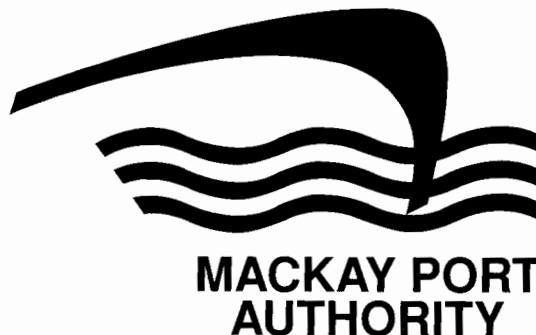
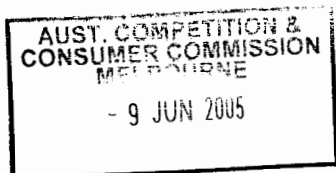


Our Ref: 0505/05/JCT/cas

June 6th 2005



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

FILE No	DOS/35651
DOC:	
ARS/PRISM:	

Dear Margaret,

RE: ACCC Preliminary View Airservices Australia Draft price notification – ARFFS

I refer to your email of the 19th May 2005 inviting the Mackay Port Authority (MPA) to comment on the above matter.

The MPA sees merit in some of the options proposed to be reviewed in the upcoming consultation process. Our key concern is that until that full consultative process on long term pricing has been completed, the proposed interim arrangement would unreasonably continue to apply a pricing regime that has clearly already generated windfall revenue benefits to Airservices Australia.

The data being used for the activity forecasts is seriously flawed and would result in a price during the interim period that is 17% higher than it should be for the ARFFS services at Mackay Airport, i.e. \$12.83 a tonne rather than \$10.95, resulting in an inequitable over-recovery on budget of some \$384,900 in a full year or \$1.40 a passenger.

It is very difficult to comprehend the rationale of the calculation of this interim price proposal when Airservices use Location Specific Pricing to determine revenue and expenses for ARFFS operations at each airport, yet want to use variation of activity levels on an aggregate tonnages basis (a network approach) as the trigger for price reviews. This provides no incentive to reduce costs at regional airports that have promoted and encouraged growth in services.

Specific comments on activity forecasts and variances, which serve to highlight the inequity of the Airservices approach are outlined in the attached Appendix A. Also attached are preliminary comments on future options.

Accordingly, the Mackay Port Authority believes the above demonstrates that Airservices, by not using best up-to-date current data has failed to provide fair and equitable pricing of ARFFS services at Mackay Airport and provides no incentive to grow the business and lower costs, nor does it share in the costs or risk of stimulating that growth, from which it has already derived significant benefit.

I understand that the ACCC is required by s 95G(7) of the Trade Practices Act to have particular regard to “the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices”

Accordingly the Authority urges the ACCC to require Airservices to review the throughput bases used in the proposed pricing model for this interim period whilst consultation is undertaken, noting that the windfall revenues already retained by Airservices provide a significant commercial cushion against any adverse movements in the market and thus should readily enable the incorporation of more realistic projections into the pricing model.

Yours faithfully



JOHN TAYLOR
CHAIRMAN
MACKAY PORT AUTHORITY

Activity Forecasts

Airservices has used the forecasts below to arrive at the proposed interim increases for ARFFS services at Mackay Airport which the Mackay Port Authority dispute for a number of reasons, as outlined below.

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
ARFFS	166,000t	171,000t	175,000t	179,000t	182,000t	184,000t
Percentage increase		3.0%	2.3%	2.3%	1.7%	1.1%
<i>IATA growth forecasts</i>						
Regional Airports		3.0%	2.6%	2.1%	1.5%	1.3%
Major Airports		5.6%	4.7%	3.8%	3.7%	3.1%
GA Airports		1.0%	2.0%	2.0%	2.0%	1.8%

The above tonnage forecast data was supplied by your office and the IATA forecasts on growth rates was published in the Airservices Australia Draft Price Notification – August 2004, page 25.

On that page it detailed varied growth forecasts for the different categories – major airports, regional airports and general aviation airports as above.

- “The forecast growth rates for aircraft greater than 20 tonnes was generically applied to major airports”
- “The forecast growth rates for aircraft less than 20 tonnes was generically applied to regional airports”

Mackay Airport has 52 jet aircraft arrivals a week by aircraft above 20 tonnes and these provide over 75% of the tonnages at Mackay Airport – Virgin Blue 737-700 and 737-800, 69 and 79 tonne aircraft, Jetstar B717-200, 52 tonne, Qantas B737-400, 68 tonne . Increased services have resulted in passenger numbers increasing from 362,000 in 2002/03 to 438,000 in 2003/04 and should be about 570,000 in 2004/05. Clearly it was inappropriate of Airservices to apply regional airport growth forecasts to Mackay Airport when the main aircraft are large jet aircraft well over 20 tonnes. In the near future the B717-200 aircraft operated by Jetstar will be replaced by the Airbus A320, 73 tonnes.

With this in mind the correct category of IATA growth forecasts, major airports, needs to be applied to Mackay airport (as it is in the category of aircraft over 20 tonnes) the forecast tonnage activity using the 2003/04 base of 166,000 should be:-

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
ARFFS	166,000t	175,000t	183,000t	190,000t	197,000t	203,000t

This would result in the 2008/09 forecast figure being 10% above the forecast used in the ASA model.

Airservices has used old data as the base which results in immediate incorrect pricing as the starting point of the model. The 2003/04 data has been used, rather than recent data to hand such as 2004/05 year to date and extrapolating that data to arrive at a more accurate forecast for this year which is reliable as there is only two months to go.

Airservices has provided the MPA with data for the period July to April 2005 which is 169,523 tonnes and extrapolating this for the full 12 months indicates total tonnage of 204,000 for the 2004/05 year, after making an adjustment for the new schedule with extra services results in 205,000.

This 205,000 tonnes is in comparison to the 175,000 tonnes used in their August submission and represents a 17% growth rate not the 3% used in the initial model. So the base used in the model is seriously no where near actual tonnages. When we use the new base for the 2004/05 year of 205,000 and apply the correct category of major airports, the future activity levels should be as follows:-

Airservices view that activity is Volatile

I would like to make a comment on this statement. While tonnage activity fell dramatically and in some cases has not returned to pre Sept 11 numbers, the airline industry has recovered passenger numbers quite quickly and achieved additional growth on every occasion there has been an economic downturn or catastrophic event such as the pilots' dispute, the Iraq wars, Sept 11, the Ansett collapse and Sars or economic downturn. On the positive side airline deregulation in the early 1990 produced a 22% increase in passenger numbers in one year and this year the expansion of Low Cost Carriers such as Virgin Blue and Jetstar is also producing double digit growth.

To demonstrate that the airline industry's volatility does not significantly effect long periods, please refer to the attached Table 1 which illustrates RPT passenger and aircraft movements over 25 years. Passenger numbers have risen an average of 9.5% a year whilst aircraft movements only increased by 1.3% a year. Also note that during the recessions of 1982/83, 1987/88 and 1997/98 the effect on passenger numbers was minimal overall. It was only the two big events during the 25 year period that caused the big decreases in passenger numbers and aircraft movements, the pilot's dispute of late 1989 and Sept 11 and Ansett collapse of late 2001. Both events in this 25 years were followed by recovery the following year and then massive growth due to airline deregulation and Low Cost Carriers.

Airlines are striving to cut costs and Low Cost Carriers (LCC's) are doing that by increasing the number of seats per MTOW to lower per seat costs. Average load factors have also increased since the advent of Low Cost Carriers with average load factors on routes where LCC's operate increasing significantly. As an example in February 2001 when Qantas operated 76 seat Bae-146 aircraft and Ansett 50 seat CRJ-200 regional jet aircraft the load factor on the Brisbane- Mackay route for February was 59.4%, the worst performing month of the year. This year with overcapacity from Jetstar operating 125 seat Boeing 717 aircraft and Virgin Blue 144 seat Boeing aircraft the load factor was still 68.8% an improvement of 9.4%.

So whilst Airservices claim that the aviation industry is volatile in terms of aircraft movements and MTOW, passenger numbers are not subject to the same degree of volatility in terms of recovery time.

Passenger numbers are therefore a better measure of activity and indeed a more equitable way of charging than the MTOW method. Most airports have now moved to a passenger charge rather than a MTOW charge for this reason.

The way forward, Phase 2 – Develop an Alternate Charging Basis for ARFF

We note that there are a number of options under consideration by Airservices Australia

1. A continuation of the MTOW model used to determine pricing in the interim price proposal
2. A passenger based charge
3. An aircraft category based charge
4. A single price network based charge

Option 1, the MTOW model addresses the cost imposts on GA and smaller Regional operators but does not address the inequitable charging at regional airports which restricts regional development as airlines receive lower airfare yields on regional routes and do not provide additional seat capacity as readily. There is also little incentive for the airports to drive growth as a network basis is proposed for review of activity levels.

Option 2, a passenger based charge provides a better correlation between the basis for establishing ARFF services by charging on a per passenger basis. The passenger charge could be aligned to the type of aircraft similar to the proposed aircraft category based charge.

Option 3, an aircraft category based charge aligns the cost of providing a level of safety to the size and passenger seat capacity and does not discriminate the cost of providing that level of safety, the charge is the same at a capital city or regional airport.

	2004/05	2005/06	2006/07	2007/08	2008/09
ARFFS	205,000t	215,000t	223,000t	231,000t	238,000t

As you can see at year 2008/09 the outcome is 238,000 tonnes (29% more) as against the 184,000 tonnes being used to calculate the new proposed interim charges.

I know that Airservices has advised that it needs to incorporate into its pricing and forecasts any possible downturn caused by an economic slowdown, global security or an oil crisis so it doesn't under recover its MAR. MPA also question that these factors lead to the suggested volatility and are real long term threats. Airservices contend that it has taken the risk of providing a five year pricing model so is entitled to some padding. However 238,000 verses 184,000 tonnes in 2008/09 provide a 29% higher price than is warranted? Surely this is excessive.

Variances in activity levels

Mackay Airport has demonstrated that it is not subject to large long term variances in passenger numbers during economic downturns, energy crisis or one off catastrophic events like many inbound leisure airports such as Hamilton Island, Gold Coast, Cairns and Ayers Rock, as the mix of passenger traffic is mainly Business and VFR with very little inbound leisure. This can be demonstrated by comparing the passenger numbers for the year before, during and after the Sept 11, Ansett collapse and Sars events (source DOTaRS – BTRE – Airport Traffic Data):

	2000/01	2001/02	2002/03	2003/04
Mackay	282,651	296,132	371,831	442,220
Hamilton Is	313,702	248,323	281,480	338,493
Ayers Rock	435,790	365,519	356,837	322,927
Cairns	2,890,752	2,642,498	2,900,472	3,222,118
Gold Coast	1,888,008	1,736,004	2,177,602	2,502,990
Melbourne	16,881,010	15,967,430	16,382,298	18,630,402
Sydney	25,813,958	23,150,121	23,442,248	26,072,647

The proposed mechanism to overcome any material variances as I understand it is that when there is a 5% variance of the total aggregate tonnages across the nation in a financial year Airservices will review pricing.

This is in fact a network approach and as such is in conflict with the Location Specific Pricing model adopted by Airservices and unfairly disadvantages and provides no incentive for the higher cost ARFFS regional airports to increase tonnages and reduce ARFFS costs. The reason is that the smaller volumes at regional airports mean any variances either way can be large in percentage terms due to the small tonnage bases. So whilst nationally there might be say an increase in tonnages of say 4%, at regional airports like Mackay one extra B737 service a day would mean an increase in tonnage of 12% and that would not trigger a pricing review.

Mackay Port Authority has spent over \$2m since 2001 in providing incentives to the airlines, marketing funds and price caps and freezes to achieve the passenger, services and tonnage growth at Mackay airport, however as up to date tonnage data is not being used to calculate proposed interim prices for ARFFS, MPA is not receiving any benefit for these efforts. The Airservices Australia network approach to activity levels clearly does not provide any incentive to lower costs of these services.

Option 4, a single price network based charge is great for regional airports as it provides a level playing field but has not been acceptable to Airservices in the past.

Contestability – The main area where savings can be made appear to be in the large overheads apportioned by Airservices Australia to individual ARFFS services and locations and the potential for providing traditional airport services such as runway inspections and bird hazard management. The same result as outsourcing to a private contractor may be achievable if the existing Airservices ARFFS was a stand alone provider contractor to Airservices. This would ensure an appropriate level of supervision and safety. This was done with Asset Services some years ago.

TABLE 1
SCHEDULED REGULAR PUBLIC TRANSPORT
AIRPORT TRAFFIC DATA 1978-79 to 2003-04
TOTAL AIRPORT TRAFFIC – AUSTRALIA

RPT SERVICES TRAFFIC SUMMARY

Year	Total Revenue Passenger Movements	Total Aircraft Movements	Comments
1978-79	26,152,509	824,553	
1979-80	28,430,300	867,651	
1980-81	28,524,091	868,152	Energy crises - Iran revolution
1981-82	28,907,373	870,121	
1982-83	26,864,363	861,220	Recession
1983-84	27,548,071	851,701	
1984-85	29,585,947	862,737	
1985-86	31,805,285	897,687	
1986-87	36,198,871	905,323	
1987-88	39,574,453	927,612	Stock market crash Oct 1987 / recession
1988-89	40,926,240	968,797	
1989-90	31,976,057 – 22%	798,850	Pilots dispute Aug 1989-Mar 1990
1990-91	41,498,045 +30%	962,007	Gulf war – energy crises
1991-92	50,093,275 +21%	1,058,160	Airline deregulation increases passengers
1992-93	51,605,439	1,130,559	
1993-94	55,959,800	1,155,754	
1994-95	61,756,339	1,217,920	
1995-96	66,248,949	1,260,752	
1996-97(e)	68,331,404	1,272,858	
1997-98(e)	69,554,169	1,269,967	Asian financial crisis/economic down turn
1998-99(e)	70,858,387	1,284,719	
1999-00(e)	74,917,484	1,287,041	
2000-01(e)	81,927,820	1,353,578	
2001-02(e)	74,813,437 – 8%	1,082,782	Sept 11, Ansett collapse, SARS
2002-03(3)	77,742,891 + 4%	1,065,089	Stock market downturn
2003-04(e)	88,247,387 +13%	1,094,079	Low Cost Carriers expand capacity
Average Annual Increase	+9.5%	+1.3%	

Source – DOTaRS – Avstats – Airport Traffic Data