PRESENTATION TO THE PRODUCTIVITY COMMISSION
18TH OCTOBER 2001

I'd like to start by saying that this will not be an economic paper of the quality of some of the other submissions but a few comments from a simple accountant trying to help run an airport in very difficult times.

First of all, I should say that Brisbane Airport Corporation (BAC) welcomes the Draft Report of the Productivity Commission into Price Regulation of Airport Services, the general thrust of which is that airports and airlines should get together and reach fair commercial agreements, for use by airlines of facilities at airports.

It is not surprising that airlines strongly oppose the Commission's report. The aviation industry is one of the most over-protected, regulated and unnecessarily complex and confusing industries in the world.

Airports and airlines around the world were historically owned by governments. Over recent years, enlightened countries have seen the benefits of moving both airlines and airports into private ownership.

Australia is at the forefront of airport privatisation and has achieved much, but there are a number of issues to overcome if the process is to be ultimately judged a success.

Airport and airline businesses, operating in a competitive environment, will undoubtedly be the way in which the Australian tourism, travel and industry generally, will see the greatest gains over time.

Nations around the world, and Australia is no exception, have for years protected their national carriers, on the grounds that it is good for the country. Many countries are seeing the folly of this approach.

What has happened in recent times in the domestic aviation industry illustrates the issue well. Despite falling airport prices, under the cpi-x price cap, domestic airfares grew rapidly. Without competition, the domestic airlines were able to manage their businesses as a duopoly seemingly immune from the regulator's eyes. Whilst Qantas took the opportunity to improve its efficiency, Ansett stumbled along, seemingly incapable of making the obvious hard decisions needed to protect its future.

When Impulse and Virgin Blue and low airfares came along, Qantas reacted aggressively to protect its business, whilst Ansett, then owned by Air New Zealand, went from bad to worse.

Whilst the demise of Ansett is sad, especially for the good and hardworking employees, a number of whom are personal friends, it was not competition which killed Ansett – it just encouraged them to make the decision a little earlier.

Continued over-regulation of the industry in the future, will result in more inefficient businesses, incapable of dealing with competition, when it inevitably arrives, as we all learn to cope in an increasingly global economy.

The unbelievably complex web of intrigue known as International Air Service Agreements have a devastating effect on international activity.

I pose the question "Would the Australian economy be better off protecting its national carrier or encouraging more and more flights to Australia from any country or airline wishing to come?"

Do we, as Australians care if another country does not provide reciprocal rights to Australia's airlines. Australia would benefit from the incredible growth in tourism that would follow and Qantas, which has already demonstrated its abilities to adapt to a changing domestic market, would still be there as a major player on the international stage as a truly competitive international organisation. The recent paper of the PC, on Price Effects of Regulation in various industries, suggests airfares are 3% to 22% higher as a result of International Air Services Agreements.

I did not intend to stray too much into solving all of Australia's aviation problems, but it is important to illustrate the damage caused by protecting and subsidising inefficient businesses.

Interested parties would do well to read the recent aviation paper of the EU Transport and Competition Commissioner, issued after the 11 September acts of terrorism, strongly opposing subsidies, particularly by governments, of airline activities.

To get back to airport prices. The Australian taxpayer and airports have for years been subsidising airlines.

Airport prices often bear no relationship to the assets utilised by airlines. In Brisbane's case, regulated aeronautical assets of $561 million generate an annual return of less than 1% before interest. I'll repeat that – less than 1% <u>before</u> interest.

Airport prices at Sydney Airport are around 30% above Brisbane domestically and 3 times higher than Brisbane's international prices. One would expect larger airports to offer considerable scope for economies of scale and resultant lower charges.

Airports were sold by the government on a dual till basis. In other words, an aeronautical business and a non-aeronautical business. Substantial premiums were paid to government for non-aeronautical businesses such as retail, car parking and property businesses.

The aeronautical business was privatised on the basis that there would be a five-year period of price regulation, as a move towards commercial airport pricing from 2002. Airports expected that they would over time be able to make a fair commercial return on aeronautical assets and that government would use its general powers to prevent unfair monopoly profits. Brisbane has no problem with that approach.

Airlines argue that they bring the passengers and should therefore share in the revenue of non-aeronautical businesses on airport.

In the case of the Gold Coast, it is the significant investment in hotels, golf courses, resorts, theme parks and the like that bring the planes. Do the airlines offer to give a share of their revenue to investors in the tourism industry? I think not! The argument is nonsense.

In any event, if airlines want an argument, it is with the government which sold the airports on a very clear dual till basis and pocketed the proceeds.

BAC prides itself on working in partnership with its customers, suppliers and stakeholders. Agreements with the Queensland Government, Brisbane City Council, Nuance, Spotless, Virgin Blue and our many customers, consultants and suppliers are designed carefully as win-win agreements.

Unfortunately, some airlines think they or the government still own the airports and conduct win-lose business negotiations accordingly.

BAC strongly agree with the PC's view that airports and airlines should reach a commercial agreement and BAC will shortly be making a proposal to airlines using Brisbane Airport, with associated pricing for aeronautical services from July 2002.

Based on the methodology adopted in ACCC's decisions on Sydney Airport pricing and new investment at privatised airports, substantial price increases are clearly justified.

BAC though, is not unrealistic and will be seeking a fair pricing regime, in the current difficult political and economic times.

Whether the airlines attempt to understand the financial issues facing airports and genuinely negotiate a fair commercial agreement - or simply resort to lobbying government and running media campaigns about evil monopolists earning 1% before interest on their assets - will be a test of whether the industry is maturing.

In closing, we welcome the PC's draft report in what is a complex over-regulated industry and look forward to the final report and its favourable review by the government of the day.