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Dr Jane Thomson
Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Thomson

INQUIRY INTO THE OPERATION, REGULATION AND FUNDING OF AIR ROUTE SERVICE DELIVERY TO RURAL, REGIONAL AND REMOTE COMMUNITIES

Thank you for your invitation of 22 November 2017 to provide a submission to the abovementioned inquiry.

Our role

Airservices is a government-owned organisation providing safe, secure, efficient and environmentally responsible services to the aviation industry.

Each year we manage over four million aircraft movements carrying more than 90 million passengers, and provide air navigation services across 11 per cent of the world's airspace.

Our services are provided from two major operating centres in Melbourne and Brisbane, operates 29 air traffic control towers at international and regional airports, and provide Aviation Rescue Fire Fighting services at 26 Australian airports. Outside the major capital cities, we employ over 600 staff and operate \$0.5bn in infrastructure to deliver these services.

Pricing

Our services and supporting infrastructure are funded through customer charges to major domestic, international and regional airlines, charter operators, flight training schools and general aviation operators. The level of our charges is regulated by the Australian Competition and Consumer Commission (ACCC). Under these arrangements we earn a modest return which is used to reinvest in infrastructure, fund our capital program and pay dividends back to the Government.

Our charges are established through consultation with our diverse customer base and the pricing mechanisms in place today take into consideration feedback from all segments of industry including regional operators. Whilst we are a monopoly service provider, our prices endeavour to promote economically efficient outcomes by recovering the cost of our services from the users that consume them. To provide price certainty over the longer term our pricing arrangements are established to cover 5 year terms.

Enhancing efficiency

Airservices acknowledges that our service charges for Terminal Navigation, Aviation Rescue and Fire Fighting and Enroute services are part of the costs borne by airlines and operators that fly in and around major regional locations.

For an average regional service flying 800km (e.g between Mildura and Sydney) we charge less than \$200 (or \$7 per passenger). For a larger aircraft flying a longer haul regional service of 1,300kms (e.g. between Perth and Karratha) we charge approximately \$800 (or \$10 per passenger).

To minimise the cost burden of our services, we have worked hard over the last few years to improve our business and be more responsive, agile and flexible in delivering value to our customers while maintaining and enhancing our safety performance. This work has enabled us to maintain prices at the same level they were in 2015 and put us in a position to manage price growth into the future.

We are doing this whilst delivering our largest infrastructure project which will replace our core air traffic management system with Defence ('OneSKY program). This program will improve our service capability and deliver a range of economic and safety benefits, including for regional, rural and remote communities. To improve the safety and efficiency of traffic in regional areas we are also investing in new surveillance services across 11 regional locations through the expansion of our Automatic Dependant Surveillance - Broadcast (ADS-B) services.

Whilst the cost imposition of meeting safety regulatory requirements at smaller, low traffic ports can unduly burden our regional customers, our price-setting strategy continues to strike a balance between economically efficient prices that enable the cost of our services to be recovered, while minimising undesirable distortions to airport usage.

To address this imbalance we apply cross subsidies whereby charges are levied below the cost of services provision in a number of price sensitive locations including the regions. Whilst we try to move service charges to fully recover costs, they are no more than an estimated rate of annual inflation. These subsidies include:

- network enroute subsidies, whereby most regional airport prices (e.g. Albury, Tamworth) are capped and subsidised by charges for enroute services; and
- network based aviation rescue and fire fighting services subsidies (to smaller category 6 aircraft) which reduces the services charge at low traffic volume regional airports (e.g. Ballina, Broome).
- capital city basin subsidies, whereby capital city general aviation airport prices (e.g. Bankstown) are subsidised by the major airport (Kingsford Smith);

For smaller aircraft operations (weighing less than 5 tonnes) we do not levy aviation rescue and fire fighting charges. If the same aircraft incurs less than \$500 in charges per annum for our other services, we also waive our fees.

Our operating environment is strictly governed by legislation and decisions made by the Civil Aviation Safety Authority (CASA). These constraints limit our ability to choose the level of service we supply at each airport and, also, how we achieve that level of service, which in turn, has a financial and operational impact on our customers. Working closely with CASA, we strive to improve the economic outcomes for our regional customers through regulatory reform. An example of this is our recent work into the Aviation Safety Regulatory Review where we supported a shift to risk-based assessment approach for the establishment and disestablishment of aviation rescue and fire fighting services.

Airservices number one priority continues to be on the safety of our customers. Nonetheless, we will continue to maintain our focus on our obligation to minimise costs in order to support the growth of industry.

Thank you for the opportunity to contribute to the inquiry, Airservices is happy to provide any additional information that will assist the Committee.

Yours sincerely

Jason Harfield
Chief Executive Officer

15 February 2018