21 December 2018

Mr Paul Lindwall
Presiding Commissioner
Productivity Commission
Level 12, 530 Collins Street
MELBOURNE VIC 3000

Dear Mr Lindwall,

RE: PERTH AIRPORT

Further to the ongoing discussions regarding the regulatory framework for airports and their pricing models, Perth Airport Pty Ltd (PAPL) announced earlier this week via media release that it has commenced court proceedings against the Qantas Group (the Group) over disputed fees and charges for aeronautical services.

In short, PAPL's proposal is an abuse of its position as a monopoly, unilaterally increasing the Group's cost of using the airport by approximately 38 per cent over the next seven years and charging well above its cost of capital and building facilities. The excessive cost increases are an example of a monopoly blatantly profiteering from its customers and ultimately, Australian passengers.

The facts are:

- Perth Airport is already one of the most profitable airports in the world. Frontier Economics conducted detailed analysis of new data provided by the Australian Airports Association (AAA) to the Productivity Commission on 5 November 2018. The assumptions in the AAA's own data reveal that Perth's margin averaged 60 per cent over 2008-2015, more than double the global average of 29 per cent. Global hubs such as Singapore, Hong Kong, Seoul and Amsterdam were all well behind Perth Airport. By contrast, the Group's margin peaked at 10 per cent in FY18;
- Following expiry of the PAPL and Group agreement in June 2018, the Group continues to pay a reasonable price in good faith until a new agreement is reached; and
- Perth Airport is positioning the Group to consolidate its operations in Terminal 1 in 2025 and incorrectly believes this justifies accelerating the depreciation of the Group's existing terminals (Terminals 3 and 4) by recovering around 20 years of depreciation over the next 7 years – partly due to PAPL's financial mismanagement to adequately account for previous years.

To be clear, the Group has always been willing to pay reasonable charges for the use of Perth Airport and is cognisant that PAPL requires a reasonable return on investment. Ultimately, the cost of operating at a monopoly airport is borne by passengers and we have an obligation to ensure they are receiving value for money through competitive airfares. In contrast, PAPL's priority is to levy excessive airport charges to deliver monopoly super profits to a select group of private investors.

The unilateral price increases proposed by PAPL are representative of the monopolistic mindset of airports charging customers whatever they can get away with. In the last 10 years, PAPL has increased revenue per passenger by 59 per cent – which means the Commission's inquiry is timelier than ever.
No one benefits from this dispute. PAPL's actions this year have already put Western Australia's tourism and economic growth at risk by:

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- blocking Qantas' proposed Auckland-Perth-Johannesburg service, which would have seen an additional 4,000 international seats per week into Western Australia;
- hindering further expansion of the Perth Hub which would otherwise facilitate the addition of new direct flights to Europe; and
- jeopardising the Group's ability to expand domestic and regional connections to Perth.

The Group has negotiated in good faith over the past 18 months with PAPL and continues to do so. It is clear, however, that the current economic regulation of Australian monopoly airports is failing Western Australia and our national economy.

Modern, effective light-handed regulation underpinned by access to independent arbitration as a last resort is needed to encourage airports such as Perth to behave rationally and deliver competitive prices, greater efficiencies and higher productivity.

We look forward to discussing this issue and other pertinent matters with you in the New Year.

Yours sincerely,

Andrew Parker
Group Executive, Government, Industry, International, Sustainability