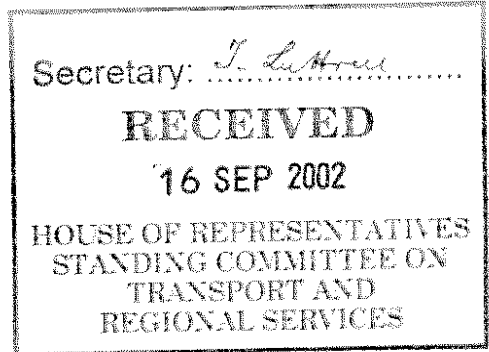


COFFS HARBOUR CITY COUNCIL

SUBMISSION

For



**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON TRANSPORT AND
REGIONAL SERVICES**

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

Introduction

Coffs Harbour City Council wishes to thank the Standing Committee on Transport and Regional Services for the opportunity to make this submission.

Coffs Harbour is located approximately halfway between Sydney and Brisbane. We have been dependant on regional air services for many decades for business, medical and personal travel as well as to service our tourism and conference industries. Although we have adequate road and rail infrastructure we still depend upon air travel for quick and easy access to the major capitals that lay to our south and north.

Coffs Harbour City Council has been an active member of the aviation industry since the mid-1980's. Firstly as the operator of Coffs Harbour Regional Airport and from the early 1990's as the owner/operator. Council has participated in a number of state and Federal inquiries and is grateful for the opportunity to participate in this inquiry.

This submission will endeavour to address or make comment on all the issues covered by the Terms of Reference for the inquiry with the exception of:

The adequacy of commercial air services to major populated islands and the adequacy of alternative sea services.

Coffs Harbour is a coastal port with Norfolk and Lord Howe Islands to our east. We know that the residents of both islands depend on air and sea services for the movement of people and goods. However, we do not have a sound knowledge of how these services operate and how adequate they may be.

The Adequacy of Commercial Air Services in Regional and Rural Australia

At present the Coffs Coast region is well catered for with regional air services. We have three carriers competing for our 178,000+ passengers that move through our airport annually. Consequently we are enjoying the attractive pricing this competition brings. We hope we can sustain and grow this passenger throughput so that our region will enjoy the benefits that three carriers provide.

Many ports near and far to us do not enjoy the same benefits. Whether it is because of their small population, location, or socio-economic situation, the latest upheaval in

Australian aviation has seen many ports lose or have their air services dramatically downgraded.

It appears that over the past decade we have seen a number of small operators servicing smaller ports taken over by the bigger carriers. We have also seen some of the more stable mid-size carriers such as Hazelton and Kendell go the same way. The up side is that we have seen a general increase in the size and quality of the aircraft on these sectors. The down side has been the cry from the big operators that regional services don't pay and that the routes have to be cross subsidised. We have now seen with the demise of Ansett that many of these previously well serviced ports are no longer considered viable by the major carriers.

It seems that generally over the past decade the larger operators have been forcing out or taking over the smaller more efficient operators and that has now turned around to the detriment of regional Australia. During this time we saw an improvement in equipment and service that was obviously unsustainable.

The challenge now is to seek to have regional and rural ports within reach of a reasonable air service. This will of course be dependant on location and population and the like. However, even a bi-weekly or tri-weekly air service within reasonable driving distance is better than no service at all.

The provision of air services whether international, domestic or regional is capital intensive, high risk and with limited financial returns. In the regional context this is exacerbated by lower turn-over and greater costs per seat kilometer making air travel that much more expensive. One of the ways for regional services to survive is to have them provided by efficient, low cost, low overhead operations. The difficulty is to balance this against safety requirements and expectations of the travelling public.

For some locations air services may never be viable. We as a nation must decide how we will deal with those situations. Depending on the remoteness of the port and the needs of that population there may be a case for subsidisation. That is how some services still survive today. The challenge is to reduce this subsidisation to a minimum through the use of such tools as regulation of routes, taxation incentives, structured route networks and the like.

Policies and Measures Required to Assist in the Development of Regional Air Services

Full deregulation of air services in Australia has failed. Equally the two-airline policy was not ideal either. Competition shook the “big two” (Qantas and Ansett) out of their comfort zone and resulted in more affordable air travel domestically as well as regionally. One may argue Australia cannot sustain more than two major carriers. The problems airlines are having worldwide in more populated places such as Europe and the USA suggests this may well be the case.

At present Australia enjoys a degree of competition on its major routes with Virgin Blue and Qantas unlike it did in the days of the “big two”. Air travel remains more affordable on the busier routes and the public has a choice in service level and price.

However, competition is not necessarily the answer on all sectors. Strong regional sectors such as the Sydney/Coffs Harbour route (projected to now be 200,000 PAX) will sustain its three carriers. For ports with lower annual passenger numbers the need for regulated competition or regulated services increases as the annual passenger figure decreases.

Equally there needs to be some protection for operators starting “pioneer” routes or reinstating abandoned routes. If we are to encourage such operations, the carrier must have some assurance of return to investment if they are to inject capital into aircraft and equipment. That is, some form of conditional protection that allows the operator to at least recover its startup costs.

Recently we have seen well established and successful regional carriers bought out by the big carriers. Or we have seen small operators establish a viable route over a long period only to have a major carrier come in and under cut the incumbent. Much of the time the reasoning and justification for this is to provide on-carriage for the major carrier. Regional Australia has seen some good service providers squeezed out of a port or bought out by a major carrier only to have the major carrier abandon that port when times get tough.

This is the free market at its worst and some compromise needs to be found to better control these situations. Not an easy task for any government to try and draw “a line in the sand” between free market and regulation.

One thing Australia sadly lacks is a national aviation policy. It is strange that given the dependence we have on air travel that such a policy was not developed with the abandonment of the Two Airline Policy. A national aviation policy should be developed in consultation with the aviation industry, the tourism industry, the states and regional Australia and then regularly reviewed and amended.

With such a policy Australia would be in a far better position to react to disasters such as the Ansett collapse or even to the cyclic downturn that appears to happen in aviation at the beginning of each decade. This inquiry may well be the catalyst and starting point for such a policy.

Regional hub services may be the solution for air services to selected ports. The minor spoke always tends to be the most costly and the addition of the fares for two sectors sometimes makes the cost to travel prohibitive. Conversely hubbing is a good use of aviation infrastructure and in the longer term will assist in the more effective use of capital city airports.

The advantage of hubbing is that it allows smaller centres to be serviced by smaller aircraft over shorter distances fed into a second port where the longer leg with a larger aircraft enjoys economy of scale. The success or failure of a hub and spoke arrangement depends on the total cost to travel the available schedule and the appropriate arrangements between the prospective carriers.

Generally for business travel any service, whether hubbed or direct should afford the traveller a daily return trip with adequate time left in the day to undertake business. There is presently a hubbing service in northern NSW, which does not provide this. Consequently passengers from the minor port leave home at 3.30am to drive to the "hub" port to catch an earlier flight so they can have a reasonable working day in Sydney. On the return journey they catch a later flight out of Sydney to the "hub" then drive the last leg arriving home at 10pm. This is an example of the hubbed operation that doesn't properly service its target market. Unfortunately that particular regional centre has no other choice.

The history of Australian regional aviation appears to be that small-scale carriers pioneer routes and develop profitable operations only to be bought out or forced out. The type of operation and the type of aircraft used should match the market it serves. Small-scale owner-operators will play a key role in hubbing and servicing smaller

ports. There is no reason why with proper networking and commercial arrangements these small operations cannot work with and/or feed the larger carriers.

A case in point is the Brisbane service that has been developed between Newcastle, Port Macquarie, Coffs Harbour, Lismore and Brisbane. This was originally a Chieftain style service, which interconnected these regional centres and also connected them with Brisbane. As the population grew and the demand increased Impulse Airlines picked up the services using firstly Jetstreams and later 19 seat Beech 1900 aircraft. The change in aircraft type meant an improvement in service level at the cost of decrease in frequency. Nevertheless the service was reliable, well patronised and suited the business market. The service always tended to be too costly for leisure travel and was not supported by that market. However the service evolved and grew to meet the needs of the target market

The amalgamation of Impulse into Qantas and the decision to make Dash-8 aircraft the smallest in that fleet has left a hole in this once popular and apparently profitable service. Hence today Lismore and Port Macquarie are without any service into Brisbane, whilst the Coffs Harbour service is not suitable for the business market. A new small scale owner-operator is ready to fill this gap but cannot do so because the current CASA workload which is holding back the carriers RPT Air Operators Certificate (AOC).

The risk this operator faces is firstly time. Will the market disappear in the time it takes to obtain the AOC? Secondly, if the service is established and is successful will a larger operator come in and pick the eyes out of it? These are the types of issues all small operators face. Others include airport and navigation fees and charges, on-carriage arrangements, access to terminal space and handling services at larger ports and regulatory systems. CASA requirements and auditing systems should not be compromised in the interest of safety. However, they should be streamlined, practical and affordable. For all these issues the charges, the systems and the imposed requirements should reflect the small margins this sector of the industry endures.

The foregoing suggests some form of regulation is required to ensure the continued viability of smaller and marginal services. This could include conditional protection for pioneer routes and routes where annual passenger figures are low or seasonal.

We should endeavour to make the parameters for full regulation or managed competition simple. However they should take into account firstly passenger numbers, then remoteness of the port, network compatibility and seasonality.

Any operator protected by regulation should still be accountable for the level of service, route structure and fare levels. Should an operator apply for a “license” to operate in a protected environment it should be required to provide a business plan detailing:

- An analysis of the viability of the service including information on:
- Equipment type;
- Service level and frequency;
- Fare and network structure;
- Passenger projections with supporting information;
- On-carriage arrangements (if any); and
- Service contingency plans.

There should be some regular review process to audit the compliance by the operator to the promised levels of service and fares and to allow for changes in circumstance for either the operator or the market.

As with CASA, the “licensing authority” set up to manage these licenses needs to be properly resourced to undertake its auditing role and to address issues in a timely manner as they arise.

The deployment of suitable aircraft type is an issue touched upon in the example given above for the Port Macquarie (& Lismore) to Brisbane services. A more critical issue for Australian regional services is the availability and cost of suitable aircraft types.

Larger carriers can afford to operate expensive turboprop aircraft. A fact much appreciated by the customers they serve. In routes where passenger numbers are lower turboprop aircraft are too expensive and are not viable. Many rural/regional routes will see the reintroduction of piston aircraft usually associated with general aviation activities. Regrettably, Australia’s general aviation fleet is old and tired. This is exacerbated by the value of the Australian dollar compared to the Euro and US dollar.

The Federal Government needs to be convinced of the need to introduce tax incentives and other devices to assist operators to replace this aging fleet of General Aviation aircraft. It must do so in order that small scale owner-operators can afford to purchase, lease or refurbish aircraft which will result in lower operating costs, reliable service and lower fares. It will also allow these operators to recover startup costs more quickly thus assisting in the long-term viability of the carrier and reducing financial risk.

Recommendations

- 1. The Federal Government develops a National Aviation Policy.**
- 2. Consideration is given to the regulation or partial regulation of selected routes to assist in the establishment or retention of viable services by smaller operators.**
- 3. Any protection should be conditional to the operator providing the appropriate information on service levels and fare structures.**
- 4. Operators on protected routes be audited on a regular basis to ensure compliance to agreed service levels and fares.**
- 5. Sufficient resources be given to both CASA and any licensing authority to allow for the timely and efficient issuing of operators certificates and "route licenses" and for the effective and timely auditing of such operations and the licensing compliance.**
- 6. The aviation industry and the Federal Government take into account the low margins for small scale owner-operators when setting fees and charges.**
- 7. The Federal Government considers tax incentives and other means to assist with the provision of suitable aircraft to service regional Australia.**

Interconnectivity Between Regional Air Transport Systems

The inquiry wishes to explore the interconnectivity between regional air transport systems, major national air services and international services (including on-carriage, through ticketing, freight handling, timetabling and airport slotting).

Interconnectivity is important for the aviation industry and the traveller alike. For example on-carriage for the Coffs Harbour/Sydney sector is in the order of 30% of passenger throughput. This on-carriage is spread across all levels of the system from regional to international services. The degree of on-carriage will vary from port to port. However, it is an important component of the convenience of air travel. If we

are to make our air transport system as effective and efficient as possible then we need to take every opportunity to make air transport attractive so that it is well supported.

Equally the interconnectivity of freight and freight handling is important. Many regions are now attracting high-tech and other specialist industries. Many of these businesses rely on international customers and fast and efficient freight handling is important. So to for some of the specialist agricultural producers serving niche markets in Southeast Asia.

Most international and domestic airfreight is carried in the hold of passenger aircraft. If we can adequately coordinate interconnectivity for passenger services then we should be able to do the same for freight.

One of the greatest challenges for interconnectivity is ticketing. The major carriers have either purpose built systems, which align with or are part of an international ticketing system. The difficulty for regional operators is accessing these systems. Given the complexity of the software behind them and the protection afforded them by the airlines, access can be near impossible.

If the industry truly wants to support a passenger friendly air transport network across the country it must work hard to meet this challenge. More air travel these days is booked via the Net than ever before. However, many travelers still rely on travel agents. Travel agents have a reputation of not wanting to expend too much energy on ticketing.

For example, recently in Coffs Harbour a woman went to a travel agent asking for a flight from Coffs Harbour to Melbourne. She wanted to travel the next day to visit her son who had just been injured. She was told there were no seats available for the Coffs Harbour Sydney leg. In reality this was the case for Qantas but not with Virgin Blue or Regional Express. Unknown to the lady it was just the travel agents perception that it is "too hard" to book a through fare with the other airlines. This lady eventually got her ticket because a friend thought the advice originally given was strange and contacted the Coffs Harbour airport to confirm.

It may not be practical for all operators to align with one or more of the major carriers and access the relevant ticketing system. It is important that industry work to

address what can be done to simplify on-carriage arrangements and baggage handling. Equally important is affordable and practical apron and terminal access for effective transfer of passenger, baggage and freight.

The one thing that aviation provides is speed of travel. For suitable interconnectivity for regional, hubbing and domestic services waiting time between flights must be kept to a minimum. Spend too much time waiting in airport terminals and one loses the time saving advantage that air travel provides.

At present availability of airport slots is not an issue even at Sydney Kingsford Smith Airport (KSA). In time it will become an issue at KSA and in the longer term possibly at other capital city airports too. The real issue for KSA is the artificial cap of 80 movements per hour. KSA has the capacity to handle 120 movements per hour.

Nevertheless the industry must work within the constraints resulting from such political decisions. For regional services, slots only become important during the peak morning and evening business travel periods. Hubbing is one way to address this matter by optimising the size of aircraft using these peak slots. Regional travellers have always wanted direct services into the capitals. Any hubbing arrangement will have to be convenient and deliver the passengers to the destination in time to do a full days work.

Also cost is an issue with hubbed services. More often than not the minor leg of the hub and spoke is the most costly. Add this to the fare for the major leg and the total cost to travel may become prohibitive making the service non-viable. Costs for the operator of the minor leg need to be kept to a minimum. This should include airport (local) as well as navigation charges (Federal).

Recommendations:

- 8. The Federal Government and the aviation industry work together to facilitate systems that will allow for the most effective use of airport infrastructure and ticketing to allow for good interconnectivity of regional services (freight and passenger) with domestic and international services.**
- 9. Although airport slot management is not a high priority issue at present it must be considered as part of a National Aviation Policy.**

The Role of Government

The inquiry wishes to explore the role of Government in supporting and assisting the development of regional air services and island transport systems. As previously stated we have identified the need for a National Aviation Policy. For this reason the Federal Government must play a key role in developing this policy in consultation with all relevant parties. Once developed the Federal Government has an equally important role in overseeing the implementation of the policy.

Just as important is the role of Local Government for it is closest to the local community and in many instances is the owner of the local airport and/or the planning authority for the land adjacent to the airport. Local Government being closest to the community can best represent its interests. As owner of the local airport councils have a vested interest in seeing it function in the best way for the community. As the planning authority councils have control of development of adjacent land that can have an impact on the operations of an airport.

Issues such as aircraft noise, obstacle surface incursions, lighting and land use are important matters effecting the operations of airports. Councils that own airports have a reasonable knowledge of such matters. Councils that adjoin airports owned or operated by others may not have the same awareness or interest in such matters.

The gradual incursion of noise sensitive developments closer to an airport can eventually hamper the operational effectiveness of that airport. Incompatible land use adjacent to or near an airport can create animal and other hazards for aircraft. The approval of tall structure within the obstacle limitation surfaces of an airport can hamper aircraft operations and aircraft performance. This in turn can effect the viability of a carriers operation or hamper the aircraft type they may wish to use.

The Federal Government can assist with these issues by providing the appropriate legislation to assist councils to manage some of these issues. Different states have different ways of dealing with these issues. Some have not addressed them at all. With an effective National Aviation Policy and nationally consistent laws, matters such as obstacle control and noise would be easier to manage at a local level. This approach could also afford non-Local Government airport owners the protection they require in what at times can be a hostile environment.

The role a State Government is a little less clear. Western Australia has led the rest of the country in developing an aviation policy. Queensland too has shown a great interest in its aviation industry. The New South Wales Government on the other hand has been very quiet about aviation matters. Possibly to keep a low profile and avoid any dissention regarding the Sydney Basin airports issue.

The Federal Government needs to show leadership and give direction through policy. Policy can be formulated in consultation with the aviation industry and both State and Local Government. The key players in government are firstly the local councils both as airport owner and representing the local community and the Federal Government to set policy and to oversee and guide the process.

Recommendation

10. That Federal Government shows leadership in the formulation and implementation of a National Aviation Policy.

11. In formulating this policy it consult with Local and State Governments.

12. Where possible the Federal Government should enact suitable legislation to protect airports in the areas of obstacle control, noise, lighting and land use.

The Role of Major Air Transport Carriers in Providing Regional Services

Major air transport carriers have an important role in providing regional air services in those areas where they are capable of doing so. That is in larger sectors where the economy of scale of using larger turboprop or jet aircraft makes it the most effective solution. They also have a role to play with smaller carriers to assist with effective on-carriage and baggage transfer.

Qantas has stated it is looking very closely at the non-viable ports it presently services. It has already abandoned some ports such as Kempsey in NSW. We may continue to see a contraction in the of the Qantas regional network. Hopefully the new players such as Regional Express, Horizon and others will be able to take up some of these abandoned routes.

The most important role the majors can play is not to prey on the smaller viable operators servicing the less populated routes. History has shown that many smaller operators gradually get picked off by the majors presumably for the on-carriage their service provides.

Generally these sectors are not viable for the larger operators and so they tend to be cross subsidised. This is fine in the good times but in lean times airlines rationalise and the lesser routes are abandoned. The major carriers should be encouraged to concentrate on the sectors they are best suited to serve and to work with smaller operators to provide interconnection and ticketing elsewhere.

