



Productivity Commission Public Hearings

Opening remarks: The economic regulation of airports

The Board of Airline Representatives of Australia (BARA) appreciates the opportunity to provide further comment on the Commission's Draft Report on the economic regulation of airports.

Key messages from international airlines

International airlines would like to convey three key messages in response to the Commission's Draft Report:

- First, international airlines were surprised that the Commission has downplayed their genuine and legitimate concerns over the provision and pricing of airport services. It's not clear what evidence the Commission would need to see to take their concerns seriously.
- Second, international airlines can see a large gap between the performance outcomes deemed acceptable by the Commission and what they consider a reasonable standard for the prices charged. Airlines remained concerned over problems in airport services that are reducing the efficiency of their operations.
- Third, BARA working through multiple, unbalanced, ambit claim airport services agreements, is simply wasting member resources. It need not be overly challenging or complicated to establish appropriate accountabilities. What it takes is the willingness of an airport operator to accept that it must deliver its services to an appropriate standard for the prices charged.

Problems in airport services

In its submission to the Draft Report, BARA has presented empirical evidence covering on time performance and baggage for international flights. International airlines see plenty of room for improvement in airport services in supporting better outcomes for passengers and airlines; ones which could deliver an estimated \$270 million in operating efficiencies over the next five years.

Such outcomes also highlight the different incentive structures for the airport operators, which explains the differences in the service ratings given by international passengers and airlines.

The airport operators already have a commercial incentive to provide a quality of terminal services to international passengers that fits with maximising their discretionary retail spend. As its profit maximising to do so, airport operators are far more prepared to set benchmarks for international terminal services. As long as the retail activities don't interfere with efficient airline operations, BARA has no issue with such incentives.



International airlines, however, don't see the same positive incentives for airport operators in providing the core services needed to support efficient aircraft operations. These services include airfields, baggage systems, boarding areas, contact gates and airside bussing. It's here airlines report to BARA and the Australian Competition and Consumer Commission (ACCC) poor and highly unacceptable outcomes. It's also here where the performance benchmarks accepted by the airport operators in their airport services agreements are weakest or non-existent.

These airport services underpin efficient aircraft operations and therefore need to be evaluated on a stand-alone basis. It's not appropriate to 'balance off' deficiencies in these services against the quality of other services as part of an overall performance assessment.

The airport services agreements, which are individual contracts between each international airline and the airport operator, are also proving ineffective in resolving problems in common use services that affect many airlines. This reflects the realities for an individual international airline operating to Australia in taking the commercial risk in speaking out and taking an airport operator to task over these services.

Addressing the problems in airport services

The Commission's draft conclusion is the available evidence does not suggest the airport operators have systematically exercised their market power to the detriment of the community. It has also stated that, overall, the quality of service meets users' expectations.

BARA disagrees with these conclusions given its objective of supporting safe and efficient international aviation. International airlines would rate airport services below a reasonable standard in many instances. Identified problem areas include:

1. Airside bussing services that regularly fail airline on time performance and aircraft turnaround targets.
2. Poorly performing baggage systems causing excessive rates of mishandled bags.
3. The extensive foreign object debris around Sydney Airport's international terminal, which is impacting on the efficiency of airline operations, increasing airline costs, and causing damage to their aircraft.
4. Check-in facilities not balanced to airline demands, causing congestion in some areas while other areas remain unused.

BARA notes the Commission's Draft Report draws attention to the potential limitations and biases associated with airline surveys about airport services. International airlines have interpreted that, given it downplayed problems in airport services drawn from the BARA member survey, the Commission has discounted their evidence on the basis they might be seeking to game the regulatory system. International airlines wish to make it clear they flatly reject any suggestion of regulatory gaming. Rather, they are doing their best to show where the economic regulatory regime is not delivering as intended.



BARA concludes the airports' monitoring regime is incapable of supporting the delivery of airport services to a reasonable standard consistent with the prices charged. Revamping the monitoring report is unlikely to improve matters because it will not change the underlying commercial accountabilities. International airlines, therefore, see no practical way left to address the problems they experience in airport services under the Commission's draft findings and recommendations.

BARA has clearly articulated the commercial benchmarks that could deliver a reasonable standard of airport services for the prices paid. They are based on established principles for infrastructure services in both Australia and overseas, including from the Airports Council International.

Greater regulatory support in some form is required if the airport services agreements, which underpin the delivery of service and pricing outcomes, are to be brought up to a reasonable standard. While the Commission has deemed the regulatory options put forward by airlines as unwarranted, it is still open to the Commission to propose reforms that would address the problems in airport services, which BARA considers would better support safe and efficient international aviation for Australia.