

VICTORIAN GOVERNMENT RESPONSE TO THE PRODUCTIVITY COMMISSION DRAFT REPORT INTO THE ECONOMIC REGULATION OF AIRPORT SERVICES

Market Power and Regulation

The Commission finds that, while there has been some reduction in the potential for airports to exploit market power, major airports retain sufficient power to maintain the current monitoring regime (draft findings 4.1 and 4.2). In reaching this conclusion, the Commission notes that there has been some marginal change in market power through the development of the low cost carrier model, its greater choice in using alternative airports relative to the full service model, and the existence of regional alternatives such as Avalon and Gold Coast airports (pp.51-55).

The Victorian Government notes the high degree of market power that major airports may enjoy can only be substantively addressed through structural changes to the air services market. This includes the capacity of alternative airports within a specific region to provide air movement facilities.

In this context, it is Victorian Government policy to support the further development of Avalon Airport, including as an international gateway. In particular, while Avalon Airport has indicated that “genuine competition ... has not yet been achieved”, the potential for competition in a sector with high barriers to entry in itself provides an important limit on the potential to exploit market power.

While the provision of air services to Avalon Airport is ultimately a matter for the market, the Victorian Government notes that there are a number of barriers to the commencement of international services. These include the development of appropriate facilities and intermodal links to the airport, as well as agreement by the Commonwealth to provide border control services at the airport. The Victorian Government believes that the Commonwealth should prioritise actions which will facilitate the removal of these barriers as an important component of managing potential misuse of market power.

The Commission has sought advice on whether an airport’s ability to earn non-aeronautical revenue provides an incentive to constrain aeronautical charges (p.XLII). The Victorian Government is not aware of any evidence of this practice. However, the Victorian Government notes that the provision of non-aeronautical facilities and services is, in general, subject to much lower barriers to entry than aeronautical services. Consequently, the incentive of airports to cross subsidise an area where they have a potentially high degree of market power from an area where they have a potentially low degree of market power would appear to be low.

In this context, it is Victorian Government policy to support the conditional development of appropriate non-aeronautical activities on airport sites. This support is conditional upon aviation facilities being maintained at existing levels, any such development being used to underpin the viability of the aviation infrastructure, and the development being entirely compatible with and sustainable on an airport site.

Airport Car Parking and Land Access

The Commission has noted the ACCC's claim that Melbourne Airport seems to impose excessive levies on, and limit the service to, competitors such as off-airport parking providers and private bus operators. However, the Commission found that access fees do not appear to be excessive and it could not substantiate suspicions that Melbourne Airport has impeded access to competitors (p.XXXVII). The Commission also found that there is insufficient evidence to warrant mandatory undertakings for landside vehicle access, but that continued monitoring would be in the public interest (p.XXXVIII).

The Victorian Government notes that competition between airports in a given region has the potential to indirectly limit airport market power in relation to landside vehicle access and parking. In particular, consumers and suppliers are becoming increasingly sophisticated in their assessment of the total price of travel involving air services. This assessment now often includes the time and cost of transport to and from airports (in the case of travellers), and potential net revenue (in the case of suppliers). As a result, airports are increasingly encouraged to consider the total costs of air services for consumers and suppliers in structuring their charges.

Notwithstanding the Commission's findings, the Victorian Government notes price monitored airports retain a degree of market power for vehicle access and parking. In this context, the Victorian Government notes that competition between modes of transport, within a framework of transparent price monitoring, provides an important control to limit this market power.

It is consequently Victorian Government policy to encourage greater choice of affordable transport options to and from Melbourne's major airports. Improved public transport access to airports through better bus services and the provision of rail links to the airports are desirable to meet this objective.

The Victorian Government announced that it will commence a Melbourne Airport Rail Link Feasibility Study in 2011/12 as part of the 2011/12 budget statement. The Victorian Government is committed to the construction of a rail link to Avalon Airport and plans to spend \$50 million in its first term and has commenced planning and design for the rail link. The Victorian Government also supports the construction of a Jet Fuel Pipeline into Avalon Airport to avoid the additional cost of the current arrangements where fuel is trucked into the airport. These developments will require the cooperation of airport lessees, the Commonwealth Government and infrastructure operators to be achieved.

Land Transport Access and Integration

The Commission has sought advice on the adequacy of communication between airports and tiers of government in relation to land transport access and integration (p.L).

The Victorian Government actively communicates with both Melbourne Airport and Avalon Airport through a range of forums, including on land transport access and integration issues. However, while the Victorian Government values the consultation processes involved in the development of Melbourne Airport's Master Plan, there have been challenges in resolving a number of key issues, including realistic solutions for providing improved transport linkages within the airport and surrounding area.

Melbourne Airport's role as a key transport and freight hub is of significant importance to achieving the economic competitiveness of Victoria. Greater connectivity could be achieved between all modes of transport. Land transport could link more conveniently to the surrounding established and planned transport modes in the area. Airport plans for both Melbourne and Avalon Airports should actively align with strategic transport plans for Melbourne and Geelong.

In this context, the Victorian Government believes consideration should be given to the Commonwealth Government requiring major airports to develop service level agreements with State Governments on the delivery of landside access to the airport, including the introduction a set of Key Performance Indicators (KPI's) related to airport access against which airports can be measured.