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ID no - 235



AIRSERVICES AUSTRALIA

Mr Paul Belin
Cost Recovery Inquiry
Productivity Commission
Locked Bag 2
Collins St East
MELBOURNE VIC 8003



Dear Mr Belin

Submission to the Productivity Commission on the Review of Cost Recovery by Commonwealth Agencies

Originally Airservices Australia considered that it would not be necessary to make a formal submission to the inquiry given our informal briefing of Commissioner Helen Owen in October last year.

On reading a number of submissions to the inquiry by other parties however, Airservices feels obliged to provide some factual information to correct some of the misconceptions held by others, particularly in relation to our location specific pricing.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Grant'.

Tom Grant
General Manager
Organisation Development

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AIRSERVICES AUSTRALIA

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PRODUCTIVITY COMMISSION REVIEW OF COST RECOVERY BY COMMONWEALTH AGENCIES

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' 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' ownership or governance.
3. Airservices' 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 is legislated in the Air Services Act.
4. Under the Air Services Act, Airservices 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;

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- 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 Commission in relation to specific references contained in some submissions to the Commission.

The Regional Airlines Association of Australia (RAAA)

7. The RAAA makes the claim that **"bureaucratic costs"** are excessive. **"Airservices Australia and CASA each have support administrations which are excessive and which, combined as they once were under the Civil Aviation Authority, could be substantially more cost effective."**
8. Airservices rejects this assertion. Airservices has reduced staff from 4381, in November 1995, to 2916, as at 31 January 2001. Over the same period administrative support staff have reduced from 531 to 275, a drop of some 48%. There are significant potential legal and policy concerns relating to combining the service provider and the regulator in one organisation, if that is what is being suggested by RAAA, and this is why air traffic services providers around the world are separating them.
9. The RAAA goes on to question the need for some services provided by Airservices. **"Arbitrary cost imposition by either Government or Regulation which are not essential for operations add to the requirement to recover cost but not to safety or efficiency of operations."** RAAA use the cost and requirements to provide fire services as a specific example.
10. Airservices also rejects this claim. Airservices fundamental consideration is the primacy of safety. The International Civil Aviation Organisation (ICAO) sets standards for international airports. Airservices complies with these standards. RAAA's implication that Airservices cease providing fire services is not an option which is available to Airservices under current regulatory arrangements.

Ansett Holding Ltd

11. Airservices supports Ansett's view that government agencies need to operate efficiently, especially those agencies which supply essential services or services mandated by legislation.
12. However, Airservices suggests that Ansett's submission that Airservices effort to improve efficiency only translates **"to a reduction of around four percent in 1999 in the unit cost of the service provided to industry"** is out of date and potentially misleading.

13. Airservices' significant program of reform over the past few years has resulted in improved efficiencies and lower prices to customers, whilst continuing to give primacy to safety.
14. Airservices has achieved significant reductions in the overall price of all services to customers through management improvements, efficiencies generated by the introduction of our new air traffic management system (The Australian Advanced Air Traffic System (TAAATS)) and the increasing level of aviation activity experienced in 1999 and 2000.
15. On 1 January 2001, the Australian commercial aviation industry gained the rewards of three years of technological and business transformation within Airservices. Airservices' charges for en route air traffic control services were reduced by some 12 per cent (14.8 per cent real) generating combined cost savings of \$7.4 million per annum for Australia's domestic and regional airlines. Australian and other international carriers flying in Australian air space will realise combined savings of \$11.1 million per annum.
16. The reduction comprised of two components. Firstly, a 6 per cent reduction planned for 1 July 2001 was brought forward to 1 January 2001. Furthermore, a special additional reduction in charges of 6 per cent will apply for the period 1 January 2001 to 30 June 2001.
17. Since June 1998 Airservices has delivered to its customers total real price reductions of around 25 per cent, representing savings of around \$140 million per annum. These reductions deliver, some eighteen months earlier than planned, on a commitment Airservices made to its customers in 1998 to reduce prices by at least 20 per cent in real terms. The graph at Attachment A illustrates the real movement in average prices and real annual savings over the last three years.
18. Ansett goes on the state in its submission that Airservices efficiency gains are marginal and effectively cancelled out by the Government's avtur (turbine powered) fuel levy, introduced in the 1998/99 budget. **"The imposition of this fuel excise increase has negated cost savings passed onto industry through efforts to improve operating efficiency at Airservices Australia."**
19. The avtur fuel levy is Government policy and it is inappropriate for Airservices to comment on its introduction. However, in 2000/2001 the Government provided \$7 million to Airservices, from the levy, in the form of a subsidy, to enable Airservices' prices to users at high cost General Aviation Aerodrome Procedures (GAAP) airports to be capped.
20. The relevant comparison in 2000/2001 therefore was \$7 million additional cost to airlines (fuel levy) to cap prices at some airports versus the \$140 million per annum savings Airservices now passes on

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to the industry. It should also be pointed out that Qantas fund 57% of the levy. Considering the magnitude of Airservices price reductions to industry it is difficult to understand Ansett's statement that, **"Airservices' Regular Public Transport (RPT) customers have seen reductions in charges to fund Airservices since the introduction of Location Specific Pricing (LSP) entirely wiped out by the fuel levy we now pay."**

21. Airservices agrees with Ansett on the need for government agencies to demonstrate transparency of the cost recovered to industry users who pay for those charges and the need to be publicly accountable. These considerations were part of the driving force behind Airservices' implementation of our new charging regime known as LSP.
22. Airservices introduced LSP for its Aviation Rescue & Firefighting service (ARF) in 1997 and for its Terminal Navigation service (TN) in 1998. LSP is a user pays pricing model that aligns the prices of the services provided by Airservices with costs of service provision, on a location basis.
23. Airservices' key objective in pursuing pricing reform has been to improve the alignment of charges and the cost of providing specific services. This also allows greater opportunity for user choice, and thereby increases the degree of equity within the system for all users.

Qantas Airways limited

24. Airservices does not agree with the Qantas statement that Airservices' **"charges are expensive compared to other Air Traffic Control (ATC) service providers."** Airservices benchmark data, as at May 2000, illustrates that Airservices' ATC charges for jet traffic at Australia's three major airports (Sydney, Melbourne and Brisbane) is more than competitive with charges at similar principle airports in Canada, Germany and the UK. However, Airservices benchmarking data does show that ATC charges in the three major Australian ports are more expensive than their New Zealand counterparts in Auckland, Wellington and Christchurch.
25. Qantas, while acknowledging that LSP removed some inequities associated with Airservices' previous charging regime, nonetheless express concerns about the **"on-going cross subsidisation to support infrastructure at smaller airports"** (ie the Government subsidy for GAAP aerodromes funded by the fuel levy).
26. As stated previously, this is an issue of public policy and although Qantas do not agree the policy they do acknowledge **"the commitment of the Government to the broader community in terms of its aviation needs."** Again Airservices must comply with safety regulatory requirements for such services.

27. CASA is currently developing regulations to mandate the nature and level of ATC services required at airports. It is possible that some GAAP and regional airports will require a level of service for safety reasons that are unsustainable on purely commercial grounds.

The Board of Airline Representatives of Australia (BARA)

28. Likewise, BARA takes issue with the cross subsidisation of under performing regional control towers by larger airports. **"The Government pays Airservices a subsidy to support the continuation of price capping at high cost regional locations."** Airservices can only restate that it has vigorously pursued options for reducing costs in all aspects of service delivery. However, where a particular level of ATC service is required at an airport for safety reasons then Airservices must comply. Airservices is also legally obliged, under the *Air Services Act 1995*, to give due consideration to public policy.

Industry Recognition of Airservices' Achievements

29. Airservices' 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 Award¹, 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' approach to implementing LSP.

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.

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ATTACHMENT A

