



5 April 2001

Mr Matthew Stubbs
Research Economist
Productivity Commission
Airports Inquiry
LB2 Collins Street East
Melbourne VIC 8003

Dear Mr Stubbs

Productivity Commission: Inquiry on Price Regulation of Airport Services

Firstly, thank you for providing the recent opportunity for officers of the Rail, Ports and Aviation Division of Queensland Transport to discuss aspects of the Commission's review of airport pricing regulation.

I have attached for the consideration of the Commission some brief comments on your Issues Paper on this subject.

Our submission outlines some concerns we have from the Queensland perspective, given that our airports are generally at the lower end of the scale and scope of Australian airport operations and lack the levels of market power that may potentially reside in some airports in southern states.

There is a fine balance between retaining a degree of diversity in the aviation market, encouraging an appropriate level of regional economic development, and protecting the community against predatory pricing and unfair competition. I trust you will carefully consider the issues we have raised when deliberating on the future role of regulation in the area of airport services pricing.

Yours sincerely

A handwritten signature in black ink that reads "Alan Williams".

Dr Alan Williams
Director (Transport Economics & Aviation)

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**PRICE REGULATION OF AIRPORT SERVICES
REVIEW BY THE PRODUCTIVITY COMMISSION
Response to Issues Paper (March 2001)**

Background

All 22 previously Federal Airports Corporation controlled airports are regulated under the *Airports Act 1996* and twelve of the airports (Adelaide, Alice Springs, Brisbane, Canberra, Coolangatta, Darwin, Hobart, Launceston, Melbourne, Perth, Sydney and Townsville) are currently subject to prices regulated under the *Prices Surveillance Act 1983*. Three of these are located in Queensland (Brisbane, Coolangatta and Townsville).

The Productivity Commission is to report to the Federal Government on whether there is a need for prices regulation of airports to continue, and if so the appropriate form of any prices regulation, taking into account certain principles, defined in the scope of the inquiry.

An issues paper has been made available by the Commission upon which comments have been sought. Queensland Department of Transport provides the following comments on the issues paper.

Comment

While the current review may only be looking at the higher level of Commonwealth-leased airports there are likely implications for all airports along the continuum or feeding chain. This aspect needs to be recognised within the review.

Currently substantial controls exist within the airport business environment, through the legislative and administrative arrangements of the Trade Practices Commission (TPC) and Australian Competition and Consumer Commission (ACCC) to ensure there is a reasonable degree of competition and to maintain control over abusive market power and unfair practices.

It could be argued that in Queensland there is capacity in excess of current demand. For the foreseeable future, the likelihood of predatory pricing being practised here is slim.

Any outcome of the review, either a continuing of the regulation of airport pricing (in whatever form) or not, should ensure the promotion, or at least no diminution, of the current level of equity, safety, regional development and tourism.

Among other things the Queensland Government is taking initiatives in all of these areas under the auspices of its *Aviation Plan for Queensland*. These initiatives are managed by Queensland Transport and include:

- the support of some air services by the regulation of certain air routes for regular public transport and by contractual arrangements with airlines in order to provide reasonable access for transport-disadvantaged communities;

- the provision of capital funding assistance to facilitate the provision of sustainable and cost effective aviation infrastructure in order to meet basic access and regional development needs, through the state's Rural and Remote Airport Development Program;
- the administration of standing offer contractual arrangements for government air charter travel in far north Queensland and the Torres Strait in order to raise the level of air safety in the region.

In Queensland's case, there should be a recognition of the State's involvement in two airports, through the respective government owned port corporations, namely the Cairns and Mackay Port Authorities. These corporations have among their commercial objectives the provision of safe, efficient, cost effective and profitable operations.

Though market power apparently exists in some locations in theory, this does not necessarily translate to it occurring in reality, as practical impediments limit the exercise of this theoretical power. Those impediments include the large "lumpy" capital investments, the degree of difficulty to entry and the significant economies of scale required in the development and operation of major airports.

There is also a question as to whether one benchmark for comparison of all major airports in Australia would be appropriate. Given the diverse nature of the aviation market, certainly in Queensland, and the degree of natural competition that exists between, and among, airports particularly in south east Queensland, it would appear to be inappropriate for one benchmark to be used Australia-wide.

It is argued that the direct comparison of even Queensland's principal airport, Brisbane, let alone other the lower level airports, with those at the scale and scope of operation of Sydney and Melbourne does not seem appropriate. Airports such as Coolangatta (with around 2% of the major airport traffic in Australia), Cairns and Townsville have little or no market power.

Airport operators do not have control over some charges imposed by other agencies, particularly Airservices Australia, for the provision of aeronautical services such as:

- en-route navigation and terminal navigation (air traffic control and airspace management within 50 kilometres of an airport);
- aeronautical information; and
- airport fire fighting and rescue services.

While a review of the costs of these services may appear to be a peripheral issue to the task at hand, the Commission should be aware that such charges are seen by some segments of the aviation industry as a heavy and inequitable financial burden.

The current federal government's policy commitment to the corporatisation of Airservices Australia will further accentuate the imposition of the full cost of services on airline operations. This will create a greater burden of cost on the travelling public.

The current system of location specific pricing should be reviewed as it has come under considerable criticism from industry.

Conclusion

- Existing legislative and administrative controls are currently adequate to ensure no abuse of market power without further airport price regulation;
- Demand does not exceed capacity at most Queensland airports;
- Predatory pricing is unlikely to occur in Queensland (with or without regulated pricing);
- The Queensland Government's initiatives in the areas of equity, safety, regional development and tourism should not be diminished by price regulatory decisions emanating from the review;
- The Queensland Government has involvement with two airports through its government owned corporations at Cairns and Mackay;
- The lesser scale and scope of Queensland airports in the wider Australian context need to be recognised;
- Regional needs should be recognised - one regulated pricing regime Australia-wide is not appropriate;
- Queensland's diverse and decentralised nature may require an alternative approach to current regulation;
- There needs to be a balance struck between efficient pricing, equity, safety and the promotion of regional development; and
- Aeronautical charges, such as those imposed by Airservices Australia, should be reviewed in consultation with industry.

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