

Submission to
Productivity Commission Inquiry into
Government Charges and Cost Recovery
by
The Board of Airline Representatives of Australia

November 2000

Introduction

The Board of Airline Representatives of Australia Inc. (BARA) is the industry association representing the interests of international airlines operating to and from Australia. BARA has been established as an incorporated body for ten years. Prior to that BARA operated for many years as an unincorporated body.

BARA aims to establish a recognised means of communication between member airlines and statutory and other organisations whose interests and actions influence or affect member airlines and the aviation industry. Its purpose is to act on issues affecting the aviation industry in Australia and to provide a single concerted voice on policy and other matters when dealing with the Federal and State governments and other aviation industry stakeholders.

BARA's membership currently comprises 48 scheduled airlines.

There are several areas where government charges affect the costs of airlines operating to and from and within Australia. BARA maintains that there should be changes to the structure of such charges to ensure the application of a genuine "user pays" regime and to provide real transparency regarding the delivery of services by the charging authorities for which the charges are applied.

Government Charges Addressed

In this submission BARA comments on the following matters:

- the Passenger Movement Charge (PMC) levied on departing passengers, but collected by airlines,
- the funding of some airport security functions through a levy on airlines,
- payments to Airservices Australia, and
- the airline levy for Bureau of Meteorology aviation meteorology forecasts.

The above charging arrangements affect BARA's international airline members, either directly or indirectly. Other aviation related charges are not addressed in this submission.

Passenger Movement Charge (PMC)

The PMC is a charge levied on airline passengers departing Australia. The PMC is collected by airlines on behalf of the Commonwealth Government under individual agreements between the airlines and the Australian Customs Service (ACS). The ACS is the government agency responsible for administering the PMC.

Whilst the PMC is a charge under the Commonwealth Government's taxing powers, the Treasurer's 1994 Budget Speech and the second reading speech for the PMC legislation stated that the PMC was introduced to recover or "fully offset" the costs of Customs, Immigration and Quarantine (CIQ) processing of incoming and outgoing international passengers and to recover the costs of issuing short-term visitor visas.

The PMC replaced the Departure Tax, a general revenue item not linked to costs associated with CIQ services.

Prior to the introduction of the PMC, the Departure Tax was collected by a government agency – Australia Post – acting on behalf of the Commonwealth Government. BARA understands that a primary motive for the introduction of the PMC was that it would cost the Government less to administer because of the responsibility on airlines for collection.

The Auditor General's Audit Report No 1 (1996-97) stated that "despite its character as a tax, some descriptions of the PMC to the public suggested the impost was a charge intended (simply) to recover CIQ and short term visa issuing costs." (page7, para 2.6) In that Report the Australian National Audit Office (ANAO) recommended that ACS, Department of Immigration and Multicultural Affairs (DIMA) and Australian Quarantine Inspection Service (AQIS) collectively monitor the costs of their activities the subject of the PMC to provide assurance that these costs were fully offset, consistent with the PMC policy objective. (Recommendation No 1, pxv) The ANAO noted at the time that the public rationale and policy objective of the PMC was clearly that of cost recovery.

The ANAO conducted a follow-up audit of the administration of the PMC in 2000 (Report No 12). In that Report the ANAO stated that the PMC "is now applied partly as a general revenue raising source and is no longer solely linked to a cost recovery of Customs, Immigration and Quarantine service." (p13) On the basis of the Auditor General's Report No 12 it appears that a policy shift has taken place with regard to the PMC.

The apparent policy shift that now has the PMC identified as a tax has been surreptitious. BARA questions whether the policy shift is an attempt to disguise the fact that the PMC over collects from airline passengers the costs of the CIQ services it was introduced to cover.

The ANAO Audit Report No 1 concluded that the PMC over collected \$19 million from airline passengers in 1996-97 (p xii). Further work undertaken by BARA also suggests that the PMC over collects the costs of CIQ services (see Attachment 1). Additional evidence includes:

- (a) In the case of short term entry visas, a separate \$70 charge is now in place for those countries where manual processing of visa applications is still required. In countries now covered by the electronic visa (ETA) --covering about 85% of all visitors to Australia – the cost to the Commonwealth of issuing visas would have reduced markedly.
- (b) Included in the original PMC was an element to allow for the payment of rental of CIQ space to airport operators. Airlines expected that this cost offset to airport operators would have a flow-on effect resulting in lower aeronautical charges. However, to the best of BARA's knowledge the rental component has never been passed on to airport operators. Rather it has been absorbed into consolidated revenue.

However, for 1996-97, because international airlines collected less than the aggregate estimated by ACS as correct for that year, based on total passenger departures on international flights and to the limit of the agreed tolerance, the airlines were required to make up the “shortfall”. This process requires reassessment.

It is unreasonable to expect that the PMC will at all times be correctly reflected on passenger tickets. Airlines providing actual carriage are often not the ticket issuing agent. On average 80% of airline tickets are issued by travel agents not under the control of the carrying airline. Many tickets covering travel sectors from Australia will have been issued in foreign countries by airlines other than the carrying airline. Increases in codeshare practices, the further development of alliances and technological advances (e-tickets, etc) mean that the incidence of one airline issuing tickets for travel on other airlines will increase. Further, the requirement for speedy passenger throughput at check-in militates against close scrutiny of each ticket to determine that all taxes are correctly noted.

The Commonwealth Government recognised the above matters when the arrangement was made with airlines to act as PMC collectors. A 5% tolerance on total collection estimates was granted. The 5% tolerance was reduced to 3% in 1998. It is a matter of some concern to BARA that the Auditor General’s Audit Report No 12 recommends that the tolerance be removed entirely.

The PMC commenced application as a cost recovery charge. Government announcements at the time depicted the PMC as such. Consequently, BARA maintains that it is reasonable for the Productivity Commission to take account of the costs it imposes on airlines within the ambit of this Inquiry.

Funding of Airport Security Functions

The Australian Protective Service (APS) provides counter terrorist first response (CTFR) services at 7 major Australian airports. The purpose of CTFR is to deter terrorist attacks at airports and make a first response in the event of an attack. The service involves patrols by a uniformed and armed security force at airport passenger terminals and on the apron areas where larger RPT aircraft are loading and unloading.

At present APS is the sole provider of the service. Hence, BARA is concerned that current costs for the delivery of the service are excessive. Evidence suggests that the service could be delivered more cost effectively if the APS was required to compete in open tenders for contracts with private security companies with competence to fulfil the statutory requirements for CTFR delivery.

BARA also maintains that CTFR is a national security function. Hence, the Commonwealth Government should accept responsibility for providing CTFR services as a community service obligation. In the event that the Government does not accept responsibility for funding CTFR delivery, the cost of the service should be met by all direct beneficiaries, not just one of those beneficiaries – the airlines. Other direct beneficiaries include the airport operators, airport concession holders and retailers and members of the public who use airports.

Payments to Airservices Australia

Location specific pricing for Airservices Australia (AsA) charges was introduced between 1997 and 1998. The purpose of location specific pricing was to formulate a charging mechanism with a direct correlation between the cost of providing services at a particular location with the level of charges for the services at those locations. Although the arrangements now in place removed some of the inequities associated with the previous charging regime, it seems that the cross subsidisation of under performing regional control towers by larger airports continues.

The Government pays AsA a subsidy to support the continuation of price capping at high cost regional locations. The subsidy is indirectly funded by aviation operators through a 0.51 cents per litre surcharge on the aviation fuel excise. This excise affects only those BARA members which operate domestic airline services. BARA understands that issues specific to the subsidy of regional control towers will be addressed by submissions from individual airlines concerned.

BARA is concerned, however, to ensure that the charges to its members for AsA services reflect only costs efficiently incurred. Hence, BARA maintains that the true costs of operation of all control towers should be reflected in the charges met by users at each tower.

Airline Levy for Bureau of Meteorology Services

The charging mechanism for Bureau of Meteorology (BoM) services to aviation users is via AsA's enroute navigation formula, which comprises a weight and distance component. The charge to users is determined by the weight of the aircraft, as well as the chargeable distance for each sector of flight. This results in operators of larger aircraft paying a higher fee for BoM services than other users. BARA does not accept that this is the most appropriate methodology for apportioning BoM charges.

Other issues associated with BoM charges include:

- (a) The BoM's costs need to be more transparent to demonstrate how respective cost allocations are made between aviation operators, maritime users and public weather services. Further, in line with the "user pays" principle, aviation services should be funded, as appropriate, by members of that user group. For example, regional Tower Area Forecasts should be paid for by users of that service.
- (b) Discussions between airline and BoM representatives have revealed pre-financing of capital expenditures by BoM.
- (c) BoM has recently changed from a cash accounting system to an accrual accounting system. The transition has resulted in some accounting anomalies, including double counting of particular costs.

Other Aviation Charges

Other aviation charges imposed by government include:

- funding of the Civil Aviation Safety Authority (CASA), and
- funding of Australian Competition and Consumer Commission (ACCC) airport pricing oversight through a levy on airlines rather than airports.

Each of the above activities are funded by an aviation fuel excise. That excise is payable only by domestic airline operators. Hence, BARA's international airline members are not required to meet the costs of the government agencies concerned. BARA understands that issues associated with the above charging arrangements will be addressed by airlines concerned in separate submissions to the Productivity Commission.

Attachment 1

Our Ref.: Let.1117

30 November 1999

Mr Damon Hunt
Adviser
Office of the Minister for Justice and Customs
Parliament House
Canberra ACT 2600

Dear Mr Hunt

I refer to your letter dated 23 August 1999 and the attached report on the quantum of the PMC. The Board of Airline Representatives of Australia (BARA) has reviewed the report.

The report provides a very cursory analysis of the costs of the border control agencies in providing what is described as "the short term visa function and the airports function". The data contained in the report is too highly aggregated to provide any comfort to airlines that PMC revenue does not exceed the agencies' costs by a significant amount.

In fact, based on the information provided in the report and on current statistics on international passenger departures, the report apparently demonstrates that the PMC continues to generate a substantial surplus of revenue over costs.

You would be aware that the number of international airline passengers departing Australia during the year ended 31 December 1998 was about 7.1 million. Adopting the conservative assumption that the same number of international airline passengers departed Australia in the fiscal year 1998-99, the amount of PMC revenue generated in 1998-99 would be at least \$202 million. This estimate also assumes a roughly equal distribution of departing passengers between the first and second halves of the fiscal year.

The report identifies the full costs in 1995-96 of the short term visa function and the airports function performed by the border control agencies as \$165.8 million. The report then specifies an average annual rate of growth in costs of 5% as a reasonable estimate of likely future cost increases. Adopting that assumption, it would be reasonable to expect the agencies' full costs to have increased to about \$192 million in 1998-99. This full cost is at least \$10 million less than PMC revenue.

However, the excess revenue generated annually by the PMC could be even greater than \$10 million. This is because the report is unclear about what costs it actually purports to measure. For example, in describing the "approaches applied in agencies to gathering costs" for the Australian Customs Service (ACS), the report refers to "a costing exercise such as is required for passenger processing". It is possible that the ACS costs may include all passenger processing costs, ie the costs of the airports function and the marine ports function. Similarly, the report refers to the Department of Immigration and Multicultural Affairs (DIMA) "short term visitor visa function". It is possible that the DIMA costs may include all short term visa function costs, including the costs of issuing visas to international passengers arriving in Australia by ship.

Further, the report states that "AQIS costs relating to departing sea passengers are not included in the cost figures provided". BARA welcomes this aspect of the costing exercise, but costs relating to departing sea passengers are irrelevant in any event. It would be AQIS costs relating to arriving sea passengers that would particularly have to be identified and excluded from the border control costs used in the report. The report does not identify those costs as having been excluded.

Of course, the Government's revenue sources to meet the costs of the short term visa function have been expanded since 1995-96 by the introduction of the visa application charge, initially set at \$50 per visa application and currently set at \$60 per visa application.

BARA's view that the PMC generates revenue significantly greater than the correctly measured costs of the border control agencies remains unchanged. Consequently, airlines continue to assert that the surplus revenue generated by the Government's short term visa function and airports function should be directed towards offsetting airline and, hence, passenger costs. For example, the surplus revenue could be applied to paying for Government mandated security requirements at international airports, such as checked baggage screening and passenger screening. Alternatively, the surplus revenue could be applied to the payment of rent and outgoings by the Government border agencies to airport operators so as to permit a commensurate reduction in airline rents and outgoings.

Yours sincerely

Warren Bennett
Executive Director

cc Mr Dario Castello, Assistant Secretary, Border Control, Department of Immigration and Multicultural Affairs
 Mr Les Jones, National Director, Border Management, Australian Customs Service