AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Airport monitoring report

Background information

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Australian Competition and Consumer Commission
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1. History of airport regulation in Australia

1.1 Privatisation of airports

The Australian Government established the Federal Airports Corporation (FAC) in the 1980s to own and manage airports on a commercial basis. Initially the FAC was required to notify the relevant Minister prior to setting or varying aeronautical charges. In 1991 the government declared the FAC's aeronautical charges under s. 21 of the *Prices Surveillance Act 1983*. The declaration required the FAC to notify the Prices Surveillance Authority (PSA) prior to raising its aeronautical charges.

In 1995 the government privatised all 22 FAC airports (through leasing arrangements) to improve the efficiency of airport investment and operations, and to facilitate innovative management.[1] The sales were largely undertaken in two phases, during 1997 to 2003. Phase one included Brisbane, Melbourne and Perth airports, while phase two included Adelaide, Darwin and Canberra airports. Sydney Airport was corporatised in 1998, but not privatised until 2002.

A transitional regulatory framework designed to limit the potential for the airports to exercise their market power accompanied the privatisation of these airports. The regulatory regime, which was administered by the ACCC[2], consisted of:

- a price notification regime that applied to aeronautical services
- a price cap (Consumer Price Index (CPI) minus X) on prices for aeronautical services
- price monitoring of certain aeronautical related services
- cost pass-through provisions for efficient new investment and government mandated security services.

The airports subject to price regulation were also subject to quality of service monitoring to ensure that airport assets were not allowed to run down at the expense of service standards.

The government stated that it would determine the subsequent, ongoing regulatory framework after a detailed review.

1.2 Productivity Commission inquiries into the price regulation of airport services

Productivity Commission 2002 Inquiry

In December 2000 the government referred the review of the regulatory arrangements for airports to the Productivity Commission (PC), which concluded in 2002. The government accepted the PC's recommendation that price notification and price caps under the PSA should be discontinued for the relevant airports, with the exception of regional air services at Sydney Airport.[3] Additionally, the PC recommended that the ACCC should monitor prices at Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports for a 5-year period, and that a review of price regulation of airport services should be conducted at the end of that period to ascertain the need for future regulation. The government supported the PC's recommendation that quality of service monitoring be continued at all price monitored airports, with some modifications.

1 Department of the Parliamentary Library Australia, *Turbulent Times: Australian Airline Issues 2003, Research Paper No. 10*, 2003.

2 This was under Part VIIA of the then *Trade Practices Act 1974*.

3 Productivity Commission, *Price regulation of airport services*, report no. 19, Canberra, January, 2002.

Productivity Commission 2006 Inquiry

In 2006 the PC conducted another review of the price regulation of airport services. In its response to the PC's recommendations, the government announced that the airport price and quality of service monitoring would continue for a further 6 year period. Following this period, an independent review of the regulatory regime would then be undertaken in 2012. The government supported the PC's recommendation that the monitoring regime should only apply to Adelaide, Brisbane, Melbourne, Perth and Sydney airports. Canberra and Darwin airports were excluded because the PC considered these airports to have less market power.

Productivity Commission 2011 inquiry

In December 2010 the government brought forward the PC's next review of the economic regulation of airport services from 2012. The PC's review found that there had been a number of positive outcomes under the existing monitoring regime, including:

- strong investment in new aeronautical assets
- a generally good level of service provision
- reasonable aeronautical charges, revenues and profits compared to international benchmarks.

The PC found no evidence of any systemic misuse of market power by the airports, but considered that Brisbane, Melbourne, Perth and Sydney airports' market power was a concern and recommended the continuation of the existing price and quality of service monitoring arrangements with some amendments to the regime.

The government agreed with the PC's recommendations to continue monitoring, with another review of the economic regulation of airport services scheduled for 2018. The government also asked the ACCC to conduct a review of quality of service monitoring, which was completed in June 2013. The government agreed in principle with the recommendation that the ACCC take steps to make as much of its underlying methodology publicly available as possible and focus on trends over time at a given airport.

On 12 June 2012 the government issued new directions pursuant to s. 95ZF (Part VIIA) of the *Competition and Consumer Act 2010* (CCA). It directed the ACCC to monitor the prices, costs and profits related to the supply of aeronautical services and car parking services at the 4 specified airports, with Adelaide Airport removed from the monitoring regime.

Productivity Commission 2019 inquiry

In June 2018 the Australian government requested the PC to undertake a further inquiry into the economic regulation of airports. The PC reported in 2019 that it had found that the existing reporting framework remained fit for purpose.

The PC considered that on balance, most indicators of operational efficiency including costs and service quality, aeronautical revenue and charges, and profitability are within reasonable bounds. It said that each airport had generated returns sufficient to enable investment while not earning excessive profits, and passengers consider airports to have good service quality.

In relation to car parking, the PC's report said that airport car park prices are consistent with the costs of service provision including the opportunity cost of land and the need to manage congestion.

The government responded to the PC's final report on 11 December 2019. It broadly agreed with the findings and supported many of the recommendations. The government supported the recommendation that improvements should be made to the monitoring regime to better inform reviews of airport performance.

The government said that it would consult to determine the necessary amendments to Part 7 of the Airports Regulations 1997 (Airports Regulations) to implement the recommendation. The government further supported a recommendation for the ACCC to review the way that it monitors the airports' quality of service.

2. Regulatory framework

The ACCC's regulatory role involves monitoring the performance of the airports under directions issued pursuant to the CCA as well as the *Airports Act 1996* (Airports Act) and associated regulations.

Furthermore, regional air services provided by Sydney Airport are subject to the price notification regime under Division 4 of Part VIIA of the CCA.

2.1 Prices, costs and profits monitoring

Aeronautical and car parking services monitoring

The ACCC is required to monitor the prices, costs and profits related to the supply of aeronautical services and facilities by Brisbane, Melbourne, Perth and Sydney airports. This is under direction made pursuant to s. 95ZF of the CCA and issued on 12 June 2012 (see attachment). This direction took effect on 1 July 2012 and replaced Direction 29 issued on 28 June 2007.

The ACCC is also required to monitor the prices, costs and profits relating to the supply of car parking services by Brisbane, Melbourne, Perth and Sydney airports. This is under a second direction made pursuant to s 95ZF of the CCA and issued on 12 June 2012 (see attachement). This direction took effect on 1 July 2012 and replaced Direction 31 issued on 7 April 2008.

Subsection 95G(7) of the CCA requires the ACCC to have particular regard to the following matters in performing this monitoring function:

- the need to maintain investment and employment, including the influence of profitability on investment and employment
- the need to discourage a person who is in a position to substantially influence a market for goods or services from taking advantage of that power in setting prices
- the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

Financial accounts

Under Part 7 of the Airports Act and Part 7 of the Airports Regulations, the ACCC collects and reports annual regulatory accounting statements, including an income statement, balance sheet and statement of cash flows, from the 4 monitored airports.

In particular, reg. 7.03 of the Airports Regulations, under subsection 141(2) of the Airports Act, stipulates that a specified airport must prepare a financial report which separately shows the financial details in relation to the provision of aeronautical and non-aeronautical services. Under reg. 7.06 of the Airports Regulations, airports must lodge these accounts with the ACCC within 90 days of the end of the relevant accounting period.

The ACCC's price monitoring and financial reporting information requirements for airport operators are outlined in the *ACCC Airport prices monitoring and financial reporting guideline* from June 2009.[4]

2.2 Quality of service monitoring

Part 8 of the Airports Act provides for the ACCC to monitor the quality of services and facilities at the specified airports. More specifically, Part 8 provides for:

- quality of service aspects to be specified in the Airport Regulations

4 Available at https://www.accc.gov.au/publications/airport-prices-monitoring-financial-reporting-guideline.

- the ACCC to monitor and evaluate the quality of the aspects of airport services and facilities against criteria determined by the ACCC
- records to be kept and retained in relation to quality of service matters
- information to be provided to the ACCC by airport operators and other relevant parties, including airlines, relevant to quality of service matters
- the ACCC to publish reports relating to the monitoring or evaluation of the quality of aspects of airport services and facilities

Regulation 8.01A of the Airports Regulations specifies the particular aspects of passenger-related and aircraft-related services and facilities for which the ACCC should monitor and evaluate quality of service. Schedule 2 of the Airports Regulations splits each required aspect into a variety of measures for which the airports must keep data. Regulation 8.03 of the Airports Regulations requires the specified airports to give the ACCC copies of the quality of service records for a financial year within 90 days after the end of that financial year.

In June 2013 the ACCC completed a review of quality of service monitoring, which was requested by the government following the PC's 2011 inquiry into the economic regulation of airport services. The review recommended a number of amendments to the Airports Regulations. As a result, the Airports Regulations were amended in July 2014 to include some new objective indicators (e.g. number of departing passengers per check-in desk, bag drop and check-in kiosk during peak hour) and to remove other ones (for example, the percentage of hours when more than 80% of check-in desks are in use).

The ACCC's approach to its quality of service monitoring role is outlined in its *Airport quality of service monitoring guideline* from June 2014.[5]

The ACCC was expected to commence a review in to the quality of service monitoring in 2020 as part of the government's response to the 2019 Inquiry, however this was put on hold as the industry recovers from the impacts of COVID-19.

2.3 Regulation of regional air services at Sydney Airport

Prices charged by Sydney Airport for aeronautical services and facilities provided to regional air services are regulated under the price notification regime in Part VIIA of the CCA. A declaration issued under s. 95X of the CCA requires Sydney Airport to notify the ACCC if it intends to increase the prices for regional air services.[6] This declaration commenced on 1 July 2019 and will cease on 30 June 2022.

The ACCC must assess any proposed price and either:

- not object to the increase
- not object to an increase that is lower than the proposed increase, or
- object to the proposed increase.

In undertaking its assessment of price notifications provided by Sydney Airport, the ACCC is directed by a direction made under s. 95ZH of the CCA to give special consideration to the government's policy.[7] This direction commended on 1 July 2019 and ceases on 30 June 2022.

To facilitate continuing access to Sydney Airport by operators of regional air services, the direction required that the total revenue-weighted percentage increase in prices over 3 years from 1 July 2019 (or part thereof) should not exceed the total percentage increase in the CPI over that same period.

5 Available at https://www.accc.gov.au/publications/guideline-for-quality-of-service-monitoring-at-airports.

6 Competition and Consumer (Price Notifications – Aeronautical Services to NSW Regional Airlines) Declaration 2019 and is available at https://www.legislation.gov.au/Details/F2019L00555.

7 Competition and Consumer (Prices Surveillance – Aeronautical Services to NSW Regional Airlines) Direction 2019 and is available at https://www.legislation.gov.au/Details/F2019L00556.

3. Services provided by airports

Services and facilities provided by airports are categorised as either aeronautical or non-aeronautical services.

3.1 Aeronautical services

The ACCC's direction to monitor the prices, costs and profits related to the supply of aeronautical services and facilities by the monitored airports refers to Part 7 of the Airports Regulations. Part 7 defines aeronautical services as those services and facilities at an airport that are necessary for the operation and maintenance of civil aviation at the airport.

Some of the aircraft-related aeronautical services and facilities provided by airports are:

- runways, taxiways, aprons, airside roads and airside grounds
- airfield and airside lighting
- aircraft parking sites
- ground handling (including equipment storage and refuelling)
- airside freight handling and staging areas essential for aircraft loading and unloading.

The basis of charging for aeronautical services can vary across airports. In general, airports determine charges based on a variety of factors, such as the number of passengers, maximum take-off weight, duration and time of day. While some airports levy charges for each aeronautical service component, other airports bundle some of those services.

Some of the passenger-related aeronautical services and facilities provided by airports include:

- necessary departure and holding lounges, and related facilities
- aerobridges and buses used in airside areas
- facilities to enable the processing of passengers through customs, immigration and biosecurity (quarantine)
- check-in counters and related facilities (including any associated queuing areas)
- terminal access roads and facilities in landside areas (including lighting and covered walkways)
- baggage, handling and reclaiming facilities.

Terminals operated by airlines under a domestic terminal lease were not included within the definition of aeronautical services and facilities (see section 1.2) while the leases were in force. All terminals have now reverted back to airport control and are now included in the definition of aeronautical services.

Charges for access to terminals are generally levied on the basis of the number of passengers per aircraft and type of flight.

3.2 Non-aeronautical services

Airports also provide a number of non-aeronautical services such as car parking, landside access to transport providers, and leasing space for retail outlets, hotels, corporate parks and factory outlets. The ACCC monitors the airports' car parking activities in a similar manner to aeronautical services, pursuant to s. 95ZF of the CCA. The ACCC also monitors landside access activities however the provision of this information by airports is voluntary. The monitoring role does not extend to other non-aeronautical services and facilities.

4. Methodology

This chapter explains the methodology used by the ACCC in preparing the measures used in this report for monitoring prices, costs and profits, financial reporting and quality of service.

Further information can be found in the following publications on the ACCC website:

- *Airport prices monitoring and financial reporting guideline*[8]
- *Guideline for quality of service monitoring at airports.*[9]

4.1 Prices, costs and profits

The monitoring results in this report relate to the financial performance of the monitored airports including prices, costs and profits. While these results may serve as indirect indicators of economic efficiency, they do not indicate conclusively whether or not the airports are exercising their market power to earn monopoly rents.

4.2 Aeronautical and total airport measures

The ACCC uses aeronautical revenue per passenger as an indicator of the airports' average prices, and profits and returns on aeronautical assets as an indicator of the airports' profitability. The ACCC also reports on total airport revenue, costs and profits.

There have been some changes in the scope of aeronautical services in the past. This has resulted in the inclusion of revenue of some services such as aircraft refuelling in the airports' regulatory accounts, which were previously excluded.[10] This is one of the issues that affects the comparison of data across airports and over time.

Prices

The ACCC uses aeronautical revenue per passenger as a proxy measure of changes in average airport prices. The ACCC has reported on changes in this measure since 2003–04.

Ideally the ACCC would use a direct measure of prices in the form of a price index. However, in most cases it is not possible for the ACCC to compile such an index. For example, the price of using an airport cannot simply be measured by adding up the different charges in place at a given point in time because charges can be levied on different bases—such as on a per passenger basis or by aircraft weight. Also, airports might offer discounts for certain periods or to certain users, or there might be charges in place, which affect some users but not others.

In addition, the price changes for particular airport users may vary depending on the composition of the airport services they utilise and the times at which they use them. For example, the costs of a domestic flight to an airline are likely to be different to those associated with an international flight due to differing security and processing requirements. Similarly, changes in price structure imposed by an airport might affect users in different ways, such as lowering the costs for one user while raising them for another.

Costs and profits

While there are many profitability measures, the ACCC uses earnings before interest, tax and amortisation (EBITA). This measure takes into account depreciation costs. EBITA is reported separately

8 Available at https://www.accc.gov.au/publications/airport-prices-monitoring-financial-reporting-guideline.

9 Available at https://www.accc.gov.au/publications/guideline-for-quality-of-service-monitoring-at-airports.

10 Brisbane, Perth and Sydney airports treated the revenue they derived from aircraft refuelling as non-aeronautical under Direction 27 (1 July 2002 to 30 June 2007), while subsequent Directions required aircraft refuelling to be included as aeronautical revenue.

for the total airport and a business component such as aeronautical or car parking operations. The ACCC also reports operating profit as a percentage of revenue i.e. operating profit margin.

The ACCC has reported on changes in aeronautical operating expenses per passenger and aeronautical profit per passenger since 2002–03. Aeronautical profit excluding security costs is not discussed in this report because government mandated security revenue is set to recover the costs associated with security services and does not affect the overall profitability of the airports.

EBITA provides a measure of airport operating performance, as distinct from financial performance. It is useful for revealing trends in operating performance over time. However, as a measure of profitability it does not take into account the full capital cost associated with the provision of services. Since it also includes non-cash items such as depreciation, operating margin does not provide a measure of net cash flow from airport operations either.

Rates of return

Rate of return measures can also inform analyses of profitability. The rate of return measure used by the ACCC in this report is 'return on assets,' which may be expressed in a number of forms (for example, pre- or post-tax returns, and including or excluding interest expenses and/or depreciation and amortisation). The ACCC's approach to calculating rates of return in this report is discussed below.

Since rate of return measures can be susceptible to assets revaluations made by individual airports, the ACCC uses the line-in-the-sand approach (discussed below) to asset valuations that removes the effects of such revaluations.

Return on assets

This report also looks at the rate of return that airports earn from their assets. This measure consists of EBITA on the average value (of opening and closing balances) of tangible non-current assets. The ratio provides a measure of the efficiency with which an entity uses its assets to produce operating profit before interest, tax and amortisation. Given the limitations in using a return on equity measure for the monitored airports, the ACCC considers that a return on assets measure is a more useful indicator of an airport's rate of return and operating performance.

EBITA on average tangible non-current assets is not affected by management decisions regarding capital structure, which can significantly affect interest expenses and tax payable, and therefore post-tax returns. Financing decisions do not reflect the operating profitability of providing airport services. Therefore, measures of EBITA on average tangible non-current assets allow for a more comparable basis for comparing operating performance across airports.

Non-tangible assets are excluded to limit the extent to which airport owners' expectations of growth in value (as reflected in goodwill or lease premiums) may obscure changes in the profitability of providing services. In particular, lease premiums paid could reflect the expectation of future price and profit increases that take advantage of the airports' monopoly power.

While having some advantages, measures of return on assets also have their limitations. For example, they are affected by the airport operator's valuation of its assets. Since the ACCC's monitoring regime commenced, a number of airports have revalued their assets upwards, thereby lowering the measure of return on assets. A line-in-the-sand (LIS) measure was introduced in 2007–08 to reduce the effect of such revaluations.

Finally, in preparing this report the ACCC has not assessed the appropriateness of airport asset valuations as it has done in some other industries where prices are regulated. However, this report does provide details of asset values reported by the airports over time.

'Line-in-the-sand' aeronautical asset base

The ACCC has required airport operators to report under the line-in-the-sand (LIS) approach since 2007–08.[11] Under this approach, the value of an airport's aeronautical asset base is determined to be the value of tangible non-current assets as at 30 June 2005,[12] adjusted for depreciation, additions (or new investment) and disposals for subsequent reporting periods. This information was required in addition to the airport operators' regulatory accounts based on Australian International Financial Reporting Standards (AIFRS) (which include any revaluations to the assets recorded since 30 June 2005).

The LIS approach removes the effect of revaluations of aeronautical assets by airports for monitoring purposes from 30 June 2005 onwards. For example, an upward revaluation of a tangible non-current aeronautical asset occurring after 30 June 2005 would be recognised in the regulatory accounts prepared under AIFRS but not in the LIS asset base. As a result, to the extent that subsequent revaluations have taken place, the LIS asset base is lower. There is also a flow-on effect of a lower value of depreciation under the LIS approach and, therefore, lower operating expenses.

Previously where applicable, the ACCC has provided details of the LIS values in the price monitoring section of this report and comments in relation to the effect of reporting the data on this basis. So far, only Brisbane Airport and Sydney Airport have revalued their assets since 30 June 2005. Since the 2016–17 airport monitoring report, the ACCC has stopped reporting non-LIS values and has only used the LIS values in its reporting.

4.3 Airport car parking

The ACCC monitors and reports on airport car parking prices, revenue, costs and profits (in real terms) under a direction issued on 12 June 2012 pursuant to s. 95ZF of Part VIIA of the CCA. The ACCC also reports on changes in the supply of airport car parking and the quality of airport car parking services.

In addition to drive-up rates, the ACCC commenced collecting prices for booking airport car parking online for the 2014–15 report following consultation with the monitored airports. The ACCC has compared drive-up, online and the average of these two charges that customers pay at the monitored airports.

Landside access charges and revenues

The ACCC also collects information on landside access charges and revenues although it is not required to do so under a ministerial direction. Access to airport land and in particular, landside areas controlled by airport operators is a necessary input in the supply of downstream services such as taxis, buses and off-airport parking. The suppliers of these services require landside access to drop-off and/or pick-up airport users at the terminals.

As a result, airports may have incentives to obstruct competition from alternative transport modes to on-airport car parking by imposing excessive charges or restrictive terms and conditions for landside access. Such behaviour may shift demand to an airport's own car parking services. Therefore, the ACCC also collects information about airports' charges for operators who provide competing services to on-airport car parking as well as the amount of revenue received from those operators.

11 This approach was recommended by the PC in its 2006 inquiry and was supported by the government. The PC said that some airports revalued assets for a range of non-price reasons and the intention of revaluations is 'to provide a justification for higher charges at some stage in the future'. The PC considered that it was inappropriate to base increases in aeronautical charges on asset revaluations.

12 Airport revaluations that occurred prior to the 30 June 2005 cut-off date remain in the LIS asset base.

4.4 Quality of service

Quality of service monitoring complements price monitoring because, instead of increasing prices, an airport with market power may decide to cut costs by lowering its service standards.

The ACCC monitors the quality of service at the facilities that are subject to price monitoring, including:

- airside facilities such as runways, taxiways and aprons
- terminal facilities such as international departure lounges and baggage systems
- car parking
- taxi facilities and kerbside pick-up and drop-off points.

However, domestic terminals leased to airlines were not within the scope of the quality of service monitoring program while the leases were in force. All terminals have now reverted back to airport control and are now subject to quality of service monitoring.

Further information on the ACCC's approach can be found in the *Guideline for quality of service monitoring at airports*.[13]

Issues concerning interpretation of results

A variety of factors outside the immediate control of the airport operator may influence the quality of service results. For example, the staffing and provision of IT equipment for check-in services by airlines and the staffing by the on-airport government border agencies may affect the quality of experience for passengers as they pass through an airport. This in turn may influence those passengers' ratings of the airport. Airservices Australia, airlines and other service providers may also affect quality outcomes such as causing delays in aircraft departure.

In addition, investment in terminal infrastructure is 'lumpy' and there may be a lag between an increase in passenger and flight numbers and an increase in the capacity of airport infrastructure. Such a lag could highlight capacity constraints reflected in the quality of service indicators and therefore identify areas for increased investment.

To inform its analysis of the monitoring data, the ACCC provides airports with the opportunity to explain where there have been mitigating circumstances influencing the results of monitoring.

Sources of information

The quality of service analysis in this report draws on information from a number of different sources. These sources include airport operators' surveys of passengers, airlines and landside operators.[14]

Airport operators

Airport operators provide the ACCC with a range of objective data related to the number or size of various facilities and throughput at those facilities. These include the number of passengers at peak hours, the number of aerobridges and the size of gate lounges. The ACCC has converted these numbers and sizes to indicators of quality of service, such as the number of passengers per square metre of lounge area during peak hour.

The derived objective indicators are shown in charts in the body of the report. The data on which these objective indicators are based can be found on the ACCC's website.[15] Measures relating to the size of facilities are generally presented as at the end of the relevant financial year, whereas measures of throughput—such as numbers of passengers or bags—relate to the whole financial year, unless otherwise specified (such as daily or during peak hour).

13 Available at https://www.accc.gov.au/publications/guideline-for-quality-of-service-monitoring-at-airports.

14 Landside operators include taxi and bus industry bodies, as well as off-airport car parking operators.

15 The data can be found in Supplementary spreadsheet B on the ACCC's website, https://www.accc.gov.au/publications/airport-monitoring-reports.

Passenger perception surveys

The passenger perception surveys are arranged by each airport and may differ in their coverage and detail. However, these surveys should provide information consistent with that specified in the Airports Regulations and quality of service guidelines. The areas covered include passenger check-in, security clearance, government inspection, gate lounges, washrooms, baggage processing and trolleys, signage and wayfinding, car parking and airport access for arriving and departing passengers.

These surveys ask respondents to rate their level of satisfaction with the airport facilities on a scale from 1 to 5. These are then converted into 5 ratings ranging from 'very poor' to 'excellent':

Table 1 Ratings of satisfaction for airport facilities and services

Scale	1–1.49	1.50–2.49	2.50–3.49	3.50–4.49	4.5–5
Rating	Very poor	Poor	Satisfactory	Good	Excellent

The average ratings for each indicator in the passenger perception surveys are shown for each airport. The average ratings for domestic terminals and international terminals are presented over time where possible.

Airline surveys

The ACCC conducts an annual survey of airlines about their perception of the quality of facilities they used at the monitored airports. Questions relate to both terminal facilities (aerobridges, check-in and baggage processing) and airside facilities (runways, taxiways, aprons, aircraft gates and ground equipment sites). Airlines are asked to rate two aspects of these facilities:

- availability – that is, the availability of infrastructure and equipment and the occurrence of delays in gaining access to those facilities
- standard – that is, the ability of equipment to perform the function intended, the reliability of the equipment and the probability of it breaking down.

The airlines are also asked to rate the airport operator's responsiveness or approach to addressing problems and concerns with the above facilities. Full details of the questions are contained in the Supplementary spreadsheet B on the ACCC's website.[16]

The scale used for airline ratings is the same as that of the passenger perceptions surveys and shown in table 1. Ratings given by airlines were averaged across airlines to give an average rating for each facility at each airport. The rating given by each airline is given equal weight, regardless of the number of passengers flown or flights. Airlines are also given the opportunity to provide an explanation of their ratings.

Given that airlines may potentially have an incentive to deliberately under-report quality for the airports, the ACCC verifies the airlines' responses when needed. In particular, if an airline gives an airport a rating of below 'satisfactory', the ACCC will seek comments and additional information from the airline, and provide the relevant airport operator with an opportunity to respond to non-confidential commentary by the airlines.

Under the ACCC monitoring regime, airlines are not required to provide survey information for the domestic facilities they operate themselves under domestic terminal leases.

Because airline surveys are conducted on a voluntary basis, airlines' participation in the ACCC's survey varies each year with typically only a small number of responses received by the ACCC. As a result, service quality ratings obtained from airline survey results tend to vary more than passenger ratings. This may impact on the reliability of the overall service quality ratings for the monitored airports.

16 https://www.accc.gov.au/publications/airport-monitoring-reports.

Calculating overall quality of aeronautical service ratings for each airport

For each airport, the ACCC calculates a single overall quality of service rating in relation to total services at the airport. As for each of the many specific measures of quality of service, the overall rating is a score out of 5. A score of between 1 and 1.49 represents 'very poor' performance, while a score between 4.50 and 5 represents 'excellent' performance.

The overall rating is calculated using a combination of the results from airline surveys, passenger surveys, and objective indicators (e.g. the number of departing passengers per check-in desk, kiosk and bag drop facility during peak hour).

The overall rating is the simple average of the scores that the airport achieved against each of the specific quality of service measures from airline surveys, passenger surveys and objective indicators.

While the airports' performance against the quality of service measures in the airline surveys and passenger surveys are already rated as scores out of 5, ratings of performance against objective indicators need to be calculated.

This process consists of producing a set of benchmarks for each measure based on how the 4 airports performed against that measure. If an airport's performance against that measure is equal to the average performance across the 4 airports in that year, it will receive a score of 3 out of 5. If an airport performs better than the benchmark average, it will receive score of 4 or 5 depending how close its performance is compared to the benchmark. Similarly if its performance is below the benchmark, it will be rated 1 or 2.

An implication of this methodology is that an airport's rating with respect to objective indicators is relative to that of the other 3 airports. This means an airport can report the same raw performance figures to the ACCC as the previous year, but find its rating for that measure going up or down. It also means that it is not possible for all airports to be rated highly or rated poorly. This is not the case for an airport's ratings based on airline and passenger surveys, which are independent of ratings given to the other airports.

4.5 Limitations of monitoring

Monitoring does not directly restrict the airports from increasing prices and/or lowering service quality. Nor does it provide the ACCC with a general power to intervene in the airports' setting of terms and conditions of access to the airports' infrastructure.

In addition, the ACCC's monitoring of airports is limited in scope and does not enable the ACCC to assess in detail whether an airport has exercised market power to earn monopoly profits.

Monitoring information cannot be used to assess the appropriateness of the level of prices and profits

When assessing the level of prices and profits, it is common regulatory practice to undertake an assessment of the firm's economic returns against their efficient long-run costs for providing services. This may involve a public process to rigorously determine an economic value of the firm's asset base (that is, the regulatory asset base (RAB)) and the firm's required rate of return on capital (that is, the weighted average cost of capital).

In the case of airports, however, the benchmark for efficient long run costs has not been set. Instead, the airports' asset values under monitoring are based on their accounting values rather than their economic value. Importantly, the accounting value of assets may include revaluations that have been undertaken at the airports' discretion and that can distort assessments of airports' performance. For example, in some years, some airports have revalued their assets upwards, which lowers their return on assets. Consequently, the airports' asset values under monitoring do not provide a reliable indicator of the airports' RAB, which is needed to make a meaningful assessment of whether the airports are earning monopoly rents.

As discussed earlier, the ACCC has adopted the 'line-in-the-sand' approach since 2007–08 to address the issues associated with the airports revaluing their assets. However, this approach only removes any asset valuations that have occurred after 30 June 2005.

Judgement about the airports' performance cannot be made based on trends in the airports' prices, profits and quality of service alone

An airport that is already pricing at or near monopoly levels may only report gradual increases in prices and profitability over time. Therefore trends in prices and profitability alone cannot tell us conclusively whether an airport is extracting monopoly profits. Further, monitoring cannot clearly distinguish between various factors that may contribute to increasing profitability, some of which may raise cause for concern about an airport's performance while others may not. For example, increasing profitability by increasing prices whilst lowering or holding constant quality of services over a sustained period of time may indicate an airport exercising market power, which may be a concern. In contrast, increasing profitability due to increased efficiency in operations or economies of scale may not necessarily raise concerns.

Monitoring does not provide meaningful comparisons of the prices, profits and quality of service across airports

Because the airports' approaches to valuing their assets may vary, it is difficult to meaningfully compare profitability between the airports based on reported return on assets. There are also some other specific reasons that make comparisons difficult.

In the case of airport car parking, the range of services provided by the airports varies significantly with some parking provided in close proximity to the airport terminals for convenience, while some car parking is located at a distance from the terminals. Comparisons of airport car parking prices, revenues, costs and profits are therefore complicated by these various car parking configurations.

4.6 Consultation

The ACCC provides the monitored airports with the opportunity to provide comments in their quality of service and price monitoring submissions for the airport monitoring report. This process allows the airports to provide explanations as to why ratings or objective data have changed in the period. In addition, in order to ensure the accuracy of the data, the monitored airports are given an opportunity to comment on relevant sections of the report. Where appropriate, the ACCC has incorporated these comments into the report, particularly where these comments provide a possible explanation for changes in results.

Attachments

Aeronautical services and facilities direction under s. 95ZF of the CCA

COMMONWEALTH OF AUSTRALIA

COMPETITION AND CONSUMER ACT 2010

MONITORING OF THE PRICES, COSTS AND PROFITS RELATING TO THE SUPPLY OF AERONAUTICAL SERVICES AND FACILITIES AT SPECIFIED AIRPORTS IN AUSTRALIA

I, David Bradbury, Assistant Treasurer, pursuant to section 95ZF of the *Competition and Consumer Act 2010*, hereby give the following direction:

1. The Australian Competition and Consumer Commission (ACCC) is to undertake formal monitoring of the prices, costs and profits related to the supply of aeronautical services and facilities by the following persons:

    a) Sydney Airport Corporation Limited (Sydney Kingsford Smith Airport);

    b) Australia Pacific Airports Corporation Limited (Melbourne Tullamarine Airport);

    c) Brisbane Airport Corporation Pty Limited (Brisbane Airport); and

    d) Perth Airport Pty Ltd (Perth Airport).

2. In this direction, '**aeronautical services and facilities**' has the same meaning as that applying from time to time under Part 7 of the *Airports Regulations 1997*.

3. The ACCC is to report to me on its monitoring activities in paragraph (1) at the time which is as soon as practicable following the end of each financial year.

4. This Direction takes effect from 1 July 2012 and replaces Direction No. 29 of 28 June 2007, under the former *Trade Practices Act 1974*.

DATED THIS 12TH DAY OF JUNE 2012

David Bradbury
ASSISTANT TREASURER

Car parking services direction under s. 95ZF of the CCA

COMMONWEALTH OF AUSTRALIA

COMPETITION AND CONSUMER ACT 2010

MONITORING OF THE PRICES, COSTS AND PROFITS RELATING TO THE SUPPLY OF CAR PARKING SERVICES AT SPECIFIED AIRPORTS IN AUSTRALIA

I, David Bradbury, Assistant Treasurer, pursuant to section 95ZF of the *Competition and Consumer Act 2010*, hereby give the following direction:

1. The Australian Competition and Consumer Commission (ACCC) is to undertake formal monitoring of the prices, costs and profits related to the supply of car parking services by the following persons:

    a) Sydney Airport Corporation Limited and any other person from time to time operating a car parking facility at Sydney Kingsford Smith Airport;

    b) Australia Pacific Airports Corporation Limited and any other person from time to time operating a car parking facility at Melbourne Tullamarine Airport;

    c) Brisbane Airport Corporation Pty Limited and any other person from time to time operating a car parking facility at Brisbane Airport; and

    d) Perth Airport Pty Ltd and any other person from time to time operating a car parking facility at Perth Airport.

2. The ACCC is to report to me on its monitoring activities in paragraph (1) at the time which is as soon as practicable following the end of each financial year.

3. This Direction takes effect from 1 July 2012 and replaces Direction No. 31 of 7 April 2008, under the former *Trade Practices Act 1974*.

DATED THIS 12TH DAY OF JUNE 2012

David Bradbury
ASSISTANT TREASURER

Federal Register of Legislative Instruments F2012L01274

AUSTRALIAN COMPETITION
& CONSUMER COMMISSION