PRODUCTIVITY COMMISSION – ECONOMIC REGULATION OF AIRPORTS

FURTHER SUBMISSION BY REGIONAL AIRPORT USERS' ACTION GROUP AND G BREUST

Major Capital City Airports

The Productivity Commission was given a reference to examine and report on the current light handed approach to the economic regulation of Australia's airports, particularly the "monitored' airports – Sydney, Melbourne, Brisbane and Perth. The other major leased airports along with all other airports were also subject to examination.

The Commission's draft report released in February, asserts as its main finding …"on balance, the Commission is satisfied that airports have not systematically exercised their market power in commercial negotiations with airlines to the detriment of the community."

We are most disappointed with this finding by the Commission. We were hoping for an in-depth analytical, forensic assessment of the practices adopted by these airports and their customers based on actual experience and with real data. Instead we have a report which appears based on academic literature related to theoretical applications of market dominance dotted with motherhood statements rather than a good hard look at the reality. This is not what we normally expect from a highly capable and professional body.

That the major airports have not systematically exercised their market power and therefore nothing needs to be done in terms of regulation or monitoring for another five years, simply doesn't pass the pub test.

It doesn't pass because:

- airport profitability is high and continues to grow year on year well above inflation rates (and most other industries);

- dividend returns to airport shareholders are increasing at very high rates;

- average revenue per passenger is increasing at the same time as annual passenger throughput continues to rise at high rates;

- Return on Aeronautical Assets (ROAA) for the major airports continue to be above 10 percent – a very high level given the long term nature of the assets involved (runways, taxiways, terminals) and the very low risk associated with such investment (Weighted Average Cost of Capital is also very low) - an ROAA 5 % percent or below would be considered appropriate;

- the level of criticism from and conflict with the airlines and other customers;
- continued comment by the ACCC (the authority charged with monitoring the airports) that the light handed approach is not enough to constrain the market power of the major airports and more is needed.

It is clear there is market dominance which left unchecked will continue to work against the air transport system and the community. With air travel forecast to increase substantially in the coming years, the main capital city airports will have even greater market power flowing from increased demand and the lag in investment in infrastructure. Until there are real alternatives like Western Sydney (Nancy – Bird Walton) Airport, the current situation will only worsen. Indeed, with the unlikely development of real competitive airports in the other major cities, little change to their dominance will occur.

Regional and Local Airports

We are very pleased the plight of regional and local airports and their users has been highlighted as a significant issue in the report although disappointed the recommendations didn’t go further to support the establishment of a National Airport Infrastructure Fund. Such a fund would provide structure and certainty around funding for major maintenance and development at regional and local airports.

We were also disappointed there was no specific recommendation for the establishment of Airport Advisory Committees with user membership at regional and local airports as we recommended. However, draft recommendation 10.6 does go a long way to ensure funding and the provision of regional and local airport infrastructure is appropriate, supported by users and considered on a regional, not just local area basis. We fully support this recommendation including the requirement for an independent evaluation and publishing of its findings. The major challenge, though, will be getting all governments to adopt it and make it effective.

We are also pleased the Commission has picked up the approach of the Western Australian Government’s Strategic Airport Asset and Financial Management Framework and included draft recommendation 10.7.

The framework sets out arrangements for the engagement of airport users and stakeholders, passenger demand modelling, long term asset management and financing, investment scenario testing and funding strategy. Adoption of this recommendation would be a major step forward.

Unfortunately, the report includes little about the burden of increasing security requirements at regional airports (as highlighted in the issues paper) and nothing on the ongoing struggle the aviation industry has with its safety regulator, even though the review provided an opportunity.

The fact is, the next major hurdle for regional airports is the currently being mandated increased security screening requirements and their associated costs.

A unilateral decision by the Australian Government now requires enhanced screening of passengers with new equipment as well as a reduction in the size of aircraft to which screening applies. This has resulted in a number of airports now being required to not only introduce screening, but also more situations where screening will apply to one RPT operator and not its competitor based purely on the seating capacity of the relevant aircraft.

It is my understanding the Qantas Group is pushing regional airports to adopt screening for all RPT passengers in such circumstances thereby imposing unnecessary additional costs on its competitors while reducing its own costs.

The Australian Government has indicated it will cover the cost of the initial acquisition of the new screening equipment but it will not cover any costs associated with modifications to regional terminal buildings to accommodate the new equipment and its associated increased passenger handling areas. In some instances, such building modifications will be substantial. This is yet another instance of cost shift away from the Australian Government to local government and then the airlines/travelling public. If the Australian Government considers it is appropriate to have the additional passenger screening capability and will meet the costs of the devices, then it follows it should also come to the party with the terminal modification and fit out costs. The Commission should recognise this and make recommendations accordingly.

We plan to attend the forthcoming hearings.

21 March 2019.