14 May 2010

Mr Andrew Clark  
Chief Financial Officer  
Airservices Australia  
PO Box 367  
CANBERRA ACT 2601

Dear Sir

Submission on Terminal Navigation Services Pricing


Canberra Airport does not believe that location specific pricing is an appropriate method for the calculation of the prices for terminal navigation services. Indeed, Canberra Airport disagrees with the whole concept of location specific pricing - it simply does not provide for an economically efficient result, or lead to the best operational outcome for the Airservices network as a whole.

While it is often argued that location specific pricing adopts the principle that users should only ever pay for services that they actually receive – this ignores a number of key points:

Appears contrary to basic economic principles

- In normal economic theory as the use or demand for a service drops, the price for that service should also drop – all that location specific pricing has the potential to do is to increase the costs for using an Airport whose use may already be in decline (as the costs of Airservices will be split between fewer and fewer users of that Airport), or stifle the growth at a developing Airport which was previously subject to growth (by increasing the costs to use that airport as additional services are provided). In our opinion, neither outcome can be considered an economically efficient outcome.

Need to take regulator costs out of decision making

- While some in the industry may argue that a move away from location specific pricing will have a detrimental impact upon their operations, it needs to be remembered that the relevant costs are passed onto the passengers of the relevant airlines. This point is critical – if network pricing was adopted the cost of Airservices provision of terminal navigational services would simply not be a factor taken into account by an end user of Airports, or their passengers, in deciding whether or not to use a particular Airport as the same cost
would apply at any and all Australian Airports. This would seem to us to be a logical and economically efficient outcome – the cost recovery activities of the government regulator would not be a factor in an airline making a decision as to whether or not to use an airport.

- In this regard, there needs to be an acknowledgement that demand at Airports is acutely price sensitive and that route development by airlines is directly affected by any and all costs imposed at an Airport.

Prejudices against smaller developing Airports

- Location specific pricing is an unfair approach to pricing as it prejudices against those Airports with lower volumes at smaller developing locations (i.e. airports where the costs of Airservices are spread amongst less users resulting in higher prices – even though the absolute costs for the relevant services between airports may be the same). We would simply ask, from a government policy perspective, how is it a good outcome to make the development of services in these mostly regional areas even more difficult than it is at present?

Narrow Definition of Service

- Location specific pricing appears to assume that the service being paid for is a service provided at, or linked to, an Airport when an aircraft uses that airport – with respect, this is a very narrow interpretation.

Canberra Airport submits that users of airspace in Australia are, when landing at an airport and paying charges with respect terminal navigation services, subsidising the role of Airservices in providing terminal navigation services around the country. The charge, when imposed, should be characterised as one that is paid to ensure that all aircraft are able to receive some of the best terminal navigation services in the world at any airport across Australia. In this context, it is clear that the charge should not vary from Airport to Airport. As the community as a whole benefits from the services provided by Airservices across the entire network of airports and across the entire air space, there seems no reason in principle not to spread the cost across the entire community on equal basis. In reality, no airline buys a particular service between any particular airport – neither Qantas nor Virgin “buy” Airservices at Melbourne or Sydney Airports – they simply pay the fees as a cost of being an Airline in the Australian market.

Fails to deal with fixed costs adequately

- We agree with the proposition that there are two components to the terminal navigation costs trying to be recovered by Airservices – a service fee (covering personnel and other unfixed costs) and an infrastructure or fixed fee for the provision of equipment, buildings and other hardware (the fixed or sunk costs). In our opinion, two main points flow from this:
1. Given that the fixed costs and corporate overheads form the majority of the costs being recovered (i.e. costs which do not vary on an airport by airport basis and which are incapable of being managed or controlled by an Airport), and given that the pricing for terminal navigation services should be based on the proposition that users are paying for access to the nationwide services managed and controlled by Airservices, there seems no reason in principle as to why these costs should not and could not be spread evenly amongst all users of the network on an equal basis – that is pure network pricing.

2. At the very least there should be an acknowledgement that the fixed costs of the regulator (being those costs which are unaffected by any volume or service factors) should be spread across the entire Airservices network equally and without any variation based on location.

After all, if the location of an Airport does not and cannot affect the amount of the fixed cost imposed (these being all determined by Airservices by reference to their requirements for the national network) then there should be no reason for those fixed costs not to be spread evenly across the whole network. This approach would still allow for Airservices to pass on variations in costs in relation to the unfixed component of the costs – i.e. staff and other variables – but would ensure that smaller Airports with lower volumes are not forced to carry a disproportionate amount of the fixed costs for the services provided.

**Fails to take into account the regulatory nature of costs being recovered**

- The services being covered by location specific pricing are mandated regulatory services – that is, the costs being recovered are not location specific at all, they are costs determined by a regulatory authority, which an Airport cannot control or manage, and which also cover the governance and oversight role of Airservices as a regulator of the industry. While the charge may accrue at a particular Airport, it is simply not correct to state that the amount of the charge is predominantly determined by, or in relation to, the location of the Airport.

- In this regard, many of the costs recovered through the terminal navigation charges do not relate to the provision of services or the volume of use of the Airport – they are either, regulatory costs, fixed costs or corporate overheads being passed on by Airservices. Given that the actual element of the cost that is directly attributable to the provision of services at an Airport is relatively low compared to the other components of the cost, it does seem strange to then adopt a location specific pricing approach across the entire network.

There is no doubt in Canberra Airport’s mind that the introduction of some type of network pricing approach (whether pure network pricing, or a network pricing model that spreads the fixed costs evenly but allows a variation based on the unfixed costs) is the most efficient and fairest way to provide terminal navigational services. This type of approach:
will not frustrate the development of smaller airports through the imposition of high Airservices charges;

will still allow for the complete cost recovery of Airservices costs;

takes into account the fact that Airservices provides a management service across all networked Australian airports and that its own operations and approach to these services are not location specific;

takes into account that the community as whole benefits from the role of Airservices and as such the cost should be spread amongst the community fairly not based on a particular location;

takes into account that there are fixed and unfixed costs, and at the very least a particular airport should not be penalised because of the particular fixed cost imposed by Airservices; and

takes into account that even if you were going to go to network pricing the airlines and other industry participants would suffer little detriment as the cost would be passed onto the community as a whole which itself benefits from the services provided by Airservices.

Finally, Canberra Airport notes that another point to be considered in relation to network pricing is how it would treat aircraft from the Australian Defence Force. Currently at Canberra Airport, Defence aircraft pay nothing for the services provided by Airservices at the Airport — no ARFF charges and no terminal navigation charges. If terminal navigation services were imposed on a network basis this would be of no concern because the cost of the Defence aircraft would be absorbed by the network as a whole and it would not result in any variation in the pricing at Canberra Airport or other relevant airports. However, because of the location specific pricing approach, which is in part currently adopted by Airservices, we have a position where as a result of Defence aircraft using Canberra Airport for no cost:

• the terminal navigation charges increase due to the additional volume;

• these increases apply to all aircraft using Canberra Airport, other than the aircraft which actually caused the increase;

• the terminal navigation charges are increased by a Commonwealth organisation as a result of the actions of another Commonwealth body;

• this price increase is a factor taken into account by airlines considering further route development; and

• this increase is ultimately passed on to the passengers who use Canberra Airport — notwithstanding that they arose out of aircraft in the service of the Commonwealth and as a result of the requirements of a Commonwealth body.
The above is not an acceptable outcome, and as discussed, it is a matter that we will be discussing directly with you further. We would be happy to discuss any part of this submission with you at your convenience.

Yours sincerely

Andrew Leece
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