

26 February 2019

Airport Regulation Inquiry  
Productivity Commission  
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Dear Commissioners

## **INQUIRY INTO ECONOMIC REGULATION OF AIRPORTS**

### **SUMMARY**

Of the 70 submissions made to the Productivity Commission (PC Draft Report), only eight were from individuals, even though the findings and recommendations potentially affect those who make 21 million one way annual international air journeys and 61 million domestic air journeys.

It is concerning that this important inquiry making recommendations to government with ramifications for a very large number of individuals and businesses external to airlines and airports has yet to hear in public from any individual who uses these facilities.

My focus is on Melbourne Airport and on maximising benefits to passengers, particularly with respect to landside rather than airside although I touch on the latter.

Having read many Productivity Commission (PC) reports during the last 25 years, most have been of a very high standard, making many sensible recommendations that have led to economic efficiency and numerous community gains. The tariff and quotas debate under its predecessor was one example.

This report, however, is the equal worst I have ever seen from the PC.

Recommending another PC inquiry into the subject in 2024 (draft recommendation 10.3) is egregious.

The draft report does not fall far short of appearing as a media release for Australia's major three east coast airports of Sydney, Melbourne and Brisbane.

The PC lacks understanding that consumers, as Airlines for Australia and New Zealand Chairman Graeme Samuel observed, 'bear the costs of airports' monopoly behaviours.'

As the Australian Competition and Consumer Commission asserts, a series of reviews merely recommending the continuation of light-handed regulation has reduced the credibility of any threat to an airport exercising its market power.

Continuing with light handed regulation will be a major fail for Australian and international air passengers, airlines and other users of our major domestic airports.

The PC has unfortunately failed to learn from history.

Many years ago, Australia Post closed its landside Post Office at Melbourne Airport in Terminal 2, citing what it said were the highest rents per square metre of any premises it occupied in Australia. Since that egress by a national tenant, Melbourne Airport's market power has grown as its share of international passengers has risen from the historic 25 per cent to approaching 30 per cent.

A negotiate-arbitrate approach as suggested by airlines and the Australian Competition and Consumer Commission would be highly beneficial and ought not be rejected by the PC. Suggesting that were this model adopted individual airlines would hold up other investments is unlikely because one airline or group would be aware that another could then adopt the same tactic.

If airports like Melbourne claim that they have nothing to hide, why are they so opposed to a negotiate-arbitrate framework?

Given the super profits that Melbourne Airport makes, any additional compliance costs to it are most unlikely to be burdensome.

### **MELBOURNE AIRPORT**

The central contention of this PC report that, in respect to Melbourne Airport, that (it) 'has not exercised...market power to the detriment of the community' is incorrect.

Existing light handed regulation has failed the community.

The Commission acknowledged that having four jet fuel suppliers that often have agreements between themselves, and very limited third party access coupled with high barriers to entry has increased fuel prices to airlines, but has said nothing about how one effective monopoly in Melbourne - subject only to extremely limited competition from Avalon Airport and little from interstate surface transport - has egregiously used its dominance to increase the costs of using Melbourne Airport to community detriment.

Page 14 of the draft report acknowledges that airport operators may exercise market power more easily in respect of landside access, but says it needs to receive further information to assess this. With major airports having been privatised for more than 20 years, one might ask why the Commission has not been able to easily gather such evidence.

The Federal Government does not intervene in the provision of services at privatised airports with one exception: allowing intrastate air operators access to Sydney Airport so they are not forced to use Bankstown or even Richmond Airports.

However, with five million residents, Melbourne has a far greater population than rural NSW. With light handed regulation, clever ways in which airports such as Melbourne increase costs to consumers of airport services are ignored.

### **IMPOSING HIGH COSTS ON PUBLIC TRANSPORT USERS INCLUDING FIRST TIME AIRPORT PATRONS**

There is 'cause for concern' about individual areas of operation of Melbourne Airport, but this cannot be divorced from the overall adverse effect on the Victorian (and Australian/international) community.

Page 93 states that 47 per cent of international air passengers visit Australia for leisure purposes.

Unlike Brisbane and Sydney Airports where in the latter's case at least 20 per cent of passengers use airport rail despite a hefty station access fee not charged at other stations on Sydney Trains/ NSW TrainLink's rail network, Melbourne Airport lacks a heavy rail line to Melbourne's CBD.

While this is slowly being addressed through planning and funding thanks to the vision of the Morrison Liberal/Nationals Federal Government, construction has yet to commence. A heavy rail line is years off.

Given Melbourne Airport's dismal record to date, there must be a question mark in the absence of more stringent regulation as to how efficient and easy links between the four (eventually five) airport passenger terminals and any future railway station(s) at the airport will be.

One pointer is that in recently constructing a new Terminal 4, Melbourne Airport failed to provide travelators for passengers and staff to use between the retail area and the gates that lead to aircraft. This belatedly received some media attention to almost universal condemnation, yet Melbourne Airport engaged in a not insubstantial amount of self praise about this poorly designed terminal that lacks sufficient seating at its ground level gates.

Melbourne Airport has existing public transport serving it, including SkyBus and other shuttle buses.

SkyBus is part owned by the Victorian Government. It receives preferential treatment compared to that meted out to users of the public route bus network, which for most means SmartBus route 901 operated by franchisee Transdev Melbourne for Public Transport Victoria.

The PC appears to be unaware that public route 901 SmartBus exists at Melbourne Airport. I could not find any mention of it in the draft report.

SkyBus is not integrated into the myki mass transit smartcard normal fare structure, but enjoys 'pole position' with stops at Terminals 4, 3 and 1 adjacent to arriving air passengers emerging from baggage carousel areas. For patrons arriving internationally, Skybus Terminal 1 departure stop is a short walk. In contrast, Melbourne Airport has only provided distant bays on the ground floor of the Terminal 4 car park for the myki-enabled route 901 SmartBus users.

This fails the test of 'equity' referred to on page 66 of the draft report.

It can be a 15 to 20 minute walk from Terminal 1 and is impractical for the elderly as no travelators are available. It is also difficult with a 30 kilogram suitcase and nominally seven (though often higher) kilogram backpack, as I have experienced on multiple occasions. Nor is there weather protection for the entirety of the terminals to car park walk. From the car park past T4 to the others is uphill.

The 901 operates every 15 minutes on weekdays until around 2100 hours and half hourly thereafter, as well as at the latter frequency on weekends. It connects to Metro Trains Melbourne at Broadmeadows railway station, with Metro generally offering a 20 minute suburban train frequency, although higher during the morning weekday peak and lower on part of Sunday mornings in particular and late at night.

Melbourne Airport is cognisant that every 901 bus route user potentially reduces car parking revenue, so many arriving passengers are unaware that the route (and some others to suburbs such as Sunbury) even exist and that, being available under myki, are a far cheaper option.

Melbourne Airport constantly spruiks supposed environmental credentials yet taxis, Uber, Taxify, SkyBus and other shuttle bus users are granted much closer access to the terminals than is the case for passengers wanting to use the official public transport.

Effectively downplaying the availability of the route 901/Metro train option to Melbourne's CBD, or many suburbs with the intermodal time based myki costing just \$4.40 for an adult for two hours' use (based on touch on, not touch off, times) compared with the single SkyBus fare of \$18 to \$19 (slightly less if one is aware of and uses the online discount), or Uber/Taxify/taxi at \$45 - \$70 hits many travellers in their back pocket.

Low cost airlines such as AirAsiaX, Cebu Pacific, Jetstar, Tiger Airways and Scoot carry many passengers whose budgets are relatively tight, including the highly valued European backpackers who tend to stay for months and contribute much to our economy as some base themselves in rural Australia and undertake farm work.

This group is well used to considering mass transit as their first choice, yet Melbourne Airport's refusal to promote the 901/Metro Trains option in any way costs this often well educated, otherwise savvy traveller group unnecessary expense given they are typically not time sensitive.

#### **CAR PARKING: EXCESSIVE CHARGES**

The Commission's view expressed on pp. 21-23 that Melbourne (and other) Airports' high car parking charges are 'not the result of market power' is contradicted by Figure 10 that clearly shows Melbourne Airport charges far more for car parking than other 'local monopolies' such as the Alfred Hospital, Melbourne 3004.

Melbourne Airport's multi pronged strategy has included providing a tiny, remote area for 'meeters and greeters' as well as selective discounts but its profit levels for this activity, even considering the infrastructure costs associated with multi storey car parks, remain extremely high.

Despite these discounts and some decline (from an extremely high level) in the percentage return on investment, Melbourne Airport continues to collect monopoly car parking rents, the possibility of which is referred to on page 71.

#### **TAXI ACCESS EXCESSIVE CHARGES**

The draft reports admits that taxi access prices have risen faster at Melbourne Airport than at any of the other monitored airports.

A 140 per cent rise in six years to 2016-17 (expressed in that year's dollars) as shown in Table 6.6 on page 197 is many times above CPI and has imposed a 'grudge tax' on those using this mode of private transport, although some refer to taxis as public transport.

It is difficult to comprehend why the PC suggests that it has a lack of evidence available for landside access charges when it has been able to compile tables such as this.

If Telstra, Optus, Woolworths, Coles, IGA or Bunnings increased prices for services or goods by 140 per cent in six years in constant dollar terms, each would need to have a ready explanation as to why and would face outraged consumers.

Yet Melbourne Airport escapes time and time again with this sort of behaviour and laughs all the way to the bank as it continues to escape more onerous regulation. It knows that many taxi, Uber and Taxify price inelastic businessmen and women users have fares paid by the entity for which they work and hence there is a disconnect between access fee price rises and the effect on the organisation paying for that.

### **DECLINING PUNCTUALITY**

At pages 150 - 151, the PC asserts that airlines 'on-time performance has declined but remains average to high.'

Neither airlines nor airports have complete control over punctuality.

There can be many reasons for delayed domestic flights.

- per hour movements cap at Sydney Airport or the further 'within a quarter of an hour, 20 movements' additional cap
- Calculated Off Blocks Time not met and hence no peak period slot available for a relatively lengthy period
- adverse weather leading to single runway operations or other cancellations
- congestion in the air as holding patterns occur or on the ground due to what surface transport operators would call 'bunching' of scheduled services
- pressure on gates at major airports requiring flights to come to a stand on the apron waiting
- delayed international flights with A380 aircraft in particular requiring significant separation due to wake turbulence
- Australian Transport Safety Bureau recommendation implementation such as further increasing separation due to some recorded incidents between A380s and other aircraft at Sydney
- Airservices Australia shortage of air traffic controllers
- passengers who fail to board that may lead to bags having to be removed from the hold
- flight or cabin crews out of position or falling sick
- delays during peak periods at check-in or as passengers queue for security inspections
- lack of minimum equipment lists for individual aircraft meaning cancellation and subsequent heavier passenger loadings for other flights that day
- connecting flight delays inhibiting timely boarding
- slow loading of baggage, freight, mail or catering
- medical diversions of passengers or more rarely of crew
- misbehaviour on an incoming or outgoing aircraft with Australian Federal or State Police called

As a passenger, how the PC can draw this 'acceptable' punctuality conclusion is beyond me.

Regional Express Airlines has previously alleged that Melbourne Airport deliberately schedules more aircraft movements during peak periods per hour than the present two runways can accommodate.

In the seven month period between July 2018 and January 2019, airline punctuality at Melbourne Airport was poor.

A sample of three months with widely varying seasonal weather conditions shows that in July 2018, 37.3 per cent of all regular public transport flights at Melbourne Airport were more than 15 minutes late. The comparable figure at Sydney Airport was 24.4 per cent. Northbound and southbound on the Melbourne - Sydney - Melbourne route, one of the top five worldwide by passenger numbers, respectively 29.2 and 41.4 per cent of flights were more than 15 minutes late arriving.

This is supposed to be an aerobridge to aerobridge journey of 85 minutes northbound and 95 southbound for three of the four major domestic airlines. (Tigerair adds five minutes in each direction).

In September 2018, the Melbourne - Sydney route had 22.5 and 21.8 per cent of flights officially late northbound and southbound. Melbourne Airport's figure was overall 21.3 per cent of flights late, against Sydney at 20.1 per cent.

In January 2019, the respective figures were 25 and 22.2 per cent late for this top ranking route and 19.9 per cent of all Melbourne Airport major flights late compared to 20.6 per cent in Sydney.

Even though it handles more international flights (including more Airbus A380 movements, and more overall), Sydney managed to best Melbourne Airport in two of these three months.

While change is underway - Melbourne Airport has its Masterplan with a third runway, and the Western Sydney Airport is to be built - existing light handed regulation has failed to deliver improved punctuality for airline passengers.

Given the absence of high speed trains, many business airline passengers who lack their own corporate jets or the ability to hire one are captive to the domestic airlines. Punctuality is of major importance to this time pressed user group, given that they assume to a man and woman that safety is assured.

## **CONCLUSION**

Greater regulation by the ACCC would benefit passengers making 35 million annual journeys through Melbourne Airport, or approximately 17.5 million each way.

Light handed regulation has failed passengers and other major and minor airport users including Australian and international airlines, Uber, Taxify, retail tenants, taxis and providers of airport transport such as Public Transport Victoria's contracted Transdev Melbourne.

Through the Future Fund, IFM Investors and AMP, almost all Australians in one way or another have a stake in Melbourne Airport.

These part owners must recognise that while extracting excess economic rents is attractive in the short term, in the longer term it can lead to undesirable outcomes such as weaker airlines (Rex or Virgin Australia) incurring partly avoidable losses or failing to achieve a return on capital employed that is acceptable to investors. Even current market darling, Qantas Airways, has had an inconsistent financial performance during the past 20 years.

This contrasts with airports such as Melbourne enjoying extremely high profits and margins in some landside activities that Andrew's Airport Parking, Woolworths and Australia Post could only dream of.

Yours sincerely

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