

**Submission to the inquiry into commercial regional aviation services in Australia and transport links to major populated islands.**

I wish to address the committee specifically in regard to the following terms of reference points, and to offer measures that can mitigate the current state of regional air services;

**1. The adequacy of commercial air services in regional and rural Australia.**

The provision of certain services are essential to the ongoing health of regional communities, these include health, education, law & order, communication and transport.

Regional air services are essential if we do not wish to see regional communities die.

Regional air services are essential to support development and the quality of life in regional communities – without same day return services, it is extremely difficult to attract or retain business, - without same day return services it is extremely difficult to retain fly-in specialist medical and other professional services;

*Example- in 1997 Tamair reduced RPT frequency on the Inverell – Sydney route to a single daily service on Tuesdays and Thursday. The result was the loss of the town's only visiting oncologist (who flew in once each month from Sydney), this necessitated people requiring cancer treatment to drive to Armidale (1hr 30min) or Tamworth (3hrs). This added significant addition cost to the community.*

**The cost for the Government to support regional air services to smaller communities is much less than the cost to provide alternate community services such as health.** Where an air service does not exist there is a much greater hidden cost with people traveling to major centres to obtain services.

Commercial viability of regional air services mostly dictates the level of services offered by the regional airlines.

Viability has two sides, costs and the revenue (load factor x yield) a route can generate.

In broad general terms the amount of revenue that can be generated on any given route is relatively finite. A carrier can charge higher fares but load factors decrease, and conversely with lower fares load factors increase. Where a new or an addition cost is passed on the passenger some passengers will not fly, the following example highlights the extreme sensitivity;

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*Example – in 1997 Tamworth City Council restructured its charging policy which resulted in \$130,000 pa in additional charges to Tamair, air fares were adjusted by 3% to cover the addition costs, however total revenue dropped by 6% as a direct result.*

Whilst total route revenues may be finite, costs are very much subject to fluctuation and many factors beyond the control of the operator. In the last decade the following factors have all contributed to the erosion in the viability of regional air services;

- *Lack of access to capital and high cost of finance*
- *Decline in value of the Australian dollar compared to the US dollar, which has increased cost of replacement aircraft and cost of parts*
- *Increase in charges at all levels, local charges (after the Commonwealth handed ownership of airports to local councils), capital city airports through privatization, airways charges, CASA fees, etc*
- *Increase in cost of fuel, and much higher prices paid by small operators compared to the larger carriers*
- *Increased insurance costs for smaller aircraft*

On many air routes, and many non scheduled charter services, operators use old substandard aircraft.

For example; One aircraft used extensively on marginal scheduled services is the Piper Chieftain, these aircraft in age and total time are now very old. Even when new the Piper Chieftain aircraft had considerable performance limitations however with age the performance and reliability has decreased to a level where these aircraft are no longer capable of providing an adequate level of safety or reliability for scheduled services.

In some areas of Australia modern aircraft have been introduced onto the smaller marginal routes, passenger numbers have increased on these routes as a result. Aircraft such as the Cessna Caravan have been a significant step forward, however their introduction has been hindered by high capital cost and a high level of CASA bureaucracy.

**To service smaller regional communities;**

- **An adequate schedule needs to be offered**
- **Costs must be reduced, and**
- **Newer modern aircraft need to be introduced.**

**Service standards should be established for aircraft servicing all scheduled routes, particularly small aircraft.**

## **2. Policies and measures required to assist in the development of regional air services.**

- **Regional hub services**

The major problems associated with hub services relates to the fact that most of the cost in any air service is in the departure and arrivals, with hub operations these are duplicated, secondly if the hub and feed are provided by two different operators overheads are also duplicated.

One of the most important aspects to viability of regional services is costs. Hub services are significantly more expensive than direct or triangulated services.

- **Small scale owner-operator services**

Costs and access to capital are the biggest barriers to successful small scale operations. Most small carriers cannot access capital and do not have the purchasing power of the larger carriers.

Small scale operators pay much more for fuel, finance, insurance, parts, access to reservations systems etc. They also have a proportionately higher overhead charge.

Small scale operators find it very difficult if not impossible to raise capital (one of the problems is the fragility of operating licences which can be revoked on the whim of a CASA officer).

Many small operators have seen an erosion of their charter base with the expansion of community based services such as the RFDS. For example; in NSW the RFDS now conduct flights for the Rural Aerial Health Service, which was previously carried out by small operators, this has severely eroded the viability of those small charter services.

**Community funded services should engage local providers where possible to ensure mutual viability.**

There is a significant opportunity to pool the resources and buying power into a "community airline group, that could operate a network in its own right or in conjunction with existing small businesses.

- **The deployment of most suitable aircraft types**

The capital requirements to provide the most suitable aircraft on the small thin routes, and to remote communities, is often prohibitive.

To offer the most suitable aircraft, costs and capital must be controlled, unfortunately small operators often do not have sufficient critical mass to enable the "most suitable" aircraft types to be offered.

**3. Interconnectivity between regional air transport systems, major national air services and international services.**

On most regional scheduled routes a substantial proportion of passengers are "on-carriage" traveling through to another destination. It is the responsibility of both the feed and trunk carriers to cater for these passengers.

It is unacceptable for the major carrier to "deny" on-carriage access or service to the regional passenger. In the past both major carriers have denied access to smaller operators to control the market place and potential competition.

On-carriage services are essential.

**4. The role of all three levels of Government in supporting and assisting the development of regional air services.**

Currently there is far too many layers of bureaucracy involved, and there is a lack of understanding of the cost implications or the financial sensitivities.

All three levels of Government have generally hindered the provision of viable air services.

Since the Commonwealth handed many airports back to local councils, charges have increased. Local councils took the cash initially and failed to fully account for ongoing airport maintenance costs, most local councils have a high level of passenger charges or landing fees.

Whilst local councils feel their charges are only very small, they fail to realize it is one of many that combined contribute to the reduced viability of regional services. For example; in 1995/6 Tamair operated services between Launceston and Flinders Island, local charges exceeded fuel, maintenance or crew costs, yet the local council still demanded a quality air service at prices 60% of those offered on an equivalent mainland route distance, the contracting company went broke as a result.

**Local charges must be removed to allow future viability of regional air services.** Local councils do not charge people to use their streets nor should they their airports.

The slot management scheme was originally designed to provide noise relief for Sydney residents and built in certain protection for regional services, however, in the long term it will threaten regional services through revenue pressures of Sydney Airport's owners. Whilst there is a valid noise argument to cap jet movements at 80 per hour, there is no valid reason to include quiet regional aircraft.

**Regional aircraft that can meet strict noise guidelines should be excluded from the 80 movement cap at Sydney KSA.**

Each State has its own controlling department, all with different requirements and policies. In some cases they do nothing except add cost, for example: The NSW Air Transport Council policies over the last decade have been a disaster, where the control of routes has often been based on the whims of the Council. Appointment of non-viable entities and managed competition are just two highlights.

**State Governments should have no place in licencing of air routes or operators.**

The Federal Government should take a much more proactive role in the maintenance of community service obligations, by coordinating and facilitating the provision of air services to regional and remote communities. Federal authorities have ultimate responsibility for national transport infrastructure such as highways and railways and should also assume overall responsibility.

CASA must also become more accountable for their actions and direction. CASA has grossly mismanaged many of the smaller marginal operators to the point where ultimate action has involved bankrupting the operator through the enforcement process, whereby positive intervention would have ensured immediate safety remedies and continued services. For example: Yanda Airlines, where CASA took no measures to assist the operator over very minor occurrences but chose to enforce without notice and to "starve" the operator out of business in the appeal process. The CASA officers involved had no accountability, and now 5 communities no longer have an air service.

**CASA must be accountable, and must be enabled to positively facilitate the provision of regional air services.**

**Greater protection needs to be built into operating licences in much the same way as bus or taxi licences, where the issue of licences is perpetual. This would provide an immediate value and degree of security that would facilitate investment. Air Operators Certificates should be perpetual and capped unless additional demand could be demonstrated. (Note; this would not preclude CASA from grounding an unairworthy aircraft or pilot in breach).**

**There needs to be a division between scheduled and non scheduled air services, the new CASA regulation part 121 removes much of this division and will severely disadvantage people in regional and remote areas.**

**The Commonwealth should consider the facilitation of a community based national organization for the provision of air services on those routes that can justify a marginal service but not a full commercial airline. This body would provide critical mass and structure separating compliance and operational systems. Australia has a proud history with community based air services such as the RFDS.**

**5. The role of major air transport carriers in providing regional services.**

The major carriers must take a greater level of responsibility for the provision of regional services. Access to reservation systems, terminals, on-carriage services, loyalty programs cost the major carriers very little incrementally, however in the past major carriers have "grossed" up these charges to the smaller independent carriers putting them and their passengers at a disadvantage.

The major carriers must accept a degree of good with the bad, and although they should not be forced to operate an unviable route network, their infrastructure should be more openly available. If the majors are able to access the major trunk routes and make \$millions then they must take some responsibility for regional services.

**Major carriers must make supporting services available to regional air service providers at their incremental cost.**

**Summary:**

I wish to submit to the committee that the Commonwealth Government has an obligation to ensuring regional communities have adequate transport services, including air services. The Government has many options that it can exercise to assist without placing a significant burden on the public purse, these include actions to ensure;

- a) **That the true costs to provide alternate community services to regional communities, such as health, where air services are not provided are identified.**
- b) **Services are provided to smaller regional communities that offer;**
  - **An adequate schedule**
  - **Reduced costs, and**
  - **Newer modern aircraft.**

- c) **Service standards are established for aircraft servicing all scheduled routes, particularly small aircraft.**
- d) **Community funded services should engage local providers where possible to ensure mutual viability.**
- e) **Local charges must be removed to allow future viability of regional air services.**
- f) **Regional aircraft that can meet strict noise guidelines should be excluded from the 80 movement cap at KSA.**
- g) **State Governments should have no place in licencing of air routes or operators.**
- h) **CASA must be accountable for the consequence of their enforcement actions, and must be enabled to positively facilitate the provision of regional air services.**
- i) **Air Operators Certificates should be perpetual and capped unless additional demand could be demonstrated. (Note; this would not preclude CASA from grounding an unairworthy aircraft or pilot in breach).**
- j) **There needs to be a clear division between the regulations covering scheduled and non scheduled air services.**
- k) **Major carriers must make supporting services, such as reservation systems and on-carriage, available to regional air service providers at their incremental cost.**
- l) **The Commonwealth should consider the facilitation of a community based national airline organization for the provision of air services on those routes that can justify a marginal service but not a full commercial airline. This body would provide critical mass and structure separating compliance and operational systems. This body would provide the necessary mechanism to;**
  - **Access capital and competitive low cost finance (possibly through asset backed partial Government guarantees)**
  - **Minimise the impact of the Australian dollar compared to the US dollar, possibly through tax incentives for capital investment in regional aircraft**
  - **Put in place protection against excessive local charges, capital city airports charges, airways charges, CASA fees, etc**
  - **Reduce the cost of fuel, to levels equivalent to the larger carriers**

- **Reduce insurance costs (possibly through greater controls and some Government guarantees)**
- **Centralize control and compliance to reduce costs**
- **Leverage Government purchasing to ensure access to reservation systems, on-carriage and other airline services**

The views expressed in this submission are my personal views and do not necessarily represent those of my employer. I would be happy to appear before the Standing Committee to detail this submission, problems and possible solutions for regional air services.

Yours Sincerely  
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Note: Paul Brederock is the former owner of NSW regional airline Tamair which collapsed in 1998, his companies operated scheduled passenger and freight services to over 30 towns in NSW, VIC, TAS and operated charter services to most of Australia. He currently holds Airline Transport Pilot and LAME Licences, and is currently employed by the Queensland Government as the Chief Executive Officer of Aviation Australia.