



April 2011

Economic Regulation of Airport Services
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Dear Commissioners

**Re: Productivity Commission
Inquiry into the Economic Regulation of Airport Services**

1. Background of Avalon Airport

Avalon Airport is located about 55 kilometres from Melbourne and 20 kilometres from Geelong and is branded as the Gateway to Melbourne and Geelong.

Avalon Airport is a unique facility which has huge potential for aviation expansion. It has a 3,048 metres runway which is capable of landing all aircraft including the Airbus 380 and Boeing 747 aircraft. It has 5 kilometres of taxiways and 32 hectares of sealed surfaces. It has aircraft parking facilities for seven A320 or Boeing 737 aircraft. It has a passenger terminal capable of handling over 1,800,000 passengers per year and car parking for 2,000 vehicles. It has 55,000 m² of hangar space including three Boeing 747 hangars. It has huge areas of underutilised land available for new uses. No other Australian capital city has a second airport with anything like these facilities. No other Australian regional city has a passenger airport with such potential.

The approaches to the runways consist of largely uninhabited areas including the Corio Bay to the south, and farming land to the north. Flights can be conducted in a manner which provides minimal interference to nearby residents.

Avalon Airport was established in 1952 as a base for government funded aircraft manufacturing projects. During the late 1980s the Federal Government invested in excess of \$100,000,000 in aerospace activities at Avalon Airport, mostly in Boeing 747 maintenance facilities. In 1996 the aerospace work substantially collapsed with 1500 jobs lost. 150 workers remained on the sole remaining defence project.

Avalon was sold to Linfox in 1997 in an environment of substantial job losses and costs in excess of revenues. Linfox has had considerable success in introducing new business and over 1,200 new jobs since 1997.

The Qantas Boeing 747 maintenance base is the largest maintenance base of its kind in Australia. It is the backbone of the Avalon business. It employs around 800



engineers and support staff. At Avalon, Qantas experience freedoms difficult to achieve at other airports, such as the ability to operate engine runs 24 hours a day without impacting on neighbours.

In June 2004 Jetstar commenced Regular Public Transport services into Avalon Airport. Initially commencing with 5 flights a day, Jetstar's services quickly grew to around 13 services per day in 2007. However since that time Jetstar have relocated a number of services to Tullamarine and currently operates just 6 services a day.

In November 2010 Tiger Airways commenced operations at Avalon Airport, complementing its existing services at Tullamarine. Currently Tiger are operating up to 6 flights per day at Avalon and over 20 per day at Tullamarine.

Whilst Avalon Airport is able to offer considerable savings for airlines, there is no doubt that Tullamarine Airport still dominates the Victorian aviation passenger market. In 2008 the Commonwealth Government rejected Avalon's bid to become an international terminal, and whilst publicly stating before the last election that it would support a new application, to date Avalon has still not been able to achieve international operations.

Furthermore, in 2010 Avalon Airport had just 700,000 domestic passengers through the airport, compared to Tullamarine's 21.7 million. Therefore, whilst the notion of genuine competition amongst airports is something that is encouraged, this has not yet been achieved.

This submission outlines policies and procedural changes which will assist Avalon Airport to grow and relieve the burden on infrastructure and environmental impacts around the Tullamarine area.

2. Economic Benefit of Avalon Airport

In July 2010 Avalon Airport commissioned an Economic Benefit Study into the passenger operations at Avalon Airport. This report highlighted the significant benefits to the region around Avalon Airport, particularly Geelong.

The report found that Avalon Airport's low cost flight operations stimulate total visitor spending of approximately \$24,600 per flight. This amount consists of \$8,200 per flight which is unique to Avalon Airport. More specifically, if Avalon Airport did not exist, this spending would not be generated from Tullamarine Airport's operations.

Assuming Tiger and Jetstar each operate 6 flights per day, then unique total visitor spending for the year is approximately \$36 million. Therefore to ensure the continued wellbeing of the Geelong and Wyndham areas, the growth of Avalon should be encouraged.

The report also found that approximately 1,000 full-time equivalent workers are employed at Avalon Airport and estimates that 75% of these workers are residents from the surrounding region.

The report also estimates a further 3,500 full-time equivalent jobs are created in the wider community through the multiplier effect. This includes businesses supplying services to Avalon Airport's activities and the wage spending effect of Avalon Airport based employees.

3 Support for Regional Aerodromes

The Australian Government should support the growth of secondary aerodromes. If secondary aerodromes are given the opportunity to compete, they will provide proper competition to the main airports.

Many of the concerns raised about aerodromes relate to the major aerodromes excessive charges for car parking and to airlines. These problems could be eased by true competition.

To achieve true competition in the Melbourne market, Avalon Airport needs to overcome many challenges. These challenges can be easily assisted by changes in policy. For example:

1. To achieve international operations, Avalon Airport must build an international terminal. To receive Commonwealth approval requires Avalon Airport to submit a Major Development Plan (MDP). The MDP process takes up to 12 months from start to finish. The construction of a new terminal will take at least 12 months to complete. Therefore, to secure an airline at Avalon is difficult given any commencement of operations will be at least 2 years away after the completion of successful negotiations.
2. Secondary aerodromes find it difficult to compete with the large aerodromes that have large economies of scale. International airlines tend to be attracted by the concepts of hubbing and the certainty provided at the largest airports.
3. Avalon Airport is currently subject to two planning regimes. The Department of Defence imposes restrictions which are not consistent with the Airports Act. The State Government has also introduced a planning scheme. Under the State jurisdiction, Avalon Airport is permitted just 3,000 square metres of retail space throughout the airport. Subsequently the restrictions at Avalon Airport are far more onerous than any other airport, and particularly Tullamarine.

Providing assistance to overcome these three obstacles will greatly assist Avalon's expansion. In particular, we ask that the Commissioners recommend:

1. A changed process for secondary airports to build an international terminal. If a policy decision is made to support international operations at an airport, no MDP should be required to build the initial terminal. This change would reduce the time between the agreement with the airline and

commencement by 12 months and reduce the gap to a period more consistent with forward booking periods for the airlines.

2. Secondary aerodromes should be exempt from regulations and laws restricting international airline access. For example, Avalon Airport should be free to permit airlines to undertake international operations regardless of their ownership structure and bilateral arrangements. This change would provide the necessary advantage to encourage airlines to look at secondary aerodromes rather than hub at the largest airports.
3. Avalon Airport's planning controls should be controlled by the Commonwealth Government only.

4.0 Ground Transport

One of the largest inhibitors to grow at Avalon Airport is the passenger connectivity from the Greater Melbourne area. Presently a privately funded bus service is operated between Southern Cross station and the airport, and is scheduled to meet every aircraft movement. However, this service is relatively costly and is subject to traffic delays on the West Gate Bridge.

An upgraded connection between Melbourne and Avalon is required to assist passengers access the airport. More specifically, we recommend the following initiatives be supported or introduced.

4.1 Support for the Victorian Government's Commitment to improve the Link between Avalon Airport and Melbourne CBD

The Victorian Government has announced that a train link to Melbourne and Geelong will be introduced, with works scheduled to commence within the next 4 years. This link will be the first of its kind in Melbourne and will provide passengers with a low cost, convenient and efficient method to transit to their final destination or access the airport from around Victoria.

The Victorian Government will require Commonwealth Government assistance to achieve such an outcome, and therefore we ask that the Commission recommend the Commonwealth provide such support.

This project will provide a huge boost to Avalon Airport. However it will also greatly relieve freeway congestion.

4.2 Introduce a Commuter Service between Avalon Airport and Melbourne Airport

Avalon Airport supports the introduction of a shuttle service between Avalon Airport and Tullamarine Airport. Avalon often receives passengers through its domestic services wishing to transfer to Tullamarine. This is also the case for passengers who arrive at Tullamarine and then require transfer to Avalon. A

commuter service will provide for an efficient passenger transfer between the two airports.

5. Airport Pricing

5.1 Car Parking

Avalon Airport believes the solution to excessive car parking pricing is competition. Presently the largest airports have the highest car parking prices and the least competition.

Avalon Airport has a more moderate car park pricing strategy than Tullamarine. Apart from the cheaper prices, Avalon also offers a more convenient service in so far as a single pricing strategy (no short or long term car parks) as well as closer proximity between car park and terminal. Furthermore, the rate for 24 hours at Avalon is less than the rate at the Westfield Shopping Centre in Geelong.

Recently Avalon introduced a maximum car parking ticket price of \$150. Therefore if a passenger leaves their car in the Avalon Airport car park for many months, the most they will pay is \$150.

5.2 Australian Government Control of Security at Airports and the Subsequent Recovery of Costs through a Network Pricing Regime

Avalon Airport supports the Australian Government take over of all airport security screening services throughout Australia, and the subsequent recovery of cost through a passenger charge. This passenger charge will be fairly distributed evenly amongst passengers throughout Australia.

Presently the Government is seeking to introduce security screening at some regional airports. This provides a great increase on operating costs of an airport and could lead to some airports becoming unviable.

This cost provides an incentive for airports to reduce the level of service. However if the Government were to provide screening services through a new authority similar to the United States' TSA, this would significantly reduce the cost impost on regional aerodromes.

6.0 Conclusion

Avalon Airport is the first airport to seek to challenge the monopoly of a capital city airport. Competition amongst airports is vital to ensuring pricing at major airports becomes more reasonable. Therefore it is critical that airports such as Avalon Airport are not only allowed to survive, but expanded to become truly competitive.



The issues presented in this report are very important to the future of Avalon Airport. Therefore we ask that Avalon Airport is included in any Public Hearings to answer any questions regarding our submission.

We hope our submission assists the Inquiry and we thank you for your consideration.

Yours faithfully

Justin Giddings
Chief Executive Officer