BARA supplementary submission

Airport operator commercial accountabilities

Following the public hearings held on 28 March 2019, this supplementary submission by the Board or Airline Representatives of Australia (BARA) provides further information on the lack of commercial accountabilities in the airport services agreements. The example of baggage outcomes for 2018 is used to demonstrate this lack of accountability over service delivery.

It appears the Productivity Commission is proceeding on the understanding the airport operators and international airlines have agreed on standards for airport services, with associated commercial consequences. The Commission's draft position is the airport services agreements 'typically include agreed service levels, often with outcomes defined in a service level agreement (SLA)' and 'rebates in the event of airport performance failures'.[1] As such, the Commission considers that 'on balance, commercial negotiations between airports and airlines give little cause for concern'.[2]

The Commission's position seems to be based on accepted statements from the airport operators about their airport services agreements. For example, Sydney Airport has stated that it has:

> progressively mature and sophisticated commercial agreements between Sydney Airport and its airline customers, which reflect bespoke requirements of individual airlines and are the result of vigorous negotiation between equivalent parties and provide fair value for service for airlines.[3]

And Melbourne Airport has stated that it provides:

> An Immediate Service Failure Rebate if Melbourne Airport's equipment is not available for use and causes an OTP issue in excess of 15 minutes…These new features are adapted from, and build upon, the best elements of deals struck elsewhere by participating airlines.[4]

BARA considers the airport operators' claims and the Commission's draft findings and conclusions are not grounded in the practical commercial content of the airport services agreements. Indeed, BARA has not been able to negotiate reasonable standards for airport services, including commercial consequences, in any airport services agreement. What is in place is generally an initial attempt by the airport operator to start collecting and sharing some performance data. Where rebate schemes do exist, airlines are effectively being handed back pre-paid money for a narrow range of breaches in service delivery by the airport operator, with extensive carve out provisions limiting the situations covered. The rebate amounts have no revenue or profit implications for the airport operators.

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[1] Draft Report, p.114
[2] Draft Report, p.2
[3] Sydney Airport submission 3 September 2018, p.11
[4] Melbourne Airport submission September 2018, p.9

2018 international baggage outcomes

A core outcome for international passengers is they can collect their bags when they arrive at their destination airport. 'Mishandled' bags impair the travel experience of affected passengers. [5] BARA estimates there were some 100,000 mishandled international bags across Sydney, Melbourne, Brisbane and Perth airports in 2018. These mishandled bags, which include both direct check-in and transfer bags between flights, cost international airlines some $30 million in additional operating expenses.

Direct check-in mishandled international bags at Sydney Airport

In its submission dated 7 March 2019, BARA presented information on mishandled bag rates across the major international airports. This information was shown by source of bag, namely direct check-in at the international terminal and transfer bags.

Figure 1 expands on the outcomes at Sydney Airport: it shows the estimated monthly number of direct check-in mishandled bags together with the cumulative operating costs incurred by international airlines in reconnecting these bags with passengers. About 31,000 bags in all were mishandled in 2018, which cost international airlines over $9 million in additional operating expenses. April, November and December were particularly poor months for international passengers and international airlines in airport baggage services. International airlines consider these outcomes well below a reasonable standard for baggage system services and are not as envisaged under the 2015 Aeronautical Services Agreement (2015 ASA).

Figure 1.   Sydney Airport – direct check-in mishandled international bags and airline costs
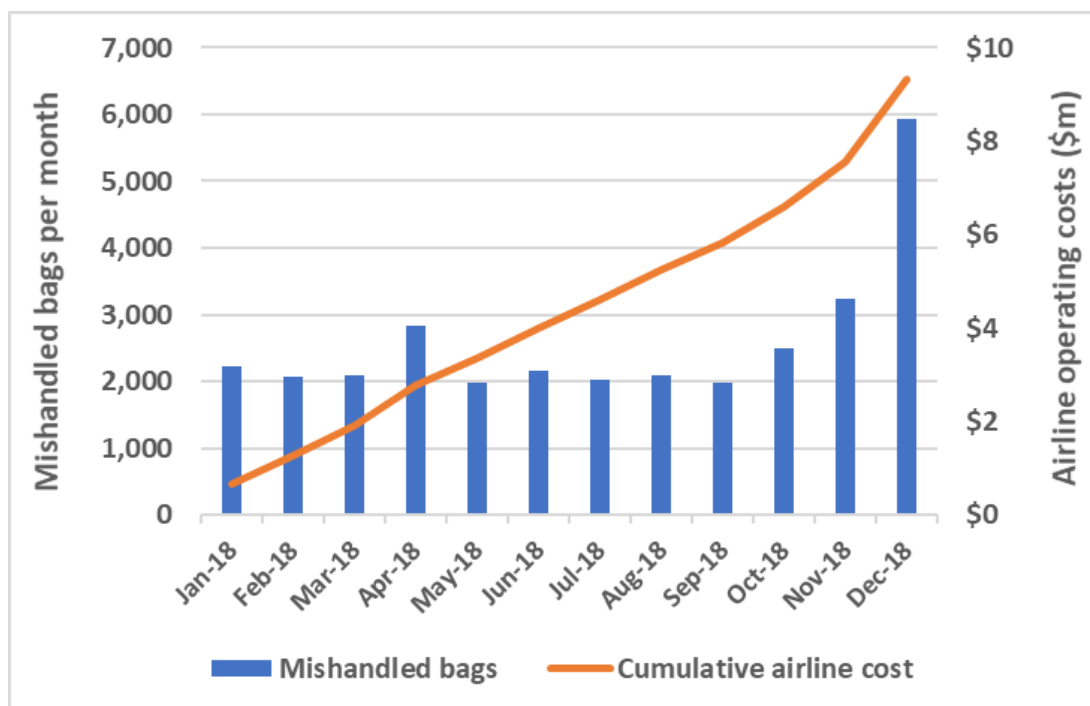
Notes: BARA's data cover over 60% of all departing international flights. The total estimated number of mishandled bags extrapolates these results across all departing international flights. Assumes $300 per mishandled bag cost to airlines. The data for mishandled bags is provided by Unisys Australia for general information and Unisys does not represent or warrant the suitability of the data or information for any particular purpose.

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[5] A mishandled bag is one that is not on a passenger's flight and is delivered via a later flight.

In addition to the costs of reconnecting bags to passengers, airlines also incur costs in replacing passengers' bags damaged by the airport operator's baggage system. BARA is unaware of any data that accurately measures the number of damaged passengers' bags at Australia's major international airports, but it is an ongoing concern for international airlines.

Lack of airport operator commercial accountability

As BARA explained at the public hearings, the airport operators accept trivial to no commercial accountability in their airport service agreements with international airlines over service delivery outcomes. They are, therefore, commercially disconnected from airport services outcomes that reduce the efficiency of international flights, which in turn produce poor outcomes for international passengers.

Table 1 summarises the baggage outcomes for international passengers and the commercial consequences for international airlines and the airport operators in 2018 for direct check-in international bags. Many tens of thousands of passengers were left without their bags at their destination airport; BARA estimates international airlines incurred over $16 million in additional operating costs in reconnecting these bags to their passengers. The airport operators, however, incurred no revenue or profit loss in the prices they charged international airlines for airport services.[6]

Table 1.   Outcomes for international passengers, international airlines and the airport operators 2018

	International passengers	International airlines	Airport operator
	Mishandled bags	Additional operating costs	Revenue reduction from airlines
Sydney Airport	31,107	$9,322,100	$0
Melbourne Airport	15,767	$4,730,100	$0
Brisbane Airport	4,236	$1,270,800	$0
Perth Airport	3,277	$983,100	$0
TOTAL	**54,387**	**$16,306,100**	**$0**

Source: BARA estimates

The financial insulation of the airport operators means an international airline's airport services agreement has no practical value when faced with declining airport services outcomes. It has also reduced the travel experience of many international passengers when airport services are not fit for purpose. This shows how the airport operators' claims, which the Commission appears to have accepted in its Draft Report, are not supported by the practical commercial content or outcomes of the existing airport services agreements.

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[6] BARA understands that Sydney Airport did pay one rebate relating to baggage to an international airline under the Service Level Recovery Mechanism (SLRM) contained in the 2015 ASA in 2018, likely worth a few thousand dollars.

Supporting high-technology baggage security and service platforms

At Sydney Airport, the rate of mishandled bags is being exacerbated because in some areas of the international baggage hall, the services available cannot adequately support the airlines' high technology baggage security and service platform.

The Australian Government mandated the implementation of an account for and authorise baggage reconciliation service (AAA BRS) process for international flights from July 2002. In supporting the highest standards in security and service provision, 40 international airlines use a high technology AAA BRS platform managed by Unisys Australia (Unisys). It is deployed at Sydney, Melbourne, Brisbane, Perth, Adelaide, Cairns and Gold Coast airports.

AAA BRS is an integrated software messaging system with computer and printer hardware and hand-held baggage scanners. The ground handlers at the airports are the main day-to-day users of the service, liaising directly with Unisys on equipment maintenance and system performance issues.

In negotiating a new services agreement with Unisys in 2014, international airlines decided to move away from relying on the airport operators' wi-fi services and instead moved to the Telstra mobile network. This has provided for greater flexibility and cut costs considerably given the very high fees Sydney Airport charged Unisys for access to its wi-fi services for this Australian Government-mandated security service.

Ground handlers at Sydney Airport have for some time raised concerns about the connectivity of scanners in some areas, which is affecting system performance. On several occasions it has been convenient for Sydney Airport to blame the high mishandled bag rate on assumed problems with AAA BRS.

Unisys and Telstra have now acted directly to identify the root cause of the scanner connectivity issues in Sydney Airport's baggage areas. They have found that in 'Pier B' baggage hall:

- there is a large distance between the mobile aerials and where ground handlers scan bags; and

- ground handlers report the issue is more prevalent between 9:30am and 11:30am when between 6 to 8 flight operations occur concurrently during this time in the one baggage hall, with both sides of the lateral full of metal baggage containers parked along the walls. These metal containers are likely disrupting the connectivity between the mobile aerials and ground handlers' scanners.

The likely solution is to install additional mobile aerials much closer to where the ground handlers scan bags. This will necessitate a collaborative effort and project between Unisys, Telstra and IT equipment providers and Sydney Airport as the consenting authority.

The findings of the investigation have been provided to Sydney Airport. BARA will be encouraging Sydney Airport to engage with stakeholders and cooperate so that a solution can be scoped and implemented. Sydney Airport's baggage areas could then support AAA BRS to a reasonable standard. BARA considers that, if the 2015 ASA contained appropriate commercial accountabilities, Sydney Airport would be more proactive in working with stakeholders in finding and implementing solutions to ensure a reasonable standard of baggage outcomes. This would clearly be more preferable than Sydney Airport just blaming AAA BRS for poor baggage outcomes delivered to international passengers and airlines.