

12 January 2010

Ms Teresa Nowak
Acting Director
Adjudications Branch
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Ref: A91200
Attention: Ms Jessica Buik

Dear Ms Nowak,

Board of Airline Representatives of Australia Inc application for revocation and substitution of an authorisation A91200

I refer to our discussions with Ms Jessica Buik on 7 January and acknowledge advice that our comments will be considered if received subsequent to advised submission closing date of 8 January.

Our submission addresses BARA's request to have Gold Coast Airport included in the substituted authorisation.

We are aware that a number of our colleagues at major international airports have availed themselves of the opportunity to utilise BARA to facilitate collective negotiation with its member airlines in relation to airport developments, facility charges and levels of service. In most cases the larger airports have been satisfied with the role played by BARA.

In the case of the Gold Coast Airport it is our view that its inclusion in the substituted authorisation would have no support from our airline partners, would add no value to our existing negotiation and consultation processes, and would indeed add complexity to what have proven to be straight forward, mutually beneficial arrangements between the airport and the airlines.

Gold Coast Airport operates in the "Low Cost Carrier" market. The needs of this sector are markedly different from those serviced by the major capital city airports those and required by the "legacy" airlines that comprise BARA's membership.

BARA states in its application that "Major Australian Airports provide services to dozens of airlines" and that "BARA's arrangements were likely to result in public benefits in the form of transaction cost savings".

We have no disagreement with these statements in relation to major international airports serviced by a large number of legacy carriers. Gold Coast Airport is serviced by only five domestic and international carriers. These are;

- Jetstar (domestic, trans-Tasman, Japan)

- Virgin Blue/Pacific Blue (domestic, trans-Tasman)
- Tiger (domestic)
- Air New Zealand (trans-Tasman)
- Air Asia X (Malaysia)

Only Air New Zealand, which assumed the operations of services previously provided by its LCC subsidiary, Freedom Air, is a member of BARA. All other carriers are LCCs and non-BARA operators. Air New Zealand's Gold Coast services are still very much oriented towards the leisure market originally serviced by Freedom and they have not requested the "frills" required by full service carriers e.g. business lounges. Gold Coast Airport is primarily a domestic airport. Whilst international services have grown rapidly with the development of regional international LCCs its traffic will remain predominantly domestic. The current traffic mix is 85% domestic and 15% international. BARA members account for just over 1% of total passenger movements.

Clearly BARA's involvement in this limited leisure market does not offer any economies of scale or potential savings in transaction costs.

BARA further states in its submission that "In time Gold Coast Airport may become a more significant alternative to Brisbane Airport for international air travel". We agree that carriers servicing south east Queensland (and northern NSW) have a number of alternative airports to choose from in catering for the needs of the fastest growing region in Australia. Realistically, in the case of international services, there are only two options, Brisbane and Gold Coast airports. Brisbane Airport has traditionally been the gateway to the Gold Coast – an internationally recognised leisure destination. It is a well established international airport with significant economies of scale. In the early part of the last decade, Brisbane Airport also made significant inroads into Gold Coast Airport's historical domestic leisure market. This market movement resulted from a number of factors including;

- The completion of the M1/Gateway Motorway between Brisbane Airport and the Gold Coast
- "Airtrain" services commencing direct from Brisbane Airport to the Gold Coast
- Virgin Blue's establishing its national base at Brisbane Airport
- The lack of profitability for legacy carriers, Ansett and Qantas, on leisure routes such as Gold Coast resulted in reduced services and capacity and a refusal to invest in their leased terminal infrastructure.

Clearly, if Gold Coast Airport was to remain a viable operation, it needed to differentiate itself strategically from Brisbane Airport. Given the characteristics of the destination serviced by the airport, a strategy was developed around the leisure market. Key milestones in the development of this strategy were the establishment of Virgin Blue services through the Gold Coast in spite of its heavy presence in Brisbane and increasing the trans-Tasman frequency provided by Freedom Air. The former required development of a competitive package of incentives for Virgin Blue and the latter required investment in establishing a permanent Customs presence at the airport. That necessitated the replacement of an interim international facility, partly housed in a large marquee and partly in a fifty year old wooden building, with the first purpose built LCC facility in Australia.

The subsequent collapse of Ansett, the evolution of Jetstar and the withdrawal of Qantas services from Gold Coast Airport allowed the airport to resume the terminal leases from the airlines and consolidate all domestic and international operations into one common user facility. The evolution and successful implementation of this LCC strategy required close and intense consultation and co-

operation with our LCC partners, Virgin Blue, Jetstar and Freedom Air. With this focus on low cost operations, rapid turnarounds and the ever present competition from Brisbane Airport, this strategy called for innovative service delivery and optimal facility development.

This differentiation strategy has proven to be highly successful. It has provided unparalleled growth opportunities for our original airline partners and has seen Air Asia X choose Gold Coast Airport over many alternatives in the Asia Pacific Region for its inaugural long haul LCC services out of Kuala Lumpur. It has also seen Jetstar relocate its long haul Japan services from Brisbane to the Gold Coast and new start domestic LCC, Tiger Airways, commence its inaugural services between Melbourne and the Gold Coast.

This success could not have been achieved without creating economies of scale and improving operating efficiencies in line with the special needs of our LCC partners.

In relation to Gold Coast Airport's becoming a "more significant alternative to Brisbane", BARA has noted in its submission that "However, for this to occur the Gold Coast Airport is likely to need substantial investment and infrastructure upgrading". BARA appears to be unaware that Gold Coast Airport completed a major runway extension and taxiway and apron upgrade in 2007 and has recently completed a \$120 million terminal expansion project (to be officially opened on 25 January). The former project facilitated the entry of long haul services by Air Asia X and Jetstar and the latter has produced the first common use domestic/international LCC terminal facility in Australia. This project was developed in close consultation with our airline partners and is tailored to their specific needs. In spite of its LCC tag the upgrade places strong emphasis on effective passenger facilitation and well defined levels of service to our airline customers. There are service level agreements between the airport and each airline. The common use of domestic and international facilities has allowed the airport to achieve economies of scale, efficient asset utilisation and reduced duplication of staff and equipment. This outcome was achievable because of the homogeneous mix of LCC carriers and the joint domestic/international operations of our two main carriers, Jetstar and Virgin Blue. The absence of the complexity demanded by legacy carriers has been an important component in achieving such a mutually beneficial outcome.

The commissioning of this significant upgrade with the full endorsement of our airlines partners illustrates the success of our approach. BARA states in its submission that it "represents international airlines and their interests. BARA does not represent the interests of Australian domestic airlines ...". It is difficult to ascertain how BARA, even if they were aware of this much publicised project, could add value for any of its partners or the travelling public. Indeed, it could have only complicated the process and certainly no airline expressed any desire to have them act on their behalf. We have not had any approach from BARA about such representation.

In relation to BARA's regular references to market power it is our contention that Gold Coast Airport operates in a fiercely competitive environment for airport services and it is only its close attention to its customers needs that has resulted in the outstanding success its LCC strategy has been. This attention to detail in meeting the needs of this unique section of the industry is fundamental to its success, not any form of market power. LCCs have proven worldwide to be ready, willing and able to move their assets to alternative locations if their needs are not met. We do not see BARA demonstrating any understanding of the needs of this sector nor any scope for it to improve the competitiveness of the facilities and services provided to these airlines.

As a further commitment to customer services, QAL Airports subscribe to Airports Council International's "Airport Service Quality (ASQ)" surveys. This comprehensive quarterly survey of airport users allows our airports to benchmark their performance against 140 airports worldwide. Again we see little scope for BARA to add value to this area.

In attracting and retaining LCC operators the airport must pay attention to controlling costs across all areas of ground operations. To give our airline partners access to a range of competitive services Gold Coast Airport has encouraged and facilitated the establishment of three independent ground handling and two independent cargo terminal operators. This gives our five airline partners considerable scope to obtain competitive ground handling services. Again we do not see any scope for BARA to add value for airport users in this regard.

In summary, Queensland Airports Limited cannot support BARA's application to amend its current authorisation to include Gold Coast Airport for the following reasons;

- BARA has had no history at Gold Coast Airport and shows no understanding of its development or the needs of the LCC sector
- Gold Coast Airport is serviced by only five airlines and has developed close and mutually beneficial relationships with them to ensure its product offering is competitive and relevant to their needs
- BARA's sectorial interests may work against the high level of efficiency achieved through developing homogenous domestic/international common use LCC facilities
- Gold Coast Airport works closely with its airlines partners to ensure that a full range of competitive airport services is available
- BARA cannot demonstrate where it can achieve savings in transaction costs or other benefits of economies of scale, conversely, BARA's involvement would introduce a degree of complexity to current close airport/airline relationships
- Gold Coast Airport already works closely with its airline partners and its customers to ensure that appropriate levels of service are maintained
- SE Queensland and Northern NSW is a fiercely competitive market for airport services, dominated by Brisbane, giving Gold Coast Airport little or no opportunity to exercise market power
- No BARA member has approached Gold Coast Airport seeking their participation in negotiations with the airport in relation to provision of facilities and services
- About 99% of the Airport's traffic is handled by non-BARA member carriers.

Thank you for the opportunity to respond to this submission. Should you require further information or to clarify anything in this response please do not hesitate contacting the undersigned.

Yours faithfully,



Dennis Chant
Managing Director
Queensland Airports Limited