



## **Issues Paper**

**Airservices Australia**

**Draft Price Notification**

**May 2002**

## Issues paper – Airservices Australia Draft Price Notification

On 13 May 2002 the Australian Competition and Consumer Commission (the Commission) received a pricing proposal from Airservices Australia (AA). The proposal is available on the Commission's website at [www.accc.gov.au/fs-transport.htm](http://www.accc.gov.au/fs-transport.htm). The Commission now seeks submissions on the proposal from users and other interested parties.

The provision of air traffic control services and airport rescue and firefighting services are declared pursuant to section 21 of the *Prices Surveillance Act 1983* (PS Act). The relevant declaration, Declaration number 66, is available on the Commission's web site at [www.accc.gov.au](http://www.accc.gov.au). Pursuant to section 22 of the PS Act, AA is required to notify the Commission of proposed increases in prices of the declared services. The Commission may respond to the notification by either not objecting to the proposed prices, or not objecting to increases lower than the proposed prices (including no increase).

AA is proposing an overall average increase of 5.1% from 1 July 2002. It has proposed increases in its charges for terminal navigation at nine locations ranging from 2.1% at Brisbane to 9.9% at Adelaide. Charges are to remain unchanged at 18 locations, some of which are subsidised. Charges for rescue and firefighting services are proposed to increase at all 16 locations where services are provided ranging from 3.4% at Coolangatta to 9.9% at Karratha with a weighted average increase of 8.1%. In addition, it is proposed to increase charges for en route navigation services by 3.9%.

### The Commission's assessment process

In assessing AA's proposals the Commission will consult with users and other interested parties. This process is set out in the table below.

#### Timetable for processing of Airservices Australia's 2002/03 Pricing Proposal

Date	Action
Monday 13 May 2002	Commission receives Airservices Australia pricing proposal.
Tuesday 14 May 2002	Commission publishes Issues Paper and notifies interested parties.
Monday 27 May 2002	Closing date for submissions on price notification.
Mid June 2002	Release of draft decision and call for comments.
Friday 28 June 2002	Closing date for comments on draft decision.
Mid July 2002	Release of final decision.

### Submissions from interested parties

Given the Commission's preference for a transparent process, submissions will be made publicly available on the Commission's website at [www.accc.gov.au](http://www.accc.gov.au). Parties wishing to supply information regarded as commercially sensitive should clearly identify the specific areas of concern in any submission.

## **The Commission's role and Statutory criteria**

The Commission has responsibility for reviewing price notifications relating to proposed charges for the services referred to above.

Detail of the Commission's role is in its Statement of Regulatory Approach to Price Notifications (the draft statement). This document can be found on the Commission's web site at [www.accc.gov.au/fs-transport.htm](http://www.accc.gov.au/fs-transport.htm).

In reaching its decision, the Commission is required to have regard to statutory criteria under section 17(3) of the PS Act, including:

- the need to maintain investment and employment; and
- the need to discourage a person who is in a position to substantially influence a market from taking advantage of that power when setting prices.

The draft statement outlines the Commission's interpretation of sections 17(3)(a) and 17(3)(b) of the PS Act

## **Issues for comment**

The Commission has identified a number of issues for comment. It would assist the Commission if parties could structure their submissions around the issues listed. However, the list should not be seen as exhaustive and the Commission also invites comments on other relevant matters.

### ***Efficiency of Airservices Australia's operations***

AA has referred to reductions in its costs and to benefits to users arising from changes in its air navigation services.

The Commission seeks comments on the efficiency and cost effectiveness of delivery of air traffic control and airport rescue and firefighting services. In particular the Commission seeks comments on:

- the efficiency with which AA provides its services;
- the efficiency of AA's cost base;
- the level of operating costs included in AA's proposal; and
- AA's incentive, and effectiveness, to contain and reduce costs.

### ***Traffic Volumes***

AA's proposal for increases in charges is partly based on air traffic volumes being lower than anticipated following the collapse of Ansett and the events of 11 September 2001. An additional factor may also be the achievement of higher load factors by airlines, that is having more passengers on each flight rather than providing more flights. The Commission seeks comments on:

- the appropriateness of lower volumes as a case for increased prices; and
- the reasonableness of AA's forecasts for activity growth.

### ***Rate of return***

AA has presented several financial indicators to measure its profitability which it compares with other related businesses.

It gives budgeted profitability measures for 2002/03 that the proposed charges will provide on p. 19 of its submission.

Comment is sought on the appropriateness of the comparisons, the budgeted returns and the methodology used to calculate the returns.

### ***Structure of prices***

The Commission seeks comments on the efficiency of the proposed pricing structure, including:

- whether the proposed charges will provide appropriate incentives for users of AA's services to invest in particular functions and at particular locations;
- whether AA will be provided with appropriate incentives to invest in particular functions at particular locations; and
- whether (allowing for government subsidies) the proposed prices are likely to reflect AA's costs of providing services.

### ***International comparison***

The Commission seeks comments on the appropriateness of using international benchmarks and comparisons of costs of providing and charges for air traffic control services and airport rescue and firefighting services set by other service providers, as a guide to setting charges for AA's services.

Comments could also address the considerations or assumptions appropriate when assessing the comparability of AA's performance to that of other providers of air traffic control services and airport rescue and firefighting services.

### ***Impact on users***

The Commission invites comments on the likely impact of the proposed changes on the users of airports and air traffic control services, particularly with respect to the effect on:

- the demand for air travel;
- airline scheduling decisions;
- providers of other aviation services; and
- air fares.

### ***Other Issues***

Comments are invited on other relevant issues.

### **Contact Details**

**Please forward submissions to the following address by close of business Monday 27 May 2002:**

**Ms Margaret Arblaster  
General Manager – Transport and Prices Oversight  
Australian Competition and Consumer Commission  
Box 520J, Melbourne, Victoria, 3001.**

If you have any questions about this request for submissions please call Richard Home on (03) 9290 1855 or David Salisbury on (03) 9290 1919.

14 May 2002

