

Policy & Planning, Policy, Cabinet & Legal Services
Contact Officer Mark Jones
Telephone 323 93581
Our File Ref DG02750

Lisa Gropp
Assistant Commissioner
Productivity Commission
Airports Inquiry
Locked Bag 2, Colins Street East
MELBOURNE VIC 8003

Dear Ms Gropp

I refer to a circular dated 11 January 2001 seeking submissions for the Inquiry into Price Regulation of Airport Services.

The Department of Tourism, Racing and Fair Trading (incorporating Tourism Queensland) would like to make the following submission to the Inquiry.

Aviation Operating Environment

The airline industry globally is exhibiting a fundamental change in operating behaviour. Until recently, airlines used to grow and develop their commercial business and network based principally on maximising market share. Many of the carriers in the Asia Pacific region were national flag carriers, owned, managed and operated by respective sovereign governments. Fleet and network expansion was often built on the back of public sector funding and government owned airlines were often utilised by respective countries as instruments of growth, often introducing air services to destinations, based more upon politics than economics.

However, today, airline privatisation (partial or complete) is being coupled with government liberalisation and economic deregulation initiatives in terms of bilateral air services and deregulated domestic aviation markets. Alliances, mergers, acquisitions and global franchising of brands are becoming common place. There appears to be an increasing focus upon airlines operating scheduled services to/from national, regional and global hubs in order to realise efficiencies associated with economies of scale and scope (i.e. unit cost and revenue benefits).

Airlines today are increasingly focussed upon the financial principles of return on investment, revenue and yield maximisation and cost minimisation. The focus of most international airlines today appears to be building a commercially sustainable business based upon economics and not politics.

This fundamental shift in airline operating behaviour will considerably influence the scheduling and route operating patterns into Australian airports. Airlines will increasingly favour those airports which serve large population centres with a certain critical mass of economic activity and which has capability to capture a large pool of premium fare paying passengers (i.e. full economy, business and first class passengers).

It follows that it will become increasingly difficult for secondary or regional airports (such as Cairns, Townsville, Coolangatta, Darwin and Adelaide) to gain a greater share of the international scheduled air service market due to the changes occurring in the global aviation environment.

Market Power

The Department of Tourism, Racing & Fair Trading (DTRFT) is of the view that not all of the airports in Australia will share the same level of market power in the operating climate described above. Market power has been defined as an organisation that has opportunities to display monopolistic behaviour including sole supplier status, high barriers to entry, no available substitutes and poor (or irrelevant) information.

An airport is also a derived demand asset and as such its market power will be considerably influenced by the scale and scope of airline services it receives both internationally and domestically.

Brisbane and Cairns Airports serve as the two active international gateway ports to Queensland. It is the view of the DTRFT that both Brisbane and Cairns Airports have significant factors that contribute to the dilution of their market power.

Sydney serves as a gateway to Australia's largest catchment area for high yielding premium fare paying passengers. Sydney also has geographic advantages in that it acts as a conduit to funnel traffic to and from Australia's densest population centre. The traffic volume, premium revenue mix of business and leisure traffic coupled with significantly greater frequency and volume of air services gives Sydney significant advantages over Brisbane in terms of obtaining favourable scale, scope and revenue efficiencies, for passenger air transport.

Brisbane consequently misses many opportunities to receive direct air services from the long haul source markets of UK, Europe and North America. Many of the Queensland destined passengers are now being routed via Sydney for reasons of airline economics and not travelling public desire. Sydney is therefore a "close substitute" and dilutes Brisbane's opportunity to be "sole supplier" of airport facilities or access. Although Brisbane receives a proportion of short haul international services, consolidation of the international services, particularly from South East Asia, via Sydney continues to transport a significant proportion of Queensland destination traffic.

Cairns Airport suffers due to lack of a significant catchment area for outbound travel, a seasonal traffic pattern and most importantly low yielding leisure oriented traffic. International air service providers such as Singapore Airlines have scaled down services to the destination and Qantas has performed similar rationalisation of air services from regional Japan, including Fukuoka and Sapporo (two years ago) due to the problems cited. An increasing proportion of international passengers are now being routed via Brisbane and even Sydney in preference to travelling direct to the destination. Consequently Cairns Airport is at a disadvantage on a number of fronts, including the ready availability of close substitutes (i.e. Brisbane and Sydney) and consequently no sole supplier status.

Sydney, Melbourne and Perth have superior market power in comparison to the Queensland international gateways. Both Sydney and Melbourne are Australia's premium catchment areas for the "front end" or premium fare class travel market and consequently generates high yielding traffic for the airlines. This favourable yield and revenue scenario combined with Australia's largest population centres immediately generates considerable focus for international and domestic air service activity to and from these ports. Sydney and Melbourne generally have more sole supplier status and a lesser propensity to suffer from available substitutes than do their Queensland counterparts.

Perth Airport, due to its geographic isolation from all other primary gateways to Australia, automatically lends itself to acquiring considerable market power. No airline willingly diverts traffic via any of the eastern state airports to Perth, since the airline economics of such a venture would simply make the operation non-viable.

Port Of Entry/Exit

It is considered that hubbing efficiencies are more prevalent and utilised by airlines for transporting passengers to Australia from the long haul destinations of UK, Europe and North America. The hubs most often utilised to collect and redistribute Australian origin and destination traffic are the cities of Singapore, Bangkok, Seoul, Tokyo, Hong Kong, Taipei, and Kuala Lumpur. Over the last two years, as the forces of industry consolidation take hold, Australia has lost a number of "foreign tails" including Lufthansa, KLM, Alitalia and Air France. All of these long haul European carriers now operate on line only as far as the Asian hub cities, their Australian alliance or commercial partner carries the traffic south to Australian cities.

This has significant implications for international gateway ports in terms of their continuing ability to attract and retain "foreign tails".

Furthermore, many of the long haul visitors, in particular leisure and holiday traffic, tend to display multi destination travel pattern behaviour. Visitors enter Australia via one of the three main hubs of Sydney, Brisbane or Melbourne, travel interstate on domestic services and exit through a regional international gateway such as Cairns or Darwin or via the main gateways again.

Visitors from the short haul destinations of Asia, in contrast, seem more receptive to direct or non stop access, with airlines operating many more point to point services to cater for these markets (e.g. Japan, Singapore, Malaysia, Hong Kong, Taiwan and Korea). This may be due to the shorter holiday timings and single destination focus.

However, point to point services are principally justified on their capability to snare premium fare paying passengers and as such will only be introduced if the fundamentals of revenue optimisation, yield and return on investment hurdle rates continue to be met. Volume and market share based upon leisure traffic is no longer a sufficient incentive for airlines to commence a service (short or long haul).

This continues to be the biggest challenge facing the development of air services to leisure destinations. Consequently tourism market reaction to being channelled via a hub en route to another destination is dependent upon the market of origin.

Competition between Airports

It is considered that all principal international and regional gateways are taking steps to maximise airline visitation to their airports. There is active realisation amongst most operators that airports are derived demand assets and are not an end in themselves, but rather an access point to a region or destination. For example, in Queensland, Brisbane, Cairns, Gold Coast, Whitsunday Airports, Townsville and Sunshine Coast Airports have all taken positive steps to establish strategic partnerships with a range of stakeholders, including governments and industry to assist the airports in developing actual and potential commercial opportunities in developing air services.

DTRFT is an active partner with a number of these airports in Queensland and jointly develop detailed business cases to develop air services to these and other regional ports.

The total quality and economic value they bring and offer to the air transport industry will in the future increasingly determine competition between airports. Many of the principal regional and international airports are already offering significant price incentives to airlines, which encourage the development and introduction of international and domestic air services.

Airports are high capital intensive investments, and unlike the airline industry, are not portable and cannot be “re deployed” to a more profitable location. With the advent of airport privatisation, and the consequent competitive global airline environment that currently exists, all airport authorities need to be actively encouraged to price their services and products competitively, and to canvass a greater local commitment to strategic partnerships and marketing of their valuable assets.

This will ensure that airports continue to act as engines of economic growth and prosperity, and accrue significant benefits to Australia.

Thank you for the opportunity to provide a submission to the Inquiry. The Department would appreciate receiving ongoing advice as to its progress. Should you require any further information please contact Mr Unni Menon, Tourism Queensland on telephone (07) 3535 5344.

Yours sincerely

David Williams
Director-General

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