



North Queensland Airports Submission

Productivity Commission Inquiry Into Economic
Regulation of Airports

7 September 2018

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1. Executive Summary

North Queensland Airports (NQA) is pleased to have the opportunity to make this submission to the Productivity Commission. This submission focusses on items contained in the Economic Regulation of Airport Services, Productivity Commission Issues Paper of July 2018, specifically:

- Market power in the provision of aeronautical services
- Countervailing power of users
- Exercise of market power, and
- Land transport arrangements

as relating to airports leased and operated by NQA.

About North Queensland Airports

NQA operates Cairns and Mackay Airports under long term leases from the State of Queensland. Cairns Airport serves domestic and international airlines and has a large General Aviation (GA) presence. Mackay Airport serves domestic airlines only. Both airports were privatised by the Queensland Government in 2008.

Both Cairns and Mackay Airports serve well defined but narrow market segments. Cairns is a popular tourism destination for both domestic and international visitors, whilst Mackay passenger numbers are heavily influenced by mining activity. Both Cairns and Mackay Airports have experienced passenger volume volatility since 2006, as a result of local economic conditions (Mackay), destination competition in the leisure segment (Cairns) and unilateral decisions by airlines to reduce services or withdraw completely (both Cairns and Mackay).

NQA's Primary Position

NQA's primary position is that a change in regulatory oversight is not warranted as far as it would apply to Cairns and Mackay Airports. This position is supported by fundamental premises, which this submission provides evidence for:

- Cairns and Mackay Airports do not have significant market power;
- In the event the airports do have limited market power, there is no evidence of the *ability* or *incentive* to exercise market power;
- Airlines have substantial countervailing power; and
- There is no evidence to indicate that changes to the regulatory regime impacting Cairns and Mackay Airports would improve community wellbeing.

Cairns and Mackay Airports Do Not Have Market Power

Prima facie a monopoly has market power. Mackay Airport is not a monopoly as it has a direct competitor in its region (Whitsunday Coast Airport). Cairns Airport is a natural monopoly only in the sense that it is a single provider of RPT aviation services when the market is geographically defined. Neither airport is a monopoly in substance as both the regulatory regime and their own economics evidence that true monopolistic behaviour – deny supply if terms not unilaterally agreed, restrict supply to increase price – is not possible nor economically desired.

The current regulatory regime includes application of the *Competition and Consumer Act 2010 (CCA)* and the *Queensland Competition Authority Act 1997 (QCAA)*. The CCA includes various mechanisms including price monitoring (Part VIIA), misuse of market power (s46) and declaration (Part IIIA). The QCAA mirrors Part IIIA of the CCA¹. The making of applications by airlines under Part IIIA of the CCA evidences this is an effective mechanism to resolve inappropriate behaviour by airports (and therefore acts as a credible deterrent). The airports' leases contain a generic right of access to users and denying access under almost all circumstances is a breach of the airports' lease(s). Therefore, the current regulatory regime practically prevents either Cairns or Mackay Airports from exercising market power associated with monopolistic behaviour i.e. the withholding of the service or good unless on the unilateral terms of the provider. That is, Cairns and Mackay Airports have no *ability* to exercise any market power they may possess.

Cairns and Mackay Airports Have No Incentive To Exercise Market Power

Further the airports' own economic incentives are to maximise passenger volumes. Accordingly, the airports have an *incentive* not to exercise any market power they may have to restrict supply (i.e. reduce passenger numbers). Airlines have made representations that increasing airport charges, if passed on to consumers, would reduce demand. A reduction in demand i.e. a reduction in airport passengers, potentially reduces airport profit. Under 'dual till' pricing the lost revenue from commercial activities may be greater than any revenue uplift from higher aeronautical charges and noting that an elastic demand curve² may in fact result in lower overall aeronautical revenue from higher charges. Therefore, the second

¹ Under the CCA there is a 'national significance' test, whilst under the QCAA the test is 'the facility for the service is significant, having regard to its size or its importance to the Queensland economy', and hence the threshold for an applicant under the QCAA is lower than under the CCA.

² The Economic Regulation of Airport Services, Productivity Commission Inquiry Report, No 57 (2011) found "*Another facet of the growth in LCC air travel is that the elasticity of demand is higher, as they cater mainly for leisure travellers.*" The ACCC as also commented "*The growth of 'budget' domestic air travel in recent years suggests that the market may have expanded to include demand that is more sensitive to the price of air travel.*"

attribute of classic monopolistic behaviour, restrict supply to increase price, is not evident in the case of Cairns and Mackay Airports.

Specific tests of market power as described by the Commission when applied to Cairns and Mackay Airports, for example, excessive fees, inefficient investment decisions or operations, providing services of low quality do not show evidence of Cairns or Mackay Airports as having exercised market power.

Countervailing Power

Airlines operating into Cairns and Mackay Airports have demonstrated countervailing power. This countervailing power arises from:

- market dynamics specific to Cairns and Mackay
- the domestic industry structure, and
- the regulatory regime

The market-specific factors of the Cairns and Mackay regions provide countervailing power. Cairns is an inbound leisure market, and its domestic market share approximates 4%. Growth in passengers has been from low cost carriers (LCCs) whose business models are optimised to re-deploy capacity to profit-maximising routes. At Mackay in the face of declining demand airlines simply scaled back services, and/or withdrew completely. The relatively small size of Cairns and Mackay Airports, combined with passenger mix, encourages airlines to actively manage aircraft deployment. This credible threat of re-deploying capacity therefore caps pricing in favour of airlines, as noted by the Commission in the Issues Paper, “*the availability of alternatives and the potential loss of business can constrain airports from exploiting their market power.*”

Negotiations with domestic airlines have been protracted. This is to be expected when a single supplier is negotiating with airlines in a duopoly, as all parties have incentives to defend their commercial position. Assertions by airlines of airports using their stronger position to make ‘take it or leave it’ offers is not consistent with the evidence at Cairns or Mackay Airports. **Recently negotiated agreements for domestic services at Cairns Airport, have on average resulted in lower prices for airlines.**

The domestic industry structure is self-evident. Qantas and its subsidiary airlines and Virgin and its subsidiary airlines comprise a market structure that at a national level is effectively a duopoly. This industry structure is evident at Cairns Airport where, absent some minor regional/remote routes, Qantas group and Virgin group airlines are the sole RPT providers. At Mackay Airport airline services are more concentrated with Rockhampton and Townsville being served by a single RPT airline (QantasLink) and one city (Brisbane) being served by both Qantas group and Virgin group airlines.

The regulatory regime grants an airport user a low threshold to address perceived egregious behaviour. Commencing an action under Part IIIA of the CCA or Part 5 of the QCAA is not prohibitive, as evidenced by multiple declaration applications in the sector. The success or otherwise of an application is not a relevant test, as each application must be judged according to law. Any proponent's argument that declaration applications have been unsuccessful and therefore indicative of a failure of the current regulatory regime is spurious. The effectiveness of Part IIIA is clearly established by Tigerair's application for declaration of services at Terminal 2 at Sydney Airport. Within five weeks of lodgement the matter was commercially resolved and the application withdrawn.³

Land Transport

At both Cairns and Mackay Airports all forms of land transport are represented with reasonable modal share. The airports do not unfairly discriminate between different modes, especially in favour of their own car parking businesses. Commercial arrangements are reflective of the infrastructure/service provided and do not distort the market i.e. relative trip cost by modal share does not change due to airport charges.

Changing the Regulatory Regime

There is no evidence that the outcome of current commercially negotiated agreements for airlines to access Cairns and Mackay Airports results in reduced community welfare.

The evidence is that there is a distributional tussle between the airports and airlines, resulting in protracted negotiations, and consistent with what would be expected ex ante given the relative bargaining power of the parties. However, this does not 'spill over' into areas which would cause concern. There is no evidence of excessive airport prices or adverse effects upon competition. In the case of Mackay Airport, the amenity loss suffered by Mackay residents from substantial loss of services has been entirely due to airline decisions, as airport pricing has been stable.

Non-price metrics, for example services provided to airlines and passengers (both range and quality), appropriate investment to support efficient airline operations and ground transport access suggest that NQA leased airports are providing services and facilities to meet the needs of airlines and the traveling public.

To recommend changes to the regulatory regime affecting Cairns and Mackay Airports, the Commission would need to be satisfied on the basis of robust evidence that the threshold for each of four tests listed below is met. It is the view of NQA that none of these tests is satisfied.

³ Application was lodged 3 July 2014 and withdrawn 8 August 2014.

1. That Cairns and Mackay Airports, as non-vertically integrated airports, have both the *ability* and *incentive* to exercise market power;
2. That Qantas and Virgin acting as a duopoly do not have significant countervailing power;
3. Any exercise of market power has an adverse effect on competition and is not a distributional tussle between customer and supplier; and
4. That any increased regulation would have a net benefit considering additional costs and would not have unintended consequences.

2. Cairns and Mackay Airports

Cairns Airport

History

Cairns Airport has operated as an airfield since 1928. In WWII the site was acquired by the Australian Government for use by the Royal Australian Air Force. International airlines commenced services in 1975, following services provided by Trans Australia Airlines and Ansett to Australian capital cities.

In the late 1980s/early 1990s Cairns was a significant hub for Qantas international, in particular for Japan services. However, the market for international services has declined markedly – with only recent recovery – and Qantas no longer operates any international flights to/from Cairns, with Jetstar now the largest international carrier for the airport.

Formerly operated by the Cairns Port Authority, the airport was privatised by the Queensland Government in December 2008.

Airport Facilities

The airport has a single north–south runway of 3,150m suitable for a range of aircraft types including wide–body jets. The runway alignment means the flight path for southern arrivals/departures is directly over central Cairns.

There are separate domestic and international terminals, both located on the eastern side of the airport, approximately 200m apart. Both terminals have a mix of aero–bridge and non–aerobridge aircraft parking positions.

The airport is located 7 kilometres north of the Cairns central business district with access via a single road entrance.

Operating Airlines

Domestic airlines include Qantas group (Qantas, Jetstar, QantasLink), Virgin group (Virgin Australia, Tigerair) which together account for 96% of domestic passengers and a number of regional airlines including Airnorth, Alliance Airlines (charter), Cobham Aviation (charter), Regional Express Airlines (REX) and Skytrans.

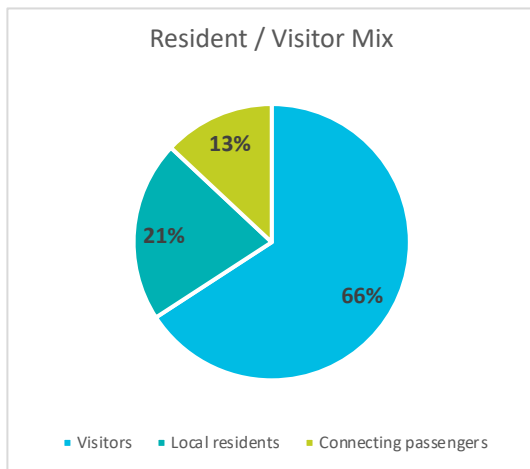
International airlines include Airlines PNG (charter), Air New Zealand (seasonal), Air Niugini, Cathay Pacific, China Eastern (seasonal), China Southern, Hainan Airlines, Hong Kong Airlines (ceasing services in October), Jetstar and Silkair. Neither Qantas nor Virgin operates international flights to Cairns, after Qantas' last remaining service (Port Moresby) ceased in October 2016.

Passenger Mix

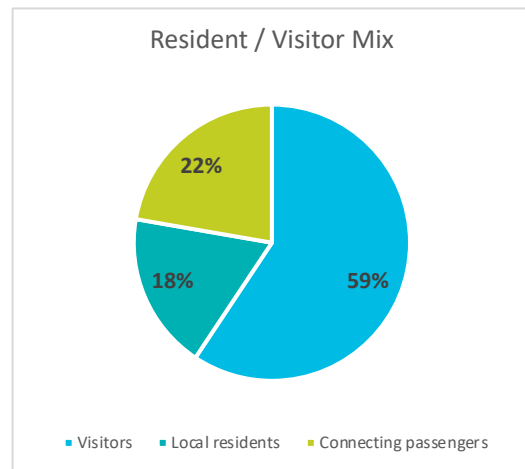
Cairns Airport is the seventh busiest airport in Australia, with 4.28M domestic and 662K international passengers⁴ in the year to June 2017, representing 3.6% and 1.7% of domestic and international Australian airport passengers respectively.

Cairns is a popular tourism destination for both domestic and international visitors, but the population size of the Cairns region⁵ of 240K results in a small outbound market. Of the 4.28M domestic passengers only 21% (880K) are Cairns region residents while 66% (2.77M) are visitors and 13% (550K) are connecting: 330K to/from regional flights and 220K to/from international flights. This passenger mix is replicated for international passengers, with only 18% being local residents, 59% being visitors and the balance of 22% connecting passengers⁶. Cairns has a unique pattern of visitation with an estimated two-thirds of the annual 890K international visitors to the region arriving/departing on domestic sectors (typically also visiting a southern capital as part of a multi-destination itinerary). This also influences the relatively high proportion of connecting passengers. *Graphics 1A and 1B* show domestic and international passenger mix respectively.

1A. Cairns Airport Domestic (T2)



1B. Cairns Airport International (T1)



Tourism is the primary reason for travel being 61% of domestic passengers and 74% of international travellers. Business travel is relatively minor, especially for international travel representing only 10% (80K pa) of passengers. *Graphics 2A and 2B* show purpose of travel for domestic and international passenger respectively⁷.

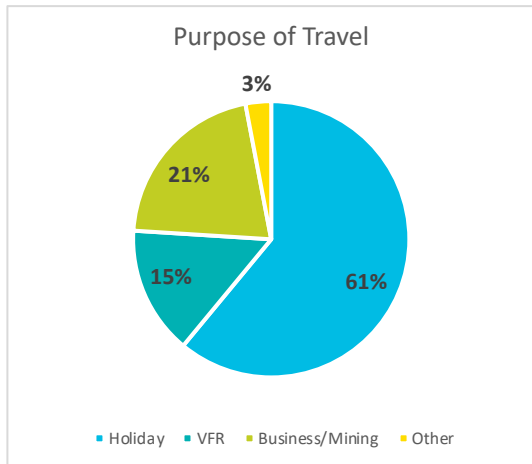
⁴ Total airport passenger numbers in this submission are from BITRE and reported using a financial year. The latest full financial year available is 2017. BITRE rather than internal data has been used so as to provide comparability to other airports.

⁵ ABS Census 2016, SA4 statistical area

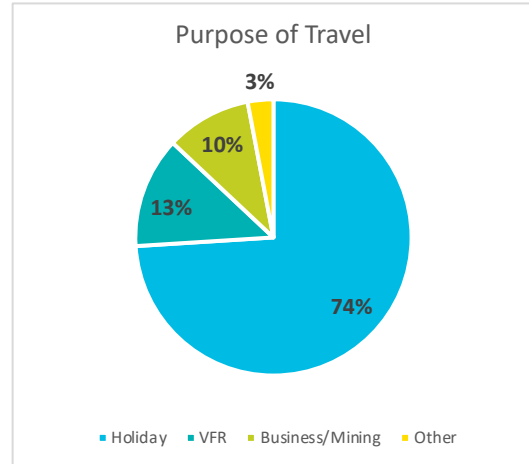
⁶ The residual 1% is not reported.

⁷ The resident/visitor mix and purpose of travel are derived from NQA passenger surveys, n= 6,000 pa

2A. Cairns Airport Domestic (T2)



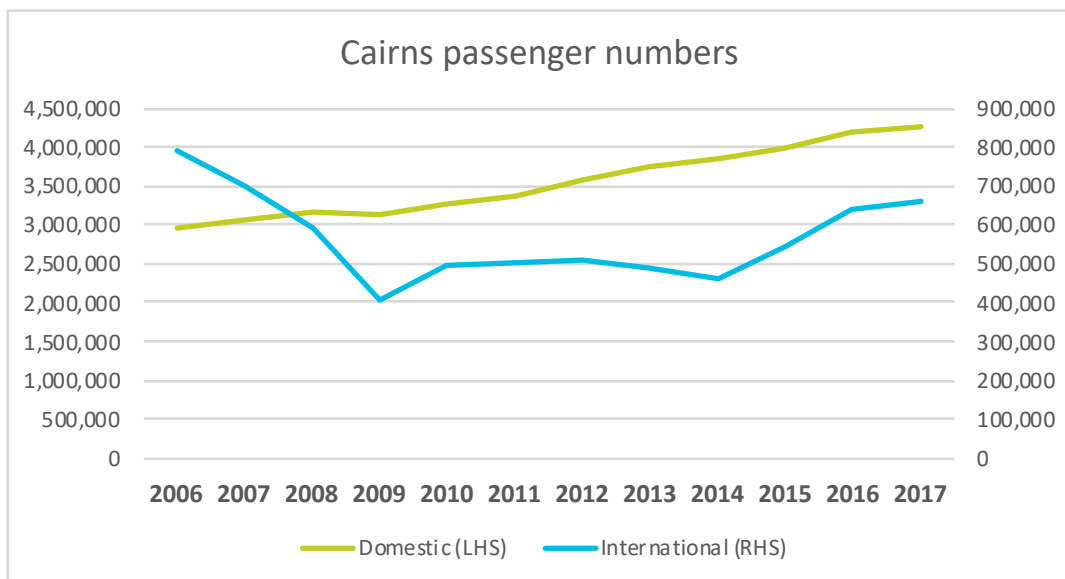
2B. Cairns Airport International (T1)



Pax History

Cairns domestic passenger numbers have exhibited steady growth since 2006 growing at an average 3.4% pa. International passengers halved from 2006 to 2009 (pre-dating the GFC), and despite recent growth still remain 15% lower than in 2006. The net result is the Cairns Airport market share of domestic passengers has been static while international passenger share has fallen from 3.7% in 2006 to 1.7% in 2017. *Graphic 3* shows the history of Cairns Airport passengers.

3. Cairns Airport Domestic and International Passenger Numbers



Competition

The closest airport of significant size is Townsville, located 350km to the south by road, and therefore Cairns Airport does not have a directly competing airport in its catchment area.

Mackay Airport

History

Mackay Airport has been operating since 1931. Formerly operated by the Mackay Port Authority, the airport was privatised by the Queensland Government in November 2008.

Airport Facilities

The airport has a single runway of 1,980m suitable for narrow-body jets. There is a single terminal located on the southern side of the airport.

The airport is located 3 kilometres south of the Mackay central business district.

Operating Airlines

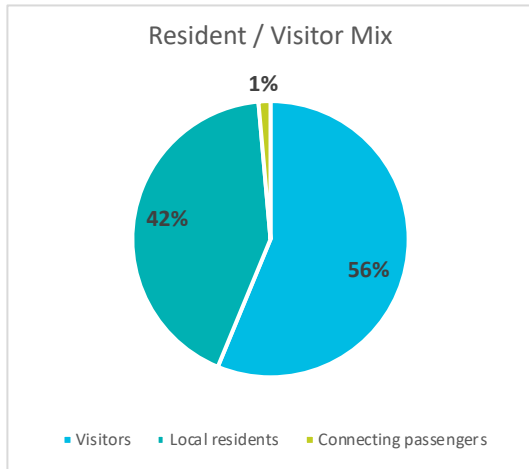
Airlines include Qantas group (Qantas, Jetstar, QantasLink) and Virgin Australia. Tigerair ceased services in September 2015.

Passenger Mix

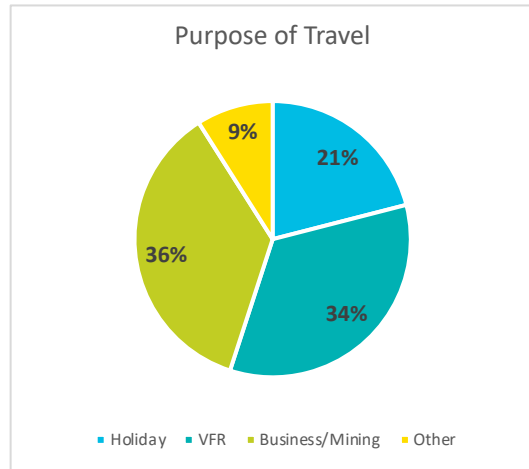
Mackay Airport serves a resident population of 115K⁸. 42% of passengers are local residents, with the balance of 56% being visitors, predominantly fly in-fly out (FIFO). With a heavy concentration on mining, business travel is the largest segment (36%), closely followed by visiting friends and relatives (VFR) at 34%. Leisure traffic is comparatively small. *Graphics 4A and 4B* show passenger mix by resident/visitor and purpose of travel.

⁸ ABS Census 2016, SA3 Statistical Area

4A. Mackay Airport Passenger Mix



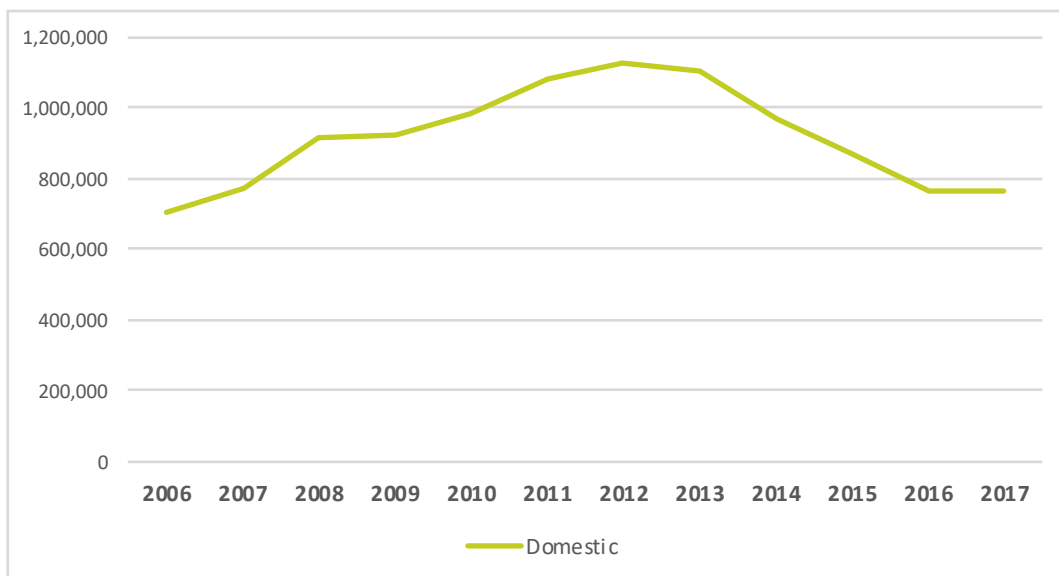
4B. Mackay Airport Passenger Mix



Pax History

Mackay passenger numbers are heavily influenced by mining activity, being a major gateway to the Bowen Basin. Passenger numbers have been highly volatile, peaking at 1.13M in 2012 and then subsequently falling by 32% to 763K in 2017. The outlook for passenger growth is uncertain as passenger demand is a derived demand influenced by the re-opening of mines on care and maintenance and new developments. *Graphic 5* provides an annual time series of Mackay Airport passenger numbers.

5. Mackay Airport Domestic Passenger Numbers



Competition

Whitsunday Coast Airport is located 125km to the north by road and is more conveniently located to the leisure destinations of Airlie Beach and Hamilton Island. In 2006 passenger numbers at Whitsunday Coast were 237K. Passenger numbers have increased by 80% to 426K in 2017. That airport is served by direct flights to Brisbane, Sydney and Melbourne (Mackay does not have direct flights to Sydney and Melbourne) with three airlines (Mackay also has three airlines).

3. Market Power in the Pricing of Aeronautical Services

The regulatory regime, including the state airport privatisation act⁹, the airports' leases, the CCA and the QCAA effectively prevent Cairns and Mackay Airports from denying access under almost all circumstances, and from discriminating among airlines to the extent it would impede competition between airlines.

Without this current regulatory oversight it is possible that the Cairns and Mackay Airports could have market power, depending on the countervailing power of airlines (*see following chapter*). The importance of the current regulatory overlay cannot simply be assumed away. It provides effective constraint on the ability of the airports to act in ways that are injurious to airlines or passengers.

This submission does not detail the impact of the CCA (or the QCAA) on airport market power, as that topic will no doubt be well ventilated by other proponents.

The Cairns and Mackay leases contain provisions with respect to:

- A generic right of access by airlines¹⁰
- Obligations on the lessees to develop the airports having regard to:
 - Actual and anticipated growth
 - Quality standards reasonably expected, and
 - Providing appropriate facilities (which are further defined as including comfort, ease of access and expeditious movement)

It is the understanding of NQA that these lease obligations largely mirror obligations in leases for the federally leased airports. To date neither Cairns Airport nor Mackay Airport has been subject to any order that it has breached its respective lease terms.

Tests of Market Power

Specific tests of market power are relevant, as they provide the other 'bookend' to overarching tests of the regulatory overlay.

In testing for market power, NQA has been guided by the Issues Paper and provides commentary on each of the following at Cairns and Mackay Airports:

- Excessive fees or charges for aeronautical services
- Inefficient investment decisions

⁹ Airport Assets (Restructuring and Disposal) Act 2008

¹⁰ The access rights are conditional on the aircraft owner or operator paying any amount due to the lessee within a defined time frame, but the lease is silent on the definition of 'amount due'. An outcome is that disputed amounts are possibly not 'amounts due' unless determined as such by a court. Therefore, in practice the lessee likely cannot refuse access in the normal course of business. Further before refusing access the lessee must notify the lessor.

- Inefficient operation
- Providing services of a low quality or a limited range
- The manner in which commercial negotiations are conducted.

In summary neither Cairns nor Mackay Airport shows evidence of any significant market power.

Excessive fees

Evidence of excessive fees could be increasing airport charges without concomitant increase in capacity and/or service levels or earning an excessive return.

At Cairns Airport, newly negotiated domestic airline agreements contain on average lower per passenger charges. These lower charges are being back-dated to the expiration of old agreements, so that airlines are not disadvantaged by extended negotiations (see sub chapter below on conduct of negotiations).

Airport return is generally acknowledged as being with reference to a building block model (BBM) approach. BBM is adopted by Cairns and Mackay Airports for the pricing of domestic aeronautical services. As Cairns and Mackay Airports are not subject to price and quality of service monitoring by the ACCC, detailed financials are not provided.

Both airports have provided detailed BBM to major airline customers. These BBM have been independently verified for both accuracy and reasonableness of inputs. Where BBM methodology or inputs have been seen by airlines not to be reasonable, airlines have vigorously refuted the methodology/assumptions. The BBM shared with airlines has then informed the final pricing negotiations. This is strong circumstantial evidence that the airports' returns are not excessive.

Inefficient Investment Decisions

Inefficient investment could be either under-investment leading to congestion or poor service quality, or over-investment unnecessarily increasing charges.

Neither under-investment nor over-investment is evident at Cairns Airport. At Mackay Airport with significantly falling passenger numbers there is little capital investment required and spare capacity.

Under-investment at Cairns would manifest variously as excessive waiting/queuing times in the terminals and/or adversely impacting airline on-time performance (OTP) due to insufficient airfield infrastructure. Cairns Airport measures and has targets for waiting/queuing times in both T1 (International) and T2 (Domestic), and absent a single measure in T1 no metrics have declined and all are above target. A full description is provided below.

Cairns Airport is recognised by airlines as a port where OTP is not a concern, and the airport currently has runway, taxiway and apron parking capacity to meet peak

times. In January Cairns Airport was ranked in the world's top 10 small airports for punctuality¹¹, and was congratulated by a major airline customer.

The over-investment issue has been raised publicly by airlines and BARA with specific reference to pre-funding and regional airports (some local government-owned) building ahead of any foreseeable demand. The Issues Paper notes that “airlines have complex incentives in relation to airport investment” and “airport expansions could increase competition and chip away some of the benefits of airline incumbency”.

The Cairns Airport evidence is that the airport and airlines have worked constructively to jointly agree capital expenditure that is in line with forecast demand and is efficient. New domestic aeronautical agreements contain clauses obligating Cairns Airport to consult on the airport's development and for the airport to provide visibility on its actual investment undertaken vs that originally planned (and costed in BBM). Over-investment is at the airport's risk as airport charges are defined in each year of the term and cannot be adjusted upwards.

The largest project undertaken at Cairns Airport since 2011 is the refurbishment of the Domestic terminal (T2). With construction about to commence, the planning phase has been an exemplar of how the airport and airlines have jointly identified an optimal solution to terminal congestion. Cairns Airport notes specifically the constructive manner in which airlines have provided input.

The outcome of the T2 refurbishment is that the terminal will have increased space, a better layout, improved gate boarding and improved food & beverage offerings. **Importantly this has been achieved with no increase in charges to airlines.** As referenced by an airline executive, “*The proposal appears to be cost effective, makes efficient use of existing space and will lead to improved customer service and therefore makes sense. I am pleased that we have achieved a price reduction...*”

Inefficient Operation

Evidence of inefficient operation could be wide-ranging including for example inefficient asset allocation of counters, gates and/or baggage facilities or obvious examples of cost inefficiency¹².

At Cairns and Mackay Airports airlines have not advised that the airports are operated inefficiently, either in terms of asset allocation or cost.

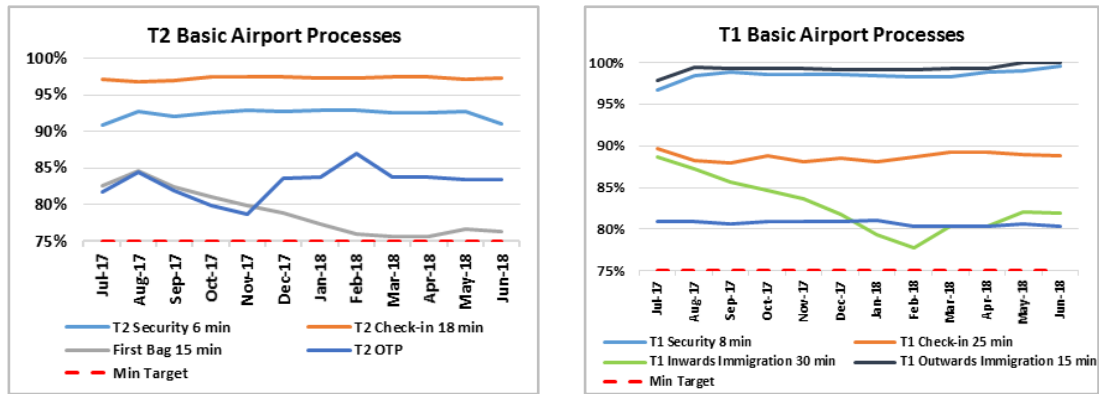
Cairns Airport tracks the performance of basic facilitation processes in both T1 and T2. These measures include security wait times, check-in time (also influenced by the airlines), bag delivery times (also influenced by the airlines) and in T2 OTP (also influenced by the airlines). As shown in Graphic 6, all metrics are above target, with

¹¹ As reported by OAG Annual Punctuality League 2018

¹² For example not flexing security manning to match demand

the target being set with reference to ICAO International Standards, Annex 9. T1 Inwards Immigration is a recognised bottleneck with a number of international flights arriving in a short time window early in the morning due to airline scheduling.

6. Cairns Airport Facilitation Scores

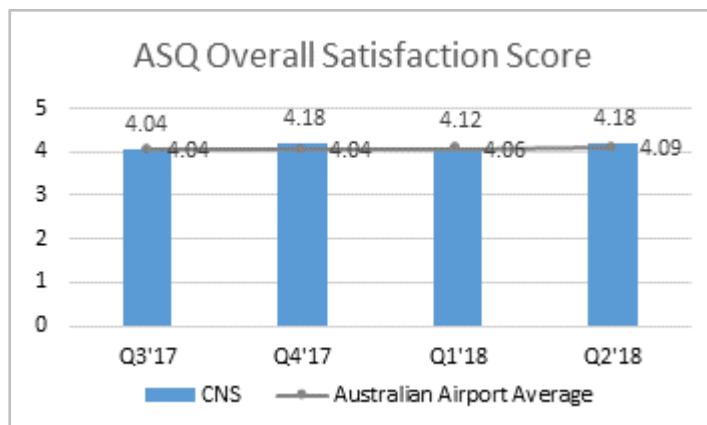


Providing Services of A Low Quality

The Issues Paper is not prescriptive about how to test this criterion.

Cairns Airport has participated in the Airport Service Quality (ASQ) Performance Survey independently administered by the Airports Council International (ACI) since 2012. At an overall satisfaction level Cairns Airport performs well. For the last four quarters overall ASQ scores have been higher than the Australian airport average, and in absolute terms the scores rate Cairns Airport as “Very Good” (4 on the 5 point scale) or slightly higher (5 being Excellent). *Graphic 7* shows overall ASQ scores for Cairns Airport.

7. Cairns Airport ASQ Score



Concurrently with participating in ASQ, Cairns Airport also formed the Airport Customer Excellence (ACE) group in 2015. Outcomes have been establishment of a

Customer Charter and training of over 700 airport staff and community volunteers. Cairns Airport runs a highly successful volunteer program regularly receiving positive community and industry feedback.

Commercial Negotiations

Negotiations for access to domestic services and facilities at Cairns Airport have been protracted. This is to be expected when a single supplier is negotiating with airlines in a duopoly, as all parties have incentives to defend their commercial position. Airlines have used their bargaining power (see following section) with the result that finalising new agreements has taken over two years. Assertions by airlines of airports using their stronger position to make 'take it or leave it' offers is not consistent with the evidence at Cairns Airport.

The context in which commercial negotiations are conducted is important as it drives commercial outcomes. There exist information asymmetries in favour of airlines, which provides the airlines with countervailing market power. Cairns and Mackay airports provide full BBM models to airlines. Airlines do not provide financial, passenger forecast or fleet deployment information to the airports. Therefore, statements made by airlines suggesting that flying is marginally profitable and/or that increasing airport charges would result in reduced passengers or redeployment of aircraft are not able to be tested. In contrast the BBMs provide detailed financial information including operating costs, the asset base and proposed capital expenditure in addition to passenger forecasts.

Given the duopoly domestic airline structure, the provision of passenger forecast information is particularly valuable to airlines as it enables an individual airline to assess its relative passenger forecast against its competitor's by simple deduction.

The outcome of domestic agreements at Cairns Airport has been consistent with the Pricing Principles¹³. The airport's cost base, including capital costs, has been relatively stable. Domestic passenger numbers are increasing 3–4% pa and forecast to continue do so. Pricing at Cairns Airport for both domestic and international services is on a per passenger basis. With stable costs and increasing domestic passengers, **Cairns Airport has therefore, when taken as a whole across the two domestic airline groups, offered price reductions.** These price reductions have been made retrospective to the expiry of old agreements, recognising that for multiple reasons, including those detailed below, negotiations were protracted and that airlines should not be financially disadvantaged.

It must also be recognised that the incentives of airports and airlines are not aligned, and that this 'tension' extends well beyond pricing outcomes. The Commission has noted specifically potential mis-alignment between investment signals, with airports wanting to invest to attract new airlines and incumbent airlines not requiring airport

¹³ As referenced by the Productivity Commission, and consistent with CCA (s44ZZCA)

investment. This particular example has not been prevalent at Cairns Airport, as the international terminal has spare capacity, but minor examples have been evidenced in the domestic terminal. As Cairns Airport is 100% common user, the airport is unable to provide differentiated product between airlines. LCCs may therefore desire a lower level of amenity (e.g. quality of fit-out, queuing times) consistent with their own passenger mix. Therefore, airports are negotiating not only an appropriate level of fees, but an equitable allocation of costs.

In the case of Cairns Airport the extended time taken to conclude new aeronautical agreements has largely been due to non-price terms. Prior agreements with domestic airlines (some now dating almost ten years) were high level, in some cases amounting to term sheets only. New aeronautical agreements, by contrast, are full form contracts with prescriptive rights and obligations. This progression in contracting is acknowledged by both Cairns Airport and airlines as being necessary and evidence of the maturing of airport/airline relationship. The negotiating and documenting of detailed agreements have been time consuming. For one airline, agreement on price was reached relatively quickly, but it took a further ten months to conclude the final agreement.

Commercial negotiations at Cairns Airport – in addition to providing an aggregate price reduction – have benefited airlines by including non-price terms that are either not in prior agreements or extending airlines’ rights, including:

- Service levels
- Consultation regarding airport investment
- Explicit acknowledgement that increased investment by the airport is not a trigger to increase airline charges
- Access rights above what would constitute ‘standard access’, for example branding and preferential check-in and gate location

[Pricing of International Services at Cairns Airport](#)

The pricing of international services and facilities at Cairns Airport has not been contentious or difficult. Airlines are operating either under long-term agreements or with annual price adjustment through close consultation with BARA. Cairns airport has a constructive relationship with airlines operating international services and provides market information and insights to help commercial planning of services to Cairns. Cairns Airport has a collaborative relationship with BARA, focussed on service quality, safety and efficiency outcomes.

Pricing is reflective of a market dominated by inbound leisure travel. Cairns Airport charges a passenger service charge. Despite the significant decline in passenger volume, any attempt to increase pricing or change the pricing structure would be counter to Cairns Airport’s publicly stated strategy of increasing current seasonal services to year-round and attracting new long haul carriers.

Pricing of Regional Services at Cairns Airport

Regional airlines represent 4% of domestic passengers at Cairns Airport. These airlines do not operate under separate agreement with the airport, but under the Cairns Airport Conditions of Use. Consistent with the Pricing Principles – that resulted in lower pricing outcomes for major domestic airlines – Cairns Airport voluntarily reduced charges for regional airlines from 1 July 2018. **This reduction was in excess of 10% and is effective for two years.**

Pricing of Services at Mackay Airport

Mackay passenger numbers peaked in 2012 and subsequently have fallen by 32%. Airlines made representations to Mackay Airport that given the precipitous drop in passengers that Mackay flying was marginal at best, and mostly unprofitable.

Mackay Airport conducted internal analysis to test airline statements¹⁴, using aircraft load factors and an estimate of yield to derive revenue, along with a trip-cost model by aircraft type. The Mackay Airport analysis supported airline claims that for a period, until airlines adjusted capacity downwards, that Mackay flying was only marginally profitable at best. Internal models suggest that Mackay flying is now reasonably profitable, if not highly profitable for airlines.

Since 2012 Mackay Airport charges have increased by no more than CPI, and in some years no pricing adjustment has been applied¹⁵. Therefore, Mackay Airport has suffered a significant reduction in revenue associated with a loss of passenger volume. Discussions have been held with airlines about an increase in price consistent with Pricing Principles. Airlines have verbally acknowledged a price increase is required but the quantum is only now being negotiated. One airline suggested that any price increase was not appropriate whilst its Mackay service were unprofitable, but it is unclear if Mackay Airport will be able to recover the deadweight loss associated with deferring needed price increases.

¹⁴ Internal analysis was used as airlines did not provide route profitability information.

¹⁵ In some instances these CPI increases have not been acknowledged by airlines and they are paying 2012 prices.

4. Countervailing Power of Users

Short Paying

The Cairns Airport and Mackay Airport leases provide a generic right of access (full detail below). As a result some airlines have regularly engaged in behaviour that is to their benefit, the most powerful of which is to short pay invoiced amounts.

In all cases, at the expiration of prior agreements Cairns Airport has continued to provide access consistent with those prior agreements, including as examples branding/advertising collateral and dedicated check-in counter allocation. Cairns Airport has continued to invoice at the prior contracted price and in some instances in some years with a CPI adjustment¹⁶. However, at the expiration of agreements airlines have short paid the new invoiced prices. Short payments have taken two forms. The first is to not acknowledge CPI increases. Cairns Airport considers this a ‘mild’ form of power being exercised by airlines, but nevertheless it indicates that Cairns Airport does not have the unilateral ability to set *and enforce* prices. In other cases airlines out of contract have unilaterally paid an amount they consider ‘appropriate’ without any justification for the quantum of payment nor reference to invoiced prices. This has been up to 30% less than prior contracted prices.

Not only have airlines short paid, but the response of Cairns Airport is illustrative of the countervailing power of airlines. Cairns Airport has not sought to invoke lease rights under 4.2 of the lease (*see detail below*) as a response to short payments. This is because in practice 4.2 of the lease is specific only to ‘amounts due’ and it is highly uncertain if the mere issuing of an invoice creates an ‘amount due’. Therefore, it is the understanding of Cairns Airport that 4.1 of the lease effectively grants a right of access to all operators of aircraft in the normal course of business.

The relevant parts of the Cairns Airport and Mackay Airport leases¹⁷ are:

4.1 Lessee must give access

Subject to clause 5 (Force Majeure)¹⁸, the Lessee must at all times during the Term:

- (a) provide for the use of the Airport Site as an airport;
- (b) provide for access to the Airport by interstate air transport;
- (c) provide for access to the Airport by intrastate air transport;
- (d) provide for access to the Airport by general aviation;
- (e) allow all aircraft belonging to or employed in the service of the Commonwealth or Commonwealth instrumentality to have access to the Airport free of charge.

¹⁶ Some expired agreements contained annual CPI adjustment clauses.

¹⁷ For readability sub-clauses that are of administrative or other nature are excluded. The airport leases in their entirety are public documents.

¹⁸ Cl5 of the airports’ leases provide for the right to deny access if a Force Majeure event occurs.

4.2 Refusal to give access in certain circumstances

The Lessee shall not be in default of its obligations under the Airport Covenants if it refuses to give access to the Airport Site to all or any of the aircraft of an aircraft owner or operator:

- (a) where the owner or operator of the aircraft has failed to pay to the Lessee within 21 days after the due date any amount due¹⁹ to the Lessee by the aircraft owner or operator for the use of the Airport Site; and
- (b) where the Lessee has notified the Lessor of its intention to refuse access at least 14 days in advance of the first day on which it intends to refuse access.

In other sectors a response to short payments may be a form of proportionate reduction in services provided. However, in the case of Cairns and Mackay Airports the leases prohibit this form of response. The relevant parts of the Cairns Airport and Mackay Airport leases are:

15.1/14.1 Repair and maintenance of Premises

The Lessee must at all times maintain, service and keep the Airport Site in good and substantial repair and condition in accordance with Good Operating and Maintenance Practice. The Lessee accepts the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the Airport Site during the Term.

15.1/14.2 Specific obligations of repair and maintenance

Without limiting clause 14.1, the Lessee must at its cost²⁰:

- (a) maintain in accordance with Good Operating and Maintenance Practice the runways, taxiways, pavements and all parts of the Airport essential for safe access by air transport;
- (b) promptly make good in a workmanlike manner any damage to any part of the Airport Site;
- (e) maintain and keep in good working order and condition any equipment servicing the Airport Site;
- (f) perform all Structural Work and all maintenance, repairs and replacements of a capital nature necessary to satisfy clause 14.1;

19.2/18.2 Development of Airport Site

Throughout the Term, the Lessee must develop the Airport Site at its own cost and expense having regard to:

¹⁹ Disputed amounts, for example the imposition of an annual CPI increase, are possibly not 'amounts due' unless determined as such by a court. Therefore, in practice the lessee likely cannot refuse access in the normal course of business.

²⁰ 15.2/14.2 confers multiple other obligations on the lessee, via 14.2(c), (d), (g), (h), the sub-clauses shown are not comprehensive.

- (a) the actual and anticipated future growth in, and pattern of, traffic demand for the Airport Site;
- (b) the quality standards reasonably expected of such an airport in Australia; and
- (c) Good Business Practice and Good Operating and Maintenance Practice

Good Business Practice means the good business practices expected of an airport operator having regard to the duties and obligations of the Lessee under this Lease including, without limitation, providing appropriate facilities for the comfort, ease of access, expeditious movement and efficient use of the Airport Site by passengers and other users of the Airport.

Good Operating and Maintenance Practice means, in the performance of any services or obligations, adherence to a standard of practice which includes the exercise of that degree of skill, diligence, prudence and foresight which would reasonably be expected from a competent, experienced and qualified operator of a facility comparable to the Airport.

A further response to short payments may be to differentially allocate airport capacity. Both airports have published Conditions of Use which contain non-discriminatory allocation rules. Although the Conditions of Use are documents published by the airports, the relevance is that the airports have adhered to non-discriminatory allocation.

Domestic Airline Industry Structure

The domestic airline industry structure has become more concentrated with Virgin Australia Holdings acquiring a further 40% stake in Tigerair in late 2014 to assume 100% ownership. This industry structure of two major airlines groups being in effect a duopoly is unusual in large aviation markets.

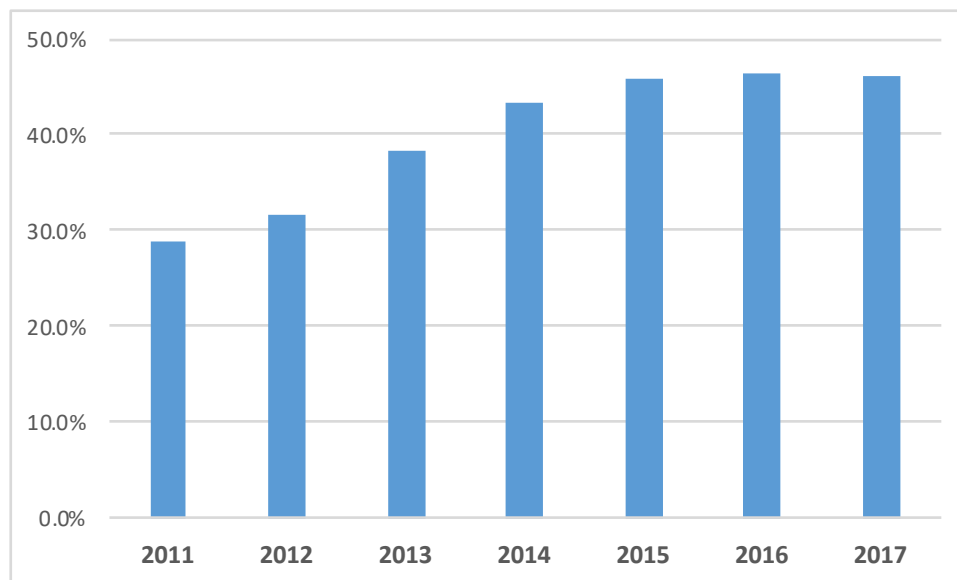
The growth in domestic aviation in Australia has been accelerated by the emergence of LCCs. Virgin Blue in 1999 (now Virgin Australia, but with a different business model), followed by Jetstar in 2004 and Tigerair in 2007 have significantly expanded the market. Further the LCC airlines have changed the nature of the market in two important ways, both of which limit the ability of airports to exercise market power. Firstly, the LCC passenger mix is more leisure-based and more price-sensitive. LCCs take an aggressive approach to negotiating airport fees, knowing that their ability to pass on charges to passengers is lower. Secondly LCCs are adept at optimising their networks in a dynamic way, that is they have shown willingness and ability to enter and also exit markets frequently. As the Commission noted previously, *“The emergence of LCCs and other ‘hybrid’ airlines in recent years appears to have also generated new competitive pressures on airports, not least*

because such airlines often have more discretion in the destinations to which they fly.”²¹ The following are examples of routes where a LCC has ceased flights:

- Melbourne–Mackay
- Melbourne–Launceston
- Adelaide–Hobart
- Melbourne–Adelaide (subsequently re-entered)
- Melbourne–Sunshine Coast (subsequently re-entered)
- Melbourne–Alice Springs (subsequently re-entered)
- Avalon–Hobart
- Perth–Brisbane

Since 2011 LCC share of domestic passengers at Cairns Airport has increased from 29% to 46%²². *Graphic 8* shows LCC market share for domestic aviation at Cairns Airport.

8. LCC Share of Domestic Passengers at Cairns Airport



Cairns and Mackay Market Dynamics

The countervailing power of airlines at Mackay is self evident. Tigerair withdrew from the market in September 2015, without any residual financial obligations to the airport. Qantas and Virgin Australia significantly scaled back capacity post 2012, for example Qantas ceasing Sydney–Mackay services. Airlines have been able to adjust their capacity and hence cost of operating into Mackay to meet the market while the

²¹ Productivity Commission 2011, *Economic Regulation of Airport Services*, Inquiry Report no. 57, Canberra, p18

²² Data is only shown for FY11 on, as Tigerair commenced services in October 2010

airport's costs have remained relatively unchanged. The airport's revenue has fallen in line with passengers, as it has not re-priced aeronautical services.

The Cairns evidence is not that airlines have withdrawn capacity²³ but during negotiations the threat to withdraw was real. As the Issues Paper notes, *“An airline may have countervailing market power in this situation — it could withdraw (or threaten to withdraw) from the route if it is unsatisfied with the airport's terms of service, leaving the airport with a significant loss of revenue. The potential loss of an airline could constrain airports from raising their aeronautical charges excessively.”*

During negotiations an airline wrote to Cairns Airport stating, *“the risk is this capacity will be shifted elsewhere in Australia as a result [of Cairns Airport unit cost increases].”* As mentioned in chapter 3, due to information asymmetries Cairns Airport was not able to test if this was a tactic or reflective of the profitability of Cairns flying.

A simple calculation of the relative impact on Cairns Airport vs the airline suggests withdrawing capacity would be an economic response to increasing airport charges in a small leisure port and would disproportionately affect the airport.

A single aircraft operated by an LCC dedicated to the Cairns route is estimated to provide 250K passengers pa. Re-deployment of a dedicated aircraft, ceteris paribus, would cause Cairns domestic passengers to decline by 5%. It is estimated that between Qantas group and Virgin group airlines that 260 Boeing 737/Airbus A320 aircraft equivalent operate in the Australian domestic market²⁴. Therefore, re-deployment of a single aircraft represents a negligible amount of airline capacity; about 1.0% of Virgin's domestic capacity and 0.6% of Qantas²⁵. This asymmetry between airline capacity and re-deployment provides market power in favour of airlines. The effect is also likely pronounced in ports with a high proportion of leisure passengers, as by definition they exhibit a greater degree of destination substitutability.

²³ In aggregate capacity into Cairns is increasing, although at an individual airline level not all carriers are increasing capacity.

²⁴ This estimate is high-level only as not all fleet are dedicated domestic / international. Aircraft equivalent adjusts for differing seat counts between fleet types, to standardise on the most common fleet (B737, A320).

²⁵ Of the 260 domestic aircraft, NQA estimates this splits roughly 165 to Qantas group and 95 to Virgin group.

5. Exercise of Market Power

Market power is distinguished from allocation of returns along the value chain ('distributional tussles'). Unequal returns in the value chain are not a strong indicator for regulatory intervention. In contrast the exercise of market power is the antithesis of competition. A firm with market power has the *ability* and *incentive* to restrict output and sustainably increase prices above the competitive level. The sustainable and profitable increase in price and reduction in output is *possible*, and is *profit maximising*, due to the absence of competitive constraints. This has been described as 'give less and charge more'.²⁶

Neither Cairns Airport nor Mackay Airport has 'given less'. Giving less could be either in quantity (i.e. restricting supply) or quality (i.e. poor service levels). Restricting supply by limiting or denying access is not possible in the normal course of business under the current regulatory regime. Both airports' Conditions of Use provide for access on equitable terms²⁷. Therefore, when applying the Conditions of Use supply is not restricted to one airline as a result of advantaging another.²⁸ Supply could also be restricted due to under-investment. Both airports have invested appropriately to meet demand.

Under-investment by Cairns or Mackay Airports would result in poor service levels. As evidenced in Chapter 3, Cairns Airport ranks well across various measures of service. Importantly there is no evidence of the airport creating unnecessary downstream cost (ultimately borne by consumers) due to insufficient or poorly managed airport infrastructure.²⁹

Cairns Airport and Mackay Airport are not 'charging more'. Although the airports do not publicly report their return on aeronautical assets, the provision of BBM to airlines and general acceptance by airlines of the pricing outcomes³⁰, is strong circumstantial evidence that return is not excessive. **These pricing outcomes have resulted in a net reduction in charges for domestic airlines at Cairns Airport.**

²⁶ Re Queensland Cooperative Milling Association Ltd., Re Defiance Holdings Ltd (1976) ATPR 4-012, ('Re QCMA')

²⁷ For example, the Conditions of Use specify how aircraft gates and check-in counters are allocated, and this allocation is common across all airlines

²⁸ Paradoxically it is airlines that have disputed the applicability of Conditions of Use at some airports, which may suggest airlines have economic incentives to restrict supply to competitors

²⁹ For example, under-investment in apron parking would cost airlines directly through delay costs (e.g. fuel, crew) and indirectly through loss of consumer loyalty.

³⁰ General does not imply universal, but that pricing outcomes have reference to BBM

Cairns and Mackay Airports have little incentive to exercise market power. Both airports have strong incentives to maximise throughput by supplying airlines, for the following reasons:

1. Cairns and Mackay Airports are not vertically integrated; (**not vertically integrated**)
2. Cairns and Mackay Airports derive significant revenue from non-aeronautical services which depend on maximisation of passenger throughput (**dual-till**); and
3. Aeronautical revenue is reliant on price sensitive tourist and holiday market segments; entrenching the commercial imperative to ensure that throughput is maximised with competitive pricing (**price sensitive market segment**)

Vertical Integration

The Hilmer report³¹ identified vertical integration as a highly relevant consideration in justifying regulatory intervention to mitigate market power related efficiency losses in infrastructure facility markets. Central to the efficiency concern is that a vertically integrated provider may have an incentive to restrict throughput in order to confer a competitive advantage upon its own downstream business(es). Clearly this is not applicable to Cairns and Mackay Airports.

Dual Till

The Commission has postulated that³²:

- *“Airports may not have an incentive to exercise their market power to the same degree as if they were a single product monopolist”; and*
- *“In the context of an airport, the value of non-aeronautical assets that provide aeronautically-related services is likely to be maximised when passenger throughput is maximised.”*

At price-monitored airports non-aeronautical passenger-related³³ revenues can approximate aeronautical revenues. The importance of non-aeronautical revenues to overall revenue would suggest that an airport will maximise its overall revenue at a higher passenger volume that if it were a single product supplier. NQA does not provide separate financial accounts but given its tourist-centric passenger mix³⁴ terminal retailing is a non-trivial component of revenue.

³¹ National Competition Policy Review Report (The Hilmer report), August 1993

³² Productivity Commission 2011, *Economic Regulation of Airport Services*, Inquiry Report no. 57, Canberra, p68

³³ That is, excluding revenues from property investment.

³⁴ Tourists are typically higher spenders at airports for a variety of reasons, including longer airport dwell time, and that they often fly LCCs encouraging at-airport food & beverage purchases.

Price Sensitive Market Segment

As noted in Chapter 2, the price sensitivity of tourist and holiday passengers provides a strong incentive to restrain aeronautical prices to maximise, rather than restrict, customer patronage. The Commission previously found *“Alice Springs, Gold Coast, Hobart and Launceston airports appear to have little market power because of their reliance on the tourism market.”* Given the passenger mix into Cairns Airport is also dominated by tourists, it would be expected that this would limit the airport’s market power.

Natural Monopoly Characteristics

Although this submission focusses on Cairns and Mackay Airports, a sector observation is made about the linkage or otherwise between return and market power. Exercise of market power will manifest as loss of consumer welfare. That is the reduction in consumer surplus will exceed the associated increase in producer surplus captured by the monopolist³⁵.

It is possible for airports (and also airlines) to be highly profitable, when measured by return on assets (ROA), without this being to the detriment of consumer welfare. Airports (and airlines) are scale businesses. For example, current estimates of the construction cost of Western Sydney Airport are \$5.3B³⁶, excluding the likely multi-billion cost of land transport linkages.

The benefits of scale lowering production cost may outweigh the potential for natural monopolies to increase price beyond that which is economically efficient. That price may also be above the short-run marginal cost. The Commission has previously explored the relationship between natural monopolies, efficient pricing and excess profits. It concluded³⁷:

- *“Airports exhibit characteristics of a ‘natural monopoly’ — a particular market case where it is more efficient for a single firm to produce the entire output for the industry...”;*
- *“[For an airport] marginal cost pricing will not provide a normal return on investment and, in the long-run, would be likely to result in a less-than-efficient expansion in the capacity of the airport”;*

³⁵ J Gans, S King, N Mankiw, Principles of Microeconomics (Second Edition), Thomson Learning, Singapore, 2003, p 319

³⁶ Department of Infrastructure, Regional Development and Cities

³⁷ Full text is provided on pages 65–96 of Productivity Commission 2011, *Economic Regulation of Airport Services*, Inquiry Report no. 57, Canberra

- *“Where airports are required to be self-financing, efficient (average) prices will exceed short-run marginal cost, although they will not be so high as to generate persistent excess profits.”;*

The implication is that when testing for exercise of market power, an airport’s return may be an *indicator*, but this test alone is insufficient to prove if any market power has been exercised³⁸, due to natural monopoly characteristics.

NQA endorses the conclusion of the Commission in its prior review³⁹ which found:

“Overall the evidence indicates that the concerns about aeronautical charges mainly reflect a distributional tussle between airports and airlines, rather than inefficient impacts on the demand for air travel by consumers. While distributional issues involving people are clearly important, it is less clear that battles by corporations over profits have any significant regressive impacts. Moreover, the Commission’s focus is on outcomes for the Australian community as a whole.”

³⁸ The period of measurement is also important. An airport’s return may be higher, at least in the short run, simply because it outperforms the market, either due to unexpected factors or a superior management approach. For example, attracting new international airlines ahead of forecast will improve return.

³⁹ Productivity Commission 2011, *Economic Regulation of Airport Services*, Inquiry Report no. 57, Canberra, p182

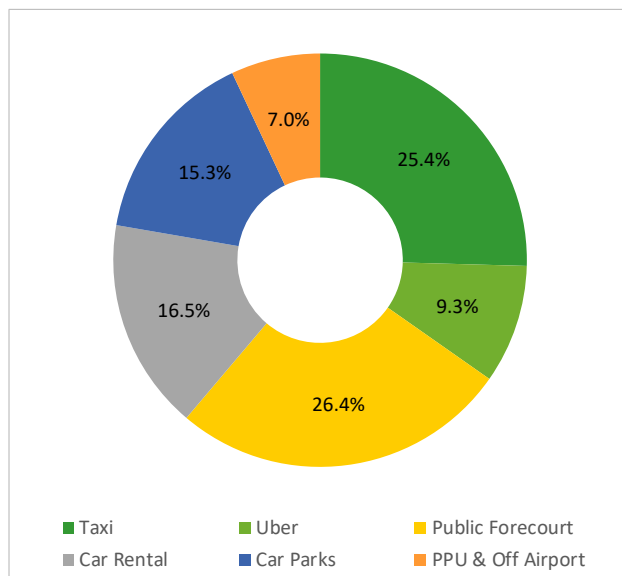
6. Land Transport

All forms of transport at Cairns Airport (public pick-up/drop-off, buses, taxis, ride share, car rental and car parking) have reasonable modal share. The commercial arrangements are both reflective of the infrastructure/service provided (e.g. all modes operate in close proximity to the terminals, undercover areas provided), and do not distort the market i.e. relative trip cost by modal share does not change due to airport charges.

Mode Share

Taxi and ride share (predominantly Uber) are 35% of modal share, consistent with the relative proximity of the airport to central Cairns. Public pick-up/drop-off (free of charge) is the next most popular mode at 26%. With a high mix of visitors and a low resident population it is unsurprising that car rental at 16% mode share is marginally higher than on-airport car parking (15%).

9. Cairns Airport Land Transport Modal Share



Taxis and Ride Share

Taxis

Taxis have access controlled, dedicated, front of house, drop-off and pick-up at both terminals. Drop-off is free. Pickups are charged \$4.40 (Inc. GST) per vehicle per entry into the taxi rank. Having remained unchanged since July 2015, this fee was last increased in August 2017 to create parity in the combined fee (drop-off plus pick-up) with Uber.

All taxi drivers have access to a dedicated holding facility with amenities including toilets, air-conditioning, FID screens, CCTV, plus recently installed vending facilities for hot drinks, cold drinks and snacks. This facility is maintained by Cairns Airport at no separate charge.

Ride Share

Uber have dedicated pick up and drop off bays in the public forecourt at front of house at both terminals. The Taxi and Uber holding areas and pick up/drop off areas are deliberately physically separated to allow a smooth introduction of Uber to Cairns Airport. The fee is \$2.42 (incl. GST) per pick-up and per drop-off (\$4.84 on a comparable basis to taxis) and has remained unchanged since the commencement of operations in March 2017.

All Uber drivers have access to a holding facility which is shared with Bus operators. There is a dedicated area to allow Uber to operate their virtual queueing system. Amenities include toilets, air-conditioning, FID screens, CCTV, plus recently installed vending facilities for hot drinks, cold drinks and snacks. This facility is maintained by Cairns Airport at no separate charge.

Other smaller ride-booking operators use the bus loading zones and are charged the same fee as taxis. They also have access to the bus holding area.

Public Pick-up and Drop-off

Both terminals have free flow, pick up and drop off lanes, at no charge.

Following stakeholder feedback, Cairns Airport will shortly introduce a free, 30-minute waiting zone product to meet consumer demand and expectation. This is separate to the 10-minute free period in the domestic and international uncovered car parks (this 10-minute free parking being maintained).

Car Rental

There are six on-airport car rental operators with counters and ready bays at both terminals, with five of the six also opting for a service counter in the domestic car park. Fees charged to rental car operators for the storage of vehicles, counters and service bays are generally recovered by the operators through a separate fee on-charged to the consumer. For most operators this fee is transparently disclosed in the booking flow if being booked online.

There are numerous off-airport car rental options which are estimated to be equivalent to approximately 10% of the on-airport car rental market. Three of these operators are registered with Cairns Airport and shuttle their passengers to and from the Airport's courtesy bus loading zones (see "Buses" for information on fees). There

are numerous additional unregistered operators who use the public pick up and drop off area in unmarked vehicles.

Car Parking

On-Airport Car Parking

There are three at-grade car parks; uncovered and covered at the Domestic Terminal and uncovered at the International Terminal. All bays are between 1–5 minutes walk from the relevant terminal. Drive up pricing is a maximum of \$30 for the first day (uncovered) or \$34 (covered). Additional days beyond the first 24 hours are charged between \$20 (uncovered) and \$29 (covered). Customers may book online to obtain discounts of up to 60%. *Annexure A* provides a full table of drive-up car parking prices. *Annexure B* shows examples of online discounted car parking offers.

Off-Airport Car Parking

There are three registered off-airport car parking operators who shuttle their passengers to and from the Airport's bus loading zones (see "Buses" for information on fees). It is estimated these operators provide an additional 30% more car parking bays in addition to Cairns Airport's own car parks.

Buses

Pick up and drop off is in separate access-controlled areas at both terminals. Drop-off is free, there is a charge per vehicle per entry into controlled pick up zones. The fee is tiered depending on the type of operation i.e. charter bus vs courtesy bus and carrying capacity i.e. number of seats. There is no annual licence fee levied.

All drivers have access to a free holding facility which is shared with ride-booking operators (details above in "Ride Share").

Prior to 2012, operators were charged a fixed annual licence fee per vehicle irrespective of number of Airport trips. Following a period of consultation, and to make the charging fairer, this was changed to a fee per entry per vehicle from February 2012.

In 2017 the per entry fees were increased by between \$1.01 and \$1.85, depending on the bus category. It is difficult to estimate the increase on a per passenger basis as Cairns Airport does not collect bus passenger data for each bus movement, but for example a 12 seat courtesy bus carrying on average 6 people translates to \$0.17 per person carried, and a 40 seat charter bus carrying on average 25 people equates to \$0.074 per person carried. Time-based charges were also introduced, with the base fee applying for the first 30 minutes in the access-controlled areas only and each 10 minutes thereafter being charged at \$5.00 per bus (across all categories).

The introduction of time-based charging has been contentious for some bus operators and was introduced after full consultation with the bus operators industry group (FNQ TOA). Time-based charges were introduced to force equitable access to the bus bay areas immediately adjacent the terminals. Previously some operators' dwell time far exceeded that necessary to drop-off/pick-up passengers from a departing/arriving flight and impinged on access for other operators. Buses were blocking access to domestic taxi pick-up and car rental return. Passengers were crossing roadways to access double-parked buses.

Public Transport

Cairns Airport is not serviced by the public transport bus network. Airport Connect is operated by Sun Palm Transportation to provide a low-cost connection between the terminals and the public bus network approximately 3.5km away. Airport Connect operates under the same arrangements as other bus operators.

Trip Cost by Mode

Cairns Airport has estimated the return trip cost to Cairns city centre by mode. Car parking charges are also shown for rough comparison, although car parking is a time-based charge and other modes are generally distance-based. Car parking assumes a three day stay e.g. a Cairns resident travelling for short duration business or event-driven leisure (football). Up to three days Cairns Airport car parking charges are directly comparable to other modes, and for two days or less car parking is often cheaper than a taxi or ride share (See also *Annexure A* for car-parking charges by duration). *Annexure C* provides a summary of round trip airport fees by mode which, when read in conjunction with Table 10 below, shows that airport charges are equitable across modes.

10. Average Trip Cost by Mode

Mode	Average cost to Passenger of round trip to city
Taxis	\$50
Uber	\$40-\$52
Public Forecourt	Free
Car Park – on airport	
- 1-hr Meet and Greet at Domestic Uncovered	\$9
- 3-days drive up at Domestic Uncovered	\$69
- 3-days online at Domestic Uncovered	\$55
Car Park – registered off airport operators	
- Uncovered	\$42-\$61

- Covered	\$54-\$84
Buses includes Limousines, Courtesy and Charter vehicles <ul style="list-style-type: none"> - Limousines - Courtesy Buses - Charter Shuttles 	\$136 to \$338 Free - included in other fees \$30
Airport Connect (included in Charter 19-25 seats above)	\$12.80 (Includes \$4.80 Translink Fee)

7. Provision of Security Services

The Issues Paper invites commentary on security arrangements.

In contrast to many other jurisdictions, in Australia the provision of passenger and bag screening is the responsibility of the airport operator, not a government agency or airline. At smaller regional airports any economies of scale that would result from security being provided at a national level (e.g. procuring of equipment, training and hiring of staff, negotiating with labour providers) have been foregone.

Mackay Airport provides an excellent example of this effect. Qantas was previously the security provider and passed on a pro-rata portion of their security costs to other airlines. As part of a strategic review of security, Qantas notified the airport of its intention to withdraw as the provider. The airport objected on the grounds that Qantas' cost base could not be replicated by Mackay Airport. Nevertheless, the airport was directed by the Office of Transport Security (OTS) to take over the provision of security screening from July 2014. This resulted in a circa 30% increase in security costs.

Airports are also subject to a constantly changing security environment, whereby government mandates changes but individual airports are responsible for implementation, sometimes at short notice. This is not a reason not to evolve security as an appropriate response to emerging threats, but commentary on airports' ability to respond. For example, recent changes in security announced by the Commonwealth have meant that Mackay Airport will be required to replace all security equipment to meet the new standard, despite just installing new Checked Bag Screening (CBS) in the last twelve months at a cost of approximately \$1 million.

The commercial implications of airports being default, but unwilling, security providers are less than ideal. Under legislation the airport can pass cost through to airlines but cannot earn a margin. This creates unnecessary conflict between airports and airlines, including definition of cost (operating cost, capital cost, indirect cost e.g. building expansion), cost resulting from government mandated obsolescence of equipment, appropriate pro-ration of cost among multiple airlines (e.g. differing carry-on baggage policies affecting passenger security efficiency) and how to address the inevitable under/over-recovery of cost from one period to the next when a fixed cost is converted into a per passenger charge.

The net economic effect of the current security regime is that airport operators have become providers by default of a service for which they cannot legally earn a margin and which at smaller airports suffers from diseconomies of scale. NQA expects that airlines will also reference security provision as being problematic, as inherently the current government mandated regime is not optimal for any party.

Glossary

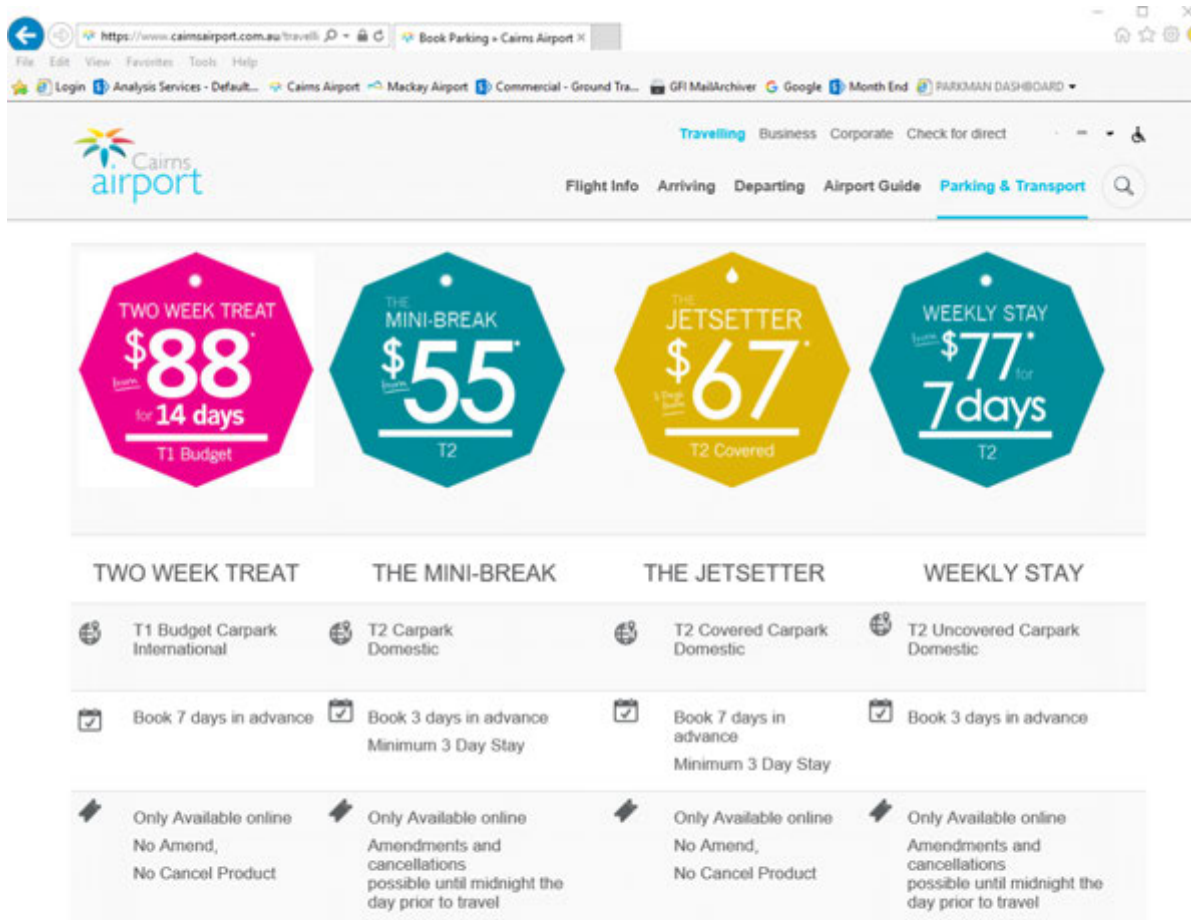
ACI	Airport Council International
Airfield	Runway, taxiway and aircraft parking apron, plus associated equipment (e.g. lighting)
ASQ	Airport Service Quality, a global survey conducted by ACI.
BITRE	Bureau of Infrastructure, Transport and Regional Economics
BBM	Building Block Model. The pricing methodology employed by Cairns and Mackay Airports.
FSC	Full Service Carrier. Qantas and Virgin Australia. Also referred to as legacy carriers.
GA	General aviation. Light aircraft and helicopters
ICAO	International Civil Aviation Organisation, a UN agency.
LCC	Low Cost Carrier. Jetstar and Tiger.
OTP	On-time performance (generally defined as within 15 minutes of scheduled arrival/departure time).
RPT	Regular Public Transport airline i.e. an airline with regularly scheduled flights, excluded charter operators and general aviation (GA)

Cairns Airport Drive-up Car Parking Fees \$, (including GST)

Time	International Uncovered	Domestic Uncovered	Domestic Covered
0-10 mins	Free	Free	8.00
10-30 mins	6.00	6.00	8.00
30-60 mins	9.00	9.00	12.00
1-2 hrs	11.00	11.00	15.00
2-3 hrs	14.00	14.00	19.00
3-4 hrs	17.00	17.00	34.00
4-5 hrs	20.00	20.00	34.00
5-6 hrs	23.00	23.00	34.00
6-7 hrs	24.00	24.00	34.00
7-8 hrs	27.00	27.00	34.00
8-24 hrs	30.00	30.00	34.00
1-2 days	49.00	49.00	63.00
2-3 days	69.00	69.00	93.00
3-4 days	89.00	89.00	123.00
Additional Days (or part thereof)	15.00	19.00	30.00

Annexure B

Cairns Airport Car Parking, Examples of Online Offers



The screenshot shows the Cairns Airport website's 'Parking & Transport' section. It features four promotional offers in octagonal shapes:

- TWO WEEK TREAT:** \$88 for 14 days, T1 Budget.
- THE MINI-BREAK:** \$55, T2.
- THE JETSETTER:** \$67, T2 Covered.
- WEEKLY STAY:** \$77 for 7 days, T2.

TWO WEEK TREAT	THE MINI-BREAK	THE JETSETTER	WEEKLY STAY
T1 Budget Carpark International	T2 Carpark Domestic	T2 Covered Carpark Domestic	T2 Uncovered Carpark Domestic
<input checked="" type="checkbox"/> Book 7 days in advance	<input checked="" type="checkbox"/> Book 3 days in advance Minimum 3 Day Stay	<input checked="" type="checkbox"/> Book 7 days in advance Minimum 3 Day Stay	<input checked="" type="checkbox"/> Book 3 days in advance
Only Available online No Amend, No Cancel Product	Only Available online Amendments and cancellations possible until midnight the day prior to travel	Only Available online No Amend, No Cancel Product	Only Available online Amendments and cancellations possible until midnight the day prior to travel

If your travel plans are not fixed or you want to pick the right option for you less than four hours before you travel, then there's no reason to book in advance. [Click here for more about drive up and park rates.](#)

Cairns Airport Land Transport Access Fees (including GST)

Mode	Drop Off Access Fee	Pick Up Access Fee	Fee For Each Additional 10 Minutes In Loading Zone 1 Only	Total Fees
Taxis	\$0.00	\$4.40	N/A	\$4.40
Ridebooking Other (not Uber)	\$0.00	\$4.40	N/A	\$4.40
Uber	\$2.42	\$2.42	N/A	\$4.82
Public Forecourt	\$0.00	\$0.00	N/A	\$0.00
Buses includes Limousines, Courtesy and Charter, Off Airport Parking and Off Airport Car Rental vehicles				
- Limousines		\$4.84		\$4.84
- Courtesy <18 seats		\$4.51		\$4.51
- Courtesy 19–25 seats		\$6.60		\$6.60
- Courtesy >25 seats	\$0.00	\$9.35	\$5.00	\$9.35
- Charter <18 seats		\$6.60		\$6.60
- Charter 19–25 seats		\$8.25		\$8.25
- Charter >25 seats		\$9.35		\$9.35
- Other Services		\$6.60		\$6.60
Airport Connect (included in Charter 19–25 seats above)				
Car Park				
- 1-hr Meet and Greet at Domestic Uncovered	N/A	N/A	N/A	\$9.00
- 3-days drive up at Domestic Uncovered	N/A	N/A	N/A	\$69.00
- 3-days online at Domestic Uncovered	N/A	N/A	N/A	\$55.00