

20 July 1998

Mr Paul Belin
Inquiry Director
International Air Services Inquiry
Productivity Commission
Locked Bag 2
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By facsimile: 03 9653 2305

Dear Mr Belin

International Air Services Inquiry – Draft Report by the Productivity Commission

We write further to the submission made to the Inquiry by Westralia Airports Corporation (Perth Airport) in February 1998 and the release of a Draft Report by the Commission in June 1998.

Westralia Airports Corporation (WAC) is pleased to once again have the opportunity to provide input to the Commission in relation to this critically important area of public policy.

We propose to address the Draft Report in accordance with the subject headings and numbering used in the Report.

General

At a general level, Westralia Airports Corporation believes that the Report represents an accurate and balanced view of the economic and policy issues related to Australia's international air service agreements. The Commission has done well to bring together the various threads of this complex policy area which straddles aviation, economics, regional development, tourism and foreign interest/trade considerations.

We strongly believe that if the recommendations in the Report were to be implemented as stated this would result in a significant positive economic impact not only for major stakeholders in the aviation industry, but also for the nation as a whole and regional Australia in particular. The only major exception to this support is Westralia Airports Corporation's strongly held view relating to the recommended characterisation of 'primary' and 'secondary' airports (see below – Recommendation 5.1).

Recommendation 4.1

Westralia Airports Corporation endorses the Commission's recommendation in relation to a clearly defined statement of national policy related to aviation. Whilst the Federal Government has clearly undertaken significant (positive) reforms in relation to various aspects of the industry, the formulation of an overarching aviation policy statement is likely to be of value to industry stakeholders, government agencies and community at large.

Recommendation 4.2

Westralia Airports Corporation strongly supports the recommendation relating to formal, direct and open consultation prior to **and following** bilateral negotiations undertaken by the Department of Transport & Regional Development ('Department').

We understand that the Department is giving consideration to the formation of an Airport Consultative Committee that will function as a truly two-way consultative mechanism, providing airport operators with the opportunity of contributing to various negotiations and importantly providing feedback from negotiations. Westralia Airports Corporation would strongly support the initiation of such a committee, and would seek to actively participate in activities associated with it.

Recommendation 5.1

Whilst Westralia Airports Corporation endorses the regional reform package proposed by the Commission, we strongly disagree with the removal of restrictions on city designations for 'secondary gateways' where that term is defined to exclude Perth International Airport.

Westralia Airports Corporation believes that Australia in fact has only one ‘primary’ gateway for international air service, and that of course is Sydney. As table C6 in Appendix C to the Report indicates, Sydney handles fully 49% of Australia’s

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international passenger traffic and 52.4% of freight. In comparison, Perth handles only 9.7% of passengers and 7% of freight. This characterisation is further borne out by the behaviour of foreign airlines in bilateral negotiations – Sydney is almost invariably the desired entry point for new carriers.

At the very least, Westralia Airports Corporation believes that the Commission should be encouraging a level playing field for Perth in future bilateral negotiations. This will not happen under the current drafting of the Recommendation as Perth is currently not defined as a designated city/route in a number of Air Service Agreements (this occurs in significantly more ASAs than for either Melbourne or Brisbane). Hence, while other potential entry points to Australia would improve their position due to the removal of restrictions on ‘secondary’ gateways, Perth’s relative position would substantially deteriorate.

Westralia Airports Corporation therefore strongly urges the Commission to reconsider the definition of primary and secondary gateways for the purposes of this Recommendation.

Westralia Airports Corporation firmly supports the balance of Recommendation 5.1, and subject to the resolution of the above issue, we believe it’s implementation would have a positive impact on the Perth and Western Australian economies.

Recommendations 6.1 to 6.6 (IASC)

Generally, Westralia Airports Corporation supports the recommendations proposed by the Commission. In relation to Recommendation 6.3, we would make the observation that carriers should be able to demonstrate minimum standards of financial capacity (for consumer protection reasons), but agree that the current process could be substantially streamlined.

Recommendation 8.2

Westralia Airports Corporation firmly agrees with the bilateral open skies model favoured by the Commission. In our view, this is the core proposition of the Report and it’s implementation should commence without delay (subject to comments made in relation to Recommendation 5.2, above).

If a valid argument still remains in this era of competition reform for route restrictions into Australia, it pertains only to Sydney. Given the very substantial capacity limitation issue and community (ie. noise) concerns relating to Sydney Airport, route restrictions in Air Service Agreements are one tool that the Federal Government may deem appropriate to manage this situation. Imposing such restrictions in Sydney would also promote service development at other airports, both for international and domestic.

Recommendation 8.6

Westralia Airports Corporation endorses the Commission's recommendation that Australia should move toward a full common aviation market with New Zealand. Without doubt, this reform would herald significant economic benefits for the country as a whole. From Westralia Airports Corporation's point of view, there are also potential benefits to Perth that may arise under the liberalised arrangements related to particular overseas destinations such as Singapore, Malaysia, Hong Kong and South Africa.

Policy and Processes

The Commission has asked for comment in relation to the principle that all of Australia's Air Service Agreements be made public, limiting confidentiality to those sections that are specifically required to be kept confidential by other countries.

As the Commission has correctly observed, the situation in the US is that all such agreements are in the public domain by reason of the requirement for Senate approval. Westralia Airports Corporation does not see any good reason why it should be different in Australia, and in any case good public policy-making in the 1990's tends toward public availability unless there is an over-riding national interest to the contrary. It would be hard to sustain such an over-riding national interest in this case.

Access to Airports

Westralia Airports Corporation generally agrees with the proposition that general use should be made of peak load pricing at congested airports. Perth International Airport, like other busy Australian airports, experiences peak periods during the day primarily due to global connection schedules between interim connection hubs in Asia and destinations in Europe and North America. This characteristic resulting from Australia's geographic position in relations to the primary population and air traffic centres of the world, places

intense pressure on airport capital infrastructure, in particular terminal gates and related facilities.

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In Perth, peak hour requirements alone drive terminal expansion plans. Moves to provide additional gate capacity will almost certainly result in existing carriers with slot times currently outside prime peak periods requesting changes in slot times to move as close as possible to either the morning or afternoon preferred slots (9:00 am to 10:00 am and 4:15 pm to 5:15 pm), to better align their Perth flights with connecting flights through their Asian hubs to Europe or North America. In essence, a move to alleviate the “crowding” problem by providing additional facilities would probably result, at least in part, in exacerbating it.

While Westralia Airports Corporation has a general interest in providing facilities that support the growth of the airline industry to the extent feasible, the factors complicating the implementation of this course of action, at least for the privatised airports, are risk and the aeronautical pricing controls under the Airports Act.

Building facilities to accommodate service growth associated with a particular peak hour schedule involves a greater amount of risk because if for whatever reason the service in question goes away, as Perth and other airports have experienced during the current Asian crisis, the result is often substantially overbuilt facilities for remaining service levels and an airport operator who is left trying to recoup invested capital from a reduced carrier/service base. Westralia Airports Corporation believes that while it is important for airport owners to endeavour to the extent possible to provide capital infrastructure to meet carriers’ growth needs, the provision of such facilities should be on a user pays basis with a premium attached commensurate with the associated service risk. In general, Westralia Airports Corporation believes that peak load pricing should be implemented where appropriate, and that the differential should fall outside the price cap restrictions.

Please do not hesitate to contact Westralia Airports Corporation in relation to any issue raised in this submission. I can be contacted on telephone 08 9478 8888 or facsimile 08 9277 7537. I look forward to appearing before the Commission at its hearings commencing in Melbourne on 28 July 1998.

Yours sincerely

RYNE JOHNSON
Director Business Development and Marketing

