



**Adelaide Airport
submission to the
Productivity Commission
inquiry into the Economic
Regulation of Airports**

20 March 2019

Introduction

Adelaide Airport Limited (AAL) is pleased to assist the Productivity Commission (PC) in its inquiry by responding to several of the PC's information requests. In particular, AAL has provided more information about arrangements for landside access, jet fuel and anti-competitive clauses at Adelaide Airport. In addition, AAL has provided its perspective on the benefits to South Australia of reforming Sydney Airport's noise regulations, and on an approach to improving service quality monitoring.

AAL has not provided further information regarding information requests 4.1 and 4.2. As discussed in AAL's first submission, and broadly supported by the PC's draft findings, AAL does not believe it has sufficient market power to be able to contemplate a take-it-or-leave-it approach to negotiations. AAL continues to accept significant risks relating to traffic volumes, aeronautical price risks arising from the option for each airline to annually select between a passenger and MTOW charge, expenses, service level obligations, capital expenditure and financing costs.

AAL has welcomed the Productivity Commission's rational, fact-based analysis. We agree with, and experience first hand, the Commission's assessment that Adelaide Airport does not have significant market power. We are also firmly of the view that the costs of a negotiate-arbitrate framework would materially outweigh the benefits. AAL commends the regulatory stability and certainty that the PC's thoughtful consideration over time has provided.

Landside access

Information request 6.1

AAL does not impose access charges for public buses or shuttle buses used by off-airport competitors, and provides facilities for public and private buses, ride-share and taxis that are broadly equivalent to paid parking in convenience to the terminal. Free, close on-street parking is also available to passengers.

The taxi charges meet the operating and depreciation costs of the taxi facilities and provide a modest return on capital, but do not currently provide any return on land. AAL has invested significantly in capital projects to service taxi, bus and chauffeur vehicles. The most recent change to the taxi charge, which had not been increased for 11 years, involved significant consultation with industry and government including transparency on AAL's significant costs of operation.

Further detail is provided on page 18 of AAL's first submission.

Noise management at Sydney Airport

Information request 7.1

The PC has invited comments on the potential costs and benefits of reforms to Sydney Airport's regulatory constraints on aircraft movements that can also meet current noise objectives.

While AAL is unfamiliar with the detailed noise impacts of Sydney Airport, it is familiar with the impact of current noise regulations on the users of Adelaide Airport. These impacts include:

- Direct flight delays on flights from or to Sydney. On flights to Sydney, these delays often include passengers boarding an aircraft on (or close to) schedule and then waiting in their seat for significant periods of time until airspace is forecast to become available in Sydney and the flight is cleared to take off;
- Direct cancellations of flights from or to Sydney when delays occur close to curfew at Sydney Airport. For example, on 7 September 2018 bad weather at Sydney Airport resulted in 3 cancelled flights between Sydney and Adelaide, and resulted in passengers being stranded at Adelaide Airport for several hours before being told they would have to stay in Adelaide overnight;
- Indirect delays on flights from or to other destinations, as a result of earlier flight delays at Sydney Airport; and
- Increased demand for infrastructure at Adelaide Airport, particularly apron demand, to allow for typical levels of flight delays arising from Sydney Airport.

AAL's understanding is that the intent of the noise regulations is to:

- Manage total noise;
- Share the noise between different geographic regions of Sydney; and
- Manage night-time noise.

While AAL has not undertaken a detailed noise analysis, it believes these objectives would be best achieved by:

- Regulating the planned aircraft schedule, rather than actual movements by time of day, which will have no impact on total noise but will substantially reduce delays;
- Regulate total weekly movements, rather than hourly movements, which will increase the potential to create more concentrated peaks and therefore enable longer periods of noise sharing during off-peak periods;
- Redefine the aircraft permitted to operate during the curfew using a set of noise criteria, rather than by a specific list of aircraft that requires ad hoc updates. AAL is broadly familiar with the specific aircraft list permissible at Sydney Airport as we understand it is aligned with the aircraft list at Adelaide Airport. The list at Adelaide Airport has, in the past, become out-of-date and prohibited newer, quieter aircraft than older aircraft on the permitted list.

Jet fuel

Information request 8.1

AAL has no fuel throughput levy.

Anti-competitive clauses

Information request 10.1

AAL welcomes the recommended amendment to the Aeronautical Pricing Principles to specify that any agreement between an airport and an airport user must not contain anti-competitive clauses. AAL currently has 'terms-no-less-favourable' clauses with two of its major customers, and has felt compelled to agree to these clauses in the past. All negotiations with new customers must be made in the shadow of their competitive position relative to the incumbent customers who had received the benefit of these clauses. The recommended change ought to remove the need to agree to these clauses in the future by resetting airlines' expectations.

AAL confirms that it has no anticompetitive clauses in any of its agreements that would benefit the airport (e.g. by limiting an airline's ability to seek declaration), and would encourage airlines with 'terms-no-less-favourable' clauses to do the same.

Monitoring – service quality indicators

Draft recommendation 10.5

As noted in its first submission (page 15) AAL considers the global ASQ survey to be the most useful service quality benchmark and uses the survey to provide insights on its own performance and changing passenger expectations.

The PC has recommended that a more detailed set of service quality indicators be developed and used in the ACCC monitoring reports. The clear intent is that these indicators should be useful to airlines, airports, the ACCC and other users (including for informal, voluntary benchmarking by other parties). AAL considers that the airlines and monitored airports are the best parties to identify the service quality indicators that would be most informative. In many instances there are already likely to be agreed service quality indicators that could form the basis of the core indicators. Hence, AAL suggests that (instead of the ACCC leading the bottom-up development of the service quality indicators) it would be preferable for the airlines and monitored airports to agree service quality indicators, with the ACCC to build on this work if necessary.

Item	Productivity Commission Information Request	AAL response
4.1	The Commission is seeking additional information or examples of take-it-or-leave-it offers by airport operators, including: scope and circumstances of the negotiation; overview of the negotiation process and actions of each party; negotiation outcomes, including acceptance of such offers by airport users; and the extent to which such conduct during the negotiation process may reflect an exercise of market power.	AAL sub 1, page 8
4.2	The Commission is seeking additional information on the ways in which airports and airport users share risks through negotiated agreements including: mechanisms to share investment risks, such as offers or use of take-or-pay contracts, where users are required to guarantee a level of future service use; current or proposed contract terms that do not reflect a reasonable sharing of risk, and the rationale for their use; instances where airport users have pre-financed capital projects and why this did or did not represent a reasonable sharing of risk; and the extent to which any risk transfer reflects an exercise of market power, and why.	AAL sub 1, page 14
6.1	The Commission is seeking evidence on: how airport operators consult and engage with landside operators when setting access charges and undertaking investment in landside infrastructure; how consultation between airports and landside operators could be improved; mechanisms available to landside operators to raise issues with airport operators that relate to landside access and how issues are resolved; the pricing frameworks airport operators employ to determine the access price of specific- and common-use landside infrastructure and whether these frameworks, and the associated methodology, are included in negotiations with airport users; airport operators making take-it-or-leave-it offers when negotiating charges and other terms of access with landside operators; and negotiation outcomes, including acceptance of take-it-or-leave-it offers by landside operators.	AAL sub 1, page 18 AAL sub 2, page 2
7.1	The Commission invites comments on the potential costs and benefits of reforms to Sydney Airport’s regulatory constraints on aircraft movements that can also meet current noise objectives. Options that could improve the efficiency of the movement cap without leading to a net increase in noise include: spreading the measurement of the movement cap over a longer time period than the current measure of 80 movements per 15-minute rolling hour; removing the cap on actual movements but retaining a cap on scheduled movements. Options that could improve the targeting of noise outcomes include: replacing regulatory constraints on aircraft movements with noise caps based on the amount of noise made by each aircraft; adopting noise-based criteria for determining which aircraft are permitted to operate during the curfew, rather than the current prescribed list of aircraft types.	AAL sub 2, page 2
8.1	The Commission is seeking information from participants on markets to supply jet fuel at the capital city airports. Airport operators: justification of the structure and size of the fuel throughput levies charged by airports to the jet fuel suppliers; future plans to change lease arrangements for JUHI infrastructure to improve competition, including moving to open access.	AAL sub 2, page 3
10.1	The Commission invites evidence about anticompetitive clauses in commercial agreements between airports, airlines, landside operators and other airport users.	AAL sub 2, page 3