



## 1 Airport operator service delivery accountabilities



**Long-term airport services agreements require incentive mechanisms covering service delivery outcomes.**

An international airline's commercial agreement for airport services currently has no value in the face of falling service outcomes that reduce airline operating efficiency and increase costs. This is one important reason why airlines do not consider the airport operators deliver value for money in airport services.

Fixing this problem remains a high priority for member airlines in future airport commercial agreements.

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## 2 Accountability examples



**Unfortunately, it's easy for an airport operator to unfairly shift its commercial accountabilities onto airlines and 'third parties'.**

BARA discusses two examples covering aircraft gates and the baggage system. They show how if the airport operator limits its accountabilities to asset maintenance, it ultimately leads to poor service outcomes for passengers and airlines.

Existing commercial arrangements mean an airport operator can avoid accountability by simply blaming others for its airport services problems.

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## 3 Future commercial airport agreements



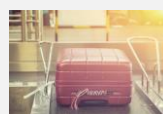
**BARA described its preferred commercial framework to support good outcomes for international passengers and airlines in 2016.**

Unfortunately, on face value, the airport operators seem to be seeking to 'lock-in' the current low standard of commercial accountability into future agreements. They do this by limiting their financial accountabilities to equipment failures.

The airport economic regulatory arrangements need to be reformed to make way for commercial arrangements that will support good outcomes for passengers and airlines.

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## 4 2017–18 international baggage statistics



**The estimated rate of mishandled international bags averaged 4.1 per thousand across Sydney, Melbourne Brisbane and Perth airports.**

Mishandled bags result in poor travel experiences for affected passengers. BARA estimates that international airlines also spent some \$30 million in reconnecting mishandled bags with their passengers in 2017–18.

While transfer bags from arriving domestic and international flights to departing international flights only account for about 7% of total bags, they represent almost half of all mishandled bags.



## Airport operator service delivery accountabilities

**The airport operators best support Australia's international aviation industry when they offer services that are a good fit with efficient airline operations. The airport operators, however, have not been prepared to accept the necessary commercial accountability in their agreements with airlines. This has created an environment where the airport operators can blame airlines and others for problems with airport services.**

It's usual for commercial agreements to link poor performance with commercial consequences, subject to negotiated caps on liability. The risk allocation generally balances between the competing interest of the parties. While a service provider may allocate some risk to the customer, it's unusual that a supplier can insist it must be fully protected from the consequences of poor performance on its part.

Such arrangements might be less important if airlines could readily choose a new supplier of airport services. The loss of revenues and profits would give the airport operator enough incentives. But such options are usually not available and agreements for airport services often are for five years or longer. This provides plenty of time for the service outcomes to drift substantially from those intended at the start of the agreement.

The light-handed economic regulatory arrangements for major international airports have not helped international airlines achieve satisfactory commercial outcomes. The airport operators have shown little in the way of willingness to accept a level of commercial accountability that is reasonable and consistent with the prices they charge for airport services.

## Current rebate arrangements

BARA recognises the need for commercial accountabilities to fit with good industry outcomes, and so has sought to include new provisions in airport agreements that allow airlines to raise poor service outcomes for individual flights. Under some agreements, member airlines can do this and lodge issues through a portal on the airport operator's website, which may attract a level of compensation in some circumstances.

The airport operators have been prepared to only accept a restricted range of issues for rebates, largely limited to the breakdown of physical equipment, such as an aerobridge, subject to various other caveats. They do not extend to:

1. Airline delays that occur because aggregate airline demands exceed the practical service capacity sold by the airport operator.
2. Airline operating inefficiencies and delays precipitated by the airport operator's terminal design and operational practices that give preference to retail activities.
3. Excessive disruptions to airlines due to the airport operator failing to understand airline information systems and/or inadequate business continuity processes.

Not covering such issues means there's no financial mechanism that draws attention to, and provides incentives to fix, underlying problems in airport services. This extends to both day-to-day operational issues for airlines and the longer-term planning and delivery of airport services.

BARA's submission to the Productivity Commission's Inquiry into the *Economic regulation of airports* highlighted the lack of value for money in airport services for international flights. The lack of suitable incentive mechanisms in the commercial agreements contributes to the dissatisfaction BARA's member airlines have expressed about the airport operators.



## Accountability examples

**The issues BARA wants to address are highlighted through some practical examples. They show how when an airport operator's accountabilities narrow to asset maintenance, it can easily lead to ongoing poor outcomes for airlines and passengers – problems that could be avoided through prudent service delivery management. These are just two examples of the unresolved problems with the airport operators.**

### Retail interests receive priority

Airlines have raised with the airport operators how problems with the terminal layout, which favours retail shops, contribute to congestion for departing passengers. Sydney, Melbourne, Brisbane and Perth airports all rate poorly with international airlines in ensuring retail activities do not interfere with airline operations.

Problems can also extend to flights not appearing on the flight information displays for passengers until after boarding has closed. Airlines say this occurs because most of the available screen space is devoted to retail advertising.

These problems mean some passengers can't find their departure gate in time and miss their flight. On top of the poor outcome for the passenger, it can also increase airline costs because in some circumstances the airline may rebook the passenger onto another airline.

The problems caused by the priority given to retail activities may also cause an airline to be late off its gate because of trying to locate lost passengers in the terminal. This could in turn contribute to an arriving flight being delayed in obtaining an aircraft gate. The operator of the delayed arriving flight may lodge for a service rebate from the airport operator.

As now occurs, the airport operator can simply blame the late departing flight for the arriving flight's poor service outcome. In letters to BARA, some airport operators have offered to fine late departing airlines as a way of encouraging them to improve their on time performance.

By assuming that providing aircraft gates does not encompass any of its own actions that disrupt efficient airline operations, the airport operator financially insulates itself from having to balance its retail profits with efficient airline operations.

### Baggage system information

An airport's baggage system includes interaction with airlines' information systems, which often come from host providers, in tracking and delivering bags for ground handlers to load.

Member airlines have experienced instances of sustained problems in baggage services when there is a breakdown in the information from the airlines' host provider(s) into the airport's baggage system.

Under prudent service management, the airport operator would have contingency plans and contact people with the host providers. Once an information issue is identified, it can coordinate with the host provider to rapidly restore services.

In response to sustained poor outcomes, BARA wrote to Sydney Airport about problems with its baggage system. Baggage outcomes for passengers and airlines have been particularly poor since 2012–13. System information issues have contributed to this poor performance.

Under existing commercial arrangements, an airport operator can simply blame the 'third party' information provider for poor baggage service outcomes due to information issues. In so doing, the airport operator is financially insulated from the need to invest in the people and processes necessary to support the prudent management and delivery of baggage services to passengers and airlines.



## Future commercial airport agreements

The agreements international airlines have with the airport operators are generally of little value in resolving airport services problems. They are structured around a set of prices charged that grant the right for airlines to use airport assets. It's difficult to see how this problem can be fixed under the existing 'light-handed' airport economic regulatory arrangements.

### Supporting good industry outcomes

In its December 2016 edition of *Airline Views*, BARA outlined a progressive commercial framework to align all parties with supporting good industry outcomes based on:

1. The right to service availability within a reasonable time.
2. The right to seek financial remedy outside existing rebate provisions.
3. Appropriate liability limits over the value and timing of claims.

BARA's framework acknowledges the need for a balanced assignment of responsibilities and commercial accountabilities.

In applying its framework, BARA has consistently proposed that airport operators must accept that airlines are entitled to expect the services to be delivered in accordance with good industry practice. This includes actively liaising with relevant parties to minimise disruption and promote on time performance. If responsibility for this role does not sit with the airport operator, then it follows that nobody's playing this role.

As reported to the Productivity Commission, however, BARA has made little progress on this important issue. The commercial difficulties have even extended to the airport operator requiring airlines to collectively pre-pay for a pool of funds to cover rebates for their equipment failures.

### The airports' commercial offer

Based on the terms of the current commercial agreements and recent published statements, it seems the airport operators continue to reject BARA's commercial framework. BARA notes that in a recent submission to the Productivity Commission,<sup>1</sup> the airports argued:

However, whilst not abrogating their general obligation to deliver efficient operational outcomes, airports should not have to compensate airlines for poor service outcomes that are attributable to the act or neglect of the airline (or its contractors such as ground handling agents or fuel suppliers), other airlines, or third parties such as Airservices Australia or Australian Border Force. (p.8)

On face value, the airport operators are offering essentially the same position as contained in some existing commercial agreements. By simply being able to point to the 'act' of any participant at the airport, an airport operator will likely always have another party to conveniently blame for underlying problems with its airport services.

This means any efforts the airport operator makes to address airport service problems will remain discretionary. It also allows each airport operator to pick and choose among international airlines in its efforts to address service problems.

If the best the airport operators have to offer is accountability for equipment failures, then it seems to BARA that airline operating efficiency in airport services will steadily deteriorate. This fails to achieve the intended benefits of the economic regulatory arrangements for Australia's major international airports.

<sup>1</sup> Australian Airports Association, 5 November 2018.