

Newcastle Airport Regional air services

Secretary: *J. L. ...*

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON
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Submission to Inquiry into Commercial Regional Aviation Services in Australia and Transport Links to Major Populated Areas

This submission serves to highlight the adverse impacts of recent rationalisation of regional air services in the Newcastle market and provides comments on threats to and opportunities for the market served by Newcastle Airport.

Introduction

Newcastle Airport is operated by Newcastle Airport Limited (NAL) on behalf of the Councils of Port Stephens and Newcastle City.

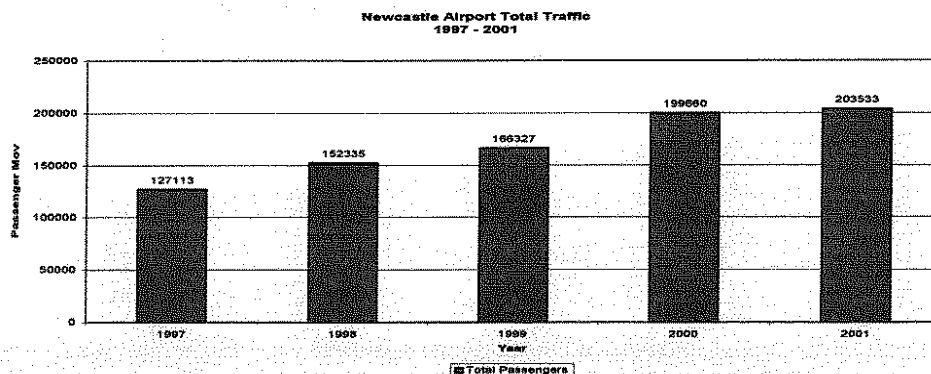
Commercial operations are conducted on land leased from the Commonwealth adjacent to RAAF Base Williamtown and operations are conducted in accordance with the lease and a local operating agreement.

Current activities at the airport include the facilitation of domestic and regional air services, engineering and maintenance, defence aerospace support and helicopter operations.

NAL is currently revising its master plan and is developing a land-use plan that supports the construction of a 125-room hotel, office accommodation, additional defence aerospace support facilities and other infrastructure.

Background

From 1997 to 2001, Newcastle Airport achieved steady annual growth. This growth was created almost exclusively by Newcastle Airport acting as a regional hub for east-coast services bypassing Sydney.



This growth was the result of strong competition in the market between Impulse and Qantas, and Impulse's expansion of its regional network to destinations in New South Wales, the ACT, Victoria and SE Queensland.

The network provided efficient access for those regional communities and patronage demonstrated that significant demand existed for travel between these destinations without the need to travel through Sydney.

As a result of progressive airline fleet rationalisation and commercial decisions, the Newcastle-based network has reduced from the 14 perennial and two seasonal destinations in 1996 to five in the current environment.

1996 Newcastle-based destinations	2002 Newcastle-based destinations
Sydney	Sydney
Canberra	Coffs Harbour
Taree	Gold Coast
Armidale	Brisbane
Tamworth	Melbourne
Port Macquarie	
Kempsey	
Coffs Harbour	
Lismore	
Gold Coast	
Brisbane	
Glen Innes	
Inverell	
Melbourne	
Cooma (seasonal)	
Mt Hotham (seasonal)	

The Qantas/Impulse merger

An immediate effect of the merger between Impulse and Qantas in May 2001 was a significant reduction in capacity and a return to a monopoly environment.

Following the merger, five destinations on the Newcastle-based network were withdrawn:

- Canberra
- Armidale
- Taree
- Tamworth
- Port Macquarie

Qantas subsequently withdrew all Dash 8 aircraft on the Sydney-Newcastle sector replacing them with the smaller Beech 1900Ds inherited from Impulse, and reduced Dash 8 capacity by 30 percent between Newcastle and Brisbane.

Following the withdrawal of the Dash 8 capacity, Qantas withdrew its BAe146 jet service linking Melbourne, Newcastle and Brisbane. This service was introduced less than 18 months prior to meet the demands of one of the airline's key corporate clients,

BHP. The jet service was subsequently placed on routes where demand had increased following the collapse of Ansett.

The reduced capacity at Newcastle curtailed growth and later seriously limited NAL's ability to take advantage of the increased demand flowing from the demise of Ansett.

The changes brought about by the merger of Impulse and Qantas demanded NAL vigorously pursue the provision of passenger services by other carriers.

Immediately prior to Ansett's collapse, negotiations with Hazelton Airlines had culminated in the airline advising its intention to establish services between Newcastle and Sydney. Ansett's demise frustrated this development that had promised to return competition to the Newcastle market following the merger between Impulse and Qantas.

The current operating environment

Newcastle Airport's primary airline customer is QantasLink. The group operates 36-seat Dash 8 aircraft on direct services to five destinations (*see table above*).

In late July 2002, QantasLink significantly rationalised its Newcastle services following the withdrawal of the 19-seat Beech 1900 aircraft. Under these changes, QantasLink withdrew all services to Port Macquarie and seven of its nine flights each day between Newcastle and Sydney.

This withdrawal equated to the loss of 272 seats each day on the route.

While Belmont-based Aeropelican has taken up four of the seven schedules vacated by QantasLink using 16-seat Twin Otter aircraft, there has been a loss of capacity on the route of approximately 30 percent, while passenger numbers have fallen by approximately 50 percent. Annualised, this equates to a drop from 85,000 passengers a year to approximately 42,000.

While NAL understands the Qantas decision to rationalise its fleet to solely aircraft of 36 seats and above, the loss of 19-seat aircraft has had a significant impact on the provision of continuing and sustainable services to regional communities.

These communities can only sustain services by aircraft of 19-seats or less. With QantasLink having withdrawn its 19-seat aircraft, and Virgin Blue operating only high-capacity B737s, the priority for regional communities and the airports servicing those communities is to identify and secure services of viable second- and third-level regional operators that have the marketing support of one of the two major airlines.

Eighty percent of passenger traffic from Newcastle to Sydney transfers to other services, demonstrating the importance of efficiencies between regional and major airlines.

More broadly, the failure of smaller rural-based airlines such as Country Connection and Yanda exacerbated the lack of a sustainable rural network. Impulse had operated an extensive network providing efficient connectivity between those rural centres.

Rural communities and residents of the Hunter region now experience significant frustration by being forced to transfer in Sydney as a result of airline schedules and

the lack of viable regional carriers that can provide efficient services connecting regional centres.

In the absence of regional air services, many travellers are opting to avoid Sydney Airport and travel by car to undertake business. The provision of air services could improve the ability of regional communities to conduct efficient business with the prospect of improving regional productivity and tourism opportunities.

Furthermore, the progressively diminishing activity in the regional aviation sector is having an adverse impact on employment and reduced the potential for additional employment in this sector. As a result of the reduction in activity at Newcastle Airport, approximately 20 jobs have been and stand to be lost from ground support activities.

Potential for competition and new services

In the Newcastle market, a limited number of prospects exist for the viable re-introduction of competitive services to regional centres:

Regional Express (REX) – The airline could operate services from Newcastle to Sydney, Canberra, Coffs Harbour and the Gold Coast. 19-seat aircraft are appropriate to demand on the Canberra route, with 36-seat aircraft able to provide valuable competition on services to Sydney, Coffs Harbour and the Gold Coast, however, NAL has been advised that any such service would only be introduced in the longer-term.

Horizon Airlines – The airline's 19-seat Metro operation stands to re-introduce some of the Newcastle-based network lost through the demise of Impulse, including Canberra, Armidale, Tamworth, Taree and Port Macquarie, though again no firm operating date has been announced.

Brindabella Airlines – This small Canberra-based carrier plans to re-introduce direct services between Newcastle and Canberra initially using 9-seat aircraft. The airline could also operate services between Newcastle and Taree with onward service to Canberra.

The networks of other Australian regional airlines, such as Alliance (formerly Flight West) are too distant from the Newcastle market to make services in this market viable.

Sustainability

Smaller regional airlines cannot survive without the support of the two major airlines. This might include:

- Reservations systems exposure
- Mechanisms for on-carriage including through-checkin and baggage transfer
- Terminal access to support efficient on-carriage
- E-ticket compatibility
- Frequent flyer and lounge access where appropriate
- Joint marketing

Such support is essential to provide seamless, efficient air services between regional centres and other regional, domestic and international destinations.

An example of the value of this level of support from a major airline was the profoundly negative impact on Impulse Airlines' regional operations once the major airline severed links with Impulse. Lacking national and global exposure through the Ansett reservations system and associated marketing benefits, the viability of the regional services diminished to a point where they became unsustainable in their own right. Impulse had enjoyed 65 percent market share prior to the withdrawal of Ansett support, a share that diminished to a minority share of 30 percent soon afterwards.

In negotiating with airlines, NAL will scrutinise prospective regional operators proposing to introduce scheduled services at Newcastle Airport for linkages with one or both of the major airlines. Such links are essential to the sustainability and enhanced efficiency for regional business travellers.

The potential role of Government

NAL's view is that with the inability of Qantas and Virgin Blue to directly service markets that demand aircraft of less than 36 seats, State and/or Federal Government may wish to consider regulation of those routes to ensure continued access for communities that have been and stand to be disadvantaged by the major airlines' fleet rationalisation policies.

That regulation would be based on historical demand and the application of appropriate capacity. Any services additional to the determined level of capacity would then be subject to an airline's commercial decision or the respective local Government.

Any future regulatory environment might also consider mandatory provision on regulated routes of support by major airlines as outlined above.

What Newcastle Airport can offer regional air operators

Newcastle Airport can support regional air operators' and regional communities' continued access to major centres at lower operating costs for operators.

1. Access to Sydney Airport

It is possible that despite the "regional ringfence" policy of the Federal Government protecting air access to Sydney Airport for regional operators, pressures may arise from congestion and a preference by major airlines to maximise the value of slots by using larger aircraft.

In this instance, Newcastle Airport can act as a consolidation point for smaller regional communities in northern and north-western New South Wales by consolidating passengers from numerous smaller aircraft onto fewer larger aircraft to Sydney.

This would serve to reduce the number of aircraft movements at Sydney Airport by smaller aircraft, thereby enhancing airspace management by improving the flow of aircraft on arrival and departure at Sydney, while potentially reducing aircraft noise over suburban Sydney.

In addition, Newcastle Airport has a proven track record of relieving Sydney Airport by providing by-pass services direct to Brisbane and Melbourne. For every direct service from Newcastle, four movements are saved at Sydney Airport, thereby arguably improving efficiency and enabling major airlines to optimise slot availability.

2. Lower operating costs

Newcastle Airport's charges are significantly less than those of Sydney and thus offers air operators cost-efficiencies through the potential savings derived from fewer higher-cost movements at Sydney Airport.

3. Domestic passenger and airfreight transfers

Newcastle Airport can act as a transfer point for passengers connecting to onward flights to primarily to Melbourne and secondly to Brisbane using the existing QantasLink services. Newcastle Airport can provide the same facility for passengers transferring to Canberra once that service is re-introduced.

While Newcastle does not have the frequency of services to these destinations, regional operators providing a feeder service to the Melbourne, Brisbane and Canberra flights could align their schedules to optimise transfers.

These principles apply equally to passengers and airfreight.

Furthermore, Newcastle Airport is establishing as part of its Master Plan an on-airport hotel and aerospace support facilities that provide added convenience for passengers and industry. The further development of engineering and maintenance facilities at Newcastle Airport could provide an additional support mechanism to regional air operators.

Conclusion

1. Newcastle Airport has experienced significant adverse effects of airline fleet rationalisation and a consequent reduction in network coverage to regional centres;
2. Newcastle Airport believes the sustainability of regional air services can only be achieved by the formation of relationships between regional airlines and the major airlines which can provide market exposure and improve the attractiveness and efficiency of regional air services;
3. NAL supports appropriate regulation of routes that can sustain only aircraft of less than 36 seats and which have lost and or stand to lose air services as the result of major airline operating and commercial policy. Regulation and Government support should be limited to that justified by historical traffic levels;
4. Newcastle Airport can facilitate continued and low-cost access to Sydney for regional communities by acting as a hub and consolidation point for regional air services, and can provide by-pass services that stand to relieve pressure on Sydney Airport.