# Airport report panned

## Productivity Commission 'ignored expert advice'

ROBYN IRONSIDE
AVIATION

AIRLINES advocate Graeme Samuel has launched a scathing attack on the Productivity Commission's report on airports, labelling it "superficial" and disappointing.

The former Australian Competition and Consumer Commission chair, who now heads the Airlines for Australia and New Zealand group, said the Productivity Commission had ignored expert advice in reaching its conclusion that airports were not abusing their market power.

The 367-page draft report released yesterday recommended continued monitoring of the four major airports — Melbourne, Sydney, Brisbane and Perth — and sought extra financial and operational information.

Commissioners Paul Lindwall and Stephen King said they were satisfied the countervailing power of airlines including Qantas Airways, Virgin Australia and Rex helped ensure airports did not charge excessively for aeronautical services.

They also found car park charges were "reasonable" given the convenience for travellers, limited space for car parking and the need to control congestion around airports.

It was incredible the Productivity Commission had ignored advice from the likes of Frontier Economics, the Grattan Institute, the International Air Transport Association and the ACCC, Mr Samuel said.

"They need to get out of their tower of economic theory in Collins St and go out to the airport," he said. "I'm very irritable, I'm very disappointed. I think it's one of the worst products from the PC."

Infrastructure Partnerships Australia took a markedly different view from the airline lobby group, welcoming the draft report. Chief executive Adrian Dwyer said airports were core economic assets and anything that disrupted the "well-balanced regulatory environment would jeopardise their $20 billion decade-long investment program".

Submissions in response to the draft report will be accepted until March 25, then public hearings will be held in Sydney, Melbourne, Canberra and Mildura. The final report is expected in June.

# RAIL GURU WINS TOP POSTING AT VIRGIN

BOARDROOM

Incoming Virgin chief Paul Scurrah will replace John Borghetti (inset).

**VIRGIN Australia has appointed former Queensland Rail head Paul Scurrah as chief executive following an eight-month search.**

**Mr Scurrah, who has been chief executive of port and supply chain operator DP World Australia for the past five years, will take over from John Borghetti on March 25, the company said in a statement yesterday.**

**Mr Borghetti said last year he was stepping down after eight years in charge of the carrier, which lost $681 million last financial year but hopes to report a first-half profit next week.**

**Chair Elizabeth Bryan said yesterday the company was confident Mr Scurrah could deliver the next phase of its strategy.**

**"The board received enormous interest in the role both locally and internationally and Paul's highly relevant transport and logistics expertise, and strong commercial background, make him the ideal candidate to consolidate the group's achievements and continue to build momentum in the future," she said.**

**Mr Scurrah lives in Brisbane and is a non-executive director at the Gold Coast Suns, which is sponsored by the airline.**

**He will divide his time between Virgin's Brisbane operational headquarters and the group's corporate head office in Sydney. In a statement, he said leading Virgin was "an immense honour and privilege".**

**"The group has positioned itself as a real competitor in the market with its ability to deliver across all segments," he said. Ms Bryan also praised Mr Borghetti, saying he had "pioneered a major transformation in the aviation industry to reposition the airline as a formidable competitor across all segments of the market".**

**Virgin shares closed up 0.5c, or 2.7 per cent, at 19c.**

# NBN still stuck in slow lane

TECHNOLOGY

Speeds on the National Broadband Network during peak hours are still failing to hit the mark, according to the Australian Competition and Consumer Commission.

According to the regulator's latest Measuring Broadband Australia report, while the overall level of service on the NBN has improved, some customers are still experiencing slower speeds.

TPG Telecom and iiNet posted a decline in speed performance. "Download speeds during the busiest hour — when RSP (retail service provider) networks were under the most stress during the 30-day testing period — were significantly lower than at other busy times," the ACCC said.

The latest report from the ACCC not only covers a wider range of telcos, but also breaks down the speed results by specific NBN technology.

The ACCC said homes connected to the NBN directly through fibre or pay-TV cable received better speeds than those connected through fibre-to-the-node technology.

SUPRATIM ADHIKARI

# Market cheap enough yet? Here's cause to reconsider

THE SHORT CUT

ROGER MONTGOMERY

RECENT volatility in the market and substantially lower share prices — something we warned about in this column throughout last year — may tempt some investors to dive back in.

But before reinvesting it might be worth considering where values sit — and also to consider the conditions that triggered the falls and whether they will remain or change.

Simply put, since the global financial crisis the world's largest central banks, including the US Federal Reserve, the Bank of Japan and the European Central Bank, have been injecting cash into the financial system by buying trillions of dollars of government bonds.

Their combined buying activity had the effect of pushing up the price of bonds, which conversely lowers the interest rates on those bonds.

Lower interest rates made investors move their money into assets that offered more attractive yields. Investors were particularly enamoured with corporate bonds issued by lower-quality companies.

There was a boom in the BBB-rated corporate bond market and in the CCC (junk) bond market.

But now the central banks have pulled back from bond buying and are fast reducing the money being supplied to the financial system.

Consequently, bond prices are falling because the central banks aren't buyers any more, and interest rates are going up.

That makes government bond rates more attractive and because government bonds are less risky, investors who previously fell in love with corporate bonds are now selling them, dramatically raising the interest that corporates have to pay.

Given that a record 47 per cent of all corporate bonds have been issued at the lowest investment grade of BBB — and there is also a credit market record $US400 billion ($560 billion) of CCC-rated debt due to be refinanced this year — higher interest rates mean real problems for US companies and the economy. That's why the stock market is going through the wringer.

Importantly, the move by central banks to increase rates is structural — in other words it is unlikely to change soon.

Recent falls in stocks around the world have tempted many investors to dive in and grab some value.

But it is quite possible that lower prices may yet transpire.

According to the cyclically adjusted price-to-earnings (CAPE) ratio developed by Robert Shiller, the S&P500 is sitting on 29.75. To put that in perspective, if you go all the way to the year 1870, you can only find two occasions where the market was this expensive.

The first was right at the peak of 1929 — just before the Great Crash — and the second was in 1999 and early 2000 during the first tech bubble.

Now, to be fair, Shiller said the CAPE ratio was not very good at predicting crashes. But he did say it was very good at predicting returns for the next decade. The higher the ratio, the lower the prospective returns, and vice-versa.

With the ratio still near record highs, investors are, if they blindly buy the S&P500 index, locking in low returns.

Perhaps the high market level and rising volatility are reasons why Warren Buffett's Berkshire Hathaway is holding almost $US130 billion in cash. Indeed, Buffet noted in his last letter to investors that value was one of the factors notably absent in many of the deals he looked at.

At Montgomery, we are also holding quite a bit of cash.

Whether recent falls are sufficient to represent value again depends on each company, its prospects and its price compared to our valuation. And despite recent falls, many of the highest-quality names aren't as cheap as we'd like them to be. So, even lower prices are needed.

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