



25 January 2011

Andrew Clark
Chief Financial Officer
Airservices Australia
GPO Box 367
Canberra ACT 2601

Dear Mr Clark,

2011 Long Term Pricing Agreement Draft Proposal

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 27 Ordinary Members (AOC holders) and 54 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.

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, Kimberley Aviation at Broome, 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.

RAAA RESPONSE TO AIRSERVICES AUSTRALIA (AsA) DRAFT PRICE PROPOSAL

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 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.

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.

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.

In relation to the Regional Cap, the full cost recovery for Terminal Navigation Services at any location is a worthy goal for AsA however the use of arbitrary annual increases at capped locations to achieve this creates a large disparity between the same services being delivered at different locations. As highlighted in the tables below, this arbitrary method for regional airports has seen the cost of AsA services at these locations increase by 46.4% from 2005 to 2010 (the average capital city increase over the same time being 4.5%). Furthermore, based on the AsA figures supplied, this arbitrary method will see these increase by an additional 21% from the level at 2010 to 2015 (the average capital city increase over the same time being 1.6%). 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. Although it could be said that an average additional cost of 44% or 1.44 times the average city rate (as the case in 2005) is a fair margin, an average additional cost of 141% or 2.4 times the average city rate (as those anticipated in 2015) is quite unreasonable.

Table 1: Historic Price Comparison

| Airport | 1/7/2005 | 1/7/2006 | 1/7/2008 | 1/7/2009 | 1/7/2010 | Increase 2005 to 2010 |
|---------------------------------------|----------|----------|----------|----------|----------|-----------------------|
| Brisbane | \$5.79 | \$5.83 | \$5.83 | \$5.83 | \$5.83 | 0.7% |
| Melbourne | \$4.03 | \$4.87 | \$5.06 | \$5.06 | \$5.06 | 25.6% |
| Perth | \$8.63 | \$8.63 | \$8.63 | \$8.63 | \$8.63 | 0.0% |
| Sydney | \$5.57 | \$5.57 | \$5.57 | \$5.57 | \$5.57 | 0.0% |
| Average City Cost | \$6.01 | \$6.23 | \$6.27 | \$6.27 | \$6.27 | 4.5% |
| % Increase City | | 3.7% | 0.8% | 0.0% | 0.0% | |
| Regional Airport | \$8.67 | \$10.49 | \$12.69 | \$12.69 | \$12.69 | 46.4% |
| % Increase Regional Airport | | 21.0% | 21.0% | 0.0% | 0.0% | |
| Additional Cost Regional Over Av City | 44.4% | 68.5% | 102.3% | 102.3% | 102.3% | |

Table 2: Proposed Price Comparison

| Airport | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Increase 2010 to 2015 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|-----------------------|
| Brisbane | \$5.83 | \$5.83 | \$6.15 | \$6.21 | \$6.27 | \$6.34 | 8.7% |
| Melbourne | \$5.06 | \$5.06 | \$5.34 | \$5.53 | \$5.66 | \$5.66 | 11.9% |
| Perth | \$8.63 | \$8.63 | \$8.20 | \$8.03 | \$7.91 | \$7.83 | (9.3%) |
| Sydney | \$5.57 | \$5.57 | \$5.60 | \$5.62 | \$5.64 | \$5.66 | 1.6% |
| Average City Cost | \$6.27 | \$6.27 | \$6.32 | \$6.35 | \$6.37 | \$6.37 | 1.6% |
| % Increase City | | 0.0% | 0.8% | 0.4% | 0.4% | 0.0% | |
| Regional Airport | \$12.69 | \$13.69 | \$13.86 | \$14.34 | \$14.84 | \$15.36 | 21.0% |
| % Increase Regional Airport | | 5.5% | 3.5% | 3.5% | 3.5% | 3.5% | |
| Additional Cost Regional Over Av City | 102.3% | 113.5% | 119.2% | 119.2% | 133.0% | 141.0% | |

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. 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.

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.



Paul Tyrrell
Chief Executive Officer