

POLICY POSITION

Airservices Australia - Location Specific Pricing

Position The Government should provide a clear statement on whether the subsidisation of terminal navigation services in regional areas is consistent with its regional social and tourism policy objectives.

If the Government decides that subsidising certain terminal navigation services will be effective in promoting regional development objectives, then it should adopt a 'purchaser-provider framework for the provision of terminal navigation services at such locations.

Alternatively, if the Government decides that a subsidy for regional terminal navigation services is not justified, then the prices charged at each location should be set so as to recover the cost at each location. Users should pay for the full cost of service delivery.

Further, if the Government decides that a subsidy is not justified, there should not be a return to network pricing across all towers as a way of reducing the average price paid by users at regional locations. Such an approach would:

- undermine and unwind the efficiency and transparency benefits obtained with the adoption of location specific pricing; and
- encourage unwarranted expenditure and cost inefficiency at 'subsidised' locations with the knowledge that 'it will only cost a few cents per tonne' at capital cities.

**Rationale
And
Background**

Airservices Australia introduced location specific prices for terminal navigation services in 1998. The location specific pricing replaced the network pricing arrangement that applied previously. The new arrangements eliminated economically inefficient cross subsidy elements from the Airservices Australia pricing structure. They ensured that better pricing signals were given to the users of terminal navigation services and promoted greater efficiency of future investment in terminal navigation infrastructure.

To alleviate the price shocks to users of terminal navigation services at smaller regional airports, the Government provided Airservices Australia with a subsidy to allow it to cap charges at those airports. The subsidy was consistent with the Government's policy on promoting regional development. However, the subsidy does not cover the total shortfall in revenues associated with regional towers. Further, major airlines fund the subsidy directly through an excise on aviation fuel.

Whilst the current location specific pricing arrangements introduced by Airservices Australia do not ensure an optimal economic outcome, they are a marked improvement on the inherently inefficient network pricing arrangements.

The Australian Competition and Consumer Commission (ACCC) in its reviews of Airservices Australia pricing levels has expressed concern that prices for those services where market power exists should not be set at a level that provides a cross subsidy for non-commercial services. The adoption of network pricing is, therefore, clearly in breach of the ACCC's recommendation on the pricing structures of Airservices. No economically responsible government would consider a return to network pricing.

It may be the case that after careful assessment, the Commonwealth decides that subsidising certain terminal navigation services will be effective in promoting regional development objectives. If so, the Commonwealth should adopt the 'purchaser-provider' framework in the provision of terminal navigation services at such locations. The framework involves:

- clear specification of the services required by Airservices Australia at each location - for example, hours of operation;
- agreement with Airservices Australia of the cost of providing terminal navigation services at subsidised locations;
- determination of the price to be charged by Airservices Australia at each location - this could involve the same cost at each location (network price) or different prices at each location; and
- funding Airservices Australia from consolidated revenue to the extent of the difference between revenues from user charges and the cost of service at each location.

In effect, the Commonwealth should be prepared to enter into a commercial contract with Airservices Australia for the provision of terminal navigation services at particular locations. Such an approach ensures that the incentives for the efficient delivery of services remain. It also enhances the transparency of arrangements to users, governments and the broader community.

The funding of any subsidy payments to Airservices Australia is a matter of considerable concern. The existing subsidy is actually funded by an excise on aviation fuel consumed by domestic airlines, not from consolidated revenue. Consequently, some airlines already pay indirectly for the full costs of regional terminal navigation services. The airlines pay, regardless of whether or not they actually access the services provided by those regional towers.

So any restructuring of the present subsidy, if it is still funded via an excise of aviation fuel, simply shifts the cost burden between airlines and

could result in more airlines that do not access the services becoming liable for their costs. That situation is unacceptable to airlines and totally at odds with economic efficiency.

The continuation of a subsidy for regional terminal navigation services should only be contemplated on the basis that the subsidy is paid from consolidated revenue and the aviation fuel excise is reduced commensurately. This fundamental economic principle should be followed whatever form of subsidy - full or partial - the Commonwealth might apply.