

12 September 2004

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

Via Fax: 03-9663 3699

Dear Margaret

Airservices Australia Draft Price Notification – August 2004

Thank you for the opportunity to provide comment on the issues paper released by the Australian Competition and Consumer Commission (ACCC) in relation to the long-term pricing proposal put forward by Airservices Australia (AsA).

Canberra International Airport welcomes the implementation of a long-term price path for AsA's services given that this is consistent with similar arrangements for aeronautical pricing being adopted by airports (including Canberra). However, we have serious concerns with the pricing methodology that has been adopted by AsA and these concerns need to be addressed at a policy level **prior** to AsA proceeding with its proposal.

In 1997/1998 the Commonwealth Government elected to move from a network-based pricing approach to a location specific pricing in preparation for contestability in the provision of terminal navigation and fire services at Australian airports. Since then, however, the government has abandoned this agenda and with it the justification for location specific pricing. In the absence of a clear policy direction, a hybrid pricing approach has now evolved that is neither network based nor location specific, and far more inequitable than either of the 'pure' alternatives.

The inequity arises from the varying impact of subsidies and concessions that dominate the provision of tower and fire services at airports around Australia. A prime example being that aircraft operations by the military (as well as some foreign governments and visiting dignitaries) do not pay for AsA services. AsA has confirmed that its proposal to seek a commercial recovery of its costs will effectively see commercial operators fund this shortfall in revenue. This is particularly unjust at airports such as Canberra where there are a significant number of military and other government operations each year, even more so when these operations are a driver of AsA's costs at a specific location.

Another cross-subsidy serves to cap the price for general aviation users, again at the expense of commercial users of the airport. Yet another cross-subsidy is proposed with the ‘basin concept’ whereby commercial operators at larger airports subsidise nearby general aviation airfields in Adelaide, Brisbane, Melbourne, Perth and Sydney. In this regard, location specific pricing principles have been well and truly deserted.

Not unlike airports, AsA is subject to largely fixed cost, volume dependent pricing models. Location specific pricing has the impact of making large airports substantially cheaper by comparison to small/medium size airports, which is generally accepted by the industry. The inequity in AsA’s proposal, however, arises where the charges for similar sized airports vary greatly due to the varying impact of cross-subsidies, concessions and ad-hoc policy decisions.

For example, why should Melbourne be 30% cheaper than Sydney or Brisbane? Why should Darwin be one-fifth of the cost of Cairns? Why should Canberra be one-third more expensive than Hobart? Reasonably comparable airports should attract similar government charges. Airports and their communities should not be placed at a competitive disadvantage in attracting new aviation services as a result of government decisions to arbitrarily cap some airports, to have the Department of Defence provide tower and fire services free of charge at some airports, and not contribute at all to the cost of providing these services at other airports. AsA’s charges should not dictate aviation policy in Australia in such a haphazard and ill-conceived manner.

Clearly, a more equitable outcome would be for AsA to adopt a tiered pricing approach that:

- (a) delivers its required revenue;
- (b) maintains a degree of location specific pricing principles;
- (c) ensures that airports are not unfairly advantaged or disadvantaged by cross-subsidies, concessions and ad-hoc policy decisions.

This would allow for equivalent pricing of AsA services at comparable airports thereby removing the inequity incorporated into AsA’s proposed methodology. It would also retain the opportunity for the government to confer price relief on some of the smaller regional airports and general aviation users through what is already being proposed as a network based subsidy. A tiered pricing model could be structured as follows:

Tier 1	Sydney, Melbourne, Brisbane
Tier 2	Cairns, Canberra, Coolangatta, Adelaide, Darwin, Townsville
Tier 3 (capped airports)	Mackay, Rockhampton, Maroochydore, Coffs Harbour, Albury etc

Tier 3 prices would also apply to general aviation users at other Tier 1 and 2 airports on a network basis. A tiered pricing approach would appear to meet the majority, if not all, of the government’s policy objectives for the provision of terminal navigation and fire

services at airports. The bastardised approach to location specific pricing being advocated by AsA is neither defensible nor warranted.

In terms of other comments relating to the ACCC issues paper, we note the following:

- Although individual airports were only consulted late in the process, the bastardised location specific pricing model did not form part of AsA's consultation;
- There is insufficient information for Canberra International Airport to make judgements and comments on AsA's operating and capital expenditure; and
- As noted above, given that AsA is not a commercial entity (i.e. it enjoys rent-free accommodation, fails to provide incentives for volume growth, delivers cross- subsidies/concessions on behalf of government etc) it should not be permitted to selectively apply commercial principles.

As an airport, we do not directly pay for AsA services. However, AsA's costs have a material impact on our ability to grow point-to-point domestic and international travel services. The major airlines' support for minimising costs at their key ports and the silence of the major airports on this issue should not be considered as an indication of the reasonableness of AsA's proposal. This issue needs to be addressed on an industry-wide basis and cannot be resolved with piecemeal subsidies.

We would welcome the opportunity to meet with you at your convenience to expand on the issues raised in our submission.

Yours sincerely

Matthew Brown
Manager – Aeronautical Business