Economic Regulation of Airports

Productivity Commission Draft Report

Overview

February 2019

This is a draft report prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

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Key points

- Many consumers resent the cost of car parking at the monitored airports. Car parking charges are not due to airports exercising their market power — the price of parking at-terminal can largely be explained by the value passengers place on convenience, the limited amount of land close to the terminal, and the need to manage congestion.

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# Prices at airport car parks are not the result of market power

Many consumers resent the price of parking at a major airport because a few hours in a short-term car park close to the terminal building can cost more than an airline ticket.

Airports own and operate car parks on airport land, including at-terminal and at-distance (requiring users to catch a shuttle bus to the terminal). Airport operators have market power in at-terminal car parking — they are the sole provider and there are no substitutes for people who want the convenience of parking within a short walk to the terminal. Airport operators are likely to face greater competitive constraints in the market for at-distance car parking, provided the operators of independent car parks have access to airport terminals for their shuttle buses.

There is little evidence that the monitored airports are exercising their market power in car parking. The price of parking at-terminal can largely be explained by:

- the high opportunity cost of land close to the terminal — forecourt land is scarce and could be used for other purposes, such as car rental facilities, retail outlets or hotel accommodation

- location — people value the convenience of parking close to the terminal buildings. The premium that users are prepared to pay for limited space close to terminals creates

- locational rents. This is also true of other locations where proximity is highly valued but space is limited, such as hospitals, and entertainment and sporting venues, which have broadly comparable prices, particularly for short-term use (figure 10)

- airport operators use pricing to manage demand and reduce congestion in highly sought after car parking facilities. This is especially the case for at-terminal car parks that are limited in number due to space constraints

- car park amenities — at-terminal car parks are generally multi-storey facilities providing covered parking and services such as CCTV security, all of which are more costly to build and operate than open-air car parks.

Figure 10   Car park prices at monitored airports, selected hospitals, and entertainment and sporting venues[a,b]
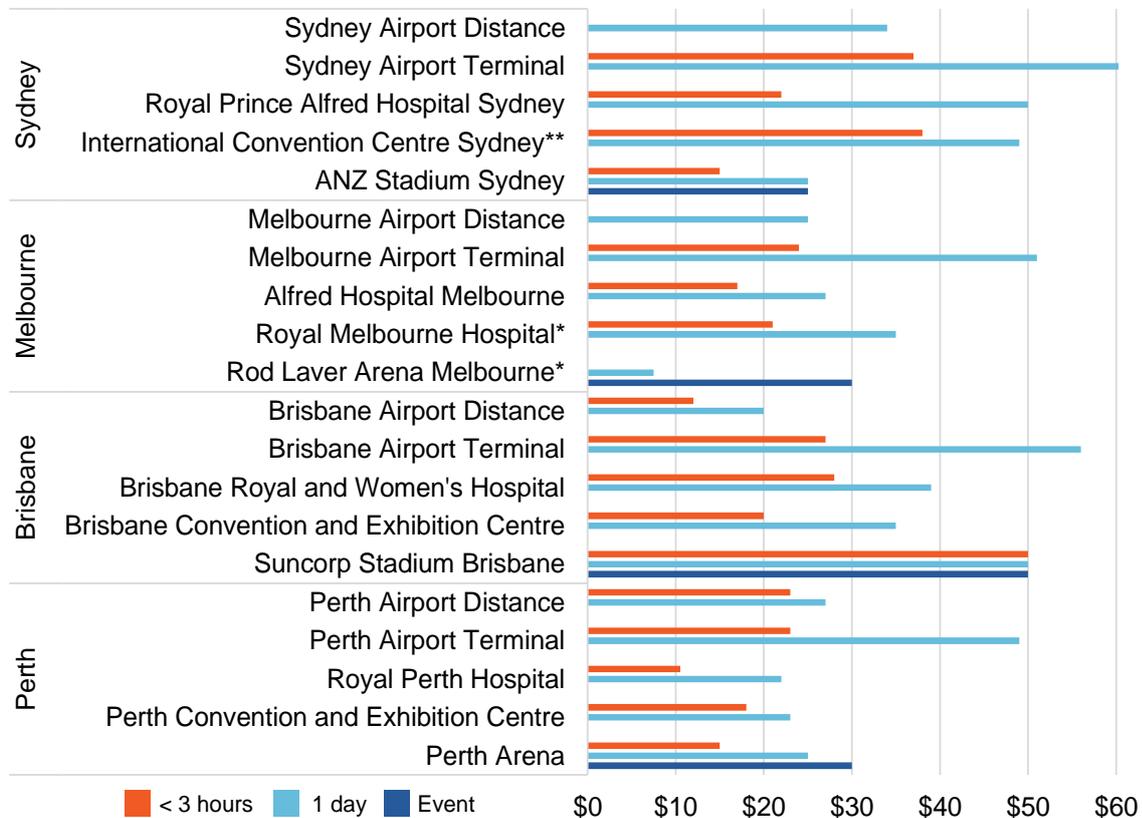
a State-government annual congestion levies apply to car parks in some metro areas of Sydney and Melbourne. ** Congestion levy of $2400 per car park space. * Congestion levy of $1400 per car park space. **b** Car park prices at some event venues are dynamic.

There are many ways for people to access the airport precinct, such as taxi, Uber, off-airport car parks and public transport and, while they are not perfectly substitutable for those wishing to park at the terminal, they do constrain the ability of airport operators to increase prices significantly. Likewise, the increase in the use of technology, such as web-based apps to compare car parking prices, provides consumers with more information about their options and the means to decide in advance rather than be hit with a nasty surprise.

As is the case in other areas where airports have market power, there is an ongoing need to scrutinise the performance of airports' car parking operations. Changes should be made to the monitoring regime to improve data to allow greater scrutiny of airports' car parking operations, including separately reporting the costs, revenues and utilisation rates for at-terminal and at-distance car parking.