

**Melbourne Airport Supplementary Submission
to the
Productivity Commission Review
of
Price Regulation of Airport Services**

Confidential Material Excluded

June 2001

Introduction

This submission adds to the material provided by Melbourne Airport to the Commission in March 2001. In doing so, it seeks to address a number of issues that have emerged during the course of the Commission's hearings, from other submissions, and from further thinking undertaken by Melbourne Airport. In particular it addresses issues about which Melbourne Airport undertook during hearings to provide the Commission with further information and comment.

Since the time of the hearings, the Commission has released its Draft Report on the Review of the Prices Surveillance Act and its Position Paper on the Review of the National Access Regime. Through its parent company, Australia Pacific Airports Corporation (APAC), Melbourne Airport has indicated its broad support for the approach the Commission has adopted in both of these inquiries. APAC has responded to both the documents mentioned above and has participated in the Commission's hearings in relation to those inquiries. Whilst the outcomes of these inquiries are obviously important to how airports may be regulated in the future, there seems little point in repeating our comments on those issues again. Obviously, if the Commission wishes clarification of our views on those issues, we are happy to provide them either formally or informally.

Throughout the submissions and the hearings so far there has been significant debate about the issue of countervailing power of airlines. The debate is essentially about whether airlines possess a capacity to deter, resist or ameliorate any use of market power by airport operators. Both evidence and theory seem to be at issue and both are addressed in the next section.

Countervailing Market Power – some evidence and some theory

Most participants in the inquiry accept that airlines have a great deal of political muscle. Indeed, it seems an almost universal political ‘given’ that airports will have any monopoly profits from their market power regulated to a level at or below reasonable commercial levels given the risks undertaken regardless of the relative economic costs and benefits of doing so.

Accordingly, even if their huge size did not give them countervailing power of a purely economic kind, there is widespread acceptance of the proposition that airlines enjoy political countervailing power which operates as a major constraint on any purely economic market power that airports may enjoy. It is well to keep this in mind even where there is no formal airport price regulation, because whether or not such a threat is explicit, the politics of airports ensures that it is always implicit. Whatever scope airports might have to exercise their market power, only the foolhardy airport would engage in the degree of price ‘gouging’ implicit in some economic models.

The ‘thought experiment’ frequently proposed by Commissioners – what would be the economic effects of a doubling of airport prices? – helps us think through the economic issues. But those in the industry know that regulatory pressure would be brought to bear long before prices reached such a level.

Melbourne Airport and most other major airports accept that there are some aeronautical services in which they enjoy some market power. Nevertheless our own experience indicates that airlines exercise strong countervailing power. The following section outlines some powerful empirical evidence for this view and the subsequent section sets out an intuitive theoretical explanation as to how it might be possible for airlines to exert substantial countervailing power *at the margin*. This is possible even though traditional models would lead one to conclude, along with Professor Forsyth that the idea of airline countervailing power is a “mirage”¹; and an airline’s threat to completely withdraw from a major airport – “the biggest joke you can imagine”².

¹ Forsyth (2001, p4)

² PC (2001, p65)

Countervailing Market Power – Some Evidence

Throughout the hearings, the Commission sought evidence of airlines being able to exercise ‘economic’ countervailing power rather than through other means such as political or legal action. Indeed, the Presiding Commissioner noted examples of this have “not been so forthcoming”³. This section seeks to address this situation with both Australian and international examples.

Whilst we address the theoretical questions in the next section, it is important to briefly reflect on how economic countervailing power arises. It arises simply from a combination of the availability of substitutes and the fact that, at the margin, airlines can simply choose not to use a given airport. That this action occurs at the margin is a very important point as the exercise of countervailing power need not involve an airline abandoning the airport totally, a point recognised by Commissioner Byron⁴.

The exercise of countervailing power can take a range of forms and may extend to services other than aeronautical services. In other words, the provision of aeronautical services is only part of a wider commercial relationship between airports and airlines. As the scope of this relationship broadens so does the range of substitutes and with it, any market power of an airport diminishes. We will return to these issues in the next section.

Relocation of services

The most obvious way an airline can use its countervailing market power is to reduce services through an airport. This may involve attempts to have existing charges reduced or increases ameliorated. In extreme cases bypass may occur. In domestic markets this is unlikely for airports like Melbourne Airport although smaller international carriers could exercise such an option. The possibility of bypass by a major customer is less fanciful however in the case of Launceston, or even Coolangatta. Countervailing power in this sense is really nothing more than an airline indicating to an airport that, in the short to medium term it has other profitable uses for its aircraft other than operating through the airport concerned.

³ PC (2001, p287)

⁴ PC(2001, p65)

Going Dutch – the Case of Easyjet

Easyjet commenced low fare operations at Luton airport in the mid-1990s with very low airport charges. As the routes developed and ownership of the airport changed, Luton attempted to increase charges and incurred the public wrath of Easyjet who conducted a high profile newspaper and internet campaign to engage passengers about the increased level of airport charges, drawing attention to the increased charge on the ticket. Following an agreement between the airport and the airline in early 2001, charges have risen but Easyjet have continued their campaign. Luton did not feature in Easyjet's route expansion plans for Summer 2001, with new routes largely operating out of Amsterdam.

The Irish emigrate – the case of Ryanair

Following the reorganisation of Ryanair in the early 1990s, the carrier repeatedly tried to force Aer Rianta, the Irish Airport Authority, to reduce the airport charges at Dublin Airport. Although Dublin has not increased its airport charges since the late 1980s, Ryanair has failed to extract lower charges that it says it requires to further develop services from the airport and has subsequently developed a base at London Stansted and now Brussels Charleroi. At each seasonal announcement of new routes, the carrier has highlighted the charge levels at Dublin as a reason for not developing further services there. This has restricted further development of Ireland's share in the burgeoning low fare market. Ryanair has also used the same tactics at the 'spoke' airports of its network across Europe, extracting low charges in return for service to secondary airports at European cities.

In the United Kingdom, Manchester held out against Ryanair when it increased charges after the customary 'new route' period but after Ryanair removed Dublin service, Manchester Airport and Ryanair reached agreement that allowed the route to restart.

In June 2001, Ryanair announced it would scrap flights to Rimini because of a dispute about financial arrangements with the new management of the Italian airport. Ryanair had been flying to the east coast Italian town since 1998 and carried about 70,000 passengers in the year prior to withdrawal. The daily service from Stansted in Essex ceased on 25 June with the service relocated to Ancona, about an hour's drive away.

There is obviously a range of outcomes in these instances: airlines accept the prices offered, airlines substitute away, airports respond to airline demands or bluffs are called. This is normal commercial bargaining and presumably improves allocative, productive and dynamic efficiency. It is not clear why regulatory intervention is needed in what appear to be fairly normal bargaining situations.

Entrant Choice – the Melbourne Domestic Express Terminal

A representative of Virgin Blue told the Commission “we would have put more services into Melbourne far earlier if the price had been different”⁵. He went on “we will use our ability to negotiate and end up at airports sooner rather than later than others”⁶.

These quotes indicate that Virgin Blue is confident of its own ability to negotiate access to airports. It encountered a price for terminal services at Melbourne Airport - a price that was acceptable to its competitor. Nevertheless it did not like that price and in response chose to deploy its aircraft elsewhere in a way similar to Easyjet and Ryanair. Positive bargaining on price reduction in exchange for increased volume

The previous examples have been fairly negative ones. On a more positive note Melbourne Airport has a rebate program where it encourages international carriers to set up new routes or expand existing ones. This effectively reduces the overall cost of route development for airlines whilst at the same time encouraging increased utilisation of surplus capacity. Such behaviour is a simple response to the commercial realities of surplus capacity and at the same time encourages competition in downstream markets.

Siamese Twins – Double Daily Services

During 1994 and 1995 Thai Airways operated between 2 and 4 per week from Melbourne and advised it was considering withdrawing from Melbourne entirely. Its commitment to Melbourne was further threatened in 1996 by the Asian currency crisis which reduced demand for travel from effected Asian countries.

Melbourne Airport and Thai Airways negotiated a rebate model based on additional services to gradually increase services to Melbourne, capturing European inbound traffic to Australia. The rebated monies were tipped into a co-operative marketing fund with agreed broad targets, and then managed by Thai Airways.

Thai Airways was also able to capitalise on the international outbound market from Melbourne as popular leisure destinations such as Fiji, Malaysia, Indonesia and the Philippines experienced difficult domestic political situations in the late 1990s which made them less desirable destinations.

By October 2000 Thai had increased its Melbourne flights to 12 per week. The airline and the airport have a target of two flights per day by December 2001, with the majority of these services being direct Bangkok-Melbourne services.

Airports facing congestion may also adopt positive pricing approaches. These may include discounts for lower quality (such as bussing) or to encourage increased

⁵ PC (2001, p345)

⁶ PC (2001, p356)

utilisation of assets at times or places where there is relatively more capacity. The result of such action again may lead to a reduction in airline operating costs.

Commercial- in -confidence

The Commission has sought to explore the question of how an unregulated airport might charge. What these examples show is that within a regulated environment, airports will act in ways to effectively reduce costs for airlines. Whilst this doesn't demonstrate how an unregulated airport might act, it does show airports may pursue efficient pricing policies. Contrary to the views of the ACCC⁷ it shows not only an ability but also preparedness on the part of airports to price discriminate. This raises the question does the existence of price regulation limit the development of efficient pricing policies (either in terms of the incidence of charges or their level) by preventing efficient price discrimination? In other words, if there were no price regulation, would airports undertake more efficient pricing policies?

Use of leverage over non-aeronautical revenue to gain favourable aeronautical outcomes

During the hearings, the Commission sought examples of where airlines had been able to use their wider commercial relationship with an airport to influence aeronautical pricing outcomes. Obviously, airports are reluctant to make such information available publicly, especially if it were to involve existing major customers.

Commercial- in Confidence

⁷ ACCC (2001, p53-54)

Headquartering – Some speculation on the entry of Virgin Blue

During the early stages of Virgin Blue's entry into the Australian market, there was fierce competition for Virgin Blue's headquarters. Whilst this process was largely about regional economic development (particularly around the time of the Queensland election) the location of headquarters of airlines has the potential to provide significant long term property incomes for the airport concerned via offices, maintenance and other facilities.

These were issues that Virgin Blue introduced in discussions with Melbourne Airport about aeronautical pricing however Melbourne Airport did not find them commercially attractive. We can only speculate as to the value placed on these things by Brisbane Airport in the context of their overall agreement with Virgin Blue and the Government of Queensland.

The leverage over non-aeronautical activities held by airlines is not restricted to the non-aeronautical services that they consume directly.

Control of Passenger Volumes – Single Till Bargaining

Before the intra European Union duty and tax free concession ended in July 1999, the UK charter and short haul airlines used the promise of increased passenger volume and associated retail revenue to obtain lower introductory airport charges, particularly at UK regional airports.

Airports were eager to attract this business and agreed to aeronautical services prices which were below full cost. They did so to attract other non-aeronautical services such as retail and car parking. These airports were unregulated. This illustrates how vigorously they competed and also how, when it is economic to do so, unregulated airports will engage in 'single till' pricing.

Why run the risks associated with regulatory error by imposing single till regulation where the underlying economics of the situation do not warrant it?

Conclusion

In the majority of these cases, airlines have proved themselves powerful and streetwise negotiators. What they show is a complex bargaining dynamic that can be expected when agents of broadly similar bargaining power meet to establish the terms and conditions of supply. When Easyjet sought the designation of Luton for price control from the UK Government in 2000, the advice from the UK CAA highlighted the lack of airport market power in relation to airline route and resource decisions⁸. In other words, it appears that the CAA accepts that the outcomes at Luton are not the result of the use of market power but rather the result of a normal bargaining process.

⁸ CAA (2000)

These examples don't show airlines always get what they want. Nor do they show that airports are weak organisations exposed to exploitative customers. What they do show is that in a range of situations, free commercial negotiation between airlines and airports is not a one-sided affair and is capable of coming up with socially efficient outcomes.

The mutual dependency of airports and airlines establishes a region of bargaining outcomes, which shifts from time to time and from issue to issue. It gives weight to the valuations of both buyers and sellers, something that regulatory systems generally cannot do adequately. Accordingly, allowing such bargaining to freely occur is likely to lead to greater economic welfare in the long run than that to be found where regulators impose prices and other terms and conditions.

Countervailing Market Power – Some Theoretical Reflections

The examples set out in the previous section indicate that airlines do choose to use less services at one airport than another as a result of airport pricing decisions and that, when faced with traffic loss (or traffic gain) airports may adjust their pricing structures depending on their own commercial interests.

A further observation about the examples seems in order. It seems likely that in several of the cases explored in the previous section airlines substituting away from more expensive airports were not pursuing simple profit maximisation. With airport charges being around 4% of airline costs, a 25% difference in airport charges generates less than 1% cost change in total airline costs – which is unlikely to make up for a less propitious location from which the airline delivers its service to the public. It seems unlikely that the events cited in the previous section would have occurred if it were not for (legitimate) strategic commercial behaviour by airlines. In what follows we sketch a microeconomic model in which such behaviour becomes explicable.

If airlines must use a particular airport to service a market of importance to them, and if airlines are perfect competitors and markets are otherwise well informed and deep, then it follows that airlines can exercise no countervailing power against airports. As Professors Forsyth,⁹ King¹⁰ and the airlines have noted, the issue ultimately boils down to the availability of substitutes and much of the current market for passengers travelling to and from Melbourne must be abandoned without access to Melbourne Airport.

However Commissioners have sought to explore a rather different question in hearings – and this is the question we explore here. Do these principles hold when markets are imperfect in particular ways, and if they hold in the case of an all out war between airlines and airports, do they hold *at the margin* of commercial negotiation?

⁹ Forsyth (2001, pp5, 10-11).

¹⁰ Countervailing power will arise in an otherwise uncompetitive market where buyers have a credible option to cease buying or other ‘outside alternatives’ that are not captured by conventional market analysis. It is enhanced when sellers have little alternative other than to sell their product. In this sense, countervailing power involves considering factors that might be relevant to market place negotiations and that reflect the relative bargaining power of buyers and sellers (King 2001, p12).

We suggest the following model is a reasonable representation of the reality *at the margin*.

1. Airlines are imperfect competitors. At the margin and in the short to medium term it is possible for them to divert traffic from one destination to another. This means that, according to the classic analysis above, airports can be substituted for other airports – and some of them could even be in another part of the world! As the margin of diversion increases and as time passes, air-services withdrawn from a major airport will be replaced by competitor airlines. But, given their existing marketing networks, airlines can engineer some discretionary diversion with minimal loss to themselves and probably for a substantial period of time. For example international and domestic transfers, tourist promotions, frequent flier bonuses and ‘mystery flights’ can be focused on other destinations.
2. Capital markets are imperfect. While they have other ways of assessing managers, shareholders and their agents – fund managers – use the short and medium term profitability of operations as an important yardstick of the performance of managers.
3. These facts disclose a potentially powerful strategy for the managers of airlines to use in their negotiations with the managers of airports.
 - Airlines can shift some not insignificant demand from one route to others with relatively little effect on their own short to medium term profits. In the short to medium term, the financial impact on the airline of reducing services on a route is the difference between the net aircraft margin on the route in question and the route the aircraft is used on instead, not the total revenue from the service.¹¹ By contrast, an uncongested airport has no immediate source of demand to take up the slack generated by the airline’s reduction in service.¹²
 - Further, because airlines typically are larger than airports, this effect is magnified when it is seen in the context of one management seeking to impose pressure on another. Thus for instance under the plausible

¹¹ Indeed if it is reducing its services to an airport the airline can further mitigate its losses from so doing by increasing the prices of the remaining seats either explicitly or by restricting discounting.

¹² Clearly the further we move away from the margin, the less true this is and the closer we get to the ‘joke’ threats to which Professor Forsyth alluded in his testimony. If a large airline pulled out 50% of its services, a substantial proportion of this demand would be replaced by competitors. But even this may take some time. More importantly, it may be able to sustain a reduction in services to an airport of 5% or 10% of its normal demand with relatively little ‘leakage’ to competitors for a substantial period of time.

assumptions set out at the Appendix, a 10% reduction in Qantas' services into and out of Melbourne could be expected to reduce the profitability of Qantas Airways Ltd by less than .5%. By contrast it would reduce the profitability of Melbourne Airport by over twenty times this amount – indeed by over 10% in the short term (with some partial recovery of that demand over time to the extent that competitors moved into Qantas' market). Professor King also notes the relevance of this in the paper he prepared for the ACCC which was appended to its submission to this PC inquiry:

To determine if countervailing power is relevant, the analyst needs to consider the bargaining position of buyers and sellers. In particular, it is important to consider which parties will lose the most from any failure to reach an agreement to trade the relevant product [or to capture business between themselves at the margin]. For countervailing power to exist in a market that otherwise is deficient in competition, any losses from a breakdown in bargaining need to be borne predominantly by the seller.¹³

Accordingly in such circumstances, the management of a major airline is able to 'take on' airport management and deliberately depress the airport's profitability for a substantial period of time. Airport managers can explain the nature of the problem to shareholders or fund managers, and airport management may be able to put their side of the story to shareholders and their representatives. However even if shareholders and their representatives can make allowances for the financial fallout from the conflict they are unlikely to have good information about how avoidable such a conflict was.

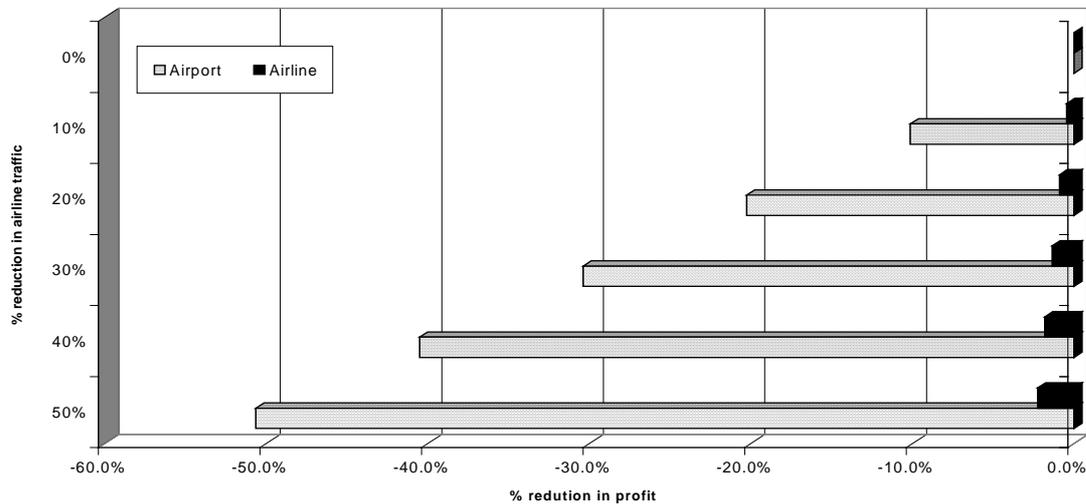
This is also a game in which there is significant information asymmetry. The airline will have a good idea about how much it contributes to the airport in terms of direct income and may even have some knowledge about the passenger based income derived from retailing, car parks and so on and can be confident that marginal airport costs are low. This information arises from a number of sources including published regulatory data, information revealed in airport-airline consultations and the simply fact that airlines know how much they pay airports. In Australia, the major domestic airlines have the additional advantage of running their own terminals which keeps them abreast of passenger retail spending patterns. On the other hand, airports have little information about the economics of individual airline routes. Indeed, it is unlikely that an airport would even know what the next most profitable route was, let alone its profitability.

¹³ King (2001, p13)

Asymmetry of Bargaining Breakdown

Taking Qantas and Melbourne Airport as stylised cases, we have examined the impact on profitability (measured by earnings before interest, tax, depreciation and amortisation) of a reduction in services resulting from a breakdown in bargaining. Full details of this analysis can be found in the Appendix.

We have assumed that as a result of the dispute, the airline substitutes away from the most profitable route with a load factor of 80% to one with a load factor of 70%. We have assumed that this is then applied progressively over the service base as the airline reduces services through the airport. The results are shown in the following chart.



If the airline reduces services by 10%, its profitability is reduced by less than 0.5%. On the other hand, the profitability of the uncongested airport is reduced by over 10%.

Choosing different airlines and different airports will yield different results. Qantas is a strong carrier but is by no means the largest airline operating services through Australian airports. Moreover, Melbourne Airport is financially the strongest uncongested airport in Australia. So this situation could be seen to reflect the situation in some mid-range bargaining situation.

The asymmetry of this outcome is generated by the following phenomena:

- airlines have alternative uses for their assets which uncongested airports do not have; and
- airlines are typically much larger institutions financially than airports.

Some more thoughts on Framework

In our initial submission to the Commission we made some brief comments about the current legislative framework and options for a future frameworks in the event that ongoing regulation were to be required. Since that time, we have had the opportunity to reflect further on these questions, especially in the light of the ideas provided by Sydney Airport and the ACCC, and the material arising from the Commission's inquiries into the National Access Regime and Prices Surveillance Act.

We believe that airports should be subject to the same set of arrangements as other infrastructure industries. In particular, we accept that airports have no special case for not being exposed to the rigours of the National Access Regime. By the same token, airports should not be singled for any special treatment, as is currently the case under Section 192 of the *Airports Act 1996*. It remains our view that despite Section 192 having effectively a limited life, that it should be repealed at the earliest opportunity. In addition, firm subject to the National Access Regime should not be subject to further price regulation such as the *Prices Surveillance Act 1983*.

There does seem to be some merit, however, in the development of an industry regime to cover airports. We support the view of the ACCC that where non-integrated businesses are concerned, the principle issue in any access dispute will be the price of access rather than the other terms and conditions of access¹⁴. Therefore it would only really be necessary for the regime to cover price and related issues. Given our experience in trying to implement an access undertaking, a more limited approach such as this would improve the likelihood of success.

At the hearings we indicated that whilst we aware of, and generally supported, the "Prices and Quality Undertaking" (PQU) approach suggested by Sydney Airport¹⁵, we had not had the opportunity to consider it in detail and when we had done so, we would provide some more comment. Having considered the proposal in detail, we are now able to support it without reservation. Indeed, Sydney Airport has described generically a framework for a document that we ourselves have been working towards for some time.

¹⁴ ACCC(2001, pp94,97)

¹⁵ SACL (2001, pp34-38)

We would see a PQU as an option, not an obligation for airports. Large airports, namely those likely to be declared under the National Access Regime, would clearly have incentive to put a PQU in place. Smaller airports, where the likelihood of declaration is not so likely, would not have such an incentive but then, their capacity to abuse market power is very much less.

We do have one major modification to suggest. The Commission will be aware of the concerns of many smaller airports regarding the ‘enforceability’ of charges. We would suggest that where charges are levied in accordance with a PQU that the Act should ensure that such charges were enforceable. This would not only protect small airports and ensure an appropriate balance between the obligation to provide services under the lease and an expectation of payment but would also encourage smaller airports to undertake consultation on charges periodically, thereby providing users with protection as well.

As far as the legislative form of PQU’s, the relevant section should contain

- Items that a PQU must contain (eg duration, definition of services etc) similar to Section 91 of the *Airports Act 1996* in relation to Major Development Plans.
- Requirement to consult and inform the Minister of the outcome similar to Sections 92 and 93.
- Matters the Minister must have regard to in approving a PQU similar to Section 94. These might include the impact on efficiency and investment, impact on competition on competition in other markets, the public interest (and in particular the interests of the travelling public) and ensuring that the PQU does not lead to any abuse of market power.
- Provisions for variations similar to Section 95.
- Relationship between the PQU and the National Access Regime more generally.
- Enforceability of charges levied under the PQU.

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Appendix

To calculate the percentage reduction in total EBITDA on Melbourne Airport and Qantas as a result of Qantas redeploying between 0% and 50% of their aircraft's from Melbourne Airport to the next best route the following process and calculations were employed. These calculations are indicative only and do not reflect any historical instances. All figures are from the year 2000 financial year.

1. Percentage of Melbourne Airports EBITDA reduction.

- The average EBITDA per passenger for the retail business for international and domestic passengers was calculated using data from Australian airport Annual Reports.
- The maximum number of passengers on two aircraft sizes (747-400=400 passengers and 737-400 =129 passengers) was determined and multiplied by average load factors.
- The average number of passengers for the two aircraft sizes was multiplied the average EBITDA per passenger.
- The aeronautical EBITDA per MTOW by multiplying EBITDA per MTOW by the MTOW of the two aircraft sizes was calculated.
- The retail and aeronautical EBITDA were added for the two aircraft sizes and averaged.

Melbourne Airport

A. Retail EBITDA (average across Australian Airports)

	Rev per pax	20% ave costs		Ave load factor	747-400*		737-400	
		\$	\$					
Domestic (Non terminal revenue)	\$ 2.15	\$ 1.72		0.80		400		129
International	\$ 11.15	\$ 8.92				320		103
Domestic retail EBITDA by plane type					\$	550	\$	178
International retail EBITDA by plane type					\$	2,854	\$	921
Average retail EBITDA by plane type					\$	1,702	\$	549

B. Aeronautical EBITDA

MTOW	Total Aero Revenue	Total MTOW	\$ per MTOW	Ave \$ cost per MTOW	Ave EBITDA per MTOW	747-400		737-400	
						MTOW	MTOW	MTOW	MTOW
Domestic	26601000	4960729	5.36	3.19	2.17	\$ 861	\$	148	68
International	24529000	2807006	8.738	3.19	5.548	\$ 2,202	\$	377	
Average aero charges						\$ 1,532	\$	263	

C. Total EBITDA loss

	747-400	737-400
Average Retail EBITDA	\$ 1,702	\$ 549
Average Aeronautical EBITDA	\$ 1,532	\$ 263
Total	\$ 3,234	\$ 812
Average EBITDA per flight	\$ 2,023	

2. Percentage of Qantas EBITDA reduction

- The average EBITDA per passenger for international and domestic business divisions was calculated using data published by Credit Suisse First Boston research in February 2001
- The maximum number of passengers on two aircraft sizes (747-400= 400 passengers and 737-400 = 129 passengers) was determined and multiplied by average load factors.
- The average number of passengers for the two aircraft sizes was multiplied the average EBITDA per passenger.
- Steps 7-9 were repeated for next best route assuming a 10% reduction in load factors.
- The difference in EBITDA between the original route and the next best route for the two aircraft sizes was calculated.
- The average reduction in EBITDA between two aircraft sizes was calculated.

Qantas

A. Premium route EBITDA

	EBITDA	Pax	EBITDA per pax	Ave load factor	747-400*	737-400
Domestic	408,000,000	10,646,000	38.32	0.80	400	129
International	709,600,000	6,953,000	102.06	0.70	320	103
EBITDA per pax by plane type						
Domestic					\$ 12,264	\$ 3,955
International					\$ 28,576	\$ 9,216
Average					\$ 20,420	\$ 6,585

B. Next best route EBITDA

	EBITDA	Pax	EBITDA per pax	Ave load factor	747-400	737-400
Domestic	408,000,000	10,646,000	38.32	0.70	400	129
International	709,600,000	6,953,000	102.06	0.60	280	90
EBITDA per pax by plane type						
Domestic					\$ 10,731	\$ 3,461
International					\$ 24,494	\$ 7,899
Average					\$ 17,612	\$ 5,680

C. Total reduction of EBITDA on route (A-B)

	747-400	737-400
Premium route	\$ 20,420	\$ 6,585
Next best route	\$ 17,612	\$ 5,680
EBITDA reduction per flight	\$ 2,808	\$ 905
Average EBITDA reduction per flight	\$ 1,857	

3. Relative Impact

Qantas lands approximately 27,000 aircraft per annum at Melbourne Airport. The reduction in total EBITDA with various reductions in landings of Qantas aircraft's at Melbourne Airport for Qantas and Melbourne Airport was calculated and divided by the total EBITDA of the two organisations. Refer to Table 3.

Melbourne Airport Totals

Qantas Totals

Reduction in landings	Reduction in EBITA	Variance	% reduction in EBITDA	Reduction in landings from total	Variance in landings	Ave EBITDA per flight	Ave \$ EBITDA reduction	% of total EBITDA
0%	54,706,580	-	0.0%	-	-	1,857	-	0.0%
10%	49,234,910	5,471,669	10.1%	24,341	2,705	1,857	5,021,006	0.4%
20%	43,765,264	10,941,316	20.3%	21,636	5,409	1,857	10,042,012	0.9%
30%	38,294,606	16,411,974	30.4%	18,932	8,114	1,857	15,063,018	1.3%
40%	32,823,948	21,882,632	40.5%	16,227	10,818	1,857	20,084,024	1.8%
50%	27,353,290	27,353,290	50.6%	13,523	13,523	1,857	25,105,030	2.2%

	Melbourne Airport	Qantas
0%	0.0%	0.0%
10%	-10.1%	-0.4%
20%	-20.3%	-0.9%
30%	-30.4%	-1.3%
40%	-40.5%	-1.8%
50%	-50.6%	-2.2%

Company	Total EBITDA
Melbourne Airport	54,031,000
Qantas	1,117,600,000