

**Government Cost Recovery Inquiry
November 2000**

Productivity Commission

Submission prepared by

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1. Introduction

The Ansett Holdings Ltd (AHL) group welcomes the opportunity to provide comment to the Productivity Commission in relation to the review currently taking place into the cost recovery practices of Commonwealth Agencies.

The AHL group operates in a capital intensive, competitive global industry. Like any business, cost management, minimisation and containment is a fundamental necessity to ensuring sustainable profitability and growth. Profit growth contributes to the generation of future cashflow streams which translate to higher share prices, a stronger balance sheet, lower costs of debt and, therefore, more opportunities for reinvestment in people and aircraft.

Costs recovered by the Commonwealth Government from the AHL group of companies forms a significant part of the group's cost base. Like any other business cost, government cost recovery must be managed and minimised.

We see a consultative approach to the development of principles and guidelines for application to future government cost recovery as a positive development to facilitate business certainty and planning. The AHL group looks forward to an active role in this process.

1.1 Confirmation of objectives of review

We understand the objective of this review is to develop principles and guidelines for the future application to cost recovery by the Commonwealth Government.

We understand the review will cover:

- Commonwealth Government regulatory, administrative and information agencies, as well as government business enterprises operating in non-contestable markets, and;
- arrangements authorised by specific legislation as well as those implemented by regulation or administratively.

We understand the review will not cover:

- government business enterprises operating in contestable markets, and;
- the policy framework of which government costs are a part.

The AHL group submission has been developed upon this understanding of the terms of the review.

1.2 Approach and structure of submission

The approach taken by the AHL group in developing this submission is to provide the Productivity Commission with the perspective of a business which operates in a semi-regulated, but highly competitive, environment.

We will demonstrate that the aviation industry has matured since deregulation in October 1990 where the Commonwealth Government has:

- divested itself of Australian Airlines and Qantas Airways;
- divested itself of airport infrastructure with the exception of the Sydney basin airports;
- brought clarity and separation to the roles of the aviation safety regulator, the Civil Aviation Safety Authority (CASA), and corporatisation of the nation's air traffic service provider, Airservices Australia, and;
- continued with the deregulation of aviation through changing of foreign ownership rules and developing the country's first Open Skies Agreement with New Zealand.

This growing maturity of the market place and increased competitiveness has meant both government and industry have needed to adopt business discipline and become more responsive to the needs of their respective customers. This responsiveness is needed to encourage development of an internationally competitive and efficient industry.

The submission will develop a set of key principles and guidelines for application to government cost recovery. We will provide examples of current Commonwealth cost recovery systems and will demonstrate certain inequities and inconsistencies. We will also show how lack of consultation and communication can have a negative financial impact.

2. The Australian Aviation Market Environment

The current aviation market in Australia has experienced some major competitive changes over the last year, for example:

- with two new domestic operators, Impulse Airlines and Virgin Blue, commencing operations on the main east coast trunk routes of Melbourne, Sydney and Brisbane;
- Air New Zealand entering the Australian market through its now 100 percent ownership of the Ansett Holdings Ltd group of companies, and;
- the governments of Australia and New Zealand signing an Open Skies Agreement which has liberalised air travel between the two countries and beyond.

The increased industry competitiveness over the decade since deregulation has forced improvement in efficiency of the AHL group of airlines but there has also been a consistent pressure on profit margins to provide customers with improved service while at the same time manage unit costs down.

There has been a further need to match the right infrastructure with the needs of the market, hence the equipping of Kendell Airlines with an investment of over \$300 million on a fleet of 12 regional jet aircraft to service markets in Queensland, Tasmania, South Australia, ACT and New South Wales.

Now more than ever, the AHL group must look for revenue and growth opportunities both here and overseas and contain costs to ensure long term sustainable profitability and growth for customers, staff and shareholders. Equally important is maintaining a vigilant watch over the costs of our business. We must ensure we are only paying for the efficiently incurred costs associated with an agreed or required level of service – this includes ensuring an efficient, equitable and appropriate form of cost recovery from our suppliers – including government suppliers.

3. Overview of Government Cost Recovery and Ansett

The following represents the major aviation-related Commonwealth Government agencies which recover costs from the AHL group of airlines.

**Table 1: Government Costs Recovered from the AHL Group
and Parent Company Air New Zealand**
(all amounts for financial year ended 30 June 2000)

| Agency | Service Provided | Cost Recovery Basis | Direct or Indirect to Group | Group Spend |
|---------------------------------|---|---|------------------------------------|--|
| Airservices Australia | Air traffic services, airport rescue services and noise levy collection | <ul style="list-style-type: none"> Aircraft weight and/or distance flown Avtur fuel levy Aircraft noise levy | Direct Indirect Direct | \$157 million ¹ \$4 million \$10 million ¹ |
| Australian Customs Service | International passenger movement charge | <ul style="list-style-type: none"> Fixed amount per passenger | Indirect | \$6 million* |
| Australian Protective Services | Airport counter terrorist first response | <ul style="list-style-type: none"> Aircraft weight | Direct | \$5 million |
| Bureau of Meteorology | National weather forecast data and current observation | <ul style="list-style-type: none"> Aircraft weight and/or distance flown | Direct | \$4 million ¹ |
| Civil Aviation Safety Authority | Safety regulation and oversight | <ul style="list-style-type: none"> Avtur fuel levy Fee for service | Indirect Direct | \$18 million |
| Sydney Airport Corporation Ltd | Access to Sydney Airport | <ul style="list-style-type: none"> Aircraft weight | Direct | \$29 million ¹ |
| GROUP SPEND PER ANNUM | | | | \$233 million |

* - charge paid by customer but collected and remitted by the airline.

¹ – includes parent company Air New Zealand contribution

Other less material amounts are remitted to the following government agencies:

- Office of Film and Literature Classification;
- Australian Competition and Consumer Commission, and;
- Australian Quarantine and Inspection Service.

The total government cost recovery from the Ansett group of companies represents over six percent of the group total cost base.

Consequently, any major increase in government cost recovery has significant implications for the level of airfares and airline margins in the same way significant increases in aviation fuel or operating costs denominated in US dollars impacts airline costs and, ultimately, air fares. All cost categories, including government cost recovery, need to be managed and minimised downwards to ensure efficient provision of necessary services and efficient recovery mechanisms.

4. Fundamental principles of government cost recovery

Ansett submits there are four key principles to be adopted by government when engaging in cost recovery:

1. **efficiency** - government agencies must operate efficiently and equally as importantly, be seen to operate efficiently, especially when providing essential services which customers are required to use where no alternative exists. eg airport, air navigation services or safety regulation;
2. **user pays** – users should be expected to pay for the services needed to operate their own businesses and not subsidise other businesses, which may be direct competitors. Industry cross-subsidies exist in some government agency charges. Industry cross subsidies place additional financial strain on the parts of the industry providing the subsidy and mislead the other parts of the industry being subsidised, as the full cost of operating in that industry is hidden.

In turn, industry cross-subsidies encourage more entrants into that part of the market which is being subsidised, increasing the need for further cross-subsidy. The longer the cross-subsidy is allowed to continue within an industry, the greater the likelihood of business decisions being made on incorrect economic assumptions and, consequently, if the cross-subsidy were to be eventually removed the greater the unfavourable economic impact on that part of the industry which has been subsidised for a long period;

3. **public accountability** - to demonstrate government agencies are operating efficiently and that customers are paying their fair share of charges, there must be transparency of the cost recovered to industry users who pay for the charges and, most importantly, there must also be public accountability, and;

4. **quality of service** – users have an expectation as to the level of service they require. In areas where services are mandated by legislation, (eg CASA) there should be a clear definition of the services to be provided for the fees paid and the level of that service should be clearly specified. Where services are not mandated by legislation but the provider is a monopoly supplier (eg Sydney Airports Corporation Ltd), the provider should be required to enter into service level agreements with users.

5. Examples of government cost recovery

The following provides examples of inequities and inconsistencies in current government cost recovery regimes.

5.1 Airport Security Charges

One part of airport security is provided by Australia Protective Services (APS) and is referred to as counter terrorist first response (CTFR). This charge is currently levied on airlines and the formula for calculation of the charge is based on aircraft weight.

The charging system therefore includes the fallacious assumption that if you operate larger aircraft you are more of a terrorist threat and therefore should pay more for CTFR.

Also, it seems unreasonable for only airlines to be charged for CTFR services when APS officers spend their entire time patrolling airports not aircraft. There are many other beneficiaries of the CTFR service and these include the airport owners, airport concession operators, airport staff and travelling public.

APS and the Airports with whom they contract have to date not entered into service level agreements with the users who pay for the service. Difficulty has been experienced in many cases understanding what service APS does provide and where. For example, in airports where the international terminal and domestic terminals are separate (eg Perth, Brisbane & Sydney) for efficient and equitable cost recovery one must start from the premise of how much APS time is spent in the international terminal versus the domestic terminal. This will give the appropriate proportion of charge between domestic and international carriers. Even getting to this level of detail has been a significant challenge.

It would appear to AHL the portfolio of work performed by the APS over the last few years has been reducing with diplomatic security services in Canberra now open to competitive tender with private operators winning this work ahead of APS. We feel the cost base of the APS has not significantly reduced over this same period as the volume of available work has declined. The APS may be trying to cover an excessive cost base by increasing CTFR charges at the seven airports around the country at which it operates rather than making concerted efforts to improve efficiency and reduce costs.

5.2 Airservices Australia

It is important government agencies operate efficiently especially those agencies which supply essential services or services mandated by legislation. If the operations of agencies are inefficient, this inefficiency will be built into the costs recovered from users who will be funding this inefficiency.

In a competitive industry with extremely narrow margins, efficient resource allocation becomes a business imperative. As mentioned above, Airservices Australia is a significant part of the cost base of the AHL group and can be categorised as a strategic and critical monopoly supplier to our business. If Airservices costs are inefficient, this may contribute to some AHL services, which may have been marginally profitable, becoming unsustainable in the long term and therefore requiring re-allocation of resources to other more profitable areas.

The efficiency principle is especially important for government agencies which are public monopolies, like Airservices Australia.

Private monopolies have a profit incentive to conceal information needed for regulation (eg accurate cost and demand data). Public monopolies may also have the incentive to conceal cost information in order to distribute monopoly profits within the firm in the form of overmanning, higher salaries and wages, and over investment in new technology, or in order to maintain inefficient work and management practices.¹

For example, in 1998 Airservices Australia confirmed with AHL the operations and cost base of the air traffic service provider did include significant operational inefficiencies. If these inefficiencies were to be removed this would translate to a 20 to 30 percent reduction in air traffic service charges over time. To date, efforts have been made to improve efficiency at Airservices, which has translated to a reduction of around four percent in 1999 in the unit cost of the service provided to industry.

We welcome the Business Transformation Program underway within Airservices the objective of which is to improve operating and financial performance. AHL has undergone a similar program, focussing on our own costs and recognise the challenge Airservices faces. Having said this, AHL still has a number of concerns regarding the cost recovery of Airservices costs. These concerns fall squarely under the fundamental principles outlined above. In particular:

1. **efficiency** - Airservices must operate efficiently and be seen to operate efficiently,
 - While the move to Location Specific Pricing (LSP) was a step in the right direction, and was supported by AHL – even though the initial cost outcome was worse than we would have seen under Network Pricing, we have not seen the benefits we expected. AHL supported LSP on the basis that Airservices would work closely with AHL to review and, where possible, implement agreed changes to reduce costs on a location by location basis. This was, in our mind, a

¹ Industries Assistance Commission, *Government (Non-Tax) Charges Volume 3 Efficiency Issues in Public Enterprises: Appendices G to N*, September 1989

reasonable commercial bargain. Airservices have refused at every stage to work closely with its customers in the way envisaged at the time of introduction of LSP.

- AHL has serious concerns regarding the level of openness we see from Airservices in showing its customers that it is currently working toward efficient charges. On the one occasion when Airservices did release financial data of some value in assessing efficiency of tower operations at Canberra Airport, such serious anomalies and shortcomings were identified as to raise serious concern as to the efficiency of Airservices tower operations. Similar concerns came to light in a recent review of navigation aids, which are discussed below. In the review of Canberra tower costs, information was shown to AHL in a meeting, from which notes and / or copies of documents were not permitted.
- It must be remembered that at the time of writing, Airservices is a publicly owned monopoly provider of services. Where AHL is able to select among service providers we are able to require openness and transparency to ensure we are achieving an efficiently incurred cost for the quality and level of service we require. Our customers also have similar options – the existence of a competitive market ensures this.

2. user pays – users should be expected to pay for the services needed to operate their own businesses and not subsidise other businesses which may be direct competitors. There are a number of concerns regarding cost recovery for Airservices which are of grave concern under this category:

- In the 1998/1999 Federal Budget, the Commonwealth government introduced an aviation turbine (avtur) fuel excise increase to subsidise the operating costs of regional and general aviation (GA) air traffic control towers – to many of which the AHL group does not operate. In terms of user pays, this levy is paid by regular public transport (RPT) and larger regional operators – GA operators who use the 15 air traffic control towers subsidised by the fuel excise, do not pay the levy although they are the major beneficiaries of the funding. The imposition of this fuel excise increase has negated cost savings passed onto industry through efforts to improve operating efficiency at Airservices Australia. Airservices continue to quote the reduction in charges over the past two years as evidence of efficiency gains and that the benefits of those gains are flowing through to customers. This ignores:
 - ♦ the additional impost of the fuel levy on domestic and regional operators which wipes out any reductions in user charges for AHL.
 - ♦ the investment in TAAATS (which is paid for by industry) and operational efficiencies flowing directly from this investment.
- In February 2000 Airservices Australia the minister announced withdrawal of a project to review its network of ground based navigation aids. The withdrawal was due to concerns raised, in particular, by users of navigation aids in regional locations. As with the subsidisation of GA and regional towers the AHL group is funding the operating and capital costs of a large number of navigation aids not required for our operations but are maintained for use by other members of the aviation industry.

- Airservices Australia currently does not charge the Department of Defence for use of its services including terminal navigation and rescue and firefighting services. Additionally, the Department of Defence does not charge industry for use of its aviation facilities and services at a number of locations. This is another form of industry cross subsidisation which hides the true cost to users operating to these ports. In line with the user pays principal, the Department of Defence should be charged for their use of terminal navigation and rescue and firefighting services provided by Airservices, in addition to charging industry for the services Defence provides. As with section 3, below, the process for determining the charges to the aviation industry by the Department of Defence for the provision of aviation facilities and services should be one which is fully transparent regarding costs and charges. The aviation industry should then be allowed a sufficient time for consultation and negotiation to reach a mutually beneficial outcome. This process of consultation is currently being undertaken by Airservices. AHL has raised some concerns in the apparently arbitrary method used to set initial prices at Defence operated towers and we will be interested to see how Airservices manages this consultation process.

3. public accountability - to demonstrate government agencies are operating efficiently and that customers are paying their fair share of charges, there must be transparency of the cost recovered to industry users who pay for those charges and, most importantly, there must also be public accountability.

- In the case of the avtur levy mentioned above to subsidise regional air traffic control towers, AHL understands a two-year agreement was entered into between the government and Airservices allowing an agreed fixed sum 'government subsidy' for a fixed two-year term. AHL is not privy to the details of this arrangement. There is no reconciliation as to the amount collected via the avtur levy, nor is there any hypothecation of the levy to Airservices. The levy was introduced without notice in the 1998/1999 budget. Activity estimates on which the setting of the levy were based have not been disclosed to airlines leading to concerns as to the apparently arbitrary nature of the level of this levy. Concerns also exist as to the potential for funds from the avtur levy not only to be subsidising towers at locations to which AHL does not operate but further, to be bolstering consolidated revenue.
- Further, despite claims of customer focus, Airservices continues to state publicly that the funding received for regional towers is a government subsidy. Airservices refuses, despite repeated reminders, to acknowledge their customers fund this subsidy. Airservices' RPT customers have seen reductions in charges to fund Airservices since the introduction of LSP entirely wiped out by the fuel levy we now pay. And it must be remembered, at the time of introducing LSP – Airservices themselves acknowledged inefficiencies in their operation in the region of 20 – 30%. For AHL to have seen no net reduction in costs since LSP is therefore a serious concern.

4. quality of service – users have an expectation as to the level of service they require. In areas where services are mandated by legislation, (eg CASA) there should be a clear understanding and agreement between the service provider and the users as to the standard of the service to be provided. Of concern to AHL

is the absence of a mechanism to relate quality of service to prices charged for the services. Additionally, there is no recourse for industry should the quality of service fall below the standards to which the users and the provider have agreed, in particular where the deterioration of service quality imposes an unrecoverable cost to users. In a competitive market such as that in which AHL operates, market forces operate to address these issues. In a monopoly situation regulation or agreements between users and providers must be required.

5.3 Bureau of Meteorology Charges

Charges for services provided by the Bureau of Meteorology (BoM) are calculated using a formula based on aircraft weight and distance travelled. The formula calculation effectively results in operators of larger aircraft paying more for weather services than operators of smaller aircraft.

This charging regime raises the question, because an operator flies a larger aircraft is the provision of weather services more expensive? In fact, all users of BoM services have equal access to identical information. AHL submits basing charges on a perceived 'capacity to pay' is inequitable and inappropriate.

Information relating to the cost base of the BoM is not made available to industry in terms of costs incurred in providing information services to the aviation industry. In this regard, it is noted aviation is the only market subject to cost recovery for weather information. For example; neither the maritime industry which requires similar specialised meteorological information nor the general public pays for weather information services.

Consequently, airline operators are unsure as to how the BoM allocates charges to aviation. Certainly, there is a decided lack of information provided at industry consultation days as to the method and level of charges.

As mentioned previously, it is of great concern to the AHL Group that there is no mechanism in place for the aviation industry to establish clear levels of service to be provided by monopoly suppliers such as the Bureau of Meteorology. As a result there is no avenue available for the aviation industry to be reimbursed for costs caused by deterioration in the monopoly provider's services whether this is on a continuing basis or a one-off occasion.

5.4 Civil Aviation Safety Authority

Safety is a key consideration for Ansett and indeed, Safety First is considered our top priority in all activities in which we are involved. AHL has invested heavily in the development and maintenance of safety systems and standards to ensure our compliance with civil aviation requirements.

Currently, the AHL group contributes \$18 million per annum for the funding of CASA via an avtur fuel levy. Ansett has calculated, based on CASA audit programs, the true cost

of Ansett safety surveillance is closer to \$6 million. CASA is therefore over-recovering 200 percent.

Operators like Ansett which carry many millions of customers each year are required to maintain stringent safety processes and CASA has delegated certain authority to Ansett to conduct safety audit work on its behalf.

The last thing AHL wants to see is an underfunded regulator. It is critical from AHL's perspective the safety regulator be appropriately funded to ensure it has the capacity to properly implement its safety oversight role.

The bulk of work carried out by CASA is on the operators of the 9000 light aircraft registered in Australia. CASA will argue it cannot possibly charge these operators the full cost of providing the safety oversight services as this will cause insurmountable economic hardship on these operators – demonstrating the fundamental problem of allowing industry cross-subsidies to exist for long periods of time, as mentioned above.

The pricing model adopted for the CASA funding regime in recent times has been based on the premise of identifying the primary beneficiaries of safety regulator activities and using links between the regulatory services provided and the primary beneficiaries of those services to develop funding models.

In December 1993, an Anderson Consulting report on Aviation Safety Regulation Costing and Pricing identified three primary beneficiaries of Aviation Safety Regulation – the General Public, the Travelling Public and Industry Participants.

Ansett considers this to be a valid assessment although we disagree with the distinction between the interests of the General Public and the Travelling Public – in our view these are one and the same.

Any equitable proposal should consider each of the beneficiaries of regulatory activity. The system targets one of the three primary beneficiaries: Industry Participants, again, based on a perceived ability to pay. Benefits accruing to the Travelling and General Public must, we submit, be acknowledged in any equitable funding proposal. This may be by way of Community Service Obligations being recognised by the government.

In addition to ensuring equity, a continued level of funding from industry and via budget appropriations will ensure government focuses on the cost base of a monopoly service provider with key regulatory responsibilities.

A primary objective of any revision of the funding of the industry regulator should endeavour, as a matter of public policy, to remove cross subsidisation between industry segments. The current methodology and changes proposed in recent years (eg. 'ticket tax' under a more equitable charging system²) in many respects perpetuate and entrench cross subsidisation and AHL cannot support this.

If the Commonwealth Government feels it has a responsibility to protect the viability of an industry segment, the cost of safety surveillance should be met from Federal Budget

² "A more equitable charging system" NPRM9812FB, November 1998

allocations and larger airlines in the industry should no longer be financially penalised by an inequitable and outdated government cost recovery regime.

5.5 Federal Budget – Fuel Levies

Consultation is a key element for public accountability and, again, there are examples where the Commonwealth Government has engaged in notification rather than consultation in areas which have impact on government cost recovery. In the last two Federal Budgets the aviation fuel levy has been increased with the following financial impact on the AHL group:

- 1999/2000 – increase of \$7.6 million to fund regional air traffic control towers and CASA funding shortfall, and;
- 2000/2001 – increase of \$7.8 million for continued funding of regional air traffic control towers, CASA funding shortfall and ACCC oversight of airports.

These fuel excise increases were introduced and implemented from midnight on the budget night with no prior industry consultation as to either the forecast traffic levels upon which the levy was based or the equity of the proposal itself. As noted above, many of the regional air traffic control towers being subsidised through these increases are not used by Ansett and increasing the aviation fuel levy exacerbates the already entrenched industry cross-subsidy of CASA funding.

Concerns that the government does not provide any sort of annual reconciliation of the additional fuel levy collected, in the absence of hypothecation or transparency in the level of recoveries and the level of subsidy, lead to perceptions that consolidated revenue may be bolstered through the levies collected from the aviation industry.

5.6 Fuel levy to fund airport regulation - ACCC

We were exceptionally surprised and disappointed when the Commonwealth Government chose to single out domestic and regional airlines with respect to charging for airport compliance costs in the 2000/2001 Federal Budget. The introduction of yet another fuel levy, this time to fund the ACCC for monitoring prices of aeronautical services and assessing compliance with the airport charging price cap is estimated to cost Ansett approximately \$300,000, depending on activity levels.

We have a number of concerns when apparently arbitrary cost recovery measures such as these are introduced. Immediate concerns we have with this measure include:

1. Aviation is one of the only industries where users are required to pay for ACCC regulation. It is not the behaviour of airlines being regulated. We submit it would have been more appropriate to place this cost on those whose behaviour is being regulated, ie airports. To do so may have led to a more conciliatory and consultative approach in an attempt to minimise the need to use the regulator's time.
2. There is no element of 'pay for use' in the proposed mechanism.

- a) It will not discriminate between airports where use of the ACCC services is minimal and those where matters are frequently and vigorously contested before the ACCC, generally for reasons around transparency, user support or equity.
- b) It unfairly discriminates against regional and domestic airlines as international carriers do not pay the levy. Airport regulation by the ACCC benefits all users whether they are domestic, regional or international carriers. Indeed, international users benefit disproportionately from decisions of the ACCC – many of which relate not just to the General Landing Charge (paid by all RPT operators) but to the International Terminal Charge.
- c) The very nature of recovery via a levy is that it is regressive. There is no reconciliation provided at the end of the year, industry has no idea what amount in excess of the \$.9M allocated is in fact recovered. We do not know the growth rates in activity (the driver of fuel usage) assumed by Treasury in setting the level of the charge. We suspect significant amounts of over recovery may in fact bolster consolidated revenue in cases where aviation fuel levies are used as an easily accessible means of providing funding.

Ansett recognises the cost of compliance in the relatively new area of aviation regulation is an issue flowing from the Government's sale of leases of eleven airports. The ACCC has resources in its Aviation Division working on these issues, as occurs in other regulated industry sectors. The cost of regulation however is a cost the Government knew must exist at the time of privatisation of airports (which were sold a very high earnings multiples). To introduce without warning or consultation a levy of this kind and the immediate, unplanned detrimental impact on our business, is of enormous concern to AHL.

The mechanism proposed in the Budget for funding the ACCC regulatory costs (or some part of them) is quite simply not efficient on any economic measure.

5.7 Passenger Movement Charge

The international Passenger Movement Charge (PMC) is collected by airlines at the time an international customer makes a booking to leave Australia. The funds are remitted to government and are absorbed into consolidated revenue.

There is an understanding the \$30 PMC is required to cover the costs of the Australian Customs Service (ACS) at international airports around Australia but, there is also the potential for over-recovery especially at a time when international passenger numbers are increasing.

The quantum of the PMC actually collected is not known by airlines, nor indeed is the ultimate funding provided to the ACS from PMC collections. There is no hypothecation of these funds to ACS leading to a concern that a part (significant or otherwise) may in fact bolster consolidated revenue.

AHL submits the Commonwealth government should reconcile receipts of PMC with costs of operating ACS to demonstrate adherence to the purpose for which the funds have been collected. This requires transparency in relation to both recoveries and ACS costs. If there has been an over-recovery, these funds should be passed back to consumers in the form of lower future charges. If, on the other hand, the government feels the PMC should be increased, a process of consultation and release of transparent information, along with a commitment to public accountability, would demonstrate consumers are paying a fair price. If indeed the original purpose for which PMC funds are collected has altered, this should form the subject of a separate consultation process.

5.8 Sydney Airport Corporation Ltd

The Productivity Commission may be aware the Sydney Airports Corporation Limited (SACL) is the only airport operator remaining in Commonwealth Government ownership and may also be aware of a proposal by SACL to significantly increase their aeronautical charges at Sydney Airport.

The following comments are made on the basis that SACL as a government owned monopoly provider of airport services in the Sydney area is within the terms of reference of this inquiry.

SACL's proposal involves increases in aeronautical revenues of an unprecedented magnitude in Australia. For some aircraft aeronautical charges will be increased by a factor of three. On average, aeronautical charges will be more than doubled. The ACCC is currently undertaking a review of the SACL proposal.

**Table 2: Proposed and Existing Aeronautical Charges
at Sydney Airport (exclusive of GST)**

| | Existing Charges | Proposed Charges |
|---|---|---|
| Charge per aircraft movement | \$2.9067 per tonne MTOW per round trip | \$8.00 per tonne MTOW per round trip (\$4.00 per tonne MTOW per movement) |
| International Terminal Charge | \$7.884 per tonne MTOW per round trip | \$13.74 per tonne MTOW per round trip (converted from \$19.00 per pax per round trip) |
| Bussing discount | Nil | \$200 |
| Apron use charge (excl. leased aprons) | Nil | \$35 per 15 minutes, between 6 am and 11 pm |
| Helicopter charges | \$2.9067 per tonne MTOW per landing (no charge for take-off) | \$25.00 per movement |

Note: SACL also proposes a \$50.00 minimum charge per aircraft movement. Furthermore, at SACL's discretion the minimum charge may be reduced to \$20 for scheduled regional airlines with an MTOW of up to 5 tonnes and \$41.25 for scheduled regional airline services with an MTOW between 5 and 10 tonnes.

SACL predicts in 2000-01, the revenues from these charges would exceed \$205.4 million. Under the current charges, SACL predicts revenues would be \$89.3 million. The increase in charges constitutes an increase in revenues of over 130 per cent.

5.9 Sydney Noise Levy

The Sydney noise amelioration program introduced in the 1995/1996 financial year is another example of public accountability needed to demonstrate the funds collected are being used for the intended purpose. AHL collects the noise levy directly from our customers as a separate levy on tickets originating or destined for Sydney Airport. Year after year the Federal Budget process allocates tens of millions of dollars for the noise amelioration program in Sydney but we are unaware of any quality control program which demonstrates the program is being managed efficiently, that payments and recoveries are reconciled or that the program does, in fact, have a finite life.

Rumours exist of abuses of the noise insulation system where, for example, owners of rental properties in the noise affected areas have removed air conditioning systems, part of the insulation package, and installed them in their own properties outside the noise affected area. There is also the problem of the continual growth of the noise affected areas as local politics dictates a continual increase in the number of houses supposedly affected by noise – this situation has already started to arise in Adelaide where a similar

noise insulation program is to start. Quite literally, residents on one side of a street receive noise insulation while residents on the other side of the street do not.

Publicity generated by these situations inevitably leads to an increase in the geographic area to which the noise insulation program impacts thus continually increasing the amount of levy charged on airlines and their customers.

Whilst we are not advocating a halt to such noise amelioration schemes, we are concerned that the current schemes fail the fundamental cost recovery tests of efficiency, accountability and arguably level of service. Until these factors are addressed, the noise levy schemes are arguably nothing more than a significant transfer of funds from the travelling public to the government who administers the fund.

6. Conclusion

Adopting the four general principles for government cost recovery, the Commonwealth Government could substantially improve the understanding and, potentially, satisfaction of users of government services in relation to whether costs are being efficiently incurred and whether the user is paying a fair price.

In relation to all the examples provided above, each of the services are provided by public monopolies. This significantly increases the need:

- for comprehensive increases in the level of transparency, and;
- communication of cost and cost recovery information to the users of the services - frequently and openly.
- Service level regulation or required service level agreements between users and providers.

Industry participants have a constant battle with agencies like SACL and Airservices to obtain sufficient meaningful information to understand their efficiency. There also appears to be an ingrained culture of keeping information in confidence when no competitor exists in a non-contestable market.

Increasingly we are seeing agencies like SACL and Airservices refuse to provide information on the basis that it is confidential, as they may be privatised/subject to competition and therefore relevant information is now “commercially” sensitive. This can only lead users to assume the agencies are concealing information which may in fact prove the anecdotal evidence of inefficiency and poor resource management. It also heightens interest in economic regulation and, where public monopolies are privatised or opened to competition, the transparency of the process by which that occurs.

Adopting a consistent approach to the user pays principle within industries will also assist in providing understanding of the true cost of operating in an industry. Cross-subsidies hide the real cost of participating in an industry to the detriment of the industry sector providing the subsidy as discussed above. The Commonwealth Government needs to take responsibility for any unfavourable financial impact on industry sectors who may suffer if cross-subsidies are to be removed which is consistent with government microeconomic reform.

Wherever possible the government should look for opportunities to introduce contestability into markets where private operators can safely conduct business, for example, provision of weather services or provision of airport security services. Contestability, or the threat of competition, can assist in increasing the efficiency of service providers where no incentive to do so currently exists.

The success of this solution is of course dependent upon appropriate forms of regulatory oversight, transparent sale processes and adherence to Competition Principles Agreements.

AHL has welcomed the opportunity to input into this inquiry. We look forward to expanding on any of the issues raised in this submission in hearings conducted by the Commission.

Yours faithfully,

Helen Franklin

7. Glossary of Terms

| Term | Definition |
|---|--|
| Ansett Holdings Ltd (AHL) | <p>Parent company – Air New Zealand Ltd</p> <p>Subsidiary companies include:</p> <ul style="list-style-type: none"> • Ansett Australia Ltd • Kendell Airlines (Aust.) Pty Ltd • Traveland International Pty Ltd • Ansett International Ltd (49%) |
| Open Skies Agreement | An agreement between two countries' governments allowing each country's international airlines to operate between the two countries and then beyond to third countries without restriction. |
| Counter Terrorist First Response (CTFR) | Armed and uniformed security personnel patrolling airports and trained to provide the first response to any act of terrorism. |
| Location Specific Pricing (LSP) | A pricing formula which determines the price of operating at a specific location based on the actual costs of operating and the volume of traffic at that location. |
| Network Pricing | A pricing formula which determines a uniform price for operating at any location throughout a network based on the total cost of operating the network and total volume of traffic using the network. |
| General Aviation (GA) | An industry term given to operators of aircraft with small seating capacity, eg less than nine seats. |
| Regular Public Transport (RPT) | An industry term given to high volume operators with a published schedule of flights operating larger turbo-prop or jet aircraft. |
| Navigation Aids | Ground-based navigation beacons emitting radio frequencies which interact with aircraft systems to assist with airborne navigation. |
| Terminal Navigation Services | Airport approach and departure services offered by air traffic controllers usually within a five kilometre radius of an air traffic control tower – provided by Airservices Australia. |
| Rescue & Firefighting Services | Airport-based rescue and firefighting services trained to attend aircraft emergencies situations – provided by Airservices Australia. |
| TAAATS | The advanced Australian Air Traffic System |

