



## Case Study

*on Commercialization, Privatization and Economic Oversight of Airports and Air Navigation Services Providers*

# China

## Background

Until the late 1970s, the organization of civil aviation in China was overseen by the Civil Aviation Administration of China (CAAC), a semi-military organization. The CAAC assumed the functions of regulator and was directly involved in many aspect of China's civil aviation system, such as flight operation, airport management, and air navigation services provision. The organization was a two-level system, with the CAAC at the top, and six regional civil aviation bureaus (north; east; central/south; southwest; northwest; and northeast).

The re-organization of the Chinese civil aviation system began in the late 1970s in the wave of the "open door" policy, which redefined China's economic orientations. First, the Government of China operated a clear distinction between civil and military aviation: the CAAC was fully transformed into a civilian body in 1984. Second, the government separated the regulatory functions from the provision of airline services. While the CAAC became the regulator of China's civil aviation system, its airline wing was separated into six financially and operationally distinct air carriers (each based in one of the six CAAC regional bureaus). Third, the CAAC carriers were merged into three major airlines: Air China, China Eastern and China Southern in 1994, along with a commitment from the Chinese Government to commercialize major public airlines and airports.

Air navigation services provision was also institutionalized within the CAAC as an Air Traffic Management Bureau in 1987. The previous organization for air navigation service provision was based on the Soviet Union model of the 1950s. New radars, new traffic control systems and new instruments have been installed since.

## Commercialization/privatization: Airports

The Government of China launched a new wave of commercialization in 1993 by loosening the climate of airport investment. The CAAC issued new mechanisms and enacted "Interim Measures for Civil Aviation Operation Management", which allowed the subsequent corporatization of airports and the commoditization of their services. Investments in the airport sector were facilitated, especially for airlines. Hainan Airlines was for example the first air carrier to receive an approval for investing in Haikou Meilan International Airport, while the Beijing Capital Airport was listed on the Hong Kong Stock Exchange in 2000. China's airport ownership has changed since, thanks to the flow of domestic and foreign capital into the airport industry.

The Government of China enacted new measures in 2003: the management of all Chinese airports (except Beijing Capital Airport and those located in Tibet) were transferred to either provincial or municipal governments. In addition, the Government facilitated private investment in domestic airports, both in terms of share in airport management and in terms of investment in airport facilities. Hong Kong and Macau investors can bid for concessionary management rights at small and medium airports, while domestic and foreign capital can be invested in large and medium airports and can purchase and operate small airports.

This gradualism in policy reforms has led to a progressive separation of the ownership, management and regulatory functions in China. The CAAC has become an independent regulator in charge of policy formulation and enforcement. Finally, among the about 28

airports/airport groups that are publicly listed on stock exchange markets, six are located in China. Among them are Beijing Capital Airports, China's largest airport company, controlling 30 Chinese airports in nine provinces, either wholly owned or holding companies; Shanghai International Airport Company; Guangzhou Baiyun International Airport Company Limited; or Shenzhen International Airport (Shenzhen Airport Company), which cooperates on ventures with CAI of Singapore to invest in and manage 50 regional airports in China.

### **Commercialization/privatization: ANSP**

The provision of air navigation services was neither corporatized, privatized nor commercialized. The Air Traffic Management Bureau of the CAAC continues to hold under its responsibility the control functions on air traffic and navigation services, aeronautical regulation and services of communications and meteorology and, in general, the technical aspects of ANS. The Air Traffic Management Bureau is also in charge of allocating all slots at every airport.

### **Economic oversight: Airports**

Chinese airports were allowed to charge landing and take-off fees to airlines in 1987, under a unified framework set up by the CAAC. The Government of China decided to liberalize airport charges in order to further appeal to domestic and foreign investors. A policy draft elaborated by the authorities was circulated to airport top-managers in 2006 in a consultative process. In 2008, a Civil Airport Charges Reform Plan was approved by the central administration and implemented nation-wide: the new policy has given airport management more freedom for charging aeronautical and non-aeronautical services to their users within a price-cap framework set up by the central administration.

Instead of the former unitary system, the new policy creates three tiers of airports: first class airports (where passenger volume exceeds 4 per cent of China's air passengers), second class airports (between 1 per cent and 4 per cent), and third class airports (less than 1 per cent). In addition, there is a distinction between aeronautical charges (landing and take-off fees, parking fees, and passengers bridge, check-in, and service fees), major non-aeronautical charges (first- and business-class lounges rent, office rent, ticketing, check-in desk rent, and ground service fees), and other non-aeronautical charges (all other fees and charges).

The new policy stipulates that the CAAC in conjunction with the central administration will set distinct price-cap for aeronautical charges and major non-aeronautical charges for each class of airports. First class airports are giving less pricing latitude than second and third class airports, in order to give small airports the means to develop by appealing to external capital, while preventing major airports to abuse their dominant position. Other non-aeronautical charges are freely set by airport operators, but must comply with Chinese general laws and regulations.

### **Economic oversight: ANSP**

The Air Traffic Management Bureau continues to regulate and set air navigation services charges.

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