MINISTER FOR PLANNING AND INFRASTRUCTURE

HON ALANNAH MacTIERNAN
BA LLB BJuris JP MLA

- 6 DEC 2004

Our Ref: 2-52350-

Mr Graeme Samuel
Chairman
Australian Competition and Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001

Dear Mr Samuel

ACCC Preliminary View Airservices Draft Price Notification

I note that the Australian Competition and Consumer Commission (ACCC) has released its preliminary view in relation to Airservices Australia's (Airservices) five-year pricing proposal, and that the preliminary view is to not object to Airservices' proposed price increases for terminal navigation and en route services.

The Western Australian Government's view is that the Airservices' proposal in regard to terminal navigation pricing discriminates against users of Jandakot Airport, where the landing costs in 2008/09 will be 47% greater than the equivalent cost at Perth Airport.

Whilst there has been no firm commitment from Airservices in relation to the pricing policy beyond 2008, if the approved pricing structure continues, it is anticipated that there would be an increase in the price at Jandakot Airport until total costs are met. This would, therefore, appear to pose a significant threat to the viability of Jandakot Airport in the long term, and may have serious economic and land use planning consequences for the State. For example, Jandakot Airport currently employs almost 700 people, contributes approximately $500 million to the Western Australian economy and generates $40 million in export income annually.

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The airport owner of Jandakot Airport (Jandakot Airport Holdings) clearly had an expectation to be able to ultimately operate the airport in a commercial and viable manner. In granting a 50-year lease and a 49-year option and accepting a payment of $6.7 million, the Commonwealth would have a role in the airport owner having a reasonable expectation to operate the airport viably. These charges will threaten the long term viability of the airport and should they transpire, and continue to increase, the airport owners would have no option but to also increase their charges, particularly if businesses close and move to less costly locations away from Jandakot Airport.

In turn, Perth Airport is being disadvantaged compared to Sydney, Melbourne and Brisbane airports with charges being higher by 55%, 71% and 48% respectively in 2008/09. Perth Airport is particularly valuable as a major tourism gateway to the State, and in this regard competes for business with airports on the east coast of Australia. Airservices' proposed prices discriminate against Perth Airport and make it less competitive compared to the international airports in Sydney, Melbourne and Brisbane.

In reviewing the ACCC's decision, it is apparent that representatives from the Industry Steering Committee and major airlines put a persuasive argument against cross subsidisation of Airservices' services. The ACCC states in its deliberations that it does not agree with a national network pricing model and believes that such an approach would be more likely to exacerbate productive inefficiency because costs of providing services are not targeted directly to those using the service. Also, the ACCC argues that there is an equity argument against customers being required to pay more than the cost of providing the service to them.

Whilst a national network charge may disadvantage major airlines through cross-subsidisation, there are parallels in the provision of services by Airservices with the current situation in regard to telecommunication and mail services in Australia. In these cases it is recognised that there is a 'public good' in cross-subsidising the costs of services to customers who have the least capacity to pay.

In addition, it appears that there is some cross subsidisation in regard to en route charges, as aircraft with a maximum take-off weight (MTOW) of less than 20 tonnes pay significantly less than aircraft above that weight for the same level control service provided by air-traffic controllers. The level of en route service provided to aircraft would appear to be independent of weight and, therefore, approval of Airservices' en route pricing structure appears to contradict the ACCC's position on terminal navigation pricing. It should also be noted that regional airlines can apply for a rebate from the Commonwealth in respect to en route charges for aircraft with a MTOW less than 20 tonnes.

It is widely recognised that the general aviation industry, with some notable exceptions, is not a profitable industry, yet it is vital to the Australian economy, particularly in regional areas. The ACCC's preliminary decision favours major airlines operating on the busy east coast of Australia, to the detriment of the GA and regional stakeholders who have the least capacity to pass increased costs on to users. Airservices, as a monopoly service provider, must be cognisant of the impact that the proposed price increases will have on a fragile industry.

The Government of Western Australia therefore reiterates its support for a national network pricing model and requests that the ACCC takes into account the wider issues confronting the aviation industry in Australia, and particularly general aviation.

I am willing for officers from DPI to meet with you to discuss these issues further. Please contact Mr Nick Belyea, A/Director Transport Freight and Logistics, on (08) 9216 8720 in this regard.

Yours sincerely

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cc Ms Margaret Arblaster
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