

Our Ref: 1144/04/TH

29<sup>th</sup> November 2004

General Manager, Transport and Prices Oversight  
Regulatory Affairs Division  
ACCC  
GPO Box 520J  
Melbourne VIC 3001



Attention: Margaret Arblaster

Dear Margaret,

**Comments on ACCC Preliminary View – Airservices Pricing Proposal**

It is noted with regret that the airline industry and ACCC both continue to support Location Specific Pricing even though it significantly disadvantages regional airports (and incidentally insignificantly advantages capital city airports) when the effects of price elasticity on airfares is taken into account - this can only be counter productive to the Australian tourism industry and regional development.

The proposed staged approach in Airservices price increases is a sensible idea and is more acceptable than the original "big hit" most operators would have been forced to bear under the earlier proposal.

The projected price increases per landed tonne over 5 years for Mackay from \$9.98 to \$17.07 for ARFFS and \$7.42 to \$12.69 for Tower equate to an increase of \$8 per airfare on the Brisbane to Mackay route. The present everyday low airfare on that route is \$89 - with an estimated price elasticity factor of 2 this would generate in a decrease in demand of  $\$8/\$89 \times 2 = 18\%$ . With present projected total passenger movements of 575,000 for 2004/05 this equates to a projected loss in movements of 103,500 or 51,750 return airfares. The markets affected will be the price elastic leisure and VFR markets in both directions.

The consequent economic impact on the Mackay economy would be a loss of some 25,000 visitors from Brisbane, Sydney, Melbourne, etc at a conservative spend rate of \$750 per person - \$18.75 million less into the Mackay annual economy. This does not factor in lost opportunities for additional capacity due to high costs of an airline operating to Mackay.

The most disturbing effect of the pricing proposal is that the starting base activity levels used in calculating Mackay airport ARFFS charges are around 25% below the present throughput. This would place us at a distinct unfair disadvantage from day one which is unacceptable.

The estimate used by Airservices in their proposal was 167,000 landed tonnes for 2004/05.

Airservices has provided data for the first four months of this financial year of 66,652t which translates to an annual tonnage of 197,830t and that does not factor in the third daily Virgin Blue service which commenced on 25<sup>th</sup> November 2004. This newly service will add a net additional annual tonnage of 21,900t or around 13,000t for this financial year - when added to the 197,830t above this demonstrates a realistic tonnage estimate for 2004/05 is 210,000t - **26%** higher than the proposed figure in the Airservices pricing model.

Accordingly, the proposed Airservices charging model to attain required revenue in its submission to the ACCC is severely flawed, and will generate significantly higher revenues than predicted in Mackay and accordingly is neither fair nor equitable.

It is important that sole reliance be not placed on the proposed review process to retrospectively correct such variances, as such an approach would unreasonably defer implementation of correction of pre-existing errors in the model.

This is particularly irksome considering MPA has outlaid over \$1.5m in incentives and rebates to encourage additional capacity in Mackay and therefore increased aircraft landed tonnage at Mackay airport in the last three years, which has generated benefits for Airservices revenue for Tower and ARFFS services from the airlines, without Airservices sharing any of the costs of those incentives or rebates.

The ACCC has made a good point in that the thresholds for establishing and maintaining an ARFFS service are 350,000 and 300,000 passengers respectively - it would therefore be most appropriate that the charging system should reflect those criteria, i.e. **a per passenger charge**.

As for other aircraft operators above 2.5tonnes it is suggested that, like Tower charges, a capped rate be applied for ARFFS as it is only fair they contribute as the service also provides protection of their assets. If they don't want that protection they can move to a secondary airport - the choice is theirs.

Thank you for the opportunity to make comment on the proposed pricing structure.

Yours faithfully



Greg Mann  
Chief Executive Officer  
Mackay Port Authority