



Airport Feature – by Steve Creedy

Interview with Mike Mrdak, Secretary of DIRD

The Federal Airports Corporation (FAC) would have been unable to match the level or quality of infrastructure investment ploughed into Australian airports by their private owners over the last two decades.

That's the view of Department of Infrastructure and Regional Development secretary Mike Mrdak, who regards the decision to sell the airports two decades ago as an outstanding success in both a domestic and international context.

Mrdak also believes that investment in infrastructure has been central to accommodating the strong growth in the airline industry since Perth, Melbourne and Brisbane airports were privatised in 1997.

Bureau of Infrastructure, Transport and Regional Economics figures show the number of passenger movements at Australian airports has more than doubled in the past two decades from 69.1 million in 1997 to 154.7 million in 2016.

"That wouldn't have been possible, no matter how good our economic conditions were, had not the airports been able to invest in infrastructure," Mrdak said in an interview to mark the 20th anniversary of first airport privatisations in Melbourne, Brisbane and Perth.

"You wouldn't have achieved the rates of growth in aviation without the airports being able to make those private investments in terminals, aprons and gates as well as parking."

Mrdak, who is well-regarded in aviation and government circles, ought to know.

He joined the then Department of Transport and Communications in 1988 and held a number of senior positions in the portfolio and the Department of Prime Minister and Cabinet before taking his current position in 2009. A 2013 recipient of the Federal Government Leader of the Year Award, he is a commissioner with the National Transport Commission and in 2016 was made an Officer of the Order of Australia for his service to the infrastructure, transport and logistics sector.

Twenty years after the first capital city airport privatisations, Mrdak believes the benefits have validated the Commonwealth government's view that private sector management skills and expertise would make the crucial pieces of national infrastructure more efficient and productive.

He said this also applied to a second objective of freeing airports from the centralised control of the FAC to meet state and regional development aspirations, particularly for smaller airports such as Canberra and Adelaide.

“The third objective was to get investment dollars into the airports, which the government was never going to be able to find even through the FAC’s ability to borrow in its own right,” he said.

“The fourth I’d characterise as fiscal, which was the government looking for sales receipts to at that stage reduce our debt position.”

Other benefits, according to Mrdak, included the introduction of competition between airports on a national level involving a variety of operating models that benefited from both overseas knowledge and homegrown talent now regarded “as some of the best in the world”.

Airports were also the first foray into infrastructure by superannuation funds, allowing them to become more comfortable in this type investment and making Australia a leader in the field in terms of their involvement.

A particularly pleasing benefit for Mrdak was an improvement in community relations —an area with which governments had struggled in a more adversarial and bitter political environment.

“The airports have invested a lot more effort and put the right people in community relationships,” he said. “In the old network days of the Department and FAC, all of that was done centrally by the head office — it wasn’t local, it didn’t have a local feel and touch to it.”

But the real success story was capital investment.

“The reality is we’ve seen massive investment in these airports,” Mrdak said. “There’s no way that the FAC or the Commonwealth would have invested in the quality or level of infrastructure.”

Where investors spent their money became contentious at some airports, with perceptions their main function as aviation hubs had sometimes played second fiddle to non-aeronautical developments such as shopping centres and hotels.

Mrdak argued airport owners had also invested heavily in aero infrastructure and that the wider economic benefits of the other real estate developments should not be discounted.

He pointed to Brisbane’s new runway project as one of the world’s few fully privately financed runways.

“Apart from some notable exceptions offshore, there aren’t too many where you’ve got long-term aeronautical infrastructure fully privately financed without any government assistance,” he said. “Brisbane’s is under construction, you have Melbourne proceeding with its third runway, Perth also starting to move on its third runway.

“But you also have this big expansion of terminals, aprons and aeronautical facilities which wouldn’t have happened otherwise.”

The infrastructure chief also noted most airports now employ many more people than they did when they were government owned.

Nonetheless, the way in which airport operators transformed their businesses through land development to become regional economic drivers was one of the surprises to come from privatisation.

“They’ve found innovative ways to grow those businesses which we couldn’t have imagined in government ownership,” he said.

“You’ve got a multitude of businesses now operating on airports. In a lot of cases where the airports have land, like Melbourne or Brisbane, they have become really important business hubs.

“They’ve attracted everything from freight logistics to a range of warehouses and retail on the airport site.”

Nor do airports have a completely free hand when it comes to developing what is essentially leased Commonwealth land.

Mrdak said it was a concern if non-aeronautical real estate development was hampering the growth of aviation.

The department has control over airport master planning and, on some occasions, has said “no” to non-aeronautical development to preserve the long-term growth of runways, aprons and other aviation infrastructure.

The department head acknowledged the tension between the two posed a challenge but noted that some general aviation airfields needed the additional revenue to pay the bills.

“The GA industry just has not got the capacity to pay and these airports under the FAC were effectively cross-subsidised in terms of any capex and also in terms of being part of a large network,” he said.

“That disappeared with privatisation so the airports have had to stand on their own two feet and it’s much harder with those relatively low-volume airports.”

And despite complaints about price-gouging and monopoly airports, he believes the relationship between airports and airlines has also improved over the past 20 years.

He said this had been helped by the introduction of long-term agreements that provided better pricing certainty. Airports also had more flexibility to cut individual deals rather than being forced to comply with a national pricing regime under the FAC.

“The airport pricing process has been pretty brutal at times but they’ve got there, they’ve worked out a way in which they now basically have their five and 10-year capital works programs,” he said.

“It’s not always friendly — there are some pretty hard commercial negotiations — but it doesn’t have the level of acrimony that it did.”

Overall, and despite some issues, Mrdak said Australian airport privatisations were still seen as exemplars by the rest of the world.

“Mostly this is because we’ve had that investment,’ he said. “We didn’t have the investment strike that happened with the British and some of the European airports when they were privatised and the new owners just sweated the asset for as long as they could.”