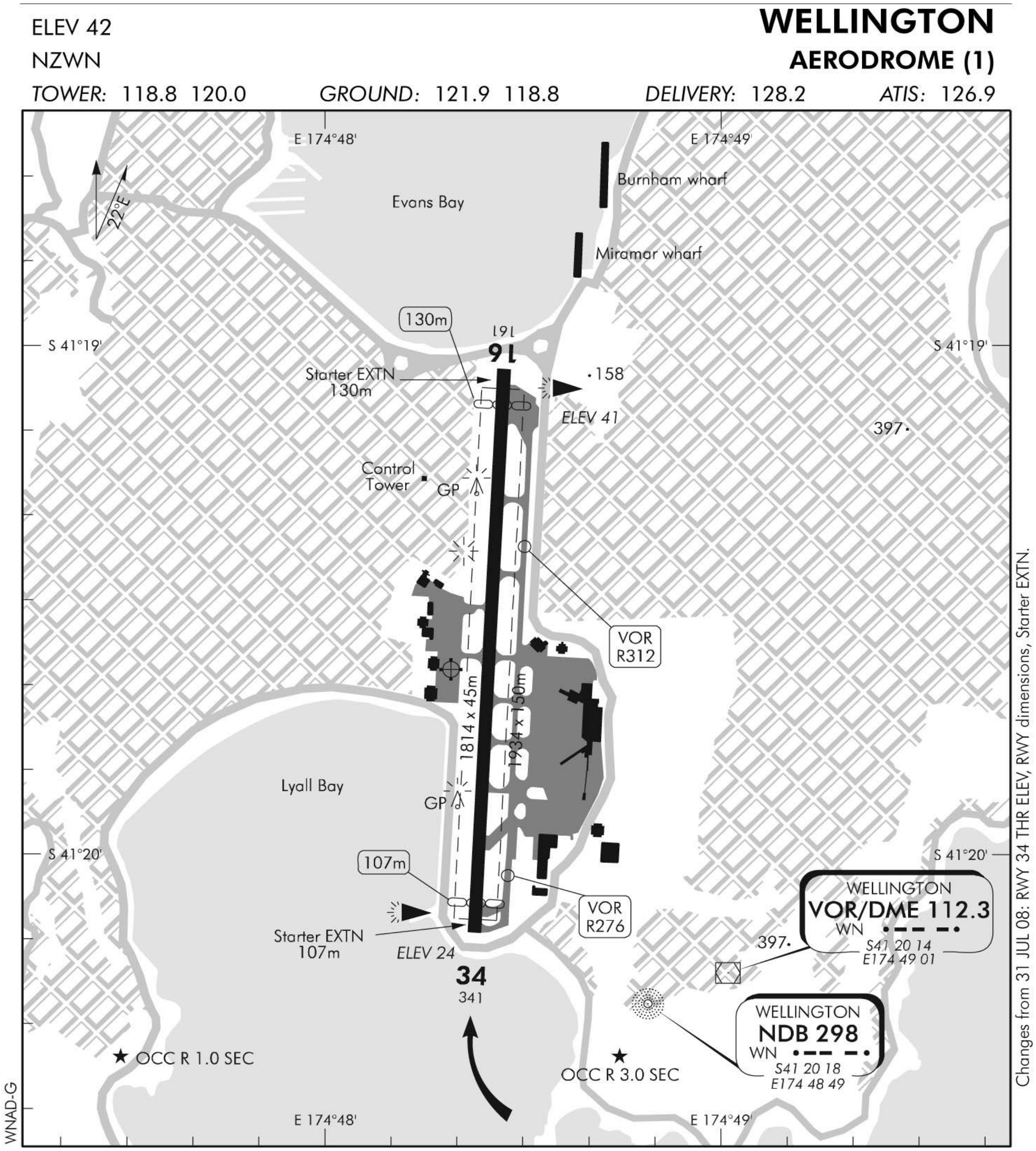
On a number of occasions it has been suggested in annual reports that Palmerston North has significant potential as a freight airport and a variety of studies have been commissioned. One potential threat to this occurring is the presence of a large military air force base some 20 kilometres to the northeast that has longer runways and no curfew. This air force base is currently an emergency alternative airport for large passenger aircraft operating scheduled services to Auckland and Christchurch and if it developed a greater level of joint military and civil operations could constitute a real threat to the future of Palmerston North Airport.

At the time of incorporation Palmerston North International Airport Limited was owned primarily by the Palmerston North City Council with the Crown as a minority shareholder. The Crown sold its shareholding to a private company in 1998. The Palmerston North City Council subsequently purchased this shareholding in 2006 to obtain 100% shareholding in the company, which it has retained since. The airport company made a small loss in the first year of operation but has been consistently profitable for each of the subsequent 18 years to that ending in 2008. The company has made dividend payments to shareholders in each year except the first and third year after incorporation.

8.5 Wellington Airport – Case Study

ICAO Code NZWN

NZWN Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Wellington
Accessed on 17 July, 2009

8.5.1 Brief history

As the original airport for Wellington city, the capital city of New Zealand, Wellington Airport proved to be inadequate from the end of WW2 to accommodate the types of aircraft that would be progressively introduced to service both domestic and international routes. That Wellington harbour had served as the principal international airport for Wellington for approximately 10 years post the end of WW2 resulted in delays in the decision to develop a significant airport for the capital city. Increasingly both domestic and some international services were provided for Wellington from Paraparumu Airport, a former military airport constructed during the course of WW2. The distance from Wellington to Paraparumu and geographical constraints on extending that airport meant that planning was initiated to completely rebuild the existing Wellington Airport. The airport was closed for reconstruction for a number of years and reopened as a completely new facility in 1959, with a main runway of 1935 metres. Wellington Airport has since operated as the principal domestic and international airport for Wellington city, and Paraparumu Airport became a bad weather diversionary airport and the home of general aviation in the greater Wellington area.

The available runway length at Wellington Airport has continued to constrain international operations from that city in terms of aircraft types that can operate safely and economically. A number of studies have explored the prospect of significantly extending the runway length but this has not happened except for a small southern extension to meet RESA requirements and a planned similar short extension to the north (Gillion, 1970; Scott, 1979).

8.5.2 Current ownership and governance/management structure

A former joint venture airport owned 66% by the Crown and 34% by the Wellington City Council, Wellington International Airport Limited was incorporated on 25 September 1990. On 1 December 1998 the Crown sold its 66% shareholding in the company to New Zealand Airports Limited (Infratil). The Wellington City Council retaining its 34% shareholding. There have been no changes to the ownership structure since 1 December 1998.

There are 40,155,942 fully paid shares as at year end 30 June 2008. All ordinary shares have equal voting rights and share equally in dividends and equity (Annual Report 2008).

The directors of the company at 30 June 2008 were a chairman and four other directors. There are also two alternate directors. The company is managed by the CEO and a small senior management team.

8.5.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.21-8.26.

Domestic passenger numbers grew each year until year ending 2005. There was a slight reduction in year ending 2006 but subsequent growth achieved. International passenger numbers were relatively flat for each of the six years until year ending 2004. They jumped approximately 100,000 for years ending 2005-2007, and increased again in the year ending 2008.

In contrast with passenger numbers, international air cargo at Wellington Airport has declined each year and by the end of this 10 year period was only some 14.5% of what it had been at the start. A reducing but less steep decline is also evident at Christchurch Airport while total air freight has continued to trend upwards in Auckland, which increasingly dominates the New Zealand international air freight market.

Despite the reduction in air freight, total workload units produced grew each year until year ending 2005. There was a slight decrease in year ending 2006 and a subsequent increase in each of the following years.

Employee numbers decreased quite quickly for the first three years of the 10 year period, were held at that level for the next three years, and have subsequently increased each year. Workload units per employee increased as employee numbers were reduced over the first three years of the period. Efficiency increased over each of the subsequent three years to peak in year ending 2005. It has reduced slightly over the following three years demonstrating a decreasing efficiency in terms of the utilisation of human resources.

This airport company is unusual in that it still derives slightly more of its income from aeronautical revenue than non-aeronautical revenue. The relationship of aeronautical revenue to non-aeronautical revenue has, however, decreased from 68.9% in year ending 1999 to 50.5% in year ending 2008. This is the largest decrease over the 10 year period of any airport and represents a move away from excessive reliance on aeronautical revenue streams.

Figure 8.21

NZWN Total Passengers

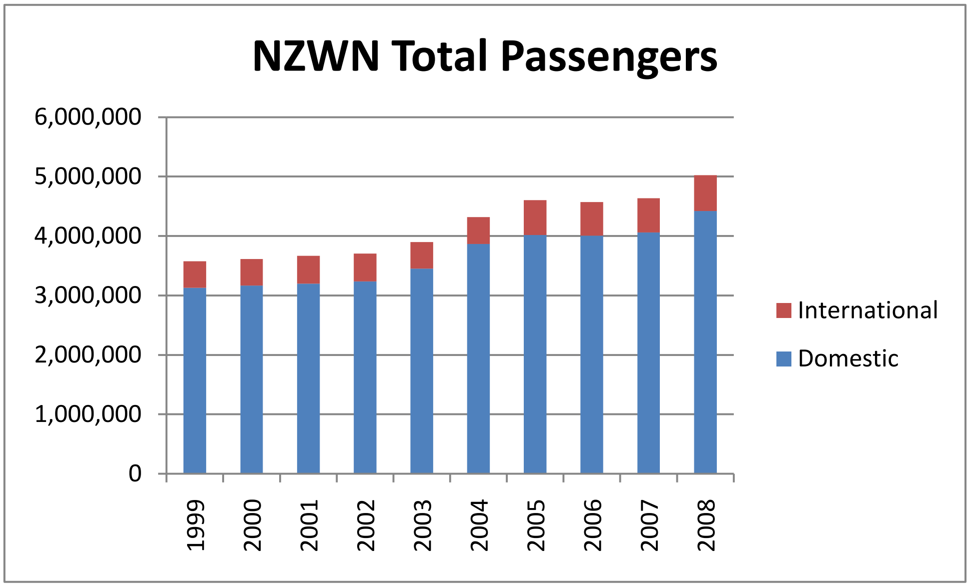


Figure 8.22

NZWN Total Airfreight (Tonnes)

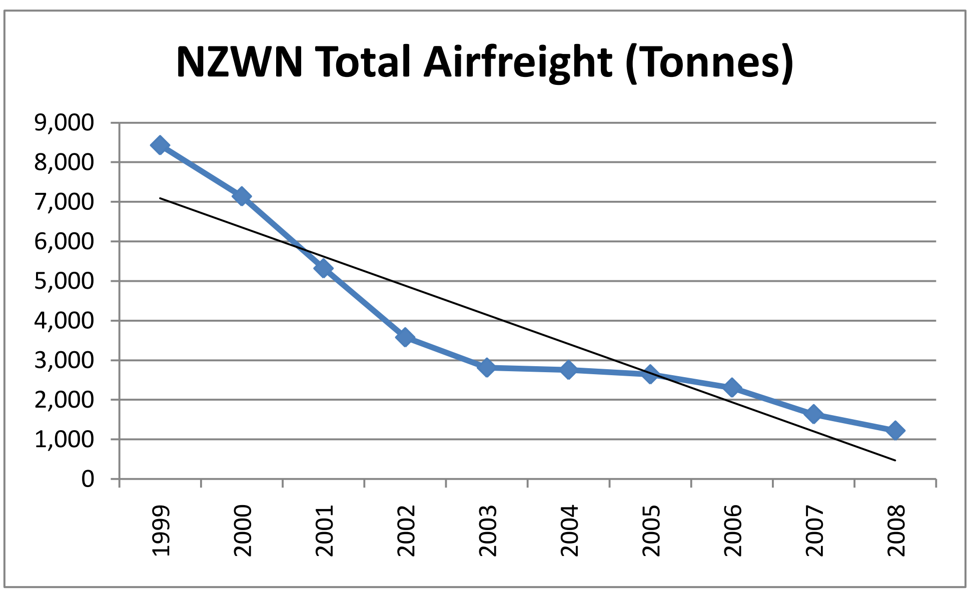


Figure 8.23

NZWN Total Workload Units

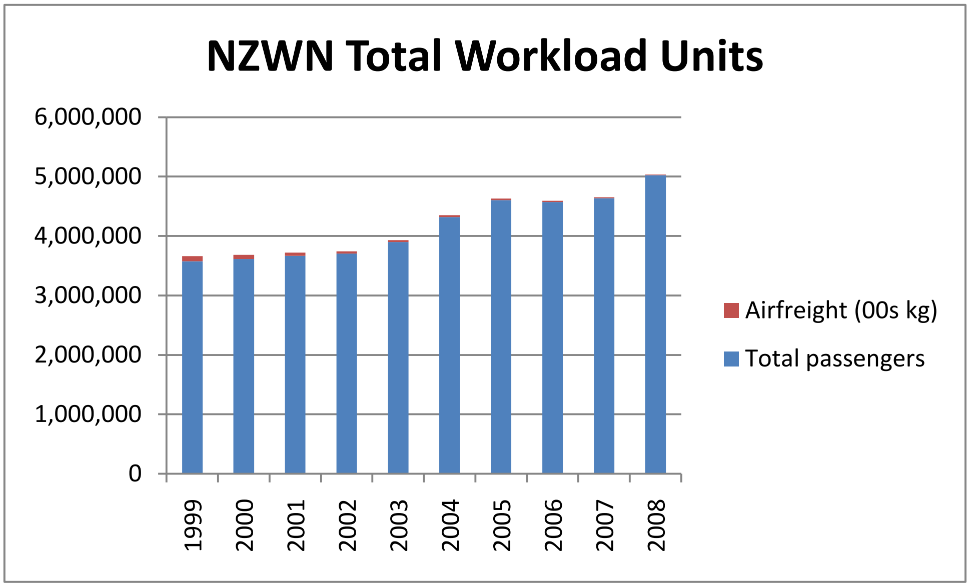


Figure 8.24

NZWN Employees

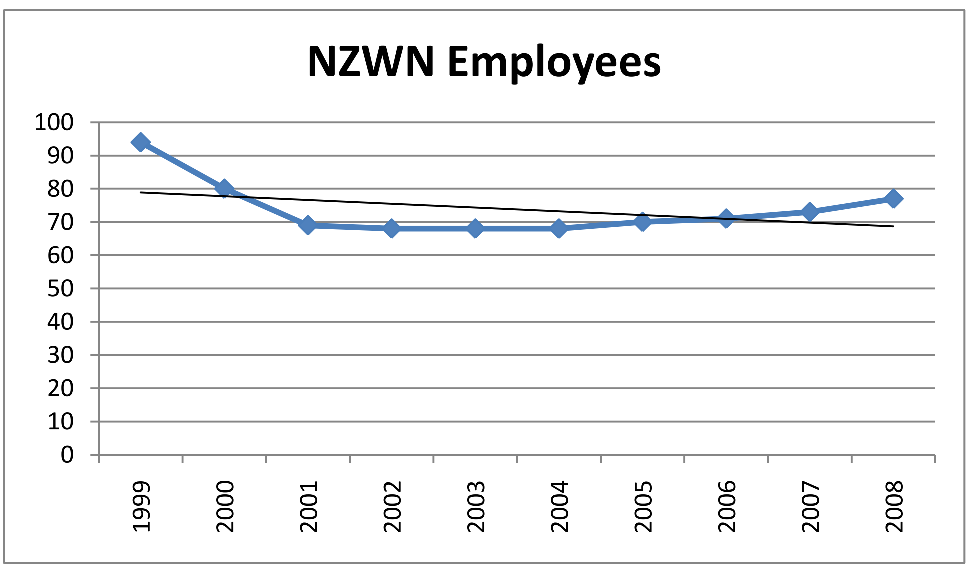


Figure 8.25

NZWN Workload Units per Employee

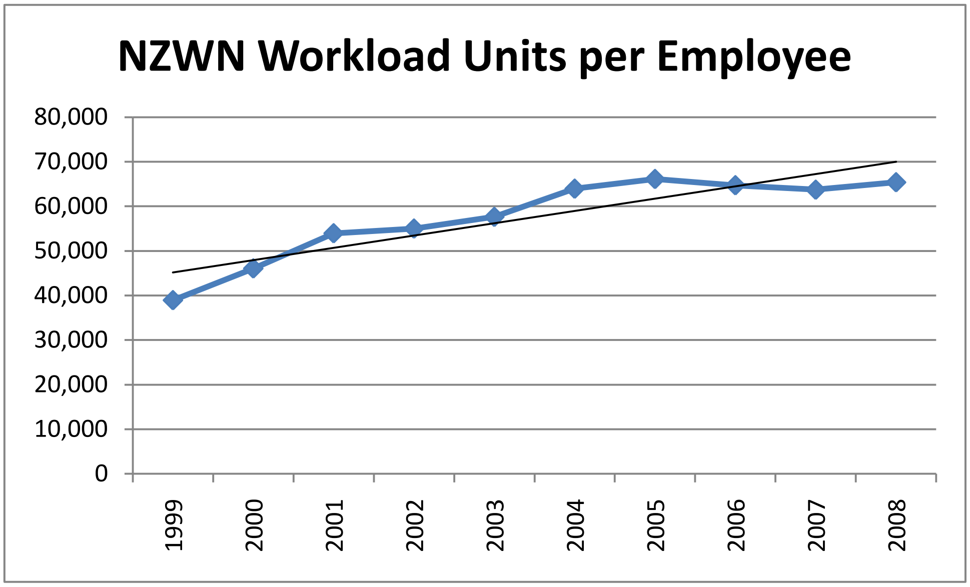
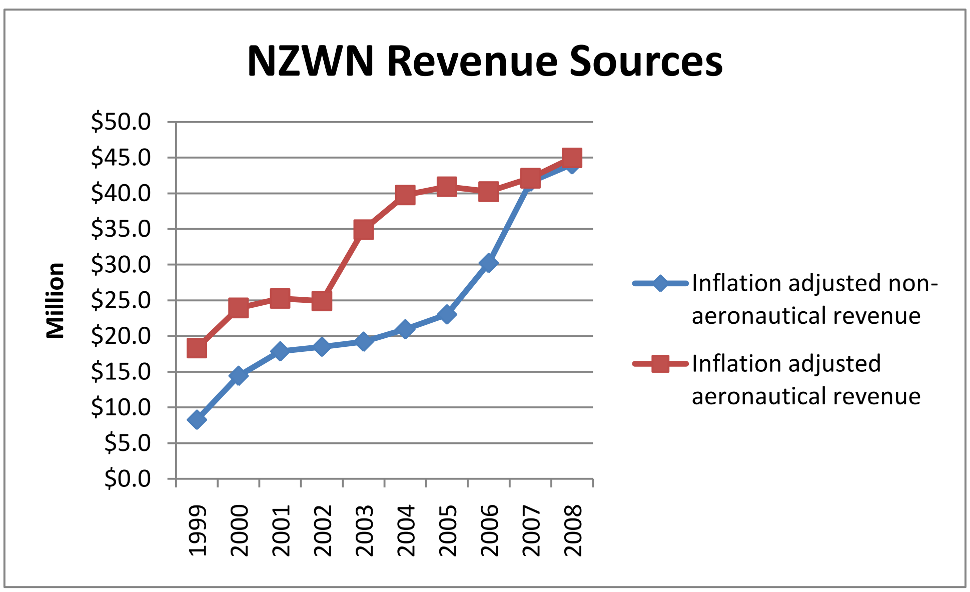


Figure 8.26

NZWN Revenue Sources



8.5.4 Financial performance for the first 18 years since corporatisation.

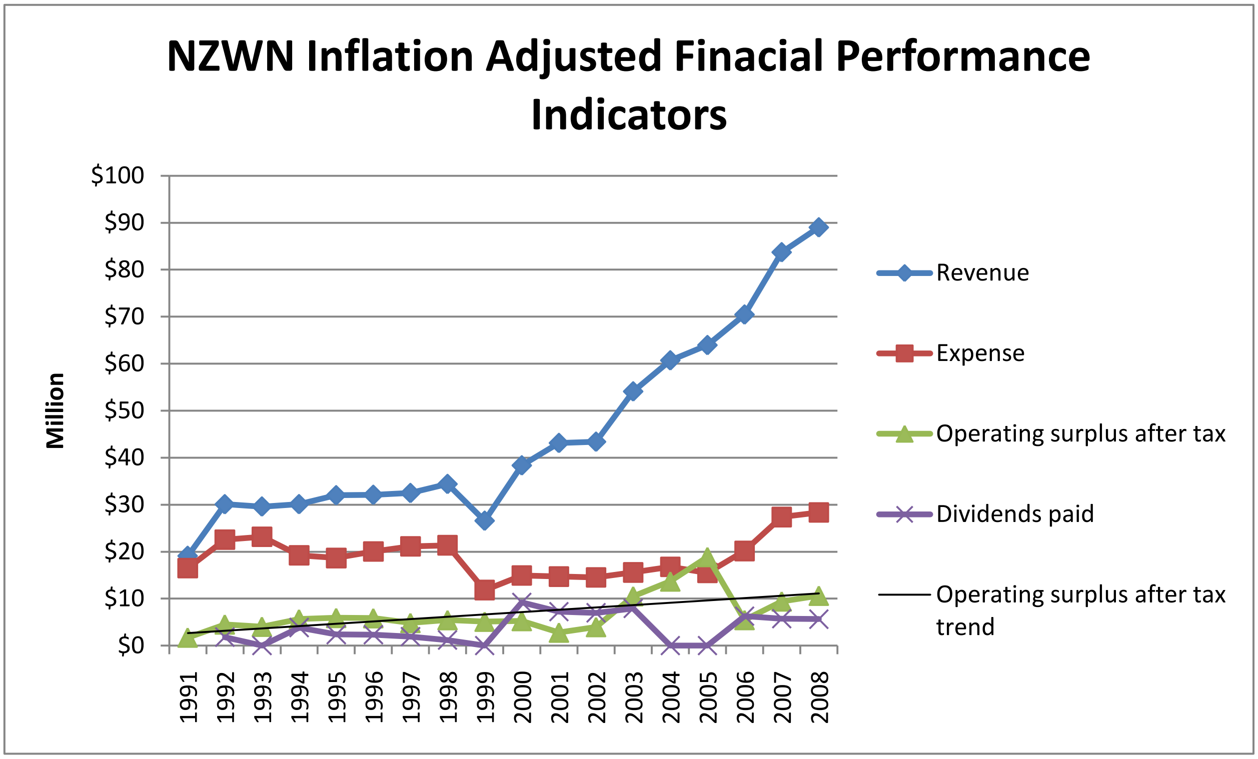
As shown in Figure 8.27 revenue at Wellington Airport has increased each year, except for a dip in year ending 1999, and has shown strong growth over the last 10 years until that ending 2008. By way of contrast expenses were fairly stable until decreasing in year ending 1999. For six subsequent years they were less than those for the first eight years after corporatisation and while increasing from 2005 onwards have done so at a rate significantly less than the increase in revenues for the same period.

The operating surplus after tax increased to a peak in the financial year ending 2005. The following year it declined sharply and by the financial year end 2008 had not recovered to the total for the financial year ending 2005. The overall trend for this measure is positive. Dividends have been paid in seven of the past 10 financial years and constitute 55.9% of the sum of the operating surplus after tax for the same period. This is less as a percentage than that paid by Auckland, which is the only other major airport with significant private sector ownership.

For the last five financial years Wellington Airport has generated revenue of $351.0 million. This represents 14.6% of the total revenue for the seven airports in the study. For the same period expenses totalled 29.5% of total revenue and the operating surplus after taxation 15.6% of the total revenue. For the same period dividends of $17 million were paid out, which represents 4.9% of the total revenue for the same five years and 3.0% of the total dividends paid by the seven airports.

Figure 8.27

NZWN Inflation Adjusted Financial Performance Indicators



8.5.5 Analysis and discussion of annual reports

1991-1993

The 1991 report was the first for the new company which had been incorporated 25 September 1990. The company reported an operating surplus after taxation of $1.2 million but the directors recommended that no dividend be paid.

The 1992 report was not able to be supplied by the company. From the 2003 annual report it is noted that the operating surplus after taxation was $3.3 million and that the company paid a maiden dividend of $1.3 million.

The 1993 report recorded that an operating surplus after taxation of $2.9 million had been achieved but that the directors recommended that no dividend was paid due to the uncertain time scale regarding litigation before the court in respect of airport landing charges.

1994-1998

In the report for 1994 the company reported that it had established a policy of paying 40% of its after tax profits for the years 1994-1998. The report recorded the successful resolution of the dispute over landing charges.

The company reported an operating surplus after taxation of $4.2 million and paid dividends totalling $2.8 million. An early dividend of $1.2 million had been distributed in December 1993 when the landing charges dispute had been resolved.

The 1995 report records an operating surplus after taxation of $4.4 million and dividend payments of $1.8 million in line with the statement of intent for the period. Equity at the end of the financial year exceeded $100 million for the first time after a revaluation of the assets of the company by $25.9 million.

The 1996 report recorded an operating surplus after taxation of $4.6 million and the directors recommended dividends of $1.8 million.

The 1997 report records an operating surplus after taxation of $3.9 million and the directors recommended payment of dividends totalling $1.5 million.

The 1998 report includes the announcement of the New Zealand Government decision of 14 August 1998 to sell its 66% shareholding for $96.36 million to New Zealand Airports Limited (Infratil). Wellington City Council was reported as being committed to retaining its existing 34% shareholding in the company.

The report records that a major airport terminal redevelopment was on track to be completed by mid-2000. Agreement with airlines had reportedly been reached for supplying airport facilities and services for the five year period until 30 June 2002. As part of this accord Air New Zealand Limited discontinued its High Court proceedings on a claim that it was entitled to land at the airport and to build its own terminal and associated facilities.

Statements were made in the report regarding potential financial disclosure regulations and the forthcoming Commerce Commission price control study of the three largest New Zealand airports. Concern was expressed that any economic regulation of airport companies needed to be fair and with reasonable compliance costs as "[t]his is crucial if investment in New Zealand airports is to be sufficient to ensure their international competitiveness" (p. 5). The importance of tourism was also recognised in the report along with the need for the airport to be involved in the broader economic development of the region.

The operating surplus after taxation was reported as being $4.4 million and the recommended dividend payments were $961,000.

1999-2003

The 1999 report records that on 1 December 1998 the Crown had sold its 66% shareholding in Wellington Airport to New Zealand Airports Limited (Infratil). The company balance date was changed to 31 March, from 30 June, to align with the parent company, and consequently this annual report was for a nine month period.

The operating surplus after taxation for this nine month period was reported as being $4.2 million and no dividend was declared.

The 2000 report records an operating surplus after taxation of $4.3 million and that a special dividend was paid on 30 September 1999 of $7.5 million. A further $47.5 million was spent on the repurchase of shares and therefore total distributions to the shareholders for the period totalled $55.0 million.

The 2001 report records a loss of $695,000 in bad debts due to Tasman Pacific Airlines of New Zealand Limited (Ansett New Zealand) being placed into receivership 20 April 2001. The directors reported being confident that other airlines would enter the New Zealand domestic airline market.

The operating surplus after taxation for the period totalled $2.3 million and dividends totalling $6.0 million were paid to shareholders. This was the second year that retained earnings were in a deficit position at $3.7 million for the year.

In the 2002 report the costs of both the Commerce Commission price control study and related costs of consulting with airlines was recorded as totalling $1.5 million for the financial year. For the previous year it had been reported as $539,000.

The operating surplus after taxation was reported as being $3.4 million and dividends of $6.0 million were paid. Retained earnings for the year were negative $2.6 million.

The 2003 report again noted the significant costs associated with the Commerce Commission price control study and airline consultation costs as totalling $1.9 million. It was reported that the Commission had submitted its report to the minister in August 2002, and that it did not recommend price control be instigated at Wellington Airport.

It was also reported that consultation with substantial customers regarding new terminal and landing charges had been completed in February 2003, and that the new charges were to apply retrospectively from 1 July of the previous year.

The operating surplus after taxation was reported as being $9.3 million and dividend payments of $7.0 million were paid to shareholders. After three previous years of a deficit in retained earnings, for the 2003 financial year they were reported as being positive at $2.3 million.

2004-2008

The 2004 report recorded that the airport and Air New Zealand had settled a dispute concerning the new landing charges in effect from 5 February 2003, and that all outstanding amounts had been paid by the airline.

The report records that in May 2003 the Minister of Commerce had announced that price control was not justified at Wellington Airport, or the other two airports that form part of the study, Auckland and Christchurch. The Commerce Commission Price Study and airline consultation costs were recorded as being $1.7 million for the financial year.

The operating surplus after taxation was $12.3 million and no dividend payments were paid for the financial year.

The 2005 report records that revenue was up and that expenses were down. The operating surplus after taxation of $17.3 million was reported as being carried forward to mean total retained earnings totalling $44.9 million were held as at 31 March 2005.

The directors recommended that no dividends be paid. A subvention payment of $6.1 million had reduced the income tax payable to $1.9 million from the liability of $6.350 million on the operating surplus before taxation.

The 2006 report recorded that domestic movements were down and that international movements were static.

It was reported that revenue was up but that costs were also increasing. The operating surplus after taxation was reported as being down significantly at $5.2 million and dividends of $5.9 million were paid to the Wellington City Council. A subvention payment of $19.4 million was paid to Infratil relating to the year ending 31 March 2005.

The 2007 report records that the international flight numbers were down but the total numbers of passengers had increased. Domestic flights numbers were reported as greater than the previous year and total domestic passenger numbers had similarly increased.

Both revenue and expenses were reported as having increased over the previous year. The surplus after taxation was reported as being $5.5 million and dividends of $5.6 million were paid to the Wellington City Council. Subvention payments of $19.4 million were paid to Infratil.

The 2008 report records that both domestic and international passenger numbers were up despite both domestic and international aircraft movements being down, suggesting that larger aircraft were being deployed by the airlines.

Both revenue and expenses were recorded as being up on the previous year. The operating surplus after taxation was reported as being $10.6 million. Dividends of $5.6 million were paid to the Wellington City Council and subvention payments of $18.7 million were made to Infratil.

8.5.6 Summary

Wellington is the capital city of New Zealand and has increasingly positioned itself as a tourism destination. Over time the major limiting factor at Wellington Airport has been geographical constraints that have limited runway length and consequently the type of aircraft that can operate into that city. Managers at Wellington Airport see the development of aircraft such as the Boeing 787 as overcoming some of these obstacles in future as they will have the capability to operate direct from Wellington Airport to destinations in the USA and Asia.

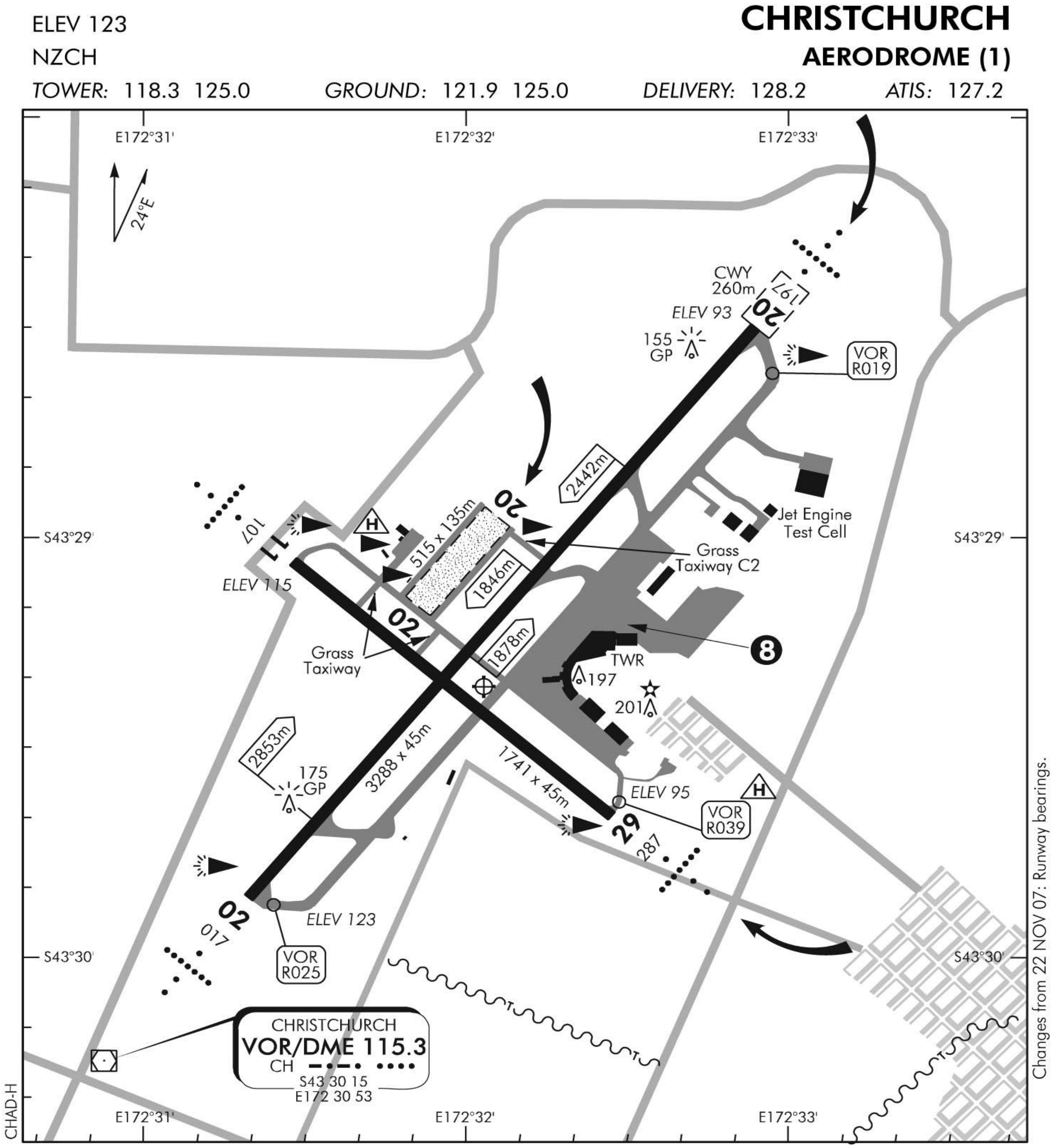
Over many years Wellington has retained its position as a major domestic hub within New Zealand and the third largest international airport. A threat to some international services by Palmerston North Airport, 120 kilometres to the north has abated since 31 March 2008 when international services to that city ceased and show no immediate prospects of recommencing.

At the time of incorporation Wellington International Airport Limited was owned 66% by the Crown and 34% by the Wellington City Council. Since 1998 the 66% former Crown shareholding has been owned by Infratil Limited while the Wellington City Council has retained its shareholding. The company has been profitable each of the 18 years from incorporation to the financial year ending 2008. It has paid dividends for 13 of these 18 years. In addition it has made significant subvention payments to its two shareholders to offset tax losses by those entities in other trading activities.

8.6 Christchurch Airport – Case Study

ICAO Code NZCH

NZCH Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Christchurch
Accessed on 17 July, 2009

8.6.1 Brief history

Christchurch Airport has been located at its present site since prior to WW2. The site of the airport at Harewood had been chosen and development of a relatively sophisticated airport was underway prior to the advent of war, which subsequently restricted civil operations and meant that the newly developed airport was to fulfil a military role until 1945. The first airport in Christchurch, called Wigram at Sockburn, continued as a military aerodrome until it was closed some 20 years ago for military purposes, used more recently as a small general aviation airfield, and ceased to exist as an airport from 2008.

Development of Christchurch Airport progressed steadily after WW2. As the use of amphibious aircraft had never been considered viable for international services to Christchurch the developmental focus was on meeting the needs of land based aircraft, and in this regard a number of developments at Christchurch preceded similar capability being developed at either Auckland or Wellington.

A former joint venture airport Christchurch was owned 50% by the Crown and 50% by the Christchurch City Council at the time of incorporation. Christchurch International Airport Limited was formed 22 March 1988 and the new company commenced operation 1 April 1988. At the time the company was formed the New Zealand Government shareholding was reduced from 50% to 25% and the Christchurch City Council shareholding increased from 50% to 75%.

8.6.2 Current ownership and management/governance structure

Christchurch Airport is owned 75% by the Christchurch City Council and 25% by the New Zealand Government. The New Zealand Government shareholding is in two parts with the Minister of Transport holding 12.25% of the shares and the Minister of State Owned Enterprises the other 12.25%. There has been no change in this ownership arrangement since incorporation.

As at 30 June 2008 there were 57,600,000 fully paid ordinary shares. All the shares have equal voting rights and share equally as to dividends (Annual Report, 2008)

The board of Christchurch Airport is comprised of a chairman, a deputy chairman, and four other directors. The airport company is managed by a CEO and second tier managers comprising a general manager (Operations and Infrastructure), general manager (Human Resources), general manager (Business Services), general manager (Commercial Services and a Planning), general manager (Marketing and Business Development).

8.6.3 Output and efficiency measures

This section presents and discusses output and efficiency measures as shown in Figures 8.28-8.33.

At Christchurch Airport both domestic and international passenger numbers have increased over the 10 year period. By way of contrast recorded international air freight at this airport peaked in the year ending 2001 and has declined since. Despite the decline in air freight total workload units delivered by the airport have grown steadily over the 10 year period aside from a temporary decline in years 2005 and 2006.

The overall pattern is of increasing employee numbers, despite the number decreasing to its lowest levels in years 2001 and 2002. Workload units per employee have increased over the 10 year period demonstrating that efficient use is being made of human resources employed by the airport company.

Aeronautical revenue at this airport has reduced from 53.8% of total revenue in year ending 1999 to 47.4% in year ending 2008. The first year that non-aeronautical revenue exceeded aeronautical revenue was 2001, and non-aeronautical revenue has exceeded aeronautical revenue for five of the years since year ending 2000. This has occurred during a period of growth in total workload and can be seen as a consequence of efforts by the airport company to capitalise on other than traditional revenue forms.

Figure 8.28

NZCH Total Passengers

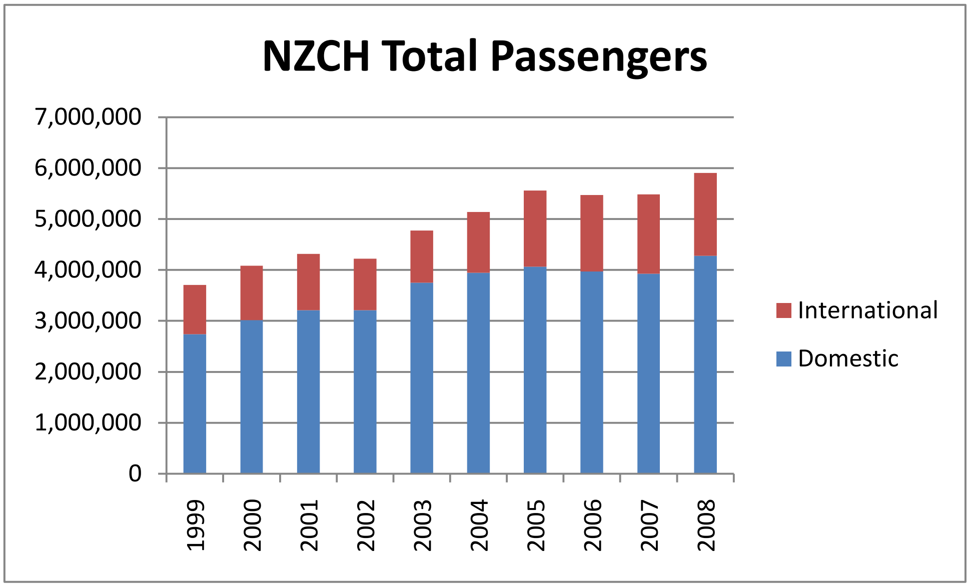


Figure 8.29

NZCH Total Airfreight (Tonnes)

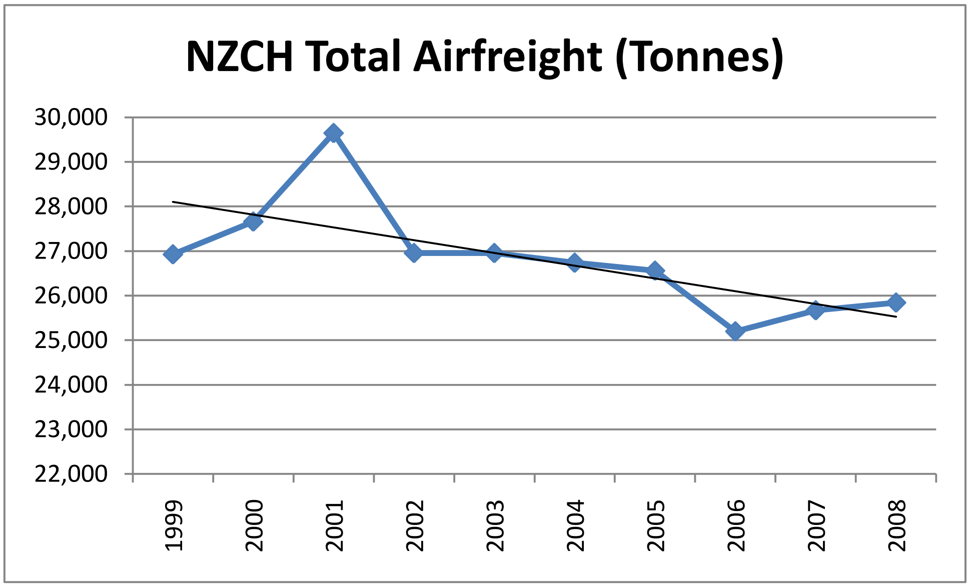


Figure 8.30

NZCH Total Workload Units

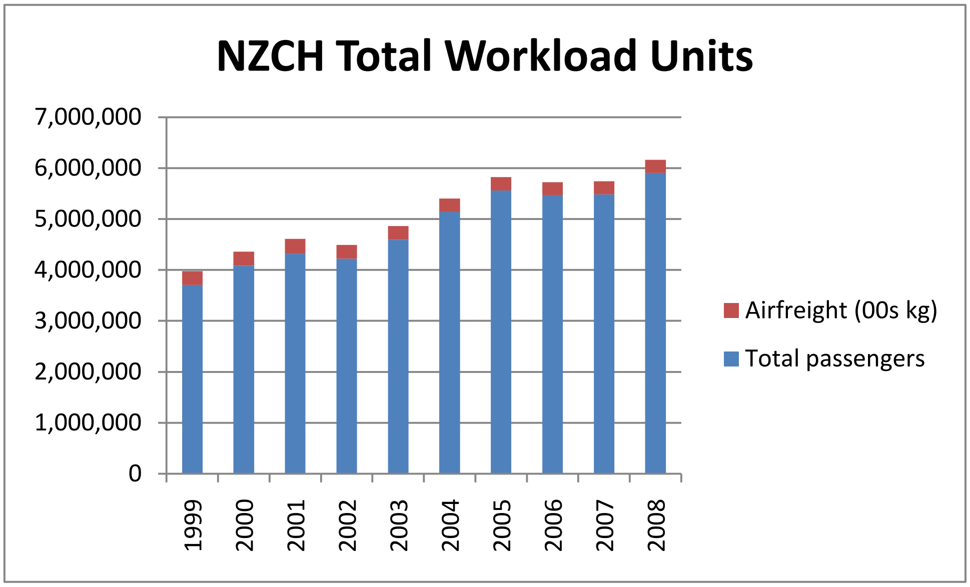


Figure 8.31

NZCH Employees

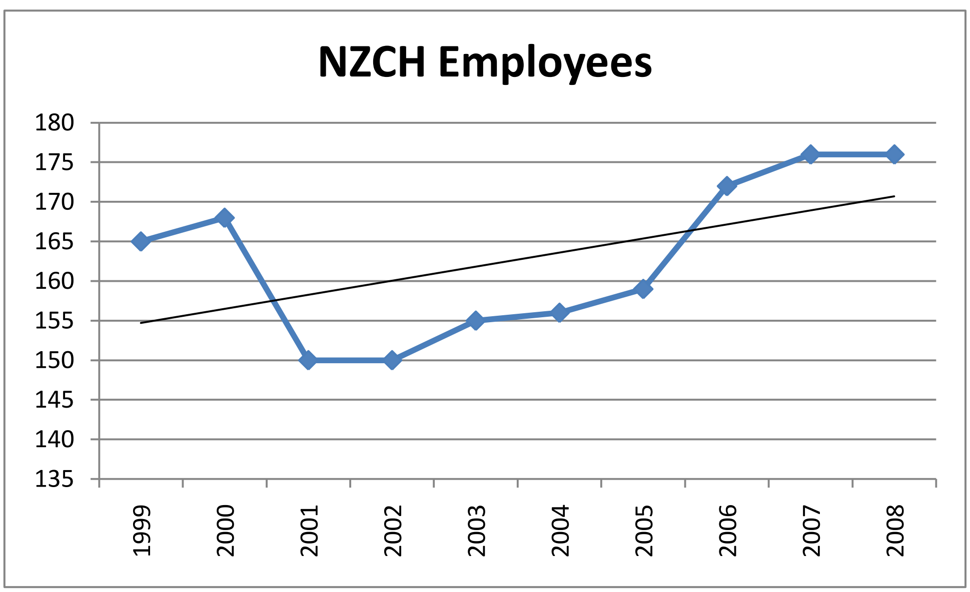


Figure 8.32

NZCH Workload Units per Employee

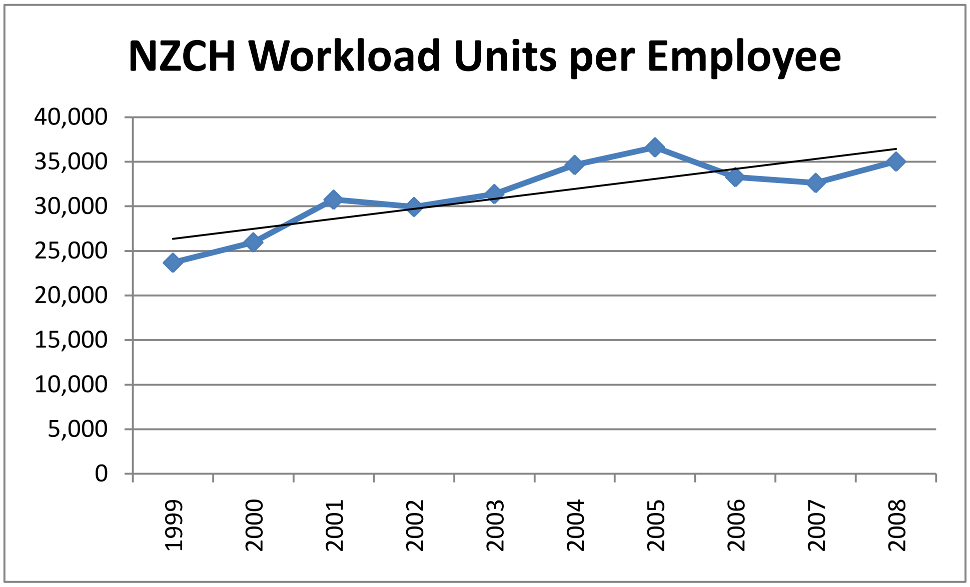
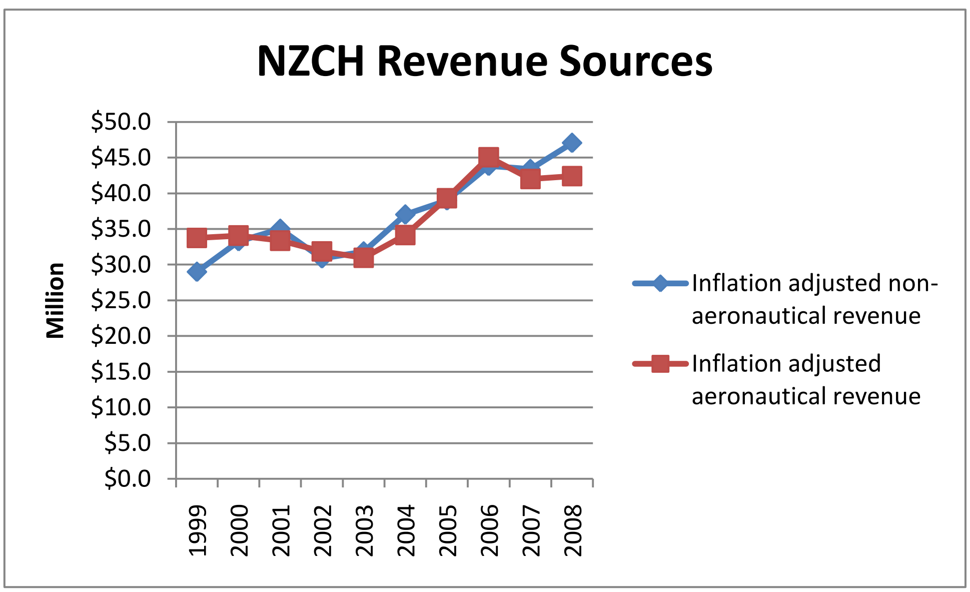


Figure 8.33

NZCH Revenue Sources



8.6.4 Financial performance for the first 20 years since corporatisation

As shown in Figure 8.34 revenue at Christchurch Airport has increased steadily over the 20 year period aside from reductions in financial years ending 1992, 2002 and 2007. Expenses have increased over the total period at a lesser rate than revenue which demonstrates successful commercial operation of the country's second largest airport.

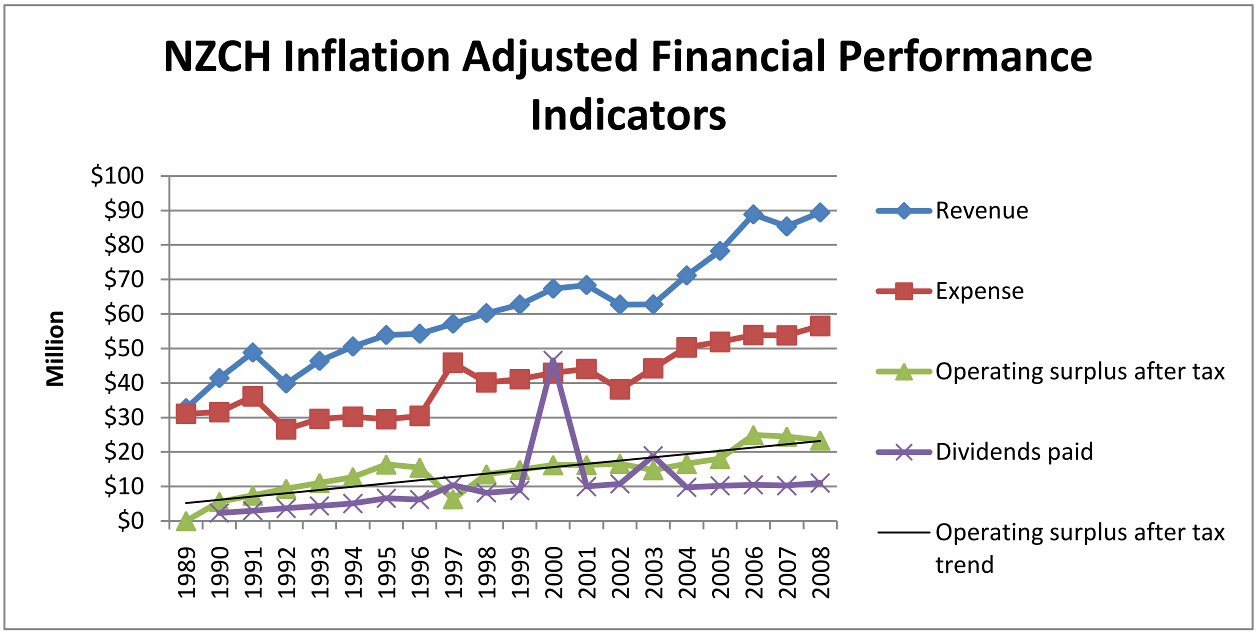
Operating surplus after income tax increased steadily to peak in the year ending 2007 and then reduced slightly in year ending 2008.

Dividends have been paid for each of the past nineteen financial years, and over the last 10 years have averaged 76.2% of the sum of the operating surplus after income tax for the period. The highest percentage of operating surpluses paid as dividends are by this and Auckland Airport.

For the last five financial years Christchurch has generated revenue of $392.0 million. This represents 16.3% of the total revenue for the seven airports in the study. For the same period expenses totalled 64.4% of total revenue and the operating surplus after taxation 26.1% of the total revenue. For the same period dividends of $49.0 million were paid out, which represents 12.5% of the total revenue for the same five years and 8.7% of the total dividends paid by the seven airports. The average percentage of shareholder equity, at 72.1%, for the last five financial years is the highest of the seven airports within the study.

Figure 8.34

NZCH Inflation Adjusted Financial Performance Indicators



8.6.5 Analysis and discussion of annual reports

1989-1993

The 1989 report was the first for the new company. It recorded that the government intended selling off its 25% shareholding once a regulatory review of the airline industry had been completed. The company saw this as potentially leading to an expanded shareholding, and even private sector involvement.

Growth on domestic routes was reported due to the introduction of a second major airline called Ansett New Zealand. Only a marginal increase in international traffic was reported. Recent extensions to domestic and international terminals were recorded as delaying the need for major investment for some years. Also reported was that the company was planning to build the International Antarctic Visitors Centre as a totally owned tourist attraction.

The CEO reported that the financial return is grossly inadequate given the large fixed asset base, and that the future will be to ensure "...an essential increase in earnings and increased cash flows thereby ensuring a financially strong and vital company which will be able to undertake future capital works while paying an appropriate dividend to the shareholders" (p. 4). The CEO also reported that new airline user charges had been agreed in December 1998 and were backdated to 1 October 1998.

Net profit after tax of $17,000 was reported for the first year of operation. The directors recommended that no dividends be paid.

The 1990 report records the development of the International Antarctic Centre as being particularly significant because of the increasing importance to the Canterbury region of both science and tourism.

The CEO made reference to the lumpy nature of investments at airports but noted that it was essential that they achieve a level of profitability to ensure future capital investment while also servicing their owner's investment by way of dividend payments.

The operating surplus after taxation had increased significantly to $3.6 million and the directors recommended the payment of a maiden dividend of $1.5 million.

The 1991 report records a change in the financial year to bring it in line with that of the shareholders. Commercial market sourced funding was reported to have replaced all the subordinated debt previously owned to shareholders from the time of incorporation.

The company reported that due to a downturn in the economy it had elected to defer the normal annual review of landing charges until June 1991, which meant this major source of revenue did not change for 20 months.

Mention was made by CEO of the need to diversify the income base although stating that the core of the business would remain the provision of airfield and terminal infrastructure. As part of this drive the CEO spoke of the need to extend the range and standard of airport concessions. The food and beverage concession was reported as having been awarded to the Marriot Corporation. The company also reported being involved in national and local initiatives to develop tourism. This included stage one of International Antarctic Centre having been completed and stage two authorised by the board of directors.

The operating surplus after taxation was reported as being $5.2 million and the directors recommended the payment of dividends totalling $2.1 million.

No annual report for the 1992 financial year was able to be supplied by the company. In the 1993 annual report it was recorded that the operating surplus after taxation for the 1992 financial year was $6.7 million and that dividends of $2.6 million were paid.

The 1993 report notes new levels of financial performance. The chairman stated that this improved performance was achieved without the need to increase landing charges, and that landing charges were now less than 50% of total revenue. Also reported was that the airport is continuing to develop non-aeronautical revenue sources, the first of these being the International Antarctic Visitors Centre. Also reported was that one of the immediate goals of the company was to capitalise on opportunities arising from the forthcoming deregulating of trans-Tasman airline operations.

The CEO reported that exports were about twice that of imports in terms of tonnage of international airfreight. This trend has continued to the year ending 2008 according to Statistics New Zealand figures.

The operating surplus after taxation was $8.1 million for the financial year and the directors recommended dividend payments of $3.2 million.

1994-1998

In the 1994 report the CEO reported strong growth and some new international services. The CEO further stated that the company was vitally interested in tourism matters where they impact on the current and future visitors to Christchurch, Canterbury and the South Island, and that the company regularly participated in events to stimulate tourism.

In terms of commercial property developments a number of major companies were reported as having relocated to the airport, including New Zealand Post and DHL International. The terminal was reported as becoming congested at times and planning for the next 20 year period had been initiated.

The report stated that the company planned to reduce debt because of significant costs that would arise with future terminal redevelopment. The company also reported that it was monitoring land use developments around the airport to ensure that they were not inconsistent with airport requirements or objectives.

The operating surplus after taxation was reported as $9.4 million and the directors recommended that dividends of $3.7 million be paid to shareholders.

In the 1995 report the chairman reported on a positive financial year and stated there had been no increase in landing charges. He recorded that domestic charges had been held constant since 1991 and international charges since 1989.

The chairman further reported that the company was embarking on a major terminal expansion plan to cater for expected growth in travel and tourism. Work was expected to commence in June 1996 and to ultimately cost some $80 million. The company stated that it expected to finance this capital expenditure from retained earnings and increased borrowings.

The CEO reported that rentals, leases and concessions were increasingly an important part of how the company achieves growth of non-aeronautical revenue.

Comment was made in the report about the forthcoming review of airport regulation initiated by the Minister of Transport. The company reported that it had responded by arguing that the present level of control was adequate, and that in the seven years since corporatisation there had appeared to be little, if any, monopolistic behaviour by the airport companies, indicating that the airlines have significant countervailing powers as an influence on pricing processes.

The company reported an operating surplus after taxation of $12.2 million and the directors recommended dividend payments of $4.9 million be paid.

The 1996 report records that funds for the terminal redevelopment had been arranged and would be drawn down over the next two years as required. It was stated that the new terminal would reflect the "[g]ateway to New Zealand" (p. 2) that the airport represents.

The CEO reported that airport charges for airlines had remained unchanged for the sixth consecutive year, representing a real cost reduction for airline customers. He further reported that the company continued to diversify its revenue base by focusing on investments that enhance revenue streams and profitability from existing land holdings. He also noted that the airport is increasingly a hub for the collection of express goods delivered by road preparatory to air freighting.

The company reported an after tax surplus of $12.1 million and that the directors recommend dividend payments of $4.8 million.

The 1997 report records that operations during the past year were dominated by the construction of the new international terminal, and that as a consequence debt servicing costs were up significantly.

The chairman reported that international passenger numbers were up significantly but domestic passenger numbers had decreased slightly. He stated that one of the challenges facing the airport was being able to attract additional international services and to counter the trend of some airlines to concentrate through a single point of entry (Auckland), and that every effort was being made to counter that trend.

The CEO reported that the airport had continued to recover landing charges at the same rates for the past seven years, and that landing charges now represented 43% of total airport revenue. He further stated that the increase of the departure charge to from $20.00 to $25.00 was helping the airport with major infrastructure projects.

The company reported that during the year it had witnessed the arrival and demise of Kiwi International Airlines. The CEO reported that the aggressive pricing strategy of that airline demonstrated how elastic travel was, and noted how it had stimulated travel to Australia from the South Island.

The operating surplus after taxation was reported as being $5.1 million and that directors recommended dividend payments of $8.3 million.

The 1998 report records that the year had been dominated by the Asian crisis, which resulted in a significant downturn in tourism from that region coupled with New Zealand's own domestic recession. Despite these factors the chairman reported that results were still ahead of the previous year. The chairman stated that stringent cost controls were in place, and that the international terminal project would be completed on time and to budget. Strong growth of 10.1% from leases, rentals and concessions was reported as positive and reflective of the plans of the company to diversify income sources. The CEO also reported that the company had continued to invest in the freight village area, and to enable future development additional land had been acquired to the southwest.

The operating surplus after taxation was reported as being $10.9 million and the directors recommended dividend payments of $6.6 million.

1999-2003

The 1999 report noted that strengthening international travel numbers supported the decision to proceed with an international terminal redevelopment ahead of a domestic terminal redevelopment. The chairman reported that the largest increases in revenue were coming from the expansion of property and other commercial activities, which generated 60% of total revenue.

Mention was made of the need to comply with the new financial disclosure reporting requirements from 2000, and that the company was on track to meet these requirements.

It was reported that landing charges had remained unchanged for international services since 1989 and for domestic services since 1991. This is unusual practice for the airports in this study and reflects the emphasis and reliance upon non-aeronautical revenue streams by Christchurch Airport.

The operating surplus after taxation was reported as being $12.2 million and the directors recommended that dividends of $7.3 million be paid.

In the 2000 report the chairman reported that the company had achieved a record surplus before taxation. He also reported positively that since incorporation the shareholders in Christchurch Airport had not been required to inject any extra capital. He further stated that the dominant objectives of the company were to provide all users with facilities equal to the best in Australasia, while achieving fully competitive operating efficiencies and providing shareholders with a commercial dividend on their capital investment.

The CEO reported "spectacular" increases in lease, rental and concession income, and that the company was continuing to pursue opportunities for further developments in this regard. The International Antarctic Visitors Centre was reported as performing well, and car parking revenue was recorded as increasing.

The report recorded that the directors had decided to address the "conservative balance sheet" and paid a special dividend of $30 million on 1 November 1999. This dividend was partly funded from internal resources with the balance from borrowing. For the financial year ending 2000 the operating surplus after taxation was $13.2 million and the directors recommended total dividends of $37.9 million be paid.

The 2001 report recorded that a new regime of landing charges for both domestic and international airlines had been put in place on 1 January 2001. This was reported as being the outcome of the first review of landing charges for 10 years and, after 15 months of consultation, resulted in a decrease of 20% for international services and an increase in charges for domestic services, partly recognising the need to upgrade the domestic terminal. It was reported that these new charges would be fixed for three years.

The report recorded that the International Antarctic Visitors Centre was disposed of by the company in December 2000 to the former general manager, the airport company remaining the landlord of this major tourist facility on airport land.

The biggest financial challenge for the year was reported as being Ansett New Zealand changing its name and ownership to Qantas New Zealand and then collapsing, with a bad debt of $840,000 owed to the airport company. The chairman reported positively on the establishment of the Christchurch Engine Centre, a joint venture between Air New Zealand and Pratt and Whitney, which was anticipated to bring significant benefits to both the airport and the city.

The company reported an operating surplus after taxation of $13.5 million and the directors recommended dividends be paid of $8.3 million.

In the 2002 report the chairman recorded that it had been the "…most challenging year ever faced by the company" (p. 3) but that it was still able to report a lift in profitability. Events which were considered to have impacted upon the company were the terrorist attacks of September 11 2001, followed by the collapse of Ansett Australia. This meant that Air New Zealand lost its important domestic passenger feed from Australia. Qantas was reported as having subsequently repositioned some of its New Zealand international capability to Australia to meet domestic gaps resulting in less international seats being available. As a consequence of these events the chairman reported a decision to defer plans to alter the domestic terminal.

Similarly the CEO reported that the events of the preceding year had had a profound effect upon Christchurch Airport. He stated that the first part of the year had been positive but that the events of September 11 2001 had reversed this result. Airlines subsequently cut services and airport income streams dependent upon passengers were eroded. He stated that "[t]o a significant extent Christchurch International Airport is a fixed cost business. It is therefore important that capital expenditure and expenses are tightly controlled in times of crisis" (p. 11).

The operating surplus after taxation was reported as being $14.2 million and the directors recommended that dividends of $9.2 million be paid.

The 2003 report records passenger numbers as being up on the previous year but that the company had generated a reduced surplus. This was attributed to a reduction in aeronautical revenue and that the board saw this as a key issue facing the airport.

The chairman reported positively that the outcome of the Commerce Commission review of airport pricing had recommended that no price control regime be imposed with respect to Christchurch Airport.

The CEO reported that the 2003 financial year was the most challenging of his 15 years at Christchurch Airport, and made reference to the impacts on travel of the War in Iraq and SARS. The CEO further stated that that most airlines were in survival mode and focussing on profitability rather than market share or network expansion. Because of these factors the CEO reported favourably upon the airport property development initiatives which had provided a significant financial boost for the company.

The CEO further reported that the company was currently reviewing the Airport Master Plan, last updated in 1985, with a 40-50 year future focus. One significant planning issue recorded was the urban growth of Christchurch city that had required the company to plan and implement measures to protect the airport from adjacent land use that could impact negatively upon its future operations.

The company reported an operating surplus after income tax of $13.0 million and the directors recommended dividend payments totalling $16.6 million, which included a special dividend of $8.1 million.

2004-2008

In the 2004 report the chairman recorded "enormous growth" in both domestic and international passengers numbers. Despite this growth he stated that the company needed to be mindful of the possibilities of external shocks, and to be protected from such shocks the company must maintain a strong balance sheet and develop non-aeronautical revenue.

The chairman reported that the new domestic terminal redevelopment was scheduled for 2005, and that the good credit rating held by the company meant that it could be funded as cheaply as possible. The Christchurch City Council, as 75% owner of the company, had stressed the need for a good domestic terminal to support both the city and tourism, and that it would support the airport with funding assistance if required.

The CEO reported that a return to passenger growth was the most notable feature of the last financial year. He also recorded positively the decision by the airline Pacific Blue choosing Christchurch Airport as the base of its new domestic operations from 2004 and planned future international services. He also reported favourably on the decision by Air New Zealand to introduce direct services from Christchurch to the USA.

The operating surplus after taxation for the financial year was reported as $14.8 million and that the directors recommended dividend payments of $8.7 million.

In the 2005 report the chairman stated that there had been unprecedented growth in international passenger numbers resulting in a significant uplift in revenue, enabling the company to increase the return to shareholders.

The chairman also reported that a major review of infrastructure had been undertaken to assess how it would meet future needs, that the business case est had been developed and that this was awaiting shareholder approval as it involved significant financial investment.

For the 2005 financial year the company reported an operating surplus after taxation of $16.6 million and the directors recommended dividend payments of $9.4 million.

In the 2006 annual report the chairman recorded that the previous year had been one during which the airport's capability and service provision had been developed to meet the changing dynamics of the market. He reported that passenger numbers were marginally below 2005 figures due to reduced international tourism inflows and a reduction in domestic tourism numbers, and that as a consequence total revenue grew only slightly.

The chairman also reported that a major development for the company had been gaining shareholder approval to invest in a new integrated domestic/international terminal development, and the establishment of a $250.0 million debt finance programme to meet the ongoing development needs of the company.

Also reported as a positive development was the decision taken by the domestic and international carrier Jetstar to base its planned future New Zealand operations at Christchurch Airport.

The company reported an operating surplus after taxation of $15.2 million and the directors recommended dividend payments of $9.9 million.

The 2007 report stated that the company sees the airport industry as being dynamic and evolving, therefore planning being necessary to ensure that the airport continued to be the "[g]ateway for the best of the South Island". The changing nature of the airline industry was also commented upon, and how these changes were affecting Christchurch Airport.

The company reported that it was negotiating with airline customers over revised aeronautical charges with the intention of introducing a new set from July 2008, these charges having last been reviewed in June 2005. It reported that it was committed to a positive and constructive engagement to reach a negotiated outcome, which recognised the interests and requirements of both parties and responsibilities to the various stakeholders, including the need of the airport to make an appropriate return on investment.

The company reported that it had a “land bank” of 777 hectares and that a separate standing committee has been established to maximise the commercial value of this property portfolio. It further reported that future growth would occur through emerging new markets, the stimulation of tourism activity in the region and the South Island, and the diversification of business activity through enhanced commercial and property developments.

The company reported an operating profit after taxation of $24.0 million and the directors recommended dividend payments of $10.1 million.

The 2008 report records that moderate improvement was noted against all the key performance indicators previously established by the company. The report contains statements to the effect that the 2007/2008 year would be seen as having been the beginning of a directional change for Christchurch International Airport Limited. It records that the company had developed two key platforms, a property master plan and a 10 year strategic plan for the whole business. These were recorded as being coupled with the integrated terminal project to support the company’s strategic requirements.

The company stated that it needs to run an efficient operation to remain competitive, and achieve the necessary level of operational and financial performance. Its commercial strategy was reported as being fundamental to the objective of achieving its stated target of deriving 60% of its total revenue from non-aeronautical activities. This revenue stream was now being seen as a core component for the airport and mitigating the variable returns from aeronautical activity.

For the financial year ending 2008 the operating surplus after taxation was reported as being $23.4 million and the directors recommended dividend payments of $11.0 million.

8.6.6 Summary

Christchurch Airport is the second largest international airport within New Zealand and the largest in the South Island. It is also the base for Operation Deep Freeze through which the USA military supports their Antarctic operations.

The major challenge to Christchurch is its relatively low domestic population base, and the potential for international aircraft to arrive in Auckland and tourists to travel domestically by air to their final destinations.

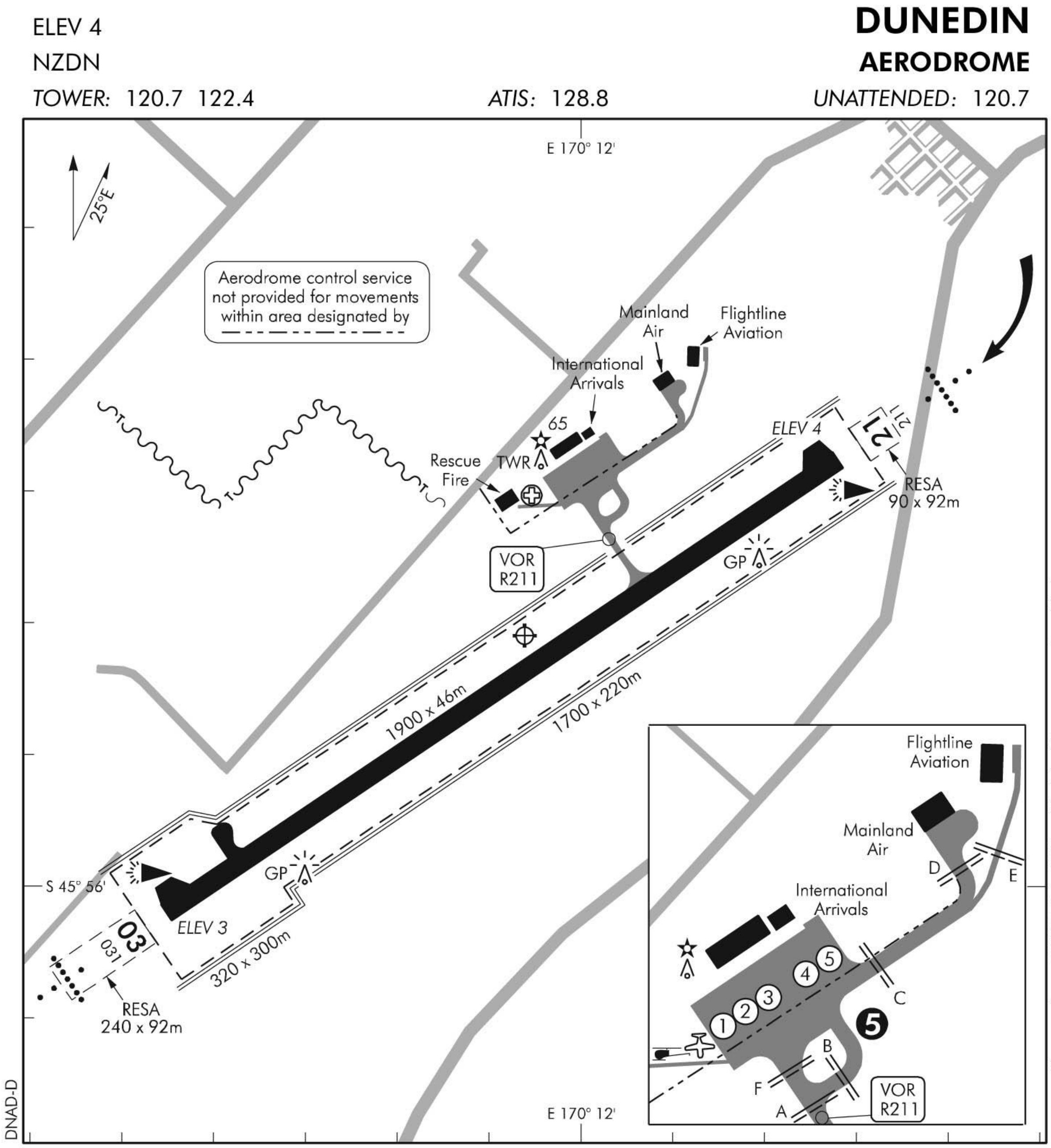
To counter this Christchurch Airport has taken significant steps to work with the tourism industry and airlines to ensure that it remains an attractive option for airlines and passengers.

Christchurch International Limited is in total public ownership with 75% owned by Christchurch city and 25% owned by the Crown. This shareholding has not changed since incorporation. The airport company has been profitable for each of the 20 years up to and including the financial year ending 30 June 2008. It has made dividend payments to its owners for the last 19 years of this period.

8.7 Dunedin Airport – Case Study

ICAO Code NZDN

NZDN Map



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Dunedin
Accessed on 17 July, 2009

8.7.1 Brief history

Dunedin Airport Limited was incorporated as a public company on 30 September 1988 under the Companies Act 1955. Prior to incorporation it had been a joint venture airport operated under the Airport Authorities Act 1966 and was owned in equal parts by the Crown and the Dunedin City Council.

Dunedin Airport was built as a new airport for Dunedin and commenced operation in May 1963 (Rendel, 1975). The previous airport servicing Dunedin was at Taieri, which is closer to the city. Taieri Airport continues to operate as a general aviation facility.

8.7.2 Current ownership and management/governance structure

Dunedin Airport Limited is owned equally by the Crown and Dunedin City Holdings Limited. Dunedin City Holdings Limited is 100% owned by the Dunedin City Council. There has been no change in the ownership structure since incorporation in 1988 and the current shareholders are the same as those in the former joint venture arrangement.

The shareholding of the company is 8,800,000 fully paid up ordinary shares. All shares have equal voting rights and share equally in dividends (Annual Report, 2008).

The governance structure of the airport company is a chairman and three other directors. Because the Crown owns 50% of this company the Company Monitoring Advisory Unit (CCMAU) appoints two of the directors and the Dunedin City Council the other two. The company is managed by a CEO and two other senior managers: a business manager and an operations manager.

8.7.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.35-8.39.

At Dunedin Airport domestic passengers have trended up over time and have increased every year since 2001. International passengers also increased each year until reaching a peak in 2005 and have trended down in each subsequent year. Total passengers grew each year until 2006 and after a slight reduction in 2007 continued to grow in 2008.

There is no international air cargo for this airport recorded by Statistics New Zealand, and any domestic air freight data is not publically available and therefore discounted in terms of calculating total workload. Total workload units increased each year until 2006 and after a slight reduction in 2007 grew again in year ending 2008.

Employee numbers have increased by only three positions over the 10 year period, and in terms of workload units per employee have increased steadily over the period, indicating an efficient utilisation of human resources.

Aeronautical revenue has declined from 44.7% of total revenue in year ending 1999 to 33.7% in year ending 2008. This can be seen as reflective of the strong commercial focus evident in the annual reports discussed in the next section.

Figure 8.35

NZDN Total Passengers

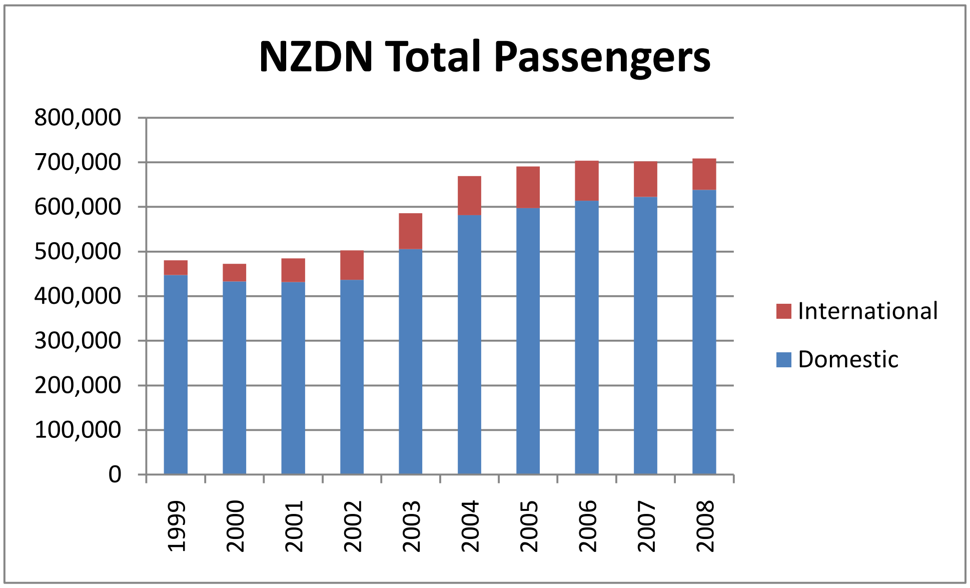


Figure 8.36

NZDN Total Workload Units

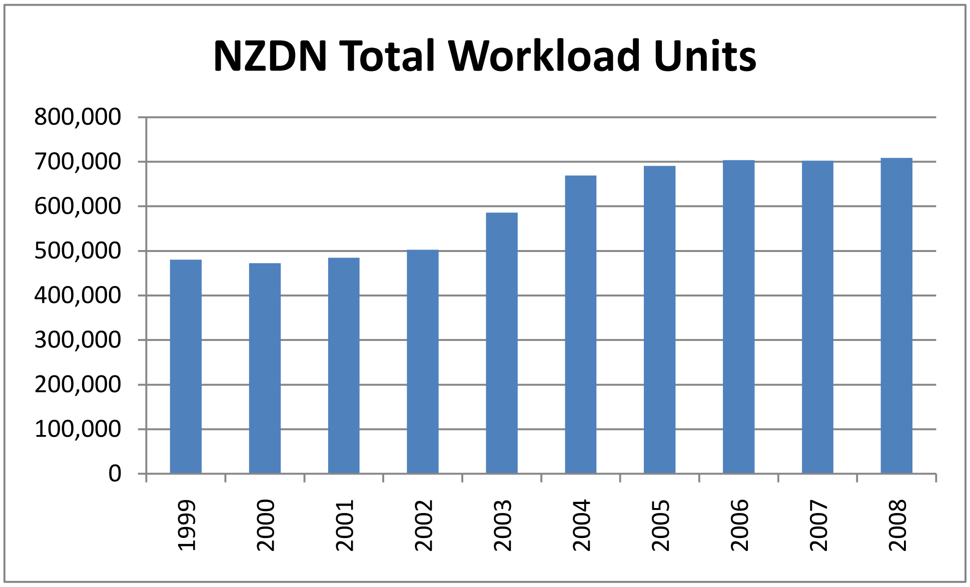


Figure 8.37

NZDN Employees

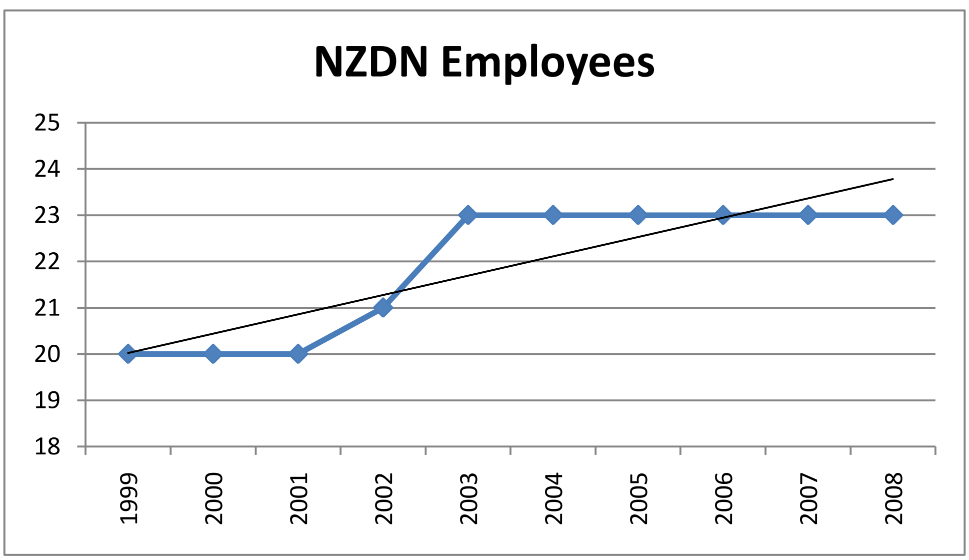


Figure 8.38

NZDN Workload Units per Employee

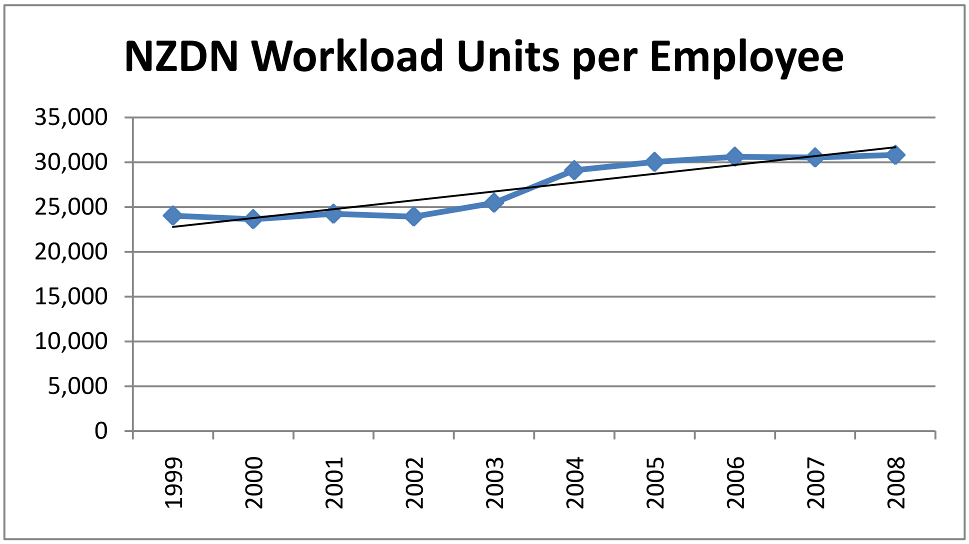
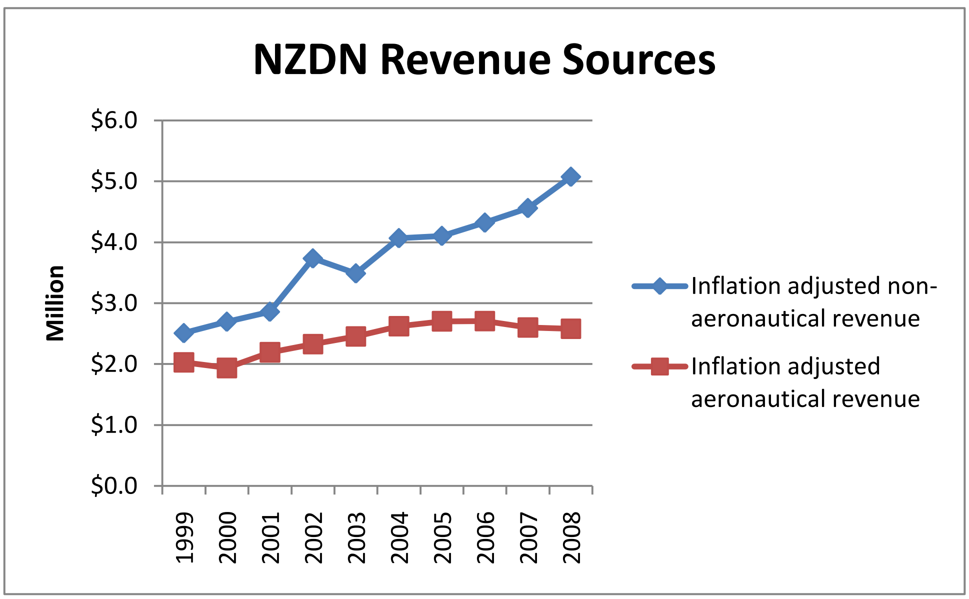


Figure 8.39

NZDN Revenue Sources



8.7.4 Financial performance for the first 19 years since corporatisation

As shown in Figure 8.40 revenue at Dunedin Airport has increased steadily over the 10 year period. Expenses have increased at a higher rate than revenue for the last three years of the period, and for the first time in the year ending 30 June 2008 exceeded revenue. A significant amount of the expense in these latter years can be attributed to new terminal developments but this has coincided with decreased international passenger numbers to place the company in a loss making situation.

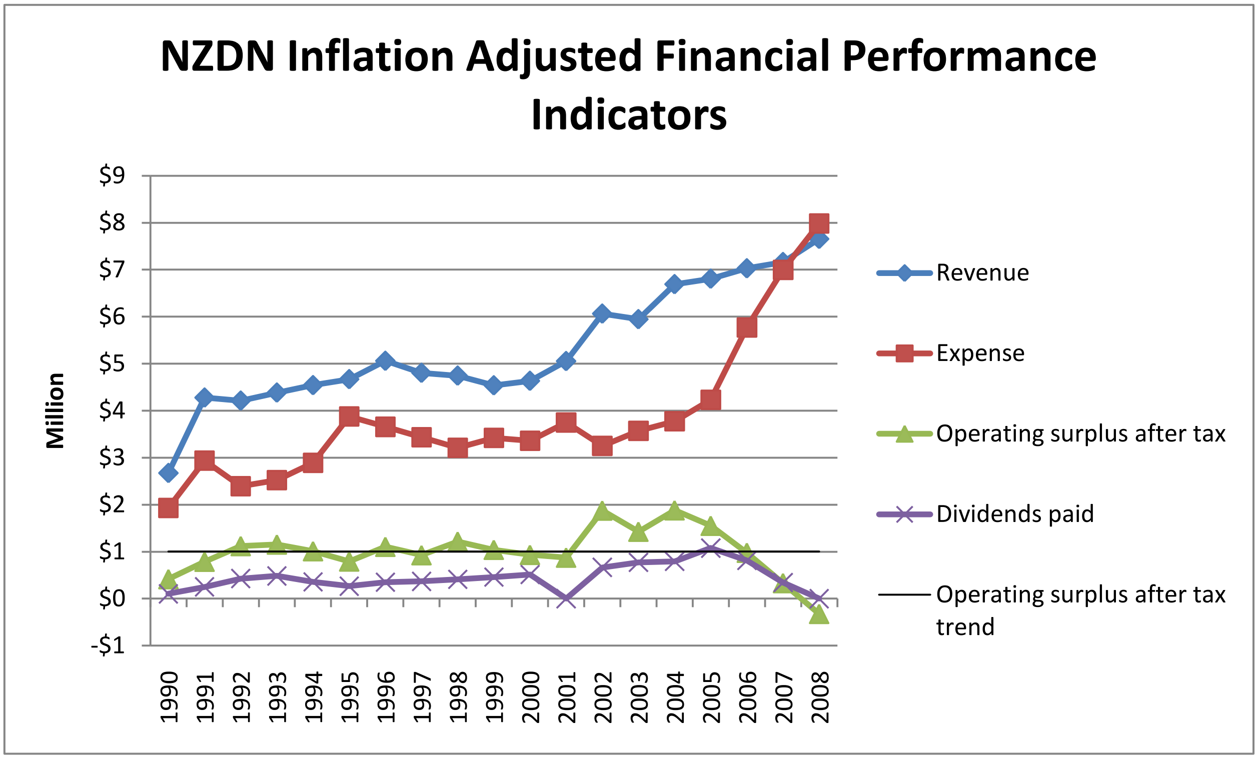
Operating surplus after income tax remained stable for many years until peaking in years 2002 and 2004 and declining thereafter. The overall trend over the nineteen year period is essentially a flat line at approximately $1.0 million per annum making this the only airport company within the study not to have shown growth in real terms.

The company has paid a dividend in 17 of the last 19 financial years. This has averaged 52.4% of the sum of the operating surplus after income tax for the same period.

For the last five financial years of the study Dunedin Airport generated revenue of $34 million. This makes it the second smallest airport in terms of revenue of the seven airports in the study. For the same period expenses totalled 82.1% of total revenue and the operating surplus after taxation 12.0% of the total revenue, which is the lowest percentage of the seven airport companies. For the same period dividends of $3 million were paid out, which represents 8.3% of the total revenue for the same five years.

Figure 8.40

NZDN Inflation Adjusted Financial Performance Indicators



8.7.5 Analysis and discussion of annual reports

1990-1993

The company was unable to supply the first annual report for the financial year ending 1990.

In the subsequent annual report it is recorded that the company made an after taxation operating surplus of $271,000 and paid a maiden dividend of $66,000 to shareholders.

The 1991 report recorded that the airport was being serviced by both Air New Zealand and Ansett New Zealand as domestic airlines. It states that negotiations with airlines over landing charges had not been concluded successfully and that Air New Zealand had requested a judicial review. The report made reference to discussion within the company about ways of increasing the share of revenue from non-aeronautical sources.

The report records that the airport made an operating surplus after taxation of $552,000 and paid dividends of $176,000.

The 1992 report records that notwithstanding the judicial review finding in favour of Air New Zealand against Wellington Airport, Air New Zealand had withdrawn its application for such a review at Dunedin Airport and that "...the matter was settled amicably" (p. 5).

The report made mention of a drive to increase revenue from non-airfield activities. Comment was also recorded that the company was aware of "...opportunities presented by the opening up of trans-Tasman aviation and will continue to assess their possible impact upon operations at Dunedin Airport" (p. 6).

For the 1992 financial year the company reported an operating surplus after taxation of $808,000 and paid dividends of $308,000.

The 1993 report recorded that additional land had been purchased to allow for the extension of the main runway, and to provide for airport expansion. The main runway was reported to have been extended to 1,900 metres to accommodate larger aircraft. It was also reported that the company was continuing to monitor opportunities for freight and charter business with the creation of the trans-Tasman single aviation market by the governments of New Zealand and Australia.

For the 1993 year the company reported an operating surplus after taxation of $840,000 and paid dividends of $352,000.

1994-1998

The 1994 report makes mention of the increasing share of the revenue being generated by non-aeronautical means, which had reached 38% of total revenue by year end. Concern was expressed that one of the major domestic airlines servicing the airport, Ansett New Zealand, was reducing the number of flights it operated and having a direct effect upon profitability.

Reference was made of the first inward charter of an international flight from Sydney, post balance date, to a New Zealand domestic airport.

For 1994 the company reported an after taxation profit of $764,000, which was down on the result for the previous two years. The dividend paid of $264,000 was similarly down on the previous two years.

The 1995 report records that passenger numbers were increasing but not revenue as aircraft landing charges were weight based. Also recorded was that increased aeronautical charges applied by the company from 1 January 1995 had not been accepted by one of the airlines using Dunedin Airport.

During the financial year it was reported that two international charter flights were operated into Dunedin Airport by Qantas from Australia, and two international charter flights were operated by Air New Zealand to

Australia. The report states that "[t]hese flights proved that trans-Tasman travel from Dunedin was not only possible but practical and as evidenced by the support were very much welcomed by the travelling public" (p. 7). Reference was made that post balance date Kiwi Travel International Airlines had commenced a weekly service between Dunedin and Brisbane on 28 August 1995.

The 1995 financial results reported further reduction in operating surplus after taxation, at $591,000, and similarly dividend payments were reduced to $198,000.

The 1996 report recorded that domestic airlines were reducing the size of some aircraft, or withdrawing services, and highlighted the negative commercial consequences for the airport. Freedom Air was reported as having commenced scheduled services from Dunedin to Sydney in December 1995. As at 30 June 1996 both Kiwi International and Freedom Air were providing services to both Sydney and Brisbane airports.

For the financial year both operating surplus after taxation and dividends paid increased to $862,000 and $272,000 respectively.

The 1997 report recorded that for the first time that year, more than 50% of total revenue was derived from other than landing charges. It was also reported that "[p]rolonged and difficult negotiations to agree revised landing charges with our major domestic airline customers, have been satisfactorily resolved" (p. 2). Comment was made about the increasing desirability of travel from regional international airports, and that this required a rethinking of how New Zealand is marketed abroad.

Kiwi International Airlines were reported as ceasing services and going into liquidation in September 1996. Freedom Air were reported as continuing to provide services to Sydney and Brisbane.

The operating surplus after taxation was reported as being $737,000 and the company paid dividends of $292,000.

The 1998 report made reference to the decision of the New Zealand Government to the effect that if it decided to sell its 50% shareholding in the company that the Ngai Tahu Iwi would be granted first right of purchase under a Treaty of Waitangi settlement.

In the report the company expressed concern that Dunedin was not yet recognised as an international destination in the international air transport network, despite regular international flights by Freedom Air to and from Australia. The chairman recorded that the company was working to change that situation and would like to see regular scheduled services by an international airline "…to complement the leisure traffic role undertaken by Freedom" (p .2).

The operating surplus after taxation was reported as being $978,000 and the company paid dividends of $332,000.

1999-2003

In the 1999 report the chairman reported that legislation had now been passed that gave effect to the earlier decision by the Crown to give first right of purchase of its shareholding to the Ngai Tahu Iwi. It also reported that no such decision to sell its shareholding had been made by the Crown.

The chairman also reported that the airport would like to see trans-Tasman flights become more domestic in nature and that the company saw Sydney as its potential hub of the future rather than Auckland. The company saw as desirable a daily service to Sydney for both leisure and business travellers, and was working with the Dunedin City Council on a “Gateway” project to try and give effect to this objective.

For 1999, the company reported an after tax operating surplus of $852,000 and paid dividends of $374,000.

The 2000 report recorded that negotiations regarding landing charges were protracted and that new charges that should have been in place were still not settled a year later. In addition it was reported that industrial action taken by staff of Ansett New Zealand, for three months, had had negative consequences in terms of both aeronautical and concession revenue.

A second international airline, Australian owned and operated K2000, was reported as having provided international flights over the summer to Brisbane from Dunedin, but these had not continued post 2000.

For the 2000 year, the company reported an operating surplus after taxation of $761,000 and paid dividends of $420,000.

The 2001 report recorded that international flights over the coming summer would peak at 14 per week. The company also recorded that it continued to work with the Dunedin City Council on Project "Gateway", with the stated objective of achieving a daily international air service between Dunedin and Sydney.

The report records that Tasman Pacific Airlines of New Zealand, trading as Qantas New Zealand, failed during the year and that domestic services to Dunedin were ceased by this airline. The company reported that it had incurred some bad debt, and that the failure meant that the only major airline still servicing Dunedin Airport domestically was Air New Zealand.

Consultation with airlines over landing charges was reported as having been completed with the airlines to enable revised charges to be in place by 1 January 2001, 18 months later than originally planned.

For the 2001 year the company reported an operating surplus after taxation of $727,000 but for the first year since incorporation did not pay dividends.

The 2002 report recorded that expenses were in line with budget but that revenue had exceeded expectations by some 25%. This was attributed to increases in the number of international flights that had been operated by Freedom Air, and the commencement in March 2002 of domestic services by Origin Pacific, a new domestic airline. It was also reported that joint marketing efforts with the Dunedin City Council and Freedom Air were proving successful, with a clear emphasis on achieving a daily service between Dunedin and Sydney. Services to Coolangatta, Australia, were reported as being provided by Freedom Air, meaning that Dunedin was linked by air services to four Australian cities at that time.

For the 2002 year the company reported a markedly increased operating surplus after taxation of $1.610 million and restarted dividend payments by paying out $571,000 to shareholders.

The 2003 report records ongoing growth in passenger numbers of both domestic and international passengers. Project "Gateway", in conjunction with the Dunedin City Council and other parties, was acknowledged as contributing to the success of international services, and the high percentage of Australians arriving in Dunedin was noted as being a successful outcome of this project.

Planning was also reported as being underway to redevelop the existing main terminal to house both domestic and international services.

For the 2003 year the company reported an operating surplus after taxation of $1.258 million and paid dividends totalling $683,000 to shareholders.

2004-2008

The 2004 report claimed that Dunedin has now emerged "… as a very strong player in the New Zealand tourism market" (p. 3) and described how the company was working effectively with both Tourism Dunedin and the Dunedin City Council to jointly market the region with good results. Reference was made to the terminal redevelopment project scheduled to commence in September 2004, and to be completed in late 2006. The first mention was made of the aviation industry being in discussion with the government as to who should fund passenger clearance services at the border.

For the 2004 year the company reported an operating surplus after taxation of $1.685 million and paid dividends of $711,000.

The 2005 report records that the government had agreed to a common passenger charge across all seven airports, and that this was considered beneficial to Dunedin Airport. The government was reported as having preferred a two tier system with different charging systems between the three largest and the other four smaller international airports.

For the 2005 year the company reported an operating surplus after taxation of $1.424 million and paid dividends totalling $986,000.

The 2006 report makes mention of a drop in profits and dividends as a consequence of the main terminal redevelopment project. Also recorded was that services from Dunedin to Melbourne by Freedom Air had been withdrawn.

For the year the drop in profits resulted in a reduced after tax surplus of $992,000 of which the bulk was paid in dividends totalling $765,000.

The 2007 report recorded that after tax profit had reduced and that this, similar to comments made the previous year, could be attributed to costs associated with the terminal redevelopment. The new $26 million terminal was officially opened on 11 October 2006. The report recorded that “[a]irports today are economic engines for the communities they serve and Dunedin is no exception. The investment in our new redeveloped terminal reflects the important part the airport plays in the local economy, as well as our confidence in the future of the city and region we serve” (p. 5). It was then reported that it was important for Dunedin to continue to invest heavily in promotion. This is a theme which had been reflected through many of the company annual reports.

In the same report it was, however, recorded that international passenger numbers had decreased as a result of reduced capacity provided by Freedom Air.

The operating surplus after taxation reduced markedly to $325,000 and slightly more than this amount was paid out as dividends totalling $335,000, being the first time that dividends paid had exceeded profit.

The 2008 report recorded that international passenger numbers had once again decreased over the previous year, and that Air New Zealand services would replace those of its former subsidiary, Freedom Air, from the beginning of April 2008. It was recorded that there were a total of seven scheduled flights to Sydney and Brisbane each week from Dunedin. This represents a major reduction from services to four Australian cities recorded in previous reports and the aspirations of a daily service to Sydney by the company.

Pacific Blue was recorded as having commenced scheduled services on 1 July 2008, as the second largest domestic airline servicing Dunedin.

For the 2008 financial year the operating surplus after taxation was markedly worse than the previous year at ($324,000), the first loss annual loss since incorporation. For only the second year since incorporation no dividends were paid. The deteriorating financial situation can be seen as a consequence of major expenditure on new terminal facilities at about the same time as international passenger numbers peaked before declining in subsequent years.

8.7.6 Summary

Dunedin was one of the three new international airports established between 1994 and 1996, and was initially serviced by both Kiwi Airlines and Freedom Air. Kiwi Airlines failed after only a short period of operations and subsequent international services until 31 March 2008 were supplied exclusively by Freedom Air until 31 March 2008. Since 1 April 2008 these services have been supplied by Air New Zealand.

Dunedin has a relatively small population base and tourism industry. The major threat to it as an international airport is the presence of Christchurch Airport some 400 kilometres to the north. Dunedin Airport works proactively with its own community and tourism industry to market Dunedin and the international markets serviced to retain the loyalty of a relatively small customer base.

Dunedin is an attractive and significant tertiary education centre within New Zealand and many students travel to and from there from other more populated locations within New Zealand. It is also close to farming areas that have seen significant population increases due to the current attractiveness of dairy farming in the Southland region.

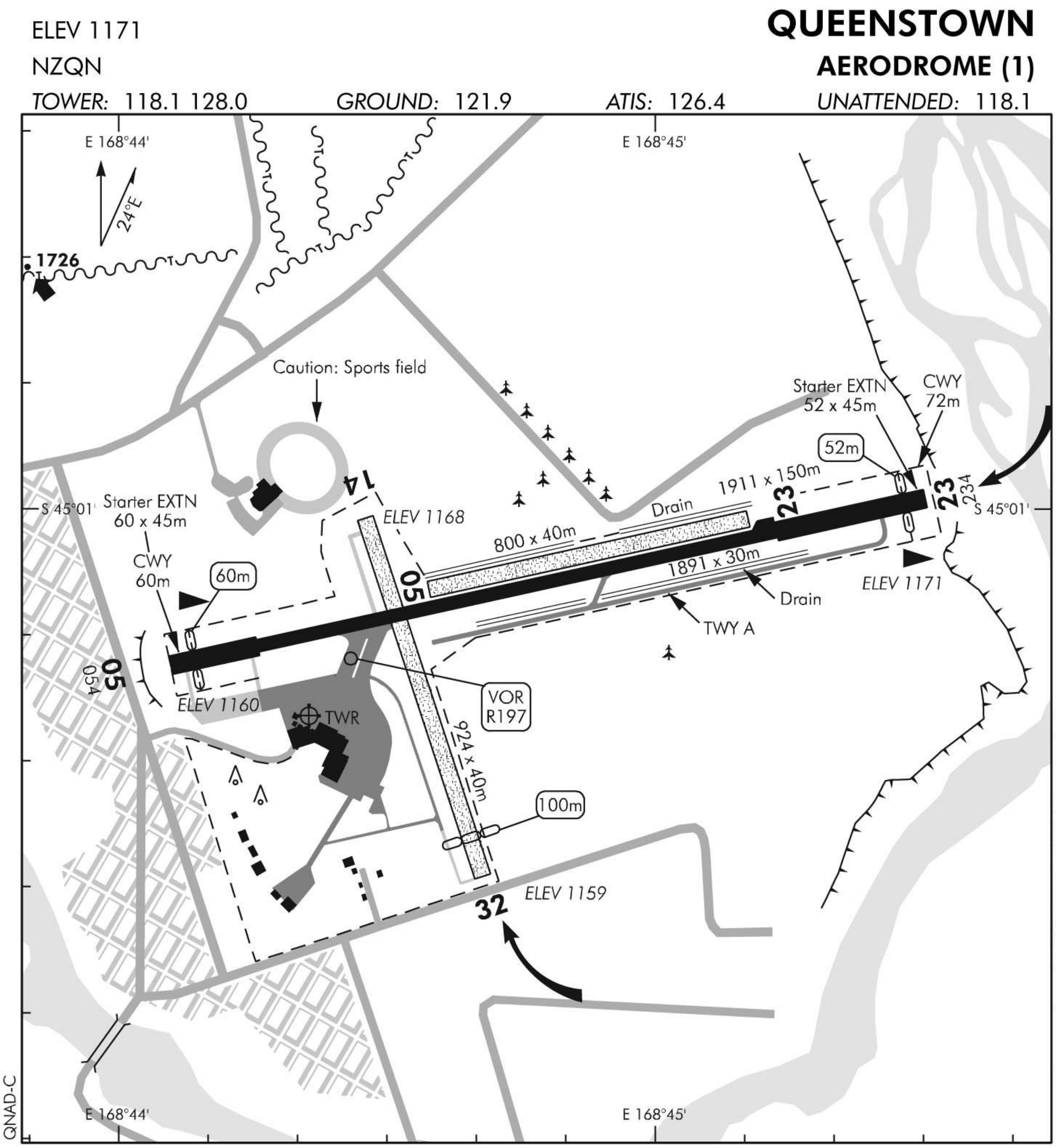
As a relatively small airport large capital expenditure items, such as the redeveloped terminal, combined with significant variations in domestic and international air travel can cause large variations in profitability and levels of debt. Since 2005 the operating surplus after taxation has decreased markedly, debt has increased and the airport company was the only one of the seven airports in this study that reported a loss in the year ending 30 June 2008.

Dunedin Airport Limited has had the same shareholders since incorporation and is the only company in this study that is owned 50% by local government and 50% by central government. It is unusual in that legislation has been passed offering first right of purchase to an Iwi authority should the Crown decide to sell its share. The company has paid dividends to its two shareholders for 17 of the 19 years since incorporation up to the end of the 2008 financial year.

8.8 Queenstown Airport – Case Study

ICAO Code NZQN

NZQN Airport layout chart



Source: http://www.aip.net.nz/NavWalk.aspx?section=CHARTS&tree=Queenstown
Accessed on 17 July, 2009

8.8.1 Brief history

Queenstown is a former joint venture airport but is unusual among the major airports in that it had been owned by the Queenstown Lakes District Council 100% since incorporation on 4 March 1988. A partial sale to Auckland International Airport Limited occurred in July 2010 after the period covered by this study. This partial sale is being contested in the New Zealand High Court.

The development of Queenstown Airport was initially slow due to the presence of an airport that had developed earlier for tourism activity some 80 kilometres to the north near Mount Cook.

8.8.2 Current ownership and management/governance structure

Queenstown Airport is 100% owned by the Lakes District Council which is a local authority. There have been no changes to the ownership structure of this company since incorporation. As at year ending 30 June 2008 there were 10,330,938 fully paid ordinary shares. All shares have equal voting rights and rights to distributions (Annual Report, 2008).

The airport company is governed by a chairman and three other directors. It is managed by a CEO and three senior managers comprising a general manager (Commercial), general manager (Aeronautical), and an operations manager.

8.8.3 Output and efficiency analysis

This section presents and discusses output and efficiency measures as shown in Figures 8.41-8.45.

At Queenstown Airport there has been an overall increase in both domestic and international passengers being serviced. Statistics New Zealand does not have any record of international air freight in relation to this airport and there is no known record of any significant domestic air freight. Consequently total workload units for the airport are the sum of passenger numbers.

Employee numbers have shown a steady increase over the 10 year period and as total workload has not increased at the same rate, the use of human resources, in terms of workload units per employee, has decreased markedly over the period, making Queenstown the worst performer in this regard.

The percentage of aeronautical revenue has decreased 14% from 69.3% in 1999 to 55.3% in the year ending 2008. In none of the past five years has a greater percentage of non-aeronautical revenue than aeronautical revenue been achieved, and in relation to this measure Queenstown Airport derives the greatest percentage of aeronautical revenue of any of the seven airports in the study.

Figure 8.41

NZQN Total Passengers

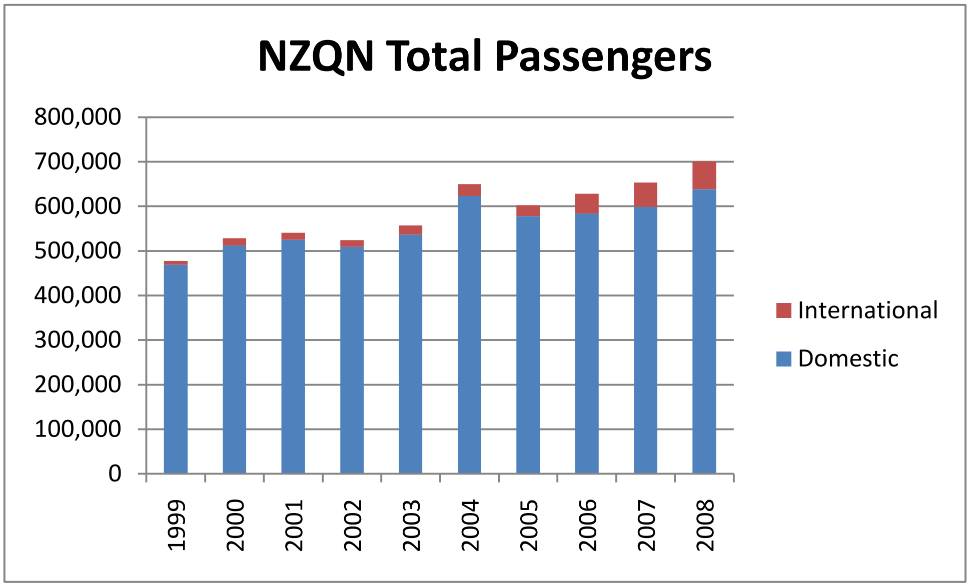


Figure 8.42

NZQN Total Workload Units

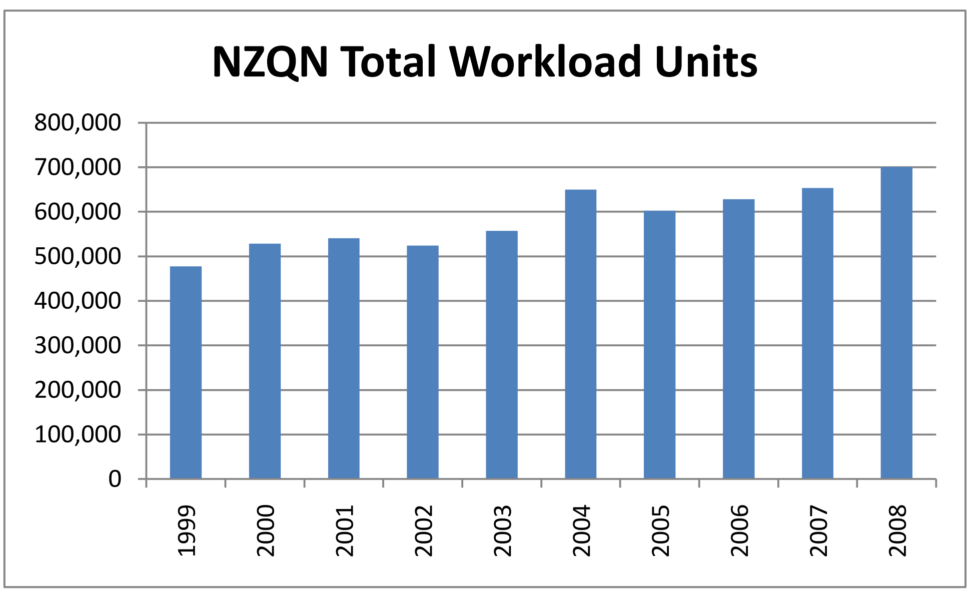


Figure 8.43

NZQN Employees

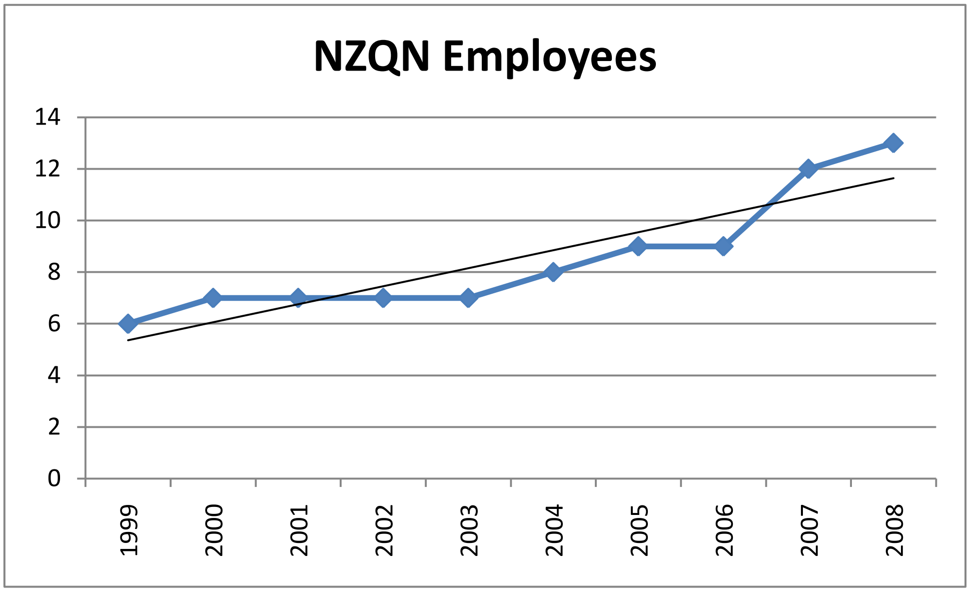


Figure 8.44

NZQN Workload Units per Employee

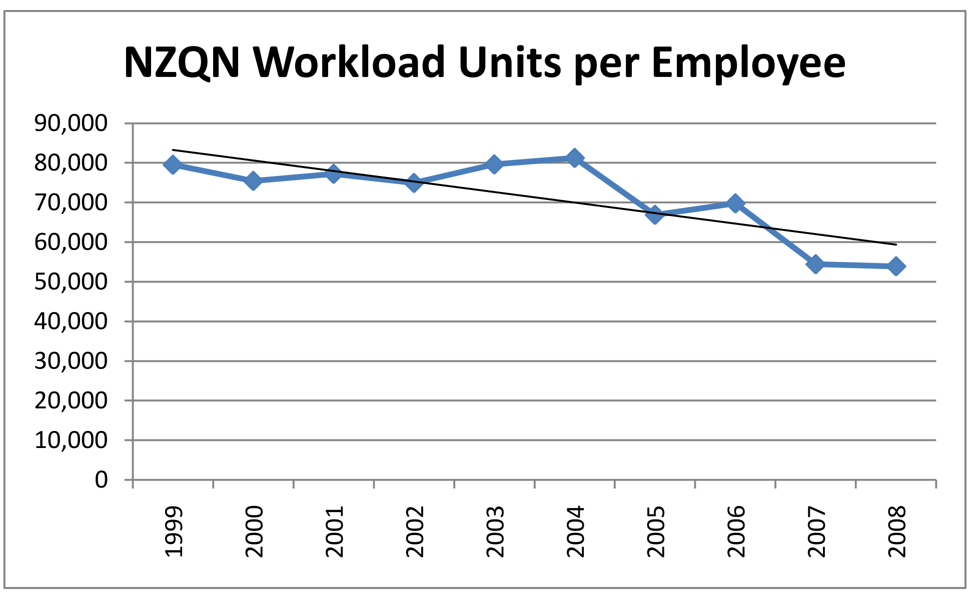
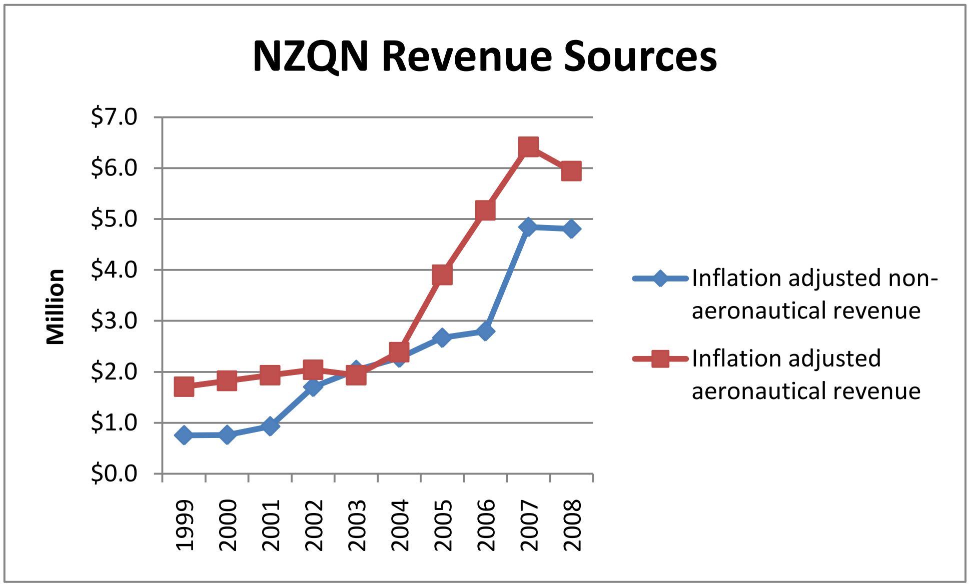


Figure 8.45

NZQN Revenue Sources



8.8.4 Financial performance for the first 18 years since corporatisation

As shown in Figure 8.46 revenue at Queenstown Airport increased each year until the year ending 2007 and decreased in the year ending 2008. Expenses have increased over time but aside from year ending 2001 have been less than revenue.

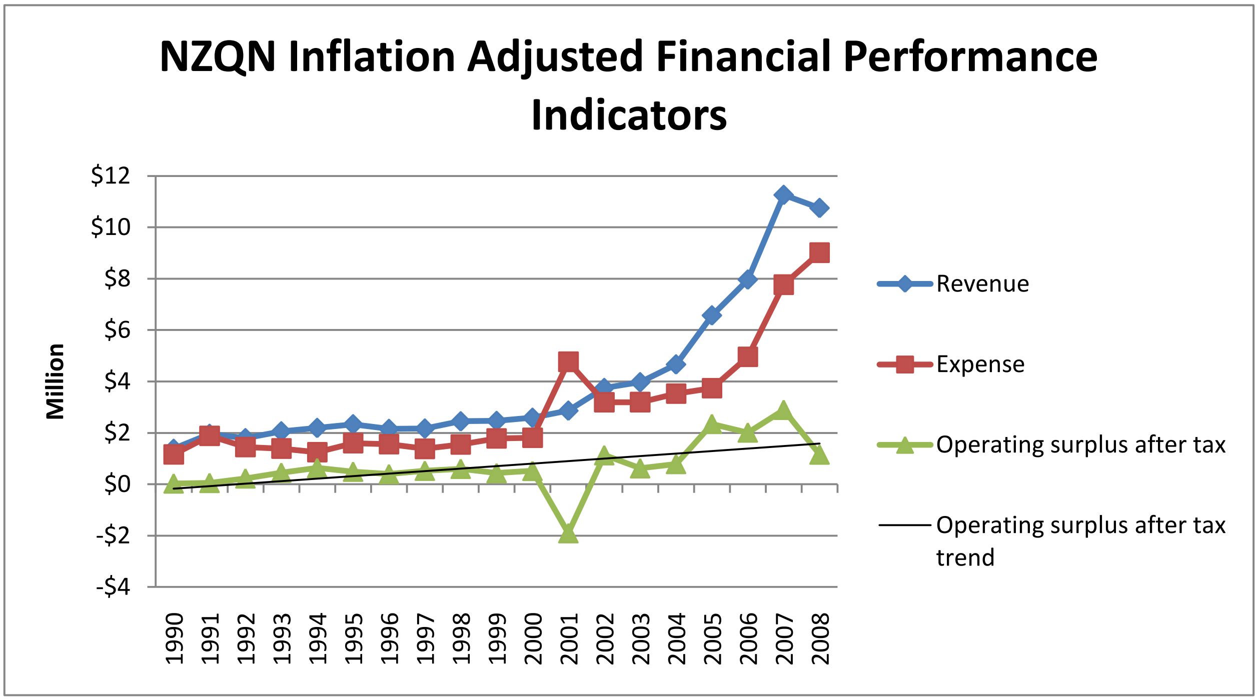
The operating surplus after income tax has shown some significant variations, with a $2.0 million loss in year ending 2001, but has shown growth in most recent years. The overall trend line for operating surplus after tax is positive for the 18 year period and suggests that the airport is commercially successful.

The airport has not paid any dividends over the past 18 years in accordance with its policy to retain profits within the company. This makes it the only company within this study to have never paid dividends.

For the last five financial years Queenstown has generated revenue of $39 million. For the same period expenses totalled 70.6% of total revenue and the operating surplus after taxation 22.2% of the total revenue. Average return on average shareholder equity, at 14.9%, is the highest for the seven airports for the last five financial years. Average shareholder equity, at 36.7%, is the lowest of the seven airport companies for the last five financial years.

Figure 8.46

NZQN Inflation Adjusted Financial Performance Indicators



8.8.5 Analysis and discussion of annual reports

1991-1993

The first report for the company was for the 15 month period ending 30 June 1991. The operating surplus after taxation was recorded as being $58,000. The directors did not recommend the payment of dividends but rather that the profits would be carried forward as retained earnings.

The 1992 report recorded that the airport was benefiting from increasing tourism in the Southern Lakes area, and that the directors were mindful of the need to provide both physical infrastructure and navigational improvements to accept new aircraft type and greater frequencies.

The chairman reported on the need to establish proper planning and zoning requirements for the airport, and the corresponding need to consult with and gain the support of the local community for its continued use and development. A primary objective was stated as being the need to quarantine the land around the airport to leave flexibility for future development.

The 1992 report records an operating surplus after taxation of $165,000 which was carried forward as retained earnings and no dividends were paid.

The company was unable to supply a copy of the annual report for the financial year ending 1993. The 1994 report records the result for the 1993 year as being an operating surplus after taxation of $329,000, and that no dividends were paid.

1994-1998

The 1994 report records that runway extensions were being constructed. There was also reference made to external community debate as to whether or not Queenstown Airport was located at the right place. The company reported as being of the opinion that the existing site was the best location to service Queenstown and the surrounding area. Concern was expressed that the necessary local authority rule change, enabling the airport to remain at its present location, would not come into effect for a further two years and consequently there was the potential to delay development of the airport. As a western extension to the main runway was already approved within the existing district plan it was decided to proceed with this development.

The year-end operating surplus after taxation was reported as being $467,000, and the intention was recorded that it was intended to retain this profit within the business to fund further development.

The 1995 report records that the western extension to the main runway had been completed.

The first international flights to Queenstown were reported as being limited services to and from Australia for the winter ski season. For 12 successive weeks it was recorded that flights had arrived on a Saturday from Sydney and a Sunday from Brisbane. Although arriving direct from Australia the departing flights had to first fly to Christchurch to uplift fuel due to takeoff limitations at Queenstown Airport. Air New Zealand was reported as being the airline that had initiated these international services. The company reported that resource consent for a runway extension to the east had now been obtained and that once this extension was completed direct flights to Australia would be possible.

This new runway development was recorded as being fully supported by the Queenstown Lakes District Council Airport Liaison Committee, a community based organisation. This reflected increasing support from the community for the airport to remain at the existing location.

The 1995 report recorded the first annual decrease in operating surplus since incorporation at $366,000 after taxation. This was attributed to an increase in the costs of complying with the Resource Management Act 1991, and some of the Lake District Council's own requirements of the airport. No payment of dividends was recommended by the directors.

The 1996 report recorded the second year of trans-Tasman operations with some 30 movements recorded to and from Australia. It was reported that additional land had been purchased to enable the runway extension to the east to be constructed, and the highlight of the year reported had been the commissioning of the extension to the western end of the runway.

Statements were recorded in the annual report regarding the need to review landing charges as these had remained unchanged since 1989. The year end surplus after taxation was recorded as $309,000, the second year of a declining surplus, and no dividend payments were recommended by the directors.

The 1997 report records that resource consent had been gained for extension to the main runway to the east but two appeals would have to be addressed.

An approach by the company to local business community seeking assistance with financing the runway extension was reported as resulting in five companies agreeing to provide interest free loans over terms of five years. This would appear to have been a unique situation in New Zealand where local businesses made loans to an airport company, in which they had no equity, and reflects the increasing importance of the airport to the local community.

New landing charges were reported as having been successfully negotiated with airline customers. The operating surplus after taxation was reported as $420,000, an improvement upon the previous year. The directors recommended that no dividends be paid and the profit retained within the company.

In the 1998 report the mission statement of the company was stated as being “[t]o provide airport and related facilities in the district to meet the growing needs of airport services to the Southern Lakes District, to the highest quality and at a level within the means of the community” (p. 2). The actions of the company would appear to have been consistent with this statement and there would seem to be a high level of support evident from local business and other communities for the development of the airport. The company had sustained a policy of retaining profits within the business for future development and the owner had not had to inject any funds into the business during the first 10 years since incorporation.

The operating surplus after taxation was reported as being $485.000 and as per company policy no dividend was declared.

1999-2003

The 1999 report states that the operating surplus after taxation had reduced from previous years to $198,000 and these funds had been retained within the business. Retained earnings at year end totalled $2.945 million.

The 2000 report records a year end surplus after taxation of $425,000 and no dividends were paid.

The 2001 report recorded that the terminal redevelopment had been completed at a cost of $6 million. The collapse of Qantas New Zealand was noted as both resulting in a reduction of domestic services and a bad debt of $114, 000 owed to the company.

The operating surplus after taxation was reported as being $356,000 and no dividends were paid.

In the 2002 report the board stated that “[i]t is the Board’s intention in the coming financial year to pay a cash dividend to the shareholder, QLDC, provided that the current trading conditions continue to prevail” (p. 2). No further mention of this intention is made in subsequent reports and this company has never made dividend payments.

The operating surplus after taxation was reported as being $971,000 for the financial year and no dividends were paid.

The 2003 report states that the upgrade of the heavy aircraft parking area was the one further project “…which on completion will give the region a first class domestic and international airport” (p. 2). This investment has proved worthwhile as Queenstown Airport has continued to grow over the ensuing years to become the fourth largest international airport in New Zealand.

The operating surplus after taxation for the financial year was recorded as being $550,000 and no dividends were paid.

2004-2008

The 2004 report records that despite the collapse of the domestic airline Origin Pacific it was the busiest year in terms of passengers in the company’s history. Mid-week and weekend trans-Tasman services were reported as operating, and both Air New Zealand and Qantas were recorded as providing increased domestic services. A redevelopment of the terminal was reported as being necessary for the 2005 year to accommodate the increased demand, and it was stated that the board were in negotiation with airline operators to secure a better return on assets employed.

The surplus after taxation was $708,000 and no dividends were paid.

The 2005 report contains reference to the need to increase the revenue from non-aeronautical means, such as car parking and terminal leases. Such statements were typically recorded much earlier in the annual reports of other airport companies within this study and reflected a trend away from reliance on aeronautical revenue.

International services to and from Queenstown were reported as growing and Qantas noted as using new required navigational procedures (RNP) to good advantage in bad weather conditions. Air New Zealand was anticipated to do likewise when new A320 aircraft commenced operations. The terminal redevelopment project was reported as being underway in stages and that this major project would be completed in 2007.

The operating surplus after taxation was reported as $2.154 million and no dividends were paid.

The 2006 report records that the year was dominated by the reconstruction of the terminal. A review of existing and future land uses was recorded as being underway to determine the level of airport requirements on existing designated land.

From the operating surplus before taxation the company made a subvention payment of $406,000 to the Queenstown Lakes District Council. The operating surplus after taxation was $1.898 million and no dividends were paid.

In the 2007 report, it was noted by the chairman that “Queenstown Airport is pivotal to the future of the Lakes District and particularly its tourism growth. Directors and management are committed to providing an international airport that meets the long term needs of the region” (p. 5). The strong growths in both domestic and international passenger numbers support these statements. International passenger numbers were reported as increasing with direct connections to Brisbane, Sydney and Melbourne.

The company reported benefiting from increased commercial returns from the expanded terminal space. The $31.0 million upgrade to the main terminal facilities was reported as being complete. The operating surplus after taxation was reported as being $2.841 million and no dividends were paid.

The 2008 report for the company includes a statement by the mayor of Queenstown Lakes District Council to the effect that “Queenstown Airport is a key asset for the Lakes District and an important driver of regional economic development” (p. 1). This statement represents the apparent positive view of the value of the airport by the shareholder as the company is owned exclusively by the local authority.

Planning was recorded as being underway to extend both the main runway, to meet CAA requirements, and also to revise airport noise boundaries. A runway lighting project was reported as being underway to increase operational capabilities between 6.00 am and 10.00 pm daily, the hours that the airport was presently able to operate.

The operating surplus after taxation was $1.157 million for the financial year ending and as for the previous 18 years since incorporation no dividends were recommended or paid.

8.8.6 Summary

Unlike the other three regional international airports that were established by low cost carriers between 1994 and 1996, international services were established at Queenstown by the full service carriers of Air New Zealand and Qantas. While the other regional airports appear to have reached a peak in international services around 2005-2006 Queenstown continues to experience steady growth. The nature of the developments at Queenstown are referred to in the following comment made by the CEO in the 2008 annual report: "Queenstown and the surrounding region represent a quality destination that people are prepared to pay a premium to visit. This is in contrast to other areas where growth is driven primarily by low-cost airlines" (p. 9).

Queenstown is recognised as an iconic New Zealand tourism destination both in terms of domestic and international travellers. Many tourists access this city directly from Australian cities and consequently the international services are dependent upon the strength of the inbound tourism market from that country. Other international tourists access Queenstown by arriving in New Zealand at either Auckland or Christchurch airports and then flying domestically to Queenstown.

Queenstown has some significant geographical constraints due to both the surrounding terrain and because it is in an alpine area. Both Air New Zealand and Qantas were early adopters of RNP (required navigational procedures) to access Queenstown, and Qantas was the third airline in the world to use these procedures and the first outside the USA (Australian Aviation December 2008).

Queenstown Airport Limited was the only major airport company within this study that had been owned 100% by the same local authority for the period under study to financial years ending 31 March or 30 June 2008. For the first 19 years since incorporation to that ending 30 June 2008 it has been profitable but unique in never having paid a dividend. All profits have been retained within the business.

On 8 July 2010 both Queenstown Airport Corporation and Auckland International Airport Limited jointly announced that Auckland Airport had purchased a 24.9% shareholding in Queenstown Airport. This sale is proving contentious and may be challenged in New Zealand courts as it was reportedly made without the full knowledge of all the counsellors of the Queenstown Lakes District Council, the owner of the airport (Owens, 2010).

Chapter 9 - Analysis of the performance of the New Zealand airport industry since commercialisation, and conclusions as to the success of this policy.

9.1 Chapter Overview

The first part of this chapter provides a New Zealand industry overview by aggregating the data of individual companies that were discussed in Chapter 8. The period for which data has been collected was from the first annual report produced by each company to that for the financial year ending 2008. This has resulted in respective data sets of 18, 19 and 20 years. The financial data has then been adjusted to be as at 30 June 2008, using the New Zealand Reserve Bank quarterly inflation figures as contained in **Appendix M.** While not the total airport industry within New Zealand, these seven airport companies accounted for more than 99% of the international air links and some 73% of the scheduled domestic air transport activity in New Zealand during the period of the study.

The second part of the chapter discusses whether or not the commercialisation policy was successful and the conclusions that can be drawn from this study.

Part One. The performance of the industry

The following figures and discussion are in respect of the aggregation of the output/efficiency and financial measures contained in Chapter 8. Firstly non-financial data is discussed for the 10 year period ending 2008 and secondly financial data from incorporation to the financial year ending 2008.

The reason that the non-financial data is for a 10 year period is because it is not available in complete form for a greater period. This data has been sourced from the individual airport companies themselves, the Airways Corporation of New Zealand Limited and Statistics New Zealand. The principal constraint is in terms of international airfreight figures, which are not available earlier than 1998, and without which total airport workload cannot be calculated.

The data in respect of the financial performance indicators has been derived from the annual reports of the seven airport companies. It starts from the first annual report of each company up to and including the annual reports for the year ending 31 March or 30 June 2008.

9.2 Output and efficiency analysis

9.2.1 Aircraft movements

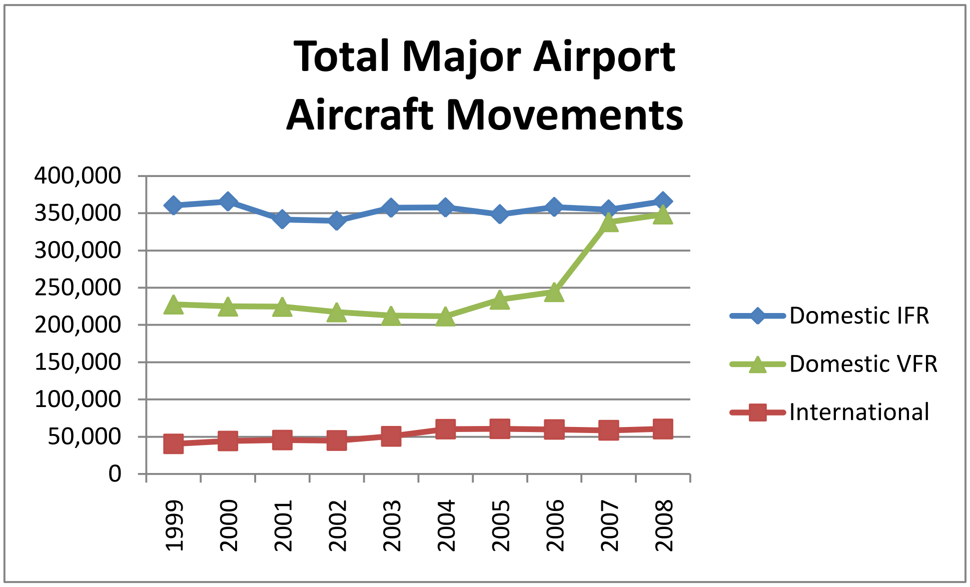
As shown in Figure 9.1 domestic IFR (scheduled air transport) movements have remained stable between 40,000 and 60,000 over the 10 year period to 2008. This pattern is common across the seven major airports and means that they have not had to increase runway capacity to deal with an increasing number of domestic movements.

Domestic VFR movements were reasonably stable until the end of the 2004 year and have trended upwards thereafter, with significant growth at Hamilton, Palmerston North and Dunedin airports. This growth can be attributed to increased pilot training activity at these locations. This is most evident at Hamilton where an English company, CTC Aviation, trains large numbers of pilots for airlines in Europe. Domestic VFR operations are not considered as an important driver of airport revenues as they are generally for training purposes and involve light aircraft that provide only limited aeronautical revenue for airports. This activity may actually be discouraged by the larger airport companies because of the potential conflict between light training aircraft and larger scheduled domestic and international traffic.

International aircraft movements trended up significantly until the end of the 2004 year and have been reasonably stable since at around 40,000 movements per annum. This has meant that airport companies have not had to increase runway capacity in the latter part of the period but may have had to make provision for new aircraft types such as the A380. Since 2006 there has been a marked reduction in international flights from the three smaller international airports at Hamilton, Palmerston North and Dunedin.

Figure 9.1

Total Major Airports Aircraft Movements



9.2.2 Passenger numbers

Passengers per domestic IFR movement (Figure 9.2) have trended upwards from less than 30 to approximately 45 per movement over the 10 year period, an increase of 50%. As the total number of movements has not increased the load factor on existing flights is either increasing or larger aircraft are being used by airlines on domestic services. This represents an increase in efficiency by airport companies as there are more passengers per domestic movement, with the corresponding potential revenue from greater numbers of passengers.

Passengers per international movement (Figure 9.3) show a marked dip in the middle of the 10 year period while the total number of aircraft movements was trending upwards. Since 2005 there have been an increasing number of passengers per movement, while the total number of movements was stable. This indicates either larger aircraft being used or increased load factors. This represents an increase in efficiency for the airport companies by being able to derive revenue from an increasing number of passengers without having to increase airport capacity, with the possible exception of having to increase passenger terminal facilities.

The total number of domestic passengers grew over the 10 year period from 11 million to 17 million in 2008. This increase in passenger numbers over time is seen as being beneficial to airport companies as it provides the opportunity for extra revenue from passenger charges, car parking levies, and other ground based services that airport companies are able to sell to passengers. Airport companies that have implemented both aircraft weight and passenger number charges particularly stand to benefit from this growth.

Total international passengers per movement showed a marked dip in the middle of the 10 year period at the same time that the total number of international flights was increasing. This suggests a lower load factor during this period. The increases in passenger numbers per international movement since 2005 suggest that either larger aircraft are being used or a greater number of passengers carried per movement. Total passenger numbers increased more than three million per annum over the 10 year period. This increase is seen as being beneficial from an airport company perspective as it means that a greater number of passengers are being carried without the need to add extra capacity, again with the possible exception of passenger terminals. Increasing passenger numbers are an important driver of airport revenue as nearly all of the companies in the study now derive the bulk of their income from non-aeronautical means.

Figure 9.2

Total Major Airports Domestic Passengers

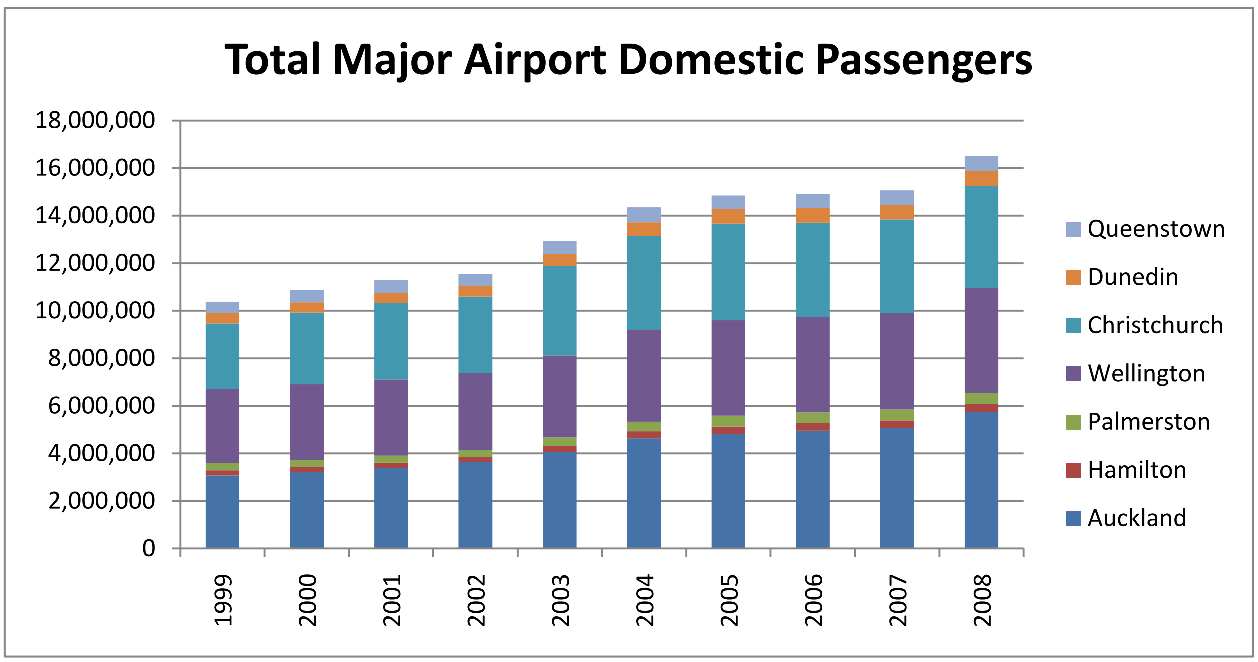
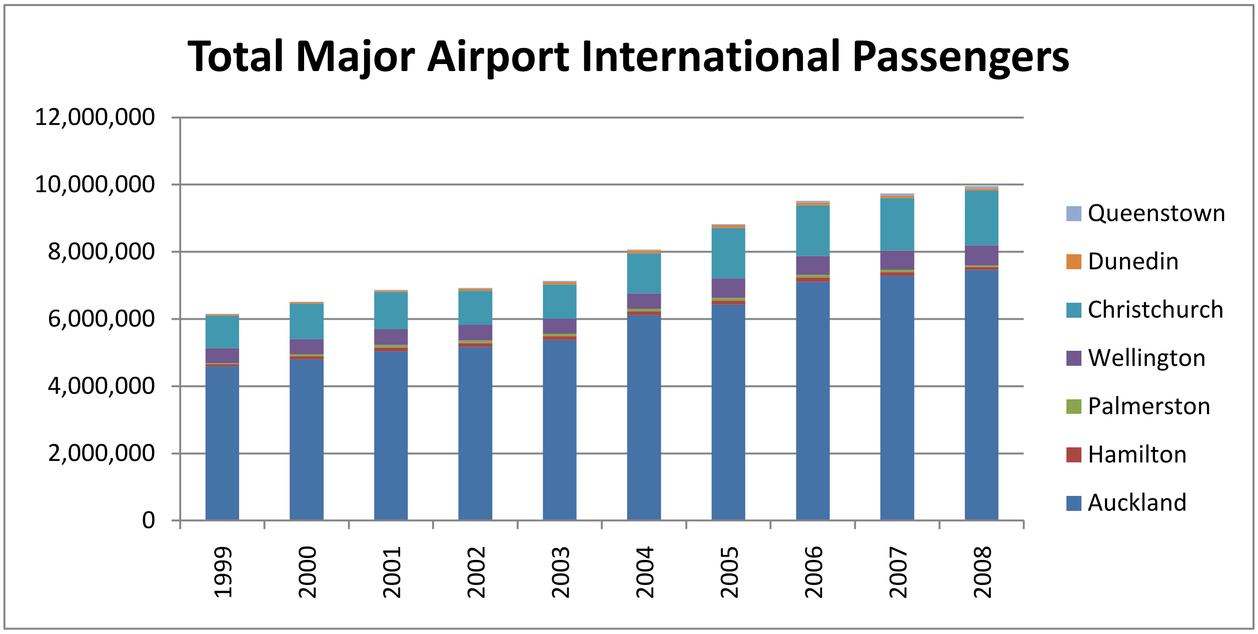


Figure 9.3

Total Major Airports International Passengers



9.2.3 Airfreight

Total international airfreight carried (Figure 9.4) trended up significantly over the 10 year period. Airfreight is dominated by Auckland Airport. The amount of airfreight remained relatively stable at Christchurch Airport and declined significantly year on year at Wellington Airport. Statistics New Zealand records virtually no international airfreight movement at the other four major airports. Airfreight has been identified by a number of managers at the smaller airports as representing an important business opportunity but this has not been realised as yet.

9.2.4 Workload units

Total workload units (Figure 9.5), the sum of individual passenger movements and airfreight in 100's of kilograms, has increased 55% over the 10 year period and is a consequence of growth in both domestic and international passenger numbers and airfreight. This increased activity represents an opportunity for increased airport revenues over time.

Figure 9.4

Airfreight (Tonnes)

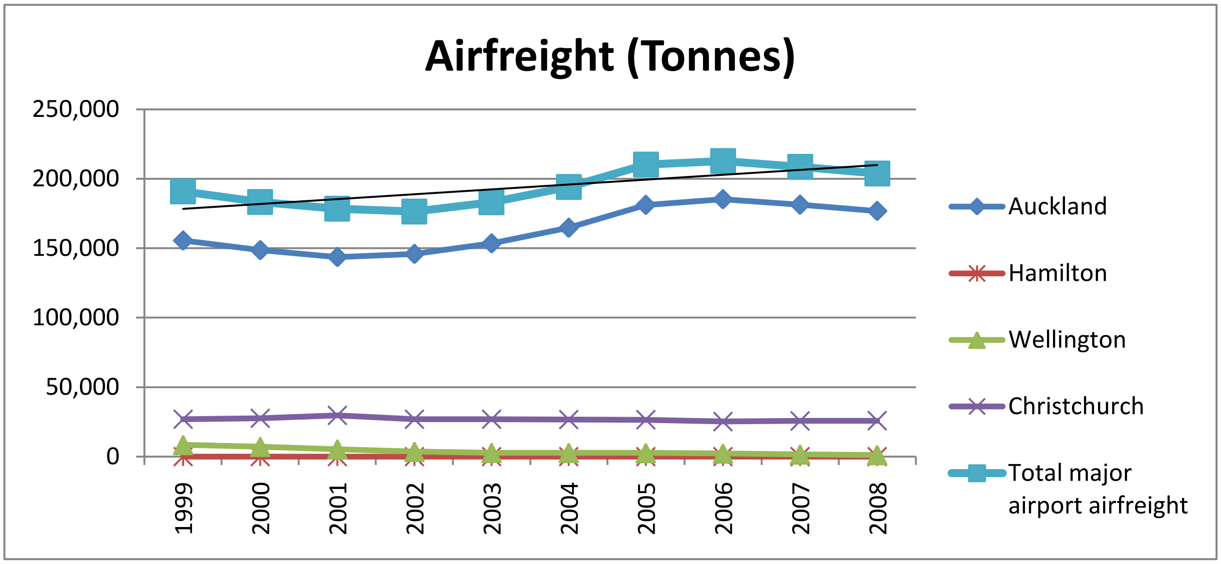
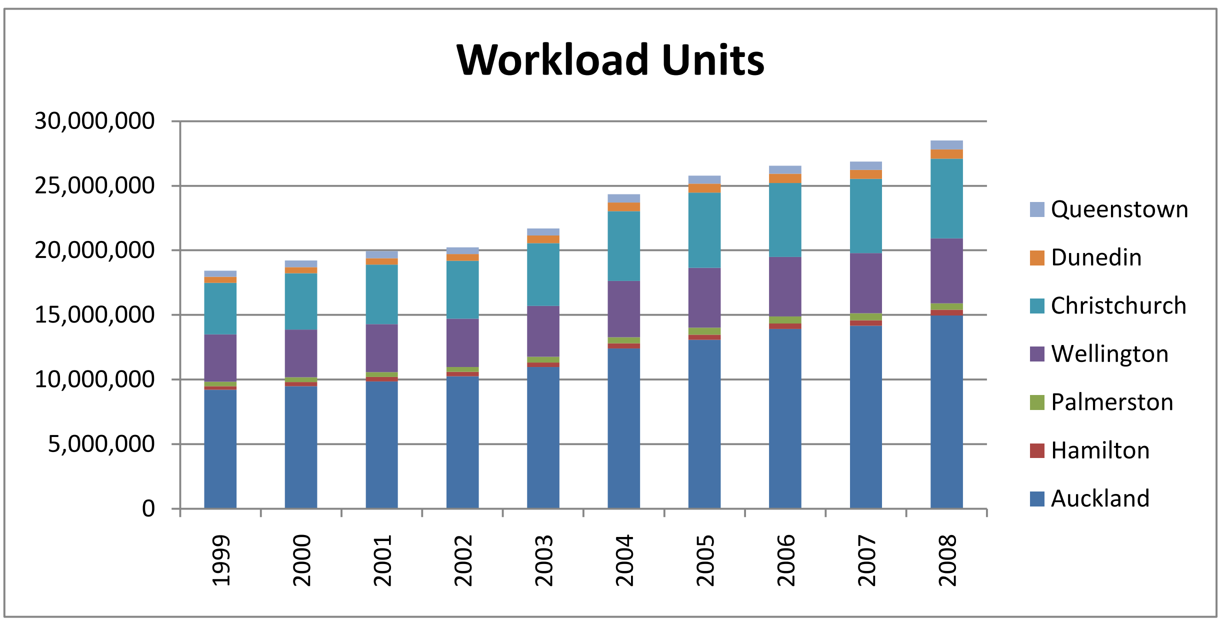


Figure 9.5

Workload Units

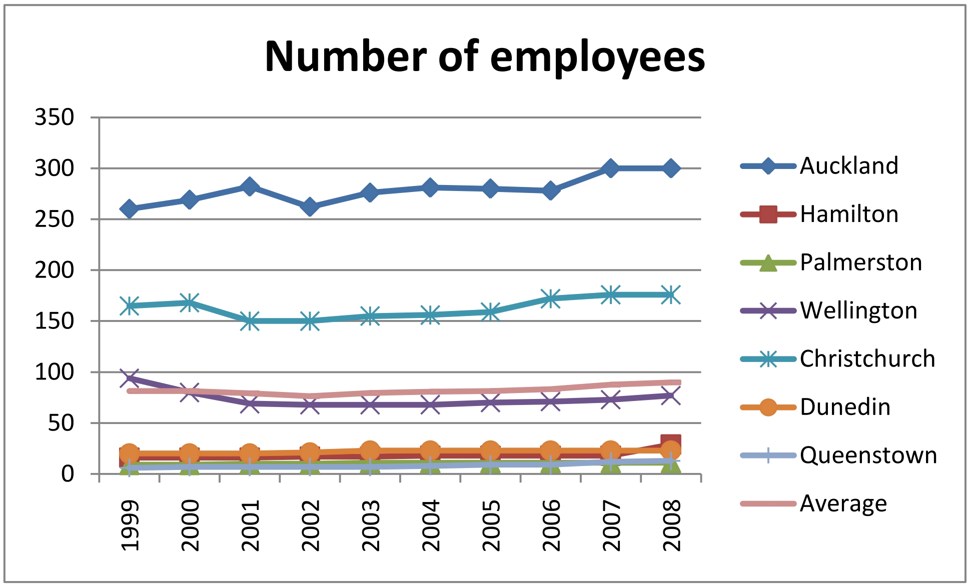


9.2.5 Employee numbers

Total employees (Figure 9.6) within the seven major airport trended down for the first four years of the period but has been increasing since. Total employees over the 10 year period has increased only by 40 persons, or 11% across the seven airport companies. This increase has occurred at a rate less than the increase in workload across the seven airports.

Figure 9.6

Number of Employees

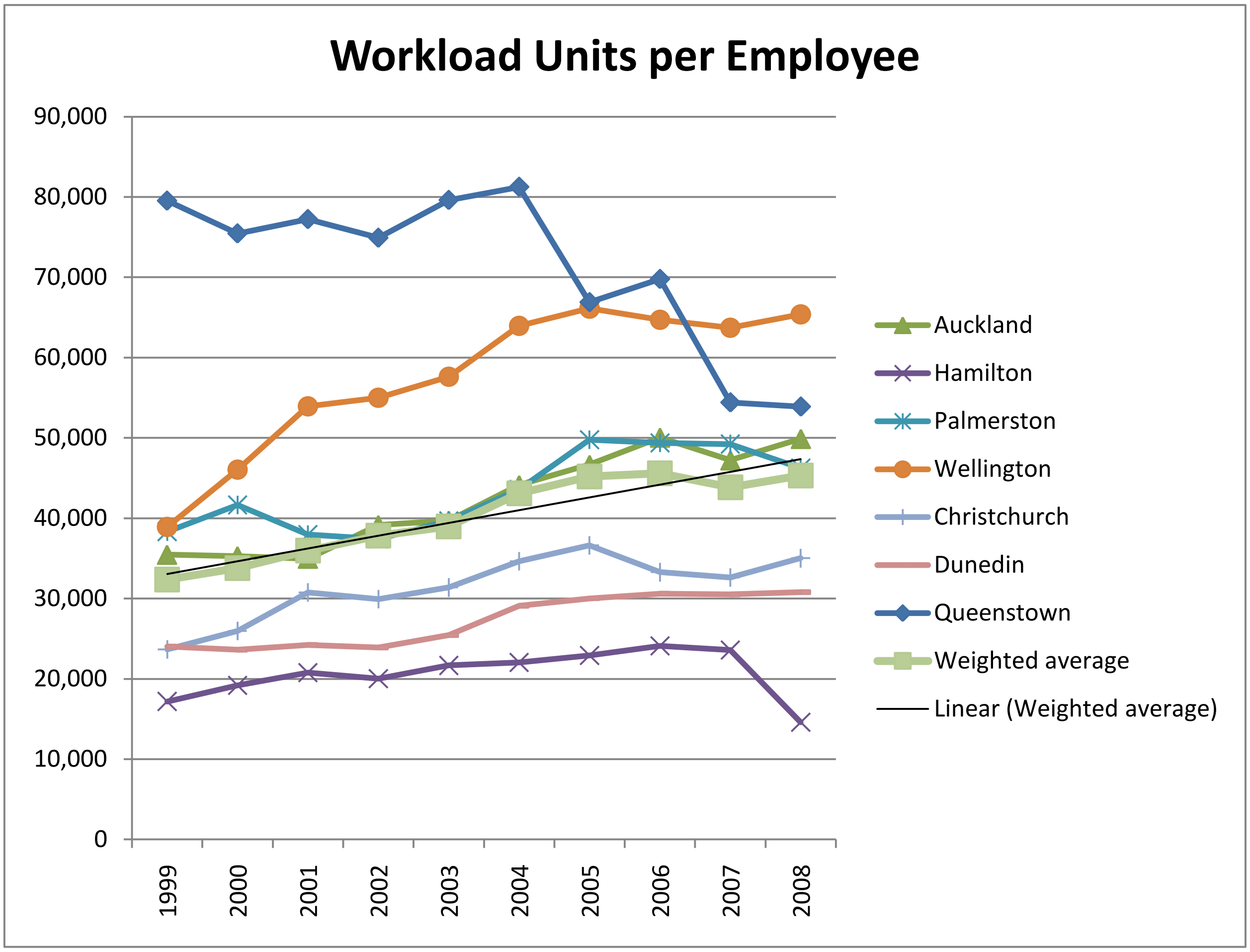


9.2.6 Workload outputs per employee

The 11% increase in employee numbers can be contrasted with a 55% increase in total workload over the same period to find that airport companies have been making more efficient use of their human resources and thereby reducing the total cost of labour (Figure 9.7). There are marked variations in workload units per employee across the airport companies and across time. This can be seen as a consequence of changes in employee numbers at the smaller airports having significant impacts, either positively or negatively, on workload units per employee.

Figure 9.7

Workload Units per Employee



9.2.7 Summary of output and efficiency measures

In respect of all the non-financial performance measures discussed above there have been positive trends in terms of overall growth and performance. This has occurred while constraining costs and resulting ultimately in better overall financial performance, as demonstrated in the ensuing section on the overall of the sum of the seven airport companies since incorporation.

9.3 Analysis of aggregated financial performance.

As shown in Figure 9.8 over the 20 year period there has been a major increase in revenue in real terms from $120 million at the beginning of the period to $560 million at the end. Expenses over the same period have been held down from $120 million at the beginning of the period to slightly less than $200 million for the year ending 30 June 2008. This growth of revenue over expenses is very significant and is found to be one of the most important positive consequences of the commercialisation of New Zealand airports.

Operating surpluses after taxation have also increased over the same time period from nil in 1989 to $180 million by financial years ending in June 2008. Dividends paid have also increased from nil in 1989 to in excess of $100 million for six of the past 11 years, and for each of the last four years.

It can therefore be concluded that commercialisation has resulted in both increasing revenue and increasing profits. Since they were established as companies airports have been making a return to the taxpayer in the form of taxes, achieving one of the objectives outlined by the government in 1986. That these results have been achieved while improving both the capacity and capability of the overall industry, without the need for the injection of capital by the government, can be seen as a significant and positive consequence of the commercialisation process initiated in 1985.

Total inflation adjusted assets (Figure 9.9) have increased from $750 million to $4.7 billion over the 20 year period. Total equity has increased from $450 million to just under $3.0 billion for the same period. This growth in value has occurred without a corresponding increase in debt and demonstrates that the airport industry has both increased in value and itself paid for that growth as a successful outcome of commercialisation.

In terms of equity individual airport companies have shown significant variations over the 20 year period but have generally remained in the range between 40-80%. Major capital expenditure by the smaller airport companies to build capacity tends to result in large fluctuations, such as has occurred at Dunedin and Queenstown airports. This is a consequence of the airport companies having to self fund their own developments and not having access to government funding for such purposes. Such investments tend to be lumpy and result in significant increases in capacity that may not be fully utilised until some years later.

Despite significant variations among individual airports over the 20 year period the average equity has remained very stable at approximately 58% of total assets. This demonstrates that in growing their respective businesses they have been able to effectively use debt while across the entire industry it has remained at prudent levels (Figure 9.10).

Return on equity has seen some significant fluctuations reported by individual airport companies. These fluctuations have been reported by both the larger and smaller companies. Financial years when there has been a negative return on equity, by individual airports, represent less than 5% of all the data.

While the pattern for all the airports shows quite major year on year fluctuation the overall return on equity has increased 37% over the 20 year period. This is evidence that the companies are supplying shareholders with an increasing return on the funds invested. Significant reductions in these returns have occurred over the past three financial years following the large increase in equity recorded in the year ending 30 June 2006. This overall positive trend can be reported as a successful outcome of commercialisation.

In terms of net profit margin there are only five occurrences in the 20 years of data in which a negative result has been reported. Most returns have been in the range between 0-40%, with only one greater occurrence by Auckland Airport in the year ending 30 June 2007. The net profit margin has shown an overall steady increase over the 20 year period. For the first year it was less than 10%, for the subsequent two years between 10 and 20%, and for the last 17 years 20% or greater. These results and the overall positive trend can be taken as clearly demonstrating that the airport industry has been increasingly profitable in real terms, and is again a positive consequence of commercialisation.

For the 20 year period a negative return on total assets is recorded in less than 5% of the total occasions reported. With only one negative occurrence greater than 10% all other occurrences have been between 0 and negative 10%. Queenstown Airport reported both the best and worst results in individual years (Figure 9.13).

The overall return on assets for the seven major airport companies has shown significant variations with the most positive results recorded in financial years ending 1994 and 1995. This corresponds with the rapid growth in international services from the smaller of the seven airport companies during this period. The lower results for the last three financial years are a consequence of the large increase in the overall value of the airport companies' assets that occurred in the financial years ending 30 June 2006. The overall trend for the return on assets has been positive and between 1-2% over the 20 year period.

The percentages of total revenue derived from non-aeronautical resources are quite different for various airport companies but the overall trend is positive for the 10 year period. The first five years shows that slightly more revenue came from aeronautical revenue, in the fifth year it was split equally and for the last four years a greater percentage has been derived from non-aeronautical means (Figure 9.14).

The change over time can be taken as an indication of the increasing diversification of the business activities of airport companies. This diversification of revenue and the development of airports as businesses was one of the clearly stated objectives of the government at the time that the Airport Authorities Act 1966 was amended in 1986. With the major source of revenue now being derived from other than aeronautical means it can be claimed that this diversification has in fact occurred.

Figure 9.8

Inflation Adjusted Total Major Airports Financial Performance Indicators

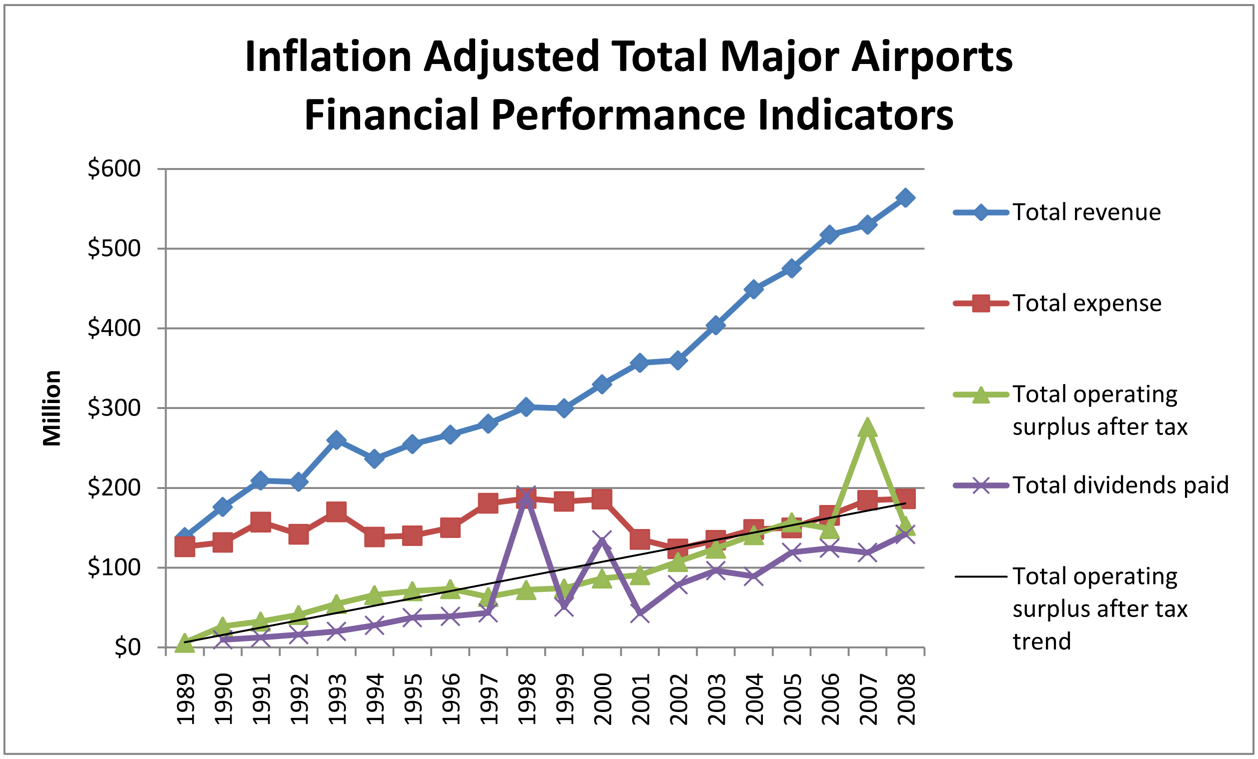


Figure 9.9

Inflation Adjusted Total Major Airports Assets and Equity

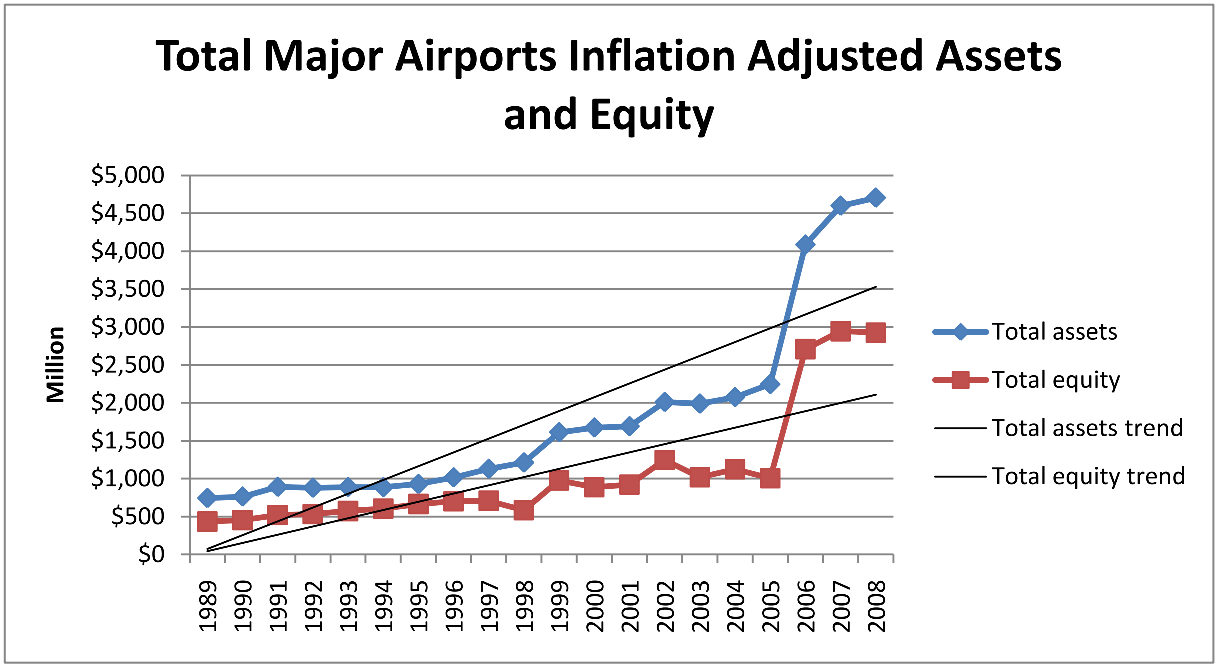


Figure 9.10

Shareholders Equity Ratio – Major Airport Average

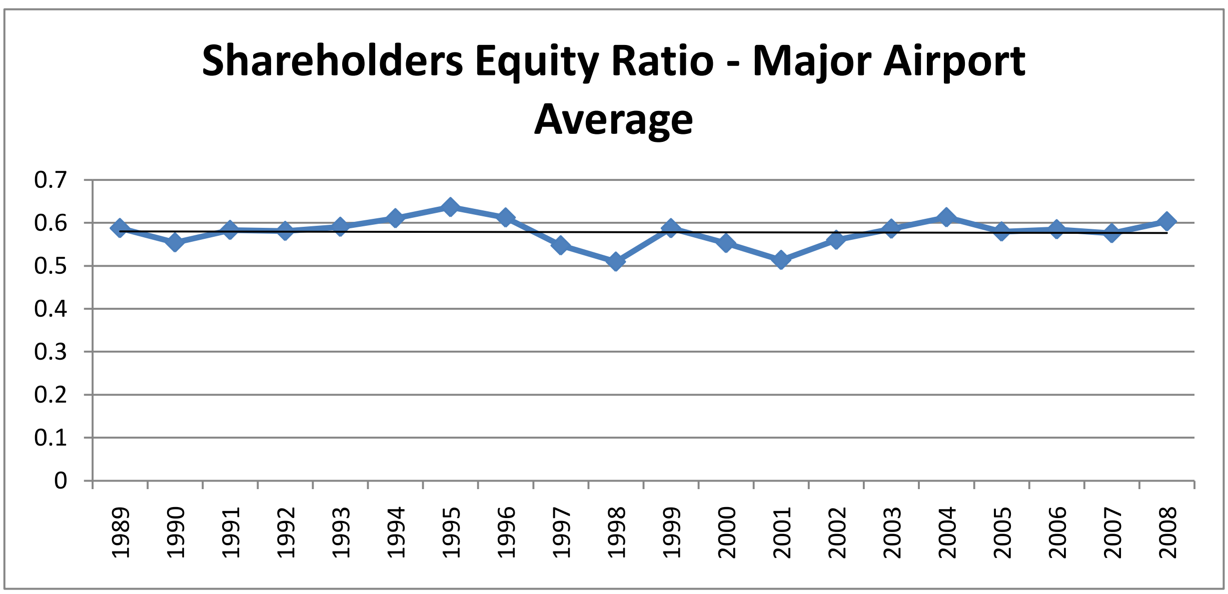


Figure 9.11

Return on Equity – Major Airports Total

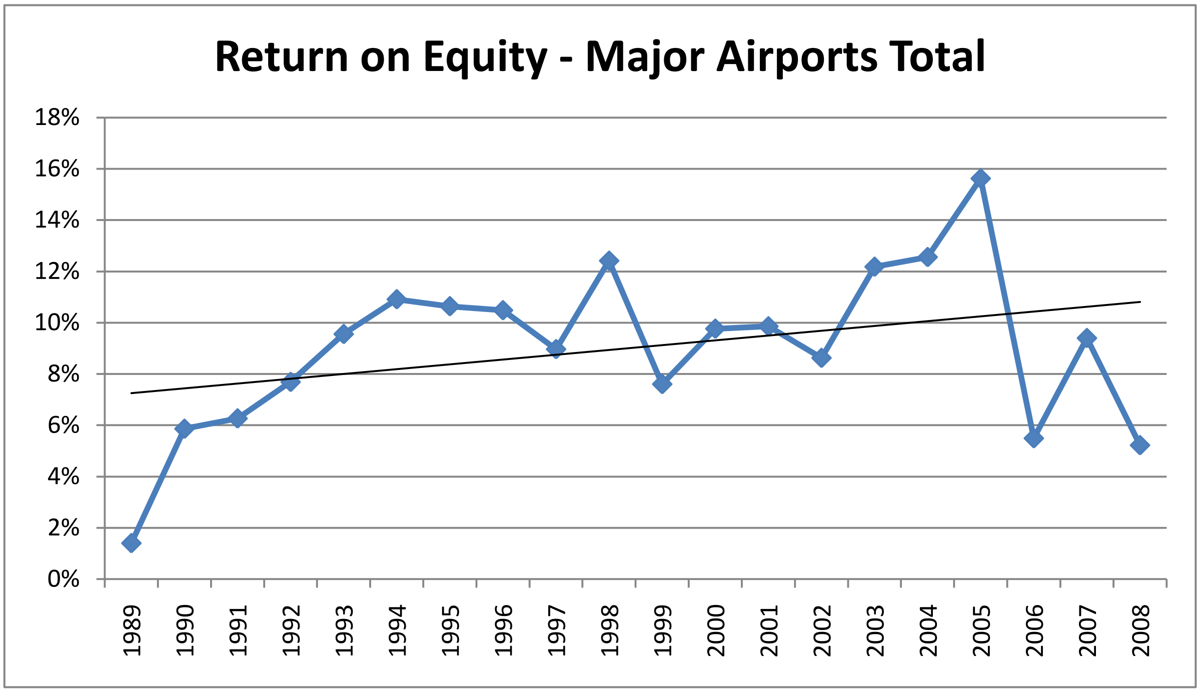


Figure 9.12

Net Profit Margin – Major Airports Total

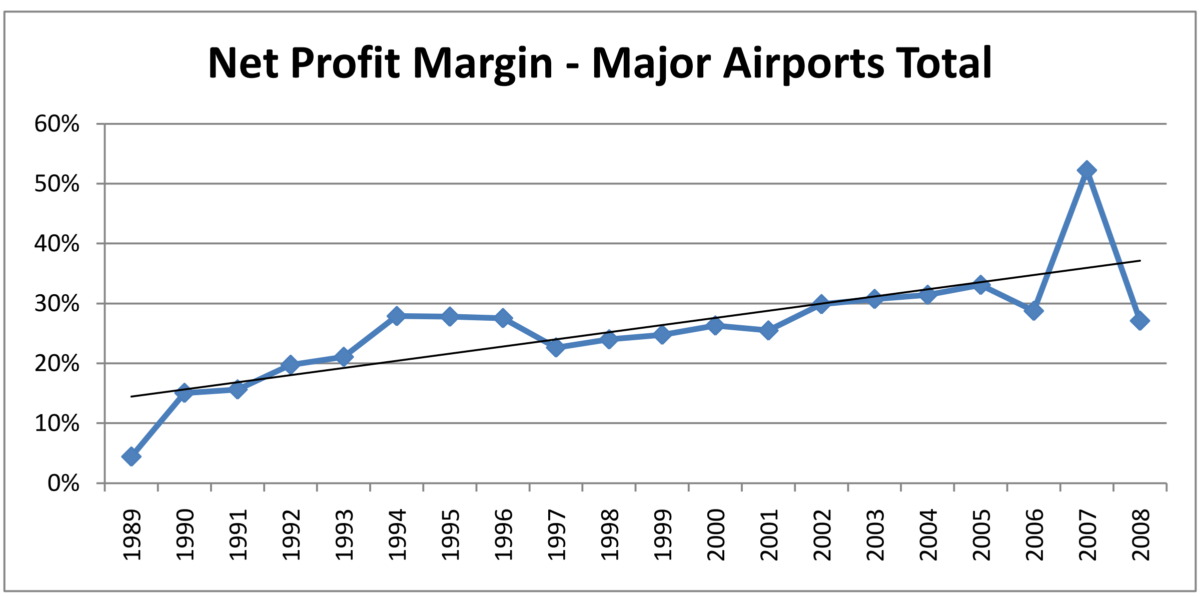


Figure 9.13

Return on Assets – Major Airports Totals

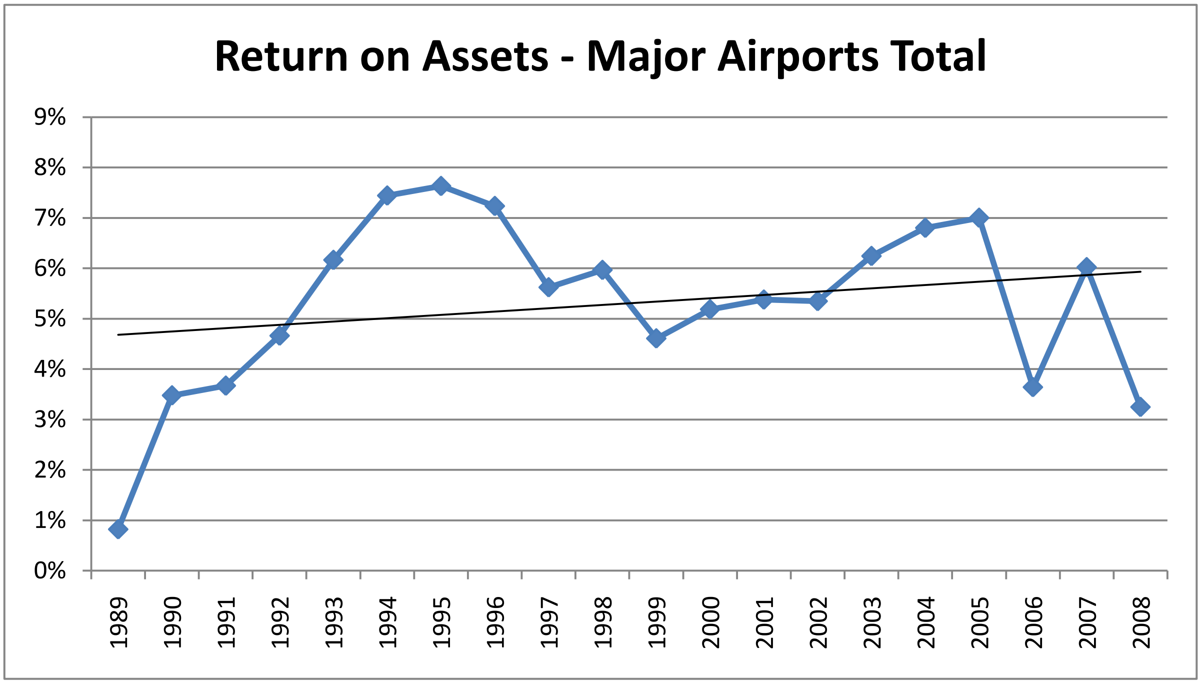
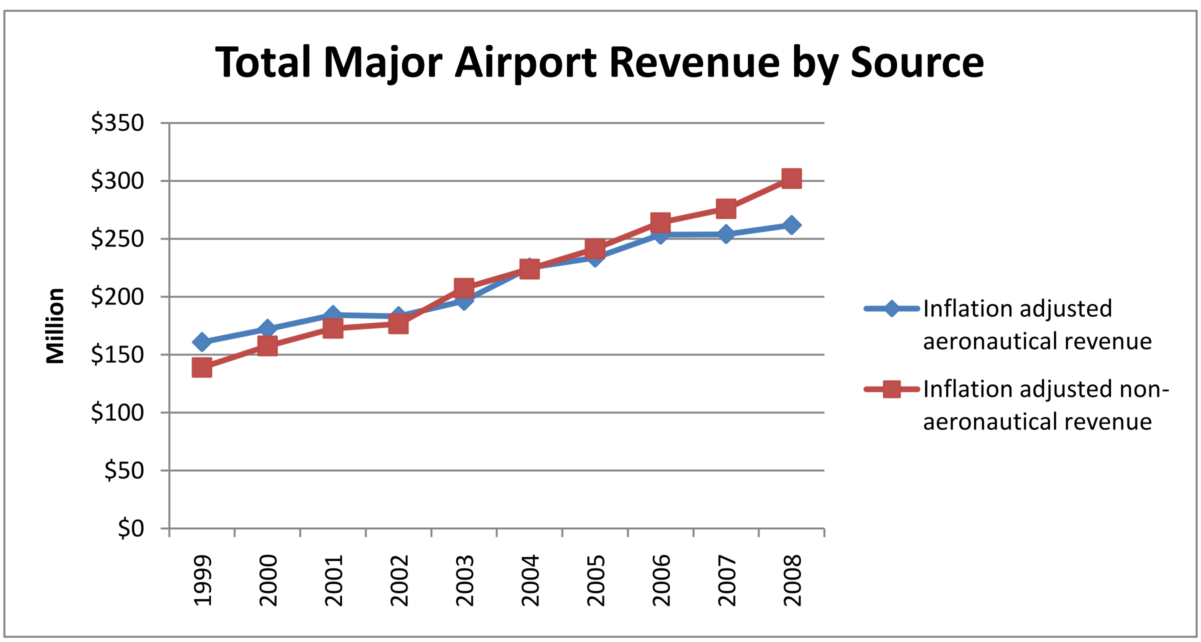


Figure 9.14

Total Major Airports Revenue by Source



9.3.1 Summary of financial performance

This study set out to ascertain whether or not commercialisation of the major New Zealand airports has or has not been successful. Given that all the non-financial and financial indicators, initially identified in Chapter 1 and discussed in this chapter, have been positive, and collectively provide a convincing argument. It can therefore be claimed, at least in terms of these measures, that the commercialisation policy has been a success.

Part Two - Conclusions and Recommendations

This study set out to trace the commercialisation of the New Zealand airport industry from 1985 to ascertain whether or not it has achieved the objectives of the politicians who initiated the commercialisation policy from that time.

The conceptual framework that was used to compare airport development and performance against was that of public sector reform. This enabled the developments that were occurring in respect of airports to be examined and discussed within the context of public sector development and reform that was occurring over the same time frame. The study did not set out to challenge theory associated with public sector reform but rather to use this approach to understand why developments occurred as they did in New Zealand. The study is distinctive because no one else has conducted a study of this nature in respect of New Zealand airports. At the time that economic reforms were being implemented between 1984-1990 New Zealand airports were neither government departments, corporations nor companies. Additionally they were not owned exclusively by the Crown. As a consequence a separate and distinctive strategy was required to commercialise and corporatise them.

The literature supports the conclusion that a distinctly "New Zealand model" of NPM was being developed over the same period that changes were being made to the airport system. As the airport related reforms were part of a broader reform agenda it can therefore be argued that the airport related developments formed part of the development of the "New Zealand model", and that consequently this study informs the literature on New Zealand public sector reform in this regard.

The study finds that while there had been gradual moves toward commercialisation from much earlier than 1985 the major thrust occurred as a result of the implementation of the economic policies of the fourth Labour Government, which resulted in significant changes to the Airport Authorities Act 1966 in 1986. This resulted in a requirement that airports be operated or managed on a commercial basis, and established the basis for them to be owned and operated as separate companies. Prior to that time they were joint ventures between the Crown and one or more local authority.

This study did not set out to explore the privatisation of the airport industry within New Zealand as that was not part of the political agenda for airports in 1985 (Prebble, personal communication, 12 June, 2010) but comments on such developments have been made where it has subsequently occurred to some degree. What is evident is that the airport companies in the study have operated profitably irrespective of their ownership structures, and consequently the conclusion is drawn that it is the freedom to operate commercially that has resulted in their financial performance, rather than public or private ownership, or the combination of both.

9.4 Conclusions

The New Zealand Government of the day announced a clear and comprehensive policy of commercialisation of the major airports in New Zealand in 1985. The vehicle for achieving this commercialisation was for the major airports to be established as separate companies with a legislative requirement to act commercially. All the major airports were subsequently corporatised during the three year period from 1988-1990. The fact that none of these companies have subsequently been disestablished can be taken to indicate the ongoing commitment to commercialisation by successive governments.

A limited and less well defined policy of partial privatisation was initiated in 1990 but was not carried through in the same deliberate manner as that to corporatise the major airports. Five of the seven major airports remain in full public ownership. One of these companies, Palmerston North, was partially privatised but has subsequently reverted to 100% public ownership. Both of the two partially privatised airports, Auckland and Wellington, still have significant public shareholding in them.

Since the commercialisation policy was initiated in 1985 there have been significant developments in the capability of the New Zealand airport system with regard to both infrastructure and capacity. This has been a consequence of the airport companies themselves choosing to make such investments and having the freedom to do so. An example of this occurring was the increase in the number of international airports in New Zealand from the traditional three to seven over a short period of time from 1994-1996. New Zealand aviation activity has grown since airports were commercialised in terms of passengers, both domestic and international, and air freight. Since corporatisation New Zealand has developed a comprehensive and commercially focussed airport system that is capable of rapid change to both respond to demand and to exploit business opportunities as they are identified by individual companies.

The commercialised airports have significantly increased their revenue over time while constraining costs to become increasing profitable, both individually and collectively. Across a number of measures they have demonstrated that they are increasingly productive. This has resulted in their ability to increase the dividends paid to shareholders, while increasing the value of total and net assets and sustaining responsible debt levels.

This means that these objectives of the government in commercialising the airports can be concluded to have been realised over the first 20 years of fully commercialised airports in New Zealand.

At the time of initiating the commercialisation policy the government stated the expectation that the new companies would pay taxes. Across the seven airports there have been only been five occasions where tax was not paid by a particular airport because it was not profitable in a particular year. As the companies have become increasingly profitable the tax paid to the government has increased in consequence. A secondary objective of the government was that it would be relieved of the need to inject further capital into the airport system. This objective of the government has been achieved in that since corporatisation from 1988 onwards no central government funds have been injected into these companies, and the airport companies have managed their own financing and capital requirements.

The ongoing commitment to the commercialised model of airport ownership and operation was reinforced in 2006 when the then Labour Party led coalition government announced its intention to corporatise a further two airports. The current National Party led coalition government has remained committed to this policy and Napier Airport was corporatised on 1 July 2009. Discussions regarding the future potential corporatisation of New Plymouth Airport are ongoing. These actions can be taken as indicative of a long term commitment to commercialisation, and corporatisation as being the predominant manner in which the New Zealand Government considers airports should be owned and operated.

Successive New Zealand governments have continued to maintain a light handed approach to airport regulation and to date no price controls have been implemented. There is a system of information disclosure in place but airport companies continue to enjoy the statutory right to set their own charges for aeronautical and other services. Despite price control regimes being put in place in other countries the New Zealand Government has continued to rely on the provisions of the Commerce Act 1986 to counter any potential monopoly behaviour and airport companies have enjoyed considerable freedom in this regard. The Commerce Commission is currently required to report on how effectively the disclosure regulations are working in 2012 as a result of amendments to the Commerce Act 1986 in October 2008.

The New Zealand Transport Strategy 2008, and the earlier strategy published in 2003, provide little centralised policy guidance with regard to the airport industry. As such it is found that the industry has largely been free to chart its own development on a company by company basis since corporatisation. As a consequence it is found that developments have occurred within New Zealand post corporatisation as a series of individual actions by particular companies rather than as part of a national airport strategy, and that it has not been centrally managed or subject to any significant restraints in doing so. As reported in Chapter 7 airport managers collectively value the freedoms that they enjoy in being able to chart their own future as commercial entities.

9.5 Recommendations

The commercialised and associated corporatised model of airport ownership and management within New Zealand has been found to be working well and there is no clear evidence of a need to advocate significant changes to it. The current arrangements appear to be providing significant social and economic benefits to both the communities in which airports are located and to New Zealand, and can be endorsed as an appropriate arrangement. There is little evidence to suggest that the airport system is not meeting the needs of domestic or international aviation in terms of either passengers or freight.

There would appear to be no evident reasons to recommend the development of an airport privatisation strategy within a New Zealand context. The existing arrangements appear to have allowed airports to both identify and exploit commercial opportunities, and to gain access to the capital that they require to fund their plans.

In the absence of any clearly defined strategy limited privatisation did occur but there was a subsequent reversion to full public ownership in 50% of these cases. The public and private owners of two major airports appear to share common objectives of sound management and good commercial returns, and equally have enjoyed the dividends paid.

Major initiatives, such as the development of four additional international airports, were driven by publically owned companies and are indicative of the freedom and commercial focus of these companies irrespective of ownership. At the present time there would appear to be a significant shift back to public ownership of key transport infrastructure. Examples of this are the repurchasing of the majority shareholding in Air New Zealand by the New Zealand Government, the buyback of Kiwi Rail, and the return of two partially privatised airports to full public ownership.

The current provisions contained in the Airport Authorities Act 1966 and the Commerce Act 1986 are considered to adequately address any potential monopoly pricing issues with regard to the commercialised airports and have stood the test of time. There are established mechanisms in place for reviewing and setting airport charges, including the facility for challenge by substantial customers, which has occurred from time to time. Consequently there is little reason to recommend changes to the current regime.

New Zealand could potentially benefit from the development of a National Aviation Policy; such a policy is currently being developed by Australia. The benefits of such a policy could be to give greater recognition to the importance of aviation to New Zealand and ensure that due consideration be given to those constraints that could hinder its development and operation. It would also allow consideration to be given to the development of air transport from a national perspective rather than the piecemeal development that has taken place with regard to airports since 1986. It would be important to ensure that such a policy supported but did not constrain the development of aviation and the airport industry in particular.

9.6 Limitations of the study

The main limitation of this study is the size of the New Zealand airport industry and that the study is principally comprised of data from the seven largest airport companies. These companies do, however, provide all the civil international passenger traffic, all the civil international air freight to and from New Zealand, and over 70% of the domestic passengers transported within New Zealand.

Consideration was initially given to a more global perspective but the literature review and interviews with airport managers revealed that that development in a New Zealand context has been unique and not easily comparable. While only limited comparisons can be made to the development of commercialised airport operations in other countries it is contended that the value of this study is in terms of its analysis and understanding of an industry very important to the social and economic wellbeing of a geographically isolated country highly dependent on air travel for people and freight.

It is also important to recognise the relative size and importance of individual airport companies in New Zealand, and in particular the importance of Auckland and Christchurch to the airport industry as the principal long haul airports.

9.7 Future research

Future research could profitably explore the arguments for and against privatisation of the airport industry with a New Zealand context. The literature suggests commercialisation and corporatisation can be viewed as an intermediate step between government ownership and control and private ownership and control. More than 20 years after the commercialisation of the major New Zealand airports this does not necessarily apply to New Zealand where public ownership remains the dominant model. To this point in time, there has never been a comprehensive policy to privatise New Zealand airport companies but this could become part of the airport landscape in the future. As such the arguments for and against privatisation of such an important industry could be a fruitful area of research.

A second area of potential research could be the potential benefits of greater collaboration between the airport companies themselves to try and grow the market, rather than divide it, in terms of passengers and freight. This study found that at the present time each airport seems to be pursuing its own development path rather than taking a system wide approach.

In concluding, all the reasons for commercialising airports given by the Minister of Civil Aviation and the Meteorological Services (Prebble, 1985) have been achieved and it is argued that the commercialisation of the major airports in New Zealand has indeed been a success.

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Glossary of Terms

AIAL	Auckland International Airport Limited
Air NZ	Air New Zealand Limited
ATRS	Air Transport Research Society
BARNZ	Board of Airline Representatives of New Zealand
BCPA	British Commonwealth Pacific Airlines.
BDM	Business Development Manager
CAA	Civil Aviation Authority
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIAL	Christchurch International Airport Limited
CTC	CTC Aviation Limited
IATA	International Air Transport Association
IFR	Instrument Flight Rules
IWI	A Maori tribe within New Zealand
ICAO	International Civil Aviation Organisation
KPI	Key Performance Indicator
LATE	Local Authority Trading Enterprise
MAF	Ministry of Agriculture and Fisheries
MOT	Ministry of Transport
MMP	Mixed Member Proportional Representation
MP	Member of Parliament
MRI	Major Regional Initiative
NAC	National Airways Corporation of New Zealand Limited
NPM	New Public Management
NZ	New Zealand
NZAA	ICAO code for Auckland Airport
NZCH	ICAO code for Christchurch Airport

NZDN	ICAO code for Dunedin Airport
NZHN	ICAO code for Hamilton Airport
NZPN	ICAO code for Palmerston North Airport
NZQN	ICAO code for Queenstown Airport
NZWN	ICAO code for Wellington Airport
NZPAF	New Zealand Permanent Air Force
OECD	Organisation for Economic Co-operation and Development
PAA	Pan American Airlines
UK	United Kingdom
RESA	Runway End Safety Area
RNP	Required Navigational Procedures
RNZAF	Royal New Zealand Air Force
SOEs	State Owned Enterprises
SPATC	South Pacific Air Transport Council
TEAL	Trans Tasman Empire Airlines
The Act	Airport Authorities Act 1966
USA	United States of America
TPA	Traditional Public Administration
VFR	Visual Flight Rules
QAC	Queenstown Airport Corporation Limited
WIAL	Wellington International Airport Limited
WWI	World War I
WWII	World War II

Appendix A

Questions and propositions

Questions asked of individual airport managers and propositions subsequently developed to be used as the basis for the focus group with one representative from each airport company June 2007.

Question 1

What is the primary commercial objective of airport companies within New Zealand?

Propositions

The primary commercial objective of New Zealand airport companies is to deliver a satisfactory financial return relative to the needs of shareholders.

Airport companies also provide economic value for some types of owners beyond investment in the airport company itself.

Question 2

Who are the principal customers of airport companies in New Zealand?

Propositions

The principal customers of airport companies are both the airlines and the passengers that utilise the airport.

Question 3

What is the nature of the relationship between airport companies and their principal customers?

Propositions

The nature of the relationship with airlines is formal and contractual. The nature of the relationship with passengers is not formal.

Question 4

What are the determining factors in choice of airport for airport customers?

Propositions

The choice of airports by airlines is market driven. The choice of airport by passengers is driven by the type of airline service delivered, convenience and price of travel.

Question 5

To what extent are airports exposed to effective inter-airport competition? What impact does this have upon the commercial performance of airport companies?

Propositions

Competition exists between airport companies for domestic and short haul international passengers.

There may be too many airports servicing short haul international passengers and consequential inefficiencies in the airport system.

Competition is based on services and price and not necessarily market dominance.

Question 6

To what extent do airport customers invest in infrastructure at the airports that they operate from? What impact does this have on the commercial performance of airport companies?

Propositions

Airlines typically do not invest significantly in airport infrastructure. This is accepted by airport companies that prefer to own most airport infrastructure and make it available to airlines on a common use basis on a charge for use basis.

Question 7

What are the underlying objectives of New Zealand airport companies? Is it profit maximisation, maximisation of trade flows, regional development, promoting international competitiveness? Are these appropriate? If not, why not?

Propositions

The primary focus of airport companies is profit maximisation and a sustained return to the shareholders.

A continuum exists encompassing publicly owned and managed airports, corporatised airports and privatised airports. The company objectives tend to be a consequence of where an individual airport is on that continuum.

Question 8

What are the most important performance indicators for airport companies as businesses within New Zealand?

Propositions

The most important non-financial indicators are aircraft movements, passenger numbers and cargo throughput (with passenger numbers being the biggest driver of value). Growth over time of passenger numbers is also an important indicator of value.

The most important financial indicators for airport companies are bottom line profit and return on the shareholders investment.

Question 9

How could the commercial performance of airport companies within New Zealand be improved?

Propositions

The commercial performance of airport companies can be improved by being a corporate entity and the associated clarity of focus and motivation to act commercially

Corporatised or privatised airport companies perform better than those that are not.

Diversification of income into non aeronautical revenue streams is an important factor in improving commercial performance.

Question 10

What NZ laws impact upon the commercial performance of New Zealand airport companies?

Propositions

Legislation as listed above are considered to be those statutes that impact upon the commercial performance of airport companies.

Question 11

What is the impact of these laws upon the commercial performance of airport companies as businesses in NZ?

Propositions

Consultation with major airline customers is protracted and expense with regard to the establishment of aeronautical charges.

There are constraints on earning more than the Weighted Cost of Capital because it will generate claims that airport companies are exploiting monopoly positions.

Significant costs of complying with legislative and rule requirements have a significant negative impact on profits that can be earned.

Question 12

What international conventions or laws impact upon the commercial performance of airport companies within NZ?

Propositions

The international laws or conventions that impact upon the commercial performance of New Zealand airport companies are ICAO requirements, duty regimes and regulatory functions that are carried out at the border.

Question 13

What is the impact of those international laws or conventions upon the commercial operation of airports as commercial entities within NZ?

Propositions

There are significant costs to airport companies in complying with ICAO requirements and standards.

There is a potential loss of income from duty free sales if there was a change in regimes and common borders established.

There are significant costs to airport companies in housing government agencies that cannot be recovered from them.

Question 14

Are you aware of any proposed amendments to laws or conventions that might have either a positive or negative impact upon the commercial performance of airport companies in NZ?

Propositions

The potential exists for a move towards a more regulated environment which would have negative consequences for airport companies.

There are constant pressures by airlines to get governments to regulate prices at airports.

Major world events can have significant financial impacts in terms of disruption to travel and costs in areas such as airport security.

Question 15

What changes to New Zealand laws or regulations could be made to enhance the commercial performance of NZ airport companies?

Propositions

Reductions in both time and costs associated with the Resource Management Act would have positive financial consequences for airport companies.

Question 16

What is the impact of government economic policy upon the commercial success of airport companies in New Zealand?

Propositions

The current political environment (MMP) may not enable further significant development of additional corporatised or privatised airport companies

Greater regulation of the airport industry has negative consequences for the commercial performance of airport companies.

Airport company performance is linked to the level of economic activity within the broader community.

Question 17

What is the impact of government environmental policy upon the commercial success of airport companies in New Zealand?

Propositions

Environmental issues are increasingly receiving attention, and undertaking projects that have a potential environmental impact will become harder to achieve going forward.

Costs associated with emissions will have an impact upon airport companies but there is uncertainty as to the nature or magnitude of that impact.

Airport companies are susceptible to additional costs that may be imposed by border control agencies with little opportunity to recover those costs.

Question 18

What is the impact of government bilateral agreements with other countries upon the commercial success of airport companies in New Zealand?

Propositions

Airport companies support the “open skies” policy of government as being good for business.

NZ airport companies may enjoy a competitive advantage over other countries because they may have more restrictive policies in place.

A lack of “open skies” policies in other countries may restrain opportunities for NZ airport companies in terms of the available markets that they can access.

Question 19

What is the impact of international trends regarding ownership of airport companies upon the commercial success of airport companies in New Zealand?

Propositions

Airport companies have benefited from NZ being an early mover in terms of corporatisation and privatisation. Some airports within NZ missed out on this development.

Privatisation of airports is positive in terms of the effect on the commercial performance of those airport companies.

Having a mix of privatised and government owned airports has negative consequences for the NZ airport industry as a whole.

Privatisation of airport companies is beneficial because it allows better access for finance.

Investment companies that own airport assets on an international scale may increasingly be involved in the ownership of NZ airport companies.

Question 20

What future political decisions could most assist airport companies operate more effectively as commercial entities within NZ?

Propositions

Airport companies benefit from the current regime with regard to regulation and believe that greater regulation would have negative consequences on their commercial performance.

Airport companies will perform better financially if the government does not intrude into the industry.

Limiting the number of international entry and exit points would benefit some airport companies at the expense of others.

The improvement by government of processes associated with the RMA would benefit airport companies in terms of their commercial performance.

Question 21

What difference exist between regional and national politics that impact upon the commercial success of airport companies in NZ?

Propositions

There may be an optimum number of international airports for New Zealand.

A contrary proposition is that the market should be left to decide how many international airports service NZ.

Airports are locked into the fortunes of their regional economies and politics.

Strong links between airport companies, airlines, regional development initiatives and tourism initiatives are predictors of success for airport companies.

National and regional interests clash from time to time.

Significant capital investment by regional airports ahead of apparent demand can have long term financial benefits.

Question 22

What is the impact of any such differences upon the commercial performance of airport companies in NZ?

Propositions

Some airport companies are subsidised by their regional owners and are therefore inefficient.

Conversely regional initiatives can result in the development of significant markets for air travel with positive consequences for the airport company and regional economy.

Increased costs are incurred by central government as a consequence of their being potentially too many points of arrival and exit from NZ.

Major airports may see commercial benefit in smaller airports exiting the international market.

Question 23

What potential events within NZ represent the greatest threat to the commercial success of airport companies within NZ? What would be the impact of these threats occurring?

Propositions

The threat of regulation or regulatory interference is continually present.

Airlines can potentially collude to control markets to the detriment of airport companies.

Both government protections of Air NZ and the sustainability over time of that airline have significant potential impact upon the commercial performance of NZ airport companies.

Natural disasters have the potential to impact significantly on the commercial performance of specific airport companies.

Question 24

What potential events external to NZ companies represent the greatest threat to the commercial success of airport companies within NZ? What would be the impact of these threats occurring?

Propositions

Pandemics or terrorism would have a significant impact upon the commercial performance of NZ airport companies. The impact is variable as to whether these were isolated incidents or sustained over time.

Greater connectivity to the world results in greater exposure to the impact of world events.

Further rationalisation of the airline industry would have significant consequences on the commercial performance of airport companies.

The economic situation in other countries impacts upon the commercial success of NZ airport companies. The impact varies according to whether these are isolated variations or sustained.

Airport companies do not operate in isolation and events that impact upon NZ as a country typically impact upon airport companies as well.

Question 25

How could the effects of these events upon the commercial performance of NZ airports be minimised?

Propositions

Effective contingency planning and implementation of those plans will minimise the impact of many significant adverse events.

Diversification of revenue streams by airport companies minimises the exposure to solely aviation related revenue sources that may be impacted by events external to NZ.

Currency fluctuations have different impacts upon different traveller markets.

Question 26

What potential developments within NZ represent the greatest opportunity for the commercial success of airport companies? How would this impact upon airport companies in NZ?

Propositions

A move to high volume low cost air travel within NZ would benefit airport companies.

Greater government investment in tourism within NZ would benefit airport companies.

More marketing by government of different tourism destinations within NZ would stimulate internal travel and have a beneficial impact upon airport companies.

Greater levels of immigration into NZ have beneficial effects for airport companies.

Question 27

What potential developments external to NZ represent the greatest opportunity for the commercial success of airport companies? How would this impact upon airport companies in NZ?

Propositions

The more airline capacity to and from NZ the greater the benefit to NZ airport companies.

New aircraft developments provide opportunities for new routes, and new services from smaller airports.

The type of passenger using an airport is a determinant of the type and level of spend that will occur.

Dominance of airlines in specific markets impacts upon the commercial performance of airport companies.

Lack of competition on specific routes may have a negative impact on some airports as airlines if airlines withdraw services from these routes to concentrate elsewhere.

Question 28

How could the opportunities represented by these developments be acted upon to improve the commercial performance of NZ airport companies?

Propositions

The commercial performance of airport companies is determined by their ability to get airlines to service them.

Under-utilised airport infrastructure exists within NZ that could be utilised to increase the level of air travel both within and to and from the country. This may be to the detriment of some existing airports.

Airport companies can potentially exploit emerging aircraft technologies by stimulating different services to new markets.

The greater participation in air freight represents a significant potential commercial benefit for airport companies.

The greater use of technology to change the nature of the customer relationship and reduce costs will benefit airport companies commercially.

Appendix B

Aircraft Movement Table

Airport	Type	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Auckland	Domestic IFR	107,422	111,279	106,940	103,877	107,373	110,320	111,629	114,248	111,259	115,145
	Domestic VFR	14,291	13,441	10,941	10,329	10,270	10,563	9,148	8,602	8,591	9,070
	International	26,189	28,537	29,519	29,076	34,278	39,743	38,414	38,561	38,413	40,416
Hamilton	Domestic IFR	17,762	19,182	19,684	18,974	20,025	22,905	23,311	24,383	26,936	26,530
	Domestic VFR	43,314	33,748	31,712	30,905	36,293	36,127	61,967	71,644	112,098	123,736
	International	666	1,117	1,155	1,136	1,109	1,165	1,233	1,138	905	843
Palmerston North	Domestic IFR	26,611	24,278	22,082	22,108	22,114	21,808	21,150	21,328	20,968	21,626
	Domestic VFR	31,825	30,775	33,128	26,770	25,602	30,444	30,045	36,940	67,262	61,037
	International	339	906	808	753	736	888	948	806	587	113
Wellington	Domestic IFR	111,032	109,768	97,061	94,442	99,870	96,367	92,987	96,110	93,936	96,749
	Domestic VFR	21,696	19,600	20,113	20,193	20,196	18,467	19,907	19,875	24,974	19,505
	International	5,665	5,869	6,043	5,582	5,463	6,103	6,381	6,076	5,814	5,912
Christchurch	Domestic IFR	79,588	82,182	79,107	81,470	87,078	85,073	79,878	82,419	81,957	84,029
	Domestic VFR	63,011	70,054	63,673	67,466	61,161	59,623	56,479	45,372	47,284	52,619
	International	7,003	7,124	7,364	7,469	7,976	10,960	12,149	11,877	11,727	11,789
Dunedin	Domestic IFR	11,861	12,533	10,306	11,833	13,129	12,799	11,430	11,574	11,584	13,273
	Domestic VFR	6,175	10,909	18,553	18,735	15,459	12,612	11,677	19,522	28,711	41,365
	International	324	451	549	701	750	915	1,036	807	644	683
Queenstown	Domestic IFR	6,062	6,502	6,498	6,954	7,630	8,406	8,101	8,188	8,158	8,552
	Domestic VFR	47,457	46,404	46,511	42,914	43,546	43,951	44,956	42,446	49,289	41,195
	International	175	196	183	196	227	296	412	512	568	698

Source: Airways Corporation of New Zealand Limited

Appendix C

Passengers per Aircraft Movement Table

Airport	Type	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Auckland	Domestic IFR	28.6	28.8	31.6	35.0	37.8	42.1	43.2	43.4	45.6	49.9
	International	175.3	168.2	170.8	177.8	156.7	153.9	167.4	184.2	189.7	184.6
Hamilton	Domestic IFR	11.8	11.1	11.5	11.8	12.7	12.5	13.1	12.8	11.9	12.7
	International	96.9	84.0	92.6	102.4	102.6	95.2	87.5	107.7	113.8	102.8
Palmerston North	Domestic IFR	11.7	13.1	13.8	13.4	16.2	18.5	21.7	21.2	22.0	21.5
	International	96.1	63.7	93.8	104.4	105.1	85.7	93.3	112.1	136.8	381.6
Wellington	Domestic IFR	28.2	28.9	33	34.3	34.6	40.1	43.2	41.7	43.2	45.7
	International	79.1	75.8	77.8	84.0	81.6	74.7	92	93	98.9	102
Christchurch	Domestic IFR	34.4	36.7	40.6	39.4	43.1	46.4	50.9	48.3	49.9	50.9
	International	138.7	149.7	150.2	135.3	128.1	108.7	122.6	126.2	132.9	137.9
Dunedin	Domestic IFR	37.7	34.5	41.9	36.9	38.5	45.5	52.3	53	53.7	48.1
	International	103.1	87.6	96.2	94.3	107.2	95.4	89.8	111.9	123.8	102.9
Queenstown	Domestic IFR	77.4	78.7	80.8	73.2	70.2	74.1	71.3	71.3	73.4	74.6
	International	46.7	82.4	85.2	78.6	93.8	91.2	58.3	85.9	95.1	89.2

Source: Airport company annual reports

Appendix D

Workload Unit Table

Airport	Type	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Auckland	Passengers	7,665,974	8,006,042	8,424,164	8,803,949	9,427,652	10,757,012	11,256,077	12,066,177	12,355,191	13,202,772
	Airfreight – 00kg	1,554,600	1,485,530	1,436,030	1,458,230	1,534,120	1,646,650	1,811,070	1,851,570	1,812,640	1,767,660
	Workload units	9,220,574	9,491,512	9,860,194	10,262,179	10,961,772	12,403,662	13,067,147	13,917,747	14,167,831	14,970,432
Hamilton	Passengers	274,997	307,195	332,340	340,420	368,322	396,616	412,362	433,958	424,710	423,014
	Airfreight – 00kg	0	0	0	0	0	0	30	0	0	20
	Workload units	274,997	307,195	332,340	340,420	368,322	396,616	412,392	433,958	424,710	423,034
Palmerston North	Passengers	344,858	374,894	379,676	374,076	436,406	479,604	547,536	543,146	541,566	508,788
	Airfreight – 00kg	0	0	0	0	0	0	0	0	0	0
	Workload units	344,858	374,894	379,676	374,076	436,406	479,604	547,536	543,146	541,566	508,788
Wellington	Passengers	3,575,000	3,613,000	3,669,000	3,704,000	3,900,000	4,321,000	4,602,000	4,572,000	4,635,000	5,022,000
	Airfreight – 00kg	84,330	71,410	53,200	35,760	28,100	27,540	26,400	23,060	16,340	12,190
	Workload units	3,659,330	3,684,410	3,722,200	3,739,760	3,928,100	4,348,540	4,628,400	4,595,060	4,651,340	5,035,190
Christchurch	Passengers	3,708,773	4,084,383	4,315,423	4,219,518	4,593,219	5,136,075	5,556,325	5,472,162	5,484,570	5,905,211
	Airfreight – 00kg	269,250	276,600	296,470	269,540	269,540	267,360	265,580	251,960	256,690	258,420
	Workload units	3,979,023	4,360,983	4,611,893	4,489,058	4,862,759	5,403,435	5,821,905	5,724,122	5,741,260	6,163,631
Dunedin	Passengers	480,429	472,408	484,485	502,239	585,541	669,118	690,492	703,903	701,975	708,506
	Airfreight – 00kg	0	0	0	0	0	0	0	0	0	0
	Workload units	480,429	472,408	484,485	502,239	585,541	669,118	690,492	703,903	701,975	708,506
Queenstown	Passengers	477,170	528,150	540,600	524,400	557,300	650,000	602,000	628,000	653,000	700,640
	Airfreight – 00kg	0	0	0	0	0	0	0	0	0	0
	Workload units	477,170	528,150	540,600	524,400	557,300	650,000	602,000	628,000	653,000	700,640

Appendix E

Financial Data Table - Auckland

Financial Measure	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Revenue	65,996	84,462	92,228	92,011	126,085	106,616	117,446	129,930	140,074	154,509
Expense	59,468	62,404	67,779	61,753	79,960	60,070	61,774	69,084	80,608	91,236
Operating surplus before tax	6,528	22,058	24,449	30,258	46,125	51,541	55,672	60,846	59,466	63,273
Operating surplus after tax	3,794	13,453	15,777	18,137	27,265	33,275	34,823	39,030	40,510	41,089
Dividends paid	0	4,725	6,300	7,245	10,920	13,314	20,895	23,415	24,255	145,803
Return on avg shareholder equity	1.8	6	6.9	7.6	8.7	12.4	12.2	13	12.8	15.1
Total Equity	213,794	222,522	231,999	242,891	259,006	278,967	292,895	308,510	324,765	220,051
Total assets	367,341	377,853	400,475	394,474	391,536	391,230	404,449	460,164	520,843	542,368
Net asset backing per share	1.02	1.06	1.1	1.16	1.23	1.33	1.39	1.47	140,074	
Shareholder’s equity ratio	58.2	58.9	57.9	61.6	66.2	71.3	72.4	67	80,608	40.6

Financial Measure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	160,366	169,990	189,220	200,991	234,707	263,187	282,725	305,814	321,946	351,030
Expense	97,136	94,251	50,256	48,979	53,625	58,717	61,207	65,653	79,230	75,194
Operating surplus before tax	63,230	75,739	88,442	102,273	120,093	139,509	153,394	146,704	276,953	160,448
Operating surplus after tax	42,416	51,053	59,110	71,511	83,501	95,315	105,641	103,155	230,864	112,959
Dividends paid	33,600	63,840	21,000	51,548	60,560	70,046	98,596	100,228	100,087	124,632
Return on avg shareholder equity	8.3	10.2	10.9	9.8	15.6	16.4	23.1	5.6	12	6
Total Equity	510,189	499,946	540,168	732,274	547,260	582,965	457,549	1,855,102	1,914,965	1,896,633
Total assets	823,915	841,323	884,288	1,103,309	1,116,680	1,169,686	1,297,944	2,757,861	2,982,683	3,092,907
Net asset backing per share						0.48	0.37	1.52	1.57	1.55
Shareholder’s equity ratio	61.9	59.4	61.1	66.4	49	50	35	67	64	61

Appendix F

Financial Data Table – Hamilton

Financial Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Revenue	529	958	1,197	1,194	1,227	1,357	3,135	3,164	3,044	3,134
Expense	564	865	928	875	855	1,043	2,657	3,449	2,927	2,579
Operating surplus before tax	-34	260	270	319	373	314	478	-285	117	555
Operating surplus after tax	-30	67	205	222	273	210	319	-193	78	439
Dividends paid	0	0	93	135	164	84	0	0	0	0
Return on avg shareholder equity	-1.6	3.2	9.3	9.6	11.3	8.3	11.2	-7.2	2.8	7
Total Equity	1,870	2,103	2,215	2,304	2,414	2,540	2,858	2,666	2,744	6,298
Total assets	3,366	3,419	3,547	3,456	3,643	3,901	5,469	8,923	8,940	12,420
Net asset backing per share									1.48	2.2
Shareholder's equity ratio	55.6	61.5	62.4	66.7	66.3	65.1	52.3	29.9	30.7	50.7

Financial Measure	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	3,698	4,026	4,394	5,402	4,566	4,654	11,878	8,082	10,591
Expense	2,983	3,159	4,089	3,943	4,040	4,164	8,035	5,278	6,680
Operating surplus before tax	714	1,136	305	1,458	350	490	3,843	2,804	3,910
Operating surplus after tax	559	963	176	1,190	350	238	4,211	2,714	3,887
Dividends paid	0	0	0	0	0	0	0	0	0
Return on avg shareholder equity	8.1	12.2	2.2	5.7	1.7	1.1	12.2	7.3	6.5
Total Equity	6,916	7,880	8,055	20,798	20,509	20,747	34,492	37,364	60,030
Total assets	13,517	14,416	17,568	27,924	29,035	32,040	53,456	63,730	85,156
Net asset backing per share	2.42	2.76	2.82	7.27	7.17	7.25	12.06	13.06	21.9
Shareholder's equity ratio	51.2	54.7	45.9	70	71	65	65	59	71

Appendix G

Financial Data Table – Palmerston North

Financial Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Revenue	254	1,595	1,821	2,097	2,139	2.45	2,072	3,101	3,078	3,027
Expense	232	1,358	1,465	1,696	1,654	69	1,886	2,691	2,725	2,485
Operating surplus before tax	-36	196	356	401	486	**1995**	185	244	353	542
Operating surplus after tax	-52	110	255	253	324	2,074	167	148	259	366
Dividends paid	0	72	0	106	106	1,756	70	70	72	141
Return on avg shareholder equity	-1.8	3.8	6.5	6.2	7.5	318	3.7	3.2	4.7	6.1
Total Equity	2,828	2,866	3,936	4,084	4,302	211	4,526	4,604	5,492	6,048
Total assets	4,793	5,322	8,563	9,399	9,628	84	9,630	10,419	11,939	12,532
Net asset backing per share						4.8				0.63
Shareholder's equity ratio	59	54	46	43	45	4,429	47	44	46	48
Financial Measure	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	
Revenue	3,148	4,107	3,883	4,317	5,957	5,586	5,642	5,598	5,181	
Expense	2,774	3,296	2,236	2,299	3,104	3,020	2,497	2,339	2,317	
Operating surplus before tax	644	811	481	823	1,713	1,402	1,879	2,020	1,710	
Operating surplus after tax	426	510	316	693	1,201	837	1,395	1,448	1,090	
Dividends paid	129	129	202	122	387	334	459	502	395	
Return on avg shareholder equity	6.6	7.4	4.5	9.2	14.2	4.3	6.2	5	3.5	
Total Equity	6,474	6,854	6,967	7,538	8,465	19,426	22,517	28,879	31,498	
Total assets	16,104	16,182	16,564	17,019	17,697	30,220	32,614	38,708	41,057	
Net asset backing per share	0.7	0.75	0.76	0.82	0.92	2.11	2.45	3.14	3.43	
Shareholder's equity ratio	40	42	42	44	48	64	69	75	77	

Appendix H

Financial Data Table – Wellington

Financial Measure	1991	1992	1993	1994	1995	1996	1997	1998	1999
Revenue	13,398	13,398	21,565	22,213	23,875	25,045	25,852	27,686	21,752
Expense	11,561	11,561	16,869	14,171	13,912	15,645	16,818	17,190	9,678
Operating surplus before tax	1,837	1,837	4,696	7,071	7,539	7,312	6,077	6,720	4,158
Operating surplus after tax	1,211	1,211	2,946	4,158	4,410	4,568	3,858	4,385	4,187
Dividends paid	0	0	0	2,843	1,764	1,827	1,543	961	0
Return on avg shareholder equity	2.1	2.1	4.2	5.8	4.4	4.3	3.6	3.9	3.6
Total Equity	57,761	57,761	70,625	71,940	100,509	105,791	108,106	111,530	115,717
Total assets	90,374	90,374	105,610	113,035	133,324	147,539	163,990	193,963	229,927
Net asset backing per share	64	64	67	64	75	72	66	58	50
Shareholder's equity ratio	13,398	13,398	21,565	22,213	23,875	25,045	25,852	27,686	21,752
Financial Measure	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Revenue	31,272	35,865	37,240	47,732	54,362	58,648	66,422	82,078	89,018
Expense	12,153	12,223	12,466	13,747	15,014	14,207	18,988	26,827	28,353
Operating surplus before tax	4,095	1,742	3,586	12,312	18,429	19,242	5,623	10,502	11,794
Operating surplus after tax	4,280	2,319	3,408	9,292	12,257	17,329	5,153	9,249	10,648
Dividends paid	7,500	6,000	6,000	7,000	0	0	5,917	5,643	5,643
Return on avg shareholder equity	6.6	3.8	2.6	6.9	8.3	10.2	1.4	3.3	3.3
Total Equity	65,146	61,641	133,519	135,811	148,068	169,174	366,936	317,298	324,475
Total assets	249,740	246,898	316,788	319,023	309,675	328,058	561,788	597,973	618,976
Net asset backing per share	26	25	42	43	48	52	65	53	52
Shareholder's equity ratio	31,272	35,865	37,240	**1993**	54,362	58,648	66,422	82,078	89,018

Appendix I

Financial Data Table – Christchurch

Financial Measure	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Revenue	20,380	26,992	34,245	28,714	33,779	37,306	40,212	42,340	45,514	48,477
Expense	19,415	20,560	25,344	19,174	21,551	22,311	22,022	23,782	36,509	32,319
Operating surplus before tax	965	6,432	8,901	9,540	12,228	14,995	18,190	18,558	9,005	16,158
Operating surplus after tax	18	3,632	5,189	6,743	8,053	9,412	12,238	12,087	5,059	10,925
Dividends paid	0	1,500	2,074	2,649	3,168	3,744	4,896	4,838	8,294	6,566
Return on avg shareholder equity	0	6.1	8.3	10.4	11.6	12.6	15.1	12.2	4.5	9.7
Total Equity	57,618	59,757	62,872	66,966	71,853	77,521	84,863	112,909	110,302	114,661
Total assets	97,188	104,336	110,816	116,179	119,593	117,431	121,647	148,300	172,239	195,178
Net asset backing per share				1.16	1.25	1.35	1.47	1.96	1.91	1.99
Shareholder’s equity ratio	59.3	57.3	56.7	57.6	60.1	66	69.8	76.1	64	58.7

Financial Measure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	51,361	54,903	56,862	53,834	55,397	63,734	71,779	83,786	83,702	89,433
Expense	33,652	35,017	36,641	32,751	39,017	45,060	47,594	50,822	52,741	56,532
Operating surplus before tax	17,709	19,866	20,221	21,083	16,380	18,674	24,185	32,964	30,961	32,901
Operating surplus after tax	12,156	13,228	13,536	14,249	13,041	14,844	16,551	23,496	24,003	23,359
Dividends paid	7,258	37,949	8,295	9,216	16,647	8,698	9,376	9,858	10,052	11,005
Return on avg shareholder equity	9.3	9.9	10.9	9.9	8.1	7.9	7.5	10.2	6.1	4.2
Total Equity	145,687	120,966	126,207	162,359	158,773	215,474	222,649	238,460	552,796	563,272
Total assets	217,586	212,549	204,696	231,575	233,913	289,408	318,914	362,537	729,293	756,937
Net asset backing per share	2.53	2.1	2.19	2.82	2.76	3.74	3.86	4.14	9.6	9.78
Shareholder’s equity ratio	66.9	56.9	61.7	70.1	67.9	74.5	69.8	65.8	75.8	74.5

Appendix J

Financial Data Table – Dunedin

Financial Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Revenue	1,743	3,002	3,039	3,194	3,352	3,484	3,949	3,825	3,819	3,715
Expense	1,260	2,062	1,727	1,837	2,134	2,893	2,854	2,735	2,583	2,802
Operating surplus before tax	483	940	1,312	1,357	1,217	591	1,095	1,090	1,236	1,156
Operating surplus after tax	271	552	808	840	746	591	862	737	978	852
Dividends paid	66	176	308	352	264	198	272	292	332	374
Return on avg shareholder equity	5.7	10.5	14.8	14.1	11.6	8.6	11.6	9.4	11.5	9.5
Total Equity	4,745	5,261	5,475	5,971	6,454	6,846	7,436	7,881	8,527	9,005
Total assets		7,935	8,040	11,037	11,756	11,803	12,646	13,201	12,689	12,185
Net asset backing per share		1.2	1.24	1.35	1.47	1.56	1.69	1.79	1.94	2.05
Shareholder’s equity ratio		66.3	68.1	54.1	54.9	58	58.8	59.7	67.2	73.9

Financial Measure	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	3,778	4,203	5,204	5,245	5,991	6,242	6,625	7,020	7,654
Expense	2,740	3,116	2,790	3,149	3,380	3,879	5,440	6,861	7,982
Operating surplus before tax	1,103	1,087	2,413	2,097	2,611	2,363	1,184	159	-328
Operating surplus after tax	761	727	1,610	1,258	1,685	1,424	922	325	-324
Dividends paid	420	0	571	683	711	986	765	335	0
Return on avg shareholder equity	4.2	3.8	8	5.6	7.2	5.9	4.2	1.5	-1
Total Equity	18,316	19,093	20,132	22,556	23,529	23,967	23,983	22,277	33,571
Total assets	20,649	22,569	22,245	23,045	24,130	32,828	46,630	49,130	61,987
Net asset backing per share	4.16	2.17	2.29	2.56	2.67	2.72	2.49	2.53	3.82
Shareholder’s equity ratio	88.7	84.6	90.5	97.9	97.5	71.5	45.7	45.3	54.2

Appendix K

Financial Data Table – Queenstown

Financial Measure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Revenue	899	1,377	1,294	1,501	1,619	1,743	1,681	1,726	1,972	2,017
Expense	758	1,320	1,044	1,012	923	1,195	1,219	1,098	1,248	1,463
Operating surplus before tax	34	57	249	490	696	548	462	628	724	554
Operating surplus after tax	21	38	165	329	467	366	309	420	485	356
Dividends paid	0	0	0	0	0	0	0	0	0	0
Return on avg shareholder equity	0.6	1.2	4.8	8.7	10.9	7.9	6.3	7.8	8.3	5.7
Total Equity	3,270	3,308	3,473	3,802	4,269	4,635	4,944	5,364	5,849	6,204
Total assets	7,062	6,917	7,107	6,766	7,137	7,837	8,937	9,402	10,562	10,400
Shareholder's equity ratio	46.3	47.8	48.9	56.2	59.8	59.1	55.3	57.1	55.4	59.7

Financial Measure	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	2,110	2,383	3,215	3,504	4,178	6,026	7,507	11,036	10,749
Expense	1,476	3,963	2,735	2,820	3,161	3,425	4,674	7,618	9,013
Operating surplus before tax	634	-1,581	1,076	742	1,017	2,600	2,833	3,419	1,736
Operating surplus after tax	425	-1,581	971	550	708	2,154	1,898	2,841	1,157
Dividends paid	0	0	0	0	0	0	0	0	0
Return on avg shareholder equity	6.4	-31.3	16.1	37.4	9.7	22.8	16.2	19	7
Total Equity	6,629	5,048	6,019	6,568	7,277	9,431	11,735	14,575	15,732
Total assets	10,242	16,653	17,114	17,055	18,221	19,471	36,875	47,130	48,402
Shareholder's equity ratio	64.7	30.3	35.2	38.5	39.9	48.4	31.8	30.9	32.5

Appendix L

Employees per Airport Table

Airport	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Auckland	260	269	282	262	276	281	280	278	300	300
Hamilton	16	16	16	17	17	18	18	18	18	29
Palmerston	9	9	10	10	11	11	11	11	11	11
Wellington	94	80	69	68	68	68	70	71	73	77
Christchurch	165	168	150	150	155	156	159	172	176	176
Dunedin	20	20	20	21	23	23	23	23	23	23
Queenstown	6	7	7	7	7	8	9	9	12	13

Appendix M

Revenue Sources Table

Airport	% of Revenue	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Auckland	Non-aeronautical	48.4	49	48.8	49.8	54.3	52.3	54.1	52.6	52.6	54.4
	Aeronautical	51.6	51	51.2	50.2	45.7	47.7	45.9	47.4	47.4	45.6
Hamilton	Non-aeronautical	71	74.6	76	79	82	78	79	82	84	76
	Aeronautical	29	25.4	24	21	18	22	21	18	16	24
Palmerston North	Non-aeronautical	23.2	23	24.2	26	27.8	28.7	30	29.7	32.6	38
	Aeronautical	76.8	77	75.8	74	72.2	71.3	70	70.3	67.4	62
Wellington	Non-aeronautical	31.1	37.6	41.4	42.6	35.5	34.5	36	42.9	49.7	49.5
	Aeronautical	68.9	62.4	58.6	57.4	64.5	65.5	64	57.1	50.3	50.5
Christchurch	Non-aeronautical	46.2	49.4	51.2	49.2	50.7	52	49.8	49.3	50.8	52.6
	Aeronautical	53.8	50.6	48.8	50.8	49.3	48	50.2	50.7	49.2	47.4
Dunedin	Non-aeronautical	55.3	58.2	56.6	61.6	58.7	60.8	60.3	61.5	63.7	66.3
	Aeronautical	44.7	41.8	43.4	38.4	41.3	39.2	39.7	38.5	36.3	33.7
Queenstown	Non-aeronautical	30.7	29.5	32.5	45.5	51.3	48.8	40.6	35.1	43	44.7
	Aeronautical	69.3	70.5	67.5	54.5	48.7	51.2	59.4	64.9	57	55.3

Appendix N

Inflation Data

Year	CPI year ending 30 June	Year	CPI year ending 30 June
1980	17.9%	1995	4.6%
1981	15.1%	1996	2.0%
1982	17.0%	1997	1.1%
1983	8.3%	1998	1.7%
1984	4.7%	1999	-0.4%
1985	16.6%	2000	2.0%
1986	10.4%	2001	3.2%
1987	18.9%	2002	2.8%
1988	6.3%	2003	1.5%
1989	4.4%	2004	2.4%
1990	7.6%	2005	2.8%
1991	2.8%	2006	4.0%
1992	1.0%	2007	2.0%
1993	1.3%	2008	0.0%
1994	1.1%		

Source: www.rbnz.govt.nz
Accessed 17 July, 2009

Appendix O

Massey University

OFFICE OF THE ASSISTANT
TO THE VICE-CHANCELLOR
(ETHICS & EQUITY)
Private Bag 11 222
Palmerston North
New Zealand
T 64 6 350 5573
F 64 6 350 5622
humanethics@massey.ac.nz
www.massey.ac.nz

24 November 2005

Mr David Lyon
90 Kings Avenue
TAURANGA

Dear David

Re: HEC: WGTN Application – 05/55
The commercial performance of New Zealand Airport companies

Thank you for your letter dated 21 November 2005.

On behalf of the Massey University Human Ethics Committee: Wellington I am pleased to advise you that the ethics of your application are now approved. Approval is for three years. If this project has not been completed within three years from the date of this letter, reapproval must be requested.

If the nature, content, location, procedures or personnel of your approved application change, please advise the Secretary of the Committee.

Yours sincerely

Paul Green

Mr Paul Green, Acting Chair
Massey University Human Ethics Committee: Wellington

cc Professor Alan Williams
School of Aviation
PN833

Dr Andrew Gilbey
School of Aviation
PN833

Captain Ashok Poduval
School of Aviation
PN833

Massey University Human Ethics Committee
Accredited by the Health Research Council

Appendix P

THE COMMERCIAL PERFORMANCE OF NEW ZEALAND AIRPORT COMPANIES

Information Sheet for Participants

Researcher Introduction

My name is David Lyon and I am currently enrolled with the School of Aviation at Massey University. As part of the requirements of the PhD programme at Massey University I have chosen to study the commercial performance of selected airport companies within New Zealand. I consider that such a study is important because of the role that airport companies play in relation to the movement of people and cargo both domestically within New Zealand and internationally.

I am currently employed within the School of Business of the Bay of Plenty Polytechnic, Tauranga, and my contact details are as follows:

Telephone (07) 544 0920

Email davidlyon@boppoly.ac.nz

Postal Bay of Plenty Polytechnic Private Bag TG12001, Tauranga

Within Massey University I have two supervisors who are responsible for the oversight of my research project. My first supervisor is Professor Alan Williams and my second supervisor is Dr Andrew Gilbey.

Their contact details are as follows:

Telephone (06) 350 5799
Email A.Williams@massey.ac.nz
A.Gilbey@massey.ac.nz
Postal School of Aviation, Level 3, Social Sciences Building, Massey University,
Private Bag 11 222, Palmerston North

Purpose of the Research Project

The purpose of this project is to research the commercial performance of selected New Zealand Airport companies to identify how they achieve the requirements of the Airport Authorities Act 1966 that they operate on a commercial basis.

The first part of the project is to identify the economic, regulatory, political and events (both internal and external to New Zealand) that are important to the commercial success of airport companies. The second part of the study will be to develop a theory as to how such airport companies within a New Zealand context may be better able to operate on a commercial basis as required by the legislation. This theory will be written up in the form of a thesis and a concise version of the findings supplied to participants as a written report.

Participant Recruitment

To conduct my research I hope to interview a number of managers associated with the commercial performance of airport companies at seven airports. The seven airport companies that are being invited to participate in this study are those that currently provide both domestic and international services on a scheduled basis. These airports have been identified by me because they service 100% of the scheduled international services to and from New Zealand, and the bulk of domestic passenger and freight services. A letter has been written to the Chief Executive Officer of each of the seven airport companies inviting them to participate in this research project and seeking permission, on a voluntary basis, the opportunity for me to interview individual's positions within the airport company, being the Chief Executive Officer, CFO and the Commercial Manager.

If all seven airport companies are prepared to participate in this study and I am able to interview three individuals within each airport company the total number of interviews that I will be conducting is 21.

If you are prepared to participate in this study you will be asked to sign a Consent Form. This will confirm that you are willing to participate in the research and that you agree that the information you supply can be used as part of the research project. Participation in the research project is voluntary and neither participation or non-participation in the research project will have an effect on your employment status.

Project Procedures

The primary data for the research project will be obtained via a series of interviews with three airport managers at seven New Zealand airports during January and February 2006. In addition I plan to mount a focus group of seven airport managers, one from each company, to be held in Rotorua during July 2006 at the time and location of the annual Aviation Industry Association Conference.

Data from participating managers will be obtained via semi-structured interviews and if acceptable to the participants recorded on tape and then transcribed. Copies of the transcribed interviews will be returned to the interviewees for editing and confirmation before being used by me.

The primary data will then be used by the researcher to analyse the issues associated with the commercial performance of airport companies. The second stage of the research project will be to develop theory as to how such businesses can be more commercially successful within a New Zealand context. It is this theory that will be tested by discussion with a group of airport managers in a focus group in mid 2006. It is also planned to record the focus group and after transcription a copy of the transcription will be forwarded by me to each participant for editing and confirmation. Data may be reported in relation to the individual airport but not individual persons within a given airport company.

No compensation or reward will be offered for participation in the study. The risk to individuals and companies is that confidential business information may become available to other parties. This risk will be managed by keeping all information confidential and reporting in the thesis via thematic categories and statistics. The interview transcripts will be kept by the researcher for a period of five years and then destroyed.

The thesis produced as a result of this study will be available to participating airport companies via the Massey University library. In addition it is intended to provide each participant with a concise report detailing the principal findings of the project.

Participant Involvement

The initial approach by me to an airport company to participate in this study was via a letter to the office of the Chief Executive Officer. This letter set out the purpose and nature of the research and requested the participation of the airport company. The letter also identified the positions within airport companies that I hope to interview.

Each person participating in this research project will receive a copy of this Information Sheet and a Consent Form from me. Only when any queries have been answered and the Consent Form signed by that person will the interview proceed.

The nature of the interviews will be semi-structured and commence using a broad range of open-ended questions. Depending upon the responses offered by the interviewees the interviewer may pose other questions. Please see the attached sample questions.

The interview will be audio taped by me and subsequently transcribed. The transcription will then be returned to the interviewee for editing and confirmation before it becomes part of the data for the research project. At this point the interviewee will be asked to sign a Release of Tape Transcript so that the data can be used. If you also participate in the Focus Group the ability to edit and confirm the transcription of that group will be in respect of your own contributions.

It is anticipated that each initial interview will take one hour. Involvement in the focus group will take approximately two hours.

Participant's Rights

You are under no obligation to accept this invitation. If you decide to participate, you have the right to:

- Decline to answer any particular question
- Withdraw the from study prior to the interview process being concluded
- Ask any questions about the study at any time during participation
- Provide information on the understanding that your name will not be used unless you give permission to the researcher.
- Be given access to a summary of the project findings when it is concluded
- Ask for audio tape recorder to be turned off at any time during the interview

Project Contacts

You are invited to contact either the researcher and/or the supervisor(s) if you have any questions that you would like answered about any aspect of this project.

Contact details for both the researcher and the two supervisors are contained in the first section of this Information Sheet.

Committee Approval Statement

This project has been reviewed and approved by the Massey Human Ethics Committee, Wellington Application 05/55. If you have any concerns about the ethics of this research please contact Professor Sylvia Rumball, Chair, Massey University Campus Human Ethics Committee: WGTN telephone 06 350 5249 email humanethicswn@massey.ac.nz

Appendix Q

[Print on Massey University departmental letterhead]

[Logo, name and address of Department/School/Institute/Section]

The Commercial Performance of New Zealand Airport Companies.

PARTICIPANT CONSENT FORM

This consent form will be held for a period of five (5) years

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I agree/do not agree to the interview being audio taped.

I wish/do not wish to have my tapes returned to me.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signature: .... **Date:** ....

Full Name - printed ....

Appendix R

Massey University

SCHOOL OF AVIATION

Private Bag 11 222

Palmerston North

COLLEGE OF BUSINESS

Kaupapa Whai Pakihi

The Commercial Performance of New Zealand Airport Companies.

FOCUS GROUP PARTICIPANT CONSENT FORM

This consent from will be held for a period of five (5) years

I have read the Information Sheet and have had the details of the study explained to me.

My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I agree/do not agree to the focus group being audio taped.

I wish/do not wish to have a copy of the tape supplied to me.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signature: .... **Date:** ....

Full Name - printed ....