Affordable Plastics Pty Ltd

4 Newman St., Ringwood Vic 3134
Ph 03 9870 3403 Fax 03 9870 5511 H 03 9879 0289
Email newton@minerva.com.au
ABN 57005 865 663

14/9/04

Ms. Margaret Arblaster
General Manager- Transport and Prices Oversight
Australian Competition and Consumer Commission
Box 520J
Melbourne
Vic 3001

Ref Airservices Australia

Dear Madam,

I have been trying to prepare a submission to you for a month but moving our factory to make way for a widened Mitcham to Frankston Tollway has absorbed all my spare time. I will therefore send you a copy of my submission to Airservices and make brief comments on subsequent occurrences.

At the Airservices meeting at Moorabbin we were assured that ACCC dictated that there was to be no cross subsidization, a fixed 5 year termed your "building block model " used. See page 2 , item 3 of their letter of 31/5/04 which was received mid June.

As the result of a significant number of furious complaints suddenly, about 19/8/04the whole situation changed, no consultation, but a whole lot of different excuses including Iraq and SARS. A new table of charges appeared with cross subsidization within capital city basins totaling about the same annual revenue as before. The result of thesis that Airlines get a minor increase of $0.58 per tonne in TNC and a discount of over 60% in ERC intended to remain fixed for 5 years. Everyone else, including Regional Airports, gets an Immediate 16.8% increase and 10% pa rises with no reduction in ERC.

And Airservices reserves the right to change this under numerous circumstances.

I also note that the AsA Standard contract Terms states the these charges do not apply to those users who have a separate contract etc. That means the big users can negotiate terms that are not revealed but obviously effect the tables shown by AsA. This calls into doubt the veracity of submitted data to the public to support their accounting ,costing, and pricing.

As a businessman I was horrified that AsA and the Steering Committees made up of RPT representatives could, with their hand on their heart, submit the first audacious proposal. Then in the face of complaints discard the previous arguments to a proposal that looks like what they think the market will bear, not what is fair and reasonable. And produce confusing weighted averages to try to show the increase is small but still get nearly the same annual revenue without once justifying the veracity of their costs.

In fact this whole episode does not show the AsA in a good light and makes a mockery of the Steering committee's influence and a sham of Industry Consultation. I suggest that if this was a commercial monopoly operation and you had a complaint, you would be taking action.

As an individual I do not have the resources to access all the information necessary. But as a businessman I feel uneasy with the monopoly supplier of Airways services operating as a pseudo Government Department, particularly the managemant attitude, costing principals, amortization, profit margin based on possible revaluation of amortized assets, and I am told management bonus based on profit.

Please in your verification of Airservices Price Notification take particular interesting all the above and :-

The expertise, considering the involvement of Price Waterhouse, interest and conflict of interest of committee members considering their Airline background .

How there was a reversal of the" no cross subsidization" requirement in the second Draft Notification.

A practical assessment of amortization costs, replacement assets costs allocation, the base costs of "Return on Assets 9.75% pa charge. The latter could be dubious and double counting be involved.

The 5 year expenditure of $542,000,000on what is R&D and expensive equipment which will become assets and incur the 9.75% pa charge, all of which GA does not need.

I look forward to your involvement in the fracas and would like to be informed of developments.

Yours Sincerely,

N.A.Sanbrook

Affordable Plastics Pty Ltd

7 Newman St., Ringwood Vic 3134
Ph 03 9870 3403 Fax 03 9870 5511 H 03 9879 0289
Email newton@minerva.com.au
ABN 57005 865 663

30/6/04 Copy 20/8/04

Mr Paul Logan
Price Review
GPO Box 367
Canberra ACT 2601. Ref. Price Review

Dear Sir,
This letter is written in response to your request for submissions on your proposals and data for a price review , and after attending the Moorabbin Meeting on 22/6/04.

I am amazed and disappointed that such a proposition could be put to customers without some suggestions for alleviation when there is an obvious alternative available that you could have put to the Government beforehand. In industry you would be laughed at, and you are by GA. Or is there an agenda we are not aware of .!!!
An Industry Committee that had a major majority of Airline representatives would have difficulty in not favoring RPT over GA and fail to see the damage to the other side.
I think you have a responsibility to lead this discussion to a balanced solution not just ask for suggestions from your customers to solve a problem of your creation.

My comments and suggestions are based on my experience of nearly 50 years as an owner - manufacturer of consumer products employing 55 people. Over 40 years involvement in aviation, as an Aircraft Owner for 38 years , CPL, CHL, IFR Rated for 30 years and heavily involved in Sports Aerobatics for 25 years. Prior to all that I served in the Merchant Navy for 10 years and attained a Foreign Going Masters Certificate.

My experience in Sales, Personnel, Costing, Manufacturing and the economics of business is extensive and has been successful. My comments are the result of this experience and are not given lightly. I will try to comment on each of your points but my main interest is in "Alternate Means of Cost Recovery."

Efficiency
The service provided exceeds the need for GA, thus the excess cost over that need should be borne by the sector that needs, demands or significantly creates the need for it.

Future Investment
As a manufacturer of consumer products I know well that any money spent on investment and R & D has to be recovered usually from increased selling price to the customer. It is a dangerous area of spending as frequently unnecessary assets are purchased for the

wrong reason and excessive labour is used trying to get something going that in the long run does not function or is not viable. I think that Airservices, in a nation of 20 million people, should not be trying to lead the world in Air Traffic Control or such like unless the cost can be shown to be totally recovered, with a profit, from export sales.
Your plan to spend $542mil or $108mil pa is nearly 20%of revenue, that's a lot.!!

Realistically there is no point in saying more or trying to change Government costing methods. That is the way of life, there are too many vested interests and it is Taxpayer's Money anyway generated by profitable Goods and Services providers.

Comment Points

Price predictions for GA have got to the ridiculous !!!

Example:- For my aircraft C303 2336kg appx 80 landings pa.

	Old price	Old cost pa.	New Price	New cost pa.
YMMB	7.42	$1386.40	45.46	$8495.50
YMEN	7.42	1386.40	59.00	11026.00
YPPF	7.42	1386.40	100.40	18762.75
YSCN	7.42	1386.40	164.22	30689.40

Would you use the services at this price ? No one else will.!!!

1 You have to accept that a large increase in costs will reduce the flying hours, as will an increase in fuel costs. The Private Pilot and the Charter Passenger only have a limited number of discretionary dollars to spend . They either stop flying GA and go cheaply on discount airlines, or reduce their flying. If GA cost increase as you indicate I would expect a reduction well in excess of 40 % in flying hours. Example:- test fly for 12 min @ $200/hr 1.5 tonne at PF costs $40 + landing $150.60 =$190.60. At Camden it would be even more ridiculous.!!!

2 The allocation of costs must be altered to maintain the viability of the base training ground of aviation in Australia. <u>Airlines are no good without pilots</u>.!!!

The travelling public on airlines expect everything to allay their fears of flying so governments provide it for fear of public reaction. GA pilots and passengers do not have the same degree of fear and do not need the same services, but because of the low usage of the services that are available, the cost has become too onerous.

But GA is the training ground for Airline Pilots, Controllers, Engineers, Pilots for Flying Doctor ,Police, Air Ambulance, Air Rescue and Etc. These and other personnel come through GA. What do those services do with young pilots without enough training, experience, and exposure before being let loose in Airlines or high profile services. I understand there is a forecast shortage of Airline Pilots now. Are you going poach from the Air Force ? Set up and pay for a costly training school for 2000 hrs experience per pilot ? Or expect a decimated GA to do it with parents paying all the costs of, training, exposure and experience needed?. I think not!! <u>But those are the consequences</u>.

There has to be a change in the cost allocation method !!!!

Cost allocation.
Some good suggestions were made at MB on 22/6/04 , mine needed a background to it so I decided to put it in writing.

If you accept that the taxpayers that fly in Airlines are the same as people that fly GA and are mostly travelling for the same purpose or reason, and that RPT etc. cannot exist without GA's basic training, it is reasonable and feasible that the total infrastructure costs of flying should be borne by the person that gets in an aircraft to go somewhere, or do something, on an balanced basis. **This is User Pays as it should be.** Interestingly this would not change airline cost much and with the discount fares changing by the moment would really not be noticed by the public and is in the range of 5 to 20 cents per pax landing. That's not worth worrying about !!!

Averaging Costs.
Since most local airlines go to all major airports, the landing charges can reasonably be averaged.. To a passenger a landing is either good or bad, landing cost is not a worry. They are safe!!_.
I have not considered the effect on International Flights.

I have used your figures from the tables of your letter and calculated tonnes landed for each port shown as a basis to support the above estimate . Also taken into consideration is RPT carrying the total cost of airports. The varied GA contribution would reduce this.

Your Figures Year 04/05

	Cost $mil		%	Tonnes Landed	%
Capped GA	39.7		12.4	1745000	4.72
RPT	197.3		61.5	35227000	95.28
RFC	83.9		26.1		
	320.9				
	GA average	$22.63/tonne			
RPT&RFC	"	$7.98 /tonne			

Please note the imbalance of GA percentages for cost and usage per sector throughout, and the similarity of the RPT percentages.

There are many RPT landings at Capped ports which distort the figures , thus AS,HB,LN,MK,MC,RK. Have been reclassified for this example because of fire services. . There are also regional Airlines landings at the remaining capped ports and GA has landings and movements at RPT ports. For this example lets assume they balance out

Adjusted Examples

	Cost $mil	%	Tonnes Landed	%
GA	24.26	7.56	543000	1.47
RPT&RFC	296.64	92.44	36429000	98.53
	320.9		36972000	
		GA Average $46.68/tonne		
		RPT Average $8.14/ tonne		
GA	10.0	3.1	543000	1.47
RPT&RFC	310.9	96.9	36429000	98.53
	320.9		36972000	
		GA Average $18.42/tonne		
		RPTAverage $8..53 /tonne		
GA	3.0	0.93	543000	1.47
RPT&RFC	317.9	99.07	36429000	98.53
		GA Average $5.52 tonne		
		RPT " $8.73 "		
RPT&RFC ONLY	320.9	100	35227000	100.0
GA and Capped zero		00		
		RPT Cost $ 9.11 /tonne		
RPT &RFC&GA	320.9	100	36972000	100.0

TOTAL AVERAGE $ 8.68/tonne

From the above calculations is collated the differences in cost to an airline passenger. There are approximately the equivalent of 3 pax , in pax and cargo per tonne of MTOW. Based on a discount fare of $80 ML to SY.

7.98	to 8.14	= 16 c /tonne ldg.	That is 5c per pax	or	0.06% fare increase
8.14	" 8.53	39c "	" 13 "		0.16% "
8.14	8.73	59c	20		0.25%
8.14	8.68	54c	18		0.225%
8.14	9.11	97c	32		0.44%

On a normal fare the percentage increase would be 25% of the last column and even less on longer legs.

This small increase of less than 0.4% is really not worth considering against an increase of up to 2200% for GA, and it's decimation .

You can see from these averages that the odd 70cent increase per tonne is not going to stop the airline passenger flying. If you apply the horrendous costs to the capped airports you are going to stop GA flying, whereas $5.52 /tonne is livable. That is so long as you have not frightened to many users away already. In fact some owners have already moved from MB because of cost increases. I will go too if these increases are implemented. Unfortunately other aerodromes will eventually follow <u>your leadership</u> and GA will be in a double jeopardy situation, then people will leave aviation and not sufficient new people will start flying.
<u>That is the way of customers with price increases in all industries.</u>

<u>Opinion</u>
<u>My opinion is that you are trapped in a cost recovery method that is **out of date** and not working</u>
It will be easier to change your method and either average all costs for RPT and GA, or only charge GA a nominal amount.
You should keep costings for each airport for efficiency and control of costs but a wider view must be taken for cost recovery.(sales)
The Sector which can carry a small per tonne cost increase should do so to save the other <u>essential</u> sector.
In pricing you always have to consider what the <u>Market Will Bear</u>. If you go past that point you lose customers.

<u>**I Say Again**</u>

Location Specific costing works and is necessary.
Location Specific Pricing does NOT work and is NOT necessary.
Large Price increases = reduced Sales.
Remember the 'Law of Decreasing Returns".
A very small increase to the largest sector is the best option no matter what the airlines say.
RPT will not have enough suitable pilots available without a viable GA.
All <u>users pay</u> equally

I will not enlarge further on this . If my suggestions need clarification please contact me.

To make these changes you've got to have, <u>the will</u>, <u>the need,</u> <u>a little boldness,</u> <u>lateral thinking</u>, and to keep in mind that <u>**YOU have to find a solution**</u> to the pending decimation of GA.

This letter may be sent to other interested parties.

Yours Faithfully,

N.A.Sanbrook ANR 034680