

Australian Competition & Consumer Commission

GPO Box 5201
Melbourne VIC 3001

Level 35 The Tower
Melbourne Central
360 Elizabeth Street
Melbourne VIC 3000

Ph (03) 9290 1800
Fax (03) 9663 3699

4 October 2002

Mr Dominic Schuster
Manager Economics
Sydney Airports Corporation Ltd
PO Box 63
MASCOT NSW 1460


Dear Mr Schuster

**Re: Price Notification – Aeronautical charges for regional users of the Sydney Airport
Common Use Terminal**

I am writing in response to the Notice given to the Australian Competition and Consumer Commission (the Commission) on 18 September 2002 by Sydney Airports Corporation Ltd (SACL) in relation to a proposal to offer a passenger-based charge to NSW intrastate operators using Terminal 2 (the former Ansett domestic terminal).

The Commission has reached its decision in relation to this Notice.

Pursuant to section 22(2)(b)(iii) of the *Prices Surveillance Act 1983* the Commission does not object to the charge of \$4.50 per passenger (exclusive of GST) and \$4.95 (inclusive of GST) for the use of Terminal 2, aircraft apron parking and check-in counter use.

A copy of the detailed decision, including the Commission's reasons, will be forwarded to you separately, and is available on the ACCC's website at www.accc.gov.au.

If you have any questions about this matter please call Bill Loane on (03) 9290 1957.

Yours sincerely



Richard Home
Director Aviation & Post
Transport and Prices Oversight Branch





Sydney Airport

Aeronautical charges for regional users of Terminal 2

Decision and Statement of Reasons

October 2002

Introduction

Sydney Airports Corporation Limited (SACL) notified the ACCC in a letter dated 18 September 2002 of its proposal to offer a passenger-based charge for regional air services at the common use terminal now known as Terminal 2 (the former Ansett domestic terminal).

Regulatory Framework

The notification was made pursuant to Section 22(2)(a) of the *Prices Surveillance Act 1983* and Declaration 90 (which declares regional airline services at Sydney Airport, defined as regular public transport air services operating wholly within the State of New South Wales)¹. The ACCC has 21 days (up until 9 October) to consider the notification and whether to object to the charge or not. In assessing the proposal, Direction 28 requires the ACCC to give special consideration to the Government's policy that the average revenue-weighted percentage increase in charges for regional services in a financial year should not exceed the rate of increase in the CPI. The starting point prices are to be those charged by SACL at 30 June 2002.

The Notification

SACL proposes to offer regional users of Terminal 2 the choice of electing to pay a terminal charge on either of the following two bases:

- a) existing charges previously approved for users of the Domestic Express Terminal for the three discrete services set out in the first and second columns of the table below;
- b) a new Passenger Facilitation Charge (PFC) of \$4.50 per arriving and departing passenger, which has been estimated by SACL to be the sum of equivalent charges for each of the three components as shown in the third column below:

Service	Existing charges*	Proposed new passenger-based charge*
Terminal facilities charge	\$1.74 each way per passenger	\$1.74
Apron parking	\$35 per 15 minutes	\$2.50
Check-in counter	\$17 per counter per hour	\$0.26
Combined:		\$4.50 per passenger

* GST-exclusive

The first two components are declared services under Direction No.90, but the third component – check-in counters – is not a declared service and thus does not have to be notified or approved. Nevertheless, as the charges are to be combined, the proposal has been considered as a whole.

¹ Prior to 1 July 2002, aeronautical services at all major airports were declared under the *Prices Surveillance Act* so that the ACCC was required to assess any proposals to increase prices for the declared services. From 1 July 2002, the only aeronautical services declared are those for regional air services at Sydney Airport.

Background

Sydney Airport effectively has two domestic common user terminals - the Domestic Express Terminal and Terminal 2. A charge of \$1.75 per passenger was approved by the ACCC in 2000 for use of Sydney's domestic common user terminal (the Domestic Express Terminal), under the "necessary new investment" provisions of the regulatory regime existing at that time. Following the withdrawal of Ansett and purchase of the terminal by SACL, Terminal 2 was opened for use as a common user facility from September 2002. Regional airlines (QantasLink, Australiawide – REX, Horizon, Aeropelican) are mostly moving their operations from the Domestic Express Terminal to Terminal 2 in September 2002.

The proposed PFC is an interim charge for use of Terminal 2 based on the existing charges approved for regional airline use of the Domestic Express Terminal. However, SACL states that the facilities at Terminal 2 are generally higher quality and the costs are higher, and has foreshadowed that it may submit a further notification of a longer-term charge to recover the costs of use of Terminal 2 by regional operators.

The following charges would be retained in addition to the proposed restructured passenger charge:

- Passenger security screening \$1.79 per passenger;
- Runway charge \$3.45 per tonne MTOW on take-off and landing.

Consultation

The notification was published on the ACCC website on 24 September. The Commission also wrote to interested parties inviting comments on SACL's proposal by 30 September.

A response was provided by Qantas, which supported SACL's proposal. Qantas did note, however, that having multiple charging structures for the same service might create complexities that outweigh the intended benefits.

No submissions objecting to the proposal were received.

Commission's assessment

The proposal involves a restructuring of prices for regional airline use of the domestic common use facility at Sydney Airport's Terminal 2. A restructuring could in some circumstances be an effective price increase. In this case, however, it appears unlikely to lead to an effective increase for two reasons:

- i) the new charge appears to be approximately equivalent to the sum of the existing three charges; and
- ii) as long as users have the choice to pay under the old or new charge structure, they are able to select the lower-priced alternative, so need not pay the new charge if they perceive it to be higher.

The calculations used by SACL to set an equivalent passenger-based charge are shown in Appendix 1 and appear to be soundly based.

The impact of the new charge compared with the old is likely to vary between different user airlines. For example, airlines with higher passenger load factors or shorter parking times may find the new passenger-based charge higher. However, the availability of the choice allows them to minimise any such price increase.

The possibility of an effective increase nevertheless arises if users elect for a particular pricing option and, should they later find it to be a more expensive option, are unable to change to the other except after some time lag. The Commission understands that SACL would allow users to change at least after the monthly billing period. This should reduce any payments in excess of the minimum structure to relatively low levels.

On balance the Commission considers that the proposed price structure is unlikely to lead to a price increase for regional users in excess of the increase in the CPI, taking the starting price to be the charges for regional operations at the DET, and hence should be consistent with Direction No.28.

Subsection 22 (1) of the *Prices Surveillance Act* imposes constraints on price increases in notified goods or services supplied in a locality on “particular terms and conditions”. The Commission considers the choice of prices offered by SACL to be part of the terms and conditions of the price. Any future proposal to remove the choice would therefore require a new notification.

Section 17(3) of the *Prices Surveillance Act* sets out matters that the Commission must “have particular regard” to in exercising its powers under the Act. Broadly, these are the need to maintain investment and employment; the need to discourage a person from taking advantage of market power in setting prices; and the need to discourage cost increases arising from increases in wages and changes in terms and conditions of employment. The Commission has had regard to these matters and considers that this decision is consistent with them.

The combined charge includes two declared services and one non-declared service (check-in). The Commission is only required to consider the components which are declared services, that is, terminal facilities and apron parking.

The Commission notes that the combining of declared services and non-declared services into a single charge could affect the nature of future notifications. From one viewpoint, any increase in the non-declared component would not have to be notified, and the Commission could not object, although it would result in an increase in the combined charge which includes declared services. From the users’ viewpoint, any increase in the combined charge – whether it is said to arise from declared or non-declared services - would have the same effect, although their treatment under the *Prices Surveillance Act* would be different.

The Commission considers that administration of its price surveillance function would be facilitated if charges for declared and non-declared services are kept separate. As a minimum in the interests of transparency, the components of the combined charge relating to declared services should be separately and clearly identified in any future price changes.

Commission decision

In the light of the above assessment, the Commission does not object to the proposed charges by SACL for declared aeronautical services for regional air services at Sydney Airport’s Terminal 2, where the GST-exclusive charges will be based on either option A or B below, as selected by users:

Option A: Separate charges:

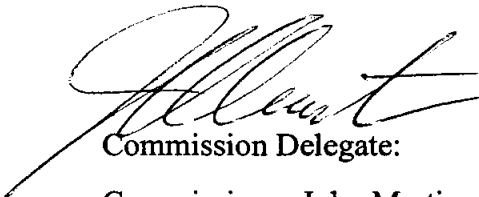
Terminal facilities	\$1.75 each way per passenger
Apron parking	\$35 per 15 minutes
Check-in counters	\$17 per counter per hour

Option B: Combined charge:

Charge for use of terminal facilities, apron parking, and check-in counters of \$4.50 per passenger, made up of the following components:

Terminal facilities	\$1.74 per passenger
Apron parking	\$2.50 per passenger
Check-in counters	\$0.26 per passenger

In my capacity as delegate for the Commission, I do not object to the proposed charges for the use of Terminal 2 at Sydney Airport, as notified by Sydney Airports Corporation Ltd on 18 September 2002, and set out as Options A and B above.



Commission Delegate:

Commissioner John Martin

3.10.02

Appendix 1. Derivation of equivalent passenger-based charges

The following calculations are based on the data and assumptions provided in SACL's notification.

Aircraft parking on apron:

	Formula	Calculations
(a) Existing parking charge		\$35 per 15 minutes
(b) Average parking time		45 minutes
(c) Average parking charge	$a*(b/3)$	\$105 per turnaround ²
(d) Average seat capacity – regional flights		35 seats ³
(e) Average load factor ⁴		60%
(f) Average passengers per flight	$d*e$	21
(g) Equivalent parking charge per passenger	$c/(f*2)$	\$2.50

Check-in (not a declared service)

	Formula	Calculations
(a) Existing check-in charge		\$17 per counter per hour
(b) Average departing flights per counter hour		2
(c) Average check-in charge	a/b	\$8.50 per departure
(d) Average seat capacity – regional flights		35 seats
(e) Average load factor		60%
(f) Average passengers per flight	$d*e$	21
(g) Equivalent check-in charge per departing pax	c/f	\$0.40
(h) Equivalent check-in charge per passenger ⁵	$g/2$	\$0.20 ⁶

² One turnaround is equivalent to two aircraft movements - one arriving and one departing flight.

³ Average capacity for regional aircraft - typically Dash 8 or Saab 340.

⁴ Based on Bureau of Transport & Regional Economics data for 2001 (59%) and first half of 2002 (54.6%).

⁵ SACL proposes distributing the check-in charge across both arriving and departing passengers, implicitly assumed to be equal in number.

⁶ SACL proposes rounding this figure up to \$0.26 in order to round the total PFC to \$4.50.