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## Submission for Infrastructure Committee

<b>Date of meeting</b>	6 December 2021
<b>Paper number</b>	IC2122/22
<b>Title</b>	For information – Approach to stakeholder consultation in the 2020–21 Airport Monitoring Reports
<b>Recommendation</b>	That the Committee note the team's proposed stakeholder consultation process for the 2020–21 Airport Monitoring Report.
<b>Project staff</b>	Sebastian Lavers (presenting) (x9448), Gennady Kleiner (Director) (x1842), Olivia Tsang, Adele Teh, Matthew Lesich
<b>Responsible SES</b>	Matthew Schroder (x6924)
<b>Division, Branch and Office</b>	Infrastructure Regulation Division (IRD), Infrastructure and Transport – Access and Pricing (ITAP) Branch, Melbourne
<b>Legal/Economic input</b>	Regulatory Economic Unit (Su Wu, Robert Albon, Patrick Wu) <input checked="" type="checkbox"/> This paper contains confidential and privileged material (shaded)
<b>Commissioner conflicts</b>	Not applicable.
<b>Consultation with other branches, groups or divisions</b>	Not applicable

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6 December 2021 For information – Approach to stakeholder consultation in the 2020–21 AMR IC2122/22

## 1. Purpose

- 1.1. We seek to update the Infrastructure Committee (the Committee) on:
- the information we have received to date and initial observations based on this information
  - developments in the industry
  - the team's approach to industry consultation.

## 2. Recommendation

- 2.1. The Committee note the update and the team's stakeholder consultation process for the 2020–21 Airport Monitoring Report (AMR).

## 3. Previous Committee consideration of the scope of this year's report

- 3.1. On 7 June 2021, the Committee considered the scope of the 2020-21 AMR and directed staff to continue with limited reporting, as per 2019-20 AMR, given the impact of the COVID-19 pandemic on the industry.
- 3.2. Pursuant to the Committee's direction, we:
- requested the same financial and car parking information as in the 2019–20 report
  - did not request any objective indicator data
  - requested only passenger survey results that the airports had already carried out by the end of financial year
  - did not survey individual airlines
  - advised the monitored airports that the only additional reporting measure that we intend to implement in this year's report, based on recommendations made by the Productivity Commission (PC) in its 2019 review, is the breakdown, by terminal of the number of arriving and departing passengers (with other measures recommended by PC to be implemented in future reports).
- 3.3. All the monitored airports have provided responses to this year's ACCC information request. Melbourne and Sydney airports did not provide any passenger survey results. Brisbane and Perth airports provided results of domestic passenger surveys.

## 4. Background

- 4.1. The Australian Government established the ACCC's monitoring program following the privatisation of 22 Federal Airports Corporation airports between 1997 and 2003.<sup>1</sup> The financial and car parking monitoring regime is established by ministerial directions made under s 95ZF of the *Competition and Consumer Act 2010*.<sup>2</sup>
- 4.2. These directions require the ACCC to monitor the prices, costs and profits in relation to the supply of aeronautical and car parking services at Brisbane, Melbourne (Tullamarine), Perth and Sydney (Kingsford-Smith) airports. Part 8 of the *Airports Act 1996* gives the ACCC the function of monitoring and evaluating the quality of aspects of airport services and facilities (quality of service) at the same airports.

<sup>1</sup> See <https://www.accc.gov.au/regulated-infrastructure/airports-aviation/airports-monitoring>.

<sup>2</sup> See <https://www.legislation.gov.au/Details/F2012L01271> and <https://www.legislation.gov.au/Details/F2012L01274>.

# Released under FOI

6 December 2021 For information – Approach to stakeholder consultation in the 2020–21 AMR IC2122/22

## 5. Initial observations on monitored airports' performance

- 5.1. Our initial analysis of the financial data indicates that, as expected, the COVID-19 pandemic significantly affected the monitored airports.
- 5.2. Table 1 below shows the total passenger numbers between 2018-19 and 2020-21 (i.e., pre-COVID and the two recent financial years impacted by the pandemic).

**Table 1: Total number of passengers for the monitored airports**

Airport	Total passenger numbers in 2018-19 ('000)	Total passenger numbers in 2019-20 ('000)	Total passenger numbers in 2020-21 ('000)
Brisbane	23,999	18,112	7,858
Melbourne	37,432	27,260	6,173
Perth	14,551	11,720	5,892
Sydney	45,671	32,282	7,852
All 4 airports	121,653	89,374	27,774

- 5.3. As shown in Table 1, the impact of COVID-19 pandemic has reduced the total passenger numbers and there was a significant reduction in 2020-21.
- 5.4. Table 2 below shows the percentage change in domestic and international passenger numbers for each monitored airport across two periods: pre-COVID (between 2018-19 and 2019-20<sup>3</sup>) and since the pandemic (between 2019-20 and 2020-21).

**Table 2: Percentage change in domestic and international passengers**

Airport	Percent change in international passengers: 2018-19 to 2019-20 (%)	Percent change in domestic passengers: 2018-19 to 2019-20 (%)	Percent change in international passengers: 2019-20 to 2020-21 (%)	Percent change in domestic passengers: 2019-20 to 2020-21 (%)
Brisbane	-24.9	-24.4	-94.5	-42.9
Melbourne	-28.2	-26.7	-97.2	-68.8
Perth	-24.8	-17.1	-96.7	-31.2
Sydney	-32.9	-27.0	-95.2	-63.8
All 4 airports	-29.4	-25.1	-95.8	-56.3

- 5.5. By 2020-21, international passenger numbers have decreased significantly. The decrease in domestic passengers varied across the four monitored airports, with Melbourne and Sydney airport more heavily impacted.
- 5.6. Table 3 below shows the aeronautical profit or loss and the aeronautical operating profit (EBITA<sup>4</sup>) margin for 2018-19, 2019-20 and 2020-21.

**Table 3: Monitored airports' aeronautical operating profit/loss (real) and margin**

Airport	Aeronautical profit/loss 2018-19 (\$m)	Aeronautical profit/loss 2019-20 (\$m)	Aeronautical profit/loss 2020-21 (\$m)	Aeronautical profit (EBITA) margin 2018-19 (%)	Aeronautical profit (EBITA) margin 2019-20 (%)	Aeronautical profit (EBITA) margin 2020-21 (%)
Brisbane	194.5	95.7	-84.6	46.9	27.3	-59.9
Melbourne	200.3	76.6	-170.4	40.1	18.6	-133.8
Perth	78.0	41.0	-35.2	34.2	21.5	-37.8
Sydney	416.5	183.7	-153.1	45.0	25.3	-56.5
All 4 airports	889.2	397.0	-443.4	43.0	23.7	-70.1

<sup>3</sup> For 2019-20, only the last quarter of 2019-20 was impacted by the COVID-19 pandemic.

<sup>4</sup> Earnings before interest, tax and amortisation (EBITA) as a percentage of total aeronautical revenue.

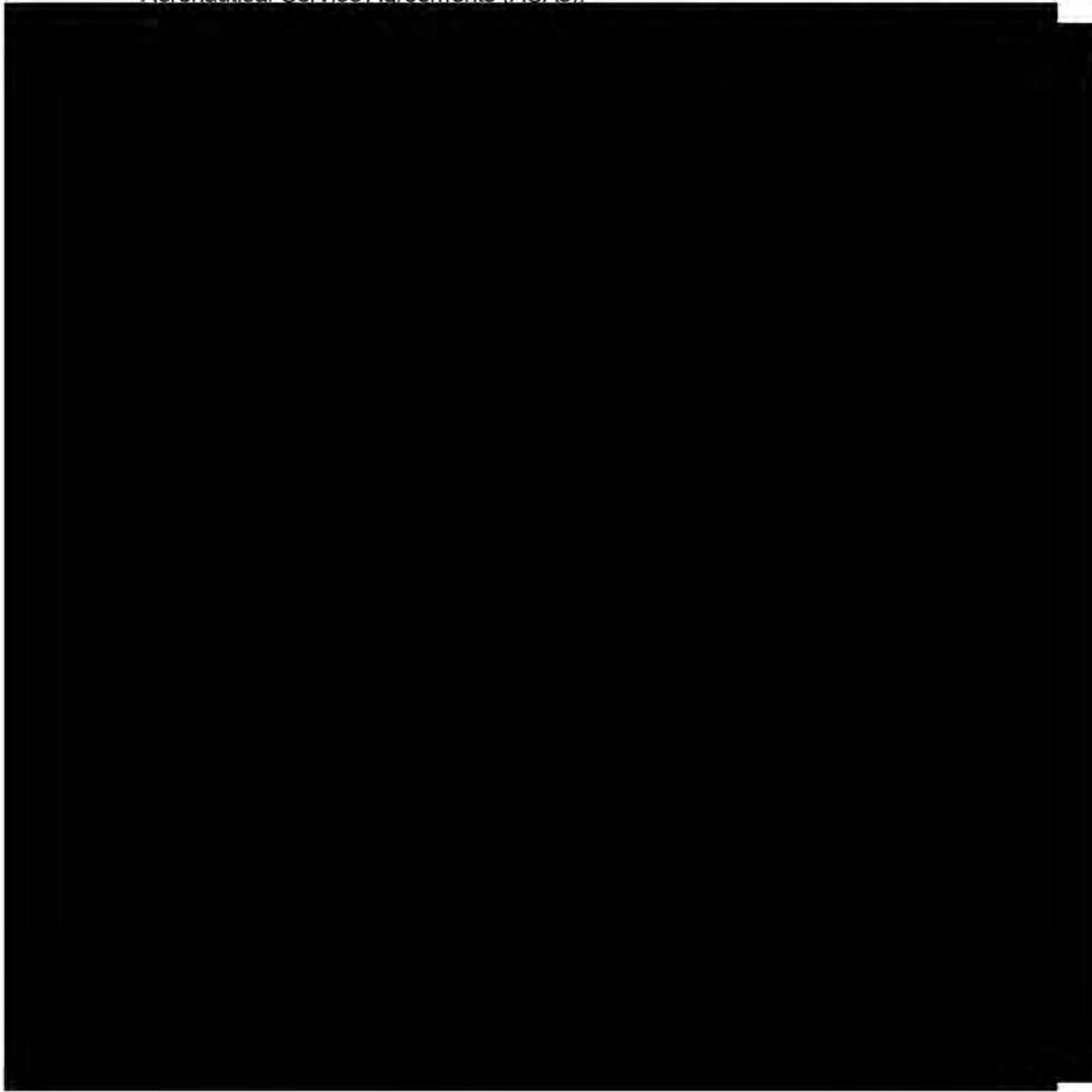
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6 December 2021 For information – Approach to stakeholder consultation in the 2020–21 AMR IC2122/22

5.7. Table 3 shows that all four monitored airports incurred losses in their aeronautical operation in 2020-21.

## **6. Concerns raised by airlines about negotiations with airports**

6.1. Since the Committee last considered the 2020-21 Airport Monitoring Report, airlines have raised concerns with the ACCC regarding airports' conduct when negotiating Aeronautical Service Agreements (ASAs).



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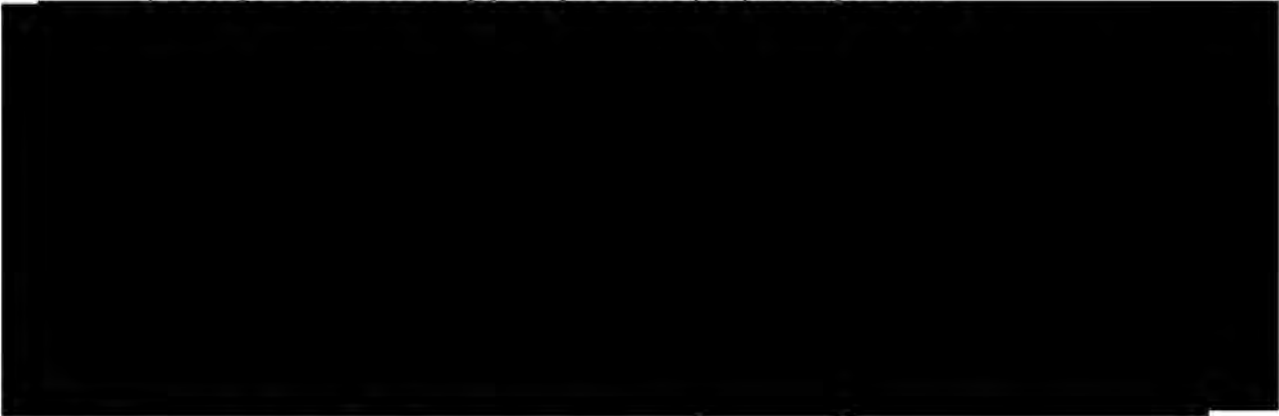
<sup>5</sup> The Aeronautical Pricing Principles are a set of principles for airports and airport users to establish prices, service delivery and the conduct of commercial negotiations at airports. They emphasise that aeronautical charges should reflect the efficient cost of providing services and that parties should negotiate in 'good faith' to determine these charges. They also stipulate that prices be set through transparent negotiations and appropriate dispute resolution processes, and should reflect a sharing of risk and returns.

# Released under FOI

6 December 2021 For information – Approach to stakeholder consultation in the 2020–21 AMR IC2122/22



## *Qantas' media statement*

- 6.13. On 29 September 2021, Qantas released a statement claiming that airports were acting 'aggressively' and seeking to recover their losses from the pandemic by substantially increasing prices.
  - 6.14. The statement referred to a 'large regional airport' seeking to 'more than double passenger fees, increasing [them] from \$25 per passenger to \$55'.
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## *Comments by Australian Airports Association*

- 6.17. The association has publicly expressed its disappointment that the ACCC has not consulted with the airports prior to publicly commenting on the airlines' concerns in the September 2021 Airlines Monitoring Report.

## **7. Industry consultation**

- 7.1. In light of the impact of the COVID-19 pandemic on the industry and concerns raised by airlines, we have decided to conduct industry consultation as part of our preparation for AMR 2020-21.
- 7.2. We have written to eight major airports (the four monitored airports of Brisbane, Melbourne, Perth and Sydney, as well as Canberra, Adelaide, Hobart and Gold Coast) seeking information about:
  - the impact of the COVID-19 pandemic on airports' operations, including costs, investments and provision of aeronautical and car parking services, and whether the airports expect these impacts to be temporary or ongoing

# Released under FOI

6 December 2021 For information – Approach to stakeholder consultation in the 2020–21 AMR IC2122/22

- their conduct in recent negotiations with airlines, including whether the airports are:
    - significantly increasing aeronautical charges
    - seeking to recover unrecovered costs or lost profits
    - bargaining on the basis of the Aeronautical Pricing Principles
    - providing sufficient and timely information during the negotiations
    - engaging in independent commercial arbitration to resolve disputes, as appropriate
    - unilaterally imposing interim conditions through standard conditions of use during the negotiation period.
- 7.3. We sought greater detail of information from monitored airports than non-monitored airports. We will arrange meetings with most of these airports to discuss their responses.
- 7.4. We have also sent a survey to third parties, including retailers and landside access operators to seek their 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.
- 7.5. We will also consult with domestic airlines and the Board of Airline Representatives of Australia<sup>6</sup> to obtain information on the impact of COVID-19 and their experiences dealing with the airports. We will engage with the ACCC's Airline Competition Taskforce in relation to consultation with the airlines.

## 8. Next steps

- 8.1. We will update the Committee in early 2022 on the results of the consultation.
- 8.2. We will bring a draft AMR 2020-21 to the Committee in mid-March.
- 8.3. The report is scheduled to be published and released in the first week of April 2022.

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<sup>6</sup> The Board of Airline Representatives of Australia consist of members including Air New Zealand, American Airlines, Cathay Pacific Airways, Emirates, Singapore Airlines and many more international airlines that fly to Australia.