

**International Air Transport Association's Submission to the Australian  
Competition and Consumer Commission on the Draft Pricing Notification of  
Airservices Australia**

This submission presents the response of the International Air Transport Association (IATA), the trade association of the world's air transport industry, representing over 270 Member airlines, which carry 98% of the world's scheduled international air traffic.

IATA appreciates the effort and the professional approach taken by Airservices Australia (AA) during the extensive consultation process undertaken with the industry to develop a long-term price path. IATA also appreciates the detailed information and level of transparency provided during the process.

IATA agrees with the outcomes on

- The target return on capital,
- The capital value of existing assets,
- The forecast costs by service and location,
- The proposed capital expenditure program,
- The forecast activity levels,

and the initial pricing outcome, which reflected the actual costs of providing specific services.

IATA is disappointed that the Government has not committed to provide the full cost of its mandated community services activities. It has been identified that this requirement is around AUD 30 million per annum over the period of the current pricing proposal.

IATA wishes to point out that, in view of the above, the current pricing proposal has once again burdened the mainstream airlines with costs that are not properly allocable to them. While IATA appreciates AA's decision to seek a progressively increasing WACC to reduce the negative impact of higher charges on the mainstream airlines, IATA Member airlines would still be 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.

AA'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. Further, the slowing of the reductions to enroute charges 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.

In addition, the cost to AA of providing air navigation services is independent of the weight of the aircraft. However, AA'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 higher amount of overcharging. The situation is even more disadvantageous to the international operators given that AA's charges for continental and oceanic airspace are unified, while the cost of services provided for enroute navigation in the oceanic airspace is significantly less than they are over the continental airspace.

Given AA's commitment to reasonable and equitable charges and the significant improvements made in the proposed revision to charges, IATA does not oppose the implementation of the current proposal. However, we seek your support to encourage AA to improve the pricing proposal as soon as possible to ensure that cost recovery and fee per service principles are observed.

### **IATA Proposal For Improvements in Future Charges**

#### **1. Seek Government commitment to provide the required level of funding for its mandated community services activities**

IATA understands the shortfall in revenue to AA at the Price Capped locations and GA towers is in the order of AUD 30 million per annum or 4.6% of AA's allowable revenue.

IATA has consistently argued that any shortfall in revenue in providing these services should be fully funded by the Government. IATA DG & CEO has on several occasions, written to the Deputy Prime Minister and Minister of Transport and Regional Services on this issue and his most recent letter on the subject dated 10 February 2004 is attached as part of this submission.

IATA seeks the support and urge the ACCC to recommend to the Government that it meet its obligation in full. This can be achieved either by providing the full amount of the shortfall in revenue to AA or by agreeing to seek a lower dividend from AA's profits that is in line with the revenue gap.

#### **2. Streamline Operations**

During the consultation process, it was noted that AA, in conjunction with the industry and the regulator, is planning to review the level of tower service being provided at some low traffic locations. Removal or modification of these services should reduce AA's costs. It is also understood that services at some of these locations are provided in view of the Minister's directive and that they are not regulatory requirements.

IATA seeks AA's commitment to address these issues at the earliest opportunity and to remove the relevant costs from the charges cost base.

**Conclusion:**

IATA appreciates the very constructive consultation process undertaken by AA leading up to the proposed revision to charges. However, IATA is disappointed that the Government of Australia has failed to meet its full share of costs.

IATA appreciates AA's decision to seek a lower WACC during the initial period of the pricing agreement and progressively increasing to full allowable WACC towards the end of the period.

However, this still results in cross subsidisation between service lines and as a result of the weight and distance based formula used by AA in its charging, a disproportionate portion of the shortfall is being burdened on the mainstream and international users of AA's services.

Therefore, while IATA is willing to support AA's pricing proposal as has been currently presented IATA seeks AA commitment to improve the pricing at the earliest opportunity using one or both of the above-suggested options.