

The Toll logo is displayed in white, bold, italicized capital letters against a teal background. The background of the entire page is a photograph of an airport tarmac at night, showing the underside of an aircraft's cargo hold and a ground crew member in a high-visibility vest standing on a mobile stair platform.

TOLL

**Toll Group Submission to the Productivity Commission
Inquiry – Economic Regulation of Airport Services
April 2011**



Toll Group

Toll Group is the Asian region's leading provider of integrated logistics services. With annualised revenue in excess of AU\$8 billion, we employ around 40,000 people via a network of 1,200 sites in 55 countries. Toll Group's substantial international presence makes it perhaps the most geographically diverse Australian multinational. In Australia, Toll directly employs around 20,000 people.

Toll's first class collection of and access to transport and infrastructure assets, including road fleets, air and marine capacity, warehousing, ports and railways, help the company achieve world's best practice in supply chain management. The company's integrated logistics strategy combined with smart technology, which connects services and interfaces with our customers, provides our most powerful point of differentiation in the market place.

Toll Group recommends the introduction of:

- An improved price monitoring regime that reveals the true extent of airport price settings with aeronautical and non-aeronautical tenants;
- An independent arbitration mechanism to assist with dispute resolution;
- A reporting mechanism that requires airports to reveal how access decisions have been reached in instances where they give priority to non-aeronautical businesses, or have been to the detriment of aeronautical businesses operating on the airfield; and
- A service monitoring mechanism that includes measures common to businesses like ground handlers, cargo terminal operators and maintenance and repair organisations.



Toll Group at Australian Airports

Three Toll Group Business Units are prominent at Australian airports – Toll Dnata Airport Services, Toll Air Express and Toll Global Forwarding. Toll Dnata Airport Services is the only ground handling company in Australia to offer a complete range of services at Sydney, Melbourne, Brisbane, Perth, Adelaide and Darwin Airports. Services include passenger and customer services, ramp activities, cargo handling, road feeder transport and aircraft servicing. Notable customers include the Virgin Blue Group of Airlines, Emirates, Singapore Airlines, Cathay Pacific, Thai Airways, China Southern Airlines and Malaysian Airlines, amongst others.

Toll Air Express (a business unit of Toll Priority) operates 50+ aircraft performing 240 scheduled freight flights per day throughout Australia using a wide range of aircraft types. The business services the entire financial institutions requirement for the overnight money market (carrying cheques/vouchers) through two services daily to each bank within Australia. These services also carry life saving medication to all capital cities and regional areas, pathology samples, time critical telecommunications equipment and machinery parts to list a few. In addition, Toll Air Express provides a wide range of services for the aviation industry including maintenance and repair (MRO) and ad hoc freight charter operations to the private, commercial and government sectors within Australia and the Pacific Region.

Toll Air Express has a 10 year Freight Services Agreement with Virgin Blue Airlines which provides the airlines with a significant contribution to its profitability. The Virgin Blue

operating model on ground has a turn time of approx 45 minutes, therefore is its paramount Toll Air Express be in close proximity to the Virgin Blue ramp operations to allow time critical freight, excess baggage, travelling customers pets etc to be placed onto Virgin Blue flights.

Toll Group has an extensive commitment to the provision of safe, secure and sustainable air services and appreciates the opportunity to contribute to the Productivity Commission's inquiry. The company believes airports are key pieces of national infrastructure and an essential part of an internationally competitive supply chain.

Toll Global Forwarding has a significant presence at Australian airports and provides air freight services for importers and exporters from Sydney, Brisbane, Melbourne, Adelaide, Perth and Darwin. The business contributes significantly to the high value air freight sector and is responsible for facilitating Australian exports of around 5 thousand tonnes and imports of around 15 thousand tonnes per annum. From Sydney Airport alone the business moves approximately 30 tonnes of imports and 15 tonnes of exports daily.

To meet the needs of customers Toll Global Forwarding works closely with Cargo Terminal Operators including Australian Air Express, Qantas Freight Handling, Menzies Aviation and Toll Dnata and numerous airlines including Qantas and Singapore Airlines. Toll Global Forwarding also provides specialist services including Project Services, Aircraft Charter and Special Handling.



Executive Summary

Airports form an integral part of the aviation landscape and are key pieces of Australian infrastructure. It is essential that they are well run and deliver the necessary infrastructure to support the businesses operating on the airfield and airport users more generally.

Toll Group strongly believes airport users that support the aeronautical functions on aerodromes, such as airlines, cargo terminal operators and ground handlers should be acknowledged and respected as the primary users of the facilities.

It is essential that regulators and airport managers alike realise that Toll Group businesses like Toll Dnata and Toll Air Express provide aeronautical services that are vital for the community and necessary to ensure the profitability of airline operators.

We have become increasingly concerned by the actions of some airport operators who show little regard for the needs of businesses, such as Toll Dnata and Toll Air Express, and give priority to non-aeronautical businesses such as retail outlets, motels and other industrial uses.

Toll Group firmly believes the primary function of airport managers should be to manage their facility as an airport and promote aeronautical operations for the benefit of Australia's economy and population; unfortunately we see substantial evidence to the contrary.

Toll Group understands that the existing economic regulation of certain Australian airports was intended to promote economically efficient operations at Australian airports and facilitate commercially negotiated outcomes between airport managers and airport users.

However, in the experience of Toll Group Businesses based on Australian airports the light-handed approach adopted by the Australian Government:

- Has not been an effective constraint on monopoly pricing;
- Does not adequately protect airport users from abuses of market power in a timely and cost-effective manner;
- Limits the opportunities for genuine commercial negotiation and dispute resolution; and,
- Has not led to acceptable improvements in levels of service to airport users.

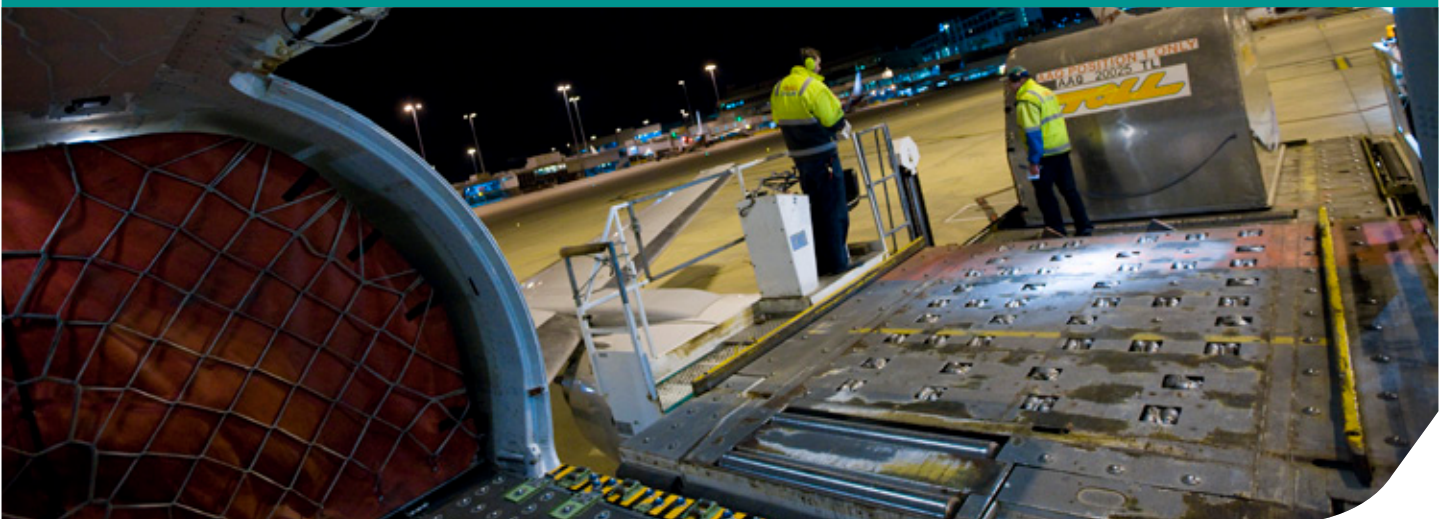
On this basis Toll Group encourages the Australian Government to adopt methods by which the scrutiny and oversight of airport ownership and operations with respect to pricing and service quality standards could be strengthened.

We would strongly argue against the removal of regulatory oversight and scrutiny currently applied to airport owners by the Productivity Commission and Australian Competition and Consumer Commission.

List of Recommendations

We recommend the introduction of:

- An improved price monitoring regime that reveals the true extent of airport price settings with aeronautical and non-aeronautical tenants;
- An independent arbitration mechanism to assist with dispute resolution;
- A reporting mechanism that requires airports to reveal how access decisions have been reached in instances where they give priority to non-aeronautical businesses, or have been to the detriment of aeronautical businesses operating on the airfield; and
- A service monitoring mechanism that includes measures common to businesses like ground handlers, cargo terminal operators and maintenance and repair organisations.





Air freight and logistics must be core business for airports

Our businesses are sizeable customers of aeronautical services; in some instances our staffing footprint far exceeds the employee numbers of major international airlines¹.

Despite this, we have found that little consideration is given by airport managers and Government agencies to the impact of light handed economic regulation of airports on our businesses.

In reality there are a substantial number of non-airline users of aeronautical facilities at airports such as ground handlers, refuellers, cargo forwarders, aircraft maintenance and aircraft providers not engaged in Regular Passenger Transport (RPT) services. These non-passenger airline businesses range in size from small to large enterprises and unlike domestic and international RPT providers, do not have a demonstrated ability to coordinate as an 'industry'. Such businesses are as dependent on airport service delivery and cost efficiency as airlines, but rarely engaged by those providing advice to Government on the impact of airport privatisation and the economic regulation of airport services. It is possibly because of this that some airport managers have little to no regard for their interests and genuine commercial negotiations are limited or non-existent.

There are numerous examples to support this, for example, Sydney Airport does not provide enough space for efficient Cargo Terminal Operations, nor are the existing sites in suitable locations. Sites offered by Sydney Airport

are situated a long way from the International Terminal necessitating tows across active runways and taxiways to the detriment of productivity, efficiency and safety. Brisbane Airport's recent decision to relocate its freight and logistics infrastructure 20 minutes from terminals without any consultation will result in delays to flight departures as well as an additional \$1 million in fuel costs per annum to one Toll Business Unit alone. Toll Dnata has similar experiences with space within the International Terminal at Sydney Airport for its Administration Office.

A 'take it or leave it' attitude often accompanies access and pricing decisions to the detriment of not only Toll Group businesses, but also business customers who rely on the efficient movement of freight. Attempts by Toll Priority to establish a facility at Canberra Airport in order to access cargo arriving on Virgin Blue aircraft have been unsuccessful with airport management adamant that neither size, nor pricing was negotiable. Toll Priority has declined the airport's offer and continues to utilise their existing facilities located in Queanbeyan, NSW, but consequently is denied direct access to the airfield and aircraft, necessitating double handling of the freight being carried.

¹ Toll Dnata employs 1,458 throughout Australia, while Singapore Airlines employs around 300 Australians.

Promoting more efficient aeronautical businesses

Toll Group acknowledges that the current regime has made it easier for airports to undertake necessary investment, but we would argue that has not necessarily been the experience of airport tenants.

The Australian Government's initial objectives for the privatisation of Australia's federally leased airports were that each lessee:

- Operate with a demonstrable commitment to the effective provision of quality airport services; and
- Act to promote the economic development of airports in a way that was responsive to the interests of users.²

We acknowledge that airport operators have the right to earn a commensurate return on their investment; however, a number of them are doing so with scant regard to the provision of quality airport services for our businesses and our clients, including major domestic and international airlines. Our experiences and the actions of some airport managers suggest that a number of airports are acting in contravention of these objectives and have been for some time.

Not only does the current economic regulatory regime make business planning difficult, but so too does the Master Planning process. Freight and logistics infrastructure planning should be coordinated, consultative and consider the needs of users decades into the future. In contrast, the Master Planning process at some airports is subject to frequent amendment, involves minimal consultation with stakeholders like Toll Dnata and Toll Air Express and rarely considers the impact on other businesses dependent on our services for the efficient provision of aeronautical

services. In many instances what is being presented to the Government is in our opinion either unworkable or will decrease the efficiency of airport operations.

For example, the frequent changes to the Sydney Airport Master Plan and the preparation of the airport's Cargo Freight Master Plan. At present, Toll Air Express has a lease until 2014 for premises which are ideally situated at Sydney Airport. While the business is currently in discussions with Sydney Airport Corporation about the construction of new premises closer to the Virgin Blue terminal, the best offer at present remains an extension of the existing lease. While the airport is prepared to consider the construction of a 2,500 sqm facility, it is only prepared to offer a 2 year lease in similar location on the airport or has no other suitable alternative which meets the business needs. Ideally, Toll Air Express would like a 10 year lease in order to recoup the costs of investment and does not believe this to be unreasonable. Ten year leases are standard and can be found on numerous Australian airfields. As an example, we have a 15 year lease on a facility at Melbourne Airport.

Adelaide Airport in contrast invested in a new freight precinct, which we believe was located too far from the airlines. After discussions with airport management Toll Air Express was allowed to stay where they were and yet still retain airside access. Adelaide Airport again demonstrated they were cognisant of the imperatives of our business by working with the airport community and Government to enable continued freight operations (flights) with more economical aircraft during curfew hours.



Resolving pricing and access disputes

Toll Group enjoys a productive relationship with most airport managers. We attribute this to the fact that we are a large, professional company with some market influence in the freight transport and logistics industry and we work hard to maintain professional relationships with airport managers. Where Toll Group businesses have been engaged in disputes over pricing and access issues the response by airports has varied considerably from a high standard of commercial conduct to a 'take it or leave it' attitude. For example, Brisbane and Adelaide airports have demonstrated on occasion a willingness to consider independent arbitration and negotiation. In other instances, we have been forced to accept an unreasonable outcome because the airport has refused to negotiate.

Toll Group businesses have also found that there is little transparency of decision making applied by some airports, particularly with respect to leases and little justification given for airport decisions. In numerous instances we have found that leases have increased in cost regardless of improvements to the standards of facilities or services provided by airport operators. Justification for price increases is usually on the basis that the increases are in line with the market, with rental costs in the nearby metropolitan Central Business Districts often cited. Clearly this is unreasonable.

While it may be valuable to compare the rent a retail outlet pays in a CBD location with a rate it pays on airport, it is completely irrelevant to compare that rate with what a freight and logistics operator undertaking core airport work should pay.

For these reasons Toll Group would be supportive of the introduction of an airport arbitration mechanism to facilitate outcomes between airport managers and airport tenants. In our experience negotiations can never be even handed when one side holds such substantial market power and to some extent this could be addressed by an arbitration mechanism. Unlike airlines, cargo businesses and ground handling operations like ours do not have the ability to coordinate as an industry and arguably have insufficient countervailing power to positively influence the behaviour of some airports.

Form and Duration of Regulatory Mechanisms including Price Monitoring

On the basis that there are two clearly identifiable users located on airports, namely businesses that support aeronautical operations and others, we believe regulators and airport operators alike should support mechanisms that not only monitor, but also enhance the relationship between airport managers and aeronautical businesses and allow for genuine negotiation and dispute resolution.

The Productivity Commission's 2006 Report canvassed the idea of an alternative airport arbitration mechanism, but ultimately dismissed it saying it would be counterproductive. The Commission also indicated that it believed the "light handed approach had led to considerably more negotiation between airports and airlines." Unfortunately that has not been our experience. Toll Group is therefore pleased to see the Commission revisit the issue in its Issues Paper.

In our experience there has been extremely limited genuine commercial negotiation between airport operators and our businesses. Attempts by Toll Air Express to secure a parking bay at Gold Coast Airport ultimately led to the establishment of a \$30,000 per annum lease after it became clear that it was the only way to guarantee we would have somewhere to unload our aircraft. We had attempted to negotiate an outcome that gave us some flexibility.

Toll Group recognises the Productivity Commission, Australian Competition and Consumer Commission and the Australian Government all have various responsibilities for oversight of the airport regime, but we remain concerned that this does not appear to have addressed the situation faced by airport users such as us whereby we have little choice but to accept the determinations made by airport operators. None of these mechanisms require airport owners to disclose the true extent of their price settings with airport tenants so as to enable either a factual investigation or an outcome that influences the airports' decision making and behaviours. Monitoring of service standards and car parking costs have limited or no impact on our business functioning. Nonetheless, if price and service monitoring was to be removed altogether Toll Group is concerned that the misuse of market power will worsen. Similarly, we are concerned that the regulatory regime available to airport tenants unable to resolve differences is too onerous, time consuming and expensive.

Summary

We understand that airport managers would like to achieve a commensurate return on their investment and that the previous Government put in place mechanisms to support this. However, our experiences suggest that this has arguably been at the expense of efficiency, productivity and safety at some airports.

Toll Group would like airport managers to demonstrate increased transparency and accountability so as to support the people and businesses involved in the provision of aeronautical operations at their facilities. In our opinion, some airport managers are only interested in the airfield as a form of rental income, not because it contributes to the economic well being of businesses and the nation as a whole.



Toll Air Express



Toll Air Express provides a wide range of services for the aviation industry. This includes operating a Maintenance Repair Organisation (MRO) at our Brisbane facility, providing ad hoc and scheduled freight charter operations to the private, commercial and government sectors within Australia and the Pacific Region.

Toll Air Express operates 50+ aircraft performing 240 scheduled freight flights per day throughout Australia. Our aircraft types range from Boeing 737-300F, ATR 42-300, Metro 23 and Metro III down to the smaller piston engined aircraft.

Several hundred people work at Toll Air Express, either as direct employees or subcontractors. The business operates daily out of approximately 90 airports throughout Queensland, NSW, Victoria, South Australia and Tasmania, including Brisbane, Adelaide, Bankstown, Sydney, Melbourne and Hobart.

Toll Air Express supports the handling of Virgin Blue freight movements. The MRO facility in Brisbane provides line and heavy maintenance to a range of commercial customers.

Toll Dnata Airport Services



Toll Dnata Airport Services is a joint venture company between Toll Holdings and Dnata Airport Services. With operations in Sydney, Melbourne, Brisbane, Perth, Adelaide and Darwin, Toll Dnata is the only ground handling company in Australia to offer a complete range of services in all major airports. Services include passenger and customer services, ramp activities, cargo handling, road feeder transport and aircraft servicing. Toll Dnata Airport Services have cargo terminals in all major ports within Australia to safely and securely handle all types of cargo from outsized machinery through to small valuable consignments. In addition, Toll Dnata Airport Services offers a comprehensive range of passenger and customer services to oversee the safe and efficient check-in, boarding and disembarking of passengers and their luggage.

Toll Dnata Airport Services also offers a full range of ramp services to customer airlines across an extensive range of aircraft types. Ranging from B737 and F100s, B777 aircraft up to the AN124 and A380, the business is equipped to handle all requirements.

Toll Dnata Airport Services provides ground handling services and support to more than 20 airline customers including Virgin Blue, V Australia, Pacific Blue, Singapore Airlines, Emirates, Cathay Pacific, Qatar Airways, China Southern Airlines, Air Asia X, Malaysia Airlines, Thai Airlines and Air Canada.

Toll Global Forwarding



Toll Global Forwarding has a significant presence at Australian airports and provides air freight services for importers and exporters from Sydney, Brisbane, Melbourne, Adelaide, Perth and Darwin. The business contributes significantly to the high value air freight sector and is responsible for facilitating Australian exports of around 5 thousand tonnes and imports of around 15 thousand tonnes per annum. From Sydney Airport alone the business moves approximately 30 tonnes of imports and 15 tonnes of exports daily.

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