

MELBOURNE AIRPORT

29 July 2022

Mr. Gennady Kleiner
Director – Airports and Ports
Infrastructure Division
Australian Competition and Consumer Commission (ACCC)

By email: airportsandports@acc.gov.au

Dear Mr Kleiner

Response Re: Airport quality indicators – review

Australia Pacific Airports (Melbourne) Pty Limited (**APAM** or **We**) is pleased to respond to the ACCC's letter dated 27 June 2022 (**Airport quality indicators – review**) that seeks feedback on the indicators used to monitor and evaluate the quality of services and facilities at Australia's major airports.

We recognise the ACCC's responsibility under Part 8 of the Airports Act to monitor and evaluate the quality of the aspects of airport services and facilities specified in the regulations and acknowledge the important role this plays in ensuring accountability and transparency.

Summary

Melbourne Airport appreciates the indicators contribute to a broader set of influences and informs decision making about long-term infrastructure investment and scope of operational service provision to improve the customer experience and promote airline competition.

Since airports were privatised, the indicators have provided transparency and accountability, and have been complementary to the light-handed regulatory regime. The regime promotes necessary and timely investment underpinned by commercial agreements and quality of service at efficient prices.

Quality of service has been maintained at an efficient level at Melbourne Airport, particularly during a period of rapid change and disruption to aviation from COVID-19. Melbourne Airport continued to ensure the right standards of cleanliness and safety were achieved to facilitate both domestic and international services through extended lockdowns in 2020 and 2021. This service was provided despite foregone passenger charge revenue due to the significant collapse in passenger volumes.

In addition, Melbourne Airport has continued to deliver an infrastructure investment program to develop the precinct and provide access to airlines, which we are duty bound to do.

Passenger growth has required an expansion of capacity to meet demand from travellers and the needs of airlines, which has occurred within Melbourne's 24/7 operating environment.

There has been significant capital investment at Melbourne Airport to facilitate growth and upgrade infrastructure – involving \$2.7b billion in aeronautical investment over the past decade, including more than \$1.1b of investment in the international and domestic terminals, which included a redeveloped international arrivals hall and the construction of the new domestic Terminal 4.

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We have also recently implemented programs with suppliers to improve the customer experience and recently launched the Melbourne Airport Traveller Experience Training Program “Stepping Forward”, which provides a foundation of service training for our suppliers and partners.

The program includes seven essential commitments that are brought to life in a mixture of training sessions, activities and master classes.

Use

Competition between airports occurs on the basis of airport charges and quality of service, and as a result, airports have a clear incentive to adopt reasonable and competitive charges, operate efficiently and provide a quality of service to attract airlines. Melbourne Airport faces competition from other Australian and international airports to attract airline customers.

We have not exercised market power in the form of excessive prices for aeronautical services, inefficient investments or operations, or low quality of service.

Instead, we have been active in regular and productive engagement with airlines and customers to support passenger growth and continuously improve the traveller experience. This approach influences capital investment and operational requirements.

The quality of service provided at Melbourne Airport is woven into the airport’s decision making and operations, which involves:

- Passenger surveys being routinely completed to monitor the quality of service provided to customers.
- Extensive consultation with airlines is ongoing to ensure that Melbourne Airport delivers the right infrastructure solution, at the right time.
- Commercial agreements with airlines are mature and include provisions regarding quality of service and set prices for extended periods of time, which ensures Melbourne Airport is incentivised to maximise efficiency.
- A capital plan is prepared based on specific and expected demand analysis with consideration of the growth of airline services in peak periods and airlines’ expectations of quality of service that airlines expect - detailed negotiations refine these expectations, noting an increase in service expectations will generally come at a cost to the community.
- The light-handed regulatory regime enables significant investment into airport infrastructure to be delivered and is underpinned by successive and mutually beneficial voluntary agreements with airlines reached through commercial negotiation.
- Consideration of the constant threat of more heavy-handed regulation and appreciation for the ongoing monitoring of prices, costs, profits - this governance promotes major airports to make necessary investments and deliver quality of service.
- Taking a strategic view to investment decisions given the long-term lease structure of airport ownership and the aviation sector’s exposure to external shocks.

Whilst we support the monitoring of the indicators as they provide transparency and accountability, any additional monitoring should consider existing data that is publicly available such as the Bureau of Infrastructure and Transport Research Economics. The bureau provides publicly available aviation statistics including airline activity, domestic on time performance, domestic airfares index, airfreight, airport traffic, general aviation activity, aviation fuel sales and air distances.

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Expectations and outcomes

Customer preferences and expectations have shifted towards value and convenience. For example, COVID-19 provided an opportunity to review Melbourne Airport's parking product range, which had become increasingly complex.

14 products were reduced to just three categories, travellers were offered a simplified choice between value and convenience, with significant discount opportunities continuing to be accessible via online booking.

While at-terminal parking is priced in line with the location, convenience and service provided, the cost of value parking within a short bus ride or walking distance dropped to \$12 per day, representing a reduction of 52 per cent for one day. This value was reflected in customer demand changing during COVID-19 for different products, with pricing used as a mechanism to manage utilisation.

Inevitable peak periods during domestic travel leads to an increase in the share of public parking alongside other transport modes, which has become evident during the past few years. Melbourne Airport has offered heavily discounted rates to parking customers who were forced to extend or overstay their bookings because of COVID-19 outbreaks.

We have since introduced flexible products to provide customers with peace of mind and certainty, should their trips be disrupted and or extended due to circumstances beyond their control, such as government border closures and airline cancellations with no offer of a replacement flight.

All online customers can also self-manage and cancel their entire booking if it's more than two hours prior to their nominated time of entry into our car parks i.e. at the beginning of the trip.

Expanding the indicators to monitor more service check points is complex as commercial partners such as ground handlers and airlines also influence service delivery outcomes. For example, all three parties may contribute to an issue if an airline is 30 minutes late that could be a combination of airport infrastructure failure, ground handler resource or equipment failure or another airline affecting the airline trying to depart / arrive.

Instead, service level expectations of airlines and travellers that is quantified to reflect a reasonable expectation negotiated between the parties is appropriate. Such an approach is consistent with the commercial negotiation process, which balances the incentive to minimise the costs for the level of service required, with a good passenger experience and the sufficient supply of infrastructure that is in the interest of the passenger.

Melbourne Airport would also welcome greater transparency on how existing measures impact overall quality ratings, and how these measures specifically reflect an efficient level of service or not.

Specific services and facilities, aspects and matters

Quality of service monitoring could be undertaken through ministerial instruction rather than regulation to provide flexibility in how quality of service monitoring is undertaken and for consistency with other monitoring such as financial monitoring activities.

Additionally, availability and standard quality ratings are an important consideration, as the two measures of quality can be caused by different drivers.

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Services and facilities being available reflects infrastructure supply, and the standard reflects quality. Continuing to provide the same level of availability of services whilst an airport is experiencing passenger growth will be more challenging than maintaining the standard.

Attracting airlines and passengers forms part of the investment approach airports take to create more capacity. For example, investment in new assets, such as modern check-in facilities and terminal halls can create efficiencies to reduce costs for airlines. This investment helps signal competitive advantages to airlines if they choose a particular airport that offers an enhanced traveller experience.

A recent example is the Terminal 2 International Arrivals Hall redevelopment, which was aimed at enhancing the traveller and airport user experience.

Additional monitoring through an expanded list of indicators to measure service quality presents technological challenges given these responsibilities may not directly match between an airport's area of control and the differing airlines' benchmarks for overall service levels.

For example, monitoring of external events such as flight delays or aircraft refuelling services should be considered as part of the Airline Monitoring Report.

It also ignores existing regulatory oversight from federal Ministers, departments and statutory independent agencies. The Productivity Commission also delivers a comprehensive review process on the economic regulation of airports every five years and in its most recent report into economic regulation of airports found airports are not systematically exercising their market power.

Furthermore, an expected level of service cannot be provided unless the project is agreed to, funded and delivered to meet that level of service. In some instances, a service that is provided could actually just be the delivery of the project itself.

On occasion, we have sought to improve the traveller experience through infrastructure investment but have been met with resistance from commercial partners.

Criteria and reporting of results

Whilst the indicators are of value to the regulatory environment of airports, their measurement is reflective of a point in time only as a lagging indicator, which is in contrast to the forward-looking nature of investment decision making and passenger forecasts in which we bear the risk.

The indicators also do not always account for external shocks such as a health pandemic or a global financial crisis that shapes passenger volume and travel behaviour. As aviation is exposed to these external forces, the constant need to refine and adapt investment decisions in response to events is critical.

Large projects require advanced planning, approval processes with government, extensive airline engagement and execution. In addition, airports delivering capital works projects may impact service levels temporarily while the works are underway – the monitoring and reporting considerations should reflect these short-term service impacts.

The criteria is also limited in its appreciation of the complex operating environment in which aviation operates, such as safety requirements with the Civil Aviation Safety Authority, air space design requirements with Air Services Australia or external mandates such as security screening requirements through the Department of Home Affairs.

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The security screening upgrades require terminals and baggage screening areas to be remodelled as the new equipment is heavier and larger than the current equipment, meaning significant infrastructure costs.

The ACCC may wish to consider the existing processes and regulatory requirements that influence the delivery of service and facilities and therefore their quality. Such existing procedures include:

- Airports are subject to strict planning requirements as part of an established process that determines the speed of approvals and requires adequate resourcing to guide development applications. Projects with a monetary value of \$25m or more triggers a Major Development Plan (MDP), which adds significant time to the development process. The cost of the MDP process is not insignificant.
- Strategic Master Plans are produced every five years, which includes land use planning and development options to accommodate capacity and new services. The Master Plan process is designed to outline efficient and economic development options and provides a transparent process for describing the additional uses of the airport to support competition.
- The *Airports (Building Control) Regulations 1996* involves an assessment of applications for approval of building activity at the airport and either grant approval or refuse approval. During peak demand construction periods, extended timelines in receiving approvals can be experienced, impacting the delivery of infrastructure projects.

The criteria should account for when airlines have greater control in commercial agreements for terminals in which they are the sole-occupant and have exclusive use and influence over the service levels within the terminal.

Where the criteria may be limited in scope and design, Melbourne Airport's commercial agreements further provide a mechanism to airlines to influence the capital planning program, which ensures accountability on the airport for service delivery.

This involves engagement to discuss the scope and timing of major projects, such as new gates or additional airfield capacity and reviews quality of service issues.

Additionally, appropriate safeguard mechanisms exist to treat issues if equipment is not available for use and causes a delay or actual expenditure falls short of planned expenditure.

We would welcome the opportunity to further discuss this feedback with you.

Regards

Jai McDermott
Chief of Ground Transport, Public Affairs & Sustainability