



RAAA SUBMISSION

AIRSERVICES AUSTRALIA

**LONG TERM PRICING AGREEMENT
JULY 2016 TO JUNE 2021
DISCUSSION PAPER**

The information in this submission is only to be used for its intended purpose unless written permission from the RAAA is obtained.

Serving regional aviation, and through it, the people and businesses of regional Australia

Unit 11, 26-28 Winchcombe Court, Mitchell ACT 2911

ABN: 23 008 568 054 **Telephone:** 02 6162 0305 **Facsimile:** 02 6162 0308 **Email:** office@raaa.com.au **Website:** www.raaa.com.au

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6 May 2015

Pricing
Airservices Australia
GPO Box 367
Canberra ACT 2601

Dear Sir,

RAAA SUBMISSION
Airservices Australia
Long Term Pricing Agreement
July 2016 - June 2021
Discussion Paper

The RAAA is pleased to provide this submission in response to the Airservices Australia : Long Term Pricing Agreement (LTPA) July 2016 to June 2021 discussion paper.

I. RAAA Background

The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) is a not-for-profit organisation formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia (RAAA) and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 29 Ordinary Members (AOC holders) and 69 Associate/Affiliate Members. The RAAA's AOC members directly employ over 2,500 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$1.5b, carry well in excess of 2million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, freight companies, engineering and flight training companies, finance and insurance companies and government entities. Many of RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional and remote areas of Australia.

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RAAA Charter

The RAAA's Charter is to promote a safe and viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members to have input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry by direct lobbying of Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

II. RAAA Response to Airservices Australia LTPA Discussion Paper

Introduction

As stated by the RAAA over consecutive submissions the RAAA has a preference for services provided by Airservices Australia to be based on a network basis and is strongly opposed to location specific charging.

It is our understanding that the ICAO principles for charging associated to airports and Air Navigation Services, although having similarities, differ substantially in the application.

In relation to “airports” ICAO indicates that:

“Only the costs of those facilities and services in general used by international air services should be included, and the cost of facilities or premises, and the facilities or premises exclusively leased or occupied and charged for separately should be excluded”

In relation to “air navigation services” ICAO indicates that:

“... international civil aviation should not be asked to meet costs which are not properly allocable to it²” and “An equitable cost-recovery system could comprise charges based on the allocation of total air navigation services costs incurred on behalf of users³”.

Our understanding of the statements above is that in relation to “airports” international air services should only be charged for those services they use and not for ancillary items at a particular airport location. However in relation to “air navigation services” ICAO does not specify whether a network or location specific pricing model should be used and leaves this decision to the State. The option for network based pricing is also available, in our view, by reference 3 above.

A highlight of the charging regime over past periods is its strong portrayal of those organisations (both Government and private) pushing a purely economic rationalist perspective, ignoring totally the social benefits demanded by a modern society. This in turn is having a flow on affect of creating a dual society in Australia; those who have an aviation service due to being located on the main routes (at a greatly reduced costs per ticket) and those who, in comparison, either have a service (at a greatly increased cost per ticket) or no service at all (due to routes being assessed by operators as not viable due to associated costs of providing the service).

Over the past LTPA we have seen the gap between the cost of terminal navigation services (TN) at regional locations reach historic disparity compared with the rate at the major centres⁴. Whereas Sydney, for example, has gone from a TN cost of \$5.58 in 2011 to \$5.62 in 2015 (an increase of 0.72%) many regional centres have gone from \$13.26 to \$15.22 (an increase of 14.78%).

1. Doc 9082 ICAO's Policies on Charges for Airports and Air Navigation Services (9th Edition - 2012) 2 (2 iii)
2. Doc 9082 ICAO's Policies on Charges for Airports and Air Navigation Services (9th Edition - 2012) 3 (1)
3. Doc 9082 ICAO's Policies on Charges for Airports and Air Navigation Services (9th Edition - 2012) 3 (2)
4. Airservices Australia Long Term Pricing Agreement July 2016 – June 2021 Discussion Paper Appendix 1 – Terminal Navigation Services

Commercial operators, regardless of being domestic or international, pass the cost of TN charges to the passenger via the ticket cost. We estimate that for a 90 seat 50.3 tonne aircraft operating into Sydney the current TN charge adds approx. \$3 to the cost of a seat compared with approx. \$15 per seat for a 35 seat 13.15 tonne aircraft operating into regional Australia. Even if the 90 seat 50.3 tonne aircraft was flown into the regional location the added cost per seat is still approx. 3 times that associated to city counterpart.

Considering these costs are passed through to the passenger, it appears that regional aviation is being discriminated against in favour of their city counterpart by having to pass on an estimated 3 to 5 times the cost per seat to passengers for TN services at regional locations.

ICAO also indicates that air navigation service charges

“should not be imposed in such a way as to discourage the use of facilities and services necessary for safety or the introduction of new aids and techniques⁵”

The RAAA is also concerned that this disparity in TN charges will lead to Airservices Australia not meeting the recommendations in reference 5 above without a major detrimental effect on aviation in regional Australia.

The RAAA understands that the introduction of many services maintained by Airservices Australia is due to a mandate from the Government through the Civil Aviation Safety Authority (CASA). However, the RAAA believes that CASA and Airservices Australia needs to ensure any new service should only be contemplated after an impartial full risk/benefit/cost analysis has been done that takes into consideration not only arbitrary lines but also the capabilities of equipment associated with the aircraft in question utilising a particular location.

The RAAA is also cognisant of the principle that Australia does have the ability to record with ICAO differences to the ICAO recommendations.

Responses to Questions

(1) Pricing Principles:

As highlighted in the introduction and in previous submissions, the RAAA prefers a network based pricing structure. However, due to a wide range of views on this the RAAA is happy to accept a hybrid of location specific and network based however the difference in pricing between city and regional locations needs to be realistic to ensure viability of regional operations both for Airservices Australia and operators. Inclusive of our comments in the introduction and as outlined by ICAO⁶, no distinction should be made in relation to the nationality or category of user. The RAAA would also like to see that Airservices Australia takes into consideration, and adjusts appropriately both operational and capital expenses, downturns in the marketplace being experienced by industry.

5. Doc 9082 ICAO's Policies on Charges for Airports and Air Navigation Services (9th Edition - 2012) 6 (ii)

6. Manual on Air Navigation Services Economics (Fifth Edition - 2013) 3.83 (e)

(2) Rate of Price Increase:

Price increases, especially at price sensitive locations should be minimised as much as possible. As there are no pricing indications within the current paper we have no ability to look at flow on effects. However, we feel the consumer price index should be used as the initial guide with any final adjustment for price increases occurring only after consultation and agreement with industry.

(3) Measuring Performance Outcomes:

As with any provision of services outcomes need to be assessed in an open and transparent manner to ensure that an efficient and effective service is being delivered. Airservices Australia needs to be commended on the initiative to date in this area however we need to ensure that the initial core of this endeavour is finalised as quickly as possible so that extension of the current performance measures can be assessed for other sectors in the industry. Performance measures should also be regularly assessed in conjunction with industry to ensure they still are meaningful.

(4) Graduated Services:

Where there is consensus with industry, and CASA has agreed that a full service is not required, a graduated service should be introduced and these services should be charged for (at an expected reduced cost than for a full service) when they become available.

In introducing graduated services over the term on the next agreement Airservices Australia needs to look at the potential for introduction of graduated services and the potential costs for providing these services. This analysis then could be provided to industry for approval via a condensed business case/s. Questions that need to be answered are:

- Why does Airservices Australia think the graduated service is required?
- When will the graduated service be required?
- What is the expected cost for providing the graduated service?
- What is the effect of the graduated service on the LTPA?

(5) Premium or Value Add

Due to the limited amount of information provided to date the RAAA does not support this at this time.

(6) Incentivising new technology:

The RAAA is of the view that Airservices Australia should encourage the early uptake of new technology but should not provide financial incentives for doing so.

(7) Deemed Weight:

At this time the RAAA does not support any further averaging of the MTOW used.

(8) Weight Cap:

The RAAA see no need to adjust the current weight cap of 500 tonnes.

(9) Deemed Distance:

The RAAA has no comment to introducing deemed distances at this time. The RAAA does have concerns that this proposal may add unnecessary complexity to the LTPA.

(10) Ultra Lights, Gliders and Balloons.

The RAAA is of the view that if a commercial operation uses services then it has an obligation to pay for the services used. Like the rest of the commercial aviation industry it then has the option to pass those costs on. However, care needs to be taken to ensure that charges for these services are not outweighed by the cost of administering these services including collection costs. Therefore, before agreeing the RAAA would like to see further analysis on this proposal.

(11) Alternative Mechanisms

The RAAA has no comment at this time.

(12) General Aviation Option

The RAAA sees 2 options available due to the low uptake of the \$500 cap.

- a. Conduct an education campaign targeting those not using the system to see if a more effective uptake can be obtained.
- b. If option “(a)” above is not successful or Airservices Australia feels this is unwarranted due to current feedback from GA, abolish the system due to its low uptake and increased administration costs.

(13) Risk Sharing

The RAAA feels the review process for taking into consideration changes in the LTPA is adequate.

In relation to the capital works program the RAAA feels that at the current time the risk sharing needs to be improved to include accountability to industry for promised outcomes, delivery timelines and budget delivery.

Implementation of the OneSky project needs an open and transparent system that ensures accountability to industry for costs, timelines and promised outcomes. It is critical to the RAAA that we are satisfied that, in relation to costs, these are reasonable and attributed to the respective parties (civil or military) appropriately. Additionally, where military uses services and/or equipment provided through the civil aviation system a mechanism is in place to ensure that civil aviation users are not burdened with subsidising military use.

(14) Stranded Assets

The RAAA feels the possibility of an asset being stranded is low. However if this did occur we feel that:

- a. As the services provided through Airservices Australia are, in general, mandated services the Government, through Airservices Australia, needs to be responsible and accountable for the original decisions they made. In making their decision to mandate a service at any location there needs to be, in addition to items mentioned previously in our submission, consideration as to the sustainability of the mandate over time. Industry should not be penalised or burdened by costs associated to Government mandated assets no longer required for any reason. Accordingly, in the case of stranded assets the Government needs to bear the residual cost (s), if any, associated to their initial decision(s) in relation to any capital values and also retrieval of any part of the asset that can be utilised elsewhere.
- b. Where option (a) above is not attainable for any reason the RAAA is opposed to any form of accelerated recoupment from industry for the stranded asset.

III. CONCLUSION

The RAAA is grateful for the opportunity to provide our views on the discussion paper. If you would like further information about the items contained in this submission, or clarification on any of the points we make, the RAAA would be more than happy to assist. The RAAA looks forward to engaging further with Airservices Australia on the next Long Term Pricing Agreement.

Regards,



Paul Tyrrell
Chief Executive Officer