



11 September 2014

The Hon Rick Colless MLC
Standing Committee on State Development
Inquiry into Regional Aviation Services
Parliament House
Macquarie St
Sydney NSW 2000

NSW Business Chamber
incorporates

- Sydney Business Chamber
- Australian Business Lawyers & Advisors
- Australian Business Recruitment Solutions
- Australian Business Consulting & Solutions
- Australian Business Apprenticeships Centre
- Australian Business Training Solutions
- Australian Business Defence Industry Unit
- Australian Business Industrial

Dear Mr Colless,

Thank you for the opportunity to provide answers to Supplementary Questions and Questions on Notice for the Inquiry into Regional Aviation Services.

SUPPLEMENTARY QUESTIONS

1. In relation to airport passenger and landing fees, does the NSW Business Chamber support regulation that would require increases to be approved by a body such as the ACCC?

The ACCC has stated that the purpose of access regulation is to “ensure that businesses have access, on commercial terms, to the service offered by certain essential infrastructure facilities such as airports”.¹

In 2011, the Productivity Commission’s report, *Economic Regulation of Airport Services*, assessed whether regional airports were abusing market power when negotiating with airlines on access fees. The Commission stated:

The proposition that regional airlines do not have countervailing power in negotiating with regional airports seems difficult to sustain when, for the majority of those airports, the negotiating airline will be the sole operator. In the Commission’s view, while local council airports may be monopolies in their regional area, their market power is likely to be curtailed by the airlines’ market power, particularly, given that many regional routes are in fact licenced and/or ‘conferred monopolies’.

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¹ ACCC website (accessed 02/09/14): <http://acc.gov.au/regulated-infrastructure/airports-aviation/acc-role-in-airports-aviation>

However, there may remain circumstances where council airports pursue objectives that are contrary to maximising 'national level' efficiency. In part this derives from the fact that local councils are responsible to their local residents.²

The Commission went on to conclude that:

Where regional or other social policy goals are being pursued, this should be done directly, rather than through practices that impose economic costs.³

The Commission also stated that:

the goal of airport policy should be to achieve efficient price and investment outcomes, both for major capital city airports and council-owned regional airports alike; and that given the diversity of councils across Australia, regulating the 'efficient' level of investment and services at each regional airport would be problematic.⁴

On the basis of these findings, the Chamber does not see evidence to support increases in airport passenger and landing fees to be regulated and approved by a body such as the ACCC.

However, we do believe that there may be scope to create voluntary common principles or promote best practice in determining airport fees to guide both airports and airlines during price negotiations. We suggest that the Inquiry recommend that an independent body such as IPART review the benefits of such an approach. Having a framework for charging access fees would enable more efficient airport pricing and would help provide a greater level of certainty for both airlines and airports.

2. You mention in your submission (page 8) that the current approach to security screening is inherently flawed and need to be reviewed. Do you have a view on how the current regime could be improved?

The implementation of security arrangements differs across airports and has different impacts on airlines.

Some airports choose to spread the costs of security across the board, with levies imposed on aircraft below current security thresholds. From its discussions with a number of Airlines, the Chamber understands that this approach adds significantly to the already relatively large fixed costs of operating small aircraft. By their very nature, smaller aircraft face difficulties in recovering these costs. Operators of smaller aircraft simply do not have the capacity to spread these costs over more

² Productivity Commission (2011) *Economic Regulation of Airport Services*, p.331.

³ Productivity Commission (2011), p. 332.

⁴ Productivity Commission (2011), p. 332.

passengers placing them at a competitive disadvantage when compared to airlines which operate larger fleets.

On the other hand, airports that impose a levy only to those who operate aircraft above the threshold limit may deter airlines from operating larger aircraft, which may have broader social and economic consequences, leading to less efficient outcomes.

To address this, we recommend that security screening levies are considered as part of the development of common principles or best practice identification, as we have outlined in our response to Question 1.

QUESTIONS ON NOTICE

The Hon. MICK VEITCH: Do you have any suggestions as to how the on-route subsidy is paid? Should it be based on seats or maximum take-off weight?

The Chamber does not have a preferred position on how the en-route subsidy is paid. The Chamber recommends that the design of the En-Route Subsidy should be based on consultation with airlines to ensure the subsidy is targeted to achieve its aim: encouraging airlines to service low-volume/new routes.

CHAIR: In your submission you talk about the annual passenger carriage numbers of 50,000 being the licencing threshold and you say it fails to give any protection. I am wondering what figure you would put on it that you would see would be the appropriate licencing figure to give the protection that is required for smaller airlines?

In our submission we recommended that the NSW Government review the appropriateness of the licensing regime to assess whether such a scheme is required. We think this would be sensible in light of recent events in the regional aviation industry.

For further information on this submission, please contact luke@nswbusinesschamber.com.au

Yours sincerely,

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NSW Business Chamber