

Ms Wendy Craik, AM  
Commissioner  
Economic Regulation of Airport Services  
Productivity Commission  
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Dear Commissioner

Infrastructure Partnerships Australia (IPA) is the nation's peak infrastructure body. Our mission is to advocate the best solutions to Australia's infrastructure challenges, equipping the nation with the assets and services we need to secure enduring and strong economic growth and importantly, to meet national social objectives.

#### **Airport Infrastructure and Economic Regulation**

Australia faces an infrastructure gap in excess of \$455 billion. Infrastructure Australia's latest listing of national infrastructure priorities, *Getting the Fundamentals Right for Australia's Infrastructure Priorities*, was released in July 2010 and lists 54 priority projects valued at a total of \$82.8 billion. For the purposes of this inquiry, the Productivity Commission should note that the list does not include any aviation or aeronautical infrastructure for which the airport operators are responsible.

While the infrastructure shortfall in other sectors - road, rail, ports, water and electricity – is of ongoing concern, and its resolution critical to Australia's productivity performance and economic prosperity, it is notable that Infrastructure Australia has expressed no concerns about the provision of aviation infrastructure. It summarised the situation as follows:

*Submissions for funding support to expand airports have also been received. However, as it should be possible to recoup development costs through landing and other charges, the case for Australian Government funding has not been demonstrated at this time.*

IPA supports this conclusion as the airport sector has demonstrated that it is prepared to invest in its assets and to provide the airfield and terminal infrastructure that is necessary to support the growing number of passengers who wish to fly.

The privatisation of the nation's major airports, and the subsequent surge of private sector investment, should therefore rightly be seen as one of Australia's infrastructure success stories. The task should be to ensure that this performance is encouraged and is not threatened or jeopardised in anyway.

Central to the demonstrated success of the airports over the last 10-15 years is the introduction of private sector funding and innovation within a light-handed regulatory environment. This has seen commercial decision-making normalised and has encouraged the growth of innovative, flexible and commercial negotiations between airports and airlines. The notable exception to this favourable

characterisation of the regulatory context is the old-fashioned, heavy-handed, regulation of regional aeronautical fees at Sydney Airport that is undertaken by the ACCC. At all other airports across Australia, airports and international, domestic and regional airlines successfully negotiate fees and services on a normal business-to-business basis.

The success of the airport industry in providing the aviation infrastructure that Australia needs should be acknowledged. Once this is understood and accepted, a number of lessons can be drawn:

- Firstly, that this success should not be threatened or undermined by the contemplation of a return to intrusive and heavy-handed regulation. The ACCC's submission proposes a strengthened regulatory role for itself. This proposal should be rejected by the Productivity Commission, as there is no clear case for re-regulation.
- Secondly, the evolution of regulatory intervention in this industry should be allowed to continue. Twenty years ago, the Australian Government owned all the airports and decided what investments would be made and what fees and charges would be paid by airlines and passengers. The evolution from this active ownership role for government to light-handed regulation should be allowed to continue with the next logical stage being to review the existing arrangements with a view to eliminating any airport specific regulation.

### **ACCC Methodology**

The Australian Government's National Aviation Policy stated that the Productivity Commission would review airport regulation in 2012. As events transpired, the current Productivity Commission inquiry was called by the Australian Government in March 2010 in response to the ACCC's monitoring report.

IPA notes Sydney Airport's concerns regarding the statistical approach, terms of reference and methodology of the report. We would therefore ask the Productivity Commission to strongly consider these concerns when reviewing the ACCC report. Furthermore, we would also ask that the Commission consider Sydney Airport two pieces of research commissioned by Sydney Airport authored by the University of Melbourne's Statistical Consulting Centre and GA Research in their review process.

### **Land Transport to Airports**

As efficient and productive as Australia's airports are, passengers and freight also must depend on efficient and productive land transport systems to travel to and from airports at the beginning and end of journeys.

This is an area where the provision of land transport infrastructure by government (mainly state governments) has not met demand. At many of Australia's major airports, there is a need for additional road infrastructure for private and freight vehicles or public transport services for passengers. While the specific circumstances will vary from airport to airport, and from state to state, the general national trend is that investments by state governments in land transport infrastructure to and from airports have not kept pace with the demand from the community to access the airport infrastructure that has been constructed by airports.

Infrastructure Australia's *Getting the Fundamentals Right for Australia's Infrastructure Priorities* highlighted the importance of the issue:

*Congestion and delays around our major international airports, notably Kingsford Smith Airport in Sydney, is significant. If projected growth in aviation demand comes to pass, this*

*congestion will increase substantially. Infrastructure Australia believes that reforms and investment to address the capacity issues are key national priorities.*

Indeed, Infrastructure Australia nominated a number of projects that involved meeting the community's need for improved transport to and from airports including:

- Gold Coast Rail to improve access to Coolangatta Airport
- Gateway WA to improve access to Perth Airport
- M5 East to improve access to Sydney Airport and Port Botany
- Majura Parkway to improve access to Canberra Airport

IPA supports the use of a range of financing options, public and private, in meeting these infrastructure needs. A range of finance options should be pursued, from public sector debt to private sector debt and equity. While the provision of land transport to and from airports is clearly the responsibility of government, any assessment of the scale of investment required to meet the current and emerging infrastructure needs indicates the size of the task is enormous and that governments will need to tap the pool of private sector capital and risk management capability.

If IPA can assist the Productivity Commission with any further information, please do not hesitate to contact me.

Yours sincerely

Brendan Lyon