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Australian Competition and Consumer Commission (ACCC)

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RE: Airservices Australia Draft Price Notification (2024-2026) Issues Paper

Dear David and Thithi,

Airlines for Australia and New Zealand (A4ANZ) welcomes the opportunity to respond to the ACCC's Issues Paper regarding Airservices Australia's Draft Price Notification (2024-2026).

A4ANZ is an industry group representing airlines based in Australia and New Zealand, including international, domestic, regional, full service, and low-cost carriers. Established in 2017, A4ANZ's members include Air New Zealand, Qantas, Virgin Australia, Regional Express (Rex), and Jetstar. A4ANZ member airlines will also be making individual submissions in response to the Issues Paper.

While A4ANZ does not have a direct business relationship with Airservices Australia, we recognise their critical role in the aviation ecosystem and have sought to work constructively with them on key areas of aviation policy and issues that impact efficient operations. Accordingly, in this submission, we have not responded in detail to each of the questions posed in the Issues Paper; instead providing high-level commentary on the matters outlined below, and seeking the following outcomes on behalf of our members:

- A hold on any price increases until such time as a fully transparent consultation on this pricing proposal can take place – with Airservices providing the level of detail required for its customers to test the modelling and inputs used to arrive at the proposed pricing;
- An in-depth revision of the pricing model – with input from all stakeholders – such that it is based on shared objectives, risk-sharing, and linked to agreed performance outcomes, over an appropriate timeframe; and
- Consultation on the longer-term performance and efficiency of Airservices in its key role within Australia's aviation ecosystem – in alignment with the Aviation White Paper.

Proposed Price Increases & Scope of Draft Notification

In the Issues Paper, the ACCC has sought stakeholder views on the appropriateness of Airservices' proposed price increases, including the timing and magnitude of each of the four price increases. A4ANZ proposes to cover issues relating to Airservices' performance and efficiency later in this submission, however, we have particular interest in the question of whether the proposed shorter duration of the pricing agreement – and indeed the broader regulatory environment in which Airservices operates – provide sufficient incentive for the organisation to make the required changes to improve its efficiency and performance, particularly in the medium and longer term.

As a monopoly provider of air space management and services, Airservices Australia faces no competition which would act as an incentive to improve their performance or efficiency.

Airservices' approach to the ACCC's draft price notification process also appears reflective of the business culture often exhibited by monopolists, particularly in regard to transparency and timeframes required to enable comprehensive consultation and assessment. A4ANZ shares the ACCC's concern that the timing of the proposed

price increases does not appear achievable based on the time required for the ACCC's assessment of both the draft and formal price notifications, as well as the required consultation with the Minister.

A4ANZ has also heard from airline members that there are significant differences between the proposal that Airservices took to stakeholder consultations and that which has been provided to the ACCC, which they have not been able to fully scrutinise and assess. Furthermore, the shorter duration of the proposed pricing agreement – two years, rather than five – fails to provide cost certainty for long-term industry planning.

Impact of Price Changes

The ACCC has also sought stakeholder comments on whether Airservices' estimates of the likely impact of the price changes on airline fees and passenger ticket prices appear accurate.

As the Issues Paper notes, depending on the route and size of an aircraft, airlines may incur Airservices charges in excess of several thousand dollars for a flight. However, both the ACCC and Airservices would be aware that this is not how costs are applied by airlines. Airservices Australia's fees are a cost incurred by the airlines – expressing this as a per-passenger cost is not how airline economics work. It also appears to be an attempt to minimise the impact of the pricing increase (e.g. by expressing it in percentage or dollar/cent terms on an individual airfare), when the total cost to an airline of Airservices fees over the course of this proposed new agreement term may in fact be closer to double what they are currently, which is far more significant.

A4ANZ asks that the ACCC consider the actual significance of the increase on airline businesses of the proposed pricing increase when assessing this proposal, not on a per-passenger basis.

Performance and Efficiency

Within the Issues Paper, the ACCC has also posed a number of questions to gauge stakeholders' views on the performance of Airservices Australia. As the ACCC would be aware, the issue of Airservices' performance has been a significant industry concern.

Industry stakeholders have raised concerns around Airservices Australia's performance directly with Airservices' leadership and the Minister for Infrastructure and Transport, and more broadly through Airservices' Aviation Network Roundtable.

Airservices' operational resilience continues to be a challenge for ensuring on-time performance of airlines. For example, a four-day period in late June/early July saw hundreds of flight cancellations and hours of delay, impacting more than 50,000 passengers. More recently, the Australian Aviation Network Overview for December 2023 shows that Airservices was responsible for more than 15% of all delays due to staffing issues.

Moreover, there does not appear to be any acknowledgement of the significant cost impact imposed on airlines when Airservices performance is poor. When airlines themselves are the cause of poor on-time performance, the cost and reputational impacts act as a strong incentive to improve.

While Airservices Australia lacks such incentives itself, the organisation is clearly aware of the impact recent OTP performance has had on public perception of the aviation industry, as their November 2023 Network Overview included a slide with select results of some research they had commissioned by RepTrak on the reputation of airports and airlines. Airservices has not shared this research with industry, nor did it provide advance notice that it was to be made public, despite the opportunity afforded by the industry roundtables.



While noting that Airservices Australia has taken steps to improve engagement with industry through a variety of measures – including the series of Aviation Network Roundtables – we are aware of instances where airlines and airports continue to raise issues directly with Airservices without a timely or satisfactory response. Issues have included the incidence of Traffic Information Broadcast by Aircraft (TIBA) being far outside of an acceptable range, reduced tower hours, and suboptimal arrival rates all resulting from Airservices’ resourcing and operational issues.

Airlines have also repeatedly sought Airservices’ cooperation to make a case for changes to wind thresholds at Sydney Airport as one of the ways to improve on-time performance. Airservices’ response to this has been slow, with inconsistencies in their private and public commentary. This issue is now on the workplan from the November Roundtable, but only through the persistence of other industry stakeholders.

It is clear from the above that, while the industry roundtables have been a welcome development for engagement, they are not producing the outcomes required. Airlines have also expressed concern that the consultative committee that used to meet regularly prior to the pandemic, has not resumed.

It is against this backdrop that the industry is being asked to consider a proposal from Airservices Australia to increase charges by 19% over a two-year period, while at the same time dealing with issues resulting from Airservices’ poor performance which have caused significant operational disruption, uncertainty, and expense.

Of additional concern to A4ANZ is the fact that the pricing proposal lacks the following:

- Sufficient justification for why a flat increase is being applied across the board, rather than tied to areas requiring greater focus for improvement and/or investment, where it may be justified;
- Any linkage to specific outcomes or agreed KPIs;
- Alignment with timelines for other forward-looking industry agreements with shared volume projections;
- A risk-sharing approach within the model;
- Sufficient detail to enable proper review and scrutiny of inputs to the model; and
- A sound long-term strategy to improve Airservices’ performance and efficiency.

A4ANZ has provided this feedback with the intention that it is considered together with submissions made by our member airlines, and we reiterate our request that the ACCC not grant approval for any increase until such time as a fully transparent consultation on this pricing proposal can take place – with Airservices providing the level of detail required for its customers to test the modelling and inputs used to arrive at the pricing proposal, as a necessary first step.

We would welcome the opportunity to discuss this further with you.

Yours faithfully,

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