



## **Australian Government**

Australian Government response to the Rural and Regional Affairs  
and Transport References Committee report:

Operation, regulation and funding of air route service delivery to  
rural, regional and remote communities

December 2019

The Australian Government welcomes the Senate Rural and Regional Affairs and Transport References Committee report on the inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities.

The Australian Government recognises the importance of aviation to remote and regional Australia. It offers connections to community members and for tourism, travel, business, health and education. It is vital the regional aviation sector remains vibrant and competitive.

The inquiry has raised the profile of the discrepancy between airfares between regional and remote areas and those between major centres. It also investigated the causes of higher airfares which is due to a number of factors including smaller passenger populations and large travel distances.

The Australian Government thanks everyone who participated in the public hearings, entered submissions or otherwise participated in this inquiry. The Australian Government recognises the issues investigated by the Committee are matters of great interest for all Australians, particularly those living in remote, rural and regional areas of Australia. All of the input has proven valuable in the forming of the report and the recommendations within it.

As has been noted by the Committee, the Australian Government supports the regional aviation market through a number of funding programs, which currently provide much needed support to regional, rural and remote aviation. This includes:

- General regional grants programs, such as the Building Better Regions Fund, which have delivered over \$50 million to regional airports over three rounds of funding.
- The commitment of \$75.1 million to the Regional Aviation Access Programme and its component parts, which deliver much needed funding and services to remote airstrips to improve their ability to support aeromedical services. Funding is also provided for landing lights, animal fencing and other critical services.
- The Australian Government recently committed \$100 million to establish the Regional Airports Program. This program will provide assistance to allow regional airports to undertake essential works, promoting aviation safety and access for communities.
- The Australian Government is providing \$50.1 million in funding to support eligible regional airports to upgrade or purchase equipment to meet new aviation security screening requirements through the Regional Aviation Security Screening Fund. Limited funding is also available for airports commencing security screening that are required to make infrastructure changes to accommodate X-ray technology.

The complex issues and challenges identified by the inquiry for commercial air services are symptomatic of the broader issues faced by all levels of government in ensuring regional Australia has access to essential services on an economic basis. Aviation is just one component of a broader set of policy and program frameworks aimed at ensuring regional Australia enjoys economic growth, social inclusion and access to essential services through a reasonable level of transport connectivity.

Given that the provision of air services to regional Australia continues to be a key facilitator of broader economic development and service delivery, the Australian Government has commenced work on developing a strategic and forward-looking Regional Aviation Policy statement. The statement will consider the unique challenges and opportunities facing people living in regional and remote areas of Australia and will identify strategies to ensure regional aviation remains vibrant, competitive and viable into the future.

The Australian Government is committed to engaging closely with airlines, regional airports and their local council owners, state and territory governments, and local communities in developing the Regional Aviation Policy statement.

This engagement is particularly important to recognise the constitutional role and responsibilities that state and local governments play in the provision and regulation of intra-state air services, and for ensuring access to essential services and for aviation-related activities such as flying training schools. Regional development and tourism organisations and business interests will also be key stakeholders that will be engaged in the development of the policy statement.

#### Current domestic policy settings and airfares

Under long standing Australian Government policy settings, there is no regulation of airfares, capacity or routes for interstate domestic commercial flights in Australia. Subject to safety and security requirements, and the Australian Government's competition and consumer framework, airlines are free to compete and to make commercial decisions about what routes are served and what fares are charged.

On interstate routes, these policy settings have delivered more competition, lower fares, a greater range of services, and greater demand for air services than ever before, and the Australian Government has no plans to change these settings.

The Australian Government also recognises that the benefits arising from the deregulation of the domestic aviation industry have been less extensive in relation to the provision of air services to small regional, rural and remote communities, simply because the benefits of competition cannot be realised in markets that are too small to support competition.

This is not to say there is no role for government in circumstances where important air services are of marginal commercial viability, impacting the affordability of airfares.

As noted by the Committee, the regulation of intra-state routes is a matter for state governments. In recognising the different circumstances that apply to commercial operations serving smaller regional centres, several state governments choose to regulate various intra-state routes, and have route and airfare subsidies in place, as a means of ensuring the ongoing provision of air services in rural and remote areas, and on routes with relatively low passenger demand.

The Australian Government also provides support for services on eligible low volume commercial routes through the Airservices Australia Enroute Charges Payment Scheme and to remote areas through the Regional Aviation Access Programme.

In addition, Australian Government policy allows any foreign investor (airline or other) to own up to 100 per cent of an Australian domestic airline, subject to approval by the Foreign Investment Review Board.

These foreign investment settings for domestic operations are among the most liberal in the world and provide an opportunity for domestic airlines to seek foreign investment to support and expand domestic operations. A number of Australian domestic airlines are currently majority foreign owned, including Virgin Australia's domestic operations and Regional Express.

Longstanding international practice is to restrict aviation cabotage<sup>1</sup> and reserve domestic markets for airlines of the home country.

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<sup>1</sup> Cabotage refers to the transport of domestic passengers or cargo by a foreign aviation carrier.



In Australia's case, the only exception to this policy is New Zealand, whose airlines are able to operate domestic cabotage services as part of the Single Aviation Market between New Zealand and Australia (though, to date, New Zealand airlines have not chosen to take up this opportunity for commercial reasons). Small passenger volumes on regional routes, suitable aircraft size, limited airport facilities and regulatory oversight of foreign registered aircraft and crews are among factors which would impact on the viability of operating cabotage services to/from regional destinations in Australia.

Notwithstanding concerns raised by the Committee, the Australian Government does not consider the cost of Australian air travel compares unfavourably internationally. It is difficult to compare the cost of air travel in Australia with the cost of air travel in other countries, particularly in relation to travel on regional routes.

Australia has many long distance air routes where passenger numbers and hence commercial returns available is very limited. In addition, wage rates, foreign exchange rates, government subsidies, direct operating costs and the extent of airline competition vary significantly between countries, making direct 'cost of air travel' comparisons between Australia and other countries difficult.

While recognising that limited objective evidence is available, the Australian Government considers Australian airfares are internationally competitive when these variables are taken into account.

The Australian Government's aviation policy settings continue to encourage strong competition by airlines in the domestic market which benefits air travellers in Australia. Such settings should ensure airfares continue at levels that are comparable with other countries when taking into account Australia's relatively unique operating environment. On routes where there is ultimately only limited demand and competition by airlines, various measures are in place to minimise cost of travel pressures on these routes.

## ***Recommendations of the Senate Committee***

### **Recommendation One**

*The committee recommends that the Australian Government direct the Productivity Commission to undertake a standalone, public inquiry into the determinants of domestic airfares on routes to and between regional centres in Australia. The inquiry should, via a detailed economic analysis, investigate the feasibility of increasing operational subsidies and introducing other price control alternatives to address the high cost of regional airfares. The inquiry should consult with regional communities to determine whether additional routes should be subject to regulation. The Productivity Commission should use its compulsory information-gathering powers to inform its investigations.*

The Australian Government **notes** this recommendation.

The Australian Government notes that state governments are constitutionally responsible for intra-state aviation and operate a range of schemes involving operational subsidies and route regulation.

The successful design of these schemes are heavily dependent on local factors, and it is unclear if a national review of disparate local issues will yield useful insights that could inform policy making at the national level. The Australian Government considers state government agencies such as the Queensland Productivity Commission may be better placed to analyse the issues identified by the Committee.

The Australian Government will consult with state, territory and local government counterparts about the Committee's findings and to review current policy settings and programs to ensure they continue to adequately meet the needs of regional Australia and are responsive to future trends and opportunities.

### **Recommendation Two**

*The committee recommends that the Australian Government direct the Productivity Commission to expand its terms of reference in all future reports into the economic regulation of airports, to include investigations into the social and economic impacts of air route supply and airfare pricing on rural, regional and remote Australia.*

The Australian Government **notes** this recommendation.

The Australian Government anticipates the Productivity Commission will be well placed to continue to examine issues related to the economic regulation of airports, including in the context of negotiations between regional airports and airlines.

However, as noted in the Australian Government's response to Recommendation One, the Australian Government considers state government agencies such as the Queensland Productivity Commission may be better placed to analyse the issues identified by the Committee.

The Australian Government is currently developing a Regional Aviation Policy statement.

The Australian Government will further analyse the economic impacts of regional aviation as part of this process, and will work with state and territory governments as part of this process (see response to Recommendation Three).



### **Recommendation Three**

*The committee recommends that the Australian Government, through the Council of Australian Governments, review the efficacy of Western Australia's Strategic Airport Asset and Financial Management Framework in 2022, in accordance with the suggestion of the Productivity Commission. The Government should assess the efficacy of the Framework and determine its suitability for application across all jurisdictions.*

The Australian Government **agrees** to this recommendation.

The Australian Government will undertake a review to analyse the Framework's suitability for application across all jurisdictions. If the review finds the Framework is effective and suitable to be applied to all jurisdictions, the Australian Government will work in an appropriate forum with state and territory counterparts with a view to establishing a nationally consistent framework.

### **Recommendation Four**

*The committee recommends that the Australian Government complete, as a matter of priority, a financial analysis to determine the ongoing operational, maintenance and staffing costs of proposed passenger security screening enhancements at regional airports, as announced in the 2018–19 Budget. The analysis should further consider ongoing security costs at regional airports more broadly.*

### **Recommendation Five**

*The committee recommends that following a financial analysis into the ongoing costs of the provision of security screening at regional airports, the Australian Government consider providing ongoing financial assistance to those regional airports which have been identified as requiring passenger security screening enhancements as part of the 2018–19 Budget, where required.*

The Australian Government **notes** these recommendations.

The Department of Infrastructure, Transport, Cities and Regional Development is working with industry and the Department of Home Affairs to undertake up to six case studies to assess the financial impact of the new aviation security requirements on regional airports and, where possible, the flow on impact to the local communities. The airports, from across a number of states, will be selected based on varying profiles and operating environments.

It has been a longstanding policy of successive governments that industry is responsible for the cost of security, including operating costs. The majority of regional airports required to upgrade screening equipment already conduct security screening and are responsible for managing the associated costs.

### **Recommendation Six**

*The committee recommends that over the forward estimates, the Australian Government ensure the ongoing operation and funding of the Regional Aviation Access Programme and its component programs (the Remote Airstrip Upgrade Programme, Remote Air Services Subsidy Scheme and the Remote Aerodrome Inspection Programme).*

The Australian Government **notes** this recommendation.

The Australian Government views these programs as a key part of helping remote communities maintain access to important passenger and aeromedical services, particularly where there is limited or no commercial viability for services. The Australian Government

has demonstrated this through committing \$75.1 million to the Regional Aviation Access Programme over the forward estimates.

### **Recommendation Seven**

*The committee recommends that the Australian Government undertake a review into the funding of regional and remote aerodrome infrastructure and maintenance, to ascertain whether financial support to such aerodromes should be increased, and whether the current grants programs are the best means of financial assistance. Local councils, as airport operators, should be consulted as part of the review to determine the annual financial impact on councils of aerodrome operation and maintenance.*

The Australian Government **notes** this recommendation.

The Australian Government is committed through its Regional Airports Program (\$100 million), Regional Aviation Access Programme (\$75.1 million) and Building Better Regions Fund (which has delivered over \$50 million to regional airports) to ensuring essential access to important regional and remote aerodromes and will continue to work closely with applicants to ensure appropriate funding frameworks are in place.

Regional grants programs such as the Building Better Regions Fund play an important role in investment decisions across all types of assets and projects in regional Australia. When agreeing to provide grant funding, the Australian Government gives consideration to broader regional economic growth and potential, as well as the social and community benefits the project to be financially supported will deliver to those local communities.

The Australian Government also recognises the diversity of ownership and operating arrangements for regional and remote aviation infrastructure across jurisdictions. It continues to work closely with state, Northern Territory and local government agencies in determining funding priorities for capital expenditure under the Remote Airstrip Upgrade Programme, and continues to deliver aerodrome technical inspection services to 57 Indigenous communities.

The Australian Government is committed to ensuring achievement of the objectives promoted through the significant financial support that it is providing to assist regional and remote airports.

The Government will ensure the implementation and management of each of these schemes are aligned closely to optimise the outcomes each delivers to regional and remote communities. The Regional Aviation Policy statement will consider a wide range of issues relevant to communities served by regional and remote air service providers.

### **Recommendation Eight**

*The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework for the tender process, implementation, operation and review of regulated routes in each jurisdiction. The framework should have a particular focus on improving the overall transparency of the operation of regulated routes. In developing the framework, affected communities should be consulted, particularly in jurisdictions where regulated routes are identified as being beneficial to the provision of regional air services.*

The Australian Government **notes** this recommendation.

The regulation of intra-state air routes is primarily the responsibility of each state and territory government. The degree of regulation and the level of subsidies each government decides to provide will vary according to particular circumstances, with each government determining its priorities and type of support for air services to its regional and remote communities.



## **Recommendation Nine**

*The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework which, by leveraging each state's purchasing power, aims to expand access for regional communities to initiatives such as community and compassionate fares, particularly for 'last minute' flights. The framework, which should be developed in consultation with airlines, should encourage greater transparency around the operation of such fares, and consider the feasibility of allowing residents in regional, rural and remote areas to access subsidised airfares through online purchasing.*

The Australian Government **notes** this recommendation.

The pricing and availability of seats offered as compassionate fares are a matter for determination by each airline, which will consider the full range of commercial, logistical and social concerns in the development and operation of their compassionate fare schemes.

## ***The Recommendations of Senator Rex Patrick***

### **Recommendation One**

*Until such time as the disallowable instrument that mandates a new airport security equipment requirement is passed through the Parliament, no taxpayer money should be spent on security screening equipment.*

The Australian Government **notes** this recommendation.

The Australian Government is committed to strengthening Australia's comprehensive and robust aviation security system to ensure safe and secure air travel.

The disrupted terrorist attack in Sydney in July 2017 demonstrated a level of sophistication not seen before in Australia and reinforced that aviation remains a high profile target for terrorists. To keep ahead of the evolving threat environment major and regional airports will upgrade their security screening technology.

The majority of these regional airports are already required under the Aviation Transport Security Regulations 2005 to undertake security screening. The proposed regulation changes will only impact a small number of airports commencing security screening for certain flights. The Department of Home Affairs is engaging with these airports directly.

The Australian Government recognises that aviation is critical to regional communities. Eligible regional airports are being supported to purchase or upgrade their security screening equipment through the Regional Airport Security Screening Fund of \$50.1 million. Airports have commenced implementation of the new security screening technology upgrades. Affected airports are reliant upon this to meet their contractual arrangements for the new requirements.

### **Recommendation Two**

*Consistent with the recommendations of former Senator Nick Xenophon, in the Rural and Regional Affairs and Transport References Committee inquiry report into airport and aviation security, the Australian Government should adopt a US Transport Security Administration-like agency approach to airport and aviation security at all airports.*

The Australian Government **notes** this recommendation.



The current regulatory and screening service delivery model reflects the long-standing policy of successive governments. Australia's aviation security model—where government sets policy and regulation, and delivery of security is by private industry—is commonly used around the world.

This model recognises that airports are best placed to understand and manage their operational risks on a day-to-day basis. Further study would be required to fully assess the advantages and disadvantages and cost implications of each model in the context of Australia's air network and aviation security requirements. The approach taken by the United States Transportation Security Administration is only one of a range of alternative models used globally.

### **Recommendation Three**

*Failing the acceptance of Recommendation 2, the Australian Government should cover the full cost of ongoing security equipment maintenance and security screening staff costs at regional airports.*

The Australian Government **notes** this recommendation.

It has been a longstanding policy of successive governments that industry is responsible for the cost of security, including operating costs.

The Australian Government is providing significant financial support to regional airports through a number of initiatives. Under the \$50.1 million Regional Airport Security Screening Fund, eligible regional airports will receive financial assistance to purchase new or upgrade existing technology to meet the new aviation security screening requirements.

Regional airports may also access funding through the Building Better Regions Fund and Regional Aviation Access Programme.

### **Recommendation Four**

*Failing the implementation of either Recommendation 2 or 3, the instrument to oblige security screening at smaller airports should be disallowed.*

The Australian Government **notes** this recommendation.

The Australian Government will consult with industry on any regulatory changes required to implement the new security requirements.

### **Recommendation Five**

*In recognition that the current Civil Aviation Safety Regulations have stalled the wings of General Aviation, the Australian Government must initiate a major rewrite of the Regulations, such that they are significantly simplified.*

The Australian Government **does not agree** with this recommendation.

The Australian Government rejects the assertion the Civil Aviation Safety Regulations (CASR) "have stalled the wings of General Aviation".

The Australian Aircraft Activity 2018 report by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) shows that total hours flown by the General Aviation sector has increased by approximately 9 per cent since 2015. While hours flown in some sub-sectors have decreased, hours flown in other sub-sectors such as Instructional Flying (Commercial) has increased by more than 30 per cent since 2015.

The CASR have been developed in consultation with industry and are written in accordance with the Australian Government legislative drafting manual.

Further, the BITRE study found that, among the nine key challenges affecting General Aviation, the only one relating to regulation noted that the “impact of regulatory changes” was a challenge to General Aviation; therefore, the Australian Government does not support a major rewrite of the Regulations.

The Government supports the Civil Aviation Safety Authority’s continued work in developing guidance material to foster greater understanding and easier adoption of the CASR by the general aviation community. The development of a plain English guide for general operating and flight rules (CASR Part 91), which explains the regulations in lay terms using diagrams and charts, is one such example.