

SUBMISSION BY

AUTORENT PTY LTD
(Tasmania's largest car rental company)

TO THE

**INQUIRY BY THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON PRIMARY INDUSTRIES AND REGIONAL SERVICES**

INTO

**"INFRASTRUCTURE AND THE DEVELOPMENT OF AUSTRALIA'S REGIONAL
AREAS"**

Introduction

The purpose of this submission is to offer the Committee two specific recommendations which we feel would assist regional Australia:

- (1) Correct the unintended negative impact caused by the privatisation of Australia's regional airports.
- (2) Consider selected subsidies for airfares to/from regional airports where they are servicing regions in economic decline.

Airports: Infrastructure Holding Back The Regions They Are Supposed to Serve

When Australia's airports were privatised they were sold in two groupings.

The high volume Phase I (capital city) airports were historically profitable and growth alone will ensure they continue to be so.

The lower volume Phase II (mainly regional) airports were generally not profitable until they were "prepared for sale".

Rate increases affecting incoming tourists, car parking etc., were implemented without regard to the impact they might have.

Example 1: A small rural airport such as Launceston which had car parking at \$1 a week increased to \$45 over a few short years. (The actual cost of providing the parking on cheap rural land would be close to \$1).

Example 2: Fly-drive tourism (on which some regions disproportionately depend) was hit with a biased system of hidden fees on car rental companies.

A typical 14 day fly-drive tourist to Tasmania or the Northern Territory will pay as much as \$70 to \$140 simply for the right to use the airport.

Car rental companies in Tasmania pay separately for their car parking, desks, wash bay facilities, rates, power etc; there is no service provided for the "turnover fee". (A 1993 Prices Surveillance Authority inquiry made this conclusion but nothing could be done).

Meanwhile a 1 day visiting businessman would pay 1/14th of the fee despite using exactly the same services. The discrimination against tourism is obvious.

Airports such as Launceston, Hobart, Alice Springs and Darwin were (artificially) forced into profitability by monopolistic pricing.

The new outside owners naturally want to keep all those new charges. Worse, they've either already increased them, or, are planning to increase them.

Worse again, the ACCC (a body supposed to be able to protect communities from such an outcome) have proved unable to act, for various reasons.

A strong case can be made that the unfair and inappropriate charges at regional airports were flagged to the new owners before they bought the airports (see attachments).

Recent history, however, suggests they invested regardless, knowing that there were devices to exploit their local monopolies.

The conflict of interest between the airport owners and the regions which their airports serve is now obvious.

Airfare Subsidies: Selectively Applied

The healthy growth of the bigger Australian cities has been fuelled by a centralisation of government and big business services, relentlessly reducing core employment opportunities in the regions. As a result, supporting services such as hospitals, schools, transport and local shopping areas have had their viability undermined.

Compounding these problems is the now rising cost of "rationalised" air transport.

It was logical for Qantas, Ansett and their subsidiaries to seek improved yields and reduced costs on regional routes.

"More appropriate" 50 and 76-seater aircraft have replaced, or are replacing, the 120-seaters.

These lack the economies of scale (you still need 2 pilots) to support lower airfares.

What's worse is that they don't have "otherwise empty seats in the back of the aircraft" which are traditionally filled by discounted tourist tickets.

The progressive cutback in the number of seats that can be discounted is devastating to the tourist and VFR markets (VFR = visiting friends and relatives).

"Comparative pricing" equations are also changing because favourable economies of scale to mainland capitals contrast with diseconomies of scale to the regions.

e.g. a few years ago, Melbourne-Sydney (707 km) airfares were always \$40 or \$50 more expensive than Melbourne-Launceston (476 km) airfares.

However the "standard holiday package airfare" is currently \$238 for Melbourne-Launceston, \$269 from Melbourne-Hobart, but only \$219 for Melbourne-Sydney (despite a much longer journey). This means a relative cost of:

MEL-SYD-MEL	\$219	1404 km	15.6 cents/km
MEL-LST-MEL	\$238	952 km	25.0 cents/km
MEL-HBA-MEL	\$269	1220 km	22.0 cents/km

This differential pricing has probably come about for many reasons, e.g. -

- better economies of scale on the Melbourne-Sydney route; and
- more competition on the Melbourne-Sydney route. (You have the alternative of taking your car and driving your family for the cost of two tanks of petrol).

Whatever the reason these airfares are in sharp contrast to the "standard" airfare formulas of just a few years ago.

These "standard holiday airfares" are undercut from time to time by "specials" but the fact remains that regional Australia is slipping back dramatically in terms of the cost of access for both tourists and people wishing to do business.

There is prima facie evidence that Tasmania suffers from high airfares - not only because it's a low volume route but also because of no competition from road transport.

Consideration could be given to either:

- (a) A system of subsidies on airfares where the subsidy varies according to the economic condition of the region.
- (b) A system of subsidies on airfares (across Bass Strait) in the same spirit that there is a subsidy on motor cars. To subsidise TT-Line (with a capacity of only 10-15% of Tasmania's inbound traffic) doesn't seem fair to the Airlines who provide 85-90% of the capacity.

Footnote:

Our recommendation (1) is split into two parts:

- (a) An immediate freeze on regional airports increasing charges or forcing any new long term contracts.

(We ask this because Hobart Airport is seeking an increase in fees based on a 1st July deadline).

- (b) Perhaps a review by the Committee with the ACCC of our draft submission to the ACCC (attached) regarding what can, or can't, be protected at regional airports.

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DATE: 11th June, 1999

FROM: Andrew Lovitt Return fax no: (03) 6331 2788
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TO: Att: Bronwyn Jagers
Committee Secretary
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SUBJECT: **"Parliamentary Inquiry on Infrastructure and the Development of
Australia's Regional Areas"**

Hello Bronwyn:

I hope the following can be considered in the course of your Inquiry.

We would be only too pleased to elaborate or attend any subsequent hearings if this is thought desirable.

Sincerely

(Andrew Lovitt)