Introduction

Cathay Pacific Airways welcomes the opportunity to provide comment on the *2011 Long Term Pricing Agreement – Draft Proposal*, published by Airservices Australia (Airservices) in December 2010.

The Proposal

Cathay Pacific understands that Airservices has developed a new long term pricing proposal which has been published in draft for industry consultation. Airservices is proposing that revised prices for each of its service lines, i.e. Enroute, Terminal Navigation and Aviation Rescue and Fire Fighting would commence on 1 July 2011.

The comments which follow are framed in consideration of the above and against specific proposals raised in the Draft Price Proposal.

Enroute Services

Cathay Pacific is pleased to see a reduction, over the lifetime of the LPTA, in the level of cross-subsidisation between enroute and terminal services. However, the quantum of the cross-subsidisation during the 2011 – 2016 period is significant and still unacceptably high. Enroute services should not be subsidizing terminal services and the level of this cross-subsidisation should be reduced more rapidly than the current proposal allows for.

Terminal Services

One of the difficulties of operating to and from Australia is a lack of availability of suitable alternate airfields, both destination and enroute alternates. From a civil airfield perspective, there are a number which, if the hours of service of air traffic control and rescue fire fighting services were extended, would return a greater overall industry saving by way of reduction in fuel carriage and consequent fuel burn and environmental emissions.

Location specific service delivery and pricing only considers traffic operating at the particular location, not the additional benefits that could be accrued from an industry perspective by making the location available as an alternate facility.

If a location(s) could demonstrate an industry cost benefit over and above the cost of additional service provision, which could not be justified by local traffic volumes, then there could well be a significant benefit by implementing "integrated network pricing" where the cost of service provision at a destination and destination/enroute alternates (where they would not otherwise be available) would be bundled to arrive at an integrated network price, which returned an overall industry positive cost benefit.

The challenge with this approach would be to gain an industry agreement as to exactly which airfields and hours of service were bundled to form the integrated network price.

Cathay Pacific would be pleased to work with Airservices and IATA to examine the potential of this suggestion in more detail.

Weight Capping

Airservices has proposed a move away from a pure weight based charge by implementing a cap, of 500 tonnes, as the maximum weight to be used. The proposal explains that this is intended to support the operational efficiencies that large aircraft provide with regard to capacity, fuel efficiency and noise.

The rationale for selecting a 500T cap is not explained. However, practically speaking, it can only provide economic support for operators of one specific aircraft type, the A380. Operators who do not operate the A380 will therefore subsidise those that do and indeed operators of the A380 will partially subsidise the A380 discounted charge with consequent increased charges for their other aircraft.

The logic for supporting the *"operational efficiencies that large aircraft provide with regard to capacity, fuel efficiency and noise"* is laudable; however the translation of this to a 500T cap is not. How will operators of the B747-8, B787 and A350 be accommodated as they clearly fall under the criteria of *"operational efficiencies that large aircraft provide with regard to capacity, fuel efficiency and noise"* and these new aircraft will be entering service during the term of the LTPA? Additionally, why is a value judgment made in favour of the A380 and not, say, the B747-8, which is also an efficient aircraft by the measurement criteria used above?

Cathay Pacific is opposed to the implementation of a 500T cap as it is discriminatory and introduces cross subsidization between operators.

If Airservices wishes to remove the weight element from the charging methodology, which Cathay Pacific does support, then a suitable mechanism would be to create a single weight bracket for all aircraft in the ICAO HEAVY category, or if this is a "step to far" for Airservices then a suitable first step would be to recognise weight in the form of cube root of MTOW. Another alternative might be to bracket ICAO HEAVY classification aircraft in 100T increments – i.e. 200T (200-299); 300T (300-399); 400T (400-499); 500T+

Average MTOW to be applied

If Airservices wishes to continue with a weight based charging methodology then Cathay Pacific would support the application of an average MTOW, for the reasons stated in the Draft Proposal.

Charging for General Aviation

Cathay Pacific supports in principle the proposals made regarding charging for General Aviation. While it is important that all sectors pay for the services they receive, it is also important that any charges levied can be collected in an administratively efficient manner, both from the perspective of Airservices and also General Aviation operators. However, what is lacking from the *Draft Proposal* is a cost/benefit analysis to show that it is administratively inefficient to continue collecting these charges. If Airservices is not able to demonstrate this definitively then this proposal potentially introduces an additional level of cross-subsidisation.

ARFF Charges for Non-Airside Call-Outs
Cathay Pacific supports the proposals made regarding ARFF charges for non-airside call-outs.

Risk Sharing
Cathay Pacific understands the difficulties associated with implementing a true risk sharing agreement – i.e. recognition of and taking into account both upturns and downturns in flight activity volumes. Consequently, Cathay Pacific supports the continuation of the existing arrangement. However, the 25% cumulative threshold with respect to *Capital Expenditure* risk sharing over the life of the LPTA is too high. A 10% threshold would be a more realistic figure.

(sent electronically)

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