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1. Introduction

1.1. Previous Submissions

Queensland Airport Limited (QAL) leases and operates three regional airports in Queensland. These include Gold Coast Airport (GCA), Townsville Airport (TA) and Mount Isa Airport (MIA). QAL acquired TA and MIA in March 2005.

Both GCA and TA were core-regulated airports prior to the Government's introduction in 2002 of a light-handed approach to price regulation. As a result of accepting the recommendation in 2002, neither airport is currently price regulated or price monitored.

In its two submissions to the Productivity Commission review in 2001 GCA suggested the following benefits would result from a move toward lighter regulation of airport services and pricing:

- GCA's pricing would remain competitive as the airport has no degree of market power, and because of the real threat of substitution;
- Air travelers using the airport would not be disadvantaged;
- There would be greater incentive to enter into normal commercial arrangements with the airlines;
- Time and money saved on compliance would be better applied to the efficient operation of the airport;
- The greater certainty of commercial agreements would encourage investment and development of the airport.

Without exception, the above benefits have been enjoyed by the traveling public and airlines alike, and to a greater extent than the authors of the original submissions could have envisaged.

The benefits of the adopted light regulation are very valuable in terms of creating an efficient investment environment and the results of this (as forecast) have been documented in this submission.

Some key facts to support the above are as follows:

- GCA's average aeronautical charge per passenger to all airlines is **approximately 8% lower now than in 2002**;
- Despite the above reduction in real aeronautical charges per passenger, GC has made two investments in airport terminal infrastructure for Terminal 2 in FY2002 and FY2004. In both cases **no new or increased charge was introduced** in respect of these investments. The total capital expenditure for these two developments was in the order of \$16 million. These projects were funded via the growth in passenger movements.
- TA's airfield charges have not increased since 2002 and the infrastructure charge which was introduced for the terminal redevelopment was established

with the full support of the local community following lengthy consultation and commercial agreement with the airlines;

- It is assumed the cost reduction in real terms over a number of years has been passed onto the airline passenger;
- The quality of service experienced by our passengers is significantly improved in terms of flights available, building facilities (for example, aero bridges at TA), retail options, and travel options to and from the airports.
- QAL airports support volume-price incentive agreements with airline partners. A number of these have been offered and agreed with the airlines after significant consultation. The very nature of these agreements means an airport shares the risk of passenger numbers with the airlines, and offers incentives to the airlines to grow services and passenger numbers.
- As GC and TA are not subject to price monitoring, compliance requirements have been reduced and compliance costs have fallen also. GC and TA have however continued to monitor its charges compared with the benchmarks of the previous regulatory regimes. This is not only an appropriate governance control but in some respects is a result of the uncertainty of the 'probationary' nature of the light handed regulation which was adopted in 2002. To a degree, this has undermined the full impact and benefits of the current light regulatory regime; and
- The volume-price incentive agreements mentioned above (and discussed in more detail below) epitomize free market, commercial arrangements. The very significant capital investment made in the airports has been possible only because of the certainty achieved with the commercial agreements.

1.2. Intention of Government Response to previous review in May 2002

Per the Treasurer's Terms of Reference (6 April 2006), the Productivity Commission is to examine whether the following have been achieved through light regulation:

- Airports are being operated in an economically efficient manner;
- Compliance for airport operators has been minimized; and
- Commercially negotiated outcomes have been facilitated.

With airport costs steady and/or falling since 2002, the number of flights increasing, the quality of service improving and significant investment, it would appear obvious that GCA and TA are being operated efficiently under the current regime.

2. Conclusions

The removal of price regulation and price monitoring for GCA and TA has been very successful based on the intentions included within the original recommendations.

Both GCA and TA have been able to implement commercial agreements, invest significantly in terminal assets, maintain and reduce real aeronautical costs and

are proposing significant capital investment in the next 3 years which would not be possible without the removal of the price regulation.

Competition within the sector is stronger than even and more so than compared with that competition which existed in 2002. Competition includes and exists in the form of airport competition, destination competition and modal competition.

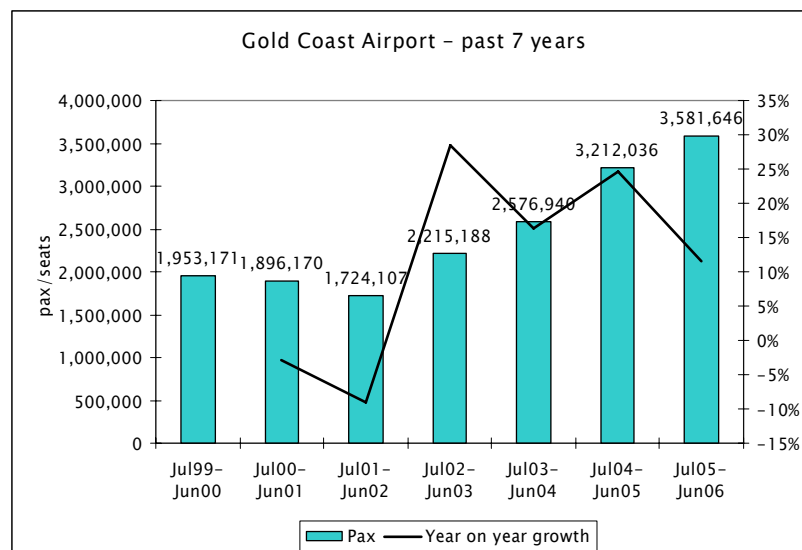
Commercial agreements have been agreed with more than 90% of passenger volumes including both Virgin Blue and Jetstar Airways.

3. Gold Coast Airport

3.1. Airport Traffic

GCA is the 7th busiest airport in Australia for passenger movements.

GCA has experienced significant growth in passenger numbers in the past 5 years. This growth has recently begun to slow and the next few years are expected to be characterised by moderate growth as aircraft fleets and the 'low cost carrier' matures in Australia.



The primary reason for the growth to date is the development of low cost carriers (LCC) such as Jetstar and Virgin. GCA made a strategic decision a number of years ago to focus on the development of the LCC on the Gold Coast.

The Gold Coast Airport is an ideal partner for the LCC services as passengers for the destination are predominantly leisure focused and cost-sensitive. GCA has been proactive in maximizing growth through attracting and forming mutually beneficial partnerships with the LCC's. This has included approaches from GCA to Offer / agree volume incentives to grow passenger volumes and lower average costs.

GCA is currently considering the first purpose built LCC terminal development in Australia. The proposed development requires an investment in the order of \$100 million.

The passenger mix of GCA is: (Source: Gold Coast Airport Passenger Survey Oct 05)

- 9% of passengers at Gold Coast Airport are international and 91% are domestic;
- Given the strong tourism profile of the Gold Coast & Northern New South Wales, our passenger mix is made up of a typical ratio of 4 visitors to the region to 1 local person traveling outbound; and
- GCA's passenger's report they are primarily traveling for leisure purposes (79%).

GCA has also experienced strong growth in international passengers in recent years. GCA has again been proactive in attracting Australasian based carriers and sharing risks. The international section of the terminal required a significant investment which was taken 'at risk' by GCA. This 'at risk' component was factored into the calculation of charges which would not have been possible in a regulated regime.

Passengers for 2006/07 will be down as Australian Airlines ceased services from 1 July 2006. This loss represented approximately 30% of GCA's international traffic.



Increased marketing resources will be allocated to attracting Asian based carriers in the next 3 to 4 years. A further investment to facilitate a runway extension which is forecast to require an investment of between \$20 and \$25 million is expected to be completed by April 2007. This extension will allow for a greater payload which will facilitate direct flights to Asian destinations from the Gold Coast.

3.2. Competition & Market Power

GCA maintains that its operations are characterized by a high level of competition and risk of substitution, and that it is able to exercise minimal or nil market power.

Competition exists in a number of forms:

- A number of airports (a couple with lower costs) in close proximity;
- Alternate holiday / leisure destinations (declinational competition) now easily reachable due to the growth of LCC's and the increase in the number of city pairs and 'point to point' services; and
- Other modes of transport.

Competing Airports

There are a number of competing airports in close proximity which compete for inbound and outbound passenger movements.



Brisbane Airport is 70 minutes drive north of GCA. Given the bulk of the population in GCA's 1 hour drive catchment area lies to the north and west, Brisbane Airport represents direct competition.

This competition, while already significant, has grown in the past 5 years due to the upgrade of the highway between Brisbane and the Gold Coast to a six lane freeway, and the introduction of 'Airtrain' services (heavy rail services) from Gold Coast rail stations direct to Brisbane Airport.

Brisbane Airport markets its services aggressively on the Gold Coast and considers the Gold Coast part of its catchment area. The Brisbane Airport CEO has on a number of occasions in a public forum included all of the Gold Coast and South East Queensland in Brisbane Airport's catchment area.

Brisbane Airport also submitted to the Department of Transport and Regional Services in 2004 an objection to the GCA proposed runway extension, citing that it was inefficient for airlines to introduce an alternate South East Queensland international airport, "competition!!."

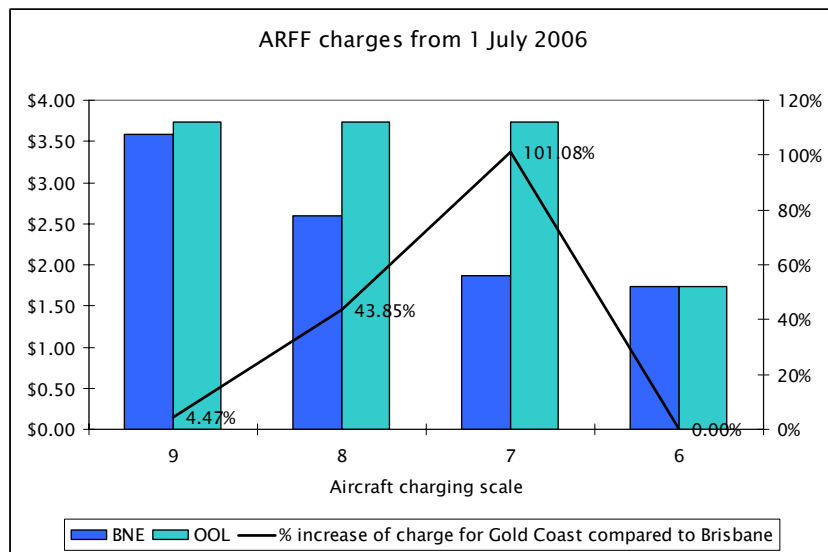
The below billboard is 5-10 minutes drive from GCA and demonstrates clearly the competitive environment in which GCA operates. Nerang (per the picture) is a suburb of the Gold Coast.



Air Train also advertises its services to Brisbane Airport on light pole banners also the Gold Coast Highway adjacent to Gold Coast Airport.

Brisbane Airport, with passenger throughput almost five times that of GCA, enjoys significant economies of scale in comparison with GCA. In addition, Air Service Australia (ASA) charges at Brisbane are significantly lower per passenger than ASA's charges at GCA.

The attached tables include the respective charges for Fire and Rescue and Terminal Navigation charges between Brisbane and Gold Coast airports.



Terminal Navigation Charges

Brisbane	Gold Coast	Ballina
\$5.83	\$10.82	\$0.00

The charge at Gold Coast Airport is 86% greater than at Brisbane Airport.

Despite the growth experienced on the Gold Coast, Brisbane Airport has experienced compounding average growth in passenger numbers of 4.6% in the FY01-FY05 period.

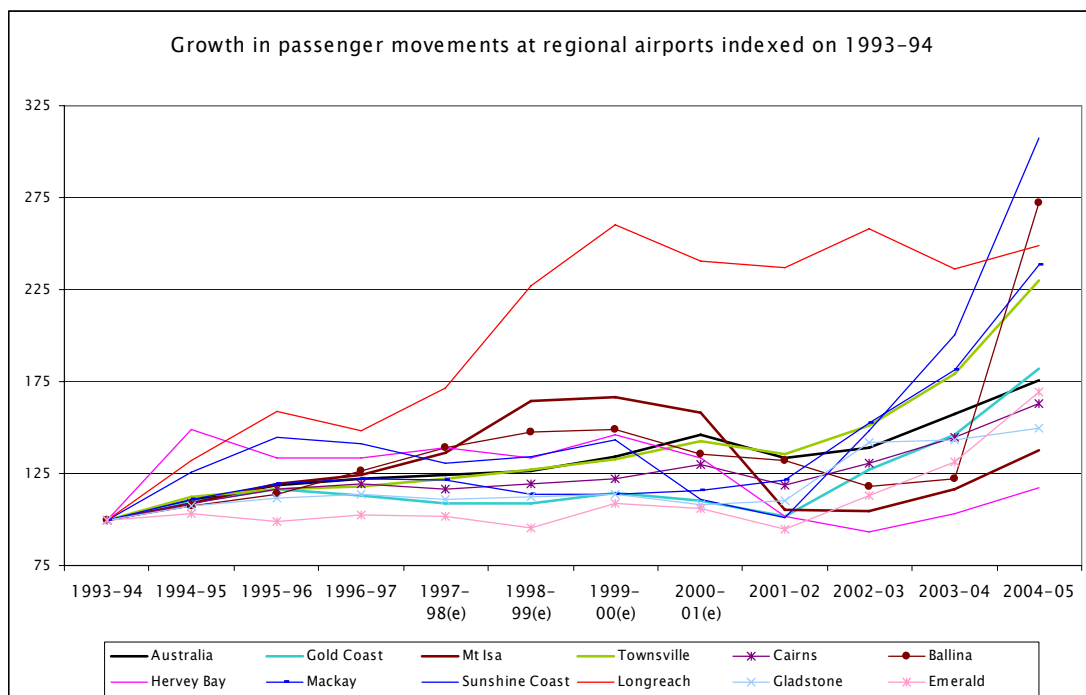
Ballina Airport is approximately 1 hours (85km) drive south of GCA. Referring to the map above, Ballina's catchment area overlaps a significant portion of GCA's southern catchment area. Between Brisbane and Ballina, GCA has very little exclusive catchment area.

Ballina Airport enjoys much lower compliance costs. Their traffic levels are such that these are no Airservices Australia RFFS and terminal navigation charges imposed on airlines using the airport and less intense security regulation means lower security costs. These costs benefits have seen LCC's reintroduced jet services to the airport with regular services to Sydney and Melbourne.

Competing Destinations

The same LCC experience which has assisted GCA's growth has been responsible for increased competition as previously difficult to reach locations now have direct flights or a significantly increased frequency of direct flights. The number of holiday locations now available for weekend escapes, for instance, by someone in a major city is far greater than was available five years ago.

Examples include services between capital cities and Maroochydore, Hamilton Island, Newcastle, Ballina, Hervey Bay, Cairns and Broome amongst others. This is supported by the growth in services outlines below.



While GCA can negotiate and give the airlines incentives to put on additional services and routes, demands for GCA's services are ultimately very strongly related to the demand for the Gold Coast as a tourist / leisure destination. Apart from co-operative marketing together with the tourism industry and promotional agencies, there is very little the airport can do to influence the very fickle domestic and international travel and leisure markets.

Competing Transport Modes

In a broader transportation sense, GCA must also compete with other modes. The Gold Coast is well serviced by rail, coaches and Queensland Rail services terminate at Robina, 15 minutes drive north of the airport.

The major upgrade of the Pacific Highway north and south of the Gold Coast has also reduced coach and private travel times from the Gold Coast's major source cities.

The feature which has made GCA a good fit for LCC services, a high volume of price-sensitive tourists, is the same feature which has made the Gold Coast traditionally a drive holiday location. The risk of substitution between the LCC services and driving is high.

Any level of *market power* is severely undermined, or eliminated by the following:

- the competition discussed above;
- GCA representing a very small percent of the total passenger movements in Australia; and
- The airlines having significant countervailing power.

Countervailing Power of the Airlines

Qantas and Virgin, and their wholly owned subsidiaries account for 96% of all passenger movements through GCA while GCA's passenger movements represent a small proportion of the two airlines companies' combined national passenger movements. The Gold Coast services have also been historically and according to the airlines continue to be low yielding routes on the airline networks.

The airlines' assets, unlike those of the airport are extremely mobile. Both airlines can, and do, move capacity to maximize their yields. Low yield tourism ports such as GCA are vulnerable to changes in the airlines revenue maximization driven route planning strategies.

In the last few months passenger growth through GCAL has slowed compared with previous years. As the airlines have experimented with flight schedules to maximize yields out of other ports, the yield on GCA flights has fallen. This entire decision making process is almost completely out of the control of GCA despite the airports proactive marketing and volume incentive initiatives.

Experience in the last couple of months has seen a number of services removed at the 'last minute' because of the low yielding nature of the service.

Virgin Blue in February 2001 indicated publicly that they would continue to service South East Queensland via Brisbane. Only a couple of years later, Virgin are one of the most successful partners of Gold Coast airport. This demonstrates the competitive nature that exists for an airport and destination to receive and retain airline services.

The decision by the Qantas Group to discontinue with the leisure focused Australian Airlines brand resulted in Gold Coast losing all of its Asian connections via Cairns although significant infrastructure and market development investment was allocated to attracting and maintaining these services. These aircraft have now been rebadged as Qantas and operate into Brisbane via Cairns.

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3.3. Commercial Agreements and Airline Charges

3.3.1. History

The attached graph outlines the average aeronautical charge per passenger between FY01 (before removal of regulation) and FY06. These charges are for Terminal 2 and are inclusive of airfield charges, all terminal charges and are inclusive of the terminal developments which were completed in FY2002 and FY2004. Terminal 2 is the former Ansett leased section of the terminal building that GCA has developed as a common-user international/domestic facility.

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3.3.2. Current fees and basis of charging

Per the GCA website, the following are the listed prices for services

Domestic Operations (Terminal 2 - Common User Terminal)

Item	Cost
Insurance recovery cost levy	\$0.38 (per passenger both inbound/outbound)
Passenger services charge	\$6.22 (per passenger both inbound/outbound)
Passenger screening recovery charge	Wide-bodied aircraft: \$297.00 per flight rotation Single-isle aircraft: \$195.25 per flight rotation
APS security recovery charge	\$0.66 (per passenger both inbound/outbound)
Terminal usage charge	\$580.80 per turnaround <i>(For new routes GCA will consider introductory discounts of terminal charges)</i>

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3.3.3. Comparison with similar airports' charges

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3.3.4. Risk sharing with the airlines & negotiation process

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3.3.5. Past & Future Investment

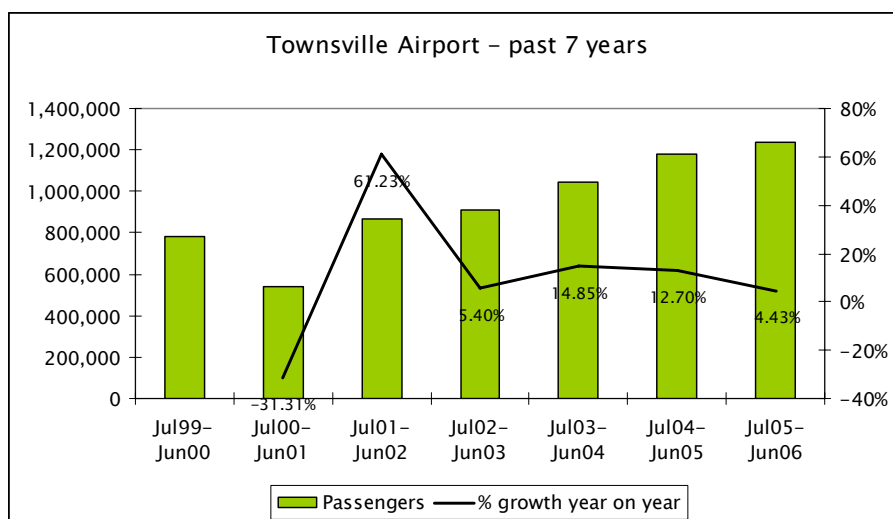
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4. Townsville Airport

4.1. Airport Traffic

- Over the past 7 years, traffic at Townsville Airport has grown, although growth has been erratic, based on the demise of Ansett, and the impact of Low Cost Carriers. That impact has not been as marked at Townsville Airport as it has at Gold Coast Airport.
- The make up of passengers at Townsville Airport is very different from Gold Coast Airport, having a far greater reliance on business traffic and therefore more synergies with the full-service Qantas model than the low cost operators.
- Jetstar commenced operations at Townsville Airport at the end of October 2005.



Passenger Mix

- 76% of passengers at Townsville Airport are domestic RPT; 24% are traveling on regional airlines;
- 47% of passengers are locals traveling outbound from the Townsville region; 53% are visitors traveling to the region. This virtual half and half split contrasts with the 80/20 split in favour of visitors at the more leisure-driven Gold Coast Airport;
- Business is the primary reason for travel at Townsville Airport, with VFR second and holiday a distant third;
- Of the 53% of visitors to the region, the majority come from elsewhere in Queensland, reflecting the frequency of flights to Brisbane and the business traffic resulting from Townsville's status as the administrative centre of North Queensland; and
- 15% of passengers work directly in the mining industry.

Direct flight routes



4.2. Competition & Market Power

Although it is influenced by different drivers than GCA, TA maintains that its operations are characterized by competition and risk of substitution, and that it is able to exercise minimal or nil market power.

Competition exists in a number of forms:

- Airports in close proximity
- Other holiday destinations now easily reachable due to the growth of LCC's
- Other modes of transport.

Tourism Queensland identifies the competitive set to their Northern (including Townsville) to be:

- Cairns/Tropical North Queensland
- The Whitsundays
- Mackay/Rockhampton/the Central Queensland Coast
- The Outback/Northern Territory
- South East Queensland, including the Gold Coast, Brisbane and the Sunshine Coast.



TA does not have the same level of competitive pressure experienced by GCAP with regards to airports in close proximity, although there is some substitution possible by passengers between TA and the two closest airports, Cairns and Proserpine. All international services to Townsville were relocated to Cairns in the 1980's.

Townsville Airport does however represent a small part of the passenger movements of the airlines.

An interesting aspect of the Townsville redevelopment is that it was driven by demands from the community for a major appropriate gateway. The consumers were prepared to pay more to enjoy the benefits of higher levels of services from their local airport.

AVIATION CHARGING

Townsville Airport finds itself in a similar position to Gold Coast Airport, in that it's local competitors for air services, Cairns and Proserpine, both benefit from economies of scale in comparison to Townsville. Proserpine has no Terminal Navigation Charges nor ARFF charges. Cairns benefits from it's proportionately larger operation for ARFF charges.

Townsville is therefore by default in a competitive position as it is not possible to be the most cost effective in respect of total airline charges to operate to the airport relative to others. It is noted that neither Cairns nor Proserpine are subject to price regulation even though Cairns has nearly 4 times the passenger throughput of Townsville.

Terminal Navigation Charges

Cairns	Townsville	Proserpine
\$3.67	\$10.95	\$0.00

Other modes of transport

The alternatives that the end consumer has to air travel, use of air transport and airport services is relative to the type of passenger and the value of time and the distance that must be traveled. For regional north Queensland, the alternative for the business traveler is telecommunications, whether that is by way of telephone link up or video conferencing. This is relevant given the high percentage of business travelers to Townsville.

For the tourist traveler, there are greater alternative destinations, particularly those closer to the capital cities..

Based on a report prepared by the AEC Group, only approximately 10% of visitors to the Northern Region arrived by domestic air, while less than 1% arrived by international air. Over 60% traveled to the region by private vehicle or rented vehicle, and 10% arrived by coach or bus.

For local residents the relatively high costs of airfares is a disincentive to use air transport for recreation. Most holidays are taken within the North Queensland Region. Airport charges in Townsville are a smaller component of the fares than in less remote regions.

Any level of *market power* is severely undermined, or eliminated by the following:

- The competition discussed above;
- TA representing a very small percent of the total passenger movements in Australia; and
- The airlines having significant countervailing power.

4.3. Commercial Agreements and Airline Charges

4.3.1. History

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4.3.2. Current fees and basis of charging

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4.3.3. Risk sharing with the airlines & negotiation process

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4.3.4. Past & Future Investment

TA undertook a major refurbishment of the terminal 2004 in full consultation with the airlines and the community. The airlines were not initially in favour of the addition of aerobridges but the public, via local community leaders, indicated strongly they would be prepared to pay the additional cost on the airline tickets.

5. General Comments - Price Regulation and Airport Services

5.1. Regulation of Airport Services

For the past 4 years GCA and TA have not been subject to price monitoring. During this period each airport has conducted themselves in the most commercial and efficient way to manage its position in a competitive environment and to promote the growth of passenger movements at its port.

They have where possible invested in necessary infrastructure and have been able to in nearly all cases sustain costs at the 2002 levels and in most cases reduce the real cost, despite increasing infrastructure, building and operating costs.

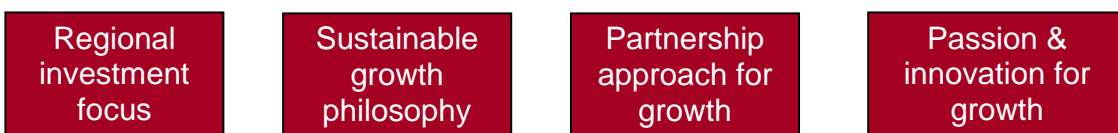
When calculating all charges both airports have been preparing the necessary alternate calculations to 'cross check' its charges in the unlikely event it would be queried in a price regulated environment. GCA and TA therefore believe their charges are defensible in any regulated environment, albeit they are currently not price monitored. This is a product of the need to remain competitive with other destinations, airports and the airline (route) yield which competes with other leisure and business routes.

Whilst not currently price monitored, QAL submits there is a need for certainty with respect to future reviews and to remove the 'probationary' nature of the current recommendations.

5.2. QAL Group Approach to Airline Marketing

QAL prides itself on its unique approach to business development - 'partnerships.' The foundation of this partnership approach is based on risk sharing with airlines by directly investing in driving passenger demand through cooperative marketing. Furthermore, by understanding our businesses intimately through research, we are able to offer our airlines in-depth intelligence on where new opportunities lie and how they can improve their operations at QAL airports.

QAL has the following four underlying principals which give the organisation a niche positioning in the airport investment sector:



Over the past 4 years since Gold Coast Airport and now Queensland Airports Limited has been investing in cooperative marketing and start-up incentives for new routes, we have seen a positive growth for both airlines and airports alike.

Investment has been in the millions of dollars as we strive to ensure each QAL airport has an understanding of airline operations and market drivers and consequently airport facilities and investment in increasing passenger numbers are designed to match their needs. QAL is a market leader in Australia in this 'hands on' style of passenger generation on behalf of our airline partners.

A key part of this partnership is marketing airlines services directly on behalf of the airlines in our local communities.

The feedback from our airline partners about this above approach and in particular our research and partnership approach is often summarised by comments from a particular airline such as *"why are all airports not like this?"*

Evidence of the success of this partnership focus was recorded in the results of our first stakeholder survey to our key customers (including airlines). This survey is used to monitor our performance internally to ensure we are constantly meeting the needs of our partners and can identify where ongoing enhancements can be made. The highline results of this survey (carried out in June 2006) are:

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The above positive result as well as our brand focus on proactive partnership marketing with airlines demonstrates QAL's competitive edge.

5.3. Revaluation Principles

GCA and TA have only recently revalued its aeronautical land holdings to their 'fair value' in May and June 1998 respectively being the acquisition dates of the airports. These valuations were prepared as at May / June 1998 based in the current and allowable uses of the land.

GCA and TA do not propose to revalue these aeronautical land holdings in the future.

GCA and TA consider that depreciated replacement cost (DRC) is an appropriate measure of buildings, services, roads and plant and equipment.

The above assessments for land and other tangible assets represent a component of the long run average cost of operating the airports for which a return is appropriate.

5.4. Quality of Service

Assessing customer needs is a fundamental tenet of the “QAL Way”. QAL participates in the Airports Council International (ACI) quality of service initiatives and its regular surveys of facilities and services. This allows us to benchmark against airports worldwide. In addition QAL undertakes its own surveys of stakeholders tailored to be relevant to the unique needs of each of the cities its airports serve. These programs deliver our management more timely and relevant decision support data than that under the origin privatized airports’ program.

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Schedule of Airline Charges