

Submission to ACCC for SFC JT on ASA Draft Price Notification

Purpose of this Submission

In August 2004 the ACCC issued an issues paper based on a submission received from Air Services Australia of a draft price notification plan.

This submission outlines points raised by the ACCC on this plan and how it affects Singapore Flying College at Jandakot Western Australia.

Back round on Singapore Flying College

Singapore Flying College in Jandakot is the second phase training base for pilots being trained for Singapore Airlines.

SFC (J) can accommodate up to 180 cadets, operates 22 aircraft which are a mix of piston singles and twins, operates its own aircraft maintenance/engineering section and directly employs 48 staff.

In 2003 the college flew over 21,500hrs and carried out over 17,700 landings. This year the college expects this to rise to 23,000hrs and over 18,000 landings.

This of course is projected to rise gradually over the next five years.

Comments on issues raised by ACCC

Consultation Process

The consultation process carried out by ASA in regards to GA was limited at best.

Although AOPA was invited to be part of the steering committee they did not attend, however it was assumed by ASA that AOPA were able to talk for GA.

ASA also failed to contact any other large organization within GA as well as or instead of AOPA, this was regardless of the number of airlines represented on the steering committee, leaving an industry bias committee.

The consultation visits were poorly organized at Jandakot with key stake holders such as ourselves as well as others having to be informed by the airport, not ASA.

There was no real consultation process, it was more a presentation of what was going to be introduced, there was no options given for the industry to suggest which would be the most suitable proposition.

The presentation given indicated that ASA did not agree with the initial proposal, they were "piggy in the middle" and acting under instruction from the government. In other words they were presenting a model which they knew would be ridiculed by the industry. The time frame set for reply to the original proposal was too short for companies to fully digest the information provided and reply with a calculated and considered response.

After the closing date for the submission of replies there was a change in the proposal to that which has now been submitted to the ACCC, there was no consultation at all with regards to how this change or revised price rise would impact the industry. It was assumed that this would be more acceptable as it was reduced from the original proposal.

Operating Costs

It is our understanding that there are parts of ASA that are currently profitable; however they are being prevented from cross subsidizing by ACCC. There is currently cross subsidy arrangement in place in relation to en-route charges, why cannot terminal navigation charges be cross subsidized?

ASA has already taken a leaf from the system used in the US in relation to the control of national airspace, why can it not also look at the model used in the US for terminal navigation charges which are fully subsidized? There appears to be an inconsistency in the commonwealths approach to the aviation industry in Australia.

Activity Forecasts

The activity forecast shown by ASA for Jandakot in the initial proposal was in short laughable. With the current proposal they are only slightly more realistic.

History has shown that increase in charges has an adverse effect on the activity at Jandakot. When the airport was privatised in the late 1990's the incumbent company lifted landing charges, activity dropped by 30%. It would be safe to say that history could well repeat itself.

With two of the largest operators at Jandakot being international flight training colleges there would be a very high risk of one or both of them either relocating to a different field in Australia or moving offshore completely, taking with it the export dollars currently injected into the local economy.

With the reduced activity at Jandakot both ASA & JAH would be forced to raise prices to recoup costs, thus we end up in a tail chase situation to a point where most businesses at Jandakot would be forced out of business.

Structure of Prices

Whilst it is acknowledged there would be price increases to allow operating costs to be met, bringing charges to a point of meeting these costs should be a gradual process. Once cost covering has been reached then any increases should be in line with CPI. ASA has a key role to play in providing an essential service and being government based should be supported as such by the government.

If the government is to remove its current subsidy than that also should be a gradual process.

Sudden changes to cost structures in aviation would cripple an already fragile industry.

Method of Allocation of Indirect Costs

Indirect costs should be spread on a national basis, and apportioned appropriately according to the services provided at the airport.

Basin Approach to TNC

This approach to pricing, or any localized pricing structure creates a situation where GA airports end up paying more for less. Why would any company in any form of business want to pay a larger premium for a lesser service?

By looking at the table below you can see the comparison of the services offered at Perth Airport and Jandakot and the prices to be incurred when using each.

Services	Jandakot	Perth
Tower	Y	Y
Hours of Operation	12hrs	24hrs
VOR	N	Y
NDB	Y	Y
ILS	0	3
Radar Services	N	Y
Fire Fighting	N	Y
Cost Per Landed Tonne	\$8.67 to \$12.69	\$8.63

Another comparison is how much we could save by operating out of Perth Intl instead of Jandakot;

Estimated Annual Landings	\$ cost JDK	\$ cost Perth
23,100	\$433,845.72	\$295,042.44

As can be seen there would be a cost saving of \$138,803.28p/a, should the college decide to operate from Perth International airport rather than Jandakot.

However, I don't think a move such as this would be appreciated by either airports due to the increased 'nuisance' factor for Perth and the lack of income to Jandakot.

Timing of Price Increases

The timing of the price increases has not considered the fact companies prepare operating budgets for the financial year, thus considerable increases are to be applied without the industry being able to prepare or plan for these increases. Companies that work on a slim margin will suffer dramatically. This will also apply to companies operating on a contractual basis, again these are charges introduced after the beginning of the financial year without companies being able to allow for them.

The aviation industry, particularly GA, is renowned for operating on tight margins as the market is very competitive, this will surely send some companies to the wall.

Pricing Across Services & User Groups

It is understood that the fairest way of distributing costs is a national network charging system, however it is also understood that major airlines feel this is an unfair subsidization of GA by them. What has to be understood at this point is GA subsidizes the major Australian airlines with pilots. GA provides a steady and constant stream of qualified pilots thus negating the need for Australian airlines to fund their own pilot training programs.

Impact on Users

Any price increase in aviation has a large impact on operators, what has failed to be realized here is the ability of the companies to absorb or pass on these cost increases. It seems that those companies most able to re-charge out these costs are the companies being let off lightly. The companies most likely to suffer financial hardship to the extent of being put out of business are the ones bearing the brunt of the price hikes.

Conclusion

Aviation is being hit by all sides when it comes to pricing increases, ASA charges, fuel price increases, CASA examination fee increases, etc.

With aviation costs increasing like they are GA will reduce to the point of being almost non-existent, it would be prohibitively expensive for people to learn to fly.

Australia by its very nature and geographical layout depends on aviation as part of its infrastructure, if these cost increases are not brought in gradually then these critical services will erode.

The college feels there could and should be further reviews on how the ASA charges can be distributed, as already stated GA should have a better representation at the ground level.

The charges as they currently stand to be implemented are not acceptable; the process to arrive at this point has not been acceptable.

The college would be happy to assist or discuss further on this matter.



Captain Leiw Kwok Wah
General Manager
Singapore Flying College
Jandakot