



Canberra Airport Submission to the
2011 Productivity Commission Inquiry into the
Economic Regulation of Airport Services

Introduction

Since privatization, Canberra Airport has been transformed as a result of significant investment in the Airport, its infrastructure, and services. This investment has covered runway and apron extensions, the construction of new hangars, the development of freight facilities, the completion of roads, new fuel farms and the construction of a Special Purpose Aircraft facility. In addition, we have also engaged in an extensive upgrade of the services for the Airport – covering the relocation and upgrading of water, gas, electricity and telecommunication infrastructure as well as upgrading our facilities and operations to cater for the Commonwealth mandated security requirements. Canberra Airport has transformed over the past 13 years from a small, rundown regional airport to fast growing, soon to be international, aviation hub.

This growth, investment and development has culminated in the development of the new Canberra Airport terminal – a development with a cost of \$350 million.

However, this investment has only been possible because of the actions Canberra Airport took in diversifying its revenue base and developing other aspects of the Airport. Specifically – to ensure funding for the new terminal and other aviation investment, Canberra Airport developed the commercial office parks at Brindabella Business Park, Majura Park and Fairbairn. It was only with the certainty in revenues that these office developments gave, that banks were willing to provide the necessary funding for the major aviation infrastructure investment that was required at Canberra Airport.

While it is clear that Canberra Airport has undertaken significant investment in the Airport, the investment profile at the Airport has been subject to various factors including:

- the uncertain regulatory environment in which we operate – with this uncertainty it is more difficult to justify long term capex projects, especially when the cost of funding increases to factor in this regulatory uncertainty; and
- global events – events such as 9/11, SARS, the Bali bombings and the collapse of Ansett have all had an enormous impact on our operations

Notwithstanding this, we have continued to invest in infrastructure at Canberra Airport under the “light handed” regulatory regime in which we operate.

However, to protect this level of investment and ensure that we continue to be an economic driver for the region, we need certainty as to our regulatory regime. In this regard, we see no reason to increase regulatory intervention on Canberra Airport given that:

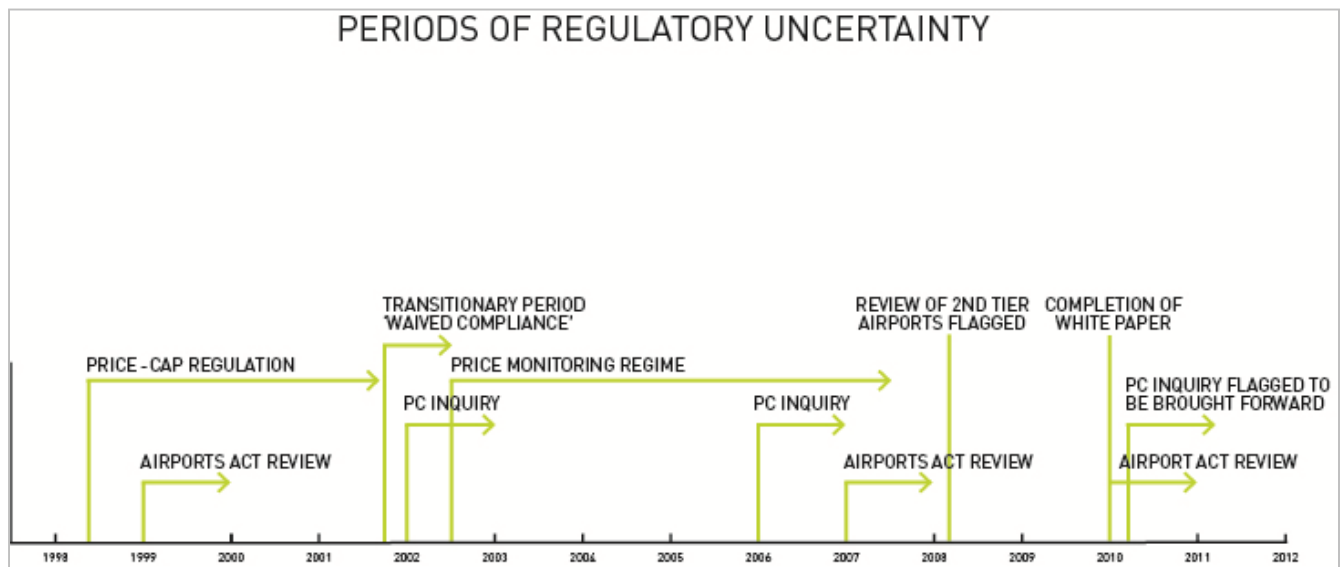
- we have not had any sustained period of regulatory certainty but, where regulatory certainty has been present (i.e. after the light handed regime was introduced), it is apparent that investment outcomes are being delivered;
- we have in place long term airline agreements;

- we are focusing on quality of service outcomes;
- we have invested in car parking and continue to offer affordable car parking for the travelling public;
- we have dispute resolution procedures in place under our airline agreements; and
- we have worked with our local government to improve land access to Canberra Airport.

We will consider each of these matters in turn.

Investment and the Regulatory Environment

Canberra Airport has not enjoyed any sustained periods of regulatory certainty in which to undertake infrastructure investment. This is not an ambit claim – please see below a diagram illustrating the periods of regulatory uncertainty which have affected airports since their privatization in 1998:



In addition to the regulatory events described above, there have also been constant changes with the security regime and regulations, Master Plan processes, continual reviews of flight paths and aircraft noise parameters, the prospect of an aircraft noise ombudsman, and new environmental obligations.

We are not submitting that individual components of these regulatory events are bad or misconceived – rather the point is that this level of change and uncertainty makes it extremely difficult for airports to justify long term, high capex infrastructure investment. Where there is regulatory uncertainty, the following occurs:

- the cost of funding projects increases – banks build regulatory risk and covenants into their lending parameters and pricing;
- with these increased costs and uncertainty, the feasibility of projects has to be continually questioned and reconsidered;
- regulatory and approval delays have to be factored in to project delivery timelines, as well as other staff and consultant's transaction costs;

- long term investment becomes more difficult to justify given the uncertainty around the expected return; and
- airports are forced to develop other options, contingency plans, and less efficient solutions, none of which represent an efficient or cost effective use of time.

Given the above, it is perhaps not surprising that it was in periods of relative regulatory certainty that we made our largest investment decisions - in 2005/06 we decided to undertake the runway extension, and in 2008 we undertook to complete the entire terminal redevelopment. It was in these periods of relative regulatory certainty that banks and shareholders had the confidence to lend money for investment on reasonable terms, and there were limited delays related to regulatory gaming.

In this regard, it should be noted that Canberra Airport has taken significant risks in developing the Airport, risks which were only possible because we are a private family company. We could decide not to make distributions or dividend payments and instead invest everything back into the Airport; we could use family assets as security for lendings; we could make fast decisions, carry risk and change our approach as the situation demanded. Had Canberra Airport been a public company, with fiduciary responsibilities to directly answer to external shareholders, superannuation funds and stakeholders whilst also being effectively forced to make distributions each year, it would have been exceedingly difficult to justify any level of major infrastructure spend given our position as a smaller airport.

The relative certainty of the “light-handed” regulatory approach, with the associated efficiencies achieved through limited regulatory gaming, allowed Canberra Airport to undertake the following projects:

| YEAR | PROJECT | PROJECT DESCRIPTION |
|------|-------------------------------------|--|
| 2006 | Runway 17/35 extension | Canberra Airport’s main runway was extended by 600 metres, the first extension of a major runway in Australia since Sydney’s third runway, and the first extension at Canberra since 1974. |
| | Hangar 48 development (\$2.5m) | Hangar 48 at Fairbairn (former RAAF base) was refurbished and established as the base for the rural fire service helicopter wing and also the ACT Emergency Services Air operations coordination centre. |
| | Long Stay car park extension (\$3m) | Growing demand necessitated an expansion of the Long Stay car park from 620 to 800 spaces. |
| 2007 | Hangar 47 development (\$5.5m) | Hangar 47 at Fairbairn was redeveloped and fitted out for the Australian Federal Police’s International Deployment Centre and air wing operations. |

| | | |
|-----------|--|---|
| | Water supply pump station (\$3.2m) | The water supply to the Airport was upgraded off-site and a major pump station was built to ensure pressure levels for the fire system in the new terminal and the Airport generally. |
| | Fuel farm expansion (\$4.7m) | Growing demand necessitated the expansion of the Airport's fuel farm by 40% through the addition of another two 110,000 litre tanks. |
| 2008 | Brindabella Airlines hangar (\$6.5m) | A new hangar for Brindabella Airlines, a Canberra-based regional airline, was built incorporating their headquarters and major training facilities. |
| | Australian Air Express freight facility (\$6.5m) | The Canberra Airport terminal expansion necessitated demolition of the existing AAE facility and subsequent development of a new freight facility. |
| | Blast fence (\$3.25m) | A blast fence was required for operational reasons at the southern end of the main runway to facilitate full-runway length takeoffs by heavy aircraft. |
| 2009-2010 | Canberra Airport Terminal Complex (\$350m) | <p>The new terminal will deliver:</p> <ul style="list-style-type: none"> • More than double the number of check-in counters (from 17 to 44); • A tripling of baggage capacity; • A quadrupling of Airline Club Lounge areas; • A two storey roadside drop off and pick up system - departures on the upper level and arrivals on the lower level; • An indoor taxi rank waiting area • Two new structured car parks; • New apron hardstand to park more jets; and • New road access network to the Airport. <p>This new terminal is intended to be suitable for the next 30 years without requiring major change.</p> |
| 2012-2013 | Canberra Airport Terminal (\$70 million) | Planned international facilities for the new terminal |

If the new Canberra Airport terminal development had been proposed during a period of price monitoring it is very unlikely that it would have proceeded. It is far more likely that we would have only renovated and extended the existing terminal due to the impact that a full replacement terminal project would have had on our reporting and because a relatively small renovation and extension project would have been favoured by Airlines. In this regard, it is our view that the position of the airlines with respect to the development of the new terminal changed once the regulatory gaming option was no longer available.

The critical point is that since the “light-handed” approach was adopted we have been able to undertake significant investment in our aeronautical infrastructure.

However, if we are to continue with our historical level of investment we need a period of regulatory certainty – we need the current “light handed” regime, a regime that has facilitated significant investment, to be allowed to continue.

Airline Agreements

Much of the focus of the past 13 years of regulation of the airport industry has been to try to encourage the development of commercially negotiated agreements between airlines and airports.

In this respect, Canberra Airport submits that the current regulatory environment has been an outstanding success – every one of the regular public transport airlines operating at Canberra Airport have entered into a commercial agreement with Canberra Airport.

There is no doubt that the negotiations for these agreements were long, complicated and robust – but this is nothing more than would be expected in any commercial negotiation where both parties have an intense interest in the outcome. The point is that these agreements have been executed and are operational – and the proposition that Canberra Airport could have forced the Chief Executive Officers of any airline, or their respective boards, to sign any agreement against their will simply does not bare scrutiny.

Canberra Airport submits that given the attributes of these agreements (as described below) there is little scope for further regulatory intervention – in essence, Canberra Airport and the airlines have already undertaken the hard work, the hard matters have been agreed and documented, and the parties are now consolidating their arrangements and moving forward – what would any further regulatory intervention actually achieve?

Attributes of the Agreements

The agreements negotiated with the RPT operators at Canberra Airport cover the provision of aeronautical facilities and contain the following features:

1. Every one of these agreements took time and effort by both parties to negotiate – there was simply no question of either party being able to force a deal on the other.
2. They are all long term agreements for the use of services at Canberra Airport – indeed some are for up to 15 years.
3. The long term nature of the agreements reflects the mutually dependent market relationship of the airports and airlines – Canberra Airport and its RPT operators appreciate that they have a long term stable relationship based on complementary commercial objectives. Canberra Airport has a fundamental commercial objective to increase as much as possible the number of flights utilising their airport, while the airlines have a fundamental need to use airports and to increase revenue they earn from flying passengers into and out of airports. The relationship is a finely balanced one that would be seriously disturbed by any regulatory intervention.

4. These agreements all deal with the free exchange of information between the parties.
5. The agreements establish a price path for the term of the agreement – Canberra Airport may only vary those prices in certain agreed circumstances (including processes around the undertaking, and pricing for, necessary new investment). The airlines have been able to obtain certainty as to a feature of their cost base of operations at Canberra Airport for future years – something unable to be achieved in many other industries.
6. By establishing a price path for future years, we carry both the construction and passenger growth risk. The prices charged to airlines do not change if the construction costs were higher than expected, or if the passenger numbers were lower than expected – the airlines did not want to be exposed to these risks.
7. The agreements are explicit in limiting the circumstances in which Canberra Airport is able to recover costs for government mandated security services.
8. The agreements prohibit the unilateral introduction of new charges for aeronautical services. This is critically important as what it means in practice is that the ability of Canberra Airport to increase its revenue through aeronautical services is restricted – there is simply no scope to unilaterally increase charges or introduce new charges for the relevant scope of services or for necessary new investment.
9. The agreements contain obligations on Canberra Airport to provide services so as to achieve certain quality standards important to the airlines.
10. The agreements contain dispute resolution processes built around two fundamental premises:
 - That with the sharing of information, the complexity, severity, and number of disputes will be less; and
 - That given the interdependent relationship between airlines and airports, senior management can and will resolve disputes between the parties.

Our agreements have detailed information sharing processes as well as an escalation procedure where a dispute can ultimately be referred to our Chairman and the Managing Director of the relevant airline for resolution. The simple view we take is that if our Chairman and the Managing Director of the airline are unable to resolve the dispute it must be of such a nature and severity that the appropriate forum for resolution is the court system (which exists for this very purpose).

In this regard though, there have actually been very few regulatory interventions or court actions between airlines and airports – due to the balanced commercial relationship between airlines and airports most disputes are resolved at the lower management levels.

Certainly at Canberra Airport no significant dispute has ever been unable to be resolved between the parties in an amicable fashion. Indeed, no dispute has been formally notified by an airline with respect to Canberra Airport and there has been no need for intervention by our Chairman and the CEO of a major RPT airline. In an economic sense, there is no incentive for airports and airlines to have significant disputes – the damage to the relationships between them would undermine the effective growth of business at both ends of the market spectrum.

It also needs to be remembered that the airlines do have a significant tool in any such dispute that renders other statutory intervention meaningless – airlines have the ability to simply withhold payment from an airport. The airports are not able to stop airlines from landing aircraft, and depend upon the airlines for their growth and indeed existence – by withholding payment the airlines force airports to the table to discuss matters and the airports, given their revenue is being withheld, have a strong incentive to reach a resolution.

Canberra Airport submits that there is little utility or value in putting another layer of statutory arbitration or dispute resolution over the top of a relationship that is largely working.

Quality of Service

Quality of Service is something that Canberra Airport has always taken very seriously. Indeed Canberra Airport is spending \$350 million on a new terminal to provide a quantum change in the quality of service offered at Canberra Airport.

Our current approach to quality of service approach is divided into two distinct areas:

- **Airlines** – we have agreed, enforceable quality standards with our airline customers in relation to the provision of aeronautical and terminal services; and
- **Passengers** – this is a commitment to the general public to maintain and improve quality standards at Canberra Airport through continuous appraisal of our service provision and by us having to report on this appraisal to the Department of Infrastructure and Transport and to the public. This is an open, continual and unlimited appraisal of our operation as a business. We have fully embraced the position set out in the National Aviation Policy Statement for the implementation of a second tier quality of service regime.

While a paper outlining in detail our quality of service undertaking for passengers is attached to this submission, the key features of our passenger quality of service regime are as follows:

1. It is the travelling public and those associated with them that directly comment on quality of service at Canberra Airport.
2. The regime encourages continuous disclosure of quality issues – a member of the public can make a complaint or raise an issue at any time (by completion of an information form, either in the terminal or via the internet), so there is no need to wait for a particular survey window or process – complaint/comment is encouraged at the time the relevant service failure/achievement occurs..
3. The customer can pass comment on any aspect of airport operations – they are not limited by any pre-determined survey questions or criteria.
4. Complaints are personally responded to by Canberra Airport management, with a target response rate of 100% responded to within 5-7 days.
5. All information gathered as a result of this monitoring regime is collated and considered by Canberra Airport and a report is provided to the Department of Infrastructure and Transport outlining any trends, particular issues, or other matters that arise out of the quality of service regime. This report is also placed on the Canberra Airport website – it is a completely open and accountable process.

- Where any significant matter has arisen – i.e. when more than 0.1% of respondents raise the same problem or query – Canberra Airport has undertaken to the Department of Infrastructure and Transport to rectify, investigate, or otherwise deal with that particular matter and report on the measures and results.

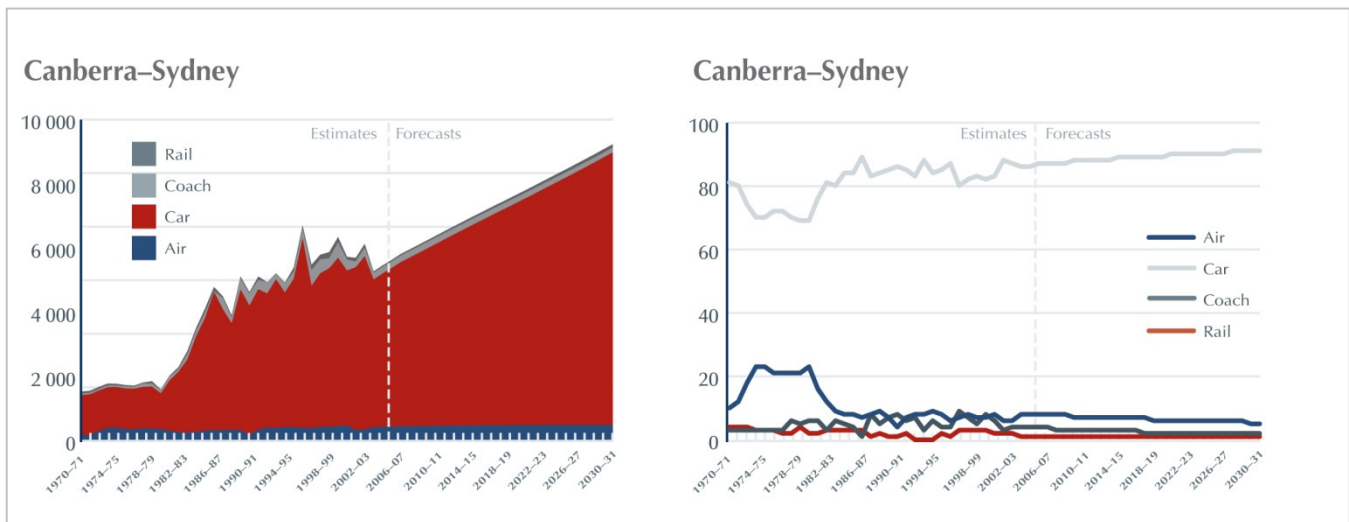
Canberra Airport believes that this regime provides absolute comfort both to the Commonwealth and the travelling public that quality of service will be maintained at Canberra Airport.

Again, the question has to be asked, what more could any regulatory intervention achieve? The system in place:

- already allows for the members of the public to objectively assess and comment upon Canberra Airport aeronautical and terminal services;
- requires Canberra Airport to take those comments into account and report on them to the Department of Infrastructure and Transport and the public; and
- requires that where a matter is significant, Canberra Airport must rectify or otherwise deal with the relevant matter.

In our opinion, this system – a system that allows the travelling public to openly and continually comment upon the service they receive – is one that goes much further and achieves much more than any current mandated quality of service monitoring procedure.

It is in our interests to provide a terminal that is easy to use and of benefit to the public. It needs to be remembered that at Canberra Airport we face significant and real competition from other modes of transport, as shown in the table below:



Source: BITRE

Furthermore, the table below shows year-on-year percentage change in air and road travel between Canberra and Sydney – note the correlation between growth in air traffic and decline in road traffic and vice versa:

| YEAR | AIR | ROAD |
|-------------|------------|-------------|
| 2000/01 | 25% | -24% |
| 2001/02 | -12% | 27% |
| 2002/03 | 2% | -17% |
| 2003/04 | -2% | 14% |
| 2004/05 | 23% | -17% |
| 2005/06 | -19% | 8% |
| 2006/07 | 18% | -2% |
| 2007/08 | 2% | -2% |

Source: National Visitors Survey 2008

In these circumstances, we need to make air travel and the terminal as attractive as possible to the market to ensure that we are able to maintain and grow our passenger numbers in the long term.

For completeness, while the current quality of service monitoring regime implemented by the ACCC is not applicable to Canberra Airport, we note that we agree with the comments made in the Australian Airports Association submission concerning that monitoring regime and the flaws associated with it.

Car parking

We understand that car parking at airports is a major factor in determining public satisfaction with the airport product. It is for this reason that Canberra Airport has invested, and is investing, significant amounts of money in the development of two multi-storey car parks and two on-grade car parks – resulting in the complete transformation of the Canberra Airport car park offering.

This investment is resulting in two important outcomes:

- there has been increase in car park capacity – where this investment was undertaken before our previous car park offering had reached capacity; and
- there has been a significant increase in the quality of the product being offered to the Canberra public.

Our investment in car parking product has been before time and so as to increase service standards – achieving key aims of any regulatory regime.

While we agree with the comments in the Australian Airports Association submission on car parking, we would like to make some specific comments about car park pricing at Canberra Airport:

- Our car parking rates are low compared to other rates offered in other parts of the country, at both on and off-airport locations (see our website for further information).
- The car parking rates at Canberra are comparable to the rates offered in off airport markets. Please see the table below which highlights the differences in car parking rates between various offerings in Canberra.

| TIME PERIOD | WODEN PLAZA (PRIVATELY OWNED) | CITY WEST (PRIVATELY OWNED) | CANBERRA AIRPORT | LEGISLATIVE ASSEMBLY (PUBLICLY OWNED) |
|---------------|----------------------------------|--------------------------------|------------------|--|
| 0 - 1 hr | Not Applicable | \$3.00 | \$3.00 | \$1.50 |
| 3 - 3.5 hrs | \$5.00 | \$7.00 | \$7.50 | \$9.00 |
| 3 - 4 hrs | \$7.00 | | | |
| 4 - 4.5 hrs | \$10.00 | \$9.00 | \$10.00 | - |
| 4 - 5 hrs | \$15.00 | | | |
| 5 - 5.5 hrs | \$20.00 | \$11.00 | \$18 - 21.00 | |
| 5 - 6 hrs | | | | |
| 6 - 6.5 hrs | \$25.00 | \$12.00 | \$18 - 21.00 | |
| 6 - 7 hrs | | | | |
| 7 - 7.5 hrs | \$30.00 | \$15.00 | \$18 - 21.00 | |
| 7.5 - 8 hrs | | | | |
| 24 hrs | \$30.00 | \$18.00 | \$18 - 21.00 | |
| Notes: | | | | |

The table above conclusively shows that there is no exploitation of airport users in terms of car parking at Canberra Airport.

- Canberra Airport has been very active in pushing for the release of more taxi plates in the ACT. It is difficult to see how it could be argued that a car park operator is acting as a monopolist when that operator has run a campaign to try to increase and improve the offering from a direct competitor to the car park product.
- Canberra Airport has also subsidised bus services connecting the Airport to the city centre and other facilities in Canberra. This subsidisation was necessary because the local government was unable to establish a normal public transport service to and from the Airport, and has cost the Canberra Airport in excess of \$690,000 since the introduction of the service. Canberra Airport has again taken action which is contrary to that which would be expected of a monopolist car park operator – it has established and continues to subsidise the operation of bus services to and from the Airport for use by the general public.
- Canberra Airport has also introduced free parking periods to allow for free pick up of passengers arriving at Canberra Airport. Again, this action is contrary to that which would be expected of a monopolist – we have undertaken an action that encourages the use of facilities at no cost, reducing the capacity of those facilities to earn revenue, and imposing management and operational cost on the Airport itself. This will be further improved with completion of the second multi-level car park – this car park will include a dedicated free pickup area on the ground floor immediately adjacent to the terminal arrivals area.

As can be seen:

1. Canberra Airport has invested in the provision of car parking services – there will be two multi-storey car parks and two on-grade car parks and this investment took place before the previous offering had reached capacity.
2. Canberra Airport has openly pushed for the improvement of, and increase in, other services that have the direct effect of reducing car parking revenue earned by Canberra Airport.
3. Canberra Airport pricing for car parking is comparable to off airport pricing.
4. Canberra Airport is listening to its community and introducing free car parking periods for pick up.

Dispute Resolution

Canberra Airport notes that there has, over many years, been a discussion about whether there is a need for a “Show Cause” process or any other formal dispute resolution procedures between airlines and airports. Canberra Airport is of a strong opinion that there is no need for further regulatory intervention in this area.

Canberra Airport agrees:

- with the position reached by the Department, the Commonwealth of Australia and the Minister for Infrastructure and Transport in the National Aviation Policy Statement that there is no need for a “Show Cause” process at this time; and
- with the submission from the Australian Airports Association that the existing dispute resolution procedures as set out in Part 3A are a more than adequate statutory option.

In this regard, the following points need to be kept in mind:

- As discussed above, in the airline agreements we already have dispute resolution procedures to deal with disputes if they arise.
- The fact that the airline agreements are already signed and operational indicates that even if you were to put in place a dispute resolution procedure it would be of little use given that the hard discussions around airline and airport pricing have already occurred, been resolved and documentation finalised.
- There is nothing inherently special about the airport industry that requires it to have a special statutory arbitration process. If you were to put in place any type of enforceable arbitration process for the airport industry you should also consider whether you put one in place for the banking industry, for shopping centre operators, for the ports, for the use of railways, or in relation to other infrastructure such as mines, roads, bridges, or even the use of the internet. We surely can't be reaching a position where we have to tailor a dispute resolution process enforceable by statute for every single separate industry where there may be a market participant that may have some form of market power.
- It is unclear to us what a statutory arbitration process would achieve that is significantly different from the process for declared services that already exists under the current Act. It seems to us that this type of proposal merely replaces one regulator with another, but where the replacement regulator's function is not dissimilar from that of the first regulator.

The key point is that airlines and airports have an interdependent relationship – they have every commercial incentive to work through and resolve any and all disputes that may arise between them.

There is no need for regulatory intervention where a lack of regulatory intervention has resulted in more airline agreements being signed than ever before, where these airline agreements were negotiated robustly between the parties, and where even the most public of disputes between airlines and airports have ultimately been resolved at a commercial level. In these circumstances, Canberra Airport does not support any further codification of the dispute resolution processes between airlines and airports.

Land Access

Canberra Airport accepts land access planning is a critical part of the efficient operation of airports. However, Canberra Airport submits that land access planning is not simply an issue of fixing the roads into and out of an airport – it is an issue about how to best design all of the infrastructure links for a city so as to achieve the most efficient transfer of goods, people, and services.

It is an issue that requires co-operation from airports, Local Governments, State Governments and the Commonwealth Government to ensure the best results are achieved. In this regard, while we agree in principle that land access planning should be a component of any Airport Master Plan, it does need to be appreciated that there are limits to what airports can do to facilitate access to their infrastructure - ultimately, responsibility for the design and implementation of sufficient transport links for a city rests with the relevant Local and State Governments.

That is not to say, however, that airports do not have role in providing input, advice and services to relevant governments to assist in the development of these land access links. For instance, in the case of Canberra Airport, to ensure the flow of traffic between Canberra City and the Airport, Canberra Airport initiated and then entered into a joint venture/partnership arrangement with the ACT Government.

Canberra Airport undertook the traffic studies, and subsequently developed the design solution, required for the upgrade of roads linking Canberra Airport to the Canberra CBD so as to properly meet the long term growth of Canberra Airport. With this design solution we then agreed with the ACT Government that we would pay the construction costs for those roads beyond an initial contribution by the ACT Government – effectively we agreed to take on the construction risk.

The initial budget for construction of the roads showed that the ACT would contribute \$7,500,000, with the total budget being approximately \$12,300,000, meaning that Canberra Airport would contribute approximately \$4,800,000. However, as Canberra Airport was wearing the construction risk associated with the roads, when the roads ended up costing more than \$15,000,000 it was Canberra Airport that covered that extra expenditure.

The point is this – if Canberra Airport had not undertaken to carry that construction risk and had not pushed hard for the development of these infrastructure links between Canberra City and the Airport, it was unlikely that those roads would ever have been developed.