

Privatisation and 'Light-Handed' Regulation: Sydney Airport

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Abstract

This paper examines the privatisation of Sydney Airport and the regime of 'light-handed' monitoring of service quality and airport charges that followed the sale in 2002. The arguments for privatisation are reviewed, in particular the need for increased competition and/or appropriate regulation where a former public monopoly, such as Sydney Airport, is sold. The aftermath of the privatisation of the airport has led to complaints by the major airlines and consumers of ever increasing charges for use of the airfield and for car parking and other services. This highlights that the 'light-handed' monitoring regime has not constrained the airport's ability to charge monopoly rents. The aftermath of privatisation has resulted in labour shedding, outsourcing and a focus on cost minimisation by the airport's management.

JEL Codes: J01, L51, L93, R48

Keywords

Airport privatisation; price monitoring; monopoly pricing; employment conditions.

Introduction

Airports are very good at earning revenue and producing profits out of everything you can imagine... I think if they could charge for oxygen at the airport they probably would because they do earn a lot of fees out of everything they can. (Qantas CEO, Alan Joyce, cited in Easdown 2009)

This article examines the consequences of privatising Sydney Airport for consumers, airport employees and the major airlines. Airports in Australia exhibit considerable market power when it comes to the prices charged for aeronautical services and, increasingly, for non-aeronautical services such as parking and retail space (Hooper et al. 2000: 182). The focus of the article is an examination of

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the effectiveness of the 'light-handed' regulatory policy adopted by the Australian Federal Government in response to the significant market power of Sydney Airport's operators. This regulatory approach is considered in relation to increasing frustration expressed by consumers and domestic and international airlines at ever-rising fees and charges for car parking and for the use of the airfield.

The privatisation of public enterprises has been a common means used by governments to reduce state debt. Other considerations for Australian governments have included increasing the international competitiveness of the Australian economy (motivating Labor Governments of the 1980s and 1990s) and a desire to reduce '... the scale, scope and size of government and to reinstate the importance of enterprising private individuals' (motivating conservative/neoliberal Governments from 1996–2007) (Aulich and O'Flynn 2007: 368). Under governments of both major parties, a substantial privatisation of public assets unfolded. The Howard government alone was responsible for the sale of an estimated \$61.6 billion of formerly public assets (Aulich and O'Flynn 2007: 373). The policy of privatising Australia's federal airports, including Sydney Airport, commenced under the Keating Labor Government in 1994, while the sale process began from 1997 onwards under the Howard Coalition Government.

Privatisation is often portrayed as a means of overcoming the inefficiencies of publicly owned enterprises (Domney et al. 2005). Among the criticisms levelled at state enterprises is that they fail to provide sufficient oversight of the behaviours and agendas of public managers and employees. Proponents of public choice theory argue that public employees may seek to satisfy their own interests rather than those of the public (Buchanan and Tullock 1962; Olson 1965; see also Hay 2007). Critics of public ownership also suggest that public enterprises may be inefficient because of political pressures from politicians to maintain high employment levels, or because of the influence of trade unions on political parties (Boycko et al. 1996; Shirley and Walsh 2001). Privatisation, by contrast, is believed to result in increased profitability for the newly privatised enterprise, through reduced political interference, more market based incentives and a single minded focus on improving financial performance (Vickers and Yarrow 1991). The managers of privatised enterprises are expected to focus on maximising efficiency and the returns delivered to shareholders. A review of 60 empirical investigations of privatisation found indeed that in a majority of cases there were improvements in financial outcomes and in the day to day management and operation of privatised firms. Privatisation provides an opportunity to monitor managerial behaviour and allows capital market pressures to be imposed (Vickers and Yarrow 1991: 115).

It is arguably unfair, however, to measure the performance of public sector managers using private sector benchmarks. The incentives provided to public managers are different from those experienced by managers in the private sector and their objectives and accountabilities extend beyond a single focus on profitability (King and Pitchford 1998). In addition, the level of profitability enjoyed by a privatised firm does not imply that the privatised firm is more efficient; it may simply signal the willingness of the new private owners to exploit their market power (Domney et al. 2005).

To minimise abuse of market power by privatised firms, many advocates of privatisation emphasise the need to ensure that competition is introduced into markets and industries prior to changes in ownership structure (Domberger 1995). Ensuring that a competitive market structure develops is arguably more important than concerns over ownership, and substantial improvements in the performance of privatised enterprises have been found to coincide with increased competition in the industry. Where the market was fully competitive, the privatised enterprise commonly delivered higher levels of performance (Domney et al. 2005).

Competition is needed to ensure that productivity and efficiency levels are improved following privatisation (Kriesler 1996; Quiggin 1995; Sheshinski and Lopez-Calva 2003). Shirley and Walsh (2001) note that expanding profitability, unmatched by increases in efficiency, represents the worst case scenario for privatisation. This may result from the replacement of a public monopoly with a private monopoly, with the lack of competition and/or regulation providing minimal incentives for technical efficiency gains. Rising profitability in this context demonstrates the ability of the new private owners and their managerial agents to exercise their market power (Shirley and Walsh 2001). Thus Shirley and Walsh emphasise the critical role of competition and regulation, rather than ownership, as the most effective means of providing clear signals to private managers about the behaviours expected of them.

In the absence of effective competitive pressures, an effective regulatory regime is needed to curb the potential for abuse of market power by private monopolies (Domney et al. 2005: 288). Vickers and Yarrow (1991) concur that the benefits from privatising public monopolies can be realised only if regulatory problems arising from the potential for abuse of market power are adequately addressed (Domney et al. 2005; Vickers and Yarrow 1991). Thus when governments engage in the privatisation of natural monopolies, such initiatives can only succeed where governments have the capacity and political will to establish an effective regulatory regime (Shirley and Walsh 2001: 14). The case of Australian airports allows a useful analysis of the effectiveness of the regulatory regime put in place and its ability to constrain the monopoly power of the newly privatised airports. From the onset of privatisation there have been concerns that the major city airports retained excessive market power. Domney et al. (2005: 286) noted that that the level of regulation is critical for airports following privatisation. Where regulation is non-existent, or weak, airports are in a strong position to use their considerable market power to generate monopoly profits.

Governments also need to ensure that public assets are priced correctly when put up for sale to realise the value of future income streams (Harris and Lye 2001). Moreover, privatisation should not be used as a predominantly revenue raising exercise by governments, as

... selling efficient and profitable government-owned enterprises is most detrimental to the public sector and this reduction in net worth is ultimately borne by the taxpayer. Privatisation is a poor fiscal tool and should be used as a means of improving economic efficiency. (Harris and Lye 2001: 319)

Privatisation is also likely to result in negative consequences for consumers unless there is adequate oversight and regulation of the new owner's ability to increase prices. Vickers and Yarrow (1991) cite evidence, from a number of studies, that consumers are often on the receiving end of changes in the levels and structure of prices charged just before or following privatisation (Vickers and Yarrow 1991). Quiggin (2002) was critical of the increase in charges at Australian airports by the Federal Government of approximately 100 per cent just prior to privatisation to make them more attractive to private investors in 2002. This increase came on top of increased parking fees and taxi rank fees. For Quiggin:

Whenever an efficient public enterprise is privatised, either taxpayers get an inadequate return on their asset, consumers pay more, or the buyers pay more than the true private market value. In every major Australian privatisation, one or more of these outcomes has occurred. Since private buyers have usually done well, consumers and taxpayers have been net losers'. (Quiggin 2002: 1)

The evidence is less clear cut in relation to the impact on employees' pay, conditions and employment levels following a transfer from public to private ownership. For example, Pendleton (1997) found that in many cases pay levels were maintained or even increased in privatised firms in Britain when compared to public sector levels, and that there was mixed evidence on the impact of privatisation on overall employment levels. In some firms employment levels declined while in others staffing numbers increased.

Thus we focus here on an exploration of the effectiveness of the regulatory regime put in place to moderate Sydney Airport's market power and potential to charge monopoly rents. We begin by considering whether the Federal Government received a fair return from the sale of the airport.

The Process of Privatising Sydney Airport

The sale of airports in Australia occurred through a process of competitive tendering for long term leases for the management and operation of all federally controlled airports (Hooper et al. 2000: 183). Sydney Airport was sold through a tender process in 2002 following the earlier sales of Brisbane, Perth and Melbourne airports in 1997.

The Keating Labor Government initiated this programme of airport privatisation in 1994. The Government decided to sell long-term (99 year) leases for the 22 airports operated by the Federal Airports Corporation. A number of objectives underpinned the government's policy. These included the intention to maximise the sale proceeds from privatisation; to ensure that the new managers of airports had the financial resources and operational capabilities to run and develop the airports; to ensure that employees would be treated fairly and their employment entitlements preserved; and to ensure that the new operators met the Australian ownership criteria set out in the *Airports Act 1996*. These objectives were also used as criteria in tender evaluations for Sydney Airport. Airport privatisation

in Australia has involved leasehold rather than freehold sales and this provides for an on-going oversight role by the Federal Government in monitoring airport prices and charges.

The airports sale process was undertaken in a number of phases. In Phase 1, completed in July 1997, long term leases were sold for Brisbane, Perth and Melbourne airports. Phase two occurred in June 1998 when a further 14 airports were leased to nine different business groups. Total sales by July 1998 from airport privatisation realised \$4.04 billion. The Australian National Audit Office (ANAO) concluded that the total sum realised from the sale of Phase 2 airports represented 'fair value' for the Federal Government. The sales also compared favourably with the revenues received from the sale of European airports (ANAO 1999).

The sale of Sydney Airport was completed in June 2002 through a tender process. This sale followed the corporatisation of the airport in 1998, which created the Sydney Airport Corporation Limited. Plans to fully privatise Sydney Airport were postponed in 2001 because of the September 11 terrorist attacks and the collapse of Australia's second largest airline, Ansett. Southern Cross Airports Corporation (majority owned by Macquarie Bank) won the tender by offering a price significantly higher than that offered by other bidders. (ANAO 2003: 15). Southern Cross received all shares in Sydney Airports Corporation and a 30 year right of first refusal over the construction and operation of a second Sydney Airport (ANAO 2003: 21). It is noteworthy that prior to the sale of Sydney Airport, aeronautical charges for the airport were increased by approximately 100 per cent, while a 'light handed' regime to monitor airport prices was also announced just prior to the submission of binding bids.

The sale of Sydney Airport was completed for a purchase price of \$4.233 billion. The earnings multiple for the Sydney Airport sale was 17.7 times the airport's earnings in 2002. This was believed to compare favourably to the market value of other international airports that were privatised around this time. The proceeds of the sale of the airport were used to reduce government debt and the ANAO estimated that the resulting savings on interest payments would be approximately \$250 million per annum (ANAO 2003: 51–2). The successful consortium also repaid \$1.35 billion of SAC debt, taking the government's total revenue from the sale of Sydney Airport to approximately \$5.6 billion (Aulich and O'Flynn 2007). Overall, the Australian Government achieved a substantial revenue windfall (\$8.5 billion) from the sale of federal airports from July 1997 to December 2003 (ANAO, 2004: 20). Again, the ANAO believed that the sale price of over \$4.23 billion:

represents a very good financial outcome for the Commonwealth ... The SAC transaction represents the largest airport trade sale world-wide to date and the most valuable single trade sale by the Commonwealth. (ANAO 2003: 10)

'Light-Handed' Regulation

In recognition of the considerable market power held by the major airports in Australia, the Federal Government introduced price controls on airport charges as it began to privatise airports from 1997. Following the publication of the Productivity Commission's 2002 report, such price regulations were greatly reduced and an alternative 'light-handed' approach to regulating airport prices was introduced. The previously imposed price caps were abolished at all capital city airports. The 'light-handed' approach involved a regime of monitoring aeronautical and related services at Australia's major airports. Where such charges were found to be excessive and to represent an abuse of market power, the Federal Government retained the right to reimpose strict price controls (Productivity Commission 2006):

[T]he switch to a light handed approach was intended to facilitate investment and innovation by airports — while retaining a constraint on misuse of market power in their dealings with airlines and other customers. The provision of aeronautical services was to be driven by commercial agreements rather than government regulation. (Productivity Commission 2006: xiii)

The government's 'light handed' approach to regulating airports (Schuster 2008) involved:

- a five year initial regime of price monitoring;
- no formal price controls;
- airports subject to price and service quality monitoring — annual submissions on price, costs and revenues and quality of service;
- government retaining the right to reintroduce formal price controls in response to inappropriate pricing behaviour and abuse of market power;
- regime subject to independent review within five years;
- regime to be assessed against criteria determined at the beginning of the probationary period;
- expectations of commercial relationships developing between airports and airlines.

The Productivity Commission believed that the development of commercial relationships between airports and commercial airlines represented a better basis than price regulation for managing charges for aeronautical services (Schuster 2008). The 'light handed' form of regulation also provided a role for Australia's competition regulator, the Australian Competition and Consumer Commission (ACCC) under the *Trade Practices Act 1974* (now renamed the *Competition and Consumer Act 2010*). Airports are subject to the anti-competitive provisions of the Act. Provisions in the *Competition and Consumer Act 2010* and the *Airport Act 1996* permit the ACCC to monitor the pricing structures and financial returns received by major airports from the provision of aeronautical services. The services monitored include: aircraft movements; passenger processing (including security); car parking; and aircraft maintenance. However, profits earned

from retailing and the expansion of factory outlets were not subject to price monitoring.

This 'light-handed' approach was believed by the Productivity Commission to deliver a range of benefits to the airports and to airport users. The removal of the regulator from investment decision-making was widely viewed as a major advantage of this approach. The Productivity Commission's 2006 report found that the monitoring of airport prices had enabled airports to undertake the investment required to improve services in airport terminals, and to invest in runways and other services required by airlines as passenger numbers grew. The productivity performance of major Australian airports was viewed as being high by international standards, while service quality standards continued to be rated by the ACCC in the range of satisfactory to good (Productivity Commission 2006).

The Commission conceded in 2006 that its earlier belief in 2002 that the airlines would be able to exert a degree of countervailing power over the airports and moderate the behaviour of airport management had failed to eventuate. Nevertheless, the Commission did not believe such concerns outweighed the benefits of its 'light-handed' approach to regulating airport charges (Productivity Commission 2006). In addition, the Federal Government held out the threat of intervention and the restoration of price controls if it believed airports were abusing their market power (Schuster 2008).

Airport Expansion, the NSW Government and Retailers

In accordance with the federal *Airports Act 1996*, plans for the future development of Sydney Airport were coordinated through a series of Master Plans and Major Development Plans (MPDs) that were subject to review every five years. The airport is required to consult with the NSW Government and local councils over its planning proposals, although the Federal Minister for Infrastructure has the final say over the approval of these plans. The Minister approved Sydney Airport's proposal for two multi-level car parks and enhanced commercial buildings at the international terminal in April 2005. Such Federal Government approval was not always forthcoming, however:

In February 2007, plans by SAC to develop a retail business complex near the end of the third runway were rejected primarily because insufficient consideration had been given to third party risk to public shopping at this location (Department of Infrastructure, Transport, Regional Development and Local Government 2008)

A range of criticisms has been levelled at the use of airport land for non aeronautical developments. This issue created considerable tension between the NSW Government and local authorities on the one side, and the Federal Government and Sydney Airport on the other. Airport owners such as Sydney Airport are exempt from the *Environment Protection and Assessment Act 1979* and from NSW environmental planning policies. In addition, Sydney Airport's major Development Plans did not require NSW Government approval and were under the sole jurisdiction of the Federal Government (NSW Government 2003). The NSW Government has long maintained that NSW planning laws should be applied to

the Sydney Airport site, particularly in relation to commercial developments, to avoid the potential for unfair competition (NSW Government 2003). In addition, the NSW Government has also been concerned that Sydney Airport was not making a sufficient contribution to infrastructure costs, particularly for non aviation commercial developments (Besser 2008). The NSW Greens have also expressed concerns about the level of traffic congestion likely to result from major retail and office developments on the airport site (NSW Greens 2009).

The Shopping Centre Council of Australia has echoed the NSW Government's concerns regarding unfair competition. The Council complained that Sydney Airport had an unfair advantage when developing retail space when compared to development in other parts of Sydney, particularly shopping centres in the vicinity of the airport:

... we believe it is against the public interest that development of large tracts of land in our major cities is exempt from the planning laws that apply to every other development in those cities... Airport lessees can develop large retail centres that generate substantial extra traffic but, unlike any other developer, they cannot be forced to meet the cost of any necessary road upgrades — tax payers and rate payers must foot the bill... it delivers a windfall advantage to airport lessees over other developers who are required to pay developer contributions.' (Shopping Centre Council of Australia 2006)

Declining User Satisfaction with Sydney Airport

Following privatisation, Sydney Airport experienced consistent growth in passenger numbers, from 29.6 million in 2005–06 to 34.9 million in 2009–10 (ACCC 2011b). The satisfaction levels of Sydney Airport users however declined markedly over this period. The ACCC survey of users of the five major airports in Australia asks passengers, airlines and government agencies to rate the quality of service received at each airport in areas such as availability and standards of facilities and services (ACCC 2008: 218–233). After ranking third between 2003 and 2005, Sydney Airport slipped to last place in comparison to other monitored airports and has remained in last place from 2006–07 to 2009–10 (ACCC 2008 2011b). Over recent years the airlines have consistently highlighted concerns over Sydney Airport's poor performance in relation to service delivery and quality. The ACCC found that the airlines rated the airport's response to service quality concerns as poor in 2009–10. The quality of runways, parking facilities, bays and ground handling services and facilities was also rated as poor.

The Productivity Commission hoped that 'light-handed' regulation would encourage more commercial relationships between the airports and airlines. In its 2006 report the Productivity Commission conceded that the airlines had only 'modest' ability to constrain the market power of the airports and that earlier hopes that the major airlines could exert a degree of countervailing power over the airports had failed to eventuate. Nevertheless, the Commission did not believe such concerns outweighed the benefits of its 'light-handed' approach to regulating airport charges (Productivity Commission 2006).

The significant distances in Australia between the major airports results in a lack of competition between them, and greatly constrains the ability of the airlines to place pressure on the monitored airports by threatening to relocate to other airfields. For airlines seeking to service the Sydney metropolitan market, there is no viable alternative to Sydney Airport within 150 kilometres. Under the *Competition and Consumer Act 2010* the airlines could seek a ruling under Part IIIA and seek the re-regulation of those airports that offered services on inappropriate terms or that denied services to the airlines unreasonably. The ACCC noted, however, that this represented a last resort for the airlines. There have also been concerns regarding the potential for airports to misuse their market power, for example when allocating gates or parking places to airlines (Forsyth 2006). The ACCC conceded in its 2010 price monitoring report that 'The major airports are natural monopolies. The countervailing power of airlines in negotiating terms and conditions of access to the major airports is generally low' (2010: 25). The ACCC chairman, Graeme Samuel, was highly critical of the airport's use of its monopoly over the provision of airport services:

The airport's monopoly position, the airlines' ongoing dissatisfaction with the service they receive, as well as increasing prices and profits over time, all point to Sydney Airport earning monopoly profits from the services it provides to airlines. (ACCC 2011: 1)

Declining service levels have gone hand in hand with rising operating margins from aeronautical services. Sydney Airport's margin from aeronautical services stood at \$218.54 million in 2009–10. The airport experienced a period of substantial aeronautical revenue growth over 2005–06 to 2009–10, from \$318.3 to \$489.9 million. The airport's aeronautical operating expenses also grew but at a far slower rate over the same period, from \$179.7 to \$271.5 million (ACCC 2011b). Aeronautical revenue per passenger also increased over this period by 23.9 per cent, from \$11.33 in 2005–06 to \$14.03 in 2009–10 and was the highest level of revenue per passenger of all the monitored airports (ACCC 2011b: 260). This combination of declining levels of service quality and rising levels of charges for use of the airfield highlights Sydney Airport's ability to charge the airlines monopoly rents.

Sydney Airport has also used its monopoly position to charge monopoly rents for car parking. In 2009, Sydney Airport introduced a significant increase in 4 hour parking at the short-term international car park, from \$28 to \$50 (ACCC 2010: 233). This increased to \$52 for four hour parking in 2010 (ACCC 2011b: 290). Moreover, airports can increase revenue from car parking fees by making alternatives, such as access to drop-off and pick-up spaces close to terminal buildings, more restrictive. This means that passengers have little option but to use the airport's parking facilities. In 2009, Sydney Airport closed an area set aside for passengers to be collected outside of Terminal 2 and replaced it with a new collection point further away from the terminal. In 2010, the ACCC noted that Sydney Airport charged the highest fees for car parking across all time periods of all the monitored airports (ACCC 2010: 67). In 2008–09, Sydney Airport earned \$88.3 million from car parking which increased to \$95.1 mil-

lion in 2009–10 (ACCC 2011b: 292). Combining both aeronautical and non-aeronautical revenue, Sydney Airport's total revenue for 2009–10 was \$901.5 million (ACCC 2011b: 263).

In response to criticisms of poor survey results for service quality and rising fees and charges, the new majority owner, Macquarie Airports (MAp), pointed to substantial investment in infrastructure, including upgrades to the international terminal, the construction of new car parks, and improvements to airport runways (MAp 2011b).

Treatment of Employees by Sydney Airport

The airport privatisation process aimed to ensure that employees would be fairly treated. The privatisation process for federal airports, begun under a Federal Labor government, involved negotiations with five unions in 1995. The resulting agreement required successful bidders for federal airports to accept existing airport staff as employees and to preserve their wages and employment conditions for a period of 12 months following the sales of the airports. Employees would not be subject to compulsory redundancy for the first 12 months and operators agreed to pay entitlements such as superannuation into an agreed fund. The sale process for Sydney Airport similarly required the winning consortium to comply with a range of conditions such as fair and equitable treatment of employees, including the preservation of employment levels and entitlements and a year's limit on forced redundancies (ANAO 2003: 60–64).

One year after the sale, in July 2003, the CEO of Sydney Airport announced that up to 40 per cent of the workforce of the airport, some 160 employees, faced the prospect of redundancy over the following 12-month period (Woolrich 2003). Unions representing employees were critical of the lack of consultation over the planned job cuts and also expressed concerns over the potential for airport security standards to decline. Security guards at the airport were also concerned that they would be replaced by guards with less knowledge of the complexities of maintaining security at the facility:

We have to be aware of where aircraft are going, listen to the radio and understand what the tower is saying. All this takes training and we also have to take an exam to be licensed. Who knows what training they are going to give to the outsourced workers? (CPSU 2003)

The job cuts highlighted the privatised airport's focus on reducing costs. The July 2003 announcement represented the first opportunity available to management to restructure the workforce following the 12-month guarantee to preserve employee jobs and entitlements made as part of the tender process (Woolrich 2003). The Community and Public Sector Union (CPSU) maintained that the decision to sack 40 per cent of staff by Sydney Airport coincided with the announcements of a \$376 million profit, increases in air traffic, and a significant fall in labour costs (Unions NSW 2003). Sydney Airport also intended to contract out positions in baggage handling, maintenance and ground support, and the CPSU believed that such outsourcing policies would compromise security at the airport (Australasian Business Intelligence 2003).

In September 2002, the Liquor Hospitality and Miscellaneous Workers Union (LHMU) succeeded in reducing the proportion of casual security staff employed at Sydney Airport. The Union's Assistant Secretary noted: 'Sydney Airport is our most important gateway but our weakest airport security link because it has the highest number of security screeners as casuals' (LHMU 2002). The Union argued that more full-time, professionally trained security screeners needed to be employed at the airport (LHMU 2002).

In November 2008 Sydney Airport announced a further 25 job cuts. The job cuts followed signs of declining passenger numbers (Rochfort 2008). A spokesman for the airport noted: 'Sydney Airport is not immune to the challenges posed by the global financial crisis and the particular issues confronting the aviation industry both globally and locally' (Business Spectator 2008).

Unions have been vocal in their criticisms of Sydney Airport's outsourcing practices, claiming quality had declined as a result. For example, the Transport Workers' Union (TWU) criticised the quality of airport security following a fight between motorcycle gang members at Sydney Airport in March 2009 that resulted in the death of one man. The TWU claimed that contracted security staff were poorly trained and had little direct contact with the Australian Federal Police. Moreover, the union claimed that some 25 per cent of security staff were not screened by ASIO, Australia's internal intelligence agency (Sheldon 2009). In 2009, the Transport Workers Union (TWU) called on the airport to improve training for security guards at Sydney Airport. TWU Federal Secretary, Tony Sheldon, called for all guards to be 'background checked, licensed and trained to more adequate minimum national standards' (Sheldon 2009).

Macquarie Airport Financing

Sydney Airport is 74 per cent owned by Macquarie Airports (MAp). This majority holding means that MAp has the ultimate say over the management and operation of the airport. Since 2002, MAp has developed as a specialist airport operator with stakes in several airports including Sydney, Brussels and Copenhagen (MAp 2011a). From 2002, MAp distributed more cash to its shareholders than it earned in revenue from its airport assets. This was possible because the airport borrowed additional funds to cover this shortfall against favourable revaluations of the airport's assets. This additional debt was then repaid to shareholders (Johnson 2009a). The rising level of debt can be seen by exploring Sydney Airport's balance sheet for 2009–10. The airport's borrowings were \$7.62 billion and there were also accumulated losses of \$1.45 billion on the airport's balance sheet (ACCC 2011: 317). This financing model is essentially a gamble on the availability of cheap and available credit to fund an ever-expanding level of debt (McLean 2007).

MAp's model of funding the airport through ever expanding levels of leverage came to an end in 2009. From late 2008 onwards, following the global financial crisis and the dramatic decline in available credit, Sydney Airport's bankers insisted that some or all of the debt owing was repaid once those debts matured. In 2009, the airport's shareholders repaid all of the \$870 million of debt that matured by the end of that year (MAp 2011a). This meant that Sydney Airport moved away from accumulating debt to a position of repaying distributions

to shareholders out of existing earnings (Johnson 2009b). Sydney Airport also refinanced all debt maturing in 2011 and 2012, involving some \$1.9 billion, with no more debt maturing until the final quarter of 2013. MAp also retained \$755 million in cash on its books in 2010 to ensure it was in a position to repay its share of Sydney Airport's debts (MAp 2011b).

Sydney Airport was increasingly able to fund its debt repayments because of rising earnings. Consolidated earnings before net borrowing costs, income tax, depreciation and amortisation (EBITDA) were \$773.3 million in December 2010, up from \$690.2 million in 2009. This reflects a steady rise in EBITDA from \$376 million in 2003 (\$525 million in 2006 and \$585 million in 2007) (AAP 2011; MAp 2010, 2011b). The 2010 rise in EBITDA of 12 per cent over 2008–09 was driven by rising passenger numbers, especially from China (282,000 in 2010). Overall passenger numbers increased to 34.5 million in 2010, a rise of 7.8 per cent on 2009. Retail revenue was also up 10.5 per cent over the course of 2010 (MAp ASX release Feb 2011). In October 2009, MAp received shareholder approval to internalise its management and break away from Macquarie Group. MAp paid Macquarie Group a fee of \$345 million raised through a rights issue to its security holders, providing MAp with increased independence over its financial affairs (Murdoch 2009).

Conclusion

Critics of privatisation caution against the consequences of transforming a public monopoly into a private monopoly with excessive market power (Domney et al. 2005; Kreisler 1996; Quiggin 2002). Rising earnings and revenue from aeronautical charges, car parking and property highlights Sydney Airport's ability to extract monopoly rents. This ability has led to consistent complaints by the major airlines, passengers and other airport users of excessive pricing. The ACCC, responsible for monitoring prices and service and quality levels at Sydney Airport, has increasingly highlighted its concerns over this monopoly pricing (ACCC 2010; ACCC 2011b).

The privatisation of Sydney Airport has also impacted on employment conditions and airport employees' job security. Following a 12-month period post-privatisation, where employment conditions were guaranteed, Sydney Airport management commenced a process of job cuts and the contracting-out of key airport functions, such as security, baggage handling and maintenance. The airport's focus on cost minimisation has resulted in increased casualisation, especially amongst security workers, and concerns over pyramid contracting and inadequate security vetting of security staff (Sheldon 2009).

Sydney Airport accounted for approximately 36 per cent of all domestic and international air passengers in Australia in 2010 (ACCC 2011b). The airport faces no credible competitor for its services and the major airlines are not in a position to take their business elsewhere. The 'light-handed' model of regulation has not provided an effective regulatory framework. A stronger regime of regulation that goes beyond monitoring is arguably required, given the airport's willingness to use its market power to charge monopoly rents. More public policy consideration of ways of increasing competition in Sydney's aviation market is

also needed, given the significance of passenger arrivals into Sydney Airport to the Australian economy. This includes planning for the development of a second major international airport in the Sydney metropolitan region.

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