

**GOVERNMENT RESPONSE TO THE REPORT OF THE HOUSE OF
REPRESENTATIVES STANDING COMMITTEE ON TRANSPORT AND
REGIONAL SERVICES**

**'REGIONAL AVIATION AND ISLAND TRANSPORT SERVICES:
MAKING ENDS MEET'**

INTRODUCTION

On 18 June 2002, the then Deputy Prime Minister and Minister for Transport and Regional Services, the Hon John Anderson MP, referred to the House of Representatives Standing Committee on Transport and Regional Services an inquiry into commercial regional aviation services in Australia and alternative transport links to major populated islands. The Report '*Regional Aviation and Island Transport Services: Making Ends Meet*' was tabled on 1 December 2003.

The Australian Government thanks the Committee for its examination of these critical regional transport issues and the recommendations it has presented for consideration.

Terms of Reference

While various inquiries have previously been conducted into surface transport and shipping by the Committee, this is the first to focus solely on regional aviation services and island transport. The focus of the terms of reference was on the Committee's investigations of, and views on, the adequacy of services to regional and rural Australia as well as to major populated islands, and the policies and measures required to assist in the development of regional air services. The Committee was to do so having regard to the role of all three levels of Government in supporting and assisting such services, and the role of major air transport carriers in providing such services.

The Australian regional aviation industry – allowing market opportunities to develop

The aviation industry in Australia and internationally has faced considerable volatility and many challenges in recent years. The events of 11 September 2001, the Bali bombings, the war on terror, a downturn in the world economy and the SARS outbreak combined to cause a major decline in passenger traffic. The difficulties of international airlines had flow-on effects to Australian domestic and regional airlines. Services to regional Australia were further seriously affected by the collapse of Ansett in September 2001. While international and domestic traffic has recovered quite strongly in more recent years, a dramatic increase in fuel prices has created new challenges for the industry.

In the face of these difficulties and the uncertainty they created for the industry, the Government took the view that it should encourage industry based solutions, with support in the form of carefully targeted measures to assist the industry in adjusting to the changed circumstances.

A number of the Committee's recommendations have already been addressed, such as the extension of the Remote Air Services Subsidy Scheme in the 2005 and 2006 Budgets, and the provision of more than \$80 million for regional airport security upgrades. The Government has also responded to identified skill shortages with funding to expand aircraft maintenance engineer training in regional Australia. Specifically in response to the Ansett collapse, the Government provided assistance to airlines through the Rapid Route Recovery Scheme to enable them to continue to serve affected regional communities, as well as through targeted financial assistance

to former Ansett subsidiary airlines. The Government also exempted airlines operating aircraft of less than 16 seats from the Air Passenger Ticket Levy. The Government continues to subsidise some regional air services through the Airservices Enroute Charges Rebate Scheme. The Enroute Charges Scheme was extended until June 2011 as part of the 2007-08 Budget, providing certainty for recipients of the Scheme as well as the regional communities that rely on their services. At Sydney Airport, slots for regional services remain quarantined and aeronautical charges for regional carriers are capped at CPI increases.

Helped by the Government, Ansett's affiliates Hazelton and Kendall Airlines, which merged in 2002 to form Regional Express (Rex), and Skywest have survived and prospered. Rex and Skywest are now profitable airlines, competing with Qantas affiliates on many routes. Overall, the domestic industry has recovered strongly since the tabling of the Report, although the Government recognises that many of the difficulties confronting regional aviation identified in the Report remain. Driven by the industry and communities and assisted by the Government, the regional aviation sector is now better placed to face these challenges.

With some stability having returned to the industry, now is an appropriate time for the Government to respond in full to the Committee's recommendations.

The Australian airline industry is carrying more passengers than at any time in its history. In the year ended 31 December 2006, there were 44.2 million passenger movements on domestic sectors in Australia, an increase of 6.5 per cent on the previous year and 28.1 per cent above the figure for the 12 months immediately preceding the Ansett collapse. Airline productivity is also high, with aircraft load factors measuring 78.1 per cent for the latest year, compared to 75.1 per cent prior to the Ansett collapse. Despite historically high fuel prices, Australia's major airlines remain profitable. The low cost business model, introduced to Australia by Virgin Blue, has also been successfully introduced by Qantas with its Jetstar subsidiary. Airlines remain focussed on reducing controllable costs, while consumers have benefited from the competitive environment. This is evidenced by the fall in the Bureau of Transport and Regional Economics best discount fare index, down from 114.0 in August 2001 to 90.6 in March 2007 (adjusted for CPI).

In 1990 the Australian Government deregulated the Australian domestic aviation market. Since then the Government's policy has been one of liberalisation encouraging market-based outcomes. It is the Government's view that by opening up the market, operators have the opportunity and flexibility to react to market opportunities and changes quickly. Experience continues to show that government interventions distort the aviation market, inhibit industry innovation, and are detrimental to more efficient operators.

The Australian Government has no legislative basis to intervene in the economic regulation of the regional aviation market, apart from competition and consumer policy matters covered under the *Trade Practices Act*. The Australian Constitution gives the state and territory governments power over regional aviation as it is largely an issue of intra-state trade. The Australian Government's focus for regional aviation policy is to facilitate the best possible level of sustainable air services within a market based framework, encouraging a strong, safe and viable regional network of air services.

The issues facing regional aviation set out in the Committee's Report have been developing over a long period of time. During the 1980's and 1990's domestic (trunk) aviation grew by approximately 6 per cent a year, while regional aviation grew by only 1.3 per cent; about the level of population increase and below the rate of economic activity. This reflected the emergence of strong alternatives for regional air travel and the changing travel preferences in regional areas.

The aviation industry is a capital-intensive business, with high fixed costs, relatively low variable costs and highly volatile demand. It sells a highly perishable product, and often finds itself affected by factors largely outside its control. Regional airlines, often operating a small fleet of one or two aircraft, are particularly susceptible to these factors. Issues such as the cost of infrastructure and fuel prices have the capacity to heavily impact on the profitability of regional airline businesses.

It is unlikely that the regional aviation sector will return to the state that prevailed in the decade preceding the collapse of Ansett. Over that period a significant proportion of regional airlines maintained strong links with one of the two major carriers at that time, Qantas or Ansett. This created unsustainable competition on many routes, leading to significant discounts and some routes being artificially maintained by cross-subsidisation from trunk routes operated by the major domestic carriers. This was not sustainable as a means of providing long-term access to regional air services. The major domestic carriers also provided seamless access to the trunk and international networks and computer reservation systems. This access was lost to some regional carriers when Ansett collapsed.

Since then, the challenges for what are now independent regional airlines have been added to by the introduction of low cost carriers. Low cost carriers serving leisure-based routes with modern jet aircraft are able to achieve economies of scale and efficiencies that are not available to airlines operating smaller, propeller-driven aircraft. They have also raised expectations of air travel consumers in regard to affordability of fares, aircraft size and service levels.

On short-haul routes, smaller regional operators face competition from a modern, efficient road network which continues to be improved under the Australian Government's National Land Transport Plan, AusLink. The Australian Government will provide funding for land transport infrastructure of over \$2.8 billion in 2007-08, and \$15.8 billion in total over the first five years of AusLink to 30 June 2009.

It is recognised in the Report that regional aviation continues to experience difficulties unique to its segment of the aviation industry. Many regional routes are only marginally profitable, routes may be thin and unable to sustain competition, and only efficient operators could be expected to survive in the long term. However, while it should be noted that regional aviation has been slower to recover than the domestic sector following the collapse of Ansett, activity in regional aviation began to grow again in late 2003, with activity now significantly higher than in 2003. In 2006, 5.2 million passengers were carried on regional airlines, an 8.1 per cent increase on 2005 and a 25.6 per cent increase on 2003 figures.

Many communities outlined criteria to the Committee they believed defined adequate air services, including regular daily services, cheap and direct flights to main ports and seats available at short notice. Market experience suggests that there is a gap between community expectations and what the industry can viably deliver. On many marginal rural and regional routes a regional airline could not satisfy such criteria and remain viable.

Except in the case of remote communities without reliable alternative means of transport, the Australian Government does not intend to intervene to maintain services, especially where communities have chosen not to patronise services in the past and are increasingly choosing alternative forms of transport for short to medium distance journeys. The Government does not seek to intervene directly in the regional aviation market.

Key findings and recommendations

The Committee concluded that the key issues affecting regional aviation services were costs, returns, service levels, interconnectivity, maintenance of country airports, regulation, and coordination of government policies. These key issues were the basis for the recommendations contained in chapters 3 to 7. The key findings of the inquiry highlight the increasing costs and decreasing returns of many regional air services, and the effect this has on the levels of services.

The Report makes 28 recommendations, some with several parts, covering a wide range of issues from the training needs of the industry, the ongoing maintenance costs of rural and regional aerodromes, the reliance of the populated islands on shipping and the costs to industry associated with government policies and regulations.

The Government, in addressing the Committee's recommendations, did so on the basis that the Government's aviation policy supports an aviation industry that is strong, safe and sustainable, without government interventions to support particular service levels. Government interventions of this nature are often not effective over time and delay the industry from making the necessary adjustments to sustainability. Aviation policy is based on this non-interventionist approach that allows the market to determine optimum service levels. This is consistent with the overall thrust of the Committee's findings and recommendations.

The Government has already taken steps to address several of the concerns reflected in the recommendations. Issues relating to aviation security and government use of smaller airlines for travel have already been addressed with the Government now implementing programmes and procedures in response to those issues.

Some recommendations would require Government intervention in areas where it has no legislative authority, such as in shipping and cargo services to island communities that are part of a state or territory. Regional transport issues, including regional aviation infrastructure and regional intra-state air services, are primarily the responsibility of state and local governments.

The Australian Government has established a clear policy framework for its areas of national responsibility for regional air links, including:

- providing financial assistance to regional carriers following the collapse of Ansett so as to enable the industry to restructure while maintaining essential community air links;
- subsidising operational costs through the Enroute Charges Rebate Scheme which targets services to regional and rural communities;
- subsidising air services to the Indian Ocean Territories from Perth;
- assisting remote indigenous communities with aerodrome inspections;
- subsidising air services to remote communities; and
- establishing funding for upgrades of regional and remote airstrips to facilitate provision of essential supplies, mail, passenger transport and medical care.

The Australian Government expects all states and territories, in response to the Committee's finding and recommendations, to take steps to ensure that their policies and programmes provide the required level of commitment and support to their regional communities.

The Government's responses to the Committee's recommendations are attached.

GOVERNMENT RESPONSE TO RECOMMENDATIONS

Recommendation 1

The Committee recommends that the Australian Competition and Consumer Commission:

- Investigate the anti-competitive behaviour of the operators of computerised reservation systems as it affects regional airlines;
- Report its findings by the end of 2004; and
- Take action against any party found to be abusing its market position with regard to the operation of computerised reservation systems.

Response:

The *Trade Practices Act 1974* (the Act) contains provisions proscribing anti-competitive conduct and consumer protection laws. The Australian Competition and Consumer Commission (ACCC) is an independent statutory authority, responsible for the enforcement of the Act, including investigation of complaints. Should individual aviation operators, or other affected parties, wish to make a specific complaint about instances of anti-competitive conduct in relation to computerised reservation systems, they are encouraged to contact the ACCC.

In the circumstances, the Government does not consider it necessary to provide a specific reference to the ACCC to undertake this work.

Recommendation 2

The Committee recommends that the Department of Transport and Regional Services and the Department of Education, Science and Training in conjunction with the Regional Aviation Association of Australia and other relevant industry bodies:

- Identify management training needs of the regional airline industry;
- Develop and deliver an awareness program that encourages greater uptake of management training in the industry; and
- Develop and deliver a program that improves the business management skills in the industry.

Response:

The Australian Government supports quality training tailored to industry needs and believes that the needs of the regional airline industry can be met through existing arrangements. New arrangements for the National Training System will seek to engage the regional aviation industry in the vocational education and training system.

Industry will play a vital role in the new National Training System, which was introduced following the abolition of the Australian National Training Authority on 1 July 2005. These arrangements include a Ministerial Council for Vocational and Technical Education; a National Industry Skills Committee to provide high level advice to the Ministerial Council; a National Quality Council; and, continuation of Industry Skills Councils.

Industry Skills Councils are funded by the Australian Government to:

- actively support the development, implementation and continuous improvement of high quality, nationally recognised training products and services, including enhancing innovation, rationalising materials where there are cross-industry synergies and improving efficiency; and,
- assist industries, enterprises and their workforce to integrate skill development with business goals and support accurate industry intelligence on future directions, including provision of advice on industry skills and training needs to industry stakeholders, training providers and government.

In fulfilling these roles, Industry Skills Councils are responsible for maintaining a high level of knowledge of the skill needs of the industries they represent, at a national, state and regional level. Management skills are necessarily a focus of these activities.

Industry Skills Councils are responsible for the development of National Training Packages which comprise national qualifications, competency standard and assessments guidelines. These developments feature wide consultation and validation with industry. Where industry has a developing skills need — for example in management skills — industry representatives advise the appropriate Industry Skills Council of that need, and the Council will take forward the development in the context of priorities in their business plan.

National quality assurance arrangements, known as the Australian Quality Training Framework, provide standards for the registration and audit of training providers who can deliver Training Package qualifications and other accredited qualifications.

Training delivered by Registered Training Organisations is nationally recognised. There are existing management qualifications or units of competency in the Business Services Training Package which can be contextualised or customised to meet the business management skills needs of the industry. This is best achieved by consultation between individuals, Registered Training Organisation and employers involved.

Recommendation 3

The Committee recommends that the Department of Transport and Regional Services:

- Investigate the issue of pilot shortage in regional airlines;
- Report on its findings regarding the shortage of pilots by the end of 2004; and
- Develop an appropriate program to expand pilot training in regional Australia along the lines of its program to expand aircraft maintenance training, if a pilot shortage is identified.

Response:

The Bureau of Transport and Regional Economics report *General Aviation: An Industry Overview*, released in April 2005, noted some reported shortages of both pilots and licensed aircraft maintenance engineers in regional Australia. The issue of more detailed investigation of skill shortages is most appropriately one for the regional aviation industry itself. However, the Bureau of Transport and Regional Economics is available to provide input into any investigation that may be undertaken.

The Australian Government has in the past assisted the aviation industry to manage identified skill shortages in certain sectors of the industry through the provision of funding for initiatives such as the development of a new aircraft engineering college at Tamworth Airport. The Australian Government provided \$4.1 million over four years to improve aircraft maintenance engineer training in regional Australia.

The Australian Government has also established an Industry Action Agenda for General Aviation. Action Agendas are a central element of the Government's industry strategy. Their primary purpose is to foster industry leadership, and in doing this they have succeeded in helping industries develop strategies for growth, agree on priorities and make commitments to change.

The Strategic Industry Leaders Group which will drive the Action Agenda has established several working groups to consider specific issues. One such working group will consider education and skills issues in the general aviation sector, including the supply of pilots to the general aviation and broader industry.

The Strategic Industry Leaders Group will report back to Government in the first part of 2008.

Recommendation 4

The Committee recommends that the Department of Transport and Regional Services ensure that small and medium regional aviation enterprises are well represented in the initiatives and benefit directly from the initiatives arising from the Commonwealth's action plan for its *Stronger Regions: A Stronger Australia* framework.

Response:

Under the Government's Regional Partnerships and Sustainable Regions programs, priorities are decided and recommended locally. For the Sustainable Regions Program, each of the pilot regions developed an action plan through their advisory committee. The priority of individual proposals was decided locally after evaluation against priorities listed in the plan. The *Regional Partnerships* programme can provide partnership funding for specific individual projects that meet one or more of the programme's four objectives. While *Regional Partnerships* may provide funding for regional aviation projects, all projects need to demonstrate their merits against the project assessment criteria of: outcomes, partnerships funding, local support, projects and applicant viability, competitive advantage and cost shifting. Area Consultative Committees (ACCs) are key providers of independent advice to the Government on all applications under Regional Partnerships.

Recommendation 5

The Committee recommends a new airport ownership subsidy scheme covering capital works and essential maintenance, as follows:

- For communities with a population above 30,000, assistance is to be provided only on special one-off cases where there is demonstrable evidence of the inability to fund a major runway upgrade or terminal extension; and
- Communities with a population under 30,000, supporting a regional or hub airport with RPT services, to receive a 50 per cent subsidy; and
- Still smaller communities supporting an airport with low RPT, charter and air ambulance to receive a 33 per cent subsidy.

Recommendation 6

In the absence of an airport local ownership assistance program similar to that outlined above, the Committee recommends that the Commonwealth resume ownership and funding of all essential airports in communities with a population under 30,000.

Response:

The Australian Government recognises that maintaining existing airport infrastructure to its current standard is a critical issue for many rural and remote communities. However, it does not consider that specific additional Australian Government funding is necessarily the answer to the range of issues involved.

The Australian Government has no plans to resume ownership of airports in smaller communities. The Government nevertheless recognises the importance of air services to rural or remote communities, and provides funds through certain programs where there is a demonstrable case for supporting regional access, or as part of ensuring the provision of an essential community service. The Australian Government will continue its existing support for remote communities through programs including the Remote Air Services Subsidy Scheme and the Remote Aerodrome Inspection Service. In recognition of the importance of aviation infrastructure to regional and remote communities, the Government has established in the 2007-08 Budget a Regional And Remote Airstrip Funding Scheme to improve the safety of a number of airstrips in remote and isolated areas of Australia. The funding will be available to upgrade up to 300 airstrips on remote and isolated communities. It will be available to repair and upgrade runway surfaces, safety equipment such as runway lighting and airport infrastructure.

The Government also supports small regional operators by meeting the cost of their Airservices Australia enroute charges. The Enroute Charges Rebate Scheme commenced in 2002 and has been extended in the 2007-08 Budget to 30 June 2011. A further \$24 million has been committed to the Scheme with \$6.0 million allocated for 2007-08. The Scheme was expanded to include larger aircraft operating in regional Western Australia from 1 July 2005. This expansion recognises the longer distances travelled in regional WA and helps to ensure that regional communities continue to receive regular air services.

The Australian Government already provides considerable financial assistance to the states and territories through GST revenue distribution and to local councils through

Financial Assistance Grants. As both are in the form of untied grants, these funds may be used for the maintenance or development of regional aerodromes as appropriate.

GST revenue to the states and territories for 2005-06 was \$37.2 billion. The states and territories will, over time, receive more revenue than they could have expected under the Guaranteed Amount of the old tax system. GST revenue can be used in any areas of their responsibility, such as intra-state infrastructure maintenance and upgrade.

For example, the Regional Airports Development Scheme (RADS) in Western Australia is designed to assist the development of airport infrastructure. Through RADS, the State works in partnership with airport owners, providing assistance to develop regional airport infrastructure that meets access needs and contributes to regional economic growth. The Queensland Government also operates a Regional Airport Development Scheme to assist local government in the upgrade of regional and remote airport infrastructure, while the Northern Territory Government provides funding for 72 Strategic aerodromes throughout the Territory. The Australian Government acknowledges this form of support provided by state and territory governments.

Australia's local governments also receive over \$1.5 billion annually from the Australian Government through the Financial Assistance Grants (FAGs) programme. The 2007 Budget allocated \$1,749.4 million in financial assistance grants for 2007-08. The funding consists of \$1,211.7 million in general purpose grants and \$537.7 million for local roads. All the grants are untied, which means that councils can spend them on the priorities determined by their local community, including local aerodromes. It is the role of local government as the airport owner to determine with their communities what is the level of service they require from their aerodromes.

One of the difficulties highlighted by the report was that many aerodromes fail to meet the costs of ongoing maintenance and capital improvements because they have no revenue income from a regular passenger air service. The Government recognises that many local governments will continue to seek direct air services to their towns, and will, as a consequence, continue to fund maintenance programmes at airports to maintain these airports to RPT standards. However, the desire of communities to retain scheduled air services may not necessarily match the demand for those air services. The Committee acknowledged this in the report, urging "councils to look at the broader picture, and attempt to meet more realistic expectations. Councils should focus on what is sustainable, and maximise gains on the valuable rate payer dollars they have to spend."¹

The Australian Government supports local government taking steps to better utilise their aviation infrastructure, including the further rationalisation of airports, especially where there is a number of airports servicing nearby districts.

The Committee stated that there might be an opportunity for some smaller regional aerodromes to close in order to save considerable money for councils. Local owners of aerodromes should consider the proximity of other aerodromes within the region,

¹ See Page 98 of the "Making Ends Meet" report.

and, with the community, decide what constitutes an essential aerodrome, before deciding on the allocation of funding. This approach is supported by the Committee's own finding that people generally choose to drive for three to five hours because roads are good or improving and road transport is more convenient and represents better value than flying. Communities might consider broader transport solutions as an alternative to maintaining multiple aerodromes capable of handling RPT services in a region. In this regard the Committee has suggested that councils examine integrated passenger movement systems, such as commuter bus systems to transport people to main regional centres that have an RPT service.

A cause of the decline in RPT services to many regional areas is a lack of demand and community support for the services. The Bureau of Transport and Regional Economics study into regional public transport, *Regional Public Transport in Australia*, (Working Papers 51 and 54, 2003) confirms that the Government's policy objective of market based outcomes, based on the actual demand for services, remains sound. While identifying that there are a number of influences on the choice of travel, such as income, purpose of travel and age of passenger, the study found that air travel accounts for only 3.5 per cent of all regional trips, but accounts for 65 per cent of trips over 1200kms. This reflects steady improvements in road and car quality, encouraging land travel for shorter trips. The vast majority of regional trips (91 per cent) are taken by private car. Given these findings, which the Committee recognised, the Australian Government does not believe that attempts to maintain aerodromes to RPT standards are warranted where RPT services are unlikely to start, continue or resume following cessation.

Recommendation 7

The Committee recommends that funding for the Remote Air Service Subsidy scheme should be maintained to at least the current 2003-04 level.

Response:

Remote Air Services Subsidy (RASS) funding was increased by an additional \$7.7m over four years in the 2004-05 Budget. The additional funding has enabled existing weekly services to be maintained to RASS ports and new applicants to be admitted to the scheme.

The 2007-08 Budget included a total provision of \$4.4 million for RASS funding in 2007-08.

The RASS scheme ensures that weekly air services are provided to communities which would otherwise have no regular access to transport. Approximately 235 remote and isolated stations and communities currently receive a weekly RASS service.

Recommendation 8

Subject to the findings of the Joint Statutory Committee on Public Accounts and Audit's inquiry *Review of Aviation Security In Australia*, the Committee recommends that, for communities with a population under 30,000, the Commonwealth Government should assist with the provision of appropriate security measures where risk assessments indicate that security upgrades are required.

Response:

The Government has acted to address concerns about security at regional airports.

The aviation security system is threat-driven and risk-based. The package of measures applying at regional airports significantly expands the aviation security regulatory regime to safeguard the long-term security of Australian aviation and the travelling public.

The aviation security regulatory regime has been expanded to cover all airports handling regular public transport. Approximately 180 airports are now security regulated. The expanded regime also covers operators of freight aircraft, charter flights, and private and corporate jets. The Government requires appropriate security measures based on individual risk assessments and comprehensive security programs to be implemented.

Following a comprehensive assessment of aviation security, the Government decided to fund a grants program to assist airports that had previously not been regulated under aviation security legislation to implement security measures.

The Government has committed \$36.5 million under the Regional Airports Funding Program (RAFP) to assist 150 airports to implement basic security infrastructure. Eligible airports are able to access funds to upgrade basic security in accordance with their security risk assessment and Transport Security Program.

The Australian Airports Association (AAA) has been contracted to establish and manage funds under the RAFP on behalf of the Australian Government. The AAA is the peak industry body for airports in Australia and is assisting with delivering fair, consistent and comprehensive funding support across Australia for airports that are new to the regulatory regime.

New security controlled airports also have access to the initiatives under the *Securing our Regional Skies* programme. The programme includes:

- Airport and Airline Training at Regional Airports to deliver the necessary support to ensure that regional airline and airport staff are aware of the enhanced aviation security requirements and provided with education and training on aviation security issues (\$6.5 million over 4 years).
- Funding for joint police training between state and territory police, the Australian Federal Police and state emergency services to provide regional airports with training on aviation security matters (\$6.9 million over 4 years).

- Metal Detector Capability at Regional Airports to provide local capability for regional airports to conduct basic passenger scanning in the event of an elevation to the threat level. This new measure includes hand wand metal detection equipment and basic security guard training, according to state-based criteria, followed by additional aviation security training, for regional airport staff at 145 airports (\$8.5 million over 4 years).
- A closed circuit television (CCTV) trial was conducted at four regional airports. Airports under the trial were subject to up to 24-hour a day surveillance. Results of the trial are being considered by the Department (\$3.3 million).
- Federal Police Regional Rapid Deployment Teams (RRDT) based in Brisbane, Melbourne, Perth and Sydney provide a Counter Terrorist First Response (CTFR) capability and an active deterrent against terrorist threats at Australian regional airports (\$20.7 million over five years).

In response to the threat of serious and organised crime at airports, the Government appointed Sir John Wheeler to conduct a review of security at Australian airports in June 2005. Sir John presented his report "An Independent Review of Airport Security and Policing for the Government of Australia" to the Government on 12 September 2005.

The report made 17 recommendations dealing with a range of issues including policing roles and responsibilities at airports, the procedures for background checking and the flow of information and intelligence to airport operators as well as Australian Government agencies.

The Government accepted the thrust of the Review's recommendations and agreed to provide funding of \$195.5 million in new initiatives to further tighten security and policing at Australia's major airports.

The key measures announced on 21 September 2005 include:

- five new Joint Airport Investigation Teams at Sydney, Melbourne, Brisbane, Adelaide and Perth airports to address serious and organised crime (\$40.9 million);
- increased air-side Customs border patrols at Sydney, Melbourne, Brisbane, Adelaide, Perth, Darwin and Cairns airports to provide a more visible presence to deter and respond to criminal activity (\$48.7 million);
- a further upgrade to the Customs closed circuit television (CCTV) capabilities, including assistance for airport operators and additional cameras at major airports (\$19.8 million);
- \$38.0 million to strengthen air cargo security arrangements, including the introduction of improved technology for the detection of explosives;
- improved security and crime information exchange arrangements for aviation (\$43.9 million);
- an immediate review of the *Aviation Transport Security Act 2004* and associated regulations;

- further tightening of background checking and processing arrangements for the issue of Aviation Security Identification Cards (ASIC); and
- a new national aviation security training framework to support the aviation industry (\$3.8 million).

An additional \$644 million was announced in the 2006 Budget as a further response to the Wheeler Report, bringing the Government's total commitment to \$886 million. Initiatives announced as part of the Budget include:

- providing \$354.6 million to improve community policing at airports;
- \$176.3 million for additional Counter Terrorism First Response capability at Australia's major airports. This is on top of the Government's commitment of \$12.7 million per annum for the CTFR function and \$1.1 million per annum for CTFR canine capability; and
- a further \$48.3 million toward strengthening air cargo security.

An additional \$15.4 million was announced in the 2007-08 Budget to assist 26 regional airports with the introduction of security screening of checked baggage. The funding will be used to provide explosive trace detection equipment to 26 airports and to fully or partially fund x-ray screening equipment at 18 airports. The degree of funding provided for x-ray equipment will depend upon the number of passenger movements at the airport. Passengers flying on jet services from regional airports will now be provided with the same security screening as those flying from one of the 11 major airports.

Recommendation 9

The Committee recommends that the Commonwealth should extend its programs to assist additional remote northern Australian communities.

Response:

The Government currently assists some 235 remote and isolated communities to access air transport services for the carriage of passengers and goods, through the Remote Air Services Subsidy (RASS) scheme. Most of these communities are located in remote northern regions of Australia.

In addition, the Government, through the Remote Aerodrome Inspection Programme, provides aerodrome inspection services and technical advice to 58 remote northern Australian Indigenous communities in the NT, WA and QLD. These communities rely on air services but lack the technical expertise and resources necessary to conduct the necessary safety inspections.

The Government has also announced in the 2007-08 Budget that it will provide \$22 million over the next four years (\$1.5 million in 2007-08) to establish a Regional and Remote Airstrip Funding Scheme to improve the safety of up to 300 airstrips in remote and isolated areas of Australia.

The funding will be available to repair and upgrade runway surfaces, safety equipment such as runway lighting and navigation aids, and infrastructure such as fences and gates.

Recommendation 10

The Committee recommends that the Department of Transport and Regional Services work with the Tasmanian Government to bring about an improvement in cargo services to Flinders Island.

Response:

The Government does not support this recommendation.

Issues related to the transportation of cargo to and from Flinders Island are appropriately the responsibility of the Tasmanian Government.

Recommendation 11

The Committee recommends that the Department of Transport and Regional Services works with the South Australian Government to examine the possible solutions suggested by the Committee to improve ferry services and port and wharf facilities for Kangaroo Island, including:

- Introduction of fair competition; and
- State Government contribution to maintenance and upgrade of port and wharf facilities.

Response:

The Government does not support this recommendation.

The Australian Government supports and encourages competition in all transportation services. Ferry services to/from ports on Kangaroo Island are the responsibility of the South Australian Government. The provision of state government funding for the maintenance and upgrade of port and wharf facilities for Kangaroo Island is a decision for the South Australian Government.

Recommendation 12

The Committee recommends that, as per the findings of the Commonwealth Grants Commission, Norfolk Island receive Commonwealth assistance in upgrading or renewing its shipping infrastructure facilities.

Response:

The Government notes this recommendation

The Australian Government provided \$6.36 million to the Norfolk Island Government over the 2005-06 and 2006-07 financial years to refurbish the Kingston Pier in keeping with the pier's heritage qualities and position as a key loading and unloading point for the Norfolk Island community.

The Australian Government investigated alternative governance models for Norfolk Island in 2006. It decided not to change governance arrangements on Norfolk Island as it considered that changes could impose significant disruption to the fragile economy and also took into account the efforts of the Norfolk Island Government to increase revenue and promote tourism growth. Shipping and the delivery of goods to Norfolk Island remain matters for the Norfolk Island Government.

Recommendation 13

The Committee recommends that the Commonwealth Government accept the recommendations outlined in the *Delivering the Goods* report by the Joint Standing Committee on the National Capital and External Territories, especially in respect of an appropriate subsidised vessel for heavy freight.

Response:

The Government does not accept this recommendation.

In the absence of a port facility on Norfolk Island this recommendation is not considered practical at this time.

Recommendation 14

The Committee recommends that the Department of Transport and Regional Services works with the Northern Territory Government to conduct, on a subsidised trial basis, a passenger ferry service to the Tiwi Islands.

Response:

The Government does not support this recommendation.

Transportation of passengers to/from the Tiwi Islands is appropriately the responsibility of the Northern Territory Government.

Recommendation 15

The Committee recommends that the Commonwealth:

- Recognise the exceptional circumstances that exist in regional aviation markets in its review of state and territory compliance with National Competition Policy, and agree to states and territories regulating intra-state regional aviation markets where such exceptional circumstances exist; and
- Strengthen the public interest test of the National Competition Policy by specifically requiring regional aviation and island transport policies to be assessed against the interests of rural and regional communities.

Response:

The Committee Report urges that recognition be given to the “exceptional circumstances that exist in the regional aviation market which make the imposition of unbridled competition unsuitable”. Specifically the Report seeks the introduction of a requirement that specific “regional issues” are considered when assessing the public benefit argument for retaining restrictions on competition in accordance with clause 5 of the *Competition Principles Agreement* (the Agreement).

The Australian Government considers that the findings of the Committee Report do not require an amendment of the Agreement. As it stands, in undertaking a cost/benefit analysis to support a public benefit argument for retention of competition restrictions, social welfare and equity, regional development and the interests of a class of consumer, are matters that, *inter alia*, should be taken into consideration. The Committee Report notes that these factors might be used by states and territories to argue their case for restricting competition in the regional aviation market.

In its 2003 assessment, the National Competition Council (NCC) indicated that it was satisfied with the public interest arguments provided by the Queensland Government in support of retaining restrictions on regional air service under the *Transport Operations (Passenger Transport) Act 1994* which regulates, *inter alia*, services to some remote areas. These services are regulated through exclusive service contracts that specify minimum service levels, such as aircraft type, frequency of service and fares. A National Competition Policy review of this legislation found that these restrictions were in the public interest because the contracted operators provide services that otherwise would not be available, or would be available only at a greater cost or with lower service levels.

Recommendation 16

The Committee recommends that the Commonwealth:

- provide the resources necessary to the Bureau of Transport and Regional Economics for the timely collection, interpretation and public provision of data and information, particularly though not exclusively, in regard to:
 - consumers services and prices;
 - congestion in the aviation system and interfaces;
 - connectivity available to regional passengers from regional airlines;
 - regional services activity;
 - share of the domestic market held by each operator;
 - the origin and destination of domestic and regional trips;
 - airport charges, including charges levied by regional airports; and
 - air freight; and
- through the Department of Transport and Regional Services, publicly report on the health of the regional aviation industry at least once every two years.

Response:

One of the core tasks of the Bureau of Transport and Regional Economics (BTRE) within the Department of Transport and Regional Services is the collection, maintenance and publication of a range of data and information relevant to Australian domestic and regional aviation. This is done through its *Avstats* publications and through the biannual publication *Avline*, both of which are published free of charge on the Bureau's website (www.btre.gov.au). BTRE also has a research project in progress into trends in regional services and access. This report is expected to be published later in 2007.

Avstats and *Avline* together provide the central national public source of information about the aviation industry and are widely used. The *Avstats* releases routinely provide monthly statistics on numbers of passengers carried, load factors and aircraft types by route, where possible, from all operators flying scheduled services in Australia, including regional services. By agreement with the airlines, publication of this information is limited to industry aggregates and to competitive routes carrying at least 8,000 passengers per month (currently 49 routes, 30 of which involve a non-capital city).

Avline routinely presents information about airport taxes and charges and BTRE also provides the unique national source of public information about air ticket prices through its domestic air fares index.

In addition to maintaining existing data collections, BTRE has also been working with airlines to improve the data and information available to policy and industry analysts and to the general public. The Government relies on the continued cooperation of the industry to further these efforts. Recent accomplishments include:

- Increase in the number of published airline routes (passenger number and load factor information), from 25 to 49, most of the new routes being regional services.
- Publication of additional time series information on passenger numbers, revenue passenger kilometres (RPKs) and available seat kilometres (ASKs).

- Public reporting, with the agreement and support of the major carriers, of airline on-time performance. The first reports were published in March 2004.
- Expansion of BTRE domestic air fares index to include Internet-based fares. This data series will allow analysis of fare movements with regard to availability of seats. This data collection was established through 2003 with the first scheduled monthly reports published in February 2004.

BTRE's efforts in collecting statistical information from industry, particularly smaller regional operators, need to be balanced against the Government's overall policy objectives for the aviation industry. While collection and publication of data on regional routes can provide information to the public, industry and potential new entrants on conditions in these markets, the Government is mindful of the compliance burden that can sometimes fall on small operators in collecting and reporting detailed information. In collecting and publishing such information, confidentiality of commercially sensitive data also needs to be considered in the best interests of the industry and individual operators.

Further improvements in data availability are possible with the cooperation of the airline industry. BTRE will maintain an open dialogue with airlines to continue to explore potential areas of improvement. However, this should continue with the support of the industry and be mindful of the potential cost burden that increased regulatory compliance requirements can have on operators of regional aviation services.

Recommendation 17

The Committee recommends that the Department of Transport and Regional Services and Airservices Australia introduce a universal service charge for aviation rescue and fire fighting services at regional airports to reduce the wide disparity in the charges for those services and to reduce the overall impact of the charges on regional aviation costs.

Response:

The Government is concerned to ensure that cost pressures on the aviation industry are minimised as the industry continues to adjust to the shocks of the past few years. The Government has worked hard to ensure that its policy settings are geared towards fostering as strong and sustainable an industry as possible.

Airservices Australia (Airservices), the primary provider of aviation rescue and fire fighting services (ARFFS), sets its charges at a level that seeks to fully recover Airservices' costs of providing the service. The Australian Competition and Consumer Commission (ACCC) approved the methods by which the charges are determined. Any changes to Airservices' prices are subject to a transparent and independent examination by the ACCC under the *Prices Surveillance Act 1983*. This process encourages external submissions and stakeholder comment. Regional stakeholders, including regional gateways, have every opportunity to contribute their views to this review.

Following an extensive review of ARFFS prices, the ACCC endorsed a new pricing structure on 21 December 2005, which took effect on 1 January 2006 until 30 June 2009. The new pricing structure is no longer location-specific where charges reflect the cost at each location providing an ARFFS, and where destinations with low volumes of airline activity have the highest charges. There is now an element of cross-subsidisation which has seen a significant reduction in ARFFS prices at regional and smaller airports. The prices were received favourably by regional stakeholders.

The new structure is a balanced approach for dealing with the pricing inequities that existed under the full location-specific pricing policy that Airservices previously applied to ARFFS. They fulfil the Government's commitment to ensuring that Airservices' long-term pricing decisions maintain the provision of affordable aviation services including at regional and smaller airports.

The Government remains committed to introducing contestability for the provision of aviation rescue and fire fighting services. In that regard, the Department of Transport and Regional Services has prepared a Discussion Paper for consultation with interested parties on a range of ARFFS issues including the introduction of contestability. Other issues the Paper is addressing include the most appropriate establishment criterion for the provision of ARFFS at domestic airports, who should have the primary responsibility for ensuring the provision of ARFFS, and the most appropriate timing for establishing ARFFS.

Recommendation 18

The Committee recommends that:

- The Department of Transport and Regional Services and Airservices Australia form a working group with key stakeholders (such as the relevant local government associations, town planning and standards bodies) to advise on the strategic and optimal co-location of fire fighting services; and
- Airservices Australia provide the initial aviation rescue and fire fighting equipment and crew training, at no cost, to communities where fire fighting services become co-located

Response:

The Government understands the concern to ensure airport fire services are efficiently provided, but does not consider that the primary responsibility should rest with the Commonwealth.

The responsibility for the provision of fire fighting services to communities is principally one for state and local government. As such, the development of proposals and strategies for effective co-location of fire services for airports and communities is best initiated by individual airports in consultation with their users, local governments and local fire brigades. Any such strategy could then be presented to Airservices for consideration.

However, it is important to note that there may be a considerable cost to regional communities if the fire fighting service for a major airport was co-located to accommodate both the town and the airport. To meet aviation requirements, a combined town and airport fire service would need to be located close enough to the airport to enable it to respond in the 3-minute timeframe mandated by the Part 139H of the Civil Aviation Safety Regulations 1998, which set the standards for the provision of aviation rescue and fire fighting services. This may have safety implications for the community if the airport's distance from the town affects the fire brigade's response time.

Recommendation 19

The Committee recommends that the Department of the Treasury:

- Review the taxation arrangements relating to the replacement of small ageing aircraft by the end of 2004;
- Publicly report the findings of the review by the end of 2004; and
- If justified, introduce provisions in the taxation legislation that assist the owners of small ageing aircraft to replace these aircraft; or
- Introduce incentives to assist in the replacement of aged aircraft.

Response:

The Government does not support this recommendation.

The Committee's recommendation addresses claims that the tax treatment potentially faced by many operators is a strong disincentive for operators to upgrade into new aircraft.

As noted by the Committee, the decision by an operator to purchase an aircraft involves a number of factors and considerations other than taxation, in particular profitability. In this context, the Government notes comments to the Committee that running costs (for example lease/loan payments, maintenance costs and wages) could tend to heavily outweigh lump sum payments such as the tax that may be payable to upgrade an aircraft.

The existing depreciation and company tax arrangements were introduced in response to the Review of Business Taxation (RBT). Under the RBT, accelerated depreciation for plant and equipment (including aeroplanes) was replaced with a system under which depreciation rates are determined by reference to the effective life of the investment asset. The removal of accelerated depreciation and the balancing charge offset contributed in a significant way to funding a lower and more competitive 30 per cent company tax rate. The new system increased economic efficiency by broadening the tax base, thus reducing distortions, tax law complexity and compliance costs. As for all businesses, small airline operators are likely to already benefit from the improved company tax arrangements flowing from the RBT.

Importantly, the Government has already put in place measures to assist aircraft owners. Under the current system a 10-year statutory cap, introduced by the Government, applies to the effective lives of most aeroplanes. This compares with the Commissioner of Taxation's effective life determination of 20 years for aeroplanes generally. The Report notes that many small aircraft are more than 20 years old and some are 30 to 40 years old. As well, the Government announced in the 2006 Budget that the diminishing value rate for determining depreciation deductions will be increased from 150 per cent to 200 per cent for eligible assets acquired on or after 10 May 2006. This will increase incentives for Australian business to invest in new plant and equipment and make it easier for business to keep pace with new technology and to remain competitive.

Furthermore, small aircraft operators may also receive a concession, in the case where they have elected to use the Simplified Tax System (STS), which is available to small businesses with a three-year annual average turnover of less than \$1 million. This

system offers a simplified depreciation regime in which depreciable assets with effective lives of less than 25 years and costing at least \$1,000 (such as aeroplanes) are pooled and depreciated at the diminishing value rate of 30 per cent

The STS dramatically reduces paper work by removing the need to maintain asset schedules and also effectively retains accelerated depreciation. In addition, under the STS, tax is not payable on the sale of a depreciable asset unless the value of the sale is greater than the depreciated value of pooled assets. Otherwise, the selling price of a depreciated asset is simply subtracted from the depreciated value of pooled assets.

Recommendation 20

The Committee recommends that the Department of Finance and Administration and the Department of Transport and Regional Services ensure that regional airlines have an equitable share of the Commonwealth's travel market by:

- Setting an objective share of key routes used by the Commonwealth and an overall share of the Commonwealth travel market, consistent with 'best fare of the day' and 'value for money';
- Auditing the compliance of Commonwealth departments and agencies with criteria based on 'objective share of key routes used by the Commonwealth', 'best fare of the day' and 'value for money'; and
- Publishing the results of the compliance audit.

Response:

The Government has set in place policies to facilitate fair access to Government business for airlines. Actions that have been taken in response to the Government's policies include:

- the establishment of the Air Travel Forum for the exchange of ideas and better practices between agencies;
- the release, by the Department of Finance and Administration (Finance), of Finance Circular 2004/13 *Guidance on Best fare of the day (BFOD) for Domestic Travel*; and
- the engagement, by Finance, of airlines and Travel Management Companies in ongoing discussions about issues related to fair airline access.

The Government's policies help ensure the presence of non-discriminatory market conditions in which an airline can increase its market share if it provides a suitable product. Notwithstanding this, airline viability is predominantly dependent on other various factors such as the cost of the service provided, productivity improvements and the successful capture of the business traveller and tourist markets.

The Government's policies to facilitate fair access are a preferable alternative to policies which direct business to particular suppliers. Such policies are distortionary, generally require significant resources and deliver dubious overall benefits.

Recommendation 21

The Committee recommends that the Department of Finance and Administration monitor and report on the effectiveness of the 'best fare of the day' policy by:

- Conducting periodic, random and anonymous spot checks to determine the fare offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, and how this fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel; and
- Reporting the results of these spot checks to the Minister for Finance and the Minister for Transport and Regional Services.

Response:

Best fare of the day is the cheapest fare that meets the business requirement of the traveller. The cost of fares may be impacted by the timing and seat availability of the required flight. Travelling decisions should also take account of the cost of officials' time where relevant.

The Department of Finance and Administration has implemented arrangements to highlight and support best fare of the day policy by:

- implementing monthly reporting of small airline travel on an agency basis; and
- holding monthly Air Travel Forum meetings at which agencies exchange ideas on air travel best practice.

This supports the policy guide to Government agencies, Finance Circular 2004/13 Guidance on best fare of the day (BFOD) for Domestic Travel.

Agencies are responsible, under the devolved financial management framework, for the implementation of the policy within their agency.

Agencies' travel management policies seek to ensure the consistent achievement of best fare of the day and appropriate competition for their air travel business. Their travel management framework supports their ability to consistently achieve best fare of the day and ensure appropriate competition for their air travel business. Agencies have contractual arrangements with Travel Management Companies that:

- mandate that officers travelling on Government business be offered best fare of the day; and
- contain mechanisms for the monitoring of service delivery.

Recommendation 22

The Committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney airport and other capital city airports.

Response:

The Government accepts this recommendation and has already put in place measures to ensure continuing regional aviation access to our capital city airports.

Access by regional airlines to Sydney Airport is guaranteed through the 'ringfence' arrangements under the Slot Management Scheme, legislated by this Government under the *Sydney Airport Demand Management Act 1997*. The Government has publicly confirmed the continuation of these arrangements on a number of occasions, most recently by announcing the approval of Sydney Airport's master plan in 2004. These slot arrangements provide a balanced approach to addressing the competing demands on Sydney Airport including access by regional airlines.

The lease arrangements for the capital city airports require that the airports provide access for intrastate operations. The airport leases are long term (50 years with a 49 year option) and these regional access provisions are not open to negotiation.

Recommendation 23

The Committee recommends that the Department of Transport and Regional Services:

- Verify the adequacy of regulation impact statements for amending aviation safety regulations prepared by the Civil Aviation Safety Authority; and
- Assess that the cost impacts calculated are reasonable and justified, taking into account the importance of regional aviation to regional, rural and remote communities.

Response:

The Government recognises the importance of ensuring the adequacy of Regulation Impact Statements (RISs) prepared by the Civil Aviation Safety Authority (CASA), and that the cost impact analysis is reasonable and justified and takes into account the importance of regional aviation for rural and remote communities.

The verification of the adequacy of RISs is the clear role of the Office of Regulation Review (ORR), within the Productivity Commission. As part of the Government's response to the *Report of the Taskforce on Reducing Regulatory Burdens on Business* (the Banks Report), the ORR has been strengthened and reoriented, becoming the Office of Best Practice Regulation (OBPR). The OBPR will work closely with government agencies as they develop policy proposals in order to prevent the generation of unnecessary, inappropriate or inefficient regulation. The Government has also mandated appropriate levels of regulatory analysis, including through the use of the 'Business Cost Calculator', which was developed by the Office of Small Business to quantify in dollar terms the compliance cost of proposed regulatory options.

Furthermore, the Government has endorsed the six principles of good regulatory process set out in the Banks Report, namely: Governments should not act to address 'problems' until a case for action has been clearly established; a range of feasible options need to be identified, including self-regulatory and co-regulatory approaches; only the option that generates the greatest net benefit for the community, taking into account all impacts, should be adopted; effective guidance should be provided to relevant regulators and regulated parties on the policy intent and compliance requirements for the regulation; there should be mechanisms in place to ensure regulation remains relevant over time; and effective consultation with regulated parties.

The OBPR will verify the adequacy of the RIS by ensuring that the standard of analysis meets the minimum standard required by the Government. In October 2005, the Government announced its commitment to strengthen existing arrangements regarding new regulation to require a more rigorous use of cost-benefit analysis. The level of analysis required in a RIS must be commensurate with the likely impacts of the proposal. The Productivity Commission is required to report annually on compliance with RIS requirements by government departments and agencies.

Assessment of the cost impact analysis is CASA's responsibility and in this regard, and it will work closely with the OBPR to incorporate the government's regulatory analysis requirements into its regulation-making processes. This will include an assessment of the costs and benefits of regulatory change, including any impact on

competition in the market, and in particular, the impact of legislation on small aviation operators. This ensures that CASA has a thorough analytical process in place to guide regulatory change projects. Accordingly, CASA takes into account the impact of regulatory change on regional aviation.

While the Department is not responsible for verifying the adequacy of CASA's RISs and the associated cost-benefit analysis, it does have an oversight role in CASA's regulation-making process. The Department examines each regulatory package from a whole-of-government policy perspective, not just the aviation safety impacts.

The Department's role has been enhanced through a package of reforms and initiatives implemented under the *Civil Aviation Amendment Act 2003*. In this regard, the Department is taking a more proactive role by providing advice at all stages of CASA's rule-making process and generally having greater involvement, through its representation at meetings of the Standards Consultative Committee (SCC), an independent committee that scrutinises proposed regulations, and at the associated SCC sub-committee meetings.

The Department will also participate in Regulatory Advisory Panels (RAPs) which are established at the direction of CASA's Chief Executive Officer (CEO). The RAPs are intended to provide an additional layer of independent scrutiny of all regulatory packages, and advise the CEO on any issues that arise in the course of the regulation-making process.

The CASA Statement of Expectations includes the Government's expectation that CASA ensures that aviation safety regulations target known safety risks, are supported by credible and appropriate safety analysis, and do not unnecessarily inhibit the dynamism and vibrancy of the aviation industry.

In this regard, new regulations relevant to small aircraft that provide regional and island transport services are under development as the proposed Part 135 of the Civil Aviation Safety Regulations, titled *Air Transport Operations – Small Aeroplanes*. As a result of a review commissioned by CASA's CEO, which was undertaken by CASA and industry representatives, the proposed regulations will adopt a risk management approach by allowing a graded response to air safety risk, thereby ensuring that the regulations are not too onerous on small aircraft operators and do not impact on their ability to continue operating.

Recommendation 24

The Committee recommends that the Civil Aviation Safety Authority introduce into its service charter mandated response times and fixed and fair prices for its services.

Response:

The Government acknowledges that CASA must provide the highest standard of response time possible and that the industry would like certainty, but does not agree that this recommendation is the best way to achieve this. The Government is satisfied that a number of initiatives implemented recently have enhanced, and will continue to enhance, CASA's response times.

Continuous improvement in CASA services, processes, techniques, systems, knowledge and information management including measuring and publishing agreed service levels for regulatory activities is a key objective of CASA's Corporate Plan.

CASA has established a Service Centre as a one-stop-shop and first point of contact to centralise the process for approving civil aviation authorisations, and to provide a tracking system.

The working relationship between CASA and the aviation industry is a key focus for CASA in their Corporate Plan through responsiveness, flexibility, listening to industry, and operating in an atmosphere of mutual respect.

CASA is also utilising a number of other initiatives including enhanced work practices, consistency in decision-making, the development of user-friendly guidance material, and simplified application forms. CASA has, for example, introduced a Special Purpose Lane to process simple, non-complex variations to, and the subsequent issue of, AOCs, and it has established an Agricultural Unit which processes specific AOC applications to simplify the entry control process for aerial agriculture operators.

The Statement of Expectations for CASA emphasises the qualities of a good regulator that the Government expects to be entrenched in CASA's culture, including attributes such as consistent and predictable decision-making based on transparent processes; effective, efficient and timely operations; providing a high level of client service; and treating clients with consideration and courtesy. In accordance with the charter, CASA has developed a comprehensive and publicly transparent complaints handling mechanism.

It is not possible to mandate response times in CASA's service charter due to legislative requirements under the *Civil Aviation Act 1988* (the Act). Mandated response times would not always be consistent with safety outcomes or the complexity of matters that CASA processes.

For example, when issuing Air Operators Certificates (AOCs), s.28 of the *Civil Aviation Act 1988* (the Act) requires CASA to be satisfied that an applicant has complied with, or is capable of complying with, the provisions of the Act that relate to safety before it can issue the AOC. Many of the matters in which CASA needs to be

satisfied are in the control of an applicant and CASA cannot make a final determination until the required information has been provided.

In December 2002 the Government agreed to the implementation of a long term funding strategy which included a full cost-recovery review of CASA's services. During the review, CASA examined its activities and costs in line with Government guidelines, to make sure that it delivers a cost-effective and efficient service to government and the aviation community. The strategy has seen an increase in the level of CASA's cost recovery for regulatory services, but the Government's recovery guidelines require consultation and a cost recovery impact statement.

CASA's fees and charges are levied in accordance with the Civil Aviation (Fees) Regulations, which were introduced in 1995.

CASA's fees are generally limited to regulatory services that result in the issue of a licence, certificate or other permission. Fees are charged in several different ways. About two thirds of fees are charged at an hourly rate, as specified in the Fees Regulations. In response to feedback from industry, CASA has implemented fixed fees wherever possible. While some individual services will take less than this average time, others will take longer, but in each case the fixed fee is payable.

CASA will consult further with industry on its overall cost recovery initiative to ensure that the most appropriate and efficient mechanisms are adopted.

CASA is expected to continue to undertake a rigorous review of service delivery methods, operating costs and the way that it undertakes its core work functions. It is expected to identify potential savings by removal of duplicated activities, market testing non-core functions where appropriate, and undertaking re-engineering and skill realignment for the delivery of core services and safety functions.

Recommendation 25

The Committee recommends that the Civil Aviation Safety Authority:

- Review its training processes to ensure consistency of the Civil Aviation Safety Authority's interpretation of the law and regulations;
- Introduce an ongoing program of staff training in regulation interpretation to ensure improved consistency of the Civil Aviation Safety Authority's interpretation of the law and regulations; and
- Regularly assess and record in its annual report, the levels of knowledge and competency of its staff in interpretation of the law and regulations.

Response:

The Government agrees with the need for CASA to be a 'best practice' safety regulator and further measures are being put in place to improve CASA performance.

CASA's Office of Legal Counsel (OLC) provides training on legal issues, including legal interpretation, to all of its Area Offices. A system of aviation rulings has also been introduced to provide a consistent CASA approach in the legislative provisions that may be ambiguous or open to several different interpretations. OLC has also provided training to CASA Area Offices on the new enforcement provisions introduced under the *Civil Aviation Amendment Act 2003*.

In addition to the OLC training, CASA's Learning and Development Section, in conjunction with technical experts, runs a number of programs throughout each year in relation to specific Civil Aviation Regulations. This includes training on:

- Regulation 37 of the Civil Aviation Regulations 1988
- Certificates of Airworthiness
- Human Factors for the Safety Regulator
- Dangerous Goods Acceptance Course
- Reduced Vertical Separation Minimum and Required Navigation Performance approvals
- Reliability Methods in Maintenance
- Balloon Maintenance Course
- Large Aeroplane Performance course
- Surveillance Program Manual training
- Safety Management Systems
- Legal Audit Skills Program
- Audit Report Writing
- Aviation Law/Legal Awareness

In addition to these initiatives, CASA is training its staff and the aviation industry as part of the implementation of regulations under CASA's Regulatory Reform Programme (RRP). This includes briefings, specialised training, gap analysis and assessment between the old and new regulations, and case management for organisations and operators to assist them to comply with the new regulatory framework.

The Government, however, does not accept the Committee's recommendation that CASA regularly assess and record in its Annual Report, the levels of knowledge and

competency of its staff in interpretation of the law and regulations. This recommendation would be difficult to implement and monitor on an ongoing basis. The majority of CASA staff are technical specialists who are not trained in the detailed nature of the law. It is for this reason that the CASA OLC provides legal advice to CASA staff, and in turn, CASA staff are expected to seek advice from OLC on legal interpretation issues.

Recommendation 26

The Committee recommends that the Department of Transport and Regional Services:

- Conduct an annual confidential client satisfaction survey to test industry's satisfaction with the services that the Civil Aviation Safety Authority delivers, and assess compliance with its service charter; and
- Publicly report the results of these surveys, ensuring that confidentiality is maintained.

Response:

The Government agrees that industry satisfaction surveys have the potential to assist in assessing an organisation's compliance with its service charter. However, it would be inappropriate for the Department to undertake the confidential survey role proposed by the Committee. Owing to the protection of personal information requirements under the *Privacy Act 1988*, the Department is unable to obtain personal details of CASA's clients. Annual surveys would also pose a significant administrative burden on the Department's resources, and on industry.

Although the Department does not undertake the survey role proposed by the committee, the CASA Service Centre conducts client feedback surveys which are sent to all Air Operator Certificate and Certificate of Airworthiness holders at no less than 6 monthly intervals. The results of these surveys are used in performance reporting in CASA's Annual Report.

Recommendation 27

The Committee recommends that:

- The Civil Aviation Safety Authority provide customer relations management training to its staff, particularly those in regional offices;
- The Commonwealth establish an Aviation Ombudsman, and ensure that this position is filled by an appropriately skilled person, to consider all aviation industry related complaints; and
- The duties of the Aviation Ombudsman would include, in addition to examining operational complaints, conducting independent surveys of industry, ensuring that the confidentiality of respondents is maintained.

These surveys would assess the effectiveness of the Civil Aviation Safety Authority's measures to improve the consistency of its interpretation of aviation regulations.

Response:

The Government agrees that CASA should demonstrate appropriate customer relations skills in its service delivery, and that it must have a transparent and effective complaint handling mechanism in place.

CASA has developed a Service Charter, a set of Values and a Code of Conduct, which define the behaviours expected of its staff and already offers its staff communication skills training including a program on handling difficult situations.

CASA has established an Industry Complaints Commissioner to deal with serious allegations of impropriety by CASA and its officials, and streamlined complaints handling processes. The Service Charter spells out details of the complaints processes, rights of people dealing with CASA, standards for CASA service, and the responsibilities of people who deal with CASA. These details are featured on the front page of CASA's Internet web site. The Service Charter states the overriding principle in CASA's complaints handling system is natural justice and the right to a fair hearing.

The Office of the Industry Complaints Commissioner formally commenced operations on 20 February 2006.

The Commissioner is:

- the central co-coordinating point for all complaints, and to ensure that they are examined and responded to expeditiously by the most appropriate area;
- offers people in the aviation industry and the public an easily accessible, timely, open and effective means of having CASA's actions reviewed and makes recommendations on the findings; and
- where necessary or appropriate, recommends to the Chief Operating Officer corrections to CASA's processes and procedures to prevent recurrence of problems of the kind that gave rise to one or more complaints.

The Industry Complaints Commissioner does not replace other existing avenues of appeal against CASA decisions such as the Administrative Appeals Tribunal or the Commonwealth Ombudsman.

The Government does not agree with the Committee's recommendation to establish an Aviation Ombudsman to deal with aviation industry related complaints. Proceeding with this proposal would be inconsistent with the Government's policy of reducing the number of review bodies.

The creation of a specialised Ombudsman, such as that suggested by the Committee, would come at a significant cost and there seems to be little that a separate Aviation Ombudsman could do that cannot be done by the existing Ombudsman's office.

The Government is satisfied that the existing complaints handling mechanism through the Commonwealth Ombudsman (Ombudsman), the Industry Complaints Commissioner, CASA's internal review mechanisms and new complaints handling processes, coupled with the Government's Charter for the organisation, are sufficient to address complaints from the aviation sector.

It should be noted that the Commonwealth Ombudsman and CASA's Industry Complaints Commissioner scheme supplement the avenues of legal redress available for administrative review of CASA's decision-making through the Federal Court of Australia and the Administrative Appeals Tribunal.

Recommendation 28

The Committee recommends that:

- The Civil Aviation Safety Authority, in addition to enforcing aviation safety compliance, place greater focus on activities to assist industry players in complying voluntarily with the regulations; and
- The Australian National Audit Office periodically audit and report to Parliament on the Civil Aviation Safety Authority's:
 - compliance with its service charter;
 - fulfilment of fostering a culture of safety in the industry;
 - policing the regulations to achieve aviation safety outcomes; and
 - provision of information and education services provided jointly with the industry.

Response:

The Government agrees that CASA's relationship with the industry is critical to the safety performance outcome and considers that adequate measures are now in place to ensure CASA meets its statutory requirements.

The Government acknowledges CASA should, as part of its client service, provide assistance to the aviation industry to meet required safety standards. Section 9(2)(a) of the *Civil Aviation Act 1988* provides that CASA encourages a greater acceptance by the aviation industry of its obligation to maintain high standards of aviation safety.

The Government considers that the recent changes to provide the Minister stronger, more direct control over CASA's performance, and the new enforcement measures introduced under the *Civil Aviation Amendment Act 2003*, together with the Government's Charter for the organisation, and the CEO's priorities, referred to in the Government's response to Recommendation 24, also address the Committee's recommendation.

In particular, the new enforcement measures and regulatory amendments introduced in the *Civil Aviation Amendment Act 2003* provide CASA with a broader set of tools to better match the enforcement action with the seriousness of the breach. Included in these measures is a scheme of enforceable voluntary undertakings that allows CASA to accept a written undertaking from authorisation holders who voluntarily agree to rectify safety deficiencies identified by CASA. These measures retain CASA as a robust, independent safety regulator but at the same time ensure increased fairness for the aviation industry and build a greater degree of trust and confidence between industry and the regulator.

In accordance with its functions under s.9(2) of the *Civil Aviation Act 1988*, CASA assists industry in complying voluntarily with regulations through its education and training programs. These include a number of Flight Safety Roadshows covering topics such as Airspace and Violations of Controlled Airspace, Certificate of Registration Holder's responsibilities, Systems of Maintenance, Maintenance Certification, Maintenance Release and Safety Management Systems (SMS). The SMS programme will be particularly important during industry's transition to the new regulations.

The Government supports periodic auditing and reporting to Parliament by the Australian National Audit Office (ANAO) in respect of all Government departments and agencies. To this end, it is satisfied that the ANAO's Audit Program addresses the Committee's recommendation.

The ANAO receives many recommendations similar to those suggested by the Committee. While the Auditor-General takes all recommendations into consideration, he/she must ensure that the ANAO's resources are appropriately allocated to meet the Government's broader audit objectives. To this end, the audit program is settled in conjunction with the Joint Committee of Public Accounts and Audit.

The ANAO has undertaken significant audits of CASA's performance over the last few years, the most recent being a follow-up audit of aviation safety compliance undertaken in 2002. The ANAO regularly considers the value and benefit of conducting performance audits of CASA, in line with other ANAO audit priorities.