

## Points for Discussion

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1 Rationale for Light handed Regulation. The original rationale for light handed regulation was that it would increase efficiency and enable investment. In the current Report, avoidance of excessive returns seems to be the criterion by which the system of regulation is to be judged by (p2). One might argue that, even if returns were moderately excessive, if the system has increased efficiency, compared to other options such as price-caps, the system would be performing well. The way the Report argues is a throw-back to the old days of cost-plus regulation.

2 Pass Through. The report seems to argue that there is little pass through of charges to passengers because of strong oligopoly in the airline industry. However, even if the airline industry is strongly oligopolistic, there can be significant pass through.

3 Countervailing Power. Even if the airlines have countervailing power, it is still possible that the airline passengers will be negatively affected if the airport uses market power. The use of this market power could still be costly in welfare terms (e.g. if there are wider economic benefits from aviation). This really needs to be thought through. As aside- if the airlines have strong countervailing power, why do they go to the expense of putting in a submission to the Inquiry?

4 Monopoly and Location Rent at Parking Places. The discussion of parking rents is not convincing. If there is a low opportunity cost of land, low prices are efficient no matter how convenient the site for parking is. In other words, there needs to be some *empirical* assessment of the opportunity cost of land. Land prices around Sydney Airport are possibly quite high. But Melbourne? Table 6.2 on P 189- is irrelevant. The land around Rod Laver Arena reflects land values around the Arena- the land around Melbourne Airport would be very different. How different- this needs to be found out. The Report assumes that parking prices only reflect location rents. The Report needs to test whether a price is due to location and monopoly rents.

5 Rationing Prices at Sydney Airport. The issue of rationing prices at Sydney will be a major one from now on. It would be appreciated if the Report could give more guidance on the role which prices may play. The vague statements (e.g. as on p171) need to be analysed more thoroughly. Higher prices (leading to higher profits) are one option to ration demand efficiently. On the other hand, a well functioning slot system will also be efficient- this will generate less profits for the airport, and more for the airlines. Another, more subtle point, is that airport prices embody a quasi Ramsey price structure. When capacity is adequate, this is efficient. But when capacity is in short supply, this is inefficient. It would be possible to reduce overall prices (including by the use of peak pricing) and still ration demand efficiently.

I support the recommendation (p239) for a review of the Sydney Slot Management Scheme. It is important that tradable slots be on its agenda. Tradable slots work well in London, and there is evidence that they are more efficient than the alternative, the IATA system (and also the EU system). It is quite likely that the revised IATA system will simply bring in more regulations which lower efficiency. It would be desirable for the review to recognise the role of slots, along with prices, in rationing demand.

6 Airport Lease Conditions. The discussion on p287 is very brief. How much of a constraint on airport behaviour does the Commission think that these pose? I think that this is an issue which can be analysed more thoroughly.