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31 January 2007

Ms Jeanette Radcliffe  
Committee Secretary  
Senate Rural and Regional Affairs & Transport Committee  
Department of the Senate  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Ms Radcliffe

Thank you for the opportunity to provide comment on the Airports Amendment Bill 2006 (the Bill).

TTF Australia (Tourism and Transport Forum) is a national, member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism and infrastructure sectors.

Our Membership embraces Australia's major airports, domestic airlines, major international airlines, airport retailers, travel service providers (including foreign exchange, tourist refund providers and travel insurers), local councils, and State Tourism Organisations, who all have a significant interest in the Bill.

International and domestic aviation is the lifeblood of Australia's tourism industry. In fact, there is no tourism industry on earth more dependent on its aviation links than Australia.

Airports are key tourism gateways. In the year ended June 2006 Australia's airports facilitated over 42 million domestic and 21 million international passenger movements and serviced over fifty-six airlines operating to and from Australia.

This equates to over 5.5 million international tourists alone who passed through Australia's airports in 2006.

Airports are vital for tourism not only because they facilitate access to Australia but also because they affect a traveller's experience. Airports have a significant role in ensuring a tourist's first and last impression of Australia is positive, supporting our reputation as an attractive tourist destination.

In the year ended September 2006 repeat visitation to Australia was over 2.8 million, an increase of 17 per cent on pre September 11 levels. Expenditure for the same period by repeat visitors amounted to over \$7.6 billion.

Tourism is Australia's 3rd biggest export industry after coal and iron ore, contributing over \$19 billion dollars to the Australian economy.

Tourism is also an important driver of regional development. 38 per cent of tourism jobs for example are located outside Australia's capital cities, and tourism employment intensity is higher in regional Australia (6.5%) compared to metropolitan areas (5.3%).<sup>1</sup>

2007 marks 10 years since the Australian Government commenced airport privatisation.

Because of the importance of airports for tourism TTF Australia commissioned a report 'Assessing the impact of airport privatisation' (see attached).

The report found the Australian Government's policy of privatising Australia's airports has been a resounding success, with significant improvements in the airports' operational efficiency, financial performance and investment levels.

Over the pre and post privatisation period, airport capital expenditure has been equivalent to two M7s in Sydney at approximately \$1.5 billion each; nearly three Alice Springs to Darwin railways at just over \$1.0 billion each; and nearly two Gateway Bridge duplications at \$1.6 billion each.

The privatised airports have also improved their capacity to withstand external shocks through diversified revenues and improved efficiencies achieved through economies of scale and improved cost control.

Importantly the report found privatisation has made a significant contribution to improved customer service and facilities, and provided the booming tourism industry with vibrant new marketing partners in each city – which the monolithic Federal Airports Corporation was unable to do.

These findings ratify the introduction to the second reading speech of the Bill by De-Anne Kelly Parliamentary Secretary to the Minister for Transport and Regional Services which stated that privatisation has:

- fostered a vibrant and dynamic industry;
- enabled airports to grow with minimal call for public investment or intervention; and
- seen significant investment and improvement in the management of major airports.

TTF Australia therefore strongly supports the purpose of the Bill to '...fine tune the regulatory scheme in the light of experience during the first ten years of operation'.<sup>2</sup>

It is vital that the Bill ensures the regulatory arrangements governing our airports keeps pace with other Commonwealth, State and Territory legislation.

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<sup>1</sup> TTF Australia (2004) National Tourism Employment Atlas.

<sup>2</sup> Airports Amendment Bill 2006, Second reading speech by De-Anne Kelly Parliamentary Secretary to the Minister for Transport and Regional Services, 30 November 2006.

Given the tourism industry's heightened awareness of the affects of a highly volatile and risky aviation industry, TTF Australia considers both aeronautical and non-aeronautical revenues are vital to support growth and facilitate investment at Australia's airports.

Industry therefore supports the need to clarify the clear intention of Government to provide for non-aeronautical development on airports as well as support for the Australian Government's continued control over planning and development on airport sites.

In summary, TTF Australia supports the submissions and representations made by airports to the Inquiry and encourages the Senate Rural and Regional Affairs and Transport Committee to favourably consider these representations in its report.

In particular, TTF Australia strongly supports:

- Raising the dollar threshold for major development plans from \$10 million to \$20 million and introducing a cost inflator in supporting regulations so 'the Airports Act does not have to be amended periodically to adjust the threshold';<sup>3</sup>
- The renaming of Coolangatta Airport as Gold Coast Airport (item 14);
- The removal of compliance with the National Capital Plan for Canberra Airport (item 120). This item is consistent with recommendations TTF Australia has submitted to the Australian Government's Exports and Infrastructure Inquiry and the Regulation Taskforce's examination of the regulatory burden on business in Australia; and
- Publication criteria (various items) which provide for the publication, circulation and submission of documents in electronic form, improving efficiency and the environmental impact of paper printing.

I also encourage the Committee to take into consideration the impacts the Bill will have on unique metropolitan airports such as Bankstown.

TTF Australia is concerned with the 'stop-clock' provisions contained in the Bill and the uncertainty this creates for facilitating investment in Australian airports.

Should you wish to discuss anything further, please feel free to contact Dr Mark Dimech, National Manager Aviation on (02) 9240 2015 or at [mdimech@tff.org.au](mailto:mdimech@tff.org.au).

Yours sincerely,



CHRISTOPHER BROWN  
Managing Director

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<sup>3</sup> Ibid.

# Assessing the Impact of Airport Privatisation

## Preliminary Report



Prepared By

**URS**

 **INFRASTRUCTURE  
PARTNERSHIPS  
AUSTRALIA**  
Building Australia Together

**TTF**   
**AUSTRALIA**  
Tourism & Transport Forum

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## **Front Cover Photographs**

The images on the front cover of “Assessing the Impact of Airport Privatisation: Preliminary Report” are courtesy of: Brisbane Airport Corporation Pty Ltd, Sydney Airport Corporation Ltd and Australia Pacific Airports Corporation (Melbourne Airport).

TTF Australia thanks the companies for providing them for reproduction in this report.

## **Limitations**

URS Australia Pty Ltd (URS) has prepared this report in accordance with the usual care and thoroughness of the consulting profession for the use of TTF Australia and only those third parties who have been authorised in writing by URS to rely on the report. It is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this report. It is prepared in accordance with the scope of work and for the purpose outlined in the Proposal dated May 2006.

The methodology adopted and sources of information used by URS are outlined in this report. URS has made no independent verification of this information beyond the agreed scope of works and URS assumes no responsibility for any inaccuracies or omissions. No indications were found during our investigations that information contained in this report as provided to URS was false.

This report was prepared in August/September 2006 and is based on the information reviewed at the time of preparation. URS disclaims responsibility for any changes that may have occurred after this time.

This report should be read in full. No responsibility is accepted for use of any part of this report in any other context or for any other purpose or by third parties. This report does not purport to give legal advice. Legal advice can only be given by qualified legal practitioners.

## *Glossary of Terms*

ABS	Australian Bureau of Statistics
ACCC	Australian Competition & Consumer Commission
APAC	Australia Pacific Airports Corporation Limited
BAC	Brisbane Airport Corporation Pty Limited
BTRE	Bureau of Transport Economics
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
EBIT	Earnings Before Interest & Tax
FAC	Federal Airports Corporation
ICAO	International Civil Aviation Organisation
SARS	Severe Acute Respiratory Syndrome
SCACH	Southern Cross Airports Corporation Holdings Limited
WAC	Westralia Airports Corporation
WLU	Work Load Unit

### 1.1 Executive Summary

In August 2006, TTF Australia commissioned URS Australia Pty Limited to undertake a major quantitative and qualitative research project establishing the performance of Australian privatised airports relative to their performance post privatisation.

This report represents the preliminary results of elements of the quantitative analysis examining the pre and post privatisation performance of the four major airports of Sydney, Melbourne, Brisbane and Perth.

The main report, once completed, will examine the performance of all privatised passenger and General Aviation airports from a quantitative and qualitative perspective.

The report will be a fair review of performance examining many pre and post privatisation changes and presenting a balanced view on why the changes have occurred.

The time period for the analysis was the five years prior to privatisation and the period after privatisation to 2005.

Data for the analysis was sourced directly from the airports and was supplemented by additional material<sup>1</sup>.

All financial data was normalised to 2005 dollars for comparative purposes.

The results in this preliminary report examine a number of key performance areas including:

- **operational efficiency** – in terms of Work Load Unit (WLU), average annual revenue per WLU, costs as a proportion of revenue and average employee costs per WLU (pre and post privatisation);
- **profitability** – in terms of average yield (EBIT/Revenue) comparison for the pre and post privatisation periods;
- **investment levels** – in terms of average annual capital expenditure for the pre and post privatisation period and an assessment of the absolute capital expenditure level; and
- **traffic diversity** – this examines the level of international services at the airports, by comparing the average number of direct international destinations during the pre and post privatisation period.

From the analysis undertaken in this preliminary report the following key findings were found and are summarised in the Table ES1 on the next page.

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<sup>1</sup> Material included: Federal Airports Corporation annual reports, Bureau of Transport Economics statistics, submission reports to the Productivity Commission and the Australian Competition & Consumer Commission, Australian Bureau of Statistics & URS analysis.

**Table ES1**

**Summary of Preliminary Analysis Results**

<b>Key Findings</b>
<b><i>Operational Efficiency</i></b>
Post privatisation improvement of nearly 25% in revenue per Work Load Unit (“WLU”) from \$16.20 per WLU (pre privatisation) to \$20.07 per WLU (post privatisation).
A significant 250% change in terms of Compound Annual Growth Rate (“CAGR”) comparison of revenue per WLU, with the pre privatisation CAGR calculated at 1.9% and post privatisation calculated at 5.1%.
A 25% reduction in the average employee cost per WLU pre privatisation compared to post privatisation.
<b><i>Financial Performance &amp; Profitability</i></b>
An increase in revenue derived from alternative revenue streams from 64% of total average revenue pre privatisation to 67% post privatisation.
On average the Yield of the selected airports has been greater post privatisation at 48.2% than pre privatisation 46.1%.
<b><i>Investment Levels</i></b>
In absolute dollar terms the total capital investment over the pre and post privatisation period of the selected airports totals nearly \$3.0 billion dollars adjusted for 2005 (\$1.84 billion pre privatisation and \$1.14 billion post privatisation).
This level of airport capital expenditure is equivalent to the following: <ul style="list-style-type: none"> <li>• two M7s in Sydney at approximately \$1.5 billion each</li> <li>• nearly three Alice Springs to Darwin railways at just over \$1.0 billion each; and</li> <li>• nearly two Gateway Bridge duplications at \$1.6 billion each</li> </ul>
<b><i>Traffic Diversity</i></b>
The average number of destinations directly served by the selected airports has reduced during the post privatisation period due to the global downturn in airline profitability and the emergence of strong and enduring airline alliances and increasing use of code sharing (oneworld and Star Alliance).  For privatised airports this has created an interesting competitive environment and has provided them with an opportunity to market themselves as commercially viable destinations to airlines. This route development activity often occurs with the close co-operation of local, state and Commonwealth tourism agencies.



### 1.2 Summary

The Commonwealth Government expressed three clear outcomes that needed to be derived from the airport privatisation process. Two of these objectives related to the Commonwealth Government's desire to avoid the large investment required by airports and to provide an environment for the private sector to undertake that investment. The third Commonwealth objective related to encouraging efficiency and commerciality to airport infrastructure management.

Whilst it is difficult to ascribe any direct causality to the pre and post privatisation performance improvements identified in this preliminary study, it is possible to observe a number of key improvements of the selected airports in terms of efficiency; traffic, revenue growth, cost control and profitability (see Table ES1).

Taken collectively this suggests the third Commonwealth privatisation objective appears to have been achieved.

### 2.1 Introduction

Next year will mark 10 years since the Commonwealth Government commenced its foray into airport privatisation. This process was initiated in 1997 with the sale of Melbourne, Brisbane and Perth Airports, remaining smaller airports in 1998, the sale of Sydney Airport in 2002 and was completed in late 2003 with the sale of the Sydney Basin Airports of Bankstown, Camden and Hoxton Park.

The Commonwealth Government's motivation to privatise airports has been debated over the past decade however; it is possible to identify three principle reasons why<sup>2</sup> as follows:

- the Commonwealth Government's desire to avoid the large "sunk" capital investment required by airports instead to focus investment for other higher priority requirements;
- the belief that the private financial market in Australia was capable of funding major transport and infrastructure investments and had the appetite for that investment; and
- the Commonwealth Government's belief that to remain globally competitive airport privatisation would improve efficiency and flexibility in the way airports are managed. New technology and working practices would be introduced in airport management and operation.

It is this last point above, the Commonwealth Government's commitment to fostering a commercial, business improvement culture at airports, which is to be examined as part of this report.

The impact of privatisation of Australian airports differs by airport. For example it could be argued the smaller passenger airports and the general aviation airports such as Bankstown, were presented with significant opportunity as a result of privatisation by being able to seek capital for development and being able to develop to "best practice" airport operational and commercial management.

However, for the major Australian airports two key questions can be posed as follows:

- has the past 10 years improved the financial and operational efficiency and commerciality of privatised airports?; and
- has the necessary private sector capital been unlocked to ensure Australian airports make the investment in infrastructure need and to ensure that the airports facilitate the continued economic development of the country?

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<sup>2</sup> *Australian Airports in the context of Privatisation*, Presentation to ICAO Air Navigation Services Conference June 2000

To resolve these issues the remainder of this report is structured as follows:

- the airports included in the analysis and the timeframe for the analysis;
- the areas for analysis, the sources of data and data assumptions; and
- the results of the analysis.

## 2.2 The Airports Analysed

It should be stated that this report does not represent an analysis of all privatised airports; rather it represents a preliminary study of pre and post privatisation performance of the four main airports in Australia. These airports are:

- Sydney;
- Melbourne;
- Brisbane; and
- Perth.

Between them these airports, in 2005, represent approximately 71% <sup>3</sup>of the total number of airport passengers in Australia. In addition these airports collectively account for the following:

- 66% of domestic passengers; and
- 94% of international passengers.

The table below highlights the date of privatisation and the period of analysis undertaken as part of this report.

**Table 1**

**Study Airports Privatisation Date & Analysis Timeframe**

<b>Name of Airport</b>	<b>Date Privatised</b>	<b>Period of Analysis Pre-Privatisation</b>	<b>Period of Analysis Post-Privatisation</b>
Sydney	2002	1997 to 2002	2003 to 2005
Melbourne	1997	1992 to 1997	1998 to 2005
Brisbane	1997	1992 to 1997	1998 to 2005
Perth	1997	1992 to 1997	1998 to 2005

<sup>3</sup> Bureau of Transport Economics Aviation Statistics – Airport Traffic Data 1994/95 to 2004/05

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### 2.3 Analysis Areas, Data Sources & Assumptions

This part of the report is divided into the following sections:

- analysis areas;
- sources of data; and
- key data assumptions.

#### 2.3.1 Analysis Areas

To undertake the study URS examined the performance of the four study airports in terms of the following:

- *operational efficiency* – in terms of Work Load Unit (“WLU”), average annual revenue per WLU, costs as a proportion of revenue and average employee costs per WLU (pre and post privatisation);
- *profitability* – in terms of average yield (EBIT/Revenue) comparison for the pre and post privatisation periods;
- *investment levels* – in terms of average annual capital expenditure for the pre and post privatisation period and an assessment of the absolute capital expenditure level; and
- *traffic diversity* –this examines the level of international services at the airports, by comparing the average number of direct international destinations during the pre and post privatisation period.

#### 2.3.2 Data Sources

The data obtained to undertake the analysis has come from a variety of sources. These sources include:

- data provided directly from the airports resulting from providing airport management with a data request list (see section 2.3.1 above);
- data obtained from reports published by the airports. These reports included:
  - pre-privatisation Federal Airports Corporation (“FAC”) annual reports; and
  - submission reports to the Productivity Commission and the Australian Competition and Consumer Commission (“ACCC”).
- data obtained from published Government reports related to airport privatisation and passenger, freight and aircraft traffic at Australian airports, including Bureau of Transport and Regional Economics (“BTRE”) statistics;
- inflation data obtained from the Australian Bureau of Statistics (“ABS”); and
- data held by URS related to Australian pre and post privatisation airport performance.

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### 2.3.3 Data Assumptions

In undertaking the analysis of pre and post airport performance the following assumptions were made:

- passenger and freight data were based on the Department of Transport & Regional Services BTRE data;
- due to the impacts on traffic volume (for passengers as well as freight traffic) from such factors as the Sydney 2000 Olympics, the Ansett collapse, September 11<sup>th</sup>, SARS and the Bali bombing, financial measures were developed on a per WLU basis (see Section 2.4.1);
- post-privatisation financial data were based on results as published in airports' annual reports:
  - Sydney: consolidated Southern Cross Airports Corporation Holdings Limited ("SCACH") data;
  - Melbourne: consolidated Australia Pacific Airports Corporation Limited ("APAC") data minus Launceston contribution, which was estimated to be approximately 3% of total APAC revenues, expenses, depreciation, interest and investment;
  - Brisbane: Brisbane Airport Corporation Pty Limited ("BAC") data; and
  - Perth: Westralia Airports Corporation ("WAC") data.
- financial results and monetary data were all normalised in 2005 dollars using average annual underlying CPI change up to FY04/05 (Source: ABS<sup>4</sup>); and
- in the case of where data was not available for a particular year, it was chosen to estimate the data as the average of the values from the immediate preceding and following years.

## 2.4 Analysis Results

It should be noted the results of the analysis for all the airports included in the study have been aggregated.

The purpose of the aggregation approach was to ensure comparisons could be made between pre-privatisation and post-privatisation periods, for the selected airports rather than as a comparison of each individual airport. The analysis period was determined to be as follows:

- the five years prior to privatisation; and
- the period after privatisation to 2005.

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<sup>4</sup> Australian Bureau of Statistics Catalogue No 6401.0

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This component of this report has been divided into sections detailing the results related to the following:

- traffic growth at the selected airports;
- operational efficiency (in terms of WLU);
- profitability;
- investment levels related to providing and upgrading aeronautical and non-aeronautical infrastructure; and
- traffic profiles in terms of direct airline destinations.

### ***Selected Airport Traffic Growth***

Over the study time period average passenger numbers have fluctuated at the airports. The causes for these fluctuations have been linked to a series of well-documented events and incidents (Sydney Olympics, 9/11, SARS etc).

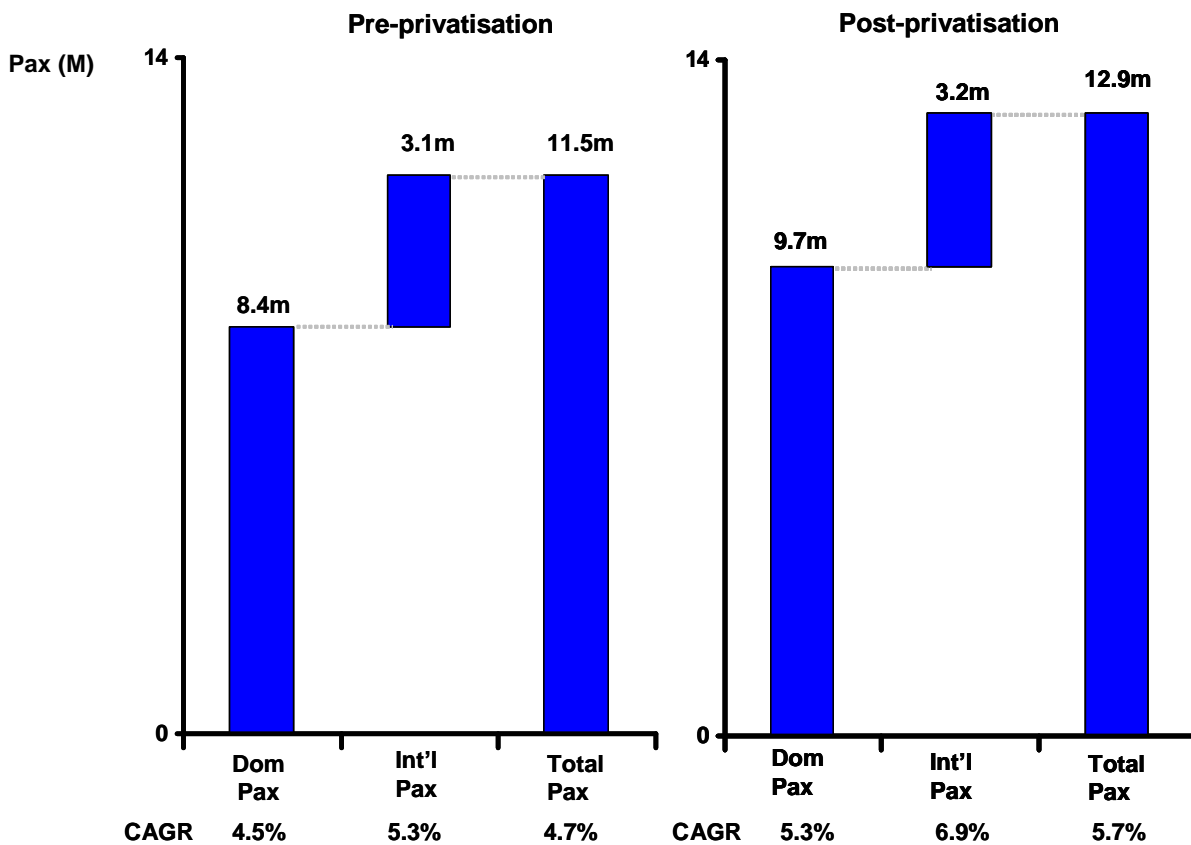
Figure 1 on page 9 compares the average number of both international and domestic passengers for the pre and post privatisation period for the selected airports and highlights the improved Compound Annual Growth Rate (“CAGR”) for both domestic (4.5% pre compared to 5.3% post privatisation) and international (5.3% pre to 6.9% post privatisation) passengers during the post privatisation period.

The higher CAGR for this period can be explained as a result of the following:

- the recovery of international and domestic passenger traffic from the post 2001 external and industry change impacts;
- the impact of Virgin Blue and Jetstar on the domestic travel market;
- the facilitation by airports of domestic Low Cost Carriers; and
- the active marketing of international carriers by airports as part of route development.

**Figure 1**

**Average Annual Passengers at Study Airports Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics and URS analysis.

**2.4.1 Operational Efficiency**

The analysis of the operational efficiency of the selected airports utilises the globally accepted measure of WLU. This measure of airport operational efficiency was originally developed at the College of Aeronautics at Cranfield University in the 1990’s and is currently used by the Transport Research Laboratory in the United Kingdom.

One WLU is defined as being equivalent to the following:

- one international passenger;
- two domestic passengers; or
- 100kg of airfreight.

The use of this efficiency measure was to compare the WLU average for the selected airports during the pre-privatisation period compared to post-privatisation.

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### **WLU Analysis**

Figure 2 below illustrates the WLU comparison of the pre and post privatisation periods. The post privatisation period calculates as a higher value (9.5 million as opposed to nearly 10 million).

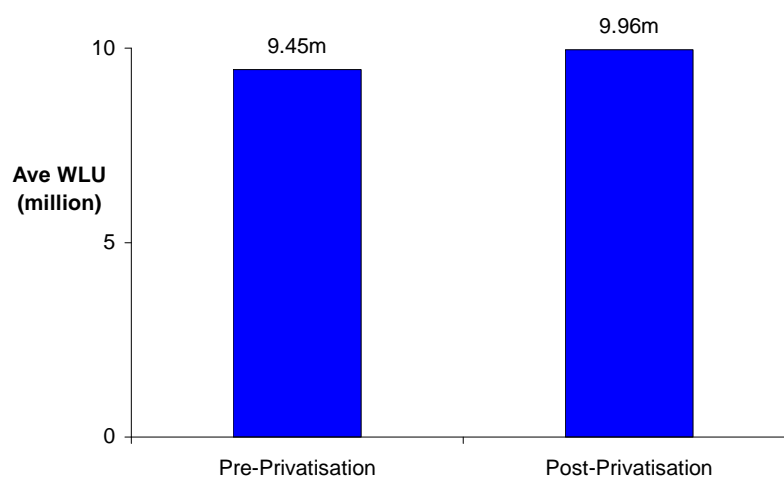
This reflects the post privatisation growth in both international and domestic passengers shown in figure 1 on page 9.

The purpose of this calculation is to provide the base for the following operational efficiency measures:

- operating revenue per WLU; and
- operating expenses as a percentage of revenue.

**Figure 2**

#### **Average Annual Work Load Units Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics and URS analysis.

### **Operating Revenue Efficiency**

As mentioned in Section 2.3.3 above, to facilitate “apples with apples” comparisons the pre and post privatisation operating revenue for the four study airports was adjusted normalising the revenue values to 2005 dollars.

The results highlighted in Figure 3 on page 11 show two important facts:

- a significant post privatisation improvement of nearly 25% in revenue per WLU from \$16.20 per WLU (pre privatisation) to \$20.07 per WLU (post privatisation); and

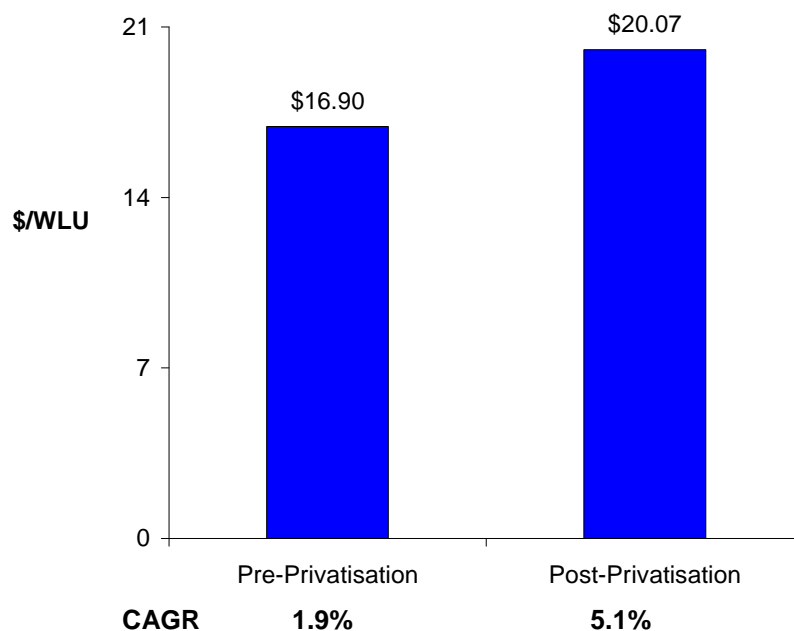


- a significant change in terms of CAGR comparison, with the pre privatisation CAGR calculated at 1.9% and post privatisation CAGR calculated at 5.1%. This represents a 2.5 fold increase.

These results can be attributed to a number of factors including but not limited to the following:

- post privatisation diversification of the selected airports into other revenue streams (eg property development, advertising etc);
- improved return from aeronautical and non-aeronautical assets through pricing change aligning rents to market; and
- introduction of a private sector business development and management techniques in the area of in-terminal commercial activities (eg retail etc).

**Figure 3**  
**Average Annual Operating Revenues (2005 \$) per WLU**  
**Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.

### ***Operating Expense Efficiency***

It is equally important for an airport, as a high fixed cost business, to manage the growth of costs as a proportion of revenue. Figure 4 on page 12 illustrates the attention to cost management by the selected

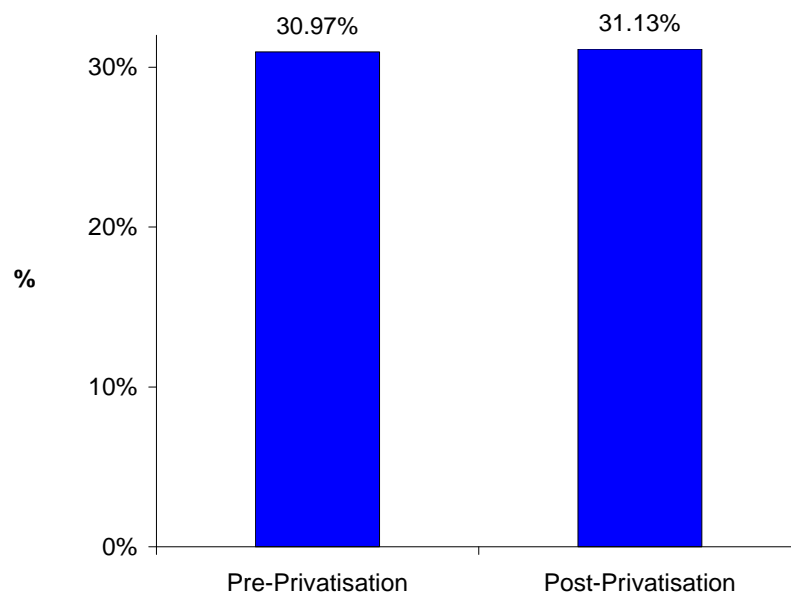
privatised airports. Figure 4 highlights that as a proportion of operating revenue, costs have remained flat and that while airports are becoming more complex businesses they are actively managing costs while driving revenue growth.

It is possible to attribute this to a number of factors including but not limited to the following:

- economies of scale generated from over all business growth resulting from the diversification into other revenue streams; and
- improved privatised airport attention to cost control as a lever in the effective management of their business.

**Figure 4**

**Average Annual Operating Costs as a Percentage of Operating Revenues  
Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.

### ***Employee Cost Efficiency***

The view expressed in the previous measure on the effective cost management by the selected privatised airports is further reinforced by an assessment of the pre and post privatisation employee costs per WLU.

The results for this efficiency measure are shown in Figure 5 on page 13 and highlight a significant difference in the average employee cost per WLU pre privatisation compared to post privatisation.

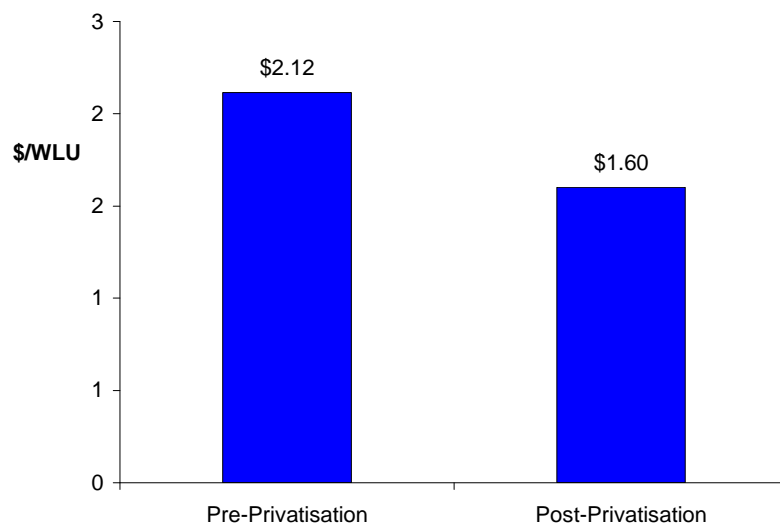
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The difference calculates to almost 25% and can be attributed to factors including:

- more effective organisational structures resulting from privatisation;
- streamlining the workforce during the immediate post privatisation period; and
- effective outsourcing of certain operational tasks (eg security, maintenance, services etc).

**Figure 5**

**Average Employee Costs per WLU Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.

### 2.4.2 Financial Performance & Profitability

How have the selected privatised airports performed from a financial and profitability perspective compared with the pre privatisation period?

To undertake this analysis the following performance indicators were examined for the pre and post privatisation period:

- average annual aeronautical and non aeronautical revenue as a percentage of total revenue; and
- average yield (ie average EBIT as a proportion of total average revenue).

***Aeronautical Revenue***

It can be considered that this measure reflects airports attempts to minimise revenue risk. This means that the more diverse an airport’s revenue stream is, the more protected it is from external shocks, industry trends and/or a volatile market.

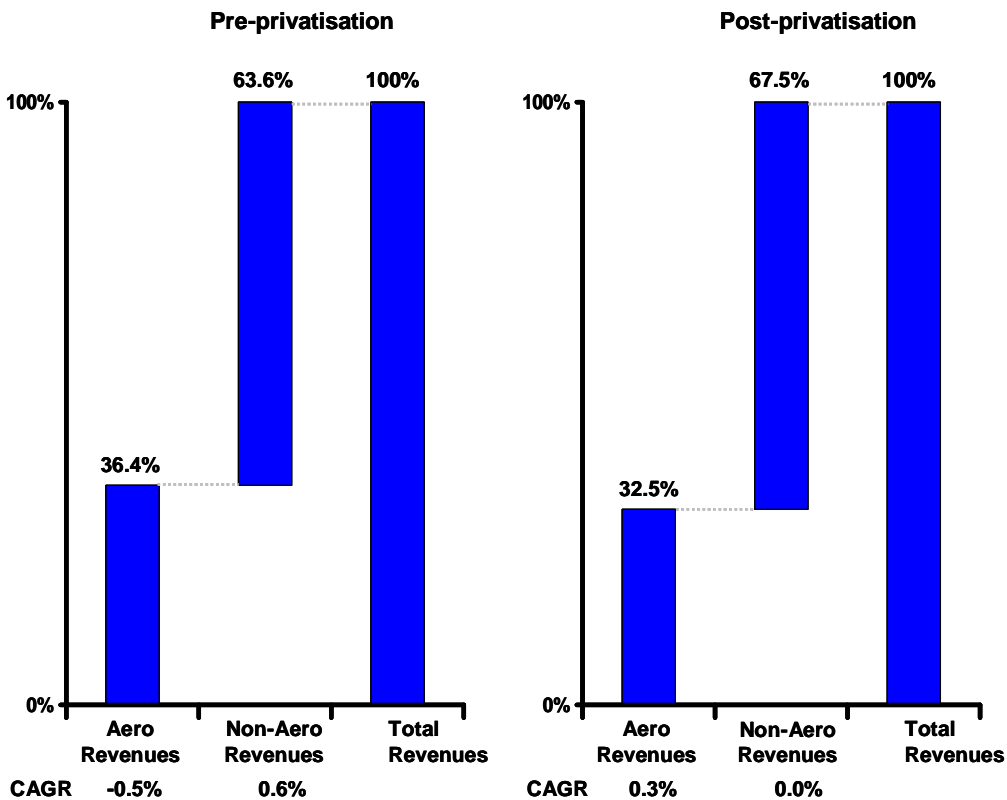
Figure 6 below shows the change in the proportionality of aeronautical and non-aeronautical revenue in terms of total revenue that has occurred in the post privatisation period.

This figure highlights two facts as follows:

- the core nature of aeronautical income to the airport representing just over 36% in the period pre privatisation, shifting to approximately 33% in the current post privatisation period; and
- the increase in revenue derived from alternative revenue streams. This increase has been predominantly observed in new property development as well as the introduction of market rents to existing airport tenants.

**Figure 6**

**Average Aero & Non Aero Revenue as % of Total Revenue  
Pre & Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.

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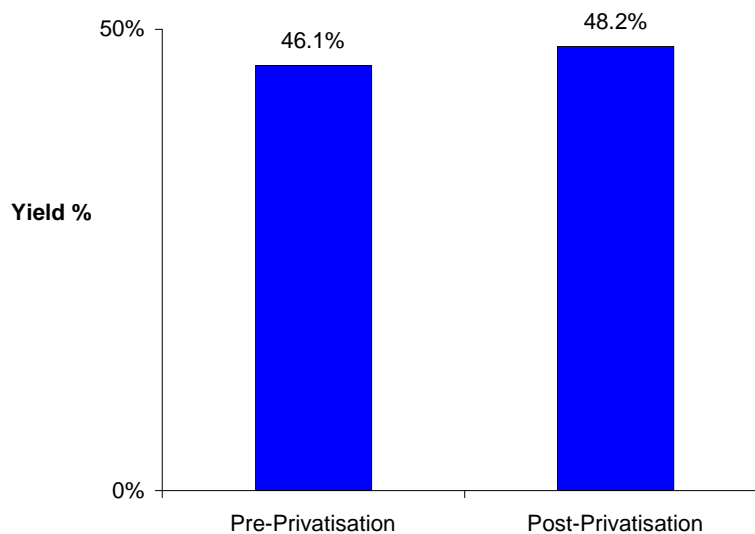
### **Yield**

For the pre and post privatised periods measuring the average yield was considered a good indicator of profitability.

Yield is defined as Earnings Before Interest & Tax (“EBIT”) and is expressed as a proportion of total revenue. The results of the analysis are shown in Figure 7 below.

The results highlight that on average the Yield of the selected airports has been greater post privatisation (48.2%) than pre privatisation (46.1%). This result supports the previous analysis of operating revenue and cost efficiency conducted earlier in the report.

**Figure 7**  
**Average Yield (EBIT/Revenue)**  
**Pre and Post Privatisation**



Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.

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### 2.4.3 Investment Levels

As with all infrastructure rich businesses, continuous capital investment at the selected airports is imperative for future commercial growth for the following reasons:

- to cater for forecast demand in terms of passenger, freight etc;
- to diversify the business by investing capital in the development of additional revenue streams; and
- to replace ageing infrastructure when it is appropriate to do so.

The capital expenditure analysis undertaken for this preliminary report has yet to fully incorporate additional data from the selected airports as well as the other privatised airports. It is anticipated the final report, once completed, will contain full details of average annual capital expenditure during the pre and post privatisation period.

In terms of the current preliminary report the level of capital expenditure at airports is significant. Indeed in absolute dollar terms the total capital investment over the pre and post privatisation period, for the selected airports, totals approximately \$3.0 billion dollars adjusted for 2005 (\$1.84 billion pre privatisation and \$1.14 billion post privatisation).

To illustrate on a comparative basis with other infrastructure projects in Australia airport capital expenditure is equivalent to the following:

- two M7s in Sydney at approximately \$1.5 billion each;
- nearly three Alice Springs to Darwin railways at just over \$1.0 billion each; and
- nearly two Gateway Bridge duplications at \$1.6 billion each.

However, although outside the scope of this report, it is interesting to note the commentary contained in the recently released Productivity Commission Draft Report<sup>5</sup> highlighting the intention of the airports to embark on a new phase of capital expenditure over the next decade totalling nearly \$2 billion.

### 2.4.4 Traffic Diversity

To measure traffic diversity it was determined that establishing the number of destinations directly served by the selected airports in the two time periods would indicate a level of diversity. The results of the analysis are provided in Table 2 on page 17 and show that the average number of destinations directly served by the selected airports has interestingly reduced during the post privatisation period.

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<sup>5</sup> Productivity Commission *Review of Price Regulation of Airport Services* Draft Report September 2006

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The factors influencing this decline can be primarily explained by the following two factors:

- the global downturn in airline profitability resulting from 2001 and post 2001 events. Particularly manifesting itself in the performance of European and United States Airlines;
- the emergence of strong and enduring airline alliances (oneworld and Star Alliance). This has resulted in the development of extensive code sharing arrangements.

For privatised airports this has created an interesting competitive environment and has provided them with an opportunity for airports to market themselves as commercially viable destinations to airlines.

The level of sophistication of this marketing has increased considerably as a result of privatisation with airports engaged in detailed demographic and route economic analysis to substantiate a business case. This route development activity often occurs with the close co-operation of local, state and Commonwealth tourism agencies.

**Table 2**

**Average Number of Direct International Destinations for the Month of June**

**Pre & Post Privatisation**

<b>Period</b>	<b>Pre-Privatisation</b>	<b>Post-Privatisation</b>
Direct International Destinations	34	29

Source: Airports annual reports, FAC annual reports, BTRE statistics, submission reports to the Productivity Commission and the ACCC, ABS and URS analysis.