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19 November 2004

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

Dear Ms Arblaster,

Australian Airports Limited (Townsville) (AAL) is making this submission in accordance with the ACCC preliminary review of Airservices Australia (AsA) Draft Price Notification of November 2004.

Clearly the proposed 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. Further, they would have an adverse effect on Regional development and development of the aviation industry in North Queensland.

Of interest is AsA's charter letter¹ by the current Minister for Transport and Regional Services which states:

"You will recall from Mr Sharp's charter letter his reference to the importance the Government places on a future for the small businesses dependant on air traffic services, particularly in regional and remote areas. This remains a matter of fundamental significance to me. The Government amended Airservices' legislation in 1998 to reflect it responsibly to promote and foster aviation. I view that part of your legislated responsibility as something which the Board needs to see in the context not just of its major customers, but of the areas of social priority identified by the Government."

The impositions of such hefty increases are at odds with the Governments, both State and Federal avowed aims of increasing regional employment and opportunities. The best way forward would be to consider alternative ways to reduce costs at Regional and GA airports, or provide a new charging model to suit the airlines, passengers and aircraft operators.

Further the impost of the charges would appear to be at odds with the matters set out in *The Trade Practices Act 1974*, section 95G(7), which states "the ACCC should particularly consider the need to maintain investment and employment, including the profitability of investment and employment." Given the tourism and aviation industry have a net employment growth factor of 2.9 for every position created, the imposition of such a

¹ <http://www.airservicesaustralia.com/profile/annualreports/areport03.pdf>, Appendix 4

substantial pricing change would effect job creation, move aviation industry positions from Townsville and cause a net contraction of both aviation and tourism employment.

Airservices is a monopoly which through vested legislative powers excludes other service providers from readily entering the market and hence as Airservices provides essential services location specific pricing is not an acceptable practice and raises questions concerning the application of the *Trades Practices Act* particularly Section 46. Airservices focus on the increase in charges has been the weighted average increase for all airports which highlights a fairly minimal increase. However individual locations indicate increases of at least 10% or more for the next five years. These locations are mostly regional airports where such increases have a far more dramatic affect due to their demand elasticity.

Airservices argues the impact of the proposed price changes on major routes is not expected to be material. Airservices has submitted, and ACCC has agreed the impost on ticket prices on the top 25 routes in Australia will be in the order of 69 cents or 1.1 percent of the ticket value. However, as both the ACCC and AsA have acknowledged, the impost on Townsville operations for AFFRS will be in the order of \$10.67 per ticket, a manifestly greater impost on developing or recovering regional routes and markets. Further on the most popular tourist route, price would be pushed past the magical \$100 mark, an increase of 12%, making the route less attractive to Virgin Blue customers who currently encompass 22% of this airports traffic.

Location specific pricing is therefore only truly appropriate where competition for a particular service provision can be introduced leading to service efficiencies and a resultant decrease in the overall price.

The adopted approach by Airservices is discriminatory as it segregates between capital city and regional based airports which in turn provide a significant burden on regional and outback Australia particularly small general aviation users who have a crucial role to play in terms of transport, communication and medical services.

As per the Price Regulation of Airport Services report in 2002 by the Productivity Commission it states that AsA charges tend to be significantly higher than the charges levied by airports and because of the way charges are calculated they are particularly higher at smaller airports. AsA determines whether the services for which they charge are provided so neither airports nor airlines have input or discretion on whether they are provided.

Until 1997 Airservices recovered ARFFS under a network pricing structure and we have assumed that all costs associated with the commencement of a new service at an airport were also recovered on a network basis thus reducing costs to individual airports. However with the present pricing structure any airport that comes on line for ARFFS as per current regulations will now be expected to assume all the costs associated with the implementation of a new service from day one. Thus the majority of airports who presently have ARFFS service will have enjoyed a hiatus from full cost recovery or were subsidised by the government. This does not appear to be the case for future airports and could in fact stunt growth for those airports that hover around the 350,000 passenger mark.

Privatisation and commercialisation of government entities has resulted in the removal of network pricing to location specific pricing; those airports who had fire fighting services pre privatisation have benefited from having facilities paid for by the Government. Airports such as Townsville are being discriminated against as a consequence of the decision made by the RAAF to outsource fire fighting activities.

- **Tourism**

The tourism industry in the Townsville Region is in its infancy when compared with more established destinations such as Cairns, the Gold Coast and Maroochydore. Tourism is however an industry that has a proven record of delivering substantial benefits to regional communities, and Townsville is servicing a region from Bowen in the south to Cardwell in the North and thence out to Mt Isa.

Low cost carriers are aggressively targeting the leisure travel market in an effort to grow their businesses. Benefits are most noticeable in regional communities where affordable air travel is enabling short stay interstate and intrastate tourism. The mooted increases in ARFFS charges have the potential to drastically reduce Townsville's Regional appeal as a tourism destination by distorting ticket prices further in favour of major population centres.

Townsville Airport has limited market power because of its reliance on the holiday market particularly for interstate travellers (and therefore scope for competition between holiday destinations and from other transport modes). Townsville is in a precarious situation as our demand elasticity is strong in the holiday market which has the potential for destination substitution should airfares increase; the regional effect would be substantial especially as our tourism market is only just starting to grow.

- **Location Specific Pricing**

Application of location specific pricing has a detrimental effect on regional airports from a commercial and competitive aspect. This is evident in the allocation of pricing between capital city airports to that of regional and general aviation based airports. For example at Brisbane Airport ARFFS will cost \$1.76 per landed tonne (inclusive of GST) whilst at Townsville ARFFS will cost \$10.37 per landed tonne (Inclusive of GST).

AsA applies a location specific pricing schedule to Tower and ARFFS, however applies a single pricing policy to enroute services. AAL has no real objection to the basis for charging on TN and enroute services. However, we do find it somewhat perplexing that the basis of charging is different between the enroute and ARFFS. One is a universal charge and the other location specific. Further we note that charges appear to have been imposed where no service is provided, this will be covered later.

In the breakdown of the location specific pricing for the provision of ARFFS at Townsville Airport (\$10.37 per landed tonne) the hours of operation have been set at 24 along with a Category 7 rating. According to the Department of Defence they have agreed with Airservices Australia the RAAF would pay ARFFS charges up to Category 4 whilst industry pays the difference between a Category 4 and Category 7 after 2200hrs and before 0600hrs daily. It was not clear if the charge of \$10.37 reflected this contribution.

Determination of charges for Townsville Airport and other regional airports are based on MTOW volume projections for five years which are underestimated as an incorrect base has been used as a starting point. For example, in the 2004 financial year tonnes landed equated to 403,000 as recorded by AAL whilst Airservices noted total tonnage in the vicinity of 369,000 – a difference of some 34,000. This difference has an impact on the charging structure which has been noted in the ACCC paper.

The basis for determining the charge has several interesting components which truly do not reflect location specific pricing. For instance it is very hard to ascertain the Capex projects for Townsville and with the fire station not to be constructed until three years after the commencement of the contract why are the charges constant from day one.

Recovery of capital over a five year period does not seem to fit with standard accounting or commercial practices. If the economic life of the asset is 10 years then this is a more appropriate recovery period. Recovery over a five year period is only perpetuating the increase in charges. The question must be asked “is there going to be a decrease in charges after the five year period to take into account full recovery of capital?”

In terms of the risk sharing arrangements, AAL believes should there be any new regulatory requirements come into play during the five year agreement then the cost of this should be worn by Airservices or at least phased in. Such risk should be already factored into their rate of return.

The ACCC report states that to alleviate the impact of higher prices involved in transitioning from a network to location specific pricing approach the government capped prices for TN services at some regional and GA airports and introduced a direct subsidy. A transitional or subsidised arrangement seems only fair to those airports that have new services commencing.

- **Inconsistent aviation charges for airports without AsA staff**

AAL has noted that AsA proposes to charge \$2.98 per tonne at Townsville and \$1.88 per tonne to land at Darwin Airport. As there is no AsA staff at these ATC facilities, how can an ATC levy be applied to these airports? AAL has assumed these charges are used to recover other infrastructure costs associated with navigation aids and other services to these airports? If this is correct then why do you not levy ATC charges at other airports serviced by Airservices Australia navigation aids? For example, Proserpine Airport has a VOR, DME and NDB servicing several instrument approaches, yet at this stage an ATC charge is not levied on aircraft landing there? Navigation aids and other related AsA services provided at non ATC / ARFFS airports must be funded by some form of cross subsidisation either directly by the airports that do have ATC or via enroute charges.

- **Community Support**

Air travel is now being considered a serious medium for access to specialised medical services that are not available in the NQ region. Previously the prohibitive cost of air travel has meant the consideration of long journeys by car or train to obtain these services. The Royal Flying Doctor Service (RFDS), Queensland Emergency Services Rescue Helicopter and Angel Flight also provide emergency medical services to regional centres. The

proposed AsA price increases will result in significantly higher operating costs (an estimated additional \$120 per landing at Townsville Airport) and will result in additional requests for financial assistance from regional communities.

- **Development of a Universal Service Obligation for regional aviation services**

The Australian Communications Authority (ACA) currently administers a Universal Service Obligation (USO) for regional telecommunication 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 that telecommunication services in regional communities have been given special consideration and support, while vital air transport services are being burdened with disproportionately high charges. Serious consideration should be given to a USO for safety and emergency services (encompassing ARFFS and ATC) for regional airports.

A return to the network based charging model

In relation to Airservices Australia’s proposal of LSP for Rescue Fire Fighting Services, the ACCC stated in its summary, dated 4 June 1997

“Currently charges for ARFFS are calculated on a network basis, meaning the same rate of charge for a particular service, irrespective of location. This pricing structure fails to recognise the varying costs that are incurred in providing services at different locations.”

As AsA is the monopoly provider of these services, it is able to transparently provide detailed cost breakdowns for all business units operating at various regional airports. As a result, AsA is already aware of the costs associated with operations in different airports, regardless of whether the Network or Location Specific Pricing model is used. Therefore it is difficult to see why a network based charging model should not be considered.

SUMMARY

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.


Suggested options for setting standing charges could encompass but not be limited to the following:

- Review establishment level up from 350,000 threshold with 90% coverage of national passengers carried or airports to 750,000 (This could lead to the disestablishment of

ARFFS at airports such as Mackay, Rockhampton and no need to establish at Maroochydore, Ayers Rock and Hamilton Is in the near future);

- Subcontract out the services to State Fire services or Airports where possible (Ex FAC airports);
- Return to network pricing based on MTOW;
- As the criteria for establishing an ARFFS is passenger based, move to a two tiered pricing system:
 - International and Domestic, based on a mix of a MTOW charge for non RPT services;
 - Universal per passenger per sector charge for RPT services similar to the Fuel surcharge and Global Insurance charge;
- Both suggested methods are as recommended by the House of Representatives Standing Committee on Regional services in November 2003. Airservices Australia has advised a charge along these lines would be \$2.40 per passenger;
- A differential Universal charge could be introduced for sectors less than 1000km and those over 1000km;
- There would appear to be a split in the logic that the same charge is made on an aircraft with fare paying passengers as is say, a Freighter or GA aircraft. We acknowledge that some effort has been made with aircraft below 2.5 tonnes not being liable for this charge.

Yours faithfully

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.