



**REGIONAL EXPRESS RESPONSE TO THE
PRODUCTIVITY COMMISSION DRAFT REPORT**

ECONOMIC REGULATION OF AIRPORT SERVICES

September 2011

OVERVIEW

Rex does not agree with the basic underlying assumption in the Productivity Commission draft report that the current light handed price monitoring regime is working well and is preventing the major airports from abusing their monopoly position.

Rex believes that market power is being blatantly abused in some cases and in particular that the small regional airlines and charter operators are at risk of being priced out of the major airports as passenger demand and airline activity doubles over the next 20 years and the major airports start to reach maximum capacity.

This process is evident by the fact that successive governments have felt the need to declare aeronautical services for regional airlines at Sydney Airport under Part VIIA of the Competition and Consumer Act. Without this protection the small, independent regional operators at Sydney would be long gone.

Rex supports the ACCC proposal to declare airport services under Part IIIA of the Act as being the most sound and practical way of ensuring that airport market power is not abused. This is particularly needed for smaller operators that cannot negotiate commercial arrangements in the same way as the large airlines with their greater bargaining power. Rex further believes that the scope of aeronautical services under regulation 7.02A needs to be expanded to stop the abuse of such costs as essential property rents and hangar leases.

Rex acknowledges that there has been investment in new infrastructure under the price monitoring regime but also points out that regional airlines do not always benefit from this investment. Where there is a lack of investment in regional airline facilities, regional airlines can suffer operational and fiscal penalties as a result.

The overall move toward discrete commercial arrangements favoured by the Productivity Commission does not work for the small operators and as a result some form of regulatory protection is required.

DRAFT FINDINGS & RECOMMENDATIONS

Rex has not commented on all draft findings and recommendations but has concentrated on those areas where it has some expertise or first hand knowledge and in particular those aspects that are relevant to regional operations. The comments from Rex are intended to convey a regional perspective.

Market power and regulation

DRAFT FINDING 4.1

Although the continued growth of low-cost carriers and competition from some secondary airports has reduced the potential for airports to exploit market power, Brisbane, Melbourne, Perth and Sydney airports — and to a lesser extent Adelaide airport — retain sufficient market power to be of policy concern. However, there is insufficient evidence to suggest the scope of monitoring should be expanded.

Rex agrees that the market power of the major airports is of some concern. It notes that Adelaide Airport uses a less aggressive approach to the other main airports and this is in accord with its weaker market position. While some competition for LCC users may exist in the case of Melbourne and Brisbane airports it is not considered to significantly weaken the airport's market power with respect to regional operators whose customer base very strongly demands that they service the major airports in order to facilitate flight connections.

The report highlights figures from the BITRE forecasting a doubling of passenger numbers over the next 20 years. This could see more airports joining Sydney in reaching maximum air traffic management capacity which will inevitably increase the potential for airports to abuse their monopoly position and price smaller operators out of the major airports thus increasing the availability of valuable slots for larger, more profitable aircraft. This has been recognised by successive governments in the case of Sydney where it has been necessary to put a protective

regulatory regime in place. This same protection may need to be applied to other major airports in the future.

Rex believes that Canberra and Darwin should be the subject of continued monitoring and would like to see the scope expanded to re-include these airports. The draft report makes the point that flights to Canberra have been reduced by one third. Rex was one of the operators that withdrew from Canberra and high airport charges were a significant factor in this decision. Additionally, at least one charter operator has relocated away from Canberra Airport and another operator has ceased its flying training due to the high costs imposed by the airport. Darwin Airport has also dramatically increased some charges with, for example, hangar rental for Rex subsidiary Pel-Air being increased by 69% over 6 years. Rex believes these airports do have significant market power in the case of smaller regional operators and that it has been abused.

DRAFT FINDING 4.2

In general, the coverage of the current monitoring regime is appropriate, and despite recent technological developments (such as online passenger check-in facilities), the additional benefits of attempting to fine tune the monitored aeronautical facilities and services is unlikely to outweigh the cost

Rex disagrees with the finding that the current price monitoring is appropriate. Some services essential to air operations such as maintenance facilities, office space, crew rooms, training rooms, staff car parking and member lounges are not currently monitored. In most cases they are assumed to be covered by commercial arrangements and while this may be true for larger carriers it is not necessarily the case for smaller regional carriers and general aviation and freight operators.

Monopoly airports can use these unmonitored areas to price smaller operators out of an airport in an abuse of market power. In the case of maintenance facilities Rex has been forced to operate out of woefully substandard hangar at Sydney for 9 years with no ability to upgrade due to lack of tenure and no alternative site being made available despite a succession of airport Master Plans. Even the submission of plans for a substantial joint venture maintenance facility in 2005 came to nothing due to a subsequent change in the Master Plan. This same maintenance facility

has been the target of a succession of steep rental increase notifications despite the fact that it is totally inadequate.

In Brisbane Rex sought space for a maintenance facility to cover its then substantial freighter operations with Pel-Air and future RPT operations. At the time there was only one suitable third party maintenance provider available at the airport and the cost involved in utilising this facility was making the freight operation untenable. Despite the fact that space is readily available at Australia's largest capital city airport in terms of land area the rent demanded of Rex for a hanger site was prohibitive and the freight operation was subsequently wound down. Rex still operates some regular freight and charter services from Brisbane but line maintenance is done without a hangar facility.

In Melbourne freighter aircraft are subject to a parking charge of \$35.06 every 15 minutes after the first 3 hours, irrespective of aircraft size. This is an effective charge of \$2945 for 24 hours. Such charging is not sustainable for the small freighter aircraft operated by Pel-Air and its Melbourne based freight operation has now ceased to exist as freight forwarders refused to accept the increase in fees needed to cover such costs.

Rex would like to see all these areas subject to the same level of scrutiny by the ACCC as runway charges and passenger fees. They may not be significant for large operators with commercial arrangements but can be critical for regional operators.

Airport investment and capacity

DRAFT FINDING 5.1

The Australian Government has a number of regulatory and other levers to influence the timing and nature of investment at Australian airports, including lease provisions and requirements under the Airports Act 1996. To date, these levers have not been triggered, as investment has exceeded requirements established at the time airports were sold.

Rex does not dispute that the overall investment has exceeded the Government's requirements. It should be noted however that quite often this investment is not made by the airports as they continue to use the Necessary New Investment (NNI) mechanism to directly pass on the costs to the airlines. In particular Sydney Airport uses this mechanism extensively, even though the price capping arrangements under which this was allowed have long since ceased. As noted in the draft report, this was a supervised mechanism where core-regulated airport operators were permitted to recover the costs of necessary new infrastructure expenditure through price increases for aeronautical services. This process now continues without regulatory oversight and is applied inappropriately and excessively in an abuse of market power.

DRAFT FINDING 5.2

There is evidence of significant investment in aeronautical infrastructure at Australian airports in the period since light-handed monitoring was introduced in 2002, with significant future investment planned. Compared to other Australian infrastructure, airport investment outcomes rate favourably.

While there has been investment, it has not benefited all users. For example, Sydney Airport has expended \$100m on Runway End Safety Areas which it claims benefits all airport users. In fact they do not bring any safety benefits to small regional aircraft. Equally the huge amounts spent on the A380 requirements and on terminal upgrades have not benefited regional airlines. The common user regional airline facility at Sydney's terminal T2 out of which Rex operates is now less capable than the facilities Rex enjoyed when it commenced operations in 2002. Rex

operates 100% of its Sydney activity, which is 18 aircraft, through a single departure and arrival gate. This is despite a near doubling of passenger numbers over the last 9 years. This lack of service is in accord with the concerns highlighted by the ACCC regarding Sydney Airport.

In contrast Adelaide Airport has placed more value on regional operators and has made specific provisions for them in its new terminal and in its future plans.

DRAFT FINDING 5.3

Despite instances of delays to aeronautical investment, it does not appear that such delays have been unreasonable. Moreover, airport operators appear to consult with airlines and other airport users about nature and timing of individual investments at the airports for which they are responsible - although not always to the satisfaction of airlines - and the degree of consultation varies between airports.

Consultation does take place with the airports but effectiveness of this process varies. SACL does have its monthly ACICG (Aeronautical Capital Investment Consultative Group) meetings with the operators but when objections are raised to new charges ‘consultation’ becomes ‘notification’ with SACL pointing to the NNI process as a government sanction allowing it to pass on all investment costs irrespective of any objections. Some regional airports, such as Mildura with its planned terminal redevelopment, have a similar approach to capital projects where effective consultation is non-existent. At the other end of the scale, airports like Adelaide are prepared to engage in constructive and timely dialogue when making plans for significant new investment.

Airside and terminal: price and service monitoring

DRAFT FINDING 6.1

Price monitoring data since 2002-03 show substantial total price increases at most of the monitored airports. However, taken in context, these increases do not indicate systemic misuse of market power.

Rex does not agree with this finding. The fact that the airports achieved significant increases in aeronautical revenue per passenger over the period is of concern. Not all costs rise in proportion to passenger numbers and with the large increase in passengers over the period some economies of scale should be evident. In a competitive environment the revenue per passenger should have decreased. In addition the extraordinary EBITA earnings achieved by some airports (in the case of Sydney 80% to 81% every single year for the past 5 years) would simply not be possible without monopoly pricing. It is noteworthy that SACL's profit remained astonishingly consistent despite the GFC and the associated upheaval suffered by the airlines and the general economy during this period.

DRAFT FINDING 6.2

Recent quality of service monitoring for the overall and passenger survey results alone do not indicate any persistent trends that would suggest the misuse of market power.

The passenger surveys do not discriminate with respect to the origin of passengers and any adverse comment by regional passengers on airport quality of service will be lost in the 'noise' of the statistically far greater number of domestic and international passengers. Rex does not agree that, based on the survey results, it can be concluded there is no abuse of market power with respect to the quality of services provided specifically for regional passengers.

DRAFT FINDING 6.3

Quality of service ratings from airline surveys are notably lower, including ratings of 'poor' for both Sydney and Perth airports. Concerns raised by the ACCC appear to place greater emphasis on the airline surveys.

Obviously the airlines have a different perspective to the end user. They are able to comment on aspects such as runways and taxiways, apron facilities and aircraft parking and highlight issues of which the average passenger would not be aware. Also comments on airport management availability and standards are not applicable to ordinary passengers but are a crucial part of the service level. Passengers may well see non aeronautical improvements such as food halls and shopping centres in airport terminals as value adding whereas the airlines would not have the

same perspective. For example the development of a large food hall near the regional departure gate at Sydney Airport has caused operational difficulties and delays in processing passengers and is not regarded by Rex as a worthwhile investment in terms of airport infrastructure although it has no doubt added significantly to non aeronautical revenue.

Commercial negotiation

DRAFT FINDING 9.1

Reflecting that commercial negotiation in a light-handed environment only commenced between 1997 and 2002 and that commercial agreements typically are for a duration of five years or more, the opportunity for the parties to progressively iterate to more comprehensive and refined agreements has been limited.

It is agreed that the process of reaching satisfactory and workable commercial agreements has a long way to go.

DRAFT FINDING 9.2

Commercial agreements now incorporate features that airlines considered were absent or deficient in 2006. But despite these advances, airlines continue to claim that commercial negotiations with some airports are one-sided and dysfunctional.

Some airports seem to regard commercial agreements as a way of avoiding scrutiny and reducing transparency by cloaking airport charges in commercial confidence. There is little scope for small regional operators to exercise any commercial leverage in such negotiations and invariably they are one sided.

The draft report mentions that commercial agreements now incorporate extra features such as service level agreements and dispute resolution proceedings. These may work in the case of the larger operators where there is capability for expensive litigation to be undertaken if such agreements are in dispute. The smaller regional operators cannot stand up against the major airports in the same way. Rex did in fact invoke a dispute resolution procedure in conjunction with two other airport tenants over a disputed rent increase at Sydney Airport and spent considerable money on an independent valuer only to be told by SACL that it would not be following the dispute resolution procedure. This procedure was one drawn up by SACL in its own standard lease document.

DRAFT FINDING 9.3

Commercial agreements are the basis for the relationships between airports and most airlines. Problems with commercial negotiation are not symptomatic of system-wide failure, but appear to reflect different practices across airports. Sydney airport in particular attracts more criticism than other airports. This variation underscores that commercial negotiation can, but may not always, work well.

It is agreed that different approaches exist at different airports. However there is no guarantee that an airport that is negotiating fair commercial agreements today will continue to do so tomorrow. Changes in ownership, management and activity levels can dictate a different approach as the market power held by the airports means there are no intrinsic controls in place to prevent abuse.

There must be negotiation in good faith if satisfactory commercial agreements are to be achieved. As an example, Rex does not believe that this exists in the case of Sydney Airport where negotiations are typically very one sided. SACL approached Rex with the offer of a commercial agreement early in 2010 with the purpose that such a confidential agreement would enable it to institute steep increases in aircraft parking charges without the need to involve the ACCC. In the event these increases were brought to the ACCC's attention and were rejected.

DRAFT FINDING 9.4

The divergence in the observations and assertions made by airports, on the one hand, and their customers on the other, seems to reflect 'positioning' to either protect or change the distribution of profits between them. While not surprising, testing the veracity of opposing propositions is difficult. Ultimately, the claim and counter claim nature of the evidence means that it is not possible to make a definitive call that greater regulatory intrusion is warranted. Some negotiations are said to work well and others not. These differences might reflect personalities and experience as much as systemic parameters. There is considerable scope to improve commercial negotiation as it has not yet achieved the level of maturity envisaged with the lifting of price regulation nearly a decade ago.

As noted above, Rex does not believe that commercial agreements can be trusted to work in the case of the smaller operators who simply do not have the leverage to be able to negotiate with the major airports on an equal basis.

Performance of Australian airports

DRAFT FINDING 10.1

Compared to their overseas counterparts, Australian airports' aeronautical charges, revenues, costs, profits and investment outcomes remain within the performance range of their overseas counterparts. The analysis suggests that, despite earning below average revenues per passenger, Australian airports are able to profit from cost reductions.

Rex disagrees that all parameters are within the performance range. The graph of profits in the draft report shows that Australian airports are well above the average with Sydney being a star performer. Of concern is the trend that has emerged since privatisation with some airport's charges increasing at a far greater rate than overseas airports.

In August 2010 Giovanni Bisignani, the Director General of IATA, stated that in one decade [2000 – 2010], Sydney Airport had jumped from 34th on the list of the world's costliest airports to ninth. This performance could not be achieved in a competitive environment and is only made possible due to its monopoly position and lack of government controls.

Options for future airport regulation

DRAFT FINDING 11.1

Despite complaints from airport users and the public stance on airports taken by the Australian Competition and Consumer Commission (ACCC), existing safeguards have been very little used.

- *The ACCC has not called for, nor has the relevant Minister instigated, a price investigation of any airport.*
- *For nearly a decade no airport user has commenced an application to the National Competition Council to have airport services declared, nor has the relevant Minister commenced such an application.*
- *No user sought to have the declaration of domestic airside services at Sydney extended beyond the December 2010 expiry date.*

The fact that regional operators are not instituting Part IIIA applications should not be taken to mean there are no problems with airport charges. The long, protracted and expensive legal process involved with the Virgin Blue Part IIIA application for Sydney Airport charges would deter all but the largest airlines. Small regional airlines and charter operators simply do not have the financial and other resources to mount such an application.

Information request: The Commission seeks comment on whether the ACCC should be responsible for both issuing show cause directions and conducting any subsequent Part VIIA inquiry.

Rex believes the ACCC should be the body to conduct any Part VIIA inquiry and in fact called for it to do just that last year with respect to Sydney Airport charges. As explained below Rex does not agree with the show cause mechanism.

DRAFT RECOMMENDATION 11.1

The Australian Competition and Consumer Commission (ACCC), on publication of its monitoring reports, should be empowered to issue a direction that an airport has six weeks to show cause why its conduct should not be subject to scrutiny under a Part VIIA price inquiry.

To issue a show cause direction, the ACCC must form a view that there is prima facie evidence that an airport has, over time, demonstrated a consistent pattern of achieving aeronautical returns in excess of a reasonably expected band of outcomes, having regard to price paths, the quantum and timing of investment and how that bears on quality outcomes and market conditions.

Where the ACCC is dissatisfied with an airport's response to a show cause direction, it shall recommend that the relevant competition Minister invokes a Part VIIA inquiry. If the Minister initiates a Part VIIA price inquiry, the review body would draw on the monitoring reports and also take evidence and consult with the airport operator and its customers. In forming a view about an airport's exercise of market power, the review should examine:

- whether airport charges have consistently been set at a level higher than would be justified on the basis of costs, investment requirements and changes to service quality*
- how non-price terms and conditions are treated in agreements and how rights to vary such terms are set*
- the extent to which consultation mechanisms allow for the reasonable provision of (two way) information.*

The review body must be guided by the 'Pricing Principles'.

Rex does not agree with this recommendation.

Rex believes that the show cause mechanism will impede the investigative process and make it harder to ensure that airports are not abusing their market power. In fact it is possible that under this proposal a Part VIIA inquiry will never be called for by the ACCC due to the obstacles it places in the process. It is often very difficult to determine whether an airport is pricing fairly or not as its processes can be very opaque. The very reason for having such an inquiry is to obtain the facts regarding an airport's pricing behaviour. The show cause mechanism is 'putting the cart

before the horse' as it, in effect, can require the ACCC to conduct an inquiry to see if an inquiry is needed. In short, without the legal authority of a Part VIIA investigation, it may not be possible for the ACCC to gather the evidence it needs to justify instituting a Part VIIA inquiry.

Currently the Minister can direct a Part VIIA inquiry whenever he feels there is justification. Rex has legal advice that information it supplied to the Minister last year constituted sound grounds for a part VIIA inquiry into Sydney Airport but this did not take place. Similarly the ACCC did not call for an inquiry despite its misgivings in the last two monitoring reports. These two examples indicate that a Part VIIA inquiry is not instituted lightly and that the power of the Minister or the ACCC in this respect should not be limited by further bureaucratic process.

DRAFT RECOMMENDATION 11.2

Assessments of airport behaviour during the next period of price monitoring should continue to be governed by an overarching set of principles. All the current 'Pricing Principles' should be retained.

Rex has no objection to the Pricing Principles being maintained as guidelines however it would like to see aeronautical services and facilities (as defined in Part 7 of the Airports Regulation 1997) to which they are applied expanded to include items such as hangar rent, member lounges and essential office space. It would also like to see the use of NNI clarified under the principles to prevent what Rex sees as a current abuse of this system.

Information request: The Commission is seeking information on whether guidelines on matters that could improve commercial negotiation — such as information on whether existing assets are being deployed efficiently prior to new investment and processes to facilitate effective service level agreements - should be:

- *devised by the Productivity Commission and incorporated into the Pricing Principles, or*
- *encapsulated within a new voluntary industry code - a committee comprising representatives from the Australian Airports Association, the Board of Airline Representatives of Australia, the Regional Aviation Association of Australia, Qantas,*

and Virgin Australia (and possibly with guidance from the Australian Competition and Consumer Commission) could be tasked with this.

Rex's preference would be for a voluntary industry code devised by representative industry delegates and the ACCC as described.

DRAFT RECOMMENDATION 11.3

An airport-specific arbitration regime activated by deemed declarations of airports under Part IIIA should not be introduced. Similarly, mandatory codes of conduct and mandatory guidelines to specify matters such as, the allocation of costs to aeronautical and non-aeronautical purposes and building block parameters, should not be introduced.

Rex does not agree with this recommendation and believes that airport services should come under the national access regime in Part IIIA of the Competition and Consumer Act via a deemed declaration of aeronautical services. Rex believes that this is the only way to provide protection for the smaller users of the major airports such as independent regional airlines. Rex also believes that some clarity is required with regard to the building block model and in particular the application of the NNI principle. As it currently stands some airports are using NNI to charge airport users the total cost for the replacement of fittings and fixtures that have already been depreciated and should not be captured under this regime. Whenever objections are raised by the airport users they are accused of going against government policy. Guidelines in this instance would help resolve the conflict.

If airport services were declared, this very fact would encourage both airport users and airport operators to reach successful agreements. The ACCC adjudication would still be a mechanism of last resort and it is noteworthy that in the dispute between Virgin Blue and SACL agreement was only reached, after many years of dispute, when the charges were declared and they were faced with ACCC arbitration.

The ACCC acts as the umpire in this process and would throw out any frivolous matters that were brought before it by either side so Rex does not feel there is any danger of the system being abused.

DRAFT RECOMMENDATION 11.4

There should be a further period of price monitoring at Australia's major airports when the current arrangements end in June 2013. The new arrangements should continue to apply to Adelaide, Brisbane, Melbourne, Perth and Sydney airports until June 2020 and be subject to a review in June 2018.

Rex agrees with this recommendation but, as stated earlier in response to finding 4.1, believes the monitoring should be expanded to include Canberra and Darwin airports.

Information request: The Commission invites participants' views on its proposals in relation to airline surveys and service level agreements. In particular, would annual publication of the coverage of, and performance under, service level agreements improve regulatory outcomes?

As it believes in transparency Rex does not have any objection to the publication of service level agreements and related performance but it is not convinced this would achieve an improved regulatory outcome and it may also breach confidentiality.

Airline surveys should still be a key yardstick for measuring an airport's quality of service.

DRAFT RECOMMENDATION 11.5

Quality of service monitoring should continue to apply to the price monitored airports until June 2020. However, specific improvements are warranted:

- *the objective criteria should be reviewed and updated by the middle of 2013*
- *the Australian Competition and Consumer Commission should explore means of standardising the passenger survey across airports, while maintaining low compliance costs*
- *where an airport has service level agreements with all of its regular passenger airlines, which stipulate methods for recourse in the event of a failure to meet a standard, the airline survey should no longer be conducted for that airport*
- *government agencies should no longer be surveyed as part of the program*
- *Any relevant variables can be picked up through objective measures and passenger surveys.*

Rex agrees with a review of the criteria of passenger surveys and increased standardisation across all airports, however Rex strongly disagrees with withdrawing airline surveys when all passenger airlines have achieved service level agreements at a particular airport. Rex maintains that independent oversight by a body like the ACCC is still required no matter how many commercial agreements are in place. Rex also disagrees with withdrawing government agencies from the surveillance regime. The monitoring body needs a complete picture of all airport services related to the provision of passenger transport to assess whether market power is being abused or not. Rex does not agree with any dilution of the monitoring process.

DRAFT RECOMMENDATION 11.6

In administering the monitoring regime, the Australian Competition and Consumer Commission should:

- *take steps to make as much of its methodology publicly available as possible (subject to a review of statutory requirements)*
- *focus its conclusions on trends over time at a given airport, rather than comparisons across the five monitored airports. Such attempts at benchmarking are better suited to less frequent, broader reviews that can examine the airports in a wider international context.*

Rex agrees with transparency with regard to the ACCC process.

Information on trends can be a valuable tool and should certainly be monitored by the ACCC but Rex does not believe that it should totally replace comparison of performance between the major Australian airports. Both methods could be used in evaluating the airports' quality of service and pricing. To abandon the comparison between airports means a less effective oversight of those airports which maintain excessive pricing at a constant level. Rex does not believe the operating environment at Australian airports is so different that comparisons are not valid.

DRAFT RECOMMENDATION 11.7

For Adelaide, Brisbane, Melbourne, Perth and Sydney airports, the Australian Competition and Consumer Commission should continue to monitor and publish:

- *prices, costs and profits relating to the supply of car parking*
- *access charges and the associated revenues for ground transport operators*
- *qualitative indicators of service provision drawn from passenger surveys.*

Rex agrees with this draft recommendation.

Other matters

Information request: The Commission seeks information on the potential costs and benefits of extending the Pricing Principles to regional airports. How might the principles be applied, and is the problem of sufficient magnitude to warrant any potential enforcement mechanisms?

Rex believes that some benefit could be realised by extending the idea of Pricing Principles to regional airports. However, they would need to be modified to account for the different operating environment. For instance there is no point in specifying that prices must cover the cost of providing a service or give a return on investment for a small regional airport that struggles to generate enough revenue to meet expenses.

Rex has always maintained that regional airports are essential transport infrastructure for regional communities rather than a profit centre. They are no different to the highway or rail link into town. Many regional communities understand and value this but some of the larger regional centres use the local airport to generate excess revenue for non aeronautical purposes. Some airports also charge operators for non applicable security charges while the larger airlines that generate the security requirement get a special deal. In such cases an enforcement mechanism should be applied.

Rex operates to 31 regional airports and is the sole operator to 22 regional airports. There are substantial variations in passenger through-put, airline activity levels, airport charges, airport

charging regimes and subsequently airport revenues and returns. Despite the varying levels of activity and airport revenue, regional airport operating costs (to a point) can remain quite consistent. For example some regional airports are covering operating costs with around \$300K in airport revenues whilst other regional airports are generating around 3 times this amount with similar operating costs associated with supporting the same aircraft type with increased flight frequency.

Other competitive regional airports are generating upwards of \$3M per annum and it can be argued that the variances in airport operating costs are not relative to the increased airport revenue when compared to smaller regional airports with few passenger numbers and a sole airline operator. In the larger competitive regional airports, such as Albury and Mildura, increased regional airport operating costs are driven by the larger regional aircraft in the 70 seat category, however the costs are unfairly passed on to all airlines. In such circumstances the airline that drives the regional airport cost (including security related charges) should be responsible for the cost recovery and there should be more structure surrounding such pricing principles.

Rex believes that a transparent regional airport cost and revenue benchmarking study would be beneficial in determining regional airport pricing disparity. Such regional airport benchmarking would help to answer the question of magnitude and would also identify appropriate monitoring and/or enforcement mechanisms.