



Submission to

# Airservices Australia

## Pricing Structure Options

October 2008

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

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

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## **The Regional Aviation Association of Australia (RAAA)**

### **Pricing Submission to Airservices Australia**

#### **The RAAA and its Members**

The Regional Aviation Association of Australia (RAAA) was 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 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 26 Ordinary Members (Air Operator Certificate holders (AOC)) and 48 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 \$700M, carry well in excess of 2 million passengers and move over 23 million kilograms of freight.

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

Some examples of RAAA members' significant presence in regional Australia is the REX hub in Wagga Wagga, Sharp Aviation in Hamilton, Airlink in Dubbo, Airnorth in Darwin, Skywest / Skippers / Maroomba in Perth, Skytrans / Regional Pacific in Cairns and Macair in Townsville to name just a few.

Many of the fly in/fly out operations for the mining sector are flown by RAAA members right across the country and into some of Australia's most remote and harshest locations. These members are providing a vital service to an industry sector that is driving the Australian economy.

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Members such as Basair, Sharp Aviation, Rex and Brindabella Airlines have established flying schools to cater for rapidly increasing demand for commercial pilots. Other members, such as Alliance Airlines and Aviation Australia, are continuously developing their engineering training courses to ensure that their new engineers receive up to the minute training.

## **RAAA Charter**

The RAAA's Charter is to promote a 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;
- advocates on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members gain 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 through discussions with Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

## **Pricing Model General Comments**

The RAAA is supportive of the current pricing model with a number of caveats which will be discussed later in the paper. It is understood that Airservices Australia (AsA) offers services on a modified cost recovery basis to enable the pool of air navigation services and ARFF costs to be recovered, 'while minimising the undesirable distortions to airport usage'.



There are however a number of improvements to the model that can be considered. AsA is a monopoly provider of services and thus has significant and legislated responsibilities to the aviation industry, and operators in particular.

It is vital that AsA continues to improve its service orientated approach to the industry. If operators feel that the service is reasonably priced and responsive to new operational needs or technological opportunity AsA will find it easier to engage with the industry re further system enhancements. It is acknowledged that the AsA senior management is striving for a service oriented culture but it is also noted that there are significant challenges within AsA to rein in unreasonable working conditions demands by some professions. These demands, if met and passed on to operators, will place unreasonable cost imposts on AsA customers. The behaviour of some air traffic controllers with respect to their certified agreement negotiations reinforces this point.

Another principle that should underpin any new pricing regime is that ASA customers should only pay for what they use. It is understood that in a balanced network pricing model some flexibility is required because of the different categories of aircraft. From the RAAA perspective an example of distortions of this model is the minimum level 6 (B737) setting for the ARFF charge which often leads to an overcharge to the smaller regional aircraft operating from the same airfield. A possible alternative model for ARFF charges could be that if a category of aircraft doesn't require an ARFF (say a Cessna 402) they are charged a one off fee in the event of an accident or incident, i.e. for a wheels up landing.

If AsA cannot provide a particular service then a debit note should be issued for the non-provision of the service. This has come to a head in recent months with TIBAs and TRAs being announced with very short notice causing considerable disruption and additional costs to some operators, particularly with respect to extra fuel burn. Rather than pursuing AsA for every non-provision of service, an end of year reconciliation around debits and credits could occur between AsA and the customer.

It may be possible to set high but minimum levels of service (core services) across a range of AsA products, levied by MTOW. If an operator requires services above these minimum levels then, in principle, the operator should be required to pay a levy on top of the minimum service. This would have the advantage of spreading the cost of minimum services but restricting the cost of the additional services to the particular operator requesting the extra service.

### **Answers to AsA questions**

- 1 The RAAA does not support directly negotiated bilateral pricing agreements with particular airlines. This may lead to large distortions in prices for similar or identical products in a situation where AsA is offering, what is viewed by most, as essential services.
- 2 The long term pricing agreement (LTPA) should be a minimum of three years but no more than five.
- 3 Core services could be charged using the current MTOW regime. Prices for core services could be set and monitored by the ACCC. If services were required above the core then these could be negotiated between the operator and AsA. It is expected that the vast majority of services would fall within the core.
- 4 With respect to smaller operators the Light Aircraft Option appears to be effective and reduces the administrative burden.
- 5 The only clear way for AsA to measure service quality for reward or penalty would be for a credible independent arbiter to undertake the analysis. The results of the analysis would need to be made public to AsA customers.
- 6 It is difficult to see how AsA would define value-adding services. If a service is seen to be valuable it must have a safety value and is therefore a core service.

- 7 The RAAA supports the current MTOW and distance charging regime. If a modified MTOW-band or ARFF based category was to be introduced for charging purposes, the RAAA would want to see the detail of the band structure before agreeing or otherwise.
- 8 The current enroute charging regime is supported.
- 9 No comment with respect to separate Indian Ocean charges.
- 10, 11 12 The current TNC regime is supported. Any price increases should be no greater than the CPI. No further pooling of costs is desirable given the differing levels of AsA service between major, GAAP and regional airports.
- 13 ARFF emergency responses to terminals or tenants should be charged separately.
- 14 No, new charges over the base level charge should not be introduced until any new service is proven to add value by an independent arbiter such as the Productivity Commission or the ACCC.
- 15 Automatic price increases to the ARFF above the CPI are opposed.
- 16 It is reasonable for airlines to negotiate directly with AsA for extra services above the core level of services. It is emphasised that the standard and extent of the core AsA services should be high and measured objectively.
- 17 The RAAA does not propose alternative risk-sharing strategies. Aircraft below 5.7t should not be counted in risk sharing programmes or strategies.

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CEO