



Australian  
Competition &  
Consumer  
Commission

## **A GUIDE TO THE ACCC'S AIRPORT MONITORING REPORT FOR 2010-11**

### **The ACCC's monitoring role**

Air transportation is essential in Australia because of the distances between capital cities and the lack of practical alternatives for travelling overseas. Airports are monopolies and control access to the key infrastructure necessary for air transportation and for users of the airports to access terminals.

Due to concerns that the airports could use their position to earn monopoly profits to the detriment of Australians, the Australian Government directed the ACCC to monitor the supply of aeronautical and car parking services by Australia's five major airports—Adelaide, Brisbane, Melbourne (Tullamarine), Perth and Sydney (Kingsford Smith) airports.

Monitoring of itself does not restrict the airports from using their monopoly position to increase prices and/or lower service standards. It does not provide the ACCC with a general power to intervene in the airports' conduct in setting of terms and conditions of access. Instead, monitoring increases the level of transparency about the airports' performance. It provides some information about the level and trends in the airports' prices, costs, profits and quality of service. However, it is important to note that monitoring is limited in its scope to undertake a detailed assessment of the airports' performance and cannot be used to conclusively establish whether the airports' have earned monopoly profits.

### **Aeronautical services**

Aeronautical services are those services provided by airports to airlines, passengers and border agencies (such as Customs) that are necessary for air transportation. They include, for example, terminal facilities such as baggage processing systems and some check-in services and aircraft facilities such as runways and aircraft parking.

It should be noted that the ACCC's monitoring relates only to those terminals that are owned and operated by the airports. Some of the airports' domestic terminals, such as the Qantas domestic terminal at Melbourne, Perth and Sydney airports as well as the Qantas and Virgin Blue domestic terminals at Brisbane Airport are leased and operated by those airlines and are not subject to the ACCC's monitoring. Therefore, the revenues, prices, costs, profits and quality of service associated with those terminals are excluded from the aeronautical services results presented in the ACCC's report.

Passenger throughput is a useful measure of the demand for aeronautical services at the airports as passenger demand for air transportation is likely to be the primary driver of the airports' capacity needs. Because airports typically charge on per passenger basis for the use of aeronautical services, the ACCC uses aeronautical revenue per passenger as an indicator of the airports' average prices, and operating margin per passenger and return on aeronautical assets as an indicator of the airports' profitability. Further, ratings of the airports' quality of service by airlines, passengers, border agencies and objective indicators are used as a measure of the quality of aeronautical services provided. Such measures include, for example, the availability and standard of check-in facilities used by airlines to service passengers as well as surveys of passengers' experiences in passing through security screening points.

The tables below show that around 103.7 million passengers passed through the five airports in 2010-11, an increase of around 5.8 per cent from the previous year. Sydney Airport had the highest passenger throughput (36.3 million passengers), while Perth Airport had the greatest growth in passenger throughput (9.4 per cent).

A combination of increased passenger numbers and, with the exception of Adelaide Airport, increased average prices contributed to an increase in total revenue from aeronautical services in 2010-11. Sydney Airport had the highest total aeronautical revenue (\$524.8 million), while Perth Airport had the greatest growth in total aeronautical revenue (17.2 per cent).

With the exception of Melbourne Airport, average prices increased by more than unit costs, resulting in an increase in aeronautical operating margins per passenger. Melbourne Airport's unit costs increased by more than average prices due to increased investment in aeronautical services. As a result of this investment, Melbourne Airport's return on aeronautical assets also decreased in 2010-11. For the other airports, returns on aeronautical assets were higher than the previous year.

In relation to the airports' returns on aeronautical assets, the ACCC has observed that the volatility of the airports' returns, which is an indicator of risk, has been significantly lower than that of airlines despite the global financial crisis and a number of natural disasters in recent years. In previous reports, the ACCC observed that the airports' risk and returns on aeronautical assets are partially insulated by airlines. This year's observations provide further support for the observations made in the ACCC's previous reports.

**Table 1: Key aeronautical services indicators for 2010-11**

Airport	Passenger numbers (million)	Total aeronautical revenue (\$million)	Aeronautical revenue per passenger (\$)	Aeronautical operating margin per passenger (\$)	Return on aeronautical assets (%)	Overall rating for quality of service (out of 5)	Airline rating for quality of service (out of 5)
Adelaide	7.4	86.1	11.64	5.31	10.2	3.93	3.67
Brisbane	20.3	198.5	9.80	4.10	6.2	4.23	3.82
Melbourne	28.3	231.9	8.19	3.75	12.3	3.72	3.01
Perth	11.5	103.1	9.00	3.56	13.2	3.68	2.61
Sydney	36.3	524.8	14.46	6.89	9.6	3.66	3.15

Note: Care needs to be taken when interpreting the levels of the airports' prices and profitability for aeronautical services, and when making comparisons of performance across the monitored airports and over time as they are not necessarily on a comparable basis. For example, Adelaide Airport operates a single, multi-user integrated terminal which means its revenue and cost figures are on a different basis to the other airports. At the other airports, some terminals are operated by airlines and the associated revenues and costs of operating those terminals are excluded from the aeronautical services results.

**Table 2: Percentage change in key aeronautical services indicators from 2009-10 to 2010-11**

Airport	Passenger numbers	Total aeronautical revenue	Aeronautical revenue per passenger	Aeronautical operating margin per passenger	Return on aeronautical assets	Overall rating for quality of service	Airline rating for quality of service
Adelaide	▲ 3.4%	▲ 2.7%	▼ 0.7%	▲ 2.0%	▲ 0.3 pp	▲ 3.5%	▲ 3.5%
Brisbane	▲ 5.2%	▲ 10.2%	▲ 4.7%	▲ 12.0%	▲ 1.0 pp	▲ 1.7%	▲ 2.7%
Melbourne	▲ 7.8%	▲ 9.4%	▲ 1.5%	▼ 0.1%	▼ 0.3 pp	▼ 4.3%	▼ 20.1%
Perth	▲ 9.4%	▲ 17.2%	▲ 7.2%	▲ 8.2%	▲ 0.1 pp	▲ 0.5%	▼ 9.9%
Sydney	▲ 4.0%	▲ 7.1%	▲ 3.0%	▲ 10.1%	▲ 1.2 pp	▲ 5.9%	▲ 11.0%

Note: pp = percentage points

*Overall* quality of service ratings, which encompasses the views of airlines, passengers, border agencies as well as quantitative measures of the size and availability of facilities, show that Brisbane Airport was the only airport to achieve a rating of 'good' (that is, a rating of 4.0 or above, but less than 5.0) in 2010-11. *Overall* ratings for Adelaide, Perth and Sydney airports improved within the 'satisfactory' range (that is, a rating of 3.0 or above, but less than 4.0). Melbourne Airport was the only airport to have a decrease in its *overall* rating in 2010-11, although it remained rated as 'satisfactory'. The decline in Melbourne Airport's *overall* rating was primarily driven by lower ratings given by airlines and border agencies.

However, *overall* quality of service ratings are not necessarily a direct indication of the quality of service provided solely by the airports. This is because passengers' perceptions of their experiences at the airports are influenced not only by the services provided by the airports, but also by the services provided by airlines and border agencies. In contrast, the airlines are the direct users of the services solely provided by the airports. Therefore, *airline* quality of service ratings can provide a direct indication of the quality of service provided by the airports.

*Airline* quality of service ratings were 'satisfactory' for all the airports in 2010-11, with the exception of Perth Airport, which received a rating of 'poor' (that is, a rating of 2.0 or above, but less than 3.0) for the second consecutive period. Melbourne Airport had a sharp decline in *airline* quality of service ratings, but still remained within the 'satisfactory' range. *Airline* quality of service ratings for Sydney Airport increased from 'poor' in previous periods to 'satisfactory' in 2010-11.

### **Airport car parking and landside access services**

Airport users require access to the terminals and do so by, for example, private vehicles, taxis, hire cars, buses, rental vehicles and bikes. Further, users accessing airports in private vehicles may be dropped-off or picked-up, or may park on a short-term or long-term basis.

It should be noted that car parking and landside access services provided can vary significantly across the airports. For example, long-term car parking at Brisbane Airport is located within walking distance of its terminals, whereas a large proportion of long-term car parking at Melbourne Airport is further away from its terminals and requires the use of shuttle buses. Further, the availability of kerbside drop-off and pick-up space varies significantly. Importantly, comparisons of prices, costs and profits for car parking and landside access services across airports will only be robust when they are on a 'like-with-like' basis. For these reasons, care needs to be taken when interpreting the differences in the results across the airports.

The tables below show that revenue from on-airport car parking increased for all the airports in 2010-11. Melbourne Airport had the highest car parking revenue (\$114.6 million), while Perth Airport had the greatest growth in car parking revenue (23.5 per cent).

For Adelaide and Sydney airports, the increase in car parking revenue was wholly attributable to an increase in demand as none of their prices changed in 2010-11. For Brisbane, Melbourne and Perth airports, the increase in car parking revenue was attributable to both demand and price increases.

As a result of revenue increasing by a greater rate than operating expenses, operating margins from on-airport car parking increased for all the airports except Brisbane Airport in 2010-11. The decrease in Brisbane Airport's operating margin was driven by cost increases attributable to substantial investment in new car parking facilities.

**Table 3: Car parking prices as at 30 June 2011**

Airport	Short-term car parking				Long-term car parking		
	1 hour	3 hours	8 hours	24 hours	1 day	3 days	7 days
Adelaide	\$4.00	\$11.00	\$26.00	\$30.00	\$25.00	\$50.00	\$70.00
Brisbane	\$13.00	\$22.00	\$40.00	\$40.00	\$40.00	\$80.00	\$140.00
Melbourne	\$12.00	\$28.00	\$52.00	\$52.00	\$29.00	\$69.00	\$77.00
Perth	\$5.60	\$10.00	\$36.00	\$36.00	\$16.00	\$52.00	\$88.00
Sydney	\$15.00	\$26.00	\$52.00	\$52.00	\$25.00	\$62.00	\$122.00

Note: Brisbane, Perth and Sydney airports' short-term and long-term car parking prices are based on the domestic terminal car park at each airport. Melbourne Airport's long-term car parking prices are based on the long-term uncovered car park located at distance from the terminal precinct.

**Table 4: Percentage change in car parking prices from 30 June 2010 to 30 June 2011**

Airport	Short-term car parking				Long-term car parking		
	1 hour	3 hours	8 hours	24 hours	1 day	3 days	7 days
Adelaide	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Brisbane	0.0%	▲ 10.0%	▼ 20.0%	▼ 20.0%	▲ 14.3%	▲ 6.7%	0.0%
Melbourne	0.0%	▲ 12.0%	▲ 4.0%	▲ 4.0%	0.0%	0.0%	0.0%
Perth	▲ 3.7%	▲ 13.6%	▲ 2.9%	▲ 2.9%	0.0%	▲ 8.3%	▲ 10.0%
Sydney	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**Table 5: Key car parking indicators for the monitored airports for 2010-11**

Airport	Total airport car parking revenue (\$million)	Total airport car parking operating margin (\$million)	Total airport car parking spaces ('000)	Airport car parking revenue per car park space (\$)	Airport car parking margin per car park space (\$)	Airport car parking revenue as % of total airport revenue (%)	Landside access revenue (\$million)
Adelaide	14.8	10.6	3 000	4 918	3 534	9.2	0.3
Brisbane	60.1	42.9	9 767	6 151	4 397	13.2	5.3
Melbourne	114.6	86.9	22 412	5 115	3 878	21.0	6.6
Perth	41.1	27.5	14 551	2 824	1 889	13.9	2.1
Sydney	98.0	69.1	12 271	7 983	5 632	10.2	9.3

**Table 6: Percentage change in key car parking indicators from 2009-10 to 2010-11**

Airport	Total airport car parking revenue	Total airport car parking operating margin	Total airport car parking spaces	Airport car parking revenue per car park space	Airport car parking margin per car park space	Airport car parking revenue as % of total airport revenue	Landside access revenue
Adelaide	▲ 7.4%	▲ 1.9%	▼ 2.8%	▲ 10.4%	▲ 4.8%	0.0 pp	▲ 6.7%
Brisbane	▲ 3.3%	▼ 3.8%	▲ 1.6%	▲ 1.7%	▼ 5.4%	▼ 0.6 pp	▲ 23.5%
Melbourne	▲ 10.4%	▲ 7.5%	0.0%	▲ 10.4%	▲ 7.5%	▲ 0.4 pp	▲ 13.9%
Perth	▲ 23.5%	▲ 21.9%	▲ 26.2%	▼ 2.2%	▼ 3.5%	▲ 0.4 pp	▲ 20.0%
Sydney	▲ 3.0%	▲ 1.3%	▲ 1.0%	▲ 1.9%	▲ 0.3%	▼ 0.4 pp	▲ 4.0%

Note: pp = percentage points

As shown in the tables above, the ACCC also reports on the charges imposed by the airports on alternatives to on-airport car parking and the amount of revenue that the airports receive from those landside access charges. This is because the airports could, by imposing excessive charges or restrictive terms and conditions for landside access, impede competition from alternatives to on-airport car parking. This can have the effect of shifting demand from those alternatives to on-airport car parking and, at the same time, enable the airports to charge higher prices for on-airport car parking to increase revenues.

Revenue from landside access increased at all of the airports in 2010-11. For Brisbane Airport, the increase was due to a combination of increased demand and increased landside access charges. For the other airports, the increase was due wholly to increased demand as landside access charges were unchanged in 2010-11.

### **Options for airport regulation**

Airports are monopolies and have market power. This was confirmed by the Productivity Commission in its recent inquiry into the economic regulation of airports. An unconstrained airport can use its position to earn monopoly profits to the detriment of Australians. Further, an unconstrained airport may lack the necessary incentives to meet the needs of its users and provide access to its services and facilities on reasonable terms and conditions. This can have an impact on competition in downstream markets, which can have flow on effects through the economy more broadly. For these reasons, effective regulation of airports is appropriate.

The airports are currently subject to monitoring. However, monitoring does not directly restrict the airports from increasing prices and/or lowering service standards to earn monopoly profits. Further, monitoring is limited in its scope to enable a detailed assessment of the airports' performance to be undertaken and it cannot conclusively establish whether an airport has earned monopoly profits. For these reasons, monitoring is not effective in addressing the policy concern that an unconstrained airport presents and is not a substitute for effective regulation.

Even allowing for the limitations of monitoring, the ACCC has observed outcomes that would be expected of unconstrained monopolies. In particular, prices have increased while, in some instances, quality of services have remained constant or have even fallen below satisfactory over a sustained period of time. Additionally, the ACCC has observed that the airports' returns are less volatile than those observed in related markets, such as airlines.

There are, however, regulatory tools available that can deal with the policy concern that airports present. In its submission to the Productivity Commission's recent inquiry, the ACCC specifically noted that there are 'fit-for-purpose' regulatory tools available under Part IIIA of the *Competition and Consumer Act 2010*. Part IIIA provides for third parties to negotiate access to monopoly infrastructure such as airports and is able to effectively constrain the potential for monopoly pricing by airports.