

Airports and the ACCC

Privatisation of airports in Australia has introduced a new operating and regulatory environment designed to ensure the efficient operation of airports for the benefit of users.

Why regulate airports?

Competition is widely accepted as providing the best means of promoting economic efficiency. It brings benefits to consumers through higher quality services, lower prices, and greater value for money.

Some markets are less conducive to competition than others. Airport services is one. Airports face limited competition in providing aeronautical services. There is also limited substitutability between airports and significant barriers to new entrants to the industry.

The Australian Government is keen to harness the benefits of competition where possible. One example has been the privatisation of airports, giving them a stronger commercial focus. But the Government is also aware of the monopoly characteristics of airports. Consequently regulation is seen as an important part of the privatisation process.

Recently, the Government sold the long term leases to a number of airports. Brisbane, Melbourne and Perth airports were privatised in July 1997. In May 1998 Adelaide, Alice Springs, Canberra, Coolangatta, Darwin, Hobart, Launceston and Townsville airports were also privatised through long term leases. For the purposes of economic regulation, these airports are termed 'core regulated airports'.

Management of Sydney's Kingsford Smith airport, packaged with a number of others, was recently transferred from the Federal Airports Corporation to the Sydney Airports Corporation (SAC). This move represents a step toward eventual privatisation.



The regulatory package

A comprehensive economic regulatory framework has been set up to apply to privatised airports, covering pricing, quality and access issues. The ACCC has been given primary responsibility for implementing and administering the arrangements.

The regulatory regime comprises a package of measures under the Trade Practices Act, the Prices Surveillance Act and the Airports Act.

Two main measures are a price cap on aeronautical services and access arrangements. There are also complementary measures including formal monitoring, quality of service monitoring and a review of regulatory arrangements by the ACCC after five years.

A price cap ensures that airport operators reduce charges for aeronautical services in real terms. It applies to aircraft movement areas (e.g. grounds, runways, taxiways, aircraft parking areas) and passenger processing areas (e.g. departure lounges, aerobridges, baggage handling and reclaim, and roads to terminals) at privatised airports for five years in its present form.

Just as important are the provisions for access. Section 192 of the Airports Act has the effect of 'declaring' certain airport services, for the purposes of Part IIIA of the Trade Practices Act, 12 months after privatisation. These provisions are designed to ensure access to airport services on reasonable terms and conditions. If the parties cannot negotiate agreeable terms and conditions of access in the first instance, the ACCC has the power to arbitrate disputes where necessary.

Some of the services likely to be declared under the Airports Act are: runways, taxiways, some passenger processing areas, some refuelling facilities and access to landside roads.

The price cap and access arrangements are supported by formal price monitoring powers under the Prices Surveillance Act and by quality monitoring under the Airports Act. Monitoring provides for the collection and publication of information about the performance of airports.

Formal price monitoring applies to aircraft refueling services, check-in counters, car parks and a number of other services. Quality monitoring applies to a diverse range of quality indicators throughout an airport. Monitoring results will be an important input to the review of regulatory arrangements five years after their inception.

As it is yet to be privatised, the regulatory arrangements applying to Sydney Airports Corporation differ from those for other airports. Until privatised Sydney Airports Corporation is not subject to a price cap. In addition, the access provisions in the Airports Act do not apply. Rather, the general access provisions in Part IIIA of the Trade Practices Act apply to it, as they do to all other services.

Expected outcomes

Under the new economic regulations, airport operators have a range of responsibilities and obligations. They will have to reduce the real prices for aeronautical services for five consecutive years. They will have to provide access to airport users on reasonable terms. They must provide information to the ACCC about their performance on a range of financial and quality measures.

The economic regulatory framework will also bring about benefits for airport users. Real aeronautical prices will decrease, greater access will be available on reasonable terms and the performance of airports will be subject to detailed scrutiny by the ACCC.

The ACCC is working closely with airport operators and users in implementing the regulatory arrangements. It welcomes any queries regarding the regulation of airports and asks that they be directed to its Aviation team in the ACCC's Melbourne office.

**ACCC
regulated
airports**

