

Productivity Commission, Economic Regulation of Airports

Queensland Airports Limited submission
following the Productivity Commission's Draft
Report, March 2019

1.0 Introduction

Queensland Airports Limited (QAL) – the owner and operator of the Gold Coast, Townsville, Mount Isa and Longreach airports – welcomes the release of the Productivity Commission’s draft report on the economic regulation of Australian airports.

The draft nature of this report is acknowledged, along with the fact the Productivity Commission (the Commission) has invited interested parties to provide feedback through submissions like this and by participating in the upcoming public hearings.

QAL believes the Commission’s observations about the overall suitability of the current monitoring regime are accurate. QAL was seeking no change to the system based primarily on the fact that Australian airports are operating efficiently, and investment levels are high. Also, while negotiations with airlines can be challenging to conclude, in most cases they can be, and it would be difficult to make changes relevant to all airports.

There was one draft recommendation (10.3) in particular that was positively received by QAL management:

- *The Australian Government should issue a statement that voluntary self-reporting system for second-tier airports is discontinued.*

This appears to be influenced by the fact that second-tier airports are operating well, to the benefit of their partners and passengers. We have expanded on our thoughts about this recommendation later in the submission.

QAL management also notes the information requests issued by the Commission and seeks to provide some response where relevant to its business.

Some consideration has also been given to the other reform directions (beyond second-tier airport monitoring) identified by the Commission, which are addressed later in this document.

2.0 Monitoring of second-tier airports

[Draft recommendation 10.3, Discontinue Second-Tier Airport Monitoring]

Gold Coast Airport is the only one of QAL's four airports that is a second-tier airport. As such, QAL is required to self-report aeronautical services charges, carparking service prices, service quality outcomes, and complaint handling processes and outcomes for Gold Coast Airport.

As stated in a previous submission to the Commission, QAL reports on various aspects of its business such as:

Gold Coast Airport

- The airport charge starting rates, or 'rack rates' (aero, terminal and security), for Gold Coast Airport are published on the airport's website.
- In relation to service quality reporting, we participate in the Airports Council International (ACI) Airport Service Quality (ASQ) benchmarking program, which involves a quarterly survey of departing passengers. The results of this program are published on the Gold Coast Airport website.
- Carparking charges are also featured in an easy-to-use section of the Gold Coast Airport website, allowing passengers to research their options.
- Gold Coast Airport also has a well-established Noise Abatement Consultative Committee (ANACC) and Community Aviation Consultation Group (CACG) – which have their own websites and include meeting minutes.
- Our Conditions Of Use document is displayed on the Gold Coast Airport website. Customers can make complaints via the Gold Coast Airport website, where the airport's Complaint Handling Process is published.

Townsville

- Although Townsville Airport is not a second-tier airport, a range of information is listed on the airport website including airport charge starting rates, parking charges, quality service monitoring results and details for the Community Aviation Consultation Group.
- The Townsville Airport Conditions Of Use document is published on the airport's website as well. Customer complaints can be submitted via the Townsville Airport website.

Mount Isa and Longreach

- Airport charge starting rates and parking charges are published on the Mount Isa Airport website.
- Airport charge starting rates and parking details are published on the Longreach Airport website.

QAL

- Although Queensland Airports Limited is not a listed company, and therefore has no reporting obligations, it publishes the key financials for the business each year as part of the annual report. QAL's 2017-2018 Annual Report can be found here: <http://qldairports.com.au/publications/annual-reports/>

These steps are taken in part because of the second-tier monitoring responsibilities but also in an effort to be transparent, as part of our overall stakeholder engagement strategy. We take the maintenance of our social licence to operate seriously, using several forums and platforms to regularly inform and consult with the community, political leaders, our partners and the media about operational issues and development plans. Therefore, QAL intends to continue these practices regardless of any changes to the self-reporting system for second-tier airports.

3.0 Information Requests

3.1 Negotiation outcomes, including 'take it or leave it' offers by airport operators

[Information Request 4.1]

Market power

It was highlighted in a previous submission by QAL that a number of factors need to be taken into account when weighing up the market power of QAL's four ports and that of the airlines, including:

- the competitive nature of the south east Queensland and northern NSW market
- the heavy reliance of many airports but particularly medium sized and smaller regional airports like Mount Isa and Longreach on one airline company (the Qantas Group accounts for 72 per cent of the traffic at Mount Isa Airport and 96 per cent of the traffic at Longreach Airport)
- the strong and necessary focus by airports in delivering efficient and effective infrastructure use.

Further to that, there is a number of other relevant points, including:

- That the current domestic market is one of constrained supply by the two major airline groups, as both groups seek to drive stronger yields and profit outcomes. The load factor for Gold Coast Airport has been one of the highest in the country in the past 12 months and from March 2018 to February 2019, it was 82.3 per cent. At 87.9 per cent, the Gold Coast-Sydney route topped the country for the equal highest load factor of any route in Australia in December.
- For the larger airlines, separate commercial-in-confidence negotiations about long-term pricing are undertaken and charges as a whole are lower than published rates.
- In addition, airport charges are heavily discounted for the provision of new or expanded capacity, and locked in for several years to support the introduction of these services and provide airlines with an element of 'risk sharing'.
- Airport leasing conditions generally make it extremely difficult to deny access to an airline for non-payment or short payment of charges. It is also detrimental to the airport and the region to contemplate a scenario where airlines are denied access, which is why it is not an effective measure.

Airport redevelopments

When considering airport redevelopments and airport charges, it is important to again state that:

- Airport charges are typically up to 10 per cent of the average airfare cost.
- Airport charges are derived from the capital cost of delivering and updating airport infrastructure that is both necessary for service delivery and legally required.
- These charges are generally reviewed when airports consider the upgrade or redevelopment of facilities to accommodate airport growth.
- Extensive stakeholder consultation is conducted when an increase in charges is being considered – this process includes gateways throughout to ensure airline acceptance of each stage before moving to the next.
- Charges take effect after the airport has incurred or delivered capital expenditure (i.e. there is no forward funding). The set charge is collected by airline operators as part of the ticket price before being paid to the airport. The airport receives the collected charge after the flight has been taken, despite the fact the airline will typically have collected that charge many months earlier.

QAL is in the process of delivering major redevelopments of Townsville and Gold Coast airports, which will require significant capital investment. In the case of the Qantas Group, QAL has been unable to successfully conclude negotiations about an adjustment to airport charges for both ports. We are not seeking to recover the cost of all works required but we do think that airlines should contribute their fair share to an investment in assets which they will use. In relation to Townsville, it is important to highlight both the fact that the last significant terminal upgrade occurred in 2003 and that airline negotiations stretch back to at least 2011.

Due to the protracted nature of aeropricing negotiations with the Qantas Group, QAL sought and recently received a loan from the Northern Australia Infrastructure Facility (NAIF) for the Townsville redevelopment.

Given the operating constraints at Gold Coast Airport, and the support of our other airline partners for the terminal expansion, QAL recently made the decision to proceed with the works – without concluding a binding agreement with the Qantas Group.

Negotiations continue with Qantas about both redevelopments.

Therefore, we would say, in the context of our business at least, it is more a case of the Qantas Group having the ability to issue a ‘take it or leave it offer’, than airports.

3.2 Ways in which airports and airport users share risks through negotiated agreements

[Information Request 4.2]

Airports strive for the most efficient and effective use of airport infrastructure. Besides the obvious need for a return on investment that all businesses require, there are aspects that make this particularly important for airports, most particularly the fact that airports are fixed, capital-intensive assets that are paid off over many years. They therefore have a high associated risk.

By comparison, airlines can vary schedules or withdraw services without penalty, based on demand. In some cases, airlines seek to negotiate a selective agreement for what is a common user facility – potentially impacting the efficiency of the capital plan. This approach has been taken by the Qantas Group in relation to redevelopment negotiations about the Gold Coast and Townsville airports.

It is also important to note that airports agree on pricing with airlines, not capacity.

The Gold Coast Airport terminal currently incorporates swing departure gates, capable of handling both domestic and international passengers, to maximise efficiency for airlines. Future development plans will further increase the flexibility and efficiency of operations.

When it comes to aeropricing agreements, QAL also provides growth discounts to interested airline partners focused on increasing capacity. Passenger fees can be discounted (for an agreed period) by up to 80 per cent where growth rebates are part of a negotiated agreement on existing markets, or by 100 per cent for capacity on new markets.

3.3 Landside access

Background

As previously stated in another submission, QAL fully understands and appreciates the need for connectivity and accessibility of its four airports. There are numerous options offered for passengers arriving and departing from Gold Coast and Townsville airports (as outlined in a previous submission to the PC), and passengers welcomed by Mount Isa and Longreach airport staff can choose between taxis, more than one rental car operator and charter coach services. Parking is free at Longreach Airport and paid parking rates begin at \$12 per day at Mount Isa Airport.

3.3.1 How airport operators consult and engage with landside operators when setting access charges and undertaking investment in landside infrastructure [Information Request 6.1]

QAL's four ports

It is important to state that the fees charged at QAL's four ports are in line with, or less than, airports of a similar size to each of those ports.

We work closely with our ground transport operators and consult with them about any planned change to access fees. This is particularly the case if an increase in charges is anticipated due to an investment in airport infrastructure (as described below in relation to Gold Coast Airport).

Gold Coast

On the Gold Coast, preparations are being made for ground transport works to get underway, as part of the redevelopment and activation of the airport precinct. The Ground Transport Interchange (GTI) that will be delivered later this year is a consolidated facility for all ground transport operators at Gold Coast Airport, including taxis, rideshare, coaches and limousines. The improved facility will provide operators with a dedicated holding area and far improved amenities (bathrooms, seating, shade and vending machines etc.). The GTI is near the passenger pick-up area, meaning passengers will have shorter wait times, and the consolidation of ground transport holding areas is expected to reduce congestion on airport roads, the car park and rotunda. Ground transport operators have requested improvements of this nature and are fully in support of the changes.

3.3.2 How consultation between airports and landside operators could be improved [Information Request 6.1]

Gold Coast

On the Gold Coast, the opportunity to establish a more structured engagement framework (quarterly meetings with ground transport operators) is currently being investigated.

3.3.3 Mechanisms available to landside operators to raise issues with airport operators that relate to landside access and how issues are resolved

[Information Request 6.1]

Gold Coast

It is the job of the Gold Coast Airport Ground Transport Co-ordinator to liaise with operators daily and address any issues raised by operators.

Other QAL ports

All of our ports have a mechanism for open communication with ground transport operators, either a dedicated or nominated resource, with published contact numbers.

3.3.4 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

[Information Request 6.1]

In some cases, for example when additional commercial bus services are being contemplated, Gold Coast, Townsville, Mount Isa and Longreach airport management will issue a tender for the service and therefore the price is decided by a market-driven approach.

When it comes to setting or reviewing fees for visitation by ground transport operators, the approach that is taken at QAL's four ports is to firstly benchmark against similar sized airports before consulting with operators about a potential increase to fees. As part of these discussions with operators, the comparative fees structure would be discussed.

3.3.5 Airport operators making 'take it or leave it' offers when negotiating charges and other terms of access with landside operators [Information Request 6.1]

It is not our approach at QAL to issue 'take it or leave it' offers to our commercial partners. As discussed above, the competitive environment is first investigated before discussions commence with our partners about changes to charges and/or terms of access.

4.0 Response to reform directions

4.1 Anti-competitive clauses in commercial agreements between airports, airlines, landside operators and other airport users [Information Request 10.1]

QAL is well aware of its legal responsibilities regarding competition.

4.2 Preventing anti-competitive contract provisions [Draft Recommendation 10.1]

QAL supports, in principle, the proposed amending of the Aeronautical Pricing Principles. However, QAL management would need to see the actual changes to the principles before giving its full support to this change.

4.3 Future Productivity Commission Reviews [Draft Recommendation 10.2]

QAL recognises that periodic public inquiries are a key feature of the regulatory framework and supports the continuation of this process. However, in line with the point made by the Australian Airports Association, QAL would question the need for this to occur every five years and would instead suggest a longer period between inquiries. This seems appropriate given the conclusions in the draft report about the suitability of the current monitoring system.