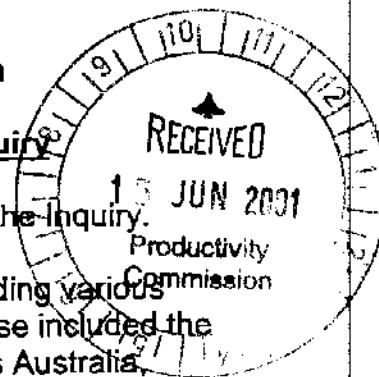


Qantas Airways Supplementary Information

Productivity Commission - Cost Recovery Inquiry



Qantas appreciates the opportunity to provide further input to the Inquiry.

Our initial submission outlined concerns held by Qantas regarding various aspects of charges levied by the Australian Government. These included the Passenger Movement Charge (PMC), payments to Airservices Australia, funding of CASA, meteorological charges, Department of Defence cross charging, counter terrorist first response charges and Sydney Airport pricing proposals.

On this occasion, we don't propose to canvass all of these areas, but there have been some developments which we believe invite further comment.

PMC

Since our original submission and oral comments the Government has announced significant changes to the PMC. In the 2001-2002 Federal Budget the PMC was increased from \$30 to \$38 for travellers, effective from 1 July.

This initially caused us some concern as, at the time of the Budget announcement, some 376,000 Qantas tickets had already been sold for travel after 1 July 01. These all reflected the old PMC rate, thus presenting Qantas with a potential shortfall of some \$3 million, for which, under the collection arrangements in place with the ACS, Qantas would be held responsible. For the industry the shortfall would have been in the order of \$9 million.

We are grateful that discussions with senior ACS officials have resulted in acceptance of our concerns by the Government, with an amendment now to be made to the Bill to provide the industry with a transition period, that will only hold the airlines accountable for tickets issued after 1 July. This will permit full notification of the change to be promulgated worldwide, and will minimise any immediate cost burden on airlines.

There are, however some other issues related to the PMC to which we would like to draw attention.

The PMC was introduced to meet the full cost of customs, immigration and quarantine clearance of passengers as well as the costs of issue of short-term visitor visas. However, over time, this emphasis on cost recovery has changed. According to evidence provided to Senate Estimates by the CEO of ACS (Senate Legal and Constitutional Committee - 28 May 01), the PMC overcollects the cost of border services for passengers by some \$80 million dollars per annum. The new fee will on the face of it extend the over collection

The airlines are concerned to know how the new arrangements to screen all passengers against foot and mouth will impact on their operations, and the extent of any additional costs likely to affect them in the future.

There has been no provision made to cover future infrastructure costs to accommodate the additional space requirements of x-ray machines etc beyond an initial stage. Some \$20 million has been allocated from Budget funds for initial work, but we understand that further work will be required, which may, for instance, cost up to \$50 million at Melbourne airport alone. No funding has been made available for this work as yet – and we fear that recovery through increased airport charges on airlines may be used to pay for this work.

The new arrangements will require close to 600 additional AQIS^{ACS} staff to be employed at Australia's gateway airports. At present airlines pay for the accommodation requirements of AQIS staff at airports, and without new arrangements, the added costs of accommodating these additional staff will also fall on airlines

Regrettably, the increased costs will have to be recovered from the travelling public, either as discrete charges or through increases in airfares. Unfortunately neither the construction nor the application of the PMC is transparent, therefore providing no initiative to improve efficiency by the border agencies.

Airservices Australia and CASA Funding

The Government has stated that the aviation fuel duty has returned \$7.6 million more than anticipated in the past two years, but the duty continues to be levied – with its justification being that "every cent is returned to the industry in the form of increased funding for air safety".

No one will argue that appropriate funding to maintain the highest standards of air safety is a good thing – but we see it as unfair when financial burdens continue to fall disproportionately on the large scheduled service airlines.

The Government will continue to subsidise tower services at a range of regional airports, with small aircraft operators having their landing charges unchanged, whilst the jet fuel levy, mostly collected from Qantas and Ansett, is used to cover the lion's share of costs. We are concerned by this, as it seems not to recognise user pays as the guiding principle.

CASA will receive additional funding, much of which is also derived from the fuel levy, but much of CASA's enhanced activity will be directed at the general aviation industry.

Counter Terrorist First Response Funding.

As outlined in our original submission, we believe the Counter Terrorist First Response charge, currently fully funded by airlines, should be borne by Government.

Given the ACS admission of an \$80 million over collection from the Passenger Movement Charge, Qantas would submit that this presents a clear opportunity for the Government to put some clarity into how the PMC funds are spent – and to take the opportunity to use it to cover additional activities that are legitimately related to passenger movements through airports.

To our mind, Counter Terrorist First Response would be in this category.

Conclusion

Government regulation in the aviation sector is not about to diminish, and neither it seems is the requirement for airlines to meet additional costs of regulation.

In our original submission we outlined a number of principles to guide government in ensuring that increased costs are fair, transparent and as close as possible to user pays.

We would again commend this approach to the Committee for its consideration.