

SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT  
REFERENCES COMMITTEE

THE EFFECT OF PRICING AND SLOT MANAGEMENT ARRANGEMENTS  
AT KINGSFORD SMITH AIRPORT ON REGIONAL AIRLINES AND  
COMMUNITIES

March 1999

GOVERNMENT RESPONSE

The Government welcomes the Senate Committee's report on "The Effect of Pricing and Slot Management Arrangements at Kingsford Smith Airport On Regional Airlines and Communities." Government responses to the specific recommendations of the Committee are as follows.

**Recommendation:** The Commonwealth closely monitor movements of slots within and out of the pool of slots "ring fenced" for regional airlines; including periodic examination of the reasons for movement and any evidence that the distribution of slots is being manipulated by operators to the detriment of services to regional communities. The Minister and Slot Manager should take steps to address any trend toward reduction in regional access to slots, particularly peak time and shoulder slots, at KSA.

**Response:** To date there is no evidence that the distribution of slots is being manipulated by operators to the detriment of services to regional communities. The distribution of slots will continue to be monitored by the Government in consultation with the Slot Manager.

**Recommendation:** The Commonwealth consider rural and regional community representation on the Sydney Airport Coordination Committee.

**Response:** The Sydney Airport Coordination Committee oversees administrative processes such as how a slot application is made, when applications need to be lodged, what information should be supplied to the slot manager etc. Nearly all these processes relate to industry technical requirements.

The Slot Manager undertakes the actual slot allocation in accordance with predetermined priorities under the Slot Management Scheme (a Disallowable Instrument).

Rather than add representation to a Committee which has a technical airline industry focus, the Minister for Transport and Regional Services will consult with representatives of local communities on any changes to priorities for the allocation of slots for regional services.

**Recommendation:** The Minister ensure that the impact of current price changes on regional and rural communities is assessed and taken into account when charges are set for 1999/2000 and 2000/2001. Further, it recommends that the social costs and issues of economic growth and access to markets by rural and regional communities are assessed and taken into account in setting future charges for regional airlines.

**Response:**

Aeronautical charges at Kingsford Smith Airport (KSA) are subject to price monitoring by the Australian Competition and Consumer Commission (ACCC). Any proposal to increase charges must be agreed to by the ACCC following an extensive consultation program. As the independent assessor of pricing for monopoly services, the ACCC is well placed to consider the impact of pricing adjustments on regional airlines and regional and rural communities.

Whilst recognising the importance of rural economic development and continued access to markets by rural and regional communities, the Government supports the principle of user pays as a fundamental aspect of a fair and equitable pricing system. Consistent application of the user pays principle by the ACCC will ensure that regional airlines do not subsidise the cost of infrastructure services they do not use.

**Recommendation:** The Ministers responsible take appropriate steps to ensure that Sydney Airports Corporation review the model used for depreciation, taking into account the ACCC comments and those of the industry.

**Response:**

In June 1998 the ACCC issued a statement for the public register on proposed aeronautical charges at KSA. In this statement the ACCC indicated that before agreeing to any increase in charges at KSA, Sydney Airport Corporation Limited and the ACCC would have to reach agreement on, amongst other things, an appropriate model for depreciation. The Government believes that the decision making process of the ACCC is the appropriate means by which to address industry concerns over the depreciation model used by SACL.

**Recommendation:** The Minister for Transport and Regional Services, along with Sydney Airports Corporation, examine the potential for dedicated regional runway and other infrastructure as an option for better serving regional communities and airlines and for increasing capacity at KSA.

**Response:**

The Long Term Operating Plan for Sydney Airport was developed through a very extensive consultative process during 1996/97. This Plan sets down the airspace and runway usage arrangements for the Airport. The Government does not propose to expand the runway capacity at Sydney Airport in a way which would lead to a divergence from the Plan or a weakening of the restrictions on aircraft movements imposed by the *Sydney Airport Demand Management Act 1997*.

**Recommendation:** The Minister ensure that negotiations undertaken with the airlines for price changes in 1999/2000 and 2000/2001 address the concerns raised by the airlines and the ACCC with regard to the accuracy of assumptions in the Corporation's pricing model, in particular those assumptions that may lead to high rates of return and high depreciation rates on the new investment resulting in unnecessarily large price increases.

**Response:**

The ACCC has indicated that any future decision regarding price increases at KSA would need to consider issues relating to depreciation, rate of return, future traffic forecasts, and capital expenditure incurred. The Government considers that the decision making process of the ACCC is the appropriate means by which to address the concerns of the airlines over the accuracy of the assumptions in SACL's pricing model.

**Recommendation:** The Minister also ensure that the most vulnerable parts of the industry, the regional airlines, are represented in negotiations and that their interests are not neglected due to size or scale of operations.

**Response:**

An extensive negotiation process will be undertaken prior to implementation of any new pricing regime at KSA. As part of this process regional airlines and all other interested parties will have the opportunity to provide submissions to any review by the ACCC. The Government is cognisant of the concerns of the regional airlines and is confident that the negotiation and review mechanisms in place will ensure that appropriate opportunities are provided to ensure their interests are not neglected.

**Recommendation:** The Minister and Senate take note of the key nature of KSA in the economy of NSW and Australia. It is a major transport hub in a complex and interdependent air network that includes regional and rural Australia. It considers that any discussion of the future of KSA and Airports in the Sydney region should take this committee's findings into account to protect the interests of regional and rural Australia.

**Response:** The Government recognises the importance of KSA to the economic development of New South Wales and Australia. Any future discussion of the future of KSA and Airports in the Sydney region will take the Committee's findings into account.