



*In reply please quote 2006/00615/01
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Mr Andrew Clark
Chief Financial Officer
Airservices Australia
PO Box 367
CANBERRA ACT 2600

Dear Mr Clark,

DRAFT PRICE PROPOSAL DECEMBER 2010

I refer to your Draft Price Proposal of December 2010. The following represents the consolidated views of the South Australian Government agencies with interests in the matters discussed, and is consistent with my previous letters to you of 26 September 2008 and 11 May 2010 about pricing matters.

The South Australian Government has opposed the recovery of Airservices Australia's costs on a location specific basis since that basis was introduced in 1997. It has made that view known on a number of occasions and in various contexts since to the Australian Government, Airservices Australia and the Australian Consumer and Competition Commission.

It opposes location specific charges because they are disadvantageous to low-volume airports like Adelaide in relation to the higher volume east-coast airports. This is most acute when it applies to aircraft operators flying services through Adelaide that are not linked with the lower-cost higher-volume airports so that they are unable to average their costs, and to operators making the often marginal decision to operate new services to Adelaide. Typically, this involves the operation of regional flights hubbed at Adelaide, international operators making Australian gateway choices and low cost carriers making basing decisions.

We remain of the view that there is no compelling argument that location specific charging is necessary to ensure that market-based mechanisms encourage the pursuit of cost savings and productive efficiencies. Airservices Australia is a monopoly network service provider and, as such, has limited exposure to local market dynamics. Its traffic forecasts on which its total cost recovery is based are national rather than location-specific and, with appropriate risk sharing incentives, there should be no reason why national

service innovation and system cost reduction efforts should be impeded by network pricing.

Neither do we accept that higher pricing at lower-volume airports will produce allocative efficiencies. In fact, the reverse may be true. Contrary to all principles of congestion pricing, the airports subject to the highest demand and most congestion remain priced lowest.

Some industry sectors centred on the high-volume airports will continue to argue that the cross-subsidies inherent in network charging will result in adverse consequences for the efficiency and productivity of the Australian aviation industry, and that failure to extract the full cost of services at the locations they are provided effectively makes Airservices Australia an instrument of industry assistance. The South Australian Government rejects the first contention because of the counter arguments advanced in my two previous paragraphs and because a proper measure of the efficiency and productivity of the Australian aviation industry is the quality of the access it provides to, from and between all regions of Australia. It accepts the second and argues that the use of a monopoly service provider to support national policies of regional dispersal and equity is proper and reasonable – whether it is applied to air transport, telecommunications or postal services. This is also accepted practice in various other countries and most notably in the US and Canada,

My previous letters to you provided comparison tables of the Airservices Australia charges applying at various airports. The table below calculates the proposed 2011/12 charges incurred by a typical international operator at each airport:

Airservices Australia Charges - Singapore Airlines A330/300 Singapore-Australia-Singapore								
GATEWAY	TNC	RFFC	ENC	Total	SQ Fare Y Ret	Ttl Charges /Ret Seat	Ttl Charges % of Ret Fare	Ttl Charges Variation fm ADL
ADL	\$ 2,675.97	\$ 1,778.63	\$ 4,660.64	\$ 9,115.23	\$ 1,199.61	\$ 31.98	2.7%	100.0%
BNE	\$ 1,411.43	\$ 977.67	\$ 4,635.31	\$ 7,024.40	\$ 1,209.92	\$ 24.65	2.0%	77.1%
SYD	\$ 1,285.20	\$ 647.19	\$ 5,141.90	\$ 7,074.29	\$ 1,204.84	\$ 24.82	2.1%	77.6%
MEL	\$ 1,225.53	\$ 798.66	\$ 4,850.61	\$ 6,874.80	\$ 1,186.05	\$ 24.12	2.0%	75.4%
PER	\$ 1,881.90	\$ 1,340.28	\$ 2,912.90	\$ 6,135.08	\$ 1,035.74	\$ 21.53	2.1%	67.3%
Aircraft	A330/300							
MTOW	229.5 Tonnes							
Seats	285							
Source:	Charges	Airservices Australia Draft Price Proposal December 2010 pp15-16 2011-12						
	MTOW	Airservices Australia Draft Price Proposal December 2010 Appendix 2 p35						
	Distance	Airservices Australia http://www.airservices.gov.au/pilotcentre/avcharge/costing_frm.asp						
	RFFC	Cat 9 except ADL charged as Cat 8						
	Fares	SQ Website - Travel July 2011						

This highlights the fact, notwithstanding Airservices Australia's attempts to find some balance between network charging and full cost recovery at each location, that considerable disadvantage remains. Adelaide's total charges for the representative flight remain 29% to 49% higher than those incurred at the four largest gateways. When the enroute navigation charge, which varies only according to the length of the route, is discounted, then Adelaide's remaining charges are 38% to 131% higher and 86% higher than the average of the other four airports. This is at total odds with the Australian Government's policies,

released in its National Aviation Policy White Paper, to encourage international airlines to increase services to Australia's secondary international gateways. It makes little sense to couple those policies with a pricing disincentive to take them up.

In the absence of network charging, the South Australian Government supports those initiatives of the Proposal that reduce the disparity between airports. The Basin and Regional Caps effectively increase the charges paid by Adelaide operators, but we regard the outcomes of limiting the increase in Parafield's terminal navigation charge to 21% over five years, and the moderation of charges at regional airports (none of which are in South Australia), as justifying that. However, these cross-subsidies aimed at avoiding prices so high as to be dislocating for industry, and other costs that have been deemed to be "non-location specific" in the Proposal, effectively endorse the South Australian Government's contention that network charging is an appropriate process for Airservices Australia to implement.

Thank you for the opportunity to comment on your proposal. If you wish to discuss any aspect of these views or want further information about the South Australian Government's position, please contact Mike Milln on the telephone number at the head of this letter.

Yours sincerely,



Jim Hallion
CHIEF EXECUTIVE

21 January 2011