



11 May 2011

Mr Anthony Wing
General Manager - Transport and General Prices Oversight Branch
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Wing,

**Australian Competition and Consumer Commission
Airservices Australia Draft Price Notification
Issues Paper**

The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) was formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 26 Ordinary Members (AOC holders) and 57 Associate/Affiliate Members. The RAAA's AOC members directly employ over 5,000 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$1b, carry well in excess of 2 million passengers and move over 23 million kilograms of freight. Annex A lists the Ordinary Members of the RAAA.

RAAA members operate in all States and Territories and include airlines, airports, engineering and flight training companies, finance and insurance companies and government entities. Many of RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional areas.

Some examples of RAAA members' presence in regional Australia is the REX hub in Wagga Wagga, SkyWest in WA, Sharp Aviation in Hamilton, Airnorth, Chartair and Vincent Aviation Northern Territory networks, West Wing Aviation in Mt Isa and Skytrans operations from Cairns, to name a few.

Serving regional aviation, and through it, the people and businesses of regional Australia

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RAAA Charter

The RAAA's Charter is to promote a safe and viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members to have input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry by direct lobbying of Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

Response To Airservices Australia Draft Price Notification Issues Paper

General Comments

The Regional Aviation Association of Australia (RAAA) is strongly opposed to pricing on a location specific basis and supports network charging. This has been the RAAA's consistent position for over ten years and has expressed this view regularly to Airservices Australia (AsA) and the Australian government.

Regional air services form an essential part of Australia's transport infrastructure. Regional operators accept that AsA is a monopoly service provider that works within the framework of over-arching government policies of reasonable access for regional communities to high quality transport, telecommunications, education and health services. Government needs to ensure that AsA's service provision costs are reasonable and fair and not passed on as an open-ended user pay system.

Location specific charging is highly disadvantageous to regional operators, many of whom are trying to rebuild regional air-routes. The number of towns/communities served by regional carriers has more than halved over the past twenty five years. There is a growing realisation that this shrinkage has gone too far and is holding back regional development at a time when it is most needed. Furthermore, location specific charging fails to take into consideration the connectivity of the service provided by AsA between different locations. That is, AsA provides a total service throughout Australia and not just a service at an isolated location.

Countries such as the USA and Canada with their dispersed populations have been strong supporters of network pricing for many years. The RAAA can see no compelling reason to shift too far from a similar model in Australia.

AsA appears to have struck a reasonable balance with its Basin and Regional Caps proposals although it is noted that ARFF charges have increased substantially. The RAAA contends that ARFF charge increases should be minimal in future years given these recent substantive increases.

Australia has a particularly unique demographic with its relatively small and dispersed population. This country requires particular transport and freight solutions to take advantage of its natural resources as well as providing services to far flung population centres. Aviation services are a natural and vital part of the national transport infrastructure that is growing the nation's wealth. What we do not need to see compounded any further is the social inequity that exists regarding affordability and access to air services for Australians living in regional and remote parts of Australia.

AsA plays a unique role in ensuring that regional operators can transport skilled people and vital goods to regional communities. It should not be swayed by the vested interests of large carriers operating into East coast cities.

As mentioned at the beginning of this response RAAA supports network charging for AsA services but is willing to live with the proposed model, with the ARFF caveat already expressed. Any shift towards a location specific pricing model will be opposed vehemently.

Answers to specific Questions proposed by the ACCC

Pricing Period	<p>In relation to AsA using a five-year period to attain long term price certainty the RAAA finds this acceptable.</p> <p>In relation to incentive to achieving greater cost reductions the RAAA finds that the current proposal does not go far enough. Any proposal by AsA must provide clearly for a reduction in unit costs if activity and income is increasing. Airlines have been able to keep their airfares down by growing the number of passengers flown. The same principles should be applied to AsA.</p>
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<p>Consultation Process</p>	<p>In relation to AsA consultation process the RAAA has found that AsA have provided open communication lines on its operations through ASTRA, the AsA Pricing Consultative Forum, and other briefing or discussion venues. It is critical that these types of forums are maintained and enhanced wherever possible to ensure that industry is able to comment on issues affecting their businesses both from an operational and financial perspective.</p>
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<p>AsA Activity Forecasts</p>	<p>In relation to AsA Activity Forecasts the RAAA understands that AsA has sought the expertise of IATA in their preparation. The feedback from RAAA members is that the estimations in relation to regional airports appear conservative.</p>
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<p>AsA Operating Costs</p>	<p>AsA operating costs appear to reflect the costs AsA will incur over the five-year period being addressed.</p> <p>The RAAA understands that AsA operates in complex business model and strongly encourages efficiency gains wherever possible. It is critical that AsA communicates to industry, through the different forums, issues affecting this business model.</p> <p>In relation to recruitment and training it is the RAAA's understanding that AsA, like aviation as a whole, operates in a constrained market place for people.</p>
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<p>Opening Asset Base</p>	<p>From information the RAAA has been provided by AsA it appears the opening value of AsA's asset base reflects the 2004 base carried forward and the projects which have driven the base since 2004.</p>
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<p>Capital Expenditure</p>	<p>The RAAA understands that over the past few years AsA has been looking at capital requirements going forward and also the implications of this for current assets maintained by AsA. Till certainty was available to AsA short-term maintenance was wound back to immediate requirements only. Due to decisions outside the control of AsA this now means that assets that may have been designated obsolete must now be serviced for longer term use.</p>
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	<p>The RAAA feels that the current capital works program includes obsolete equipment surrounding the Ministerial Radar Direction which could be replaced by new technology which may be more efficient plus cheaper to purchase, install and maintain.</p> <p>Going forward AsA needs to ensure that any new capital expenditure minimises, and if possible removes, the use of obsolete or expensive to maintain assets especially in the case where the useful life of the asset is greater than the period of time the asset will be used, and that sufficient backup is available in the system in case of technology failures.</p> <p>The RAAA is strongly opposed to AsA entering expensive long term capital programs that are intended to meet short term needs or agendas, where a proper risk analysis has not been conducted, or where a long term benefit analysis/study has not been undertaken.</p>
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Rate of Return	The RAAA is content with the proposed rate of return used by AsA.
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Risk Sharing Arrangement	<p>The RAAA is content with the risk sharing arrangement proposed by AsA under table 5, page 16 of the ACCC Issues Paper.</p> <p>In relation to full cost recovery being achieved, the cost recovery for Terminal Navigation Services at any location is a reasonable goal for AsA however the use of arbitrary annual increases at capped locations to achieve this appears to be creating a large disparity between the same services being delivered at different locations.</p> <p>The road to full cost recovery by AsA at regional airports needs to be tempered and balanced with the aircraft movements at these locations so as not to disadvantage regional airports when compared to their city counterparts and also to encourage future growth at these locations. It should also be remembered that the runway located at some regional airports is inadequate for larger jet operated aircraft without major upgrades taking place. For those airports owned by the local council this may be beyond their financial capabilities at this time or in the foreseeable future.</p>
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	<p>It is emphasised again that AsA services are mandated by Government. This mandate does not take into consideration whether or not the intended service would be profitable or not for AsA.</p> <p>The capping of costs at any location cannot be seen as “protectionist” as it does not prevent any operator from operating from a capped location. What it does allow is a fair cost for the same service when compared to other locations in the network and the ability of marginal low volume routes to be grown to viable levels over time.</p> <p>As mentioned at the beginning of this response RAAA supports network charging for AsA services but is willing to live with the proposed model.</p> <p>We also note that the ARFF charging regime commences at CAT 6 and incorporates aircraft below this category of aircraft. As many of the aircraft operated by RAAA Members are below CAT 6 we believe that we are by default subsidising the ARFF costs of operators using larger aircraft. We do note that this may be partially compensated for, exact figures not available, by AsA using a network based pricing arrangement for CAT 6 aircraft as opposed to a location based pricing</p> <p>In relation to the capital works program, we feel that any change of more than 10% to that proposed would mean that AsA would need to consult with industry on the implications to AsA charges, and negotiate with industry the effects on any new pricing policy.</p>
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Basin Approach	<p>As with the regional cap above, care is needed when using arbitrary increases for the Basin Cap to ensure the price difference between the basin airport and the major airport concerned is not sufficiently different to deter GA from using the basin airport. In the current proposal the difference between the basin airport and the major airport may be viewed as excessive when it is in 2016, as proposed by AsA, up to 172% greater than the cost of the major airport.</p>
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Allocation of Costs	<p>Taking into consideration above commentary, the RAAA is content with the method used by AsA</p>
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Basis of charges	The RAAA is content with AsA using MTOW as the basis of charging.
500 Tonnes Cap	The RAAA is content with AsA using a 500 tonnes cap. This is on the proviso that industry has the ability to review, and if necessary, change policy moving forward into any future pricing negotiations.
Enroute Services	The RAAA is content with the pricing used for Enroute Services.
Charging for non-aviation ARFF Callouts	The RAAA supports this proposal
General Aviation	The instigation of the \$500 threshold for GA is seen as a positive move, however it could be argued that GA aircraft under 5,700 tonnes should be exempt from AsA charges completely.
Time recovery of capital costs	The RAAA is content with the current model of not including any prefunding of capital expenditure. The RAAA does not have adequate information at this time about prefunding or other alternative methods to comment. Prior to changing the current model the RAAA would expect that AsA consults with industry about any proposal and its effects on the pricing model.
Impact on Users	RAAA feels the analysis provided in the pricing paper reflects the pricing defined in the issues paper.

Dynamic Efficiencies	The service charter proposed by AsA is seen by the RAAA as a positive initiative in AsA being open and accountable to industry. As this is a new initiative being undertaken by AsA sufficient information is not available as to how effective the proposed KPI's will be. We do understand that AsA is open to discussing and refining these KPI's with industry as the initiative matures.
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Thank you for the opportunity to comment on the Draft Pricing Proposal and please feel free to call on 02-61620305 for any further clarification.

Regards



Paul Tyrrell
Chief Executive Officer

Annex A: RAAA Ordinary Members

