

AVIATION COST RECOVERY

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ABSTRACT: *The Government has introduced an aviation cost recovery policy plan to recover the costs of aviation facilities and services provided by the Commonwealth Government.*

The Government's decision on cost recovery followed extensive consultations with industry and unions and were derived from the commercially-based strategy underlying the Report of the Independent Inquiry into Aviation Cost Recovery chaired by Mr. Henry Bosch. This paper outlines procedures and issues addressed by the Department in developing a plan for implementation of the Bosch recommendations and details the Government's current aviation cost recovery policy.

The strategy for putting the provision of aviation services on a proper commercial basis involves three principal elements:

- " a commitment that the Department of Aviation will continue to improve its productivity and contain its costs;*
- " the development of a commercial and more equitable charging system;*
- " the acceptance by Government that some facilities have been provided in the past without regard to financial consequences and in excess of requirements.*

The new charging arrangements involve the application of landing charges to all airlines and an international enroute charge. These charges are based directly on aircraft weight and frequency of movement which correlate with the cost of using facilities. The charges enable a more equitable approach to cost recovery than the old cost allocation system which was discredited by the Bosch Inquiry.

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1. INTRODUCTION

On 30 May 1986 the Minister for Aviation, Mr Peter Morris, announced the adoption by Government of an aviation cost recovery policy plan to apply from 1 July 1986 for the use of aviation facilities and services provided by the Federal Government.

In announcing the adoption of this plan Mr Morris said the Government's aviation cost recovery policy established a basis for achieving, over time, full cost recovery from the aviation industry and for reducing the subsidy provided by taxpayers which was estimated to cost almost \$160m in 1985/86.

The Government's decisions followed extensive consultation with industry and unions and were derived from the commercially-based strategy underlying the Report of the Independent Inquiry into Aviation Cost Recovery chaired by Mr Henry Bosch.

This paper outlines the history of aviation cost recovery policy and the background to the development of the Government's new cost recovery policy plan. The paper also outlines developments in implementation of the plan since its introduction in July last year.

2. BACKGROUND

2.1 Role of Department of Aviation

In very broad terms the Department of Aviation is charged with the development and implementation of national aviation policies, plans and programs, involving:

- operational standards and procedures for the safe operation of aircraft;
- planning, provision and operation of airport and airway facilities;
- investigation of aircraft accidents and incidents and the promotion of measures for the improvement of air safety;
- provision of advice to the Government on aviation policy; and
- research into matters affecting civil aviation.

Its mix of operational regulatory and advisory responsibilities makes the Department in many respects a unique organisation in the public sector. While the Department is the regulatory authority for the industry it is also directly involved, in effect as part of the industry, in the provision and operation of airport and airways infrastructure.

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The costs incurred by the Commonwealth in providing, maintaining and operating the airport and airways infrastructure are considered attributable for cost recovery purposes. Those costs (and revenues) which relate to the Department's regulatory and/or policy functions were excluded from the infrastructure cost recovery exercise.

In 1985/86 the total attributable costs were \$498m and total staff employed by the Department as at 30 June 1986 numbered 9884.

During 1985/86 there were 439 Government or licensed aerodromes used by civil aviation in Australia. Sixty nine were owned by the Commonwealth, including eleven military aerodromes, and one aerodrome was used primarily for civil training purposes. Seventeen of these aerodromes are scheduled for transfer to the Federal Airports Corporation from 1 July 1987.

The remaining 370 aerodromes are owned either privately or by local authorities and about 274 of those operated by local authorities receive financial assistance from the Commonwealth under the Aerodrome Local Ownership Plan.

2.2 Development of Cost Recovery Policy

From its inception aviation was regarded as an "infant" industry which had to be nurtured by the Commonwealth, by way of subsidies and assistance, if it was to survive and play its role in the Australian transport system. Accordingly, apart from rental paid to the Commonwealth for premises and sites leased on its aerodromes, the aviation industry was not required to contribute to the cost of providing, maintaining and operating airports and airways facilities until 1947.

The Air Navigation Act was amended during 1947 to authorise the "imposition of charges and conditions for the use of aerodromes, air routes and airway facilities and other services established, maintained and operated by the Commonwealth" and air navigation charges were first imposed in August of that year by regulation under the Act. At that time the charges were designed to recover approximately 30% of the assessed facility operating costs of 1.28 million pounds.

Although accounts were rendered regularly to the airlines, the private airlines refused to pay the air navigation charges on the grounds that they were excessive and in any case not validly imposed.

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The Commonwealth commenced legal action to recover the charges in 1948. The matter came before the High Court in February 1950 but was subsequently adjourned (part heard) when discussions between the government and the aviation industry, on a range of matters resulted in the Civil Aviation Agreement 1952 between the Commonwealth and Australian National Airlines. Among other things, the Agreement provided the conditions of settlement for the outstanding air navigation charges: by reducing the charges by 2/3rds retrospectively to the date of their introduction; setting future charges at 1/2 the rate which previously applied; and providing that the scale of charges would not be increased in the 15 year period of the agreement, except to the extent that an increase became necessary because of the provision of additional or improved facilities or services or because of higher costs of maintaining and operating existing facilities and services.

The Government also put the legality of charging air navigation charges beyond doubt by enacting the Air Navigation (Charges) Act 1952 in December 1952. At that time Government policy statements did not indicate the Government's intentions in relation to the level of aviation costs to be recovered from the industry. Air Navigation Charges were first increased in 1957 by 10% and have been revised regularly since that time, usually in the Budget context.

By 1961 the Government had adopted the policy of ultimate full recovery of costs properly attributable to aviation. This policy was given expression in Clause 8 of the Second Schedule of the Airlines Agreements Act 1952-1961 which also limited the level of increases which could be imposed on air navigation charges and fuel tax.

The next main development occurred in May 1969 when the Minister for Civil Aviation appointed a working group comprising representatives from his Department, Treasury and the international and domestic airlines. Its purpose was to examine Commonwealth civil aviation costs to determine the amounts applicable to the different categories of airports and facilities and as far as possible to identify these amounts against users of the facilities. The Working Group reported in May 1971 and its findings provided a basis for the identification of attributed costs and revenues associated with the determination of cost recovery levels.

In 1973/74 the Government made two major statements on cost recovery in its Budget speech. The Government indicated that it "proposed to increase the rate of the recovery of the costs of civil aviation to 80 per cent within five years" and also that it had "adopted a policy of recovering the full economic costs of airport terminals from occupants".

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Although two subsequent studies considered a number of cost recovery issues (ie The Bureau of Transport Economics' report on Cost Recovery in Australian Transport (1977) and the General Aviation Study (1981)) no substantial action was taken to address the continued under-recovery of aviation costs until 1983.

On 21 October 1983 the then Minister for Aviation, the Hon Kim C Beazley MP, announced the establishment and terms of reference of the Independent Inquiry into Aviation Cost Recovery. The Independent Inquiry's report was publicly released on 20 December 1984.

The Inquiry considered that a policy of full recovery of costs, within 10 years, was essential if the objectives of financial discipline and economic efficiency were to be achieved in the provision of aviation facilities and services. The Inquiry concluded that there was no chance of achieving 100 per cent cost recovery under the then existing arrangements which, if retained, would continue to inflict a heavy burden on the general taxpayer.

On 14 August 1985, following wide consultation with industry, staff associations and other interested individuals and organisations, the Minister for Aviation, the Hon Peter Morris MP, announced that the Government had agreed to the adoption of the Bosch strategy and to a set of major cost recovery principles which underlie the Report. The Minister also stated that the strategy and principles together would serve as a framework for the development of a detailed aviation cost recovery implementation plan. The Department of Aviation was directed to develop a plan in consultation with industry and unions for consideration by Government in early 1986.

3. OUTLINE OF PREVIOUS COST ALLOCATION AND CHARGING ARRANGEMENTS

Under the previous system for levying air navigation charges (ANCs) separate charging arrangements applied

- airline and foreign registered charter operators paid charges on the basis of the product of aircraft weight and a "route or zone factor" (which was loosely based on distance flown) for each flight undertaken
- Australian registered commuters and other GA operators paid a fixed annual charge based on the weight of the aircraft and its category of operation (ie private, aerial work or charter). Remissions were given to certain historical aircraft, agricultural aircraft and aircraft which were not based at Commonwealth owned or assisted aerodromes

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- foreign registered GA aircraft paid a weekly charge based on the aircraft weight and length of stay in Australia.

The rates of charges were also set at different levels for each of the different sectors of the industry, i.e. international airlines, domestic trunk airlines, regional airlines, and general aviation (including commuters). This ultimately resulted in the situation where an international airline would pay considerably less than an Australian airline for the same flight using similar aircraft.

The level of charges which was set by the Government for each sector was influenced by the amount of costs and revenues which had been allocated to that sector. The resultant level of cost recovery was then used to determine the scope for increases in charges for each sector.

Since 1974/75 the allocation principles provided for costs (and revenues) which could be said to be identified with a particular sector to be allocated to that sector. Where costs (and revenues) could not be clearly allocated in whole or part to a specific sector, the principles developed to allocate on the basis of an assessment of the level of usage, using a variety of traffic indicators. In a number of cases this involved a judgement as to how much use a particular sector made of a particular facility weighing factors (indices) were determined for each route, or group of routes, flown by each sector and were related to the time and resources employed by aircraft whilst within relevant controlled airspace, flight information region, or at a particular location. Indices were multiplied by the number of aircraft movements in each sector over the route or location concerned. The products were then added and costs allocated to each sector according to their proportion of total weighted movements.

This allocation method resulted in an increasing proportion of total attributable costs being allocated to the general aviation sector. In 1975/76 GA was allocated 30% of costs. This had increased to 44% in 1983/84 and, consequently, despite increases in charges for the GA sector, broadly in line with increases in overall costs, the level of recovery for the GA sector had fallen. On the other hand the allocation principles indicated that the international sector had been over-recovered for this entire period and there had been no increases in charges for this sector since 1976. Similarly the domestic trunk sector had reached full recovery by 1983/84 and the scope for further increases in charges was therefore limited.

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4. FINDINGS OF BOSCH INQUIRY

4.1 Bosch Criticisms of Previous Arrangements

The Bosch Inquiry found the present system was seriously defective and unpopular.

The Inquiry considered that the previous arrangements did not promote economic efficiency, were arbitrary, and inconsistent with commercial practice. The Inquiry found specifically that

- the allocation of about 44 per cent of all infrastructure costs to the small commuter airlines and to GA, the least sophisticated users of services and facilities and the least able to pay, was not defensible
- the charges did not relate to the costs of services used. Overall they were less than average cost and in many cases facilities were available at little or no marginal cost to users with consequent distortion of demand. In particular as commuter and GA aircraft paid annual ANCs the charge to them for using any individual facility or service was zero
- certain aircraft operators paid fixed annual charges but made little or no use of Departmental facilities and services and were thus unfairly treated in comparison with others using those facilities frequently
- competition was distorted when different industry sectors were charged on different bases
- the system of charging and allocating costs provided no rational basis on which decisions could be made about charging or providing new facilities or services, or assessing the viability of those already in existence. In particular massive sums had been committed to the establishment of new airports and extending existing facilities without adequate regard to financial consequences.

4.2 Bosch Strategy for Full Recovery

The Inquiry considered that the most effective way of controlling costs would be by the development of an improved system of planning that would involve more closely those who will use and pay for facilities. At the same time the Inquiry felt that pricing should be made more efficient and equitable by the introduction of a system under which users

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meet at least those costs that are identifiable to them alone, and other costs are recovered in a way that does not unnecessarily deter usage of the infrastructure. The Inquiry considered that this would reduce the burden of charges on operators who make little demand on Government facilities.

The Inquiry recommended full recovery on the grounds that if services are provided by governments on a semi-commercial basis, there is a need to exert financial discipline on both the suppliers, to minimise costs, and the users, to rationalise demand. The Inquiry also considered that economically efficient allocation of resources can only be encouraged by relating prices to the actual costs of facilities provided.

The Inquiry's strategy for achieving full cost recovery was based on three broad elements

- increased Departmental efficiency and cost reduction, particularly through increased investment in airways technology
- revenue increases associated with growth in industry activity plus generation of additional revenue from such sources as aviation fuel excise, airport business concessions and airport rentals
- deferral or reduction of charges associated with the provision of facilities or services which cannot be justified on economic grounds.

The Bosch strategy envisaged charges being set on the following commercial basis:

- all users should pay at least the direct costs imposed by their usage;
- recovery of costs over and above direct costs should be based on demand for facilities and should avoid unnecessarily deterring usage of facilities;
- revenues should be applied as far as possible to match specific costs, but flexibility should be maintained in the treatment of non-aeronautical revenues including as an offset to system overhead costs.

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A summary of the specific principles proposed in the Bosch Report for allocating costs and setting charges is at Appendix 1.

The Bosch Report also recommended that the Department of Aviation should be required to develop a master plan, for introduction in the 1985-86 financial year, for phasing in full cost recovery over a ten year period.

5. COST RECOVERY IMPLEMENTATION PLAN

5.1 Level of Charges

As indicated earlier, the Government's adoption of the Bosch Strategy was announced in August 1985 and the Government's cost recovery policy plan to implement this strategy was introduced on 1 July 1986 following extensive consultation with industry and unions.

As part of the plan new rates of charges were introduced for all airline aircraft and aerial work or charter aircraft weighing in excess of 25,000 kg. The new charges are:

(i) Landing Charges

Type of Charge	Charge Per 1000 kg Per Landing
Airport Facility	
- Commonwealth Airport	\$ 4.00
- ALOP Airport	\$ 2.00
Terminal Navigation (where provided)	\$ 2.30
Rescue and Fire Fighting (where provided)	\$ 1.50

- (a) A minimum fee based on an aircraft weight of 1500 kg applies to all landings.
- (b) Domestic airline aircraft in excess of 45,000 kg. also pay an additional 15% on top of these charges for all landings.
- (c) Airline training flights pay only 25% of these charges.

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(ii) International En-route Charge

This charge is payable by all international airline or international charter aircraft and is determined by the formula

$$r = \$1.80 \times f \times d \times \sqrt{W}$$

where r = the charge

f = the factor 1 for flights into Australia and: 2 for flights within Australia (since the en-route charge is only collected on the inward leg of the aircraft journey)

d = great circle distance flown in Australian airspace expressed in hundreds of kilometres

W = maximum take off weight expressed in tonnes

(iii) General Aviation Charges

The Government also announced however that all general aviation aircraft were to continue to pay the fixed annual air navigation charges until 1 July 1987. During this period there would be 'dual-running' of both the existing system and the proposed landing charges system for general aviation.

This 'dual-running' proposal was put forward by the general aviation associations during consultation on development of the cost-recovery plan. The proposal was accepted by the Government to enable operators to assess the impact that landing charges would have on them and to enable further consultation between general aviation and the Department on the most appropriate cost recovery and charging arrangements to apply after 1 July 1987.

In addition the Government announced that, in view of the significant increase in charges for supplementary airline (SAL) operators a special subsidy scheme of \$2m had been introduced to apply during 1986/87 under which a 50% subsidy in landing charges would apply to all SAL aircraft. This scheme was intended to ease the transition to the new charging arrangements for supplementary airline operators.

5.2 Relationship Between Costs and Revenues

In developing a new charging regime consistent with the Bosch principles it was necessary to specify costs according to major functional groupings and to determine which revenues should be offset against each cost group.

The factors determining the approach proposed for each category were:

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(i) **Airport Facility Costs**

Costs are first offset by airport location revenues which are directly related to costs incurred at that airport (eg. on-sale of electricity to airport tenants).

To the greatest extent practicable landing charges are then imposed to recover remaining costs with the charge based on aircraft weight to cover at least the direct costs of using an airport.

(ii) **Terminals**

Terminal revenues (rents etc.) are first offset against terminal costs, with the remaining costs incorporated as part of airport facility costs and recovered via landing charges.

(iii) **Airport Related Airways**

These costs are recovered from users at those locations where air traffic control facilities are provided. The charge, termed 'terminal navigation', applies to movements at these locations and seeks to recover at least the direct costs allocated to particular user groups (defined on the basis of aircraft weight). In this context aircraft weight is a reasonable proxy for the type of terminal navigation facilities required. The charge does not apply when the facility is not available.

(iv) **En-route Navigation Facilities**

Fuel excise is currently primary means of recovery of these costs. There are a number of reasons for this. Firstly there are considerable difficulties in measuring use of en-route facilities and allocating costs to users. Secondly fuel excise collections are related to distance flown and aircraft type. These factors are also important in the way en-route costs arise. Recovery through this means is highly cost effective.

While most civil aircraft use the en-route system in one form or another not all aircraft operating in Australia pay fuel excise. Specifically aircraft operating internationally are exempt. With the termination of Air Navigation Charges, international operators would have no longer been making any payment to en-route costs. To overcome this, aircraft which are exempt from fuel excise levied an en-route charge on the basis indicated above.

(v) **Rescue and Fire Fighting Services**

These costs are recovered from the users at those locations where the service is provided.

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The charge is based on aircraft weight, and applied in the same way as airport or airway landing charges, on the grounds that there is a close relationship between the type of aircraft using particular ports and the consequent RFFS facilities provided. This charge also does not apply during the hours when the service is not available.

(vi) System Overhead Costs

These are costs which cannot be objectively allocated to locations or to specific users. Under the Bosch strategy they are recovered on the basis of demand for facilities and capacity to pay.

In line with the Bosch approach, business concession revenues (over and above costs that might be incurred in earning this revenue) and Departure Tax are offset against system overhead costs. In addition, any recoveries from other charges and fuel excise in excess of direct costs are also applied as an offset against system overhead costs.

5.3 Impact of New Charging System

Prior to the introduction of the new charging system analysis of the impact of the new uniform charging system was done using movement data for the first six months of 1985/86 and on the basis that, for 1985/86, the new regime would yield the same overall revenue as existing arrangements. The new arrangements would alter the distribution of recoveries however, and the impact by sector for 1985/86 was estimated as follows:

- . International airlines* and general aviation would have paid approximately the same (* after adjustment for international overrecoveries)
- . Domestic Trunk airlines would have paid some 10% less
- . Regional and commuter airlines would have paid significantly more.

Revenue collections for the first six months of 1986/87 have largely confirmed this analysis, although the impact on commuter operators has been significantly reduced by the subsidy arrangements outlined in section 5.1. The impact on the trunk operators has also been more pronounced because of the additional 15% payable for domestic airline aircraft over 45 000 kg.

5.4 Departmental Initiatives to Reduce Costs

Consistent with the first arm of the Bosch Strategy for full recovery the Department is currently pursuing a program of expenditure reduction with the objective of reducing the costs of attributable Departmental operations in real terms.

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This program was introduced in December 1983 and during 1983/84 significant savings were achieved in a range of administrative items, ahead of the introduction of global financial targeting for salaries and administrative expenditure.

The global targetting approach, introduced as a three year plan with effect from 1984/85, required that the Department achieve a 2% real reduction per annum in costs attributed to the Aviation industry for cost recovery purposes, over the next 3 years. As at April 1987, it appears that results for the three years will be somewhat better than the targets. In the face of industry growth estimated at over 20% (in terms of passenger movements over the period), this result indicates a remarkable productivity improvement.

Savings to the Budget though this regime, compared to an assumption of annual funding of 'same real level' are estimated to be in the order of \$44M to date. To this could be added the non capital costs of major new investment initiatives (satellite hire charges and new computer system) totalling in excess of \$18M, which have been funded without resort to additional budget assistance.

Through this financial targetting discipline, the actual number of staff employed in the Department has been reduced by more than 13% between March 1983 and March 1987.

5.5 Other Issues

Other issues addressed by the Department in developing the Cost Recovery implementation plan were:

(i) Over-provision of Facilities

No adjustment has been made at this stage to the attributable cost base to reflect facilities or services which might be deemed to be in excess of requirements. In respect of the two specific instances cited by Bosch New Brisbane is not to come on stream until 1987/88 and charges for Essendon have been set well below the cost of that facility. An industry consultative Committee has been established to consider these matters further and discussions have continued during 1986/87.

(ii) International Over-Recoveries

The previous cost and revenue allocation arrangements had the effect of showing the international sector as being over-recovered for a number of years. In 1980 the then Government announced that international sector over-recoveries after 1980/81 would be credited against future deficits.

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The Bosch Inquiry examined this matter but made no recommendation as it felt the matter was outside its Terms of Reference. The Committee did indicate that they considered the previous allocation system on which the claims of overprovision were based was inaccurate and inadequate and there was no basis for such claims. However, representations from the International Air Transport Association, international airlines and foreign governments sought an early resolution to the matter and the Government agreed that the matter should be considered in the Bosch implementation context.

Accordingly, consistent with the 1980/81 commitment, it was agreed by the Government that international sector past over-recoveries identified prior to the introduction of the new arrangements be offset against international en-route charges. In 1986/87 it is estimated that some \$15m will be offset against the costs which have been attributed to the provision of enroute services for international operators.

6 IMPACT ON COST RECOVERY

A number of factors have combined to substantially increase the estimated rate of recovery in 1986/87. These factors are

- the Government's decision to introduce new charges from 1 July 1986 which were around 20% higher in aggregate than the previous charges
- significant increases in the level of fuel excise to offset falls in Import Parity Prices for crude oil. This had the dual benefit of substantially increasing the rate of cost recovery while still allowing overall reductions in fuel prices to aviation users at that time
- the Government's decision to attribute Departure Tax for cost recovery purposes from 1 July 1986, revenue from this Tax was previously treated as general tax revenue unrelated to aviation cost recovery
- increases in industry activity in 1986/87.

Industry growth and the increase in charges together are estimated to lift cost recovery from 68% in 1985/86 to 75% in 1986/87. When the other factors described above are included the rate of cost recovery in 1986/87 is estimated to be around 100%.

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6.1 Alternative Charging Proposal for General Aviation

During the period of dual running of the two systems of charges for general aviation the Minister for Aviation and the Department received numerous representations from members of the general aviation industry concerned with the perceived complexity on the proposed system of charges and their potential impact on the safety of operations.

A Separate Charges Safety Working Group established by the Minister has also found that the practices that would probably be taken by GA operators to avoid charges would make their operations potentially unsafe and would also place at risk other airspace users.

It should also be recognised that while GA aircraft represent some 85% of all aircraft operating in Australia they currently only pay some \$11m per annum in air navigation charges. This represents less than 6% of total air navigation charges and it is simply not cost effective to spend large amounts of money on developing a system to record all of the landings (estimated to exceed 1,200,000 per annum) undertaken by the 6500 odd GA aircraft at over 340 aerodromes which are funded by the Commonwealth.

Many GA operators have proposed the introduction of a fuel excise surcharge to recover costs from GA. This suggestion is considered by the Department to have considerable merit as it would involve no additional costs for collection and is much more closely related to aircraft usage than the current fixed charging arrangements.

This alternative proposal would incorporate the use of a fuel excise surcharge on Avgas to recover the costs of facilities provided for general aviation aircraft at airports, other than the major airports owned by the Federal Airports Corporation (FAC). Avgas aircraft would also pay landing charges if they choose to use the major airports operated by the FAC (which would not include the FAC secondaries such as Bankstown, Archerfield, Moorabbin, Jandakot, Parafield, Camden, Cambridge and Hoxton Park). Under this proposal GA Avtur aircraft would pay landing charges at all airports on the same basis as airline aircraft.

This proposal has been discussed with general aviation industry organisations who have all indicated their support for this alternative to landing charges and the current fixed annual ANCs. The matter is now being considered by Government.

7. FURTHER ISSUES FOR CONSIDERATION

In discussion with industry on implementation of the Bosch strategy agreement was reached that there should be ongoing consultation to further develop a number of issues which could not be addressed in the available time. These issues included;

- appropriate basis for valuation of assets
- treatment of ALOP capital costs in response to Bosch findings that current treatment of these costs was anomolous
- congestion charging at Sydney (KSA)
- allocation of Departmental costs to individual locations to the maximum extent possible
- relationship between the costs and revenues of the Department and the FAC
- consideration of a cost allocation and charging structure for enroute facilities.

As already indicated however consultation in 1986/87 has concentrated on the question of overprovision as well as a basis for charging GA after 1 July 1987. Major work has also been undertaken on identification and valuation of Departmental assets.

Consideration of the other issues above is continuing and these matters will be further discussed with industry in the future.

8. CONCLUSION

The cost recovery strategy which was developed by the Bosch Inquiry and which is now being implemented by the Government represents a watershed in the administration of aviation policy in Australia. The provision and operation of aviation facilities is, for the first time, being placed on a proper commercial basis, and reflects the same commercial pricing principles used by airlines and other operators who use the aviation infrastructure provided by the Commonwealth.

The adoption of the Bosch strategy is also consistent with the two other major Government initiatives aimed at placing the provision of aviation facilities and services on a more commercial basis

- the establishment of the Federal Airports Corporation (FAC) as a statutory authority, initially to take control of 17 airports currently administered by the Department of Aviation
- the announcement of the in-principle decision to create a Civil Aviation Corporation.

BOSCH PRINCIPLES FOR COST ALLOCATION AND CHARGING

- i) The Department should define appropriate cost centres at specific locations or on a wider basis for cost recovery purposes.
- ii) The direct costs of facilities and services should be identified for each cost centre.
- iii) User groups should be identified on the basis of aircraft weight
- iv) Direct costs should be allocated on an incremental basis (i.e. on the basis of additional costs incurred to service that group alone) in such a way that less sophisticated user groups are not allocated more costs than would be incurred if the facilities and services in question were provided solely for their use.
- v) Because joint and overhead costs are not the clear responsibility of any particular user group, flexibility should be maintained in allocating those costs. An important consideration in allocating these costs and setting charges will be to avoid unnecessarily deterring usage of facilities.
- vi) For each user category, movement charges to recover airport and airway costs should be based on a standard unit weight charge, say 1000 kilograms, for the expected volume of aircraft traffic in that category. Charges should be set in advance for a designated period to enable operators to base their commercial decisions on firm price information.
- vii) For administrative simplicity, costs should be allocated and charges set as an average where numbers of facilities have similar cost and use patterns.
- viii) Aviation fuel excise would be an appropriate mechanism to recover airways costs.
- ix) While the Government would be justified in seeking to recover not more than the direct costs of some locations where industry demand is low, it should seek contributions towards systems costs from other centres where that is warranted by high levels of industry activity.
- x) Airports receiving substantial revenue from commercial activities should be able to make substantial contributions to recovering system costs either directly or indirectly by returns which the Commonwealth should seek from the operating surpluses of the NAA (FAC).

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- x i) Charges should be set, as far as possible, according to the costs of and demand for particular facilities and services and not on average system costs.
- x ii) Surcharges on aircraft movement charges should be adopted as a means of dealing with congestion at busy airports.