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Submission to Review of Price Regulation of Airport Services

Review of Price Regulation of Airport Services

Bankstown Airport Limited thanks the Productivity Commission for the opportunity to place its submission before the Commission.

1. Context

For the Commissions benefit, Bankstown Airport is a General Aviation Airport Procedures (GAAP) airport which is not captured within the terms of reference of the review. Based within the geographical confines of a metropolitan area it is not classified as a major airport as it does not currently support any form of Regular Public Transport (RPT) and the airport has limitations on the size of aircraft that can operate through it. Bankstown Airport has an operating environment aligned closer to a Regional Airport however because it is located in the metropolitan area it is generally not classified as a Regional Airport.

GAAP airports are located in all capital cities in Australia and these airports facilitated over 1,230,000¹ movements in the 2005 calendar year with the majority of activity emanating from flying schools, charter operations, flying clubs and aero sports, with approximately 94% of activity involving aircraft weighing less 7,000 kilograms.

It is in this context that we believe the Commission should ensure their deliberations consider the unique situation of GAAP metropolitan airports like Bankstown Airport. We understand that the study focuses on the price monitored airports, and as such our submission will cover only the following areas of the review:

- Price Regulation
- Regional Airline Services

2. Price Regulation

¹ <http://www.airservicesaustralia.com/reports/>



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Bankstown Airport Limited does not support any form of price regulation or price monitoring arrangements for airports. As a private entity owned by shareholders who invested significant capital in purchasing the asset BAL believes it should be able to set prices for its product and services as guided by market forces whilst complying with the requirements of the '*Airports Act 1996*' and supporting regulations.

Bankstown Airport Limited considers that sufficient regulations currently exist to protect users of our facilities and services in regards to charges and that ultimately the market will signal any concerns to airport owners.

To bring this point in to perspective, following the purchase of Bankstown Airport in December 2003, General Aviation activity, the staple of the airports aeronautical revenue, suffered severe decline for the first 18 months of ownership². Despite a turnaround in General Aviation aircraft movements over the last nine months, aeronautical revenue currently does not cover the aeronautical operating cost or supply a commercial return on investment for the BAL aeronautical assets.

In an effort to balance significant aeronautical asset maintenance and improvement costs with revenue Bankstown Airport Limited as from 7 August 2006 is implementing price increases over a three year period. This aeronautical pricing policy assumes the status quo for Bankstown Airport regarding regulator controls and in particular that Bankstown Airport Limited aeronautical pricing policies will not be affected by this Productivity Commission review either directly or indirectly.

Bankstown Airport Limited recently commissioned a major accounting firm to establish the true costs of the aeronautical business and that study found the existing aeronautical pricing regime fails to recover aeronautical costs by factor of five.

It should also be noted our operations at Camden Airport is fully exposed to the market forces and that it competes with other airports in the region who enjoy significant competitive advantage due to the fact that they are not governed by the '*Airport Act 1996*' or have to satisfy head lease requirements.

3. Regional Airline Services

The Bankstown Airport Master Plan approved in March 2005 allows the introduction of Regular Public Transport (RPT) of up to a twelve movements per day. The likely RPT market suited to Bankstown Airport is turbo props and smaller jet aircraft for regional traffic.

We have some concerns with current obligations between Sydney Airport and the Regional Airlines which places Bankstown Airport Limited at a commercial and competitive disadvantage.

² Department of Transport and regional services, Bureau of Transport and Regional Economics, Report 111 General Aviation; An Industry Overview, April 2005

Currently the Sydney Airport operational obligations to regional airlines are:

- Sydney Airports Corporation must notify the ACCC of proposed price increases and that those increases are capped at CPI levels
- Sydney Airports Corporation must ensure a 'ring-fencing' arrangement creating a separate pool of landing slots for regional airlines at the airport.

The Bankstown Airport Limited position is that both obligations impede the best economic use of Sydney Airport and that they indirectly create entry barriers for Bankstown Airport.

Further Bankstown Airport Limited submits that the current Sydney Airport obligations operate to prevent market forces from determining the optimal location for regional operators. Where Sydney Airport charged the full and true economic cost to these regional airlines they would have increased incentive to consider other lower cost airport options, including Bankstown Airport.

The provision of guaranteed slots to regional operators at Sydney Airport also artificially distorts their airport selections. This guaranteed slot regime creates an artificial disadvantage to Bankstown Airport by preventing the market determining airport usage by the regional airlines.

We would ask the Commission to review the economic value of those arrangements in an effort to make Bankstown Airport more competitive for regional airline business and their passengers.

4. Summary

Bankstown Airport Limited understands the Australian Government's desire to improve the pricing outcomes for all sectors of the aviation industry. It is our position that airports should be guided by market requirements as opposed to regulations.

Bankstown Airport Limited can compete for a limited amount of Regional Airline traffic, however the current regulatory arrangements with Sydney Airport operate as a disincentive for Regional Airlines to consider the operating advantages that Bankstown Airport can offer.

We understand and support the governments' initiatives with this review, however we do not wish to see our business potential restricted by price controls or through restrictive competition practices.

Mario Bayndrian

**Aviation Manager
Bankstown Airport Limited**

12 July 2006