



# **Preliminary View**

**Airservices Australia**

**Draft price notification**

**Aviation rescue and fire fighting services**

18 May 2005

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## Summary

Airservices Australia (Airservices) submitted a draft price notification (the proposal) to the Australian Competition and Consumer Commission (ACCC) on 5 May 2005. The proposal contains temporary price increases for aviation rescue and fire fighting (ARFF) services for customers operating aircraft weighing 15.1 tonnes and above for the period from 1 July 2005 to 31 December 2005.

The proposal:

- increases the threshold under which aircraft are exempt from ARFF charges from 2.5 tonnes to 5.7 tonnes
- introduces an additional threshold of 15.1 tonnes—between 5.7 tonnes and 15.1 tonnes, current charges will apply
- increases charges for operators above 15.1 tonnes to those prices proposed for 2005-06 in Airservices' 2004 long-term pricing proposal.

In November 2004 the ACCC expressed its preliminary view regarding Airservices' long-term pricing proposal. In this view, the ACCC objected to Airservices' proposed prices for ARFF services because it was concerned about the effect the application of a weight-based charging structure would have on particular user groups.

In Airservices' formal price notification submitted to the ACCC in November 2004, it proposed that ARFF charges be set at (then) current levels, pending a formal review and consultation process that would determine an appropriate pricing structure for ARFF services.

Airservices is proposing interim changes to the structure of ARFF charges which will enable it to recover a greater proportion of the costs of providing the ARFF service whilst it continues work on developing long-term arrangements.

With this interim proposal, Airservices has consulted with those parties which made submissions to the ACCC about ARFF pricing in the ACCC's consideration of the long-term pricing proposal. The ACCC has reviewed the submissions provided in Airservices' consultation process. While a number of interested parties supported the proposal, other parties raised three primary issues:

- whether the proposed interim arrangements are inconsistent with the ACCC's decision in relation to the long-term proposal
- whether prices should be adjusted to take into account revised activity forecasts
- whether the introduction of a new weight threshold will create a competitive advantage for those operators below the threshold.

The ACCC has considered these issues on the basis of information provided by Airservices and the views of interested parties as contained in submissions made to Airservices. On this basis, the ACCC has formed a preliminary view to not object to Airservices' proposal. The ACCC invites interested parties to provide written

submissions on the prices proposed by Airservices to assist the ACCC in reaching a final view on this matter.

The ACCC notes that Airservices' proposal seeks to address the ACCC's concerns about the basis of charging in the short term by adjusting weight thresholds to allocate a greater burden of ARFF charges to regular public transport (RPT) operators while reducing the burden on smaller operators.

While the ACCC considers that these modifications will alleviate some of its concerns in the short term about the application of a weight-based charging methodology, there is scope for the application of such a charging methodology to have more serious consequences for economic efficiency in the long term.

The ACCC's preliminary view, therefore, is to not object to the proposed price increases applying to customers operating aircraft weighing 15.1 tonnes and above for the six-month period to December 2005. However, the ACCC considers that these price increases should be strictly limited to the period to December 2005 and should not be extended beyond that time. The ACCC encourages Airservices to complete its review into the long term structure of ARFF charges to be introduced from January 2006. The ACCC considers that relevant factors which should be considered in this process include:

- the impact of users on Airservices' costs of providing ARFF services
- incentive effects for Airservices and its customers.

The ACCC has formed its preliminary view on the proposal, taking into consideration the temporary nature of the proposal and the views of interested parties who have made a submission to Airservices. The consultation process Airservices has adopted in relation to this temporary proposal appears to have targeted the relevant interested parties whose views are important to the ACCC's consideration of this proposal.

The ACCC is now seeking submissions on its preliminary view and is particularly interested in comments on its reasons set out in this paper and in any additional relevant information that was not provided in the context of Airservices' consultation process. The ACCC will consider submissions made on this preliminary view before making a final decision.

## Part A: Introduction

In this part of the paper, a background to Airservices' proposal is given, followed by details of the proposal, the Australian Competition and Consumer Commission's (ACCC) legislative framework for assessing price notifications and the process it is following in assessing this proposal.

### Background

The provision of air traffic control and aviation rescue and fire fighting (ARFF) services is declared under s.95X of the *Trade Practices Act 1974* (the Act). Under s.95Z of the Act, Airservices is required to notify the ACCC of proposed price increases for these declared services. The ACCC is then responsible for assessing these proposed price increases and for deciding either to object or not to object to the proposed price increases.

Airservices submitted a draft long-term pricing proposal to the ACCC on 12 August 2004, in which it proposed changes to the prices of its terminal navigation (TN), en-route navigation (enroute) and ARFF services for the five-year period between 2004 and 2009. On 5 November 2005, the ACCC released its preliminary view in which it did not object to the proposed price increases for the TN service, but objected to the proposed price increases for the ARFF service.

While the ACCC considered that the quantum of revenue Airservices sought to recover for its ARFF service was appropriate, the ACCC was concerned about the basis of charging for ARFF services.

In particular, the ACCC was concerned that the basis of charging was unlikely to be efficient because the prices charged did not appear to be related to the impact of smaller operators on Airservices' costs. The ACCC also considered that the introduction of new ARFF services using the existing basis of charging would be likely to have large impacts on these user groups.

Airservices decided not to reconsider the basis of ARFF charges in response to the ACCC's preliminary view and submitted a formal price notification without the proposed ARFF charge increases.

The current charging arrangements for ARFF services are:

- Airservices levies a charge per landed tonne, with an exemption for aircraft below 2.5 tonnes.
- The charges approved by the ACCC for the 2003-04 period apply.
- Charges are not levied at airports that have recently had an ARFF service installed (Maroochydore and Townsville airports).

Under these arrangements, Airservices estimates that it will under recover in the order of \$9 million its maximum allowable revenue (MAR) allowed in the ACCC's 2004 decision over the six-month period to 30 June 2005.

Airservices has submitted a draft price notification for prices to apply for an interim period between 1 July 2005 and 31 December 2005 while it continues to consider long-term pricing arrangements.

### **Airservices Australia's draft price notification**

The proposal contains the following changes to the current ARFF charging arrangements:

- The threshold under which aircraft are exempt from ARFF charges increases from 2.5 tonnes to 5.7 tonnes.
- An additional threshold of 15.1 tonnes is added, which is designed to separate regular public transport (RPT) and non-RPT service operators.
- Between 5.7 tonnes and 15.1 tonnes, operators pay current charges.
- Above the 15.1 tonne threshold, operators pay the charges originally proposed for 2005-06 in Airservices' long-term pricing proposal.

Table 1 outlines the prices proposed to apply to ARFF services for the six-month period to 31 December 2005.

**Table 1: Draft price notification proposed prices (price per tonne)**

	Current prices	Prices previously proposed	Interim prices proposed		
			Aircraft with an MTOW:		
Airport Location	Aircraft with MTOW > 2.5 tonnes	Aircraft with MTOW > 2.5 tonnes	Less than 5.7 tonnes	Between 5.7 and 15.1 tonnes	Above 15.1 tonnes
Adelaide	\$2.69	\$3.35	Nil	\$2.69	\$3.35
Alice Springs	\$6.81	\$8.75	Nil	\$6.81	\$8.75
Ayers Rock	\$13.09	\$16.82	Nil	\$13.09	\$16.82
Brisbane	\$1.46	\$1.76	Nil	\$1.46	\$1.76
Cairns	\$3.83	\$4.31	Nil	\$3.83	\$4.31
Canberra	\$3.58	\$4.60	Nil	\$3.58	\$4.60
Coolangatta	\$4.24	\$5.09	Nil	\$4.24	\$5.09
Darwin	\$7.23	\$9.28	Nil	\$7.23	\$9.28
Hobart	\$8.46	\$10.16	Nil	\$8.46	\$10.16
Launceston	\$9.30	\$11.95	Nil	\$9.30	\$11.95
Mackay	\$9.98	\$12.83	Nil	\$9.98	\$12.83
Maroochydore	Nil	\$16.82	Nil	Nil	\$16.82
Melbourne	\$1.09	\$1.40	Nil	\$1.09	\$1.40
Perth	\$2.40	\$2.74	Nil	\$2.40	\$2.74
Rockhampton	\$9.59	\$12.32	Nil	\$9.59	\$12.32
Sydney	\$0.69	\$0.88	Nil	\$0.69	\$0.88
Townsville	Nil	\$10.37	Nil	Nil	\$10.37

### **Airservices' consultation process**

Airservices undertook a consultation process in developing this proposal. It wrote to those parties that provided responses to the ACCC's preliminary view on Airservices' long-term pricing proposal that were relevant to ARFF operations. Of the 33 parties Airservices wrote to, 17 parties responded. These parties are listed at Attachment A.

## Legislative framework for assessing price notifications

The provision of air traffic control and ARFF services is declared under s.95X of the Act.<sup>1</sup> The relevant declaration, Declaration number 66, is available from the ACCC's website—[www.accc.gov.au](http://www.accc.gov.au). Under s.95Z of the Act Airservices is required to notify the ACCC of proposed increases in prices of these declared services. The ACCC is then responsible for assessing the proposed price increases and can either not object to the increases, not object to increases lower than those proposed or object to the proposed increases.

Subsection 95G(7) of the Act sets out matters the ACCC must have particular regard to in assessing a notification; namely, the need to:

- maintain investment and employment, including the influence of profitability on investment and employment
- discourage a person, who is in a position to substantially influence a market for goods or services, from taking advantage of that power in setting prices
- discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

The ACCC believes that an important consideration regarding these first two criteria is that efficient provision of services underpins investment and employment opportunity in an open and competitive market economy. Investment and employment in the national economy will be promoted when firms produce goods or services efficiently and charge prices which do not incorporate monopoly rents.

Monopoly suppliers do not necessarily produce goods or services at efficient cost levels or at competitive prices. If higher than efficient prices for intermediate services and products are passed on to the rest of the economy, there is a resultant loss in economic efficiency and potentially therefore in investment and employment opportunity.

The ACCC believes that only allowing price increases that stem from an efficient cost base and involve returns aligned with the risk incurred by the firm go some way to reducing the scope for prices to be free of monopoly rents.

Thus in assessing price notifications, the ACCC will generally consider:

- the efficiency of the cost base that the declared company is working from to earn a return
- the reasonableness of the rate of return that the declared company is seeking.

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<sup>1</sup> The declaration originally had effect under the *Prices Surveillance Act 1983*, but now has effect under Part VIIA of the Act.



The third criterion outlined in para. 95G(7)(c) does not appear to be directly relevant to this price notification.

More detail on these and other aspects of the ACCC's approach to price notification is contained in its *Draft statement of regulatory approach to price notifications*, available on the ACCC website.

## **Process of assessment**

The ACCC received Airservices' draft price notification on 5 May 2005. Airservices' draft price notification, including submissions made in response to Airservices' proposal is available on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au).

On the basis of information provided by Airservices, including responses it has received on its proposal, the ACCC has formed a preliminary view to not object to Airservices' proposal. The ACCC is now seeking comments on this preliminary view.

Submissions should be received by the ACCC by close of business on **Friday, 10 June 2005**, and be addressed to:

Margaret Arblaster  
General Manager, Transport and Prices Oversight  
Regulatory Affairs Division  
Australian Competition and Consumer Commission  
GPO Box 520J  
MELBOURNE VIC 3001

Alternatively, submissions can be e-mailed to the following address:

[margaret.arblaster@acc.gov.au](mailto:margaret.arblaster@acc.gov.au)

Following receipt of a formal price notification from Airservices, the ACCC has 21 days in which to release a final decision. Airservices has not lodged a formal price notification at this time. The ACCC understands Airservices is intending to lodge a formal price notification in June 2005.

## **Part B: The ACCC's assessment**

In this part of the paper, an introduction to the ACCC's approach in assessing the proposal is given, followed by a summary of issues raised in Airservices' consultation process and a discussion of each of these issues in turn. This part concludes with the ACCC's preliminary view of the proposal.

### **Introduction**

As mentioned in Part A of this paper, ordinarily the ACCC's assessment of a price notification would focus on a consideration of the:

- efficiency of the declared company's cost base
- reasonableness of the rate of return that the declared company is seeking.

However, the ACCC assessed the MAR implied by Airservices' proposed ARFF prices in the context of its 2004 assessment of Airservices' long-term pricing proposal. While the ACCC objected to the proposed prices for the ARFF service in the long-term pricing proposal on the basis that a weight basis of charging for these services is likely to be inefficient, it accepted that the overall amount of revenue that Airservices sought to recover from these services was appropriate. Given that this proposal seeks to only partially apply the previously proposed prices (and therefore has a lower implied MAR than that approved by the ACCC), the ACCC does not believe it necessary in considering this proposal for the ACCC to at this time reconsider the above two issues.

While the ACCC has considered the extent to which the proposal will enable Airservices to recover the MAR implied in the ACCC's decision on the long-term pricing proposal, it has focused on considering whether the proposal is likely to lead to efficient and equitable outcomes.

### **Issues raised in response to Airservices' proposal**

Of the 33 parties invited by Airservices to make a submission to its proposal, 17 responded. There was a mixed response from interested parties. Aeromedical service providers and regional airline interests in general supported the proposal. A number of regional and smaller capital city airports opposed the proposal on a number of grounds. Major airline interests, while in general not opposing the revenue underlying the proposal, raised some concerns.

General issues that were raised with the proposal are:

- whether the proposed interim arrangements are inconsistent with the ACCC's decision in relation to the long-term proposal
- whether prices should be adjusted to take into account revised activity forecasts

- whether the introduction of a new weight threshold will create a competitive advantage for those operators below the threshold.

A number of other specific issues were raised, including the level of proposed prices and charging arrangements for military operations.

These issues are discussed below.

## **Consistency with ACCC's decision on long-term proposal**

### ***Views of interested parties***

A number of submissions (Adelaide and Parafield airports, Canberra airport, and Gold Coast airport) express the view that Airservices' interim proposal is inconsistent with the ACCC's decision in relation to Airservices' long-term pricing proposal.

### ***Airservices' view***

Airservices submits that the ACCC advised in its preliminary decision that long-term pricing arrangements should only be put into place once the issue of the charging structure for ARFF has been addressed.

Airservices contends that proposing interim pricing arrangements is consistent with this view because the interim pricing arrangement begins to address concerns raised by the ACCC about the pricing structure, without imposing long-term pricing arrangements.

Airservices submits that at the same time, it is reasonable that Airservices is fairly compensated for the services it provides to its customers.

Airservices also notes that a review of Airservices was publicly announced by the Deputy Prime Minister in December 2004 and that the terms of reference for this review include pricing policies for services provided by Airservices. Airservices submits that this is relevant in considering alternatives to the current pricing structure for ARFF services.

### ***ACCC's preliminary view***

The ACCC objected to the proposed price increases for ARFF services in Airservices' original long-term pricing proposal on the basis that the structure of pricing for ARFF services was unlikely to be efficient as the price charged to smaller operators did not appear to be related to the impact of these operators on Airservices' costs. The ACCC also considered that the application of the existing weight-based charging methodology would be likely to have large impacts on these user groups.

For these reasons, the ACCC considered that the current basis of charging for ARFF services should not be incorporated into long-term charging arrangements.

This proposal enables Airservices to mitigate some of the shortfall in its revenue arising from its decision to delay consideration of the basis of pricing for ARFF services, by reducing the impact of the current weight-based charging methodology on smaller users.

The ACCC considers that the increase in the charging threshold from 2.5 tonnes to 5.7 tonnes addresses the concern about the large impacts on smaller users, particularly at those airports where a new ARFF service has been recently established.

Airservices' proposal to maintain existing charges for operators between 5.7 tonnes and 15.1 tonnes and to increase charges for operators above 15.1 tonnes seeks to strengthen the link in the charging structure to the regulations governing the establishment of ARFF services. These regulations<sup>2</sup> use, among other factors, passenger thresholds to determine whether an ARFF service should be provided at an airport.

To the extent that the proposed new thresholds correctly distinguish between RPT and non-RPT operators, the ACCC considers that the proposal may be more consistent with the establishment regulations, because RPT operators are largely responsible for passenger numbers which meet the establishment criteria.

The ACCC also considers that shifting the incidence of ARFF charges to RPT operators may have positive consequences for economic efficiency in the short term.<sup>3</sup>

However, this proposal does not address the ACCC's concern that the existing structure of ARFF prices does not appear to be economically efficient. In particular, the ACCC is concerned that the application of new weight thresholds may introduce undesirable incentives for airline operators in the long term. It may lead to distortions in the decisions of airlines to purchase particular sized aircraft in order to pay lower ARFF charges and this would not be economically efficient if the size of the aircraft does not drive Airservices' costs in the provision of ARFF services.

In addition, while the interim arrangements completely exempt operators below 5.7 tonnes from ARFF charges, it may be that such operators should make some contribution to the provision of ARFF services. This is an issue which should be considered in Airservices' review of the basis of charging for ARFF services.

Therefore, while the proposal goes some way to addressing the ACCC's concerns about the basis of charging in the short term, the application of a weight-based charging methodology in the long term could influence investment decisions which could have adverse consequences for economic efficiency. The ACCC therefore considers that the proposed price increases should be strictly limited to the period to 31 December 2005 and not extended beyond that time. This should ensure that Airservices faces appropriate incentives to review the long-term basis of ARFF charging and will also enable it to take into account the outcome of the Government's review.

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<sup>2</sup> CASR r.139.755 and Division 139.H.3 generally.

<sup>3</sup> The costs of providing an ARFF service to a particular location is in the nature of a common cost for the provision of ARFF services to different user groups at an airport. Once established, there is no clear (causal) basis for apportioning the costs of the ARFF service between users. From an economic perspective, this cost should be recovered from users at an airport in a way that causes the least distortion to economic efficiency. Shifting the incidence of ARFF cost recovery from general aviation and other small users to RPT operators may be consistent with Ramsey pricing principles, which suggest allocating such costs in inverse proportion to the elasticity of demand of users.

## **Forecast versus actual activity levels**

### ***Views of interested parties***

A number of submissions estimate that actual activity levels for 2004–05 will be significantly higher than those forecast in Airservices' long-term pricing proposal. These submissions contend that Airservices' prices should be revised to reflect the actual activity levels.

Submissions argue that activity levels are above Airservices' forecasts at the following airports:

- Rockhampton
- Maroochydore
- Coolangatta
- Mackay
- Townsville.

In particular, Rockhampton City Council submits that, based on its current 2005 schedule, tonnes landed from RPT services will be 29,000 tonnes above Airservices' forecast for 2004–05, and if freight and charter aircraft are included total tonnes landed for the period will be 39,000 tonnes above forecast.

The Mackay Port Authority argues that Airservices' activity forecast for 2005-06 was 171,000 tonnes and, after making an allowance for the increase in the charging threshold to under 5.7 tonnes, it estimates activity to be 204,000 tonnes—20 per cent higher than that used in Airservices' pricing model.

Sunshine Coast Airport (Maroochydore) submits that the current schedule of RPT services above 15 tonnes for 2005–06 is 222,000 tonnes, which is above Airservices' forecast of 140,000 tonnes.

Gold Coast Airport Limited estimates that activity for 2004–05 will be 986,000 tonnes, which is 193,000 tonnes greater than Airservices' forecast of 793,000 for that period.<sup>4</sup>

Australian Airports (Townsville) Pty Limited submits that there were errors in Airservices' assumptions on landed tonnes, which it states may be out by 100 per cent.

### ***Airservices' view***

Airservices submits that the activity levels in the five-year pricing arrangement were established in full recognition that activity is volatile. Airservices argues that it should continue to bear the risk established in the long-term pricing arrangement, subject to separate negotiations of risk sharing arrangements which are yet to be concluded.

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<sup>4</sup> Forecast activity at Coolangatta Airport used by Airservices for 2004-05 is 831,000 tonnes, rather than 793,000 tonnes as stated in Gold Coast Airport Limited's submission.

Airservices notes that while traffic levels have recovered faster than anticipated, a corresponding correction could occur at any time over the ensuing years. Higher oil prices, slowing economic growth and continuing global security issues are realistic threats to this recovery.

Airservices contends that any adjustment in activity levels should be dealt with as part of negotiated risk sharing arrangements with both customers and airports; not as part of this interim proposal.

Airservices commits to progressing discussions on risk sharing arrangements with airports as part of subsequent consultations regarding the permanent pricing structure at airports.

### *ACCC's preliminary view*

Prior to Airservices' long-term price notification, Airservices had taken a short-term approach to setting prices, rather than exposing itself to the risks associated with changes in activity levels.

Airservices' 2004 long-term price notification was developed in response to the ACCC's decision to object to the 2003–04 pricing proposal on the basis that Airservices had not undertaken a longer-term approach to determining its prices.

Implicit in agreeing to a set of prices for the regulatory period is a risk sharing arrangement between Airservices and its customers.

When activity levels are above forecast levels Airservices' customers realise the risk that prices are above the level that would enable Airservices to recover its MAR and, correspondingly, where activity levels are below forecast levels Airservices realises the risk that prices are below the level that would allow Airservices to recover its MAR.

However, the extent to which Airservices and its customers share risk in Airservices' long-term pricing proposal is bounded. To mitigate the risks posed by significant levels of volatility, Airservices and the industry steering committee (ISC) adopted a 'watching brief' over forecast and actual activity levels, which may result in courses of action such as agreement to change cost levels through a change in service levels, or seeking a price variation through the normal price notification process.

In its consideration of Airservices' long-term pricing proposal, the ACCC noted that there may be merit in Airservices and airports entering into individual risk sharing arrangements—particularly in relation to smaller regional airports where significant changes in activity levels are expected.

Because aggregate levels of activity have not moved beyond Airservices' established bounds, the ACCC does not consider it appropriate to reconsider the appropriateness of the activity levels underlying the proposed prices. Maintaining existing risk sharing arrangements is more likely to result in a stable path of prices for ARFF services over time, which should help to avoid Airservices' customers facing counter-cyclical prices for ARFF services. The ACCC notes that Airservices will consider entering into risk sharing arrangements with individual airports and encourages such arrangements, which should be entered into on a forward looking basis.

## **Effect of changed thresholds on competition**

### *Views of interested parties*

Submissions from major airline interests including Qantas, the Board of Airline Representatives of Australia (BARA) and the International Air Transport Association (IATA) expressed concern that the application of higher charges for aircraft above the 15.1 tonne threshold would provide RPT operators under the threshold with a competitive advantage.

In particular, IATA notes that there are aircraft that are used for RPT operations in both these categories and an increase in charges to one group only could result in a competitive disadvantage to those operators using an aircraft in the above 15.1 tonne category.

Qantas submits that exempting aircraft below 15.1 tonnes, but above 5.7 tonnes will generate a competitive disadvantage for aircraft above 15.1 tonnes (such as Qantas Link's Dash 8 aircraft) competing against RPT aircraft below 15.1 tonnes. Qantas submits that this will occur primarily on routes between regional locations and capital cities, and exacerbate the existing competitive disadvantage it faces on some routes because of a rebate received by aircraft less than 15.1 tonnes for Airservices' enroute service.

### *Airservices' view*

Airservices based its decision to use 15.1 tonnes as the break point between RPT and non-RPT traffic for a number of reasons:

- The Federal Aviation Administration's (in the United States) regulations separate 'large air carrier aircraft' from 'small air carrier aircraft' on the basis of the seat capacity of the aircraft. Large air carrier aircraft have 30 seats or more.
- The Department of Transport and Regional Services administers a payment scheme for Airservices' en-route charges available to aircraft below 15 tonnes, which is designed to subsidise 45 small RPT services and airlines that provide aeromedical services.
- Aeromil's submission to the ACCC's preliminary view on Airservices' long-term pricing proposal suggested a threshold of 15.1 tonnes or 40 passengers should be applied.

Airservices submits that the objective of applying differential charging above the weight threshold is to isolate the interim price increases to larger passenger carrying aircraft which are a major driver of the need and cost of ARFF services.

Airservices submits that ARFF charges are only one component of the total cost of operating at a particular location. It cites a Western Institute study<sup>5</sup> which found that

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<sup>5</sup> The Western Research Institute, *Regional Airlines Cost Structure of Regional NSW Air Services*, 2001, p.16.

Airservices' charges for TN, enroute and ARFF services amounted to around 4.3 per cent of the total operating costs of regional airlines, with maintenance, fuel and labour costs accounting for some 60 per cent of costs. Airservices argues that given the latest surge in fuel prices, this percentage is likely to be even higher. Further extrapolating from this study, Airservices contends that this proportion is even less significant for major operators.

Airservices considers that competitive advantages generated from economies of scale, fuel hedging practices, technology and employee practices, are more likely to outweigh the impact that this interim proposal may have on the relative market position of airlines.

Airservices' analysis of the fleet of aircraft consuming ARFF services in the six-month period to December 2004 shows that 97 per cent of passengers travelling on an aircraft of 30 seats or above were captured by using a threshold of 15.1 tonnes.

#### *ACCC's preliminary view*

To the extent that RPT operators below the threshold compete with RPT operators above the threshold, the application of higher charges above 15.1 tonnes will provide those operators below the threshold with a competitive advantage.

However, the magnitude of this competitive advantage is important. This depends on:

- the extent to which RPT operators below the threshold compete with those RPT operators above the threshold
- the difference between prices faced by those RPT operators above and below the threshold.

The extent to which RPT operators below the threshold compete with those above the threshold depends on a number of factors, such as route, schedule, speed (propeller versus jet aircraft) and capacity. Information provided by Airservices suggests that aircraft operating an RPT service under the threshold are propeller based with a seating capacity of approximately 35. It therefore appears unlikely that any competitive advantage enjoyed by these operators will adversely affect large jet aircraft flying between capital cities.

At airports which have an established ARFF service, operators above the threshold would pay on average \$1.29 more per tonne than an operator below the threshold.

In contrast, at airports which have a new ARFF service (such as Maroochydore and Townsville), operators under the threshold face no charge for the service, so the magnitude of any potential competitive advantage is larger at these airports.

At Maroochydore and Townsville airports, RPT operators above the threshold will pay \$16.82 and \$10.37 more respectively per tonne than operators below the threshold. This means that at Maroochydore airport, an operator just above the threshold will pay \$253.98 more than an operator below the threshold per landing and at Townsville airport, an operator just above the threshold will pay \$156.60 more than an operator just below the threshold.



Information provided to the ACCC by Airservices about operators, aircraft and movements at Maroochydore and Townsville airports enabled the ACCC to assess the scope for any competitive advantage derived from the application of higher ARFF charges above the threshold.

This information indicates that the application of the threshold at 15.1 tonnes does not appear likely to have an effect on competition with respect to operators at Maroochydore airport, but it appears that there is scope for operators under the threshold at Townsville airport to have a competitive advantage.

However, the ACCC does not consider that any competitive advantage derived from the application of the weight threshold will have a substantial effect on competitive outcomes due to the short-term nature of the pricing proposal.

Notwithstanding this, there may be merit in adopting alternative weight thresholds at airports where there is scope for the application of the 15.1 tonne threshold to provide some operators under the threshold with a competitive advantage. The ACCC would appreciate comment from interested parties on this issue.

### **Other issues**

As mentioned above, a number of other issues were raised in submissions to Airservices. These issues included the general level of the proposed prices and charging for military operations. These issues are discussed below.

#### ***Level of the proposed prices***

A number of submissions expressed concern that the levels of prices proposed are too high. In particular, Voyages Ayers Rock Resort and Sunshine Coast airport consider that the ARFF charges proposed at their respective airports are too high compared with competing and city airports.

Gold Coast Airport considers that the estimated costs in the proposal are excessive and that a competitive environment would substantially reduce the cost of supplying ARFF. Australian Airports Limited contends that the price for the ARFF service at Townsville airport established in the long-term pricing arrangement is flawed because Airservices has realised cost savings from the delay in providing the future new fire station and training ground.

The ACCC assessed the general level of MAR underlying the proposed prices in Airservices' long-term proposal and therefore does not propose to reconsider this assessment in the context of this interim pricing proposal. The issue of relative prices raised by Voyages and Sunshine Coast airport is one more appropriately considered in the context of the long-term review of ARFF pricing structure.

#### ***Charging arrangements for military operations***

Canberra airport submits that the fact that Airservices does not charge military operations for ARFF services implies that RPT operators are subsidising military operators and that the burden of this subsidy is higher on RPT operators at Canberra airport because other airports:

- receive less traffic arising from military operations
- charge military operations for the supply of ARFF services (Townsville airport)
- provide RPT operators with ARFF services for no charge because the service is provided by the Department of Defence (Newcastle airport).

Townsville airport submits that the level of discount provided to civil operators for paid provision of services to the Department of Defence by Airservices needs to be addressed.

The ACCC notes that there is scope for charging arrangements for military operations to affect the prices other operators pay for ARFF services at some airports. While this may be an important issue, its consideration is better suited to Airservices' review of the long-term basis of charging for ARFF services.

### **The ACCC's preliminary view**

The ACCC's preliminary view is to accept the overall revenue that Airservices proposes to recover through the application of the proposed prices to customers operating aircraft weighing greater than 15.1 tonnes. The ACCC also considers that the amendments to Airservices' basis of charging will alleviate to some degree the ACCC's concerns about the application of a weight-based charging methodology in the short term.

However, as mentioned in its preliminary view to the 2004 long-term pricing proposal, the ACCC has serious concerns about the application of the current weight-based charging structure in long-term pricing arrangements. This proposal does not address those concerns.

The ACCC's preliminary view, based on the information before it and subject to any submissions that the ACCC may receive, is to not object to Airservices supplying ARFF services in the localities on the terms and at the prices proposed in the draft notice of 5 May 2005, outlined in table 2:

**Table 2: Current prices, and prices to apply from 1 July to December 2005**

	Current prices (Prices to apply from 1 January 2006)	Prices to apply from 1 July 2005 to 31 December 2005		
		Aircraft with an MTOW:		
Airport Location	Aircraft with MTOW > 2.5 tonnes	Less than 5.7 tonnes	Between 5.7 and 15.1 tonnes	Above 15.1 tonnes
Adelaide	\$2.69	Nil	\$2.69	\$3.35
Alice Springs	\$6.81	Nil	\$6.81	\$8.75
Ayers Rock	\$13.09	Nil	\$13.09	\$16.82
Brisbane	\$1.46	Nil	\$1.46	\$1.76
Cairns	\$3.83	Nil	\$3.83	\$4.31
Canberra	\$3.58	Nil	\$3.58	\$4.60
Coolangatta	\$4.24	Nil	\$4.24	\$5.09
Darwin	\$7.23	Nil	\$7.23	\$9.28
Hobart	\$8.46	Nil	\$8.46	\$10.16
Launceston	\$9.30	Nil	\$9.30	\$11.95
Mackay	\$9.98	Nil	\$9.98	\$12.83
Maroochydore	Nil	Nil	Nil	\$16.82
Melbourne	\$1.09	Nil	\$1.09	\$1.40
Perth	\$2.40	Nil	\$2.40	\$2.74
Rockhampton	\$9.59	Nil	\$9.59	\$12.32
Sydney	\$0.69	Nil	\$0.69	\$0.88
Townsville	Nil	Nil	Nil	\$10.37

Under the draft notice of 5 May 2005, prices would revert on and from 1 January 2006 to the current prices (subject to any further price notification from Airservices). The ACCC considers that the price increases, if approved, should be strictly limited to the period to 31 December 2005 and not be extended beyond that time. The ACCC expects any prices proposed to apply from 1 January 2006 to be the result of a thorough review of the appropriate basis of charging for ARFF services.

## **Appendix A List of submissions**

Adelaide and Parafield Airport

Board of Airline Representatives of Australia (BARA)

Cairns Port Authority

Canberra International Airport

International Air Transport Association (IATA)

Mackay Port Authority

Metropolitan Air Ambulance Service

Qantas

Regional Aviation Association of Australia (RAAA)

Regional Express (Rex)

Rockhampton Airport

Royal Flying Doctor Service (Queensland, Central, West)

Sunshine Coast Airport (Maroochydore)

Townsville Airport

Gold Coast Airport Limited

South Australian Government

Voyages Resort (Ayers Rock Airport)