

25 January 2011

Pricing Consultation  
Air Services Australia  
PO Box 367  
Canberra ACT 2600

Dear Sir,

**Draft Pricing Proposal December 2010  
Gold Coast and Townsville Airports**

Queensland Airports Limited (QAL) is the owner of Gold Coast Airport Pty Ltd (GCAPL) and Townsville Airport Pty Ltd (TAPL), the operators of Gold Coast and Townsville Airports respectively.

On behalf of these airport operators, QAL wishes to respond to the Draft Price Proposal dated December 2010 and earlier discussion papers and consultations.

Gold Coast Airport

Given the significant over-recovery proposed and its very competitive environment we are particularly concerned that the pricing proposal for Terminal Navigation Services (TNS) does not correct the serious anomalies we have previously brought to your attention. In your Terminal Navigation Pricing Review – Discussion Paper dated March 2010 you acknowledge that “Canberra and Gold Coast are achieving sound levels of cost recovery with the possibility of reductions under the current pricing framework ...”. The need for this re-adjustment in light of the significant growth experienced at Gold Coast Airport was acknowledged at our meeting with your CEO and senior managers in Canberra on 31 May 2010. To date there has been no correction of this excessive over-recovery nor does the new pricing proposal significantly improve this position. The industry benefits you identified as arising from your two year price freeze have not accrued to the users of Gold Coast Airport. Indeed it has had the opposite effect through the perpetuation of the excessive over-recovery situation. Based on figures presented in your discussion papers the aggregate over-recovery for TNS in the financial year ending June 30 2010 alone is in the order of \$5.625 million. Given the growth that the airport continues to experience this amount will be significantly greater in FY2011.

As we detailed at our meeting with Air Services Australia (AsA) senior management on 18 January 2011 our concerns about the proposed TNS charges arise from two anomalies in your discussion papers. These factors are;

- The very high rate of over-recovery embedded in the current and proposed charge per tonne for Gold Coast Airport
- The reduction in passenger and tonnage throughput projected at Gold Coast Airport inferred in the IATA forecasts used in your calculations.

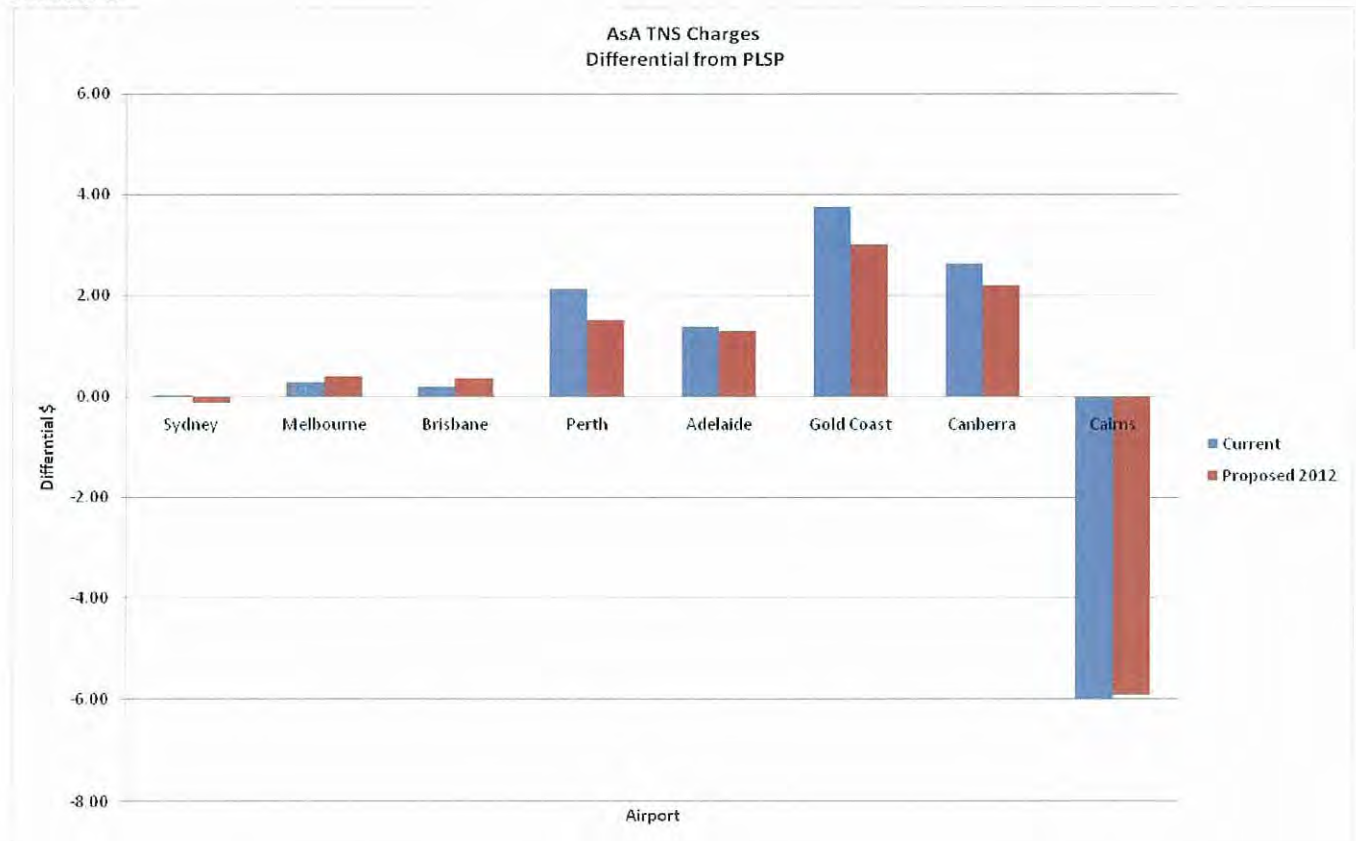
We would like to address each of these factors in more detail below.

## Rate of Over-recovery

From the data included in your discussion paper dated March 2010 it can be calculated that for FY2010 the difference between your current TNS price and the pure location specific price is \$3.75 per tonne. This represents an over-recovery rate of 53%. Clearly this must fall into your definition of “excessive”. From the data you have provided it can be seen that this is by a significant margin the highest rate of over-recovery for any airport in Australia. The next highest on current charges is Canberra at \$2.62 per tonne or 26% over-recovery whilst Perth is \$2.13 per tonne or 33% over location specific cost. The pricing proposal foreshadows a reduction in charges at Gold Coast Airport, however, these reductions are modest when taken in the context of the continued high rate of over-recovery.

Figure 1 below illustrates the rate of over-recovery per tonne for the eight busiest airports in Australia for the current year and for the first year of the new pricing proposal (based on an assumed cost increase of 3% per annum).

**FIGURE 1**



From your discussion papers and our meetings we have been unable to gain an understanding of the logic behind the continued and significant higher rate of recovery from the smaller airports when compared to the major capital cities airports (where there is acknowledged subsidies to their reliever general aviation airports).

## Traffic Forecasts

Your Draft Price Proposal dated December 2010 includes traffic forecasts for the pricing period for the eight busiest airports in Australia prepared on your behalf by IATA Consulting. The paper states that the tables included in Appendix 1 – Activity Forecasts, show “the activity growth forecasts that underpin this pricing proposal”. The tables show that it is forecast that Gold Coast Airport is the only major airport in Australia that will have negative growth in the future. Whilst the forecast negative growth is for FY2011 this sets the base for the pricing period and is reflected in the tonnage forecasts. This forecast negative growth is in strong contrast to the actual performance of Gold Coast Airport over the last five years where it has consistently been the fastest growing major airport in Australia. Indeed, lack of recognition of this growth would appear to be the reason for the current excessive rate of over-recovery.

As we indicated at our meeting on 18 January 2011, these forecasts are not only at odds with current trends, they are also significantly under well researched forecasts prepared by independent consultants for our Board and financiers and for airport master planning processes and for those utilised by AsA for the master plan’s noise forecast charts.

For the first six months of FY2011 passenger traffic through Gold Coast Airport increased by 12.2%. This growth rate is consistent with our forecast growth rate for the financial year. To achieve an outcome in line with the IATA forecasts used to underpin your pricing proposal for FY2011, Gold Coast Airport would need to experience a reduction in traffic for the second half of the year of over 18% compared to the first half. Given the significant recent increases in capacity allocated by the airlines to routes servicing Gold Coast Airport we cannot envisage any scenario where there is any reduction in traffic, let alone an unprecedented 18% fall.

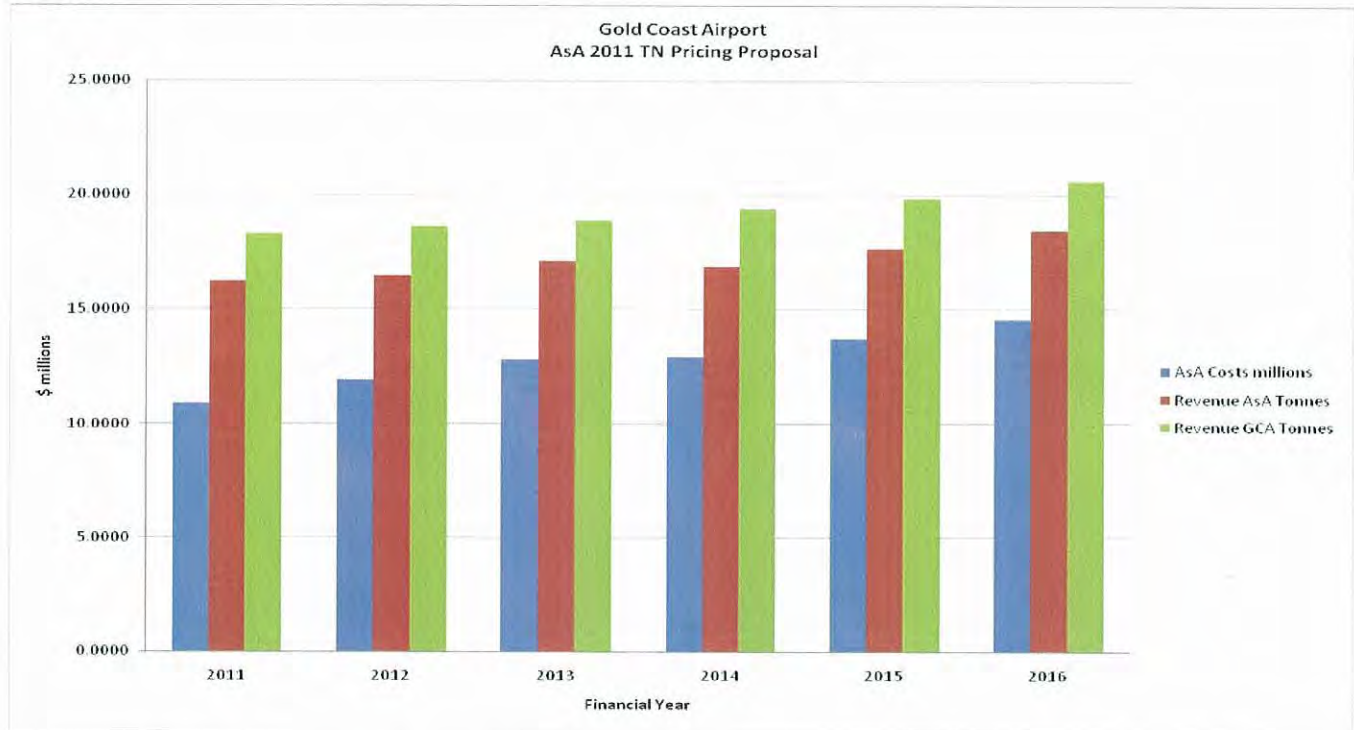
If, as is more likely, current trends continue Gold Coast should handle in the order of 5.7 million passengers (arrivals and departures) in FY2011. This being the case Gold Coast Airport would need to experience a fall in passenger movements in FY2012 compared to FY2011 of some 9% to achieve the forecast starting point for your new pricing period. Again, we see no reason to anticipate any reduction in traffic in FY2012 let alone a fall of that magnitude. The likely result for passengers in FY2011 is generally in line with the IATA forecasts for FY2014.

The significant apparent shortfall in the forecasts that underpin your calculations for charges for Gold Coast Airport will obviously amplify the over-recovery we anticipate if the per tonne charges proposed for Gold Coast Airport are adopted. Our calculation of landed tonnes parallels.

## Implications of Excessive Over-Recovery

The combination of excessive tonnage rates and unrealistic forecasts result in a significant cost impost on users of Gold Coast Airport. Even using the IATA traffic forecasts, we estimate there will be significant over-recovery over the pricing period. The adoption of more realistic forecasts increases the level of over-recovery. Our estimates of this over-recovery using both AsA (IATA) and GCAPL forecasts are illustrated in Figure 2.

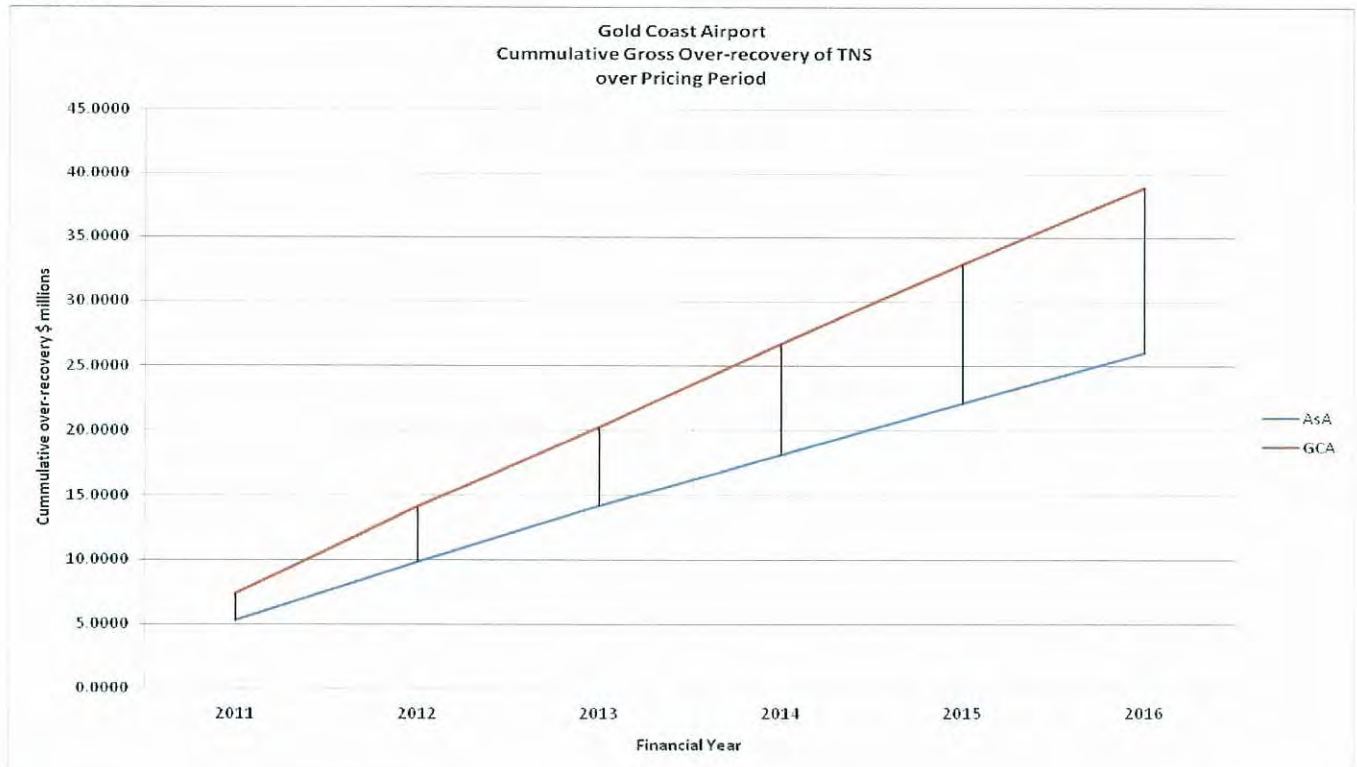
**FIGURE 2**



Using AsA tonnage forecasts we anticipate an over-recovery for TNS in FY2012 of \$4.5 million. If the more likely forecasts are used this over-recovery could be as high as \$6.7 million in FY2012.

For the six year period from FY2011-2016 inclusive we have calculated the cumulative over-recovery would be in the range of \$25 million to \$35 million as illustrated in Figure 3.

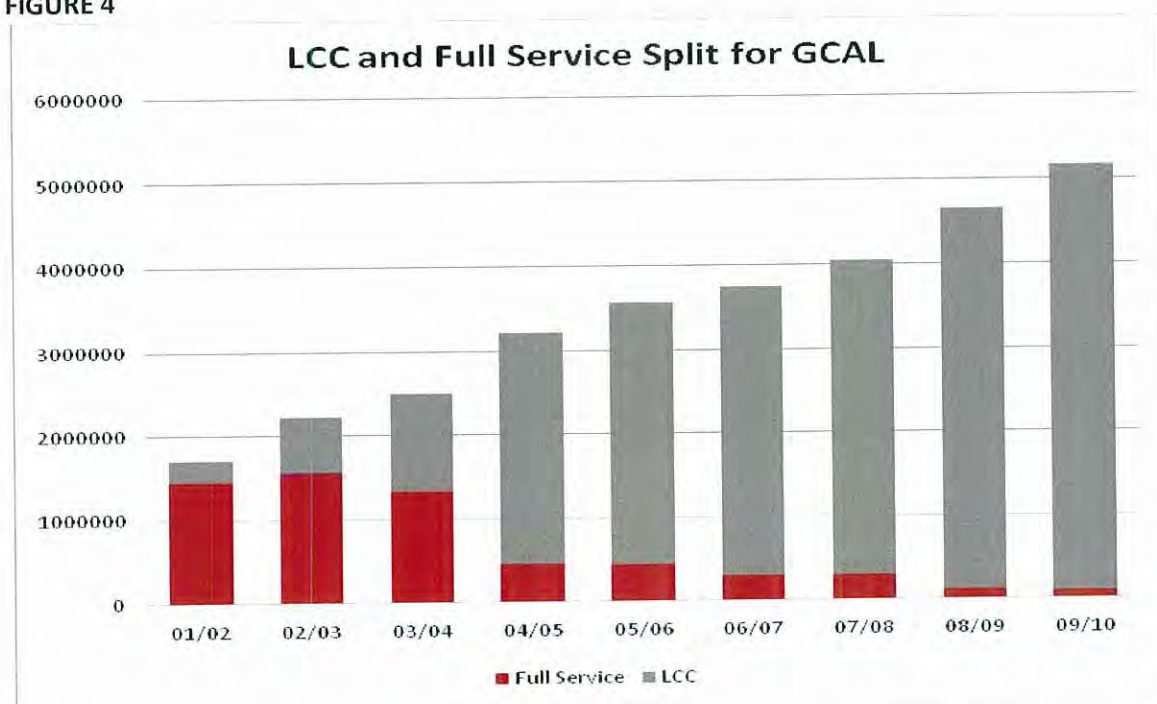
**FIGURE 3**



This outcome places Gold Coast Airport at a significant cost disadvantage to the competing airports at Brisbane and Ballina. Brisbane's TNS charges are much lower than for Gold Coast and are much closer to the location specific price than they are for Gold Coast. Ballina, a rapidly expanding airport only 85 kilometres from Gold Coast Airport, also handles domestic jet services but has no AsA charges levied on its users.

Gold Coast has achieved sustained traffic growth over the last nine years through development of opportunities in the leisure market in partnership with Low Cost Carriers (LCC). To attract LCCs Gold Coast Airport has had to be innovative in developing facilities specifically for this market. It requires competitive charges therefore flexible and efficient use of facilities and rapid turnaround capabilities. Figure 4 illustrates the success of Gold Coast Airport's strategy in terms of overall traffic growth and the total dominance of LCC airlines now using the airport.

**FIGURE 4**



On page 5 of the Draft Pricing Proposal it states "The proposal rebalances service prices to address shifts in cross-subsidies that have occurred over the life of the 2005 LTPA. These shifts have arisen due to differences between actual and forecast flight activity, the introduction of new services ...".

It also states on page 7, "the structure of the prices needs to retain incentives for efficient investment in new services and facilities" and on page 8, "location specific costs should be recovered from that location as a key efficiency driver".

We feel that in the case of Gold Coast Airport this pricing proposal works against achieving these outcomes. AsA has benefitted from the significant traffic growth facilitated by Gold Coast Airport through aggressive marketing and the \$200m development of cost effective and efficient airport facilities.

During this period AsA's investment in new services and infrastructure for TNS at Gold Coast Airport has been modest, as is the forecast for further investment over the pricing period. This is a very good example of the situation referred to on page 14 of your March 2010 Discussion Paper where it

addresses incremental costs once traffic crosses a threshold. It states "after that point and once Air Services has incurred the relevant fixed costs, incremental costs associated with traffic fall substantially".

In conclusion, we would submit that the TNS tonnage charge for users at Gold Coast Airport should be at or below the 2010 PLSP given the significant increase in capacity utilising the airport since those calculations were prepared.

#### Townsville Airport

In relation to TNS at Townsville Airport we find it difficult to reconcile the level of charges proposed in light of the airport specific facilities and services provided by the RAAF at that location. It also appears to be relatively high in comparison to Darwin Airport charges. It would be appreciated if you could give us some insight into the costs incurred by AsA at Townsville Airport.

#### Rescue and Fire Fighting Service Charges

Gold Coast Airport Pty Ltd will be making a further submission on the ARFFS charging proposal. This will be forwarded to you under separate cover in the near future.

We appreciate the time AsA's senior management has given us to discuss the points we have raised above. Your undertaking to take our position into account, particularly reviewing the traffic forecasts, when setting the new charges is acknowledged and appreciated. We also look forward to receiving your further advice on the Gold Coast costs base on which your charges proposal was formulated.

Should you require further information please do not hesitate contacting us at your earliest convenience.

Yours faithfully,



Dennis Chant  
Managing Director