



**FINANCE GROUP**

25 Constitution Avenue  
Canberra ACT 2600

Phone: 02 6268 4912

Fax: 02 6268 4856

ABN 59 698 720 886

Ms Wendy Craik AM  
Presiding Commissioner  
Economic Regulation of Airport Services  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601

Dear Ms Craik

I understand that the Commission is currently undertaking a review of the economic regulation of airport services.

We have recently been made aware of a submission by the South Australian Department of Transport that has made comment not just on the setting and review of airport charges but also on the charges of Airservices Australia.

To this end I thought it would be useful for Airservices to provide some background on the process of our price setting, an update on our latest draft price notification, an overview of the price regulatory framework under which we operate and some further analysis of our charges at Adelaide Airport.

Airservices is subject to prices surveillance under s.95X of the Competition and Consumer Act 2010. Under this Act, the Australian Competition and Consumer Commission (ACCC) must determine whether or not it objects to any proposal to increase the price of a declared service having regard to a number of statutory criteria set out in subs.95G(7). The ACCC's statement of regulatory approach to assessing price notifications (June 2009) indicates that the statutory criteria will generally be met by economically efficient prices that reflect an efficient cost base and a reasonable rate of return on capital, with economic efficiency comprising elements of productive efficiency, allocative efficiency and dynamic efficiency. As you would be no doubt also aware, Airservices is subject to the competitive neutrality principles overseen by the Australian Competitive Neutrality Complaints Office.

Airservices charges for three services: enroute (air traffic control and navigation services for aircraft in flight), terminal navigation (air traffic control for aircraft arriving and departing a particular airport) and airport based aviation rescue and fire fighting (ARFF).

The key challenge facing Airservices in pricing these services is to establish a charging methodology and pricing structure that enable the pool of ATC and ARFF

costs to be recovered with the right incentives to optimise service costs and investment, while minimising undesirable distortions to airport usage. The ACCC has similarly acknowledged Airservices “need to achieve cost recovery while minimising the attendant distortion to allocative efficiency”. Given this challenge, the pursuit of efficient pricing can be at odds with concepts of “fair” pricing.

Airservices established a long term price path for each of its services in 2004 to set prices by location for a five year period ending 31 December 2009. In 2008, Airservices undertook an extensive review of the structure of its pricing, with consultation forums around the country in addition to our regular Pricing Consultative Committee meetings with major operators and representative associations from across the industry. Most of the responses expressed polarised views on who should fund these services and infrastructure reflecting differing views on the relative importance of economic efficiency and the distribution of the charging burden on non-efficiency grounds.

This is a complex environment as Airservices serves a diverse range of locations (including major international, capital city, regional and general aviation airports), with aircraft operators ranging from large international airlines through to small recreational flying enthusiasts. As a consequence, it is no surprise that the feedback reflected the commercial imperatives of these airports and operators. However, the feedback did provide a qualitative insight into the potential demand impacts of various pricing options.

With the Global Financial Crisis depressing aviation demand in early 2009, Airservices Board determined that it would freeze prices until June 2011 at the July 2008 levels until the longer term impact of the crisis became clearer.

In late 2009, the Government in its Aviation Policy White Paper requested that Airservices review its terminal navigation prices “with a view to establishing a framework that facilitates the enhancement of air traffic services around Australia including at major regional airports”. To this end a detailed options paper was released by Airservices in March 2010.

This review covered a wide range of options, from full network pricing to full location specific pricing. The results of the review were incorporated in a pricing proposal covering all three service lines that was released for industry comment in late 2010 and supported by a nation-wide consultation program in early 2011.

Based on the feedback on this proposal, Airservices submitted a Draft Price Notification covering the next five years to the ACCC in March 2011 for formal review. The ACCC have sought comment directly from the industry on the Draft Notification and are now assessing it in line with their regulatory assessment framework with a decision expected in the next few months.

The Draft Notification sets out a price path for each service and at each location. Under these price paths some prices rise and others reduce over the next five years with the aim of recovering the cost of providing the service from the location where it is provided unless it is likely that the price would be so high it would distort demand.

For Adelaide, the prices cover the costs, but at general aviation locations like Parafield and regional locations elsewhere across the country, the price is subsidised and the prices are higher than the price at Adelaide.

Our prices for Terminal Navigation services in Adelaide have not increased since July 2005, and under this proposal the price will rise by only 5.6% over the next 5 years.

Our ARFF prices vary according to the category of the aircraft and for large aircraft like A330-300s operating into Adelaide, prices will decrease substantially over the next five years as the volume growth in this category has been strong over the last few years and is expected to continue.

The net effect of these changes is a reduction of 15.6% in Airservices total charge for an A330-300 landing in Adelaide over the next 5 years.

Further information on past pricing consultation and submissions can be found on Airservices website at <http://www.airservicesaustralia.com/pricingproposal/> and most recently in relation to our draft price notification on the ACCC's website at <http://www.accc.gov.au/content/index.phtml/itemId/978195>.

I hope that the information set out above has proved helpful.

---

Yours sincerely

Andrew Clark  
Chief Financial Officer

14 June 2011