



1 Airport infrastructure service outcomes



The quality of airport services for international airlines is still often well below expectations.

The Australian Competition and Consumer Commission's *Airport Monitoring Report 2015–16* continues to highlight underlying issues with quality of the core infrastructure used by international airlines, especially in the international terminals.

BARA's proposed service level framework provides a path for the operators of the major international airports to progressively improve service outcomes.

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2 2015–16 passenger statistics



International passenger numbers increased by 7% for the 2015–16 financial year.

On any one day, there are some 100,000 people in the sky travelling on over 500 flights provided by over 50 international airlines to and from Australia. The average distance they will travel is over 7,000 km one-way, with individual flights from the US and Canada exceeding 12,000 km.

BARA's member airlines provide 90% of all passenger flights to and from Australia.

3 2015–16 real airfare reductions



BARA estimates real international airfares fell on average by some 8% in 2015–16.

Real airfares to and from Australia have fallen by about 40% since 2006.

In 1994, an economy flight from Sydney to Singapore cost about \$2,300 in today's terms. Now the same flight ranges from about \$320 to \$720.

4 Melbourne Airport jet fuel demand and supply study



BARA has called for a market study into the demand and supply of jet fuel to airlines at Melbourne Airport.

The study will support the emergence of a more reliable and competitive supply of jet fuel. It should include a focus on the airlines' concern over more severe jet fuel rationing until greater storage capacity is available at the airport.

To be of use to airlines with immediate supply reliability concerns, the study would need to be completed within about four months.

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Airport infrastructure service outcomes

A key expectation of ‘light-handed’ economic regulation was that airport operators would deliver modern and high-quality services for airlines. Actual outcomes for international airlines are still well below what were expected from the ‘innovation’ and ‘responsiveness’ that was supposed to flow from the regulatory arrangements.

The Australian Competition and Consumer Commission (ACCC) has released its 2015–16 *Airport Monitoring Report* for Sydney, Melbourne, Brisbane and Perth Airports. It has restarted the ongoing debate over whether airlines and passengers have got a fair deal from light-handed economic regulation.

BARA’s view is light-handed economic regulation has not delivered the high-quality outcomes envisaged for international airlines, and it’s been over ten years since the arrangements were put in place. This view is based on a face value examination of the airlines’ ratings for key airport services and the rights international airlines have under their aeronautical agreements.

Reasonable expectations

In recommending the removal of price controls, the Productivity Commission considered the new, commercially negotiated arrangements would generate improvements for all parties:

In removing such regulatory intrusion, the switch to a light handed approach was intended to facilitate investment and innovation by airports...With a number of the airports looking to embark on major new upgrades, this more timely and responsive investment environment is likely to be a source of even greater benefit in the future. (PC 2006, *Review of price Regulation of Airport Services*, pp. XIII and XV)

It’s been over ten years since these statements were made, providing ample time for such airport innovation and responsiveness to flow through to international airlines.

Actual outcomes

The table below shows the 2015–16 availability and standard ratings given by airlines for check-in, aerobridges and baggage systems in the international terminals, and the aircraft aprons for the entire airport at the four major airports.

Under arrangements delivering innovation and modern services, you could reasonably expect an average rating of ‘good’ (green), with several ‘excellent’ outcomes (a colour yet to be determined as no airline rated a service this high). Instead, the outcomes are usually at least one rating below at ‘satisfactory’ (amber), with some essential services still rated ‘poor’ (red).

Airline ratings of key airport services

	SYD	MEL	BNE	PER
Check-in availability	●	●	●	●
Check-in standard	●	●	●	●
Aerobridges availability	●	●	●	●
Aerobridges standard	●	●	●	●
Baggage availability	●	●	●	●
Baggage standard	●	●	●	●
Aircraft aprons availability	●	●	●	●
Aircraft aprons standard	●	●	●	●

Source: Derived from the ACCC’s 2015-16 Airport Monitoring Report

Across all measures and services (domestic and international) the average result was ‘good’. BARA’s members, however, are still making do with assets often below reasonable expectations. ‘Poor’ and ‘Satisfactory’ airline ratings are not evidence of ‘world class’ infrastructure. The ratings highlight that despite the substantial increases in aeronautical revenues per passenger over the last ten years, airlines have not enjoyed corresponding improvements in the quality of these more expensive airport services.



The commercial agreements

Some parties assert that there are already ‘well-developed’ commercial relationships and aeronautical agreements between airlines and airport operators governing prices and the standard of airport services. BARA’s observation is that, despite improvements in some agreements, most still fall well short of BARA’s five commercial principles as published in *Timely and reasonably priced airport infrastructure*.

As explained in December 2016 *Airline Views*, the law does not require the aeronautical agreements between international airlines and airport operators to deliver good outcomes – or to be balanced, fair or reasonable – for them to be enforceable. BARA considers a balanced negotiating environment is necessary to encourage agreement terms and conditions that fit with promoting good industry outcomes.

One problem with the current agreements is they usually severely restrict the rights of international airlines to seek the usual legal (financial) remedy for substantial or repeated breaches of the agreement by the airport operator. One way this is done is through ‘sole remedy’ clauses, which can negate the commercial value of other apparent service level commitments.

Another problem is the definition of the ‘airport services’ is usually restricted to the fact that some infrastructure asset exists, regardless of whether it has enough capacity or is effectively managed. Aeronautical agreements may give airlines the right to use airport infrastructure but they do not provide the airport operator with any solid contractual obligations to deliver the necessary service outcomes for international airlines.

Finally, the international airlines do not consider it alright that an airport operator should seek to alter the application of the existing World Slot Guidelines at their airport. Nor should an international airline be required to sign an unbalanced aeronautical services agreement to retain its existing slot allocation position.

BARA’s service quality framework

BARA has devoted considerable resources to clearly explain the service quality framework its members want to have with the operators of the major international airports. The framework is by no means groundbreaking. It simply focuses on measuring and improving specific airport operations, safety outcomes and the overall passenger experience. It includes key performance indicators (KPIs) focused on outcomes; implementing performance improvement projects; understanding and recognising significantly delayed flights; and effective consultative forums with international airlines in delivering the overall framework.

An important commercial change needed to drive the efficient use of shared infrastructure is for the airport operator to consider individual airline outcomes as well as the average service outcome across all carriers. This is fundamental to establishing the flow of information and engagement at an airline level so as to identify and implement improvement initiatives.

Sydney Airport is implementing the framework, which is noted by the ACCC in its 2015–16 *Airport Monitoring Report*. The 2015–16 international airline service ratings highlight the need to continue to soundly implement the framework, including projects to lift the rating of essential infrastructure services at the airport.

It is still unclear whether the other major international airports will embrace BARA’s service level framework. BARA is negotiating with Melbourne and Brisbane Airports over new agreements covering the provision and pricing of airport services. BARA obviously considers its service quality framework to be a necessary requirement for improved performance. Whether BARA can make any discernible progress to improve service outcomes with these airports will likely be determined over the next few months.



Melbourne Airport jet fuel demand and supply study

A demand and supply study is necessary to provide the foundation to move Melbourne Airport's jet fuel market from the poorest outcomes to a leader in supply reliability and competition. It also needs to canvass options to mitigate the risk of more jet fuel rationing to airlines over the next two years given the lack of adequate storage facilities at the airport.

No airport operates with guaranteed fuel supply and this is not expected by international airlines. Unfortunately, however, supply risks and necessary capacity upgrades (which have long lead times) have not been effectively managed at Melbourne Airport. This now extends to basic service issues at the airport, including insufficient flow rates of jet fuel during peak periods that prevent aircraft from refueling efficiently. Such outcomes reflect poorly on the state of Victoria, and Australia more generally, over its ability to deliver basic aviation infrastructure services to international airlines.

Members are concerned that the industry is heading for even greater jet fuel rationing over the next two years without any sign of any party offering potential mitigation strategies.

BARA's vision is for a resilient and competitive jet fuel market to emerge from the current poor state at Melbourne Airport. It will deliver innovation and higher service quality at lower total cost to airlines. If passenger and freight markets for international airlines are as commercially viable as possible, then they will underpin the competitive position of the Victorian and Australian economies in securing their share of international tourism and trade.

Why a market study?

A fundamental problem with the existing institutional arrangements is a lack of market data to encourage the orderly development of a reliable and competitive jet fuel market. BARA, therefore, is keen for an immediate study into Melbourne Airport's jet fuel demand and supply and has sought support from the relevant Commonwealth and Victorian departments.

The study must provide a common dataset of information necessary for all industry participants, existing and potential, to complete informed business cases and make prudent business decisions over their commercial strategies for the Melbourne Airport jet fuel market and jet fuel infrastructure supply chain.

For demand, BARA sees merit in updating the calculations and estimates contained in the Melbourne Jet Fuel Demand Study Group's (2011) *Melbourne Airport jet fuel demand study for the period to 2028*, with specific information for the 2017–18 and 2018–19 financial years.

For supply, the study needs to canvass: the current and future adequacy of storage and distribution capacity at Melbourne Airport; the current and future adequacy of existing off-site storage facilities; options for incremental capacity upgrades from existing infrastructure to Melbourne Airport's Joint User Hydrant installation (JUHI); and options for a new, independently owned and operated jet fuel supply chain to Melbourne Airport (off-airport storage facilities and a new pipeline to Melbourne Airport).

Given the growing demand for jet fuel by airlines combined with limited storage capacity at the airport, member airlines are also keen to learn what actions fuel suppliers, Melbourne JUHI and Melbourne Airport are prepared to take to mitigate the risk and severity of jet fuel rationing until the additional planned storage capacity is commissioned at the airport.