



Australian Finance Industry Association Limited
ABN 13 000 493 907
L11 130 Pitt Street Sydney NSW 2000
02 9231 5877 www.afia.asn.au

Presiding Commissioner Paul Lindwall
Commissioner Ken Baxter
Assistant Commissioner Anna Heaney
Assistant Commissioner
Airport Regulation Inquiry
Productivity Commission

14 December 2018

By email: airports@pc.gov.au

Dear Commissioners

Regulation of Airports Inquiry – Further Information on Recent Negotiations with QLD Airport

Further to our earlier submission of 12 September 2018, the Australian Finance Industry Association [AFIA] on behalf of the members of our Car Rental Group (Avis Budget; Bayswater Car Rental, East Coast Car Rental, Europcar, Hertz, Redspot/Enterprise and Thrifty) would like to provide additional evidence arising from recent and ongoing negotiations between individual AFIA members with a regional airport based in Queensland. We believe this should assist inform the Commission's consideration and lends weight to the concerns identified in our earlier submission and AFIA's recommendation for change.

Relevant members that operate on-airport have been recently trying to individually negotiate their lease renewals with that Airport Authority. As it has a monopoly in this region this impacts the ability of our members to negotiate. More specifically, members' have advised that:

- Negotiations with the Airport Authority commenced around 15 October 2018 with initial agreement sought by 29 October 2018 (11 business days). Though we understand that for some members that expressed concern with being able to meet this extremely narrow timeframe, this has been extended.
- The Airport Authority is seeking substantial rental increases, with one member reporting between a 50%-60% increase in their fees being charged. Other members have indicated an increase of a similar quantum.
- Discussions with the airport around justification of the charges have been centred on the redevelopment of the Airport including a new runway in 2020 along with redevelopment of the arrivals hall. No Economic factors have been provided to support the Airport becoming the most expensive on a per transaction basis in the country.
- The Airport Authority has presented this offer on a 'take it or leave it' basis. Members feel that they may have to sign under duress.

Further detail can be provided, if requested.

As noted, the Airport Authority has only provided limited reasons justifying such a large increase stating the new fees are comparable to other similar sized regional airports. Evidence to support or provide the basis for this claim has not been made available by the Airport Authority to our members to consider. In the absence of this evidence, members' ability to negotiate has been significantly impacted.

Through the process of executing the agreements with our relevant members, the Airport has been unwilling to move from their substantive position.

We consider this to be a timely example of the ability of our members (and likely others) to negotiate agreements with outcomes fair to both parties with the Airport Authority. As noted in our earlier submission this has significant flow-on consequences to consumers of our members and other service - providers. In line with AFIA's recommended position in that submission, we submit it highlights the need for regulatory change to a negotiate-arbitrate model. Such reform would likely have the following net benefits:

- there will be minimal costs associated with a negotiate-arbitrate regime, because the current regime already imposes costs and additional costs are likely to be 'one off' in nature;
- there is little reason to conclude that access regulation would hinder efficient investment compared with the factual with price monitoring; and
- benefits would arise from lower prices for users of car rental services, as pass through of lower input costs would be almost certain.

We would welcome an opportunity to discuss our submission further with you or provide additional information, as required. Please contact me _____ or Alex Thrift, Economic & Senior Policy Adviser

Kind regards

Helen Gordon
Chief Executive Officer