Andrew Clark
Chief Financial Officer
Airservices Australia Terminal Navigation Pricing Review
GPO Box 367
CANBERRA ACT 2601

Dear Mr Clark,

The RAAA is pleased to provide feedback on this important paper. We are appreciative of Airservices Australia's (AsA) understanding of our limited internal resources and the time extension for response to this paper.

It should be noted that regional aviation provides most of the training for pilots and many engineers that often directly benefits larger aviation companies as people progress their careers. This is a direct benefit provided by the regional aviation sector to another part of the industry. In addition regional aviation is a vital transport infrastructure network in a country with vast distances and relatively sparse population.

The regional RPT, aero-medical, charter and fly-in/fly-out operations are fundamental in linking regional centres to the capital cities and vice versa. A large part of the economic growth of Australia can be attributed to the development of high quality regional aviation services.

By way of feedback, the first question is too complex and obtuse to answer accurately.

Question #1: Which of the options is most likely to support the introduction of new or upgraded services to enhance safety and best meets the criteria for efficiency, equity, and transparency?

As a minimum any structure instigated should not disadvantage any operator through excessive increases in charges compared to those currently experienced. Charging systems need to take into consideration that:

- AsA is a monopoly supplier at most airports requiring TNS. Exceptions are those airports where services are provided through the Royal Australian Air Force.
- Since the introduction of the current TN pricing regime Australia has lost RPT at 117 destinations. AsA needs to be cognisant of ensuring services in regional Australia remain sustainable and hopefully developed further rather than accepting moreregional market contraction.
- Regional destinations do not have the traffic volume either in passenger numbers or freight weight as those experienced by their city counterparts. Regional operators have less ability to absorb or pass-on costs.

- Secondary basin airports such as Bankstown, Parrafield, Archerfield provide a direct benefit to major airports by reducung traffic from smaller aircraft.

- Regional airports provide a back-up system for the major airlines as alternates if there is fog, technical problem or emergency. A recent example is the Qantas B747 aircraft that was running low on fuel and had to be diverted to Rockhampton Airport due to fog at Brisbane Airport.

- Regional Aviation subsidises larger operators through;

    - AARF Charges: The level of services required by regional aviation is far less than that required by the larger operators. For example, regional operations do not need the Cat 8 level of service provided at Darwin Airport.

    - NOTAMS: Regional operators in general do not need the high level of NOTAMS as is the case for larger operators.

    - Security Charges: Regional aviation operators do not require the same level of security as larger operators yet pay the same amount.

Based on the information provided in the discussion paper, and in light of comments previously made, the RAAA feels;

- The minimum acceptable option is option 2 (current pricing framework). The current cap associated with regional airports ensures to some extent that operators using regional airports are not penalised for a mandated service by CASA and a naturally occurring reduced traffic flow compared to their large city counterparts. However, based on the examples provided, this is with the exception of Cairns where there may be a 55% increase on the current rate of charge ($10.95 to $16.96). This would have an adverse affect on regional operators in this region who inform us they are affected by increasingly harsh economic conditions in the local area. Any increases to this option must not exceed the increase of the Australian Consumer Price Index for any location.

- The preferred option from a regional aviation perspective is that of option 7 (Pure Network Option) as it provides the most effective option for regional aviation due to:
    - users of services have the potential to or can use the entire network and not isolated areas of the network.

    - AsA is providing a national service and not individual services. Whilst services are provided at a particular location they do form an intricate part of a total system. That is, decisions made at one location affect the operations at other locations and therefore must be synchronised for effective operation.

    - It creates a level playing field for all participants in the industry and not just reduced costs for larger airlines flying into major airports with high traffic volumes in larger aircraft with greater cost absorption per aircraft.

- The RAAA sees some potential benefits for its Members in option 5 (Base Level Network Charge with Location Specific Class C Charge), however is opposed to other options provided in the discussion paper.

- In relation to future pilots and their training requirements, the RAAA feels that the AsA needs to view itself as a partner in the aviation training industry and not just a supplier to this sector. Due to excessive costs associated in this area we have seen many flying schools close their doors over recent years. This is very detrimental to the future of aviation in Australia at all levels. We understand that this is a complex issue but feel the cost to trainee pilots should be mitigated as much as possible. Training costs are already exorbitant.

Question #2: What opportunities exist for more graduated levels of service options, prior to the introduction of a new tower service that vary with traffic volumes at airports?

Where possible alternative, cost effective options should be used before the increased capital cost of a tower is instigated. We understand that AsA is looking at the possibility of using virtual towers as an alternative to instigating new towers where the air traffic volume is problematic or reduced but CASA deems a tower service is necessary. Although this technology is still developing the RAAA supports AsA endeavours in this area as it is expected this will produce reduced cost to industry over time.

Question #3: For new TN services, should Airservices Australia phase prices in over a period of time, ultimately moving toward full cost recovery and on what basis should this be done? Additionally, should the activity forecast for new locations be reviewed and the price adjusted for significant variations after the first 12 months?

Although this question sounds simple the answer can be very complex depending on the option for terminal navigation pricing moving forward. Any new services charge should not be excessive or inhibit any sector of the industry from using the new service.

Question #4: Should pricing for low volume general aviation operators be based on a fixed price tiered arrangement? If so, what tiers should apply?

The RAAA understands that the administrative cost of invoices produced by AsA for a large portion of the smaller end of the market outweighs the benefit associated to the invoice. Additionally, the amount of revenue from this sector of the industry is only a small percentage of revenue collected by AsA.

By allowing the first $500 of AsA charges free, and then billing only when the administrative cost of invoicing is validated on a financial return basis, AsA will remove the excessive administrative costs currently being experienced and also provide a tangible benefit to those smaller operators who do exceed the $500 threshold. Based on an administrative charge of $45 and having the billing level set at each $500 minimum, after the first $500, would mean the administrative reduction per invoice is 9%.

To ensure year on year parity, as at the 30 June each year accounts with a balance under a set amount are removed from the system, those above the set amount invoiced, and a fresh start, first $500 free, is commenced as at 01 July each year.

AsA have also indicated that they have had a low take-up of the current GA reduced pricing option. This may be increased by providing a simple visible advantage of a reduced cost, base on standard charges for AsA service, for advanced paying that takes into consideration:

- AsA have the funds and are able to earn interest on them till the amount is used in AsA charges;
- Reduced administrative costs for AsA not having to produce invoices as frequently.

Question #5: What are the equity efficiency implications of: (a) charging operators at a particular location that particular location's cost: or (b) charging operators the same price for the same service provided regardless of location?

See question 1

Question #6: Is Airservices current TN pricing structure transparent, easily understood and easy to administer?

The RAAA notes that AsA has put considerable effort into ensuring the current TN pricing structure is transparent. Although somewhat transparent it is also complex in the calculations needed to determine the charge. It is expected that valuable resources used by AsA in determining the charge could be better used if the simpler preferred option of the RAAA was adopted. In addition, the RAAA's preferred option would increase transparency.

Additional Commentary

Our Members are concerned that the closing down of ground based navaids and the move towards ADSB instead of ground based radar is being widely touted as cost saving. This is inaccurate, in that it is actually cost transfer to operators because of the new and expensive technology that will be required in cockpits to take advantage of the satellite based navigation and approach aids.

Paul Tyrrell
Chief Executive Officer
4 June 2010