Submission to Productivity Commission In response to Draft Report.

The terms of reference for the Productivity Commission enquiry into Airport Pricing were quite specific and did not include Airports other than those defined under the Airports Act.

The draft report however has referred to practises of Regional Airports as stated by various interest groups and some submissions have named Airports including Mildura with the spurious suggestion of improper practise and misuse of market power.

Mildura Airport Background.

Mildura Airport is a key Transport infrastructure facility in the North West of Victoria serving parts of three States.

The catchment of Mildura Airport is impossible to clearly define, but generally relates to a 2 hr drive time, except to the North where the catchment is significantly distorted and extends far beyond the notional boundary.

Mildura Airport is growing rapidly and that very growth coupled with the introduction of Jet Services caused the Mildura Rural City Council to consider Councils capability to effectively manage the asset and deliver the service expectation of the extended Regional Community, in a changing environment and in particular the highly regulated environment of jet operations.

Council was faced with the problem of determining the best direction for the Airport and considered the options of Sale, Lease or Corporatisation.

They chose the latter as it potentially gave the efficiency benefits offered by the other two options while retaining the Airport as a community asset.

The Asset is owned and was operated, by Mildura Rural City Council until January 1st 2009 when the control of the asset was transferred to Mildura Airport Pty Ltd (MAPL) under the umbrella of two documents - a Lease Agreement and a Management Agreement.

MAPL operates as a “stand alone” Not for profit entity with a full complement of trained personal dedicated to the operation.

As such, there is a clear and transparent picture of operating costs that drive the need for cost recovery and which forms the basis of the charging regime for users of the Airport.

At an early time after incorporation and commencing operations, MAPL formulated a statement clearly defining the terms and conditions for operating into and from the airport.

Within that document is a clear statement of all charges applicable.

All Airlines were advised of the document and copies given to key personnel.

The document is posted on the Airport web site.

As a Corporate entity, MAPL is governed by Corporations law that includes solvency provisions.

Mildura Airport Submission to the Productivity Commission.

Mildura Airport Pty Ltd (MAPL) categorically refutes the need to regulate and control Airport pricing in the Regions as a heavy handed approach to mischievous and malicious assertions by some Airlines who are seeking to gouge the best possible financial position for their shareholders from vulnerable, naive and frequently commercially inexperienced entities controlling many Regional Airports and who do not have an established network of communication and information to enable them to establish any benchmark of performance.

Divide and conquer is the formula for those Airline operators.

In its early days of operation MAPL sought to establish dialogue with a number of Airports of similar size and were quickly informed by one Airline that they viewed this as establishing a cartel and communication should cease immediately or risk litigation.

MAPL is concerned at the misrepresentation of its position, contained in at least one submission to the Commission wherein it was alleged that it had increased charges by 12% over a single year. That statement is simplistic as the 12% represented an increase over 4 years where increases had not occurred.

MAPL has suffered considerable pressure from operators into the Airport to reduce or modify the charging regime with thinly veiled threats of withdrawal if a contribution was not forthcoming.

MAPL regards the misuse of market power as coming from the Airlines rather than as suggested, by them, coming from Airports.

In context, the benefits that an Airport can deliver to an Airline are nothing more than finessing of profit margins and cannot realistically influence the viability of any given route. The numbers are simply too small to be influential in the retention of or exit of an operator from a marginal route.

Airlines have the benefit of knowledge derived from negotiation with many different Airports. The power derived from the knowledge of those dealings and the successes achieved, provide the Airline operators with a significant advantage and the opportunity to use that knowledge to their benefit in negotiating charges down. We would contend this is used in a manner that constitutes misuse and abuse of market strength.

MAPL, which has a commercially astute Board, has reluctantly and indignantly succumbed to that unreasonable and selfish pressure in the interest of endeavouring to ensure retention of the services that the community expects.

In doing this MAPL has significantly reduced its fragile financial margin that would otherwise have been turned back in to the operation of the Airport.

MAPL has limited capacity to subsidise Airline operations.

Airlines see Council controlled Airports as sources of subsidy, if sufficient pressure is applied.

MAPL regard that pressure as a gross misuse of market power. Confidential evidence to support this statement is included with this submission.

MAPL also has evidence of collusion between some Airlines to present a united front to the detriment of the Airports ability to negotiate

MAPL considered that matter so serious as to seek legal opinion, which opinion is included as a confidential attachment to our submission to evidence that collusion.

The buzz word with many parties, particularly the Airlines is “ Partnering and Partnerships” but do and can, they really exist in a simple form or even at all in the Airport environment.

Partnerships by their very definition are arrangements where separate entities join forces to achieve a common goal.

The challenge in the Airport environment to the Partnering concept is that the “partners” are running independent businesses where the needs are somewhat conflicting.

Airports need to develop reserves to provide for future development and repairs and Maintenance.

Airlines refer to the high cost of capital investment in operating equipment without acknowledging the value of the Airport assets they rely on to generate their profits.

MAPL as a Regional Airport operator has spent close to $10 million on asset improvement in the past 2 years and is about to spend a further $8 million in improving the facilities for passenger amenity.

MAPL return on asset value is less than 1 (one) percent.

MAPL encourage general aviation and do not levy a charge on private operations. All commercial operations however incur a charge.

Security Costs for Regional Airports is another area of concern with the constant resistance of various Airlines to reduce the quantum of cost recovery by perpetual challenge to charges that are enshrined in legislation and regulation.

Airlines that fall below the threshold for security screening refuse to contribute to the cost even when they have their passengers screened by necessity due to the impossibility of segregating their passengers and refuse to accept the validity of entitlement for an Airport to charge under their terms and conditions document.