



INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA)

**Submission in response to Airservices Australia
Price Structure Options Discussion Paper**

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This submission presents the response of International Air Transport Association (IATA). IATA's mission is to represent, lead and serve the airline industry and brings together 230 Member airlines whose flights account for 93% of all international scheduled air traffic.

IATA welcomes this opportunity to submit its comments to Airservices Australia regarding its pricing structure options discussion paper. IATA's comments are from an international perspective and are based on the requirements of, and practices in, international civil aviation.

- IATA firmly believes that charges should be cost-related, non-discriminatory and equitably applied in line with ICAO and IATA charges principles, and that no group of users should be given special treatment with regards to charges.
- Demand sensitivity to price is irrelevant.
- Services and performance levels should be agreed with airline users who are paying for these services.
- Total service delivery performance should be clearly defined in addition to minimum user expectations and baseline costs in conjunction with ICAO and APANPRIG requirements.
- New services should be absorbed and cost base included in the following LTPA whilst optional services that do not disadvantage other users may be considered.
- The charges formula needs to be simple to minimise its administrative overhead, cost-related and fair to all users.
- Weight basis for charging should be eliminated.
- Enroute and terminal navigation charges should be cost-related and fairly allocated among users.
- Aviation Rescue and Fire Fighting services are the responsibility of the State and should not be funded exclusively by airline users.
- Appropriate consultation should take place with airline users through periodic reviews before any ARFF price changes occur.
- IATA would welcome the following improvements to the current risk sharing agreement:
 - IATA expects for Airservices Australia to introduce and conduct robust periodic reviews to match user expectations or in case of substantial changes in market conditions during the term of the new Long Term Pricing Agreement.
 - There should be a new component of the risk sharing based on operating costs/margin with control on productivity improvements.
 - We should see rebates for service lines or locations proportionate to their contribution to the surplus.

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Overview of IATA submission

IATA supports the continuation of the following basic principles that worked well and should be maintained in the new Long Term Pricing Agreement (LTPA):

- Building block methodology
- Risk Sharing

Additionally, IATA suggests that Airservices Australia focuses on a long-term outlook that would ensure the building blocks are in line with user expectations, service level and functionality changes over the 5 years.

Although the current LTPA framework has generally performed satisfactorily, some issues occurred and IATA urges Airservices Australia to address the below issues and take them into account:

- Tighten periodic review effectiveness needs
- Minimise subsidisation between lines of service (Enroute, TNC and ARFF)
- Location specific pricing to maximise cost relatedness of charges imposed on different user groups
- Improve service level definition and agreement
- Better adhere to Capital investment commitment
- Promote investment in new technologies and service levels in line with user requirements
- Offer a menu of multiple technologies, service offerings in line with transition to new technologies and efficient operations
- Provide administrative simplicity as long as other principles are adhered to

This submission covers the following topics in detail:

- Charging mechanism
- Charging threshold
- Pricing for incentives and value
- Units of charge
- Enroute
- Terminal navigation
- Aviation Rescue and Fire Fighting
- Risk sharing

For clarity purposes, the above topics are covered under the relevant questions as listed in the Discussion paper.

Questions for submitters

Charging mechanism

1. What is the appropriate mechanism for Airservices Australia's charges and to what extent is it desirable to allow airlines to negotiate directly with Airservices for the provision of services?
2. Do you have a preference for the length of the agreement?

IATA recommends for Airservices Australia to use a contract where terms and conditions are made public. Additionally, the contract should be non discriminatory and applicable to all customers.

In order for Airservices Australia to meet service expectations of different customer types, the following logic should be taken into consideration:

- **Total service delivery performance:** Airservices Australia needs to first define total service delivery performance, minimum user expectations (core services) and baseline costs in conjunction with ICAO and APANPRIG requirements. Airservices Australia should also offer a menu of multiple technologies, service offerings in line with transition to new technologies and efficient operations.
- **New services:** New services (outside the above framework but in line with global requirements) should be absorbed by Airservices in the LTPA and cost base included in the following LTPA.
- **Optional services:** Optional services (outside the above framework and directed to limited users) that do not disadvantage other users may be considered if they are properly accounted for and if charges are based on true cost allocation.

Airservices Australia should avoid any arrangements aimed at administrative simplicity especially if they need to be conducted in parallel to existing processes as they may lead to an increase in overall workload.

Specific terms not related to service levels and price such as prepayment may be acceptable as long as they do not adversely impact other users.

In terms of the length of the agreement, best practice in the industry seems to be around 5 years. It is, of course, important for the LTPA term to align with the financial year. A 4.5 to 5.5-year agreement could therefore be considered.

Additionally, the following elements should be taken into consideration:

- **Capex:** Airservices Australia should provide a view of Capex and service level investments on a longer term (e.g. up to 8 years).
- **Rigorous periodic review:** Airservices Australia should ensure that rigorous periodic reviews are undertaken during the LTPA length including additional thresholds for adjustments of key building blocks such as traffic forecast, short-term capex, service standards and performance.

IATA position summary

- Total service delivery performance should be clearly defined in addition to minimum user expectations and baseline costs in conjunction with ICAO and APANPRIG requirements.
- New services should be absorbed and cost base included in the following LTPA whilst optional services that do not disadvantage other users may be considered.

Charging thresholds

3. What are the appropriate charging thresholds for Airservices' services?

4. Is an 'access fee' an appropriate means of charging for smaller operators? If so, what amount would be reasonable, or is the current Light Aircraft Option effective in reducing administrative complexity?

IATA firmly believes that charges should be cost-related, non-discriminatory and equitably applied in line with ICAO and IATA charges principles, and that no group of users should be given special treatment with regard to charges.

ICAO Policies on air navigations services charges (Doc 9082/7) highlight that users should pay their fair share of costs (paragraph 36), that the allocation of costs of air navigation services among users be carried out in a manner equitable to all and to ensure that no users are burdened with costs not properly allocable to them (paragraph 40) and that any under-recoveries of costs properly allocable to the users concerned is not shouldered on to other users (paragraph 41.v).

IATA, therefore, recommends for Airservices Australia to adhere to the following key principles, as all users need to pay for the services they are using:

- **Non-discrimination:** There should be no discrimination between the different groups of users with regards to charges.
- **No cross subsidisation:** There should be no cross subsidisation where airlines subsidise other airlines.

From an economic point of view, demand sensitivity to price is irrelevant when it comes to which customers Airservices Australia should charge. The price is not determined by the user who values the service most. In fact, there would be competition to provide services at each location, which would create incentives for efficiency improvements, but there would be one price for the service determined by the marginal customer who values it least. The argument that the viability of services may be precluded by location specific pricing is, therefore, spurious.

IATA would welcome it if Airservices Australia were to simplify its charging structure in order to minimise administration costs. Additionally, IATA would support the concept of access fee suggested by Airservices Australia if the following elements are taken into consideration:

- Consider a **frequency of use** component in the fee structure
- **Use VFR and IFR charges** for Light Aircraft

In any case, however, charges should not be prohibitively expensive to prevent the use of ATC services by Light Aircraft as it would have a negative impact on the overall shared airspace security especially for approach and terminal areas.

IATA position summary

- Service costs should be shared equitably among all users.
- Demand sensitivity to price is irrelevant.

Pricing for incentives and value

5. How could Airservices objectively measure service quality for reward or penalty?

6. Is it desirable for Airservices to commercially negotiate specific value-adding services with customers?

It is paramount for Airservices Australia and its customers to agree which services and at what performance level these are provided in exchange for the charges paid for their use.

IATA recommends Airservices Australia to take the following elements into consideration in order to measure service quality:

- Establish a **suite of services to offer** all its customers.
- Establish what the **base level service outlook** will be over the period of the contract. The base level service should be chosen to reflect performance in essential services that are important to both Airservices Australia and its users.

These elements would need to be jointly agreed by Airservices Australia and its customers. Furthermore, a process should be set up and a methodology agreed to define and measure performance. Additionally, performance should be published and discussed regularly (e.g. monthly basis) to highlight areas of continual failure. In that respect, Airservices Australia should put a valid case together for penalties or rebates when lack of service or gaps in service levels occur. Furthermore, Airservices needs to compensate users for additional costs/revenue loss as a result of gaps in the service.

IATA believes that there is no need for financial reward to improve services. It considers that this is part of Airservices Australia core corporate responsibility and forms the basis for users paying for services.

Eurocontrol methodology could be considered as a model especially to define and measure key performance indicators. Detailed input on the service expectations for the term of the Agreement will be developed and submitted at a later date during the consultation process.

The answer to question 6 is the same as for question 1.

IATA position summary

- Services and performance levels should be agreed with airline users who are paying for these services.
- Service costs should be shared equitably among all users.

Units of charge

7. Are weight and distance appropriate bases for charging? If so, should weight and distances be fixed, or vary according to the actual route being flown?

It is important for Airservices Australia to keep the charging formula simple to minimise its administrative overhead. Detailed analysis should be provided to airline users during consultations before any changes to the charging formula are made.

Additionally, IATA would like to make the following recommendations regarding the unit on which prices are levied:

- **Weight basis** for charging should be eliminated or at least minimised especially when it relates to enroute charges and 'heavy' jets. This recommendation is in line with the recent outcome of the ICAO Conference on Economics of Airports and Air Navigation Services (CEANS) held in September 2008. The ICAO Secretariat will produce a revised draft of ICAO's charging policies Doc 9082 that will be submitted to the Air Transport Committee in October 2008 for approval and then to the Council in November 2008.
- If weight is retained, the **Terminal Navigation Charge (TNC)** should be "**less than proportional**" to weight in order to comply with ICAO policy (paragraph 44) which states that: "the Council recommends that where charges for approach and aerodrome control are levied, whether as part of the landing charge or separately, the charge should, so far as possible, be a single element of the landing charge or a single charge per flight and could take aircraft weight into account but less than in direct proportion. "
- **Distances based charging** for enroute charges could be considered using for example the Great Circle Distance for actual sectors flown.
- **Charges based on number of flights** should also be considered to be fair to all users.
- **Weight bands and categories** could be considered to ensure that changes in aircraft configuration especially for distances do not cause major changes in applicable charges.

IATA position summary

- The charges formula needs to be simple to minimise its administrative overhead, cost-related and fair to all users.
- Weight basis for charging should be eliminated.

Enroute

8. For enroute charges, is a change in the charging threshold to target RPT aircraft (as defined for charging purposes) desirable?
9. For enroute services, is it desirable to separate the Indian Ocean (or any other piece of oceanic or continental airspace)?

During the past LTPA, enroute charges were subsidising TNC charges. IATA recommends for Airservices Australia to eliminate or at least minimise cross subsidisation between lines of service especially between enroute and TNC.

IATA would also welcome it if Airservices Australia were to simplify its charging structure in order to minimise administration costs.

Additionally, IATA would support the concept of access fee for enroute charges suggested by Airservices Australia if the following elements are taken into consideration:

- Consider a **frequency of use** component in the fee structure
- **Use VFR and IFR charges** for Light Aircraft

In any case, however, charges should not be prohibitively expensive to prevent the use of ATC services by Light Aircraft as it would have a negative impact on the overall shared airspace security especially for approach and terminal areas.

Before considering separating the Indian Ocean airspace or any other sector, IATA would like Airservices Australia to take the following elements into consideration:

- Provide additional information on the scope, cost base, traffic and service offerings for different sectors such as Indian Ocean.
- Depending on the outcome of the above point, sector segregation could be considered if there are transparent and accountable differences in service levels and costs of providing the service. Additionally, traffic density needs to be taken into account for unit cost and revenue calculations.
- An initial transition to separate oceanic and continental services and charges could be considered once the above level of transparency and accountability has been provided.

IATA position summary

- Enroute charges should be cost-related and fairly allocated among users.

Terminal navigation

10. For terminal navigation charges, is a change in the charging threshold to target RPT aircraft (as defined for charging purposes) desirable?
11. For terminal services, how should the current price caps change over time?
12. For terminal services, is any further pooling costs desirable?

As mentioned for enroute charges, IATA would welcome it if Airservices Australia were to simplify its charging structure in order to minimise administration costs.

Additionally, IATA would support the concept of access fee for terminal navigation charges suggested by Airservices Australia if the following elements are taken into consideration:

- Consider a **frequency of use** component in the fee structure
- **Use VFR and IFR charges** for Light Aircraft

In any case, however, charges should not be prohibitively expensive to prevent the use of ATC services by Light Aircraft as it would have a negative impact on the overall shared airspace security especially for approach and terminal areas.

As mentioned for enroute charges, IATA also recommends for Airservices Australia to eliminate or at least minimise cross subsidisation between lines of service especially between TNC and enroute charges.

When it comes to price caps and further pooling of radar approach costs, prices need to be airport specific.

ICAO Policies on air navigations services charges (Doc 9082/7) highlights that users should pay their fair share of costs (paragraph 36), that the allocation of costs of air navigation services among users be carried out in a manner equitable to all and to ensure that no users are burdened with costs not properly allocable to them (paragraph 40) and that any under-recoveries of costs properly allocable to the users concerned is not shouldered on to other users (paragraph 41.v). In our view these references also support the principle of site-specific charges versus network pricing.

Furthermore and in preparation for the second LTPA, it is essential that a simulation be done to review and understand the full impact of capital city airport specific pricing versus basin concept pricing.

IATA position summary

- Terminal navigation charges should be cost-related and fairly allocated among users.

Aviation Rescue and Fire Fighting

13. For ARFF services, should emergency responses to terminals and airport tenants be separately charged?
14. For ARFF services, should the base level charge be automatically adjusted when a new service is introduced?
15. For ARFF services, should a change in the category of an airport result in an automatic change in the pricing at that location?

IATA believes that Aviation Rescue and Fire Fighting services is the responsibility of the State as part of National Security responsibilities and should not be funded exclusively by airline users which is in line with ICAO policies (paragraph 29).

IATA recommends for Airservices Australia to take the following elements into consideration:

- Non-aeronautical tenants should bear their fair share of ARFF costs.
- The airport terminal should bear its fair share of costs but should not be allowed to pass the ARFF costs onto airline users.

When a new ARFF service is introduced or a change in the category of an airport result in an automatic change in the pricing at that location, IATA would suggest for the following to take place:

- Include new services forecasts into the new LTPA.
- Exceptional charges not forecasted in the LTPA should be absorbed by direct users.
- These exceptional charges would then need to be included subsequently in the LTPA as part of a periodic review.

IATA position summary

- Aviation Rescue and Fire Fighting services are the responsibility of the State and should not be funded exclusively by airline users.
- Appropriate consultation should take place with airline users through periodic reviews before any ARFF price changes occur.

Risk sharing

16. To what extent is it desirable for airlines to negotiate directly with Airservices for the provision of services?

17. What alternative risk-sharing arrangements might the industry wish to pursue?

IATA supports the continuation of the risk sharing arrangement that has worked well and should be maintained in the new LTPA.

As highlighted in question 1 under charging mechanism, IATA recommends for Airservices Australia to use a contract where terms and conditions are made public. Additionally, the contract should be non discriminatory and applicable to all customers.

In order for Airservices Australia to meet service expectations of different customer types, the following logic should be taken into consideration:

- **Total service delivery performance:** Airservices Australia needs to first define total service delivery performance, minimum user expectations (core services) and baseline costs in conjunction with ICAO and APANPRIG requirements. Airservices Australia should also offer a menu of multiple technologies, service offerings in line with transition to new technologies and efficient operations.
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- **Optional services:** Optional services (outside the above framework and directed to limited users) that do not disadvantage other users may be considered if they are properly accounted for and if charges are based on true cost allocation.

Airservices Australia should avoid any arrangements aimed at administrative simplicity especially if they need to be conducted in parallel to existing processes as they may lead to an increase in overall workload.

Specific terms not related to service levels and price such as prepayment may be acceptable as long as they do not adversely impact other users.

IATA would welcome the following improvements to the current risk sharing agreement:

- **Conduct robust periodic review** to ensure that key building blocks such as traffic forecast, short-term capex, service standards and functionalities are in line with user expectations or in case of substantial changes in market conditions over the 5 years.
- There should be a **new component of the risk sharing based on operating costs/margin** with control on productivity improvements.
- We should see **rebates for service lines or locations proportionate to their contribution to the surplus.**

IATA position summary

- Robust periodic reviews should be conducted to match user expectations or in case of substantial changes in market conditions during the term of the LTPA.