SYD

Mr Gennady Kleiner
Director
Airports & Ports
ACCC

Via email: airportsandports@accc.gov.au

2 August 2022

Dear Mr Kleiner,

I am writing in relation to the ACCC's consultation on Recommendation 9.5 stemming from the Productivity Commission's review into the economic regulation of airports, completed in 2019. Sydney Airport welcomes the opportunity to provide input into the consultation process.
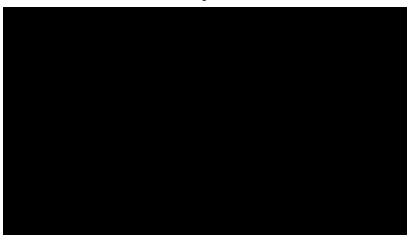
Sydney Airport supports the implementation of Recommendation 9.5. The current quality of service monitoring is not fit-for-purpose and should be updated to align with the key performance indicators used to measure performance that have been commercially negotiated and agreed between airports and airlines – recognition by both parties that these metrics are important and represent outcomes prioritised by airport users. Alongside continuation of the passenger survey (noting some reform may be considered in this context), the quality of service monitoring would be materially improved by focusing on outcomes not simply static inputs.

Crucially, this change would align with what is important to airport users (airlines and passengers) and what drives investments and initiatives.

I have included Sydney Airport's specific comments on the current quality of service monitoring regime and opportunities for improvement at **Attachment A**.

If you require further information, please contact Sydney Airport's Manager Public Affairs, Mitch Dudley (███████████████ ; ██████████). Sydney Airport looks forward to engaging with the process as it further develops.

Yours sincerely,

Karen Halbert
Chief Corporate Affairs Officer

Sydney Airport

Attachment A

The ACCC's monitoring regime is important

Sydney Airport acknowledges that the monitoring regime is an important component of the light-handed regulatory framework, which has served the aviation industry and consumers well since airports were privatised.

Sydney Airport considers the monitoring regime has been generally effective in identifying and deterring a misuse of market power in the operation of airports. Alongside the countervailing market power of airlines, the knowledge that any misuse of market power would be reported through the monitoring regime is a highly effective deterrent for airports. Sydney Airport notes the Productivity Commission has consistently found that Sydney Airport has not exercised its market power.

As identified by the Productivity Commission, there is scope for the quality of service monitoring to be materially improved through the implementation of Recommendation 9.5.

The current quality of service monitoring is not fit-for-purpose

Complying with the ACCC's monitoring regime imposes significant cost and resourcing requirements on all monitored airports. It is therefore important that several components of the current quality of service monitoring regime are improved, to increase the value of the monitoring regime to the government and consumers. In particular, Recommendation 9.5 should be implemented in a way that ensures the monitoring regime is more reflective of the actual priorities of airlines and passengers in a way that is nuanced, less subjective, more transparent, and more reflective of the whole aviation supply chain.

a. *Current objective measures do not capture nuance*

The current 'objective measures' reported to the ACCC under the quality of service monitoring regime lack nuance given the focus on simplistic, static inputs and not actual outcomes, which are much more critical for airports, airlines, and passengers.

For instance, under the current framework, metrics such as the number of immigration desks or number of bathrooms on 30 June each financial year are captured in raw numbers only, without any consideration of investments or technological advancement. This is problematic as it can interpret service quality or efficiency improvements as a reduction in service quality, and fails to capture the uplift in customer and passenger experience.

For example, in 2009, after a three-year trial, Sydney Airport and Australian Border Force introduced eGates that significantly reduced the processing time for passengers. This represented a significant improvement in the quality of service provided to passengers at Sydney Airport. Under the ACCC's current objective criterion (the number of inbound immigration desks) this was not, and cannot, be captured. Rather, the ACCC recorded a reduction in the number of processing points for Sydney Airport (i.e., a decrease in quality), notwithstanding that the overall quality of the customer experience improved materially.

There is also a foreseeable issue under the current framework with respect to security upgrades. Monitored airports are currently undertaking a series of upgrades to passenger and checked baggage screening machines and installing new body scanners in line with a Federal Government mandate. Given the complexity of the project at Sydney Airport, significant infrastructure works are required alongside the installation of the new machinery. Under the parameters of

the current quality of service monitoring regime, there is a risk overall quality of service would be lower given less passenger screening points may be available on a point in time analysis due to the works. However, this would be temporary, and no actual loss of screening points will occur. This again highlights the rigidity of the current quality of service monitoring regime and its inability to capture nuance.

Further, Sydney Airport notes that the general trendline around automation (accelerated by COVID given demands for touchless products and services from consumers) and technological advancement will continue. This has the potential for an increasing number of the ACCC's present input-driven objective indicators to become increasingly less reflective of the actual quality of service in the years ahead.

b. The airline survey is problematic

Sydney Airport acknowledges airline feedback is an important component of the monitoring regime. However, the current airline survey undertaken by the ACCC as part of quality of service monitoring has several fundamental flaws and is not reliable for the following reasons:

- the accuracy and robustness of the survey is doubtful as airlines have a clear incentive to rate airports poorly given monitoring reports are made public and they often cite ratings in commercial negotiations;
- the survey is inflexible as it does not provide scope to properly account for the varying service levels of airlines, and therefore the varying needs of different airlines (full-service vs low-cost carrier, for example);
- airlines may rate an airport poorly on certain service metrics, while at the same time push back on Sydney Airport's proposed investments or initiatives to improve that particular outcome;
- the survey is not mandatory, and we understand sample sizes are often very small so are not broadly representative or statistically robust; and
- the survey is not necessarily representative of the views of the entire organisation, but rather the view of the individual airline employee/s completing the survey at any given time.

As the ACCC has previously observed, airline surveys have been consistently more volatile and lower than passenger surveys and they 'may be strategically motivated to rate the quality of services downwards.' Given this, Sydney Airport recommends discontinuing the airline survey and replacing it with the metrics referred to below.

c. Transparency is needed on the ACCC's quality of service rating methodology

Sydney Airport appreciates the explanation in the consultation paper of the ACCC's broad methodology in arriving at a single quality of service rating through combining objective indicators, passenger surveys, and airline surveys. Despite this, it remains unclear how the ACCC aggregates these disparate and, as detailed above, at times problematic data points to arrive at the single overall quality rating for each airport. Without further transparency on how these data are aggregated, it is difficult for Sydney Airport to resolve any service level issues that may be identified given it is often unclear how the ACCC arrived at its specific commentary or conclusions (noting that they may not even be service level issues given the related issues described above).

Sydney Airport considers these metrics are unrelated and should not be combined. As such, this practice should be discontinued by the ACCC. If a single rating is required for reporting purposes, the passenger surveys should be used instead given the robust sample sizes and the fact they are undertaken by a third party (noting the passenger surveys

were not undertaken in 2020-21 and 2021-22). At a minimum, it is critical that the aggregated ratings and the calculations underpinning them should be provided to airports (noting airline surveys would need to be anonymised).

d. *Quality of service monitoring does not appropriately consider the whole supply chain*

The current quality of service monitoring regime often results in airports being attributed blame for issues that are reliant on a multitude of stakeholders and suppliers.

As the ACCC knows, servicing passengers at airports relies on close cooperation and coordination between airports, airlines, Airservices Australia, Australian Border Force, Federal biosecurity personnel, ground handlers, and other contractors. It also has interdependencies with Government investment in infrastructure servicing airports (such as roadways).

While Sydney Airport acknowledges airports play a pivotal role, the overall passenger experience and efficiency of airport operations is reliant on other stakeholders' investment in equipment, staff rostering and resourcing, and training.

The current quality of service monitoring regime does not acknowledge this and results in reporting on the performance of certain services over which airports have little or no control. For example, the quality of service monitoring regime measures the length of time passengers spend waiting at check-in counters, for their luggage, and at customs.

In the case of customs, this is highly reliant on resourcing and technology provided by Australian Border Force based on funding provided by the Australian Government through its budgetary processes. In the case of baggage and check-in waiting times, these processes are both the responsibility of airlines. While Sydney Airport provides infrastructure supporting these services in some cases, we have no direct control over them.

These factors are then reported on by the ACCC and influence the overall quality of service rating assigned to airports. As you can see, this is despite airports not having any control of significant components of these services. Sydney Airport would like to see this acknowledged in a much more defined way in ACCC monitoring reports. The purpose is not to assign blame to one party or another, rather to better reflect the operational reality, complexity and multi-stakeholder nature of operations at airports.

Airlines and airports have already agreed metrics to measure performance which should be used

As shown above, the current quality of service monitoring is not fit-for-purpose and should be realigned to focus on outcomes that matter to airlines and passengers rather than focusing on static inputs.

Sydney Airport recommends aligning the objective criteria with the key performance indicators (KPIs) being used in some instances between airports and airlines. These KPIs are the result of rigorous negotiation between commercially sophisticated parties, which means the KPIs recorded in them are an accurate reflection of the service features that matter to airlines and passengers. Given this, they are much more informative of overall performance and are much more relevant metrics that inform engagement between the airport and users, as well as negotiations between airports and airlines when considering future investment priorities.

Combined with the continuation of passenger surveys (noting there may be scope to refine some elements here), removing the airline survey given the KPI framework is a better proxy for this, recognising the multi-stakeholder nature of service provision at airports within the monitoring regime, and providing more transparency on the part of the ACCC

in how overall ratings are calculated, this would lead to a significant improvement in quality of service monitoring and be more reflective of actual outcomes for airport users.

Sydney Airport notes that adopting this approach would capture a number of outcomes-focused metrics not currently captured by the ACCC in its monitoring. This is illustrated in the table below.

Comparison of Sydney Airport KPIs in ASA and ACCC objective monitoring criteria

SYD KPI Framework	ACCC
Arrival Peak and off-peak OTP	✗
Departure Peak and off-peak OTP	✗
Length of Delay	✗
% of Movements Bussed	✓
% of Passengers Bussed	✓
Arrival Bussing Efficiency – Time to terminal	✗
Bags missed per 1,000 – Direct & Transfer	✗
Arrivals Baggage delivery – Time to first bag	✗
Arrivals Baggage delivery – Time to last bag	✗
Average & Maximum queue wait times in:	
• Security	✗
• Outbound immigration	✗
• Inbound immigration	✗
Safety Incidents per 100,000 passengers	✗
Overall presentation & Ambience of Airport	✗
Cleanliness of Airport Terminal	✗
Cleanliness of bathrooms	✓
Working order of Bathrooms	✗
Comfort and Quality of Departure Gate area	✓
Ease of finding your way through airport	✓
Thoroughness and Attention levels Security	✓

The ACCC states in its consultation paper that the ratings it calculates provide information about 'trends over time' and that 'there is value in collecting the same information over time, as time-series data.' Sydney Airport contends that, in the face of the evidence above, there is not sufficient reasoning for the ACCC to continue collecting data ad-hoc where such data does not convey nuance, may not be robust or representative, and does not convey the outcomes achieved

for customers and airlines. This needlessly adds compliance costs, when a simpler and cost-efficient alternative is available – reporting on what airlines and airports already agree is important through the KPI framework. This would reduce compliance costs for airports given the information is already collated and reported on, while also improving the robustness and value of the quality of service monitoring regime.

As the Productivity Commission noted in 2019:

> The current set of indicators was determined in 2013 and is overdue for revision to develop a set of indicators that are a better reflection of outcomes that are valued by airport users… (Using metrics in service level agreements) could be a relatively cost–effective approach to improving the monitoring of service quality.'[1]

Sydney Airport notes that these metrics may change over time and would therefore require corresponding updates to the regulatory framework in the future, especially when new aeronautical agreements are negotiated between airlines and airports.

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[1] Productivity Commission, *Economic Regulation of Airports, Productivity Commission Inquiry Report* (June 2019), p313, https://www.pc.gov.au/inquiries/completed/airports-2019/report/airports-2019.pdf