Department of Economic Development, Tourism and the Arts
TOURISM TASMANIA

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Pricing Consultation
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Via email pricing@airservicesaustralia.com

Dear Sir,

Review of Air Services charges

Thank you for providing this extended opportunity to respond to the recent release of your pricing discussion paper.

Tasmanian is reliant on aviation access like no other state of the Commonwealth given our island status and changes in aviation these past ten year confirm the sensitivity of aviation access for Tasmania's overall growth. In that context, reconsideration of Tasmania's position must be considered if our state is to avoid becoming uncompetitive in this period of difficulty now being experienced by Australia's tourism industry, let alone other sectors of our economy given their reliance on good air access for export income.

Airports recover the fees charged for ASA services from carriers and they in turn pass those charges directly back to their passengers. Thus these costs have a material impact on a destination's ability to grow aeronautical services to satisfy visitor growth capability and commerce generally.

In noting the pricing advantage given to the major ports through the preferred charging model, I observe that essentially provides an incentive to the major airlines to only invest in point-to-point services between those markets rather than supporting regional destinations such as Tasmania. This particularly makes it difficult to encourage point-to-point operations between airports such as Hobart and Launceston, Canberra, Adelaide and Cairns who also have a large pricing disadvantage.

Tasmania has a population of just on 500,000 and presently welcomes some 1,000,000 visitors to its shores each year with aviation services delivering some 84% of that number. That growth has occurred over a period of ten years and in the main has been on the back of the introduction of lower cost airlines to Australia.

Virgin's arrival in 2001 heralded this change and Tourism Tasmania was instrumental in that airline flying to Tasmania very early on in its service delivery. Similarly we negotiated with Impulse to also commence services to Tasmania which provided the segue for Qantas to begin using the B717 aircraft when they bought out that airline. Further, the commencement of services by Jetstar in May 2004 and their arrival into Tasmania with our encouragement provided the most massive lift in aviation growth in our history which opened Tasmania to its enormous tourism growth.

We cannot allow that growth potential to falter given our absolute reliance on good air capacity at attractive prices for both the destination and the carriers. A shift in retail pricing by the carriers to restore their yield will make it difficult for Tasmania to maintain its momentum through this difficult tourism environment.

We are currently serviced by all the major airlines and have direct services from Brisbane, Coolangatta, Sydney, Canberra and Melbourne. In more recent times direct services to Tasmania has been tried from Adelaide by all carriers and while loads have been reasonable, yields have been relatively poor and the services have proved unsustainable. Costs passed on by Adelaide Airport are often cited by carriers as part of their reason for not continuing.

Thus, changes that affect the attractiveness of doing business with Tasmania's airports will have direct, severe and immediate impact on the State's economy. Airlines no longer have loyalty to destinations and in fact are more responsive to the needs of their shareholders rather than their customers. The current position for Australian carriers is a mixed bag with imminent new aircraft arrivals, growing demand by Australians for outbound travel, a continuing soft domestic tourism market and rising costs, particularly with labour, along with growing interest rate pressures on business and consumers alike. This is not an attractive period for carriers to have to increase prices due to costs passed on by service provision authorities and particularly for regional Australia, bodes poorly for our economies.

I note the current ASA pricing regime dates from 2005 and the last price increase occurred in elements of your pricing structure in 2008. Since that time a number of policy settings have changed at the Commonwealth level and particularly with the Government's White Paper on Aviation and the National Long Term Tourism Strategy subsequent to the Jackson Report and their discussion on regional destinations and their poor tourism growth rates across Australia.

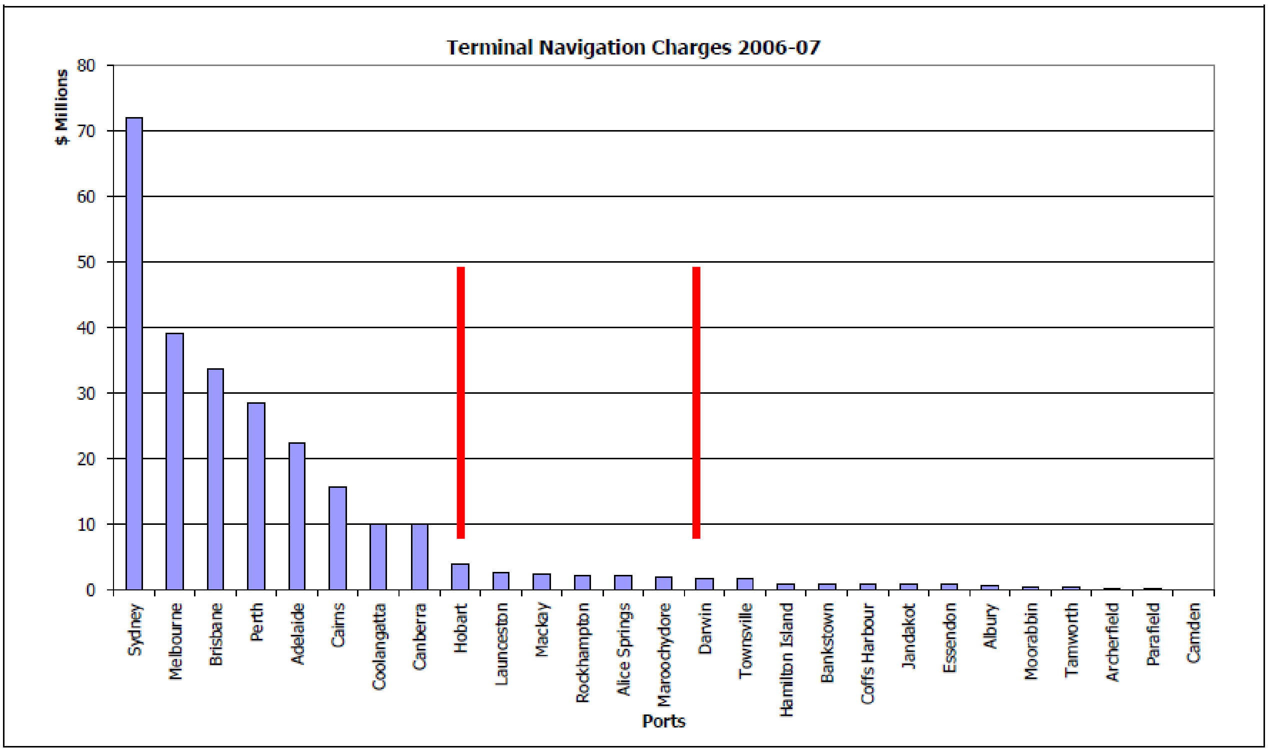
One of the major platform planks in that Paper was the notion of providing incentive to international carriers to use non-primary airports when entering the country and thus avoiding capacity and access restrictions to the major entry ports. As an element of the Government's Regional Package, it is acknowledged by most that it has not been a major success and alternate means must be established to assist regional areas to compete effectively with more urban destinations.

Your organisation provides much of the core infrastructure mandated for airports and is thus one of the major costs airports are obliged to carry as do airlines in due course as their principal customers.

Your review has looked at a number of charging models and I note the submissions made to your organisation in response. In that context and noting your own statements on where the majority of your revenues accrue (the top 8 airports), I do not believe adequate consideration has been given to airports 9 and 10 (Hobart and Launceston) in terms of the implications with your preferred model communicated late 2010.

They are in fact in a mid class of their own along with six other airports compared to the remaining airports across Australia as per the following graph sourced from your Paper:

Figure 10 Terminal navigation charges, 2006–07



Certain of these airports are potential partners for direct access flights to Tasmania.

Airlines flying into Tasmania have remarked on the following issues re the new pricing structure –

- The proposed price increases make Tasmanian airports less competitive against other similar Australian airports;
- Airfares to and from Tasmania are more price elastic than other ports (such as a flight between SYD-MEL), so an increase in fares driven by ASA price increases, would result in a greater economic loss comparative to other states;
- The IATA passenger forecasts upon which the pricing is based are likely too low for Tasmania (especially given recent capacity increases and growth achieved late in 2010, particularly via Jetstar);

As highlighted by the carriers, increased access costs will significantly reduce the opportunities for Tasmania to competitively position itself against not only Australian destinations, but also against near international destinations such as New Zealand, Fiji and Bali. A holiday in Tasmania is growing in status with its array of natural and cultural heritage and its relaxed but refreshing lifestyle.

The added cost of this proposed imposition with no added value proposition makes Tasmania's competitiveness more challenging. Where major airports have the benefit of scale, regional destinations do not.

A better option for such ports would be a scenario which would combine operating expenditure and capital expenditure for all Tasmanian airports and apply the same price across all ports for terminal navigation – this would drive a relevant pricing structure when compared to the top eight airports in terms of fees generated for ASA.

Whilst your need to recover cost is acknowledged, I believe that charges levied should be equitable to other locations, regardless of scale considerations and ensuring that choice by carriers to fly to and from specific destinations is not artificially changed due to the impact of a Commonwealth Authority with its charging regime.

Consequently I would ask you to revisit your model to ensure the equity I refer to is achieved with your proposed model for implementation from 1 July 2011.

Yours sincerely

Rowan Sproule,
A/Chief Executive