



12 April 2019

Economic Regulation of Airports Inquiry
Productivity Commission
Locked Bag 2
COLLINS STREET EAST VIC 8003

Dear Commissioners,

RE: Productivity Commission inquiry into the Economic Regulations of Airports

Submission from Newcastle Airport Pty Limited, in response to the Qantas Group Submission to the Productivity Commission Draft Report.

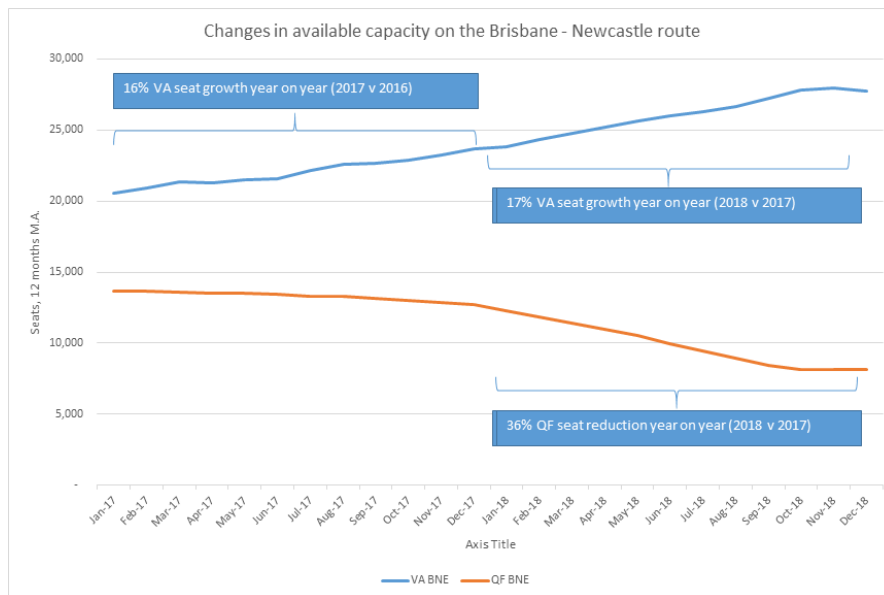
Unfair Airport Monopolies – A Case for Reform

In making this submission, Newcastle Airport Pty Limited (NAPL) seeks to address several references made by Qantas Group regarding Newcastle Airport in its recent submission to the Commission. Specifically we seek to provide context and clarity regarding some of the assertions made and paint a picture of the environment and constraints under which NAPL operates Newcastle Airport.

Throughout their submission, Qantas Group use Newcastle Airport in a case study to argue that their organisation has much more to lose than airports if they were to withdraw flights as a negotiating lever – in fact they suggest eight times more in Newcastle Airport’s case.

They use the specific example of the Brisbane - Newcastle route in 2018.

Qantas write that in the wake of a pilot shortage, they removed approximately 800 services between January and October of 2018. They further suggest that Virgin responded almost immediately to backfill this lost capacity (**see figure below**).





As is clear in the above figure, the growth in Virgin passenger numbers is on a consistent upward trajectory from approximately January 2017.

This steady growth in Virgin capacity was a direct result of a long scheduled and gradual replacement of smaller E190 aircraft with E737 aircraft. Each E737 carries approximately 80% more passengers than the E190. This gradual and systemic up-gauging by Virgin is evidenced by the lack of a spike in Virgin's available seats immediately after January 2018, when Qantas began to downscale their services.

Also worth noting is that Brisbane is Newcastle Airport's most competitive route with up to 10 flights per day. If services were to be withdrawn from other non-competitive routes such as Canberra or Gold Coast, the Greater Newcastle Region would be left without any services to those major destinations. As an example the withdrawal of direct services between Newcastle and Canberra occurred late in 2013 and did not re-commence for 16 months. We are, in these instances, effectively beholden to the airline operating those routes.

Importantly, Qantas Group holds approximately 71% of the market share at Newcastle Airport. This is greater than its national market share of approximately 60% of Australia's domestic market. Including the carriage by Virgin these two groups account for 95% of all air traffic at Newcastle Airport.

A further example may help illustrate the degree to which Newcastle Airport's viability is influenced by airlines:

In April 2018, Jetstar reduced Newcastle to Gold Coast services by approximately 30% (from 10 flights per week to seven flights per week). This reduced schedule continued until November 2018 resulting in 23% fewer passengers flying to and from the Gold Coast compared to the corresponding period in 2017. During this period, no other carriers reacted to replace the lost capacity.

In fact, the withdrawal of flights from Newcastle Airport, by any carrier to any destination, has an immediate and significant effect on Newcastle Airport's brand, reputation and profitability. Newcastle is a tier 2 regional airport, owned by two local Councils (Newcastle and Port Stephens) and only three hours drive from Australia's largest airport at Mascot. A reduction in services greatly impacts on our ability to service our community and pushes more locals towards Sydney Airport, significantly impacting on the local economy and diminishing our *raison d'être*.

Far from driving 'super normal profits, costing jobs and growth,' our current ownership model sees all shareholder dividends either directly re-invested back into airport infrastructure or back into the community via our two shareholders. Without growth in passenger numbers, our ability to advocate for more investment in the region and play a leadership role in its economic development is severely curtailed.

In conclusion, Newcastle Airport would argue that as an example of a small to mid-sized regional airport we are very exposed to the countervailing power of airlines, particularly on 9 out of our 10 services routes that are either entirely or majority serviced by a single carrier. Given the nature of our ownership model and our fundamental commitment to investing back into our community, this places our entire region's prosperity at some risk. We would also argue that in using our Newcastle-Brisbane route as a case study for the purposes of their submission, Qantas has created a narrative, that is better understood by considering a broader data set.



Yours faithfully,

Dr Peter Cock
CEO, Newcastle Airport