



SOUTH AUSTRALIAN FREIGHT COUNCIL



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Airport Regulation Inquiry
Productivity Commission
Locked bag 2
Collins Street East VIC 8003

Via electronic submission

Dear Sir / Madam

RE: Airport Regulation Inquiry

On behalf of the South Australian Freight Council's (SAFC) Executive Committee and Membership I thank you for the opportunity to provide input into the Productivity Commission's Inquiry into the Economic Regulation of Airports.

As you may be aware, SAFC is the State's peak, multi-modal freight and logistics industry group that advises all levels of government on industry related issues. SAFC represents road, rail, sea and air freight modes and operations, freight services users and assists the industry on issues relating to freight logistics across all modes.

In general, SAFC is supportive of the current price monitoring regime administered by the Australian Competition and Consumer Commission (ACCC) – and specifically, Adelaide Airport's position on the second tier of reporting requirements.

In relation to Adelaide Airport, there is considerable countervailing power by domestic airlines – in particular the QANTAS Group (including Jetstar).

The QANTAS Group (as a combined entity) represents Adelaide Airport's single largest airline customer, and comprises some 65 – 70% of aircraft take-off and landings at the Airport. As such an overwhelming proportion of Adelaide Airport's aviation business, the QANTAS Group has considerable (if not overwhelming) countervailing power in negotiations with the airport.

Despite representing such a massive component of airline activity at Adelaide Airport and being Australia's 'National Carrier', QANTAS provides no international direct services to the South Australian market. Instead they use their domestic services to funnel international traffic to other airports, where international passengers are consolidated. SAFC suggests that this demonstrates:

1. Airlines can and do choose not to service markets if they believe it is in their own interests not to do so; and
2. QANTAS is in effect using market power (in the domestic aviation market in SA) to leverage gains for its international aviation business through other airports.

Aviation passenger growth over the last decade (since the GFC) has been exceptional in Australia, necessitating large capital investments by airports. Adelaide is currently Australia's fastest growing capital city airport, and just announced that it has broken the one million

international passengers in a financial year mark for the first time (5.5% growth for the year). Consequently, investment in international passenger facilities has just been announced – as well as infrastructure upgrades to service the Australian Border Force's ever growing remit in this area. We see no evidence of inefficient investment decisions being made, rather expected investment to service the ongoing expansion of passenger numbers.

In relation to airport's returns on capital, SAFC points out that Australia has been fortunate to have not experienced a recession in the last 20 years or more – unusual in a historical context. As such, there have not been severe negative years for airports or the aviation industry in general; which makes average airport returns over the past 20 years look very good. Economic risks are priced into returns on capital – cyclical downside risks have simply not eventuated over the past 20 years.

SAFC does not support a regulated 'building blocks' approach to determining charges for aeronautical services. We point to the example of electricity distributors, where a legislated return on capital resulted in massive over expenditure on 'poles and wires' in some states, raising electricity costs for consumers.

In regards to monitoring, SAFC supports Adelaide Airport's position in the second tier reporting regime. While the airport is growing strongly, it is simply not of the size where it has the potential or ability to manifest market power over airlines that are multiple times larger than itself.

We note the commission's comment that the currently reported second tier data is not comparable between airports. However even if the data was presented in a way that was numerically comparable, we are not sure that this would make the circumstances comparable – with different risk profiles, different growth rates, different growth drivers and growth of different passenger types.

Given that no South Australian airports fall within the main monitoring regime, we make no claims in regards to its effectiveness or potential improvements.

In relation to car parking charges, SAFC considers that the current monitoring regime should be maintained, and that each of the major airports should be benchmarked against their local CBD parking rates.

We do note that there is a marked difference in the amount of potential market power that could be exercised in this area, depending on each airports distance to other facilities. For example Tullamarine is located in a semi-rural area where park and walk options are non-existent, whereas Adelaide Airport's terminals are relatively close to the airport border in a suburban setting, offering the opportunity for some to park locally and walk in to the airport if they have minimal luggage (and this does occur).

SAFC has always been among the strongest of supporters of mandatory Airport Master Plans – including the ground transport plan elements. Indeed, we have on multiple occasions used the Adelaide Airport Master Plan as an example of what comprehensive master planning produced on a regular cycle can achieve, and are grateful the new SA Government has chosen to include this element in the design of Infrastructure SA and the 20 Year State Infrastructure Strategy.

In the Adelaide Airport context, we note that there are Local Government roads that also provide access to the airport, which adds to complexity. SAFC would prefer that these roads were passed over to state government control, to provide a single interface point for road authority/airport issues to be discussed. We also point out that the State has far greater

resources to facilitate upgrade and maintenance of these routes, and it makes sense for links into capital city airports to be under state control.

Today, access into Adelaide airport for aviation activities is primarily via Sir Donald Bradman Drive, with access via Tapleys Hill road for aviation fuel, the Royal Flying Doctor Service and the 'Harbor Town' shopping precinct.

As per the 2014 Master Plan, SAFC expects that freight facilities will soon move to the 'Airport East' precinct, with the Richmond Road extension becoming the primary entrance to the airport for air freight. This is currently a local council road, and should be handed over into the control of the state as befits a major export link.

The joint State/Commonwealth North South Corridor project, once complete, will funnel the majority of freight into this precinct at high speeds via the aforementioned Richmond Road extension.

The previous state government had indicated plans to build a tram line to the airport, however with the change of government these plans have been shelved for now. SAFC understands that AAL have maintained the ability to accommodate a tram if this project is resurrected in the future.

Again, I thank you for the opportunity to provide a submission on this important topic. Should you wish to discuss any element of this submission further, please feel free to contact me

Yours Sincerely,

Evan Knapp
Executive Officer, SA Freight Council.