



Economic Regulation of Airports

Karratha Airport Submission

BACKGROUND

Karratha Airport (KTA) is fully owned by the City of Karratha. The airport is a major business undertaking of the City and operates in accordance with the Western Australia Local Government Act 1995 and supporting regulations. The airport has recently completed a \$35m Terminal Upgrade project. Accommodating in excess of 510,000 passengers during the 12 months ending in December 2017, KTA is Western Australia's second busiest airport by passenger numbers and RPT aircraft movements.

The airport directly services five towns within a 60-minute driving time as well as a fly-in fly-out workforce. KTA is currently served by a variety of major RPT and mining charter airlines with Perth the primary origin/destination.. Since the terminal redevelopment and other improvement projects, the airport has a modern terminal with upgraded airside infrastructure to provide services to the community. Airports are significant contributors to local economies and an essential enabler and catalyser for future growth. KTA is earmarked to be that catalyst to help multiply the growth potential of the region

At KTA landing fees, equate to approx. \$29.38* per seat regardless of ticket price. These fees go towards the running of the airport, upgrades, maintenance and compliance projects. Most airports do operate at a surplus, however unlike privately owned airports where this is taken as company profit, return on investment generated by KTA is reinvested into community projects through the City of Karratha. Priority for KTA and the City is to provide better intra-regional connectivity, increasing the capacity of KTA to receive larger, bulk carrying aircraft and introducing international flights to Asia. It would also provide a viable means for the movement of goods and people intra and inter-regionally and internationally.

INTRODUCTION

It is KTA's understanding that the key objectives of the current regulatory regime are to:

- promoting the economically efficient operation of, and timely investment in, airports and related industries;
- minimising unnecessary compliance costs;
- facilitating commercially negotiated outcomes in airport operations;
- aeronautical services and facilities provided by airport operators;
- passenger-related aeronautical services and facilities provided by major airline tenants; and
- The provision and quality of land transport facilities providing access to the airports.

It is our view that these objectives are being met at KTA. We have a strong legal obligation under the Local Government Act to serve the community and be transparent in our operations. We have little or no influence over the policies and network decisions of large airlines with significant market power who possess movable assets that can be deployed to other airports either if the services are not viable or new markets open up. The airport does not have this luxury and needs to make sure the asset is self-sustaining and provides a level of service expected by the community.

As a mature business the airport provides mutually beneficial commercial arrangements, which have been negotiated between the Airport, the airlines and other operators. This is coupled with major infrastructure investments being made to improve facilities. Given these outcomes and the underlying legal environment in which regional airports operate it is our view that the Government should continue with the current airport specific economic regulation especially for regional airports.

INVESTMENT AND AIRPORT CHARGES

The City of Karratha made a large investment decision in 2012 with over \$100million spent on upgrading the airside facilities, terminal re-development, car-park build and upgrades, Waste Water treatment plant and electrical facility upgrades. The investment was done to improve service levels, infrastructure and asset reliability. Even with the substantial investment in airport infrastructure, landing and passenger charges have only marginally increased. In the six years since the decision was taken to invest in infrastructure improvements, the landing charges have increase was:

- at an annual rate of 1.6% and the passenger charges by 2.6%;
- with only 1.8% increase annually in the past four years;
- during the terminal redevelopment years landing charges were unchanged for two years and passenger services charges for one year; and
- The subsequent increase in charges the year after was only 1.7% and 1.5% respectively.

The entire project investment at the airport was made by the City of Karratha through the airport reserve. No additional costs were passed on to the airlines or travelling passengers via increased charges. The airport has been proactive in controlling costs and maintaining an airport reserve fund to further invest in airport infrastructure improvements. Future upgrades will include lighting upgrades, high voltage works, apron works and taxiway improvements.

In addition, KTA operates a car park for its passengers which offers a multitude of products like short term and long term parking. There is also a large presence of hire cars who operate out of the airport precinct. In terms of charges, KTA has one of the lowest car park charges with first 60mins free in the short term park and a daily maximum of \$25. The long term park has a rate of \$16 which reduces to \$14 after seven days. We are conscious of our community obligations and offer a 50% discount to all concession card holders. The way our charges are designed we will never be able to recover the cost of car park development and recent upgrades.

SECURITY CHARGES

The Australian Government-mandated security standards impose a high cost burden on regional airports. This is going to get higher with the requirements to procure body scanners and upgraded infrastructure while working of a low passenger base. The high primary fixed security costs dictate that the required cost-recovery charge is higher per passenger at regional airports than major airports. The cost of labour and attractiveness of regional centres is lower than larger cities affecting the cost of service and retention of trained staff. The importance of security costs in the overall airport charging system especially at regional airports has a major impact on the total cost of air travel in regional Australia more so in regional Western Australia which is comparatively isolated.

QUALITY OF SERVICE

The City of Karratha have an established Customer Service Charter. This Customer Service Charter aims to communicate the standards we strive to deliver to the community. The customer service principles are backed up by service level commitments which are measured. The charter has been established as an expression of our commitment to providing a high standard of service, ensuring consistency and sustainability in service delivery.

KTA has always taken customer service and the quality of its product offering very seriously. The City of Karratha and KTA have for many years has conducted in-terminal customer satisfaction surveys. Passenger comments collated through the survey have been acted on where appropriate, including working with airlines to provide greater access to Karratha, providing improved amenities and 60 minutes free car parking. The surveys also provide a scale where residents and passengers measure the facilities provided. The airport has scored highly in the survey since the airport redevelopment projects have been completed and continue to do so.

COST OF INTERNATIONAL SERVICES

With the recent changes to the Department of Infrastructure, Regional Development and Cities, Department of Home Affairs and Department of Agriculture and Water Resourcing's model in regards to approving International status and providing border services at new airports. Under this revised approach, airports will now be required to absorb all the costs incurred such as procurement and installation of equipment, recruitment of staff and other costs associated with establishing border services.

As per the new revised approach, aspiring regional airports wanting to start international flights will not only have to fund the initial setup costs but will need to wait up to 14 months for the services to be delivered. Airports will have no option but to pass on these fixed costs to the passengers in addition to security costs, airport charges and the government mandated Passenger Movement Charge. This will be detriment to regional airports and the regional economies they support. Policies like these will ultimately stagnate growth and opportunities for regional Australia.

SUMMARY

The Australian Government should support the growth and viability of regional airports like Karratha to better service the regional communities. The cost of meeting mandated airport security requirements and cost of launching and supporting international services acts as an impediment to the airports and regions economic development. As a part of the Productivity Commission's assessment for regional airports, appropriate consideration should also be given to ensuring the minimisation of red tape and the costs borne by airport users.

Karratha Airport does not demonstrate market power nor behave in a monopolistic manner. The airport's core function is to serve the community as part of the Local Government system in Western Australia. By not behaving in a monopolistic manner the airport needs to work cooperatively with all its customers to develop appropriate commercial agreements that support the sustainability of the infrastructure and provide the required services at a reasonable cost. Karratha Airport supports a continued non-interventionist regulatory regime to be the most appropriate for its existence as a community asset.