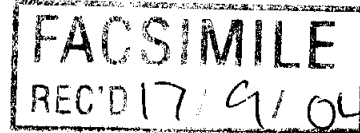


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BRITISH AIRWAYS 

3rd September 2004

Ms Margaret Arblaster
General Manager
Transport and Prices Oversight Branch
Australian Competition and Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001, Australia



Fax: +61 3 9663 3699

Dear Ms Arblaster,

British Airways (BA) Submission to the ACCC on the Draft Pricing Notification of Airservices Australia (AsA)

On behalf of British Airways, I would like to take this opportunity to thank AsA for the open and transparent manner in which the pricing review has been conducted. The quality and effectiveness of the consultation process in developing a longer-term price path can be recommended as best practice in terms of how an ANSP interacts with its customers.

Whilst BA is largely satisfied with the initial outcome of the consultation process, we are disappointed at the lack of Government commitment to meet its share of costs to implement the government directed community services activities and the restrictions on cost recovery at priced capped locations.

Furthermore, we believe that there are still significant issues with the structure of charges and the application of charges on an "ability to pay" principle. We believe that this was not fully considered during this review and we would like to state that we believe that abandoning the "ability to pay" principle is a highly important step in achieving a world class-charging regime.

Therefore we hope that ACCC will support such moves to further improve AsA pricing proposals in the future.

Yours sincerely,



Simon Cox
User Charges Manager

BRITISH AIRWAYS



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1. Overall Cost Base & Incentives for efficiency

The Commission has noted the apparently high increases in costs. (24.6% for staff and 22.2% for suppliers over five years) However, BA believes that there is significant requirement for investment to deliver planned increases in service levels in areas such as user preferred routes and flexible use of airspace.

These operational improvements are important as they have the potential to deliver savings well beyond the investment made directly by AsA.

We believe that the price path is set at a level that should provide AsA strong incentives to manage its costs efficiently. At the same time, the importance of defined service levels and commitments to consultation have been recognised as appropriate safeguards against the reduction in quality of services.

BA is pleased to see that an agreed solution was found in defining the level of the WACC. The use of a third party in determining the level gives us great assurance that AsA will be incentivised to behave efficiently.

2. Structure of Prices – Cost Allocation

BA strongly disagrees with the re-allocation of indirect costs on a 'capacity to pay basis'. We believe strongly that 'ability to pay' is not a concept that should apply to charging for Air Traffic Services. Furthermore, ability to pay is not used in any other part of an airlines cost base and BA believes ability to pay is now an outdated principle that should no longer be used.

BA is very concerned about the continuing cross subsidisation of users based on ability to pay as well as allocation methodologies that do not reflect the costs created by the users, including basin city pricing.

BA does not support the application of the capital city basin approach to charging for terminal navigation services. We do not believe there is any evidence that any interdependency exists between airports within a specified location. Therefore, the proposed pricing methodology only serves to increase the costs borne by major carriers operating at major airports.

BA believes such a pricing policy gives incorrect pricing signals to the market and prevents airlines benefiting from the economies of scale that they have helped to create. Users should have to make decisions based on the full actual cost of providing services to them.

Regional and GA stakeholders have argued that full location specific pricing based on fully allocated costs would result in business closures and dysfunctional behaviour at smaller locations. The modern day aviation business should not artificially support markets that would otherwise not exist.

Given that the Australian Government seems unprepared to fund any under-pricing through direct subsidies from the Government funds, BA would like to see an urgent review of service levels at tower locations with low traffic levels and the need for non-essential Nav aids.

3 Conclusions

While BA does not agree with all the propositions put forward by AsA in its Draft Notification, we believe it provide a good platform for the efficient provision of air traffic services in Australia for the next 5 years. Namely BA supports the proposed five-year pricing agreement as it allows for:

- A committed approach to continued consultation with users
- A target return on capital,
- The capital value of existing assets,
- Forecast costs by service and location,
- A mutually agreed capital expenditure program,
- Increased certainty of operating efficiency and service standards

However, BA has significant concerns over Cost Allocations, the 'Basin City' concept and the application of weight in the charging formula.

BA is disappointed that the Government has not committed to provide the full cost of its mandated community services activities. In doing so, the current pricing proposal will apply costs to airlines that are not properly allocable to them. Therefore BA and other airlines are being asked to pay higher charges than would be necessary if either the Government met its full obligation or if location specific charges on a fully allocated cost basis were established.

AsA's decision to use the basin concept has resulted in terminal navigation charges at the capital city airports being higher than if they were assessed on their actual costs. We believe that the reductions to enroute charges has been slowed and this has increased the amount of cross subsidy from enroute charges revenues to Regional and GA tower services. Based on IATA's estimates, on enroute charges alone, the cumulative amount of over recovery over the period under review will be around AUD 27 million.

The cost to AsA of providing air navigation services is independent of the weight of the aircraft. However, AsA's charges formula uses weight and distance as cost distribution parameters resulting in the international operators, which use larger aircraft over longer distances within Australian airspace being burdened with a disproportionately large share of the costs.

Therefore BA believes that the structure of charges must be studied with some urgency with a view to revising to a more cost reflective regime

Overall, BA supports AsA's pricing proposal as has been currently presented. However we believe that the pricing proposals can be further improved. With this in mind we urge the ACCC to encourage AsA to improve the pricing proposal as soon as possible to ensure cost recovery and fee per service principles.