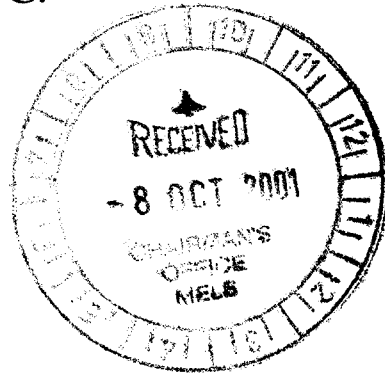




BOARD OF AIRLINE REPRESENTATIVES OF AUSTRALIA INC.

Our Ref.: Let.1358

4 October 2001



Mr. Gary Banks
Chairman
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

Dear Mr. Banks

The Board of Airline Representatives of Australia (BARA) wishes to express its deep concern with the Productivity Commission's draft report on its Inquiry into Price Regulation of Airport Services.

BARA represents most of the international airline carriers using Australian airports. BARA members provide over 95 per cent of international passenger flights to and from Australia.

Although BARA takes issue with a number of the draft recommendations and findings in the draft report it will address those in a submission to the Inquiry. The purpose of this letter is to express BARA's concern with serious gaps in the Commission's analysis, its attitude towards the views and evidence provided by participants in the Inquiry and the lack of transparency concerning the Commission's analysis and key draft policy recommendations. BARA raises these concerns in the hope the Commission may be able to address some of them before issuing a final report.

BARA is concerned that the Commission has not examined the economy-wide implications of its recommendations. These are likely to be significant. For instance, BARA estimates that the Commission's recommendations could result in 4,000 or more jobs being lost in the tourism industry. Given the uncertain times that aviation and related industries are currently experiencing, BARA considers this omission to be serious.

The draft report gives the impression that, on occasion, the Commission has not taken the views, evidence and arguments made by participants in the Inquiry on their merits. Rather, it seems that, in a number of instances, the Commission has based its findings on inferences of what

motivates the evidence and arguments rather the evidence and arguments themselves. For instance, in relation to rate of return regulation for airports the Commission notes:

BARA (sub. 41) argued in favour of imposing rate-of-return regulation across the entire range of services provided by airports (not for individual services). (p.260)

In analysing this approach the Commission goes on to claim:

Therefore, rate-of return regulation may not bring about BARA's apparent objective of reducing aeronautical charges (p.261)

BARA is alarmed that the Commission would base its analysis on unsubstantiated inferences concerning the objectives of parties in presenting their views and arguments. BARA's reasons for proposing rate-of-return regulation are clearly detailed in its submissions to the Inquiry.

Adding to these concerns is the fact the Commission has, on a number of occasions, misinterpreted the views of participants in the Inquiry. For instance, in relation to the debate concerning the single till approach to price regulation the Commission claims:

...several participants (Board of Airline Representatives of Australia (BARA), sub.41; Ansett, sub.42; Qantas, sub. 48) have argued in favour of airport price regulation on a single till basis (p.C.6)

While it is debatable whether BARA's recommended approach to airport price regulation is single till, Ansett's view, as expressed in its submission to the Inquiry is clearly contrary to the Commission's claims. Ansett indicated:

Given the changing structure of airport revenue streams, it is symptomatic of the lack of maturity in the Airline – Airport relationships that the importance of this linkage is not more widely recognised – debate is still largely centered around the single till – dual till arguments both of which we submit are outdated in their pure form. (Air New Zealand Ansett Australia, Submission to the Productivity Commission Price Regulation of Airport Services Inquiry, 3 July 2001, p.19)

This is not an isolated case. At best these misinterpretations create the impression that the Commission did not read the submissions carefully. At worst they create the impression that the Commission had preconceived impressions of the views of the airlines. In BARA's view both are worrying.

BARA also has concerns relating to the transparency of the Commission's analysis. A number of the Commission's draft findings appear to be largely based on untested claims made by participants in the Inquiry. For example, the Commission based a number of its draft findings (e.g. Draft Finding 10.1) on concerns over 'gaming' under current regulatory arrangements. However, it appears that the Commission has not sought to gather and analyse evidence of such 'gaming'. The Commission does not appear to have even defined what it means by the term 'gaming'. Rather, the Commission seems to have taken at face value claims by airport operators that such behaviour occurs. Using views of particular parties to the Inquiry without gathering and assessing evidence to test those views creates the unfortunate impression that the Commission has preconceived ideas concerning airport regulation. Just as importantly, such an approach does little to improve the standard of debate concerning airport regulation or push the debate forward.

Finally, BARA is concerned that the Commission has not provided any details in the draft report on one of its key recommendations – price monitoring of airport charges. The crucial element of the Commission’s proposal is the development of ‘clear criteria’ against which airport – and airline – performance is to be judged, in order to decide whether or not to re-regulate. However, no criteria have been suggested by the Commission in its draft report. The first time that participants will be able to comment on the Commission’s ideas on these criteria will be once the final report has been released. This is too late and unacceptable to BARA as it is likely to be to most participants in the Inquiry.

The Commission’s inquiry provides the opportunity for an independent and even-handed assessment of the price regulation of airport services. It also provides the opportunity for the debate over price regulation of airports to be ‘pushed forward’ and some common understanding among airports and airlines to be established. Unfortunately the draft report does little to deliver these outcomes. At worst the draft report will widen the divergence of opinions held by the airlines and airports. An outcome that is in the best interests of no one, particularly the travelling public.

BARA urges the Commission to address as many of these issues as possible in its final report. However, the impressions created by the draft report are likely to be lasting.

Yours sincerely



Warren Bennett
Executive Director

cc Mr. Gary Potts, Executive Director, Markets Group, Department of the Treasury