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8th April 2011

Airport Regulation Inquiry
Productivity Commission
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Dear Commissioner

Productivity Commission Issues Paper - Economic Regulation of Airport Services

Industry Funds Management Pty Ltd ("IFM") welcomes this opportunity to respond to the Productivity Commission Issues Paper on the Economic Regulation of Airport Services, released on 25th January 2011.

IFM is one of Australia's largest investment management firms and manages in excess of $28 billion on behalf of institutional investors globally. IFM was also recently ranked as the number one manager of alternative investment products[1] in Australia. IFM has extensive infrastructure investments in Australia and around the world, and has approximately 15 years of experience investing in Australian airports. We believe that given this experience, we are in a strong position to contribute to the Productivity Commission's review of airport services through this submission.

IFM is owned by, and invests on behalf of, 33 Australian industry superannuation funds, including Construction & Building Industry Super (Cbus), the health and community services industry super fund (HESTA), the hospitality, tourism, recreation and sport industries super fund (HOSTPLUS) and AustralianSuper, the largest Australian industry superannuation fund, whose members represent a cross section of Australian workers. It is estimated that the success of IFM's investments ultimately impacts the savings of approximately five million working Australians and their families.

IFM, through its Australian infrastructure fund ("IFMAI"), invests in infrastructure sub-sectors such as airports; seaports; toll roads; telecommunications; electricity generation, transmission and distribution; gas distribution and social infrastructure. These investments offer Australian superannuants the potential for relatively consistent investment returns while providing essential services to local communities. Some of these assets, including the airports, are also of national significance. Investments into assets that provide essential services also carry critical responsibilities including maintaining safe, modern and reliable facilities and catering for growth over time to support Australia's economy and attractiveness.

[1] Morningstar InvestorSuperMarket Market Wrap Survey, December 2010

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Through IFMAI alone, Australian superannuants have made very significant investments into the airport sub-sector. IFMAI's current exposure to Australian airports is valued at some $1.7 billion, with investments in nine airports. These are the capital city airports of Melbourne, Brisbane, Perth, Adelaide and Darwin as well as the smaller and regional airports of Alice Springs, Launceston, Parafield and Tennant Creek.

Between 2002 and 2010, the number of airline passengers travelling through IFMAI's Australian capital city airports increased by 68.4%[2]. To respond to this growth, IFM has supported over $2.9 billion of capital expenditure by its nine airports into maintaining, improving and expanding runways, taxiways, terminals, access roads and other facilities at those airports. The amount of these investments represents more than double the distributions paid out to the shareholders of the respective airport companies over the same period. Furthermore, during the recent Global Financial Crisis ("GFC"), and in anticipation of significant ongoing capital expenditure required for aeronautical facilities, the shareholders supported appropriate measures to enable airports to protect their credit ratings and thereby ensure that re-financing requirements could be achieved. Such measures included materially reducing dividend payments, and in one instance, ceasing dividend payments altogether. IFMAI airports are still undertaking substantial investments in aeronautical facilities and services despite having only recently emerged from the GFC. With Australia's growing demand for, and reliance on, air travel, it is critical to continue fostering a climate that will support the large amount of investment expected to be required in the near future. We are not aware of privately owned airports elsewhere in the world which require such large amounts of re-investment.

The dual till economic regulatory approach whereby aeronautical services, and for some airports, car parking services, are price and quality monitored, has provided the consistent regulatory framework which has allowed investors to fund the tremendous volume of capital investment required to cater for this growth. Any changes to the current framework would likely lead to erosion of value of IFMAI's existing investments. Investors, such as IFM, would need to carefully weigh the benefits of investing further in Australian airports versus deploying scarce capital elsewhere in the world, where each investment dollar could yield a better return for Australian superannuants.

Our submission will therefore focus on the critical role of investment in airport facilities and services in underpinning growth, equity capital investment criteria, and competition. We also provide some case studies to demonstrate how the current regime has operated at the airports where IFMAI has invested.

I trust this submission is useful as you advance the Productivity Commission's review. Australia has a strong aviation sector which is of vital importance to the country and which has improved considerably since the Federal Airports were privatised. If I can provide any further assistance or clarify any part of this submission, please do not hesitate to contact me on 03 8672 5350.

Yours sincerely

Kyle Mangini
Global Head of Infrastructure
Industry Funds Management Pty Ltd

[2] Bureau of Infrastructure, Transport and Regional Economics

Productivity Commission
Economic Regulation of Airport Services
Public Inquiry

Submission prepared by Industry Funds Management Pty Ltd

8 April 2011

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Introduction

In our submission, we respond to the Productivity Commission's specific questions regarding investment and competition, which are:

> *Has the price monitoring regime promoted efficient investment and facilitated commercially negotiated outcomes?*
>
> *Do concerns about the potentially adverse effects of more heavy handed price regulation on investment militate against its reintroduction?*
>
> *What are the constraints on the airports' market power? Do the airlines have countervailing power in dealing with the airports, especially smaller airports?*

Our submission is structured as follows:

- ***Investment in airport facilities and services underpins growth***: we demonstrate that investment in aeronautical and access infrastructure and facilities is essential to support efficient service provision and support future growth. For Australian airports since privatisation, this task has been funded entirely by private capital.
- ***Equity capital investment criteria***: we describe the requirements of portfolio and fund investment managers such as IFM, in decisions to allocate capital. We explain how investors respond to factors which may alter expectations regarding long-term risk adjusted returns. In particular, we discuss the importance of clarity and certainty of the regulatory environment. Any shift in expectations regarding long-term risk adjusted returns in the sub-sector due to changes in regulatory outcomes, could result in portfolio and fund investment managers such as IFM reallocating the capital they invest to account for increased risk. We go on to demonstrate the commitment of IFM to the Australian airport sub-sector, and provide examples of responsible actions in relation to shareholder distributions which ensure that capital investment and balance sheet stability are maintained.
- ***Competition***: we discuss the competitive environment, in respect of the provision of aeronautical services, including the balanced commercial practices between airports and airlines. We note that the smaller capital city airports and regional airports in particular, face additional challenges. We discuss the competitive environment regarding access to airports, and demonstrate the range of multi-modal and competitive offerings that exist for airport users.

Investment in Airport Facilities and Services Underpins Growth

When Government undertook its airport privatisation programme it was seeking to reduce its net debt, and to:

"ensure that new airport operators have the necessary financial strength and managerial capabilities to operate and develop airports over the lease period." [i]

From the outset, Government has recognised the importance of ensuring access to investment capital, and the close link between airports and State economic growth.

Infrastructure Australia ("IA") was established by the Australian Government in April 2008 to review and advise on infrastructure reform and investment initiatives of national significance. IA's report [ii] to the Council of Australian Governments ("COAG") on Australia's infrastructure priorities in June 2010 noted that Australian Government funding for airport investment was not required, as it should be possible to recoup development costs through landing and other charges.

This has been a very positive result of the privatisation of airports in Australia for the Commonwealth Government and taxpayers. Government expenditures have been reduced and risk has been transferred to the private sector. As indicated by IA, airports *should* be able to recoup development costs, but they none-the-less take the risk that passenger volumes will materialise as expected. Achievement of those passenger forecasts is largely in the hands of airline operators, particularly at airports serviced by a small number of airlines.

Case Study 1: Employment growth resulting from capital investment

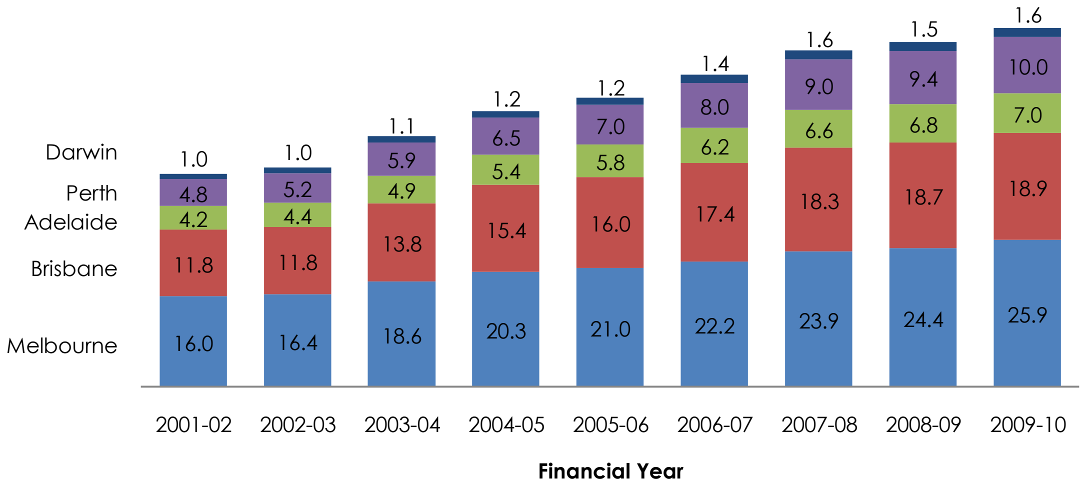
In its report [iii] on the economic impact of Melbourne Airport, Sinclair Knight Mertz found that:

- *"Melbourne Airport is estimated to employ some 12,542 people in an estimated 10,965 equivalent full time positions. This compares with some 10,300 people in 9,000 equivalent full time positions in September 2002, over 20% growth over five years.*
- *The job creation at Melbourne Airport is well above both the state and national averages and is largely attributable to the significant capital investment made by the group.*
- *The legacy of Melbourne Airport having made above average productivity improvements resulted, on average, over the past five years in an estimated additional 8,840 jobs in Victoria and an $850 million increase in Victorian Gross State Product per annum. The local area around Melbourne Airport has seen an increase in real gross regional product of $256 million in 2006/07 relative to average productivity growth."*

Airports are capital intensive businesses, their scale and nature requires significant capital to deliver services to the necessary consumer and safety standards, and to grow ahead of demand. Equity capital has had an essential role beyond privatisation, supporting the continued growth of these businesses. Over the eight years since 2002, airports have experienced significant growth in the users of their facilities and services, including airline customers, passengers, visitors to the airport, and retail and transport service providers. The chart below shows the number of passengers travelling through IFMAI's Australian capital city airports, which grew from 37.6 million[1] in the year ended June 2002 to 63.4 million passengers in the year ended June 2010.

GROWTH IN AIRPORT PASSENGER MOVEMENTS

millions of passengers



Source: Bureau of Infrastructure, Transport and Regional Economics

IFM has supported its investee airports in responding to users' needs for additional and improved services and facilities. Indeed, airports have undertaken significant capital investment, with the majority funding aeronautical infrastructure and infrastructure and services to provide airport access (including car parks, transport and road infrastructure).

IFMAI investee airports have undertaken some $2.9 billion in capital investment between 2002 and 2010. Table 1 provides a summary of major capital investment by IFMAI investee airports since 2002 in key aeronautical and car parks, transport and roads infrastructure.

[1] Differences due to rounding.

Table 1: Major capital investments since 2002

Project name	Airport	Year completed	Value (millions)	Category
Upgrades to runways, property, security	Melbourne	2003	$40.0	Runway
Car park expansion	Melbourne	2004	$40.0	Car park
A380 related project	Melbourne	2006	$220.0	Other core aero
Multilevel car park	Melbourne	2009	$65.0	Car park
T2 International terminal expansion	Melbourne	2010	$330.0	Terminal
Domestic long-term multilevel car park stage 2	Brisbane	2003	$28.0	Car park
International multilevel car park	Brisbane	2006	$37.0	Car park
International terminal expansion	Brisbane	2008	$320.0	Terminal
Northern Access Road Project (NARP)	Brisbane	2009	$220.0	Road
Central parking area stage 1	Brisbane	2010	$47.0	Mixed uses
Domestic terminal	Perth	2009	Est. $25.0	Terminal
Redevelopment of the pedestrian and vehicle facilities and roads	Perth	2010	$28.0	Other transport
Aircraft parking areas	Perth	2009	$21.0	Core aero
T1 - Multi User Integrated Terminal	Adelaide	2005	$260.0	Terminal
Aviation related capital investment	Darwin	2002 - 2010	$67.5	Other core aero
Launceston terminal expansion	Launceston	2010	$20.0	Terminal

Source: Airport annual reports [iv]; Company websites [v]

Case Study 2: Timely investment by Melbourne Airport to service users' needs

Projects:

- *Redeveloped the ageing international terminal in 2008-2010 – project cost $330 million.*
- *Invested in aeronautical, airfield and terminal infrastructure over a two year period (2005-06) at a cost of $220 million. As part of the airfield upgrades, Melbourne Airport became Australia's first fully A380 ready airport.*

Benefits:

- *Continual investment has been, and is, important to the health of the State economy including the tourism industry, as well as Melbourne Airport's "gateway to Australia" status for many international tourists.*
- *IFM and other co-shareholders have supported Melbourne Airport in its investment decisions, by accepting lower dividends to allow the airport to reinvest that capital to renew and expand airport infrastructure to meet growth by airlines and passengers.*
- *This is a clear demonstration of Melbourne Airport's vision to continue investing in the airport backed by shareholder support under the current regulatory regime.*
- *Melbourne Airport has accomplished this while striving to maintain Australia's lowest aeronautical charges to airline customers, which it achieved for the last two years running.*

Case Study 3: Brisbane Airport delivers improved access

Project:

- *Brisbane Airport built Australia's largest privately funded toll-free road on an airport (Northern Access Road Project) – project cost $220 million.*

Benefits:

- *The Northern Access Road Project has improved access by dramatically reducing traffic congestion.*
- *In delivering this project, Brisbane Airport collaborated with the Australian government, the Queensland State Government and Brisbane City Council in co-ordinating this project with others in the surrounding area.*

Table 2 provides examples of investment by IFMAI airports in aeronautical and transport access projects forecast for the next 10 years. This includes projects currently underway, and investments currently being evaluated. This partial list represents over $4 billion of projects requiring funding over the next decade for capital city as well as smaller and regional airports.

Table 2: Major capital investments forecast from 2011 - 2021

Project name	Airport	Estimated year of completion	Value (millions)	Category
Terminal expansions, airfields, runways, access roads, car parking, property and retail	Melbourne	2011 - 2016	~$1,000.0	Core aeronautical and non-aeronautical
Central Parking Area stage 2	Brisbane	2011	$27.0	Car parks
Domestic common user satellite expansion	Brisbane	2011	$45.0	Terminal
Domestic short-term multilevel car park	Brisbane	2012	$190.0	Car park
Domestic terminal pedestrian access and roads	Brisbane	2012	$43.0	Other transport
International apron expansion	Brisbane	2012	$29.0	Core aeronautical
Domestic apron expansion	Brisbane	2014	$77.0	Core aeronautical
Terminal expansions, other aeronautical, access roads and retail	Brisbane	2011 - 2021	$500.0	Core aeronautical and non-aeronautical
New parallel runway (NPR)	Brisbane	2020	$1,300.0	Runway
Terminal WA (Domestic)	Perth	2013	$120.0	Terminal
International terminal redevelopment	Perth	2013	$270.0	Terminal
Improved road access and other airport upgrades	Perth	2014	$110.0	Other transport
Terminal 1 expansion	Adelaide	TBA	$103.0	Terminal
Landside infrastructure project	Adelaide	2012	$102.0	Car park
Terminal expansion	Darwin	2012/3	$33.5	Terminal
Aviation related capital investment	Darwin	TBA	$66.5	Other core aero

Source: Airport annual reports [iv], Company websites [v].

Case Study 4: Brisbane Airport New Parallel Runway Project

Project:

- *The significant capital commitment required to deliver major aeronautical infrastructure is evidenced by the proposed New Parallel Runway ("NPR") planned for Brisbane Airport – forecast project cost $1.3 billion.*

Benefits:

- *Brisbane Airport requires a NPR to support forecast passenger traffic growth over the medium to long term. Project construction is scheduled to commence in 2012 and complete by 2020.*
- *The NPR would be the first major runway to be built in the world by the private sector.*

Funding:

- *Funding a project of this scale is expected to be challenging, and, amongst other factors, shareholders will necessarily seek to ensure there is sufficient commitment to the project by the airlines. Like other capital expenditures, airlines are consulted regarding the expected costs and the aeronautical pricing that is required to meet those costs.*
- *The current aeronautical pricing methodology for Australian airports provides for funding as investment occurs, and a continuation of this approach is important in assuring providers of capital that there is airline commitment to the project. This is particularly important as airlines will not enter into take or pay type contracts that help underwrite such a project. Passenger volume risk is assumed solely by the airport.*

Case Study 5: Alice Springs Airport apron overlay

Project:

- *Alice Springs Airport plans to invest $8 million in 2012 to resurface aging apron infrastructure.*

Benefits:

- *Improved safety and extended useful life expectancy of core aeronautical infrastructure at this regional airport.*

Equity Capital Investment Criteria

IFM is a leading global infrastructure investor [vi], with some $8.4 billion of infrastructure assets under management in Australia, North America, Europe and Latin America. With offices in Melbourne, London and New York, IFM has significant experience in making and managing investments in various geographies and asset classes. This allows us to most effectively allocate investment capital on a global basis.

In reviewing proposals to invest equity capital, IFM seeks investments exhibiting traits that appeal to superannuation funds and other like-minded, long-term investors in infrastructure. Traits include significant companies or projects that require large amounts of capital, have long investment horizons, stable returns with low levels of volatility, operate under predictable regulatory regimes and ideally, grow at least in proportion to overall GDP growth. IFM, like most institutional investors, requires that the projected return the investment will deliver over a long-term horizon is commensurate with the risks associated with the investment. IFMAI earns its investment returns through a combination of cash distributions (cash yield) and an increase in the equity valuation of its investments over time (capital yield).

In the following section, we expand upon the need for regulatory certainty to support investment decisions.

Regulatory Certainty

In 2006, the Productivity Commission [vii] found that "Price monitoring, as part of a light handed regulatory approach, has delivered some important benefits. It has been easier to undertake the investment necessary to sustain and enhance airport services in the face of growing demand for air travel." In recommending that "a further period of price monitoring would be preferable to a reversion to stricter price controls, with all its attendant costs", the Productivity Commission noted, amongst other factors, that "A return to the previous arrangements would make it more difficult for airports to undertake the new investments required to cater for strongly growing demand for air travel. This in turn would impede the development of tourism and other Australian industries reliant on accessible and efficient airport services. Indeed, with several of the monitored airports now entering a new phase of the investment cycle, a return to a more heavy handed regulatory regime could be costly."

Since that review, shareholders have continued to invest and support Australian airports under the light handed, dual till regulatory model. It is IFM's strong assertion that if there are changes to aspects of the model, then this will have a flow on effect on the overall effectiveness and credibility of the model. We re-iterate that a consistent regulatory approach, including in relation to "funding as investment occurs", is a key requirement for investors in the airports sub-sector.

When acquiring an interest in an airport, whether at privatisation or in the secondary market, the purchase price paid for the equity generally exceeds the value of the tangible assets. This gap can be explained by the goodwill component, which is based on the investment assumptions made in good faith at the time. For airports, a key component of this 'goodwill' comprises the expected returns associated with investment in non-aeronautical infrastructure and services, which have a higher risk profile than the aeronautical services. Examples of non-aeronautical businesses include duty free concessions, other retail concessions, car parks, car rental concessions, and advertising. These activities are necessary to enhance the amenities and access to airports. A consistent approach to defining non-aeronautical activities is a key element of a stable regulatory environment, which is required to attract investment in infrastructure.

Ongoing private sector investment enables Government funding to be freed up and used on other important projects such as healthcare and education. If Government wishes to tap into Australia's superannuants to fund investments in infrastructure sub-sectors, much like it has done for the Australian airports, it is critical that Government's actions in relation to such infrastructure encourages, rather than discourages, investment.

IFM has been able to make a strong commitment to the Australian airport sub-sector because of the benefits brought about by deregulation and competition. Airlines have increased service options and reduced ticket prices to allow more Australians to travel and more international visitors to come to Australia. Airport privatisations, together with the stable regulatory environment maintained by the Federal government, have created appropriate investment opportunities for superannuation funds. IFM's investors not only enjoy the stable financial returns provided by domestic airport investments, but also the knowledge that their retirement accounts are providing valuable infrastructure for the continued development of our country.

A commitment to future investment in the sector requires policies supporting continuation of the dual till, light-handed regulation that has governed the aviation industry during the past decade. This form of regulation allows commercial contracts to be negotiated on sound business terms between airports and airlines. Indeed, relationships between airports and airlines have improved over this period, and airlines have been supportive of aeronautical investment. Airlines have been involved in specifically approving the investments made by airports which form the basis for the commercial agreements between airports and airlines which govern pricing and service levels.

Long Term Focus

Shareholders have received total distributions, representing 100% equity ownership, of c.$1.2 billion from Melbourne, Brisbane, Perth, Adelaide, Darwin International, Alice Springs, Launceston, and Parafield airports during the last decade. To put this figure in perspective, the same shareholders have collectively approved capital expenditures of over $2.9 billion on the airports in the same period.

Shareholders in Australian airports have been stable and reliable investors including during periods of economic and market turmoil when access to capital has been severely constrained. As a recent example, during the 2008-2009 GFC, there was generally reduced liquidity in debt and equity capital markets, with such scarcity reflected in availability and pricing of capital. It was critical for airports to manage their business operations and capital structures in an orderly way, thereby ensuring stability, confidence and continuity of service provision. Airport investors provided their support, including, where necessary, measures to reduce gearing levels and maintain a strong balance sheet in the face of the uncertainty brought about by the GFC, as well as to ensure the airport companies were well placed to deliver on their capital expenditure programs. For example, as a long-term investor, IFMAI was able to agree to forego distributions from Brisbane Airport, thereby ensuring a strong balance sheet was maintained to enable investment in infrastructure of national significance. This act was recognised by credit rating agencies, as Moody's Investors Service [viii] stated that "*Moody's has factored in support from the Airport's shareholder base, which over the last 18 months put distributions on hold to reduce gearing and improve interest cover.*"

Corporate Governance

IFM incorporates consideration of environmental, social and governance factors into its decision making. This includes assessment of these factors on new investments, as well as by encouraging responsible corporate behaviour by investee companies. Across the range of our interactions with the IFMAI airports, IFM cannot emphasize more strongly the degree to which these airports continue to demonstrate exemplary conduct and good corporate citizenship, which includes support in various forms for the local community, industry and business.

Competition

Aeronautical

The global aviation industry has changed considerably since governments began to privatise airlines and airports. The competitive environment created by privatisation has brought new entrants into the airline business catering for a wide range of travellers, from the budget conscious to those seeking full service amenities. Not all airlines have survived in the competitive environment, but competition has improved the overall level of service and lowered the cost of air travel leading to a large increase in the number of passengers.

Privatisation of airports and airlines has forced a co-dependent business arrangement where the parties must cooperate to bring about improvements in airport facilities to effectively handle the increased volume of travellers carried by the airlines. Each airport has a different level of negotiating power in relation to the major airlines. For example, although there are no other airports located near Darwin International Airport, the Qantas Group through Jetstar Airways ("Jetstar") and Qantas Airways ("Qantas") operates 74% of total capacity at Darwin plus an additional 8% of capacity through codeshare services. As such, Darwin International Airport is highly dependent on route decisions made by a single airline group. In comparison, the Qantas Group carries only 54%[2] of traffic at Brisbane Airport, which faces significant competition from Gold Coast Airport.

Although each airport operates under specific competitive circumstances, both in terms of proximity to other airports as well as the level of competition among customer airlines, a delicate balance of power exists between airlines and most Australian airports that allow the parties to strike effective commercial arrangements. The majority of airline seats in Melbourne, Brisbane, Perth, Adelaide, Darwin International and Alice Springs airports are provided by a single airline group. This ensures a balance of power that leads to effective negotiation processes for setting aeronautical charges, with airline buy-in as to where, how and when the aeronautical dollar is spent on facility maintenance, improvement and expansion. This has allowed private investment to support the growth that Australia has witnessed over the last decade. A reintroduction of a more heavy-handed price regulation would put at risk the delicate balance of commercial power that has been achieved to date under the price monitoring regime with potentially harmful and long term effects.

Car parks, Transport and Roads

We have earlier demonstrated the significant investments in infrastructure and services made by airports, as well as those planned for the future. These include capital expenditure projects which improve access for people travelling to and from the airports, by way of new road systems, car parks, taxi facilities, and hire car amenities. In excess of $460 million was expended between 2002 and 2010, and in excess of $470 million is forecast until 2016. Forecast investment is conservative, as the figures include only specifically identified car parks, transport and road projects.

[2] For the year ending December 2008

IFMAI has long supported Melbourne and Brisbane Airports' significant investments in access related infrastructure and services, including car parking. Each airport provides a range of parking options to cater to the level of service, length of stay or proximity to the terminal that a passenger desires. Recently, IFMAI has also supported Darwin International Airport as it expands car parking facilities to cater for its growth and that of car rental companies. Several airports have also added "car park calculators" to their web sites to enable travellers to compare the cost and service levels of the various options available to them for accessing the airport.

Investment into car parking facilities by the airports has promoted a diversity of transport options to and from the respective airports and intense competition from not only off-airport car park operators but also from alternative modes of transport, including taxis, coach bus services, and SkyBus and Airtrain, in the case of Melbourne Airport and Brisbane Airport, respectively.

Case Study 6: Melbourne Airport

Project:

- *Since 2002/03, Melbourne Airport has invested c.$131 million in car parking expansions and redevelopments for consumers and staff.*

Benefits:

- *Car parking capacity has increased from just over 9,100 parking bays to over 22,400 bays to meet demand and address congestion during peak periods.*

Concluding Remarks

We conclude that under price monitoring, there has been substantial investment into Australian airports. Approximately $2.9 billion has been invested since 2002 solely into the airports where IFM is a shareholder. This investment has delivered facilities and services which cater for the needs of airport users, the number of which has increased dramatically since 2002. During this same period, we have identified that the capital expenditure was more than double the c.$1.2 billion distributions paid to shareholders in those same airports. We also recognise the important role that airports have in contributing to city and state economic growth. Furthermore, the magnitude of capital investment by airports is expected to increase significantly over the next decade.

From the time of the first Australian airport privatisations in 1997, IFM and other superannuation investors identified the airports sub-sector as one exhibiting the traits suitable for superannuation funds – significant companies or projects that require large amounts of capital, have long investment horizons, stable returns with low levels of volatility, operate under predictable regulatory regimes and ideally, grow at least in proportion to overall GDP growth.

In particular, certainty around regulatory risk is essential to ensure desirable levels of investment in new technology, equipment and facilities. Any reintroduction of price regulation and/or reclassification of non-aeronautical activities, would introduce additional costs and uncertainty for airport owners, and would likely erode the value of the privatised assets. Such a scenario would significantly increase the risk for airports in securing funding for investment in major infrastructure projects. There is already mounting pressure to shift investment dollars toward developing regions of the world which are expected to exhibit greater growth rates in the years ahead.

IFM is a strong proponent of ensuring that an investment environment is maintained which allows a large proportion of Australians' retirement savings to remain invested in Australia. We believe this can be done in the airports sector under the current regime because airports face strong competition across their businesses from other airports and other transport and parking providers. The major Australian airlines have significant market share and have substantial purchasing power in negotiating aeronautical prices with airports, fostering a balance of power that has led to effective commercial outcomes at most airports, and supported the growth of the national and local economies.

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[vi] Towers Watson, FT. Global Alternatives Survey 2010, p49

[vii] Review of Price Regulation of Airports Services, Productivity Commission Inquiry Report, 14 December 2006, pXII, and pXVII

[viii] Moody's Investors Service, Rating action report on Brisbane Airport, 24 June 2010