

**INQUIRY INTO COMMERCIAL REGIONAL AVIATION SERVICES IN  
AUSTRALIA AND TRANSPORT LINKS TO MAJOR POPULATION  
ISLANDS**

**SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING  
COMMITTEE ON TRANSPORT AND REGIONAL SERVICES**

**30 AUGUST 2002**

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**Prepared by the Economic Development and Tourism Unit  
Newcastle City Council, NSW**

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**1. Purpose**

This paper has been prepared as a submission to the Inquiry commissioned by the Deputy Prime Minister and Minister for Transport and Regional Services. The aim of the Inquiry is to look into the adequacy of regional air services and policy measures required to assist such air services. This paper supplements submissions from Newcastle Airport Limited (NAL) and the Hunter Economic Development Corporation (HEDC).

This submission presents the case that the return to a monopoly environment in 2001/02 has reduced air service capacity at Newcastle Airport. This situation stopped passenger growth in 2001/02 and is likely to reduce passenger movement in 2002/03. The reduction in air service capacity will have a flow-on effect on Newcastle's economy, constraining key sectors of Newcastle's economy responsible for driving Newcastle's emergence from decades of economic restructuring. It will also significantly alter the demand conditions for proposed commercial development projects associated with Newcastle Airport.

The recommendation is that the Commonwealth Government support the appropriate regulation of regional routes, to restore air traffic to historical levels, in the interests of regional economic development.

**2. Air Services at Newcastle Airport**

*2.1 Historic Growth Patterns*

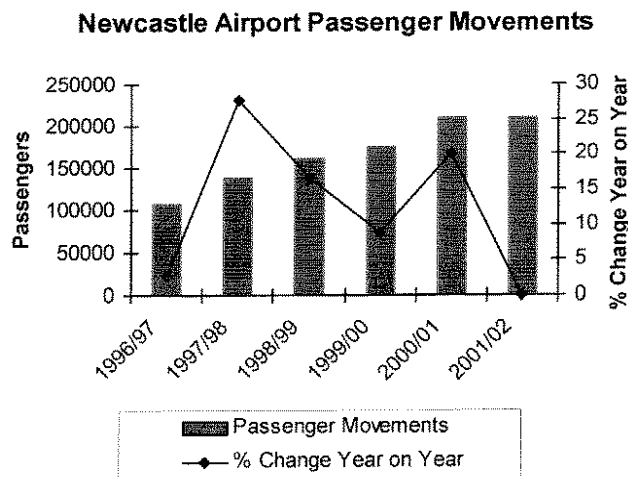
Regional air services operate from Newcastle Airport, which is jointly owned (since 1992) by Newcastle City Council (NCC) and Port Stephens Council (PSC) and managed by Newcastle Airport Limited (NAL). Between 1992/93 and 2000/01 passenger movements increased from 62 000 to 210 000 at an annualised growth rate of 16%. This occurred because Newcastle developed a market position as a regional hub for east coast services bypassing Sydney, a situation that was enabled by strong competition in the market between Impulse Airlines and Qantas. By 1996 Newcastle Airport provided air services

to 14 destinations including all capital cities on the eastern seaboard and centres in Regional NSW and South East Queensland.

In the late 1990s Newcastle Airport became an emerging economic zone in its own right by virtue of rapid passenger growth and its close proximity and relationship to the RAAF Williamtown airbase. Aviation and aerospace facilities began to cluster around the airport and plans were developed for hotel and office accommodation to be located within the airport precinct.

## 2.2 *Current Growth Patterns*

In 2001/02 passenger movements stopped growing, as illustrated by the chart titled "Passenger Movements". The reason for this was the emergence of monopoly conditions in regional air services as a result of the merger between Impulse Airlines and Qantas in May 2001, which was subsequently exacerbated by the collapse of Ansett in September 2001. The Impulse/Qantas merger led to the reduction of regional air service capacity, while the collapse of Ansett led QantasLink to divert services away from Newcastle Airport to routes vacated by Ansett.



In July 2002 QantasLink rationalised air services further, with the net effect that only five destinations are now served from Newcastle Airport and capacity on the Sydney route has been reduced by one third. Aeropelican is filling some of the Sydney route capacity vacated by QantasLink, while NAL is looking at the prospects of introducing other service providers such as Regional Express (REX), Horizon and Brindabella to restore services to other centres.

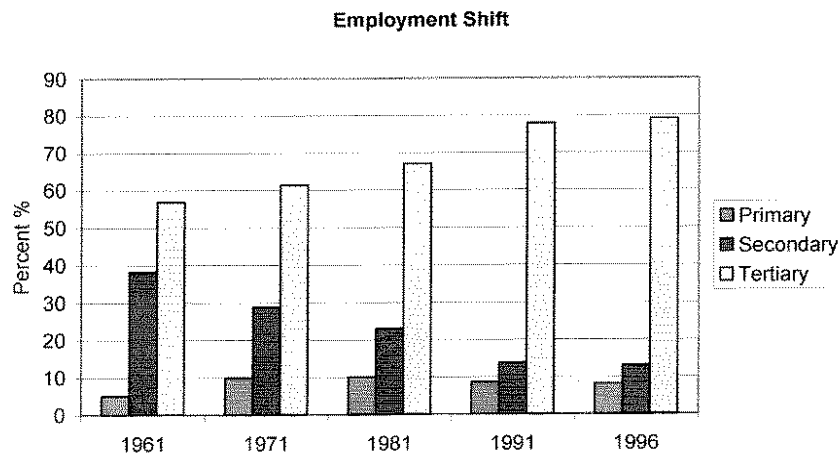
Under present conditions, the outlook for growth in passenger movements in 2002/03 is not strong. It remains to be seen how the change in demand conditions will impact on the proposed development of hotel and office accommodation at Newcastle Airport.

### 3. Economic Growth in Newcastle

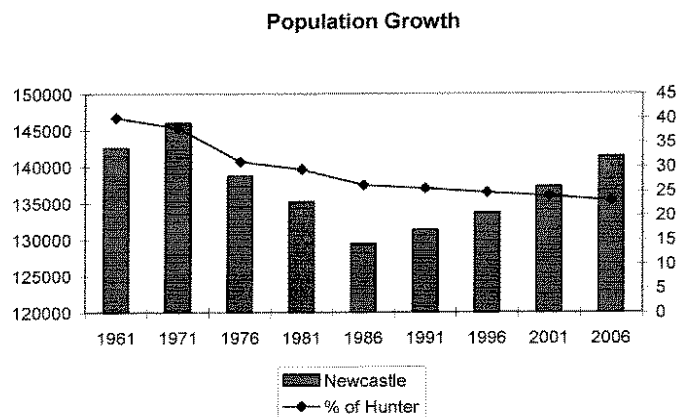
#### 3.1 Historic Growth Patterns

The rapid growth of regional air services in the late 1990s was associated with, and enabled, Newcastle’s ongoing emergence from decades of economic transition. Prior to this, Newcastle was impacted by economic restructuring and population change.

The nature of Newcastle’s economic restructuring is illustrated in the chart entitled “Employment Shift”, which shows a substantial change in the employment base between 1961 and 2001. Underlying this change was a decline in manufacturing employment, due to the closure of basic manufacturing and shipbuilding, and a growth in the tertiary sector, spurred on by growth in knowledge- and person-based services like education, health and tourism.



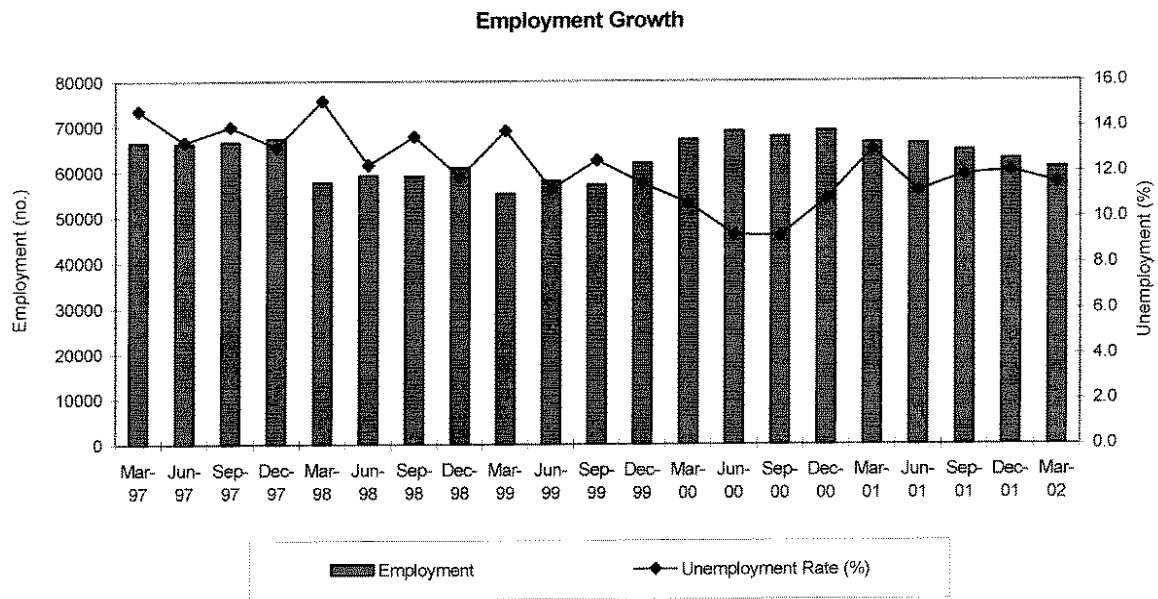
The effect of economic change on Newcastle’s population is illustrated in the chart entitled “Population Growth”. Population growth was interrupted in the 1970s and 1980s by net out-migration in response to job shedding in the manufacturing and mining sectors. A turn-around point was reached in the



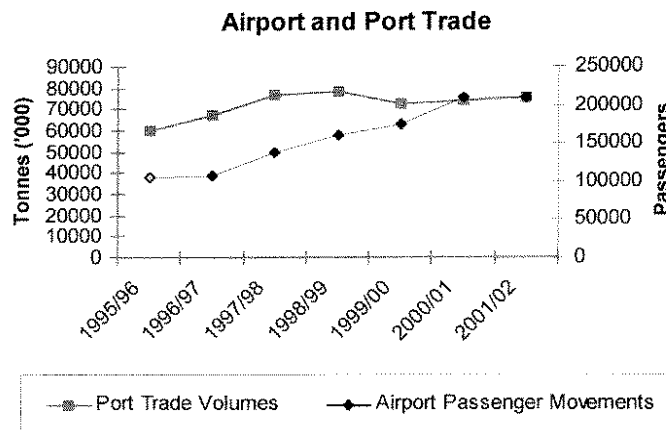
1990s and positive population growth was restored as the service sector job base expanded.

### 3.2 Recent Growth Patterns

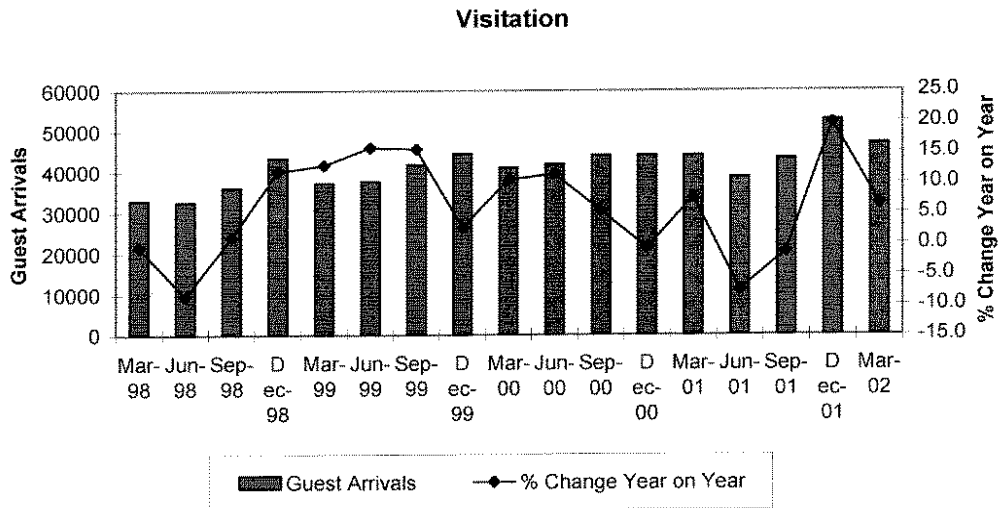
The chart entitled “Employment Growth” shows how Newcastle’s employment base has expanded in recent years. Considerable job growth occurred in 1999/2000 taking Newcastle’s unemployment rate to below 10%. Since then it has fluctuated in the 10-12% band, illustrating the structural nature of unemployment in Newcastle.



Underlining Newcastle’s economic transformation has been a growth in trade and travel. The chart entitled “Airport and Port Trade” shows how trade volumes through the port and passenger movements through the airport have grown since the early 1990s, when they were corporatised. Airport passenger movement has grown on the back of business travel and conferencing, which was enabled by the extension of air services to centres in Regional NSW and SE Queensland and capital cities on the eastern seaboard.



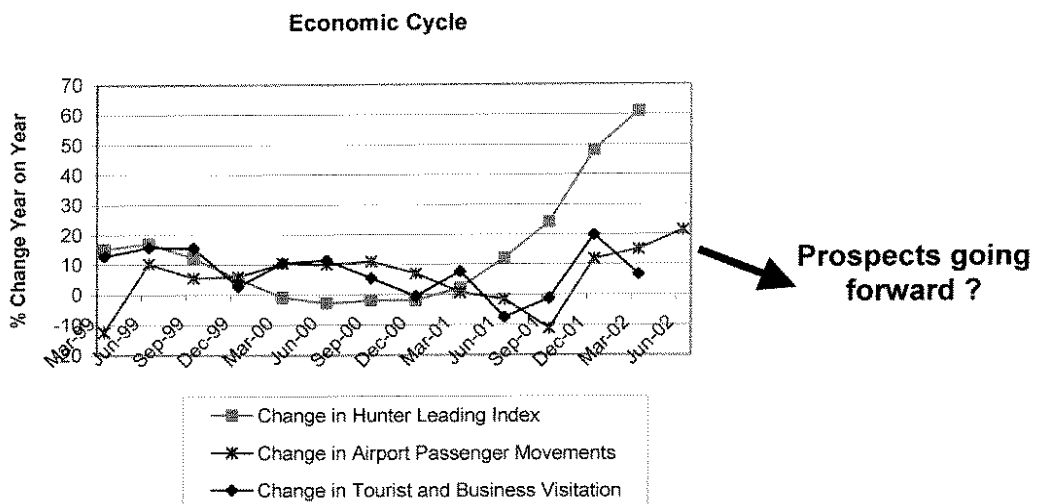
The chart entitled "Visitation" shows that tourist visitation to Newcastle has expanded significantly since the late 1990s. Underlying Newcastle's strong performance is the corporate travel and conference market. Access to regional air services has proved to be one of Newcastle's key advantages in its positioning as the premier conferencing centre in Regional NSW.



#### 4. Impact of Changes in Regional Air Services

Over the coming year the impact of the reduction of regional air services on Newcastle's economy will manifest in two ways. Firstly, the loss of competitively priced and convenient air services to regional centres and East Coast capital cities will impose a cost on doing business in Newcastle. It will also inhibit the further development of business linkages between Newcastle and other centres that were enabled by the establishment of regional air services in the first place.

The chart entitled "Economic Cycle" illustrates a close association between airport passenger movements and tourist and business visitation. Both indicators remained positive during the recent downturn in the Hunter



Region's business cycle in 2000 and looked set to perform well in 2002 prior to QantasLink's decision to cut capacity. Looking forward, the prospect is that tourist and business visitation will be impacted by diminished air service capacity.

Secondly, the reduction of air services will impact negatively on passenger movement through Newcastle Airport, which is a key driver of the proposed hotel and office accommodation projects associated with Newcastle Airport. The reduction of air services could therefore significantly alter the demand conditions for future commercial development projects associated with Newcastle Airport.

## **5. Conclusion**

There is a critical need for stability in the air services environment. The supply shocks that accompanied the merger of Impulse and Qantas, the collapse of Ansett and QantasLink's decision to cut further capacity will have a profound impact on economic conditions in Newcastle. There is a strong case for Commonwealth Government intervention in regional air services to address the monopoly conditions that currently exist.

## **6. Recommendation**

That the Commonwealth Government support the appropriate regulation of regional routes, to restore air traffic to historical levels, in the interests of regional economic development.

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