Economic Regulation of Airports

Submission to the Productivity Commission
September 3 2018

Introduction

The Australian Chamber - Tourism welcomes the opportunity to provide input to the Productivity Commission regarding the Economic Regulation of Airports. This submission does not set out to provide detailed commentary on all of the issues raised in the issues paper; rather it takes a high-level approach to cover issues most relevant to Australian Chamber- Tourism's members. The submission provides insights into the downstream impact on tourism and tourism businesses arising from airports, the operational efficiency of airports and airlines.

Airports are gateways into a new country or a new city and thus shape the first impression of the destination, especially for an international traveller. This is highly relevant for Australia as an island since the only other form of transportation into the country is by water. Air travel is the preferred mode of transportation for international travellers due to its accessibility and faster travel times. Airports are enablers of international tourism facilitating passenger movement at record rates. International visitation to Australia is projected to grow by 64% in 2026-27 compared to 6.9% in 2017-18[1]. Likewise, domestic tourism is growing at an unprecedented rate. Domestic travel is projected to grow by 24% (overnight visitors) and 29% (day visitors) over the period 2017-18 to 2026-27[2]. Airports, airline capacity and service delivery (the customer facing aspects) thus need to keep up to cater to increasing demand from travellers.

The 2017 World Economic Forum's Travel and Tourism Competitiveness Index ranked Australia's air transport infrastructure 4th out of the 136 countries. However, examining the air transport infrastructure subindex reveals much lower scores. Quality of air transport infrastructure is ranked 37th, number of operating airlines is ranked 34th, aircraft departures is ranked 16th and airport density is ranked 11th[3]. There is considerable scope for improvement in the provision of air transport infrastructure.

Improve aviation access to the regions

Regional Visitation has been on the rise with 56% of the New Zealand, European and North American market visiting regional Australia as compared to the capital cities and Gold Coast[4]. Domestic overnight visitors were also most likely to disperse outside of capital cities, with 63% of trips including regional Australia[5]. Improving and expanding regional airport infrastructure with the aim of boosting local tourism has wider benefits for an entire local community. Long-term infrastructure projects will increase local tourism numbers and deliver benefits to the wider community, directly and indirectly,

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[1] Tourism Research Australia 2018, State Tourism Satellite Accounts 2016-17, p.2.
[2] Tourism Research Australia 2018, State Tourism Satellite Accounts 2016-17, p.2.
[3] World Economic Forum 2017, Travel and Tourism Competitiveness Index 2017, p.87.
[4] Tourism Research Australia 2018, International Visitors Survey year ending March 2018.
[5] Tourism Research Australia 2018, State of the Industry 2016-17, p.12.

year on year. The Northern Horizons – Unleashing our Tourism Potential, the report by the Joint Standing Committee on Northern Australia mentions the "need to increase visitor awareness of Northern Australian tourism destinations; **improve access to the north**, and between major tourism attractions; and support the tourism industry". In addition, future planning for tourism focusses on increasing dispersal as a means of balancing the 'tourism load' and increasing the length of stay of international visitors.

An important aspect of improving access to the north and other regions of Australia is to develop regional airports to attract airlines (international and domestic) and support the viability of these routes through efficient service provision. Often, the cost of such infrastructure is passed onto airlines (in the form of landing charges), which result in these destinations not being viable for the airlines to operate in. Tourists are drawn to a destination if it is accessible, affordable and there is certainty that the route will remain operational. Supply is what creates tourism demand for the destination. Regional routes are often more expensive to operate due to high security costs and charges that are passed on to airlines and ultimately consumers in the form of higher airfares. This undermines the viability of the location as a tourism destination. By minimising airport security costs and improving capacity to cater to more airlines, airports can facilitate regional tourism.

The economic regulation of regional airports, and the cost-sharing arrangements for increased security and other boarder measures, need to be set at levels that do not force airports to recoup these costs through unreasonably high landing charges. As noted above, these charges inevitably flow to passengers and will have the effect of making routes unviable that are integral to the expansion of dispersal into the regions. Expansion of dispersal is not only important to share the load on infrastructure, but is vital to regional job creation.

It should be noted that the regulation on major hub airports, particularly Sydney, also impacts greatly on regional aircraft movements. The comments made below, in relation to Sydney airport, should be seen as much in the context of increasing passenger flows to the regions as they are to passenger embarking and disembarking in Sydney.

Quality of Service at Airports

Although the Australian Border Force handles security, customs and immigration processing, the experience reflects on the service quality of the airport and the efficiency with which passengers are processed creates the first and last impression of the destination. Efforts to improve passenger processing such as the introduction of smart gates, smart visas is commendable but the antiquated Tourist Refund Scheme is an embarrassment to Australia. Departing tourists are being delayed by long queues while they wait for paper-based manual processing of their goods and services Tax (GST) refunds. The system is delaying the departure of international flights and leaves a negative final impression of Australia.

Shopping is a key holiday attraction for many tourists particularly from Asia and our out-dated system is a deterrent to return visits. This has been a contentious issue over the years with no solution implemented and competitors have forged ahead with simple, quick, online processing. The Australian Chamber -Tourism strongly supports the Tourism Shopping Reform Group proposals to allow competition by private refund operators. This reform will release Border Force resources currently allocated to the government scheme to undertake frontline operations, while reducing delays at airports and improve the shopping experience for tourists. While this is not directly related to the economic regulation of airports or the issues raised in the issues paper, it is an important aspect of customer/tourist experience that reflects on the service delivery of our major airports.

The quality of service that is offered at airports includes the transport linkages to and from the airport facility. The members of Australian Chamber – Tourism have expressed concerns about the on-ground transport linkages to airports, including both hubs and regional airports. Increased movements through both hubs and regions is forecast into the future. Better cooperation between the Federal and State Governments is required to ensure the high quality of passenger experience, which, in turn encourages return visitation to destinations.

Whilst the benefits of commitments in the Grand Transport Plans are clear, they need to be complemented by commitments from State Governments. It is suggested that this should be considered in the context of State - Federal funding agreements.

Passenger Movement Charge

Australia rates poorly on government charges – it is ranked 128th for airport taxes and charges[6]. A key component of airport taxes and charges is the Passenger Movement Charge (PMC) and unfortunately, in 2017 the Australian Government increased the charge to $60 making it the most expensive short haul charge in the world and the second highest long haul charge.

Contrary to international agreements, the PMC is received directly into consolidated revenue and is treated as such by the Government and raises significantly more than the cost it was introduced to cover. In 2001, the PMC was $30 and it was estimated that approximately $17 was of the charge was related to the cost incurred by Customs[7]. Given the substantial additional revenue raised by growth in tourists, it seems logical to re-invest a portion of the revenue into increased capability, infrastructure and generating additional demand (which in turn generates additional revenue).

The purpose is to encourage economic activity in the growing tourism industry, create more jobs and thereby reduce excess capacity in the labour market. This will also increase government revenue if there are higher profits, more sales of goods and services, workers earning more, increased workforce participation and increased revenue collected from ticket tax. This will build on the more than $8 billion in tax contributed by the tourism sector. Visitors are price sensitive and there needs to be a substantial increase in service delivery to justify such a high PMC.

Collection of Information

The collection of information in relation to the performance and service delivery of airports should consider feedback from tourism stakeholders. Tourism is an important source of revenue to Governments and the value proposition to the Australian nation created by airport regulation is vested in large part in tourism. Australian Chamber – Tourism would support further formal tourism input into the performance and service delivery of airports.

Sydney Airport

The management of movements at Sydney Airport is generally agreed to be the greatest capacity constraint affecting Australian Tourism. This constraint effectively caps, not only the number of visitors to Sydney, but also the number of visitors to many other ports around Australia, by limiting the extent to which any service interruption can recover through routes into Sydney.

Despite substantial improvements in aircraft technology, improving noise levels, and increased load factors on aircraft, the inflexibility in the movement caps have very significant effects on visitation to

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[6] World Economic Forum, 2017, Travel and Tourism Competitiveness Index 2017, p.87
[7] Productivity Commission 2001, Cost Recovery by Government Agencies Inquiry Report, p.39

and through Australia. The impact broadly on tourism, including regional tourism and tourism outside Sydney, should be a consideration when examining issues surrounding the Sydney Airport caps.

Whilst not the focus of this inquiry, the Australian Chamber – Tourism strongly believes that there should be significant loosening of caps on movements at Sydney airport, specifically moving to at least a daily cap, to allow for 'catch-up' movements across the day.

In relation to the 'ring-fence' for regional movements, the Australian Chamber - Tourism would recommend removing the ring fence as there is already overwhelming inflexibility imposed on Sydney Airport in relation to the management of movements. In addition, Sydney Airport is fast approaching a time in which peak and non-peak times make little difference to demand. At the very least, this distinction should be removed. Further, the ring-fence does little to protect regional services as other economic and market forces will determine whether regional movements occur.

Summary

1. Increasing regional visitation through improved aviation access to the regions.
2. Improve passenger experience and overall quality of service through better transport linkages, providing better access to airports and reforming the antiquated Tourist Refund Scheme.
3. Review of the Passenger Movement Charge.
4. Consult and seek feedback from Tourism stakeholders regarding the performance and service delivery of airports during collection of information.
5. Review movement caps at Sydney Airport.

About Australian Chamber - Tourism

The Australian Chamber – Tourism is a part of the Australian Chamber of Commerce and Industry, Australia's largest business advocacy network. Australian Chamber – Tourism represents one in eight Australian businesses engaged in the visitor economy. It brings together key participants in the tourism sector to advocate better policies, including in the areas of tax, regulation, tourism marketing, research, labour supply, visas and infrastructure.

Working for business. Working for Australia

About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

Telephone | 02 6270 8000 Email | info@australianchamber.com.au
Website | www.australianchamber.com.au