



1 Airservices Australia's 2016 Pricing Proposal



BARA is seeking a range of improvements to Airservices' proposal so that it is better able to deliver ongoing value to the aviation industry.

BARA wants Airservices to assume greater accountability over the delivery of services for the prices paid by international airlines; justify an efficient level operating and capital costs; and provide a long-term solution to pricing services at regional locations.

BARA's submission to Airservices also describes the initiatives necessary to achieve its stated objectives.

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2 BARA's new website



BARA's new website provides a fresh approach to articulating its ideals, including easy to read online summaries of key issues and submissions.

The website allows interested parties to quickly access information without the need to download and read large pdf files of submissions. BARA's website address is www.bara.org.au

BARA has 31 members covering more than 90% of Australia's international passenger flights.

3 Allowing the B777-200ER on Sydney's third runway



BARA has presented its case to allow the B777-200ER to operate on Sydney Airport's third runway.

The risk of the B777-200ER being diverted from Sydney is higher because it is restricted to the main runway, although operationally it can land on the third runway.

BARA has presented its case for allowing this aircraft type to operate on the third runway to the Sydney Airport Community Forum (SACF). Allowing this flexibility is good for international passengers, and the aircraft's noise footprint is very similar to other aircraft types that are permitted to use the third runway.

4 2014–15 International passenger statistics



Victoria achieved the highest passenger growth in 2014–15. IATA has forecast a slowing of passenger growth in 2015–16.

ABS data shows short-term international passenger growth was 4.5% in 2014–15 or about an extra 700,000 passenger trips. Victoria accounted for about 45% of this growth, with NSW second with 26%.

IATA has developed international passenger forecasts for Airservices' 2016 Pricing Proposal, which show an expected slowing of growth in 2015–16 and 2016–17.

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Airservices Australia's 2016 Pricing Proposal

Unfortunately Airservices Australia's 2016 Pricing Proposal does not address the underlying need for it to assume more accountability over the services it delivers to airlines or adequately justify the proposed level of costs. BARA's submission instead encourages more accountability and ongoing improvements in service delivery.

Airservices Australia (Airservices) has released its 2016 Pricing Proposal for industry comment before lodging it with the Australian Competition and Consumer Commission (ACCC) for formal assessment later this year. BARA supports Airservices for its initiative of seeking industry feedback before proceeding to the ACCC.

The 2016 Pricing Proposal effectively 'rolls forward' the previous arrangements implemented back in 2011. However, since the ACCC's assessment in 2011, the Commission of Audit, Productivity Commission, Joint Parliamentary Committee on Public Works and Harper Review have all raised concerns about underlying issues with Airservices' capital investment program, cost efficiency and pricing structures. As it does not directly address these legitimate concerns, BARA cannot support the 2016 Pricing Proposal in its current form.

Accountability over service delivery

The core issue with Airservices' 2016 Pricing Proposal is there are no binding incentives for it to deliver planned improvements in its services to airlines. This is especially problematic for the OneSKY project, for which a senate committee hearing has already raised procurement issues.

The \$600 million (at least initial costs, estimates seem to vary and include \$1.5 billion over its

lifetime) OneSKY project will merge the civil and military air traffic management systems. BARA understands and supports the need to replace Australia's existing air traffic management system. But at present airlines still do not have a clear understanding of the deliverables for the project or when improvements in capacity and capability will be ready and available for airlines to use.

Front-loaded costs and prices

The 2016 Pricing Proposal contemplates the bulk of capital expenditure will occur in the first two years, together with weighted average nominal price increases of 5.3% and 4.4% on 1 July 2016 and 1 July 2017, respectively.

BARA questions if Airservices can deliver on such an aggressive capital spend during the first two years of the agreement. BARA is also concerned with deficiencies in the transparency and efficiency of Airservices' operating cost base for a range of reasons, including:

- Actual annual operating costs (excluding depreciation) since 2012 exceeding forecast by 5.4%, 6.2% and 14.9%.
- No information is provided on supplier costs.
- There has been significant public controversy about executive pay.
- Airservices employee numbers have grown more strongly than expected.
- Airservices has not demonstrated that it has effectively implemented the internal efficiency measures relied upon in 2011.

Airservices has not shown it has firmly implemented its performance management framework. The 2016 Pricing Proposal also contains little information about Airservices' plan to improve its operating efficiency over the term of the new agreement.



BARA's three initiatives

BARA has reviewed the 2016 Pricing Proposal and wants Airservices to amend it and include three initiatives:

1. Establish a clear link between price increases and outcomes for airlines.
2. Commission an independent third party to assess its operating and capital efficiency.
3. Incorporate all new incremental capital expenditure into the prices charged at the location that provides the service.

BARA's initiatives fit with what international airlines can reasonably expect from other infrastructure and technology providers.

There's still time for Airservices to amend its proposal, and incorporate the specific outcomes and information BARA seeks. But it would require a substantial commitment on the part of Airservices, especially developing tangible and measurable outcomes.

Airlines want more accountability for the prices they pay for services

BARA envisages a 'checklist' of tangible and measurable goods or services each financial year, especially for the OneSKY project. Annual price increases for en route and terminal navigation from 1 July 2016 onwards would depend on Airservices meeting the agreed deliverables for the previous financial year.

BARA notes Airservices has provided some tentative commitments and information towards clearly expressing some ways of measuring deliverables associated with its proposed OneSKY project as part of the CMATS Industry Working Group. As well as providing industry with tangible information about the OneSKY project deliverables, the measurements developed through the CMATS Industry Working Group could also underpin the commercial arrangements between Airservices and the airlines.

Many of Airservices' performance measures also relate to efficiency outcomes for domestic aviation, such as flight times and delays between the major airports. They could be expanded to monitor services for international aviation, such as average flight times between specific overseas airports, and airborne and ground delay for international aircraft.

Third party review to examine operating and capital costs

BARA proposes Airservices commission an independent third party to review its operating and capital efficiency and devise a set of improvement initiatives. The reviewers and terms of reference should be mutually agreed between Airservices, the ACCC and major users. There will need to be formal reporting against the improvement initiatives to show which ones were successful.

BARA is also very keen to understand the labour component in the OneSKY project, and the extent to which that labour should be capitalised into the project cost rather than treated as operating expenditures.

A long-term solution to pricing services at regional locations

BARA remains concerned about applying uniform pricing to delivering new services, especially aviation rescue and firefighting at regional airports, when most costs are subsidies that are ultimately borne by airlines operating at the major international airports.

BARA proposes incorporating all new capital expenditure into the prices charged at the location they are provided. This would encourage better investment decisions at regional locations by creating an incentive for the users of services at regional locations to look at the merits of what Airservices proposes.



2014–15 International passenger statistics

Short-term international passenger growth remained solid at 4.5% in 2014–15. Victoria accounted for about 45% of the growth in passenger numbers, both for overseas visitors to Australia and Australians travelling overseas. IATA forecasts international passenger growth will slow down to 2.5% for this financial year.

Data from the Australian Bureau of Statistics (ABS) for short-term departures and arrivals shows considerable diversity in the composition of growth across Australia's states.

The number of short-term international visitors grew by about 6.6% in 2014–15 or 440,000 more passenger trips. Victoria accounted for 45% of this growth, followed by NSW at 27% (Fig. 1).

The number of Australians travelling overseas grew by about 2.9% in 2014–15, or 260,000 more passenger trips. Victoria accounted for 43% of this growth, followed by the Queensland at 28% (Fig. 2).

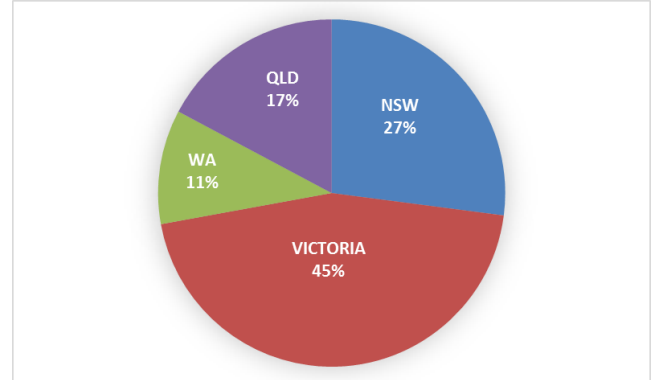
IATA passenger growth forecasts

The International Air Transport Association (IATA) has prepared growth forecasts for Airservices as part of its 2016 Pricing Proposal.

For Australia's international aviation, IATA has forecast growth slowing down to 2.5% for 2015–16 and 3.3% in 2016–17 (Fig. 3). Actual growth in 2014–15 was a little higher than forecast.

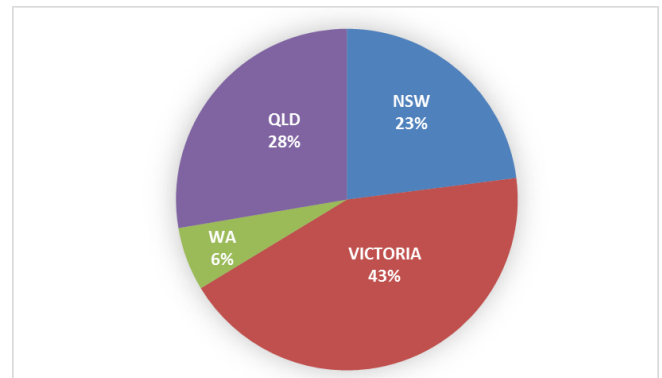
Given the diversity of outcomes across states to date, individual airports may well exceed or be below the IATA forecast, which is an average across all of Australia's international aviation.

Fig. 1 Growth shares, overseas visitors to Australia



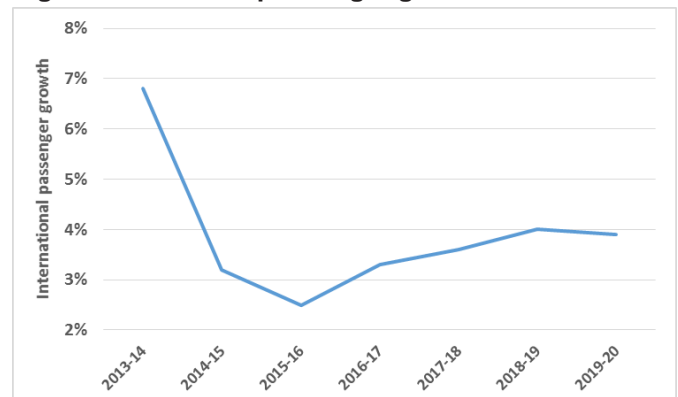
Source: Australian Bureau of Statistics

Fig. 2 Growth shares, Australians travelling overseas



Source: Australian Bureau of Statistics

Fig. 3 International passenger growth forecasts



Source: IATA forecasts