ROYAL FLYING DOCTOR SERVICE

OF AUSTRALIA

Central Operations

ACCC REVIEW OF PRICE INCREASES FOR AIR NAVIGATION CHARGES

This response relates to the Royal Flying Doctor Service of Australia Central Operations. Our operations focus on SA and the lower half of the NT. We are greatly affected under this proposal at our base airfields of Adelaide and Alice Springs. We are also impacted to a much lesser extent by other airfields such as Ayers Rock and Essendon.

RFDS 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 in their original proposal.
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> **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. Only network based pricing offers a reasonable solution.
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> **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 do not require the ARFF service are subsidising the larger airlines, hardly a fair arrangement.

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

Consultation Process

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 seemed to have been caught unawares - certainly all four operating Sections of the RFDS were. I cannot comment on the earlier activities as we were not even aware of it happening, but the process mid this year was open and frank, but unfortunately very rushed.

Risk Sharing Arrangements

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 directive of 31 August by Minister Anderson that Airservices introduce approach radar at up to 10 regional airports at an estimated cost of $150M.

This appears to be a knee jerk reaction by the Minster to appease the powerful private and sporting lobby, in an attempt to prevent Airservices' planned rollback on 25 November of the National Airspace System to Option 3. Airservices appear to have had no prior knowledge of this directive, as it had been actively working towards the more useful ADS-B technology. **This sort of political interference makes a mockery of Airservices planning and capital approval process, and to the arguments presented in their draft notification.**

Alice Springs will certainly be one of the 10 airfields if this radar nonsense proceeds. The potential beneficiaries will only be the VFR pilots who seem to have great influence over the Minister, assuming that provision of the radar is intended to ensure retention of the E airspace over Alice Springs and other D airspace towers. Commercial IFR operators generally want the removal of E airspace over these towers and return to C airspace, which solves the safety problem at no cost to anyone, with the only imposition being that private pilots will have to follow controlled airspace procedures. Unfortunately, the Ministerial push seems to be for private pilots to retain their freedom at the cost of $15M for each radar installation.

Who will pay the $15M for such a radar? It will no doubt eventually be paid for by Alice Springs users in the long run – not the private / sports users who fundamentally benefit, but primarily the commercial IFR operators who will see no benefit over the Option 3 proposal.

How is this type of risk ever to be managed?

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, while 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.

Alice Springs is not part of any basin. However, the new terminal and ARFF proposal caps the increases at 10% pa. For RFDS, this means about a $10,000 pa rise over last years total of $72,000, ending at the 5 year point at $122,000 (at current flying rates). If this 10% continues, the originally proposed level of $164,000 will be reached in 9 years. So while there is a short term benefit, the long term is just as bleak.

In Appendix 6, Airservices indicates that that a return to full network pricing was proposed by many respondents, and to the knowledge of the writer, 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 who? 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 inter alia their desire for the smaller operators to subsidise ARFF for them. On page 29, Airservices acknowledge 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.

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 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 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 difficult public sector.

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10 September 2004