



Australian Mayoral Aviation Council

Submission to the
Airport Regulation Productivity Commission Inquiry

Economic Regulation of Airport Services

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Introduction

This submission to the Inquiry is by the Australian Mayoral Aviation Council, (AMAC).

AMAC represents the interests of Local Government Councils and their communities throughout Australia that have airports located within their area or whose communities are impacted by the activities of those airports. Member Councils represent some 3.25 million residents nationally.

AMAC's comments are not intended to cover the broad spectrum of the Commission's Terms of Reference. Rather they relate to:

- ACCC performance monitoring;
- Access and transport;
- Parking;
- On-airport development and its impact on competition;
- Pressure of on-airport development on aviation related activities; and
- Competitive advantage.

ACCC Monitoring Report

AMAC is aware that the ACCC is commissioned to conduct annual 'quality of service' ratings of each of the five major airports. It is understood the most recent Monitoring Report was for 2008/09 and was published in March 2010. It is a voluminous document (349 pages).

Key findings contained in the report include:

- The ACCC's analysis indicates that, potentially, Sydney airport has increased profits (from aeronautical services) by permitting service-quality levels to fall below that which could be expected in a competitive environment over a sustained period. The monitoring results do not indicate that Adelaide, Brisbane, Melbourne and Perth airports have exercised their market power at the expense of airlines who are users of aeronautical services.
- Overall ranking of service quality saw major airports rank as Brisbane (1st) Adelaide (2nd) Perth (3rd) Melbourne (4th) and Sydney (5th). All airports rated "satisfactory" with only Brisbane rated "good".
- These ranking have remained consistent since 2005/06.

This continuing unfavorable report into Sydney's performance by the ACCC has seen the airport lessee commission two of its own studies. One by the University of Melbourne's Statistical Consulting Centre and a second study by GA Research.

While these studies did not absolve Sydney airport in terms of service quality they did challenge the ACCC's methodology.

The University of Melbourne indicated that, in its view:

- The published guidelines for the passenger survey are open to interpretation in such a way that there could be important differences between the data collected at different airports.
- The summary measures for each of the surveys are based on averaging responses measured on an ordinal scale. This is not appropriate. The use of summary measures appropriate to an ordinal scale is recommended.
- Many so-called "overall" measures combine information from responses to different questions, and from different sources. These measures are not defined, and as such, are not interpretable.

- The combination of responses obtained from different surveys of different populations into an overall measure is inappropriate. It is not defined and is uninterpretable.
- The ACCC report aims to support comparisons between airports and over time. Such comparisons cannot be reliably made without statistical information to support statistical inference.

GA Research stated:

“It is GA Research’s opinion that, as a result of a lack of transparency in the reporting of the research methodology, fieldwork and analysis undertaken, the published ACCC report is insufficient to justify the validity and reliability of the reported findings and conclusions.”

While the opposing views of the ACCC, the University of Melbourne and GA Research are mired in complex statistical methodology and interpretation, it is AMAC’s observation that, whatever methodology is employed to compare and critique performance, it must be robust, reliable, defensible and capable of withstanding scrutiny.

Parking, Access and Land Transport

In relation to car parking the ACCC reported:

- “In 2008-09 and more recently, at least some car parking charges increased at all the airports. The ACCC maintains its view that airport car parking prices charged to consumers are consistent with charges reflecting an element of monopoly rent.
- Airports are in a position to set car parking prices above an efficient level by controlling the conditions of landside access to terminal facilities.
- The ACCC has observed that some airports have affected the conditions for which alternatives to on-airport parking operate.”

The ACCC's report identifies relevant charges as at 30th June 2009 while currently applicable rates are as published by the respective airports:

	Short Term Car Park				Long Term Car Park	
	1 hr	4 hrs	8 hrs	24 hrs	1 day	7 days
Adelaide (\$)	4.00	12.00	20.00	30.00	20.00	70.00
<i>(2011 Rate)</i>	8.00	17.00	30.00	30.00	25.00	70.00
Brisbane (\$)	10.00	16.00	45.00	45.00	25.00	105.00
<i>(2011 Rate)</i>	16.00	30.00	30.00	30.00	30.00	99.00
Melbourne (\$)	12.00	35.00	35.00	45.00	25.00	69.00
<i>(2011 Rate)</i>	12.00	36.00	50.00	50.00	29.00	77.00
Perth (\$)	5.40	9.40	26.00	26.00	17.00	79.00
<i>(2011 Rate)</i>	5.60	11.00	15.00	36.00	16.00	88.00
Sydney (\$)	15.00	50.00	50.00	50.00	25.00	110.00
<i>(2011 Rate)</i>	15.00	52.00	52.00	52.00	25.00	122.00

By comparison, in Sydney, a secure off-airport 'park and fly' service provider has advertised rates of a flat \$50.00 for up to 3 days then \$15.00/day for days 4 to 6 and \$10.00/day thereafter. This provider has lodged an application to substantially increase the number of parking spaces provided which suggests a commercial belief that travellers will utilise increased off airport parking at the lower price. This application is the subject of objections to the development by the airport lessee.

Similarly, as a comparison, a Melbourne off-airport provider has on-line published rates of \$9.00/day and \$57.00/week.

Clearly off-airport providers incur additional costs in providing intensive shuttle services yet, presumably, still generate an acceptable financial return. This suggests generous margins for on-airport operations.

In addition, a recent article published in the Sydney Morning Herald concerning airport-parking fees compared the applicable 4-hour parking fee at various international airports as follows:

Sydney	\$52.00
Melbourne	\$36.00
JFK (New York)	\$14.80
Heathrow (London)	\$29.00
Narita (Tokyo)	\$24.00
Hong Kong	\$10.00

Regardless of the prohibitive cost, on-airport short-term parking, particularly at Sydney's domestic terminals, is at a premium. Persons using this facility are wise to allow extensive additional travel time in order to locate a vacant parking bay and walk the often, substantial distance to the terminal check-in, security and departures or arrivals gates.

Also at Sydney's domestic terminals, a 51 bay pick-up/drop-off area has been established allowing 10 minutes free parking for passenger pick-up. This capacity is well short of average, let alone peak, demand.

At the domestic terminals kerbside passenger drop-off is permitted (2 minutes – no leaving vehicle). Kerbside pick-up is subject to a fine. This means that the substantial number of private pick-ups at the domestic terminals either deal with gridlock competing for one of the limited free pick-up bays or pay a minimum \$15.00 plus a lengthy walk to meet the arriving party.

At the international terminal neither kerbside drop-off nor pick-up are permitted and fines apply meaning that premium paid parking is virtually the only option. Bearing in mind the potential delay in inbound passengers clearing immigration, collecting luggage and clearing customs, the cost to greeters is likely to be substantial.

Clearly, the availability, location, quantum and cost of spaces provided for short stay pick-up and drop-off at all major airports is in need of review. There is a need for sufficient facilities to be provided thereby enhancing the traveller experience but perhaps, more importantly, reducing the need for meeters/greeters to further clog already congested access roads by queuing to gain access to inadequate short term parking or doing "laps" around the road system until their party arrives at the kerb or a parking spot becomes available.

For Sydney Airport taxi hire incurs a \$3.00 airport 'taxi toll' in addition to the applicable hire fee. Taxis are directed to identified "pick-up bays" by a "taxi marshal" where passengers and luggage board the cab. The right of a cab to priority treatment in the queue is not clear. However there is anecdotal evidence that, where the taxi fare to a nearby destination is deemed to be "too small" there may be some arrangement for promotion in the queue upon return.

A Cityrail service from Sydney's Central Station to either the domestic or international terminals (travel distance 8.2 km) costs \$15.00 one-way or \$25.00 return. This compares to single and return fares from Central Station to far-flung destinations such as Kiama (119km),

Adamstown (154km) and Muswellbrook (282km) each of which is \$7.80 single and \$15.60 return respectively.

There is also only one Government bus service (400 service), which services both domestic and international terminals. This service runs between the eastern suburb of Bondi Junction and the inner-western suburb of Burwood. Both destinations along with the suburbs in between would hold limited appeal as destinations for either domestic or international travellers.

It also means that the vast majority of airport workers face a circuitous, prohibitively costly and time consuming process to use available public transport or are forced to use the more favoured private vehicle as the only viable means of transport. That exacerbates access problems for other users and clogs surrounding streets.

Further, neither the train or bus service provides tailored facilities for the carriage of luggage making their use even less appealing for both airline passengers and regular commuters.

Qantas Drive is a 4-lane road (2 lanes each way) along the northern boundary of the airport. The road is a Commonwealth road vested in the airport lessee. It is the link between the international and domestic terminals but is also a major commuter access route used by workers to access Sydney's eastern and south-eastern suburbs and the Sydney CBD. Commuter peak hours tend to coincide with peak arrival and departure times for airport employees, domestic business travellers and international flight arrivals. This has resulted in major congestion that will be further multiplied by the projected increases in passenger and airfreight volumes and the projected intensification of on-airport commercial developments.

This will mean increases in productivity cost due to increased delays for airport users, airport workers and the tens of thousands of the local commuter workforce funnelled through this location.

Similarly, the eastern approach road system which is the major access route from the southern and eastern suburbs and the Sydney CBD to the domestic terminals, suffers major delays in peak periods with travellers and commuters competing with air freight and expanding sea port container traffic to either access or pass-by the airport. Again, this results in cost in time and money for travellers, commuters and business including import and export freight movement.

Rigid check-in rules enforced by airlines, particularly by so called "budget carriers," means that the prudent traveller is forced to allow substantial extra time to ensure they are able to meet established check-in deadlines, whether the mode of travel is by private transport or rental/hire vehicle.

It also results in further uncertainty and a corresponding lack of appeal in use of off-airport parking facilities as an alternative, particularly for less frequent travellers who are unfamiliar with the dynamics of available alternative arrangements.

In order to address landside access issues and the dearth of viable public transport alternatives in Sydney, all tiers of Government together with air and sea port operators need to be active at a senior level in developing an integrated land transport plan. The cost of implementation should be appropriately apportioned. Priority must be given to immediate implementation as short term projected increases in traffic through the airport and Port Botany will engender increasingly adverse economic impacts both locally and nationally.

Passenger Related Facilities Provided by Airport Operators and Airline Tenants

Since the lease of the major airports there has been increased investment in terminal facilities leading, generally, to a higher standard of amenity. These improvements can be somewhat offset by the increase in human and freight movement and periodic bottlenecks where check-in facilities and/or security screening facilities, immigration or customs are closed or understaffed. Similarly, with increasing load factors, boarding gates and customs entry points are regular sites of congestion.

Refreshment costs and services on-airport are generally well above pricing of similar items off-airport, presumably reflecting, at least in part, the rental costs incurred by business operators.

Existing Monitoring Regime and Compliance Costs

The existing monitoring and compliance regime is generally described as 'light handed' and has been modified and reduced over time as a result of various inquiry recommendations, appeals from operators and changes to legislation.

The most recent instance of this is the Airport Amendment Bill 2010 which relaxes compliance requirements in relation to such things as aviation related activities and the combination of environmental reporting into the airport master plan.

In any case, it would be reasonable to suggest that monitoring and compliance requirements in place to date have not presented particular obstacles to airport lessees, with each continuing substantial infrastructure development and reporting increasing profits.

At issue is rather the capacity to engage in monopolistic behaviour or benefit from competitive advantage.

Whether the findings of the ACCC that certain monopolistic behaviour is indicated, is correct or not, the fact is that each of the capital city airports is the "only game in town" when it comes to major commercial aviation. This restriction applies, in a primary sense, to airline operators. However, the fact that they operate from a particular airport means that all of the attendant commercial opportunities, passengers and freight and their service and infrastructure needs, are compelled to pass through that facility and pay any related costs in doing so as part of a captive market. Accordingly, a monitoring regime needs to be capable and attuned to identifying reasonable but equitable return on investment.

There is also the issue of comparative advantage. In one respect activity at the major monitored airports creates certain advantages for attendant commercial operators basing themselves on-airport (e.g. air freight forwarders/hire car operators/accommodation providers) and paying a leasing premium to the airport lessee to be beneficially located.

At the same time an additional commercial margin can become available to the airport lessee if their cost of doing business is lower when compared to the genuine cost of off-airport activities.

In Sydney for example, one such margin is created through the NSW Government's Office of the Valuer General. Though there may be certain commercial advantages resulting in premium costs paid by sub-lessees to occupy on-airport sites, the NSW Valuer General persists in applying flawed rationale to the valuation of airport sites for rate equivalent payments to local authorities as provided for under Commonwealth leasing arrangements. This means that the rate equivalent for which airport lessees are liable under Commonwealth Legislation are assessed on a substantially lower value than that which is applied to operators of similar, even identical enterprises, off-airport.

A comparative example is contained in confidential information accompanying this submission.

The result is a substantial financial advantage to either the commercial sub-lessee or the airport operator, or both, by comparison to a nearby business competitor.

The view that somehow commercial enterprise on-airport is a less desirable aspiration or an option of last resort cannot be substantiated for an increasingly wide range of ancillary commercial activities. It also contributes to anti-competitive outcomes.

Further, with the ever diversifying range of commercial activities on-airport it is timely that the Airports Amendment Bill 2010 which passed into Law in December recognised the need for airport master plans to address landside transport arrangements and the planning instruments and commercial activities in place in the local and regional context. The efficacy of this new requirement is yet to be tested.

While there has been an approvals regime in place for past building and development works undertaken on-airport, the approach to date has largely been insular. There has been little if any past regard for the adverse impact that any developments may generate regarding compliance issues or the commercial impact that may be suffered by existing off-airport business.

With regard to the airport lessee's liability for rate equivalent payments, there has been protracted disagreement between airport lessees and local authorities as to what that means and how it should be applied. It is AMAC's position that the liability for such payments and the methodology for their assessment should be specified in the Act and be calculated and applied in the same way as the same charges are applied to off-airport land and assets.

Further, in those States where gross rental value is the basis for valuation, gross rental values on-airport must be made available to assist valuers in making an assessment based on comparable information. This is presently not the case. AMAC's position is that this information must be made available to ensure the equitable treatment of on and off-airport commercial operators.

Should further information be required on any matters contained in AMAC's submission or should appearance by a representative at any hearing by the Commission be considered beneficial, AMAC will be happy to oblige.