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Dear Margaret,

## **REVIEW OF THE OPTIONS FOR CHARGING ARFFS SERVICES**

AAL Townsville believes the paper prepared by Airservices is a balanced paper and goes some way to clearly explaining the many factors involved in ARFFS pricing. The development of the paper is critical in determining an appropriate fair and equitable charging option outcome.

Clearly the proposed high charges are not acceptable to AAL as they will be imposing a substantial impost on the economic viability of some operations and users of our regional airport, however, we do appreciate the effort that has gone into developing a more equitable and fair system of calculating said charges. AAL maintains the belief that the high charges will have an adverse effect on Regional development and development of the aviation industry in North Queensland.

As AAL Townsville submitted in November 2004, we believe the Government has an obligation for Development of a Universal Service Obligation for regional aviation services. The Australian Communications Authority (ACA) currently administers a Universal Service Obligation (USO) for regional telecommunications services. The Australian Communications Authority states:

*“The universal service obligation (USO) is the obligation placed on universal service providers to ensure that standard telephone services, payphones and prescribed carriage services are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business.”*

It would appear the telecommunications services in regional communities have been given special consideration and support, while vital air transport services are being burdened with disproportionately high charges. AAL believes there is a need for serious consideration being given to a USO for safety and emergency services (encompassing ARFFS and ATC) for regional airports.

Though given the above, if forced to choose, our preferred option is Category Pricing, as the level of charge more clearly relates to the increased cost of providing the increased level of service for higher category aircraft, so there is no discrimination in terms of different costs to provide the same level of safety at various airports.

This also addresses the anomaly at present where the costs of providing ARFF services per tonne are less at the capital city airports where passengers are more price elastic and more able to absorb higher costs due to the large proportion of business travellers, than regional airports where passengers are more leisure based and price inelastic.

It is vital to Townsville and the Townsville Region in general that this Airport retains a competitive edge in order to protect our developing tourism and aviation industry operations. That these operations are actually subsidised by the regional aviation

community is of great concern. Airservices Australia's aviation charges for services at Townsville Airport are already significantly higher than at larger airports, limiting our growth potential. Any price increase will jeopardise the viability of these services. Further the enormous impost of establishing ARFFS at this airport further strains the economic viability of smaller operators.

We note the two main issues the ACCC will have regard to when assessing the forthcoming Airservices draft price notification and these are addressed as follows:

### **i) Is the charging option economically efficient**

#### *Location specific pricing*

- *Single location specific price* – No, small regional airports are subject to high non competitive charges for the identical services provided to similar aircraft at larger high volume airports.
- *Location-specific, incremental cost, aircraft category charge*  
Widens the gap and cost of safety for identical category aircraft at different locations.

#### *Location specific and category pricing*

- *Location specific for ports with >6 million passenger movements*  
The introduction of a threshold to match criteria for new and low volume airports is sensible and viable.
- *Base level service charge plus incremental category cost charge*  
A user pays system that does not subsidize international aircraft operating to ports with high domestic volumes. Currently, the domestic volumes are therefore reducing the cost of providing higher levels of equipment, facilities and service at the international airports for category 8 & 9 aircraft.

#### *Category pricing*

More closely aligns the cost basis of providing crew and tenders for a category 9 aircraft and the cost of providing crew and tenders for a category 6 aircraft.

This approach allows benchmarking between like airports to provide the same level of service for the same category of aircraft.

### **The costs of providing different categories of services**

#### *Location specific pricing*

- *Single location specific price* - No
- *Location-specific, incremental cost, aircraft category charge*- No

#### *Location specific and category pricing*

- *Location specific for ports with >6 million passenger movements* - No
- *Base level service charge plus incremental category cost charge* - Partially

#### *Category pricing* - Yes

- **Will the charging option have a significant effect on activity levels at and between locations**

*Location specific pricing*

- Single location specific price –Yes, all charges are considered in cost analysis of operating a route. Airlines will look at highest yield lowest cost routes rather than serving a route with a more restrictive cost structure.
- *Location-specific, incremental cost, aircraft category charge* – Yes.

*Location specific and category pricing*

- *Base level service charge plus incremental category cost charge* – This is the preferred option as it reduces the inequity of charging a disproportionate amount for the same level of safety services at different locations. The same category of aircraft pays the same amount for the same level of safety for ARFFS services.

*Category pricing*

This would provide equity and level competition and open up the opportunity for higher activity levels at the regional airports. The increased services or reduced costs of operating to the present higher cost destinations would encourage domestic and international tourism travel to regional Australia, get more cars off the roads, improve inbound international numbers and encourage Australians to holiday at home thereby increasing economic activity in Australia.

High start-up cost mitigate against competition in the provision of ARFFS at start-up locations. AAL Townsville believes that competition is good for cost control and would applaud the opening of the ARFFS services to competitive forces.

Yours faithfully

Chris McHugh  
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AAL (Townsville) Pty Limited