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# Pricing

## Movements in average air fares — June and September 1996 quarters

### Background

In the lead up to airline deregulation on 31 October 1990, there was concern that the removal of regulatory controls would lead to higher air fares. When deregulation was announced, the Government foreshadowed that the Prices Surveillance Authority (PSA) would be given the role of monitoring air fares on interstate routes. These functions of the PSA have now been assumed by the Commission. The formal direction to monitor movements in average air fares paid by travellers on interstate routes was given on 21 February 1991.

### Airline data and monitoring methodology

The Commission monitors movements in average air fares paid by travellers on interstate routes on the basis of average cents per passenger kilometre. This measure reflects changes in air fare prices, traffic mix and number of passengers carried on individual routes.

In order to maintain competitive uncertainty and commercial confidentiality, the Commission does not provide specific details of movements in average air fares on individual routes. Data published by the Commission relate to 21 principal routes which are common to Ansett and Qantas (representing over 80 per cent of total passengers carried).

Before the March 1995 quarter, the PSA published 12 quarterly air fare monitoring reports. The format for publishing monitoring data was changed to a quarterly information

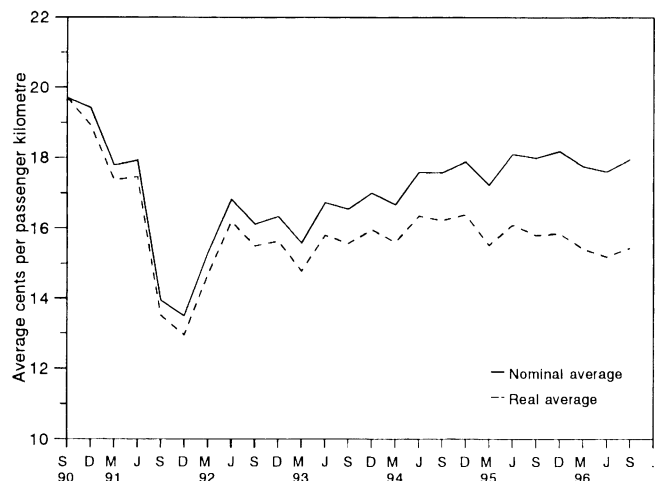
paper, with the release of the March 1995 quarter data. Four quarterly information papers were subsequently published. In addition, the Commission published a monitoring report on the movements of average air fares between 1990 and 1995.

### Movement in air fares since deregulation

Figure 1 and Table 1 show movements in aggregate average cents per kilometre between the September 1990 quarter and the September 1996 quarter.

There appears to be a seasonal pattern of changes in aggregate average air fare levels during the period since deregulation. In general, during the March and September quarters average air fares decrease and during June and December quarters, they increase.

**Figure 1: Aggregate nominal and real\* average air fares (average cents per passenger kilometre): quarters, 1990 to 1996**



\* Base is September 1990; deflator is the CPI

Source: Commission data.

**Table 1: Aggregate average cents per passenger kilometre (nominal): quarters, 1990-96**

Year	September	December	March	June
1990-91	19.7	19.4	17.8	17.9
1991-92	13.9	13.5	15.3	16.8
1992-93	16.1	16.3	15.6	16.7
1993-94	16.5	17.0	16.7	17.6
1994-95	17.6	17.9	17.2	18.1
1995-96	18.0	18.2	17.8	17.6
1996-97	18.0			

**Table 2: Average cents per passenger kilometre (various distances): June and September quarters, 1990-96**

Distance	Sep 90	Jun 94	Sep 94	Jun 95	Sep 95	Jun 96	Sep 96
0-500 kms	32.6	32.7	32.4	33.6	33.6	33.4	33.6
501-1000 kms	24.5	22.7	23.0	22.9	23.0	22.4	22.9
1001-2000 kms	16.0	14.9	14.9	15.1	15.3	15.0	15.5
2001-4000 kms	13.1	11.2	11.1	11.4	11.7	11.2	11.5

**Table 3: Origin-destination passengers carried (million): quarters, 1990-96**

Year	September	December	March	June
1990-91	2.033	2.242	2.258	2.321
1991-92	3.057	3.302	2.850	2.662
1992-93	2.953	3.123	3.091	3.155
1993-94	3.258	3.334	3.243	3.212
1994-95	3.489	3.594	3.455	3.345
1995-96	3.570	3.680	3.733	3.588
1996-97	3.815			

**Summary of the June and September 1996 quarters**

	Jun 96 v Mar96 Change (%)	Sep 96 v Jun 96 Change (%)	Jun 96 v Sep 90 Change (%)	Sep 96 v Sep 90 Change (%)
Nominal average air fares	-0.9	2.0	-10.7	-8.9
Real average air fares	-1.5	1.7	-23.0	-21.7
Economy air fares	3.5 to 4.1	no change	24.5 to 42.7	24.5 to 42.7
CPI	0.7	0.3	16.0	16.3
Passengers carried	-3.9	6.3	76.5	87.7

Table 2 shows the average cents per passenger kilometres, on various route distances, during the June and September quarters between 1990 and 1996.

- Nominal average air fares increased on longer medium distance routes and declined on all other route distances between the March 1996 quarter and the June 1996 quarter. There was also a decline in average air fares on all route distances for the 12-month period between the June quarters of 1995 and 1996. However, nominal average air fares increased on all route distances between the June 1996 quarter and the September 1996 quarter. For the 12-month period between the September quarters of 1995 and 1996, average air fares increased on short distance routes and declined on all other route distances.
- Compared with the September 1990 quarter, nominal average air fares on short distance routes were 2.5 per cent higher during the June 1996 quarter and 2.9 per cent higher during the September 1996 quarter. On the short and long medium distance routes, nominal average air fares were 8.7 per cent and 6.6 per cent lower respectively during the June 1996 quarter and were 6.2 per cent and 3.2 per cent lower during the September 1996 quarter, compared to the September 1990 quarter. On the long distance routes, nominal average air fares were 14.8 per cent lower during the June 1996 quarter and 12.3 per cent lower during the September 1996 quarter, compared to the September 1990 quarter.

### Passengers carried

The number of passengers carried by the major airlines continues to increase. Table 3 shows the number of passengers carried each quarter for the period September 1990 to September 1996.

- The major airlines carried 3.9 per cent fewer passengers for the June 1996 quarter compared with the March 1996 quarter. Despite the quarterly decline in passengers,

there was an annual increase of 7.3 per cent between the June quarters of 1995 and 1996 — from 3.35 to 3.59 million.

- During the September 1996 quarter, the number of passengers carried by the major airlines increased by 6.3 per cent. Between the September quarters of 1995 and 1996, the number of passengers carried increased by 6.9 per cent, or 245 133 passengers.
- Over the 21 principal interstate routes, the major airlines carried 76.5 per cent more passengers during the June 1996 quarter and 87.7 per cent more passengers during the September 1996 quarter than they did during the September 1990 quarter.

The June 1996 quarter data indicate the following.

- The nominal aggregate average air fare for the quarter was 17.6 cents per passenger kilometre, representing a decrease of 0.9 per cent over the March 1996 quarter.
- Between the June quarters of 1995 and 1996, average air fares declined by 2.8 per cent, representing a fall of 5.7 per cent in real terms. The nominal decline in average air fares reflects changes in the prices of economy and discount fares, and changes in mix of traffic carried by the airlines.
- In real terms, average air fares during the June 1996 quarter were 23.0 per cent lower than during the September 1990 quarter, the quarter just before deregulation.
- Published economy air fares increased by around 3.8 per cent during the June 1996 quarter. Between the June quarters of 1995 and 1996, economy fares rose by around 8.7 per cent.

The September 1996 quarter data indicate the following.

- The nominal aggregate average air fare for the quarter was 18.0 cents per passenger kilometre, representing an increase of 2.3 per cent over the June 1996 quarter.

- Between the September quarters of 1995 and 1996, average air fares declined by 0.2 per cent, representing a fall of 2.3 per cent in real terms. The nominal decline in average air fares reflects changes in the prices of economy and discount fares, and changes in mix of traffic carried by the airlines.
- In real terms, average air fares during the September 1996 quarter were 21.7 per cent lower than during the September 1990 quarter, the quarter just before deregulation.
- During the September 1996 quarter, there was no change in the level of economy air fares. However, economy air fares increased by about 5.3 per cent between the September quarters of 1995 and 1996.

## Airservices' charges

On 21 May 1997, Airservices Australia notified the Commission of price increases associated with the restructuring of charges for rescue and fire fighting services (RFFS) at airports. These charges are declared under the Prices Surveillance Act. The Commission had 21 days to consider the proposed charges.

On 4 June 1997, the Commission decided that it did not object to Airservices' proposed charges.

Currently, charges for RFFS are calculated on a network basis, meaning the same rate of charge for a particular service, irrespective of location. This pricing structure fails to recognise the varying costs that are incurred in providing services at different locations. Furthermore, it leads to a high degree of cross-subsidisation from users of services at high activity airports to users of services at low activity airports. This can significantly reduce efficiency.

In accordance with previous PSA and industry recommendations, from 1 July 1997 Airservices proposes to introduce full location specific charges for RFFS. Location specific pricing is an important aspect of efficient pricing. Firstly, it involves a shift to service specific charges, where the charge is related

directly to the costs of providing a service or facility. Secondly, location specific pricing will lead to a significant reduction in existing cross-subsidies.

The current network charge for RFFS is \$1.80 per tonne per landing, for every airport. Under the proposed pricing regime, the average RFFS charge will fall to \$1.76 per tonne. This amounts to a decrease of approximately 4 per cent in real terms. However, in moving to location specific pricing, the charge for RFFS will increase at all Australian airports apart from Sydney, Melbourne and Brisbane. In particular, at low activity airports such as Karratha and Port Hedland the charge will increase considerably.

In assessing the notification, the Commission noted that the aviation industry has generally been urging Airservices to remove the existing cross-subsidies in its charges by moving to location specific pricing. The industry recognises that the price increases at small airports arising from location specific charges will have a significant impact on aircraft operators who fly to these locations. However, it considers that this will help to identify a more appropriate level of service provision at low activity airports.

Industry generally considers that with airports being privatised, and in particular for the smaller airports where the significant price increases will occur, airport managers should be given the choice between providing their own RFFS or having RFFS provided by Airservices. They maintain that operators of small remote airports may be better at providing RFFS than Airservices. At the low activity airports where charges under location specific pricing will significantly increase, there is scope for bodies other than Airservices to supply RFFS. This option was not previously considered since such services were heavily subsidised.