



## Regional Express Supplementary Submission to the Productivity Commission Economic Regulation of Airports

14 December 2018

Further to prior submissions by Regional Express (Rex) to the Productivity Commission (PC), Rex would like to provide further information to the Commission in relation to Australia Pacific Airports - Melbourne (APAM's) current approach and the handling of runway access to airlines at Melbourne Airport in the absence of any runway capacity control. This is in response to APAM's confidential supplementary submission on 29 November 2018 to the PC.

### Runway Demand Management System (RDMS)

Melbourne Airport currently has a dual intercepting runway configuration on the airfield that has the capability of handling about 52 movements per hour. APAM have embarked on a significant growth strategy in recent years that has seen APAM actively seek out and attract additional international operators to Melbourne Airport which has increased congestion significantly. Currently there is no slot management system (more commonly known as Runway Demand Management System (RDMS)) in place at Melbourne Airport to ensure that the number of allocated slots match the existing capacity during any period of the day, meaning that any new or existing operator can add a service even at periods when the runway's capacity is already significantly overloaded.

A RDMS is an internationally recognised program of managing access to airlines at a major airport to ensure that access aligns with the throughput capability of the airfield. RDMS incorporates a cap on the total number of movements permitted each hour whereby allocation aligns with capacity. Dedicated time slots are applied for by airlines in advance and allocated subsequently by an independent and third party slot coordinator. This process provides airlines and passengers with scheduling certainty and Airports assurance that their infrastructure can be utilised efficiently and meet demand. RDMS has the benefit of ensuring that the airport's infrastructure is utilised to its full potential by allocating slots up to the full capacity of the airfield.

The vast majority of the world's largest airports have RDMS in place to coordinate slot management and to provide increased reliability for passengers. In Australia the slot coordinator is selected, usually after a competitive tender, by individual airports with the exception of Sydney Airport where the tender is conducted by the Commonwealth Government. Airport Coordination Australia (ACA) is the selected party to oversee and manage slot allocation for Sydney, Brisbane, Perth, Adelaide, Darwin and Cairns. Melbourne Airport is unique amongst our large, busy airports in not having a RDMS and indeed is one of the rare ones amongst major international airports that do not have some form of RDMS.

### Regional Express Holdings Ltd

#### Head Office

81-83 Baxter Road  
Mascot, NSW 2020  
P +61 2 9023 3555

#### Engineering Base

Don Kendell Drive  
Forest Hill, NSW 2651  
P +61 2 6926 7700

ABN 180 9954 7270 ACN 099 547 270

PO Box 807  
Mascot, NSW 1460  
W [rex.com.au](http://rex.com.au)  
F +61 2 9023 3599

### Regional Express Group of Companies:





The International Air Transport Association (IATA) publishes Worldwide Slot Guidelines (WSG) that outline in specific detail industry-recognised procedures for management and allocation of airport capacity at a slot-coordinated airport. These are recognised as being fair and transparent for both existing and new users. They include safeguards such as “use it or lose it” rules to ensure that ultimately it is customer choice (not airport choice) that determines which air services prevail.

### **Melbourne Airport’s Greedy & Unconscionable Commercial Practice**

In its relentless selfish pursuit of commercial profits, APAM has steadfastly refused to introduce a RDMS and instead has accepted any and all requests for slots by airlines, even during the times when it has already allocated more slots than its airport infrastructure can cope with.

When faced with the demand by carriers to adopt the RDMS, APAM responded by adopting underhanded and monopolistic actions to silence and neutralise the operators. In 2017 during the most recent Aeronautical Services Agreement (ASA) with Rex, APAM insisted that a local rule be incorporated in any future RDMS, stating that any new entrant could add a new service at a peak time (even if the slot allocation is fully utilised). This would subsequently displace an existing service of an incumbent airline regardless of historical slots precedence. This approach is contrary to the rules outlined by IATA in the WSG and is a way to twist the operator’s hand to privately accept an unethical and reprehensible practice. This condition was rejected by Rex.

Faced with the general outcry over such a practice and the threat by the operators to refer APAM to the ACCC, APAM aborted its insistence in linking the ASAs with the funding of a new runway. However it has continued unabated in accepting new entrants in periods where the existing operators are already facing significant delays on a daily basis.

APAM’s justification for prioritising new entrants over existing operators is on the basis that APAM has an obligation to provide “fair and equitable access” to all airline operators under its lease agreement with the Commonwealth of Australia to operate the airfield. This disingenuous interpretation of the clause rings hollow in the light of the practice in all the other capital city airports which are all sitting on Commonwealth land and are all subject to exactly the same constraints by the Commonwealth. APAM has also shamelessly tried to justify its unconscionable and unethical behaviour by pretending to be the champion of competition and the community:

*“Melbourne Airport believes the airlines (including Rex) are requesting rules that are anti-competitive, designed to constrain the airport in peak times and which would allow their businesses to profit whilst new entrants’ access into the airport is blocked in peak periods.”*

and that a RDMS would:

*“entrench the dominance of the airlines already operating during peak periods and protect them from competition that comes from additional services”*

As mentioned above, RDMS rules based on WSG are recognised as providing fair and equitable access, so contrary to APAM’s characterisation of Rex’s position, adoption of this accepted international practice is consistent with APAM’s obligations to the Commonwealth.



APAM's arguments are equivalent to a car park operator saying that car owners who have signed up for a season parking lot for a specific time of the day should not be expecting to find an available lot when they arrive and should instead be waiting outside for hours until a lot can be freed. And any demand by the season ticket holders to have sufficient lots available to match the lots sold is an attempt to constrain the carpark by APAM's logic.

There are two fundamental problems with APAM's prioritisation of new entrants – first, it assumes the model of “hit and run competition” by a steady stream of low cost carriers (which does not reflect the reality of domestic aviation in Australia) and secondly, it fails to recognise the reality of regional aviation in Australia. Rex has consistently raised the problem of airports justifying decisions on the basis of ‘level playing field’ arguments when in fact those decisions have a disproportionate impact on independent regional airlines versus large domestic network carriers. The disproportionate impact of APAM's so-called “fair and equitable access” on Rex as an independent regional airline is discussed more fully below.

### Consequences of APAM's behaviour

In the absence of a RDMS, Melbourne airport experiences a significant over allocation of aircraft movements during the peak periods. This is referred to by Airservices as “oversubscription”. By statistics released by APAM itself, the movements allocated during peak periods are as high as 65 for its runway capacity of 50 movements an hour. This results in a significant disruption to airlines and their passengers.

Since 2014, Airservices Australia has implemented a Ground Delay Program (GDP) system for the management of congestion at Melbourne Airport (2012 for other major capital city airports). Under GDP, a flight may be instructed to hold back departure from the originating airport if its arrival is scheduled to be during an over-subscribed time. GDP delays could often be up to 2-4 hours for flights destined for Melbourne Airport during the peak periods. Similarly flights departing Melbourne Airport may also be subjected to departure delays under the same system.

The GDP was designed to cope with reduced runway capacity at short notice for reasons out of the control of the airport or airlines like significant climatic events or unscheduled airfield works. However, Melbourne Airport simply passes the buck of its irresponsible behaviour by using the GDP as a pseudo demand management scheme to control the runway throughput reactively on the day of operations. This has a significant and adverse impact on the travelling public and on the carriers. Aircraft are allocated extensive ground based holding at very short notice (often as passengers are checking in for their flight) causing significant downline disruptions and passenger delays.

### Impact on Rex

Rex's regional passengers are in the unfortunate position in that they are more significantly impacted by GDP delays than any other major airline at Melbourne Airport relative to the number of services operated. Demand for regional travel is often around peak periods to allow regional passengers to travel to/from regional centres to conduct a business day-return trip or connect to/from domestic and international services. Rex does not have the ability to simply move its flights to the middle of the day or periods where congestion is less. Rex does not have the scale or frequency of carriers like the Qantas and Virgin Groups to simply cancel or consolidate passenger loads onto fewer services to offset GDP delays.

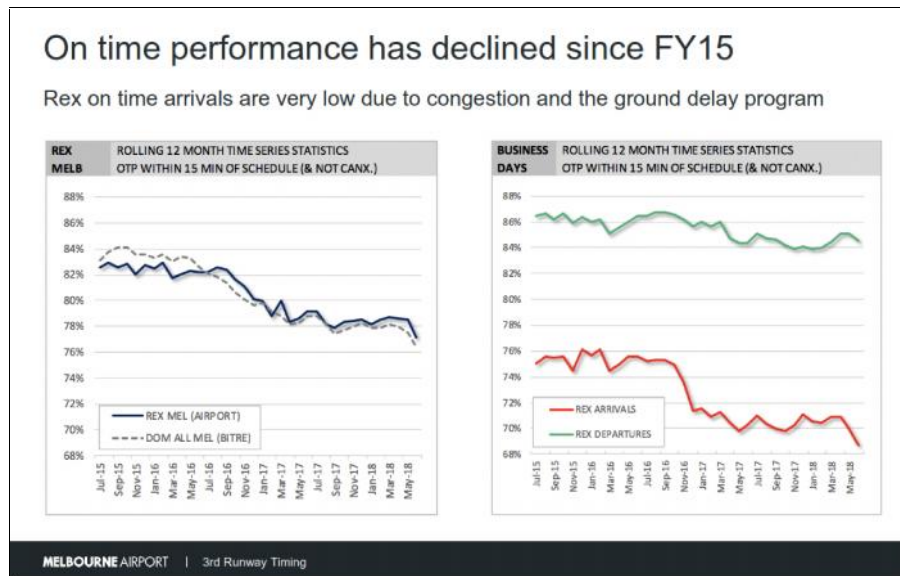
The repercussions of such irresponsible infrastructure management have a disastrous impact on Rex and its ability to operate an on-time service that is expected by the travelling public and the regional communities served by Rex. As a result of Rex's deteriorating on-time performance (OTP) at Melbourne Airport, Rex has



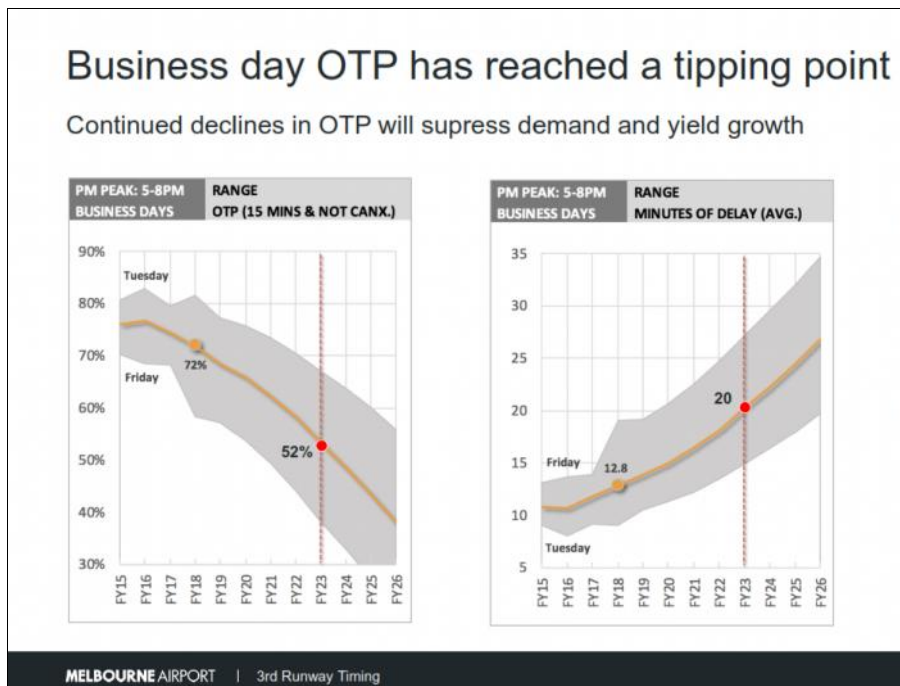


seen passengers revert to the less convenient options of road transport or opting to fly via Sydney or Adelaide Airport instead of Melbourne.

In APAM's own admission and analysis (see graphs below), the impact of the runway constraints and subsequent GDP delays have a significant impact on Rex's on-time performance. Rex's On-Time Arrival is now less than 69% compared to 83% in 2015.



What is more concerning to Rex is the expected further degradation of service levels at Melbourne Airport that would, by APAM's own projections, see Rex's OTP reduce even further to around 52% by 2023 on an average day and significantly worse (as low as 40%) during congested periods. By any standard this is a very poor outcome for passengers.





## Conclusion and Recommendations

Although APAM insists that new entrants are required in a free and competitive airline market, everyone can see through this simply as a hollow attempt to justify its mercenary and unethical behaviour. It is nothing but a shameless money grab at the expense of carriers who collectively pay for any new flights during saturated hours by the additional delays they suffer while APAM reaps the benefits of the additional airport charges.

Rex repeats its position in its earlier submission to the PC that such behaviour by APAM is fraudulent in nature as it is selling slot spaces at times where the slots are already more than fully subscribed. This unconscionable and irresponsible behaviour is a blatant abuse of its market power.

In the light of such shameless and unconscionable behaviour by APAM, Rex proposes the following actions:

1. The Government invokes section 195 of the Airport Act to make an airport capacity declaration against Melbourne Airport which will effectively result in a RDMS being implemented there.
2. Immediate steps be taken to properly scope a third runway at Melbourne Airport which will be funded by traditional methods of fund raising like raising equity from its shareholders and issuing the bonds to be paid out of the future proceeds and profits deriving from the third runway.
3. ACCC be asked to examine if Melbourne Airport has abused its market power to generate supernormal profits. The ACCC should also be asked to investigate the **effect** of Melbourne Airport's conduct on competition, in light of the change to section 46 of the Competition and Consumer Act in November 2017.
4. Regional slots currently allocated at peak hours be ring fenced for regional flights exclusive use (following the model at Sydney Airport) to ensure that regional flights are not muscled out of peak hours by big jets that would be much more lucrative for APAM.

