

Productivity Commission, Economic Regulation of Airports

Queensland Airports Limited submission,
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1.0 Executive Summary

A number of factors need to be taken into account when considering the market and influence of airports, including:

- the **competitive nature of the south east Queensland and northern NSW market**, which has the Gold Coast, Brisbane, the Sunshine Coast, Toowoomba and Ballina Byron Gateway airports all operating within a less than 300km radius
- the **heavy reliance of many airports** but particularly medium sized and smaller regional airports, like Townsville, Mount Isa and Longreach, **on one airline company**
- the strong and necessary focus by airports in delivering **efficient and effective infrastructure use**
- the delays that can be experienced in negotiations between airports and airlines relating to the redevelopment of airport facilities needed to accommodate growth, indicating **the balance of power is not weighted towards airports**

Despite the often robust and sometimes drawn-out nature of negotiations, **no changes are being sought to the current regulatory regime** because negotiations with airlines are able to be concluded in most instances and because it is **difficult to see any regulatory change occurring that would be relevant and appropriate for all airports** around Australia.

Given the **level of investment delivered** by airport owner-operators and **the efficient operation** of Australian airports, it appears **the current monitoring system is sufficient**.

It is this current regime that has seen **airports deliver targeted, demand-led investment** to meet the needs of growing passenger numbers, changing technology and evolving customer expectations since privatisation. On the Gold Coast, about \$300 million has been invested since privatisation, and in Townsville about \$100 million has been invested in the past 20 years. There are **plans to invest significantly more funds** into these airports in the next few years, subject to reaching agreement with airlines.

2.0 Introduction

This submission is Queensland Airports Limited's (QAL) formal response to the Productivity Commission's request for submissions to its inquiry into the economic regulation of airports (2018).

In its submission, QAL has considered the Federal Government's objectives, as set out in the Terms of Reference for the 2018 Review.

It is worthwhile stating at the outset that QAL's four ports are not regulated. Gold Coast Airport is a 'second tier' airport and is therefore required to self-report certain areas including aeronautical services charges, carparking service prices and service quality outcomes. With this in mind, QAL has addressed the relevant information requests (detailed in the Commission's Issues Paper), focusing on the particular areas that relate to its operations on the Gold Coast, in Townsville, Mount Isa and Longreach.

3.0 Background

QAL is an Australian-owned, Queensland-based company that owns and operates Gold Coast, Townsville, Mount Isa and Longreach airports. QAL is the largest regional airport operator in Australia.

QAL is a privately-owned company and its shareholders include superannuation and investment funds.

QAL employs about 200 people directly, and its airport activities facilitate thousands more jobs across Queensland and in Northern NSW.

Expanding existing and new air markets is a key priority for QAL, and the company continually liaises with airlines regarding potential new routes and capacity in and out of its four airports. Last financial year more than 8.5 million passengers were welcomed by QAL's four airports, which was an increase of 2.7 per cent on the year before and a record result.

Gold Coast

Gold Coast Airport, the company's largest port, is the sixth busiest airport in Australia, and the fifth busiest international airport – servicing the popular Gold Coast and northern NSW tourism regions. Last year, a record 6.6 million passengers travelled through Gold Coast Airport, which was an increase of 1.7 per cent on the year before. The airport facilitates more than 420 flights per week, including direct links to Malaysia, Singapore, Japan and New Zealand. The estimated economic impact of Gold Coast Airport is \$1.8 billion, with tourism facilitated by the airport contributing about \$1.25 billion to the region. The airport acts as the key gateway for approximately one million residents in the fast-growing Gold Coast region.

In order to address current infrastructure constraints and provide for the continued economic growth of the region, the Gold Coast Airport redevelopment 'Project LIFT' (Let's Invest for Tomorrow), Major Development Plan was approved in 2016 by the Minister for Infrastructure and Regional Development. The total investment for the airfield, terminal expansion and refurbishment is about \$370 million, with related airfield investment taking the figure to about \$440 million by 2022. The terminal redevelopment includes a 30,000 sq m expansion of floor space.

Development plans for Gold Coast Airport also include a \$50 million hotel that will be complete by early 2020. Gold Coast Airport is the only airport in Australia with a university, Southern Cross University, included in the precinct. QAL also has acquired freehold land on the Queensland and New South Wales sides of the border, which it intends to develop in the next five to 10 years.

Townsville

Townsville Airport, the 11th busiest airport in Australia, is the gateway to North Queensland, with more than 180 direct flights per week and 1.67 million passengers. Townsville is a regional hub of North Queensland, with direct air services to Brisbane, Melbourne, Sydney, Cairns, Darwin and other regional centres around Queensland. Townsville Airport is a major economic enabler for the area, supporting more than 3,000 jobs and contributing \$420 million annually to the regional economy.

Mount Isa and Longreach

Mount Isa and Longreach airports play a critical role in the north western and central west Queensland communities where they are located. Last year passenger numbers to Mount Isa increased by 7.5 per cent to almost 196,000, while Longreach recorded 4.7 per cent growth to about 33,000 passengers. There are more than 45 flights per week from Mount Isa, to seven destinations. The airport's passenger mix is predominantly business based, with this group accounting for more than 80 per cent of all travel. There is also a high frequency of travel in Mount Isa due to the nature of the fly-in, fly-out market, as well as the region's remoteness. Longreach Airport has 18 flights weekly servicing four destinations. The airport was acquired from Longreach Regional Council as part of a 99-year-lease arrangement. The airport services the central west region, which includes Longreach, Winton and Barcaldine.

4.0 The current system

4.1 The Queensland market and influence

South east Queensland and Northern NSW market and Gold Coast Airport

Gold Coast Airport operates in a uniquely competitive environment, due to the close proximity of Brisbane Airport, and to a lesser extent, Ballina Byron Gateway Airport. The south east Queensland and northern NSW market, which also includes the Sunshine Coast Airport, Toowoomba Wellcamp Airport and Ballina Byron Gateway Airport, is undoubtedly the most competitive area in the country when it comes to aviation – with four significant airports within a less than 300km radius.

Approximately 80% of passenger traffic at Gold Coast Airport is domestic. The airport services the key inbound tourist markets, as well as the outbound business and leisure travel of the growing Gold Coast catchment – the population of which is currently growing at 2.5% p.a. (well ahead of the national growth of 1.6% p.a). Gold Coast-Sydney is currently the fourth busiest air route in the country and Gold Coast-Melbourne ranks seventh.

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. This is an area of concern for QAL, particularly with the Gold Coast economy so dependent on tourism and current airline supply behaviour potentially not meeting the market demand.

Gold Coast Airport competes heavily with Brisbane Airport for airline capacity, particularly for international services. Despite consistently more inbound international visitation to the Gold Coast and Northern NSW regions, compared to Brisbane, Gold Coast Airport is required to compete heavily on price to attract international capacity. Ultimately this delivers a benefit both to passengers in the form of lower ticket costs and to tourism operators (and other local businesses) in the form of increased international visitation.

The last expansion of Gold Coast Airport was completed in 2010 and provisions are now being made to move ahead with a \$370 million redevelopment, which will see the airport able to accommodate significantly more capacity. With Brisbane Airport also adding infrastructure capacity, competition is expected to heighten further in coming years.

Townsville, Mount Isa and Longreach airports

Medium sized and smaller regional airports tend to rely heavily on one airline company, which is the case with Townsville, Mount Isa and Longreach airports. The Qantas Group accounts for 61 per cent of the regular public transport (RPT) traffic at Townsville Airport, 72 per cent of the traffic at Mount Isa Airport and 96 per cent of the traffic at Longreach Airport.

4.2 General factors

Airport charges

Airport charges are generally decided by the market, in a system that aligns with international best practice and ICAO guidelines. Airport charges are derived from the capital cost of delivering and updating airport infrastructure that is both necessary for service delivery and legally required. Specifically, airport charges are calculated based on these capital and operating costs, divided by forecast passenger numbers. QAL is a privately financed business, required to generate fair returns for investors, and airport charges have a role to play in delivering these returns.

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. QAL is planning major redevelopments of Townsville and Gold Coast airports, which will require capital investment by QAL. QAL has therefore been liaising with airlines about an adjustment to airport charges for these two airports (which is further discussed later in the submission).

It is important to note that for the larger airlines, separate commercial-in-confidence negotiations about airport charges are typically undertaken and charges are generally lower than published rates as a result of these discussions. In addition, airport charges are often 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'. QAL has historically focused on keeping costs low to attract carriers and the low airport charges at its two largest airports, the Gold Coast and Townsville, are evidence of this. For new markets, QAL has and will continue to discount airport charges by up to 100 per cent to allow new capacity to build to sustainable levels.

It is worthwhile highlighting that 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. If a ticket is not used, the airline retains all revenue despite collecting airport charges which it would not otherwise be entitled to retain.

Other key facts about airport charges include:

- Airport charges are typically up to 10 per cent of the average airfare
- Charges do not increase or decrease with demand, as airfares do and, in some cases, remain unchanged for years at a time

Charges are typically broken down into three main categories:

- Terminal charges for the provision of passenger terminal facilities and services
- Aeronautical charges for the provision of runway, taxiway and apron facilities
- Security and screening charges as required by law

Airport leasing conditions

When considering market influence in the aviation and airports area, it is worthwhile highlighting that 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.

4.3 Airport and airline negotiations

Airport infrastructure

It is important to note that airports strive for the most efficient and effective use of airport infrastructure.

Besides the obvious need for 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.

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 operation.

Townsville Airport redevelopment

The Townsville Airport redevelopment, Project Alive, Major Development Plan received approval from the Minister for Infrastructure and Regional Development in January 2016. The scope of the works has been verified by international airport planning experts on more than one occasion.

However, the important project has been unable to move ahead because the Qantas Group has been unwilling to sign up to the \$3 per passenger, per trip, increase in airport charges that is required to partly fund the redevelopment. The other major airline partner, Virgin Australia, agreed to the deal more than two years ago and remains committed to the project.

The last significant terminal upgrade in Townsville occurred in 2003. The planned upgrade now will require a modest increase in airport charges. This adjustment in charges will bring Townsville Airport total charges in line with other regional airports like Cairns, Rockhampton and Darwin. In the 15 years from the last redevelopment, Townsville Airport charges, relative to inflation (Brisbane CPI), have fallen – while labour, service and material costs have steadily risen.

The Townsville Airport project will see the capacity of the departure lounge area doubled and innovative check-in and automatic bag-drop facilities installed, ensuring the airport has the capacity to accommodate passengers in peak times and grow passenger numbers into the future.

The need for this Townsville Airport project has only intensified recently, with passenger numbers increasing 5.9 per cent to 1.7 million in the past financial year.

The project is a high priority for the North Queensland community, with strong support from local, state and Federal MPs, and local business leaders. There has been extensive coverage in the media about this issue in the past few years and in just the past 12 months, the matter has been mentioned in the media more than 50 times. The level of frustration in Townsville has escalated at certain times, including the point Townsville Mayor Jenny Hill “urged Townsville residents to vote with their feet” and fly with another airline (*Townsville Bulletin*, 29 August 2017), focusing on Qantas’ lack of support for the redevelopment.

Gold Coast Airport redevelopment

Air traffic into Gold Coast Airport continues to grow at a rapid pace. Gold Coast Airport is the 5th and 6th largest airport in Australia for international and domestic visitors respectively. Gold Coast Airport is currently at or above capacity during peak periods and the Gold Coast Airport Master Plan anticipates a jump in passengers from 6.6 million passengers per annum now, to 16 million passengers in 2037.

There is therefore an urgent need for Project LIFT, which will see a significant expansion in the size of the passenger terminal. The amenity of the terminal will also be refreshed to current standards, assisting the airport to reach its potential as the gateway to Australia's premier tourist destination, the Gold Coast, and the popular northern NSW region.

About \$90 million has already been invested into preliminary works (including an apron expansion and new taxiway), which are a necessary pre-condition to the successful expansion of the facility.

The airport group has been negotiating with its airline partners to secure an increase in airport charges to help provide necessary funding. The Qantas Group is the only major airline not currently in agreement with the redevelopment plan.

It is worthwhile highlighting that airports are focused on increasing domestic and international capacity, and its volume of passengers that delivers greater benefits to the communities where airports operate.

4.4 'Pre-funding' airport infrastructure investments

It is important to state that no pre-commitment to future funding is contemplated by QAL.

The airport group intends to pay for the Gold Coast and Townsville redevelopments up front and is looking for its airlines partners to pay their fair share, over an extended period, for the infrastructure they will use and after the costs have been incurred. Also, airport charges only go towards aeronautical infrastructure, they do not fund areas like retail and carparks.

4.5 Regulatory regime

No changes to the current regulatory regime are sought for two key reasons:

- agreements are being reached between most airlines and airports – in most instances, negotiations with our airline partners are productive.
- it is difficult to see any regulatory change occurring that would be relevant and appropriate for all airports in Australia – airports vary significantly in size and structure across the sector.

Based on this, QAL would argue for a continuation of the current regulatory system.

Airport investment

It is this current regime that has seen airports deliver targeted, demand-led investment to meet the needs of growing passenger numbers, changing technology and evolving customer expectations since privatisation.

On the Gold Coast, almost \$300 million has been invested since the airport was privatised 20 years ago and the list of major projects include:

- runway overlay, 1999
- runway extension, 2007
- redeveloped passenger terminal, 2010
- runway overlay, 2017
- the expansion of the apron and construction of an additional taxiway, 2018

More than 500,000 aircraft and 80 million passengers have taken off from and landed at Gold Coast Airport since it was privatised. Servicing only three destinations in 1998, the airport now facilitates more than 420 flights per week to 21 destinations across Australia, New Zealand and Asia.

Up to \$100 million has been invested in Townsville Airport since it was privatised twenty years ago. At that time just two airlines operated from Townsville Airport and the airport welcomed 630,000 passengers per year, or less than 40 per cent of today's number. The list of projects completed in the past two decades include:

- terminal upgrade, 2003
- runway overlay, 2006
- construction of the North Australian Aerospace Centre of Excellence, 2009
- apron overlay and expansion to facilitate two additional aircraft, 2018

5.0 Monitoring environment

5.1 Airport monitoring

Given the efficient operation of Australian airports and the level of investment delivered by their owners-operators, it appears the current monitoring system is sufficient.

Gold Coast Airport

Gold Coast Airport is a 'second tier' airport, like Hobart, Darwin and Canberra, and is therefore required to self-report aeronautical services charges, carparking service prices, service quality outcomes, and complaint handling processes and outcomes.

Therefore, the airport charge starting 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 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, Mount Isa and Longreach

Townsville Airport also lists a range of information on its 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 website as well. Customers complaints can be submitted via the Townsville Airport website.

Airport charge starting rates and parking charges are also published on the Mount Isa Airport website, while airport charge starting rates and parking details are published on the Longreach Airport website.

Queensland Airports Limited

It is also worth highlighting the fact that, 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 2016-2017 Annual Report can be found here:

<http://qldairports.com.au/publications/annual-reports/>

6.0 Other matters

6.1 Domestic terminal leases

Gold Coast Airport

Gold Coast Airport is a common use facility. This was achieved in 2010 with a buy out of the Qantas domestic terminal lease, which was paid for via a per passenger discount over an extended period of time.

Townsville, Mount Isa and Longreach

In Townsville, the terminal is still subject to a domestic terminal lease with the Qantas Group. However, Townsville Airport manages most of the functions on behalf of the Qantas Group, in exchange for a per passenger charge. The domestic terminal lease in Townsville is due to expire in August next year. At this time, Townsville Airport terminal will also become a genuine common use facility.

The Mount Isa and Longreach terminals are common use facilities.

6.2 Carparking and landside access

QAL, along with other airport groups, fully understands and appreciates the need for connectivity and accessibility of airports.

Gold Coast

There are several ways of accessing Gold Coast Airport, including:

- public buses
- private buses (including Skybus, which delivers a convenient and reliable bus service between the terminal and the Gold Coast and Byron Bay's key tourism areas)
- taxis (both from Queensland and NSW)
- ride share operators (Uber and Ola)
- hire cars
- private vehicles

In terms of parking, five different carparking products are offered to customers onsite. The prices of these carpark options compare well with other Australian airports, with hourly parking charges starting at \$5 for 30 minutes at Gold Coast Airport and customers who book their parking online can pay as little as \$15 per day. Online sales now represent about 20 per cent of our parking revenue and that is expected to grow further. Outside of Gold Coast Airport, there are at least four privately run offsite parking operators in close proximity – offering more choice for our customers.

For those who choose to use a private vehicle to access Gold Coast Airport, adequate public pick-up and drop-off space for visitors right in front of the terminal is provided.

There are a minimum of two operators for all modes of ground transport at Gold Coast Airport, ensuring competitive pricing.

Gold Coast Airport management and staff work closely with all operators to ensure a high standard of customer service is maintained.

Townsville

There is ample access to the terminal for Townsville Airport passengers, with options including:

- taxis
- a rideshare operator (Uber)
- shuttle buses (going to major city sites, including the ferry terminal)
- charter vehicles
- private vehicles (drop-off zones in front of the terminal)
- hire cars

Six hire car companies operate out of Townsville Airport, offering business and leisure travellers the opportunity to easily hire a vehicle before picking it up a short distance from the terminal.

The drive-up rates for parking start at \$5 per hour and there are daily rates from \$17. Those customers who book online, pay about \$2 less per hour than drive up customers.

Mount Isa

In terms of ground transport at Mount Isa Airport, taxis are available from the terminal, along with rental cars (three major rental car companies operate from the terminal) and charter coaches.

Paid parking rates start at \$12 per day.

Longreach

In terms of ground transport, there are two major rental car operators onsite, and charter coaches and taxis have access to the airport as well.

Parking at Longreach Airport is free for passengers.

6.3 Land transport linkages

Proposed light and heavy rail access to the precinct have been factored into the Gold Coast Airport Master Plan. Light rail offers bigger benefits for visitors, who stay on the coastal (eastern) strip that will be serviced by future stages of the tram network. While a significant percentage of Gold Coast residents live in the western part of the city and would be likely to catch trains to the airport if they were available now and in the future. It is worth stating that the airport advocates for these projects in spite of the fact that parking is an important revenue stream for our business. The need for future airport efficiency is well understood.

Gold Coast Airport management continues to work with all levels of government on light rail and heavy rail connections, liaising with members of the government and council about these important projects. The airport is also on the public record about its strong support for these projects. And a member of the QAL executive is on the Light Rail Business Advisory Group because of the importance placed on these infrastructure plans.

Discussions are ongoing with the Queensland and NSW governments about improving road linkages to the Gold Coast Airport precinct. Future projects include a southern entry to the airport from NSW and an improvement to the existing airport entryway, addressing safety issues.

6.4 Jet fuel

QAL ensures our airline partners have appropriate access to fuel at our four airports.

Gold Coast

Work is currently underway to relocate the Joint User Hydrant facility (JUHI) at Gold Coast Airport and extend the fuel lines. This \$10 million project, which is scheduled for completion at the end of the calendar year, will allow larger, typically international planes, to refuel at the airport more efficiently. Caltex and BP are joint users of this facility.

Townsville

A new expanded fuel farm facility was recently completed at Townsville Airport and it is operated by Viva Energy (formerly Shell). AirBP also recently expanded their facility.

Mount Isa

At Mount Isa, AirBP and Viva Energy operate independent fuel farms, storing Avgas and JetA1 fuel types.

Longreach

At Longreach Airport, there is a single fuel farm operated by AirBP, supplying both Avgas and JetA1.