

MILDURA AIRPORT PTY LTD SUBMISSION TO PRODUCTIVITY COMMISSION REPORT.

MILDURA AIRPORT

Mildura Airport is located 10 km south west of the Mildura town centre. The Airport is owned by the Mildura Rural City Council (MRCC) and is independently operated by Mildura Airport Pty Ltd. (MAPL)

Council recognises that the airport is one of regions most valuable and specialised assets.

Mildura Airport is Victoria's largest and busiest regional airport, servicing around 240,000 airline passengers annually from approximately 4500 regular passenger transport aircraft movements.

It is the principle Regular Passenger Transport (RPT), General Aviation and Pilot Training Airport in the Sunraysia Region of Victoria.

The Airport has two sealed runways. Pilot activated lighting is provided for night operations and accommodates aircraft up to Boeing B737

Mildura Airport plays an important role in moving people and goods to the northwest of the region with a solid group of operators:

- QantasLink: operating Q 400 (74 seats)
- Virgin Australia operating Boeing B 737-800 (176 seats)
- Regional Express (Rex): operating Saab 340 (34 seats)

This number is further increased by passengers using the 6,200 charter and general aviation movements each year. These movements include charter, flight training, airfreight, air ambulance, aerial agriculture, parachuting, military and V.I.P flights, refuelling of transiting aircraft and are a convenient diversion destination for aircraft due weather or experiencing an on-board emergency.

MILDURA AIRPORT MANAGEMENT

Mildura Airport Pty Ltd (MAPL) is a Council owned corporate entity, incorporated in 2008 to manage and operate the Airport, on behalf of the Council.

This structure allows the Airport to operate with focus and flexibility and to streamline future development activities, while preserving the Airport as a community asset.

Mildura Airport was recipient of the Australian Airport Association's prestigious "Airport of the Year 2013" award.

MILDURA AIRPORT OPERATIONS.

Mildura Airport has obligations to service a range of operations in addition to passenger transport, the claims made by the Airlines, at times, imply that they are charged for these other facilities and services

- Medical emergency and patient transfers
- Flight training
- General aviation and sports aviation
- Commercial operations
- Fire fighting and emergency response

We are highly sensitive to and work hard to ensure that we develop the airport and provide facilities that are safe, secure and meet the needs a complex stakeholder environment.

We work hard to ensure that we do not cross-subsidise by charging Airlines.

MAPL operates as a Corporate entity as a company limited by shares.

MAPL has a single Shareholder, Mildura Rural City Council.

MAPL is required to conform with all Corporate requirements including and specifically the need to remain solvent.

MAPL draws revenue from several sources including Aviation, Café operations, Car Parking and Tenancy.

MAPL holds the CASA Aerodrome License for Mildura Airport

MAPL holds the Airport Security Screening License.

AUSTRALIAN AIRPORTS ASSOCIATION (AAA)

MAPL is a member of the Australian Airports Association. (AAA) A member of MAPL's Management team is a Board Member of AAA

MAPL supports the AAA submission to the Productivity Commission.

PRODUCTIVITY COMMISSION REPORT.

Submissions received by the Productivity Commission have come from a wide range of interests and contain in some cases assertions that are biased opinion and not based on evidence or at worst incorrect.

For the sake of clarity and accuracy, MAPL wishes to present its position directly to the Commission while supporting its industry body the Australian Airports Association (AAA) Mildura Airport supports the report and findings of the report and wishes to add comments to further support the credibility of that report.

SUBMISSIONS

There are several submissions including those from QANTAS, Rex, and Airlines 4 Australia and New Zealand that state or infer that Mildura is an Airport that attempts to use its position to maximise income to the detriment of its client Airlines.

MAPL refutes those assertions and seeks to inform the Commission of the integrity of its Management practises.

The main protagonist in this debate is Rex whose response to the Commission's report is outlined below.

In addressing the Rex response, MAPL's position is clearly stated and applies equally to all other assertions as they may appear in other responses.

Regional Express (Rex) Response to the Productivity Commission Draft Report on the Economic Regulation of Airports

Rex withdrew services on the Mildura to Sydney route in response to what it described as 'exorbitant' aeronautical charges and has redeployed resources to Griffith Airport as part of a five-year partnership agreement with Griffith City Council

Rex first commenced operating the Sydney to Mildura in October 2002 (within 3 months of the commencement of Rex) and prior to that no other airline had been servicing the route. In FY03/04 the passenger numbers were less than 4,000, however on the back of Rex initiated schedule improvements in 2005 that required an increased allocation of Rex's resources, the passenger numbers grew to around 8,000, however the daily service provided around 20,000 annual seats. Rex had been consistently delivering in excess of 10% annual passenger growth to Mildura airport, but this was not enough for the greedy airport who increased the airport charges excessively such that its revenue increased by 67% from 2003/04 to 2006/07. Not being able to convince Mildura airport to act reasonably and responsibly, Rex exited the Sydney to Mildura route for the first time back in October 2008.

In mid-2012 the Chair of the Mildura airport approached Rex to repair the relationship. A partnership agreement was forged that covered the ensuing 5 years and saw Mildura receive air services to 3 capital cities, vis Sydney, Melbourne and Adelaide, in addition to an air link to Broken Hill.

No other regional city in Australia of similar size had such extensive regional air links to 3 capital cities. It is very important to note the reference to the broader partnership agreement, because in the absence of such an agreement Rex would not have resumed the Sydney to Mildura route, given Rex's intimate understanding of the marginal nature of the route. However, we again see the greedy nature of Mildura airport with an exorbitant 13% increase to the Mildura airport passenger head tax that was implemented in October 2018.

This represented an increase in airport head tax revenue of over \$400,000 a year on all passengers transiting the Mildura airport with the Melbourne Mildura route alone accounting for 226,000 passengers.

With this steep increase, Rex had no choice but to cut off its marginal Sydney to Mildura route which it exited in October 2018. However, Rex's threat of an exit and its eventual exit did not deter Mildura Airport from maintaining its 13% increase on head tax charges. Hence the Productivity Commission citing the example of Mildura is a flawed attempt in demonstrating that regional airlines have market power. In fact, it is quite the opposite, as it fully demonstrates that all the power is with the airport and that even with the threat and execution of 2 exits, the exorbitant airport head tax increases have not been staved off and have been implemented.

The Productivity Commission is completely wrong on this point. It is quite clear that Rex's threat to reduce or withdraw a service had absolutely no impact on Mildura airports decision to increase their charges by 13%. In fact, the Productivity Commissions' use of this example proves the opposite point to the one they are trying to make.

Mildura airport ignored Rex's so-called threat and went ahead with the 13% increase. What this proves is that airlines do not have any countervailing power when negotiating with an airport that is hell bent on increasing their charges by an unreasonable amount. If Rex had such power Mildura Airport would have withdrawn their excessive charges. They did not. We would expect that the final Productivity Commission report will correct the false claims and incorrect assumptions regarding regional airlines having countervailing power when dealing with airports. On a broader point, it would be naive to the extreme to believe that any airline has countervailing power in dealing with an airport given that a threat to leave an airport or to reduce services to an airport would only result in that airlines competitor commencing or increasing their services to that airport. The net result would be that the airline carrying out the threat would lose revenue and profits; their competitor would increase their revenue and profits and the airport would be unaffected financially.

MILDURA AIRPORT RESPONSE Redacted

MILDURA AIRPORT CULTURE.

MAPL has a culture of innovation, constant improvement and efficiency in delivering commercial outcomes for the Airport.

It has over time created revenue generating opportunities and reduced costs to benefit its Airline partners.

By way of example, MAPL pursued changes to Security regulations that created the ability for Airports to use a wider range of personnel.

With that change, MAPL absorbed the passenger screening activity and reduced annual operating costs by initially in excess of \$200,000 pa.

That saving was immediately passed on to the airlines utilising screening services at Mildura.

That initiative was MAPL driven without any input or request from its Airline customers.

MAPL is currently negotiating with another Airline that disputes the passenger levy. That is even though two other airlines servicing the Airport have accepted the charges without challenge.

Currently that Airline is short paying passenger levies which is creating significant difficulties in the Airport cash flow.