

**Motor Trades Association of Australia Superannuation Fund Pty
Limited**

13 July 2006

Ms Jill Irvine
Price Regulation of Airport Services Inquiry
Productivity Commission PO Box 80
Belconnen ACT 2616

SUBMISSION ON PRICE REGULATION OF AIRPORT SERVICES

The Motor Trades Association of Australia Superannuation Fund (**MTAA Super**) welcomes the Productivity Commission's inquiry into the price regulation of airport services, and the opportunity to make a submission.

MTAA Super is the national superannuation fund for the motor trades and allied industries in Australia. MTAA Super was established in 1989 and has grown to be one of Australia's largest and best performing superannuation funds with more than 250,000 members, 19,000 employers and over \$3.7 billion in funds under management.

MTAA Super has a strong record of investing in Australia's national infrastructure. This includes ownership interests in several of Australia's airports, as follows:

- a shareholding of 28.4% in Adelaide Airport Limited;
- a shareholding of 2.4% in Sydney Airports Corporation Limited; and
- a shareholding of 4.9% in Brisbane Airport Corporation Limited.

MTAA Super supports an opportunity cost-based approach to the pricing of aeronautical services provided by Australia's airports. In particular, such an approach provides an appropriate set of economic incentives for the efficient management of Australia's aeronautical infrastructure going forward. Currently, aeronautical prices at our airports are below the level that would be supported by the opportunity cost of the assets used to provide airport services.

In the context of MTAA Super's portfolio allocation decision making, airports compete for capital against other infrastructure investments and other asset classes such as property and private equity. Ensuring that assets such as land are periodically revalued and reflected in airport pricing will help generate returns that are commensurate with the risks inherent in an airport investment, which, in turn, will encourage continued investment in the airport sector. Artificially suppressing airport prices, based on the historical cost of land and low asset betas, will tend to make investments in airports less attractive. Over time, this will cause the performance of airport investments to diverge from other asset classes, making it difficult to attract capital to this sector. This, in turn, could have other implications for the sector, for example, for aeronautical capacity expansions.

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MTAA Super's observation is that the current regulatory arrangements have, in broad terms, been operating to move towards the objectives outlined above, over the period since the current light-handed regulatory regime was introduced on 1 July 2002. As against this, however, like any regime in its early formative stages, there are areas where the existing regime could be improved. These issues are, however best addressed by the airport operators themselves.

Distributional Impacts

As part of the scope of the inquiry (Terms of Reference 4.c) the Productivity Commission has been asked to analyse the distributional impacts of current, and potential alternative, regulatory arrangements. As a shareholder in a number of Australian airports, the demographic and economic characteristics of MTAA Super's membership base provide a useful reference point, in this context.

MTAA Super is a defined contribution (accumulation) superannuation scheme, and is a Regulated Superannuation Fund under the Superannuation Industry Supervision Act (SIS). As MTAA Super is a 'not for profit' entity it pays no dividends to shareholders or agents' commissions. As such, all investment earnings, after deduction of taxes, charges and provision for fund reserves, are credited to members' accounts on an annual basis.

MTAA Super's members are drawn largely from the retail motor trades, including repairers, motor vehicle dealers, petrol outlets, and motor vehicle spare parts and equipment shops throughout Australia.

Member Age

MTAA Super's membership is geographically spread across Australia, and heavily weighted towards representatives of the Australian retail motor trades. The vast bulk of MTAA Super's members have a modest superannuation account balance.

In the past, airlines have attempted to portray airport owners as large financial and corporate institutions, as, for example, was the case with the "Bunch of Bankers" advertising campaign run by Virgin Blue. The reality is that airports are ultimately owned by ordinary people such as MTAA Super members.

The BARA Submission suggests that allowing aeronautical prices to align with costs *would "simply bolster the returns of superannuation companies"*¹. MTAA Super believes that having a nexus between the price of airport services and a normal return on the opportunity cost of producing airport services provides important signals for efficient investment in the airport sector. This should be the paramount concern for the Productivity Commission. However, if the Productivity Commission is concerned about the distributional consequences of moving towards more efficient pricing of airport services, any subsequent gains to the members of the not-for-profit MTAA Super Fund seem more appropriate than continuing to under-price airport services, which would simply bolster returns to the largely foreign-owned members of BARA.

Yours sincerely,

MICHAEL DELANEY
Principal Executive Officer & Fund Secretary

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¹ Board of Airline Representatives of Australia, Submission to the Productivity Commission's inquiry into price regulation of airport services, June 2006, page 7.