

# **AIRSERVICES AUSTRALIA PRICING PROPOSAL**

December 2010

## **INTRODUCTION**

Central to the discussion on the methodology for Air Navigation Charges in general is whether they should be fundamentally based on location pricing (strict user pays) or network pricing. Historically there has been an element of network pricing leading to some cross subsidy of the smaller, less trafficked regional services by operators using the mainline domestic and international Air Traffic Services (ATS). Without this element of cross subsidy regional ATS would become unaffordable for many and regional air services and General Aviation activity would suffer as a result.

The vulnerability of regional aviation, including GA, to regulatory charges is demonstrated by the fact that the Government saw it necessary to put in place the En Route Scheme to help alleviate the cost burden. This scheme was commenced in January 2002 and was designed to provide relief to regional operators after the collapse of Ansett in the previous year. However in acknowledgment of the importance of this assistance the Government extended the scheme in 2006 for one year and again, in the 2008 budget, for 4 more years. The fact that the en route scheme is now to be abandoned in favour of direct remote area route subsidies will mean an increased burden of ATS charges for regional air service operators. It is therefore now even more important that ATS charges are kept to a realistic level for regional destinations.

The international operators argue for pure location specific pricing and an end to all cross subsidy as they have no interest in aviation in regional Australia and are purely concerned with lowering the cost by every cent possible for the services they utilise. While this is to be expected it ignores a bigger picture and the need for Australia to maintain a viable regional aviation industry. Rex believes that it is contrary to the national interest to move to a total user pays system and is also against the Government's Policy Goal in the Aviation White Paper which states; *that Australians in regional and remote communities have reasonable access to air services to major cities and other key centres, including on routes that are not commercially viable*. Australia is a unique country with its dependence on regional air travel and the many facets of general aviation that are essential to regional economies and essential services.

It is stated in the Government's Australian Airspace Policy Statement, effective 1 January 2010, that there will be "*enhanced air traffic management (ATM) services at regional aerodromes regularly served by passenger transport services, as determined by CASA*". This will be done without any regard to commercial considerations as CASA has a mandate that is purely concerned with safety. In this regard the recent report recommending approach surveillance control services at regional Class D towers will, if implemented, add considerable cost to regional air services which could not be supported under a strict user pays system.

The White Paper states that; *the Government will ensure Australia's capital city general aviation airports, so important for the industry's future prosperity, will remain as fully operational airport sites, with their primary purpose the provision of aeronautical services*. It is self evident that this includes terminal navigation charges that are reasonable and affordable. This is not possible under a strict user pays scheme, particularly with the current regulatory changes taking place at GAAP airports.

Rex argues that the economical rationalism of user pays has no place in Australia where our geography makes it important to keep regional air services as affordable as possible. ICAO guidelines for ATS charges, while supporting moves toward a user pays system, have the caveat that; *any charging system should take into account the cost of providing air navigation services, the effectiveness of the services, and the financial situation of the users and the providers*.

Rex argues that regional air services are as important to Australia's economy as essential road and rail links which are heavily subsidised by the taxpayer with far, far more being spent per capita in regional areas. In aviation this is generally not the case except for very remote areas. Rex feels that it is important to keep some level of cross subsidy with regard to regional air navigation charges and that this is in accordance with Government policy.

## **ENROUTE CHARGES**

Rex supports the continuation of the current weight based system for enroute charges modified by the common sense introduction of standard weights for larger aircraft and the removal of GA charges below the \$500 threshold. Rex also supports the maintaining of enroute charges at the current levels throughout the 5 year period.

## **TERMINAL NAVIGATION CHARGES**

Rex supports the continuation of the current scheme with the 3.5% CPI cap as outlined in the pricing proposal. Rex has no problem with the eventual recovery of location specific costs as long as the Regional Cap remains in place. Rex supports any shortfall under this system being funded from enroute services.

Rex recognises that affordable access to capital city General Aviation airports needs to be maintained and supports the capping of GAAP charges with the shortfall being funded from the associated major basin airports.

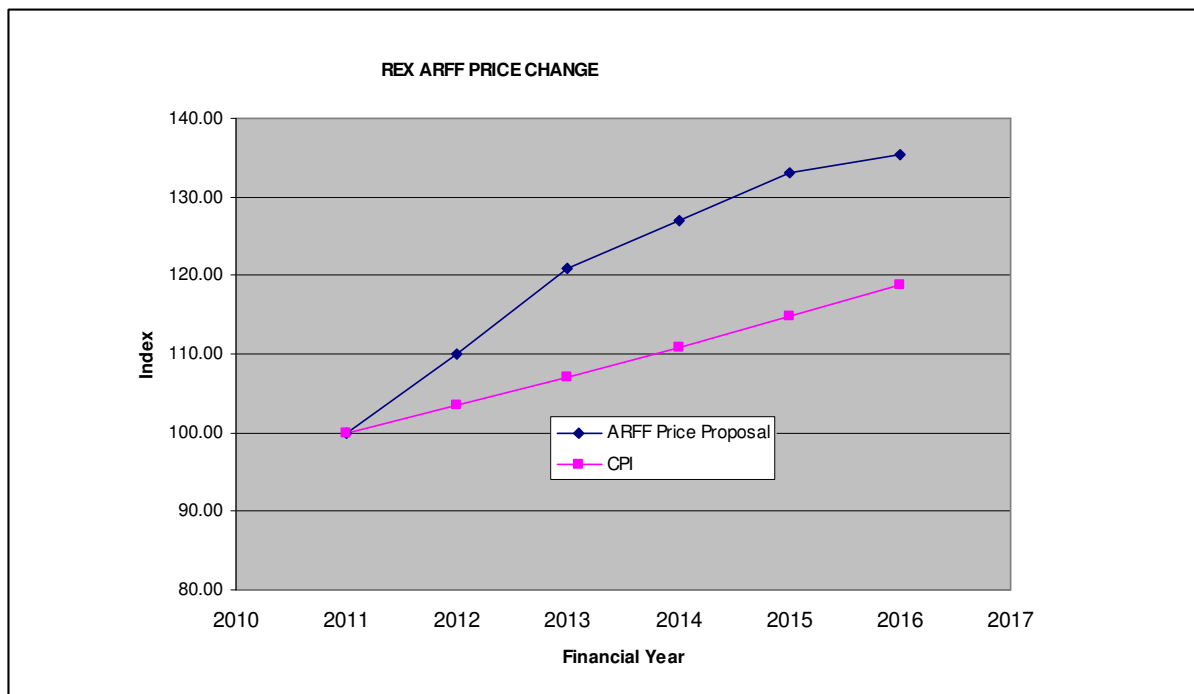
Where pricing for new terminal services is significantly above the average terminal navigation price Rex feels that it should be set at the maximum regional price and increased in accordance with the Regional Cap. i.e: set at \$13.39 for FY12, or the charge relevant to the year of introduction, and increased at 3.5% p.a.

It is noted that the terminal navigation charges include provision for approach surveillance control services at 10 regional Class D towers in accordance with the CASA report on Ministerial Direction 2004-4. While it is recognised that this is provided as part of the risk sharing principle as applied to regulatory change and that any cost overrun will be rebated to industry, Rex is strongly opposed to the inclusion of this particular cost. The environment for the introduction of new ATS has changed considerably since the Direction was issued in 2004 and Rex feels that once the correct process of aeronautical risk assessment is followed through the OAR, it is extremely unlikely new surveillance services will be required on the scale outlined in the CASA report. Industry consultation of any sort has yet to take place on this initiative and it is premature to provide funding for it at this stage.

## ARFF

As an operator of small regional aircraft Rex is not required to have ARFF services and in fact half of its flights are to airports without any ARFF available.

Despite this fact Rex is charged as a Category 6 aircraft whenever it flies to an airport with ARFF present. Charges for ARFF paid by Rex are already considerable and the pricing proposal sees them increasing further and at more than the projected CPI rate. By the end of the 5 year period Rex will be paying almost \$1m p.a. for a service that it does not require. The chart below reflects the actual annual cost of ARFF to Rex under the pricing proposal.



This is an excessive cost driven by the introduction of new services. As new services are applied automatically whenever the passenger numbers exceed 350,000 it means that Rex will never get any benefit for the extra charges imposed as a result. Rex and similar smaller regional operators do not fly to regional destinations with 350,000 passengers or more. By the time these numbers are reached the small operators have been driven out by larger airlines.

Rex does not believe an automatic trigger of 350,000 passengers p.a. for introducing ARFF is appropriate and feels that a risk based approach should be applied for ARFF similar to that used for determining the appropriate level of ATS at an airport. It is acknowledged that this is beyond the control of Airservices.

If the charge for ARFF cannot be reduced a fairer method of pricing is to apply a general discount for aircraft below category 6 or to introduce lower category charges notwithstanding the fact that the minimum service supplied by Airservices is Category 6. In the case of a SAAB 340 this would mean a category 4 charge or equivalent.

## CONCLUSION

- Rex agrees with the enroute charge proposal.
- Rex agrees with the terminal navigation charge proposal with the proviso that the cost of the Radar Direction is removed.
- Rex does not agree with the ARFF charge proposal and would like to see provision made for aircraft below category 6. Consideration should be given to the fact that increases to fund future services will in the vast majority of cases not benefit commuter aircraft.

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