AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Submission for Commission

Meeting date	25th May 2022		
Meeting number	2122/56	**Paper number**	SP2122/199
Title	For approval – Airport Monitoring Report 2020–21		
Recommendation	That the Commission approve the ACCC Airport Monitoring Report 2020–21 for public release.		
Project staff	Daniel McEniery (x9281) (presenting), Gennady Kleiner (Director), John Rouw, Sebastian Lavers, Matthew Lesich		
Responsible SES	Matthew Schroder (x6924)		
Division, Branch and Office	ID – ITAP Melbourne, Canberra, Brisbane		
Legal/Economic input	Regulatory Economic Unit (Su Wu, Patrick Wu) ☒ This paper contains confidential and privileged material (shaded)		
Conflict of interest	☐ Cass-Gottlieb ☐ Rickard ☐ Keogh	☐ Ridgeway ☐ Brakey ☐ Crone	☐ Carver
Committee or Project Board consideration	☐ Competition Exemptions Committee ☐ AER Board ☐ Communications Committee ☐ Enforcement Committee ☐ Project Board (please specify)	☐ Mergers Review Committee ☒ Infrastructure Committee ☐ Compliance and Product Safety Committee ☐ Consumer Data Right Committee ☐ Not previously considered	

1. Purpose

1.1. We seek the Commission's approval to provide the Airport Monitoring Report 2020–21 (Attachment A) to the relevant Ministers and subsequently for publication.

2. Committee consideration

2.1. On 9 May 2022, the Infrastructure Committee considered the draft 2020-21 AMR and approved to be submitted for consideration by Commission, subject to staff making requested changes to the draft. We have made the requested changes and Commissioner Anna Brakey has reviewed them prior to submission.

2.2. We also received responses to confidentiality / accuracy consultation from Perth and Sydney airports after submission to the Infrastructure Committee. We have actioned those comments where required.

2.3. We have highlighted substantive amendments and left any substantive deletions as tracked changes. We have not tracked very minor editorial changes.

3. Background

3.1. Ministerial directions made pursuant to section 95ZF of the Competition and Consumer Act 2010 and Part 8 of the Airports Act 1996 require the ACCC to monitor the prices, costs, profits and quality of service in relation to the supply of aeronautical and car parking services at Brisbane, Melbourne (Tullamarine), Perth and Sydney (Kingsford Smith) airports.[1]

4. Regulation of essential monopoly infrastructure

4.1. The four monitored airports are natural monopolies and were privatised over 20 years ago. There is a widely-held belief that the monitored airports have significant market power. Specifically, the Productivity Commission (PC) reached this conclusion in each of its four reviews of economic regulation of airports. The ACCC and the Australian Government agree with PC's view on this.

4.2. However, in each of its four reviews, the PC also found that, on balance, airports have not systematically exercised their market power in commercial negotiations with airlines and, therefore, the current regulatory regime remains fit for purpose.[2]

4.3. A key part of the ACCC's monitoring of the four major airports is to assess whether the current level of regulation of airports in Australia is effective. In the past, we've expressed a view that the current regulatory regime is not achieving its objectives. For example, in our submission to the 2019 PC inquiry, the ACCC stated that "there is inconclusive information about whether the airports are exercising this market power and there are strong reasons to consider that the regulatory framework is increasingly less effective in providing a constraint on airport behaviour.[3]

4.4. The ACCC also holds a broader view that, in the absence of effective regulation, privatised monopolist providers of essential services infrastructure will exercise their market power by raising prices or reducing quality of service. In April 2022, the ACCC

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[1] https://www.legislation.gov.au/Details/F2012L01271; https://www.legislation.gov.au/Details/F2012L01274.

[2] PC, 'Productivity Commission Inquiry Report into the Economic Regulation of Airports', (June 2019), p. 13

[3] ACCC, 'submission to Productivity Commission Inquiry into the Economic Regulation of Airports (sub DR158)', (September 2018), p. 4

made a submission to the Productivity Commission Inquiry into Australia's productivity performance, with the key messages that:[4]

- Properly functioning markets are critical to productivity growth, and competition is essential for markets to function well. Competition incentivises innovation and reduces waste by encouraging firms to employ efficient production processes and to pursue better ways of doing things.
- Ineffective regulation of essential monopoly infrastructure undermines productivity growth. Most imports and exports necessarily pass through Australia's ports and airports, where bottleneck infrastructure providers face no credible threat of regulation and are able to extract monopoly rents. The ACCC considers that this undermines incentives for investment and innovation and creates a drag on productivity.
- Large access seekers (such as large airlines) may be able to wield some countervailing power and secure long-term contracts with monopoly infrastructure providers, though this does not fully protect them from monopolistic pricing and small access seekers are even less protected.
- The ACCC considers that the framework for privatising monopoly infrastructure is in need of detailed review and reform. Ideally, the existence of effective fall-back regulatory arrangements would enable more balanced commercial negotiations and the regulatory dispute resolution mechanisms would not need to be enlivened by the parties or result in long-running and costly disputes in court.

4.5. In the past 6 months, there have been two key findings that support our position:

- When the Port of Melbourne (PoM) was privatised in 2016, the Essential Services Commission of Victoria (ESC) became responsible for reviewing land rents set by the Port License Holder and reviewing the Port License Holder's compliance with the Pricing Order on prescribed services.[5] In its most recent reviews, the ESC found that PoM has exercised its market power in the setting of land rents, and that it has not complied with the Pricing Order (with non-compliance being significant and sustained).[6] The ESC used a BBM to estimate PoM's efficient revenue requirement, and found that:
    - PoM's weighted average cost of capital (WACC) is 200 basis points higher than a benchmark efficient entity with a similar degree of risk.
    - PoM's revenue requirement is overstated by around $300 million to $650 million. This means Victorian consumers may be impacted by prices that are higher than they should be in the future.
    - PoM's approach to managing its operating expenses is not consistent with that of a prudent or efficient service provider.[7]
- The Perth vs Qantas WASC case decision was delivered on 18 February 2022. The dispute was over the aeronautical charges that Qantas was liable to pay to Perth Airport between 1 July and 17 December 2018, while the two parties were negotiating a new ASA following expiry of the previous one. The court considered evidence from both parties on the appropriate parameters of a BBM to calculate a price that Qantas was liable to pay to Perth Airport during the relevant period.

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[4] ACCC, 'submission to the Productivity Commission Inquiry into Australia's productivity performance', (April 2022)

[5] Essential Services Commission, 'Our role in administering the Port of Melbourne regulatory regime', (2017)

[6] Essential Services Commission, 'Port of Melbourne reviews', (2021)

[7] Essential Services Commission, 'Inquiry into Port of Melbourne compliance with the pricing order 2021', (December 2021)

Perth had negotiated with all other airlines at the same time, so the court could compare the price that it calculated to prices that Perth agreed with all other airlines. The court found "that PAPL possesses, and has likely exercised, substantial market power".[8]

4.6. As part of preparing this year's AMR, we have also done some work that supports our broad position:

- In the second half of 2021, the ACCC received complaints [redacted] about behaviour of various airports (both monitored and non-monitored) [redacted]
- In preparation for the AMR, we have consulted with both airlines and airports about the process of negotiations (Chapter 2).
- When the Australian Government set up the current light-handed regulatory regime, it introduced the Aeronautical Pricing Principles (the APPs) and made it clear that it expected both airports and airlines to have regard to the APPs in their negotiations. The APPs are not enforceable.
- We have found that the APPs are currently not working effectively to protect airlines in negotiations.

4.7. IC has supported us doing more work going forward to consider what steps can be taken to make the APPs more effective (both in terms of broader reform and steps that the ACCC itself can take).

5. AMR Key points

5.1. The number of people flying through the monitored airports in 2020-21 was 60–83% lower than pre-pandemic. This had a severe impact on the financial performance of all operators in the aviation sector reliant on passenger travel.

5.2. Combined operating profits (EBITA) across all segments of the four monitored airports' operations were 95% lower in 2020–21 compared to 2018–19. Despite COVID-19 causing the biggest disruption to the aviation sector in history, Sydney, Brisbane and Perth airports still reported a positive operating profit for 2020-21.[9]

5.3. With other parts of the aviation sector being even more severely affected, the monitored airports provided some relief to airlines and some other commercial entities operating at the airports.

5.4. Prior to the COVID-19 pandemic, the monitored airports achieved sustained high profit margins. For many years, aeronautical profit margins were between 40% and 50% and car parking profit margins were over 50%.

8 Perth Airport Pty Ltd v Qantas Airways Ltd [No 3] [2022] WASC 51.

9 Brisbane Airport attributed this to resilient investment property revenues and operating cost reductions. Sydney Airport noted that its financial results included a one-off gain from non-aeronautical transaction (it would have still reported a profit if this transaction was excluded). Melbourne Airport performed the worst of the monitored airports in 2020–21, as it was the most affected by lockdowns and other measures used by the state governments to suppress the spread of COVID-19.

Figure 1: Total airport profit margins, by airport: 2007–08 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

5.5. The Supreme Court of Western Australia found that Perth Airport possesses, and has likely exercised, substantial market power in negotiating aeronautical charges with airlines in 2018. This finding indicates that light-handed regulatory regime is not working.

5.6. The Australian Government's Aeronautical Pricing Principles were designed to assist airlines in negotiating reasonable prices with airports that have substantial market power. However, the APPs are not enforceable and are currently insufficiently assisting airlines in their negotiations.

6. AMR structure

6.1. We have structured this year's AMR to focus on:

- comparing the long-term performance of monitored airports overall and across their key operating segments (being aeronautical services, car parking and landside access services)
- discussing the industry developments in 2020-21 (being the impact of the COVID-19 pandemic on the airports and other market participants in each of their segments of operation)
- presenting information about investments made by the four monitored airports
- commenting on the effectiveness of the current regulatory regime (by discussing the issues we have identified with the negotiation process between airports and airlines as well as the outcome of the Perth Airport vs Qantas case).

6.2. In addition to the AMR, we will publish a spreadsheet that will contain data for each monitored airport that we published in past reports.

7. Advice and consultation

Industry consultation

7.1. In preparation for this report, we conducted surveys and held meetings with industry participants including:

- Monitored and non-monitored airports
- Airlines and airline representative bodies
- Off-airport carparking operators.

Economic and legal advice

7.2. The team has worked closely with the Regulatory Economic Unit (REU) in preparation of the report. REU provided advice on various aspects of the report, including application of the Aeronautical Pricing Principles, and have reviewed the entire report.

7.3. The team has also sought advice from the Regulatory Law Unit to ensure that discussion of the Perth Airport vs Qantas case in the report is accurate.

Confidentiality consultation

7.4. We have consulted with airports on the accuracy of the information that we propose to publish in this report in relation to their operations. We also invited airports to indicate whether information we propose to publish would damage their competitive position.

Inter-branch consultation

7.5. We have consulted with Airline Monitoring Taskforce and Strategic Communications (Media Release).

8. Next steps

8.1. Following Commission approval of the AMR, we will:

- finalise, and seek Commissioner comments on, a media release supporting the publication of the AMR
- send the report to the Treasurer and an embargoed version to the monitored airports (95ZF(3) of the CCA requires the ACCC to provide a final copy to the 4 monitored airports on the same day it is provided to the Treasurer)
- as a courtesy, send embargoed copies to the Minister for Infrastructure, Transport and Regional Development and the Minister for Communications, Urban Infrastructure, Cities and the Arts.
- Executive Office have advised that should the caretaker period continue and new Ministers be likely, we will provide to Treasury as they have requested.

8.2. As is usual practice, we propose that the report is released a few days after the report is provided to relevant Ministers. Strategic Communications have proposed a public release on 30th May.

Date	Event
27th May	Provide report to relevant Ministers and embargoed copy to airports. Should the caretaker period continue, and new Ministers be likely, provide to Treasury as they have requested.
30th May	Publicly release report

9. Recommendation

9.1. We recommend that the Commission:

- approve the ACCC Airport Monitoring Report 2020–21 for publication

10. Attachments

A	Airport monitoring report 2020–21	154 pages

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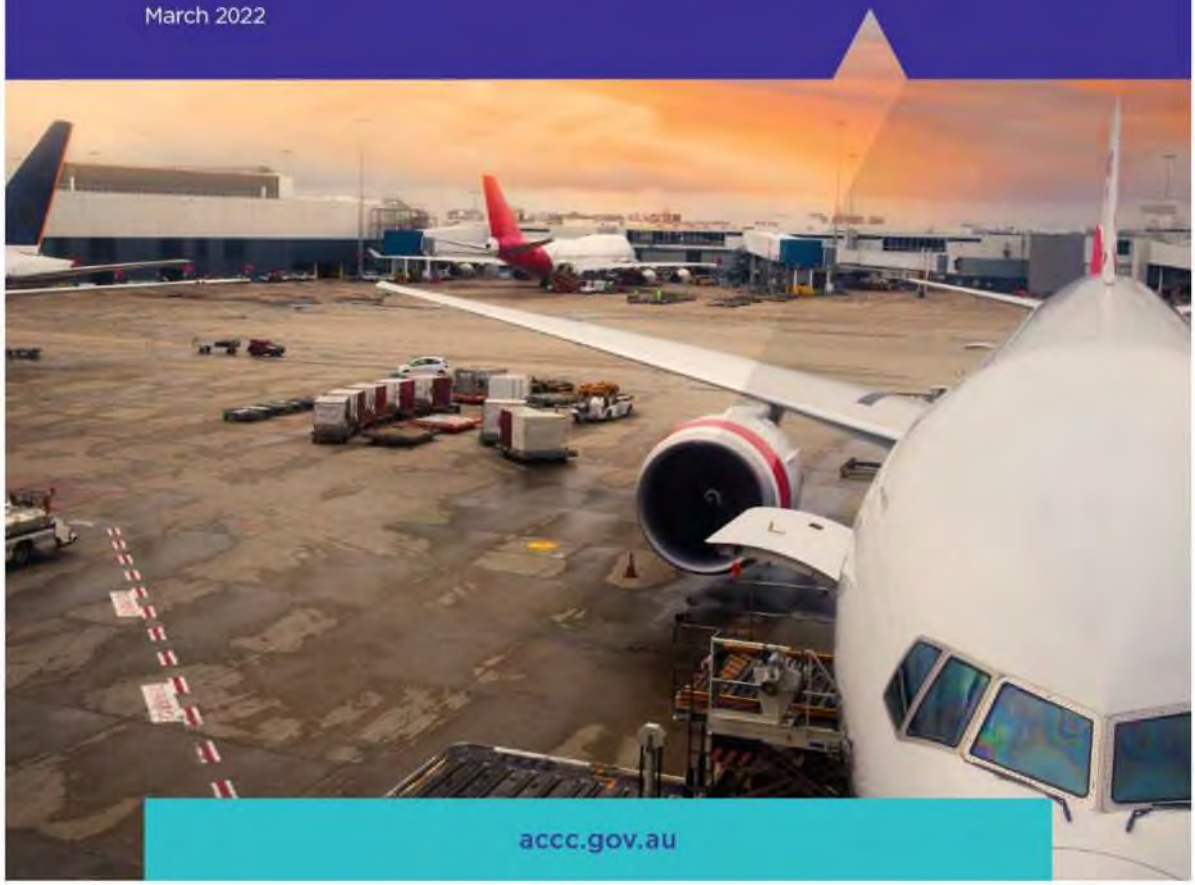
Airport monitoring report 2020-21

March 2022



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Notice

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Glossary and abbreviations

AAA	Australian Airports Association
ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
Aerobridge	Allows passengers to board and disembark aeroplanes directly from/to the terminal gate lounge. Avoids need for passengers to go outside and use the apron.
Aircraft-related services and facilities	Services and facilities provided by airports that are specifically utilised by aircrafts (for example, runways, aircraft parking bays and taxiways). The full list of aircraft-related services and facilities for monitoring purposes are listed in the *Airports Regulations 1997*.
Airline surveys	Each year, the ACCC sends domestic and international airlines a survey in which they are asked to rate on a scale of 1 to 5 the availability and standard of services and facilities provided by the monitored airports.
Airports Act	*Airports Act 1996*
Airports Regulations	*Airports Regulations 1997*
Airside	Refers to areas specifically in the airport that are dedicated to the provision of aircraft-related services and facilities and most passenger-related services and facilities – for example, terminal buildings, runways and taxiways.
Aeronautical services and facilities	As defined under the *Airports Regulations 1997*, services and facilities at an airport that are necessary for the operation and maintenance of civil aviation at the airport (including both passenger-related and aircraft-related services and facilities).
APPs	Aeronautical Pricing Principles
Apron	Airport aprons are areas where planes park and are refuelled, passengers embark and disembark and/or where planes are loaded and unloaded
ASA	Aeronautical Service Agreements (between airports and airlines)
At-airport car park	A car parks that is located on the airport's land which could be either at-distance or at-terminal car park
At-distance car park	A car park that is located within the airport precinct but outside of reasonable walking distance to the terminal. Access to the terminal is via a shuttle that is operated by the airport.
At-terminal car park	A car park that is within walking distance of the terminal
BARA	Board of Airline Representatives of Australia, which represents airlines operating international flights.
BBM	Building block model
BITRE	Bureau of Infrastructure and Transport Research Economics
CBD	Central business district
CCA	*Competition and Consumer Act 2010*
CoU	Conditions of Usage agreement

COVID-19	Coronavirus pandemic declared by the World Health Organisation on 11 March 2020
DTL	Domestic terminal lease
EBIT	Earnings before interest and taxes
EBITA	Earnings before interest, taxes, and amortisation
EBITDA	Earnings before interest, taxes, depreciation and amortisation
FAC	Federal Airports Corporation
FIFO	Fly-in fly-out
FY	Financial year
General aviation	Aircraft operations that are not regular public transport, such as private charter and aircraft training flights, and Royal Flying Doctor Services.
IATA	International Air Transport Association
Landside	Parts of an airport that are not airside areas – for example, access roads and walkways within airport precincts.
~~LIS~~	~~Line-in-the-sand approach. A regulatory approach to valuing airport assets under which the value of an airport's aeronautical asset base for monitoring purposes is the value of tangible non-current aeronautical assets reported to the ACCC as at 30 June 2005, plus new investments, less depreciation and disposals.~~
Long-term parking	Parking for a period of one or more days
~~MAG~~	~~Minimum annual guarantees~~
Monitored airports	Airports which are subject to price and quality of service monitoring and are specified in Parts 7 and 8 of the Airports Regulations 1997; currently Brisbane, Melbourne, Perth and Sydney airports.
MTOW	Maximum take-off weight
~~NER~~	~~National Electricity Rules~~
~~NGR~~	~~National Gas Rules~~
Objective indicators	Airport services and facilities listed in the *Airports Regulations 1997* to be monitored and evaluated by the ACCC and of which monitored airports are required to keep records. Includes both physical infrastructure (for example, the number of check-in desks and flight information display screens) and other measurements (for example, number of passengers during peak hour).
Off-airport car park	A car park that is located outside of the airport precinct and operated by a third party. Access to the terminals is provided by a shuttle bus that is provided by the off-airport car park operator.
On-carriage passengers	Passengers that arrive on one flight and depart on another flight generally without leaving the airport.
Operating profit	Measured by earnings (revenue less cost) before interest, taxation and amortisation.
Operating profit margins	In this report, this is the ratio of EBITA (earnings before interest, taxes, and amortisation) to total revenue.

Passenger-related services and facilities	Services and facilities provided by airports that are specifically utilised by passengers (for example, check-in desks, aerobridges and gate lounges). The full list of passenger-related services and facilities for monitoring purposes are listed in the *Airports Regulations 1997*.
Passenger surveys	The monitored airports arrange for annual passenger surveys to be conducted by market research companies in order to provide information to the ACCC as required under the Airports Regulations. These surveys ask passengers to rate on a scale of 1 to 5 the availability and standard of services and facilities.
Part IIIA	Part IIIA Pricing Principles set out in section 44ZZCA of the *Competition and Consumer Act 2010*
PC	Productivity Commission
2019 Productivity Commission inquiry	Productivity Commission 2019, *Economic Regulation of Airports*, Report no. 92, Canberra.
Peak hour	The hour that, on average for each day in the financial year, has the highest number of (arriving/departing / total of both) passengers.
PER	Perth Airport
Quality of aeronautical service (QoS)	A metric derived by aggregating the quality of aeronautical service monitoring results sourced from objective indicators and surveys of airlines and passengers on the quality of services and facilities provided by the monitored airports.
RAB	Regulatory Asset Base
Real terms	A value expressed in the money of a particular base time period (for example, 2020–21 dollars). Values in real terms remove the impact of inflation and provide a better comparison of values over time.
Return on assets	Ratio of EBITA relative to average tangible non-current assets.
Rex	Regional Express airlines
Short-term parking	Parking for a period of up to one day
T1	Terminal 1
Taxiway	A road for aircraft that connects runways with airport facilities including ramps, hangers and terminals
WACC	Weighted average cost of capital

Key industry insights and developments

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Airport Monitoring Report 2020-21

COVID-19

The number of people flying through the monitored airports in 2020-21 was 60–83% lower than pre-pandemic. This had a severe impact on the financial performance of all operators in the aviation sector reliant on passenger travel.

Operating profits across all segments of the monitored airports' operations were significantly lower in 2020–21 compared to 2018–19, but Sydney, Brisbane and Perth airports still reported a profit.

Prior to the COVID-19 pandemic, the monitored airports achieved sustained high profit margins. For many years, aeronautical profit margins were between 40% and 50% and car parking profit margins were over 50%.

The Supreme Court of Western Australia found that Perth Airport possesses, and has likely exercised, substantial market power in negotiating aeronautical charges with airlines in 2018. This finding indicates that light-handed regulatory regime is not working.

The Australian Government's Aeronautical Pricing Principles were designed to assist airlines in negotiating reasonable prices with airports that have substantial market power. However, the APPs are not enforceable and are currently insufficiently assisting airlines in their negotiations

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Overview

The COVID-19 pandemic had a severe impact on all parts of the aviation sector in 2020–21. As new variants emerged and the virus spread, state governments implemented lockdowns, border closures and other travel restrictions to suppress the spread of the virus. These restrictions, combined with lower consumer confidence due to the pandemic, caused the number of people flying on both domestic and international routes to plummet. As a result, there was significant deterioration in financial performance across all parts of the aviation sector that were reliant on passenger travel, including airports. With the bulk of the Australian population now vaccinated and all travel restrictions lifted, passenger travel is rebounding, and the aviation sector is now on the path to recovery.

Consistent with the rest of the aviation sector, the 2020–21 financial results of the four monitored airports were substantially affected by the COVID-19 pandemic. The combined operating profits of the four monitored airports were 95% lower in 2020–21 than in 2018–19.[1] However, despite COVID-19 causing the biggest disruption to the aviation sector in history, Sydney, Brisbane and Perth airports still reported a positive operating profit for 2020-21.[2] With other parts of the aviation sector being even more severely affected, the monitored airports provided some relief to airlines and some other commercial entities operating at the airports.

Despite causing a significant short-term impact, the pandemic has not altered the underlying dynamics in the aviation sector. The monitored airports continue to have substantial market power in provision of their services and there remains a need for to ensure that the monitored airports are not taking advantage of their market power to the detriment of the Australian businesses and consumers.

On 18 February 2022, the Supreme Court of Western Australia delivered its decision to resolve a dispute over aeronautical charges that arose between Perth Airport and Qantas in 2018. As part of its decision, the court found that Perth Airport possessed, and has likely exercised, substantial market power.[3] The ACCC is not surprised by this finding. Prior to the COVID-19 pandemic, the ACCC raised concerns about sustained high profit margins earned by the monitored airports. In the period between 2007–08 and 2018–19, the monitored airports' aeronautical profit margins predominantly ranged between 40% and 50%, while their car parking profit margins have consistently been above 50% for some monitored airports and above 60% for others.

In the absence of an effective regulatory regime, privatised natural monopolies with substantial market power will use that market power to consistently achieve prices above the levels that would otherwise be attained in a competitive market or deliver inferior goods and services.

When the Australian Government was setting up its light-handed regulatory regime for major Australian airports, it released the Aeronautical Pricing Principles (the APPs) to assist airlines in negotiations of Aeronautical Service Agreements (ASAs) with airports that have market power.[4] The APPs establish a framework for airports and airlines to use when negotiating prices and service levels. Both airlines and airports have generally acknowledged that the APPs provide sound principles to use in commercial negotiations.

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[1] All references in the Overview and the Executive Summary to 'profit' refer to earnings before interest, tax and amortisation (EBITA). All references to 'profit margins' refer to EBITA as a percentage of revenue.

[2] Brisbane Airport attributed this to resilient investment property revenues and operating cost reductions. Sydney Airport noted that its financial results included a one-off gain from non-aeronautical transaction (it would have still reported a profit if this transaction was excluded).

3 *Perth Airport Pty Ltd [2022] WASC 51*.

[4] The Aeronautical Pricing Principles originated as 'Review Principles' in the Australian Government's response to the 2002 inquiry of the Productivity Commission.

However, the outcome of the Perth Airport case against Qantas as well as the ACCC's findings in this report indicate that the APPs are currently not assisting airlines in negotiations as intended. The APPs are not enforceable, which means that airlines do not have any formal recourse to address any conduct by an airport that is inconsistent with the APPs. There is also limited guidance available to the parties on how to interpret various elements of the APPs.

When material disputes between airports and airlines arise, there is currently no effective process available to airlines to assist them to resolve the dispute in accordance with the APPs. Therefore, even though most disputes between airports and airlines are ultimately settled, the outcomes of negotiations do not necessarily result in prices that reflect long-term efficient costs of aeronautical services because of uneven bargaining power between the parties.

The ACCC welcomes the fact that the Supreme Court of Western Australia resolved the dispute between the parties in a manner consistent with the APPs – by using a building block model (BBM) to determine the efficient long-run costs of the aeronautical services provided by Perth Airport. However, the court case lasted for over 3 years and resulted in substantial litigation expenses to both parties. In addition, the WACC calculated by the court was significantly higher than the WACC determined by some Australian and overseas regulators in 2018 and 2019.

The ACCC will consider what can be done to improve the operation of the APPs in commercial negotiations. If the APPs can be made more effective, this would unlock the full benefits of the APPs to airlines and thereby protect Australian businesses and consumers from excessive prices or declining service quality.

Executive Summary

About this report

This report presents the results of the ACCC's monitoring of the quality, prices, costs and profits at Brisbane, Melbourne (Tullamarine), Perth and Sydney (Kingsford Smith) airports. The monitoring relates to airports' supply of aeronautical, car parking and landside services.

Developments in 2020–21

The COVID-19 pandemic had a significant impact on the aviation industry in 2020–21. State and federal governments implemented lockdowns, border closures and other travel restrictions to suppress the spread of the virus. This, combined with lower consumer confidence due to the pandemic, led to a significant drop in the number of people flying on both domestic and international routes.

The number of passengers visiting the monitored airports in 2020–21 was 60-83% lower compared to pre-pandemic levels, with Melbourne and Sydney airports being the most affected. This significantly impacted on the monitored airports' financial performance, as many of their operations are reliant on passenger travel.

Table 1 shows the change in total airport operating profit (EBITA) and margin (EBITA as a percentage of total airport revenue) over the past three monitoring periods.

Table 1: Total operating profit and margin, by airport: 2018–19 to 2020–21

	Airport profit ($millions)			Airport profit margin (%)		
	2018–19	2019–20	2020–21	2018–19	2019–20	2020–21
Brisbane Airport	511.88	329.04	48.14	59.14	43.69	10.76
Melbourne Airport	593.30	338.94	-106.82	56.49	40.55	-32.83
Perth Airport	244.49	128.43	26.89	48.08	32.71	10.35
Sydney Airport	987.08	631.37	148.46	59.49	45.89	18.78

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 1 shows that total operating profits and profit margins were significantly lower at all monitored airports in 2020–21 compared to 2018–19. However, despite the COVID-19 pandemic causing the biggest disruption to the aviation sector in history, Brisbane, Sydney and Perth airports reported a profit in 2020-21.[5] Melbourne Airport performed the worst of the monitored airports, as it was the most affected by COVID-safe government measures.

Breaking down the monitored airports' financial performance across the service segments shows that:[6]

- aeronautical operating profits were $113m to $570m lower in 2020–21 than in 2018–19, with monitored airports incurring aeronautical operating losses between $35m (Perth Airport) and $170m (Melbourne Airport) in 2020–21
- car parking operating profits were $21m to $89m lower in 2020–21 than in 2018–19, with Melbourne Airport incurring an operating loss of $8.7m and the other three monitored airports earning an operating profit between $4.8m (Sydney Airport) and $25.5m (Brisbane Airport) in 2020–21

[5] Brisbane Airport attributed this to resilient investment property revenues and operating cost reductions. Sydney Airport noted that its financial results included a one-off gain from non-aeronautical transaction (it would have still reported a profit if this transaction was excluded).

[6] All dollar figure comparisons are made in real terms in 2020–21 dollars.

- landside access revenues were $2.1m to $23.3m lower in 2020–21 than in 2018–19, with monitored airports earning between $2.8m (Brisbane Airport) and $4.5m (Sydney Airport) in 2020–21
- revenues collected from retail tenants were $46m to $175m lower in 2020–21 than in 2018–19
- the pandemic had a much more limited impact on monitored airports' revenue from commercial property (buildings and other space on the airport's land, including business parks and offices), as this segment is less directly linked to passenger movements.

The significant fall in passenger numbers also severely affected all other parts of the aviation supply chain. Both domestic and international airlines lost a significant proportion of their revenue. For example, Qantas reported that in 2020–21, its total revenue loss from the COVID-19 pandemic reached $16 billion, with Qantas posting a $2.35 billion loss for the financial year, following a loss of $2.7 billion in the previous financial year.[7]

Retail chains operating at the four monitored airports have indicated that their sales turnover in 2020–21 was up to 95% lower than prior to the pandemic. Many retailers at the monitored airports have struggled to survive and had to close their operations.

Multiple car rental operators at the monitored airports indicated to the ACCC that their revenue had fallen between 50% and 90% compared to pre-pandemic level. Some closed car hire booths at various airports and sold off parts of their fleets to generate sufficient cashflow to maintain their operations.

In the early stages of the COVID-19 pandemic, the monitored airports provided financial relief to some of these operators. The monitored airports have informed the ACCC that they provided assistance to airlines which included:

- free aircraft parking to domestic and international airlines
- rent relief to airlines for services such as lounges, aeronautical services and facilities
- the use of aeronautical facilities and services on similar terms to previous agreements
- reduced fees and prices to domestic airlines seeking to establish new services.

The monitored airports also informed the ACCC that they provided financial support to some commercial operators (such as retail chains and car rental operators) by offering rent relief, rent deferral and waving fixed payments. Commercial operators consulted by the ACCC commented that the level of relief varied between the monitored airports and some airports ceased offering this assistance in 2021 despite passenger numbers remaining low.

~~The ACCC consulted with various aviation sector participants in late 2021. All consulted parties expressed concerns that low passenger numbers, the unpredictable nature of the COVID-19 pandemic and low traveller confidence may lead to recovery of the aviation sector taking several years.~~ The ACCC consulted with various aviation sector participants about the challenges of recovering from the COVID-19 pandemic. Some airlines and commercial operators expressed concerns that recovery of the aviation sector may be undermined if airports in Australia significantly raise their prices to recover their pandemic losses. These parties commented that this would ultimately flow through to end-consumers via higher prices. The major airports consulted by the ACCC stated that they have not sought, and do not intend to seek, to recover their pandemic losses through higher prices in new ASAs.

[7] Qantas, *Qantas Group posts significant loss from full year of COVID* [media release], accessed 7 February 2022 and *Qantas Group FY20 financial results - Navigating exceptional conditions* [media release], 20 August 2020, accessed 7 February 2022.

Long-term trends

Monitored airports achieved sustained high profit margins prior to the COVID-19 pandemic

Leading up to the COVID-19 pandemic, the monitored airports had been earning relatively stable and consistent returns over a long period of time. Figure 1 shows the total airport profit margins of the monitored airports since 2007–08.[8]

Figure 1: Total airport profit margins, by airport: 2007–08 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

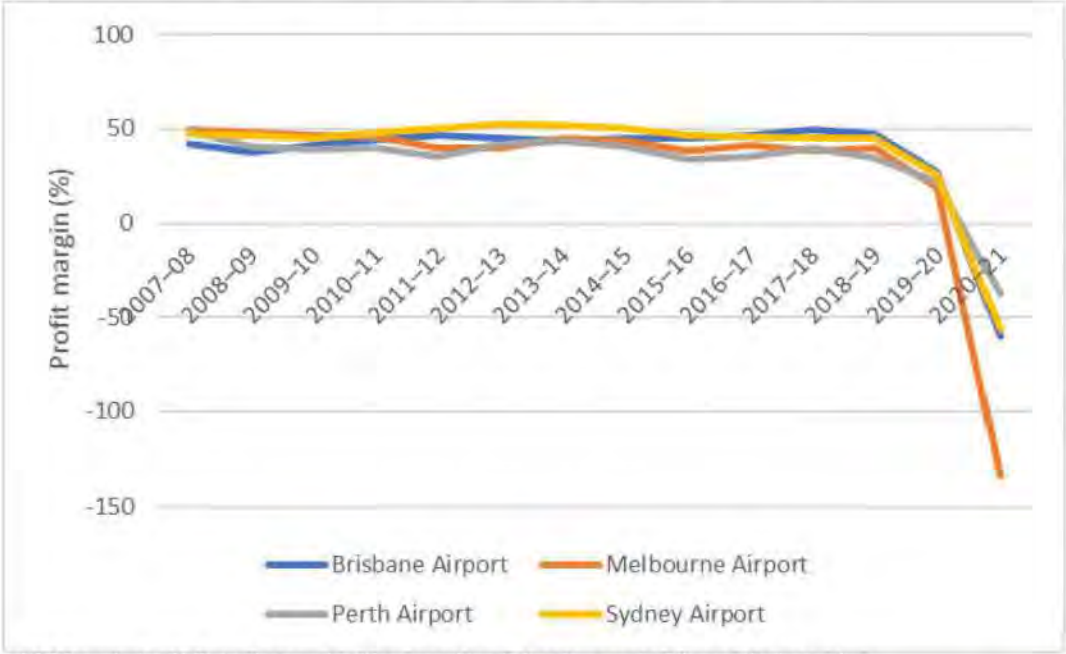
Figure 1 shows that in the period between 2007–08 and 2018–19, the total airport profit margins of Sydney, Melbourne and Brisbane airports have consistently remained in the range between 55% and 65%. Perth Airport's profit margins have fluctuated between 45% and 80%. As discussed above, total airport profit margins have been affected by the COVID-19 pandemic in the last two years.

The ACCC's monitoring has predominantly focused on aeronautical and car parking services. The ACCC has observed very similar trends in each of these segments. Figure 2 shows aeronautical profit margins of the monitored airports since 2007–08.[9]

[8] The ACCC has chosen 2007–08 as a starting point for the analysis because this is the first year that the ACCC collected financial data under the line-in-the-sand approach.

[9] ibid.

Figure 2: Aeronautical profit margins, by airport: 2007–08 to 2020–21



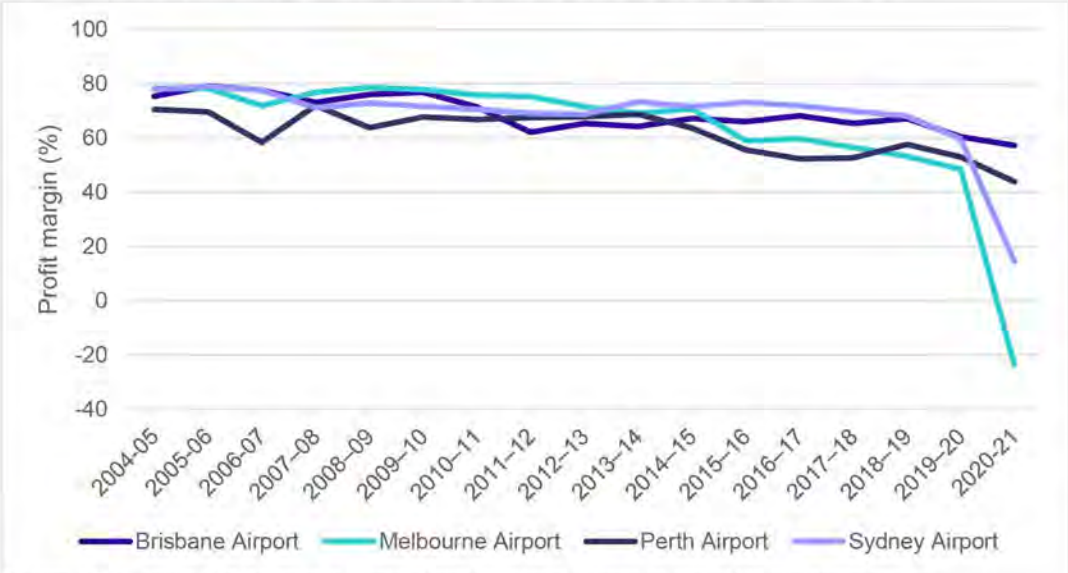
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Figure 2 shows that in the period between 2007–08 and 2018–19, aeronautical profit margins of the monitored airports have predominantly ranged between 40% and 50%. As discussed above, aeronautical profits margins have been affected by the pandemic in the last two years.

Figure 3 shows car parking profit margins of the monitored airports since 2004–05.[10]

[10] The ACCC has chosen 2004–05 as a starting point for the analysis because this is the first year that the ACCC collected consistent data from all monitored airports on car parking revenue, costs and profits.

Figure 3: Car parking profit margins, by airport: 2004–05 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure 3 shows that over the period 2004–05 to 2018–19, car parking profit margins have somewhat decreased across all monitored airports. However, prior to the pandemic, car parking profit margins consistently remained over 60% for Brisbane and Sydney airports, and above 50% for Melbourne and Perth airports. As discussed above, in the last two years, car parking profit margins have been affected by the COVID-19 pandemic.

A key limitation of the ACCC's monitoring regime is that the data collected does not allow the ACCC to make conclusive assessments about whether monitored airports are earning economic returns that are consistent with the degree of risks they face or whether monitored airports have been operating efficiently. This is mainly because the various financial indicators and measures the ACCC reports (including those shown in figures 1-3) are based on historical accounting data. Given accounting rates of return do not necessarily correspond to economic rates of return, the ACCC cannot conclusively assess whether airports' profits are excessive.[11]

However, various studies found that the monitored airports' profit margins prior to the COVID-19 pandemic were high by international standards:

- In 2018, Frontier Economics (commissioned by A4ANZ) found that the average profit margins of the four Australian monitored airports were much higher than of non-Australian airports.[12] Around the same time, IATA also found that Australian monitored airports' profit margins were much higher than comparable airports worldwide.[13]
- In February 2020, IBISWorld reported that the broader car parking services industry earned a profit margin of 16.9%.[14] Even when accounting for the different profit measure used by IBISWorld compared to the ACCC, this still appears to be significantly lower than car parking profit margins earned by the monitored airports.[15]

[11] Refer to section 1.5.3 for further details.

12 Airlines for Australia and New Zealand (A4ANZ), *The performance & impact of Australia's Airports since privatisation: A preliminary report prepared by Airlines for Australia & New Zealand*, A4ANZ, May 2018, pp 9–10, accessed 13 April 2022.

13 IATA, *Submission No. 27 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, pp 13-14.

14 IBISWorld, *Parking Services in Australia S9533*, IBISWorld website, February 2020, p 7, accessed 7 April 2022.

[15] IBISWorld uses earnings before interest and taxes (EBIT) as an indicator of a company's profitability rather than EBITA.

Despite causing a significant short-term impact, the COVID-19 pandemic has not altered the underlying dynamics in the aviation sector. In March 2022, Sydney Aviation Alliance (the Alliance) completed a $32 billion purchase of Sydney Airport, which has been described as the largest cash purchase of an Australian company in history.[16] In the midst of the COVID-19 pandemic, the Alliance had to increase its offer on multiple occasions before it was accepted by the shareholders of the Sydney Airport.

The ACCC considers that monitored airports continue to have substantial market power in provision of their services and there remains a need for to ensure that the monitored airports are not taking advantage of their market power to the detriment of the Australian businesses and consumers.

Importantly, monitoring by the ACCC has limited influence on behaviour of airports that is detrimental to the market and consumers, particularly as a longer-term measure where the threat of regulation is diminished. Monitoring does not directly restrict monitored airports from increasing prices or allowing service quality to decline. It also does not provide the ACCC with the ability to intervene in airports' setting of terms and conditions of access to airports' infrastructure.

Perth Airport vs Qantas case indicates that light-handed regulatory regime is not working

On 18 February 2022, the Supreme Court of Western Australia delivered its decision in the dispute between Perth Airport and Qantas. The dispute was over the aeronautical charges that Qantas was liable to pay to Perth Airport between 1 July and 17 December 2018, while the two parties were negotiating a new aeronautical service agreement following expiry of the previous one.[17]

The court ruled that the calculation of fair and reasonable prices payable by Qantas had to be done using a method consistent with the APPs. Accordingly, the court determined the fair and reasonable prices by using a BBM to estimate the efficient long-run average cost of Perth Airport providing services to Qantas.

The court found that Qantas underpaid Perth Airport and ordered Qantas to pay Perth Airport an additional $9.5m in unpaid fees and interest. However, the court also found that Perth Airport acted inconsistently with the APPs in establishing its aeronautical prices. In particular, the court found that Perth Airport:

- arbitrarily set its Conditions of Use prices at 10% above the highest prices negotiated with other airlines for services provided at other terminals
- possesses, and has likely exercised, substantial market power
- sought to include in its aeronautical prices to Qantas some categories of costs that were unrelated to the provision of aeronautical services (for example, marketing costs).

The ACCC considers that these findings indicate that the current light-handed regulatory regime is not working well enough to effectively protect Australian businesses and consumers from the exercise of monopoly power.

The ACCC also notes that the WACC calculated by the court was significantly higher than the WACC determined by some Australian and overseas regulators around that time. The court determined a nominal vanilla WACC of 9.6% for Perth Airport for the period from July to

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[16] Ticky Fullerton, *Super funds take the keys to Australia's gateway*, The Australian, 10 March 2022, accessed 12 May 2022.

17 *Perth Airport Pty Ltd [2022] WASC 51*.

December 2018, which is 3.25 percentage points higher than the 6.34% WACC that the New Zealand Commerce Commission determined for Wellington International Airport for 2019.[18]

On 15 March 2022, Qantas announced that it will appeal the court's ruling on some aspects of the court's calculations, particularly the WACC.[19]

The Aeronautical Pricing Principles are not assisting airlines as intended

The Australian Government considers the APPs to be a critical part of its light-handed regulatory regime for Australian airports. The Australian Government has described the APPs as an important framework for establishing prices and service delivery levels and has made it clear that it expects all airports and airport users to have regard to the APPs when conducting their commercial negotiations.[20]

If the APPs worked as intended, they would provide for:

- an open and transparent exchange of information between negotiating parties
- prices being established using financial models, such as a BBM, to recover efficient long-run costs of providing services
- effective process for resolving disputes between parties.

Most of the major airports in Australia stated to the ACCC that they are providing detailed information to airlines and are using a BBM to inform their price offers. However, as the Perth Airport case illustrates, this is not necessarily leading to prices that reflect efficient long-run costs. The problem is that the APPs are unenforceable, so there is no independent oversight of application of the APPs. As a result, there appears to be disparity in compliance with, and understanding of, the APPs across airports in Australia.

Airports in Australia seem to have adopted different approaches to the type and breadth of information that they provide to airlines during negotiations. Airports also differ in the way they use a BBM in negotiations. One major airport informed the ACCC that it does not use any financial modelling for the purpose of making price offers.

While most other major airports state that they use a BBM, this by itself does not mean that the aeronautical prices they agree with airlines reflect efficient long-run costs. Whether a BBM produces reasonable outputs on revenue and prices depends on the inputs used in the model. Some airports and airlines have informed the ACCC that they can have significant disagreements about the appropriate BBM inputs, particularly WACC, which can result in parties being very far apart on what they consider to be reasonable prices.

The Perth Airport case illustrates the benefits that the APPs can provide in commercial negotiations to resolve the dispute between the parties in such circumstances. Where both parties use a common framework to negotiate prices (a BBM), an independent arbiter can systematically resolve a dispute between the parties about the appropriate parameters of a BBM. Although, for dispute resolution to be relatively quick and inexpensive, such an independent arbiter should not be a court. The Perth Airport court case lasted over 3 years and resulted in substantial litigation costs to both parties.

However, most major airports have stated that they do not support using binding commercial arbitration to resolve disputes. In fact, at least some airports generally prefer to avoid getting

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18 NZCC, *Cost of capital determination for disclosure year 2019 - Electricity distribution businesses and Wellington International Airport*, [2018] NZCC 7, NZCC website, 30 April 2018, accessed 13 April 2022.

19 Geoffrey Thomas, *'Qantas to appeal Supreme Court ruling on Perth Airport charges'*, *The West Australian*, 15 March 2022, accessed 7 April 2022.

20 Department of the Treasury, *Australian Government response to the Productivity Commission Inquiry into the Economic Regulation of Airports*, Treasury website, 11 December 2019, p 7, accessed 13 April 2022.

'bogged down in BBM discussions', effectively choosing to 'agree to disagree' with airlines about the BBM inputs. Specifically, it appears that at least some airports:

- do not provide adequate information to airlines during negotiations to substantiate their BBM calculations and justify their assumptions and input values
- do not engage in a process with airlines designed to resolve their differences of view about appropriate BBM inputs.

Instead, those airports prefer to reach an agreement with airlines through discussion of 'value' and typically offer various non-price arrangements to sweeten the deal (for example, rebates, access to facilities and agreements about quality of service).

An airport that does not see the need to be accountable on how it determines its price offer, can fix the inputs of a BBM to achieve its desired price and then proceed to bargain with the airline on some other basis.

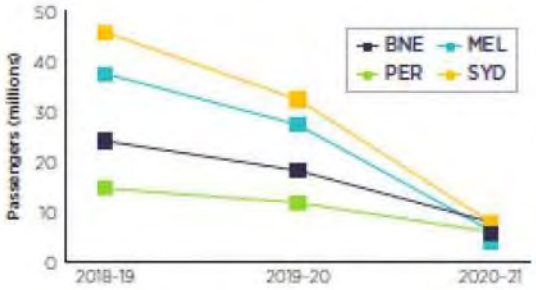
According to some airlines, in negotiations where parties remain far apart on their positions, some airports start making 'take it or leave it' offers or threaten that the airline will lose access to facilities or other forms of access. There are very few viable options available to airlines in these circumstances. Airlines cannot do anything to rectify airport's non-compliance with the APPs. Airlines cannot compel airports to use a BBM, or any other financial model, in negotiations. Airlines cannot compel airports to provide the information they need for the purpose of negotiations. Airlines cannot compel airports to enter binding commercial arbitration to resolve their dispute.

For many years, some airports have asserted that airlines have countervailing power due to airports' obligations under the terms of their Commonwealth leases to provide access to airlines. However, the Perth Airport case illustrates that conditions in airports' Commonwealth leases do not provide material protection to airlines from airports using their market power during negotiations.

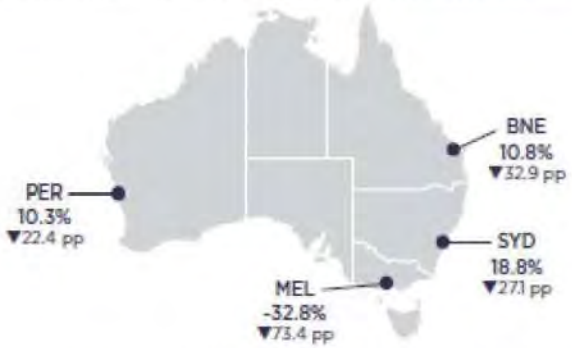
The ACCC will consider what can be done to improve the effectiveness of the APPs in commercial negotiations for the benefit of Australian businesses and consumers.

Key monitored airports' results 2020-21

NUMBER OF PASSENGERS



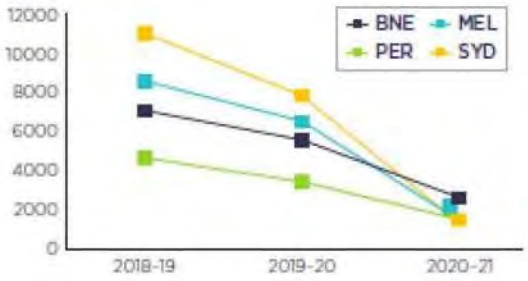
MONITORED AIRPORT'S LOCATIONS AND TOTAL AIRPORT PROFIT MARGINS*



AERONAUTICAL INVESTMENT

AERONAUTICAL PROFIT MARGINS*

AVERAGE DAILY CAR PARKING THROUGHPUT



CAR PARKING PROFIT MARGINS*

BNE	57.3%	▼ 3.2 pp
MEL	-23.5%	▼ 72.1 pp
PER	43.9%	▼ 9.2 pp
SYD	14.5%	▼ 45.2 pp

* Profit margin is measured as earnings before interest, taxes and amortisation (EBITA) as a percentage of revenue.

Notes: Items described as ▼▲are comparisons to 2019-20.
pp means percentage point(s).

Key performance indicators for 2020–21

Table 1 - Key aeronautical indicators for 2020–21

Airport	Passenger numbers (m)	Aero revenue ($m)	Aero revenue per passenger ($)	Aero operating profit ($m)	Aero Profit (EBITA) margin (%)	Return on aero assets (%)
Brisbane	7.9	141.4	18.0	-84.6	-59.9	-2.8
Melbourne	6.2	127.3	20.6	-169.6	-133.2	-6.4
Perth	5.9	93.2	15.8	-35.2	-37.8	-3.6
Sydney	7.9	270.9	34.5	-153.1	-56.5	-4.9

Table 2 - Changes in key aeronautical indicators from 2019–20 to 2020–21

Airport	Passenger numbers (%)	Aero revenue (%)	Aero revenue per passenger (%)	Aero operating profit (%)	Aero profit margin (pp)	Return on aero assets (pp)
Brisbane	-56.6	-59.6	-6.9	-188.5	-87.2	-5.8
Melbourne	-77.4	-69.0	36.9	-319.0	-152.1	-9.3
Perth	-49.7	-51.3	-3.1	-185.9	-59.3	-7.7
Sydney	-75.7	-62.6	53.6	-183.3	-81.9	-10.5

Table 3: Key car parking indicators for 2020–21

Airport	Revenue ($m)	Operating profit ($m)	Profit margin (%)	Car parking spaces	Revenue per car park space ($)	Operating profit per car park space ($)	Revenue share of total airport revenue (%)
Brisbane	44.4	25.5	57.3	19,091	2,327	1,333	9.9
Melbourne	37.1	-8.7	-23.5	26,654	1,393	-328	11.4
Perth	34.7	15.2	43.9	11,636	2,981	1,308	13.4
Sydney	33.5	4.8	14.5	14,710	2,276	329	4.2

Table 4: Changes in key car parking indicators from 2019–20 to 2020–21

Airport	Revenue (%)	Operating profit (%)	Profit margin (pp)	Car parking spaces (%)	Revenue per car park space (%)	Operating profit per car park space (%)	Revenue share of total airport revenue (pp)
Brisbane	-47.5%	-50.3%	-3.2	0.0%	-47.5%	-50.3%	-1.3
Melbourne	-66.5%	-116.3%	-72.1	0.0%	-66.5%	-116.3%	-1.8
Perth	-31.4%	-43.2%	-9.2	-47.3%	30.3%	7.8%	0.5
Sydney	-67.5%	-92.1%	-45.2	1.5%	-68.0%	-92.2%	-3.2

Note: pp = percentage points. Changes for financial data are presented in real terms (base year = 2020–21).

1. Introduction

1.1 Airports' importance to the Australian economy

Airports perform a vital role in supporting economic activity across a number of Australian industries. Air travel itself has become increasingly popular and essential to several industries over the last few decades. Over the 20 years to 2019, prior to the onset of the COVID-19 pandemic, the number of passengers travelling through Australia's airports more than doubled to over 160 million.[21] The 4 monitored airports accounted for the majority (72%) of passenger movements across Australian airports in 2018–19.[22]

Apart from airports' core activities, which employ a relatively small number of staff,[23] airport precincts support a much larger sphere of economic activity. This includes retail, office space, logistics and other aviation sector activity, accounting for some estimated 206,400 full-time equivalent staff in 2016–17.[24]

Outside the airport precinct, airports are essential in facilitating economic activity in other industries. One of the most notable is tourism, which (prior to COVID-19) contributed around 6% to Australia's gross domestic product and was its fourth largest export industry.[25] The overwhelming majority (some 97%) of international tourists arrive in Australia by plane.[26] The mining, construction and oil and gas industries also rely heavily on airports to facilitate transport of their fly-in fly-out (FIFO) workforce to remote parts of Australia.[27] Numerous other industries rely on airports to facilitate business-related travel.

Airports also play a role in facilitating air freight. While this only accounts for 0.1% of freight transported between Australia and the rest of the world in volume, it represents around 20% of trade by value.[28] The majority of the goods transported by air are high value and time critical, such as eCommerce parcels, perishable goods (particularly seafood) and medical supplies.[29]

Apart from facilitating economic activity, airports also play a role in connecting family, friends and communities throughout Australia.

1.2 Services provided by airports

Airports provide a range of services to various users, including:

- aeronautical services to airlines
- car parking services to passengers, airport staff and employees of businesses located at the airport

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21 ACCC calculation based on *BITRE Airport Traffic Data (1985-86 to 2020-21)*.

22 ACCC calculation based on *BITRE Airport Traffic Data (1985-86 to 2020-21)*. Note that this share of total passenger movements decreased to 56% in 2020–21.

23 IBISWorld estimated that airports directly employed some 12,593 in 2018–19 prior to the pandemic; see IBISWorld, *Airport Operations in Australia I5220*, IBISWorld website, 2021, p 13, accessed 7 April 2022.

24 Deloitte, *Connecting Australia - The economic and social contribution of Australia's airports*, Deloitte website, 2018, p ii, accessed 7 April 2022.

25 Department of Infrastructure, Transport, Regional Development and Communications (DITRDC), *Future of Australia's Aviation Sector*, Issues paper, 2020, p 5, accessed 7 April 2022.

26 Deloitte, *Connecting Australia*, p 37.

27 DITRDC, *Future of Australia's Aviation Sector*, p 5.

28 Ibid.

29 Deloitte, *Connecting Australia*, p iii; DITRDC, *Future of Australia's Aviation Sector*, p 5.

- landside access services to transport operators, including taxis, rideshare services, private cars (including limousines), and public and private buses (including shuttle buses for off-airport parking)
- commercial services (particularly leasing space) to retail outlets, car rental operators, hotels, corporate parks and factory outlets.

The following sections discuss these in more detail.

1.2.1 Aeronautical services

Broadly, aeronautical services are services and facilities that airports provide to airlines for the operation and maintenance of civil aviation at the airport.[30]

Airlines operate aircraft on scheduled routes domestically and internationally to transport both passengers and freight. Airports provide services and facilities to assist with airlines' use of the aircraft, including:

- 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.

Airports also provide services and facilities to assist airlines' passengers, including:

- 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.

Airports and airlines engage in commercial negotiations to reach an agreement on the terms and conditions of use of airport's aeronautical services and facilities, including charges and service levels. Under these agreements, aeronautical charges could be 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 into a singe charge. Airports generally levy charges for access to terminals on the basis of the number of passengers per aircraft and type of flight.

Many airports also have standard conditions of use or standard terms of service that apply to all airlines which use the airport's services and facilities, but which have not entered into a service agreement with the airport.

1.2.2 Airport car parking services

Each of the four monitored airports provides a range of on-site car parking facilities for the public and staff. Each airport offers at-terminal and at-distance parking on both a short-term and

30 Part 7 of the Airports Regulations.

long-term basis as well as a range of products and services in between. For some airports, this offering has broadened to include premium services such as valet car parking and 'guaranteed space' allocations.

The most common form of parking at airports is motorists parking near the terminal as they drop-off or pick-up friends and relatives. At-distance car parking is generally not located within walking distance of the terminals and therefore requires shuttle bus access. Despite the lower level of convenience, at-distance car parks are often favoured by motorists parking for extended durations because of the cheaper parking rates.

Airports charge the motorists directly for parking based on their choice of parking facilities and length of stay. Prices charged for parking near the terminal are typically higher than those for parking at some distance from the terminal. Most airports offer promotions that motorists can access online, such as for off-peak periods, providing discounts on the standard drive-up rates.

The following section provides a brief overview of each airports' car parking service offerings.

Brisbane Airport

Brisbane Airport has three separate car parking precincts, two of which are within walking distance of the terminals. The third precinct is located at a distance from the terminals, with access provided via a free, regular shuttle bus service.

The two facilities that are located at-terminal are both multi-level car parks. One is located near the international terminal and one is located near the domestic terminal (comprising of P1 and P2 car parks):

- The International terminal offers short-term (up to four hours of parking, also known as ParkShort), long-term (over four hours of parking, also known as ParkLong) and valet parking services.
- P1 offers ParkShort, ParkLong, valet, premium parking and guaranteed space services.
- P2 offers long-term and guaranteed space parking services.

The car park that is located at a distance from the terminals (Airpark) provides open air and undercover parking for longer stays. A shuttle bus service picks up and drops off customers from three designated bus stops close to the entrance of both terminals. It is part of the central parking area that also includes staff car parking facilities as well as landside operator facilities and amenities.

Melbourne Airport

Melbourne Airport provides multiple car parking facilities for both domestic and international passengers. There are two main multi-level car parks that are located 'at-terminal': At-Terminal T123 (for access to Qantas, Virgin and international terminals) and At-Terminal T4 (for access to other domestic airlines, including Jetstar, Rex and Airnorth). While both offer premium parking options, the T123 car park also offers valet parking services.

The at-distance Value Car Park provides open air parking for longer stays. It is serviced by a free shuttle bus that picks up and drops off customers at the entrance of all terminals every 15 minutes between 4am and 1am.

Perth Airport

There are two main car parking precincts at Perth Airport: T1/T2 and T3/T4. T1/T2 are serviced by individual at-terminal car parks and common at-distance car parks, while T3/T4 are serviced

by common at-terminal and at-distance car parks. The T3/T4 precinct also includes a premium, undercover 'Fast Track' car park in front of the terminals.

Perth Airport's at-distance parking areas are serviced by free shuttle buses that operate every 10 minutes. The airport also offers free parking for 10 minutes at the at-terminal car parks and for the first hour in all at-distance car parks. At-terminal and at-distance parking can be booked online except for some short-term durations.

Sydney Airport

Sydney Airport provides a range of car parking services and facilities. There are two at-terminal precincts that are located close to the domestic terminal and international terminal respectively.

The domestic precinct consists of two multi-level facilities (P1/P2 and P3) that provide both short-term and longer-term parking. The P1/P2 car park is located closest to the domestic terminals and includes a dedicated 'Guaranteed Space' area, while the P3 car park is a longer (8 minute) walk away from the domestic terminals and offers discounted day rates as well as an express pick-up area.

The international precinct consists of a multi-level facility (P7) that provides both short and longer-term parking, as well as the relatively new northern multi-level car park (P6) that provide short and longer-term parking to the public.

There is also a third long-term car park (Blu Emu) located at a short distance from the terminals. A free regular shuttle bus service transports users between the car park and the domestic terminal

1.2.3 Landside access services

Airports provide landside access services to a range of third parties seeking to access the airport to drop off or pick up passengers. These include various landside transport operators, as well as independent providers of car parking services.

Landside transport operators

Apart from driving and parking on airport land, the public can access airports via a range of landside transport operators, including taxis, rideshare services, terminal pick-up and drop-off, private cars (for example, limousines), public and private buses, and (in some cases) trains.

Airports provide access and facilities to all these landside transport operators such as forecourt and transport hubs, drop-off and pick-up bays, taxi stands, waiting areas and roads to facilitate movements around the airport. A table showing the alternative ground transport options and facilities available at the monitored airports can be found at Appendix A. Airports often charge landside transport operators an access fee each time they drop-off or collect passengers.

Independent car parking service providers

At each monitored airport, the public also has access to a range of off-airport parking options. Customers typically drop off their vehicles at the relevant off-airport parking facilities and are transported by a courtesy shuttle bus to their respective airport departure terminal, and later picked up from the relevant arrival terminal. The off-airport parking operator may obtain airport access by way of a licence agreement granted by each airport operator. This permits the off-airport parking operator restricted airport precinct entry and usage rights.

Off-airport parking operators may also pay airports an access fee each time they enter the airport precinct to drop-off or collect passengers.

Each of the monitored airports is serviced by a varying number of off-airport and independent parking operators:

- Brisbane: some 4 independent off-airport car parking facilities are located near Brisbane Airport. The shuttle buses from these operators have a typical travel time ranging between 10 minutes and 17 minutes from the car park to the terminals.
- Melbourne: at least 17 independent off-airport car parking facilities are located near Melbourne Airport. The shuttle buses from these operators have a typical travel time ranging between 6 and 14 minutes from the car park to the terminals.
- Perth: some 6 off-airport car parking facilities are located near Perth Airport, and one independent operator on-airport. The shuttle buses from these operators typically take between 5 minutes and 12 minutes to transport passengers from the car park to the terminals.
- Sydney: at least 8 independent off-airport car parking facilities are located near Sydney Airport. The shuttle buses from these operators have a typical travel time ranging between 5 minutes and 17 minutes from the car park to the terminals.

1.2.4 Commercial services

Airports derive revenue through their ownership of property on airport land, most notably through leasing airport premises and land to a variety of parties. These include car rental businesses, retail outlets and other commercial tenants.[31]

Car rental

Car rental businesses located at, or near, airports lease vehicles primarily to arriving international and domestic travellers.

Car rental businesses negotiate and enter into lease agreements (sometimes known as licence agreements) with airports to acquire facilities which allow them to operate their businesses. These include counter spaces at terminals and car parking bays, as well as signage providing directions to these facilities. Car rental businesses compete on convenience by locating themselves at, or in close proximity to, airports and require sufficient parking bays to accommodate their fleet.[32]

Some car rental companies also partner with airlines and various tourism service operators.

Retail

Retail outlets operate within airport terminals, providing goods and services to passengers before or after boarding their plane. These include food and beverage vendors, newsagencies, fashion outlets, souvenirs, travel-related goods and currency and phone services. All the monitored airports' international terminals also have duty free shops.

Retail outlets enter into lease agreements with airports to acquire the necessary facilities to operate their businesses. These primarily include the physical site within the airport's terminal, although airports will also provide additional services such as storage space and promotional activities.

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31 Recognition of revenue from car rental operators varied between airports, with some including it as part of property, while some included it as part of landside access. As noted in Chapter 6 of this report, ACCC has historically analysed landside access excluding car rental data.

32 IBISWorld, *Car Rental in Australia OD5485*, IBISWorld website, 2021, p 34, accessed 7 April 2022.

Other commercial activities

Monitored airports' commercial activities also include lease of terminal space, buildings and other space on the airport's land for hotels, business parks, office space and industrial business operators. For example, various hotels are located at Melbourne Airport while its Business Park spans more than 430 hectares with various types of tenants like a large plumbing supplies warehouse and many freight and logistics companies.[33] Likewise, Perth Airport is home to a large supermarket and a shopping outlet.[34]

Airports typically enter into lease agreements with these parties to use airport premises and land. However, in some cases, airports themselves will own and derive revenue from these assets, such as hotels.[35]

1.3 Airport market power

It is generally accepted that many airports in Australia are regional natural monopolies. Due to economies of scale and scope there is usually only one airport in a certain region. These airports typically have market power, as they do not face any effective competition from other airports for provision of air transportation services in the relevant region. The extent of that market power depends, in part, on how essential the airport is to those seeking to use it. Airports that act as a critical 'hub' for economic activity will typically have substantial market power. The Productivity Commission (PC) has found in its previous inquiries that at least the four monitored airports in Australia have significant market power.[36]

Each airport, just as any other private business in Australia, seeks to maximise its profits. As monopolies that are not constrained by competition, airports seek to achieve this by charging monopoly prices, while limiting output and service levels. Airports may also under- or over-invest in their infrastructure and lack incentives to operate efficiently or to adopt innovative technologies and service models. Such actions hamper productivity and lead to efficiency losses to the detriment of consumers and the broader Australian economy.

Key infrastructure service providers with natural monopoly characteristics, similar to those exhibited by the major airports, are typically regulated to ensure that they will not exploit their market power to the detriment of consumers. Since 2002, the Australian Government has adopted a light-handed regulatory regime for Australian airports, discussed in the next section.

1.4 History of airport regulation in Australia

Until the 1980s, Australia's main airports were owned and operated by the Commonwealth Government, through the Department of Aviation (and the forerunner Department of Civil Aviation).

Following the recommendations in the 1984 *Report of the Independent Inquiry into Aviation Cost Recovery* ('Bosch Report'), the Australian Government announced the corporatisation of the major Australian airports in 1985, with the goal of improving efficiency in airport operations, investment and pricing. This was part of a wide-ranging program of 'microeconomic reform' with

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33 Australia Pacific Airports Corporation Limited (APAC), APAC FY21 Annual Report, *Melbourne Airport website, 2021, pp 34-5, accessed 7 April 2022.*

34 Perth Airport, *Perth Airport Annual Report 2020/21*, Perth Airport website, 2021, p 22, accessed 7 April 2022.

35 For example, Melbourne Airport is constructing a 464-room hotel on airport land, which it intends to operate through a third-party manager: see M Bleby, 'As demand takes off, Melbourne Airport gets its first new hotel since 2002', *Commercial Real Estate*, 17 April 2019, accessed 7 April 2022. Note that this project is currently on hold: see APAC, *APAC FY21 Annual Report*, p 34, accessed 7 April 2022.

36 Productivity Commission, *Price Regulation of Airport Services (2002)*, Inquiry report, Productivity Commission website, 2002, p 133, accessed 7 April 2022; Productivity Commission, *Economic Regulation of Airport Services (2012)*, Inquiry report, Productivity Commission website, 2012, p 63, accessed 7 April 2022; Productivity Commission, *Economic Regulation of Airport Services (2019)*, Inquiry report, Productivity Commission website, 2019, p 89, accessed 7 April 2022.

a corporatisation model giving the management of airports greater commercial freedom and intended to emulate governance, management, and incentive systems used in the private sector. A total of 23 Commonwealth Airports were transferred from the Department of Aviation to a statutory enterprise, the Federal Airports Corporation[37] (FAC), that began operations on 1 January 1988.

In 1996, the Australian Government commenced the phased privatisation (through long-term leasing arrangements) of 22 airports, previously owned and managed by the FAC, to improve the efficiency of airport investment and operations, and to facilitate innovative management.[38] The *Airports Act 1996* sets out a number of public-policy objectives for the corporatised FAC airports, that included the promotion of the 'efficient and economic development and operation of airports'.

Following the decision to privatise these airports, the Australian Government established a transitional price regulation regime, administered by the Australian Competition and Consumer Commission (ACCC).[39] This was designed to limit the potential for airports to exercise their market power, and included price notification, price monitoring, price cap arrangements and special provisions for necessary new investment. Some 12 airports were designated as 'core-regulated' airports under s. 7 of the *Airports Act 1996* and subject to price regulation (Adelaide, Alice Springs, Brisbane, Canberra, Coolangatta, Darwin, Hobart, Launceston, Melbourne, Perth, Sydney and Townsville).[40] These airports 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.

2002 PC inquiry

In December 2000, the Australian Government directed the PC to inquire into the price regulation of airport services, including the price cap regime.

The PC released its inquiry report in early 2002, which concluded that many of the major airports did have substantial market power (particularly Sydney, Melbourne, Brisbane and Perth).[41] It also concluded that the abuse of market power could manifest itself as one or more of:

- increasing prices above efficient costs
- deterioration in quality
- inefficient investment
- selective denial of access to airport facilities.

However, the PC considered that, while major airports did have market power, it was either:

- not exercised
- was exercised but did not cause inefficiency
- was exercised but offset by the countervailing power of airlines.

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37 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.

38 Department of the Parliamentary Library Australia, *Turbulent Times: Australian Airline Issues 2003 - Research Paper No. 10*, 2003, p 29, accessed 13 April 2022.

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

40 Productivity Commission, *Price Regulation of Airport Services (2002)*, pp 2-3.

41 Ibid, p 133.

Furthermore, it considered that factors such as the countervailing power of airlines and the threat of re-regulation would act as a constraint on the exercise of market power in commercial negotiations between airports and users in the future.[42]

The PC concluded that price caps distorted production and investment decisions due to the inability of regulators to set prices accurately.[43] Consequentely, it recommended that the price regulation regime be replaced with a more 'light-handed' price monitoring regime, which the ACCC would continue to administer. This would apply to 7 of the 12 core-regulated airports (Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney), with the remainder no longer subject to airport-specific price regulation or quality monitoring. Additionally, a price-cap regime would apply only to Sydney Airport in respect of regional air services (within New South Wales) (see section 1.6).

Later in 2002, the Australian Government accepted this inquiry recommendation and replaced the price regulation regime with a price monitoring regime. This was intended to facilitate investment and innovation. The move also sought to promote transparency while retaining some oversight of the exercise of market power by airports in their dealings with airlines and other customers.

2006 PC inquiry

In 2006, the Australian Government requested the PC conduct a second inquiry into the regulation of airports. The PC found that the commercial constraints on airports' market power it had identified in its 2002 inquiry were not as effective as originally supposed.[44] The inquiry recommended that price monitoring be continued until 2013, with some adjustments to the scope of monitoring. Darwin and Canberra airports were removed from the monitoring regime following the inquiry's recommendations, based on the PC's conclusion that these airports did not have a level of market power warranting regulation.

Following this review, the Australian Government set out the Aeronautical Pricing Principles (APPs), which build on the more general Part IIIA pricing principles in the *Competition and Consumer Act 2010* (CCA) for infrastructure of national significance (Box 1.1).

Box 1.1: Aeronautical Pricing Principles

The monitored airports together with the other FAC airports are required to follow the APPs in negotiating with airlines and setting aeronautical prices.

The Australian Government specified a number of overarching 'Review Principles' when changing from a price regulation to a price monitoring regime following the initial PC review in 2002.[45] The principles specifically referred to:

- pricing to recover efficient long-run costs, including an appropriate return on assets
- the scope for price discrimination and multi-part pricing
- the use of efficient peak/off-peak prices to deal with capacity constraints
- quality-of-service outcomes consistent with users' reasonable expectations

42 Ibid, p XLII.

43 Ibid, pp 307-8.

44 See for example, Productivity Commission, *Economic Regulation of Airport Services (2007)*, p 39.

45 Minister for Transport and Regional Services and Treasurer, *Productivity Commission Report on Airport Price Regulation* [media release], Treasury website, 13 May 2002, accessed 7 April 2022.

- the negotiation of commercial agreements between airports and airlines.

The Review Principles were intended to provide guidance on appropriate outcomes under the new regulatory arrangements. They were later extended based on Part IIIA pricing principles and renamed the Aeronautical Pricing Principles.

The Government has promoted the APPs as an expression of its expectations on the pricing behaviour and outcomes that should apply to aeronautical services and facilities that are subject to significant market power. The APPs are not part of any legislative instrument and are therefore not enforceable by private entities. However, the Australian Government has made it clear that it expects all airports, whether monitored or not, to comply with the APPs (see section 2.4.2). While not enforceable, the PC also draws on the APPs in its assessment of whether airports have exercised their market power and in its assessment of parties' conduct in commercial negotiations.[46]

Additionally, in its response to the 2006 review, the Australian Government supported the PC's recommendation for introducing a 'show cause' mechanism'. Under this, a persistent failure to comply with the APPs could lead to more detailed scrutiny. The Government would have regard to the ACCC's annual monitoring report and other relevant information in assessing the behaviour of the airport to determine whether to request the 'show cause'.[47]

In 2008, the Australian Government directed the ACCC to formally monitor prices, costs and profits relating to car parking at Australia's 5 major airports. In addition to its prices monitoring role, schedule 2 of the *Airports Regulations* provided for the ACCC to monitor the quality of service of car parking at the five specified airports.

2012 PC inquiry

In 2012, the PC released its third inquiry report on the economic regulation of airports, following a direction from the government in December 2010. The PC considered evidence of airports' misuse of market power and again recommended the continuation of price monitoring. Adelaide Airport was subsequently removed from the monitoring regime following recommendations from this inquiry.

The PC also recommended that the ACCC, as part of its annual monitoring reporting, should be able to request an airport to 'show cause' why its conduct should not be subject to a Part VIIA price inquiry.[48] Where it is dissatisfied with an airport's response, it should recommend to the relevant minister to invoke a Part VIIA inquiry, to be guided by the APPs.

In its response, the Australian Government considered that the ACCC has the power to seek additional information from airports where necessary, and it can make a recommendation to the minister responsible for competition policy for appropriate action under the CCA.[49]

2019 PC inquiry

In 2019, the PC conducted its most recent inquiry into the economic regulation of Australian airports, following a direction from the government in June 2018. The PC reported that it had found that the existing reporting framework remained fit for purpose and that, on balance, most indicators of operational efficiency including costs and service quality, aeronautical revenue and

46 Productivity Commission, *Economic Regulation of Airport Services (2019)*, p 298.

47 Treasurer (Peter Costello), *Productivity Commission Report - Review of Price Regulation of Airport Services* [media release], Peter Costello, 30 April 2007, accessed 7 April 2022.

48 Productivity Commission, *Economic Regulation of Airport Services (2012)*, p 179.

49 Department of Treasury, *Government Response to the Productivity Commission Inquiry into the Economic Regulation of Airport Services*, Treasury website, 30 March 2012, accessed 7 April 2022.

charges, and profitability are within reasonable bounds. It recommended improvements to the monitoring regime to better inform reviews of airport performance.

The Australian Government accepted these views and supported the inquiry's recommendations.[50] These included the recommendation that the ACCC should undertake a review of quality of service indicators. This would ensure quality of service monitoring has a greater focus on outcomes and more closely reflect the expectations of passengers, airlines and other airport users.

In each of the four inquiries above, while the PC has recommended various adjustments to the monitoring regime, it has consistently favoured continuing with the existing price monitoring regime rather than reintroducing price controls or any other form of regulation. While the Australian Government has accepted the PC's main recommendations from each inquiry, it has reserved the right to reconsider the existing 'light-handed' approach to regulation in the future.[51]

1.5 The ACCC's monitoring role

The ACCC's monitoring functions originate from directions issued pursuant to section 95ZF of the CCA as well as from the *Airports Act 1996* (Airports Act) and associated regulations.

The ACCC monitors revenues, costs and profits of aeronautical services at the monitored airports, along with some non-aeronautical activities (car parking and landside access activities). The ACCC reports this information annually under a dual-till approach. This means that the ACCC separately reports on aeronautical, car parking and landside access services. This allows the ACCC to assess trends in each of these segments. The ACCC generally does not monitor, or report on, airports' financial performance in other non-aeronautical services, such as retailing, business parks and factory outlets.

The following sections describe these directions and how they relate to the ACCC's monitoring role in greater detail.

1.5.1 Prices, costs and profits monitoring

Aeronautical and car parking services monitoring

Under directions made pursuant to s. 95ZF of the CCA, the ACCC is required to monitor the prices, costs and profits related to the supply of aeronautical services and facilities and car parking services by Brisbane, Melbourne, Perth and Sydney airports.

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.

50 Treasury, *Australian Government Response to the Productivity Commission Inquiry into the Economic Regulation of Airports*, Treasury website, 11 December 2019, accessed 7 April 2022.

51 Ibid, p 8.

Financial accounts

Under Part 7 of the *Airports Act 1996* and Part 7 of the *Airports Regulations 1997*, the ACCC collects and reports annual regulatory accounting statements, including an income statement, balance sheet and statement of cash flows, from the four monitored airports.

Under Part 7 of the Airports Regulations, airports must:

- prepare a financial report which separately shows the financial details in relation to the provision of aeronautical and non-aeronautical services (reg 7.03)
- lodge these accounts with the ACCC within 90 days of the end of the relevant accounting period (reg 7.06).

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.[52]

Box 1.2 below explains the choice of profit measures used in ACCC monitoring.

Box 1.2: Profit measures used in the Airports Monitoring Report

The ACCC uses profitability to measure an airport's financial performance.

There are typically three ways to measure operating profit (as a dollar amount)

- Earnings before interest and taxes (EBIT)
- Earnings before interest, taxes and amortisation (EBITA), and
- Earnings before interest, taxes, depreciation and amortisation (EBITDA).

As a measure of airport operating profit, each can be calculated using accounting data collected as part of the ACCC's monitoring activities.

Historically, the ACCC used EBITA as the profit measure. Compared to EBIT and EBITDA, EBITA includes depreciation but excludes the associated financing costs and amortisation of any intangible assets. By excluding amortisation of externally acquired intangibles, EBITA provides a consistent profit estimate.

In previous Airport Monitoring Reports, the ACCC typically reported two profitability measures:

- Operating profit margin – EBITA as percentage of total revenue. This is the percentage of total revenue remaining after paying off the operating expenses and depreciation.
- Return on assets - EBITA as a percentage of average tangible non-current assets. This shows the rate of return earned on the relevant assets. This measure looks at how effectively a business is using its resources to make a profit.

The ACCC recognises that both EBIT and EBITA can be a more appropriate measure of operating profit in the utility sector than EBITDA, as they account for depreciation of tangible assets in the overall cost. As a measure of post-depreciation earnings, they cover gross earnings to equity holders and debt holders.

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

The ACCC considers that measurement of the return on assets by means of EBIT is the accounting measure that most closely resembles the WACC concept. However, as the value of intangible assets (other than goodwill and leasehold land) is small or negligible for the monitored airports (other than Sydney Airport), the resulting difference in EBIT and EBITA is not material.

Consequently, for airport monitoring reporting, the use of EBITA compared to EBIT will not have a material difference in assessing profitability.

The ACCC also uses the line-in-the-sand approach to asset valuation. Box 1.3 below explains how the line-in-the-sand approach operates.

Box 1.3: The use of a line-in-the-sand approach to aeronautical asset valuations

In its 2006 report into the review of price regulation of airport services, the PC noted that most of the monitored airports had revalued above ground assets since the major airports became privatised. The PC noted that one possible effect of these revaluations was to justify higher charges over time.[53] For instance, an upward revaluation of airports' aeronautical assets usually results in a lower return on assets measure. The lower rate of return on average assets could be used to argue for the raising of airport charges.

The PC recommended that under the monitoring regime, the value of an airport's asset base should be rolled forward as follows:

- the value of tangible (non-current) aeronautical assets reported to the ACCC as at 30 June 2005,
- adjusted as necessary to reflect the proposed service coverage of the new regime
- plus new investment
- less depreciation and disposals.

The line-in-the-sand approach removes the effect of revaluations of aeronautical assets by airports for monitoring purposes. For example, an upward revaluation of a tangible non-current aeronautical asset is recognised in the regulatory accounts prepared under Australian International Financial Reporting Standards (AIFRS) but not in the line-in-the-sand asset base after 30 June 2005. As a result, to the extent that subsequent revaluations took place, the line-in-the-sand asset base will be lower. There is also a flow-on effect of a lower value of depreciation and, therefore, lower operating expenses.

The ACCC required airport operators to provide information regarding the aeronautical asset base under the line-in-the-sand approach for the first time in the 2007–08 report. This information was required in addition to the airport operator's regulatory accounts based on AIFRS which included any revision to the value of the assets recorded since 20 June 2005.

Since this time, only Sydney and Brisbane airports have revised the value of their assets. Past monitoring reports have presented two sets of financial accounts for these airports: one based on the line-in-the-sand approach, and one based on AIFRS. However, the 2020–21 monitoring report only presents the line-in-the-sand data to support the rationale for the recommendation by the PC.

53 Productivity Commission, *Review of price regulation of airport services (2006)*, page XXII

For Sydney Airport, landfill assets were not included in the asset base as at 1 July 2005. However, Sydney Airport has advised that the value of landfill is included in the asset base that was used in the pricing modelling for airport charges for airlines. This report presents data which reflects the exclusion of the landfill assets unless otherwise specified.

1.5.2 Quality of service monitoring

Part 8 of the *Airports Act 1996* 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
- 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.

The ACCC's approach to its quality-of-service monitoring role is outlined in its airport quality of service monitoring guideline from June 2014.[54]

1.5.3 Limitations of the ACCC's monitoring role

There are some limitations in monitoring. Typically monitoring is limited in its ability to address behaviour that is detrimental to the market and consumers, particularly as a longer-term measure where the threat of regulation is diminished. Monitoring does not directly restrict airports from increasing prices or allowing service quality to decline. It also does not provide the ACCC with the ability to intervene in airports' setting of terms and conditions of access to airports' infrastructure. Further discussion of the limitations of the ACCC's monitoring role can be found in Appendix CB.

Limitations on assessing airport profits

In this report, we undertake both long-term trend analysis of, and the impact of the COVID-19 pandemic on, the operational and financial performance of the monitored airports. The ACCC can make some observations about trends and recent movements in the measured performance and can also make some comparisons across the monitored airports. Where relevant supporting information is available, we provide a qualitative assessment of the factors driving the trend. Caveats for consistency and limitation of data and interpretation of the results are also provided where necessary.

There are limitations using the monitoring data. One of the key limitations of the existing monitoring regime is that the data collected does not allow the ACCC to make conclusive assessments about whether monitored airports are earning economic returns that are consistent with the degree of risks they face or whether monitored airports have been operating efficiently.

This is mainly because the various financial indicators and measures the ACCC reports are based on historical accounting data. As noted in box 1.2, the ACCC has typically used two profitability measures – operating profit margin and return on assets. These measures reflect accounting rates of return, which rely on book values of investment, depreciation, and

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

accounting profits. As they do not properly account for time value of money, the measured accounting rate of return does not coincide with the economic rate of return.

The latter is most appropriate for analysing monopoly profits. This is because an economic rate of return is what provides signals to entry and exit for firms and resources, and therefore should be used and compared to an appropriate airport rate of return, over the long term, when assessing whether a firm is making excessive profits on a sustainable basis. However, the ACCC cannot estimate the economic rate of return because it currently does not obtain information needed to estimate economic valuation of airport assets or to assess the efficient long-run costs of providing airport services.

The ACCC also has a limited power in collecting information for the monitoring purpose. For example, information on landside access is provided by airports on a voluntary basis. The incomplete and inconsistent financial information received from the airports over time has limited the scope of our analysis.

1.6 The ACCC's 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.[55] 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 required by a direction made under s. 95ZH of the CCA to give special consideration to government policy.[56] 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 Consumer Price Index over that same period.

1.7 Terminals within scope of 2020–21 Airport Monitoring Report

Table 1.1 sets out the terminal configurations at the monitored airports.

Table 1.1: Terminals covered by the 2020–21 Airport Monitoring Report

Airport	Terminal
Brisbane	Domestic Terminal
	International Terminal
Melbourne	Terminal 1 Domestic

55 *Competition and Consumer (Price Notifications—Aeronautical Services to NSW Regional Airlines) Declaration 2019*; available at https://www.legislation.gov.au/Details/F2019L00555.

56 *Competition and Consumer (Prices Surveillance—Aeronautical Services to NSW Regional Airlines) Direction 2019*; available at https://www.legislation.gov.au/Details/F2019L00556.

	Terminal 2 International
	Terminal 3 Domestic
	Terminal 4 Domestic
Perth	Terminal 1 International & Domestic
	Terminal 2 Domestic
	Terminal 3 Domestic
	Terminal 4 Domestic
Sydney	Terminal 1 International
	Terminal 2 Domestic
	Terminal 3 Domestic

Source: Information received from monitored airports as part of the monitoring regime.

The ACCC's monitoring role for aeronautical services and facilities relates only to those terminals that are owned and operated by each of the monitored airports. For many years, some terminals at the monitored airports have been operated on an exclusive basis by a single airline under a domestic terminal lease (DTL). All terminals that previously operated under a DTL have now reverted back to airport control. The implications of these changes on the ACCC's reporting of aeronautical data are discussed further in box 4.1.

1.8 Industry consultation

In preparing this report, the ACCC consulted with 22 parties in the aviation industry, including airports (both monitored and non-monitored), airlines, industry bodies, at-airport retailers, at-airport car rental operators and off-airport parking operators.

The ACCC held some meetings and sent out targeted surveys / information requests to these parties. The survey / information requests to all parties contained questions about the impact of the COVID-19 pandemic. The ACCC also sought information from both airports and airlines regarding their approach to negotiating aeronautical service agreements both prior to, and during, the COVID-19 pandemic.

Market participants provided this information on a voluntary basis. This consultation formed a vital part of this year's report preparation and the ACCC thanks participants for their time and contributions.

1.9 Structure of the report

The structure of the remainder of the report is as follows:

- chapter 2 covers issues in negotiation process between airports and airlines
- chapter 3 provides an overview of the operational and financial performance of the monitored airports
- chapter 4 covers trends in aeronautical services at the monitored airports
- chapter 5 covers trends in car parking services at the monitored airports
- chapter 6 covers trends in landside access at the monitored airports

- chapter 7 covers commercial services at the monitored airports, including retail, property and car rentals
- chapter 8 covers trends in investments made by the monitored airports
- the appendices contain further information on landside access options, supplementary tables and charts presenting data gathered as part of the ACCC monitoring regime, as well as additional background information on the ACCC's monitoring role.

This and past airport monitoring reports can be found on the ACCC website at *https://www.accc.gov.au/regulated-infrastructure/airports-aviation/airports-monitoring*. The webpage for each report will include links to supplementary information such as the regulatory accounts for the monitored airports for that year and the various forms of data used in that report.

2. Negotiation of aeronautical service agreements

Over the course of 2021, some airlines have expressed concerns to the ACCC about their experiences in negotiating aeronautical service agreements (ASAs) with some airports both during and prior to the COVID-19 pandemic. ~~Airlines have identified concerns with both the process of negotiations, particularly the behaviour of monitored and non-monitored airports during negotiations, and the outcomes of those negotiations. Some airlines have been particularly concerned about excessive prices and inefficient investment that have resulted from the negotiations.~~

In preparation for this report, the ACCC consulted with domestic airlines, each of the monitored airports and four large non-monitored airports (that were in the top 10 of Australia's busiest airports prior to the pandemic) about their approach to negotiations.

In this chapter, the ACCC discusses its findings about the negotiation process, based on the information obtained through this consultation process and other information the ACCC has obtained through monitoring.

This chapter covers:

- description of aeronautical service agreements and typical negotiation processes (2.1)
- explanation of aeronautical pricing principles (2.2)
- issues the ACCC has identified in relation to the negotiation process between airports and airlines prior to the COVID-19 pandemic (2.3)
- additional challenges that airports and airlines have reported to the ACCC in relation to negotiating ASAs during the COVID-19 pandemic (2.4)
- security charges (2.5).

2.1 Introduction to negotiation of aeronautical service agreements

2.1.1 Aeronautical service agreements

Since 2002, airports and airlines in Australia have engaged in commercial negotiations to reach an agreement on the terms and conditions for use of airport services and facilities, including charges, services and capital investments. The parties set out the agreed terms in ASAs, which typically cover airside services (for example, runways, aerobridges) and terminal services (for example, lounges and baggage handling services).

Airports and airlines typically seek to enter a single ASA for a period of about 5 years that governs the use of both airside services and terminals. However, the parties may agree to different arrangements, particularly when significant capital investment is required. For example, Brisbane Airport entered into 11-year ASAs with airlines for the new runway system and separate, shorter ASAs, for terminals, aprons and related infrastructure.[57]

Table 2.1 sets out the commencement and expiry dates of the most recent ASAs entered by the monitored airports.

57 Brisbane Airport Corporation, *Submission No. 38 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, p 19, accessed 13 April 2022.

Table 2.1: ASA commencement and expiry dates for monitored airports

	ASA Commencement Date	ASA Expiry Date
Brisbane: runway ASA	1 September 2012	30 June 2023
Brisbane: airside ASA	Various	30 June 2023
Melbourne	1 July 2017	30 June 2022
Perth	1 July 2018	30 June 2025
Sydney: ASAs with some domestic and international airlines	Various	30 June 2022
Sydney: ASA with a domestic airline	1 September 2015	30 June 2025

Note: Sydney and Brisbane airports entered ASAs with a range of domestic and international airlines at different times. Sydney Airport's ASAs initially expired over 2019–2020, but Sydney Airport has rolled them all over during the COVID-19 pandemic.

Many airports have Conditions of Use (CoU) or other standard terms of service, including prices, that they seek to apply to airlines which use the airport's services and facilities but have not entered into an ASA with the airport. This includes airlines that use the airport on an ad-hoc basis and airlines that are still negotiating a new ASA following expiry of the old one.

2.1.2 The process of negotiating a new ASA

Domestic airlines individually negotiate the terms of their ASAs with each airport in Australia. International airlines individually negotiate the terms of airline-specific services (for example, access to lounges), while the Board of Airline Representatives of Australia (BARA) bargains collectively on behalf of most major international airlines in relation to access to common-use services.

The key elements of the negotiation process include:

- exchange of information
- exchange of offers
- bargaining
- dispute resolution.

While the ASAs contain a range of terms and conditions, the parties often roll over many of these terms from one ASA to the next, with some minor, non-contentious adjustments. The concerns expressed by airlines to the ACCC typically centre on negotiation of aeronautical charges and capital investments by the airport.

Where parties are unable to reach an agreement on the terms of a new ASA, they can agree to engage in private mediation as well as binding or non-binding arbitration to resolve their dispute. The ACCC is not aware of many instances of airports and airlines agreeing to a binding arbitration. The parties also have recourse to court processes.

2.2 Aeronautical Pricing Principles

2.2.1 Introduction to the APPs

As discussed in Chapter 1, the Aeronautical Pricing Principles (the APPs) originated as 'Review Principles' in the Australian Government's response to the 2002 inquiry of the Productivity Commission (PC). The APPs were first published in full in 2007 as part of the Government's response to the 2006 PC inquiry.[58]

The APPs are not part of any legislative instrument and are therefore not enforceable by private entities. However, the Australian Government considers the APPs to be a critical part of its light-handed regulatory regime for Australian airports. The Australian Government has made it clear that it expects all airports, whether monitored or not, to comply with the APPs:

> *The Australian Government considers the Aeronautical Pricing Principles set an important framework for establishing prices, service delivery and the conduct of commercial negotiations at airports. The Australian Government expects all airports and airport users to have regard to the Aeronautical Pricing Principles when negotiating future airport services.*[59]

A critical objective of the APPs is to assist airlines in negotiations with airports that have market power. The APPs are designed to arm airlines with essential information, and to provide them with an objective framework, to:

- assess reasonableness of airports' offers
- identify specific factors that are causing the parties to disagree on what prices are fair and reasonable
- seek an effective resolution of disputes between the parties.

The Australian Government also uses the APPs to review the state of regulation of airports in Australia. This review is done by the PC, which conducts four yearly inquiries to assess whether airports have exercised their market power. The PC draws on the APPs to assess the conduct of parties in the negotiation process and the commercially negotiated outcomes that parties have reached.[60]

The PC has the option of recommending reform to airport regulation should it find that an airport operator had breached the APPs in a material way (for example, by setting unduly high aeronautical charges, earning excessive profits or conducting commercial negotiations in breach of the APPs). In each of its four inquiries to date, the PC has found that the monitored airports have not systematically exercised their market power.[61]

Box 2.1: The Aeronautical Pricing Principles

The current pricing principles for aeronautical services and facilities (as defined at regulation 7.02A in Part 7 of the *Airports Regulations 1997*) provided by airports are:

a) that prices should:

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58 Treasurer (Peter Costello), *Productivity Commission Report - Review of Price Regulation of Airport Services* [media release], Peter Costello, 30 April 2007, accessed 7 April 2022

59 Department of the Treasury, *Australian Government response to the Productivity Commission Inquiry into the Economic Regulation of Airports*, Treasury website, 11 December 2019, p 7, accessed 13 April 2022.

60 Productivity Commission, *Economic Regulation of Airport Services (2019)*, Inquiry report, Productivity Commission website, 2019, p 81, accessed 13 April 2022.

61 For the most recent restatement of this, see Productivity Commission, *Economic Regulation of Airport Services (2019)*, Inquiry report, Productivity Commission website, 2019, p 2, accessed 26 April 2022.

(i) be set so as to generate expected revenue for a service or services that is at least sufficient to meet the efficient costs[62] of providing the service or services; and

(ii) include a return on investment in tangible (non-current) aeronautical assets, commensurate with the regulatory and commercial risks involved and in accordance with these Pricing Principles;

b) that pricing regimes should provide incentives to reduce costs or otherwise improve productivity;

c) that prices (including service level specifications and any associated terms and conditions of access to aeronautical services) should:

(i) be established through commercial negotiations undertaken in good faith, with open and transparent information exchange between airports and their customers and utilising processes for resolving disputes in a commercial manner (for example, independent commercial mediation/binding arbitration); and

(ii) reflect a reasonable sharing of risks and returns, as agreed between airports and their customers (including risks and returns relating to changes in passenger traffic or productivity improvements resulting in over or under recovery of agreed allowable aeronautical revenue);

d) that price structures should:

(i) allow multi-part pricing and price discrimination when it aids efficiency (including the efficient development of aeronautical services); and

(ii) notwithstanding the cross-ownership restrictions in the *Airports Act 1996*, not allow a vertically integrated service provider to set terms and conditions that discriminate in favour of its downstream operations, except to the extent that the cost of providing access to other operators is higher;

e) that service-level outcomes for aeronautical services provided by the airport operators should be consistent with users' reasonable expectations;

f) that aeronautical asset revaluations by airports should not generally provide a basis for higher aeronautical prices, unless customers agree; and

g) that at airports with significant capacity constraints, peak period pricing is allowed where necessary to efficiently manage demand and promote efficient investment in and use of airport infrastructure, consistent with all of the above Principles.

2.2.2 Key elements of the APPs: commercial negotiations and pricing

The APPs reflect the Australian Government's expectations that prices charged by airports under the light-handed regulatory regime should be established through effective commercial negotiations, which do not reflect the use of market power. Specifically, paragraph (c)(i) of the APPs sets out that the Australian Government expects commercial negotiations to be conducted:

- in good faith
- with open and transparent information exchange between airports and their customers, and
- utilising processes for resolving disputes in a commercial manner (for example, independent commercial mediation/binding arbitration).

62 For the purpose of determining aeronautical prices through commercial negotiations, these should be efficient long-run costs unless another basis is acceptable to airports and their customers.

For example, the Australian Government's view is that a 'take it or leave it' approach is inconsistent with commercial negotiations undertaken in good faith between an airport operator and its customers.[63]

Paragraphs (a), (b) and (d) of the APPs set out the Australian Government's expectations of how the prices charged by airports to their customers should be set. These expectations are closely based on the Part IIIA Pricing Principles set out in section 44ZZCA of the CCA (see Box 24.2).

Box 42.2: Part IIIA Pricing Principles

44ZZCA Pricing principles for access disputes and access undertakings or codes

The pricing principles relating to the price of access to a service are:

(a) that regulated access prices should:

(i) be set so as to generate expected revenue for a regulated service or services that is at least sufficient to meet the efficient costs of providing access to the regulated service or services; and

(ii) include a return on investment commensurate with the regulatory and commercial risks involved; and

(b) that the access price structures should:

(i) allow multi-part pricing and price discrimination when it aids efficiency; and

(ii) not allow a vertically integrated access provider to set terms and conditions that discriminate in favour of its downstream operations, except to the extent that the cost of providing access to other operators is higher; and

(c) that access pricing regimes should provide incentives to reduce costs or otherwise improve productivity.

In areas of infrastructure regulation where the Part IIIA Pricing Principles apply, the independent regulator uses a building block model (BBM) as a basis for *ex ante* determination of prices consistent with the efficient recovery of costs determined on a long-run basis. In principle, the BBM is a supervision system for cost control and provision of efficiency incentives.

The main benefit of using BBM in regulation is that it is a relatively straight-forward, stable, certain and understandable process which yields sufficient incentives for service providers to seek cost efficiencies.[64] The 'building blocks' in the BBM are various components of the expected efficient costs of the business, which are added together to form the allowed revenue that the business can earn.

For example, the Australian Energy Regulator (AER) uses a BBM to set the revenue that electricity and gas networks are allowed to recover from their customers, generally made every five years. The building blocks of the BBM, as shown in Figure 2.1, are outlined in the *National Electricity Rules* and *National Gas Rules*.[65]

63 Treasurer (Peter Costello), response to recommendation 4.4, *Productivity Commission Report - Review of Price Regulation of Airport Services* [media release], Peter Costello, 30 April 2007, accessed 26 April 2022

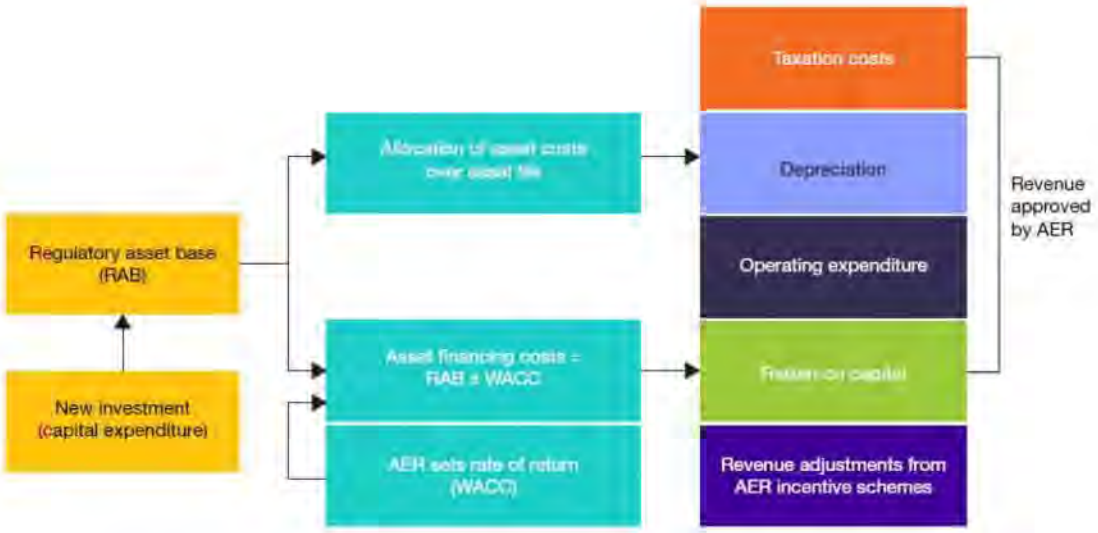
64 Australian Energy Market Commission, Perspectives on the building block approach - Review into the use of total factor productivity for the determination of prices and revenues, 30 July 2009, pp 3-4.

65 The building block approach is specified in clauses 6.4.3 and 6A.5.4 of the National Electricity Rules (NER) and rule 76 of the National Gas Rules. Clause 6.3.1(c) of the NER sets out that the BBM must be prepared in accordance with the post-tax revenue model.

The AER estimates the various costs the network businesses need to incur to efficiently provide network services to customers over the regulatory period and adds them together to determine the maximum amount of revenue that the network business is allowed to recover from its customers over the regulatory period. Prices are set based on forecast demand over the regulatory period to recover the allowed revenue. Business can then adjust the prices annually, subject to various adjustments to revenue for factors such as true-up cost variations and correcting for prior year under- or over-recoveries.

The AER makes revenue adjustments at the reset for the outcomes from incentive schemes such as the efficiency benefit sharing scheme, capital expenditure sharing scheme and demand management incentive scheme. It also makes revenue adjustment annually for the service target performance incentives scheme. These schemes provide important balancing incentives to encourage businesses to pursue expenditure efficiencies and demand side alternatives, while maintaining the reliability and overall performance of its network.

Figure 2.1: The building blocks used by AER to forecast network revenues[66]



Source: AER, *State of the Energy Market*, July 2021, p. 134.

Variants of the BBM are currently used in Australia in the regulation of electricity and gas transmission and distribution networks, railways, postal services, urban water and sewerage services, irrigation infrastructure, port access, and fixed-line telecommunications services.

The BBM is used in negotiating or setting aeronautical prices in many overseas jurisdictions. In Australia, BBM is widely recognised as a means of applying the APPs. The BBM is used by some airports and airlines in their negotiations (discussed further below). The BBM was also used by the Supreme Court of Western Australia to determine the reasonable prices that Qantas should have paid to Perth Airport for services it received (discussed in more detail below).[67]

However, the APPs do not specifically prescribe the use of BBM. Therefore, airports and their customers can use alternative approaches to establish aeronautical prices, provided those approaches are consistent with the pricing principles set out in the APPs.

66 AER, *State of the Energy Market*, AER website, July 2021, p 134, accessed 13 April 2022

67 *Perth Airport Pty Ltd v Qantas Airways Ltd [No 3] [2022] WASC 51.*

2.3 Negotiation of aeronautical service agreements

This section focuses on issues that the ACCC has identified in the process of negotiation between airports and airlines. Other chapters of the report cover issues associated with the outcomes of negotiation (that is, whether prices and investment are efficient).

Critically, the issues that the ACCC discusses in this section are not related to the COVID-19 pandemic. These issues existed prior to the COVID-19 pandemic, during the pandemic and, if not addressed, are likely to continue to affect negotiations between the parties after the pandemic. In section 2.4, the ACCC separately discusses the challenges raised by airports and airlines that are specific to the pandemic.

In addition, except where specified otherwise, the discussion in this section potentially relates to all airports in Australia, not just the four monitored airports.

2.3.1 Concerns raised by airlines

Airlines with which the ACCC consulted have stated that some airports in Australia are not acting in accordance with the APPs during commercial negotiations. Airlines have expressed a range of concerns about the behaviour of airports set out below.

Airlines have acknowledged that compliance with the APPs varies across airports. Some airlines have stated that some monitored and non-monitored airports are largely negotiating constructively, however, others are failing to genuinely engage with airlines in a manner expected under the APPs.

~~Critically, some airlines have expressed concerns that airports' non-compliance with the APPs is becoming more widespread and more acute over time.~~

Negotiation of aeronautical prices

Some airlines have stated that there is significant variance in use of the BBM by airports in Australia in negotiating aeronautical prices:

- some airports are using a BBM in negotiating aeronautical prices and some are providing information to airlines about the inputs they use in their BBM calculations
- some airports that previously used a BBM in negotiating aeronautical prices have ceased using it
- some airports may have never used a BBM in negotiating aeronautical prices.

Airlines have stated that, in some cases, they are not concerned about airports not using a BBM to negotiate aeronautical prices. For example, some airlines acknowledge that many small regional airports are not sufficiently sophisticated and resourced to understand and apply a BBM. Therefore, some airlines are not concerned about these airports negotiating using simpler pricing methods, providing the agreed prices reflect recovery of efficient costs.

Some airlines have expressed concerns that an increasing number of airports are seeking to negotiate aeronautical prices with reference to what they describe as a 'market price' or some other benchmark, including:

- prices that the airport has agreed with other airlines, or
- prices that the airline paid to the airport under its previous ASA.

In addition, some airlines have raised concerns about some major airports justifying certain elements of their offers by references to prices charged, or arrangements entered into, by other airports.

Further, some airlines have commented that some airports seek to unilaterally impose a Condition of Use (CoU) on airlines while negotiating an ASA following expiry of the previous one. Those airlines have raised concerns about some price and non-price terms of those CoU.

Provision of information during negotiations

Some airlines have raised concerns that many airports are not providing sufficient information in a timely manner during their negotiations. Some airlines have provided examples to the ACCC where some airports did not respond to certain requests for information.

Some airlines are particularly concerned that some airports are not engaging in an open and transparent information exchange in relation to aeronautical charges and capital investment plans.

Some airlines have informed the ACCC that many airports are not providing adequate information for airlines to allow them to estimate various BBM parameters, such as asset bases and operating expenditure. This makes it hard for airlines to use the BBM to assess whether airports' aeronautical price offers are set to recover long-term efficient costs of providing the aeronautical services.

Some airlines have acknowledged that some airports do frequently provide a significant volume of information to support the proposed capital investment underpinning price negotiations. However, as Airlines for Australia and New Zealand outlined in its submission to the PC, the information is generally not of the nature necessary to enable the airline to assess the efficiency or prudence of the investment.[68]

Some airlines have also stated that airports provide limited transparency about their actual capital expenditure. This means that airlines are unable to verify whether the charges they pay under the ASAs to recover capital expenditure over time are reflective of the costs actually incurred by airports.

Resolution of disputes arising during negotiations

Airlines have stated that disputes between airports and airlines can arise during negotiations when the parties cannot agree on prices or non-price terms of access. Some airlines have stated that the drivers behind the disputes vary across airports and across negotiations. Some airlines provided a range of such scenarios to the ACCC.

In some instances, disputes arise because some airports are not using a BBM or equivalent methodology, and demand that airlines accept offers based on 'market prices' or some other benchmarks (as discussed earlier), without demonstrating how those offers constitute recovery of efficient long-run costs.

In other instances, disputes arise when airports seek to justify their offers based on recovery of efficient costs, but do not provide sufficient information to airlines to enable them to adequately assess those offers.

Finally, some disputes arise because parties disagree on BBM parameters, which results in the parties coming up with offers that are very far apart. For example, one airline informed the ACCC that some airports use a weighted average cost of capital (WACC) in negotiations with it that is around 3 percentage points higher than the airline's estimate of WACC.

Some airlines have informed the ACCC that some airports agree to enter mediation or non-binding arbitration to resolve those disputes, but mostly reject any offers to use independent

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68 Airlines for Australia & New Zealand, *Submission No. 44 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, p 23, accessed 18 April 2022.

binding commercial arbitration. Some airlines have stated that mediation or non-binding arbitration is rarely successful, as some airports do not approach these processes in good faith.

Some airlines have expressed concerns that, in circumstances where the parties remain in dispute after mediation or non-binding arbitration, some airports are exerting undue pressure on airlines to accept their terms by making "take it or leave it" offers, and in some instances, resorting to threats.

2.3.2 Consultation with airports

As set out in the introduction, the ACCC consulted with eight major airports about their approach to ASA negotiations. Most of the consulted airports stated that they comply with the APPs in negotiating ASAs with airlines. However, one airport did not refer to the APPs at all in its response.

Negotiation of aeronautical prices

Most of the consulted airports stated that they use a BBM during ASA negotiations. Some airports informed the ACCC that they engage independent advisors to assist them to determine the appropriate parameters of the BBM. However, one airport informed the ACCC that it does not use a BBM and that the offers that it made in a particular negotiation with a large domestic airline were not based on any financial modelling.

For airports that use the BBM, the way they employ it during the negotiation process appears to vary. Some airports stated that they provide their BBM (in its entirety or just the key parameters), and supporting information, to airlines during the ASA negotiations. Other airports appear to use their BBMs internally to arrive at price offers, but do not discuss the BBM parameters that led to those offers during negotiations.

Some airports have stated that the way in which the domestic airlines use the BBM during negotiations also varies. Some domestic airlines seek to make the BBM a central part of their negotiations, while others appear content to negotiate without the use of the BBM.

Some airports have informed the ACCC that the price offers they make to airlines based on the airport's BBM can vary substantially from the price offers that airlines make to airports based on the airline's BBM. Airports have explained that this is due to airports and airlines having a different view on the key parameters of the BBM, particularly:

- WACC
- capital expenditure and asset base
- depreciation.

For example, one airport informed the ACCC that during negotiations with a particular domestic airline, the airport's WACC estimate was around 3 percentage points higher than the airline's WACC estimate. Some airports have also stated that the price differences in their offers can also be due to disagreements about passenger projections and capital investment plans.

Given these differences, some airports stated that they use the BBM to inform their aeronautical price offers, but they do not directly use the BBM to determine final terms agreed with airlines. For example, one airport commented that it "strives for negotiations to not get 'bogged down' in the BBM". These airports explained that commercial terms they reach with airlines are typically based on the overall 'value' of their offer and typically include non-price arrangements (for example, rebates, access to facilities and agreements about quality of service).

The ACCC also notes that the Australian Airports Association (AAA) has previously stated that the outcomes of BBMs are not binding, but rather act as a tool for exploring the relationship between capital and operating costs and prices.[69]

Provision of information during negotiations

All consulted airports informed the ACCC that they consider that the level of information they provide to airlines is sufficient to inform the ASA negotiations. Some airports listed the type of information they provide, which includes information about their asset base, capital investment plans, forecast operating expenditure and forecast passenger volumes. Some airports stated that they provide all the information upfront. Some airports also commented that during the negotiations they provide additional information reasonably requested by airlines.

For example, Perth Airport informed the ACCC that in 2017, prior to commencing bilateral negotiations, it provided airlines and other stakeholders with all relevant information that supported the building block methodology (via a website), including:

- a 10-year capital plan for the Airfield and each of the terminals, accompanied by justification for each project
- forecast of operating costs for the next 10 years
- an independently prepared passenger forecast.

Perth Airport stated that in early 2018 it revised the information on its website to incorporate airline feedback. Perth Airport stated that "this information was provided to ensure that all negotiations were grounded with common information".

Resolution of disputes arising during negotiations

Airports have described the nature of their negotiations with airlines in very different terms. Some airports stated that they were able to negotiate their most recent ASAs with airlines without needing to resort to dispute resolution mechanisms. Several airports described their commercial discussions with airlines as being 'robust', while one airport stated that "both parties put their respective positions forcefully".

Some airports commented on the tactics used by some airlines during negotiations, particularly following expiry of the previous ASA. A few airports stated that a domestic airline has unilaterally paid the price it deemed reasonable, rather than the CoU price that was set by the airport for all airlines that use the airport in the absence of ASA.

Airports have generally expressed a preference to reach commercial agreements with airlines through negotiation or by using a dispute resolution mechanism specified in the previously agreed ASA. For example, one airport commented that it used a dispute resolution mechanism specified in the ASA to seek advice from an independent expert on forecasting passenger numbers.

Most airports stated that they do not support binding commercial arbitration to resolve disputes, although some said that they may be amenable to it. One airport stated that it is concerned that some airlines may frequently refer matters to commercial arbitration to delay negotiations. Another airport stated that its main concern is about non-price implications of arbitration decisions (for example, how such decisions may affect airport's provision of services to other airlines), with the airport being less concerned about using binding commercial negotiations to resolve any dispute about the level of prices.

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69 AAA, *Submission No. 50 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, p 35, accessed 7 April 2022.

2.3.3 Perth Airport court case against Qantas

On 18 February 2022, the Supreme Court of Western Australia delivered its decision in the court case between Perth Airport and Qantas.[70] The dispute was over the aeronautical charges that Qantas was liable to pay to Perth Airport between 1 July and 17 December 2018, while the two parties were negotiating a new ASA following expiry of the previous one.

It was common ground that Qantas was liable to pay to Perth Airport "fair and reasonable" renumeration for the services that Perth Airport provided to Qantas during the relevant period. The key question that the court considered was how to determine what fair and reasonable renumeration would be in those circumstances.

Qantas submitted to the court that fair and reasonable prices should be determined by using a BBM to determine the efficient costs of the aeronautical services provided by Perth Airport.

In contrast, Perth Airport submitted that the fair and reasonable price should be determined by reference to 'comparable transactions' (being prices for aeronautical services that Perth Airport most recently agreed with other airlines). Perth Airport also submitted that the reasonableness and fairness of the sum arrived at using this methodology is confirmed by a range of other measures. Table 2.2 sets out the court's view of Perth Airport's comparable transaction methodology and other proposed measures.

Table 2.2: Court's ruling on the measures that Perth Airport submitted should be used to calculate or confirm a fair and reasonable price

Perth Airport's measure	Court ruling
Comparable transactions (being prices Perth Airport most recently agreed with other airlines)	Not relevant – Whether prices paid by other airlines are comparable is a matter of fact and degree. The services provided are not the same
Prices agreed and paid by Qantas under previous ASA	Not relevant – Those prices were set at a time when the cost of providing the services was different and the negotiations were informed by different cost considerations
Prices under Perth Airport's CoU that were payable by airlines without ASAs at the time	Not relevant: - Perth Airport set CoU prices unilaterally, so these were not negotiated prices - Perth Airport arbitrarily set CoU prices 10% above the highest prices negotiated with other airlines for services provided at other terminals
Airport charges passed on by Qantas to its customers (as recorded on passenger tickets)	Not relevant – the evidence does not establish that the charges were passed on to customers in any relevant sense
The profit per passenger earned by Qantas on routes to, and from, Perth Airport	Not relevant – prices should be determined by reference to the value of services provided, not profits gained by recipient of the services

The court ruled that, consistent with the Australian Government's APPs, ~~calculation of fair and reasonable prices payable by Qantas had to be consistent with the Australian Government's APPs. Accordingly, the court ruled that~~ it would calculate the fair and reasonable price by using

70 *Perth Airport Pty Ltd [2022] WASC 51*.

a BBM to estimate the efficient long-run average cost of Perth Airport providing services to Qantas.

The court considered evidence from both parties on the appropriate parameters of the BBM and calculated a price that Qantas was liable to pay to Perth Airport during the relevant period.

In delivering its decision, the court found that:

- Perth Airport possesses, and has likely exercised, substantial market power
- Perth Airport sought to include in its aeronautical prices to Qantas some categories of costs that were unrelated to the provision of aeronautical services (for example, marketing costs)
- Qantas has underpaid Perth Airport for aeronautical services.

The court ordered Qantas to pay to Perth Airport:[71]

- $7.66 million together with interest of $1.86 million for unpaid fees, and
- Perth Airport's litigation costs, including reserved costs, other than the costs incurred in relation to four specific issues on which the court rules that Perth Airport failed (and for which it ordered Perth Airport to pay legal costs to Qantas).

WACC

The WACC was one of the key parameters that was disputed by the parties. Table 2.3 sets out the WACC-related inputs that the court determined to be appropriate to use in its BBM.

Table 2.3: WACC parameters used by the Supreme Court of Western Australia in Perth Airports vs Qantas decision for the period July–December 2018

Parameter	Input
Risk free rate	3.3%
Leverage	20%
Cost of debt	5.7%
Asset beta	0.75
Equity beta	0.94
Market risk premium	7.7%
Cost of equity	10.5%
WACC	9.6%
Distribution rate	0.90
Utilisation rate	0.65
Gamma	0.585

As Table 2.3 shows, the court has determined a nominal vanilla WACC of 9.6% for Perth Airport for the period from July to December 2018. The ACCC notes that this WACC is significantly

71 Perth Airport Pty Ltd [2022] WASC 51.

higher than the WACC determined by some Australian and overseas regulators around that time. For example, tThis WACC is :

~~3.9% higher than the 5.69% WACC that the AER determined in April 2018 for regulated transmission networks for the period from July 2018 to June 2023[72]~~

3.25 percentage points higher than the 6.34% WACC that the New Zealand Commerce Commission determined for Wellington International Airport for 2019.[73]

The ACCC considers that the higher WACC for Perth Airport has been driven mainly by a higher estimate of some market wide parameters such as risk-free rate, market risk premium and debt risk premium, as well as the sector-specific parameter beta. The differing values of leverage that are sector-specific also contribute to the difference with the Australian Energy Regulator's estimates of WACC at the time.

On 15 March 2022, Qantas announced that it will appeal the court's ruling on some aspects of the court's calculations, particularly the WACC.[74]

2.3.4 The APPs are not assisting airlines in negotiations as intended

As discussed in section 2.2.1, one of the critical objectives of the APPs is to assist airlines in negotiations with airports that have market power. However, the APPs are not enforceable, which means that airlines do not have any formal recourse to address any conduct by an airport that is inconsistent with the APPs. There is also limited guidance available to the parties on how to interpret various elements of the APPs.

The ACCC considers that many airports have interpreted the APPs in a way that significantly undermines the benefits of the APPs to airlines.

This section discusses the issues that the ACCC has identified in relation to:

- compliance with, and understanding of, the APPs
- application of pricing principles in negotiations
- provision of information during negotiations
- use of effective dispute resolution mechanisms.

Compliance with, and understanding of, the APPs

There appears to be disparity in compliance with, and understanding of, the APPs across airports in Australia. As was mentioned earlier, some airlines have informed the ACCC that some airports are largely negotiating constructively. However, some airlines also provided various examples to the ACCC to illustrate where this is not the case.

The ACCC has also come across such examples during its consultation with airports. As was mentioned earlier, one airport did not refer to the APPs at all in explaining to the ACCC how it conducts negotiations with airlines and informed the ACCC that it did not use any financial modelling for the purpose of making price offers. Further, as discussed in section 2.4.2 below, the ACCC considers that comments made by one airport to the ACCC in relation to inclusion of unrecovered costs into its asset base are inconsistent with the APPs.

~~72 AER, *ElectraNet – Determination 2018-23*, AER website, 30 April 2018, accessed 13 April 2022; AER, *Murraylink - Determination 2018-23*, AER website, 30 April 2018.~~

73 NZCC, *Cost of capital determination for disclosure year 2019 - Electricity distribution businesses and Wellington International Airport*, [2018] NZCC 7, NZCC website, 30 April 2018, accessed 13 April 2022.

74 Geoffrey Thomas, 'Qantas to appeal Supreme Court ruling on Perth Airport charges', *The West Australian*, 15 March 2022, accessed 7 April 2022.

While most airports strongly assert that they take the APPs seriously, some of their actions appear to be inconsistent with these assertions. For example, Perth Airport informed the ACCC that it "always has regard to the APPs in its negotiations with airlines and its approach to developing aeronautical pricing proposals". Perth Airport further stated that "while the APPs do not prescribe the use of a BBM, Perth Airport uses a BBM to inform its pricing negotiations with airlines".

However, as discussed in section 2.3.3, the Supreme Court of Western Australia found that Perth Airport unilaterally and arbitrarily set its CoU prices at 10% above the highest prices negotiated with other airlines. In addition, the court found that Perth Airport possesses, and has likely exercised, substantial market power.

Further to those findings, the ACCC is concerned that Perth Airport sought to argue in court that the fair and reasonable price payable by Qantas should be determined based on prices agreed with other airlines and confirmed by a range of other arbitrary measures. The ACCC considers that both the comparable transactions methodology and all the other measures proposed by Perth Airport are inconsistent with the APPs.

Some airlines have provided examples of other airports which have also sought to anchor their price offers to similar arbitrary benchmarks during negotiations. The ACCC emphasises that under the APPs, prices should be set to recover the efficient long-run cost of providing the service. Therefore, the conduct by any airport in negotiating its prices by reference to some other arbitrary measures that are irrelevant to the determination of efficient long-run cost is inconsistent with the APPs.

Application of pricing principles in negotiation of aeronautical prices

As discussed in section 2.2.2, economic regulators in Australia typically use a BBM as a tool to regulate revenues or prices of infrastructure providers in various sectors. For this purpose, the economic regulators develop a clear and transparent framework, determine the parameters of the BBM and then seek to apply the BBM transparently and consistently across all the regulated entities, both within a sector and across the sectors.

In aviation, the APPs set out the pricing principles that airports and airlines should use in commercial negotiations of aeronautical prices. However, they do not prescribe a specific mechanism for the parties to use to apply those principles. With the APPs being substantially based on Part IIIA Pricing Principles, the largest airports and airlines in Australia have adopted a BBM as a means of applying the APPs in their negotiations.

However, application of a BBM by Australian airports and airlines in commercial negotiations is inherently different from its use by independent regulators. Without independent oversight, it is left to the parties to bilaterally decide whether to use a BBM and how. As a result, the breadth and manner of the application of a BBM in determining aeronautical prices varies greatly across both airports and airlines.

Only some airports and airlines use a BBM during negotiations. All monitored airports, some non-monitored airports and major Australian airlines state that they use a BBM to inform negotiations of ASAs. It appears that at least one of the top 10 busiest airports in Australia does not use a BBM or any other financial modelling. The ACCC does not have any evidence of regional airports using a BBM. However, the AAA previously stated that "around one-third of regional airports use some form of modelling to motivate charges discussions with airlines".[75] It appears that at least some airlines also do not use a BBM in negotiating aeronautical prices.

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75 AAA, *Submission No. 50 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, p36

A key reason for regional airports and small airlines not using a BBM appears to be complexity and cost of doing so. For example, the AAA previously explained some of the reasons why it is challenging for regional airports to use a BBM:

> *The implementation of a BBM is a complex task. Major airports often retain specialist consultants to develop and/or validate such models as well as provide advice on its various inputs, particularly the WACC. The AAA understands that for major airports the cost of such advice will often run to in excess of $1 million.*[76]

Given there is currently no central source of information on BBMs, each airport that wants to use a BBM has to develop its own bespoke financial model and pay in full for the cost of any advice it would need to do so. This is even more complicated and costly for airlines because they negotiate with multiple airports at different points in time. Therefore, airlines need to constantly revise their BBM for negotiation with each airport to calculate airport specific parameters (for example, asset base) and to update any other parameters that may change over time (for example, WACC).

However, there is at least one large and well-resourced airport that has simply chosen not to use a BBM.

While many large airports state that they use a BBM, this by itself does not mean that the aeronautical prices they agree with airlines reflect efficient long-run costs. Whether a BBM produces reasonable outputs on revenue and prices depends on the inputs used in the model. If the inputs to the BBM are biased upwards, the resulting revenues and prices will also be inflated.

Both airports and airlines generate BBM outputs using inputs they consider to be appropriate. As mentioned earlier, airports and airlines can have significant disagreements about the appropriate BBM inputs. To some extent, this is to be expected in a negotiation between two bargaining parties with different incentives and objectives. However, this is exacerbated by the parties having different information to underpin their assessment of the inputs, in part due to some airports not providing adequate information to airlines. This is also exacerbated by the fact that some of the inputs can be contentious and there is lack of clear objective standards to guide the parties in their discussions of those inputs.

The disagreements on the inputs, particularly WACC, can result in parties being very far apart on what they consider to be reasonable prices. Small differences in WACC can lead to significant differences in outputs from the BBM. For example, the Essential Services Commission of Victoria found that by using a WACC that was 2 percentage points higher than appropriate, the Port of Melbourne overstated its revenue requirement by around $300-650 million.[77] As discussed earlier, some airports and airlines have stated that their views on the WACC can differ by as much as 3 percentage points.

Similarly, in the Perth Airport court case against Qantas, the expert consultants engaged by the parties disagreed on the approaches to estimating some of the WACC parameters, as well as the estimate of the overall WACC. The difference was 3.4 percentage points, as Perth Airport argued for a WACC of 10.2%, while Qantas argued for a WACC of 6.8%.[78] For capital intensive infrastructure like airports, the resulting difference on revenue requirement or prices is substantial.

This raises the question as to whether airlines receive any benefit from airports using a BBM, when the inputs into the model differ materially between the negotiating parties. The ACCC

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76 Ibid.

77 Essential Services Commission of Victoria (ESC), *Inquiry into Port of Melbourne compliance with the pricing order 2021* [Final report], ESC website, 31 December 2021, pp 9-11, accessed 13 April 2022.

78 Perth Airport Pty Ltd [2022] WASC 51 at 88-89 [303]-[306].

considers that the extent of any benefit from using BBM depends on how airports engage with airlines on details of the application of BBMs and how they settle disagreements. As discussed in more detail below, it appears that at least some airports:

- do not provide adequate information to airlines during negotiations to substantiate their BBM calculations and justify their assumptions and input values
- do not engage in a process with airlines designed to resolve their differences of view about appropriate BBM inputs.

The ACCC considers that by doing this, airports significantly undermine any potential benefits that airlines obtain from airports using a BBM to substantiate their offers.

Provision of information during negotiations

For airlines to be able to negotiate effectively with airports, they need to have access to timely and relevant information. In particular, airlines need adequate information to:

- form their own view of what is a fair and reasonable price for the service (which requires information about an airport's asset base, capital investments, operating costs and so on to assess efficient long-run cost)
- review the reasonableness of the airport's financial modelling underpinning its price offers (which requires information about the airport's methodology, inputs and assumptions).

The APPs set out that commercial negotiations should involve an open and transparent exchange of information, but do not provide specific guidance for the level or scope of information to be provided. In the absence of independent oversight, airports in Australia have adopted different approaches to the type and breadth of information that they provide to airlines during negotiations.

To the extent that provision of information by airports is untimely or inadequate, it undermines the potential benefit of the APPs to airlines. For example, as mentioned earlier, some airports treat their financial models as 'internal'. Those airports present their initial price offers to airlines as being based on BBM calculations and some may even share their BBM inputs with airlines. However, they may be unwilling to share or fail to substantiate the basis for the underlying inputs and assumptions of their model with airlines.

This means that airlines do not have sufficient opportunity to review the reasonableness of airports' BBM inputs, calculations and outputs. The absence of transparency and accountability in the use of a BBM by airports reduces the potential benefit to airlines of airports using those financial models to generate price offers and makes it harder for parties to resolve their disagreements during the negotiation.

Resolution of disputes arising during negotiations

The APPs state that in determining prices, airports and airlines should utilise commercial processes for resolving disputes, such as independent commercial mediation or binding arbitration. These commercial processes are more likely to work effectively for airports and airlines when both parties act consistently with all the other principles of the APPs during negotiations.

In such a scenario, both parties would:

- agree on a framework to use during negotiation to determine prices (for example, a BBM or an equivalent financial model) and the methodology for how the framework is to be applied

- engage in open and transparent exchange of information to enable each party to calculate each of the inputs of a BBM (or an equivalent financial model)
- provide offers to the other party clearly explaining how those offers were derived using a BBM (or an equivalent financial model) and explaining the basis for their view about each of the inputs, including any underlying assumptions
- engage in open and transparent discussion about any inputs on which the parties have a materially different view.

This process would lead to parties identifying specific inputs that the parties ultimately cannot agree on. The parties can then seek independent commercial mediation or binding arbitration to resolve disputes about the specific inputs. This would likely lead to a relatively quick and inexpensive resolution of the dispute.

As was mentioned in section 2.3.2, one airport commented to the ACCC that it used a dispute resolution mechanism agreed with an airline to seek advice from an independent expert on forecasting passenger numbers. Provided that both parties accepted the outcome of the independent expert, this dispute was resolved in a manner envisaged under the APPs.

However, dispute resolution becomes much more complicated, lengthy and costly when the parties do not act consistently with the APPs during negotiations. One such scenario is where an airline is seeking to negotiate based on a BBM, but an airport is seeking to determine prices using some alternative measures not directly related to efficient cost of providing a future service (for example, prices paid by the negotiating airline under the expired ASA). In the absence of a common framework for determining prices, it is difficult for the parties, and any independent mediator or arbitrator, to resolve differences in views between the parties of what constitutes fair and reasonable prices, and how they can be derived.

A second scenario is where both parties are using a BBM to formulate their initial offers, but the airport does not provide adequate information to the airline about its underlying BBM inputs and assumptions or does not wish to progress negotiations by making references to the BBM used. In other words, to avoid getting 'bogged down in BBM discussions', the airport chooses to 'agree to disagree' about the BBM inputs and insists on reaching an agreement through discussion of 'value' or some other basis unrelated to the approach it used to determine its initial offer.

This approach can resolve the dispute where the parties are reasonably close on their initial offers and are willing to sufficiently compromise to reach an agreement. However, where the parties are very far apart or unwilling to compromise, such an approach is much less likely to sufficiently narrow the difference in positions of the parties. Critically, by moving away from using a BBM as a framework to negotiate prices, airports negate the benefit that airlines obtain by receiving the initial offer from airports that is based on a BBM.

An airport that does not see the need to be accountable on how it determines its price offer, can fix the inputs of a BBM to achieve its desired price and then proceed to bargain with the airline on some other basis. In this scenario, the mere fact that the airport used a BBM in support of its initial offer does not put the airline in a better position to negotiate with the airport on prices than the airline would have in the first scenario (where the airport does not use a BBM) and is unlikely to lead to an agreed price being based on recovery of efficient costs.

The ACCC acknowledges that behaviour of airlines during negotiations can also lead to a situation where parties are unable to reach an agreement. The APPs require both parties to negotiate in good faith. Therefore, an airline that is not, for example, willing to genuinely engage in discussion of BBM parameters (for example, WACC) may also be acting inconsistent with the APPs.

It is in the circumstances where parties remain far apart on their positions and are not negotiating based on an agreed framework that tensions tend to rise and parties start to "put their respective positions forcefully", as one airport described. According to some airlines, in these kinds of negotiations, some airports start making 'take it or leave it' offers or threaten that the airline will lose access to facilities or other forms of access.

Critically, the ACCC does not consider this to be a normal part of a negotiation process between two big companies with equal bargaining power. Rather, this conduct reflects failure of the negotiation process, as parties have no viable mechanism to resolve their dispute. In the absence of an agreed negotiating framework and with parties being unable to agree on discrete issues that need to be resolved, independent mediators or arbitrators are limited in what they can achieve.

There are very few viable options available to airlines in these circumstances. Airlines cannot do anything to rectify airport's non-compliance with the APPs. Airlines cannot compel airports to use a BBM, or any other financial model, in negotiations nor can they compel airports to provide the information they need for the purpose of negotiations.

For many years, some airports have asserted that airlines have countervailing power due to airports' legal obligations. Some airports have stated that the terms of their leases with the Commonwealth stipulate, among other things, that:

- airports must always provide access to airlines, but
- airports can refuse to provide access where an airline has failed to pay to the airport 'any amount due'.

Some airports asserted that it would likely be very difficult for them to prove that a particular amount is legally due if:

- there is no contract between the parties while they are negotiating a new ASA (because the previous ASA has expired)
- an airline expressly rejects the terms of the airport's CoU.

Some airports have argued that in these circumstances, airlines can continue to use the airport and to unilaterally pay the airport only an amount that the airline considers to be fair and reasonable (which may not allow the airport to recover its costs) without facing a risk that an airport would refuse access to the airline. Some airports have argued that this creates an incentive for the airport to reach an agreement with an airline as soon as possible.

These precise circumstances arose in the dispute between Perth Airport and Qantas. After expiry of the old ASA, Perth Airport invoiced Qantas an amount calculated using its CoU prices. Qantas did not accept CoU prices and chose to pay a lower amount. While Perth Airport did not refuse Qantas access, it took Qantas to court, and the outcome of the case provides important insights in relation to airports' arguments about countervailing power.

First, the case has demonstrated that an airport can compel an airline to pay a fair and reasonable amount to it, based on recovery of efficient costs, for use of the airport even where there is no contract between the parties and where the airline has expressly refused to comply with the terms of the CoU. In addition, the court ordered Qantas to pay interest on the outstanding amount, compensating Perth Airport for delay in receiving this amount. This means that an airline does not gain any leverage in negotiations by continuing to use the airport during negotiations but not paying the airport an amount that it invoices the airline under its CoU terms.

Second, the case has demonstrated that an airline faces a substantial risk should it choose not to pay in full the amount invoiced by an airport during negotiations. As mentioned earlier, the Supreme Court of Western Australia ordered Qantas to pay the bulk of Perth Airport's litigation costs. Qantas informed the ACCC that the total amount of the costs that Qantas incurred during

the litigation and that it had to pay to Perth Airport were quite substantial and far exceeded the amount that the court ordered Qantas to pay to Perth Airport to make up for the shortfall.

In addition, the court awarded the costs of issues (with exceptions to four specific issues) to Perth Airport notwithstanding that it found that:

- Perth Airport required Qantas to pay prices under its CoU which it imposed unilaterally and which it set arbitrarily at 10% above the highest prices that Perth Airport negotiated with other airlines; and
- Perth Airport possesses, and has likely exercised, substantial market power.

This appears to suggest that, regardless of how excessive and unreasonable an airline considers an airport's CoU prices may be, the airline runs the risk of losing the court case and having to pay substantial litigation costs should it choose not to pay an airport in full and determine a different figure for a fair and reasonable amount to pay.

Therefore, the ACCC considers that conditions in airports' Commonwealth leases do not provide material protection to airlines from airports using their market power during negotiations.

2.4 Impact of the COVID-19 pandemic on negotiation of ASAs

As part of the consultation, the ACCC asked airports and airlines to set out the pandemic specific challenges that they have encountered in negotiating ASAs in the past few years. This section sets out the key challenges identified by respondents.

2.4.1 Uncertain passenger forecasts

As discussed in chapter 3, the COVID-19 pandemic resulted in a significant fall in passenger numbers. However, negotiation of long-term ASAs is dependent on the parties being able to agree on, and have confidence in, future demand projections. Some airports have informed the ACCC that over the past two years, projecting recovery paths from the pandemic have been challenging due to uncertainties about new COVID-19 variants, government policies to deal with those variants and the timing of return of consumer confidence.

Some airports commented that they found it more challenging to negotiate longer-term agreements in such circumstances. They stated that longer-term agreements are best suited when airports and airlines have firm expectations of future demand, service requirements and agreed expenditure plans to support service outcomes.

Airports have adopted varying approaches to dealing with this uncertainty. Some airports have managed to successfully re-negotiate long-term ASAs with airlines despite the uncertainty.

In contrast, other airports have extended or rolled over existing ASAs for 12-24 months with no changes to terms and conditions. These airports stated that this provides price certainty to airlines and gives parties more time to negotiate the terms of the next ASA. This additional time should put the parties into a better position to forecast future passenger demand.

2.4.2 Recovery of lost profits or unrecovered costs

As the ACCC commented in its September 2021 report on *Airline competition in Australia*, some airlines have raised concerns that some airports in Australia are seeking, or may seek, to significantly increase aeronautical charges to recover lost profits or unrecovered costs.[79]

79 'Unrecovered costs' are costs that the airport incurred under a previous ASA but which it was unable to recover due to the COVID-19 pandemic.

On 29 September 2021, Qantas Group publicly stated that it has "seen some airports acting aggressively to try to recover their losses from the pandemic".[80] Qantas further stated that a large regional airport sought to "more than double passenger fees, increasing from $25 per passenger to $55".[81] Airlines expressed concerns to the ACCC that such actions may undermine the recovery of the aviation sector from the COVID-19 pandemic.

As part of its consultation, the ACCC asked both monitored and non-monitored airports to comment on this issue. All consulted airports stated that they have not sought, and do not intend to seek, to recover lost profits from airlines through aeronautical charges in new ASAs.

Most consulted airports also stated that their aeronautical charges are reflective of the costs the airport expects to incur in providing services to airlines over the term of the new ASA and do not take into account prior pricing periods. However, one airport stated that "costs reasonably incurred by an airport but not yet recovered due to the pandemic may in appropriate circumstances be recoverable and be an input in a BBM (for example, inclusion in opening asset base) as part of an aeronautical agreement negotiation".

Application of APPs

The ACCC interprets the APPs by reference to the Part IIIA Pricing Principles, given the pricing expectations in the APPs are closely based on those principles (as discussed in section 2.2.2). Applying the Part IIIA Pricing Principles, an airport must set its prices to recover the efficient long-run costs of providing access to the service, including a risk-commensurate return on investment in providing the service. Further, applying section 44X(1)(d) of Part IIIA, airports must take into account only 'the direct costs of providing access to the service'.

The ACCC considers that the APPs preclude an airport from increasing aeronautical prices to make up for lost profits or previously unrecovered costs. This also means that, contrary to the comment made by one airport, the APPs do not allow an airport to include unrecovered costs into its asset base for negotiation of prices in future ASAs.

The ACCC is likely to have serious concerns if any airports engage in 'catch-up pricing' and would likely consider such actions as evidence of exercise of market power.

2.5 Security charges

The Australian Government requires both monitored and non-monitored airports to comply with its mandated security screening measures. Airports incur costs relating to these measures. During the COVID-19 pandemic, the Australian Government introduced additional measures, which will require airports to incur additional operating expenses and to invest in substantial capital upgrades over the coming years.

When the Australian Government first introduced these measures, it communicated its expectations that airports would recover all costs associated with these measures on a pass-through basis. The Australian Government has also provided funding, primarily to airlines, to assist them with the payment of security charges.

Prior to the pandemic, security charges were a relatively small proportion of overall airline costs. However, due to low passenger numbers, some airports have increased their security charges and have indicated to the ACCC that they intend to fully recover all security costs.

While airlines do not appear to have concerns about airports recovering all their security costs on a pass-through basis, some airlines have raised concerns about:

80 Lucas Baird, 'Airlines revive airport log of claims to keep costs low', *AFR*, 3 October 2021, accessed 15 March 2022.
81 Ibid.

- lack of common definition of security costs, with there being no consensus between the parties as to what costs should be classified as security costs
- lack of transparency, with airports not providing sufficient information to explain what categories of costs they have included, how much those costs are or the basis on which those costs were calculated
- lack of reconciliation, with some airports not providing annual updates to airlines about the extent to which they are recovering their security costs.

Specifically, some airlines are concerned that in setting security charges, some airports may be charging for services not related to the provision of mandated security services or extracting a margin. The ACCC will continue to monitor this issue.

3. Total airport operational and financial performance

The monitored airports are vital pieces of infrastructure for Australia as they both enrich people's lives and drive economic growth. They provide an important transport link for millions of Australians and international visitors every year and facilitate airborne freight services.

This chapter covers:

- trends in passenger numbers[82]
- the impact of the COVID-19 pandemic on airports and airlines
- the long-term trends in the monitored airports' overall financial performance prior to the COVID-19 pandemic.

This chapter is based on operational and financial information the ACCC has obtained from the monitored airports as well as consultation and broader research the ACCC has undertaken in preparation for this year's report.

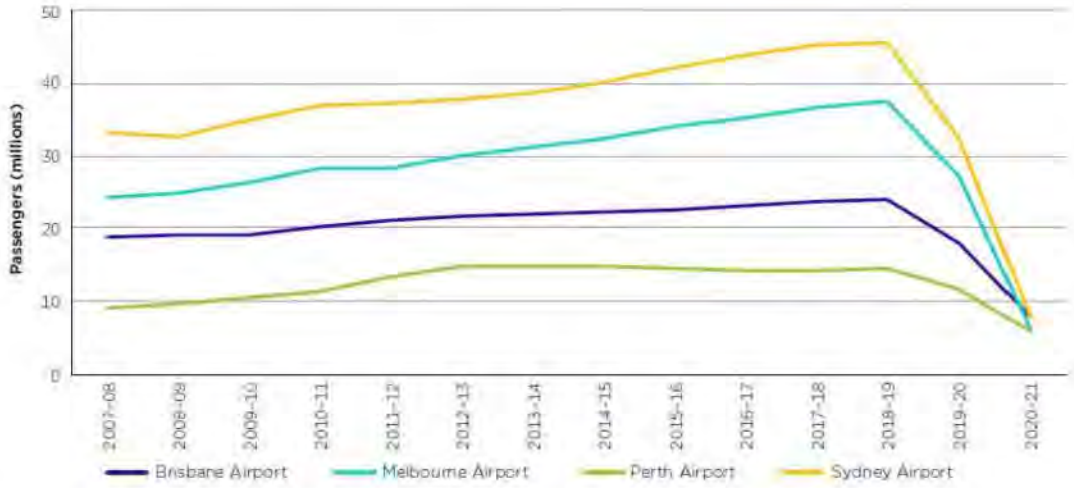
The financial figures in this chapter are presented in real terms with values in 2020–21 dollars.[83]

3.1 Trends in passenger numbers at the monitored airports

3.1.1 Total number of passengers

Figure 3.1 shows the trend in the total number of passengers at each of the monitored airports since 2007–08.

Figure 3.1: Total number of passengers, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

The aggregate number of passengers travelling through all of the monitored airports was increasing by between 2.2% and 4.3% annually up until 2018–19, prior to the start of the

82 The ACCC also collects data on aircraft movements and tonnes landed. This data is closely correlated with passenger numbers. Detailed data on airports' aircraft movements and tonnes landed can be found on the *ACCC website*.

83 Deflator series derived from the Australian Bureau of Statistics (2022) *Consumer Price Index, Australia* (cat. no. 6401.0, tables 1 and 2, Index Numbers; All Groups CPI; Australia), accessed 30 September 2021. Base year for the ACCC deflator series is 2020–21.

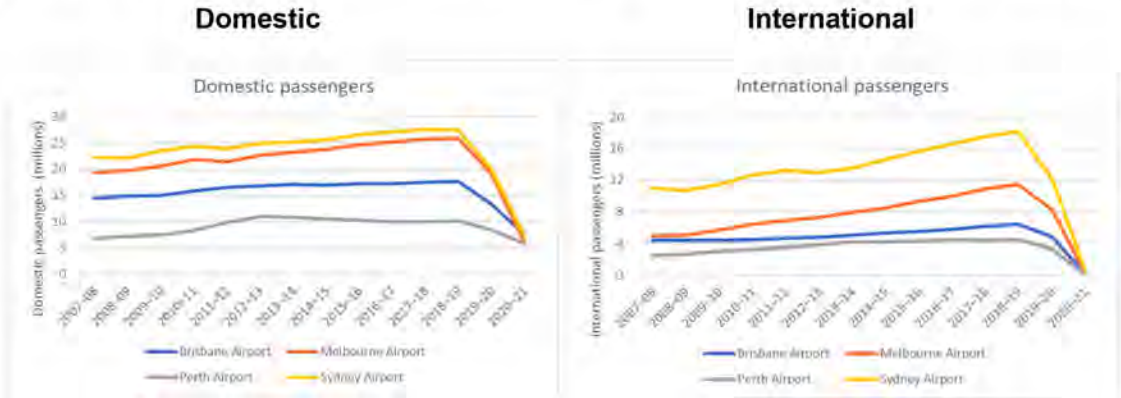
COVID-19 pandemic. The 4 monitored airports had a total of almost 122 million passengers passing through their terminals in 2018–19. The next section will provide a breakdown of the trend in domestic and international passenger numbers.

Figure 3.1 also shows the impact that the COVID-19 pandemic had on overall passenger numbers. During the COVID-19 pandemic, total passenger numbers fell at all of the monitored airports. In 2020–21, Melbourne and Sydney airports, among the monitored airports, reported the largest decreases in passenger numbers, with passenger numbers in 2020–21 decreasing by 83% from 2018–19 levels. In comparison, Perth Airport reported the lowest decrease of 60% compared with 2018–19 level. This has led to a situation where, in 2020-21, Brisbane Airport reported a greater number of passengers passing through their terminals compared to Sydney Airport.

3.1.2 Domestic and international passenger numbers

Figure 3.2 below shows the movement in domestic and international passenger numbers at the monitored airports since 2007–08.

Figure 3.2: Domestic and international passenger numbers, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Figure 3.2 shows the increase in domestic and international passenger numbers varied for each monitored airport, with international passenger numbers increasing at a higher rate, though international passenger numbers did start at a lower base.

At Brisbane Airport, the number of domestic passengers increased steadily until 2012–13. The annualised increase in the number of domestic passengers visiting Brisbane Airport between 2007–08 and 2018–19 was 1.8%, the lowest among the monitored airports. Similarly, Brisbane Airport's international passenger numbers have increased by the lowest rate among the monitored airports, by 3.6% per year on average between 2007–08 and 2018–19.

Starting in 2007–08, Perth Airport's domestic passenger numbers increased at 3.9% annually. However, the majority of this increase occurred between 2007–08 and 2012–13[84], with domestic passenger numbers remaining relatively steady thereafter. The reduced rate of growth in domestic passenger numbers since 2013–14 is likely due to the slowdown in the Western Australian economy and reduced activity servicing the resources sector.[85] Perth Airport's international passenger numbers have been relatively flat since 2013–14.

Melbourne and Sydney airports' growth was predominately driven by increases in international passengers, with annualised increases of 8.1% and 4.7% respectively between 2007–08 and

84 Perth Airport have stated that this is attributable to growth in fly-in-fly-out traffic and the advent of low-cost international airlines.
85 Perth Airport, *Perth Airport Annual Report 2014*, Perth Airport, 2014, p 7-8, accessed 8 April 2022.

2018–19. For both Melbourne and Sydney airports, domestic passenger numbers continued to increase but at a lower average annual growth rate of 2.7% and 2.0%, respectively. Domestic passenger numbers decreased at Melbourne and Sydney airport in 2011–12, due to the partial cessation of activity by Tiger Airways and industrial action taken against Qantas.

3.1.3 Impact of the COVID-19 pandemic on domestic and international passengers

Figure 3.3 shows the breakdown of total passenger numbers by domestic and international passengers between 2018–19 and 2020–21.

Figure 3.3: Total number of international and domestic passengers, by airport: 2018–19 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Domestic passenger totals include on-carriage passengers and international passenger totals include transit and transfer passengers.

Figure 3.3 shows that, pPrior to the pandemic, monitored airports differed in their distribution of international and domestic travellers. In 2018–19, Sydney Airport had the highest proportion of international passengers among the monitored airports (40%), with Brisbane Airport having the lowest (27%).

Figure 3.2 also shows that the impact of the COVID-19 pandemic on the number of domestic passengers varied across the 4 monitored airports. In 2020–21, Sydney and Melbourne airports were more heavily impacted with falls of 74% and 77% respectively compared to 2018–19. In 2020–21, the number of domestic passengers travelling through Brisbane Airport fell by 57% while Perth Airport reported a 43% fall compared with 2018–19.

The impact of the COVID-19 pandemic on international passengers was even more pronounced. In 2020–21, the number of international passengers that visited the monitored airports was more than 95% lower compared with 2018–19.

This is significant for the monitored airports, because both airports and the commercial operators at the airports (for example, retail) typically generate more revenue from each international passenger than each domestic passenger. The monitored airports charge airlines higher aeronautical charges (per passenger) for international passengers compared with domestic and therefore earn more aeronautical revenue. In addition, international passengers

tend to spend more money at retail outlets while at the airport, compared with domestic passengers, which is important for the profitability of those retail outlets.

~~If international travel takes much longer to recover to pre-pandemic levels than domestic travel (which seems to be occurring), this could impact on the recovery path of the monitored airports and their commercial operators. However, to the extent that there is some pent-up demand for domestic travel, this may result in rapid domestic passenger recovery that may at least partially offset the lost revenue due to loss of international passengers.~~

3.2 Impact of the COVID-19 pandemic on airports and airlines

3.2.1 Impact of the COVID-19 pandemic on the monitored airports

The reduction in passenger numbers due to the COVID-19 pandemic has severely affected all aspects of airports' business, including aeronautical, car-parking, landside and retail activities (discussed in more detail in subsequent chapters). In turn, this significantly impacted on the monitored airports' financial performance.

The ACCC has been using several measures to monitor airports' profitability – operating profit margin and return on average tangible assets. Both metrics show a similar trend during the COVID-19 pandemic, so for the purpose of this section, the ACCC will focus on changes in operating profit margin.[86]

Table 3.1 below shows the change in total airport operating profit (Earnings before interest, taxes and amortisation – EBITA) and margin (EBITA as a percentage of total airport revenue) over the past three years.

Table 3.1: Total operating profit and margin in real terms, by airport: 2018–19 to 2020–21

	Airport profit ($millions)			Airport profit margin (%)		
	2018–19	2019–20	2020–21	2018–19	2019–20	2020–21
Brisbane Airport	511.88	329.04	48.14	59.14	43.69	10.76
Melbourne Airport	593.30	338.94	-106.82	56.49	40.55	-32.83
Perth Airport	244.49	128.43	26.89	48.08	32.71	10.35
Sydney Airport	987.08	631.37	148.46	59.49	45.89	18.78

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 3.1 shows that total airport profit and airport profit margins decreased for all monitored airports in 2019–20 and then fell even more significantly in 2020–21 (the first financial year fully affected by COVID-19). Melbourne Airport performed the worst of the monitored airports in 2020–21, as it was the most affected by lockdowns and other measures used by the state governments to suppress the spread of COVID-19.

Despite COVID-19 causing the biggest disruption to the aviation sector in history, Brisbane, Sydney and Perth airports reported a profit in 2020-21. Brisbane Airport have attributed this to resilient investment property revenue and operating cost reductions. Sydney Airport stated that its profit was affected by inclusion of a one-off gain for an easement over the Sydney Airport site granted to the NSW Government for the Sydney Gateway project. Sydney Airport noted that its profit would be lower if this transaction was excluded (although still positive).

The decrease in profit is primarily due to fall in revenue. The monitored airports largely charge airlines (for aeronautical services) and motorists (for car parking and landside access services) on a per passenger or per motorist basis. As a result, the significant fall in the number of

86 Return on average tangible assets is another profitability measure that indicates airports' operating profits relative to the value of their deployed tangible assets. For details, please refer to Appendix C.

passengers (and thereby motorists) directly affected the monitored airports' revenue in the provision of each of these services.

In response to the fall in revenue, the monitored airports took measures to reduce costs by:

- reducing staffing levels
- closing some car parks
- renegotiating cleaning and security contracts
- terminating kerbside management agreements
- reducing expenditure on non-essential services such as landscaping.

Perth Airport also temporarily closed Terminal 1 Domestic and restricted operation hours in two other terminals to meet reduced traffic levels and to mitigate operational costs.

Although monitored airports took various measures to reduce costs, the monitored airports only managed to reduce their total airport expenses in 2020–21 by between 6% and 14% compared with 2019–20. This was due to the fact that all the monitored airports were required to continue to operate throughout the pandemic and a substantial portion of their costs are fixed.

In addition, the monitored airports reported that they incurred additional costs relating to airport cleaning and occupational health and safety protocols, stemming from:

- higher heating, ventilation and air conditioning costs due to COVID-19 requirements for higher specification air filters and the circulation of outdoor air
- the provision of face masks and additional signage
- additional staffing and security required to enforce COVID-19 safety rules and comply with government mandates
- installation of contactless technologies.

During the consultation for this monitoring report, monitored airports informed the ACCC that they expected at least some of these COVID-19 related costs to continue into the future. This is because there are now higher expectations among the public with respect to cleaning and the provision of contactless technologies.

~~The monitored airports generally expect passenger numbers to rebound over the coming years. However, they have expressed concern that the unpredictable nature of the COVID-19 pandemic, combined with inconsistent and uncertain government border restrictions (both within Australia and globally), are creating significant uncertainties for the industry. Some monitored airports have indicated that these uncertainties are making recovery more challenging because they are impeding everyone's ability to plan and denting traveller confidence.~~

3.2.2 Impact of the COVID-19 pandemic on airlines

The significant falls in passenger numbers affected all domestic and international airlines. For example, Qantas reported that in 2020–21, its total revenue loss from the COVID-19 pandemic reached $16 billion, with Qantas posting a $2.35 billion loss for the financial year,[87] following a loss of $2.7 billion for the financial year before.[88]

87 Qantas, *Qantas Group posts significant loss from full year of COVID* [media release], Qantas, 26 August 2021, accessed 7 February 2022.

88 Qantas, *Qantas Group FY20 financial results - Navigating exceptional conditions* [media release], Qantas, 20 August 2020, accessed 7 February 2022.

Airlines made several changes to their operations in response to the pandemic. During the industry consultation for this monitoring report, several airlines informed the ACCC that they stood down staff and reduced the number of flights that they operated.

In order to mitigate the effect of the COVID-19 pandemic, the Federal Government has provided support to both airlines and airports. Airlines have received the following support from Federal Government:

- Australian Airline Financial Relief Package
- Regional Airlines Funding Assistance
- JobKeeper
- Aviation Services Accreditation Support
- Regional Airline Network Support
- Domestic Aviation Network Support
- Tourism Aviation Network Support
- Retaining Domestic Airline Capability
- International Aviation Support package.

Although this support has been primarily targeted at domestic airlines, some international airlines benefitted from the government's International Freight Assistance Mechanism.

The monitored airports have also provided assistance to airlines, which included:

- free aircraft parking to domestic and international airlines
- rent relief to airlines for services such as lounges, aeronautical services and facilities
- the use of aeronautical facilities and services on similar terms to previous agreements
- reduced fees and charges to domestic airlines seeking to establish new services.

Some airlines have acknowledged that they have received support from airports. However, airlines have also informed the ACCC that the level of support declined after the first 6 months of the pandemic.

Passenger data publicly reported by airlines indicates that there has been strong recovery in domestic travel in recent months. Qantas and Jetstar announced that they flew 110% of pre-COVID capacity over the Easter holidays and expect a similar peak in July–September 2022.[89] Virgin announced that it expects to recover to 100% of pre-COVID domestic capacity by June 2022, noting high demand for resources and contract flying.[90]

Recovery of international travel is also underway, but at a slower pace. Qantas and Jetstar announced that they expect international capacity to be just under 50% by the end of FY22, rising to around 70% for the first quarter of FY23.[91] ~~One international airline stated that the recovery in international aviation depends on a number of factors, many of which are outside the control of the industry. The ongoing pandemic continues to determine health outcomes and the responses of governments, including ongoing travel bans by a number of overseas countries that are essential to Australian markets.~~

[89] Qantas, '*Qantas group trading update: third quarter FY22*', 02 May 2022, accessed 10 May 2022.

[90] Virgin, '*Fleet growth positions Virgin Australia for higher capacity, lower emissions*', 29 April 2022, accessed 10 May 2022.

[91] ibid

3.3 Long-term trends in the overall financial performance of the monitored airports before the COVID-19 pandemic

This section examines the trends in profitability among the 4 monitored airports since 2007–08, focusing on the period prior to the COVID-19 pandemic (the impact of the pandemic was discussed in section 3.2). The ACCC has chosen 2007–08 as a starting point for the analysis because this is the first year that the ACCC has collected financial data under the line-in-the-sand approach.

3.3.1 Total airport profit margin

Figure 3.3 shows the total airport profit margin (EBITA as a percentage of total airport revenue) of each of the monitored airports between 2007–08 and 2020–21.

Figure 3.3: Total airport profit margin, by airport: 2007–08 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Figure 3.3 shows that in the period between 2007–08 and 2018–19, the monitored airports' total profit margins have consistently ranged between approximately 45 and 70%. As discussed in section 3.2, total airport profit margins decreased as a result of the COVID-19 pandemic.

For Brisbane Airport, after the initial dip in 2008–09, total airport profit margin has remained at approximately 59% for the 10 years prior to the COVID-19 pandemic.

Melbourne Airport's profit margin has gradually declined in the last 12 years prior to COVID-19 pandemic, dropping by 9.4 percentage points by 2018–19 to 56.5%.

For Perth Airport, a change in accounting treatment led to a significant increase in revenue in 2011–12 and 2012–13.[92] Since 2013–14, Perth Airport's profitability remained relatively steady, ranging between 48% and 53%.

Sydney Airport's profit margin fell in 2009–10 due to an accounting treatment which resulted in a reduction in revenue.[93] Between 2009–10 and 2018–19, Sydney Airport maintained relatively steady profit margins between 57% and 64%.

92 This resulted in an asset revaluation gain of its non-aeronautical investment property.

93 Sydney Airport's total airport revenue in 2008–09 declined due to the removal of intercompany dividends received in preparation of the accounts on a consolidated basis.

A key limitation of the existing monitoring regime is that the profit margins shown in figure 3.4 are based on historical accounting data. Given accounting rates of return do not necessarily correspond to economic rates of return, the ACCC cannot conclusively assess whether airports' profit margins are excessive. To effectively make this assessment, the ACCC would need information about the monitored' airports efficient long-run costs, among other things (refer to section 1.5.3).

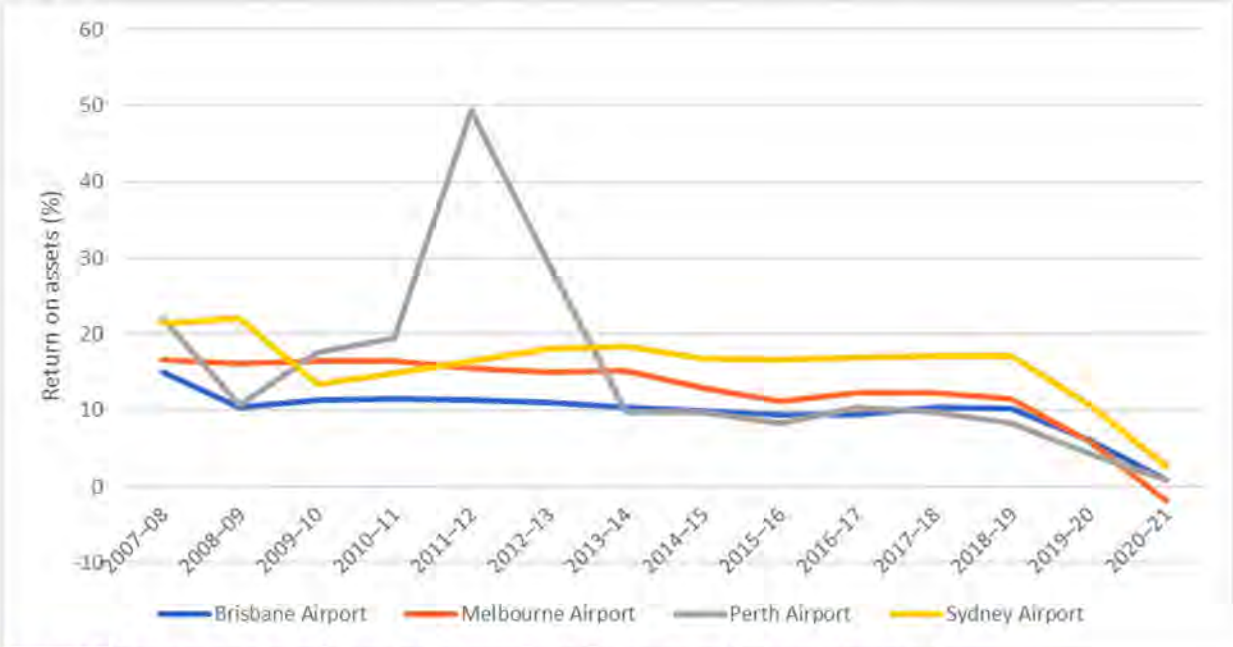
The ACCC's ability to undertake long-term trend analysis is further hindered by the monitored airports applying various accounting treatments or changing their accounting methods in relation to revenue, expenses and/or asset values.[94]

3.3.2 Rate of return on total airport tangible non-current assets

Airports are capital intensive businesses with large-scale and on-going investment to meet increases in passenger numbers. This includes infrastructure like terminals, runways, safety systems and providing buildings for handling services and commercial activities such as car parking and retails. As part of monitoring airports' financial performance, the ACCC calculates the rate of return on tangible non-current assets.

Figure 3.4 below shows how the total airport return on total airport tangible non-current assets (EBITA as percentage of average tangible non-current assets) has changed since 2007–08.

Figure 3.4: Return on total airport tangible non-current assets, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: the asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Figure 3.4 shows that Sydney Airport typically earned the highest return on tangible non-current assets of the 4 monitored airports (Perth Airport's returns in 2011–12 was affected by factors mentioned previously). Apart from the change in accounting practices affecting Sydney Airport's returns up until and including 2008–09, Sydney Airport's return on tangible non-current assets was typically between 13% and 18%.

[94] The ACCC does not have a role in assessing revaluations in non-aeronautical assets or cost allocation methodologies.

As noted previously, in 2011–12 and 2012–13 Perth Airport's EBITA was impacted because of an accounting treatment. Since 2013–14, Perth Airport had the lowest (pre-COVID-19 pandemic) return on tangible non-current assets among the four monitored airports in the range of 8-10%. Similarly, Brisbane Airport's return on tangible non-current assets had typically been ranging between 9% and 12%. Melbourne Airport's return on tangible non-current assets had been trending downward since 2007–08, dropping from 16.6% in 2007–08 to as low as 11.2% in 2015–16.

As mentioned in section 3.2, the return on total airport tangible non-current assets decreased as a result of the COVID-19 pandemic.

As mentioned earlier, the ACCC relies solely on accounting-based asset values to calculate the return on total airport tangible non-current assets. This could lead to misleading results for several reasons. Since 2007–08, the ACCC required airport operators to provide information regarding the aeronautical asset base under the line-in-the-sand (LIS) approach. This is in accordance with the recommendation from the 2007 PC inquiry[95] to stop the monitored airports from raising charges on the basis of periodically revaluing their aeronautical assets. However, the LIS approach does not extend to non-aeronautical assets, so the monitored airports may revalue these assets for monitoring purposes. This would affect the return on tangible non-current assets shown in Figure 3.5.

Further, the LIS approach incorporates new investments valued at actual cost. Without an efficiency assessment, the actual cost incurred and the assets in place may not necessarily be efficient. The return on tangible non-current assets measured can reflect a degree of inefficient investment decision.

The ACCC cannot conclusively determine whether the monitored airports' rates of return are consistent with the degree of risks they face.

[95] Productivity Commission, *Inquiry into Price Regulation of Airport Services (2007)*, Productivity Commission website, April 2007, accessed 18 April 2022.

4. Aeronautical services

The primary function of an airport is to provide aeronautical services to airlines and by extension, members of the public. Aeronautical operations are those that directly relate to the provision of aviation services including runways, aprons, aerobridges, departure lounges, check-in facilities and baggage handling facilities.

This chapter presents the key operating and financial results in relation to the aeronautical operations of the monitored airports. Specifically, this chapter covers:

- the impact of the COVID-19 pandemic on monitored airports' aeronautical financial results
- long-term trends in the provision of aeronautical services prior to the COVID-19 pandemic.

This chapter is based on financial and operational information the ACCC has obtained from the monitored airports as well as consultation and broader research the ACCC has undertaken in preparation for this year's report.

The financial figures in this chapter are presented in real terms with values in 2020–21 dollars.[96] All references in this chapter to 'profit' or 'operating profit' refer to earnings before interest, tax and amortisation (EBITA).

4.1 The impact of the COVID-19 pandemic on monitored airports' aeronautical financial results

As described in Chapter 3, the COVID-19 pandemic has adversely affected airports due to the border closures and the associated lack of passengers, as well as other restrictions that impacted their operations.

Table 4.1 below shows how these factors affected aeronautical profit (or loss) and margins for each of the monitored airports over the course of the COVID-19 pandemic.

Table 4.1: Aeronautical profit and margins, by airport: 2018–19 to 2020–21

	Aeronautical profit ($m)			Aeronautical profit margin (%)		
	2018–19	2019–20	2020–21	2018–19	2019–20	2020–21
Brisbane Airport	194.5	95.7	-84.6	46.9	27.3	-59.9
Melbourne Airport	200.3	77.5	-169.6	40.1	18.9	-133.2
Perth Airport	78.0	41.0	-35.2	34.2	21.5	-37.8
Sydney Airport	416.5	183.7	-153.1	45.0	25.3	-56.5

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

As shown in Table 4.1, in 2019–20 all monitored airports reported large reductions in profit, driven by the reduction in passenger numbers. In 2020–21, all four monitored airports incurred significant losses in their aeronautical operation.

This drop in profit was largely due to significant decrease in aeronautical revenue. The fall in aeronautical revenue for monitored airports between 2018–19 and 2020–21 ranged from 59.1% for Perth Airport to 74.5% for Melbourne Airport.

96 Deflator series derived from the Australian Bureau of Statistics (2022) *Consumer Price Index, Australia* (cat. no. 6401.0, tables 1 and 2, Index Numbers; All Groups CPI; Australia), accessed 30 September 2021. Base year for the ACCC deflator series is 2020–21.

Airports also incurred additional aeronautical expenses due to the COVID-safe and Occupational Health and Safety protocols, including extra cleaning services, air filtration requirements, additional protective equipment for staff and passengers, security to enforce social distancing rules and extra signage.

The monitored airports took steps to reduce their aeronautical expenses during the pandemic by reducing staff, reducing operating hours, closing terminals, and renegotiating security and cleaning contracts. However, as airports remained open throughout the pandemic, their overall aeronautical expenses either remained unchanged or decreased slightly between 2018–19 and 2020–21.

4.2 Long-term trends in provision of aeronautical services before the COVID-19 pandemic

This section examines the long-term trends in the provision of aeronautical services by the four monitored airports, focusing on the period prior to the COVID-19 pandemic (the impact of the pandemic was discussed in section 4.1). The ACCC has chosen 2007–08 as a starting point for the analysis because this is the first year that the ACCC has collected financial data under the line-in-the-sand approach.

Further details on activity levels (for example, tonnes landed and aircraft movements) and financial results can also be found in the *supplementary database* that accompanies this report.

The historical financial results in this section are affected by how the monitored airports have operated their terminals over time. Some of airports' terminals were operated by the airport and some directly by airlines under a domestic terminal lease. These arrangements have changed over time, as some domestic terminal leases expired, and airports have taken over operation of those terminals. Box 4.1 explains how the reporting of aeronautical data relating to domestic terminal leases by the monitored airports and the changing of the arrangements over time has affected the ACCC's reporting of aeronautical data.

Box 4.1: How changes in reporting of, and arrangements for, domestic terminal leases impacted on aeronautical data reported by the ACCC

The ACCC reports aeronautical revenue, expenses and operating profits based on data reported by the monitored airports relating to provision of aeronautical services.

In 2007–08, each monitored airport operated some of the airport's terminals itself and had at least one terminal that was operated by airlines under a domestic terminal lease. This affected the way that the monitored airports reported their aeronautical expenses and revenues.

The monitored airports did not report any expenses that they incurred from the terminals operated by airlines under domestic terminal leases as aeronautical expenses. This is because the expenses that they incur from these terminals are not classified as aeronautical expenses.

The monitored airports' reporting of aeronautical revenue relating to the domestic terminal leases depended on the structure of pricing by the relevant airport. It was common for monitored airports to levy separate airfield and terminal charges. The monitored airports did not levy terminal charges in relation to domestic terminal leases, as they did not operate those terminals and the lease payments that they received were not counted as aeronautical revenue.

However, the monitored airports levied airfield charges on airlines irrespective of which terminal they used. Therefore, the monitored airports collected some revenue from airlines that were using domestic lease terminals. The monitored airports included this revenue as part of their overall aeronautical revenue that they reported to the ACCC.

This means that the aeronautical data reported by the monitored airports was slightly skewed, as the monitored airports reported some revenue relating to domestic terminal leases but did not report any associated aeronautical expenses. Each monitored airport recovered a different proportion of its total aeronautical revenue through airfield charges (versus terminal charges). Therefore, the extent to which this reporting discrepancy affected the aeronautical results of each airport varied across the monitored airports.

In the past seven years, all domestic terminal leases have expired, and the monitored airports have resumed operating them. Qantas handed back domestic terminal T3 to Sydney Airport in late 2015. The remaining domestic terminal leases expired during 2018–19: the Virgin and Qantas parts of the domestic terminal in Brisbane (December 2018), the Qantas terminal (T4) in Perth (January 2019) and the Qantas terminal (T1) in Melbourne (June 2019).

This means that the monitored airports are now reporting all revenues and costs associated with all the terminals at their airports as aeronautical related. This means that the aeronautical data reported by the monitored airports is no longer skewed. However, this also means that the change in ownership of the domestic terminal leases needs to be taken into account when examining and comparing aeronautical results for each airport over time.

4.2.1 Aeronautical revenue per passenger

Airlines pay aeronautical charges to airports to access the aeronautical facilities. Those charges are typically negotiated confidentially by airports and airlines. The ACCC does not obtain the prices that are negotiated between airports and airlines.[97] To analyse the trends in monitored airports' prices, the ACCC uses aeronautical revenue per passenger as a proxy for the average price that the monitored airports charge airlines.

Figure 4.1 below shows the trend in aeronautical revenue per passenger at the monitored airports between 2007–08 and 2020–21.

97 The ACCC does collect the list prices which can be found in Appendix BA. However, these prices are only used in limited situations.

Figure 4.1: Aeronautical revenue per passenger in real terms, by airport: 2007–08 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars. The dashed lines in the chart represents the period following the expiry of the relevant domestic terminal leases.

Figure 4.1 shows that in the period between 2007–08 and 2018-19, aeronautical revenue per passenger has trended upward for each monitored airport. The aeronautical revenue per passenger in the last two financial years has been affected by the COVID-19 pandemic.

Melbourne Airport's aeronautical revenue per passenger increased by 32% in the period between 2007–08 and 2018–19. Aeronautical revenue per passenger was largely unchanged between 2007–08 and 2010–11. Melbourne Airport then signed new aeronautical service agreements (ASA) with airlines commencing on 1 July 2012 and expiring on 30 June 2017. Aeronautical revenue per passenger gradually increased over the period of this ASA, indicating that aeronautical prices under this ASA increased in real terms. Melbourne Airport then signed the current ASA with airlines, commencing on 1 July 2017 and expiring on 30 June 2022. Aeronautical revenue per passenger was largely unchanged in the first few years of this ASA.

Brisbane Airport's aeronautical revenue per passenger increased by 57% between 2007–08 and 2017–18. Brisbane Airport signed a new ASA with airlines to recover the capital costs associated with the construction of a new runway, commencing on 1 September 2012 and expiring on 30 June 2023. Aeronautical revenue per passenger has been increasing in the period between 2012–13 and 2018–19, in part, due to the charges that airlines were paying under this ASA. Increase in aeronautical revenue per passenger between 2017–18 and 2018–19 is, at least in part, due to expansion of Brisbane Airport's aeronautical revenue base following expiry of domestic terminal lease held by Qantas and Virgin (as per Box 4.1).

Perth Airport's aeronautical revenue per passenger increased by 59.4% between 2007–08 and 2017–18. Aeronautical revenue per passenger was relatively constant in the period between 2007–08 and 2011–12. Perth Airport then signed new ASAs with the domestic airlines for aircraft-related services and facilities commencing between 1 July 2011 and 1 July 2012, expiring on 30 June 2018. In addition, Perth Airport entered new ASAs with international airlines between 1 July 2011 and 20 December 2013, expiring on 30 June 2019. Aeronautical revenue per passenger (from landing and terminal charges from both international and domestic passengers) gradually increased over the period between 2011–12 and 2017–18, indicating that aeronautical prices under the ASAs on foot during this period increased in real terms. Perth Airport stated that they increased charges to recover the costs of investments designed to increase capacity.

Sydney Airport's aeronautical revenue per passenger was relatively constant in the period between 2007–08 and 2014–15, increasing by 3.6%. Aeronautical revenue per passenger has gradually increased since 2015–16. At least in part, this is due to expiry of Qantas' domestic terminal lease in late 2015 (as discussed in Box 4.1). Sydney Airport entered new ASAs with most international airlines and some large domestic airlines in 2015. Therefore, increase in revenue per passenger may also reflect higher prices under those ASAs.

Change in aeronautical prices is not the sole driver behind the change in aeronautical revenue per passenger across the monitored airports over time. Since 2007–08, the proportion of international passengers has increased at each monitored airport (the number of international passengers visiting each airport increased at a faster rate than the number of domestic passengers). This increase in proportion of international passengers visiting the monitored airports somewhat contributed to an increase in overall aeronautical revenue per passenger prior to the COVID-19 pandemic as the monitored airports charge higher prices for international passengers than domestic passengers.

However, the ACCC considers that increases in aeronautical revenue per passenger in the period between 2007–08 and 2018–19 were, at least for some monitored airports, primarily due to higher aeronautical prices (in real terms). This is not a cause for concern in itself, as higher prices could be driven by increasing operating expenses or capital costs, or higher quality of services. The relevant question is whether the monitored airports have exercised their market power to consistently achieve prices well above levels that would otherwise be attained in a competitive market. This involves further assessment of whether the pricing reflects efficient costs.

Airlines have regularly raised concerns about increases in aeronautical charges over the years. During the 2019 Productivity Commission (PC) inquiry, Qantas submitted that Australian airports are significantly more expensive than their counterparts in most other regions, and airport-related expenses contribute a greater portion of overall airline costs for Australian carriers than for foreign carriers.[98] International Air Transport Association (IATA) presented findings showing that the Australian monitored airports have higher charges than most other airports globally.[99] Virgin Australia submitted that higher airport charges are being passed through to airlines' customers, resulting in charges for air travel that are higher than would be the case if there was effective (or workable) competition.[100]

Figure 4.1 also shows that aeronautical revenue per passenger have increased for all four of the monitored airports over the course of the COVID-19 pandemic. Between 2018-19 and 2020-21, the increases ranged from 0.9% for Perth Airport to 70.4% for Sydney Airport.

4.2.2 Quality of aeronautical service

The quality of aeronautical service analysis in this section draws on information from several different sources. These sources include airport operators' surveys of passengers and ACCC surveys of airlines. Box 4.2 below outlines how the aeronautical quality of service measure is calculated.

Box 4.2: How aeronautical quality of service ratings are calculated by the ACCC

The passenger perception surveys are arranged by each airport and may differ in their coverage and detail. However, these surveys provide information consistent with that

98 Qantas Group, *Submission No. 48 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018, p 14, accessed 8 April 2022.

99 International Air Transport Association (IATA), *Submission No. 27 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018, p 8, accessed 8 April 2022.

100 Virgin Australia, *Submission No. 54 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018, p 9, accessed 8 April 2022.

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, and airport access for arriving and departing passengers.

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.

Airlines are also asked to rate the airport operator's responsiveness or approach to addressing problems and concerns with the above facilities.

In addition, 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. These are then converted into a score.[101]

The ACCC calculates the rating for aeronautical services by combining scores that the airport achieved against each of the specific quality of service measures from airline surveys, passenger surveys and objective indicators.

The ACCC has temporarily paused collecting quality of service data since 2018–19 due to the COVID-19 pandemic.

Figure 4.2 shows the changes in quality of aeronautical services between 1997–98 and 2018–19.

101 This process consists of producing a set of benchmarks for each measure based on how the four airports performed against that measure. If an airport's performance against that measure is equal to the average performance across the four airports in that year, it will receive a score of 3 out of five. 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.

Figure 4.2: Ratings of quality of aeronautical services, by airport: 1997–98 to 2018–19

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Figure 4.2 shows that the ratings of quality of aeronautical services across all monitored airports have either decreased slightly or remained relatively unchanged in the period between 1997–98 and 2018–19.

Focusing on the period between 2007–08 and 2018–19 (the same period as in Figure 4.1):

- Brisbane and Melbourne airports' ratings of quality of aeronautical services are about the same in 2018–19 as they were in 2007–08.
- Perth and Sydney airports' ratings of quality of aeronautical services increased in the period between 2007–08 and 2018–19. However, their ratings declined leading up to 2007–08, so their ratings in 2018–19 are on par with the ratings each of the airports achieved prior to 2007–08.

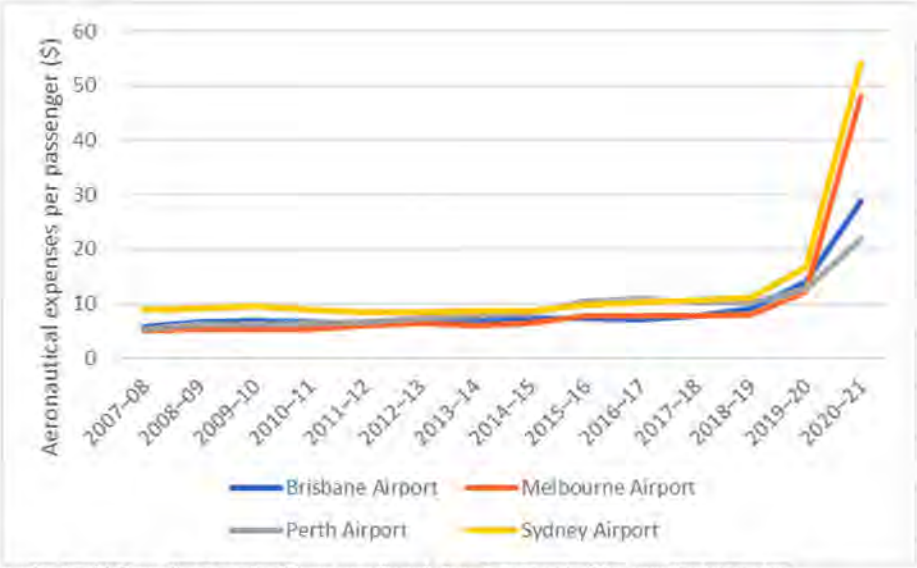
Collectively, the four monitored airports invested $11.5 billion in tangible non-current aeronautical assets in real terms between 2007–08 to 2020–21. Figure 4.2 suggests that, at least from the point of view of airlines and passengers, this investment has merely maintained the quality of service rather than improved it.

Overall, to the extent that increases in aeronautical revenue per passenger discussed in the previous section reflect increases in aeronautical prices, they do not appear to be explained by increases in the quality of aeronautical services.

4.2.3 Aeronautical expenses per passenger

Figure 4.3 shows how aeronautical expenses per passenger of the monitored airports have changed between 2007–08 and 2020–21.

Figure 4.3: Aeronautical expenses per passenger in real terms, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars. The dashed lines in the chart represents the period following the expiry of the relevant domestic terminal leases.

Figure 4.3 shows that aeronautical expenses per passenger have increased at all four monitored airports since 2007–08.

In the period between 2007–08 and 2018–19, Melbourne Airport's expenses per passenger increased by 4.1% per year on average.

In the period between 2007–08 and 2017–18, Perth Airport's expenses per passenger increased by 6.5% per year on average. Perth Airport stated that the increase in expenses per passenger from 2014–15 to 2015–16 was mainly as a result of increased depreciation expenses associated with the construction of the T1 domestic terminal.

Brisbane Airport's expenses per passenger increased by 3.2% per year on average between 2007–08 and 2017–18. Increases in the aeronautical expenses per passenger of these two airports between 2017–18 and 2018–19 were, at least in part, due to expiry of domestic terminal leases.

Aeronautical expenses per passenger were broadly consistent at Sydney Airport in the period between 2007–08 and 2014–15. Aeronautical expenses per passenger have increased since 2015–16 by 4.6% per year, at least in part, due to expiry of the domestic terminal lease.

This suggests that, for at least some of the monitored airports, increases in aeronautical prices in the period between 2007–08 and 2018–19 may have been, at least in part, driven by higher aeronautical expenses.

However, the Australian Government's Aeronautical Pricing Principles state that airports should set their prices to recover efficient (rather than actual) costs of providing a service (discussed further in chapter 2). With the information collected at present, the ACCC cannot assess the efficiency of expenses of the monitored airports.

Some airlines have raised concerns that expenses incurred by at least some monitored airports are not efficient. For example, during the 2019 PC inquiry, Qantas submitted that airports have

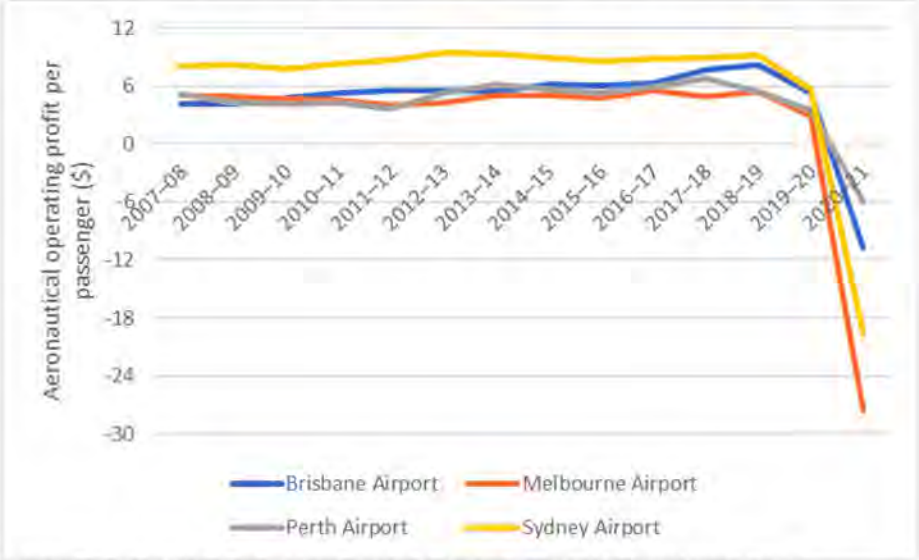
not generated operational efficiencies and productivity gains despite rising passenger volumes and improving technology.[102]

Figure 4.3 also shows that aeronautical expenses per passenger have increased for all four of the monitored airports over the course of the COVID-19 pandemic. This is because aeronautical expenses are largely fixed so expenses don't fall as fast as passenger numbers.

4.2.4 Aeronautical operating profit per passenger

Figure 4.4 shows how aeronautical operating profit (EBITA from aeronautical activity) per passenger of the monitored airports changed between 2007–08 and 2020–21.

Figure 4.4: Aeronautical operating profit per passenger, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars. The dashed lines in the chart represents the period following the expiry of the relevant domestic terminal leases.

Figure 4.4 shows that aeronautical operating profit per passenger increased for all the monitored airports between 2007–08 and 2020–21.

In the period between 2007–08 and 2018–19, Melbourne Airport's aeronautical operating profit per passenger increased at 0.6% per year.

In the period between 2007–08 and 2017–18, Perth Airport's aeronautical operating profit per passenger increased by 2.7% per year on average, while Brisbane Airport's aeronautical operating profit per passenger increased by 6.4% per year on average. Increases in the aeronautical operating profit per passenger of these two airports between 2017–18 and 2018–19 were, at least in part, due to expiry of domestic terminal leases.

In the period between 2007–08 and 2014–15, Sydney Airport's aeronautical operating profit per passenger increased by 1.4% per year on average. Sydney Airport's operating profit per passenger results from 2015–16 have been affected by expiry of the domestic terminal lease.

A higher aeronautical operating profit per passenger means that revenue per passenger, and therefore aeronautical prices, have increased at a faster rate than expenses per passenger.

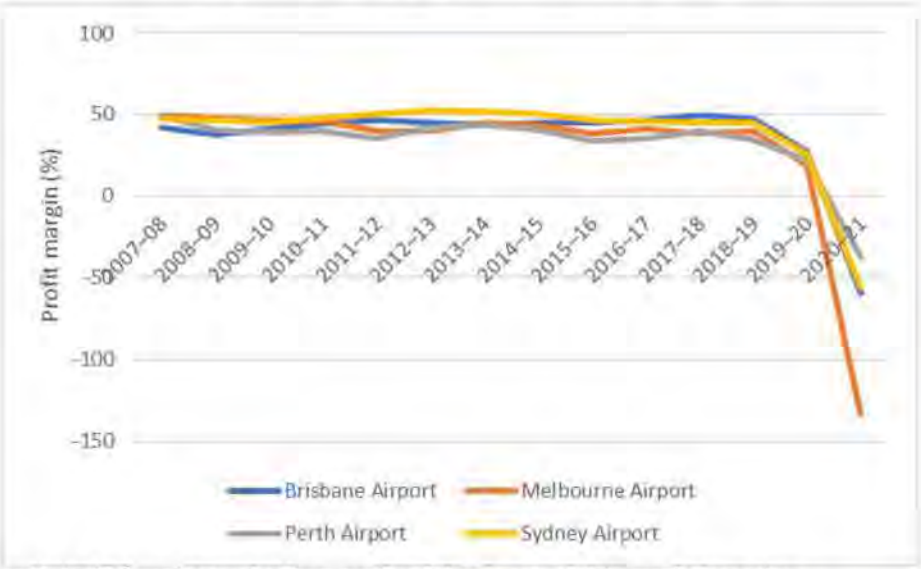
102 Qantas, *Submission No. 48 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, p 20.

Figure 4.4 also shows that the COVID-19 pandemic has caused the operating profit per passenger to decrease.

4.2.5 Aeronautical profit margin

This section examines how profitability of monitored airports' aeronautical operations has changed over time. Figure 4.5 below shows the trend in aeronautical operating profit (EBITA) as a percentage of aeronautical revenue (aeronautical profit margin) of the four monitored airports between 2007–08 and 2020–21.

Figure 4.5: Aeronautical profit margin, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Figure 4.5 shows that aeronautical profit margins fluctuated in the period between 2007–08 and 2018–19, but generally stayed between 33% and 53%. In addition, figure 4.5 also shows aeronautical profit margins decreased for all four of the monitored airports over the course of the COVID-19 pandemic.

Melbourne and Perth airports' aeronautical profit margins trended downward between 2007–08 and 2018–19. In part, this was due to an increase in depreciation costs associated with the new T4 terminal at Melbourne Airport and the new T2 domestic and T1 domestic terminals at Perth Airport.

Sydney's aeronautical profit margins trended downward starting in 2013–14. a significant part of this decrease occurred since 2015–16 and this was mainly due to the inclusion of revenue and expenses related to the Qantas domestic terminal which was purchased by Sydney Airport in August 2015.[103] Profitability was also affected because of increases in expenses associated with a new international airline agreement which included commitments to deliver improved standards throughout the airport.

Brisbane Airport was the only monitored airport that has increased its profit margins over time. By 2018–19, its aeronautical profit margin was 5 percentage points higher than it was in 2007–08.

As discussed in Chapter 3, the ACCC's calculations of operating profit are based on accounting data. This means that the ACCC cannot be conclusive as to whether the observed operating

103 See Box 4.1 for more detail on how the expiry of domestic terminal leases affect aeronautical revenue and expenses.

profits are excessive. However, various studies have found that the monitored airports' profit margins are high by international standards:

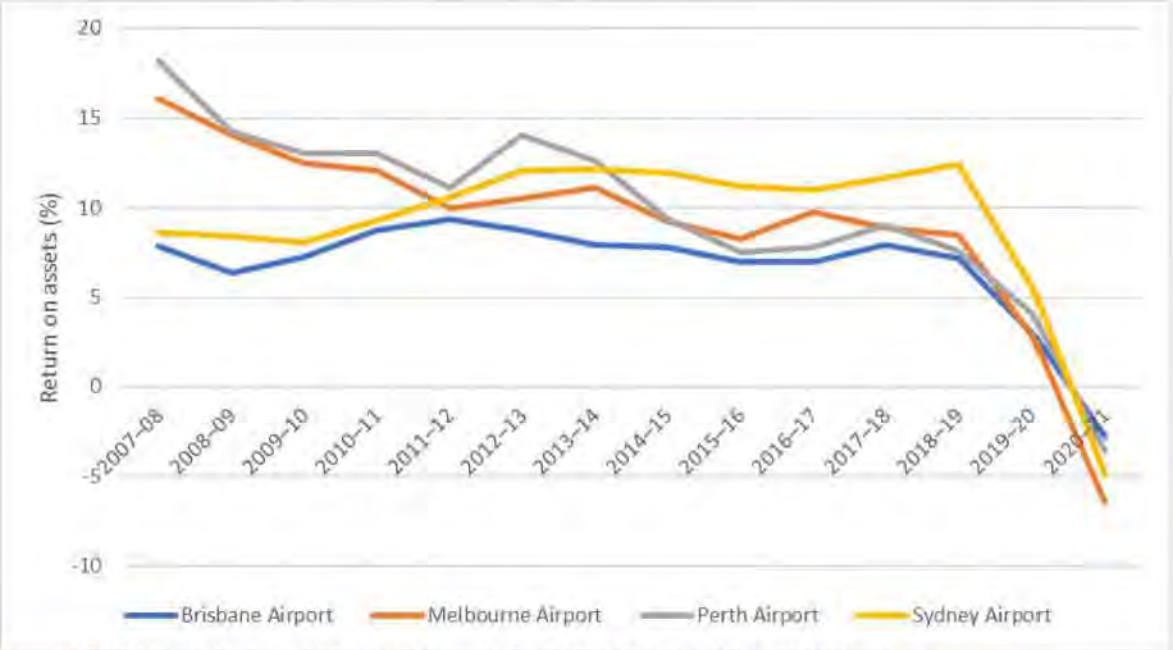
- Frontier Economics found that the average profit margins of the four Australian monitored airports were much higher than of non-Australian airports[104]
- IATA also found that Australian monitored airports' profit margins were much higher than comparable airports worldwide.[105]

4.2.6 Return on tangible non-current aeronautical assets

The ACCC also monitors the return on tangible non-current aeronautical assets (defined as EBITA from aeronautical activity as a percentage of average total tangible non-current aeronautical assets).

Figure 4.6 below shows the trend in returns on tangible non-current aeronautical assets between 2007–08 and 2020–21.

Figure 4.6: Return on tangible non-current aeronautical assets, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: the asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Figure 4.6 shows that Melbourne and Perth airports' return on tangible non-current aeronautical assets trended downward from 16.1% and 18.2% to 8.5% and 7.6% respectively by 2018–19. This was mainly due to expansion in aeronautical asset bases (refer to chapter 8 for more details). In addition, all four monitored airports' return on tangible non-current aeronautical assets decreased over the course of the COVID-19 pandemic.

In the period between 2007–08 and 2018–19, Brisbane Airport's return on tangible non-current aeronautical assets has remained broadly the same, as both its operating profit and aeronautical asset base increased significantly during this period.

104 Airlines for Australia and New Zealand (A4ANZ), *The performance & impact of Australia's Airports since privatisation: A preliminary report prepared by Airlines for Australia & New Zealand*, A4ANZ, May 2018, pp 9–10, accessed 13 April 2022.

105 IATA, *Submission No. 27 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, pp 13-14.

Sydney Airport's returns on tangible non-current aeronautical assets increased from 8.6% in 2007–08 to 12.1% in 2013–14. Between 2012–13 and 2018–19, returns on tangible non-current aeronautical assets remained around 11% or 12%, well above the other monitored airports. This reflects minimal expansion of its tangible non-current aeronautical asset base, in part due to Sydney Airport's limited capacity for expansion.

A study completed by the Grattan Institute in 2017, showed that on average, nearly half of returns of equity earned by airport operators in Australia were 'super-normal' profits.[106] The Grattan Institute found that Australian airports had the third highest returns of the nine industries categorised as natural monopolies (behind wired telecom and electricity distribution).[107]

106 J Minifie, C Chisholm, and L Percival, *Competition in Australia: Too little of a good thing?* [Grattan Institute Report No. 2017-12], Grattan Institute, 12 December 2017, pp 32–33, accessed 13 April 2022.

107 Ibid., p 39.

5. Car parking

Airports provide short-term and long-term car parking services to travellers, which compete (to some extent) with independent car parking operators and other landside transport modes.

This chapter presents an overview of the car parking services across the monitored airports, including car parking activities, prices and financial results.

Specifically, this chapter will discuss:

- how the ACCC monitors airport car park pricing
- impact of the COVID-19 pandemic on car parking activity, pricing and financials
- long-term trends with respect to the monitored airports' car parking services.

The analysis in this chapter is based on information the ACCC has received from the monitored airports as part of the monitoring regime. The ACCC did not collect quality of service data in relation to airports' parking services in 2020–21, to reduce the reporting burden on airports following the onset of the pandemic.

All dollar figures presented in this chapter are expressed in 2020–21 dollars. All references in this chapter to 'profit' or 'operating profit' refer to earnings before interest, tax and amortisation (EBITA).

5.1 Monitoring airports' car parking prices

Car parking prices at the monitored airports are determined by a number of factors including the length of stay, the proximity of the car park to the terminal, whether the car park is covered or open, whether it is booked in advance and customer demand.

There are two types of economic rents that airport operators can incorporate when setting prices for car parking: locational rents and monopoly rents. Airports charge customers different rates to account for factors such as length of stay and the type of car parking used. To some degree, these prices reflect value of the land; that is, the convenience of parking within a short walk from airport terminals and the willingness to pay for that convenience. Another reason for the different prices between different carparks is the need for airports to manage growing demand for space near the terminal entrances. These are referred to as locational factors. It is efficient for prices to be set with consideration of locational factors. At the margin, the prices paid reflects the opportunity cost of the land in that location.

However, airports still have the ability to raise prices above efficient levels (that is, collect revenue in excess of locational rents, referred to as monopoly rents) by constraining its provision, particularly for services where they possess significant market power. The extent of the market power that monitored airports have in relation to car parking depends on a number of factors, including the degree to which consumers' needs (for example, convenience, cost) can be met by alternative transport modes or an independent car park operator located in close proximity to the airport. The objective of the ACCC's monitoring is to assess whether monitored airports are extracting monopoly rents, which results in a loss of economic welfare.

All airports offer short-term at-terminal and long-term at-distance parking, as well as a range of products and services in between. The ACCC focuses its analysis on two common types of parking in particular:

- short-term parking (parking for a period of up to a day) at a car park located at the terminal, with the motorist paying drive-up rates

- long-term parking (parking for a period of one or more days) at a car park located at a distance from the terminal, where motorists may pay drive-up rates or book online in advance.

The ACCC's monitoring has some limitations. In particular, the ACCC considers that changes in individual price points are not reliable indicators of changes in overall price levels. For example, an airport may reduce the majority of price points but increase a strategic price point such as a heavily used 2-hour drive-up rate. This may give the impression that prices have gone down or not changed when in fact overall price (that is, average price weighted by revenue share) may have increased.

5.2 Impact of the COVID-19 pandemic on car parking services

In 2020–21, airports were significantly affected by the continuing closure of Australia's international borders, along with domestic travel restrictions. Airports saw substantial falls in both domestic and international passenger numbers (as discussed in chapter 3).

This section will discuss the impact of the COVID-19 pandemic on monitored airports' parking services. It covers the impact on vehicle throughput, and the financial impact on the airports. It also covers some of the measures each airport took to mitigate the impact of the pandemic on its car parking operations.

5.2.1 Car parking activity

Table 5.1 shows average daily vehicle throughput across the monitored airports for 2018–19 (the year immediately preceding the pandemic) and the two following years.

Table 5.1: Daily average vehicle throughput by airport: 2018–19 to 2020–21

	Daily average throughput in 2018–19	Daily average throughput in 2019–20	Daily average throughput in 2020–21	Change 2018–19 to 2019–20 (%)	Change 2019–20 to 2020–21 (%)
Brisbane	7 483	5 895	2 812	-21.2	-52.3
Melbourne	8 723	6 651	1 516	-23.8	-77.2
Perth	4 766	3 527	1 601	-26.0	-54.6
Sydney	11 190	7 964	1 374	-28.8	-82.7

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

In 2019–20, the impact of COVID-19 was largely restricted to the fourth quarter of that year, and the fall in throughput was more limited across all airports. By contrast, the impact of COVID-19 was felt throughout all of 2020–21, with average daily throughput declining significantly from pre-pandemic levels. Falls in throughput from 2019–20 to 2020–21 were much more pronounced at Melbourne Airport (77.2%) and Sydney Airport (82.7%), where the decrease in passenger numbers from pre-pandemic levels was most substantial.

5.2.2 Car parking revenue, costs and profits

Table 5.2 shows the car parking revenue across the monitored airports in the period between 2018–19 and 2020–21.

Table 5.2: Car parking revenue in real terms by airport: 2018–19 to 2020–21

	Revenue in 2018–19 ($millions)	Revenue in 2019–20 ($millions)	Revenue in 2020–21 ($millions)	Change 2018–19 to 2019–20 (%)	Change 2019–20 to 2020–21 (%)
Brisbane	110.3	84.6	44.4	-23.3	-47.5
Melbourne	149.8	110.7	37.1	-26.1	-66.5
Perth	63.6	50.5	34.7	-20.5	-31.4
Sydney	137.6	103.0	33.5	-25.2	-67.5

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

As Table 5.2 shows, revenue decreased significantly from pre-pandemic levels across all the monitored airports, reflecting the substantial decrease in demand for airports' parking services. Again, Melbourne and Sydney Airports' revenue decreased to the largest extent (by 66.5% and 67.5% respectively), reflecting the fact that the fall in throughput was greatest at these airports.

Table 5.3 shows the operating profits of each monitored airport in the period between 2018–19 and 2020–21.

Table 5.3: Car parking operating profit in real terms by airport: 2018–19 to 2020–21

	Operating profit in 2018–19 ($millions)	Operating profit in 2019–20 ($millions)	Operating profit in 2020–21 ($millions)	Change 2018–19 to 2019–20 (%)	Change 2019–20 to 2020–21 (%)
Brisbane Airport	74.1	51.2	25.5	-31.0	-50.3
Melbourne Airport	79.9	53.7	-8.7	-32.8	-116.3
Perth Airport	36.6	26.8	15.2	-26.8	-43.2
Sydney Airport	93.7	61.5	4.8	-34.4	-92.1

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.3 shows that car parking operating profits significantly decreased across all four monitored airports during the pandemic. In 2020–21, Melbourne Airport reported an operating loss from its car parking services. Sydney Airport's operating profit decreased by 92.1% from the previous year, although it still managed to return a small operating profit ($4.8 million).

Table 5.4 shows car parking operating profit margins for each of the monitored airports in the period between 2018–19 and 2020–21.

Table 5.4: Car parking operating profit margins in real terms by airport: 2018–19 to 2020–21

	Profit margin in 2018–19 (%)	Profit margin in 2019–20 (%)	Profit margin in 2020–21 (%)	Change 2018–19 to 2019–20 (%-points)	Change 2019–20 to 2020–21 (%-points)
Brisbane	67.2	60.5	57.3	-6.7	-3.2
Melbourne	53.3	48.5	-23.5	-4.8	-72.1
Perth	57.6	53.1	43.9	-4.6	-9.2
Sydney	68.1	59.7	14.5	-8.4	-45.2

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.4 shows that car parking operating profit margins across all monitored airports decreased during the pandemic. Melbourne and Sydney Airports' operating profit margins fell the most, with Melbourne Airport reporting a negative car parking operating profit margin for 2020–21.

5.2.3 Response to the COVID-19 pandemic

Table 5.5 shows car parking operating expenses across the monitored airports in the period between 2018–19 and 2020–21.

Table 5.5: Car parking operating expenses in real terms by airport: 2018–19 to 2020–21 ($m)

	Operating expenses in 2018–19 ($millions)	Operating expenses in 2019–20 ($millions)	Operating expenses in 2020–21 ($millions)	Change 2018–19 to 2019–20 (%)	Change 2019–20 to 2020–21 (%)
Brisbane	36.1	33.4	19.0	-7.6	-43.2
Melbourne	70.0	57.0	45.9	-18.5	-19.6
Perth	26.9	23.7	19.5	-11.9	-18.0
Sydney	43.9	41.5	28.6	-5.5	-31.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.5 shows that car parking operating expenses decreased across all monitored airports in the last two years. This is because each of the monitored airports implemented measures to cut costs in response to the lower demand for car parking services and falling revenue.

Brisbane Airport temporarily stopped providing valet parking services, due to the lack of demand and risk of contact between staff and customers. It also closed off certain levels of its public car parking to reduce staffing, maintenance and utilities costs.

Melbourne Airport closed some of its car parks. It also reduced operational expenditure by reducing carpark and forecourt security labour and car park bussing expenses to/from the staff and long-term car parks.

Perth Airport temporarily closed some long-term car parks and reduced bussing and cash collection services. Perth Airport also reduced staffing costs by standing down employees, reducing pay for senior management, asking staff to take leave or work reduced hours, and by reducing contractor levels.

Sydney Airport closed its domestic long-term car park for a period of almost 9 months and its P3 domestic multi-level parking facilities from 1 July 2020 until 22 November 2020. These closures allowed it to save on operating expenses at those car parks, including cleaning, operating of lifts, travelators and lighting, as well as to save on car parking management fees.[108]

Despite achieving cost reductions on account of these measures, airports did not reduce expenses to the same extent as revenue had decreased. As a result, operating profits fell across all monitored airports.

One reason for this is that a large proportion of airports' car parking costs are fixed costs. As airports had to remain open throughout the pandemic, they were limited in the extent to which they were able to reduce expenditure. Airports also incurred further costs in implementing additional facility cleaning and occupational health and safety measures in response to the pandemic (in line with requirements from state and federal governments). Perth Airport also stated that it incurred additional costs in implementing contactless technologies in its parking facilities in response to the pandemic.[109]

5.2.4 Car parking prices

This section examines changes in short-term and long-term parking prices since the onset of the pandemic.

Short-term prices

Table 5.6 shows short-term at-terminal drive-up parking prices for selected durations for each of the monitored airports in the year preceding the pandemic (2018–19) and the two following years.[110]

Table 5.6: Short-term at-terminal drive-up car parking prices in real terms by airport: 2018–19 to 2020–21

	30-Jun-19	28-Mar-20	30-Jun-21	Change 30-June-19 to 28-Mar-20 (%)	Change 28-Mar-20 to 30-Jun-21 (%)
Brisbane					
30-60 minutes	$18.54	$19.31	$19.00	4.2	-1.6
1 to 2 hours	$22.66	$23.37	$23.00	3.2	-1.6
2 to 3 hours	$27.80	$28.45	$28.00	2.3	-1.6
3 to 4 hours	$28.83	$29.47	$29.00	2.2	-1.6
up to 24 hours	$57.67	$57.92	$57.00	0.4	-1.6
Melbourne					
30-60 minutes	$12.36	$15.24	$15.00	23.4	-1.6
1 to 2 hours	$24.72	$29.47	$30.00	19.2	1.8
2 to 3 hours	$24.72	$29.47	$45.00	19.2	52.7
3 to 4 hours	$35.01	$39.63	$49.00	13.2	23.6
up to 24 hours	$52.52	$51.83	$49.00	-1.3	-5.5
Perth					
30-60 minutes	$13.80	$14.02	$15.00	1.6	7.0
1 to 2 hours	$20.39	$20.93	$22.20	2.7	6.0

108 Sydney Airport, *Sydney Airport Annual Report 2020*, Sydney Airport website, 2020, p 28, accessed 22 April 2022.
109 PER survey response, p 7 [non-confidential]; PER annual report 2021, p 22.
110 Drive-up prices are given for a particular point in time during the year, usually (but not always) the final day of the financial year.

2 to 3 hours	$23.69	$23.78	$24.00	0.4	0.9
3 to 4 hours	$25.74	$25.81	$25.60	0.3	-0.8
up to 24 hours	$50.46	$51.83	$54.40	2.7	5.0
Sydney					
30-60 minutes	$19.98	$20.22	$19.90	1.2	-1.6
1 to 2 hours	$28.32	$28.35	$27.90	0.1	-1.6
2 to 3 hours	$38.10	$38.51	$37.90	1.1	-1.6
3 to 4 hours	$63.85	$64.94	$63.90	1.7	-1.6
up to 24 hours	$63.85	$64.94	$63.90	1.7	-1.6

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars. As some airports offered free parking from late-March 2020 in response to the COVID-19 pandemic, the ACCC asked all 4 monitored airports to report car parking prices as at 28 March 2020, rather than 30 June 2020.

Table 5.6 shows that since 2018–19, Brisbane and Perth airports have slightly increased their short-term parking prices, while Sydney Airport has left them largely unchanged.

Melbourne Airport made substantial changes to its pricing schemes in both 2019–20 and 2020–21, which accounts for the large variations in pricing with the preceding years. For example, Melbourne Airport restructured its parking offerings at its multi-level T123 car park in 2020–21, which led to significant price rises in the 2 to 3 and 3 to 4-hour price points (52.7% and 23.6% respectively). The ACCC understands that while the pandemic prompted Melbourne's decision to implement a new pricing scheme, Melbourne Airport has implemented this scheme on an ongoing basis.[111]

Long-term parking prices

Table 5.7 shows long-term at-distance drive-up parking rates (for stays of 1 day or more) for selected durations at the monitored airports during each year from 2018–19 to 2020–21.

Table 5.7: Long-term at-distance drive-up parking prices in real terms by airport: 2018–19 to 2020–21

	30-Jun-19	28-Mar-20	30-Jun-21	Change 30-June-19 to 28-Mar-20 (%)	Change 28-Mar-20 to 30-Jun-21 (%)
Brisbane					
1 to 2 days	$41.19	$42.68	$42.00	3.6	-1.6
2 to 3 days	$60.76	$61.99	$61.00	2.0	-1.6
4 to 5 days	$87.53	$88.41	$87.00	1.0	-1.6
6 to 7 days	$101.95	$102.64	$101.00	0.7	-1.6
Melbourne					
1 to 2 days	$50.46	$49.79	$24.00	-1.3	-51.8
2 to 3 days	$71.06	$70.12	$36.00	-1.3	-48.7
4 to 5 days	$81.35	$80.28	$48.00	-1.3	-40.2
6 to 7 days	$101.95	$100.61	$60.00	-1.3	-40.4
Perth					
1 to 2 days	$55.61	$56.91	$59.60	2.3	4.7
2 to 3 days	$82.90	$84.35	$88.40	1.7	4.8
4 to 5 days	$107.10	$108.73	$113.00	1.5	3.9
6 to 7 days	$131.81	$132.11	$137.60	0.2	4.2

111 See for example, Australia Pacific Airports Corporation Limited (APAC), *APAC FY21 Annual Report*, Melbourne Airport website, 2021, p 32, accessed 7 April 2022.

Sydney					
1 to 2 days	$66.94	$66.05	$65.00	-1.3	-1.6
2 to 3 days	$80.32	$91.46	$90.00	13.9	-1.6
4 to 5 days	$112.25	$120.93	$119.00	7.7	-1.6
6 to 7 days	$145.20	$161.58	$159.00	11.3	-1.6

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars. As some airports offered free parking from late-March 2020 in response to the COVID-19 pandemic, the ACCC asked all 4 monitored airports to report car parking prices as at 28 March 2020, rather than 30 June 2020.

Table 5.7 shows that since 2018–19, Perth and Sydney airports slightly increased their long-term prices across most price points, while Brisbane's prices are largely unchanged.

Although Perth Airport increased its drive-up prices for long-term parking, it decreased its drive-up rates in its long-term car parks (T1/T2 and T3/T4) for durations less than 4 hours in 2020–21, capping this at $10.[112] Additionally, its special online offer of '99 days for $99' which commenced in April 2020 remained available throughout 2020–21 (see below).

Melbourne Airport reduced its long-term parking prices substantially in 2020–21 as part of its pricing restructure (discussed further below). It also offered free car parking from 30 March 2020 to 31 October 2020 in response to the COVID-19 pandemic, as well as discounted parking to customers who were forced to overstay or extend their parking due to outbreaks of COVID-19 throughout the year.[113]

The impact of Melbourne and Perth airports' pricing schedules and special offers on providers of off-airport parking are discussed in the following section.

Impact of airports' reductions in pricing on off-airport parking operators

Heavily discounted prices benefit motorists, allowing them to achieve substantial savings. However, some off-airport parking operators consulted by the ACCC raised concerns that airports' aggressive pricing decisions have negatively impacted on their businesses at a time when they were already struggling due to pandemic.

Melbourne Airport reduced its long-term parking rates substantially in 2020–21 (reflected in table 5.7 above), which occurred as part of its decision to restructure its car park prices. It substantially reduced the price of long-term parking with the introduction of a flat daily rate of $12 at its Value Long Stay and long-term uncovered carparks. The ACCC understands that Melbourne Airport has implemented this pricing schedule on an ongoing basis (rather than as a short-term response to the pandemic).

One off-airport parking operator informed the ACCC that it had been negatively impacted by Melbourne Airport's decision to reduce the price of its long-term parking. It stated that this move has allowed Melbourne Airport to increase its market share at the expense of off-airport parking operators. It also told the ACCC that Melbourne Airport's decision to introduce free parking in 2020 would contribute to the expected closure of some 9 of Melbourne's 17 off-airport parking providers by early 2022.

Perth Airport has offered a special deal of '99 days for $99' for its long-term car parks since April 2020. It has stated that this offer is designed to support the fly-in fly-out (FIFO) workforce during the pandemic and will continue throughout 2022.[114] This offer is only available to book

112 Perth Airport, *Perth Airport Annual Report 2020/21*, Perth Airport website, 2021, p 22, accessed 7 April 2022.
113 APAC, *APAC FY21 Annual Report*, p 32.
114 Perth Airport, *Perth Airport Annual Report 2020/21*, p 22. The ACCC understands this offer will continue until the end of December 2022 at the minimum.

online and is substantially cheaper than its normal drive-up or online price.[115] By way of comparison, the average saving from booking long-term parking online at Perth Airport for a period of 6-7 days in 2018–19 was 19.2% (see box 5.1 below), while in 2020–21 it had increased to 28.6%. Further savings would be achieved on stays of longer duration, up to 99 days.

Off-airport parking operators around Perth Airport expressed concerns about their ability to compete with the '99 days for $99' offer over a sustained period.

The ACCC will continue to monitor pricing and market developments in relation to airport car parking.

5.3 Long-term performance of airport car parking services before the COVID-19 pandemic

This section examines the long-term trends in the car parking prices, quality of service, operational and financial performance of the monitored airports, up until the onset of the COVID-19 pandemic.

In preparing this report, the ACCC analysed data from all years available to it. The ACCC has obtained from all monitored airports consistent and comparable car parking:

- operational (throughput and capacity) and financial data (revenue, costs and profits) starting from 2004-05
- short-term and long-term pricing data starting from 2007-08
- quality of service data from 2008-09 until 2018-19 (the ACCC has virtually a full set of data for 2007-08, although some quality of services ratings for Sydney Airport are unavailable).

For this report, the ACCC has chosen to present data comparing changes across all reporting metrics over time. Given the availability of data, the ACCC has chosen to focus its analysis on the period starting from 2007–08 until 2018-19. For completeness, the ACCC has also presented changes across metrics starting from 2004-05 until 2018-19, where applicable.

The ACCC has separately presented the available data for 2019-20 and 2020-21 in section 5.2. The ACCC has included this data in presenting car parking operating profit and profit margins but excluded it from the rest of the analysis for several reasons. First, as mentioned at the beginning of this chapter, to reduce the reporting burden on airports, the ACCC did not collect quality of service data in 2019-20 and 2020-21. Second, if the ACCC were to use 2020-21 as the end point of its analysis, this would paint a misleading picture of monitored airports' performance. For example, it would give the impression that monitored airports have significant overcapacity with respect to their car parking facilities (given car parking throughput significantly declined in 2019-20 and 2020-21 due to the pandemic, but car parking capacity has remained largely the same).

5.3.1 Car parking prices

This section examines short-term and long-term prices at the monitored airports' car park facilities over the period from 30 Jun 2008 to 30 June 2019.

115 Perth Ariport, '99 days for $99 – Special deal to help FIFO workers', Perth Airport website, 8 April 2022, accessed 13 April 2022.

Short-term parking prices

Table 5.8 presents a selection of drive-up prices for various short-term durations at the monitored airports on 30 June 2019 in real terms, and the change in prices in the 12-year period.

Table 5.8: Short-term drive-up prices and percentage change in real terms by airport: 30 Jun 2008 to 30 June 2019

	30-60 minutes	1 to 2 hours	2 to 3 hours	3 to 4 hours	up to 24 hours
Brisbane					
Price	$18.54	$22.66	$27.80	$28.83	$57.67
Change 2007–08 to 2018–19 (%)	41.7	44.3	51.8	37.7	76.3
Melbourne					
Price	$12.36	$24.72	$24.72	$35.01	$52.52
Change 2007–08 to 2018–19 (%)	-21.3	4.9	-5.6	-10.8	-10.8
Perth					
Price	$13.80	$20.39	$23.69	$25.74	$50.46
Change 2007–08 to 2018–19 (%)	102.8	122.6	101.1	78.9	54.3
Sydney					
Price	$9.99	$19.98	$28.32	$38.10	$63.85
Change 2007–08 to 2018–19 (%)	12.5	9.1	8.2	21.3	19.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.8 shows that short-term parking prices generally increased in real terms for the monitored airports across most price points over the 12 years to 2018–19, substantially in some cases. Price rises were relatively large in the case of Perth Airport, with prices more than doubling across most short-term price points (although starting from a lower base compared to other airports). Brisbane Airport also increased prices substantially over this 12-year period, with prices across the selected categories rising by an average of around 50%.

In contrast to the other airports, Melbourne Airport generally reduced its short-term prices over the 12 years to 2018–19.

The ACCC previously observed that, on average, short-term parking prices at airports in Australia are higher at every duration compared to the average parking prices at airports in the Asia Pacific region and other parts of the world.[116]

Long-term parking prices

Table 5.9 shows percentage change in the long-term parking prices across the monitored airports between 30 Jun 2008 and 30 June 2019.

The table includes changes in the long-term prices at Brisbane Airport's remote long-term Airpark as well as its domestic long-term parking facilities, to enable price comparisons over the

116 ACCC, Submission No. 59 to the Productivity Commission, *Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018, p 48, accessed 13 April 2022.

longer term. The ACCC began referring to the Airpark's prices in its monitoring reports when comparing long-term prices following its opening in 2015–16. Prior to 2015–16, the ACCC referred to prices at the domestic long-term car park.[117]

Table 5.9: Long-term drive-up prices and percentage change in real terms by airport: 30 Jun 2008 to 30 June 2019

	1 to 2 days	2 to 3 days	4 to 5 days	6 to 7 days
Brisbane				
Price (Domestic long-term)	$78.26	$98.86	$139.02	$159.62
Change 2007–08 to 2018–19 (%)	32.9	16.2	11.8	16.2
Price (Airpark)	$41.19	$60.76	$87.53	$101.95
Change 2015–16 to 2018–19 (%)	-11.7	-11.1	-21.7	-23.6
Melbourne				
Price	$50.46	$71.06	$81.35	$101.95
Change 2007–08 to 2018–19 (%)	-3.6	8.6	3.6	12.9
Perth				
Price	$55.61	$82.90	$107.10	$131.81
Change 2007–08 to 2018–19 (%)	25.0	24.2	34.2	41.9
Sydney				
Price	$66.94	$80.32	$112.25	$145.20
Change 2007–08 to 2018–19 (%)	46.2	25.3	8.6	1.8

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.9 shows that long-term parking prices increased at Melbourne, Perth and Sydney airports between 30 Jun 2008 and 30 June 2019, although the extent of the price changes differs substantially across the selected price points. Prices also increased at Brisbane Airport's domestic long-term car park, although prices at its remote long-term Airpark have decreased since it opened in 2015–16.

The drive-up prices in table 5.9 may not reflect the prices that many motorists actually pay. Motorists looking for long-term parking at the monitored airports can save significantly on their costs by booking online in advance (box 5.1).

By contrast, very few motorists choose to book online for short-term car parking. One reason may be that motorists parking to pick-up or drop-off friends and relatives are less sure about the length of time they will be parked. Another reason is likely to be because any discounted rate for shorter parking durations (such as 30 minutes) is likely to result in a smaller saving in dollar terms than for those parking over multiple days.

Box 5.1: Online booking

In recent years there has been a growing trend towards customers pre-booking their parking online to access cheaper rates. The discounts available for online booking can

117 See ACCC, *Airports Monitoring Report 2015-16*, ACCC website, 6 March 2017, p 36.

vary greatly, depending on airport, type of parking, how far in advance the booking was made, and demand for carparks at that time of year.

In 2018–19, a high percentage of motorists using monitored airports' long-term at-distance parking offerings booked online – over 90% of motorists using Brisbane's Airpark, around 60% of motorists using Melbourne and Sydney airports' at-distance parking and around 35% of motorists using Perth Airport's at-distance parking.

The ACCC has compared the average amounts paid for at-distance parking by motorists that booked their parking online compared to those that paid drive-up prices in 2018–19.

Table 5.10: Savings from booking at-distance car parking online (2018–19) by airport, 2-3 days and 6-7 days

	2–3 days (%)	6–7 days (%)
Brisbane (Airpark uncovered)	37.2	20.8
Melbourne (Value Car Park)	19.1	13.4
Perth (T1/T2 long-term)	15.5	19.2
Sydney (Blu Emu uncovered)	9.9	21.2

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Table 5.10 shows that motorists saved between 9.9% at Sydney Airport and 37.2% at Brisbane Airport by booking their long-term parking online for durations of 2-3 days. For stays of 6-7 days, average online savings varied from 13.4% at Melbourne Airport to 21.2% at Sydney Airport.

The magnitude of increases in short-term prices was generally larger than that of long-term prices over the period from 2007–08 to 2018–19. For example, although Perth Airport increased its long-term prices by between 24.2% and 41.9% over this period (table 5.9), some of its short-term parking prices more than doubled (table 5.8).

There are likely to be a number of reasons for the differences in magnitude of price increases. One reason is that the cost of providing short-term car parking services can differ from long-term car parking services. For example, providing short-term parking may require the construction of multi-level parking facilities close to terminals, which may be more capital intensive.

Another reason is the availability of close substitutes that can constrain airports. All four monitored airports are serviced by independent car parking operators, which provide long-term parking services that are relatively close substitutes to monitored airports' long-term parking services. This places some competitive pressure on airports' long-term parking prices.

By contrast, the short-term parking services offered by independent car parking operators are generally less effective substitutes to monitored airports' short-term parking services. This is because the convenience of location is more important for short-term parking customers, who are less willing or able to consider offsite parking which requires a shuttle bus to reach the terminal. We consider that there are some other substitutes for short-term parking services, including free kerbside drop-off and pick up, as well as free waiting areas.

Overall, the monitored airports have increased parking prices in the 12 years prior to the COVID-19 pandemic across both short-term and long-term offerings.

5.3.2 Quality of car parking services

The ACCC collects quality of service data on the monitored airports' car parking services. This can help indicate whether airports are continuing to invest in capacity to meet demand and improvements to their facilities.

Airports survey passengers to gauge the quality of service provided by each airport in relation to car parking services. Airports ask the respondents of these surveys to rate their level of satisfaction with airport services and facilities on a scale of 1 to 5. The average scores are then converted into five ratings ranging from 'very poor' to 'excellent'.

Further information on quality of service monitoring may be found in Appendix C.

With the exception of Melbourne Airport, each airport collects separate survey ratings from international and domestic passengers.

Table 5.11 shows the ratings each airport obtained from the international and domestic passengers it surveyed (where applicable) in 2004–05, 2007–08 and 2018–19.

For Sydney Airport, the ACCC does not have data prior to 2008-09 for 'availability' and 'time taken to enter' criteria (both international and domestic). To allow for more wholistic comparison across airports, the ACCC has calculated changes for quality of service ratings for Sydney from 2008-09 to 2018-19.

Table 5.11: Quality of service ratings by airport, 2004–05, 2007–08 and 2018–19

	2004–05	2007–08	2018–19	Change 2007–08 to 2018–19
Brisbane – International passengers				
Availability	Good (4.29)	Good (3.94)	Good (3.51)	▼ (-0.43)
Standard	Good (4.00)	Good (4.19)	Good (4.09)	▼ (-0.10)
Time taken to enter	Excellent (4.50)	Good (4.07)	Good (4.37)	▲ (0.30)
Brisbane – Domestic passengers				
Availability	Good (4.25)	Poor (2.43)	Good (4.02)	▲ (1.59)
Standard	Good (3.92)	Satisfactory (2.87)	Good (4.40)	▲ (1.53)
Time taken to enter	Excellent (4.50)	Good (3.79)	Excellent (4.59)	▲ (0.80)
Melbourne				
Availability	Satisfactory (3.47)	Good (3.73)	Good (3.65)	▼ (-0.08)
Standard	Good (3.95)	Good (4.02)	Good (4.17)	▲ (0.15)
Time taken to enter	Good (4.10)	Good (4.13)	Good (4.21)	▲ (0.08)
Perth – T1/T2 precinct				
Availability	Good (4.32)	Good (3.50)	Good (4.00)	▲ (0.50)

Standard	Good (4.14)	Satisfactory (3.39)	Good (3.99)	▲ (0.60)
Time taken to enter	Excellent (4.50)	Good (4.19)	Good (4.17)	▼ (0.03)
Perth – T3/T4 precinct				
Availability	Good (3.97)	Satisfactory (3.44)	Good (4.12)	▲ (0.68)
Standard	Good (3.96)	Satisfactory (3.27)	Good (4.10)	▲ (0.83)
Time taken to enter	Good (4.50)	Good (4.13)	Good (4.26)	▲ (0.13)
Sydney – International passengers				
Availability	n/a	Satisfactory (3.33) *(2008-09)*	Good (3.94)	▲ (0.61)
Standard	Satisfactory (3.30)	Satisfactory (3.27)	Good (4.15)	▲ (0.88)
Time taken to enter	n/a	Good (3.62) *(2008-09)*	Good (4.00)	▲ (0.38)
Sydney – Domestic passengers				
Availability	n/a	Satisfactory (3.32) *(2008-09)*	Good (3.85)	▲ (0.53)
Standard	Satisfactory (3.06)	Satisfactory (3.36)	Good (4.04)	▲ (0.68)
Time taken to enter	n/a	Good (3.74) *(2008-09)*	Good (4.14)	▲ (0.40)

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: For Sydney Airport, the ACCC has included 2008-09 ratings for 'availability' and 'time taken to enter' under the 2007-08 column and calculated changes for quality of service ratings from 2008-09 to 2018-19.

Airports generally improved or maintained their quality of service ratings for car parking services between 2007–08 and 2018–19. All airports achieved a rating of at least 'good' across all categories in 2018–19. Where ratings decreased, these tended to be marginal.

However, for Brisbane and Perth airports, domestic passenger ratings fell between 2004–05 and 2007–08 in some categories. Brisbane Airport reduced the number of available short-term parking spaces in 2007–08 due to ongoing construction works, coinciding with lower ratings that year. Likewise, Perth Airport converted a significant number of short-term parking spaces to long-term in 2005–06 and 2007–08 (possibly to accommodate demand from FIFO workers), which was likely to have contributed to the lower ratings. Therefore, when viewing over a longer period to account for these short-term factors, there has not been material improvement in quality of service ratings at Brisbane and Perth airports.

Overall, while motorists at the monitored airports were paying higher car parking prices in real terms in 2018–19 than a decade earlier, in their view they were not receiving a materially improved quality of service.

5.3.3 Car parking activity

This section examines airport car parking activity at the monitored airports over the 15-year period up to 2018–19.

Table 5.12 presents the average daily vehicle throughput at each of the monitored airports in 2004–05, 2007–08 and 2018–19 as well as the change in passenger numbers between 2007–08 and 2018–19 for comparison.

Table 5.12: Average daily vehicle throughput by airport, 2004–05, 2007–08 and 2018–19

	Daily average throughput in 2004–05	Daily average throughput in 2007–08	Daily average throughput in 2018–19	Change 2004–05 to 2018–19 (%)	Change 2007–08 to 2018–19 (%)	Change in passenger numbers 2007–08 to 2018–19 (%)
Brisbane	5869.8	5447.8	7483.5	27.5	37.4	27.7
Melbourne	8592.3	9144.5	8722.3	1.5	-4.6	54.3
Perth	4464.5	4702.2	4766.3	6.8	1.4	58.4
Sydney	8201.2	8428.8	11189.9	36.4	32.8	37.5

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Table 5.12 shows that the growth in average daily throughput at Melbourne and Perth airports over the period from 2007–08 to 2018–19 was significantly lower than the growth in total passenger numbers over the same period. Some of the drivers are unique to each airport. For example, as the mining boom cooled off in Western Australia, this reduced demand for parking at Perth Airport from FIFO workers in the sector. Airports have also been affected by passengers increasingly using alternative modes of transport, particularly rideshare, as well as passengers turning to independent providers of parking services, particularly for long-term parking (see section 6.2).

By contrast, the growth in average daily throughput at Brisbane and Sydney airports has been largely on par with the growth in the number of passengers visiting those airports. At Brisbane Airport this was in part because of increased throughput at its long-term parking facilities (including the remote long-term Airpark, which opened in 2015–16).

Table 5.13 lists the overall change in the number of parking spaces for each monitored airport in the years 2004–05, 2007–08 and 2018–19. These measures indicate whether the monitored airports invested to expand capacity of car parking spaces.

Table 5.13: Number of car parking spaces by airport: 2004–05, 2007–08 and 2018–19

	Number of parking spaces 2004–05	Number of parking spaces 2007–08	Number of parking spaces 2018–19	Change 2004–05 to 2018–19 (%)	Change 2007–08 to 2018–19 (%)
Brisbane					
Total spaces	**7837**	**10321**	**16955**	**116.3**	**64.3**
International car park spaces	950	1740	2141	125.4	23.0
Domestic short-term car park spaces (P1)	938	858	973	3.7	13.4
Domestic long-term car park spaces (P2)	3600	4148	7539	109.4	81.8
Remote long-term car park spaces (Airpark)	n/a	n/a	2500	n/a	n/a
Melbourne					
Total spaces	**11712**	**19895**	**26654**	**127.6**	**34.0**

Short-term car park spaces	3553	3244	9866	177.7	204.1
Long-term car park spaces	6859	14592	13948	103.4	-4.4
Perth					
Total spaces	**4267**	**8806**	**22081**	**417.5**	**150.7**
Short-term car park spaces	2722	2040	3062	12.5	50.1
Long-term car park spaces	614	5775	18077	2844.1	213.0
Sydney					
Total spaces	**10168**	**10851**	**18178**	**78.8**	**67.5**
Short-term car park spaces	4605	5018	12397	169.2	147.1
Long-term car park spaces	4361	4577	5781	32.6	26.3

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: the total spaces listed for each airport includes staff parking spaces.

Table 5.13 shows that all monitored airports increased the total number of parking spaces significantly over the 15-year period. This suggests that at least some of the short-term and long-term price increases shown in tables 5.8 and 5.9 were due to these investments.

This appears particularly evident for Brisbane and Perth airports. Both Brisbane and Perth function as hubs for FIFO workers in the resources sector, who tend to drive demand for long-term parking at these airports. Both airports significantly expanded their long-term parking capacity over the period, in part to accommodate increased demand from FIFO workers.

Both Brisbane Airport and Perth Airport also significantly expanded their short-term parking offerings in the early part of the 15-year period but reduced some of those spaces in the latter part. Brisbane Airport reduced the number of domestic short-term parking spaces from a peak of 1,690 spaces in 2011–12 to 973 in 2018–19 and Perth Airport from a peak of 3,628 spaces in 2015–16 to 3,062 in 2018–19.

As tables 5.8 and 5.9 show, Perth Airport significantly increased both its short-term car parking prices (54%-123%) and long-term car parking prices (24%-42%) over the period from 2007–08 to 2018–19.

Likewise, Brisbane Airport also significantly increased both its short-term car parking prices (38%-76%) and long-term car parking prices (12%-33%) over the same period. The largest proportional increase in Brisbane Airport's short-term parking prices occurred between 2008–09 and 2009–10. This approximately coincided with the construction of a multi-level parking lot, which was completed in 2011–12 and which added significantly to Brisbane Airport's car parking capacity.[118]

5.3.4 Car parking financials

This section examines how changes in car parking prices and investments made by the monitored airports to expand capacity have affected their financial performance.

118 See for example,, ACCC. *Airports Monitoring Report 2012-13*, ACCC website, April 2014, p 90, accessed 7 April 2022.

Figure 5.1 presents car parking operating profit across the monitored airports over the period from 2004–05 to 2018–19.

Figure 5.1: Car parking operating profits ($m, EBITA) in real terms by airport: 2004–05 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure 5.1 shows that total operating profits across all monitored airports were higher in 2018–19 than they were in 2004–05.

Total operating profits of Melbourne, Perth and Sydney airports declined in the last few years of this period. In part, this is due to the impact of ride share on car parking throughput (discussed in chapter 6). In part, this is also due to airport specific factors. For example, Melbourne Airport's pronounced decrease in its operating profit in 2015–16 was largely due to the airport revising its cost allocation methodology.

Table 5.14 shows the average annual change in each of the monitored airports' car parking revenue and operating expenses over the period from 2004–05 to 2018–19.

Table 5.14: Average annual change in car parking revenue and operating expenses in real terms by airport: 2004–05 to 2018–19

	Average annual change in revenue (%)	Average annual change in operating expenses (%)	Average annual change in average daily throughput (%)
Brisbane	7.1	9.3	1.8
Melbourne	5.5	11.5	0.1
Perth	9.2	12.0	0.5
Sydney	2.7	5.4	2.2

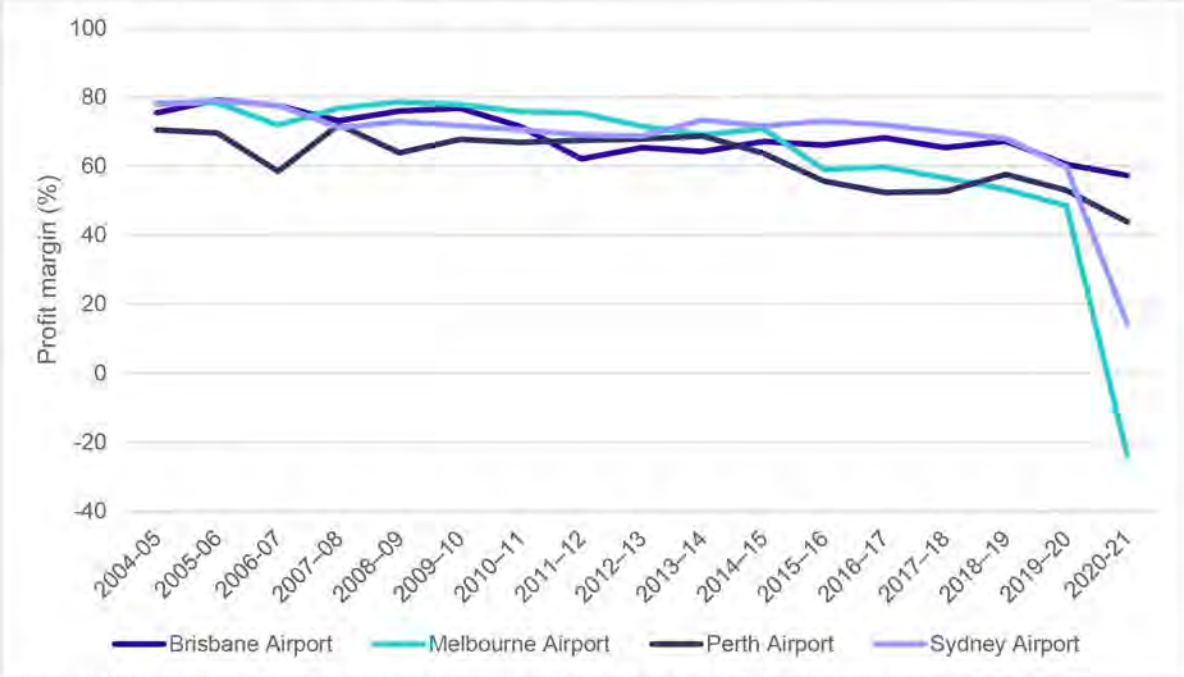
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

While all monitored airports reported increasing revenue over the period from 2004–05 to 2018–19, the general trend has been for expenses to increase at a higher rate. As was shown earlier, airports significantly expanded their parking capacity, which would have contributed to higher

operating expenses. At the same time, car throughput had not increased significantly, so the bulk of the increase in revenue is due to monitored airports increasing car parking prices (as was shown in sections 5.3.1 and 5.3.3).

Figure 5.2 shows car parking profit margins for each of the monitored airports (operating profit as a proportion of car parking revenue).

Figure 5.2: Car parking operating profit margin as a percentage of car parking revenue in real terms by airport: 2004–05 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure 5.2 shows that car parking operating profit margins have somewhat decreased across all monitored airports over the period from 2004–05 to 2018–19. Nonetheless, in 2018–19, the operating profit margins of the four monitored airports ranged between 53% and 68%. As discussed in section 5.2, the operating profits margins of Sydney and Melbourne airports have been significantly impacted by the COVID-19 pandemic.

The ACCC does not have sufficient information to assess whether the profits margins in the period from 2004–05 to 2018–19 are excessive. However, these margins appear to be quite high compared to similar businesses. For example, in February 2020, IBISWorld reported that the broader car parking services industry earned a profit margin of 16.9%.[119] Even when accounting for the differences in operating profit measures (IBISWorld uses earnings before interest and taxes – EBIT – as an indicator of a company's profitability rather than EBITA), this still appears to be a significant difference.

119 IBISWorld, *Parking Services in Australia S9533*, IBISWorld website, February 2020, p 7, accessed 7 April 2022.

6. Landside access

Passengers travelling to, and from, airports have many options in the transport modes available to them. Aside from driving and parking on airport land as discussed in the previous chapter, the public can choose to access airports via different alternative ground transport options. This includes taxis, rideshare services, off-airport car parking, terminal pick-up and drop-off, private cars (for example, limousines), public and private buses, and (at some airports) trains.[120] As each mode of transport differs in terms of price, speed and convenience, individual passengers or groups of passengers have their own preference and circumstance in choosing which mode to travel to, and from, the airport.

Airports provide third-party transport providers with landside access (for example, forecourt and transport hubs), waiting areas and roads to facilitate movements around the airport. Without sufficient landside vehicle access area and facilities, it would be very difficult for third-party transport providers to operate effectively. While airports are responsible for the provision of landside access, the alternative ground transport modes are a substitute to at-airport parking, thereby directly impacting on one of airports' revenue streams. With monitored airports having substantial market power, they may set higher charges or limit access for third-party transport operators to shift demand towards on-airport car parking. The ACCC considers that these dynamics create a need for the ACCC to monitor airports' terms and conditions of landside access.

The ACCC also notes that airports have some power to influence passenger preferences between different landside access modes through the airports' allocation of pick-up zones. Airports may be incentivised to reallocate pick-up zones to receive higher revenues from particular transport modes, or in response to changing consumer demand. Where consumers retain choices of transport options within the relatively close proximity of an airport forecourt with comparable facilities, the ACCC considers that zone allocation is unlikely to substantially impact competition between landside access providers.

This chapter will explore:

- the impact of the COVID-19 pandemic on landside access activity
- the long-term trends in landside access activity (including access fees, behaviour of monitored airports and quality of landside service).

This chapter is based on information voluntarily provided by the monitored airports as well as the information the ACCC collected through consultations with some landside access seekers and broader research.

The financial information in this chapter only relates to landside operations. The financial figures throughout this chapter are presented in real terms with values in 2020–21 dollars.[121]

6.1 The impact of the COVID-19 pandemic on landside access activity

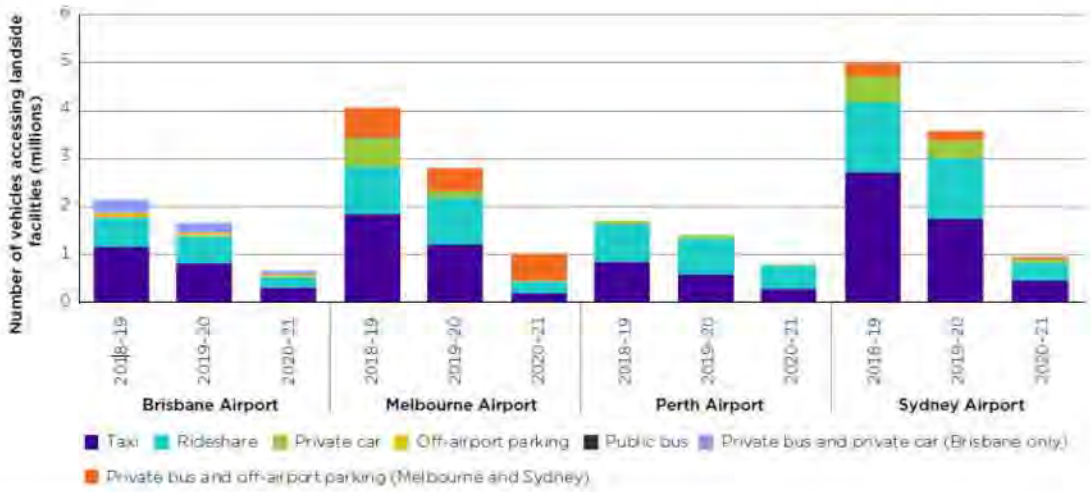
As described in the earlier chapters, the COVID-19 pandemic has had an unprecedented impact on air travel. This section examines how this affected the provision of landside access services.

120 Data for car rental has been excluded from this chapter. See section 6.2.1 for more details.
121 Deflator series derived from the Australian Bureau of Statistics (2022) *Consumer Price Index, Australia* (cat. no. 6401.0, tables 1 and 2, Index Numbers; All Groups CPI; Australia), accessed 30 September 2021. Base year for the ACCC deflator series is 2020–21.

Number of vehicles accessing landside dropped significantly due to the COVID-19 pandemic

Figure 6.1 shows the number of times a group of transport service providers accessed a particular airport's landside facilities. Reporting of the number of vehicles accessing landside varies across the monitored airports. For example, some airports report an aggregate figure for the number of private buses together with off-airport parking shuttle buses.

Figure 6.1: Number of vehicles accessing landside by transport mode, by airport, 2018–19 to 2020–21[122]



Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: For Perth Airport, the number of buses (including public, private and off-airport parking shuttle) accessing landside are not available, because Perth Airport does not charge an access fee for these transport modes.

Figure 6.1 shows that the COVID-19 pandemic has led to the number of vehicles accessing landside falling significantly across all four monitored airports.

Melbourne and Sydney airports reported larger reductions in landside access volume in 2020–21 than the other monitored airports of 75% and 81% respectively compared to 2018–19 levels. This is predominately due to prolonged periods of lockdowns and related travel restrictions in New South Wales and Victoria.[123] Perth Airport in 2020–21 reported a smaller reduction of landside access volume of 53% compared to 2018–19 level. This smaller decline is largely due to Fly-In-Fly-Out workers in the resource sector continuing to travel to their workplace during 2020–21.[124]

All groups of landside access seekers were adversely impacted by the COVID-19 pandemic, with the number of taxis accessing the monitored airports decreasing the most. However, this could also reflect a shift in consumer preference toward rideshare services. During the two years of the COVID-19 pandemic, landside access by rideshare at Perth Airport has out-stripped taxis. Similarly, in 2020–21, access by rideshare vehicles at Melbourne Airport were 31% higher than taxis. Further discussion regarding the emergence of rideshare services and its impact on taxis is presented in section 6.2.4 below.

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[122] Data on the individual breakdown of the number of vehicles accessing landside facilities can be found in the *supplementary database*.

123 J Pearlman, 'Almost half of Aussie Population under lockdown', *The Straits Times*, 30 June 2021, accessed 1 March 2022; P Mercer, 'Covid: Melbourne's hard-won success after a marathon lockdown', *BBC News*, 26 October 2020, accessed 1 March 2022; NSW Government, *NSW and Victorian border closure*, NSW Government website, 7 July 2020, accessed 1 March 2022.

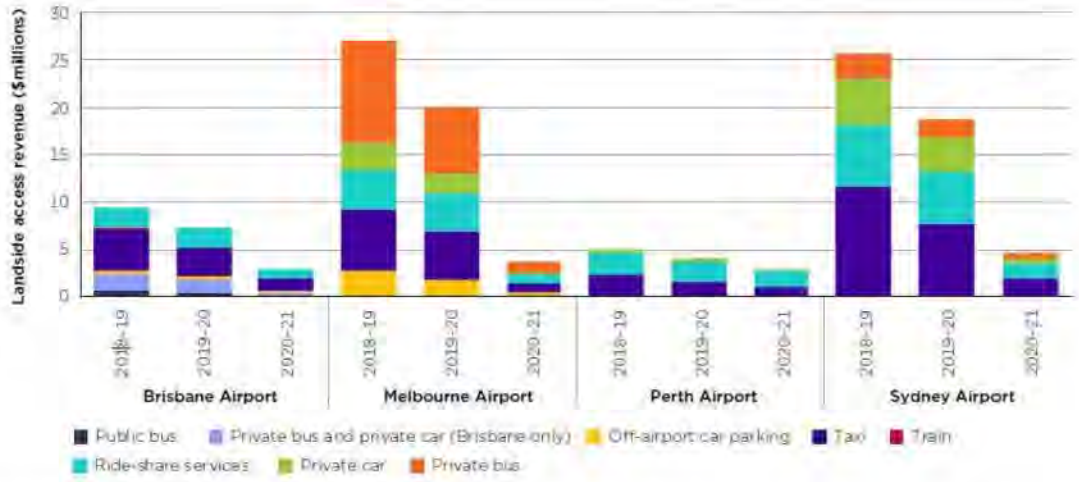
124 Perth Airport, *Perth Airport Annual Report 2020/21*, Perth Airport website, 2021, p. 9, accessed 9 March 2021.

Landside access from private cars has dropped significantly with very limited numbers of private cars (like limousines) accessing landside areas. By 2020–21, the number of private cars accessing landside areas has dropped by 86% for Melbourne and Sydney airports and by 97% at Perth Airport compared to 2018–19 levels.

Landside access from off-airport parking operators reduced slightly during the COVID-19 pandemic. At Melbourne Airport, access by off-airport parking shuttle buses only dropped by 11% in 2020–21 when compared to 2018–19 levels. Over half of the vehicles accessing Melbourne Airport's landside area during 2020–21 were from off-airport parking shuttle buses. One explanation could be travellers during the pandemic were more inclined to avoid people or crowds and instead used their own car to travel to, and from, the airport.[125] Further discussion regarding off-airport parking is available in section 6.2.5 below.

The following chart shows the revenue earned by each airport from the group of transport service providers.

Figure 6.2: Landside access revenue in real terms by transport mode, by airport, 2018–19 to 2020–21[126]



Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars. Although Melbourne Airport aggregated the number of private buses and off-airport parking shuttle buses together, yet it has continued to provide revenue earned from these two modes separately.

Figure 6.2 shows that for 2019–20, landside access revenue across the monitored airports dropped approximately by a quarter, which is reflective of when the COVID-19 pandemic started (that is, the last quarter of 2019–20).

In 2020–21, with a full year impact of the COVID-19 pandemic, the drop was more significant. The magnitude of the landside revenue decline mimics the reduction in the number of vehicles accessing landside facilities. That is, because the pricing of access fees predominately remained the same, revenue reduction was largely due to less vehicles accessing landside.

Recovery from the COVID-19 pandemic

In preparing this year's report, the ACCC consulted with some landside access seekers about the challenges they expect to face as the industry recovers from the COVID-19 pandemic.

125 It is noted that travellers will need to travel in shuttle buses to, and from, off-airport parking to the airport, but the ACCC understands some shuttle buses are operated on-demand when the customer is ready.

126 Data on the individual breakdown of the landside revenue by transport mode can be found in the *supplementary spreadsheet* available on our website.

Many off-airport parking operators indicated that they had to reduce their staffing level during the pandemic. Hence, they are concerned about difficulties with re-hiring suitable staff when travel resumes. Many off-airport parking shuttle buses operate whenever the customer is ready (that is, on-demand). In the event of driver shortages, then such on-demand service may be restricted.

Some landside access seekers expressed concerns that monitored airports may increase landside access fees in the future to recover their unrecovered landside infrastructure costs.

As discussed in chapter 5, some off-airport parking operators expressed concerns that aggressive pricing from at-airport parking will impede their recovery from the COVID-19 pandemic. Off-airport parking operators submitted that some at-airport parking prices are currently 30% to 50% lower than pre-pandemic levels.

6.2 Long-term trends in landside access at the monitored airports

This section covers trends in landside access at the monitored airports since 2009–10, when the ACCC began requesting the fees, revenues, costs and asset values relating to landside access services and facilities from the monitored airports.

6.2.1 Limitations of the ACCC's monitoring

As explained in section 1.5.3, there is currently no requirement on the monitored airports to provide information about landside access to the ACCC, so the monitored airports provide landside information to the ACCC voluntarily. As a result, the monitored airports provide incomplete and inconsistent information to the ACCC about prices, revenues, expenses and the number of vehicles accessing landside. A summary of the differences in landside access information provided by airports to the ACCC is provided in Appendix Table A.2. For example:

- Some monitored airports provide total landside expenses amount, but one monitored airport does not provide any information on landside expenses. Monitored airports have previously advised that there are difficulties in allocating expenses for landside access services.[127]
- Some monitored airports aggregate the number of vehicles accessing landside for a couple of transport modes. For example, Melbourne and Sydney airports aggregate access by private buses together with access by off-airport parking shuttle buses. Sydney Airport does not report disaggregated revenue from private buses and off-airport parking operators.
- Monitored airports do not provide comparable data for private buses. For example, Melbourne Airport provides the number of passengers using private buses like Skybus (Melbourne central business district to airport) and Gull (Geelong to airport) but not the number of buses accessing landside facilities.
- Some monitored airports are unable to provide data for certain alternative transport modes. This is because some monitored airports provide these transport modes with free access to landside facilities. Passengers travelling to, and from, all monitored airports have the option of terminal pick-up and drop-off which are provided free of charge. Therefore, no data is collected. For Perth Airport, the number of buses (including public, private and off-airport parking shuttle) accessing landside is not available, because Perth Airport does not charge an access fee to bus operators. Sydney Airport also does not charge public buses to access its landside facilities, hence the number of public buses is not available.

127 ACCC, Submission No. 59 to the Productivity Commission, *Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, accessed 22 February 2022, p 54.

- Monitored airports do not provide comparable data regarding the number of taxis accessing landside. There are two types of taxis services available at airports: on-demand taxis (those available at the taxi rank outside the terminal) or pre-booked taxis. Pre-booked taxis typically pay different access fee to on-demand taxis as they have separate pick-up areas. Some monitored airports aggregate the number of pre-booked taxis with private cars (for example, limousines).
- Monitored airports do not provide consistent and comparable data regarding car rental. Hence the number of rental cars accessing landside and revenue from car rental that monitored airports received have been excluded from the analysis of landside access and this chapter.

Given the nature of the information the ACCC currently obtains in relation to landside access, the ACCC is unable to:

- report on cost and profitability due to incompatibility of data
- determine in-depth whether airports have undertaken adequate investment to ease congestion at landside facilities
- determine whether changes in prices, terms and conditions of landside access are reasonable.

The following sections cover some observations and discussions on likely factors attributing to changes in prices that the ACCC can make using the data that it collects.

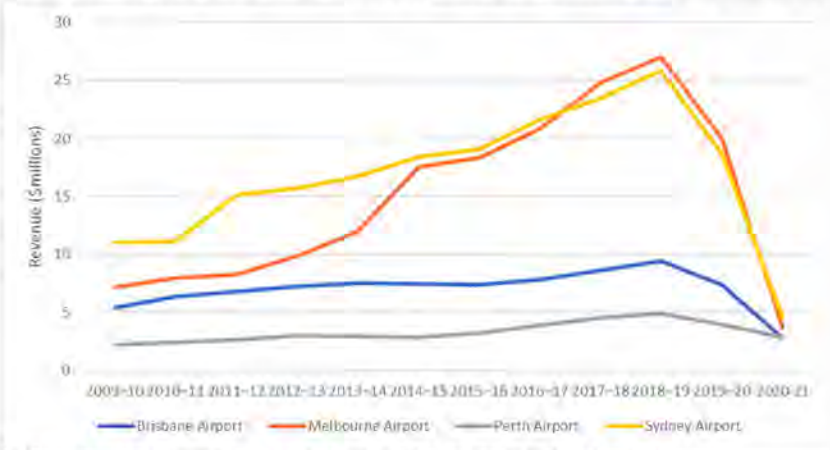
6.2.2 Dynamics of landside access before the COVID-19 pandemic

Landside access revenue

This section examines the changes in revenue collected by each monitored airport from landside access charges since 2009–10, focusing on the period prior to the pandemic.

Figure 6.3 below shows the total landside access revenue across the monitored airports since 2009–10.

Figure 6.3: Total landside access revenue in real terms by airport: 2009–10 to 2020–21



Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars.

Figure 6.3 shows that all monitored airports reported large growth in landside access revenue prior to the pandemic. Between 2009–10 and 2018–19, Melbourne Airport's landside access revenue increased by 2.5 times while Sydney and Perth airports more than doubled their

landside access revenue. During the same period, Brisbane Airport nearly doubled their landside access revenue. Landside access revenue was affected in the past two years by the COVID-19 pandemic.

Increase in the monitored airports' landside access revenue is primarily due to increase in demand for and supply of alternative ground transport modes (taxis, rideshare and others) and services provided by off-airport car parking operators. However, as these services directly compete with airports' parking services, the higher use of these services, the lower the demand for airports' car parking services (all else being equal). This negatively impacts the monitored airports' car parking revenue.

Concerns raised by landside access seekers

In previous editions of this report, the ACCC has expressed concerns that airports can impede competition between alternative ground transport modes and at-airport car parking. That is, to increase demand for at-airport car parking, there is an incentive for airports to limit competition from landside access seekers. This can be characterised in the following ways:

- lack of engagement and consultation
- setting high landside access fees
- underinvesting in landside access infrastructure resulting in poor quality of service.

During the ACCC's consultation in preparing this monitoring report, landside access seekers stated that some monitored airports:

- have been increasing access fees annually on a take-it-or-leave-it basis
- cancelled some committee meetings and provided relatively limited opportunity for communication.

These concerns are not new. During the 2019 Productivity Commission inquiry, landside access seekers submitted to the PC that some airports were increasing access fees, while withholding or delaying information, and with disappointing levels of consultation. For example, Jetport Airport Parking stated that Melbourne Airport had not explained the framework for its access fees and had not provided adequate reasons for increases in those access fees.[128]

The PC acknowledged that ground transport operators have little bargaining power. Therefore, an airport can make take-it-or-leave-it offers to this group of airport users.[129]

Given these ongoing concerns, the following sections examine:

- the competitive dynamics between landside access seekers and airports' car parking services
- access fees levied by the monitored airports on taxis and rideshare, as well as the impact of airports' terms of access on competitive dynamics between them
- monitored airports' access arrangements for off-airport car park operators and the competitive dynamics between on-airport and off-airport car parking operations.

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128 Andrew's Airport Parking, *Submission No. 30 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, accessed 22 February 2022; Jetport Airport Parking, *Submission No. DR165 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, March 2019, accessed 22 February 2022.

129 Productivity Commission, *Economic Regulation of Airport Services (2019)*, Inquiry report, Productivity Commission website, 2019, p 218, accessed 22 February 2022.

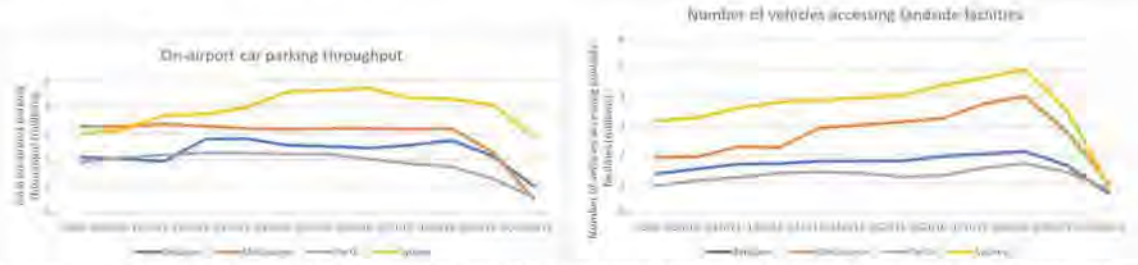
6.2.3 Impact of alternative transport modes on monitored airports' at-airport parking services

As discussed in chapter 3, total passengers travelling through the monitored airports had been increasing prior to the pandemic. This means the demand for ground transport should increase as well. However, as discussed in chapter 5, there was negligible increase in at-airport car parking throughput for some monitored airports before the pandemic, despite the airports investing in additional at-airport car park spaces. One of the drivers of this decline was the shift in behaviour towards alternative ground transport modes.

In analysing the competition between alternative ground transport with at-airport parking, there are difficulties directly comparing the at-airport car park throughput with the number of vehicles accessing landside. This is because a bus (public or private) may carry many passengers, but still count as one vehicle seeking landside access.

To provide a high-level indication of competition between the two options, Figure 6.4 compares the trends of total at-airport car parking throughput to the number of vehicles accessing a particular airport's landside facilities across the monitored airports between 2009–10 and 2020–21. More detailed analysis of the competitive dynamic between at-airport car parking with specific ground transport modes (for example, taxis, rideshare and off-airport parking) is presented in Box 6.1 and section 6.2.5 below.

Figure 6.4: At-airport car parking throughput and the number of vehicles accessing landside, by airport: 2009–10 to 2020–21



Source: ACCC analysis of information submitted as part of the monitoring regime and voluntarily submitted by the monitored airports.
Notes: Melbourne Airport Skybus data between 2009–10 and 2013–14 has been excluded due to Melbourne Airport having not reported this data from 2014–15 onwards. For Perth Airport, the figure does not include the number of buses (including public, private and off-airport parking shuttle) accessing landside (as this data is not available).

Figure 6.4 shows that in the period between 2009–10 and 2018–19, the number of vehicles accessing landside facilities at all monitored airports trended upward. In contrast, the number of vehicles parking at at-airport car parks throughout this period did not increase consistently, and remained largely stagnant or declined at some airports.

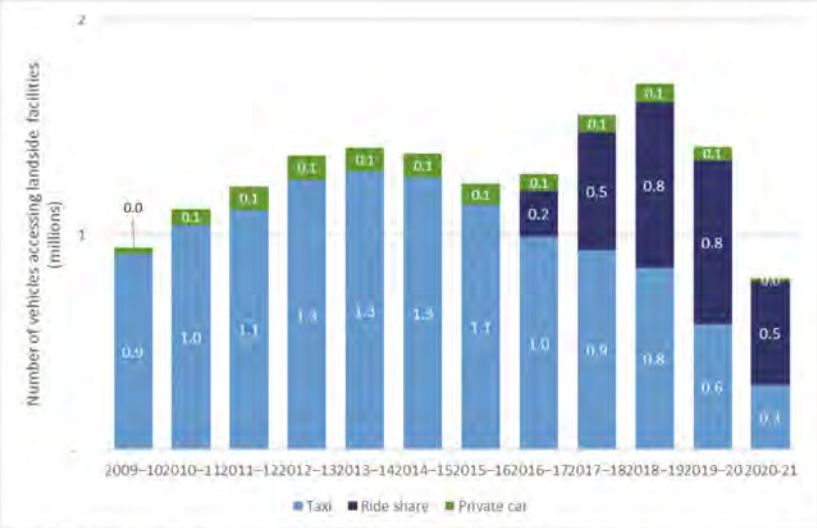
Box 6.1 illustrates the impact of alternative ground transport modes on at-airport parking services using Perth Airport as an example.

Box 6.1: Competition between at-airport parking and alternative ground transport modes at Perth Airport

Figure 6.5 shows the number of vehicles seeking landside access at Perth Airport, broken down by alternative transport modes.[130]

130 Passengers travelling to, and from, Perth Airport also have the option of terminal pick-up and drop-off, public and private buses. However, as Perth Airport does not charge an access fee for these transport modes, the number of vehicles accessing landside via these modes are not available.

Figure 6.5: Number of vehicles accessing Perth Airport by transport mode: 2009–10 to 2020–21



Source: ACCC analysis of information voluntarily submitted by the monitored airports.

Figure 6.5 shows that landside access by taxis has generally grown between 2009–10 and 2014–15, while that by private car has been relatively stable.

Figure 6.5 shows that the rapid growth in rideshare vehicles seeking Perth Airport's landside access between 2016–17 and 2018–19 has outstripped the reduction in taxis. This led to an overall increase in the number of vehicles seeking landside access at Perth Airport.

Figure 6.6 below shows how the Perth Airport's carpark throughput, with a breakdown into short-term and long-term car parks, and passenger numbers have changed between 2009–10 and 2020–21.

Figure 6.6: Average daily carpark throughput and passenger numbers at Perth Airport: 2009–10 to 2020–21

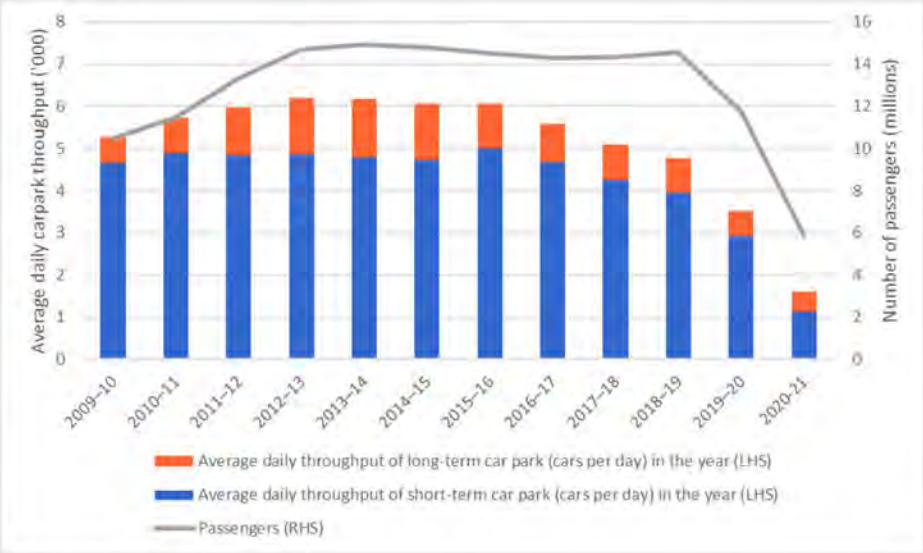


Figure 6.6 shows that between 2016–17 and 2018–19, the total number of car park users decreased while the total number of passengers visiting the airport remained relatively unchanged. This demonstrates that the emergence of rideshare as a new (and popular

option) has led to some passengers who previously drove to the Perth Airport (and used airport's car parks) switching to rideshare service.

Perth Airport can respond to this by lowering at-airport parking prices or improving quality of its car parking services. However, as a provider of access to rideshare, airports also have an incentive to improve its competitive advantage by increasing access fees for rideshare or reducing the quality of amenities offered to rideshare. The ACCC will be monitoring this.

6.2.4 Monitored airports' access arrangements for taxis and rideshare

This section examines landside access arrangements for taxis and rideshare. The ACCC has not included analysis of access arrangements for private cars (for example, limousines) as it comprises a very small group of users. The ACCC also has not included analysis of access arrangements for public or private buses and trains as the ACCC does not have comparable data across all monitored airports. Access fees for alternative transport modes are available in Appendix B.

Taxi and rideshare access fees

Traditionally, passengers travelling to, and from, airports have primarily used taxis. Passengers can usually obtain a taxi from taxi ranks, street, and phone or digital bookings.[131] Taxi services are heavily regulated in Australia and a taxi must be licensed under a State or Territory licensing scheme.[132] Taxi license or plate owners can then subcontract taxi operations to a driver, either directly or through an intermediary that operates many taxis. The taxi driver usually pays the taxi plate owner a share of their takings, while the owner pays for the vehicle and maintenance.[133]

Rideshare operators, like taxis, also provide point to point transport. Rideshare is a service that links passengers with private drivers using their own car in the area via the rideshare operator's website or mobile app.[134] Unlike taxis, rideshare is typically not hailed from the street. Rideshare service typically offers lower prices per ride compared with taxis because rideshare drivers are not required to pay a traditional taxi licence fee.[135] Rideshare services first began in Australia in 2014, but only became legal in all Australian states and territories as of 2019.[136] Since 2016–17, rideshare has emerged as a popular alternative transport mode competing with taxis for similar types of travellers going to, and from, the airport.

Airports provide waiting areas for on-demand taxis[137] and rideshare. Airports charge on-demand taxis and rideshare operators an access fee for pick-ups. The fee is included as a surcharge in the passenger's total fare. There is no charge for a drop off. Figure 6.7 shows how the landside access fees for on-demand taxis have changed between 2009–10 and 2020–21. Monitored airports levy similar access fees to rideshare operators as they do to taxis (refer to Figure 6.9 below).

131 Deloitte Access Economics, *Economic effects of ridesharing in Australia*, Deloitte website, 2016, p 13, accessed 1 March 2022.

132 Ibid.

133 IBISWorld, *Taxi and Limousine Transport in Australia I4626*, IBISWorld website, April 2021, p 12, accessed 1 March 2022.

134 P Zaluzny, *A guide to rideshare and taxi apps: Uber, Ola, Ingogo and more*, Choice website, n. d., accessed 12 March 2022.

135 IBISWorld, *Taxi and Limousine Transport in Australia I4626*, pp 12-3.

136 P Zaluzny, *A guide to rideshare and taxi apps: Uber, Ola, Ingogo and more*.

137 Pre-booked taxis typically are charged under a different structure as they have separate pick-up areas than on-demand taxis. The ACCC does not have comprehensive data for pre-book taxis over time.

Figure 6.7: Landside access fees in real terms for on-demand taxis, by airport: 2009–10 to 2020–21

Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars. Access fees at Sydney Airport was not available for 2009–10 and 2010–11.

Figure 6.7 shows that since 2009–10, Brisbane Airport's access fees for taxis increased by 8% while Sydney Airport's access fees increased by 15% since 2011–12. In comparison, since 2009–10 Melbourne and Perth airports' taxi access fees increased by 175% and 61% respectively. Perth Airport has stated that the increased charges are due to the airport's increased operating costs for additional workers to direct forecourt traffic and capital costs of additional infrastructure.

The ACCC has considered whether increases in access fees can be explained by investments to improve quality of landside access services. Over the past decade, the monitored airports made a range of investments to improve or expand landside facilities (although not just for taxis or rideshare operators), including (but not limited to):

- Brisbane Airport completed major changes to the road network in 2012 which has alleviated daily peak pressures in the domestic terminal precinct.[138] In 2015–16, it created dedicated zones for ridesharing drivers at both international and domestic terminals.
- Melbourne Airport renovated the main forecourt precinct between 2011 and 2013 adding drop-off and pick-up lanes in front of the terminals and streamlining the use of the area for the taxis, bus services and general private vehicles.[139] In 2017–18, Melbourne created dedicated wait zones for rideshare vehicles at both terminal precincts for passengers travelling to, and from, the airport.
- In 2012–13 and 2013–14, Perth Airport provided a range of new taxi and bus facilities.
- Sydney Airport opened a new 'shared priority pickup zone' in 2016 near the domestic terminal, which is available for ridesharing drivers and other pre-booked services.

The ACCC has been collecting passenger ratings on the quality of landside access services since 2013–14 to measure how investments by monitored airports have affected the quality of the landside access services. The ACCC collected passenger ratings about:

- kerbside pick-up and drop-off facilities

138 Brisbane Airport, *Brisbane Airport 2014 Master Plan* [PDF], Brisbane Airport website, 2014, p 211, accessed 1 March 2022.
139 Melbourne Airport, *Melbourne Master Plan 2013* [PDF], Melbourne Airport website, 2013, p 126, accessed 1 March 2022.

- waiting time for taxis
- kerbside congestion.

Passengers were asked to rate the quality of landside services across 5 ratings (that is, very poor, poor, satisfactory, good and excellent).

The following table shows how the passenger ratings of the quality of landside service have changed between 2013–14 and 2018–19.[140]

Table 6.1 – Passenger ratings of the quality of landside access services and facilities, by airport; between 2013–14 and 2018–19.

Terminal	Indicator	Rating category 2013–14	Rating category 2018–19
Brisbane International	Kerbside pick-up and drop-off facilities	Good	Excellent
	Taxi facilities waiting time	Good	Excellent
	Kerbside space congestion	Good	Good
Brisbane Domestic	Kerbside pick-up and drop-off facilities	Good	Good
	Taxi facilities waiting time	Good	Excellent
	Kerbside space congestion	Good	Excellent
Melbourne International and Domestic	Kerbside pick-up and drop-off facilities	Satisfactory	Good
	Taxi facilities waiting time	Satisfactory	Good
	Kerbside space congestion	Satisfactory	Good
Perth International & Domestic D(T1/T2)	Kerbside pick-up and drop-off facilities	Satisfactory	Good
	Taxi facilities waiting time	Satisfactory	Good
	Kerbside space congestion	Satisfactory	Good
Perth Domestic (T3/T4)	Kerbside pick-up and drop-off facilities	Good	Good
	Taxi facilities waiting time	Satisfactory	Good
	Kerbside space congestion	Satisfactory	Good
Sydney International and Domestic	Kerbside pick-up and drop-off facilities	Satisfactory	Good
	Taxi facilities waiting time	Satisfactory	Good
	Kerbside space congestion	Poor	Satisfactory

Source: ACCC analysis of information voluntarily submitted by the monitored airports.

Table 6.1 shows that passenger ratings of the quality of landside access services have generally improved since 2013–14 across all monitored airports. By 2018–19, just prior to the COVID-19 pandemic, passengers have rated mostly 'good' or 'excellent' across all measures for all monitored airports.

While these passenger ratings do not capture all the elements of the quality of service, they appear to indicate that higher landside access fees can, at least partly, be attributed to investments made by the monitored airports to improve the quality of landside access services.

Competition between rideshare and taxis

Figure 6.8 shows how the number of taxis and rideshare vehicles accessing monitored airports' landside facilities have changed between 2016–17 and 2020–21.

140 Collection of quality of service survey data has been paused due to the impact of the COVID-19 pandemic.

Figure 6.8: Number of vehicles accessing landside, on-demand taxis vs rideshare services, by airport: 2016–17 to 2020–21

Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Note: Real values in 2020–21 dollars. In 2016–17, Brisbane Airport aggregated the number of rideshare vehicles accessing landside with the total for the number of private buses and private cars. Melbourne Airport did not submit the number of rideshare vehicles accessing landside for 2016–17.

Figure 6.8 shows that the number of rideshare vehicles seeking landside access has increased rapidly over the three years preceding the pandemic. This has resulted in rideshare taking market share from taxis. By 2020–21, the gap between the number of rideshare vehicles and taxis accessing landside has narrowed significantly, with rideshare vehicles overtaking taxis in Melbourne and Perth airports.

Figure 6.8 also shows that by 2018–19, the number of rideshare vehicles accessing landside was greater than the reduction reported by taxis for all monitored airports. This implies that the rise in the popularity of rideshare services has led to some passengers who previously used airport's car parks switching to rideshare service (as was illustrated for Perth Airport at Box 6.1).

This growth in the take-up of rideshare is in line with consumers increasingly accepting rideshare as a mode of transport around Australia, especially in the inner-city areas. This increase in popularity can be attributed to rising acceptance and usage of technology as rideshare can be booked and paid for through smartphone apps, as well as a lower fare compared to taxis in general.[141]

With both rideshare and taxis relying on access to airports' landside facilities, the terms of access provided by airports to these operators can potentially influence the competitive dynamic between them. Specifically, if an airport provides materially different price or non-price terms of access, this could provide a competitive advantage to one category of transport operators over the other in competing for customers travelling to, and from, the airport.

The monitored airports offer the following access to facilities to taxis and rideshare operators:

- At Brisbane Airport, taxis are available from ranks at both the domestic and international terminals. Brisbane Airport has dedicated pick-up zones for pre-booked rideshare at both domestic and international terminals.[142]

141 IBISWorld, *Ridesharing Services in Australia OD5540*, IBISWorld website, October 2021, p 11, accessed 1 March 2022.
142 Brisbane Airport, *Ground transport options*, Brisbane Airport website, n.d., accessed 13 March 2022.

- At Melbourne Airport, taxi ranks are located across from terminals T1, T2 and T4, and a pre-booked pick-up zone is available in the outdoor section of the at-terminal T1, T2 and T3 car park.[143] Melbourne Airport has two pick-up zones available for rideshare services being lane 3 of the forecourt in front of T1/T2/T3 and level 2 inside the T4 Ground Transport Hub.[144]
- At Perth Airport, taxi ranks are located at the front of all terminals, as well as on Valentine Road within the General Aviation area.[145] The airport provides eight dedicated pick-up bays for rideshare services being five in the T1/T2 precinct and three in the T3/T4 precinct.[146]
- At Sydney Airport, each terminal has its own sheltered taxi rank. Pre-booked rideshare uses the priority pick-up zone at both the domestic and international terminals, which are further from the terminals than the taxi rank.[147]

The monitored airports provide slightly different terms of access to taxis and rideshare operators. For example, across the monitored airports, kerbside taxi ranks are available for passengers seeking to use a taxi. However, passengers who have prebooked a rideshare vehicle typically have to walk a relatively short distance to find their rideshare vehicle, which may influence the users to opt for taxis over rideshare. The difference in convenience does not appear to be material and can largely be explained by the fact that rideshare is still a relatively new service.

As demand for rideshare increases, some monitored airports have adapted access to their facilities to improve convenience of access to rideshare passengers. For example, at Melbourne Airport, all rideshare users previously had to walk to lane 3 of the forecourt to find their rideshare vehicles, whereas taxis were available at lane 1 (that is, the lane closest to the terminal - kerbside).[148] On 14 December 2021, Melbourne Airport introduced a new rideshare pickup zone directly outside T2, although it is currently only available for Uber passengers.[149]

Figure 6.9 compares the access fees paid by taxis and rideshare operators between 2016–17 and 2020–21.

143 Melbourne Airport, *Taxis*, Melbourne Airport website, n.d., accessed 13 March 2022.

144 Melbourne Airport, *Rideshare*, Melbourne Airport website, n.d., accessed 13 March 2022.

145 Perth Airport, *Taxis*, Perth Airport website, n.d., accessed 13 March 2022.

146 Perth Airport, *Rideshare*, Perth Airport website, n.d., accessed 13 March 2022.

147 Sydney Airport, *Transport options*, Sydney Airport website, n.d., accessed 13 March 2022.

148 See maps, Melbourne Airport, *Rideshare*, and Melbourne Airport, *Taxis*.

149 Melbourne Airport, *Australian-first Uber upgrade means a smoother ride from Melbourne Airport* [media release], Melbourne Airport website, 9 December 2021, accessed 13 March 2022.

Figure 6.9: Landside access fees, taxis vs rideshare by airport: 2016–17 to 2020–21

Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Note: Real values in 2020–21 dollars.

Figure 6.9 shows that initially monitored airports charged different access fees to taxi and rideshare operators. However, in 2020–21, most monitored airports charge nearly the same access fees to taxis and rideshare operators.

At Sydney Airport, taxi's landside access fees have been approximately 6% to 12% higher than rideshare's access fees over the past five years. This could be due to taxis ranks being located closer to the terminals and being sheltered. However, in 2020–21 the difference in their access fees was only $0.40 per vehicle. That a higher charge is accepted by taxis for the more convenient pick-up zone indicates a degree of power that Sydney Airport has to influence consumer preferences between transport modes.

Overall, it appears that monitored airports are moving towards providing both taxis and rideshare vehicles with similar terms of access.

6.2.5 Monitored airports' access arrangements for off-airport parking

This section examines landside access arrangements for off-airport parking operators and competition of off-airport parking with at-airport parking.

Off-airport parking landside access fees

Providers of off-airport parking compete directly with long-term airport parking services. Off-airport parking operators tend to have a locational disadvantage, as their location and distance of the pick-up/drop-off points for their customers can be significantly less convenient compared to the airport's own car parks.

Given airports act as both access providers and competitors to off-airport parking operators, they also have the incentive and the means to increase their competitive advantage by:

- providing only limited drop-off points for off-airport car parking operators (for example, some airports provide only one drop-off point for all the terminals in the airport, compared to drop-off points at each terminal for the airport's own car parks)
- imposing high access fees, including charging off-parking operators more than once for accessing more than one drop-off point

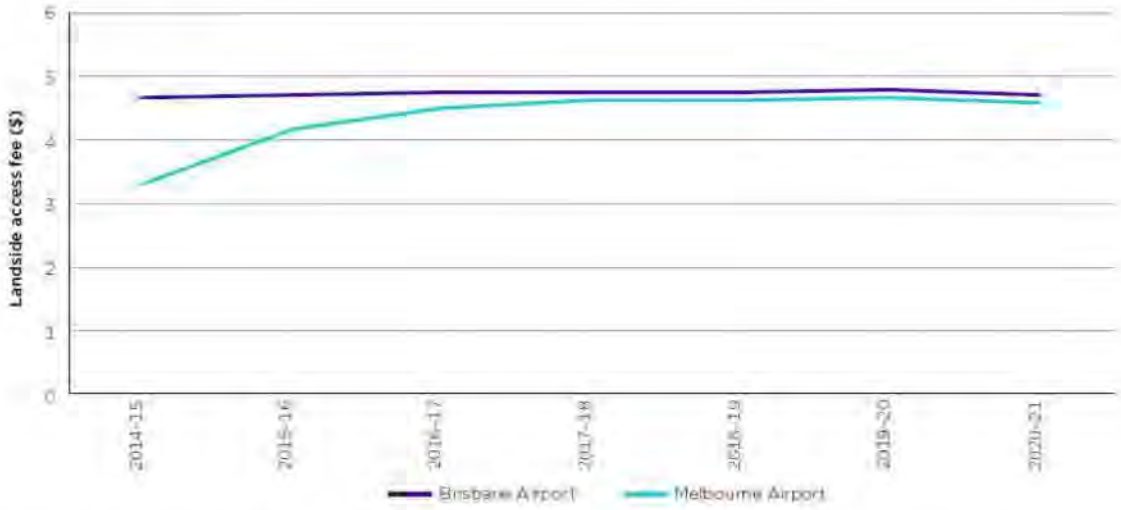
- providing poor amenity of facilities for off-airport parking customers (for example, lack of shelter and signage).

The ACCC has obtained information about access fees levied by Brisbane and Melbourne airports for each off-parking shuttle bus that accesses their terminals. Off-airport parking operators at these airports have informed the ACCC that typically the access fees enable their shuttle buses to stay at their designated zone for a short period (usually between 10 to 15 minutes). Both Brisbane and Melbourne airports then charge a higher fee when the off-airport parking shuttle bus stays longer than the initial designated duration. However, not all airports have provided the ACCC with comparable fee data over time.

Sydney Airport has not submitted off-airport access charge to the ACCC but has informed the ACCC that various access fees apply. Perth Airport does not charge off-airport car park operators for landside access.

Figure 6.10 shows Brisbane and Melbourne airports' access fees for each off-airport parking shuttle bus between 2014–15 and 2020–21. Both Brisbane and Melbourne airports began submitting off-airport parking access charge prices to the ACCC in 2014–15.

Figure 6.10: Landside access fees in real terms, off-airport parking operator by airport: 2014–15 to 2020–21



Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars. Sydney Airport has various access fees while Perth does not charge off-airport car park operators for landside access.

Figure 6.10 shows that Brisbane Airport's access fees for each off-airport parking shuttle bus have been stable for the past 7 years. Melbourne Airport's access fees for off-airport parking shuttle buses have increased in 2015–16 and 2016–17, but have remained relatively unchanged since 2016–17.

In 2020–21, Brisbane Airport's off-airport parking landside access fees was 19% higher than taxis and rideshare's access fees (or $0.75 per vehicle). By 2020–21, the difference in Melbourne Airport's access fees for taxis, rideshare and off-airport parking is minimal (that is, $0.10 or less). This price difference may be due to off-airport parking shuttle buses requiring more landside space than cars.

Competition between off-airport and at-airport parking at Brisbane Airport

For this report, the ACCC has chosen Brisbane Airport to illustrate competition dynamics between off-airport and on-airport car parking operations.

Motorists have the following choices when driving their vehicles to the Brisbane Airport:

- Motorists can park on Levels 5-9 of P1 and Levels 1-6 of P2 at the Domestic Terminal, and on Levels 2-4 and the outdoor area at the International Terminal car park. Motorists can also park at Airpark, an open-air car park located on airport land and close to the terminals with 24-hour surveillance. There is a free shuttle bus (a trip of around 10 minutes) that takes motorists to, and from, the terminals.
- There are 5 off-airport parking facilities located near Brisbane Airport. The shuttle buses from these operators have a typical travel time ranging between 10 and 18 minutes from the park to the terminal. Some off-airport parking operators may provide these shuttle buses on-demand.

Motorists will often choose where to park their cars based on their preference in terms of price and convenience.

In 2018, Houston Kemp prepared a report for Brisbane Airport on car parking and ground access. Houston Kemp found that Brisbane Airport's rates for long-term parking and Airpark were higher than those offered by competing independent off-airport car parks.[150] However, there are some of the disadvantages for motorists parking at any off-airport car parks near Brisbane Airport:

- having to take a short shuttle bus ride
- possibility of taking a shuttle bus ride with other motorists
- having to leave car keys with the off-airport operators.[151]

The ACCC has obtained information from Brisbane Airport about the number of vehicles accessing at-airport (long-term) parking and the number of off-airport parking shuttle buses accessing the Brisbane Airport between 2014–15 and 2020–21 (shown in Figure 6.11).

The ACCC has selected to compare at-airport (long-term) parking with off-airport parking because passengers typically park their vehicles at an off-airport parking sites for long term travel. Off-airport parking operators mostly charge their customers with pricing starting at one day and beyond. Similarly, travellers who would park their vehicles at an at-airport (short-term) parking would typically not consider off-airport parking as a viable substitute.

The ACCC notes that this data is not directly comparable, as the number of off-airport shuttle buses accessing the Brisbane Airport does not equate to the number of vehicles that park at the off-airport car parks (as motorists from multiple vehicles may share the same shuttle bus). Nonetheless, the comparison gives an indication of the trends in the use of off-airport parking vis-à-vis airports' own long-term parking offerings.

Brisbane Airport has stated that it sets pricing to meet demand and fill available capacity, with some airpark pricing at pre-covid levels and some below. Brisbane airport has suggested some contributing factors to the reduction in off-airport buses from FY16 are the change from a monthly charge to a pay-per-entry fee mechanism, and that one of the off-airport operators terminated their business.

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150 Houston Kemp, Submission No. 38 (appendix B) to the Productivity Commission, *Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, September 2018, pp 25–8, accessed 1 March 2022.

151 Ibid, p 29.

Figure 6.11 – Brisbane Airport: At-airport car park (long-term) throughput and number of off-airport parking shuttle buses accessing landside, between 2014–15 and 2020–21

Source: ACCC analysis of information obtained by the ACCC as part of the monitoring regime.

Figure 6.11 shows that in the period between 2015–16 and 2018–19 the number of off-airport shuttle buses accessing Brisbane Airport decreased.

At the same time, number of cars using Brisbane Airport's long-term parking generally increased. This increase in carpark throughput can be attributed to the opening of Brisbane Airport's long-term parking Airpark. When Airpark opened in 2015–16, it provided an additional 2,500 parking spaces. Another factor attributing to the rise in long-term at-airport car parking could be that Airpark reduced its prices by approximately 21% for parking five days or more in 2017–18. These two factors could have attributed to the decline in the use of off-airport car parking as seen in Figure 6.11 from 2016–17 onward.

During the industry consultation for this monitoring report, one off-airport parking operator has indicated to the ACCC that Brisbane Airport has recently reduced its Airpark's pricing to be at least 30% cheaper than pre-COVID level.[152] It appears that these cheaper Airpark prices are only available when motorists pre-book online. Airpark's drive-up prices (in real terms) have remained unchanged since 2017–18. Similarly, Brisbane Airport's long-term undercover parking (drive-up) prices in real terms have remained relatively unchanged for the past seven years. Motorists can save money on parking by booking ahead.

152 Airpark was closed for a period of time in 2020 and early 2021

7. Commercial

The monitored airports have multiple revenue sources in addition to aeronautical revenue and car parking. This includes revenues from commercial activities such as car rental, retail leases and commercial property.

Commercial activities at the monitored airports are generally beyond the scope of the ACCC's monitoring role. However, for the purpose of this report, the ACCC has consulted with commercial operators at the monitored airports, including retailers and car rental operators. The ACCC sought retailers and car rental operators' views on the impact of the COVID-19 pandemic on their operations and what they see as the major challenges in recovering from the pandemic. The ACCC did not consult with commercial property tenants as these operations typically are not heavily reliant on passenger movements.

This chapter is based on the information the ACCC obtained through consultation with retailers and car rental operators, the monitored airports and through broader research. This chapter covers:

- the impact of the COVID-19 pandemic on commercial activities at the monitored airports
- assistance provided by airports to commercial operators in response to the COVID-19 pandemic
- the challenges to the recovery from the COVID-19 pandemic.

The financial figures throughout this chapter are expressed in real terms with values in 2020–21 dollars.[153]

7.1 The impact of the COVID-19 pandemic on commercial activities at the monitored airports

This section covers the impact of the COVID-19 pandemic provided by retailers and car rental operators at the monitored airports and the flow-on effects on the revenues of the monitored airports.

Retail tenants

The bulk of retail customers at the monitored airports are arriving or departing passengers. The significant fall in the number of passengers flying during the pandemic has materially impacted the retail operators at the monitored airports. Retail chains operating at the four monitored airports have indicated that their sales turnover decreased by 95% compared to pre-COVID levels.

Despite the lack of passengers, retailers indicated that they had to incur additional costs in cleaning their facilities / premises in line with COVID-related health and safety requirements. Retailers took a range of measures to manage their costs and generate sufficient cashflow to survive, including:

- selling stock at a discounted price
- closing some shops or reducing opening hours
- reducing staff in both head office and at stores across multiple airports via redundancies.

153 Deflator series derived from the Australian Bureau of Statistics (2022) *Consumer Price Index, Australia* (cat. no. 6401.0, tables 1 and 2, Index Numbers; All Groups CPI; Australia), accessed 30 September 2021. Base year for the ACCC deflator series is 2020–21.

Despite these measures, many retailers at the monitored airports have struggled to survive and had to close their operations. One retail tenant indicated that it stayed afloat mainly because the Australian Government and airports at which it operates provided support in the early stage of the pandemic. Another retailer stated that, despite this assistance, it had to rely on funding from its parent company to continue to operate.

Car rental operators

Car rental operators located at various monitored airports also reported a significant reduction in revenue due to the lack of passengers. During the consultation, multiple car rental operators indicated to the ACCC that their revenue had fallen between 50% and 90% compared to pre-pandemic level.

At the same time, car rental operators incurred additional costs in meeting COVID related health and safety requirements.

Car rental operators sought to reduce costs by decreasing their staff numbers and closing car hire booths at many locations. Some car rental operators also sold off parts of their fleets to generate sufficient cashflow to maintain their operations.

As air travel resumed following lockdowns, passengers tended to avoid using public transport. This increased the demand for car rentals. However, car rental operators stated that they could not replenish their inventory fast enough, given the shortage of new vehicles caused by global supply chain issues. Car rental operators stated that this led to higher car rental prices.

Car rental operators indicated that in the initial stages of the pandemic, they received financial support from airports. However, some stated that this was not sufficient to offset the reduction in revenue. Car rental operators indicated that the level of relief varied between the monitored airports and some airports were no longer offering rent relief in 2021 despite passenger numbers remaining low.

Impact of the COVID-19 pandemic on monitored airports' revenue

The significant impact of the COVID-19 pandemic on retailers had a flow on effect on the monitored airports' retail revenue.

Around 95% of Melbourne Airport's retailers had to close in early 2020–21.[154] Also some retail stores opened and closed according to various travel restrictions. As a result, Melbourne Airport's retail revenue decreased from $190.7 million in real terms in 2018–19[155] to $15.6 million in 2020–21.[156]

Perth Airport closed Terminal 1 Domestic for several months during 2020–21, resulting in all outlets being closed during that period. Overall, 52 outlets at Perth Airport closed at various stages during the pandemic, while many of the remaining stores operated on significantly reduced hours.[157] As a result, Perth Airport's retail revenue decreased from $54 million in real terms in 2018–19[158] to $7.7 million in 2020–21.[159]

Brisbane Airport's retail revenue almost halved compared to pre-pandemic level as some terminal areas closed.[160]

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154 Melbourne Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 36.

155 Melbourne Airport, *2018-19 Annual Report*, 2019, accessed 22 February 2022, p 55.

156 Melbourne Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022 p 68.

157 Perth Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 12.

158 Perth Airport, *2019-20 Annual Report*, 2020, accessed 22 February 2022, p 71.

159 Perth Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022 p 63.

160 Brisbane Airport, *2019-20 Annual Report*, 2021, accessed 22 February 2022, p 34; Brisbane Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 36. Brisbane Airport have stated that the revenue loss for retail was greater than reported, as the audit figure includes $25 million of 'expected credit loss'.

Sydney Airport's retail revenue decreased by around one third compared to the pre-pandemic level.[161] This was due to the retail restrictions being imposed by the Australian Government at T1 international terminal leading to store closures.[162]

In contrast, the pandemic had a much more limited impact on monitored airports' revenue from commercial property (that is, buildings and other space on the airport's land like business parks and offices), as this segment is less directly linked to passenger movements. In 2020–21, Brisbane, Melbourne, and Perth airports' revenue from property remained similar to pre-pandemic level.[163] While Sydney Airport reported a 20% decline in combined revenue from property and car rental compared to 2019 level,[164] it secured new leases for freight facilities on improved terms.[165]

7.2 Relief provided by monitored airports to commercial operators

Monitored airports provided financial support to commercial operators by offering rent relief, rent deferral and waving fixed payments.

Rent relief or deferral

Monitored airports informed the ACCC that they provided various rent relief measures to commercial operators:

- Brisbane Airport provided approximately $57.5 million in the form of rent relief and deferral to commercial and property tenants.[166]
- Melbourne Airport provided support to car rental operators in the form of relief for fixed rents on parking bays, office space and supporting back up facilities.[167]
- Perth Airport informed the ACCC that it provided rent relief to retail operators in 2020.
- Sydney Airport offered both rent relief and rent deferral. In deciding what type of relief to offer, Sydney Airport assessed each tenant on a case-by-case basis. Sydney Airport did not make structural changes to existing contracts.[168]

One monitored airport indicated that it would continue to provide rent relief until passenger throughput is above 80% of 2018–19 levels.

The ACCC notes that there is a material difference between rent relief (where there is no obligation to pay) and rent deferral (a payment holiday, followed by incremental rent payments to repay the amount owed). One airport informed the ACCC that it only provided deferrals after it identified that the particular tenants were in an appropriate financial position to repay.

Waiving fixed payments for car rental operators

Car rental operators have an obligation to pay minimum annual guarantees (MAG) under rental agreements with the monitored airports. MAG is typically calculated as a percentage of tenant's

161 Sydney Airport, *2019 Annual Report*, 2021, accessed 22 February 2022, p 88; Sydney Airport, *2020 Annual Report*, 2021, accessed 22 February 2022, p 89

162 Sydney Airport, *2020 Annual Report*, 2021, accessed 22 February 2022, p 26.

163 Brisbane Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 36; Melbourne Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022 p 68; Perth Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022 p 63.

164 Sydney Airport, *2019 Annual Report*, 2021, accessed 22 February 2022, p 88; Sydney Airport, *2020 Annual Report*, 2021, accessed 22 February 2022, p 89. Revenue from car rental was reported in Sydney Airport *2020 Annual Report* together with revenue from property as 'Property and car rental revenue'.

165 Sydney Airport, *2020 Annual Report*, 2021, accessed 22 February 2022, p 30.

166 Brisbane Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 24.

167 Melbourne Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 32.

168 Sydney Airport, *2020 Annual Report*, 2021, accessed 22 February 2022, p 26.

revenue from the previous year and is paid by car rental operators on top of their fixed rent payments.

Some monitored airports have waived MAG obligations for car rental operators for the 2020 and 2021 calendar years. For example, Melbourne Airport indicated that it waived MAG payment in addition to providing rent relief.[169]

Some car rental operators have indicated that some monitored airports recently began charging MAG again despite sales turnover remaining low.

7.3 Challenges to recovery from the COVID-19 pandemic

Commercial operators expressed concerns that low passenger numbers, the unpredictable nature of the COVID-19 pandemic and low traveller confidence may lead to commercial airport activities being severely affected for several years. Commercial operators identified several challenges in recovering from the COVID-19 pandemic.

Some commercial operators stated that because they had to lay off large numbers of staff during the pandemic, they were now experiencing difficulties in rehiring suitable employees. One commercial operator stated that this would affect its ability to operate if staff shortages continue.

Some retailers have stated that the return of international passengers is crucial to recovery, as those passengers historically spend more money at airports than domestic passengers. Some commercial operators have also stated that the recovery of corporate travel is also important, as corporate travel provided a regular stream of passengers in the past. With many organisations adopting digital tools (for example, virtual meetings) during the pandemic, it is uncertain how much corporate travel will return once the pandemic subsides.

Multiple commercial operators expressed concerns that airports may attempt to recover their operating losses from tenants in the future and/or return to a 'take-it-or-exit' negotiating position. These commercial operators indicated that such actions would increase their costs and would ultimately flow through to end-consumers through higher prices.

169 Melbourne Airport, *2020-21 Annual Report*, 2021, accessed 22 February 2022, p 32.

8. Investments by monitored airports

Provision of aviation services is capital-intensive. Airports require a range of tangible non-current aeronautical and non-aeronautical assets to service the current and future needs of airport users.

Each year, the ACCC reports information from the four monitored airports about their investments in:

- tangible non-current aeronautical assets that are directly used for the supply of aeronautical services (including runways, taxiways, parking bays, aprons and terminal facilities)
- tangible non-current non-aeronautical assets relating to car parking and landside access.

The ACCC does not report on airports' investments in property, commercial/retail facilities, or intangible assets such as goodwill, costs incurred in the development of the Airport Master Plan or software licenses.

In addition to information collected from the monitoring regime, this chapter is also based on the information the ACCC collected through consultations with airport users and through broader research.

This chapter examines investments in tangible assets reported by the four monitored airports, namely:

- the long-term trends in tangible non-current aeronautical and non-aeronautical investments
- impact of the COVID-19 pandemic on current investments
- planned future investments.

The ACCC reports aeronautical asset values in this chapter using the line-in-the-sand approach (see Appendix C for more details).

The financial figures in this chapter are presented in real terms with values in 2020–21 dollars.[170]

8.1 Monitoring airports' investments

In a competitive market, infrastructure operators compete on price and quality of service. Competitive operators do this by investing sufficiently in fit-for-purpose infrastructure that meets the needs of users in a timely manner at the lowest cost they can achieve. Some operators may provide high-quality services for a higher price, which is an efficient form of product differentiation if the demand exists.

As noted in chapter 1, monitored airports are natural monopolies with substantial market power. Therefore, they may have incentives to invest at an inefficient level to extract monopoly rents. This section discusses these incentives, the concerns raised by airport users and the focus of the ACCC's monitoring of investments.

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170 Deflator series derived from the Australian Bureau of Statistics (2022) *Consumer Price Index, Australia* (cat. no. 6401.0, tables 1 and 2, Index Numbers; All Groups CPI; Australia), accessed 30 September 2021. Base year for the ACCC deflator series is 2020–21.

8.1.1 Monitored airports' investment incentives

Monitored airports may have an incentive to exercise their market power by underinvesting or deferring investment in their facilities' capacity or quality. This can lead to:

- an airport restricting supply, and pricing services at unduly high levels, to create scarcity rents with capacity constraints, or
- an airport allowing service quality to fall below airport users' reasonable expectations at a given price, which may result in other costs to airport users such as additional wait times, flight delays or safety risks.

However, monitored airports' incentive to underinvest in their infrastructure is somewhat limited by the following factors:

- conditions in their long-term leases with the Commonwealth that require the monitored airports to invest in airport infrastructure to meet current and anticipated demand
- airports' incentive for price discrimination among users based on willingness to pay, leading to increased output from under-provision of services under uniform average cost pricing
- airports' incentives to attract more passengers due to complementary demands for non-aeronautical services such as car parking and commercial services.

Alternatively, airports with market power may have an incentive to overinvest in their facilities in ways the airport users do not need (referred to as 'gold plating') or by investing too far ahead of expected demand, and seek to recover the costs from airlines and other down-stream users.

8.1.2 Concerns raised by airlines

During the 2019 Productivity Commission inquiry, airlines raised concerns about inefficient investment at monitored and non-monitored airports around Australia:

- Qantas submitted that Australian airports frequently prioritise investments in retail, car parking and other revenue-raising facilities over aviation infrastructure and expect passengers to pay for these through higher airport charges.[171]
- Virgin Australia submitted that airport's opening asset base is often revalued upwards (in some cases considerably so) to justify higher charges for aeronautical services.[172]

Airlines have re-iterated these concerns to the ACCC during consultation for the purpose of this report. Airlines have also commented that airports regularly undertake capital projects and include the cost of these projects in their capital base for recovery from airlines without adequate consultation and with limited transparency on costs.

8.1.3 The focus of the ACCC's monitoring

The ACCC is monitoring whether monitored airports' investments are:

- sufficiently meeting the needs of airport users in a timely manner, and
- efficiently delivered (that is, by minimising expense passed onto airport users where possible).

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171 Qantas Group, *Submission No. 48 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018, p 6, accessed 8 April 2022.

172 Virgin Australia, *Submission No. 54 to the Productivity Commission, Inquiry into Economic Regulation of Airports (2019)*, Productivity Commission website, 2018p 6-7, accessed 8 April 2022.

The following section examines airports' major investments over the 12 years preceding the COVID-19 pandemic.

8.2 Long-term trends in investment by monitored airports

Asset investment cycles vary significantly between each of the monitored airports, subject to the needs of each airport. Investments toward tangible non-current aeronautical, carparking and landside assets can be used for upgrading or replacing existing assets, or constructing new assets.

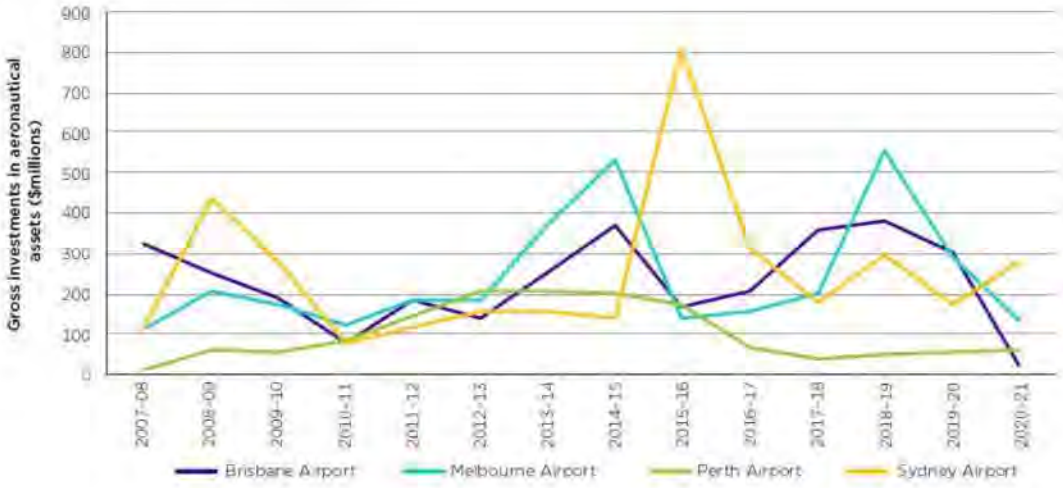
Whilst charts presented in this section cover a time period from 2007–08 to 2020–21, the impact of the COVID-19 pandemic on investments during 2019–20 and 2020–21 are discussed separately in section 8.3.[173]

8.2.1 Gross investments in tangible non-current aeronautical assets

The data shown in this section are the gross investments or 'additions' in tangible non-current aeronautical assets, excluding disposals and depreciation which reduce net investment.

Figure 8.1 shows annual gross investments in tangible non-current aeronautical assets that the monitored airports have reported to the ACCC over the past 14 years.

Figure 8.1: Gross investments in tangible non-current aeronautical assets in real terms, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from airports as part of the monitoring regime.
Note: Real values in 2020–21 dollars.

The chart demonstrates the lumpy and cyclical nature of capital investments, and how each monitored airport invested differently. Some key tangible aeronautical investments are listed below, as reported in previous ACCC Airport Monitoring Reports.

Brisbane Airport made the following key tangible aeronautical investments:

- In 2007–08, it invested in new buildings, plant and machinery.
- Since 2012, a nearly half of the investment has contributed to the development and construction stages of the new parallel runway and associated supporting infrastructure

173 Trends are observable from 2007–08 as that was the first reporting year that asset values were consistently applied using the Line in the Sand (LIS) approach.

which was completed on 12 July 2020. The runway is expected to effectively double the capacity of Brisbane Airport, allowing a maximum of 110 flights per hour.[174]

- In 2014–15, it expanded the Domestic Southern Apron, which provided a new dual-apron taxi lane and relocated landside infrastructure.
- In 2017–18, it invested in the International Terminal concourse and apron bays.
- In 2018–19, it invested in new roads and an underpass. However, the bulk of the expenditure was due to the expiry of the domestic terminal lease and the transfer of the domestic terminal operations from Qantas to the airport, rather than new investment (refer to Box 4.1). Brisbane Airport also invested in upgrades to the domestic terminal following the lease expiry.

Melbourne Airport made the following key tangible aeronautical investments:

- During 2014–15, it invested in the international terminal bussing and the premium lounge and transfer screening facilities projects, and the construction of the new T4, which was designed to accommodate 10 million passengers per year.[175]
- During 2018–19, it replaced aerobridges in T2 and T3, completed expansion works on the existing security area in T2 and commenced construction of the new 'Taxiway Zulu' project. A large proportion of the 2018–19 expenditure was associated with a payment to Qantas for facilities contained within the domestic terminal following the expiry of the domestic terminal lease (refer to Box 4.1).

Perth Airport made the following key tangible aeronautical investments:

- In 2011–12, it completed a T3 expansion and refurbishment and expansion of inbound processing facilities. This investment shortly preceded the peak of the resource boom in Western Australia.[176]
- In 2012–13, it completed the construction of T2 and associated infrastructure, and the realignment of a taxiway. Ongoing investment included construction of a domestic pier on the western end of T1 with a direct connection to T2.
- In 2013–14, it completed a runway overlay, T3 apron reconfiguration and a co-generation plant for T1 and T2.
- In 2014–15, it completed the expansion and refurbishment of T3, additional stand-off bays and the 'Taxiway Charlie' extension.
- In 2015–16, it expanded and upgraded T1, including international arrival and departure areas, and improved security screening and customs processing areas.
- In 2016–17, it completed a number of upgrades at T1, including a new forecourt and roads, as well as check-in area expansion.

Sydney Airport made the following key tangible aeronautical investments:

- In 2008–09, it invested in land improvements, buildings and plant and machinery.
- In 2015–16, it invested in additional aprons and security fence upgrades. However, a large proportion of the expenditure related to the purchase of the Qantas domestic terminal following the end of the Qantas domestic terminal lease as opposed to investment in new infrastructure (refer to Box 4.1).

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174 Brisbane Airport, *Brisbane's New Runway*, Brisbane Airport website, n.d., accessed 23 March 2022.

175 Melbourne Airport, New Terminal 4 officially unveiled, Melbourne Airport website, 9 December 2015, accessed 29 April 2022.

176 S Letts, 'Mining industry to lose 50,000 more jobs as boom comes to an end: NAB', *ABC News*, 10 June 2016, accessed 23 March 2022

- During 2018–19, it completed T1 international gate lounge redevelopment works and continued works on redeveloping the T1 international departures entry point, and began work on apron expansion and completed the first phase of works on T2 domestic pier B.

8.2.2 Gross investments in tangible non-current car parking and landside access assets

The monitored airports have made significant gross investment in tangible non-current on-airport car parking and landside access areas over the past 14 years.

Brisbane Airport made the following key car parking and landside access investments:

- In 2012, it completed major changes to the road network, stating that this has alleviated pressure during the daily peak period in the domestic terminal precinct.[177]
- During 2013–14, it completed a number of car parking and landside access projects, such as the taxi short-fare system, international terminal valet facility, and a two-lane off-ramp from the airport's main arterial road.
- Since 2015–16, it has provided dedicated zones for ridesharing drivers at both international and domestic terminals.

Melbourne Airport made the following key car parking and landside access investments:

- In 2014–15, it completed the 3.3 kilometre, four-lane 'Airport Drive & Steel Creek North' road project which connects to the M80 Western Ring Road. Also ongoing in 2014–15 was the car parking multi-level ground transport hub and carpark project to support the new T4.
- Since 2017–18, it has provided dedicated wait zones for rideshare vehicles such as Uber, Didi, GoCatch and Ola at both terminal precincts for passengers travelling to and from the airport.

Perth Airport made the following key car parking and landside access investments:

- In 2011–12, it expanded the T1 park and ride facility.
- In 2012–13, it completed new taxi and car rental facilities at the T1/T2 precinct and a new 'Park and Wait' area with 70 spaces was completed to service T1 and T2.
- Over 2013–14, it completed a new bus, taxi and short-term car park facility at T2.
- Between 2014 and 2016, it undertook the Gateway WA project which included major interchanges and road upgrades to allow greater passenger and freight access to Perth Airport.
- In 2015–16 has introduced 'remote holding areas' for pre-booked ridesharing drivers.

Sydney Airport made the following key car parking and landside access investments:

- Since 2013, it made road improvements at the international terminal precinct.[178] Sydney Airport has also re-configured its road network, which improved traffic flow and reduced congestion.[179]
- In 2015–16, it completed a new five lane road exiting the domestic precinct. Sydney Airport also opened a new 'shared priority pickup zone' in 2015–16 near the domestic terminal, which is available for ridesharing drivers and other pre-booked services.

177 Brisbane Airport, *Ground Transport Plan* [PDF], Brisbane Airport website, 2014, p 211
178 Sydney Airport, *T1 International precinct*, Sydney Airport website, n.d., accessed 8 April 2022.
179 Sydney Airport, *T2/T3 Domestic precinct*, Sydney Airport website, n.d., accessed 8 April 2022.

- During 2017–18, it completed improvements to the T2/T3 ground access, parking facilities at T1, and the T1 priority pick-up area for ride-share services.

8.2.3 Impact of investments on airports' asset base

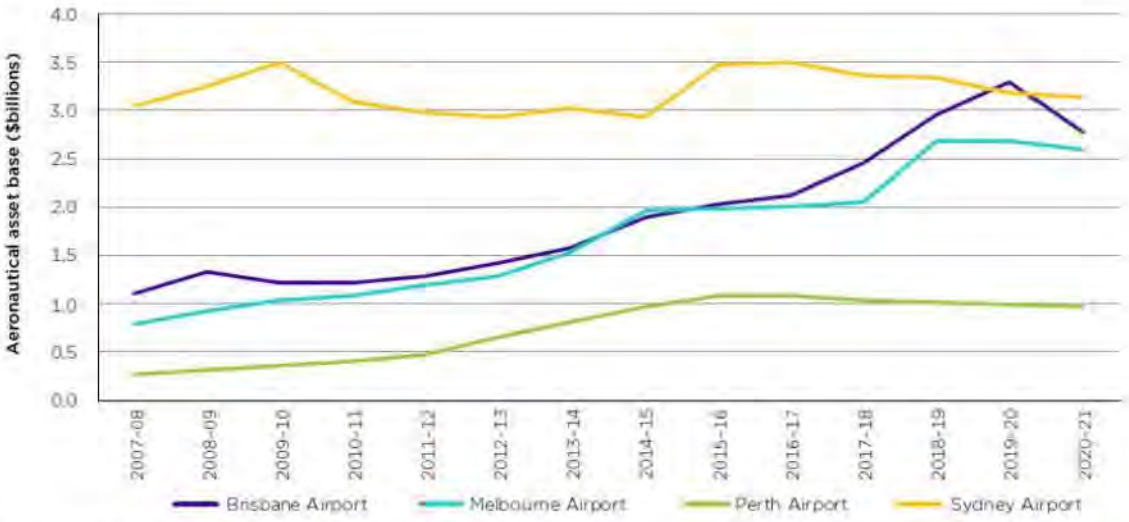
Overall, the four monitored airports invested $11.5 billion in tangible non-current aeronautical and $5.7 billion in tangible non-current non-aeronautical assets in real terms between 2007–08 to 2020–21.

Each year, the monitored airports' tangible non-current aeronautical and non-aeronautical asset bases are adjusted by adding the cost of new investments and subtracting any disposals or depreciation (noting that the cost of new investment included in the asset base is not subject to an efficiency review). Therefore, if new or additions to investment is less than disposals and depreciation in a given year, the asset base will decline. This section shows how gross investments in the period between 2007–08 and 2020–21 have affected the monitored airports' asset bases.

Aeronautical asset bases

Figure 8.2 shows how each of the monitored airports' tangible aeronautical asset bases have changed since 2007–08.[180]

Figure 8.2: Tangible non-current aeronautical asset bases in real terms, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from airports as part of the monitoring regime.
Note: Real values in 2020–21 dollars. The asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Figure 8.2 shows that from 2007–08, Perth and Melbourne airports' tangible non-current aeronautical asset bases more than tripled, but have slightly declined since 2016–17 and 2018–19 respectively.

Brisbane Airport's tangible non-current aeronautical asset base more than doubled between 2007–08 and 2019–20. Brisbane Airport have stated that the 2020–21 decrease of tangible non-current assets was driven by depreciation of assets.

The tangible non-current aeronautical asset base at Sydney Airport only increased by 10% in real terms during the period between 2007–08 and 2018–19. Sydney Airport has limited

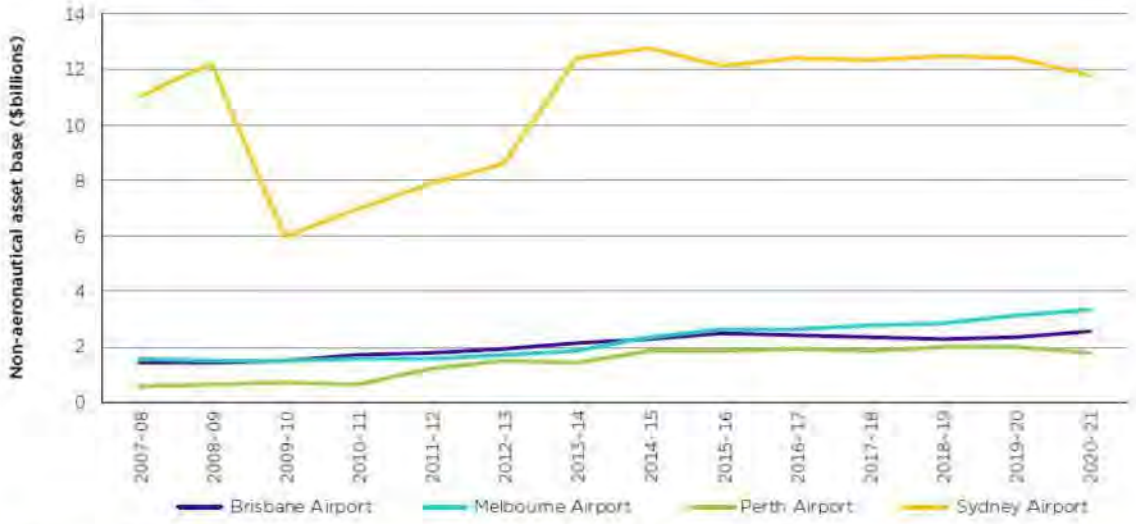
180 2007–08 was the first reporting year for which asset values were reported using the line-in-the-sand approach.

opportunities for tangible aeronautical expansion given operational constraints such as the curfew, aircraft movement quota and limited land. Therefore, the bulk of gross investment made during the period was to upgrade or replace existing assets. However, Sydney Airport's tangible aeronautical asset base remained the highest among the monitored airports for all years except 2019–20, when it was temporarily overtaken by Brisbane Airport.

Non-aeronautical asset bases

Figure 8.3 shows how each of airports' tangible non-current non-aeronautical asset bases have changed since 2007–08. The trend in non-aeronautical asset base discussed below includes car parking and landside as well as other non-aeronautical activities such as property and commercial/retail facilities. As mentioned in chapter 3, the line-in-the-sand approach does not extend to non-aeronautical assets, so the monitored airports may revalue these assets for monitoring purposes. This would affect the tangible non-current non-aeronautical asset base shown in Figure 8.3.

Figure 8.3: Tangible non-current non-aeronautical asset bases in real terms, by airport: 2007–08 to 2020–21



Source: ACCC analysis of information received from airports as part of the monitoring regime.
Note: Real values in 2020–21 dollars. The asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Figure 8.3 shows that all four of the monitored airports' tangible non-current non-aeronautical asset bases have changed at different rates since 2007–08.

Perth and Brisbane airports' non-aeronautical asset bases increased prior to 2014–15 and 2015–16 respectively but have stayed steady since.[181] Melbourne Airport's non-aeronautical asset base was steady at the start of the period but increased after 2013–14.

Sydney Airport's non-aeronautical asset base is higher than the other monitored airports, largely due to Sydney Airport's high value of receivables. The large decrease in non-aeronautical assets in 2009–10 is mostly attributable to the removal of investments in subsidiaries. The non-aeronautical assets for the airport increased significantly in 2013–14, driven mostly by growth in non-current receivables.

[181] Perth Airport has stated that the increase in tangible non-current non-aeronautical asset base prior to 2014–15 was due mainly to the $731m impact of accounting treatment changes.

8.2.4 Impact of asset bases on prices

As discussed in chapter 2, the monitored airports use a building block model (BBM) to inform their pricing negotiations with airlines. The ACCC understand that these airports use their estimates of aeronautical asset base as an input into the BBM calculation, multiplying the value of the asset base by the weighted average cost of capital and then adding other components of the building blocks (such as depreciation and opex) to estimate their required revenue. The ACCC understands that airports then divide their estimate of the required revenue by forecast demand to arrive at aeronautical prices.

The monitored airports use their estimates of non-aeronautical asset bases in a similar manner to set prices for car parking, landside access and other non-aeronautical services in their negotiation with airlines.

Therefore, with all else being equal, the higher the aeronautical and non-aeronautical asset bases are, the higher the revenue required is for provision of aeronautical and non-aeronautical services. It is likely to drive up the prices that airports will charge their users. Whether this is a concern depends at least in part on whether the investment is timely, efficient and meets the needs of end users.

8.2.5 Timeliness and efficiency of monitored airports' investments

The ACCC uses passenger and/or airline ratings on the overall quality of total airport services to assess how they have changed over time. This overall rating covers aeronautical, car parking and landside operations. As mentioned earlier, the ACCC has not collected quality of service data from passengers or airlines in the past two years.

As the ACCC discussed in its 2018–19 Airport Monitoring Report, the ratings for overall airport services remained within the 'Satisfactory' to 'Good' ratings for each of the monitored airports over the 12 years before the COVID-19 pandemic. Ratings by passengers tend to be higher than ratings by airlines, which reflects the different infrastructure they use, their perspectives and potentially their incentives.

As shown in this chapter, monitored airports have made large investments in new and existing infrastructure in the period between 2007–08 and 2018–19. The finding that the quality-of-service ratings have not declined and remained satisfactory during this period indicates that the monitored airports are not under-investing in airport infrastructure.

The ACCC currently does not have adequate data to conclusively assess whether the concerns raised by airlines that some monitored airports are investing too early or over-investing in their infrastructure are justified.

As shown in Figure 3.1, passenger numbers at each of the monitored airports have increased between 28% and 58% over the 12 years preceding the COVID-19 pandemic. The monitored airports have invested to increase capacity and upgrade existing infrastructure to meet increasing demand and adapt to changing requirements. The ACCC would need to examine asset utilisation, among other things, to determine whether the timing of those investments has been reasonable. The ACCC currently collects very limited data on monitored airports' asset utilisation.

However, the ACCC can make some observations based on the data available. Box 8.1 discusses car parking investment at the Perth Airport.

Box 8.1: Car parking investment at Perth Airport

As discussed in chapter 5, in the period between 2007–08 and 2018–19:

- Perth Airport significantly increased its short-term car parking capacity (50%) and long-term car parking capacity (213%)
- Perth Airport significantly increased its short-term car parking prices (54-123%) and long-term parking prices (24-42%), at least in part, to recoup those capital investments
- average daily car throughput at Perth Airport increased by 1.4%.

Airports, just as all other infrastructure operators, aim to have sufficient capacity to ensure that they can cater for throughput at peak periods. Table 8.1, below, shows the average peak period occupancy rates at Perth Airport in 2018–19.

Table 8.1: Average peak period occupancy rates for car parks at Perth Airport, 2018–19

Car park	Average peak period occupancy (%)
T1/T2 short-term	72.4
T1/T2 long-term	40.2
T3/T4 short-term	59.5
T3/T4 long-term	29.7
T3/T4 fast-track parking	67.4
General Aviation	34.2

The ACCC acknowledges that Table 8.1 shows only average peak period occupancy, meaning that the occupancy on some days in 2018–19 was higher than shown in the table. Nonetheless, Table 8.1 appears to indicate that Perth Airport had significant excess car parking capacity in 2018–19 across several of its offerings, particularly T1/T2 and T3/T4 long-term car parking, and General Aviation.

This raises the question as to whether Perth Airport may have invested to expand its car parking capacity too early. To make this assessment, the ACCC would need, among other things, the information that Perth Airport had at the time it made its investment decisions, particularly about expected future demand. Without this information, the ACCC cannot conclusively comment on the efficiency of its investment.

Businesses typically invest in additional capacity based on forecast future demand for their services. It appears that at the time Perth Airport decided to invest in additional car parking capacity, it expected the demand for parking to increase substantially over the subsequent period. It is possible that this demand has not materialised due to reasons Perth Airport could not foresee at the time.

For example, passenger numbers at Perth Airport increased gradually up to 2012–13, but flattened out afterwards as the mining boom cooled off. In addition, the emergence of rideshare in 2015–16 had caused many passengers to switch from parking at the airport to using rideshare (refer to chapter 6).

Perth Airport is making further investments in T1 & 2 Multi Storey Car Park Pod 1 and the Airport Link rail project, which may further reduce demand for the existing car parks. Perth Airport stated that carparks are built to accommodate peak occupancy to provide high quality of service to customers.

8.3 Impact of the COVID-19 pandemic on investment

As the ACCC discussed in Chapter 3, the COVID-19 pandemic has led to a significant fall in number of passengers flying. This section discusses the flow on effects of this on gross investment by monitored airports.

Aeronautical investments

The monitored airports informed the ACCC that the COVID-19 pandemic has triggered a large reduction in their capital aeronautical expenditure over the past 2 years as they deferred, paused or cancelled a number of projects in response to falling demand.

In aggregate, the monitored airports gross investment was approximately $0.5 billion in tangible non-current aeronautical assets in 2020–21, compared to around $1.3 billion in 2018–19.

Table 8.2 shows the gross investment rate in tangible aeronautical assets made by each monitored airport between 2018–19 and 2020–21. In contrast to the gross capital expenditure dollar amounts shown in Figure 8.1 above, the gross investment rate below shows airports' gross tangible aeronautical investment relative to the size of their existing tangible aeronautical asset bases.

Table 8.2: Gross tangible aeronautical investments to tangible aeronautical assets, by airport (%): 2018–19 to 2020–21

	Aeronautical investments in 2018–19 (%)	Aeronautical investments 2019–20 (%)	Aeronautical investments 2020–21 (%)	Percentage point change: 2018–19 to 2019–20	Percentage point change: 2019–20 to 2020–21
Brisbane Airport	15.6	10.3	0.7	-5.3	-9.6
Melbourne Airport	27.0	10.8	5.0	-16.2	-5.9
Perth Airport	4.6	5.2	6.2	0.6	1.0
Sydney Airport	8.8	5.2	8.8	-3.5	3.5

Source: ACCC analysis of information received from airports as part of the monitoring regime.
Note: the asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Table 8.2 shows that Brisbane and Melbourne airports have significantly reduced their gross tangible aeronautical investment rates in the 2 years affected by the pandemic. Perth Airport is the only airport that has invested at a higher rate than prior to the pandemic, though Perth Airport's rate of investment in 2018–19 was among the lowest for Perth Airport and the lowest among the monitored airports. Sydney Airport's gross tangible aeronautical assets investment rate dipped in 2019–20 but returned to pre-pandemic level in 2020–21.

Some airports have indicated that there were limited new, major investments commenced in 2020–21 or planned to commence in 2021–22 in anticipation of reduced passenger numbers and certainty in coming years. Some monitored airports have deferred or reduced the scope of non-essential investment projects, including delays of major capacity building projects. Monitored airports provided the following examples of delayed aeronautical projects in their consultation with the ACCC:

- new runways delayed by 2 years
- apron expansions delayed by 2–4 years
- security screening upgrades delayed by 1–3 years
- terminal expansions delayed by 2–3 years
- taxiway development completion delayed by 3 years.

One monitored airport has indicated that it has resumed some minor projects which it had initially delayed due to COVID-19 pandemic as reduced passenger numbers presented the airport with an opportunity to complete works with minimal disruption to normal operations.

Despite reduced demand throughout the COVID-19 pandemic, each monitored airport has continued or completed some key tangible aeronautical projects. Table 8.3 lists the key investment projects in aeronautical services and facilities completed or underway in 2020–21.

Table 8.3: Selected key tangible aeronautical investments completed or underway in 2020–21 in real terms, by airport.

Airport	Infrastructure	Value ($m)	Status	Commencement Date	Completion Date
Brisbane	Brisbane's New Runway	1,240	Completed	12/01/16	12/07/20
	International Terminal Fire Panel	8	Completed	1/12/17	30/11/20
	Domestic Terminal Standard 3 Check Bag Screening and capacity upgrades	216	Underway	10/01/18	*31/12/25*
	International Terminal Passenger body scanners and CT cabin bag screening	131	Underway	10/01/18	*31/12/25*
	International Terminal Bays 65 to 68 and Links	69	Underway	7/01/18	30/06/27
Melbourne	Airfield Perimeter Fence Replacement	n/a	Completed	FY17	FY21
	Taxiway Victor (Stage 1 of Taxiway Zulu)	n/a	Completed	FY14	FY21
	Runway Development Plan	n/a	Underway	FY14	*FY28*
	T2 Airside Satellite Development	n/a	Underway	FY18	*FY30*
	T2 North Infill Expansion	n/a	Underway	FY18	*FY27*
	T3 Redevelopment	n/a	Underway	FY18	*FY23*
	T1 Redevelopment	n/a	Underway	FY19	*FY23*
Perth	International Gate Upgrade Project	42	Completed	7/01/20	30/06/21
	Security Reform Project	71	Underway	14/12/18	*31/12/21*
	Domestic Terminal Lease	8	Underway	10/11/17	*31/12/21*
	Terminal and apron consolidation and development	1,000	Underway	1/01/16	*31/12/25*
	Parallel Runway Design and Construction	520	Underway	1/02/15	*31/12/26*
Sydney	T1 Southern Bag Room Civil Works/ Southern Pier Civil Works	15–20	Completed	Q3 2019	Q3 2020
	Northern Ponds Infrastructure Upgrade	50–75	Completed	Q3 2019	Q2 2021
	T2 New Conveyor Sort Loop	20–25	Underway	Q4 2019	*Q4 2022*
	Runway 16R/34L Central & South Re-sheet	40–50	Underway	Q3 2020	*Q4 2021*

Source: Information received from airports as part of the monitoring regime

On-airport car parking and landside access investments

As with investments toward aeronautical assets, some airports had to review their capital expenditure plan for on-airport car parking and landside access facilities. Monitored airports provided several examples of multi-year investment delays, including car park and access roads developments.[182] The monitored airports made a total of $314.0 million new non-aeronautical investments in 2020–21.

Table 8.4 lists key investment projects in car parking and landside access services and facilities completed or underway in 2020–21.

182 Information received from airports as part of the ACCC's survey responses.

Table 8.4: Selected key car parking and landside access investments completed or underway in 2020–21 and planned for 2021–22 in real terms, by airport.

Airport	Description	Value ($m)	Status	Commencement Date	Completion Date
Brisbane	New Online Booking System for car parking	0.5	Completed	1/08/18	30/06/21
	Airpark Extension	15	Underway	1/09/18	*31/12/25*
	International Multi level Car Park 2	100	Underway	1/03/18	*n/a*
Melbourne	Landside Access Road Maintenance Works	n/a	Completed	Q1 2021	Q2 2021
	Car Park Façade Cladding replacement	n/a	Completed	Q2 2020	Q1 2021
	T4 Express Link	n/a	Underway	Q3 2018	*Q1 2022*
	Elevated Road and Forecourt Stage 2	n/a	Underway	Q3 2018	*Q4 2025*
Perth	T2 Forecourt Monitoring and Control	1.5	Completed	1/10/16	30/06/21
	T1 & 2 Multi Storey Car Park Pod 1	170	Underway	n/a	*n/a*
	Airport Central Road Upgrade	80	Underway	n/a	*n/a*
Sydney	Car Park Customer Service Improvements	1-2	Completed	Q1 2020	Q4 2020
	Ground Access Improvements (upgrading taxi rank and a new limousine waiting area)	5-10	Underway	Q2 2021	*Q4 2021*

Source: Information received from airports as part of the monitoring regime.

The ACCC did not collect quality of service survey or objective indicators data during the pandemic. The ACCC is therefore not assessing how the reduction in investments affected the quality of service during the past 2 years.

8.4 Future investment plans

Timely investment in airport infrastructure is required to meet current and expected future demand. However, monitored airports have informed the ACCC that they currently consider infrastructure investment to be riskier, given uncertainty in expected future demand. The monitored airports expect to resume planned projects when the passenger recovery path becomes clearer, but investment timelines may change.

The monitored airports have reported the following future investment plans:

- Brisbane airport plans to expand the international and domestic terminal area and services and build a new domestic multi-level car park in the next 3-5 years. Over the next 20 years, Brisbane Airport is considering the development of new Northern and Western Terminals. [183]
- Melbourne Airport plans to develop a new parallel east–west runway and extend the existing east–west runway, increasing aircraft movements to almost 100 per hour. Melbourne Airport is also planning to reconfigure the existing forecourt and multi-level car park at T123 into a new ground transport hub to increase capacity for passenger pick-up and drop-off.[184] There is also a plan to invest in landside road network to improve passenger vehicle circulation and access.[185] Both Federal and Victorian

183 Brisbane Airport, *2020 Master Plan* [PDF], Brisbane Airport website, 2020, pp 215, 225, 228, 232, accessed 2 May 2022.

184 Melbourne Airport, *2018 Master Plan* [PDF], Melbourne Airport website, 2018, pp 144, 177, accessed 2 May 2022

185 Melbourne Airport, *Melbourne Elevated Road and Forecourt Stage 2 Project: Major Development Plan* [PDF], Melbourne Airport website, 2021, p 5, accessed 2 May 2022.

governments are investing in developing Melbourne Airport Rail link, with construction beginning in 2022 with a target opening date of 2029.[186]

- Perth Airport is planning to expand the international terminal, construct a new terminal to consolidate all air services into the central precinct, and build a new runway. Perth Airport also recently announced a ground transport upgrade where it will invest in T1 and T2 multi storey car parking and provide taxi and rideshare customers with improved access to the terminal buildings.[187] The Federal and Western Australia governments have both funded a new airport-link rail line to improve access to Perth Airport and this will be in operation in the first half of 2022.[188]
- Sydney Airport has plans to develop additional capacity in each terminal and improve taxiways, aprons, forecourts and landside infrastructure enhancements. Key capacity upgrades include a new satellite pier, additional remote aircraft parking and swing gates. Sydney Airport is also planning to upgrade ground transport access, with a new multi-storey integrated pick-up/drop-off facility and road upgrades.[189]

186 State Government of Victoria, *Melbourne Airport Rail Project Overview*, n.d., accessed 24 February 2022.

187 Perth Airport, *2020 Master Plan*, Perth Airport website, 2020, p. 26, 136, accessed 2 May 2022.

188 Government of Western Australia, *Welcome to the Forrestfield-Airport Link Project*, Forrestfield-Airport Link website, n.d., accessed 24 February 2022.

189 Sydney Airport, *2039 Master Plan*, Sydney Airport website, April 2019, p 14, 20, accessed 4 May 2022.

Appendix A – Landside access options – access, pricing and facilities

Table A.1 - Landside options - Access, pricing and facilities, by airport

Transport Mode	Brisbane[190]	Melbourne[191]	Perth[192]	Sydney[193]
Terminal pick-up and drop-off	The international and domestic terminals offer free of charge pick-up and drop-off zones with maximum waiting times of 10 and 30 minutes respectively. Drivers must remain with their vehicles when accessing these zones.	Melbourne Airport offers a free 1-minute pick-up and drop-off zone for all terminals and a free 15-minute waiting period inside the terminal car parks. A wait zone is also provided near the Long-term Car Park which allows motorists to wait for 30 minutes at no charge and up to 60 minutes for $4. Drivers must remain with their vehicles when accessing these zones.	Perth Airport offers free immediate pick-up and drop-off zones at each precinct and an express option at T2 allowing drivers five minutes to complete their pick-up or drop-off. Long-term parking can also be used for free for less than an hour.	Sydney Airport offers free immediate pick-up and drop-off zones at domestic and international terminals. The express pick-up zones are free for up to 15 minutes.
Train	Brisbane Airport is serviced by a privately owned and operated train service called Airtrain that is integrated into the suburban train network. The Airtrain takes 20 minutes to reach the CBD and also offers express services to the Gold Coast. A single adult fare to the CBD costs $19.50 one way or $37 return. Discounts are available for online bookings and for groups.	N/A	N/A	Both domestic and international terminals are serviced by rail operated by the NSW Government, using privately owned and operated train stations. A one-way trip for an adult to the CBD costs $19.80 and takes roughly 13 minutes. The fare is comprised of a train fare and an airport station access fee. The NSW government offers discounts on the train fare if an Opal card or contactless payment card is used, and if travel is in an off-peak period. The station access fee is capped weekly.
Public and private buses	Brisbane Airport charges a levy on bus access depending on passenger numbers, starting from $4.75. Brisbane City Council operates a bus service within the airport precinct which runs to the Toombul Interchange. The Interchange provides a variety of public transport options to the city or the suburbs. Private bus operator 'Con-X-ion' offers door-to-door transfers to or from the Brisbane CBD (from $15 one way or $27	Melbourne Airport charges a levy on bus access, starting from $3.18 per person. Public Transport Victoria operates five timetabled public bus services from the T4 Ground Transport Hub. There are multiple private buses that operate to and from Melbourne Airport and to areas throughout metropolitan Melbourne and across Victoria. The main service is the Skybus service, which runs express services regularly to and from the	Perth Airport does not charge a levy on bus access. Transperth operates buses to and from the city, with bus route 380 running from the T1/T2 precinct and bus route 40 from the T3/T4 precinct. Bus route 40 offers a direct route between the airport and the city, whereas route 380 has other stops. Perth Airport is also serviced by several private bus operators connecting the airport to the suburbs and the city.	Sydney Airport charges a levy on bus access $6.85. Public buses on route 400 between Bondi Junction and Eastgardens and 420 between Eastgardens and Burwood stop at both the T1 international and T3 domestic terminals. A single ticket bus fare on this service will cost between $2.90 and $6.00, however buses do not travel to the CBD. A number of private shuttle bus operators also service Sydney

[190] Brisbane Airport, *To and From the Airport*, Brisbane Airport website, n.d., accessed 24 February 2022.

[191] Melbourne Airport, *Taxis*, Melbourne Airport website, n.d., accessed 24 February 2022.

[192] Perth Airport, *To and from the airport*, Perth Airport website, n.d., accessed 24 February 2022.

[193] Sydney Airport, *Parking and transport*, accessed 24 February 2022.

	return), Gold Coast and Sunshine Coast areas. Skybus also offers an express service to the CBD for $15, which takes around 38 minutes.	CBD and charges $19.75 one-way for adults.	Private bus fares start from $25 for a one-way trip from the airport to the city.	Airport, including Redy2Go and Airport Connect, which offer services to the CBD starting from $25 one way.
Off-airport parking	Brisbane Airport is serviced by Off-airport parking.	Melbourne Airport is serviced by Off-airport parking.	Perth Airport is serviced by Off-airport parking.	Sydney Airport is serviced by Off-airport parking.
Taxis	Brisbane Airport charges a levy on taxi access from $4.00. Taxis operated by Black & White Cabs and Yellow Cabs are available from ranks at both the domestic and international terminals at Brisbane Airport. A taxi ride for a trip from the airport to Brisbane City costs approximately $45 - $55. Outside of peak periods, it is approximately a 20-minute drive from the airport to the city.	Melbourne Airport charges a levy on taxi access from $4.50. Taxi ranks are located across from terminals T1, T2 and T4, and a pre-booked pick-up zone is available in the outdoor section of the Terminal Car Park at Terminals 1, 2 & 3. A taxi ride from the airport to the CBD takes approximately 30 - 40 minutes and costs approximately $50 - $70.	Perth Airport charges a levy on taxi access from $4.00. Taxi ranks are located at the front of all terminals at Perth Airport, as well as on Valentine Road within the General Aviation area. A taxi ride from the airport to the CBD takes approximately 20 minutes and costs approximately $43 one way or $86 return.	Sydney Airport charges a levy on taxi access from $4.75. Each terminal at Sydney Airport has its own sheltered taxi rank. A taxi trip to the CBD from Sydney Airport costs approximately $45 – $55 one way and takes approximately 20 minutes.
Ridesharing	Brisbane Airport charges a levy on rideshare access from $4.00. Brisbane Airport has dedicated pick-up zones for pre-booked rideshare at both domestic and international terminals. A variety of pre-booked rideshare operators service Brisbane Airport, including Uber, Ola and Didi. Charges vary by operator.	Melbourne Airport charges a levy on rideshare access from $4.54. Melbourne Airport is serviced by rideshare drivers from various services, with two pick-up zones available for standard services: lane 3 of the forecourt in front of T1/T2/T3 and level 2 inside the T4 Ground Transport Hub. Charges vary by operator.	Perth Airport charges a levy on rideshare access from $4.00. Perth Airport is serviced by rideshare drivers from Uber, Ola and Didi. The airport provides dedicated pick-up bays for rideshare services in the T1/T2 precinct and in the T3/T4 precinct. Charges vary by operator.	Sydney Airport charges a levy on rideshare access from $4.35. Both domestic and international terminals at Sydney Airport are serviced by rideshare drivers from several services. For both the domestic and international terminals, pre-booked rideshare is available from the priority pick-up zone. Charges vary by operator.
Private cars	Brisbane Airport charges a levy on private car access from $4.00. Private cars such as limousines and pre-booked taxis can be accessed from Brisbane Airport. Charges vary by operator.	Melbourne Airport charges a levy on private car access from $4.00. Chauffeur, hire cars and limousines can be pre-arranged to pick-up passengers at any of the airport's terminals. Private cars must be pre-arranged as there are no service desks at the airport. Charges vary by operator.	Perth Airport charges a levy on private car access from $4.00. Private car (such as limousines) services can be pre-booked for pick-up at Perth Airport. Charges vary by operator.	Sydney Airport charges a levy on private car access from $8.65 for Domestic and $11.35 for International Terminal. Private car (such as limousines) services can be pre-booked at all Sydney Airport terminals. Limousines are also available for those who have not booked inside the arrivals area of T1 international. Sydney Airport provides dedicated pickup areas for Limousines and Hire Cars at both the International and Domestic terminals. Charges vary by operator.
Bicycle	Brisbane Airport provides bicycle racks at both the international and domestic terminal car parks, as well as shower facilities at both terminals.	Bicycle racks are located on the ground floor of the T1, T2 and T3 car park.	N/A	Sydney Airport provides undercover bicycle racks on level 1 of the T1 international terminal and adjacent to the express pick-up area in the T2/T3 domestic precinct.

Table A.2 - Landside information reporting, by airport

Transport Mode	Access information	Brisbane	Melbourne	Perth	Sydney
Train	**Throughput**	N/A	No train access	No train access	N/A
	Revenue	✓	No train access	No train access	N/A
Public bus	**Throughput**	N/A	✓	N/A	N/A
	Revenue	✓	N/A	No airport charge	No airport charge
Private bus	**Throughput**	Combined with private car	Number of arriving and departing passengers on SkyBus, Gull and Donloy services. Combined with off-airport bus.	N/A	Combined with off-airport bus
	Revenue	Combined with private car	✓	No airport charge	Combined with off-airport bus
Off-airport parking bus	**Throughput**	✓	Number of bussing transactions from Groups and Charter and Regional (from BPS rates). Combined with private bus	N/A	Combined with private bus
	Revenue	✓	✓	No airport charge	Combined with private bus
Taxis	**Throughput**	✓	✓	✓	✓
	Revenue	✓	✓	✓	✓
Rideshare	**Throughput**	Includes limousine and pre-booked taxi	✓	✓	Priority pickup including rideshare
	Revenue	Includes limousine and pre-booked taxi	✓	✓	Priority pickup including rideshare
Private car	**Throughput**	Combined with private bus	✓	✓	✓
	Revenue	Combined with private bus	✓	✓	✓
Car Rental Operators	**Throughput**	N/A	N/A	✓	✓
	Revenue	N/A	N/A	✓	✓
All	**Expenses**	✓	N/A	✓	✓

Appendix B – supplementary results

Total airport financial performance

Return on total airport tangible non-current assets

Table B.1: Return on total airport tangible non-current assets, by airport: 2018–19 to 2020–21

	Airport ROA in 2018–19 (%)	Airport ROA in 2019–20 (%)	Airport ROA in 2020–21 (%)	Percentage point change: 2018–19 to 2019–20	Percentage point change: 2019–20 to 2020–21
Brisbane Airport	10.17	6.02	0.88	-4.16	-5.14
Melbourne Airport	11.46	5.94	-1.81	-5.51	-7.75
Perth Airport	8.27	4.29	0.93	-3.98	-3.36
Sydney Airport	17.06	10.72	2.66	-6.34	-8.06

Note: the asset values used to calculate these results are the ones reported under the line-in-the-sand approach.

Aeronautical performance

Aeronautical list prices

Brisbane Airport

Table B.2: Brisbane Airport – schedule of published aeronautical charges in real terms and movements over time: 2016–17 to 2020–21

	Charge per unit ($)	Indexed list prices (2020–21 base year = 100)				
	2020–21	2016–17	2017–18	2018–19	2019–20	2020–21
Landing fees						
Freight landing fees (per MTOW)	27.90	70.5	81.5	90.0	100.3	100.0
General aviation landing fees (per MTOW)	27.90	70.5	81.5	90.0	100.3	100.0
Rotary wing landing fees (per MTOW)	16.73	70.5	81.5	89.9	100.3	100.0
International private charter and non scheduled air service landing fee (per MTOW)	27.90	70.5	81.5	90.0	100.3	100.0
Aircraft parking fees						
0 to 5,000kg	118.46	90.9	97.2	96.8	99.1	100.0
5,001 to 20,000kg	118.46	93.6	97.2	96.8	99.1	100.0
20,001 to 40,000kg	118.46	97.0	97.2	96.8	99.1	100.0
40,001 to 100,000kg	173.32	97.9	97.2	96.8	99.1	100.0
100,001 to 250,000kg	395.53	97.9	97.2	96.8	99.1	100.0
250,001 to 400,000kg	575.36	97.9	97.2	96.8	99.1	100.0
400,001kg +	762.28	97.9	97.2	96.8	99.1	100.0
Noise surcharge for relevant aircraft – excluding Goods and Services Tax	0%	100.0	100.0	100.0	100.0	0.0
Runway Charges						
Domestic Runway charge (per passenger)	6.55	55.3	70.4	84.3	98.7	100.0
International Runway charge (per passenger)	11.48	55.8	73.3	88.1	100.2	100.0
Terminal charges						
International passenger service charge (per passenger)	26.99	88.3	108.1	105.6	99.0	100.0
Domestic passenger service charge common user terminal—including aerobridge (per passenger)	8.55	105.1	114.5	110.1	99.8	100.0

Domestic passenger service charge common user terminal—excluding aerobridge (per passenger)	8.09	103.2	111.6	108.9	99.8	100.0
Government mandated security charges						
International passenger government mandated security charge (per passenger)	25.05	15.0	14.7	16.3	15.3	100.0
Domestic passenger government mandated security charge common user terminal (per passenger)	4.16	62.9	60.4	63.2	60.0	100.0
Domestic passenger government mandated security charge Qantas/Virgin terminal (per passenger)	4.16	3.8	5.0	54.7	60.0	100.0
Other charges						
Peak period minimum movement charge	275.00	85.4	104.7	103.0	101.6	100.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Melbourne Airport

Table B.3: Melbourne Airport – schedule of published aeronautical charges in real terms and movements over time: 2016–17 to 2020–21

	Charge per unit ($)	Indexed list prices (2020–21 base year = 100)				
	2020–21	2016–17	2017–18	2018–19	2019–20	2020–21
Landing fees						
International terminal (per passenger)	24.58	100.3	97.4	94.2	96.0	100.0
Other (domestic services under the ASA) (per passenger)	5.59	92.3	89.6	86.7	92.4	100.0
Common-user domestic terminals (walk-up rate) (per passenger)	6.70	98.0	98.5	99.1	98.9	100.0
International freight (per MTOW)	12.54	92.1	90.4	93.4	96.8	100.0
Domestic freight (per MTOW)	12.54	92.1	90.4	93.4	96.8	100.0
General aviation (per MTOW)	23.53	92.2	90.4	93.4	96.8	100.0
Aircraft parking (per 15 minutes)	53.39	92.2	90.4	93.4	96.8	100.0
Check-in desks (per hour)	36.38	104.8	97.2	98.0	99.1	100.0
Minimum charges						
International and domestic freight (per landing)	N/A	N/A	N/A	N/A	N/A	N/A
General aviation (per landing)	349.94	92.2	90.4	93.4	96.7	100.0
Government mandated security charges						
International terminal passenger and baggage screening (per passenger)	21.54	21.6	21.1	19.9	19.3	100.0
Common user domestic terminals passenger and baggage screening (per passenger)	7.66	52.1	48.6	45.3	53.6	100.0
Airport security charge - passengers (per passenger)	1.14	19.6	19.2	28.0	50.8	100.0
Airport security charge - freighters and general aviation (per MTOW)	3.02	7.4	7.3	10.1	14.0	100.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Perth Airport

Table B.4: Perth Airport – schedule of published aeronautical charges in real terms and movements over time: 2016–17 to 2020–21

	Charge per unit ($)	Indexed list prices (2020–21 base year = 100)				
	2020–21	2016–17	2017–18	2018–19	2019–20	2020–21
Landing fees						
Basic landing charge						
International regular passenger transport (per arriving and departing passenger)	6.87	69.0	71.4	89.0	99.1	100.0
Domestic and regional regular passenger transport (per arriving and departing passenger)	6.87	69.0	71.4	89.0	99.1	100.0
Fixed wing (GA, freight and other) (per tonne MTOW)	12.51	73.9	72.7	89.1	99.2	100.0
Rotary wing (per tonne MTOW)	6.61	69.9	68.8	84.2	93.7	100.0
Minimum landing charge						
Fixed wing (per landing)	58.22	73.9	72.9	89.1	99.1	100.0
Rotary wing (per landing)	29.11	73.9	72.7	89.1	99.1	100.0
Basic aircraft parking charge (GA) (per aircraft per day)	52.01	73.9	72.8	89.1	99.1	100.0
Aircraft storage charge	14.15	73.9	72.7	89.1	99.1	100.0
Peak-period minimum movement charge (on airfield usage)[a]	259.78	101.2	90.6	98.0	99.1	100.0
Passenger-related services and facilities						
International terminal charge (per arriving and departing passenger)	11.90	113.1	114.9	102.9	94.2	100.0
Common user terminal equipment (CUTE) usage charge (per departing international passenger)	N/A	N/A	N/A	N/A	N/A	N/A
Domestic terminal charge (per per arriving and departing passenger)	12.68	144.8	145.6	89.1	99.1	100.0
Government mandated security charges						
Counter terrorism first response - regular passenger transport (per passenger)	1.36	87.0	93.9	90.7	99.2	100.0
Counter terrorism first response - freight and other (aircraft > 20 tonne) (per tonne MTOW)	3.13	35.5	38.3	36.9	40.4	100.0
International passenger and checked bag screening (per departing international passenger)	19.85	32.2	22.1	27.9	29.9	100.0
Common user domestic terminal passenger and checked bag screening (per departing domestic passenger)	3.63	152.2	140.4	99.4	99.2	100.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Sydney Airport

Table B.5: Sydney Airport – schedule of published aeronautical charges in real terms and movements over time: 2016–17 to 2020–21

	Charge per unit ($)	Indexed list prices (2020–21 base year = 100)				
	2020–21	2016–17	2017–18	2018–19	2019–20	2020–21

International passenger services charge (per passenger)[(a)]*	35.65	89.9	92.2	96.6	100.0	100.0
Domestic passenger services charge (per passenger)[(b)]*	5.90	87.3	91.2	97.0	99.6	100.0
Runway charge—non-passenger movements and GA (per MTOW)*	7.25	88.3	94.8	97.3	99.8	100.0
Runway charge—regional services (per MTOW)**	3.78	106.6	104.7	103.0	101.6	100.0
Landing charge—rotary wing (per movement)	33.00	106.7	104.7	103.0	101.6	100.0
Apron charge—major aprons (per 15 minutes)	38.50	106.7	104.7	103.0	101.6	100.0
Apron charge—GA aprons—regional services (per day)	66.00	106.7	104.7	103.0	101.6	100.0
Apron charge—GA aprons—0 to 20 tonnes (per day)	154.00	106.7	104.7	103.0	101.6	100.0
Apron charge—GA aprons—20 to 40 tonnes (per day)	209.00	106.7	104.7	103.0	101.6	100.0
Apron charge—GA aprons—greater than 40 tonnes (per day)	308.00	106.7	104.7	103.0	101.6	100.0
Domestic terminal infrastructure charge	Commercial agreement	N/A	N/A	N/A	N/A	N/A
Aircraft refuelling services	Commercial agreement	N/A	N/A	N/A	N/A	N/A
T3 domestic terminal infrastructure	Commercial agreement	N/A	N/A	N/A	N/A	N/A
Light and emergency aircraft maintenance	Commercial agreement	N/A	N/A	N/A	N/A	N/A
Aeronautical services – passenger processing facilities and activities						
International security charges—including passenger screening, checked bag screening and additional security measures (per passenger)[(c)]	17.33	28.9	28.7	28.5	26.8	100.0
T2 domestic passenger facilitation charge (per passenger)[(d)]	9.44	106.7	104.7	103.0	101.6	100.0
T2 regional passenger facilitation charge (per passenger)[(d)]	4.95	106.7	104.7	103.0	101.6	100.0
T2 domestic security charges—including passenger screening, checked bag screening and additional security measures (per passenger)[(e)]	2.37	73.6	78.6	78.0	74.6	100.0
T2 regional security charges—including passenger screening and checked bag screening (per passenger)[(f)]	0.96	107.0	104.7	103.0	101.6	100.0
T2 new investment charge (per passenger)[(g)]	0.44	106.7	104.7	103.0	101.6	100.0
International check-in counters (per hour)	27.78	98.8	99.3	99.6	99.6	100.0
Terminal access roads (per vehicle - various charges)[(h)]	4.00	106.7	104.7	103.0	101.6	100.0
Minimum charges						
Minimum charge for runway use (per movement)	66.00	106.7	104.7	103.0	101.6	100.0
Minimum charge for regional services (0 - 5 tonnes)	22.00	106.7	104.7	103.0	101.6	100.0
Minimum charge for regional services (5 - 10 tonnes)	45.38	106.7	104.7	103.0	101.6	100.0
Minimum charge for regional services (over 10 tonnes)	55.00	106.7	104.7	103.0	101.6	100.0

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.

Note: Values in 2020–21 dollars.

* Minimum charge for runway use is applicable.

** Minimum charge for regional air services is applicable.

(a) Charged per arriving and departing international passenger, excluding transfer and transit passengers, and infants and positioning crew. Applies to runway use and terminal facilities.

(b) Charged per arriving and departing domestic passenger, excluding infants and positioning crew. Applies to runway use, however, commercially agreed charges also applied.
(c) Charged as a component of the international PSC, and recovers the cost of passenger screening, checked bag screening and additional security measures. This charge includes an element that relates to security charges.
(d) Levied per arriving and departing passenger, excluding infants and positioning crew. This is a scheduled charge—specific arrangements apply under commercial agreements with major users.
(e) Applies to domestic users of T2 to recover the cost of passenger, checked bag screening and additional security measures. This charge includes an element that relates to security charges—note comments in (d) above.
(f) Applies to regional users of T2 to partly recover the cost of passenger and checked bag screening.
(g) Levied per arriving and departing domestic passenger in T2.
(h) Levied on vehicle pick-ups to recover costs associated with the provision of ground access facilities

On-time performance

Figure B.1: Percentage of domestic flight that are delayed for the four monitored airports: 2007–08 to 2020–21

Source: BITRE

Non-aeronautical performance

Car parking revenue per vehicle

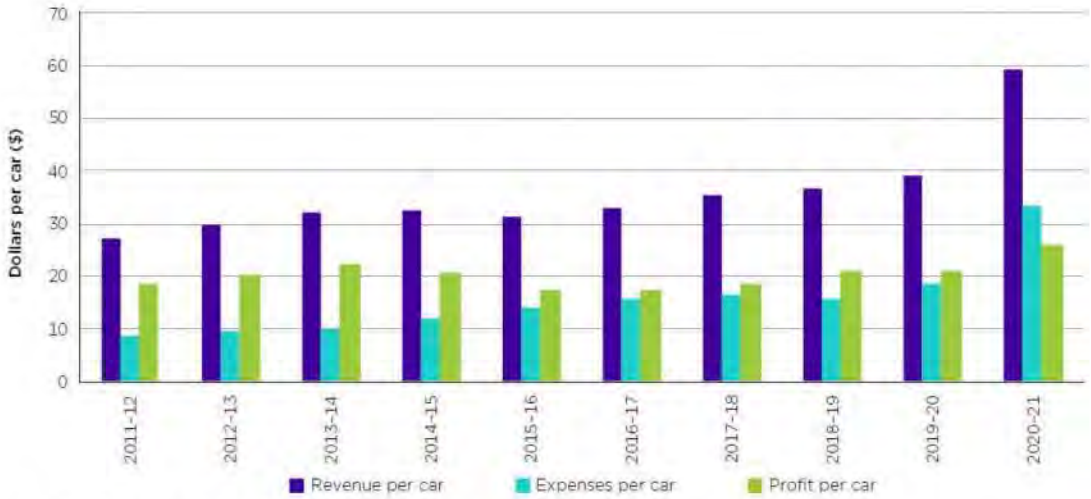
Figure B.2: Brisbane Airport — average car parking revenue, costs and profit per car in real terms, 2011–12 to 2020–21

Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.3: Melbourne Airport—average car parking revenue, costs and profit per car in real terms, 2011–12 to 2020–21

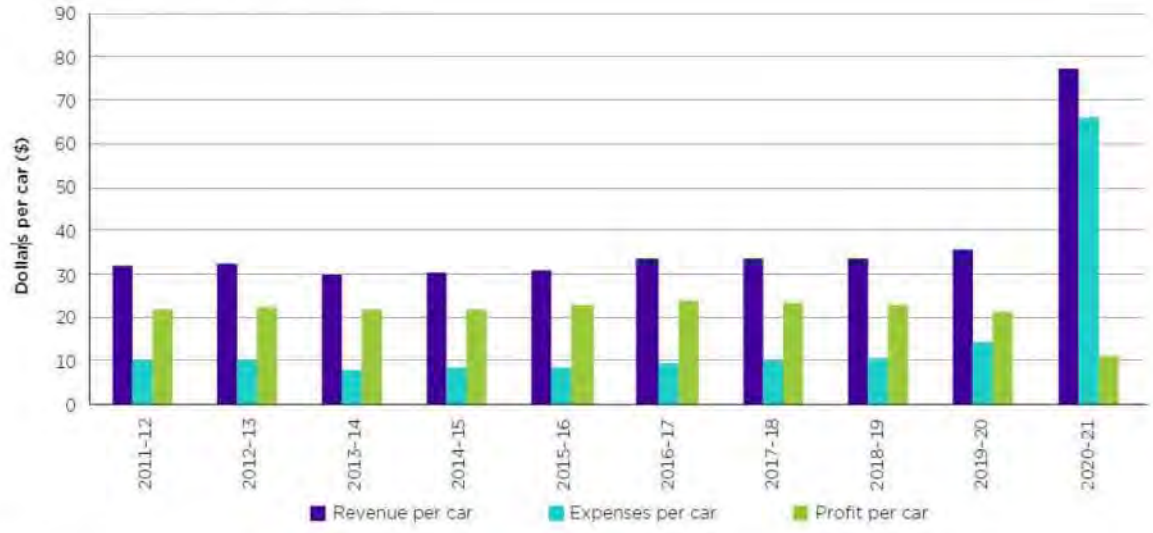
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.4: Perth Airport—average car parking revenue, costs and profit per car: 2011–12 to 2020–21



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.5: Sydney Airport — average car parking revenue, costs and profit per car in real terms, 2011–12 to 2020–21



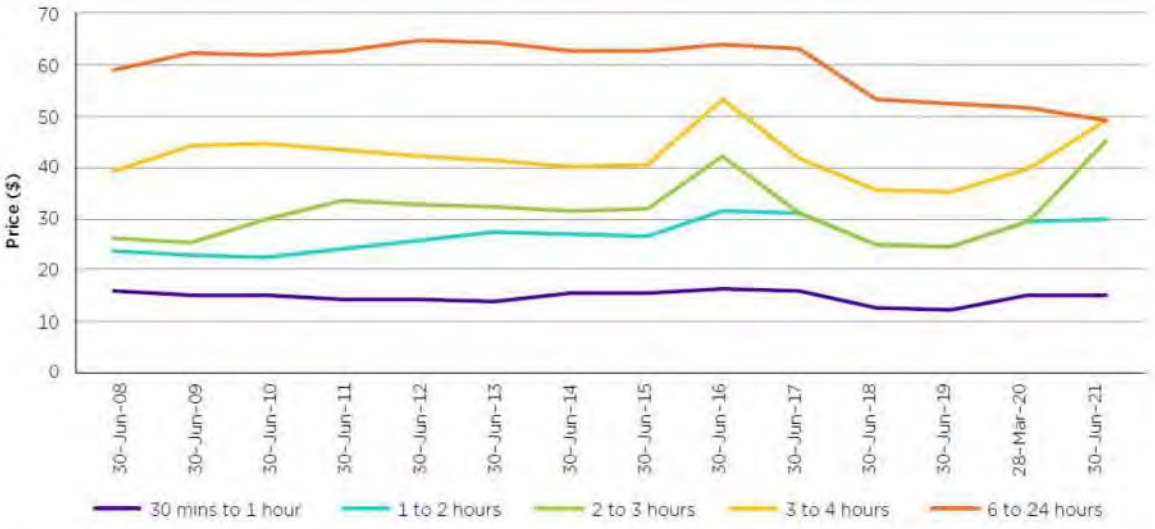
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Short-term car park pricing

Figure B.6: Brisbane Airport - selected short-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021

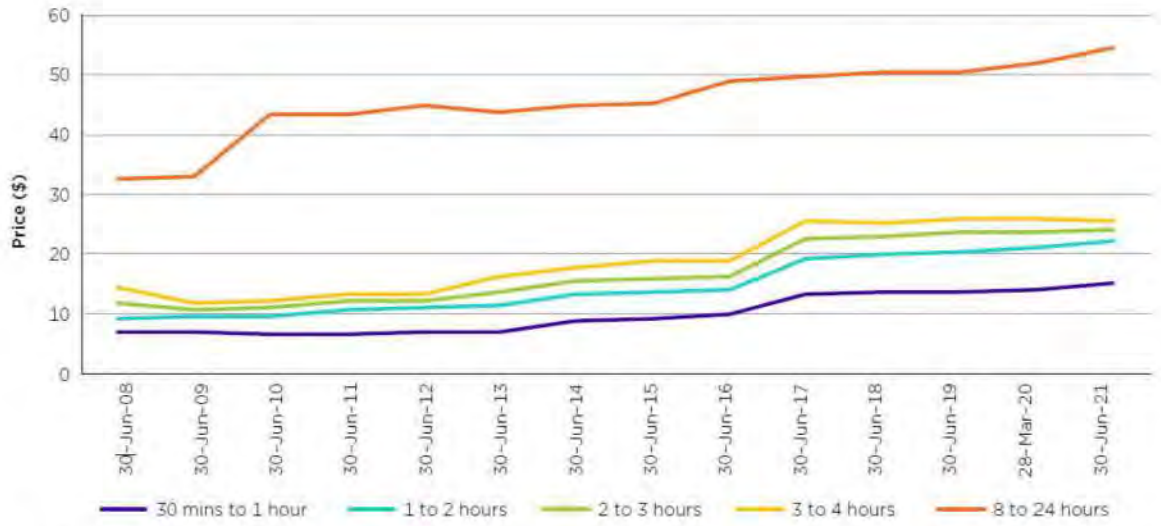
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.7: Melbourne Airport - selected short-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021



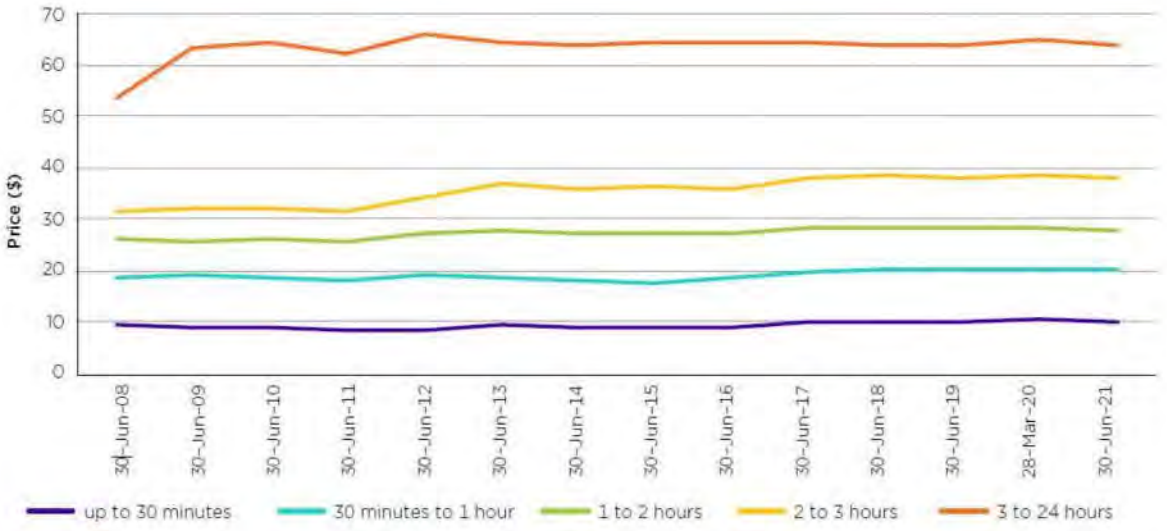
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.8: Perth Airport - selected short-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

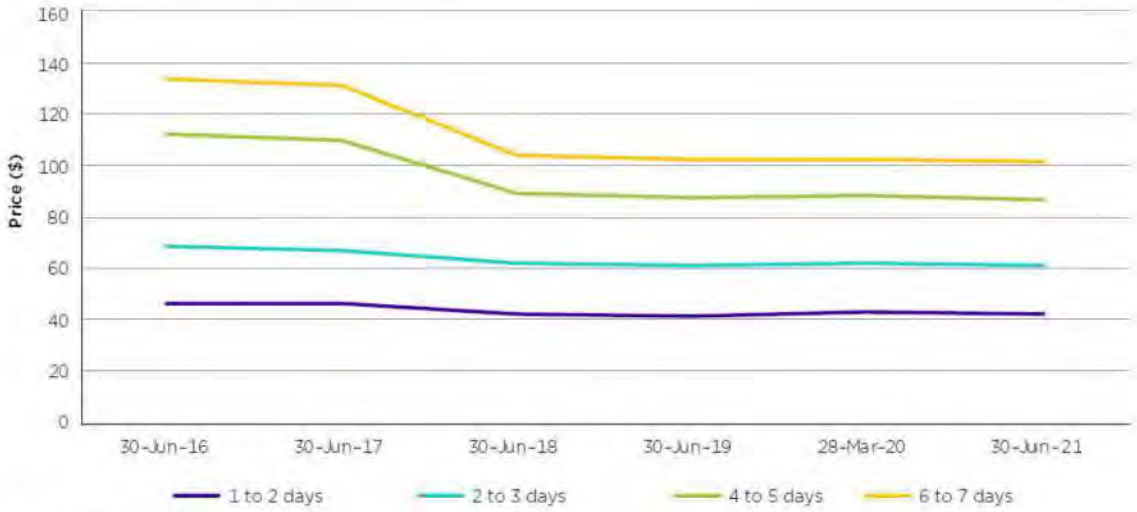
Figure B.9: Sydney Airport - selected short-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

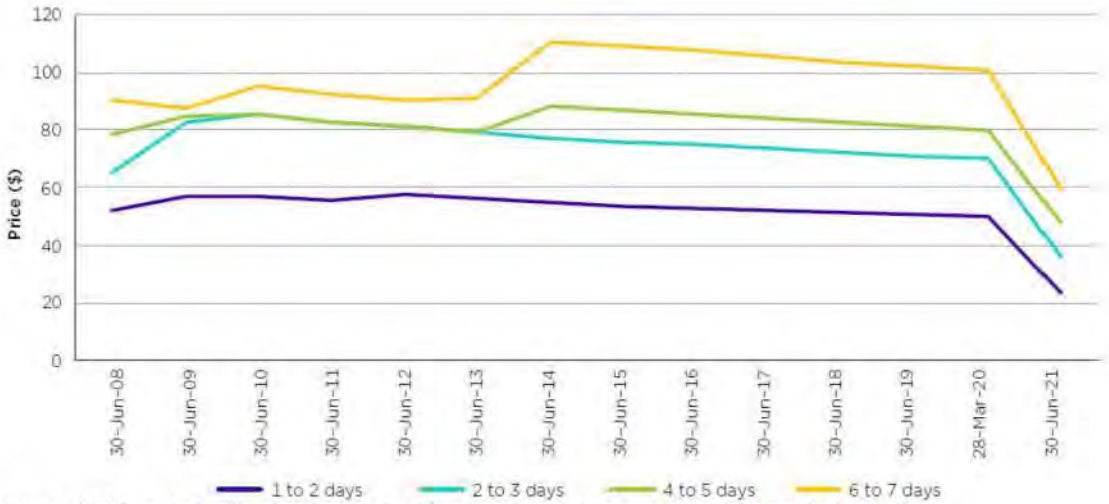
Long-term car park pricing

Figure B.10: Brisbane Airport - selected long-term drive-up car parking prices in real terms — at terminal: 30 June 2016 to 30 June 2021



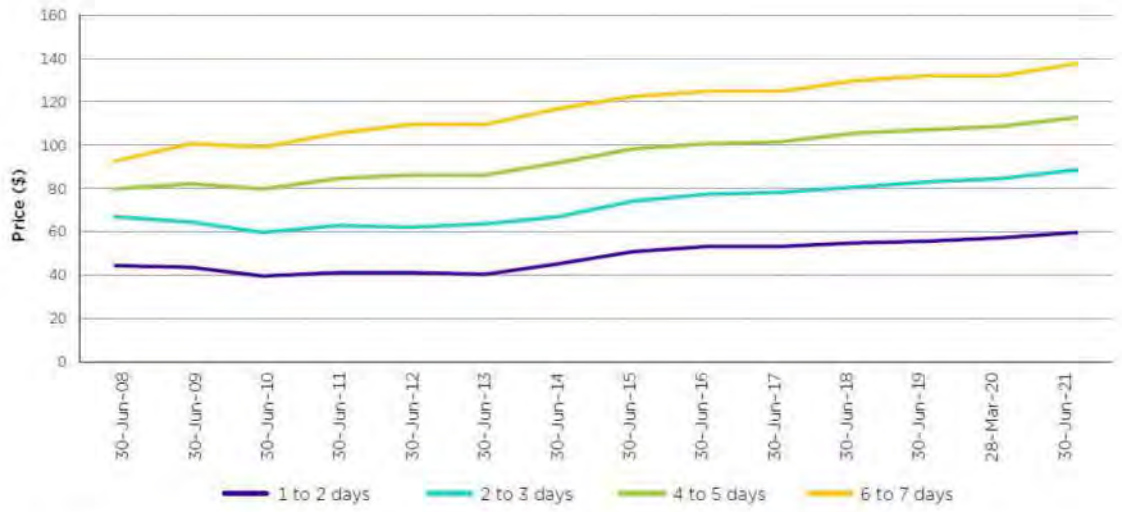
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.11: Melbourne Airport - selected long-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021



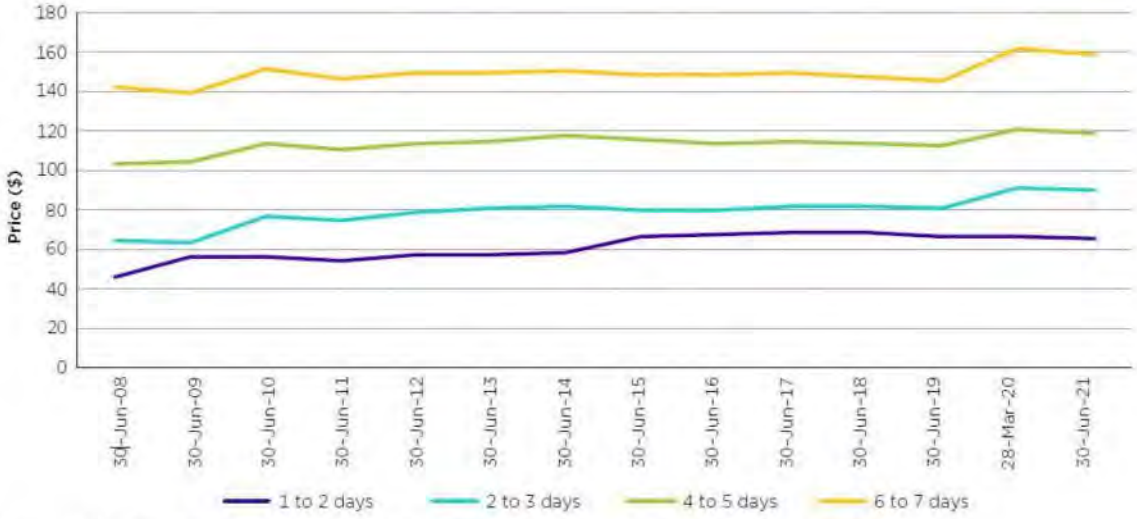
Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.12: Perth Airport - selected long-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021



Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Figure B.13: Sydney Airport - selected long-term drive-up car parking prices in real terms — at terminal: 30 June 2008 to 30 June 2021

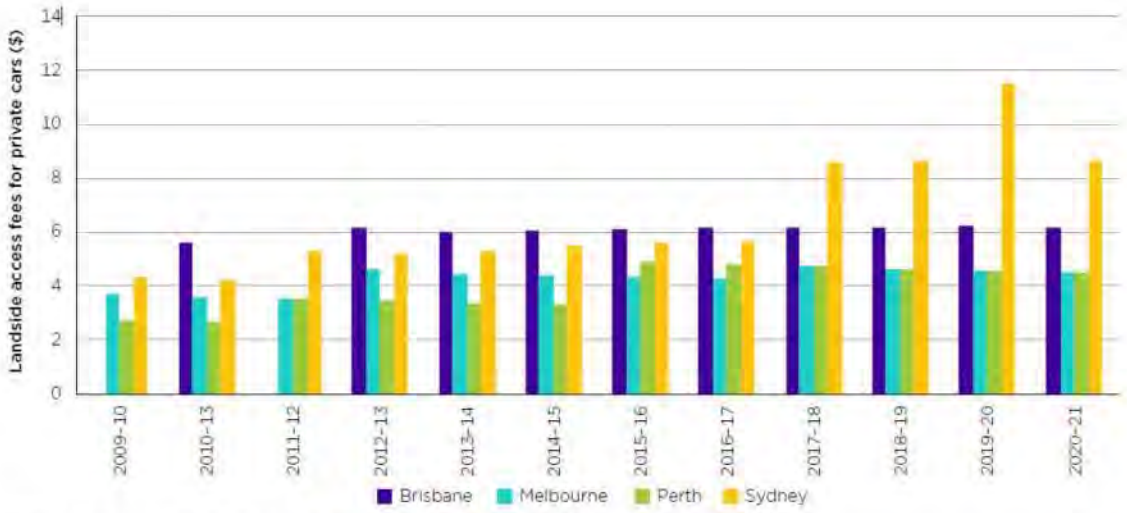


Source: ACCC analysis of information received from monitored airports as part of the monitoring regime.
Note: Values in 2020–21 dollars.

Landside access fees

Private cars

Figure B.14: Landside access fees for private cars in real terms, by airport: 2009–10 to 2020–21



Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars. For 2009–10 and 2011–12, relevant price information for Brisbane Airport were not available.

Private buses

Table B.6 Brisbane and Melbourne airports – Private bus landside access fees in real terms, 2009–10 to 2020–21

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Brisbane Airport – Private bus ($)	NA	8.66	NA	9.56	9.30	9.37	9.47	9.55	9.56	9.58	9.65	9.50
Melbourne Airport – Private bus ($)	Various	Various	Various	Various	Various	3.30	4.18	4.51	4.65	4.66	4.67	4.60

Source: ACCC analysis of information voluntarily submitted by the monitored airports.
Notes: Real values in 2020–21 dollars.

Appendix C – Background information

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[194]
- Guideline for quality of service monitoring at airports[195].

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 airports are exercising their market power to earn monopoly rents.

Aeronautical and total airport measures

The ACCC uses aeronautical revenue per passenger as an indicator of airports' average prices, and profits and returns on aeronautical assets as an indicator of 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 airports' regulatory accounts, which were previously excluded.[196] 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.

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

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

196 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.

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 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 (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 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 consider 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 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 airports over time.

LIS aeronautical asset base

The ACCC has required airport operators to report under the LIS approach since 2007–08.[197] Under this approach, the value of an airport's aeronautical asset base is determined to be the value of tangible non-current assets as of 30 June 2005,[198] 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.

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.

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197 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.

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

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.

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 are not within the scope of the quality of service monitoring program.

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

A4.2.1 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.

A4.2.2 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.[199]

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

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

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 in a spreadsheet on the ACCC's website http://www.accc.gov.au/regulated-infrastructure/airports-aviation/airports-monitoring. 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).

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 (Table B.1). These are then converted into five ratings ranging from 'very poor' to 'excellent'.

Table B.1: Ratings of satisfaction for airport facilities and services

Scales	1–1.49	1.50–2.49	2.50–3.49	3.50–4.49	4.5–5
Average ratings	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.

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 a spreadsheet on the ACCC's website http://www.accc.gov.au/regulated-infrastructure/airports-aviation/airports-monitoring.

The scale used for airline ratings is the same as that of the passenger perceptions surveys and shown in table B.1 above. 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 airports, the ACCC verifies 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 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.

A4.2.3 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 five. 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 (for example, 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. For example, Sydney Airport scored an average of 3.60 across 105 performance measures in 2018–19. Among those measures, 30 were obtained from airline surveys, 48 were from passenger surveys and the remaining 27 were objective indicators.

While airports' performance against the quality of service measures in the airline surveys and passenger surveys are already rated as scores out of five, 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 four airports performed against that measure. If an airport's performance against that measure is equal to the average performance across the four airports in that year, it will receive a score of 3 out of five. 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 three 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.

Limitations of monitoring

Monitoring does not directly restrict airports from increasing prices and/or lowering service quality. Nor does it provide the ACCC with a general power to intervene in airports' setting of terms and conditions of access to 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 of 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, 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 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, airports' asset values under monitoring do not provide a reliable indicator of airports' RAB, which is needed to make a meaningful assessment of whether 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 airports revaluing their assets. However, this approach only removes any asset valuations that have occurred after 30 June 2005.

Judgement about airports' performance cannot be made based on trends in 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 airports' approaches to valuing their assets may vary, it is difficult to meaningfully compare profitability between 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 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.

Ministerial directions

Aeronautical services and facilities direction under s. 95ZF of the Competition and Consumer Act 2010 (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

Federal Register of Legislative Instruments F2012L01271

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