

**Jandakot Airport Chamber of Commerce
37 Eagle Drive Jandakot 6164**

Margaret Arblaster & Lyn Camilleri
ACCC
Box 520J
Melbourne,
Victoria 3001

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**INPUT & COMMENT ON AIRSERVICES AUSTRALIA PRICING
PROPOSALS**

Introduction

We represent and act on behalf of all the businesses and operators at Jandakot Airport. Jandakot Airport businesses directly employ nearly 700 people, contribute \$ 500 Million to the local economy each year, generate \$ 40 Million in export income and include the largest flying training operation in the southern hemisphere, two major overseas airline training operations, the RFDS Western Section and innumerable supporting businesses that rely on flying operations to survive.

Our input and comments below address the Airservices Australia Draft Price Notification forwarded to the ACCC in August 2004 and the Issues Paper forwarded to us by you.

1) Airservices Consultation Process.

The Jandakot Chamber of Commerce is very concerned at the almost complete lack of a proper consultative process for this price review.

1. The initial mail advice by Airservices of these proposed price hikes was not received by many of our members until the first or second week of June. This gave interested parties only three weeks to respond to an issue that may destroy their general aviation based businesses.
2. A meeting with a representative from Airservices was held in Jandakot on June the 17th 2004. We were notified of this meeting by fax only six days prior to the meeting. This hardly bespeaks openness and consultation on behalf of Airservices.
3. The consultation with the industry since August 2003 according to the Airservices price consultation document was with only Qantas, Virgin Blue , BARA and IATA. None of these organisations play a role in the GA business at an airport like Jandakot. We suspect they have little role to play in the other major GA airports, Moorabbin, Bankstown, Parafield, Archerfield and Camden.
4. We finally visited Airservices in Canberra last month to put our concerns to them.
5. Hence their consultation process to date as far as Jandakot Airport is concerned and the strategic role it plays in the Western Australian economy is totally flawed. They have consulted with none of the stake holders.

6. The new terminal navigation charges for Jandakot Airport outlined in the Airservices Draft Price Notification represent a substantial improvement over the original proposal floated by Airservices to the industry. However, they still will penalise our industry, are well in excess of projected CPI movements and do not represent any certainty over the next 5 years as Airservices reserves the right in several circumstances to make changes.

2) Risk Sharing Arrangements

Airservices and their customers should equally share the risks associated with the marketplace. Neither can share the risk of changes in government regulation. They can lobby or try to influence, but government regulation like SARS or 9/11 is a chance event.

The risk of cost over runs and technology risk is something Airservices must be wholly responsible for. It is in this area that users have a concern. Being a bureaucracy, most of us do not believe Airservices is good at managing cost nor is it always adept and flexible when it comes to new technology management.

3) Operating Costs

Excluding depreciation which is a function of capex and some questionable revaluations, the veracity of the staff and supplier costs needs further scrutiny due to the erratic year by year movements.

	Base	% Change By Year				
		Yr1	Yr2	Yr3	Yr4	Yr5
Staff Costs	100	6%	4.3%	3.9%	8.1%	3.3%
Supplier Costs	100	10%	7.8%	(2.5%)	2%	2.7%

Bureaucracies tend to hide cost over runs and under runs and do not generally have the disciplines for operating robust cost management programs. We would suggest that the ACCC looks to tie in any approval of a new Airservices pricing regime with a strong mechanism that enforces a culture of cost control by setting quantitative targets; ie. 20% of the total cost base must be under review at all times, active programs must identify a minimum of 5% of the cost base each year. 50% of all active programs must yield full cost savings. This system will result in a 2.5% reduction in Airservices costs each year. Monitoring must be quarterly and would be akin to IMF monitoring.

4) Capital Expenditure

We cannot comment on many of the capex proposals as they are outside our area of expertise. However, we would draw your attention to the following:

- 1) \$30MM for the Telecommunications Infrastructure Network has some fat in it.
- 2) The Navaid Replacement Program should address in much detail the growth of GPS that is cost efficiently replacing many older navaid.
- 3) The HF program should be revisited, as technology in the form of sat phones will ultimately replace HF.
- 4) Of the other capex of \$141MM aggressive cost reduction should whittle away at least \$40MM.
- 5) Overall we would expect a savings over the five years of circa \$60MM in capex with prudent hands-on management.

5) Asset Base

We believe the asset base has been over-valued in disregard of generally accepted accounting principles. It would appear to have been bloated out on the basis of trying to enhance the balance sheet.

Written down assets that have already been paid for by users through Airservices charges, and in the past fuel levies and taxation, have been re-valued and the higher depreciation rates used by Airservices to justify their higher cost base.

By using DORC (Depreciated Optimized Replacement Cost) the conventionally WDV has been enhanced by \$41,670,970. This is creative accounting. As a start, the asset base should be reduced by circa \$42 Million to bring Airservices into line with generally accepted accounting principles.

6) Rate of Return

We believe that a 9.75% rate of return for a monopoly business is excessive. It is our considered opinion that the rate of return for Airservices as a monopoly organisation should not exceed the 5 year bond rate. This view is further buttressed by the knowledge that 83% of Airservices revenue is derived from non capital costs. This is in contrast to most other regulated infrastructure entities. Put simply, Airservices is more of a cash-flow business than a capital intensive business.

7) Activity forecasts

For Jandakot Airport we consider the 1-2% increases in volume low based on our performance in the last three years and the growth of major training facilities. Price elasticity is an important factor for us. If the price hikes are kept closer to inflation and the Jandakot airport owner invests in a fourth runway as originally planned by the old FAC we would anticipate a 3-5% increase in volume, well ahead of the Airservices Forecast Activity Growth Rates. However, if the industry experiences the price hikes proposed by Airservices we could well see a reduction in movements as training establishments move offshore. Eliminating just one of our major training establishments would reduce monthly movements by over 3,000.

8) Pricing Structure / Indirect Cost Allocation

Because such a significant part of Airservices costs are indirect it is very difficult to go with "location specific" charging.

We would argue that from a General Aviation (GA) point of view utilising primarily GAAP and secondary airfields, our true share of the indirect costs is well under our share of total tonnage operated. In other words, most of the indirect costs are incurred for the benefit of RPT operators, not GA.

So apart from having a lower capacity to pay, in reality if only GA was operating, most of the large Airservices Head-Office overheads could be dispensed with.

9) Basin Approach

We believe that a network pricing approach best serves the needs of all parties in aviation. Airservices is providing a national air traffic system with the primary goal being safety for all users in the air and specifically in the terminal areas of capital cities, also for those people on the ground.

However, the “basin” approach to pricing does have merit. We will support this approach if it is properly structured. **By properly structured we mean that for the two basin airports of Perth and Jandakot, the terminal navigation charges at both airports should be the same per tonne.** Interdependence means there should be no difference. If anything, the costs at Jandakot should be less than the Perth costs as Airservices provides a 24 hour tower service at Perth but only a daylight service in Jandakot. Even Bankstown, with no greater movements than Jandakot has a tower service with longer hours coverage.

The “basin” approach should herald a return to a more efficient Airservices personnel regime, with ATC personnel flexibly operating from towers at both airports to better utilise human resources in line with air traffic demand. This happened in the past, but for the last few years staff are allocated separately to each location and there is a lack of flexibility that breeds inefficiency.

10) Timing of Price Increases

Front-loading the price hikes is inequitable.

- 1) Airservices operating costs in the first year grow by 11.5%. A 16.5% lift in prices over compensates. The maximum that should be permitted would be in line with their cost hikes if these cost increases could be considered reasonable.
- 2) The main reason Airservices operating costs grow 11.5% in 2004/5 over the previous year is due to a 45% lift in depreciation caused by the way they have decided to write back written down / off assets. If this once off piece of financial engineering is backed out their true cost increase is probably closer to 7.6%
- 3) Airservices Staff Costs rise 6% 2004/5 over the base year, but their Supplier Costs rise 10% over the base year. If Airservices management better controlled their Supplier Costs they should be able to bring these in line with their Staff Costs. Why outsource when it is costing you more than doing the job in-house? We would expect the Supplier Costs hikes to be under the Staff Cost hikes.
- 4) Hence a cost increase of 6% in the first year may be acceptable if their staff costs bear scrutiny. It would seem that they are hiking remuneration well ahead of inflation. We would have thought that investment in automation and smarter operating techniques would yield staff costs rises circa 3%.

11) Impact on Users

In Jandakot the impact on the occasional weekend aviator of these charges over 5 years will be a modest hike of \$5-27 per tonne possibly incurred several times a month.

But for the large General Aviation Industry training hundreds of students thousands of hours a year the hikes represent a significant cost burden with an annual impost of up to \$100,000 per year for one large school training overseas pilots. At this magnitude, we expect to see some downturn.

Airservices chart on “Indicative GA Training impact” on page 33 of their submission to you is misleading. At Jandakot the average hourly cost of a Cessna 172 in solo training is \$130 per hour. Hence the cumulative increase in charges results in a 3.8% increase in hourly rental rates, not a 2.56% increase.

From an industry viewpoint we must look at the quantum of this increase on training organisations which varies from \$30,000 for a small training operation to \$100,000 for some of our larger training organisations.

With external factors beyond our control putting pressure on petroleum prices, General Aviation looks to control all costs as tightly as possible. RPT is more able to pass on costs to their customers with fuel surcharges etc. This is not so easy to do in the non oligarchic, competitive GA industry.

We appreciated meeting with Lyn and her team when we visited Melbourne last month. We value the opportunity to make an input to this Airservices Draft Price Notification and trust that you will find some of our perspectives useful to your consultation process.

Yours faithfully,

Michael G. Braybrook
President,
Jandakot Airport Chamber of Commerce.