The Parliament of the Commonwealth of Australia

Regional Aviation and Island Transport Services: *Making Ends Meet*

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

House of Representatives
Standing Committee on Transport and Regional Services

November 2003
Canberra

© Commonwealth of Australia 1999
ISBN [Click **here** and type ISBN Number]

Contents

Foreword xi
Membership of the Committee xiii
Terms of reference xvii
List of abbreviations xix
List of recommendations xxi

THE REPORT

1 Overview 1

Introduction 1
Issues affecting regional aviation services 2
Inquiry findings 3
Inquiry background 4
Conduct of the inquiry 5
Structure of the report 5

2 Regional Air Services 7

Introduction 7
History of regional air services 7
Loss of regional aviation services 10
Recent losses of services 11
Cessation of regional routes 12
Regional Express 12

Airlines of South Australia and Emu Airlines....13
Other failed routes....14
Collapse of regional operators....15
Ansett Australia....15
Compass Airlines....16
Compass II....16
Impulse Airlines....17
Smaller regional operators....17
Horizon Airlines....19
Current operations....20
Major carriers and their subsidiaries....20
Qantas and QantasLink....20
Virgin Blue....22
Regional carriers....23
Macair Airlines Pty Ltd....23
Tasair Pty Ltd....24
Brindabella Airlines....24
Air Link Pty Ltd....24
Airnorth Regional....25
Re-birthed regional carriers....25
Regional Express....25
Alliance Airlines....26
Why regional air services are important....26
Economic and social wellbeing of regional and remote communities....27
Community Service Obligation....29

3 The operating environment for regional air services....35

Introduction....35
Changes in the demand for regional aviation services....36
The supply of regional aviation services....38
Costs....39
Route factors....40
Sustainability of regional routes....40
Regional hub services....46

Predatory behaviour of larger airlines **50**
Access and interoperability with major carriers **51**
Agreements between airlines 51
Computerised reservation systems 53
Access to finance 55
Possible solutions 57
A community airline cooperative 57
Government programs 59
Business skills of small operators **59**
Possible solutions 62
Skilled labour development **63**

4 Issues facing regional communities **67**

Community expectations **67**
Adequacy of commercial air services in regional and rural Australia **68**
Adequacy of services 69
Expectations 72
Aerodrome Local Ownership Plan **73**
Regional Airport Survey 73
How the plan worked 74
Impact of local ownership of airports on communities 77
Positive effects 77
Negative effects 79
Those prepared to subsidise the airport 80
Ongoing maintenance costs and upgrade of regional airports 81
Capital upgrades are unaffordable 85
Management and technical skills 86
Consequences 87
Possible solutions **87**
Current programs 87
Local Government landing fees 87
Commonwealth Government programs 89
Commonwealth resuming control of airports 91
Change in Commonwealth policy 92

Commonwealth Review of ALOP 93
Commonwealth financial assistance 93
Consolidation of regional airports 97

5 Island and remote communities 101

Commonwealth transport infrastructure policy and application to remote and island communities 102
Remote communities 104
Northern Territory 104
Western Australia 105
Queensland 107
Major populated islands 107
Tasmania's passenger and freight schemes 107
Flinders Island 109
Background 109
Current services, needs and expectations 109
Possible solutions 111
King Island 112
Background 112
Current services, needs and expectations 112
Possible solutions 114
Kangaroo Island 115
Background 115
Current services, needs and expectations 115
Possible solutions 120
Norfolk Island 121
Background 121
Current services, needs and expectations 121
Tiwi Islands 126
Background 126
Current services, needs and expectations 126
Possible solutions 127
Cocos (Keeling) Islands 128
Background 128

Current services, needs and expectations 128
Torres Strait Islands 129
Background 129
Current services, needs and expectations 129
Possible solutions 131
Lord Howe Island 131
Background 131
Current services, needs and expectations 131
Christmas Island 132
Background 132
Current services, needs and expectations 132

6 Government policies: regulation, and taxes and charges 133

Introduction 133
Australia's aviation policy 134
Impact of government policies on the sustainability of regional air routes 136
National Competition Policy issues 137
Other policy issues 140
Government coordination of aviation policy 141
Concerns about national aviation policy 141
Machinery of government arrangements for aviation policy 143
Attention to regional aviation issues 144
Conflicts with transport policies 146
Possible solutions 147
Improving data for policy formulation 147
Airservices Australia 149
Aviation rescue and fire fighting services 152
Cost of rescue and fire fighting services 152
Conditions for providing rescue and fire fighting services 154
Impact of taxation on aircraft replacement 159
Ageing aircraft 159
Impact of taxation arrangements 162
Impact of fuel costs 167
Government travel contracts 169

Airport costs **175**
Airport landing and takeoff slots **178**

7 The regulator – Civil Aviation Safety Authority **181**

Impact of regulation **182**
Regulation reform 182
Cost impacts of regulation changes 183
Regulation impact assessment 186
CASA processes **189**
CASA's responsiveness to clients and the cost of its services 190
Quality of CASA's advice to industry 193
Industry consultation 196
A differential approach to firms in the industry 199
Attitude of CASA's officers 202
CASA's future role: enforcer or leader **207**

APPENDICES

Appendix A – List of submissions **213**

Appendix B – List of exhibits **221**

Appendix C – List of public hearings **227**

Appendix D - Regional Airport Survey **239**

Survey aims 239
Who was surveyed 239
Survey design 240
Results 240
Taxes and levies 240
Airport operations and maintenance costs 241
Airport profit and loss 242

Appendix E – Survey of Regional Airports 249

Fees and charges 249

RPT revenue passengers 249

Operation and management 250

Airlines currently serving the location 250

Appendix F - Aviation policies of Australia's states and territories 251

Australian Capital Territory 251

New South Wales 252

Northern Territory 253

Queensland 253

South Australia 255

Tasmania 256

Victoria 257

Western Australia 258

Appendix G - Australia's ageing fleet of small aircraft and possible replacements 261

Foreword

Making ends meet might seem an unusual title for a report on regional aviation and alternative sea services. It is not.

From both a symbolic and literal point of view the title is highly relevant.

In terms of symbolism and national sentiment, there is a need for the 'ends' and outposts of Australia to be engaged with its major capital and provincial cities as a guarantee of productivity, efficiency and social development.

In literal terms there are many areas of Australia simply unable to make ends meet in the provision of transport services.

The local councils of smaller regional and island communities are having difficulties making ends meet in providing airport infrastructure for regional aviation services. The communities these councils serve are experiencing difficulties making ends meet and are tending to use air services less frequently. Island communities are having difficulties making ends meet with the limited sea services and port infrastructure currently available. Regional airlines are having difficulties making ends meet as their costs rise and their markets erode. Smaller air service operators will have difficulty in making ends meet as new generation aircraft replace existing workhorses.

Action is needed by the Commonwealth to ensure that regional aviation services and alternative sea services remain available and affordable to business and private citizens who rely on them. Engagement with the wider Australia community is a basic right of all Australians.

Regional aviation and alternative sea services are essential to enable Australia's regional and island communities to realise their potential. These services maintain and strengthen the bonds between communities in regional areas, and between urban and regional communities. In so doing, these transport services build the social and economic fabrics of these communities. Accordingly, regional aviation

and the alternative sea services to island communities are essential elements of the Commonwealth's policy for regional Australia.

The committee found that the key issues affecting regional aviation services were rising costs, falling returns, declining service levels, poor interconnectivity between services, difficulty maintaining country airports, the processes for regulating aviation safety, the need for policy coordination and the challenge of providing small aircraft to service country areas.

Regional communities assumed responsibility for their local airport 10 or more years ago under the Commonwealth's Aerodrome Local Ownership Plan. Larger communities can generally support their airports. However, many smaller communities of less than about 30 000 people, where traffic volumes have fallen away, are finding it difficult to support and maintain their airport. To exacerbate this situation, many local airports need upgrading to meet current standards for aircraft and safety. With very limited financial resources, these communities have difficult decisions to make concerning the future of their airports.

The communities of Australia's major populated islands are experiencing similar issues with their sea services and port infrastructure.

The committee considers that some additional Commonwealth assistance to smaller regional communities is justified to lessen the impact of many factors that are beyond their control.

The economics of regional aviation services are posing a threat to their existence. The costs of providing air services to many regional locations have increased. Some of these added costs are due to increases in taxes, levies and the cost recovery activities of the three levels of government. At the same time revenues are static or declining. The resulting thin margins mean that as costs increase, operators have little alternative other than to increase the price of their tickets.

However, potential patrons of regional air services are either unwilling or unable to pay the higher airfares. Aggravating this situation are inconvenient schedules and delays at capital city airports. Travellers want affordable and efficient transport, and are increasingly turning to the motor vehicle or simply travelling less.

The evidence shows clearly that competition is sustainable in larger markets such as domestic trunk air routes. Where there is insufficient depth in the markets for air and sea services to sustain competition, government is intervening. Further government intervention is required to meet the needs of regional and island communities.

Aviation safety regulations and the way they are administered by the Civil Aviation Safety Authority (CASA) impose significant costs on smaller airline

operators in particular. However, a strong, effective and credible regulator is essential to preserving public confidence and patronage of regional aviation services. The committee has recommended ways for CASA to strike an appropriate balance between educating stakeholders and policing regulations.

At a time of many significant challenges to the aviation industry, this report recommends a number of policy developments and adjustments to current policy.

The recommendations are aimed at providing greater financial support to improvements to aviation and alternative sea services to certain communities. Other recommendations are aimed at improving the business environment for regional airlines and building on the capacity of operators. This will enable regional aviation services to be a more attractive transport option for business and private citizens needing to use regional aviation services.

Improving the commercial regional aviation services in Australia and alternative sea services to island communities is a matter of equity, a matter of efficiency and a matter of genuine social engagement. The issues identified in this report cannot be neglected any longer.

Paul Neville MP
Committee Chair

Membership of the Committee

Chair Mr Paul Neville MP

Deputy Chair Mr Steve Gibbons MP

Members

Mr Peter Andren MP

Mr Barry Haase MP

Mrs Sussan Ley MP

Ms Kirsten Livermore MP (from 20/08/02 to 02/12/02)

Ms Michelle O'Byrne MP (to 20/08/02 and from 02/12/02)

Mr Stewart McArthur MP

Mr Frank Mossfield MP

Mr Alby Schultz MP

Mr Patrick Secker MP

Committee Secretariat

Secretary	Dr Anna Dacre
Inquiry Secretary	Mr Ian Beckingham
Research Officer	Mr Anthony Overs
Administrative Officers	Mrs Marlene Dundas
	Ms Jeannie Brooks

Terms of reference

House of Representatives Standing Committee on Transport and Regional Services is to inquire into:

- The adequacy of commercial air services in regional and rural Australia.
- Policies and measures required to assist in the development of regional air services, including:
  - ⇒ regional hub services;
  - ⇒ small scale owner-operator services; and
  - ⇒ the deployment of most suitable aircraft types.
- The adequacy of commercial air services to major populated islands and the adequacy of alternative sea services.
- Interconnectivity between regional air transport systems, major national air services and international services (including on-carriage, through ticketing, freight handling, timetabling and airport slotting).
- The role of all three levels of Government in supporting and assisting the development of regional air services and island transport systems.
- The role of major air transport carriers in providing regional services.

List of abbreviations

AA	Airservices Australia
AAA	Australian Airports Association
ACCC	Australian Competition and Consumer Commission
AFFA	Agriculture, Fisheries and Forestry Australia
ALGA	Australian Local Government Association
AOPA	Aircraft Owners and Pilots Association of Australia
ATC	Australian Transport Council
BTRE	Bureau of Transport and Regional Economics
CASA	Civil Aviation Safety Authority
DFAT	Department of Foreign Affairs and Trade
DITR	Department of Industry, Tourism and Resources
DPIWA	Department for Planning and Infrastructure, Western Australia
DoTaRS	Department of Transport and Regional Services
FITA	Flinders Island Tourism Association
ICAO	International Civil Aviation Organisation
KIDB	Kangaroo Island Development Board
LGANSW	Local Government Association of New South Wales
LGANT	Local Government Association of the Northern Territory
LGAT	Local Government Association of Tasmania
LSP	Location Specific Pricing

NCP	National Competition Policy
NFF	National Farmers' Federation
NTDIPE	Northern Territory Department of Infrastructure, Planning and Environment
RAAA	Regional Aviation Association of Australia
REROC	Riverina Eastern Regional Organisation of Councils
REX (Rex)	Regional Express Pty Ltd
SAC	Sydney Airports Corporation Limited
SEATSI	South East Australian Transport Strategy Inc.
TCT	Tourism Council Tasmania

List of recommendations

3 The operating environment for regional air services

Recommendation 1 ..... **55**

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.

Recommendation 2 ..... **63**

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.

Recommendation 3 ..... **66**

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.

4 Issues facing regional communities

Recommendation 4 ..... **91**

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.

Recommendation 5 ..... **96**

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 ..... **96**

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.

Recommendation 7 ..... **96**

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

Recommendation 8 ..... **97**

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.

5 Island and remote communities

Recommendation 9 ..... **105**

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

Recommendation 10 ..... **112**

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.

Recommendation 11 ..... **121**

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.

Recommendation 12 ..... **126**

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.

Recommendation 13 ..... **126**

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.

Recommendation 14 ..... **128**

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.

6 Government policies: regulation, and taxes and charges

Recommendation 15 ..... **139**

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.

Recommendation 16 ..... **149**

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.

Recommendation 17 158

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.

Recommendation 18 158

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.

Recommendation 19 166

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.

Recommendation 20 ..... **174**

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.

Recommendation 21 ..... **175**

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.

Recommendation 22 ..... **180**

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.

7 The regulator – Civil Aviation Safety Authority

Recommendation 23 ..... **189**

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.

Recommendation 24 ..... **193**

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.

Recommendation 25 ..... **196**

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.

Recommendation 26 ..... **198**

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.

Recommendation 27 ..... **207**

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.

Recommendation 28 ..... **211**

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.