

*Airservices Australia Draft Price Notification
ACCC Preliminary View, July 2011
Comments by Cathay Pacific Airways*

Cathay Pacific Airways welcomes the opportunity to provide comment on the ACCC's July 2011 preliminary view of the Airservices Australia Draft Price Notification.

Cathay Pacific agrees with and supports the decision of the ACCC to object to Airservices' proposed price increase for TN and ARFF services.

The ACCC has raised this objection because:

- Airservices has not undertaken adequate consultation to ensure that its proposed capital expenditure program is prudent and efficient;
- There is scope for Airservices to improve its drivers of efficiency through internal benchmarking and setting of explicit efficiency targets;
- The methodology applied by Airservices in estimating the nominal risk-free rate and cost of debt margin has resulted in a proposed rate of return that is currently too high.

Cathay Pacific agrees with the ACCC on these matters.

Additionally, Cathay Pacific would like to make the following comments in relation to ACCC comments in the preliminary view.

On page 74, under the heading "*MTOW-based charging*", the ACCC makes the following points:

- *...generally accepted that the value of the service is reflected in an aircraft's productive capacity;*
- *...taking MTOW into account in aircraft navigation charges is virtually a universal practice;*
- *...for enroute charges, virtually all ANSPs charge according to the MTOW and the distance travelled within the flight information region;*
- *...accepts Airservices' submission that MTOW is generally correlated to the number of passengers (or amount of cargo) on board;*
- *...adopting a pricing methodology based only on distance will potentially ignore users' capacity to pay, which is likely to result in Airservices being unable to recover its overall efficient costs.*

Cathay Pacific holds the strong opinion that enroute charges should be determined by the cost of the service provision, as service delivery is independent of productive capacity. Effort and resource expended on service delivery in the enroute environment is the same regardless of whether the customer is operating an A380 or a business jet.

The ACCC may wish to note that two of the largest service providers in the world (U.S.A. & China) do not have a weight component in their overflight charges. Both of those providers recognise that the weight of the aircraft is immaterial in this service

delivery line. Therefore, it is not accurate to say that “*taking MTOW into account in aircraft navigation charges is virtually a universal practice*”.

Cathay Pacific wishes to emphasise the point that MTOW does not necessarily correlate to passenger numbers. Ultra-longhaul operations can see very heavy aircraft (e.g. B777-200LR; B777-300ER; A340-500) with comparatively low passenger numbers. In some cases a lighter aircraft can have more productive capacity than a heavier one. For example, an A330 is lighter than an A340 but carries more passengers.

All this to say that assessing an aircraft’s productive capacity is far from a straightforward proposition, and becoming more difficult with each new aircraft type. The only equitable solution is to base the charge on the cost of service and not an inaccurate “capacity to pay”.

On page 77, under the heading “*Weight-based charging going forward*”, the ACCC makes the following point:

- *...there may be efficiencies associated with larger aircraft that Airservices is aiming to encourage through the implementation of a cap, and these efficiencies may be enhanced when Airservices lowers the cap to include other large aircraft.*

As explained above, a larger aircraft does not always mean a more efficient aircraft and an incentive to encourage more efficient aircraft therefore does not correlate to the imposition of a 500T cap. This is why Cathay Pacific has previously made the point that a reasonable first-step measure towards removing weight from the charging methodology and to recognise the difficulty of assessing productive capacity would be to include all ICAO HEAVY category aircraft in a single weight band.

(sent electronically)

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