AIRSERVICES AUSTRALIA

FROM THE OFFICE OF THE CHIEF EXECUTIVE

Mr Ian Dundas
Committee Secretary
House of Representatives Standing Committee on Transport and Regional Services
Parliament House
CANBERRA   ACT   2600

Dear Mr Dundas

Submission to the House of Representatives Inquiry into Regional Aviation Services

Airservices Australia has pleasure in providing the attached submission to the Committee for consideration against its terms of reference.

Should you wish to follow up on any matters in this submission the Airservices Australia contact officer is Mr Paul Dawson (02) 6268 4453.

Yours sincerely

B R SMITH
Chief Executive Officer

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AIRSERVICES AUSTRALIA

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INQUIRY INTO REGIONAL AVIATION SERVICES

Background

1. Airservices Australia was established on 6 July 1995 as a Government Business Enterprise (GBE), under the *Air Services Act 1995,* with reporting and accountability arrangements set out in the *Commonwealth Authorities and Companies Act (CAC) 1997.*

2. In 1997, Airservices Australia's status was amended to that of a Commercial Authority, which had some minor implications regarding the application of the CAC Act, but minimal impact on Airservices Australia's ownership or governance.

3. Airservices Australia's specific responsibilities include airspace management, air traffic flow management, air traffic control, traffic and flight information, navigation services, aeronautical information, search and rescue (SAR) alerting, and rescue and fire fighting in accordance with the Chicago Convention on International Civil Aviation and as legislated in the Air Services Act.

4. Under the Air Services Act, Airservices Australia performs the following functions:

    - Provides facilities to permit safe navigation of aircraft within Australian-administered airspace;
    - Promotes and fosters civil aviation in Australia;
    - Provides the following services, for the purpose of giving effect to the Chicago Convention or otherwise for purposes relating to the safety, regularity or efficiency of air navigation:
        - (I) air traffic services
        - (ii) an aeronautical information service
        - (iii) rescue and fire fighting services
        - (iv) aeronautical radio navigation service
        - (v) an aeronautical telecommunications service;
    - Co-operates with the Australian Transport Safety Bureau (ATSB) in relation to the investigation of aircraft accidents and incidents;
    - Performs activities to protect the environment from the effects of, and the effects associated with, the operation of Commonwealth jurisdiction aircraft;
    - Performs any functions prescribed by the regulations in relation to the effects of, and effects associated with, the operation of Commonwealth jurisdiction aircraft;
    - Performs any functions conferred under the *Air Navigation Act 1920*;
    - Performs any other functions prescribed by the regulations;

- Provides consultancy and management services relating to any of the above matters; and
- May provide its services and facilities both within and outside Australian territory.

5. Airservices Australia is wholly owned by the Australian Government and is governed by a Board of Directors appointed by the Minister for Transport and Regional Services.

Introduction

6.   Airservices Australia provides the following comments to the House of Representatives Transport and Regional Services Committee in relation to the Inquiry into Regional Aviation Services.

7.   Airservices Australia is an independent Government owned commercial authority. Current Government policy is to corporatise Airservices Australia as a Government Business Enterprise (GBE) and open our terminal navigation (tower air traffic control services) and aviation rescue and fire fighting service lines to competition.

8.   Our obligation to perform as a commercial authority is best illustrated by reference to the *Air Services Act (1995)* and our Ministerial Charter of 1999.

9.   The Department of Transport and Regional Services (DOTARS) is the Government's policy advisor on aviation related matters. Airservices Australia may be asked to provide advice to DOTARS on matters within our area of expertise, as is the situation with other commercial organisations in the industry such as the airlines and the airports. However, Airservices Australia has no policy role or responsibility.

Airservices Australia's role as a Commercial Authority

10.   In recent years, Airservices Australia has invested strongly in technology and business initiatives as a means of reducing our costs and enhancing our leading edge service to the aviation industry. The best known of these technology initiatives is The Australian Advanced Air Traffic System (TAAATS). Airservices Australia has reduced staff from 4381, in November 1995, to 2798, as at 30 June 2002.

11.   Between June 1998 and January 2001 Airservices Australia delivered total real price reductions to its customers of some 25 per cent, representing savings of around $140 million per annum.

12.   The events of 11 September 2001 and the collapse of Ansett Australia shortly after resulted in Airservices Australia increasing its charges by 5.1 percent in 2002 / 2003, although an increase of over 10 per cent was required to enable the organisation to achieve normal profitability levels.

13.   One of the paradoxes of our charges at "capped price" regional airports is that Government assistance to regional aviation, in the form of a subsidised cap for terminal navigation and aviation rescue and fire fighting charges has hidden the significant cost and staff reductions achieved at these locations. The Government has "capped" terminal navigation charges at 16 high cost General Aviation Aerodrome Procedures (GAAP) airports and aviation rescue and fire fighting

charges at 2 regional airports. The Government funds the $7million program through a fuel levy collected from the aviation industry.

Safety Standards

14.   Airservices Australia's fundamental consideration is the primacy of safety. The International Civil Aviation Organisation (ICAO) sets standards for international airports. Civil Aviation Safety Authority (CASA) currently has regulations before parliament to mandate the nature and level of air traffic control and fire fighting services required at airports. Airservices Australia is legally obliged to comply with the safety standards specified in the regulations.

15.   The cost of services at regional aviation locations are largely driven by safety regulatory requirements which, for example, require Airservices Australia to provide certain levels of tower or fire services based on the type and mix of aircraft flown into that airport. At some airports Government policy, traditionally influenced by community representation, may require an air traffic control service to be retained where a different level of service, such as a mandatory broadcast zone (MBZ), could be a lower cost safe alternative.

16.   Where terminal navigation or fire fighting services are not required for safety reasons the option may exist for the services to be withdrawn. Regional communities tend to be divided on the issue of withdrawal of these kinds of services. Some people in the community argue that the withdrawal of, say, tower services increases risk and will discourage regular public transport (RPT) operators from using the airport. The alternative view is that as long as safety standards can be met a reduced level of tower or aviation rescue and fire fighting service can reduce operator costs and therefore increase the attractiveness of a particular location to Regional airlines.

Location Specific Pricing

17.   Airservices Australia's current position as a monopoly provider of air traffic control and aviation rescue and fire fighting services does lead to some industry claims that our charges have organisational inefficiencies built in and lack transparency. This perpetuates the convenient argument that because we are a government monopoly we simply recover costs, whatever they may be, and add a profit margin. This neglects the role of the Australian Competition and Consumer Commission (ACCC) in our price setting regime and the results of recent consultancy and benchmarking exercises against international providers of like services that show Airservices Australia's pricing regime to be highly competitive.

18.   Airservices Australia introduced Location Specific Pricing (LSP) for its aviation rescue and fire fighting service in 1997 and for its terminal navigation service in 1998. LSP is a user pays pricing model that aligns the prices of the services provided by Airservices Australia with costs of service provision, on a location basis in order to generate efficient price and investment signals.

19.   Airservices Australia's transition to location specific pricing was about increasing cost transparency, eliminating cross-subsidisation between locations and allowing more informed and more efficient resource allocation decisions to be taken. Regional airports may be disadvantaged by their relatively low throughput of aircraft tonnage, and, in some cases, the aircraft mix utilised by the airlines at those locations trigger higher safety regulation standards.

20.   Some larger carriers may argue that LSP has not gone far enough in removing the inequity of their operations having to continue to cross-subsidise regional aviation when the Government levies the industry at large to fund support for regional operations.

21.   Airservices Australia's reforms, and the benefits they impart to industry, have been recognised in a number of important forums. In 1999, the International Air Transport Association (IATA) awarded Airservices its prestigious IATA Eagle Award[1], judging Airservices to be the world leader in the provision of Air Navigation Services. The conferring of this award was due primarily to recognition of Airservices Australia's approach to implementing LSP.

Airport Congestion

22.   Air traffic control systems are not an important cause of congestion problems at Australian airports. At Sydney airport for example capacity is limited to a maximum of cap of 80 movements per hour on aircraft operation by government legislation. In addition, airport capacity can be constrained by ground handling issues such as availability of taxiways and high speed exits, terminal and apron space, or airline scheduling preferences. Adjusting the charges for air traffic control services will not impact on congestion levels at airports.

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[1] Criteria used to judge nominations included the *Consultation Process* between users and the provider; *Transparency* in the presentation of financial information to customers; *Cost-relationship* measuring the extent to which prices align with costs; *Equitable charges structure* – the extent to which users are protected from unfair cost allocations, according to sound accounting principles; *Economic regulation* – the extent of review by an independent body to prevent misuse of monopolistic power and *Productivity improvements* – the extent to which lower unit costs are achieved and converted into charges.

Passenger Preference

23.   Airservices Australia believes the argument that the introduction of financial incentives, through reduced terminal navigation and aviation rescue and fire fighting charges at regional airports will significantly affect passenger decisions to use one airport in preference to another is unrealistic. Leaving aside the issue of the regulatory compliance costs, the argument assumes that passenger preference to disperse to secondary and general aviation airports is highly sensitive to airline ticket costs and that any increase in passenger demand for regional locations would be sufficient to encourage Regular Public Transport airlines to fly the routes.

24.   It is difficult to argue that shifting operating charges away from regional airports to the major gateways will produce some form of net benefit for Australia as a whole and regional Australia specifically. Operations to locations such as Cairns for recreation travel are far more sensitive to factors such as the support of Japanese tour operators, airline schedules or the cost and distance involved in combining ports in tour itineraries.

25.   Further, nor does the argument recognise that air traffic control costs constitute a minor portion of the cost of an airline ticket.

26.   The New South Wales Transport Summit Working Party, in its submission of July 2001 to the Australian Transport Council's Aviation Working Group Review of Costs Impacting on small Regional Airlines, indicated that the Airservices Australia's charges represented around 4.3 per cent of the cost structure of regional airlines and airport landing and terminal charges around 6.2 per cent. The proportion of these charges as a percentage of a regional airline ticket would be marginally less.

Future Technologies

27.   There are two new technologies which are expected to impact on aviation in general in the coming years. These are satellite based navigation (Global Positioning Systems) and Automatic Dependent Surveillance – Broadcast (ADS – B).

28.   Satellite based navigation will allow aircraft to navigate directly to their destination rather than along a fixed route structure. This will provide savings in time and cost. The satellite navigation will also support instrument approach and landing at airports not equipped with conventional Navigation Aids. Airservices Australia expects that there will be some reduction in the need for, and costs of, conventional Navigation Aids in this environment.

29.   Automatic Dependent Surveillance – Broadcast is a technology whereby aircraft frequently and automatically declare their position and altitude. This information can be used by air traffic controllers to provide control, advisory and automated safety net services. This information can also be displayed in other aircraft. ADS – B can provide significant safety benefits in regional areas by providing radar like services at a fraction of the cost of air traffic control radars.

Conclusion

30.   The opportunity for Airservices Australia to further lower the prices of its services at regional airports is limited to the margins. The low throughput of aircraft tonnage at these regional ports is a critical barrier to cost reduction in terminal navigation and aviation rescue and fire fighting services.

31.   Apart from a reduction in services, within regulated standards, or the substitution of cheaper technologies there is little more Airservices Australia can do to reduce the cost of Regional air travel.