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Debra Blaskett
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Dear Ms Blaskett,

Thank you for your letter to Grattan CEO John Daley dated 5 December, which we received on 12 December. John has passed it onto me, as I am the lead author of the report 'Competition in Australia'.

Our approach to calculating returns has three main elements. The return measure used in the report is a 6-year average return on equity for all firms in each sector over the period 2011-2016. We remove goodwill from the denominator to provide a measure of profitability that does not change when assets are bought and sold. We estimate of the sector cost of equity, using third-party market-derived 'equity betas' from a capital asset pricing model.

As you note, the report states that "Nearly half of returns earned by airport operators are super-normal profits. And some major airports, such as those in Melbourne and Perth, are earning even higher returns."

While those two sentences correctly report the results of the approach we use, the second sentence is arguably misleading. First, it is in the continuous tense, while the data is for the six-year average ending in 2016. Second, the report does not note that temporary high profitability can be expected during extraordinary demand spikes, such as that experienced by Perth Airport during the peak of the mining investment boom. Third, the report does not note that the cost of capital for Perth Airport may be higher than that of the larger east coast airports.

I have therefore replaced these two sentences with one that reads: "Nearly half of returns earned by airport operators were super-normal profits, on average, from 2010-11 to 2015-16." I have also added a footnote stating: "An earlier version of this report named specific airports for which the average return measure was particularly high over the sample period. This reference has been deleted, as individual airports can experience significant temporary demand spikes and may have a higher cost of equity than the average for the sector."

Again, thank you for your letter. Grattan prides itself on accurate, balanced analysis of economic and policy issues, and our interaction has improved the report.