Airport deregulation

As in other sectors that were once government owned, a stiff wind of change has been blowing through the aviation industry in the last five years.

Some changes have been very apparent, such as the entrance, and demise, of new airlines and the accompanying see-sawing of airfares. With Virgin Blue now on the scene, Australians are again being offered airfares at a fraction of former costs. So while the competitive pressure among the airlines has been intense, domestic travellers have been doing well.

Another change that may be less well known is that in 1997 and 1998, 17 of the 22 Commonwealth-owned airports moved into private hands as part of the Commonwealth Government's economic reforms.

Because airports can be monopoly facilities in their geographic markets the government brought in a package of airport-specific regulation — under a new *Airports Act 1996* — to be administered by the ACCC. This means for instance owners or operators can't charge more than they need to; that is, take advantage of that monopoly market power.

The Airports Act divided the privatised airports into two broad groups. The major passenger ones became core regulated airports that are subject to economic regulation administered by the ACCC*. The general aviation airports are non-core and not subject to the same regulations.

Under the Airports Act the ACCC monitors and publishes data on the core airports' financial and service quality performance.

Under the *Prices Surveillance Act 1983* — legislation that the ACCC administers — some prices charged by airports to airlines are capped, meaning the airports can't increase them just because they want to. At most major airports this price cap has led to steady reductions ranging from 1 per cent per annum at Canberra and Townsville airports to 5.5 per cent at Perth airport.

Another ACCC responsibility is to assess new investment proposals by airports. The ACCC will approve some increases in airport prices to fund the investment, if airport users by and large agree with the proposals — giving airports an incentive to undertake investments that improve the efficiency of the airport and the quality of service provided to airlines and travellers.

So far, good quality of service results have been recorded, suggesting that even in the face of price reductions, quality of service standards haven't been sacrificed by airport operators to cut costs.

Examples of investment developments are the international terminal at Sydney airport before the 2000 Olympics and the construction of common user terminals at Sydney, Melbourne and Brisbane airports. These terminals have been essential to the operations of Virgin Blue, and central to the low airfares.

The ACCC also monitors the prices of some aeronautical-related services, such as refuelling services, check-in counters and car parking. The ACCC doesn't have to be notified of increases in these prices, but because the reports are made public the prices are open to general scrutiny, including by the ACCC.

In relation to some services the ACCC recently made a submission to the Productivity Commission's inquiry into price regulation of airports, recommending they be subject to price regulation — the intent being to ensure that airport operators can't use their market power to the detriment of air travellers.

Access to essential airport facilities is also regulated, through the Airports Act and part IIIA of the Trade Practices Act. The purpose is to make sure that businesses needing access can negotiate with airport operators on commercial terms — or, if negotiations fail, to have terms and conditions arbitrated by the ACCC. This may be especially important when new airlines are establishing themselves. It has also allowed some smaller businesses to compete with airport operators in providing services such as cargo handling.

*Core regulated airports: Brisbane, Melbourne, Perth, Adelaide, Alice Springs, Canberra, Coolangatta, Darwin, Hobart, Launceston and Townsville. Although Sydney airport has not yet been privatised it is regulated by the ACCC.