



BARA

Board of Airline
Representatives
of Australia Inc

**Airservices Australia's Discussion Paper:
2016 Long Term Pricing Agreement**

Overview of BARA



The Board of Airline Representatives of Australia (BARA) is the industry body promoting the safe and efficient operations of international airlines serving Australia for the benefit of consumers, businesses and tourism.

BARA's members provide 90 per cent of all international passenger flights to and from Australia.

BARA's role is to provide a collective voice on major issues that affect international aviation. The sustainable growth and potential of Australia's international aviation industry depends on the right economic policy framework and legislative and regulatory arrangements.

As a 'hands on' industry body, directly supporting its members' operations, BARA takes a collaborative and practical approach to its work. The Australian Competition and Consumer Commission (ACCC) has authorised BARA to negotiate collectively on behalf of its members with major international airports, Airservices Australia and other providers of essential aviation-related services.

At an operational level, BARA engages with airport operators and border agencies to improve the experience, efficiency and safety for international passengers.

BARA's vision and outcomes

To guide BARA's work and clearly articulate its ideals, BARA's members have developed a *Vision and Outcomes for International Aviation in Australia*, available at www.bara.org.au. The vision for international aviation in Australia is 'High quality, adaptive and efficient'.

Underpinning this vision, BARA has identified the following four key outcomes to boost the competitiveness, productivity and the financial performance of industry participants:

Outcome 1: Timely and reasonably priced airport infrastructure

Outcome 2: Competitive supply of jet fuel

Outcome 3: Safe and efficient air navigation

Outcome 4: Environmentally sustainable growth.

BARA has released its policy papers covering *Timely and reasonably priced airport infrastructure* and the *Competitive supply of jet fuel at Australia's major international airports*.

The Australian Government plays a critical role in shaping the international aviation environment and fostering BARA's identified industry outcomes.

Executive Summary

The Board of Airline Representatives Australia (BARA) welcomes the opportunity to provide a submission to Airservices Australia's (Airservices) *Discussion Paper* on arrangements for the 2016 Long Term Pricing Agreement (2016 LTPA).

BARA remains concerned over how Airservices' sets its prices across its services. There is too much emphasis on promoting poorly defined and targeted affordability and equity objectives at the expense of the long run efficient development of Australia's aviation industry. Current pricing practices largely just artificially distort consumer choice while contributing little towards identified social objectives. At the same time, the pricing structures and investment outcomes add to total industry costs, entrenching an inefficient industry less able to cope with change.

BARA notes the findings of the Competition Policy Review, which stated the 'pricing structure for services provided by Airservices Australia should be a focus of further reform efforts in the sector'.¹ In response, the Australian Government should task the Productivity Commission (PC) with developing a set of pricing principles for Airservices. The PC has the resourcing and clear independence necessary to develop sound pricing principles consistent with maximising the overall welfare of the Australian community.

Separate pricing arrangements for international aviation

For international aviation, the goal remains for it to pay prices based on the cost of providing the services that it uses. BARA understands that international aviation currently subsidises domestic aviation by about \$80 million to \$100 million per year.

BARA expects that, under the existing institutional arrangements, Airservices will need to continue its inefficient pricing structures at regional airports to satisfy its various stakeholder groups. But it is not international aviation's role to provide long-term subsidies to Australia's domestic aviation industry.

Over the term of the 2016 LTPA, the prices charged to international aviation for terminal navigation and aviation rescue and firefighting services (ARFF) should change to location-specific pricing based on a reasonable allocation of costs between international aviation and other users at each airport. This will at least support international aviation to develop in an economically efficient manner.

The issue of subsidised prices for services provided at regional airports should be confined to the domestic aviation industry. How Airservices decides to set prices for domestic aviation is a matter for Airservices, the Australian Government and the domestic aviation industry. Confining the subsidies to the domestic industry will require the industry stakeholders to confront the merits of the pricing structures rather than avoid the issue by simply overcharging international aviation.

BARA also generally sees merit in simplifying the application of pricing mechanisms for international aviation, such as deemed distances. Airservices' prices are not directly linked to the 'marginal' cost of providing air navigation services to individual aircraft. Rather, they represent a reasonable way of recouping total costs. As such, there may be scope to further simplify arrangements while maintaining the generally accepted basis for recouping costs across airlines.

¹ *Competition Policy Review* (March 2015), p. 206.

Response to individual questions

Q1: Pricing principles

BARA considers Airservices' current pricing principles are broad and diverse enough to justify any pricing outcome, at least to some of its stakeholder groups. In particular, the goal that prices should be 'equitable' can mean very different things to different stakeholders. For some stakeholders, equity can be interpreted as paying the same price for the same service at a given location. For others, the objective can be interpreted as paying the same price for a service regardless of the cost of providing the service at a particular location.

BARA notes Airservices' general objective of keeping its prices 'affordable' to users (see for example, page 6 of the *Discussion Paper*). BARA questions the merits of this objective given the vast majority of the services Airservices provides are for commercial services and discretionary private flying activities.

The vast majority of Airservices' services are generally not considered the same as other 'essential' infrastructure services, such as water, electricity and telecommunications, where 'affordable' access is often deemed necessary because they are basic public needs. BARA does not consider the provision of air navigation and ARFF services to airports to facilitate holiday travel, growing economic centres (such as those associated with mining development) and private flying would be generally accepted as essential infrastructure services in the sense that it is necessary to subsidise them.

BARA notes the Australian Government already provides targeted assistance to identified user groups.² The current subsidies within Airservices' pricing structures are likely to only artificially distort consumer choice and income between airlines, with little of the subsidy actually promoting clearly identified social objectives.

Reducing the cost of a holiday to a certain regional location (assuming the reduced costs are passed through to passengers through lower airfares) through overcharging other commercial activities only artificially distorts consumer choice. There are no community welfare benefits associated with artificially distorting a consumer's decision about their choice of holiday destination.

BARA's proposed pricing objective

BARA considers that there should be one overarching objective for Airservices' pricing outcomes, namely 'to encourage the delivery of en route, terminal navigation and aviation rescue and firefighting services in an economically efficient manner so as to maximise net benefits to the community'.

Having one overarching objective consistent with maximising the net benefits to the community would allow for a sound assessment of different pricing structures compared with the current mixed bag of equity and efficiency objectives.

BARA notes its proposed overarching objective would be at odds with Airservices' current pricing and infrastructure delivery practices. This is because it would require Airservices to assess the merits of its pricing structures against the overall welfare of the Australian community rather than seeking to 'strike a balance' between different stakeholder interests, ultimately at the expense of the community as a whole.

² See for example, the Regional Aviation Access Programme.

Q2: Rate of price increases

For international aviation, BARA considers prices should move to their efficient (ie user pays) levels over the term of the 2016 LTPA. Based on an existing subsidy of about \$80 million to \$100 million per year, this would reduce net overcharging for international aviation by about \$16 million to \$20 million per year on a cumulative basis over five years.

Assuming prices for international aviation are set on a cost-recovery basis, how Airservices structures its prices for domestic aviation to satisfy its various stakeholder groups is a matter for Airservices and the Australian Government.

Q3: Measuring performance outcomes

BARA considers the current Services Charter is promoting ongoing effective consultation between Airservices and the industry. It is important the Charter is flexible enough to allow the measures and outcomes examined to adapt through time to meet changing industry needs.

BARA notes that many of the performance measures now collected relate to efficiency outcomes for domestic aviation, such as flight times and delays between the major airports. BARA would see merit in expanding the measures to monitor the effectiveness of services provided to international aviation. A small working group convened with representatives from Airservices and international airlines could establish these measures.

Q4: Graduated services

Consistent with BARA's overarching pricing objective, Airservices should charge for providing Aeronautical Flight Information Services. BARA considers the price should be introduced when the service is provided to users.

Q5: Premium or value add services

Subject to Airservices setting cost-recovery prices for international aviation as BARA has proposed, there is merit in exploring the pricing of premium or value-added services to international aviation. However, BARA does not support such options when international aviation is already significantly overcharged for existing services.

Q6: New technology incentives

BARA sees the most merit in there being a clear and agreed industry plan over the ongoing implementation of new technologies and decommissioning of the legacy system, which will provide both Airservices and industry with the certainty necessary to invest in new equipment. Given that Airservices can consult directly with users, it is not necessary to be sending price signals when the technology path can be more efficiently negotiated directly with users.

For regular public transport (RPT) operations, it is also unlikely that any marginal changes in Airservices' pricing structures are going to materially influence the investment decisions in new aircraft or aircraft technologies. This is because these decisions ultimately encompass a range of commercial considerations.

BARA would observe the history of 'incentivising' new technology take-up, such as ADSB, has generally led to further overcharging international aviation to subsidise the equipment necessary for other industry segments, such as general aviation. BARA understands the cost of ADSB equipment for general

aviation remains an ongoing issue. Again, BARA sees this as a domestic industry issue that should be funded within the domestic aviation industry.

Q7: Deemed weight

BARA considers that while there may be some minor administrative benefits to further reducing the number of weight categories, the existing arrangements appear to be working satisfactorily. The existing arrangements are well understood and deal with the issue in managing the stated weight of individual aircraft.

BARA notes that the concept of weight-based pricing uses 'Ramsey' pricing principles. That is, there is an assumed greater 'ability to pay' for larger aircraft with more passengers that generally operate over longer distances. However, given the way the industry has evolved, with the same aircraft types ranging from four passenger classes to all economy, and operating both short- and long-haul routes, the relationship between aircraft weight and ability to pay is increasingly questionable.

That said, in the absence of Airservices having a detailed understanding of the price elasticities by customer group (which probably no stakeholder has), the current weight-based distribution element of the pricing structures likely remains appropriate given its consistency with international practice.

Q8: Weight cap

From an efficiency perspective, BARA is unaware of any compelling arguments to change the existing weight cap.

The weight cap effectively changes the distribution of cost recovery across RPT airlines. The current cap recognises no strong link exists between the cost of services provided and the weight of the aircraft. However, it is unclear if reducing the weight cap further will generate a change in the use of larger aircraft in Australia. As such, the current arrangements appear a reasonable compromise in recovering Airservices' total costs.

Q9: Deemed distances

BARA sees merit in Airservices proposing deemed 'route sector based distances' for charging international aviation for en route services.

The majority of Airservices' costs are effectively fixed in providing en route air navigation services. This means an international aircraft travelling a different flight path through Australia's FIR to a given airport is likely to have little or no effect on Airservices' costs.

There are likely to be some administrative efficiencies in moving to deemed distances while not affecting the use or provision of en route services by international aviation.

Q10: Ultralights, gliders and balloons

BARA has no specific comments on the charging of ultralights, gliders and balloons.

Q11: Alternative mechanisms

For international aviation, BARA supports a continuation of the current charging mechanisms.

Q12: General aviation

BARA has no specific comments on the charging basis for general aviation.

Q13: Risk sharing

Capital

For the 2016 LTPA, BARA would prefer to see greater emphasis on the delivery of outcomes and benefits from the implementation of the OneSky project as part of the risk-sharing arrangements. This means there should be some direct link between Airservices' en route prices and the delivery of outcomes and benefits to users.

To implement appropriate risk-sharing arrangements for OneSky, Airservices and industry have first to agree a clear timetable for the delivery of services, outcomes and benefits. Based on a clear understanding of the deliverables and benefits, it will then be possible to develop appropriate risk-sharing arrangements. One option is to first set the price path for en route prices assuming the project meets the agreed timeframe. Reductions in the en route price would then be implemented if timeframes were not met, then restored back to the original price path when the key deliverable is achieved.

For the other capital projects, the risk-sharing arrangements in the current and previous LTPAs have reflected the level of certainty Airservices and the industry have had over the planned capital investment program and traffic volume forecasts. The current risk-sharing bands likely remain appropriate for the capital projects outside OneSky.

Traffic volumes

BARA considers that seeking to apply risk-sharing arrangements to services on an airport basis is likely to add significant complexity into the pricing arrangements without providing any material benefits to international aviation or Airservices during the term of an LTPA.

Q14: Stranded assets

BARA would note there is little risk of asset stranding at the major international airports. To the extent an asset becomes stranded at such an airport, then its costs can be recouped from the price charged for the service at the airport where the asset was provided.

If assets become stranded outside the major airports, then one option is to recoup their costs through the prices associated with the type of service provided and customer base served. For example, if an ARFF service is discontinued at a regional airport then its costs could be recouped across ARFF prices at all regional airports.

BARA's Members

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AIR INDIA

AIR MAURITIUS

AIR NEW ZEALAND

AIR VANUATU

ASIANA AIRLINES

CATHAY PACIFIC AIRWAYS

CHINA SOUTHERN AIRLINES

DELTA AIR LINES

EMIRATES

ETIHAD AIRWAYS

EVA AIR

FIJI AIRWAYS

GARUDA INDONESIA

JAPAN AIRLINES

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