

## **Towards a National Aviation Policy Statement**

### **Mackay Ports Submission to the Minister for Infrastructure, Transport, Regional Development and Local Government**

#### **Executive Summary**

Mackay Airport is a medium sized regional airport with a domestic passenger throughput of around 830,000 passengers annually at present, 83% of these domestic passengers were carried by Low Cost Carriers, Jetstar, Tiger Airways and Virgin Blue. Mackay Airport has competition from the nearby airports of Whitsunday Coast (Proserpine) and Hamilton Island for traffic into the Mackay region.

This submission would like to focus on a number of issues that directly affect the competitiveness of Mackay airport in gaining airline seat capacity which is critical for continued development of the regional economy.

- Aviation Safety with better air traffic management
- Recognition of the negative effects on domestic air travel caused by the higher airfares due to fuel surcharges, high exchange rate of AUD, higher interest rates, petrol and grocery prices.
- Network pricing of Airservices charges.
- Network charging of passenger and checked bag screening costs.
- Recognition of the need for increased non-aeronautical revenue for regional airports in order to contain airport charges to the airlines.
- Recognition of the need for a National Planning Policy for developments in the vicinity of airports similar to Queensland SPP 01/02 and acceptance of the UK - NATS model for risk contours to determine any duty of care.
- The need for a carbon trading scheme rather than a carbon tax that would further suppress travel demand and the strength of the national economy.

#### **Aviation Safety with better Air Traffic Management**

The work being carried out by Airservices Australia with ADS-B (Automatic Dependence Surveillance – Broadcast) and GRAS (Ground Based Regional Augmentations Systems) should be continued to be supported by Government and industry to improve safety and reduce carbon emissions. Mackay Ports has participated in the test bed for GRAS and made a commitment of \$75,000 to assist in funding ground installations.

#### **Recognition of the negative effects on domestic air travel caused by the higher airfares due to fuel surcharges, high exchange rate of AUD, higher interest rates, petrol and grocery prices**

Since the very recent rise in airfares by the airlines, we have experienced a downturn in passenger growth from around 17% (average over previous 16 weeks), 12 % for the full year, to 5% during the last two weeks. The price elasticity of demand is quite elastic, particularly at the lower airfare level and is now affecting air travel more evidently.

The high exchange rate of the AUD has meant there are more Australians travelling overseas than visitors to Australia as overseas destinations become more affordable and Australians shun Australian destinations such as Cairns and the Whitsunday's.

The potential domestic traveller is now staying at home rather than going on holidays, take short breaks or visit friends and relatives as their disposable incomes shrink due to increased petrol, grocery prices and higher interest rates.

### **Network Pricing of Airservices Charges**

Presently Airservices have three charging systems:

*Enroute* charges – a network charge per kilometre flown / MTOW with differential charging for aircraft above and below 20 tonnes, \$4.18 and \$0.93 respectively with a subsidy provided to regional airline services below 15 tonnes.

*Meteorological* charge per kilometre flown / MTOW as above 20.5c per MTOW over 20 tonnes, 4.6c per MTOW under 20 tonnes.

*Terminal* or Tower charge per MTOW for Air traffic Control services at airports based on “Location specific pricing” at the capital city and larger regional airports varying from \$5.06 at Melbourne, \$5.57 at Sydney and \$5.83 at Brisbane to \$12.66 at Canberra and a network charge for smaller airports of \$12.69.

It is noted that some airports that are joint facilities with the Defence Department which are funded by the taxpayer have much lower Terminal charges such as Townsville \$2.94, Darwin \$2.26 and Newcastle nil.

*ARFFS* charge per MTOW for Aviation Rescue and Fire Fighting services provided at airports on a schedule of charges based on the aircraft size which is a hybrid combination of network and location specific charging.

The rationale for a network pricing system is sound and is necessary to provide a level playing field for regional airports when competing for airline services and capacity where the airlines compare individual route costs when making decisions on where to allocate capacity.

Enroute and Meteorological charges are uniform with a differential charge for smaller aircraft that have higher per seat costs that service regional centres.

ARFFS charges are a balance of providing a uniform charge for the category 6 and below aircraft used at regional airports and a location specific type charge for larger aircraft types used at the international airports.

Terminal charges for smaller airports basically provide a network charge at the same rate as the most expensive capital city or larger regional airport i.e. Canberra.

The network charge at smaller airports is still high at \$12.69 per MTOW and a network charge similar to the ARFFS charge would be more effective in providing a

level playing field to the smaller airports. The yearly additional cost for an airline to operate a daily A320 service to Mackay from Brisbane as against to Sydney is **\$191,000**.

The pure location specific pricing model created a situation where the domestic services were subsidising the international services and disadvantaging the regional airports.

### **Recommendation**

Develop a new network pricing model for Terminal services where the smaller airports pay a pure network price, or similar pricing to the ARFFS model.

### **Network charging of checked bag screening costs**

The cost increase on airfares from the introduction of checked bag screening to the twenty six regional airports is going to suppress air travel demand and increase airline route costs that will, in many cases, lead to reduced seating capacity to those airports.

This is already happening due to increased fuel costs with leisure destinations like Cairns, The Whitsunday's, and Sunshine Coast and Tasmania. Three poor performing services on a Saturday night have been withdrawn from Mackay by Jetstar, Qantaslink and Virgin Blue.

The costs of the implementation of checked bag screening at Mackay is \$7.1m due to the need to relocate many facilities, upgrade the baggage handling system and power supplies, provide 2 x CBS-EDS X-Ray machines and extend the terminal by 35 metres. The estimates of our charge per departing passenger are \$3.44, but some airports are estimating much higher charges. The introduction of this charge from 1<sup>st</sup> December will put additional pressure on travel demand and could result in further loss of services.

### **Recommendation**

1. The Commonwealth Government fund the cost of passenger screening and checked bag screening, whilst leaving the operation of those services with the airlines and airports rather than form a new Homeland security department.
2. If the Government is not prepared to fund these costs then the introduction of a network per passenger or MTOW charge similar to Enroute charges by Airservices Australia. The information for charging purposes is already available through BTRE – Aviation Statistics or Avcharges.

### **Recognition of the need for increased non-aeronautical revenue for regional airports in order to contain airport charges to the airlines.**

Airports will become more reliant on non-aeronautical revenue, in regional Australia where the low cost carriers are prevalent. Airports need to keep aeronautical costs low so that airlines can offer lower airfares that stimulate passenger growth.

Non-Aeronautical revenue that is on a user pays basis such as car parking, hire cars, taxi's, coaches, food & beverage and advertising offered by the airport leave the decision to the traveller whether he wants to and is prepared to pay for the product.

This is similar to the airlines who are more and more looking to ancillary revenue streams to survive such as on board food & beverage, extra charges for checked bags, for manual check-in, phone bookings, commission on travel insurance, hire cars, accommodation, airport transfers, tours, off airport parking and merchandise.

### **Recommendation**

That Local Government Councils and their airports enter into a memorandum of understanding, recognising that airports outside the Airports Act need to be able to develop non-aeronautical revenue in order to remain competitive. That airports also acknowledge any affect on airport developments will have on Council infrastructure and the need to work with the local planning authorities and where appropriate make a fair contribution.

### **Recognition of the need for a National Planning Policy for developments in the vicinity of airports, similar to Queensland SPP 01/02 and the acceptance of the UK - NATS (National Air Traffic Services) model for risk contours to determine any duty of care**

This policy has been a very valuable tool in restricting and controlling proposed high rise developments in the flight and approach paths to Mackay airport.

Mackay Airport has soccer and hockey fields in the approach path of the main runway 14 and within 1000m of the threshold and within the Public Safety Area.

These lands are State land, with the local Council as trustee who have leased the land to the soccer and hockey sporting organisations. Under Queensland SPP 01/02 a new development is not permitted within this Public Safety Area. The policy does however allow an existing activity to continue, but does not permit any intensification of use.

Mackay Ports has engaged the UK – NATS to perform modelling of the risk contours for runway 14 which indicate the sporting fields are outside the unacceptable risk contour of 1 in 10,000 but within the 1 in 100,000 contour where there should be no intensification of use. The sporting organisations have been advised of these findings. Mackay Ports commissioned this work in order to establish whether we have performed an appropriate level of duty of care in relation to the risk.

### **Recommendation**

That a national policy on developments in the vicinity of airports is introduced along similar lines to SPP 01/02 or at least guidelines are available for National and State planning authorities and airports and reference material made available for airports to assess their public safety area risk contours.

### **The need for a carbon trading or offset scheme rather than a carbon tax that would further suppress travel demand and strength of the national economy**

A carbon trading or offset scheme is a more effective way to actually physically reduce emissions.