

AERIAL AGRICULTURAL ASSOCIATION OF AUSTRALIA LTD.

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13th February 2006

Mr Rob Hansen
Research Director
Impact of Petrol Pricing Select Committee
Queensland Parliamentary Service
Parliament House
Cnr George and Alice Streets
Brisbane Qld 4000

Dear Mr Hansen

As discussed previously, I have been out to some of my members to ask for some feedback on the impacts of the price of fuel on the aerial application sector.

AAAA represents the aerial application industry, including pesticide spraying to protect crops and human health, fertiliser application and aerial firebombing.

While the information I present here is of a general nature only, the feedback I have is that fuel costs now account for about 20% of total operating costs, but up to 50% of direct variable costs. This is approximately a 5% increase in overall costs to clients as a direct result of fuel price increases over the last 12-18 months.

This figure is probably 'softened' by proportionally increased insurance costs that have also risen significantly in recent years.

Some operators are placing a fuel surcharge on invoices so as to ensure their clients have a transparent means of seeing why prices are increasing. All operators are trying to contain price increases to clients as this is a highly competitive market that is exposed to competition from unlicensed and often poorly trained ground rig spray operators who do not have to meet the same standards.

In answer to the Committee's specific areas of interest, I offer the following feedback from members:

Fuel Excise arrangements

As a direct input cost to farmers and very definitely an off road user of fuel, the aerial application industry should be exempt from all excise charges, both Federal and State. See further comments below under 'Federal Government Excise'.

Efforts to reduce fuel costs, including purchasing cooperatives

The aerial application industry is highly innovative and is quick to both develop and take-up new technology that makes it more productive, especially in terms of reducing operating costs including fuel usage.

Some of these initiatives have included:

The adoption of GPS technology throughout the industry. This has led to significant fuel savings as the aircraft can be flown much more accurately over the target field and overall non-productive times in turns can be reduced by using flight lane patterns not previously available. GPS is now being integrated with GIS spatial mapping systems to provide even more accuracy, including variable application rate technology. An important side benefit has been the elimination of the need for human markers in the field, contributing significantly to occupational health and safety and fuel efficiency. Investment cost is about \$AUS 29,000 per aircraft.

More efficient engines. Operators have been quick to take advantage of more fuel efficient engines, especially turbine engines that are more reliable and more productive. However, a significant drawback is the large cost of investing in a turbine engine, with new engines costing upwards of \$AUS 500,000. This willingness to invest in more efficient engines has been offset by the lack of a Federal government investment allowance that would encourage the adoption of this technology. To make matters worse, the Australian Tax Office recently increased the effective working life of agricultural aircraft to a point where previous depreciation allowances that were in some ways useful have now been removed. As an indication of the direction of our competitors in the same international commodity markets, the US recently increased the depreciation allowance on new agricultural aircraft to 60% in the first year.

Agricultural aircraft cost up to \$AUS1.5 million each with a typical cost of a new turbine aircraft being about \$1 million.

AAAA believes there should be an investment allowance that encourages industry to be more efficient and productive, especially in terms of reducing fuel usage by investing in more fuel efficient engines and aircraft.

Other initiatives: Some operators have added winglets to their aircraft, principally as a means of better spray quality control and have reported some consequential fuel savings. This has not been substantiated by independent research and the cost of initial purchase, fitting and CASA approval is high enough to act as a disincentive that outweighs any fuel savings.

Similarly, aircraft manufacturers have continued to develop better aircraft that are more productive for every litre burnt. This includes more efficient wings and more efficient powerplants.

Purchasing cooperatives. AAAA has researched forming a purchasing cooperative for fuel but this was abandoned due to the importance operators place on local relationships with fuel distributors to secure their own discounts, and the fact that different fuel distributors, often aligned to and supplied by a single fuel company, will not deliver fuel into tanks or facilities they do not 'own'. A key concern in rural Australia is the continuation of local services that guarantee supplies of fuel, something that might not happen with non-local providers.

The amount of fuel used by members

The Federal Bureau of Transport and Resource Economics produce figures each year on total hours flown by aviation sector, including agriculture, and total fuel sales, but it is very difficult to relate one set of figures to the other given different engine types, fuel types, seasonal variability, sectors etc.

However, using some assumptions to arrive at probable annual aircraft utilisation and using typical known aircraft fuel consumption figures, AAAA estimates that aerial application in Australia probably used about 15 million litres of fuel in 2004 (the latest available data from BTRE).

Given this was the tail end of the drought, it is more likely that in a typical year aerial application would use approximately 21 million litres per year on conservative utilisation assumptions.

It is not clear from BTRE statistics if their 2004 statistics include aerial firebombing, as it would normally, in BTRE/CASA aviation terms, be classed as 'aerial work' rather than 'agricultural aviation'.

If firebombing is not included in the BTRE statistics for agriculture, which AAAA assumes it is not, the figure would be more likely to be increased by a further 500,000 litres per year. Obviously this is very seasonal work and the fuel burnt would be related to utilisation.

Alternative fuels

As the fuel used in our sector goes into aircraft, there are considerable restrictions under Federal law through the Civil Aviation Act and its administration by the Civil Aviation Safety Authority.

Not only are there very strict controls on fuel quality for safety management principles, but there is also an effective ban on the use of or experimentation with alternative fuels.

This is principally aimed at ensuring the safety of the fare paying passenger, but as aerial application is not involved in any way with the carriage of passengers, AAAA believes that this represents a real barrier to the development and uptake of cheaper fuels, engines and aircraft.

Given the risk profile of aerial application is such that no risk is posed to the fare paying passenger, and the only participant is the pilot who is well informed of the risks involved, this seems to be an unnecessarily high standard for CASA to enforce for no useful safety benefit and which is stifling innovation.

Similarly, the certification requirements and costs for an aircraft engine, such as a high powered but light diesel type or one that could use biofuels that would benefit our industry, are simply too high to be feasible for Australian operators – certainly in the hundred of thousands of dollars per aircraft. Aircraft engines have to be certified as safe by the relevant national authority (CASA) before they can be fitted to or operated on an aircraft.

AAAA believes that alternative regulatory requirements for experimental type engines and the appropriate protocols to move an engine from experimental category and into more widespread use should be pursued by CASA in cooperation with our industry. AAAA has raised this issue with CASA consistently over the last six years at least, but CASA remain firm in their opposition, despite there being no safety threat to fare paying passengers or the general community.

A number of operators make use of diesel in their turbine engines, and this has helped to keep some costs down, although there is now little difference in the cost of diesel to Jet A1. This can be done legally with controls over the diesel specification being used. However, the savings are not of a very significant magnitude in terms of overall operating costs and some fuel companies are refusing supply on the basis of their perceived legal liability should there be an engine failure – a liability that did not seem to bother them during the major fuel contamination crisis that crippled the piston engine fleet a few years ago.

Competition in the bulk fuel supply industry

As our members are located in rural and regional Australia they suffer from many of the difficulties associated with a lack of true competition and the real costs of transporting fuel considerable distances.

An interesting element in this is the way fuel companies own the facilities on site and will not permit any other company to deliver fuel into their tanks. This is certainly an impediment to competition, as the only alternative is for each operator to purchase outright their own fuel storage facilities at great cost.

Federal Government excise

The Federal Government, apart from ‘normal’ excise it may collect for the use of Avgas or Jet A1, also levies a ‘cost recovery charge’ of 3 cents per litre onto all aviation users.

CASA does not provide any service to our sector in that it quite correctly has a clear and often stated priority for focussing on the safety of fare paying passengers. AAAA does not begrudge CASA this focus, but simply requests that as we require less and less of their resources, all excises should be removed from aerial application activities.

The argument that excise and the CASA charges are a direct cost to farmers and thereby an impediment to us competing in international markets is also valid.

Interestingly, our competitors/colleagues in the United States have recently been afforded relief from all fuel excises – I recommend the website of our sister organisation the NAAA to confirm this - www.agaviation.org.

I hope this information regarding our relatively small but important agricultural service sector is of some use to members of the Committee.

If you require any further information or would like me to pursue further feedback from members, please do not hesitate to contact me on 02 6262 8256 or email phil@aerialag.com.au. Members of the committee may be interested in visiting the Association website at www.aerialag.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read "P. Hurst", with a horizontal line drawn above the name.

Phil Hurst
CEO