

**Brisbane Airport Corporation Pty Ltd**

Supplementary Submission to  
the Productivity Commission's  
Inquiry into Economic  
Regulation of Airport Services

July 2011  
This report contains 3 pages

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Brisbane Airport Corporation Pty Ltd (BAC) made an initial submission to the Productivity Commission's (the Commission's) Review into Airport Regulation (the Review) in April 2011. BAC's submission focused on responding to the scope of the Commission's Review and BAC's views as stated in the submission have not changed. BAC does not intend to respond to every submission or any comments which we do not agree with. The purpose of this supplementary submission is to specifically respond to commercial-in-confidence, incorrect or misleading statements made in other submissions which are material to this Inquiry.

### **Commercial in confidence information about BAC**

Of considerable concern to BAC is the number of statements that may have been made about BAC's behaviour without any supporting evidence. In particular, both Qantas (Submission 052) and Virgin (Submission 054) make a number of observations that are based on information provided to the Commission on a "Commercial in confidence" basis. Where such statements are made (e.g. pages 19 and 28 of Submission 052), BAC believes it should have an opportunity to review and comment. Therefore, BAC requests that "Commercial in confidence" information about BAC provided to the Commission by other parties be made available to BAC. Alternatively, the Commission should disregard the information about BAC provided in a Commercial in confidence manner.

### **Asset revaluations**

Board of Airline Representatives Australia (BARA) (Submission 019, 059 and 066) continues to incorrectly assert that Brisbane Airport has revalued its aeronautical assets for pricing and monitoring purposes post the implementation of the Line in the Sand (LITS) aeronautical asset base approach. Further, these incorrect claims are made publically and in an inflammatory manner. BAC has advised BARA on numerous occasions that their claims are incorrect. Detailed information has been provided to BARA to demonstrate their claim is incorrect.

This section outlines how Brisbane Airport has accounted for and presented its aeronautical assets over time. While history has shown that BARA will ignore these facts, BAC is hopeful that other relevant stakeholders will, on the basis of the information provided, disregard BARA's claims about Brisbane Airport's asset values.

### ***BAC Assets***

BAC currently maintains two asset registers: an Accounting asset register and a "Line in the Sand" (LITS) asset register. The LITS asset register was created following the 2006 PC inquiry into aeronautical pricing. A summary of the history of these two asset registers is outlined below.

In 2006 the Commission recommended a LITS asset position for price monitoring purposes, based on the 30 June 2005 aeronautical asset values reported to the ACCC. The Commission's recommendation is recognised by airports and airlines as a compromise between the view of some airports that asset values for pricing purposes be based on depreciated optimised replacement costs (DORC) and the airline view that historic asset values be used. For the purposes of aeronautical pricing the Line in the Sand (LITS) asset register is used.

July 2011

The LITS asset base is the value of assets reported to the ACCC as at 30 June 2005 under the AGAAP accounting standards effective at the time. Each year the assets are adjusted for additions, transfers, disposals and depreciation. No revaluations are booked to the LITS asset register.

The 1 July 2005 LITS asset base was also used in the building block modelling that informed the negotiations with the airlines for the five-year pricing agreement commencing 1 July 2007. BAC notes that the prices that were subsequently agreed with the airlines for the 2007 agreement were lower than those indicated by the building block modelling. Furthermore, it is the opening asset base value in the BAC aeronautical pricing model, which has already been provided to the airlines as part of the ongoing negotiations for the pricing agreement scheduled to commence on 1 July 2012. Thus, there is no basis to the claim by BARA that BAC “continues to revalue its assets” in the context of setting aeronautical charges at Brisbane Airport.

BAC notes that statements made by ACCC, such as the comment (in Submission 003) that “*airport’s asset values are based on accounting data and the airports have a significant amount of discretion in valuing their assets for monitoring purposes*” may lead airlines to believe that Brisbane Airport is revaluing its assets for pricing purposes. BAC is required to report both accounting / book and LITS asset values to the ACCC. As noted above, the book values are reported in accordance with applicable accounting standards and there is no significant discretion granted to any company in its reporting of assets. The LITS assets used in estimating indicative aeronautical charges for the purposes of negotiation with the airlines are not revalued.

### **Deemed declaration**

The ACCC (Submission 003) has proposed deemed declaration of aeronautical services under Part IIIA of the *Competition and Consumer Act 2010* (“CCA”). BAC believes that declaration of aeronautical services should be on the same basis as other major infrastructure in Australia – i.e. meeting the declaration criteria set out in section 44G(2) of the CCA. The reasons provided by the ACCC (a history of negotiating with airports, relatively small numbers of airlines and vertical separation of the airport and airline businesses) by themselves do not support the need for declaration. For example, there are uncovered gas transmission pipelines (e.g. Moomba to Adelaide Pipeline System) that meet this description, but which otherwise do not meet the declaration criteria.<sup>1</sup>

BAC is strongly opposed to deemed declaration of aeronautical services and concurs with the National Competition Council that, under deemed declaration:

*“... there is no basis for confidence either that such regulation is likely to enhance competition and efficiency or that access decisions will be made consistently, fairly and with minimal risk of error.”<sup>2</sup>*

<sup>1</sup> In 2005, the National Competition Council recommended that coverage of the Moomba to Adelaide Pipeline System (MAPS) be revoked. The relevant criteria for that recommendation are equivalent to those set out in the CCA. The relevant Minister subsequently accepted the recommendation and coverage of the MAPS was revoked in September 2007.

<sup>2</sup> National Competition Council, *Economic Regulation of Airport Services, Submission to the Productivity Commission Inquiry*, 8 April 2011, p. 15.

*July 2011*

Declaration of any aeronautical services in Australia should be on the basis of meeting the declaration criteria to ensure that it is both warranted and in the public interest to have the airport's aeronautical services declared.

### **Initial asset values**

BARA (Submission 66) estimated that the aeronautical asset base at the time of privatisation was around \$119 million. BAC notes that the analysis provided by BARA over-simplifies the asset valuations that the bidders undertook. In particular, the exclusion of growth capital expenditure is not realistic nor is the assumption that operating expenses would only be 3% higher in 2005-06 compared to 1997-98, despite demand (tonnage) growth of 51% over the same period.

BAC also notes that the original asset values are not relevant to the pricing negotiations given the decision following the Commission's last review into airline pricing that aeronautical charges should be set on the basis of LITS asset values. BAC has adopted this approach, which means that prices are set on the basis of long terms costs, including LITS asset values.

The airline industry's (Submission 55) suggestion that airport charges are significantly above long run costs of providing aeronautical services does not apply to BAC. The model that BAC uses to estimate initial prices for the purposes of negotiations is a post-tax nominal building block model based on commonly accepted regulatory principles, including a reasonable rate of return on LITS assets. This model does not provide for returns in excess of a reasonable commercial return.

### **Conclusion**

In summary, the key points that BAC would like to re-iterate are:

- BAC believes it has a right to review and respond to comments about its behavior made by other parties in a Commercial in confidence manner;
- BAC does not revalue assets in the LITS asset register and therefore revalued asset values have not been used to set aeronautical prices; and
- declaration of any airport's aeronautical services should be on the basis of meeting the declaration criteria set out in the CCA;

If you require any further information, we would be happy to meet with the Commission to discuss our submissions.