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18 July 2006

Price Regulation of Airport Services Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616
C/- email: airportpricing@pc.gov.au

Dear Sir / Madam,

**RE: Submission to the Productivity Commission Review
– Price Regulation of Airport services.**

Thank you for the opportunity afforded to our industry to provide you with detailed submissions as part of your review into the effectiveness of the current regulatory regime for the pricing of airport services.

I wish to register Alliance's concern with the current approach of major airports to which Alliance operates. Clearly there is a need for a review of the operational and pricing practices of such monopolistic entities in the aviation industry and, in particular, the need for additional independent controls.

Unfortunately, pressures of everyday business in the form of time restraints have meant that it is not possible to make a full submission to your Enquiry. However Alliance seeks to place on record complete support for the Submission made on behalf of the company by The Regional Aviation Association of Australia (RAAA).

To that extent, your attention is drawn to the Executive Summary in the RAAA's submission which is attached to this correspondence

Thank you once again for the opportunity to register concern in regards to this important issue.

Yours sincerely,



Craig Duncan
GM Network and Operations



EXECUTIVE SUMMARY

The RAAA speaks on behalf of its members, who have collectively provided a broad range of aviation services to regional Australia both before and after privatisation of airports. This experience has involved operations to and from most if not all major airports including the price monitored airports, the other major city airports, the major regional airports and regional community airports. It has also included tenancies at most of the price monitored and other major city (including regional) airports.

Major Airports

Our members' experience of the major airports since privatisation has not been a happy one, and has been characterised by massive price increases, lack of adequate consideration of operational needs, and the loss of security of tenure, amenity and the ability to negotiate. From this it is clear that the major airports, with the possible exception of Melbourne, have market power well beyond what has previously been considered by the Commission. The major airports are all monopoly businesses with the power to impose "take it or leave it" conditions in the certain knowledge that operators must either "take it" or shut down their businesses. With the exception of Melbourne, there is no alternative airport for most operators. This overwhelming market power and the associated fear of retribution has in some cases been responsible for operators feeling unable to pursue complaints or to provide evidence to this enquiry. In addition, this lack of competition appears to have generated a "cost plus" attitude within some airport operating companies. Bearing in mind the essential nature of air services, it seems appropriate that the Commission should give this issue significant consideration. In particular, the Commission might consider whether the reintroduction of price regulation is justified, and whether it would be appropriate for government to participate in negotiations to ensure that the monopoly power of the major airports is not abused.

It is increasingly clear that the motivation behind some of the purchase bids for the major airports was the promise of access to artificially cheap real estate for development, which has subsequently been pursued at times to the detriment of the aeronautical use of the airport. It seems appropriate for the Commission to consider to what extent non-aviation development is reasonable, and whether government intervention might be justified in order to ensure the primacy of aeronautical usage at airports.

Regional Community Airports

Our members' experience of community owned regional airports has been different. Some of these airports are increasingly needing expensive maintenance which the communities appear unable to afford. Since the provision of air services to many regional communities is essential to their social and economic well-being, and most routes to the more remote areas are marginally profitable at best under existing conditions, and unable to sustain high passenger levies, it seems appropriate for the Commission to consider whether it might be appropriate for maintenance of such airports to be publicly funded.

Recommendations

It is recommended that the Commission:

- (1) review and report on the extent of market power actually enjoyed by the operators of the major city airports, and:
 - (a) whether there is a justification to reintroduce price regulation and
 - (b) whether it would be appropriate for government to participate in negotiations between airport operators and aircraft operatorsto ensure that the monopoly power of the major airports is not abused;
- (2) consider to what extent non-aviation development is reasonable, and whether government intervention is justified in order to ensure the primacy of aeronautical usage at airports; and

to consider whether there is justification for maintenance of regional community airports to be publicly funded