



1 Airport services commercial benchmarks



BARA's members seek a standard of commercial agreements that will promote continuous improvement in the delivery of airport services.

In its submission to the Productivity Commission inquiry into Australian airports, BARA describes its desired set of commercial benchmarks covering accountabilities, pricing and service quality in airport services.

BARA envisages an environment where each airport operator accepts positive obligations and accountabilities to deliver good service outcomes to airlines, ground handlers and passengers. Investment practices and the commercial agreements would be modernised.

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2 Value for money in airport services



The consensus position of member airlines is that the operators of Sydney, Melbourne, Brisbane and Perth airports don't deliver value for money in airport services.

BARA asked its members to report on the quality and value for money in airport services they receive from the airport operators

The airport operators fell short of convincing airlines that management focuses enough on supporting their ability to operate without incurring persistent significant delay or fostering an environment where their requirements are at least equal with retail activities.

3 Unfavourable commercial terms



BARA frequently presents members with unfavourable commercial terms and conditions from the airport operators.

There is limited value in airport operators talking about working in partnership and being responsive to airline needs if the commercial agreement describes a very different environment of limited airport operator accountabilities and excessive commercial risk transfer.

The inability of airport operators to negotiate reasonable terms remains an ongoing problem.

4 Reforming the supply of jet fuel



Achieving access to the on-airport storage and distribution facilities remains the key reform outcome.

As it stands today, jet fuel importers are burdened with undue uncertainty and financial risk just for the right to compete in supplying jet fuel to airlines.

Access arrangements for jet fuel at the airports need to extend to the receiving facilities, storage tanks, the distribution network and the availability of an independent provider of 'into-plane' services.

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Airport services commercial benchmarks

Airlines seek a standard of delivery and value for money in airport services that best supports their ongoing safe and efficient operations and good passenger experiences. Current commercial agreements are not well aligned with these objectives. Future economic regulatory arrangements need to remove these underlying obstacles to improved performance.

BARA's submission to the Productivity Commission's inquiry focuses on how well Sydney, Melbourne, Brisbane and Perth airports deliver airport services to international flights for the prices paid. BARA surveyed its members in February 2018, with members reporting ongoing concerns over the standard of services delivered for the prices paid.

For airport services, the airlines' 'value equation' extends beyond the physical assets at the airport, such as the airfield and terminals. It also includes how airport management proactively supports their efficient operations at the airport, such as aircraft turnaround times, and helps the airlines deliver the service outcomes to passengers.

Why commercial terms matter

The quality of the commercial agreements underpins the delivery of services to airlines. This includes the pathways for airlines to resolve commercial and operational issues.

BARA is seeking a high standard of commercial agreements, consistent with outcomes seen in competitive markets. This needs to cover the services, pricing and quality and contractual terms aligned with positive service obligations.

Investment and services proposals

Cost-effective and innovative solutions to meeting potential growth, particularly during peak demand use by airlines, are necessary to support the operating efficiency of airlines and deliver better outcomes for passengers and freight forwarders.

It's the airport operator's responsibility to invest in its people, processes and systems, which are all critical to develop and deliver sound investment and services proposals.

Smarter and more collaborative interaction between the airport operators, airlines and government agencies in understanding and then addressing performance issues in airport services would also do much to improve investment decisions. This includes consulting the ground handling companies at each airport – many international airlines contract out some or all operations at the airport to ground handlers.

Airport operators need to fully explore the root cause of capacity issues and declining service standards. So, it's essential they fully understand:

- existing operations
- essential functions they perform for airlines
- the impact of service standard variances
- the measures necessary to assess the performance of each airport sub-system.

Once measures are established and verified that directly correlate with the service standards airlines require to operate efficiently, they can then be assessed to identify:

- how they affect service outcomes
- the estimated point of service degradation
- possible operational enhancements
- whether a cost/benefit assessment would support capital investment.

BARA's member airlines need to see that these points have underpinned investment and service proposals made by the airport operators.



Pricing and service quality

The best way for airport services to match the prices paid is for the airport operator to face genuine financial risk (liability) over its service delivery capability. Then the airport's management can deliver adequate returns to shareholders based on good service outcomes that can also support the productivity of Australia's international aviation industry.

The commercial requirements that would drive this include:

1. pricing for different service outcomes (eg contact gates vs bussing)
2. services are available for use within a reasonable time
3. price reductions if aggregate airline demands exceed the practical capacity of airfield and/or terminal services causing airlines persistent significant delays
4. proactive measures to restore in-terminal service standards, such as the cleanliness of the bathrooms and terminal

BARA's concern is the airport operators will see any requirements for financial exposure to their service delivery capability as simply an 'add-on' to their current level of profitability. That is, as far as the airport operators are concerned, as holders of the lease over the airport they are entitled to their current pricing practices and profitability.

To have commercial value to airlines and provide incentives to the airport operators, however, their service delivery capability must genuinely expose them financially to risk.

On profitability, member airlines would be more amenable to accepting the airport operators are seeking reasonable rates of return if the rates were set with reference to relevant industry benchmarks. This could include, for example, guidance material for the rates of return and profitability levels afforded to price-regulated infrastructure services in Australia and overseas.

Contractual accountabilities

Each commercial agreement with the airport operator should contain a set of clauses that fits with promoting continuous improvement in service delivery and value for money.

BARA's broad positive obligations cover:

1. Airlines should be able to operate reasonably efficiently and not experience persistent significant delay as a result of unavailable or substandard airport services
2. Airport operators should facilitate the safe and efficient journey of passengers through the airport.

BARA's positive obligations shift the emphasis from capital inputs to the delivery of outcomes, which is consistent with how its member airlines strike commercial agreements with suppliers that must compete for the airline's business.

In using airport services each airline must be expected to abide by reasonable operating requirements. For example, if an airline decides to dwell on a gate for its own convenience, then this should be addressed through the operational requirements for the airline.

It is important to recognise that airlines already have strong financial incentives to operate to schedule and deliver good baggage outcomes to passengers. The costs associated with excessive delay and mishandled bags for Australia's international flights were estimated at \$250 million in 2016–17.

Airlines are investing billions of dollars each year in new aircraft to support their operational cost efficiency and deliver a range of service outcomes to passengers. It makes little commercial sense for an airline to reduce the value of these large investments in aircraft and other service technologies and initiatives by incurring unnecessary operating costs through their own inefficient practices at the airport.



Reforming the supply of jet fuel

BARA has made a separate submission to the Productivity Commission that details much-needed reforms to the jet fuel infrastructure supply chains that underpin the competitive and reliable supply of jet fuel to airlines at the major international airports. The benefits would include competitive pricing, improved non-price terms and greater reliability in supply through timely investment in the supply chains.

Arrangements stifle new entrants

International airlines want a competitive and reliable supply of fuel to make the most of their market opportunities in Australia.

Instead they have longstanding concerns about competitive supply and the need to carefully monitor the jet fuel supply situation at Australian airports given reliability problems. This is evidenced by the fuel rationing at Sydney and Melbourne airports over the years.

BARA is unaware of any long-term changes to the level of competition between suppliers at Australia's major international airports since 2011. Instead the jet fuel markets at Sydney, Melbourne and Perth airports are often dominated by only one or two effective suppliers, noting some members report some recent improvements towards competitive supply at Sydney Airport.

Plenty of good examples overseas

BARA's submission also describes superior industry arrangements for jet fuel supply at overseas airports. Hong Kong, Dublin and Warsaw airports are all examples of established or emerging arrangements to support a competitive and reliable supply of jet fuel.

Access arrangements

At a minimum, access arrangements for jet fuel importers to the on-airport jet fuel storage and distribution facilities are needed. BARA also supports periodic jet fuel demand-supply studies at Sydney, Melbourne, Brisbane and Perth airports, sponsored by the Australian Government and state governments.

Jet fuel importers also can't be expected to spend millions of dollars over years in pursuing access to the infrastructure through Part IIIA of the *Competition and Consumer Act 2010* just for the right to compete to supply jet fuel to airlines at Australia's major airports. Instead, as they now do, they'll compete and supply fuel to airlines at airports that, as noted earlier, have arrangements that proactively encourage competition between jet fuel suppliers and reliability in supply.

To counter the constraints to competition and the institutional impediments to access, BARA's submission proposes the Department of Infrastructure, Regional Development and Cities should invite each of the existing owners of the on-airport storage and distribution facilities to establish a set of access arrangements for stakeholders to review and comment upon.

After receiving and incorporating responses from industry, the facility owner would submit the arrangements to the Department for review. If satisfactory, no further action would be required. If not, the deficiencies would be documented and sent to the facility owner to rectify.

If satisfactory outcomes didn't follow within a reasonable time, then the Department would recommend to the Minister an appropriate course of action. This could include 'deemed' declaration of the facilities or the immediate application of 'prices notification'.

Finally, Sydney Airport should be required to remove its unjustified fuel throughput levy (FTL). If it is not willing to remove the FTL, the pricing of the land occupied by Sydney JUHI should at least be subject to prices notification.