<u>ACCC REVIEW OF PRICE INCREASES FOR AIR NAVIGATION CHARGES</u>

The following constitutes the formal response from the Royal Flying Doctor Service of Australia (Queensland Section).

Our operations focus upon providing the fixed wing Aeromedical Retrieval and Clinic functions from our seven bases to rural and remote Queensland. To that end, we operate a fleet of eleven turbine pressurised aircraft on a 24 hour basis over the whole of the vast state of Queensland; flying some 15,000 hours per annum in that provision and operating potentially to many hundreds of different destinations in any one year. We are greatly affected under this proposal at many destinations up the length of the Queensland coast.

RFDS (QLD Section) objects to the proposed charges on three principal grounds:

- **There is no indication of when the 10% increases at affected airfields will end.** The 10% is carried for five years and if AirServices intend to continue this rate until the original levels are reached, then the longer term impact will be just as severe as that contained within their original proposal.

- **There is no justification given for not considering network based pricing.** While the "basin" proposal put to the ACCC is far preferable to that originally proposed to industry mid this year, it still appears that the longer term impact past the 5 years costed will eventually be just as devastating to general aviation. **<u>Only network based pricing offers a reasonable solution.</u>**

- **There is no consideration of ARFF charges being levied only to those for whom the service is required - larger airlines and their passengers.** In effect, general aviation and the smaller airlines which **<u>do not require</u>** the ARFF service are subsidising the larger airlines, hardly a fair arrangement.

The following paragraphs are comments on specific topics as requested by ACCC.

<u>Consultation Process</u>

Although consultation is stated to have commenced in August 2003, the industry reaction in July 04 would indicate that there had not been much agreement with those consulted - except maybe with international and the major domestic carriers. Clearly, most industry members seemed to have been caught unawares - certainly all four operating Sections of the RFDS were. We cannot comment on the earlier activities as we were not aware of it happening, but the process mid this year whilst open and frank, was unfortunately very rushed.

<u>Risk Sharing Arrangements</u>

No specific comment.

However, it is hard to see how the risk in the longer term is not borne by industry.

Operating Costs

No specific comment.

Capital Expenditure

No comment on the capital issues as presented.

However, not included is the Ministerial Directive of 31 August by Minister Anderson that AirServices introduces approach radar at up to 10 regional airports at an estimated cost of $150M.

AirServices Australia clearly had no prior knowledge of this Directive; it had been actively working towards the more useful ADS-B technology.

Many of our coastal destinations will be thus affected if this Ministerial Direction were to proceed. The potential beneficiaries will only be the VFR leisure community Pilots; commercial IFR operators desire the removal of class E airspace over these towers and a return to Class C airspace. This move would solve the safety problem at no cost to anyone, with the only imposition being that private pilots will have to follow controlled airspace procedures. The Ministerial Direction will impose a cost of $15M for each radar installation for no perceived safety benefit.

Asset Base

No specific comment.

Rate of Return

No specific comment.

Activity Forecasts

No specific comment.

Structure of Prices

The concept of basin pricing is certainly preferable to the earlier location specific proposal. However, whilst the AirServices conceptual explanation is reasonable, it fails to explain what the long term effects of the charges at the secondary airports will be. The 10% terminal charge annual escalator will presumably continue past the five year point, but where will it eventually level off – at the originally proposed rates? While this proposal does provide short term relief to general aviation operators, in the longer term the impact may well be the same.

In Appendix 6, AirServices indicates that a return to full network pricing was proposed by many respondents and to our knowledge this was a general thrust from many industry groups. AirServices' response simply writes this off with "a return to full network pricing was not considered economically efficient." Where is the justification? Where is the debate? Not economically efficient for whom? The international carriers certainly, but what about core Australian aviation industry?

Also in Appendix 6, with regard to ARFF cost being borne by passengers for whom the service is required, AirServices indicate more work is required, but goes on to state that "the alternatives are contentious as they simply result in shifting the revenue burden between industry sectors". True, but the burden should be shifted from those who do not require and mostly operate without ARFF such as the RFDS, to those that do by law require ARFF, the larger airlines. The contentious issue seems only to be with the powerful airlines and *ergo* a desire for the smaller operators to subsidise ARFF. On page 29, AirServices acknowledges that opposition to a passenger based charge came from some major carriers. We, the lower end of aviation, are subsidising these large airlines. This is not reasonable and contains a stark intrinsic inequity.

Finally, the proposed prices may well provide incentives for AirServices to provide services at particular locations. After all, AirServices' aim in the long term is to recover all costs and provide a return to its owner, the Federal Government. However, at a general aviation level, it does not provide any incentive for users of AirServices' services to provide services at particular locations. What it will provide is incentive to relocate to airfields not subject to any AirServices' charges, if the particular owner or business can do so (as has already happened to an extent with airfield privatisation.)

Impact on Users

The impact on the RFDS will be that either the recovery of the additional charges from our clients or the unpalatable option of a reduction in essential health services.

As the primary client base is directly and indirectly the Federal and State Government Health Departments, further stress will be placed on this already stretched public sector.

Rick Davies
Director of Aviation / Chief Pilot
RFDS (QLD Section)

14 September 2004