



**INDUSTRY
TOURISM
RESOURCES**

www.industry.gov.au

1/33 ALLARA ST
CANBERRA ACT 2612
GPO BOX 9839
CANBERRA ACT 2612

TELEPHONE:
02 6213 7050
FACSIMILE:
02 6213 7097
E-MAIL:
patricia.kelly@industry.gov.au

Mr Paul Neville MP
Committee Chair,
House of Representatives Standing Committee
on Transport and Regional Services
Parliament House
CANBERRA ACT 2600

Dear Mr Neville

Inquiry into commercial regional aviation services in Australia and transport links to major populated islands

I am pleased to provide the attached submission regarding the above inquiry for the Committee's consideration.

Air services are essential to the tourism industry, particularly the more remote regional areas which can not be reached in reasonable time by other means. Tourism is important to many of these regions. In 1997-98, the tourism industry was responsible for more than 207 000 jobs in regional Australia.

The collapse of Ansett underscored the tourism industry's heavy reliance on aviation. One year on, domestic and regional airlines have moved to fill the gaps, and on the whole capacity to most major tourism destinations has been restored. However, the high cost of regional airline operations and airfares remain major issues for regional airline operators, price sensitive tourists and local businesses.

Against this background, the Department's submission examines the adequacy of commercial air services to regional Australia on the basis of their coverage, affordability, interconnectivity, and sustainability. It also examines some key issues for regional aviation and tourism. The challenges facing regional aviation point to the need for policy options to reflect the broad range of stakeholder interests. Given the nexus between tourism and air services, the submission also suggests the need for further integration of tourism and transport policy.

The nominated contact officer in the Department with whom the secretariat should liaise is Mr Michael Claessens (Ph 6213 7080) or e-mail: michael.claessens@industry.gov.au.

Yours sincerely

Patricia Kelly
Head of Tourism Division

12 November 2002

DEPARTMENT OF INDUSTRY, TOURISM AND RESOURCES

Submission to

**The House Of Representatives Standing Committee On Transport
And Regional Services**

**Inquiry into Commercial Regional Aviation Services in Australia and
Transport Links to Major Populated Islands**

NOVEMBER 2002

TABLE OF CONTENTS

INTRODUCTION	3
IMPORTANCE OF TOURISM TO REGIONAL AUSTRALIA	4
REGIONAL TOURISM TRANSPORT NEEDS	5
ADEQUACY OF COMMERCIAL REGIONAL AVIATION SERVICES	7
Coverage	7
Affordability	8
Interconnectivity and Convenience	10
Sustainability	12
THE ROLE OF GOVERNMENT	14
Appendix: Air Services Charges	15

INTRODUCTION

This submission is primarily focussed on the Inquiry's Terms of Reference relating to:

- The adequacy of commercial air services in regional and rural Australia; and
- Interconnectivity between regional air transport systems, major national air services and international services.

The submission also touches on the role of the major air transport carriers in providing regional services.

The submission outlines the importance of tourism to regional Australia, the need for sustaining aviation access to key regional tourism destinations and examines some key issues for regional aviation and tourism. There are two major themes:

- the need for sustainable and competitive regional air services to support tourism; and
- the need for further integration of tourism and transport policy.

The past year has been particularly difficult for the aviation and tourism industries. Ansett's collapse underscored the tourism industry's heavy reliance on aviation with all tourism regions feeling the impact of Ansett's collapse to some extent¹. Of particular concern was the negative impact on the major, but more remote tourism destinations such as Cairns, Darwin, Broome, Alice Springs and Hamilton Island. However, domestic and regional airlines have moved to fill the gaps and, on the whole, capacity has been restored to most tourism destinations and many others are accessible by road - especially by domestic travellers, who account for 75% of the tourism market.

Domestic aviation is in a transitional period characterised by the dominance of Qantas, with up to 80% market share, and Virgin Blue's expansion with up to 20% market share. The high cost of regional airline operations and airfare levels are major issues for regional airlines operators, price sensitive tourists and local tourism businesses. The fragility of regional carriers is also a concern and any further airline failures would have a negative impact on capacity and consumer confidence. The provision of sustainable air services was a key theme of stakeholder consultations in developing the Government's Tourism White Paper².

There is an inherent tension between the objectives of tourism destinations and the willingness and ability of airlines to provide air services. The high capital intensity of the airline industry means that airlines tend to be cautious in committing to new routes, especially to low yielding regional markets. In contrast, the tourism industry looks to grow demand and tourist volume. It views flight frequency, capacity and affordability as part of the product to be packaged and marketed and as a prerequisite to growing demand.

It is notable that on many small regional routes, the provision of air services reflects community-based demands for business and health services and supply of other essential services, rather than for tourism. Travel for leisure purposes on such routes is often relatively low with airline patronage for this purpose estimated to average 15%³.

¹Ansett accounted for some 60% of the regional air services and some 35 regional communities were only served by Ansett or one of its wholly owned subsidiaries.

² It is proposed that the Tourism White Paper will be finalised in the first half of 2003.

³ Bureau of Transport Economics 2000, *Regional Aviation Competitiveness*, Working Paper 41

This submission examines the adequacy of commercial regional air services⁴ on the basis of the following criteria⁵:

- Coverage;
- Affordability;
- Interconnectivity/Convenience; and
- Sustainability.

Safety and comfort also influence a holiday traveller's willingness to fly but will not be dealt with in any detail in this submission.

Before examining the adequacy of regional air services, it is worthwhile outlining the regional tourism context and economic environment within which these services operate.

IMPORTANCE OF TOURISM TO REGIONAL AUSTRALIA⁶

Tourism is an important driver of development in regional Australia. It is a major source of employment growth and is becoming increasingly important to many regional communities as employment in some traditional industries decline. In 1997-98, 207,000 jobs in regional Australia were directly due to tourism.⁷ This represented some 40% of all persons employed in tourism. Many of Australia's prominent tourist attractions are found in regional areas and niche markets such as ecotourism, indigenous tourism, wine tourism, backpacking and adventure tourism have their focus in regional Australia.

Regional Australia is highly dependent on domestic tourism. Of the \$45.5 billion spent during 1999 by Australians on domestic travel, some 52% or \$23.8 billion was spent in regional areas⁸. This compares with around 29% of expenditure by international tourists (in 1998, \$2.3 billion of a total \$7.8 billion was spent in regional Australia). Data on visitation also supports this view. Some 63% of all domestic visitor nights in 2001 were spent in regional areas, compared with 25% of nights spent by international visitors⁹.

Regional Dispersal

The Government is committed to realising the outstanding potential of the tourism industry in regional Australia and has been working to encourage greater dispersal of international and domestic tourism demand out from the major metropolitan areas. By encouraging tourists to travel beyond the boundaries of traditional metropolitan gateways, demand pressures can be spread more widely and the social and economic development of regional areas can be supported. Furthermore, as visitors become more aware of the new and different regional experiences on offer, their length of stay and expenditure may increase.

⁴ For this submission regional air services include services by any size and type of aircraft to, from or between, regional destinations. This includes jet services operated by Qantas to destinations such as Broome through to small charter companies operating light aircraft.

⁵ There is some natural overlap between these criteria.

⁶ The Bureau of Tourism Research treats any tourism expenditure outside Australia's major metropolitan centres including the capital cities and the Gold Coast as regional⁶.

⁷ Tourism Task Force 2002 Hallmark Report, *Keeping the Bush in the Game, New approaches to making regional tourism more competitive*

⁸ Bureau of Tourism Research, *Tourism Expenditure by Domestic Visitors in Australia's Regions, 1999*. Gold Coast included with capital cities.

⁹ Bureau of Tourism Research, unpublished data - Gold Coast included with capital cities.

The Government's *Regional Tourism Program* provides targeted assistance to help businesses and other organisations develop quality tourism products in regional Australia. The Program was funded to a total of \$16m over 5 years from 1998-99 to 2002-03. In the last budget, the Program was extended with new funding of \$8m over 4 years to 2005-06.

The Commonwealth is also a partner in *See Australia*, with the States and Territories and industry, to encourage stronger growth in domestic tourism, much of which occurs in regional Australia. The Government provided \$8 million towards the initiative over the two years to 30 June 2002. State and industry contributions increased the total funds available to approximately \$17 million. The Government has committed an additional \$8 million to *See Australia* over the period 2002-03 to 2005-06.

The challenge of encouraging tourists to spend more time away from the major metropolitan centres is underscored by evidence suggesting that regional tourism growth is not keeping up with growth in the major capital cities. In terms of room nights sold, tourism has been concentrated in the capital cities followed by major regional international destinations and regions adjacent to capital cities. Growth in room nights sold between 1998 and 2001 by type of tourism region is illustrated below¹⁰:

Capital cities	16%
Major international destinations	10%
Adjacent to capital cities	10%
Wine tourism regions	8%
Coastal (with significant international visitation)	4%
Mountains	3.0%
Coastal (with low international visitation)	2.0%
Central	-3%
Outback	-2.0%
Murray	-3.5%

This trend is supported by data from the Bureau of Tourism Research. Between 1998 and 2001, the number of visitor nights spent by Australians in the capital cities (including the Gold Coast) increased by 3.3% compared to an average 3.8% fall for all other regions¹¹.

REGIONAL TOURISM TRANSPORT NEEDS

The transport needs of regional tourism destinations depend on a number of factors including their distance from major population centres, the terrain and the level of international versus domestic visitation.

Many regional destinations are within a one day trip by car, bus or rail, from the major capital cities. For instance, the Hunter Valley, Sunshine Coast and Blue Mountains are close to major cities, have a low reliance on direct air links and benefit from growth in international tourism to the major cities. Other destinations are more remote, requiring efficient and competitively priced air services. These destinations include Far North Queensland, Broome/Kimberley, Alice Springs/Uluru and the Whitsundays. The following table illustrates the relative dependency of major regional tourism destinations on air services.

¹⁰ Tourism Task Force 2002 Hallmark Report, *Keeping the Bush in the Game, New approaches to making regional tourism more competitive.*

¹¹ Bureau of Tourism Research, unpublished data.

Major Destination tourism dependency on air services

Low	Medium	High
Blue Mountains Hunter Valley Sunshine Coast Barossa/ Clare Valley Snowy Mountains Wine and High Country in North East Victoria	Regional NSW Broken Hill/Western NSW Katherine Murray Northern Rivers Gold Coast	Cairns/Cape Tribulation Whitsundays Darwin/Kakadu Broome/ West Kimberley Uluru/Alice Springs Coober Pedy Hobart/Launceston

Notes: Indicative and not comprehensive.

Low - Accessible using land transport modes as a day trip from a major metropolitan centre. **Medium** - One day's travel from a major metropolitan centre using alternative transport with an overnight stay required. **High** - More than one day's travel from a major metropolitan centre to destination by alternative mode of transport.

Choice of transport mode is influenced by the convenience, accessibility, comfort and cost of alternatives. With respect to air travel, a determining factor is whether the time saved outweighs the additional cost. Different types of tourists or market segments have differing transport needs and preferences:

- international package tourists tend to be more time constrained and therefore make greater use of air travel;
- backpackers are more willing to forgo expediency for cost advantages of road transport such as buses.

The private car is the predominant form of domestic tourism transport, accounting for 76% of all domestic trips in 2001. Air transport (17%) is the next most popular mode, followed by rail (3.5%) and bus or coach (3.2%). Air travel is preferred for longer journeys, accounting for 52% of interstate trips¹². In contrast, international visitors' use of road transport is much lower with only 21% of international visitors using a motor vehicle and 33% using aircraft between stopovers in Australia¹³ (some 8% used a rental car, 14% used long distance buses or coaches and 3.5% used long distance train).

Airline Economics - the reality facing many regional destinations

Many regional leisure destinations have difficulty in sustaining adequate year round air services. These destinations suffer from:

- seasonal fluctuations in demand making it harder to support year round services;
- low populations (from which to draw outward traffic flows);
- lack of business traffic resulting in lower yields; and
- relatively underdeveloped tourism product in some areas.

Airline yield on each route depends on the mix between business and leisure traffic and the amount of cargo carried. The majority of tourists travel on discount fares,¹⁴ and while tourist patronage is important to airlines, premium passengers (business class and full fare paying passengers) are a higher priority. Smaller volume regional routes will often not meet airlines' required rate of return without sufficient premium traffic. However, larger volume routes are set to benefit from the emergence of low-cost airline models, with some airlines specifically targeting tourism¹⁵ and an increasingly price sensitive corporate market.

¹² Bureau of Tourism Research, *National Visitor Survey*, March Qtr 2002.

¹³ Bureau of Tourism Research, *International Visitor Survey*, June Qtr 2000.

¹⁴ Leisure tourists are generally highly price sensitive and book in advance to secure the cheapest air fares.

¹⁵ Qantas is undertaking feasibility analysis for a new domestic airline focussed on 'leisure' destinations.

A greater focus by airlines on market segmentation and profitability (rather than market share and total revenue) has important implications for tourism. The shift towards demand-led rather than capacity-led growth means that airlines are less willing and able to sustain marginal services to regional Australia despite high load factors. Less profitable routes may be withdrawn despite compensating network benefits which result from the capture of traffic onto more profitable trunk routes.

ADEQUACY OF COMMERCIAL REGIONAL AVIATION SERVICES

Coverage - *Air services coverage is determined by the routes served, capacity, frequency and choice of flights and seat availability. Adequate local airport infrastructure influences services to regional ports.*

Aviation Capacity

Regional air services are steadily improving with Qantas, Virgin Blue's¹⁶ expansion and regional airlines consolidating and growing to fill the gaps created by the airline collapses. The current resurgence of regional airlines and the operation of more appropriate aircraft types is helpful. Airlines such as Alliance, Skywest, Macair and AirNorth, as well as Regional Express are making important contributions.

Domestic aviation capacity, particularly on major trunk routes, has been largely restored following the collapse of Ansett. While there are gaps, capacity to most major tourism destinations has returned to and in some cases exceeds pre-Ansett collapse levels.

For example, as at August 2002, capacity between Sydney and Cairns was 126% of September 2001 capacity, Melbourne - Cairns (347 %), Sydney - Gold Coast (112 %), Melbourne - Gold Coast (117 %) and Melbourne -Hamilton Island (174 %).

Capacity has not been restored across all routes and remains an issue of concern for some communities. Some regional centres were previously serviced by both Qantas and Ansett and are experiencing a loss in both choice of carrier and frequency of service. While many intra-state routes are suffering, most of these are not significant in tourism terms, and largely cater for business related travel or other community needs.

Airport Infrastructure Issues

Lack of adequate regional airport infrastructure and associated services can be an impediment to growth of tourism in regional Australia. Many regional airports are owned by local councils, are expensive to maintain and compete for a limited funding base. As a result, infrastructure at these airports can be sub-optimal for tourism development. To compensate for lower traffic volumes, regional airports will often impose relatively higher landing charges which are passed on by airlines in airfares. Infrastructure development at the larger regional airports must also be adequate to cope with managing peak period congestion.

Small regional airports often do not have the terminal infrastructure or runway capability to cater for larger aircraft. Virgin Blue's B737 aircraft, for example, cannot operate to Wagga Wagga due to runway shortcomings. Small regional airports thus face a 'chicken and egg' dilemma. They need a minimum acceptable level of infrastructure to cater for larger and more frequent flights, but to build this generally requires a commitment ahead of time from

¹⁶ Virgin has stated its intention of eventually serving all centres with populations over 50,000.

the airlines. It is difficult for airlines to give this undertaking if they have not had an opportunity to prove the services commercially. However, charters have been a successful way for airports such as at Coolangatta to build up a critical mass of terminal infrastructure.

In summary, most major tourism destinations appear to be adequately covered in terms of air services. Lack of choice and capacity still hampers some destinations. Lack of adequate airport infrastructure remains an impediment to tourism growth in some destinations.

Case Study - Kimberley Region

Broome and the West Kimberley region, a major regional destination for international tourists¹⁷, is an example of a region with strong tourism development momentum but which has suffered a loss of aviation capacity following Ansett's collapse. The region has enormous potential if it can recover and grow affordable air access.

Visitors to the region enter via the regional gateways of Broome or Kununurra. Qantas is the sole operator between Perth and Broome and operates a combination of 128 seat B737 and 70 seat BAE146 aircraft. While air capacity between Perth and Broome is back to some 90% of pre-Ansett levels, load factors are reported to be extremely high (92% in August 2002), indicating that many passengers will have difficulty in getting seats¹⁸.

It is more difficult getting to Kununurra following the loss of Ansett's direct services. Access is via Darwin and Perth. AirNorth operate flights using 30 Seat Brasilia aircraft between Darwin and Kununurra. Visitors from Perth are required to take a Qantas service to Broome then transfer to an AirNorth flight. This adds time and unless there is a smooth transition between aircraft at Broome Airport it also adds inconvenience to visitors.

The Western Australian Government subsidises flights by Skippers between Broome and Derby and flights by Northwest Regional on the route between Broome, Fitzroy Crossing and Halls Creek.

Tourists have a preference for larger more comfortable aircraft. The added inconvenience and time costs together with the requirement to transfer to smaller aircraft may deter visitors from travelling on to Kununurra. Tourism visitation data for the region indicates loss of direct services and capacity is having a significant impact on the region. For the year ending 31 March 2002 there were 252 000 domestic overnight visitors to the Kimberley region, a decrease of 10.6 per cent over the year ending 31 March 2001.

Affordability - Tourists are price sensitive and the level and availability of discount fares and air fare conditions are key issues. The level of airline competition and the high cost of supplying regional air services are major factors influencing air fares.

Availability of Discount Airfares

The high cost of regional airfares is a major issue for price sensitive tourists. The cost of a return flight from Sydney to some regional destinations can be comparable to a long-haul international flight. For example:

- Sydney to Longreach with Qantas - \$1,582 (Qantas website)
- Sydney to London flying with Lauda Airlines - \$1,475 (plus taxes - Travel.com)
- Sydney to Broome with Qantas - \$1,718 (Qantas website, economy restricted)
- Sydney to Los Angeles with Qantas - \$1,646 (Qantas website, economy restricted)

Claims are often made that, since the collapse of Ansett, the number of discount tickets in the market place has reduced. While lack of data makes an accurate judgment of this difficult, it

¹⁷ In 1999-00, there were 61,770 international visitors to the Kimberley region.

¹⁸ Information supplied by Broome Airport

seems reasonable that a loss of capacity on some routes would also translate into fewer discount seats.

There is identifiable upward pressure on airfares, which has been welcomed by airlines as a return to more sustainable levels given that the bulk of the promotional fares prevailing prior to Ansett's exit were sub-economic.

Discount fares remain an average 20% lower than in the late 1990s and over 10% lower than in the immediate post Compass period¹⁹. However, average airfares are beginning to edge up. Yield management practices by airlines means that seat availability on discounted fares can also be expected to tighten significantly.

Airline Competition

The encouragement of a competitive environment in aviation has proven to be a major driver of product innovation, cheaper fares and tourism growth in Australia. This was evidenced by the strong market growth following the entry of Compass in 1990, which saw some 700,000 'new passengers' flying within eighteen months²⁰.

There has been substantial growth in traffic volumes on routes served by Virgin since its commencement in August 2000. Growth in passenger activity across the seven Virgin routes in June 2001 was up 23% compared to June 2000 and recent data indicates that Virgin's competitive influence remains strong²¹.

The continued encouragement of a stable competitive aviation environment must be the basis of any strategy to improving regional airline services provision. New entrants have had a catalytic effect on air travel on the major trunk routes. This has also benefited some regions indirectly

- particularly, regional tourist destinations within one day's road travel of the big cities which have experienced the strongest traffic growth.

High Cost of Flying to Regional Centres

Air services to smaller regional centres usually involve smaller aircraft with fewer passengers to spread the high fixed operational costs. It is harder for them to achieve the economies of scale possible on higher volume routes with larger capacity aircraft and higher frequency. Airline costs of operation are therefore relatively higher on regional routes. Airport costs have been estimated to be around 12% of an aircraft's direct operating costs depending on size of aircraft operated²².

Air Services Australia charges for terminal navigation and aviation rescue and firefighting vary considerably across airports²³ and, based on location specific pricing²⁴, are significantly higher at regional gateways due to lower traffic volumes. See Appendix for details.

¹⁹ Bureau of Transport and Regional Economics, *Index of real domestic airfares*.

²⁰ In the June Qtr 1990, 2.9 million people travelled by air. One year later, following the entry of Compass Airlines, traffic volume had increased 18.7 per cent to 3.6 million travellers, mainly on the major trunk routes.

²¹ Bureau of Transport and Regional Economics 2002, *Air Transport Statistics, Australian Domestic Airline Activity*, Issue 66, July 2001-June 2002.

²² Bureau of Transport Economics 2000, *Regional Aviation Competitiveness*, Working Paper 41.

²³ Charges are calculated on an aircraft's maximum take off weight (MTOW) reflecting the cost of using the physical infrastructure. En-route charges are based on the MTOW of aircraft and the distance travelled.

²⁴ Prior to 1998, AirServices Australia charges were made on a network pricing basis, where charges were equalised across all Australian ports.

Higher regional aviation charges present a conundrum - on the one hand, costs to airlines are higher, but on the other hand, airports and associated providers of support services need to cover their costs.

The Government has implemented a number of initiatives to assist regional airlines such as extending control tower subsidies²⁵ and exempting smaller regional aircraft (with a maximum take-off weight of 15 tonnes or less) from enroute air services charges²⁶. Some airlines operating regional services using heavier aircraft do not qualify for this assistance²⁷.

Small regional aircraft operators also continue to identify high compliance costs associated with air safety regulation as an impediment. An appropriate balance needs to be struck between ensuring Australia maintains its reputation as a relatively safe destination in which to fly while minimising the associated regulatory costs imposed on industry.

In summary, average costs of flying to regional destinations are higher than for inter-city services adding to the high cost of air fares. Loss of competition and choice of carrier on some routes following Ansett's collapse is an issue of concern for communities. Further competition on some regional routes will help to keep fares down. Some regional destinations are also benefiting from the lower fares on the more competitive major trunk routes served by Virgin.

Interconnectivity and Convenience - For many tourists, time and convenience are key considerations. Travellers prefer direct flights and efficient and convenient linkages between regional, domestic and international flights.

Direct Versus Indirect Services

Most international travellers, particularly those who are time constrained, prefer direct flights. If there is a stopover, they want the time spent waiting on the ground minimised. Tourist destinations generally report increased visitation with direct services and net losses when such services are replaced by less direct connections.²⁸ For destinations such as Darwin and Cairns, which have had significant cuts to direct international services, backtracking through Sydney or Brisbane is considered to be a major travel disincentive.

Direct services by larger airlines are not generally a realistic option for smaller regional destinations. Their access to domestic and international markets is dependent on the major airlines' hubbing strategies which, in most cases, involve transfer at a major capital city hub airport but may also involve a further flight change at a regional gateway.

Linkages between International, Domestic and Regional Carriers

It is important that linkages between regional, domestic and international services are fast and efficient. Travellers expect seamless travel experiences. This has important influence on traveller perceptions of destination attractiveness and can influence travellers' choice of destination.

²⁵ The Government will spend \$7 million in 2002-03 to subsidise the provision of some regional tower services.

²⁶ Estimated to save Hazelton more than \$600 per week on the Tamworth to Sydney route.

²⁷ Skywest which operates 20 tonne aircraft and Qantas' services using their 36 seat Dash8 aircraft are just over the 15 tonne limit.

²⁸ Access Economics 2001, *International Aviation Access and Regional Tourism & Business* - Report for the Regional Aviation Taskforce ('Manning Report').

Major carriers such as Qantas have developed synergistic international, domestic and regional networks. This promotes a greater seamless travel experience and facilitates on-carriage between domestic and international networks and vice versa.

Importance of Alliances and Alliance Networks

Airline alliance formation can generally be viewed as positive development for regional tourism. In the current difficult climate it will help ensure airline viability. Through airline alliances and code-sharing, airlines can extract marketing advantages and capture economies of scope through accessing and selling seats across other airlines' networks. Alliances can enhance:

- service quality, making the journey between regional centres and inter-State capitals relatively seamless;
- route networks and connections;
- frequent flyer program benefits; and
- ticketing, check-in and baggage handling.

Alliances allow, for example, a trip between New York and Australia's regional centres combining Qantas and an affiliate airline's flights to be sold on a single ticket.

In 1997, although just half of all regional airlines had an alliance with one of the major domestic airlines, these airlines carried 97% of all regional passengers. The remaining 21 non-aligned airlines carried only 3% of regional traffic²⁹.

Ansett was a member of the global Star Alliance³⁰ which accounted for around 33% of Australia's international passenger market for the year ended June 2001. Ansett's collapse meant that Ansett's Star Alliance partners lost a means of distributing international visitors across Australia as well as 'outbound-feed' for their international services. This has made Australia harder to sell for the travel trade and has also had an impact on many regional tourism destinations³¹.

Qantas is carrying Star's international passengers within Australia at a reportedly higher cost; with more limited seat availability; and without the attraction of generating frequent-flyer points for Star passengers. The precise demand effect is not possible to estimate due to the concurrent negative effect of September 11 and lack of data. However, its impact on Star carriers is underscored by Singapore Airlines' current feasibility work on establishing a domestic airline.

It will clearly be important for regional carriers to reforge strong partnerships with the larger players.

In summary, for tourists, direct services are preferable to indirect services and where connections are involved, seamless travel is very important. The synergistic nature of Qantas international, domestic and regional service increases connectivity and convenience.

²⁹ Bureau of Transport Economics 2000, *Regional Aviation Competitiveness*, Working Paper 41.

³⁰ Includes Air New Zealand; United Airlines. Thai Airways and Singapore Airlines

³¹ Industry and state agencies advise that particular regional areas have been more significantly effected, such as Broome, Far North Queensland; Regional NSW and Tasmania.

Alliances will help overcome interconnectivity difficulties between international carriers and the domestic network and non-aligned regional carriers.

Sustainability - *The tourism industry requires sustained provision of air services. Holiday travellers often plan and book their holidays well in advance. This requires predictable schedules for the travel trade to effectively sell the product. Confidence in the viability of airlines is also important.*

The fragility of regional carriers remains a concern for some regional destinations and may be a deterrent to potential travellers in utilising certain airlines and advance bookings. Further airline failures have the potential to cause additional regional disruption and have a negative impact on tourism industry confidence.

The Commonwealth Government has provided substantial assistance to regional aviation through a number of initiatives designed, in part, to assist sustainability. They include:

- helping to restore capacity on many regional routes through the Rapid Route Recovery Scheme following Ansett's collapse;
- subsidies to assist the provision of air traffic control tower services³²;
- exemption of aircraft below 15 tonnes from AirServices en-route navigation charges; and
- guaranteeing access for regional airlines to Sydney Airport³³.

Market forces will continue to be the major driver of how regional routes are serviced. An open and competitive market provides a strong incentive for airlines to be efficient and operate the most appropriate aircraft. While the high cost of starting an airline acts as a barrier to entry, the history of regional aviation has demonstrated that new regional airlines are always emerging to fill the place of those that have departed³⁴. Where there are cases of market failure on routes with tourism significance or potential, some form of non-market solutions - such as licensing and subsidising particular operators may need to be considered.

Regional Hubs

Rationalisation of regional infrastructure has been raised as a way of helping retain air services to some regions. Intra-regional aviation hubs seem to represent one pragmatic and useful concept for regional adoption where services are reduced e.g. existing services are directed to one larger airport (rather than serving several) and passengers are carried to their ultimate destinations by bus, rail or rental car. This is largely a matter for local communities and governments to explore with airlines and the choice of aviation hubs is essentially a market-driven decision of airlines.

³² The Government will spend \$7 million in 2002-03 to support reasonably priced tower services at regional and general aviation airports.

³³ Estimated to save the industry \$6 million in 2002-03.

³⁴ Bureau of Transport Economics 2000, *Regional Aviation Competitiveness*, Working Paper 41.

Building Demand - Marketing and Promotion

Apart from issues relating to the supply-side and commercial viability of services discussed in this submission there is also a need to stimulate the demand-side. The quality and diversity of tourism products and experiences must be first rate and well marketed.

A number of options have been suggested by industry, all of which require close collaboration between key stakeholders such as the airlines, airports and tourism product suppliers and local government. These include:

- development of joint aviation and tourism strategies;
- cooperative marketing with airlines; and
- refocusing marketing to smooth seasonal fluctuations in demand.

Tourism organisations and airports need to develop sound, comprehensive business plans to attract new carriers or persuade operating carriers to increase seats on established routes or introduce new services. Business plans must include a detailed analysis of current market size; growth rates and available tourism product and incentives. Some state governments are already very active in this sphere.

Linking key tourism destinations to create a single tourism product may also be feasible. For example, interlinking Alice Springs/Uluru/Cooper Pedy to provide joint tourism product may be viable if effectively marketed. However, interlinking of destinations can be commercially challenging for airlines.

There is also a need for realism. The tourism industry in some regions is underdeveloped and on that basis there is little incentive for airlines to commit and/or sustain the levels of services desired by the tourism industry.

In summary, the sustainability of regional airline services is important for regional communities and the growth of regional tourism. While market forces will drive regional airline service provision, non-market solutions for some communities may need to be explored as well as innovation such as regional hubbing. Cohesive involvement of all stakeholders and effective marketing are important.

THE ROLE OF GOVERNMENT

The new Australian aviation environment emerging from international and domestic events over the last twelve months is dynamic and carries both risks and opportunities for the tourism industry and regional airline operators.

While market forces will be the most efficient determinant of airline access to regional communities, it is important for all levels of Government to create a facilitative environment for airline operations and where all regional stakeholders can more closely collaborate to attract, sustain and enhance air access.

As this submission points out, this requirement has been brought into sharper focus by the effects on regional tourism of:

- The *greater focus by airlines on yield* with a shift by airlines to demand led growth rather than capacity led growth in regional aviation services.
- The *emergence of low cost airline models* - as a way of profitably serving leisure destinations.

Governments are already involved in a range of activities affecting regional air services. There is likely to be continuing debate over the extent of future government involvement given the difficulty of some communities in sustaining air services.

Challenges facing the regional aviation environment point to the need for policy options to reflect the broad range of stakeholder interests, particularly tourism given its economic importance and the nexus between tourism and air services. To this end there is a need for further integration of tourism and transport policy development and implementation which takes account of the increasing:

- *co-dependence of tourism and regional aviation* - This nexus is likely to grow stronger as tourist volumes grow and travellers become more time constrained and expect faster and more seamless travel experiences;
- *merger of areas of vital concern to international, domestic and regional aviation* - No sector can be considered in isolation from the other. The collapse of Ansett highlighted the degree to which shocks to one part of an integrated transport network quickly impact on other airlines and tourism.

In conclusion there is a need for further integration of tourism and transport policies which will encourage:

- enhanced consultation between commercial airlines and tourism businesses; and
- a cohesive and comprehensive approach by all stakeholders to sustain and grow air services to regional Australia.

Table 2: Air Services Charges

	Terminal Aviation Charges (\$/MTOW)	Aviation rescue and firefighting (\$/MTOW)	Total Charges	Charge/per passenger
Hobart	7.42	8.46	248.52	8.63
Launceston	7.42	9.30	227.39	7.90
Coolangatta	9.99	4.24	222.70	7.73
Cairns	8.75	3.83	196.88	6.84
Adelaide	9.74	2.69	194.53	6.75
Alice Springs	7.42	6.81	189.99	6.60
Canberra	9.5	3.58	169.49	5.89
Darwin	3.31	7.23	164.95	5.73
Perth	7.49	2.40	154.78	5.37
Albury	7.42	0.00	116.12	4.03
Coffs Harbour	7.42	0.00	116.12	4.03
Maroochydore	7.42	0.00	116.12	4.03
Tamworth	7.42	0.00	116.12	4.03
Brisbane	4.96	1.46	100.47	3.49
Sydney	4.82	0.69	86.23	2.99
Melbourne	3.45	1.09	71.05	2.47

Source: AirServices Australia, Charges for Facilities, Standard Contract Terms 28 July 2002
 Assumptions: Charges are for a Dash8 with 80% load factor or 29 passengers.

The Government subsidises tower services at Albury, Coffs Harbour, Launceston, Hobart, Maroochydore, Rockhampton, Tamworth, Archerfield, Bankstown, Camden, Jandakot, Parafield and Essendon. The tower charges at these airports are \$7.42 per landed tonne (including GST), even though the actual cost of running the towers is much higher.