

17 April 2019

Airport Regulation Inquiry  
Productivity Commission  
Locked Bag 2  
Collins Street East Vic 8003

Dear Commissioners,

## **PERTH AIRPORT RESPONSE TO QANTAS GROUP AND A4ANZ SUBMISSIONS**

Perth Airport Pty Ltd (Perth Airport), as the lessee and operator of Perth Airport, welcomes the opportunity to make this supplementary submission to the Productivity Commission's *Inquiry into the Economic Regulation of Airports* ('the Inquiry').

In making this submission it is not the intention of Perth Airport to refute or correct all erroneous claims that have been made by other Inquiry participants in submissions responding to the Productivity Commission's Draft Report ('the Report'). We are confident that the Productivity Commission will properly test claims made by all participants to ensure accuracy in the matters the Productivity Commission chooses to include in its final report.

The purpose of this supplementary submission is to address claims made specifically in relation to Perth Airport in the Qantas Group and A4ANZ submissions of 25 March 2019, and in Qantas' verbal submissions to the Productivity Commission at its public hearing on 26 March 2019. These claims, and our responses, are set out below.

### **Qantas Proposed Flights to Johannesburg**

Qantas says that in April 2018 Perth Airport blocked Qantas' proposed Auckland-Perth-Johannesburg service operating from Terminal 3 without reasonable justification, which would have seen an additional 4,000 international seats per week into Western Australia (p.20 of Qantas submission).

#### Perth Airport Response:

Perth Airport publicly welcomed Qantas flights from Perth Airport to Johannesburg from Terminal 1 in April 2018. Our position was publicly reported by a number of media outlets.

We continue to welcome the introduction of Qantas flights to Johannesburg from Perth Airport Terminal 1.

A legally binding Heads of Agreement (HOA) between Qantas and Perth Airport was executed in late 2016 to facilitate Qantas direct flights between Perth Airport Terminal 3 and Singapore, Auckland and European cities. Perth Airport shareholders invested \$10 million to an upgrade of Terminal 3, and significant State and Commonwealth Government funds were also invested and committed based on the specific arrangements stipulated in the HOA, which precluded, except in specific circumstances, Qantas from operating routes from Terminal 3 outside of those routes specified in the HOA.

Johannesburg is not a route specified in the HOA.

Routes outside of those stipulated in the HOA were precluded from operating out of Terminal 3 on the basis of protecting the significant taxpayer and Perth Airport shareholder funds which had been committed to the redevelopment of Terminal 1 (International) and the Airport Central Precinct more generally. These include for example, funds invested by the Commonwealth and State Governments to upgrade the major road network leading into the Airport Central Precinct and Terminal 1 through the Gateway WA Project (~ \$1 billion), and the construction of a train line and train station at Terminal 1 through the Forrestfield Airport Link Project (~ \$2 billion). It also includes over \$200 million of upgrades of Terminal 1 (International) to enhance capacity, amenity and the customer experience.

### **Supreme Court Action Between Perth Airport and Qantas - 1**

Qantas says that it engaged in good faith with Perth Airport for over 18 months and that during that time Qantas continued to pay a fair and reasonable price (p.8 of Qantas submission).

#### Perth Airport Response:

Perth Airport negotiated with Qantas in good faith for over 15 months (commencing in September 2017), noting that the Qantas Prices and Services Agreement was to expire on 30 June 2018.

Perth Airport made multiple offers of lower operational charges to Qantas, the last of which would have seen the charges the Qantas Group pay for use of Terminal 3 and the airfield, decrease by 13.0% when compared with the previous year. Qantas however, insisted on unilaterally determining the price it would pay for use of facilities funded by Perth Airport investors. In fact, Qantas did not even respond formally to the last offer made by Perth Airport.

The amount Qantas unilaterally determined it would pay was 42.1% lower than Perth Airport's last proposal, and 50.3% lower than the prices paid in the previous year.

### **Supreme Court Action Between Perth Airport and Qantas - 2**

Qantas says it sought a circuit breaker and proposed the matter be referred to independent, binding, expert determination on mutually agreed terms. Qantas says Perth Airport rejected this offer and went straight to court (p.8 of Qantas submission).

#### Perth Airport Response:

At no point leading up to the initiation of the legal proceedings did Qantas suggest that the matter be referred to independent expert determination, or any other form of alternative dispute resolution. Perth Airport repeatedly put Qantas on notice that if Qantas continued to pay at the rate Qantas had unilaterally set, Perth Airport would be forced to take legal action to resolve the issue. It was only after proceedings were initiated in the Supreme Court of Western Australia that Qantas suggested alternative dispute resolution. Perth Airport can demonstrate that these facts are accurate.

### Supreme Court Action Between Perth Airport and Qantas - 3

Qantas says it stands ready to pay a fair and reasonable charge for the use of Perth Airport, which includes Perth Airport receiving a fair return on their investment, but that Perth Airport's current fee proposal will increase the cost to air travellers increase by 38% over the next seven years (p.8 of Qantas submission).

#### Perth Airport Response:

Perth Airport's last offer to Qantas for FY19 charges (airfield charges plus terminal charges) saw a reduction of 13.0% per passenger when compared to prices paid in FY18, which were already significantly discounted based on ad-hoc volumetric rebates agreed between Perth Airport and Qantas.

**Perth Airport is not able to recreate any scenario where the 38% increase claim can be substantiated**, and such claims are completely inconsistent with an offer of charges 13.0% lower than what Qantas were previously being charged up to 30 June 2018.

In addition, under the previously proposed seven-year agreement, terminal and airfield charges would only be escalated by Consumer Price Index (CPI) increases.

The only exception would be if Perth Airport was required to invest more capital to facilitate additional Commonwealth Government mandated security requirements or if terminal or airfield facilities were required to be expanded to support increased traffic.

### Supreme Court Action Between Perth Airport and Qantas - 4

Qantas says Perth Airport's 'poor behaviour' is also evidence that airports reject dispute resolution opportunities. Qantas says Perth Airport's own *Conditions of Use for Aeronautical Services and Facilities* (Conditions of Use), dated 1 July 2018, state that prior to beginning legal proceedings, a party must first refer the matter to an expert for a determination.

Qantas says Perth Airport commenced legal proceedings against Qantas Group prior to activating these provisions under its own Conditions of Use as they allege Perth Airport refused, despite numerous requests by Qantas Group, to have the matter determined by a mutually-appointed, independent expert (p.22 of Qantas submission).

#### Perth Airport Response:

Qantas has expressly rejected, orally and in writing, on multiple occasions (including by letters dated 17 October 2018, 22 January 2018, 15 March 2019 and 9 April 2019), the application of Perth Airport's Conditions of Use to the Qantas Group. Having rejected Perth Airport's Conditions of Use, Qantas cannot now seek to rely on its provisions.

Further, as noted earlier, at no point leading up to the initiation of legal action did Qantas suggest that the matter be referred to independent expert determination.

Perth Airport is confident that the Supreme Court of Western Australia is the most appropriate forum for resolution of this dispute.

## Perth Airport Costs - 1

Qantas says Perth Airport contractually set the majority of its pricing with airlines in 2011 with pricing locked in for seven years. Therefore, according to Qantas, Perth Airport did not have the ability to adjust its prices when actual volumes were materially below its forecasts. Qantas says if passenger volumes had not fallen at Perth Airport, then its ROAA would almost certainly have remained high ('super-normal') or continued the upward trend observed from 2012 to 2014. Qantas says Perth Airport has now reset its prices such that it can earn super-normal profits over the next pricing period (p.12 of Qantas submission).

### Perth Airport Response:

Qantas' statement shows a lack of understanding of how the contractual arrangements entered into by Qantas with Perth Airport in 2011 for a term of 7 years, actually work. The prices set and agreed with Qantas are informed by the Building Block Model which sets out, amongst other things, the assets being deployed, anticipated capital investment, locked in operating cost trajectories, and agreed passenger forecasts for the 7-year term.

In this model, Perth Airport bears the operating cost and passenger number risks. A lower passenger outcome in any one year, in the absence of this agreement, would otherwise actually see charges for Qantas (on a cost per passenger basis) increase, not decrease.

Perth Airport did not adjust prices for any passenger volumes, be they above or below this agreed forecast, for the 7-year term from 2011 to 2018.

We also note that analysis undertaken by Houston Kemp for the Australian Airports Association (AAA) does not reveal any excess aeronautical returns being earned over this period, a finding consistent with the Productivity Commission's own analysis

The prices proposed for the next period (from 1 July 2018) have also been informed transparently using the Building Block Model and are not expected to earn super-normal profits. They are based on returns consistent with the analysis provided by Houston Kemp and were shared with all airlines as part of the Aeronautical Services Agreement consultation process.

Twenty- three out of the twenty- four airlines operating out of Perth Airport have reached agreement on prices with Perth Airport based on this approach.

## Perth Airport Costs - 2

Qantas says the Productivity Commission drew attention to the inefficient and high operating costs at Perth Airport yet dismissed this on the basis that passenger numbers were lower than forecast and a large portion of these costs were fixed costs.

However, Qantas says unjustified increases in full time staff numbers, which are wholly within the control of Perth Airport, have contributed to these high operating costs and demonstrate inefficient management of resources and poor productivity. Qantas says the Commission also appear to accept that costs at the end of Perth Airport's agreement period were in line with forecasts. Even if this were true, Qantas says these costs should have been lower (p.22 of Qantas submission).



Perth Airport Response:

These assertions do not stand up to scrutiny.

Perth Airport provided extensive information to airlines on operating costs prior to the commencement of the previous agreement in 2001. As with passenger forecasts, the risk associated with these operating costs for the 7-year contracted term, were Perth Airport's risk. To the extent that Perth Airport incurred higher operational costs than agreed and set out in the agreement, **these were borne by Perth Airport and its shareholders and the costs were not passed on to airlines.**

It is accepted that while Perth Airport did incur additional unforeseen operating costs during the mining boom to both facilitate safe and efficient operations during a period of extraordinary activity and to deliver a significant number of capital projects over a short period of time, **none of these costs (with the exception of any government mandated security charges) were passed on to airline partners.** Since that time, Perth Airport has undertaken internal reviews and initiated cost efficiency measures to reduce operational cost. Implementation of efficiency measures will continue over the coming years.

**Operating Expenditure at Perth Airport - 1**

Qantas says that Perth Airport's public website and its subsequent bilateral consultation with Qantas Group did not provide a historical breakdown of aeronautical operating expenses (p.21 of Qantas submission).

Perth Airport Response:

This is irrelevant. As explained above and already stated in Perth Airport's primary submission to the Commission dated 07 September 2018, **any higher than committed operational expenditure was absorbed by Perth Airport shareholders and not passed on to airlines.**

For pricing for new contractual arrangements from 1 July 2018, Perth Airport has provided significant transparency of operating costs and is again committing to an operating cost trajectory that underpins and informs the new pricing. In fact, Perth Airport has committed to deliver an efficiency dividend over the next term such that in real terms operating costs will be lower year on year.

**Operating Expenditure at Perth Airport - 2**

Qantas says Perth Airport used 2016-17 as the base financial year to forecast the operating expenses included in its aeronautical charges, although an operator's historical trends are a better indicator of whether that starting point is efficient (p.21 of Qantas submission).

Perth Airport Response:

This is irrelevant. As explained above and already stated in Perth Airport's primary submission to the Commission dated 07 September 2018, **any higher than committed operational expenditure was absorbed by Perth Airport shareholders and not passed on to airlines.**

In fact, as disclosed transparently to airlines as part of the negotiations, Perth Airport's costs for FY18 were at the projected level that informed prices in 2010 in the lead up to the

negotiations for the previous 2011 agreements.

### **Proposed Capital Expenditure - 1**

Qantas says that although a Capital Expenditure report with descriptions of proposed projects was made available on the Perth Airport website, there was almost no capacity and demand assessment shared despite many of the projects described as driven by demand; and benefits of the projects to airlines are not well articulated (if at all) (p.21 of Qantas submission).

#### Perth Airport Response:

As noted in our primary submission dated 07 September 2018 at p.55:

*In 2017 PAPL and airlines commenced the process of seeking to agree comprehensive commercial agreements that would be valid from 1 July 2018.*

*PAPL's approach to the commercial negotiations was to conduct an 'open and transparent' process where high quality, comprehensive and non-sensitive information would be provided to all airlines (and indeed any interested party) through Perth Airport's publicly accessible website. This would ensure the negotiations were conducted on a 'level playing field' with all airlines, regardless of size or operational footprint at Perth Airport, having access to relevant and non-sensitive data.*

*Following discussions with airlines in 2017, PAPL engaged with the airlines in three separate stages:*

- *Data Sharing: information related to pricing was made available online for the airline community to download the data and review it. That information can still be accessed via <http://www.perthairport.com.au/Home/corporate/work-with-us/airline-consultation> . Information provided included:*
  - *revised version of the Conditions of Use to operate at Perth Airport;*
  - *explanation of PAPL's methodology for Aeronautical Pricing, based on the ACCC's building block methodology;*
  - *a comprehensive indicative 10-year capital expenditure plan (with project by project description / justification, rationale behind the aeronautical allocation and whether projects were being considered in the price calculation or were being presented as 'prospective only' for airline comment and review);*
  - *10-year passenger forecasts with supporting explanation;*
  - *10-year operational cost forecast, with supporting explanation, assumptions and cost drivers;*
  - *a detailed assessment of the aeronautical opening asset base used to determine the aeronautical charges, including information on additions, depreciation, indexation, reallocation of assets between aeronautical and non-aeronautical and a split between the former indicative capital plan, unplanned capital and overruns;*
  - *information on PAPL's approach to its proposed Weighted Average Cost of Capital (WACC);*

- *detailed breakdown of all assumptions; and,*
- *the proposed pricing models.*
- *Consultation: PAPL organised meetings with airlines to gather their feedback on the information provided. During this stage, PAPL provided answers to questions from airlines, provided additional information on each of the documents presented, and reviewed forecasts based on airline input. Similar to standard practices applied in major procurement processes, responses to questions from airlines that had general application were shared with all airlines through publication in the Consultation Website. Prices were shared with airlines only after consultation was completed, and included all reviews based on airline feedback.*
- *Bilateral discussion: following the consultation stage, PAPL entered into bilateral discussions with airlines and airline representatives.*

*Airlines showed varying levels of interest in the process and in the data presented. Qantas and Virgin engaged PAPL in a detailed discussion during the bilateral stage, with discussions on the proposed capital expenditure plan, WACC assumptions, operational costs forecast and Opening Asset Base.*

Consistent with the above outline and the consultation protocol outlined in our publicly accessible website<sup>1</sup>, Perth Airport convened several workshops with Qantas representatives (as it did with other airlines) to explain and discuss the forecast demand and benefits of capital projects which had been queried by Qantas<sup>2</sup>.

## **Proposed Capital Expenditure - 2**

Qantas says no detailed costings or cost plans were shared either publicly or bilaterally– only the total project cost for each project was provided (p.21 of Qantas submission).

### Perth Airport Response:

Details were provided to airlines on an 'as requested' basis to protect Perth Airport's commercial interest in securing tenders to complete the works. Disclosing specific costs of each stage of every project would provide tenderers with a 'go-to' price as it would provide information to them on Perth Airport's willingness to pay and a best estimate of the cost of each project and potentially inflate costs.

Qantas were provided, on a bilateral basis, significant information to support the costs for each of the queried projects including quantity surveyor reports (where available). Qantas were also afforded multiple meetings and a full day workshop with full access to over 15 relevant Perth Airport personnel to answer their detailed questions (including costs) on all projects of interest to Qantas.

<sup>1</sup> Attached to this submission as Appendix 1.

<sup>2</sup> Copies of correspondence between Perth Airport and Qantas showing the extensive information provided by Perth Airport to Qantas on capital projects has been provided in our 'In Confidence' submission.

### **Proposed Capital Expenditure - 3**

Qantas says information on whether alternate options were investigated was not included (p.21 of Qantas submission).

#### Perth Airport Response:

As outlined earlier, Perth Airport provided this information to Qantas in the consultation meetings and workshops that were undertaken. During these consultations, options that were considered were discussed and specific project level queries answered.

### **Proposed Capital Expenditure - 4**

Qantas says Perth Airport proposed a Significant Terminal Expansion Project (STEP) for ~\$600 million in additional gates and improved service levels. Qantas says the information failed to include a breakdown of estimated costs; describe benefits for airlines or airport users; propose or provide assessment of any alternate options considered; or include capacity and demand assessment for each processing point (p.21 of Qantas submission).

#### Perth Airport Response:

Perth Airport continues to engage with international airlines on the benefits of the international expansion and is currently revisiting layout, cost and construction staging. The revised design includes a phased approach to developing international expansion that is preferred by airlines and the Board of Airline Representatives Australia (BARA).

Perth Airport is continuing to meet with BARA and other airline partners, including Qantas, to discuss planned investments such as the international terminal expansion.

This engagement covers all items mentioned by Qantas (breakdown of costs, benefits to airlines and airport users, alternative options considered and capacity and demand assessment).

### **Development Costs of Terminal 3 International Operations**

Qantas says that prior to the launch of Qantas' direct Perth-London service, there was significant misalignment on the expected costs and timelines to retrofit Terminal 3 (\$45 million quoted by Perth Airport vs. \$25 million by Qantas Group) which threatened the viability of the service. Qantas says only after pressure from the Western Australian Government was the retrofit completed with the infrastructure project completed by Qantas Group on time and within its considerably low budget. Qantas says Perth Airport reached an agreement with Qantas Group after the Federal and State Governments intervened (p.20 of Qantas submission).

#### Perth Airport Response:

Initial cost estimates, in the absence of a detailed scope and schematic or detailed design, were based on a number of assumptions which were gradually refined as design progressed. As the variables associated with the project were significant, prior to the finalisation of detailed design (or even schematic design) costs remained uncertain. For example:



- It was uncertain whether additional apron or new fuel hydrant locations would be required, and whether additional airside fixed links to connect some of the existing gates would be required.
- The need for, and extent of, possible blast mitigation treatments for the terminal façade in the general location of the works was uncertain, as was the possible need to realign the pick-up / drop off lanes at the front of Terminal 3.
- Initial advice indicated that the fire ring main for Terminals 3 and 4, and mechanical plant was at capacity and undertaking the works required for international operations from Terminal 3 may require the fire ring main and mechanical plant to be upgraded.
- The Australian Border Force (ABF) initially indicated a suite of significant works would be required to ensure separation between international and domestic passengers, and international and domestic baggage areas, due to the nature of the 'swing' operations between domestic and international services in Terminal 3. Following weeks of discussion between the Perth Airport project team and ABF representatives, the scope of the works required was significantly refined and modified.
- The proposed implementation of international 'One Stop' security arrangements, which at that date had been implemented at only one other Australian airport (and at that airport, the One Stop security arrangements were not in relation to a UK or European route), introduced a significant level of uncertainty as to what the infrastructure requirements for aviation security would be. Again, it was only after a significant amount of discussion and liaison between the Perth Airport project team, our international aviation security partners and the Department of Home Affairs, that the actual infrastructure requirements were refined and agreed.

It should also be noted that, in fact, the project cost Perth Airport more than the \$10 million allocated and, in addition, a significant amount of capitalised labour on the part of Perth Airport staff was not accrued to the project, rather the cost of the capitalised labour was borne by Perth Airport, rather than the project.

Qantas' assertion about 'intervention' from the Commonwealth and State Governments misrepresents the matter as it infers Perth Airport only agreed to the project based on political pressure from the two levels of governments. This is incorrect. In fact, Qantas was seeking third parties to fund expensive works to facilitate a single Qantas route with a passenger load of around only 160,000 passengers per annum which could have been readily serviced by existing infrastructure in Terminal 1 (International) at minimal incremental cost.

Ultimately, the project only proceeded because Perth Airport committed \$10 million to the works, the State Government committed \$14 million to fund ABF facilities, and the Commonwealth Government agreed to the deployment of additional Australian Border Force and Department of Agriculture and Water Resources (Biosecurity) resources to facilitate the route.

In other words, the 'landmark' non-stop Qantas Perth-London flight was only possible with significant taxpayer subsidies from the Commonwealth and State Governments, as well as Perth Airport.

## Aircraft Utilisation

Qantas says airlines strive for maximum aircraft utilisation and will make decisions regarding aircraft type based on passenger demand for the route. Qantas says this is nowhere more evident than at Perth. Qantas asserts that while Perth Airport and Qantas Group are currently in a legal dispute, Qantas will add 14% more capacity into domestic, intra-WA markets during the upcoming Northern Summer 2019 scheduling period. In addition, Qantas says it will also add an approximate 100 extra flights on east-west routes from Perth over the same period. 'So much for the argument that airlines withdraw or reduce services for leverage during disputes' (p.18 of Qantas submission).

### Perth Airport Response:

The Chief Executive Officer (CEO) of Qantas recently claimed that Qantas had delayed making a decision on purchasing aircraft for a direct Perth to Paris service due to the current legal dispute over the airline's short payment of invoices for the services provided by Perth Airport.

The Qantas CEO stated, "I don't think our shareholders would be happy with us ordering aircraft to invest at an airport where we don't have certainty about the future and about the charges."

The claim that the dispute over pricing is an obstacle to establishing a Perth-Paris service does not stand up to scrutiny and appears designed to provide Qantas leverage in the public arena during the legal action over unpaid charges.

When Qantas launched the highly profitable Perth-London service, Perth Airport's terminal and airfield charges made up just \$17.37 of a one-way fare (or \$34.74 return).

Perth Airport offered Qantas a new Aeronautical Services Agreement which would have seen that charge fall by 13 per cent to around \$15 from 1 July 2019. Qantas has unilaterally chosen to pay \$8.75.

## Aviation Security

Qantas says:

- Airports procure the security services but ultimately do not have to pay for them and therefore have little if any incentive to obtain value for money or maintain efficiency.
- Airports openly acknowledge in their terms and conditions that they are entitled to make a profit on security.
- Airports openly acknowledge in their terms and conditions that they have broad leeway to introduce new charges at any time under the umbrella of government mandated security charges.
- Airports have expanded the types and scope of security costs beyond what was originally contemplated by government.
- Airports have an incentive to over-service e.g. keep more security lanes open in off peak times, in order to maximise customer dwell time in retail areas. The full cost for staffing low utilised lanes is then passed through to airlines (p.24 of Qantas submission).

Perth Airport Response:

These assertions do not stand up to scrutiny.

Perth Airport undertakes exhaustive competitive tender processes for procurement of security services. The procurement process takes on average nine months. The last of these processes was undertaken in early 2018 and resulted in reductions of 5.4%, or over \$1.4 million per year, in cost of operations, all of which was passed on to airline partners.

More recently in January 2019, Perth Airport also resumed the responsibility of Terminal 4 from Qantas and as part of this process, Perth Airport was able to negotiate and put into place new security contract arrangements and able to secure services for a lower cost than what Qantas was previously paying. Again, the full benefit of this cost saving has been passed on to Qantas.

Perth Airport does include in its Aeronautical Services Agreement a provision which allows it to recover the cost of any new security services which are mandated by way of legislative change by the Commonwealth Government. To do otherwise is not sustainable. By way of example:

- In 2017 the Commonwealth Government directed all major airports to implement an enhanced airside screening regime for airport staff. Compliance with this direction at Perth Airport requires an estimated capital expenditure of between \$17 million - \$20 million and additional operational security costs of over \$1 million per annum. Airlines were consulted and agreed to the design and cost of the airside screening infrastructure and associated operational arrangements.
- The Commonwealth Government has also directed major airports to implement enhanced security screening measures for both domestic and international passengers. Compliance with this direction at Perth Airport will require capital expenditure likely to be in the tens of millions of dollars and additional operational security costs likely to be in the millions of dollars per annum. Airlines have been consulted and will continue to be consulted in relation to this project.

Perth Airport will recover these costs from airlines, consistent with the provisions of the Aeronautical Services Agreements. It is unreasonable to expect our shareholders to invest funds to meet government mandated security requirements and to not recover invested capital funds or operational expenses.

Deployment of, and costs associated with operation of, passenger screening lanes is influenced by several factors:

- The need to strictly comply with the requirements of the Commonwealth Government's Aviation Screening Notices;
- The requirements of industrial agreements which have, for several years, stipulated a minimum four-hour roster for screening staff. This means that a screening point may need to be open to accommodate a 2-hour peak period, however the staff deployed must be paid for a minimum of four hours' work; and,
- The need to ensure satisfactory facilitation rates through the screening point are maintained:
  - To ameliorate 'front of house' security risks associated with large queues of people congregating in one place in landside areas of the terminal; and,

- To ensure a satisfactory customer experience noting that passenger throughput at screening points is generally accepted internationally as a standard of quality indicator for airports<sup>3</sup>.

## Ground Transport and Car Parking Costs

Qantas says it does not dispute that people are willing to pay a premium for more convenient parking locations but says that airports are extracting excessive premiums.

Qantas says that while the Commission has selected hospital and entertainment venues in order to compare prices charged by airports, the same comparison cannot be made for other transport access. Taxis and rideshare services such as Uber are charged access fees at the monitored airports, but no such fees are imposed at hospital or entertainment venues (p.32 of Qantas submission).

### Perth Airport Response:

Table 1 below provides a comparison of prices for an 8 hour stay between Perth airport and a range of both commercial and City of Perth car parking facilities. This duration has been selected as it is reflective of the actual use of Perth Airport's Short-Term Car Park network with 95% of transactions occurring within this timeframe; this is further evidenced by the overall short-term car park average transaction value of \$15.29. The chart shows that Perth Airport's prices are not excessive in the context of commercial parking facilities but that they are representative of, or cheaper than, current market rates<sup>4</sup>.

**Table 1: Parking Price Comparison – 8 Hours Stay**



<sup>3</sup> 'Number of departing passengers per security clearance system (peak hour)' is also used by the Australian Competition and Consumer Commission (ACCC) as an 'indicator of quality of passenger-related services and facilities'. In the ACCC monitoring regime, an *increase* in the number of departing passengers per security clearance system (peak hour) is recorded as a 'decline' in the quality of passenger related services at airports.

<sup>4</sup> Note: ATV means 'Average Transaction Value'



Perth Airport levies landside access fees on some vehicles that enter the airport precinct, with these partially covering the costs that Perth Airport incurs in providing, operating and maintaining the access facilities. These include;

- Covered passenger waiting areas
- Taxi queuing areas
- Taxi rank marshal services
- Taxi holding yards
- Driver waiting facilities, toilets, rest areas and kitchenettes
- Rideshare holding yards

The fees charged are reflective of the provision of the facilities that Taxi, rideshare and Small Charter Vehicles (SCV) services use. Of note, these types of facilities are not generally provided at hospital and entertainment venues.

#### **Claims Made by Qantas in the Productivity Commission's Public Hearing - 26 March 2019**

Qantas representatives made a number of claims and assertions (generally the same as those made in its submission dated 25 March 2019) at the Inquiry's public hearing held in Sydney on 26 March 2019.

One additional claim made by Qantas in its appearance at the public hearing, which is not included in its submission, is in relation to the Building Block Model.

We refer specifically to an exchange between Commissioner King and Mr Matthew Hudson, Head of Commercial Airports at pages 116 – 117 of the transcript as follows:

**MR HUDSON:** I would say we don't consistently get to use the building block model. So we have some airports when we engage in conversations on the building block model will say to us things such as, "We understand Qantas. That's what you're doing and here's the price," so that's not consistently applied. Indications where it is applied, we think that there's a lack of transparency of information shared between the airports and Qantas which makes it a difficult conversation for us to have without the information available to us.

**COMMISSIONER KING:** Just on that. Sorry, just to make sure we've got all the information. So the airports that don't use the building block approach or give you a "take it or leave it" offer, is that any of Perth, Melbourne, Sydney or Brisbane?

**MR HUDSON:** Yes, I'd say definitely, in the case of Perth. I'd say definitely; Perth's view is that the building block model does not apply.

**COMMISSIONER KING:** And Qantas' view is that Perth effectively made it a take it or leave it offer.

**MR HUDSON:** That's right.

**COMMISSIONER KING:** I understand that there's a court case going on here and I don't

want to - - -

**MR HUDSON:** Yes, that's right, correct, that's right.

**COMMISSIONER KING:** No, thank you.

**MR HUDSON:** Yes.

**COMMISSIONER KING:** I just wanted that clarified.

The claim by Qantas that Perth Airport does not use the Building Block Model is extraordinary given the wealth of documentation in our publicly accessible Aeronautical Services Agreements data room which explicitly and comprehensively outlines Perth Airport's use of the Building Block Model.

The primary Aeronautical Pricing document in the data room is titled 'Aeronautical Pricing Model Methodology'<sup>5</sup>. The document specifically states that the Building Block methodology has been adopted by Perth Airport to estimate the cost of providing aeronautical services, and the document then goes on to outline in detail the Building Block inputs and methodology at Perth Airport. Detailed documentation relating to each of the inputs (Opening Asset Base, Capital Expenditure, Forecast Operational Expenditure, Return on Capital, Return of Capital, Indexation and Taxation) is also included in the data room.

The claim by Qantas that Perth Airport makes 'take it or leave it' offers is absolutely refuted by Perth Airport. It is also an extraordinary claim given that the Qantas submission of 25 March itself notes (at page 8) that 'Qantas engaged in good faith with Perth Airport for over 18 months to renegotiate the agreements governing use of Terminals 1 and 3 and the airfield...'.

## **A4ANZ CLAIMS**

A4ANZ repeats many of the claims made by Qantas to which Perth Airport has responded above. Additional claims made by A4ANZ are as follows.

### **Dispute Between Qantas Group and Perth Airport - 1**

A4ANZ asserts that the Qantas Group believes Perth Airport's charges are excessive due to unreasonable rates of return and accelerated depreciation – with Perth Airport proposing to accelerate depreciation of the Group's existing terminals by seeking to recover 20 years of depreciation over the next 7 years (p.37- 38 of A4ANZ submission).

#### Perth Airport Response:

Perth Airport's response to the issue of accelerated depreciation is set out in our submission of 25 March 2019. To reiterate - the reality is that consolidation of all terminal facilities into the Airport Central precinct has been part of Perth Airport's Masterplan since 1985.

In line with the Commonwealth Government's revised Aeronautical Pricing Principles, an airport is entitled to achieve both a return on and of capital invested. Further it is a fundamental

<sup>5</sup> Attached to this submission as Appendix 2.

economic and accounting principle that assets are valued and recognised on their effective economic life.

As Qantas has previously signed a binding Heads of Agreement with Perth Airport to move to new terminal facilities in Airport Central by no later than 2025, it is a reasonable conclusion to draw that both Terminals 3 and 4 (located in Airport West) will not have an economic life beyond 2025 and as such Perth Airport should seek to recover its capital invested over the remaining life of the assets.

Further, the economic justification for accelerated depreciation is that the customers that benefit from the services provided by an asset (in this case the Qantas Group) should pay for the full costs of those assets. Alternatively, other customers who derive no benefit or services from those assets (other airlines at Perth Airport) should not pay. Accelerated depreciation has been accepted by regulators to promote these outcomes

These principles have been affirmed in numerous cases including, for example:

- Transgrid (2003)<sup>6</sup>
- Ergon Energy (2010)<sup>7</sup>
- AusNet Services (2016)<sup>8</sup>
- CitiPower (2016)<sup>9</sup>
- Powercor (2016)<sup>10</sup>

## **Dispute Between Qantas Group and Perth Airport - 2**

A4ANZ asserts that the Qantas Group proposed that the dispute between Perth Airport and the Group be referred to expert determination, however Perth Airport rejected this offer, and instead chose to go directly to the Supreme Court of Western Australia. Further, A4ANZ asserts that the parties could have agreed an expedited and low-cost dispute resolution process which resulted in binding outcomes in the future, but PAPL declined to try to negotiate such a dispute resolution process (p.37-38 of A4ANZ submission).

### Perth Airport Response:

At no point leading up to the initiation of the legal proceedings did Qantas suggest that the matter be referred to independent expert determination, or any other form of alternative dispute resolution. Perth Airport repeatedly put Qantas on notice that if Qantas continued to pay at the rate Qantas had unilaterally set, Perth Airport would be forced to take legal action to resolve the issue. It was only after proceedings were initiated in the Supreme Court that Qantas suggested alternative dispute resolution. Perth Airport can demonstrate that these facts are accurate.

Perth Airport is focussed on resolving the dispute in question, rather than creating additional alternative dispute resolution forums. Existing forums of dispute resolution adequately cater

<sup>6</sup> TransGrid, *TransGrid 2004 Revenue Reset Application*, September 2003, p102

<sup>7</sup> AER, *Ergon Energy – Queensland Final Determination Decision 2010-15*, 2010, p xl.

<sup>8</sup> AER, *Final decision AusNet distribution determination 2016 to 2020- Attachment 5 - Regulatory depreciation*, May 2016, p 15.

<sup>9</sup> AER, *CitiPower distribution determination final decision 2016-20, Attachment 5*, p 15.

<sup>10</sup> AER, *Powercor distribution determination final decision 2016-20, Attachment 5*, p 15

for the needs of all parties, and Perth Airport remains confident that the Supreme Court of Western Australia is the most appropriate, timely and cost-effective forum for resolution of this dispute.

### **Dispute Between Qantas Group and Perth Airport – 3**

A4ANZ asserts that the Qantas Group is willing to pay fair and reasonable charges for the use of Perth Airport, and is cognisant that Perth Airport requires a reasonable return on investment. However, the Qantas Group wants to ensure that the travelling public are not paying excessive airport charges above what is necessary and will not accept monopolistic pricing that ultimately disadvantages Australian customers (p.37-38 of A4ANZ submission).

#### Perth Airport Response:

Since commencing short payment of Perth Airport's invoices from July 2018, the Qantas Group have passed on to their customers all or part of the charges that Perth Airport has invoiced to the Qantas Group for their use of Perth Airport. This is despite Qantas Group refusing to pay the charges in full to Perth Airport.

Your sincerely,

Debra Blaskett  
**CHIEF CORPORATE SERVICES OFFICER**