

## RESPONSE TO COMMERCE COMMISSION'S EMERGING VIEWS ON THE WACC PERCENTILE FOR AIRPORTS

16 MARCH 2016

### Overview

1. This submission responds to the Commission's emerging views on the airport WACC percentile, and to its publication of the Professor Yarrow report on WACC estimates for information disclosure in the airport sector. Auckland Airport also supports the NZ Airports' submission on these issues.
2. Auckland Airport's contact for matters regarding this submission is:

Adrienne Darling  
Head of Economic Regulation and Pricing  
Auckland Airport  
Ph 09 255 9090  
[adrienne.darling@aucklandairport.co.nz](mailto:adrienne.darling@aucklandairport.co.nz)

### Executive summary

3. A high level summary of our views is as follows:
  - a. The IM itself should support airports' ability to transparently explain profitability performance to interested parties, and seek to reduce the risks that interested parties may misinterpret that information. We think that publishing regular WACC estimates from the 5<sup>th</sup> to 95<sup>th</sup> percentiles is the best way to achieve this aim. We do not support publishing the 50<sup>th</sup> percentile only, or publishing the 50<sup>th</sup> percentile plus a standard error term.
  - b. To provide the best platform for effective information disclosure, all parties should have a clear understanding that setting the WACC IM for airports and assessing the appropriateness of airport returns are two distinct exercises. To promote this understanding, we think a clearer statement is required from the Commission that there is a valid distinction between its WACC IM and an acceptable rate of return, and that a full contextual analysis is required to determine the acceptable return for an airport – with the WACC IM just one part of that analysis.
4. In that context, we cannot over-emphasise the importance of a clear written statement from the Commission that the 50<sup>th</sup> percentile WACC is not intended to be a bright line for determining an acceptable airport return. We think that this statement is an important part of ensuring the Commission's emerging proposal will be correctly interpreted by interested parties, and will help to remove contention and barriers to effective consultation with our substantial customers.

### Overview of our reaction to the emerging proposal and Professor Yarrow's report

5. The emerging views paper proposes to remove the WACC range in favour of publishing just the 50<sup>th</sup> percentile estimate (and perhaps an estimate of the standard error), on the basis that the current IM range would interfere with a full contextual

analysis at the time the Commission assesses the information that has been disclosed by airports.

6. We support the expert advice the Commission has received from Professor Yarrow, and as set out below:
  - a. We agree that there may be legitimate reasons why an airport's returns may be above or below the Commission's mid-point WACC estimate.
  - b. We agree there should not be a focus on a single point estimate for assessing airport profitability, and that there should instead be a focus on understanding the relevant contextual factors and the reasons put forward by airports to explain why their target or actual returns are appropriate.
  - c. We strongly agree with Professor Yarrow's view that there is a conceptual distinction between WACC estimates and an appropriate rate of return – because the WACC estimates by themselves are not necessarily a good indication of either “normal” or “excessive” returns for any particular airport business. We agree with his views that great care is needed when using the WACC IM as an indicator of reasonable returns, and that any WACC percentile estimate (including the mid-point), is not a good measure of excess returns or excessive profitability by itself.
  - d. We agree with Professor Yarrow's view that a thorough examination of the relevant contextual circumstances is necessary before judgements can be made about the appropriateness of an airport's returns – with any WACC estimate(s) just one part of that process, and given no particular primacy. We agree, and endorse Professor Yarrow's suggested assessment approach – one that recognises the value of discussion and context instead of a mechanical calculation and comparison process.
7. We support the Commission's emerging views in the respects set out above, and we fully support the Commission's intention to move towards a more sophisticated and nuanced assessment approach that engages with our explanations about why our returns are reasonable, appropriate, and consistent with the Part 4 purpose statement. We think this is a practical and logical progression of the ID regime that will help to build a real understanding about airport performance over time.
8. However, our perception is that the emerging views paper does not fully reflect Professor Yarrow's cautions about the use of WACC estimates to assess profitability. Without recognition of these views in the Commission's commentary, we are concerned that removing the WACC range would mean that interested parties misinterpret the effect of the Commission's proposal. Based on our past experience, we think there is a real risk that interested parties will misinterpret the Commission's proposal as signalling a regulatory expectation that airport returns should align with the 50<sup>th</sup> percentile WACC estimate.
9. As we explain in this submission, we think the answer lies in the presentation of the IM itself, as well as an evolution of the process used to assess airport profitability and guidance from the Commission about how it will use its WACC IM as part of that process.

#### **Transparently explaining Auckland Airport's profitability performance**

10. Standing back, we think there are two key considerations that shape the approach to the WACC IM for airport information disclosure. First, what the IM itself looks like. Second, how the Commission will use that IM as part of assessing the information disclosed by airports.

11. On the first key consideration, we think that the IM itself should support Auckland Airport's ability to transparently explain our profitability performance. A key part of that is making sure the way the IM is presented and published avoids the risk of misinterpretation by interested parties.
12. For this reason, we don't agree that publishing the 50<sup>th</sup> percentile only plus an estimate of the standard error would be a good outcome. As a standalone piece of technical data, the standard error is liable to either cause confusion, or to be ignored, leaving interested parties with a mistaken impression that the 50<sup>th</sup> percentile estimate is what really matters.
13. Instead, the use of that standard error to generate and publish WACC estimates at regular percentile estimates between the 5<sup>th</sup> and 95<sup>th</sup> percentiles (as suggested by Professor Yarrow) helps to:
  - a. Reduce the potential for interested parties to misinterpret the WACC IM as providing a single correct level of an acceptable return for an airport business. In contrast, for parties who don't fully understand the distinction between the publication of the IM and the Commission's use of that IM as part of its profitability assessments (including the evolution of that assessment approach as discussed by Professor Yarrow), the publication of a single point estimate suggests that the Commission expects returns to always line up with that marker.
  - b. Convey meaningful information to interested parties about the imprecision and judgement associated with generating estimates of WACC. In contrast, presenting a single point estimate (which would only be expected to align with the true WACC less than 1% of the time) risks obscuring the ability of interested parties to understand the uncertainty and judgements inherent in producing a WACC estimate.<sup>1</sup>
14. On the second key consideration, we think that Professor Yarrow's expert views support an evolution of the process for assessing airport profitability, and the role of the WACC IM in that process.
15. In our experience, it has been difficult to shift the focus from the numbers produced by the IM when discussing airport profitability to date – with the Commission, airlines, and other interested parties.
16. Throughout the establishment of the IMs, the Commission stated that airports would be capable of explaining their decisions and choices about returns to interested parties, and that its WACC estimates would be considered as one part of this context when assessing airports' returns.
17. Consistent with this approach, we have previously sought hard to explain our view that contextual factors are necessary to understand what an appropriate range for "normal returns" may look like (on both a forecast and actual basis), that the WACC IM is not a good proxy for a "target return" or for indicating excess profits, and that there is a difference between the WACC IM itself and the application of that IM (in context) when assessing airport profitability.<sup>2</sup> We have also sought hard to put forward robust explanations about why our approach to the WACC used for pricing

---

<sup>1</sup> Even the current 25<sup>th</sup> – 75<sup>th</sup> percentile range means the Commission can only be confident that it has captured the true WACC 50% of the time.

<sup>2</sup> The views quoted in this paragraph are set out in more detail in Auckland Airport *Section 56G Review of Auckland Airport: Post-conference Submission*, 15 March 2013 at paragraphs 51 to 85 (and see particularly paragraphs 80-84); and Auckland Airport *Section 56G Review of Auckland Airport: Submission on Commerce Commission Draft Report*, 31 May 2013 at paragraphs 118 to 139 (see particularly paragraphs 128-130).

for Auckland Airport is appropriate, and why our overall level of return is reasonable and acceptable.<sup>3</sup>

18. It was not clear to us that these reasons and explanations were engaged with in any depth during the section 56G assessment of our expected profitability.<sup>4</sup> We also felt that a broader discussion about whether the WACC IM was a good measuring tool for airport returns was missing.<sup>5</sup> Instead, what really seemed to matter was whether our returns aligned with the numbers that were produced by the Commission's WACC IM.
19. For these reasons, we agree with the approach set out in Professor Yarrow's expert report, which is very clear that the WACC IM, by and of itself, is not an appropriate benchmark for assessing reasonable or excess returns under an information disclosure regime.<sup>6</sup>
20. In this context, although we appreciate the Commission's acknowledgement that there may be legitimate reasons why an airport's returns may be above or below its mid-point estimate, we think a clearer statement is required from the Commission that there is a valid distinction between WACC and an acceptable rate of return, that a full contextual analysis is required to determine the acceptable return for an airport, and that the WACC IM is just one part of that analysis.
21. Without that statement, we have some reservations about the way interested parties will interpret any changes to the WACC IM itself. For example, some analysts have already interpreted the Commission's emerging views paper to suggest that the 50<sup>th</sup> percentile is the appropriate pricing point for airports,<sup>7</sup> which we do not understand to be the Commission's intention.

#### **Effective and meaningful consultation with Auckland Airport's customers**

22. WACC is one of the few remaining areas where Auckland Airport and our airline customers (for natural reasons) disagree in pricing. Having said this, we remain hopeful that, for the upcoming pricing round, all parties will have grown in their understanding about the potential range of outcomes for appropriate and reasonable aeronautical returns, and that we will see greater alignment and less contention around WACC than ever before. But, as it currently stands, the focus of the emerging views paper on the mid-point estimate has the potential to make WACC more contentious than it has ever been.
23. In the last pricing consultation, our airline customers and their advisors maintained that there was no reason for Auckland Airport to target a return that was higher than the Commission's mid-point WACC estimate – although we do note that BARNZ,

---

<sup>3</sup> See the submissions referred to in fn 2 above, as well as the table presented at page 38 of Auckland Airport *Section 56G Review of Auckland Airport: Post-conference Submission*, 15 March 2013, which provides the location of Auckland Airport's reasons for departing from the WACC IM in price setting (as set out in pricing consultation documents and in submissions on the section 56G review).

<sup>4</sup> This was in contrast to other areas of the profitability assessment, where the Commission engaged on and took into account Auckland Airport-specific circumstances (eg the moratorium on asset revaluations).

<sup>5</sup> For example, our submissions urging the Commission to apply the WACC IM in context by reference to our airport-specific circumstances and to the broader economic and market conditions were interpreted as us asking the Commission to make ad hoc changes to the IM itself and to carry out new reasonable checks of its IM respectively: see Commerce Commission *Final report to the Ministers of Commerce and Transport on how effectively information disclosure regulation is promoting the purpose of Part 4 for Auckland Airport: Section 56G of the Commerce Act 1986*, 31 July 2013 at paragraphs F71 and F74.

<sup>6</sup> Professor George Yarrow, *Responses to questions raised by the Commerce Commission concerning WACC estimates for information disclosure purposes in the airports sector* ("Yarrow paper") at page 20.

<sup>7</sup> For example, initial investment commentary published on the day the emerging views paper was released stated that: "The Commerce Commission has just released its emerging views on the WACC percentile issue and is suggesting the 50<sup>th</sup> percentile is appropriate for airports, compared to the 75<sup>th</sup> percentile used to date. This would lower the allowable WACC by ~1% for the next pricing reset effective 1 July 2017. Using existing Input Methodologies with current market prices gives a regulatory WACC of ~6.5% currently (compared to 8.0% used in current price path)". Forsyth Barr "Auckland Airport 1H16 Result: Initial Thoughts", 19 February 2016. We note that later analysis did acknowledge the possibility that airport returns above the 50<sup>th</sup> percentile could be acceptable (see eg Forsyth Barr "Auckland Airport 1H16 Result: ComCom Spoiling Party", 21 February 2015), but maintained a focus on the 50<sup>th</sup> percentile when discussing the implications of the Commission's emerging views.

seeking to be reasonable in assessing our pricing proposal, did also use the 75<sup>th</sup> percentile as a reference point to evaluate our proposed charges.<sup>8</sup>

24. In that context, we cannot over-emphasise the importance of a clear written statement from the Commission that the 50<sup>th</sup> percentile WACC is not intended to be a bright line for determining an acceptable airport return. Without that statement, we think there is a real risk that the Commission's emerging proposal will be interpreted as giving an increased focus to the 50<sup>th</sup> percentile, and would seem to create even less incentive for airlines to constructively engage with our reasons for targeting a return that we believe is appropriate for Auckland Airport.
25. This will only serve to create contention and barriers to effective consultation with our substantial customers. We don't see that as the right role for the WACC IM in an ID framework, and we don't understand that to be the Commission's intended approach.

### **The way forward for information disclosure**

26. Against this backdrop, we consider that it is important for:
  - a. The IM itself to reduce the potential for interested parties to misinterpret the WACC IM as providing a single correct level of an acceptable return for an airport business, and to convey meaningful information to interested parties about the imprecision and judgement associated with generating estimates of WACC. As discussed above, we think that publishing regular WACC estimates from the 5<sup>th</sup> to 95<sup>th</sup> percentiles is the best way to achieve this aim (as suggested by Professor Yarrow and put forward as an option by the Commission in its emerging views paper). We do not support publishing the 50<sup>th</sup> percentile only, or publishing the 50<sup>th</sup> percentile plus a standard error term. We do not see these options as promoting transparent understanding for interested parties.
  - b. All parties to have a clear understanding that setting the WACC IM for airports and assessing the appropriateness of airport returns are two distinct exercises (which will necessarily involve understanding how the WACC IM is or is not relevant to the second exercise). We expand on this point in this section.
27. We think that Professor Yarrow's distinction between WACC and an appropriate rate of return provides a strong steer about the best way forward for ID, and we are pleased to see that the Commission has recognised the distinction between WACC and rate of return as particularly relevant. We think that making a clear statement about the implications of this distinction will be the best way to support effective consultations with our airline customers, as well as to make it clear to airports and to interested parties how airport profitability will be assessed. In particular, this would help to make it abundantly clear to all parties that a reduced focus on the range as part of the IM does not mean there is a single correct level of an acceptable return for all airport businesses.
28. We interpret Professor Yarrow's key points to be as follows:
  - a. A regulator is able to provide their views on the relevant cost of capital without this needing to be in the form of a specific point estimate – a proposition that we agree with.<sup>9</sup>
  - b. If a single point estimate is required (for legislative reasons or administrative efficiency), it is important to provide additional information about the uncertainty

---

<sup>8</sup> See eg Auckland Airport *Section 56G Review of Auckland Airport: Post-conference Submission*, 15 March 2013 at paragraph 75(a).

<sup>9</sup> Yarrow paper at page 21.

of that estimate – such as upper and lower bounds, 5<sup>th</sup> and 95<sup>th</sup> percentiles, or other relevant information.<sup>10</sup>

- c. Although Professor Yarrow considers there does not seem to be merit in publishing anything above the mid-point, this is in the context of his view that a single point estimate is not required (a proposition that we thoroughly agree with for information disclosure purposes).<sup>11</sup> Further, this is also in the context of his views that:
    - i. There is a clear, conceptual distinction and separation between the exercise of setting a WACC for information disclosure, and assessing information that has been disclosed about airport returns.<sup>12</sup>
    - ii. There is also a clear conceptual distinction between the allowable rate of return in a regulatory context (for airports, the “acceptable” or “appropriate” rate of return) and the cost of capital, including a solid theoretical justification for why an appropriate rate of return should be above the cost of capital.<sup>13</sup>
    - iii. For the purpose of assessing disclosed information and making judgements about airport performance, assessing whether airport returns are appropriate is not as simple as comparing ex ante or ex post returns estimates to a WACC estimate (regardless of the percentile value of that estimate).<sup>14</sup>
    - iv. Where returns are different to any given WACC estimate, that does not mean those returns are excessive, and it would be arbitrary to conclude they were without analysis of the underlying reasons for any differences. A broad contextual assessment is required, and the published WACC estimates should not have primacy in that assessment.<sup>15</sup>
29. Further, Professor Yarrow’s report appears to acknowledge that it is not possible or desirable to specify upfront all of the circumstances and reasons why a reasonable rate of return for an airport may differ from the mid-point of the Commission’s industry-wide cost of capital estimate. We agree with and support this view. Like other areas of the IMs, attempts to identify and exhaustively list all relevant matters or options in advance risks harming our ability to respond appropriately to the real-world challenges faced by us and our customers, to develop reasonable pricing solutions in those circumstances, and to transparently explain our decisions to interested parties.
30. What matters to us is having comfort that the important conversations around an appropriate return for Auckland Airport will happen – and that those conversations will be sufficiently nuanced to reflect the sophistication and complexity of our pricing decisions, including incorporating a careful consideration of the reasons behind our forecast returns.
31. Importantly, we want to avoid a situation where any returns above the 50<sup>th</sup> percentile are automatically deemed to be excess returns for assessment purposes, and treated as prima facie evidence of excessive profits unless airports can conclusively prove otherwise. We would see this as a backwards step from the assessment approach in the section 56G review, contrary to the natural next step in the evolution of the ID regime, and inconsistent with Professor Yarrow’s expert guidance to the Commission.

---

<sup>10</sup> Yarrow paper at page 21.

<sup>11</sup> Yarrow paper at page 21.

<sup>12</sup> Yarrow paper at page 19, 20-21.

<sup>13</sup> Yarrow paper at pages 11-12, 20.

<sup>14</sup> Yarrow paper at page 4, 6, 8, 20, 22.

<sup>15</sup> Yarrow paper at page 4, 6, 8, 20, 22.

32. For these reasons, we support NZ Airports' suggested key principles to guide profitability assessments. In our view, these principles are consistent with what we interpret as Professor Yarrow's key themes, and would go a long way to avoiding any confusion or misinterpretation of the Commission's emerging views proposal, by providing clarity about the profitability assessment process.

### **The role of asymmetric social consequences**

33. We support NZ Airports' views on the role of asymmetric social consequences in the process of determining an acceptable return for an airport business. For the reasons put forward by NZ Airports, and particularly for the reasons previously set out by Dr Harry Bush (former Group Director Economic Regulation for the UK Civil Aviation Authority) and John Earwaker in their August 2015 paper, we continue to consider that these social costs are real and significant in the airport sector, and cannot simply be discounted.
34. We support NZ Airports' view that these costs should be dealt with up front as part of the Commission's framework. We think it would be arbitrary for the Commission to dismiss the relevance of these costs for airports at this stage of its process. Further, like NZ Airports, we disagree with the inference in the emerging views paper that each airport would need to justify the existence of asymmetric social costs each time we are explaining the rationale behind our targeted returns.
35. Understanding the basis for and potential impact of these costs for the electricity sector took the Commission, in consultation with interested parties, almost a year. We think it is unrealistic and unduly burdensome to expect individual airports to undertake that type of theoretical exercise and evidence gathering process each time the Commission assesses airport profitability. Rather, we encourage the Commission to acknowledge, as part of the current process, that asymmetric social consequences are a valid conceptual reason why the mid-point estimate of WACC is not a good proxy for a normal return, and why an acceptable airport return may be above the Commission's estimate(s) of the cost of capital.
36. We note that the Commission has set out three factors that it believes reduces the relevance of the concept of asymmetric social costs for the airport sector (including the apparent mitigating influence of the dual tills, and are somewhat surprised by its statement that airports have not put forward any evidence to support our challenges to the Commission's assumptions.
37. The Commission has indicated that asymmetric costs are less relevant for the airport sector, because airports are subject to light handed information disclosure, operate a dual till and are able to consult with a small number of customers. Its view seems to be that the prospect and impact of asymmetric social consequences are therefore small.
38. We do not agree with the Commission's high-level and simplistic assumptions about the relevance of these factors to the question of asymmetric social cost. For example, the dual till effect is not all-pervasive or straightforward. To illustrate, we provide three current examples of the basis on which Auckland Airport is contemplating investment:
- a. For the Level 1 development of the new emigration and airside dwell areas, the business case was recommended on the basis of a blended ROI for aeronautical and non-aeronautical revenues. This enabled a 40% allocation of costs to retail. The dual till was effectively taken into account because aeronautical allocation of shared costs was lower than would be the case if there was no dual till effect. Arguably the Commission's approach could affect the approach taken to cost allocation of shared costs today.

- b. We are currently consulting on domestic and international development priorities. A material element of this is likely to involve the staged integration of domestic passengers under the one terminal roof. It will involve partially stranding a carpark, development of a new multi-level carpark (for efficiency sake likely to be developed for full capacity) and the splitting of retail facilities. This business case will be more challenging because it is relatively risky and the incremental returns in the early years of the development are likely to be negative for the non-aeronautical business.
  - c. We are also consulting with the airlines on the staged expansion of Pier B. When we consulted with the airlines in FY12 there was no significant pressure on bussing nor for contact gates. Therefore the project was contemplated to start in FY18 and to be delivered by FY20. However growth together with changing fleet requirements has led to a material increase in bussing in FY16. In Auckland Airport's view this can be an efficient solution to increasing demand. However, the airlines have indicated a strong desire to bring forward Pier B development, as incremental contact gates are their preferred solution to bussing. Auckland Airport is seeking to understand how it can constructively respond to these concerns. We are working through the constructability issues and staging options. We have been through key design phases together with the airlines to understand what features will provide greatest efficiency. It is this level of design engagement with the airlines that has the ability to result in improvements in on time performance / reductions in delay worth millions of dollars to the airlines annually. Our retail team are currently indifferent to the project (ie, there is no dual till effect). We are currently contemplating the level of return necessary to incentivise this investment when there is a clear fall-back position of bussing – ie, where we have choices in the way that we provide aeronautical services. That same consideration occurs over time when we are seeking to ration capital but also seek to respond to airline requests for discretionary quality enhancements.
39. As an overarching example, we think there are also valuable lessons from the Australian context. For example, Brisbane Airport is also subject to a light-handed monitoring regime, operates a dual till, and is able to consult with a small number of customers. However, over the course of a number of years, congestion built and delay resulted in costs to airlines, passengers and the local economy.
40. A campaign fronted by the Courier Mail in 2013 made it clear that public and media perception was that the airport company had under-invested for a period of time, and that "persistent flight delays" were linked to the need to introduce "desperately needed new infrastructure".<sup>16</sup> The perception was that "despite talking about the need for a parallel runway to cope with demand and including it in successive masterplans, [Brisbane Airport] failed to set a start date for 15 years and did not develop a clear funding model." For example, media reported that:
- a. Airlines spent 7550 hours in holding patterns into Brisbane in 2012 – 20.6 hours every day. Based on an estimate of fuel for passenger jets costing at least \$10,000 an hour, delays at Brisbane Airport were estimated to cost airlines over \$75 million in 2012.<sup>17</sup>
  - b. More than 2.5 million passengers were affected by flight delays at Brisbane Airport over the same time frame.<sup>18</sup> We are not aware of any attempts to calculate the cost to passengers of the delays, although the media cited

<sup>16</sup> See eg <http://www.couriermail.com.au/news/queensland/brisbane-airport-board-holds-key-to-delays/story-e6freoof-1226612835791>

<sup>17</sup> <http://www.dailytelegraph.com.au/brisbane-airport-delays-cost-airlines-75-million-last-year/story-e6freuy9-1226626210964>

<sup>18</sup> <http://www.theaustralian.com.au/archive/travel-2015-pre-life/airline-passenger-take-mid-flight-bets-as-brisbane-airport-delays-become-commonplace/story-e6frg8ro-1226589627678>



anecdotal passenger feedback from regular travellers that flights were typically delayed by up to 40 minutes, and sometimes up to an hour.<sup>19</sup>

- c. Brisbane Airport noted that there were a number of contributors to the delays, including demand growth.<sup>20</sup> However, the public and media perception was that the increase in delays was not fully explained by the rise in aircraft numbers,<sup>21</sup> and that any substantial improvement was not likely to occur until the introduction of a new parallel runway in 2020.<sup>22</sup>

41. The situation was clearly very complex, with complicated operational, planning, future development and funding issues at play. We also understand that mitigating steps have lead to a substantial improvement in on-time performance at Brisbane Airport, due to a number of industry-wide steps and other short-term strategies to manage demand while its new runway is under construction (although airlines have continued to note that there are issues with runway availability and delays).<sup>23</sup>

42. However, the point remains that the most efficient long-term strategy is to ensure that infrastructure investment is appropriately incentivised, in order to mitigate the risks of under-investment for airlines, passengers, and the local and national economy. And, of particular relevance to the question of asymmetric social costs, the Australian regulator is unconvinced that investment is taking place at the required pace for its monitored airports. For example, in its 2013-2014 monitoring report, the ACCC noted that:<sup>24</sup>

The ACCC outlined aeronautical congestion issues in its 2012-13 airport monitoring report which showed a long term trend of worsening performance. Data presented in this year's report shows a slight improvement, which is promising. However, the ACCC remains concerned that current investment does not appear to have added sufficient capacity to help avoid congestion or accommodate forecast growth

43. It went on to note that:<sup>25</sup>

The ACCC discussed aeronautical congestion in its 2011-12 and 2012-13 airport monitoring reports. In particular, the ACCC identified that despite continued investments, it is not clear that the nature, size and timing of investments have added sufficient capacity to avoid congestion or accommodate forecast growth. Increased passenger growth and aircraft movements over time have begun to place pressure on existing aeronautical assets at a number of monitored airports.

[...]

In the long term, the most efficient way of alleviating aeronautical congestion is through timely investment to expand capacity. Although most of the monitored airports have plans in place to address aeronautical congestion issues through capacity expansions, it appears that some of these investments have not occurred in a timely manner. For example, Brisbane Airport undertook an extended process in committing to the construction of its new runway, while Perth Airport was delayed in investing in new facilities to address passenger growth and ongoing quality of service issues.

---

<sup>19</sup> <http://www.theaustralian.com.au/archive/travel-2015-pre-life/airline-passenger-take-mid-flight-bets-as-brisbane-airport-delays-become-commonplace/story-e6frg8ro-1226589627678>;  
[http://www.couriermail.com.au/subscribe/news/1/index.html?sourceCode=CMWEB\\_WRE150\\_a&mode=breached&dest=http://www.couriermail.com.au/news/queensland/january-figures-show-departure-times-at-brisbane-airport-getting-worse/story-e6freoof-1226583458963&memtype=anonymous](http://www.couriermail.com.au/subscribe/news/1/index.html?sourceCode=CMWEB_WRE150_a&mode=breached&dest=http://www.couriermail.com.au/news/queensland/january-figures-show-departure-times-at-brisbane-airport-getting-worse/story-e6freoof-1226583458963&memtype=anonymous)

<sup>20</sup> <http://www.dailytelegraph.com.au/brisbane-airport-delays-cost-airlines-75-million-last-year/story-e6freuy9-1226626210964>

<sup>21</sup> <http://www.dailytelegraph.com.au/brisbane-airport-delays-cost-airlines-75-million-last-year/story-e6freuy9-1226626210964>

<sup>22</sup> <http://www.couriermail.com.au/news/queensland/brisbane-airport-records-worst-delays-on-record-last-month-despite-assurances-the-situation-had-improved/story-e6freoof-1226605812704>

<sup>23</sup> See eg Australian Competition & Consumer Commission *Airport Monitoring Report 2013-2014*, April 2015, at page 23-25.

<sup>24</sup> See eg Australian Competition & Consumer Commission *Airport Monitoring Report 2013-2014*, April 2015, at page xiv.

<sup>25</sup> See eg Australian Competition & Consumer Commission *Airport Monitoring Report 2013-2014*, April 2015, at page 23-24.

44. The ACCC also referred to its earlier comments from 2011-2012, where it noted that underinvestment leading to sustained aeronautical congestion could have significant negative impacts beyond the airport precinct.<sup>26</sup>
45. In our view, the Brisbane example, including the ACCC's comments, demonstrates that the risk of under-investment and its associated negative consequences can be very material, including where (as is the case in Australia and New Zealand), airports are subject to light-handed monitoring, operate a dual till, and consult with their airline customers. We therefore disagree that asymmetric social costs are less relevant for the airport sector, and look forward to engaging with the Commission on this important issue.

---

<sup>26</sup> Australian Competition & Consumer Commission *Airport Monitoring Report 2012-2013*, April 2014, Chapter 2 "Emerging congestion at airports", Box 2.2.1.