

Supplementary submission to the Productivity Commission

Economic Regulation of Airports

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List of abbreviations

A4ANZ	Airlines for Australia and New Zealand
AAA	Australian Airports Association
ACCC	Australian Competition and Consumer Commission
AOL	Airport Operating License
BARA	Board of Airline Representatives of Australia Inc
Commission	Productivity Commission
IATA	International Air Transport Association
FOD	Foreign Object Debris
OTP	On-Time Performance
ROIC	Return on Invested Capital
SMS	Sydney Airport Slot Management Scheme
T1	Terminal 1 (International terminal)
T2	Terminal 2 (Common user domestic terminal)
T3	Terminal 3 (Qantas domestic terminal)
WSG	World Slot Guidelines

Chapter 1: Executive summary

Sydney Airport has provided submissions to the Productivity Commission's Inquiry into Economic Regulation of Airports on 10 September 2018 (**First Submission**), 23 November 2018 (**Second Submission**) and 25 March 2019 (**Third Submission**) and has appeared before the Productivity Commission at the Public Hearings in Sydney on 26 March 2019.

Sydney Airport has reviewed the most recent submissions made by other participants and the transcripts of proceedings from the Public Hearings, following the publication of the Productivity Commission's Draft Report on 6 February 2019.

To assist the Productivity Commission, this submission responds to some factual inaccuracies and misleading assertions made about Sydney Airport by participants that have not already been fully addressed in our earlier submissions.

Before responding to specific points, Sydney Airport would like to note its increasing disappointment in the misleading and inaccurate assertions proffered by some parties throughout the Inquiry, including Qantas, BARA and A4ANZ. Chapter 2 details and responds to these factual inaccuracies.

As a general counterpoint to these assertions, Sydney Airport would like to restate its position on a few important matters.

- The Productivity Commission process has been transparent and fair. Sydney Airport, like all other parties, has had equal opportunity to participate in proceedings and provide the Commission with evidence to support its position.
- Airports and airlines work together collaboratively every day to reach agreements on contractual and operational matters that deliver services, in the case of Sydney Airport, to more than 44 million passengers a year. The current regime has facilitated increased collaboration and more sophisticated commercial agreements between airlines and airports which, the evidence shows, is delivering better service outcomes for passengers.
- Commercial negotiations between airports and airlines are not a cause for concern. The role of regulation is to protect consumers and guard against market failures, not to re-adjust the bargaining position of sophisticated commercial entities that, the evidence shows, can look after themselves in commercial negotiations.
- The current regulatory environment has enabled a thriving aviation sector which is best-placed to deliver improved outcomes for customers and deliver economic growth.
- The current system has allowed airports to grow, but also incentivised them to invest. Since privatisation Sydney Airport has invested over \$4.7 billion and grown the number of airlines flying into Sydney Airport from 37 in 2002 to today's 47.
- Sydney Airport seeks feedback from customers on an ongoing basis, well beyond the requirements of the ACCC monitoring regime. This feedback is used to inform decisions on investments in infrastructure and other initiatives to ensure that what is delivered will have a positive effect on passengers' experience. The success of this approach is being reflected in improving customer satisfaction scores and in the ACCC monitoring report where, this year, Sydney Airport's overall satisfaction rating was elevated from "satisfactory" to "good".

- Sydney Airport will continue to seek feedback and respond through investment, not only because it is the expectation of the community, our customers (both airlines and passengers) and our investors that we do so, but also because the current regulatory regime provides a real and effective deterrent to any abuse of market power. The potential threat of price notification and declaration is tangible and credible. The current regime's effectiveness should not be underestimated.

Chapter 2: Response to airline claims

This chapter provides Sydney Airport's response to some assertions made by airlines and their representative bodies in their most recent submissions and during appearances at the Productivity Commission hearings.

Airline contentions	Response
<p>Misuse of market power</p> <p>Airlines have alleged that airports are misusing their market power</p> <p>Airlines have alleged that airports are making inappropriate returns</p>	<p>A4ANZ and Qantas have cherry-picked data to attempt to support their claims that airports are misusing market power</p> <ul style="list-style-type: none"> ▪ Airlines have proposed new tests for assessing market power that are not robust and appear to have been set up to achieve the desired outcome of justifying increased regulation which is not required (Qantas, A4ANZ, Frontier). ▪ Airlines' analysis on airport returns is not consistent with the regulatory framework or regulatory practice. ▪ This is most evident by considering how Qantas would fare if the same tests were applied to them: <ul style="list-style-type: none"> • Qantas believes that an airport return of ~10% represents supernormal profits, but their own ROIC is ~22%¹. • Qantas' share of the domestic market by capacity is 62%, generating more than 80% of profits.³
<p>Review of the World Slot Guidelines (WSG)</p> <p>Airlines have suggested that the current slot process at Sydney Airport is highly dynamic and mobile, and that there is no value in the government commissioning a public review of the WSG following the current strategic review.</p>	<p>The slot allocation process favours incumbent airlines at the expense of new entrants and broader productivity</p> <ul style="list-style-type: none"> ▪ The share of slots held by A4ANZ carriers has increased from 70% in 2002 to 87% in 2017.⁴ ▪ At the same time, the average seat gauge on major routes has fallen e.g. 12% reduction on Sydney-Melbourne and 5% reduction on Sydney-Brisbane. ▪ Airlines appear to be over-filing for slots and strategically cancelling services on major routes to maintain grandfathering rights while allowing buffer for the rest of their network.

¹ Qantas Annual Report 2018 <<https://investor.qantas.com/investors/?page=annual-report>>, p 2

³ Qantas 2019 Half Year Result Presentation <<https://investor.qantas.com/investors/?page=result-centre>>, 21 February 2019, p 7.

⁴ Paragraph 313, Sydney Airport submission to PC (sub53)

Airline contentions	Response
	<ul style="list-style-type: none"> • For example, in 2018, the cancellation rate on the Sydney-Melbourne route was 2.8 times the national average. ▪ The current slot system is facilitating airlines increasing frequency to hoard slots while reducing seat gauge to manage yields. This is an airline profit maximising strategy and it is understandable why incumbent airlines may argue against reviewing the legislation. However, this behaviour prevents optimal use of scarce airport capacity and therefore impacts on national productivity. <p>Public review of the Slot Management Scheme, including how it interacts with the WSG, is warranted</p> <ul style="list-style-type: none"> ▪ Sydney Airport has in its previous submissions given several examples of how the interaction between the SMS and the WSG is not giving rise to the right outcomes and therefore supports the Productivity Commission’s draft recommendation that the Australian Government commission a public review of the Sydney Airport Slot Management Scheme 2013 (Cth).
<p>On-time Performance</p> <p>BARA suggests that the current on-time performance at Sydney Airport is below comparable overseas airports⁶.</p>	<p>Sydney Airport’s on-time performance (OTP) outcomes are often caused by airlines and are largely outside the control of Sydney Airport</p> <ul style="list-style-type: none"> ▪ Sydney Airport’s OTP places us 16th in the world amongst comparably sized airports.⁷ ▪ Airport infrastructure is responsible for a small percentage of delays. OTP is dependent on many factors including airlines, passengers, crew, air traffic control, engineering, ground handlers and weather. ▪ As an origin/destination airport with an overnight curfew, Sydney Airport is particularly susceptible to early arriving aircraft from long-haul routes. Since 2010, Sydney Airport’s OTP for departures has been consistently higher than for arrivals. ▪ Airports have a higher degree of influence over departures OTP than arrivals OTP. Our data indicates that Sydney Airport has been facilitating delayed aircraft making up time, rather than being the cause of delays.

⁶ BARA, *Submission to the Productivity Commission – economic regulation of airports*, 7 March 2019, p 9

⁷ Major Airports category (20-30m departing seats), OAG 2018 Punctuality Report

Airline contentions	Response
	<p>Initiatives to improve on-time performance</p> <ul style="list-style-type: none"> ▪ OTP is important to airlines, passengers and to Sydney Airport in terms of ensuring the airport is operating as efficiently as possible. ▪ To improve OTP, Sydney Airport is collaborating with relevant stakeholders on a range of initiatives. For example, improvements in efficient gate allocations using technology tools and the introduction of an Airport Operator's Licence (explained below in the section on Foreign Object Debris). ▪ Sydney Airport has limited flexibility to recover from delays due to the operating restrictions that apply⁸. Changes to the operating restrictions, for example by moving to a weekly movement cap, would have a material positive effect on OTP at Sydney Airport⁹ and across the Australian aviation network, to the direct benefit of passengers and airlines at all airports in the network.
<p>Mishandled baggage</p> <p>BARA has stated that the rates of mishandled bags have increased at Sydney Airport, and is above the performance benchmark that BARA has proposed¹⁰.</p>	<p>Baggage outcomes are the joint responsibility of airlines and airports</p> <ul style="list-style-type: none"> ▪ The comments by BARA in relation to this issue do not take into account the fact that baggage handling is a joint responsibility shared between airports and airlines. ▪ BARA's analysis is based on Unisys data which has significant limitations (well known to the airport, airlines and BARA) including: <ul style="list-style-type: none"> • It only covers approximately 60% of airlines and only provides statistics on one part of a multiple step process. • If there is an issue with the scanning technology a bag will be reported as missed even when the bag is on the correct aircraft.¹¹ • Comparison of Unisys data with other sources, such as World Tracer, suggests that Unisys data is significantly overstating the volume of missed bags.

⁸ First submission, ch 10

⁹ Airbiz Runway Recovery Study, March 2019.

¹⁰ BARA, *Submission to the Productivity Commission – economic regulation of airports*, 7 March 2019, p 10

¹¹ For example, the significant spike in missed bags in BARA's analysis for November – December 2018 was caused by a reduction in scanning accuracy due to network carrier connection issues rather than by any increase in missed bags.

Airline contentions	Response
	<ul style="list-style-type: none"> ▪ For these reasons, Unisys does not warrant the accuracy of its data and comparing it to another data source such as SITA is not an ‘apples to apples’ comparison. ▪ Sydney Airport has invested significantly in the international terminal baggage system¹², and is working with airlines to understand the reasons for missed bag rates to develop solutions to drive improvement.
<p>Foreign Object Debris BARA has stated that Sydney Airport has an unacceptably high level of Foreign Object Debris (FOD) and does not therefore meet the standard of services expected.¹³</p>	<p>FOD is predominately generated by airlines and their ground handlers</p> <ul style="list-style-type: none"> ▪ BARA’s submission fails to recognise that FOD is predominately generated by airline and ground handler activities. Ground handlers are engaged by airlines to provide services to the airline on the airfield. Airlines have a key role to play in supporting Sydney Airport’s initiatives to reduce FOD. ▪ Sydney Airport has engaged IATA over the last six months to assist with delivering an improved Airport Operating Licence (AOL). ▪ The AOL is designed to lift the standards for all operations across the airport to improve safety and efficiency outcomes and tackle FOD at its source. The AOL is proposed to include a scorecard and penalty system to drive more thoughtful behaviours and better outcomes. ▪ Sydney Airport commenced consultations with stakeholders on the terms of the AOL in April 2019, and we plan to progressively implement agreements with stakeholders this year. ▪ Given their contractual arrangements with ground handlers, Sydney Airport is particularly reliant on airlines to support the introduction of the AOL, which will help establish sustainable measures to control FOD effectively.

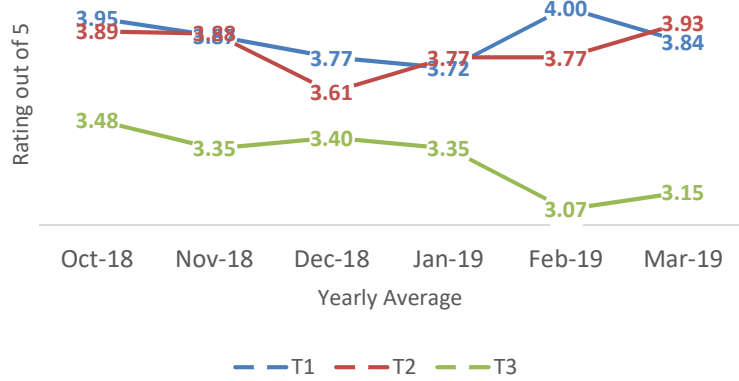
¹² See Sydney Airport's Second Submission, p 18

¹³ BARA, *Submission to the Productivity Commission – economic regulation of airports*, 7 March 2019, p 14

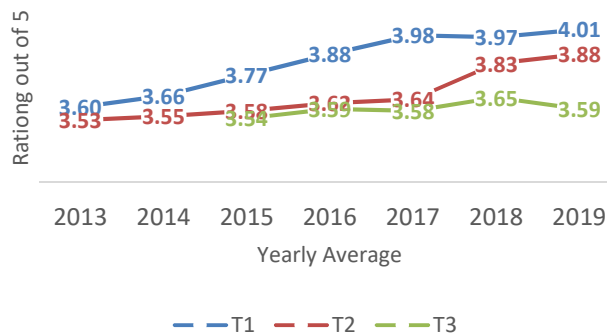
Airline contentions	Response
<p>Contract clauses to silence airline complaints</p> <p>BARA has suggested that Sydney Airport has clauses in lease agreements with airlines that restrict airlines' ability to complain¹⁴.</p>	<p>These contract clauses are not designed to silence airlines, they are designed to ensure acceptable standards of behaviour at the airport</p> <ul style="list-style-type: none"> ▪ BARA's characterisation of this issue is misleading. Sydney Airport does have clauses in some leases to ensure that tenants do not behave in a way that could adversely affect our reputation or brand, for example, by acting illegally or mistreating employees or customers. The purpose of the contractual clauses is to drive behavioural standards, rather than to silence airlines' complaints. ▪ Clauses that govern a tenant's standard of behaviour are common across commercial businesses. Sydney Airport also has similar clauses in leases with retail tenants. ▪ Sydney Airport has never attempted to enforce these contractual clauses against any airline in response to complaints or criticism, including during the Productivity Commission process.
<p>Airports are not delivering levels of service expected by airline customers</p> <p>Airlines have suggested that airports are not delivering levels of service to meet the needs of their customers</p>	<p>Key passenger satisfaction measures show that Sydney Airport is delivering better standards of service at T1 and T2 than Qantas is delivering at T3</p> <ul style="list-style-type: none"> ▪ T3 at Sydney Airport is currently under the operational control of Qantas. Independent passenger survey data shows that in the key areas of bathroom cleanliness and Wi-fi performance, T3 has the worst passenger satisfaction of all Sydney Airport terminals. ▪ Continually improving customer satisfaction at the terminals controlled by Sydney Airport is a direct result of Sydney Airport's decision to increase investment in the physical infrastructure of those terminals and enhance cleaning and maintenance regimes. This is evidence that the current regime is incentivising investment to deliver improved levels of service.

¹⁴BARA, *Submission to the Productivity Commission – economic regulation of airports*, 7 March 2019, p 20.

WI-FI PERFORMANCE



BATHROOM CLEANLINESS



Fuel Throughput Levy

Airlines have stated that the Fuel Throughput Levy at Sydney Airport is a unilateral ‘fee for no service’. Qantas has stated that it is currently 5 cents a litre¹⁵.

The Fuel Throughput Levy (FTL) forms part of a commercially negotiated agreement with the Sydney JUHI JV

- The FTL is currently 0.5 cents a litre, not 5 cents a litre as stated by Qantas¹⁶. This is a small component of the cost of fuel at Sydney Airport.
- The FTL was negotiated at arm’s length as part of the lease from Sydney Airport to the Sydney JUHI JV (which happens to include Qantas) a sophisticated counterparty with bargaining power. As one of the five members of the Sydney JUHI JV at the time of these negotiations, we assume that Qantas was well aware that the inclusion of the FTL was a negotiated outcome and not something unilaterally imposed by Sydney Airport.

¹⁵ Transcript of proceedings, *Productivity Commission Public Hearings - economic regulation of airports*, 26 March 2019, p 277.

¹⁶ Transcript of proceedings, *Productivity Commission Public Hearings - economic regulation of airports*, 26 March 2019, p 277.

Airline contentions	Response
	<p data-bbox="730 248 1430 320">Qantas is reinventing history by claiming that the FTL is a ‘fee for no service’ imposed by Sydney Airport¹⁷.</p> <ul style="list-style-type: none"> <li data-bbox="639 342 1430 450">▪ Sydney Airport carries fuel volume risk as a result of the inclusion of the FTL in the structure of the agreement with the JUHI JV. <li data-bbox="639 472 1430 580">▪ Property lease charges to the JUHI JV at Sydney Airport have been determined factoring in the FTL and would be significantly higher if the FTL was not in place. <li data-bbox="639 602 1430 710">▪ Even with the FTL, Sydney Airport has the lowest fuel price of the Australian airports, as detailed in our Third Submission.

¹⁷ Transcript of proceedings, *Productivity Commission Public Hearings - economic regulation of airports*, 26 March 2019, p 260.