



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL
SERVICES

**Reference: Commercial regional aviation services in Australia and alternative
transport links to major populated islands**

THURSDAY, 8 MAY 2003

SYDNEY

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Thursday, 8 May 2003

Members: Mr Neville (*Chair*), Mr Andren, Mr Gibbons, Mr Haase, Ms Ley, Mr McArthur, Mr Mossfield, Ms O'Byrne, Mr Schultz and Mr Secker

Members in attendance: Mr Andren, Mr McArthur, Mr Mossfield, Mr Neville and Mr Schultz

Terms of reference for the inquiry:

To inquire into and report on:

Commercial regional aviation services in Australia and alternative transport links to major populated islands.

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Committee met at 8.47 a.m.**KERR, Mr John Charles, General Manager Government and Industry Affairs, Qantas Airways Ltd****McARTHUR, Mr Christopher John, General Manager Regional Airlines, Qantas Airways Ltd**

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Transport and Regional Services in its inquiry into commercial regional aviation services in Australia and transport links to the major populated islands. This is part of the committee's program of visits, and we have held hearings in various parts of Australia, including South Australia, Tasmania, Victoria, the ACT and now New South Wales. These visits allow us to get into some of the issues raised in the 172 submissions that we have received in writing from various participants. Yesterday the committee held public hearings at Wagga. At Wagga the committee had as witnesses a local government association, two airlines, two local authorities. It inspected Rex's service facilities and administration centre. Today we will be receiving reports and questioning four airlines, a city council, the New South Wales Government, Sydney Airport Corporation and a manufacturer.

I welcome representatives of Qantas Airways Ltd. I thank you for your attendance. Although the committee does not require you to give evidence on oath, I have to remind you that these hearings are formal proceedings of the parliament and consequently warrant the same respect as the proceedings of the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and may be considered a contempt of the parliament. Having said that, you are most welcome and would you like to make a brief opening statement of five to seven minutes. Are you going to lead, Mr Kerr?

Mr Kerr—Thank you. We would like to make an opening statement. Qantas welcomes the opportunity to appear before the committee to add to the submission we made in September last year. We continue to hold to the view expressed in our submission that the maintenance of regional aviation services across the many small and widespread population centres in Australia is a very difficult task. The underlying economics of operating regional services are not good, and there is only very limited growth potential in regional markets. The Bureau of Transport and Regional Economics estimates that over the past 15 years passenger numbers to and from regional airports have grown by about 1.4 per cent per annum and have generally been negative at airports where the throughput is under 10,000 passengers a year. That is clearly reflected in the number of airline operators that have failed and the number of smaller population centres no longer served by scheduled airline services.

Since our submission was prepared, the across the board situation in global aviation has become even bleaker than the one portrayed at that time, as I am sure the committee is aware. The war in Iraq, which fortunately was short lived, and the outbreak of SARS have compounded the underlying structural problems facing the industry, where there are too many airlines offering unsustainable services in many markets. Those problems are contributing to heavy losses, job cuts, scaling back in investment in aviation and, in some cases, disappearance from the industry. Just yesterday Qantas issued a further downgrade of its profit forecast for the 2002-03 financial year. This identifies the impact of SARS on all parts of the airline, including subsidiary

activities. We have a copy of that statement for the information of the committee if it wishes to see it. To address these impacts Qantas has announced a dramatic scale back in its international operations and a range of measures designed to reduce costs, including measures relating to staff levels. Further initiatives are in the pipeline. Those were identified in the statement yesterday.

On the cost front, government taxes, such as the Ansett ticket levy, and charges for such things as en route navigation, safety oversight and security continue to have a dampening effect on demand right through the Qantas group. Because Qantas is a network airline, a severe downturn in any one part of its operations has the potential to flow through to other parts of the network so that, while they are less directly affected than the core airline, the QantasLink regional operations are not immune from these pressures.

Despite this, QantasLink continues to fulfil a major role in regional aviation in this country and in the broader economy of rural and regional Australia. We fly to 55 destinations across Australia and will carry more than five million passengers this year on more than 2,700 flights each week. That is more than the core airline. QantasLink provides direct employment for more than 1,600 staff and indirect jobs for several hundred more. Sponsorship of events and the promotion of tourism are just two of the ways QantasLink demonstrates its commitment to rural and regional Australia, with our support encompassing sponsorship of sports, schools, cultural and community events, festivals and conferences. In addition, QantasLink continues to support our affiliated regional airlines through a variety of commercial arrangements, which can include hosting in the Qantas reservation system, participation in the Qantas Frequent Flyer program and the provision of ground handling services. Details of QantasLink's operations, including these affiliated airline relationships, were included as an attachment to our submission, which we have updated for the committee's future reference.

Finally, there have been a number of changes in the regulatory environment in the past six months at state level. In South Australia and Western Australia, new forms of licensing and regulation have been introduced to cope with the problems associated with maintaining a viable regional airline structure in those states. While Qantas's preference is for a minimum of regulatory intervention, we understand the pressures that have led to these decisions, which are broadly consistent with the views outlined in our submission. That is, where a route cannot sustain viable air services, even from a single operator, without government intervention, there may be a case for a selective licensing regime, provided the policy objective is not one of trying to engineer competition on routes where otherwise it would not occur or could not be sustained. There are many areas of our submission that are likely to be of interest to the committee, I think, and we are happy to answer your questions.

CHAIR—You have said that it is very challenging in the regional sector. What is the main impediment, from the customer's point of view, to using regional airlines? Is it price? Is it lack of regularity? Is there lack of connectivity? And what is it from your point of view? You have made some broad statements regarding government costs, but I have heard criticisms that Qantas's pricing is somewhat predatory, in the sense that if you are prepared to book two and three weeks ahead you can get a good ticket but if you are a businessman and you rock up to Qantas on the day you want to travel you can pay two or three times what you might have paid earlier—and on routes where you do not have competition your air fares are considerably higher. You might like to comment on that. They are anecdotal things, and I would appreciate your

response, firstly, regarding the factors affecting the customer in general and, secondly, could you tell us what the factors affecting Qantas are?

Mr McArthur—There are a number of questions embedded in that statement. I will address the issues affecting demand from the customer's perspective. Firstly, air travel is obviously competing with other modes of travel. One of the challenges for the regional aviation industry is that, with the development of improved roads, the competition from car and coach transport is a very real factor, particularly in states like New South Wales where there is a further factor of competition within aviation, given the proximity and proliferation, still, of a large number of airports competing for a finite and, in some instances, declining demand for air services. It is a reality of the industry we are operating in that people are choosing, of their own volition, to drive to larger nearby airports where they are served by larger aircraft with higher frequencies of operation. That is a factor also in, ultimately, the customer's choice about what mode of travel they choose and, if they choose air, which airport they operate out of.

I move on to the issue of pricing. QantasLink, within the regional airline business, has adopted a very responsible stance on pricing, particularly if you look back to the period following the Ansett collapse in September 2001. We have had, essentially, minimal fare increases and no across the board fare increases, with the exception of minor cost recovery increases where we are literally passing on costs that are a result of costs imposed on this industry. I am sure we will cover this morning some of the significant costs, including taxes and charges, that burden this industry. Our pricing remains very competitive and we continue to offer a wide range of availability of fares, including discount fares, in all the markets we serve. We would like to emphasise on the record that our stance on pricing, particularly in the post-Ansett environment, has been a very responsible one.

There is a fundamental point, if I could go on to talk about the impact of price on demand: one of the key issues that regularly comes up in discussions about regional air services is the issue of relativities of air fares—between those on our regional airlines and those on the main trunk routes operated by core airline services with larger aircraft. This is a point that we felt needed emphasis and we went into some detail in our submission about it and I would draw your attention to that. There are some fundamental differences in the cost structures of regional services, which can be directly attributed to the use of smaller aircraft operating typically shorter sectors, and those drive the fundamental cost structures of regional services above those for much larger wide body aircraft on trunk routes. It is important that that fundamental relativity is well understood—any differentials in pricing are the direct result of a fundamental difference in the cost structure of the businesses.

CHAIR—As you know, connectivity in one form or another is a problem that has been rearing its head during this enquiry. Let us take one of your affiliates—Sunshine Express, for instance, that services the Sunshine Coast, Maryborough, and Hervey Bay. Do you give them the full suite of Qantas services—for example electronic ticketing, paper ticketing and luggage handling?

Mr McArthur—We have developed, particularly since the Ansett collapse, a number of relationships with affiliate airlines. These arrangements are on commercial terms.

CHAIR—Could you give us an example? I just picked that example out of the air because it is reasonably close to my electorate. I would just like to get a feel for what your relationship is with them, because one of the criticisms we are hearing is that with the demise of Ansett there is a lack of ability of airlines to have on carriage. There seem to be three groups: there are your own internal airlines, like Qantas Link; there are those who have had some affiliation at some time with Qantas, in the middle; and there are the old Ansett affiliates on the other side of the agenda that do not seem to have any connectivity with anyone. Taking the middle group—and I think you would agree that Sunshine Express is a reasonable example—what are the relationships there? What does a Sunshine Express customer get, in terms of an electronic ticket or a paper ticket and the handling of his luggage into the Qantas system?

Mr McArthur—I will get on to the specifics of Sunshine Express in a moment. In developing these relationships, we offer a range of commercial opportunities for each and any of these carriers to adopt, if they deem it to be in their commercial interest to do so. These include hosting in the Qantas reservation system, which applies to Sunshine Express.

CHAIR—Electronically?

Mr McArthur—If you just allow me firstly to run through the broad framework of the relationship, I will then go into details. Participation in the Qantas Frequent Flyer Program and the provision of ground handling services, which can take a range of forms and Qantas provides some of those services at some of the airports where Sunshine Express, for example, operate.

Going into the specifics of the distribution systems and the specific forms of support that we can provide, they range from visibility in the global distribution system and through the global selling strength of Qantas around the world—and almost all carriers with whom we have affiliate relationship have chosen to accept that particular form of cooperation. E-ticket is a project that is currently under way; we are endeavouring to develop and be able to offer e-ticket capability for our affiliate airlines.

CHAIR—Do any of your affiliates have e-ticketing at present?

Mr McArthur—Not at this point, but we are very close to being able to offer that.

CHAIR—Are the tickets seamless in terms of paper? If you get a paper ticket and you are travelling from the Sunshine Coast to Adelaide, say, will it take you right through?

Mr McArthur—There is a separation, I think, between the issue of e-tickets and other arrangements that we have put in place—the industry term is ‘interline’—where we enter into through check arrangements for both passengers and bags, to facilitate their travel and essentially allow them to check in at their first port of call.

CHAIR—But do you do that for the majority of your passengers?

Mr McArthur—We do it for a number of them, and we are progressively rolling out through check arrangements.

CHAIR—Is it your policy to do it for everyone who affiliates with you?

Mr McArthur—As I said at the outset, our approach is to offer what are essentially commercial arrangements for carriers—

CHAIR—Mr McArthur, I do not want to be rude, but I do not want a treatise on Qantas's broad policies; I want specifics. We are out there trying to advise the government on how we get air services into regional Australia. One of the issues the minister wants us to report on is connectivity. Connectivity has implications for ticketing and the handling of luggage. We want to know what Qantas's policy is. You are the biggest—and the dominant—player in Australia. For this inquiry to get any sort of clarity about where the industry is going, we want clear answers. What is your policy? Is there going to be e-ticketing? Will it remain paper, but seamless paper? Will there be baggage handling for your affiliates? These are the questions we are asking. We do not want a treatise on Qantas policy. I would just like you to take us to the specifics of where Qantas is heading, because these are the things that we have to report on.

Mr McArthur—Our objective is to offer these commercial arrangements to carriers that choose of their own volition to accept them. There are also commercial benefits, for both Qantas and participating carriers, in terms of facilitating on carriage, and it is something that as a principle we are endeavouring to roll out to as many of our affiliate airlines as choose to adopt it. That includes e-ticket, which, as I mentioned earlier, is an initiative currently under development. We expect to be able to have elements of that rolled out in the near future. We are also working on opportunities to improve the visibility of the services offered by affiliate airlines on the Qantas web site, to again enhance the seamlessness of travel between the Qantas group of airlines, including QantasLink regional airlines, and our affiliate airlines. So on a wide range of fronts our objective, to make it very clear, is to offer these forms of commercial support to carriers that choose to accept them, to improve the travel experience for customers across both the interface between the Qantas group and the next tier of operators. I hope that clarifies our position.

CHAIR—What about baggage handling?

Mr McArthur—That interline—through check of passengers and bags—is another example of those initiatives. Our objective is to roll them out to as many carriers as choose to accept it. It is a key question in asking what a network business is, and it is something we are—

CHAIR—I am familiar with a former handling agent for Ansett who said that his on carriage business was 36 per cent of his total business in his firm. Obviously, deprived of that connection to a major airline, those businesses in regional Australia are going to drop by 36 per cent, or we have to assume that those customers who have to use those airlines will have to travel to Sydney, Melbourne, Brisbane or wherever and then take their luggage from one terminal to another and rebook. That is one of the things we want to report on. I understand that across the industry the on carriage factor varied between 25 and 35 per cent in the Ansett system. So there is a disadvantage to those airlines that cannot interface with a major carrier. We know the reasons they cannot interface with Virgin, but we want to know what your policy is with your affiliates.

Mr McArthur—We regard it as a very important form of support for the ongoing viability of a large number of carriers. While these arrangements are fundamentally grounded in commercial agreements, we recognise and place great importance on the support that these arrangements do provide for their ongoing viability. It is something we take very seriously and, as I hope I have

indicated, we have a number of initiatives well advanced to improve the level of support we can provide to the next tier of operator in regional aviation.

CHAIR—I know that you have touched on this in your submission, but could you provide the committee with a list of your affiliates?

Mr McArthur—If you refer to our original submission, we have in fact updated attachment A for the benefit of the committee, given that the original submission was made a number of months ago. There is a current list of those operators in attachment B in fact.

CHAIR—I see the attachment B. Could you make us a broadsheet showing what services you offer each of those airlines—which ones have e-ticketing, which have seamless paper, which have on carriage of luggage. Could you do that for the committee please?

Mr McArthur—I would be more than happy to come back to the committee with some information.

Mr SCHULTZ—This committee has visited a number of major populated islands, and I just want to address the adequacy of commercial aviation services to those major populated islands. I ask you two questions: firstly, could you explain to the committee why Qantas or its affiliates are not serving Flinders Island and King Island with, say, a Dash 8? The second question is: what are the economics of servicing a remote community as part of, say, a triangular route, such as one from Melbourne to Flinders Island and Launceston during peak periods, returning through King Island?

Mr McArthur—On the first question relating to the potential viability of services to Flinders Island and King Island, we constantly evaluate our current network and its size and shape—both the services we operate today that are performing poorly and those to a number of marginal centres that are included within the 55 destinations served by QantasLink. We also look regularly at the potential for new opportunities. Recognising that we already carry a share of what we term ‘social flying’—or flying that when balanced in our portfolio of routes really reflects very marginal markets and underperforming air services—there are obviously limits on the extent to which Qantas and QantasLink can be everywhere and fly to a lot of places people would like us to fly to.

I am aware of the size of the markets that you are referring to in Bass Strait, and they would struggle to support scheduled services with aircraft below our current smallest aircraft, which is the smaller of the two Dash 8 sizes, the 36-seater Dash 8-100 and -200. That really leads to the second part of your question, which is about the potential to triangulate services. It is Qantas’s view that triangulation, of itself, presents its own set of difficulties in trying to create viable or sustainable air services. I think we all agree that trying to serve a particular market in a way that does not ultimately have the potential for long-term viability really challenges the objective of trying to operate sustainable services into the future.

Triangulation adds significantly to the cost structure of an operation, with additional stops. In fact, on the revenue side it is a disincentive to a number of passengers who want to go to a destination other than the one they are stopping at on the way. So it is our current view that there

is not the potential for 36-seat level operations into those two markets. But, should other operators with smaller aircraft see an opportunity, clearly there is scope there.

Mr ANDREN—Mr Kerr, if you could respond as well to this, I would be grateful. You mentioned in your introduction that there is limited growth potential on regional routes. While there may be some negative factors at the moment—post September 11 and others—I am not sure the regional cities, given their growth figures, would agree with that. There was news today that a third of Australia's population lives in cities with populations of up to 100,000, so there seems to be a trend towards decentralisation. Would you agree an air service is a catalyst for regional growth and levels out that playing field and therefore in turn generates increased air services, under normal circumstances? To what degree should government subsidise such transport options, as a regional development initiative? To soften the impact of a drought that looks like continuing, how much could Qantas contribute—as a temporary CSO, if you like, or what Mr McArthur described as a 'social flyer'? I am referring to your existing routes.

Mr Kerr—There are a number of questions there, and Chris will need to help me with the specifics of a couple of them. The comment that there is limited growth potential in regional markets is across the board and based on the historic growth trend and, looking forward, looking at some of the work that has been done by the government's own agencies in terms of looking at what the rate of growth across regional aviation might be for the next decade or two—and the growth rate is fairly low. Having said that, that is not uniform across all markets: there will be some regional centres where the growth rates will be more significant, and there will be some where they are less than the average. So the statement was really a smoothed out one. We would certainly accept that there are regional markets with growth potential, and we certainly want to play a part in serving those.

The second general point I would make goes to your question about whether air services can in fact stimulate growth. As a general proposition, I think the answer is yes. Right across aviation, the provision of an air service will assist in growing new markets and, hopefully, introduce people to flying who have not flown before. We would accept that as a general proposition. It does not necessarily follow in each and every market, however. Some markets just do not have the basic structure necessary to support an air service. One of the reasons for that, as Mr McArthur said before, is the alternative transport modes that exist at the regional level and do not necessarily exist at other levels of our network. The car is certainly being seen as an alternative to aviation. Again I think the government's own research efforts would demonstrate that the car is likely to be a predominant mode of transport in some areas that have previously been served by air links.

In terms of government policy, our position has been reasonably stated on a number of occasions. We are not campaigning for government support. What we are suggesting, though, is that there needs to be a pretty level playing field in terms of government policy, and anyone who is out there offering services in regional markets needs to be treated the same as others.

Mr ANDREN—Just briefly—I know we are running out of time—do you see a CSO obligation on Qantas's behalf, given its dominant position in the market?

Mr Kerr—We do make a loss on quite a number of routes.

Mr ANDREN—Would you be prepared to sustain more losses, say, if an extended drought affected your Dubbo traffic?

Mr Kerr—That is a case by case proposition, but we do take those issues into account.

Mr ANDREN—Thank you.

Mr McARTHUR—I commend the submission and the depth of comment in there. I would like to raise a matter on page 4, because we have had a couple of other witnesses talking about the economics of small aircraft. I quote your submission:

Seat economics make this a challenge at the regional level. It is a reality of the aviation industry that the smaller the aircraft and shorter the sector length flown, the higher the unit cost per passenger or seat. Regional aviation utilises smaller aircraft operating sectors that are generally shorter than mainline operations. However, market expectations regarding regional airfares are still based on mainline fare levels.

We have had a number of witnesses who reflect those views. You go on to talk about the two pilots for 36-seater regional aircraft compared with 260 mainline aircraft, maintenance costs and ownership costs. Could you add to those comments, because they are at the heart of the inquiry as to how we might maintain services to, say, Flinders Island, King Island or Kangaroo Island? Could you just give us some precise comments on some of those things you raised in your formal submission?

Mr McArthur—I think the first and fundamental point is that we do have an ongoing issue with expectations about fares. As we emphasised in our submission, expectations about pricing for regional air services are based on comparisons with fare levels that people see on mainline services on much higher volume routes.

Mr McARTHUR—Have you done anything about changing perceptions about that?

Mr McArthur—I think that this morning is part of that process. It is an ongoing issue of trying to increase the awareness of fundamentals of the cost structure differences that we have elaborated on in the submission. Those comparisons, be they on crew costs, maintenance costs or aircraft ownership costs, are essentially economic fundamentals of the industry we are operating in and will not change. They are the basis of the industry cost structure and those relativities are going to remain. I would suggest that our focus in terms of addressing the cost structure of regional air services should be on the level of taxes and charges that are applied on the industry, which is not as fundamental a fixed issue as some of those other cost elements referred to earlier and, secondly, the recognition of the need for a level playing field across the industry. I will refer specifically to an example: the issue of en route charges continuing to be waived for aircraft below 15 tonnes. Our 36-seat Dash 8 aircraft come in just above that in maximum take-off weight and we incur several millions of dollars in additional costs imposed through those en route charges which are simply not imposed on a 36-seat competitor.

Mr McARTHUR—You are suggesting that we might have taxes and charges per passenger rather than on a weight basis?

Mr McArthur—We think there are advantages also in moving to passenger based charges. The benefits include increased transparency and visibility for the customer. The other comments I would like to make under the general heading of taxes and charges relate to trying to get them down to realistic levels and the ongoing retention of the Ansett levy.

Mr McARTHUR—We have just seen some headlines about Qantas's problems with the SARS outbreak and lack of patronage internationally. We noticed that a number of people might lose their jobs. Why wouldn't you withdraw from regional services altogether to save some money, in the current context?

Mr McArthur—Qantas operates a network business. While the impact of Iraq and SARS has obviously been felt to a greater degree in our international operation and in the larger elements of the domestic operation, because we are a network business the regional operation is not immune. We are feeling the effects, but it is about retaining a balance. We have got a strong network business, with the 55 destinations served by QantasLink, and we have no intention of making that sort of radical change. We will manage the ups and downs in this cyclical industry.

CHAIR—I want to finish on a couple of questions. One is: do you see Qantas purchasing any of the new generation aircraft that have fewer than 36 seats—some of the new Embraer models that have come onstream? There is some anecdotal evidence that there is a need for smaller aircraft to service the next level down from the 55 ports you just talked about. Is it part of your policy to look at aircraft under 36 seats?

Mr McArthur—We have a fleet strategy currently based on 36 seats and above. On current thinking, it is unlikely that Qantas will operate aircraft that are smaller than that and, equally importantly, to markets only capable of supporting services with smaller aircraft. I think that is an important distinction to make. There is an issue here of fleet strategy—but also of the selection of the markets we serve.

You referred to new aircraft types. The QantasLink brand encompasses four regional airlines. Two of them are jet operators: Impulse, with Boeing 717 jets, and Airlink, with the British Aerospace BAe146. Then there are the two Dash 8 operators: Eastern Australian Airlines and Sunstate Airlines. We are continuing our studies of potential replacement aircraft or extensions to the BAe146 fleet, and that work has not concluded. The Embraer product, which, I note, is in the 70- to 90-seat range—so we are not talking below 36 seats—is one of a number of candidate aircraft that we are considering, but I would emphasise that we have a lot more work to do, including the development of a business case to justify the capital expenditure. Really our focus remains on aircraft with a capacity of 36-seat and above.

CHAIR—The other question I would ask you is this. In your submission, you have been very critical of government subsidies to Rex, and you have made a comment about control towers, the provision of which you believe should be a community service obligation. Tell me, does QantasLink receive any subsidies from any state governments?

Mr McArthur—The Qantas position on regulation is that we, as a principle, advocate minimal regulation and support for the industry we are operating in. To answer your question, there is one exception to that argument where we think there is a limited case for government support through subsidy, and that is only in markets where no air service would exist otherwise.

That should only be sufficient to encourage, through a competitive tendering process, a single operator on a route, to ensure that, should the government—not the airline but the government—deem it to be a community service obligation to have an air service, the government would then through a tender offer enough subsidy to attract a single entrant onto a route. The model that I am describing does in fact work in Queensland under their remote network policy. It is a model that we think has a number of strengths to it, in that it creates competition at the point of selection on routes that would have no air service. Through this policy they would gain one.

CHAIR—So you tender for those services when they come up. What period does the tender cover?

Mr McArthur—In the Queensland case, following the collapse of Flight West, an interim set of arrangements was established. QantasLink, through Sunstate Airlines, and one of our affiliates, in fact—Macair—were successful in tendering for that interim arrangement. At the conclusion of that—and my recollection is that it was a 12-month period—they went through a renewal process, and they have been extended for a five-year period.

Mr McARTHUR—Yesterday, Mr Jeffrey Boyd, the CEO of Brindabella Airlines Pty Ltd, was complimentary about the attitude of Qantas in setting up his proposed new routes from Canberra to Newcastle and from Canberra to Albury. He felt there was good cooperation between Qantas and Brindabella Airlines in developing a market in this fairly high risk area of smaller commuter airlines. Could you confirm that that is your attitude? If some of these smaller regional operators emerge under difficult circumstances, will Qantas be supportive—in terms of both moral support and passenger loading and a few other of those intangibles—to assist some of these rare regional entrepreneurs?

Mr McArthur—We would look at each instance on a case by case basis, but we have been very pleased to work with Brindabella Airlines in supporting the start up of their RPT services from Canberra to those three ports. Their Newcastle service started two weeks ago, and the Albury and Wagga services start on Monday. We have been delighted to offer those forms of support, hosting them in the reservation system and—

Mr McARTHUR—Will you continue to offer both formal and intangible support, if he makes a go of it?

Mr McArthur—Absolutely. Our intention is that, if he is successful, this will be an ongoing arrangement between us.

Mr McARTHUR—It just struck the committee yesterday that Mr Boyd was really showing a lot of entrepreneurial spirit in going out in difficult terrain. Some former operators are no longer in the skies, so to speak, and I suppose the committee had a view that those sorts of people should be encouraged, even though it is very difficult financially, personally, Qantas-wise and also from CASA's point of view.

Mr McArthur—We have been very pleased to work with Brindabella Airlines, and it is certainly our intention that that support would be ongoing.

Mr McARTHUR—Personally and financially?

Mr McArthur—Absolutely.

Mr McARTHUR—Thank you.

Mr SCHULTZ—Would you like to comment to the committee on what government regulations offer the most impediments to your operation or to the operation of aviation in general? And to extrapolate a little: to what extent, for example, does CASA assist or hinder Qantas and QantasLink expansion plans?

Mr McArthur—On regulation in general, as I indicated earlier it is our view that the focus of government regulation should remain on safety and operational matters; that should be its prime focus. I would like to emphasise that we have a very strong and, I think, effective working relationship with the relevant government bodies involved in those safety and operational areas, and that is where we think the thrust of the government's effort and focus should be in a regulatory sense.

Mr SCHULTZ—With regard to safety, following on from the evidence we have taken so far, there seems to be a general consensus in the industry that there is an enormous amount of inconsistency in the application of regulations by CASA. That was one of the reasons why I asked the question. You have an interpretation by one individual of a particular matter which varies distinctly from the interpretation by one of his colleagues at a different time. That has created an enormous amount of concern in the industry, keeping in mind that the industry itself, to a man and a woman, has advised this committee that safety is not an issue that it wants to compromise, but the regulatory process, particularly through CASA, is making it very difficult for them to survive. They have delaying tactics over very simple issues that do not require a great deal of technical input by CASA. That is an example of what I am talking about.

Mr Kerr—I do not think we would be in a position to comment on those issues as exist between other airlines and CASA. I think, though, it is fair to say in relation to our own activities that we do not have difficulties with CASA's operations. In terms of government regulation, there are issues about the way that the safety oversight activities of CASA are funded, and from Qantas's point of view, we believe that disproportionately we pay the larger part of the cost. That is not surprising, given that we have the largest activities, but there is an equity issue there in relation to the funding of CASA's safety oversight activities. But we would not wish to put on record, nor indeed do we have concerns about, the way CASA goes about its activities.

CHAIR—Thank you, Mr Kerr and Mr McArthur for your evidence today. We will be sending you a proof copy of the *Hansard* for you to check as to its accuracy. We trust that, if we require further evidence, we can come back to you. Thank you for your evidence today.

[9.38 a.m.]

WATSON, Mr Lance Henry, Owner-Manager, Integrity Aircraft

CHAIR—Mr Watson, although the committee does not require you to give evidence under oath, I have to remind you that these are formal proceedings of the parliament and, consequently, they warrant the same respect as attaches to the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and can be treated as a contempt of the parliament. Having said that, you are most welcome. Do you have any comments to make on the capacity in which you appear?

Mr Watson—I am the founder of this aircraft type, which we anticipate will very shortly go into production under this name.

CHAIR—Would you like to give us a five- to seven minute- overview of your submission?

Mr Watson—Certainly. The first thing I would like to say is that the Qantas people have forecasted doom and gloom in terms of rural air services. It is all dollar driven; that is the problem. We find now the air fares between Sydney and Port Macquarie are \$450 for a round trip. We have to come at a compromise. In order to reduce the cost of air travel, we have to be able to arrive at an aircraft that can reduce the costs. In order to do that, you have to start reducing a few things. You have to reduce the pressurisation, you have to reduce the undercarriage system and you have to reduce the number of engines. This is the only way you will reduce the costs of aviation in rural air services.

I have here a model of the aircraft, which holds a patent on it. I would like to explain it to you. It is a derivative from the Islander produced by Britten-Norman. They produced over 1,400 units around the world. It has been in service for nearly 40 years. From the Islander, they produced the Trislander, a three-piston engine aircraft which could carry 18 passengers. They made about 80 of those, but they were not terribly successful because they had a noise problem and just did not perform very well for the number of engines that they had. I was fortunate back in 1990 to buy the last 12 Trislander kits; the manufacturing jigs and the drawings. As a result of that over the years we have redeveloped the aircraft, whereby we have removed the piston engines and put the Garrett 331-12 engine in the tail. It is an engine that has been around for 30-odd years and has more than 100 million flight hours on it, so it is a pretty reliable engine. To counteract the weight for the engines on the wing, we had to insert a 30-inch plug in the front. Then we put the Islander Defender model nose on it, which allowed us to incorporate all the latest avionics.

Now we have an aeroplane that is able to carry 20 people on one engine. The fuel running cost of this is a little more than a 44-gallon drum per hour. It is unique inasmuch as jet engines have a problem: when you switch them off and switch them on, you are into cycle times, and they have either so many hours or so many cycles. With this aircraft, we do not have to turn the engines off. It can run while it is loading and unloading, both for freight and for passengers. Secondly, it is not pressurised. Thirdly, the wheels are fixed down, so we do not have any inspections of retraction and we do not have any inspections for pressurisation. That is now reducing the cost substantially.

I claim this: we can run air services at bus fare prices. This is the way we have to go in order to reduce the costs. When you buy aircraft like Dash 8s, 1900D Beechcraft or anything else with two engines, you have a tremendous amount of costs involved. The safety issue is not compromised. They have made nearly 1,500 Cessna Caravan units around the world for the last 16 years and they are now making claims that they are safer than any twin-engine turboprop. There are about 30 operating in this country at the moment, and we believe this engine to be superior to the one fitted to the Caravan. In fact, they are starting to refit Caravans with these engines.

I notice that around the state of New South Wales more than 40 towns have lost their air services. I believe the figure is about 30 in Queensland and I do not know what it is for the other states. This can all change. I would like to quote an example. I spoke to somebody in Bourke who said that their air services out there were pathetic, to say the least. They were not getting the kind of service that they wanted. I proposed that they purchase one of these aircraft and use it themselves to operate a daily service to the three major centres. They could fly one day to Melbourne, one day to Sydney and one day to Brisbane. The idea appealed to them. It goes to show that they are quite desperate to get a reasonable, reliable, cheaper air service.

The other point I would like to bring to your attention—but which you probably already know—is that our regional and country towns are diminishing. People are not staying there, because they have no communication and they cannot get to where they want to go. For example, if your wife gets sick or if you get sick, you have a five- or six-hour drive to get to a hospital or specialist services. People are not going to live where this is all that is available. If there is an accident there is a problem, because you do not have any regional backup services or rural backup services. So people are not going to these areas. People are complaining that there are no banks, and this is probably part of the reason.

We believe this aircraft will be able to resolve most of that, simply because it is cheap to operate and cheap to fly. By law, with over nine passengers you must have two pilots, even though it can quite safely be flown with one. It has a six-foot freight door on one side, which can be lifted up, and you can carry two tonnes of freight in it. It is knee-height to step into when you open a door, and one door services two rows of seats. There are no steps to get in and out. It is a very simple aeroplane. It has a straight plank wing all the way through. It is the same dimensions all the way through. It is square. It is probably not that good looking but that does not really matter. If we go back to dollars again, it is cheap to operate and cheap to fly. There are other models around. There is the Cessna Caravan which has 14 seats. It must have two pilots, so there can be 12 passengers. It costs about \$US1.5 million to buy. This aircraft is about the same. This has a 50 per cent increase on the seat carrying capacity: in other words, we have 18 passenger seats to carry the expenses as opposed to the Caravan, which has only 12. So there is another factor which brings the seat-mile cost lower. I have pretty much said what I had to say. This is a new, exciting option.

CHAIR—That is okay, Mr Watson. Thank you for that and thank you for bringing the model. We will accept the model as an exhibit for the duration of the presentation. What sort of assistance have you had from government in the development of this?

Mr Watson—Nothing.

CHAIR—Nothing? You have done all the development yourself?

Mr Watson—Yes.

CHAIR—I suppose the obvious question is when someone develops an aircraft—and nothing of what I am saying is pejorative, so do not misunderstand the question—there is always a concern about safety and how an aircraft will perform in terms of its service life.

Mr Watson—Its longevity, yes.

CHAIR—What can you tell us about that?

Mr Watson—The Trislander has been around since 1970. They made 82 of them and there are more than 40 of them still flying.

CHAIR—What are the safety aspects of this, for example, with only one engine?

Mr Watson—They claim that you have more chance of the wing falling off the aeroplane than the engine stopping. That is what they say.

CHAIR—But if it does? I have been on an aircraft where an engine has stopped.

Mr Watson—So have I.

CHAIR—Has it got a good glide path?

Mr Watson—You have to look at the statistics. The engine life in this aeroplane is between 8,000 and 9,000 hours. An ordinary standard piston engine aeroplane has 2,000 hours. Some of them have less. At mid-time, you have to do what is called a ‘top overhaul’, which is extensive, so you do not have the reliability in a piston engine that you have in a jet. Immediately you are four or five times safer. With the fact that you have one engine as opposed to twin engines you have reduced the chances of having engine failure by 50 per cent because you have deleted that one engine, so you do not have what is called ‘double trouble’.

The Caravan itself has set the record straight. FedEx have got about 250 of them and they are overjoyed with the service rate that they have from these aeroplanes. They have operated Cessna Caravans across the Cook Strait in New Zealand since 1985 and they have never had a problem. We are not talking about something that is new here. The Flying Doctor Service has 14 PC12s—they have one only engine as well. They have gone away from the twin Beech and are now using PC12s, so this is the trend today. As to the question of reliability of the aeroplane, if it happens—and I must say it is extremely remote—then the regulations have allowed for that. They must comply with the avionic requirements. They have got to be within gliding distance of an airfield. There are certain requirements that have to be met. You have to have two fuel pumps and you have to have a double backup on most systems, so the chances are pretty good.

CHAIR—Can you give us a comparison of the operating costs per hour of this against, say, a Dash 8?

Mr Watson—This burns about 240 litres an hour. You can carry 18 passengers 180 miles. That is from Port Macquarie to Sydney. It takes a little over an hour. The Dash 8 would burn four or maybe five times that much fuel. They have huge engines. They require a lot of servicing. You have to carry a hostess. You have to carry two pilots. As for the cost factor, you can buy five or six of these new as opposed to one Dash 8.

Mr SCHULTZ—What is the Dash 8 flight time over the same distance?

Mr Watson—You are looking at about an hour, sometimes 50 minutes, depending on the traffic.

CHAIR—So the difference is only 10 minutes?

Mr Watson—At the most.

Mr SCHULTZ—Would you like to describe any experiences you have had with the Civil Aviation Safety Authority and, more specifically, have you had any problems with them in having the aircraft and engine certified?

Mr Watson—The aircraft is not built yet. It will be built. We are just doing a heads of agreement next week. It will be built in Romania, where they are geared to make this aircraft. They have been making it for over 30 years. They pay their workers \$100 a month. That is why they can do it. They have the university set up to train people to do it, so we cannot compete in the aviation industry in manufacture—not on this particular model. As for certification of the aircraft, it will hold a JAA certification, which is for the Europeans, and it will be subsequently recertificated in the US under FAA, long before it comes to Australia.

Mr SCHULTZ—So you will basically be importing the finished craft rather than building the craft here in this country?

Mr Watson—Yes. We would like to change that, of course, but the cost factor does not allow us to.

Mr McARTHUR—Why do you have such a revolutionary type aircraft when other major designers have not been able to come up with this prototype model?

Mr Watson—Maybe they are looking up the wrong street. The Cessna Caravan is revolutionary. There are 1,400 or 1,500 units out there, and they are making two a week. There is nothing in its class except this aircraft. There are no replacements for an aircraft in that area. They carry 12 passengers. There is just nothing on the market. People are not going to make piston engine twins anymore. They are just too expensive. They are too hard to operate and nobody wants to get in them.

Mr McARTHUR—Do you think you might solve the problem of these smaller commuter aircraft in Australia?

Mr Watson—This will solve the problem. There is no question about that.

Mr McARTHUR—Have you had some commercial backing for the proposition?

Mr Watson—Yes, we have. At the moment we have.

Mr McARTHUR—So you are quite confident you will get off the ground?

Mr Watson—Yes. We have already had inquiries for 20 aircraft. We already have 12 of these Trislander kits sitting in Florida to be shipped. All we will be doing is changing the nose section, closing off the wing and fitting the turbine engine to the tail. Everything else is the same. We are not building a new aeroplane; we are just modifying an existing aircraft. All the grandfather clauses that go into the certification of the wing will remain. Most of the certification will be carried out by Britten-Norman, who is the original designer of this aircraft. They are resident in the Isle of Wight at Bembridge. It is all as the requirements set it out to be.

Mr ANDREN—We have heard a lot in the inquiry about hubbing and spoking into major ports. You drew a bit of a picture of a declining rural area but the major centres—Orange, Bathurst, Dubbo, Wagga and Tamworth—are growing apace. I am wondering what the most economical hop for this plane might be. Is the answer hubbing and spoking or what they used to call the old milk run, picking up people from the spokes and delivering them to the hub? Do you see that as an economic proposition for this craft?

Mr Watson—First of all, it has no aisle in it. You get into it like you get into your car—you open the door and get in; that is it. There are no hostesses. When you arrive, you undo the door and step out. Yes, you can do all of that. It can go into the regional areas because it can operate so cheaply. You do not have to turn the engine off, so your turnaround times are going to be minimal

Mr ANDREN—So it would, in your view, be ideal for consolidating passenger loads—say, Orange from Cowra, Forbes, Condobolin or wherever—to deliver to Rex the sorts of passenger loads they require, which in turn could reduce the cost of travel to the passenger out of Orange?

Mr Watson—Let me explain so that you can more easily understand it. There are no services at the moment from Port Macquarie to Brisbane. The old services used to go from Port Macquarie to Coffs, Ballina, Lismore, Coolangatta and Brisbane. They used to have a Beech 99 on those. The old ones were unpressurised. They were too expensive to operate so they pulled them off. Then they put the Beech 1900Ds on and they found that they were more expensive to operate. But this aircraft could do that comfortably and at a price which is equivalent to a bus fare. That is the attraction.

Mr ANDREN—What would be the passenger resistance to a single engine?

Mr Watson—There would be no resistance when you put the cheap air fares on the board. That will change their mind. There will be some resistance to it. I had the opportunity to start an air service in Western Samoa back in the seventies. I had to build an airstrip on a remote island. There were no air services across there. We developed the air service over the years. At one stage, we had the carriage of three days of passengers sitting in the terminal on one side waiting to get on the aircraft. That was single engine aeroplanes.

Mr ANDREN—The only small part of the question you have not answered is the most economically hop. At what point does it become uneconomical? Could you do it for an 80 kilometre—

Mr Watson—Comfortably.

Mr ANDREN—And still make money?

Mr Watson—And still make money, yes.

CHAIR—Have you done some modelling of fares?

Mr Watson—No, we have not got that far. But your cost structure is so low—

CHAIR—But you quoted bus fares. The question is: have you done some expert modelling on it or was that just a benchmark statement at this stage?

Mr Watson—It is a benchmark statement. They are not going to come any cheaper than this.

CHAIR—You say that it is a modification of the Britten Islander.

Mr Watson—The Trislander.

CHAIR—Then you say that you are constructing them in Romania. Are you modifying them in Romania or are you building new models in Romania?

Mr Watson—We have the 10 or 12 that we can convert. We will be converting two or three of those for a prototype and then new ones will be manufactured once the prototype is certificated.

CHAIR—When they are certificated, does their airframe time recommence? Does the clock start ticking from zero again?

Mr Watson—No, it does not. Time on the airframe is time on the airframe.

CHAIR—So they will not be modified?

Mr Watson—The ones we have will be but they are all zero time. The ones we have have no hours.

CHAIR—So you have just bought kits?

Mr Watson—Yes. They are fairly old. They were built back in the eighties. They have been in storage for a number of years.

CHAIR—I see.

Mr Watson—There is, I think, only one that has time on it.

CHAIR—If it took off, how would you manufacture it from then on?

Mr Watson—We would manufacture it in Romania. You could make two a week. They have done it in the past so there is no reason why they cannot do it again in the future.

CHAIR—You have mentioned the Cook Straits in New Zealand. For a single engine aircraft going over water, what would the situation be in Australia? What would CASA and BASI have to say about that?

Mr Watson—I am not familiar with the requirements but I do know that the PC12 is permitted to fly to some of the islands on ambulance work. Other than that, I cannot answer that question, I am sorry. The regulations are changing by the day to do with single engine turbines.

CHAIR—When do you think you will have one of these in the market?

Mr Watson—Probably nine months from now.

CHAIR—Have you got a route mapped out?

Mr Watson—I will not be operating them; I will just be the supplier.

CHAIR—Who do you think will?

Mr Watson—There will be a lot of people who will want to operate these.

CHAIR—Would you see a Qantas affiliate or subsidiary being involved?

Mr Watson—I cannot answer that, I am sorry. I know that I am going to operate one out to Lord Howe Island as a freight service. You could use them as freight over water.

Mr ANDREN—What price would that be on the ground?

Mr Watson—To buy one?

Mr ANDREN—Yes.

Mr Watson—It would cost about \$US1.5 million.

CHAIR—Which is \$A2.6 million or \$A2.7 million.

Mr Watson—Something like that.

CHAIR—How does that compare with a Dash 8?

Mr Watson—You are looking at \$US13 million for a Dash 8, at least. The Beechcraft 1900s were \$6½ million.

Mr ANDREN—We have not got air services to some of our smaller communities—you mentioned 40 in New South Wales and I think we have a list of about 15 most recent ones. We are told it is all about critical mass. For instance, would 18 be enough on a run from Port Macquarie to Sydney?

Mr Watson—You can do a 40 per cent load with this aeroplane and make money.

Mr ANDREN—So you are talking of eight people and making money.

Mr Watson—Yes. The only areas we have a problem with of course are the taxes and charges. In parts of the nation, the air fare constitutes less than 50 per cent.

Mr ANDREN—What if it started in Cowra in the morning and picked up three people, then picked up four in Forbes and delivered them to Orange—is that an economical sort of run for a craft like this?

Mr Watson—Yes, because the air fares would be such a price where people would find it attractive to get on. Four hundred and fifty dollars from Sydney to Port Macquarie and back again is just atrocious—I can get across to New Zealand for less than that.

CHAIR—What is its maximum range?

Mr Watson—It has a range of about 1,500 miles, but you would not need to fuel it for that much.

CHAIR—You make the point that because of the position of the engine you do not have to start up and stop at each airport. When you have to refuel that would be necessary, would it not?

Mr Watson—No, it would not because the fuelling points are out on the wingtip and you can still refuel it on flight.

CHAIR—You can still refuel it even while operating?

Mr Watson—Yes.

CHAIR—You have introduced a very interesting concept. One of the things that we have been looking at—which provoked my question to Qantas about whether they are looking at any new models under 36 seats—is that we see that there is a market out there for something in the range of 14, 15 or 20 seats, especially for these island hops and from medium sized towns to hubbed areas, as Mr Andren spoke about. You have certainly put a challenging concept before us. We are very grateful. Yours is the most unusual submission we have had so far, but it is in the mainstream of our thinking. You are a breath of fresh air on some of the negative evidence we have been receiving thus far, so we compliment you for that and for your enterprise.

Mr Watson—Thank you.

CHAIR—We wish you every success with the project. Would you be good enough to arrange for a professional photograph of that model to be sent to the committee?

Mr Watson—Certainly.

CHAIR—We may need to put that in our report. If we are talking about a new style of aircraft, we will probably have to put some sort of visual imagery of that in the report. If you could get a professional photograph of that and send it to the committee, we would be most grateful.

Mr Watson—I have another point. I have been involved with Air Safety Australia. There are some goings-on that will affect the operation of this aircraft, and I would like you to have a look at this newsletter.

CHAIR—You would like that to be an exhibit?

Mr Watson—I would just like you to have a look at that.

CHAIR—Is there any objection to this newsletter being accepted as an exhibit? There being no objection, it is so ordered.

Mr McARTHUR—I move that it be tabled as evidence.

CHAIR—I will have this distributed to the committee. If you could come back to the committee with a bit more technical advice, it would be helpful.

Mr Watson—What area would you like that in?

CHAIR—Wingspan—

Mr Watson—I have all that; I can give you all that.

CHAIR—The sort of thing you see in an aircraft purchasing manual. You can send it to the committee at a later stage.

Mr Watson—I do know that, once the aircraft is introduced into the country, it will be fully airconditioned, it will be super quiet to fly in and everybody will have a window seat, so it is going to be attractive for people to fly in. It will fly at a height that is not below 10,000 feet, so everybody will get a good view. Those are going to be some of the attractions.

CHAIR—We will be sending you a proof copy of the *Hansard*. We trust we can come back to you if we require any further evidence.

Mr Watson—Certainly.

CHAIR—Thank you once again.

Proceedings suspended from 10.06 a.m. to 10.28 a.m.

GARDINER, Mr Kelvin John, Commercial and Emergency Services Manager, Orange City Council

SHEARING, Mr David John, Councillor, Orange City Council

CHAIR—Integrity Aircraft has provided the committee with the specifications of their aircraft, which I would like to take into the record as a supplementary submission. QantasLink has a supplementary submission, known as attachment A and attachment B, which I would also like to take into the record. There being no objections, it is so ordered. I welcome representatives from Orange City Council to the committee. Do you have any comments to make on the capacity in which you appear?

Mr Shearing—I am chairman of the tourism and reference group for the Orange airport.

Mr Gardiner—I am the manager of Orange Airport.

CHAIR—Would you like to make an opening statement?

Mr Shearing—I will give a position paper for Orange Airport.

CHAIR—Could you keep it to about five to seven minutes, to allow us plenty of time to talk with you.

Mr Shearing—I will have to read it. The paper is provided as background information on the Orange aerodrome. The Orange aerodrome was built in 1961, and in 1974 the main runway was extended and sealed to accommodate the Fokker F27 aircraft. In 1994 the federal government divested itself fully of the aerodrome's ownership. The ownership of the aerodrome was transferred to council and, along with it, the responsibility for funding. Council has been committed to improving facilities at the aerodrome and recognises the importance of the facility as a gateway for Orange and the surrounding region.

The main runway, 11/29, is bitumen sealed and is 1,676 metres in length and 30 metres wide. The runway was originally designed for Fokker F27 aircraft. Aircraft used for regular passenger transport today generally have higher tyre pressures than those of old aircraft, such as the Fokker Friendships. The cross runway, 04/22, is grass covered. It is 900 metres long by 90 metres wide. This is an unrated runway. Other facilities and improvements since we came on board in 1996 are an automatic weather station, complete new lighting and controls, a PAPI lighting system, runway threshold identification lights, an emergency generator, new open lighting, a bitmap radio system, a reticulated sewer system, a non directional beacon, NDB, which uses a frequency of 413, and pilot activated runway lights. In future capital expenditure, we are looking at a washdown bay, water supply improvements, an extension to runway and an apron, extensions to the terminal, car park extensions, a security car park and extensions to the main runway.

The administration of Orange is in three parts. We have an annual management plan, a function plan and a development plan. Each year the staff prepares its management plan and budget. Council also looks at projected capital expenditure for three years. The strategic

objective of this is to establish a strong community for the provision of a service that is responsive to diverse community, social and cultural needs—providing a high-quality aerodrome for the Orange region. The outcome is a facility that meets necessary safety and legislative requirements, meets the expectations of the travelling public, reflects the progress and prosperity of the region and caters for both general aviation and regular transport.

The functional plan looks at the history and current facilities of and proposed future works for the aerodrome. In 1997 council engaged airport planners to produce a development plan for Orange Aerodrome. The plan looked at existing facilities and projected future development, such as future pressures, runway length and condition, terminal extension, future aircraft types and development of the general aviation area. There are some restrictions on this. Council has taken the approach that the aerodrome should be self-funding. Future capital works will need to have broad community benefit and be financed by income generated from the aerodrome. Aerodromes such as Orange can be described as marginal because of their limited ability to generate income. However, Dubbo and Wagga derive sufficient income to maintain their assets and provide for major capital works.

The proximity of Orange to Sydney has a significant impact on passenger numbers. This is also the case for Bathurst, which has somewhere between 18,000 and 24,000 passengers per year. Orange was pushing towards 50,000 passengers per year prior to September 11 and the collapse of Ansett. Dubbo, because it is so much further from Sydney, thus making car travel less attractive, has around 80,000 to 130,000 passengers per year and is serviced by two airlines. As mentioned in our submission, we have discussed with industry representatives who are members of the aerodrome focus group the prospect of hubbing and spoking. Although council would support this concept, further investigations have indicated this would not be viable, due to aircraft size and age, which will be one of the major influences for regional New South Wales in the near future. Smaller aircraft will need to be replaced, and it is our understanding that there are few aircraft on the market that can take their place. The additional costs organisations will face in changing from one aircraft to another is another consideration. If larger aircraft were required to land at Sydney, this would impact further on regional communities, as runways might need to be lengthened and upgraded to take larger aircraft.

Dubbo now works on the hub and spoke method, and those who are flying from isolated parts of western New South Wales have to use this system or alternative means of transport. Orange and Bathurst people can easily drive to Sydney. I think I can also safely say that, if places like Cowra, Forbes and Parkes were forced to hub into Orange, the majority of people would either drive to Orange to catch a plane or drive straight to Sydney rather than flying to Orange in a smaller aircraft and changing to a Saab, which currently serves this port.

It all comes down to convenience and cost. If it is not convenient and if it costs too much, the service will not be patronised. Hub and spoke may be viable with federal government subsidy. Interconnectivity between flights is also important to our patrons, and this was pointed out in the surveys councils conducted with the users of the aerodrome. Rex flying into Sydney's terminal two has now largely addressed this. Obviously, all levels of government have very important roles to play in the continued viability of aviation in Australia. The majority of aerodromes—other than those located in major centres—are owned by local government. Some of these are managing quite well, others, such as Orange, are marginal and many others just cannot afford to keep the asset up to the required standard.

As I have mentioned, Orange City Council has been very proactive in the upgrading of the aerodrome. The users of the facility have funded these upgrades. However, there are significant capital costs, such as the runway refurbishments, that have a significant impact on the finances of some owners. We have had a runway upgrade planned for the last several years but, because of the fluctuations within the industry, it has been postponed to 2004-05. The estimated cost would be around \$2.5 million. While Orange can finance this through loan funds, other smaller councils cannot. Several years ago, council decided to increase the passenger tax substantially to help pay for the runway refurbishments. There was a significant outcry from the Hazelton management. However, there really was not any other way to pay for the work. It must be remembered that the aerodrome is a regional asset.

The demise of Hazelton via the Ansett collapse saw many aerodromes owed significant funds. Orange is one of those, with around \$80,000 being written off. Aerodromes like ours cannot absorb such debts. Bad debts are a cause for concern, as are the several companies not wanting to pay landing fees. We have seen one company go bankrupt, start up again under another name and then go bankrupt again. At neither time was council able to recover the money. In the majority of cases, debt recovery was done through a debt recovery agency. While the majority of debts are recovered, there are organisations and individuals who just will not pay and there is not a great deal we can do. In closing, I emphasise that aviation has a very important role to play in regional Australia. Local, state and federal governments have an obligation to ensure services are maintained—giving subsidies, if necessary, to ensure this occurs. That is our submission.

CHAIR—Thanks very much. How many services a day do you have to Orange?

Mr Shearing—It varies. At the moment from Sunday to Thursday we have two, and then we have three flights in on Thursday, Friday and Saturday—which is Rex.

CHAIR—They are all with Rex?

Mr Shearing—There is private charter out of there as well.

CHAIR—What is the fare to Sydney, the rack rate?

Mr Shearing—A Sydney to Orange return fare is \$445, which we paid today.

CHAIR—Can you get a cheaper fare if you book a week or a fortnight ahead?

Mr Shearing—In most cases you can. I am not sure of the exact amount. Do you know the exact amount?

Mr Gardiner—No, I do not.

CHAIR—Do you have any source of revenue for the airport other than Rex?

Mr Gardiner—General aviation pay landing charges, and that brings in roughly \$30,000 a year. There are some rentals out at the airport as well, but there is not much income from that.

CHAIR—What is your total budget—in round figures—to maintain the airport?

Mr Gardiner—In round figures each year?

CHAIR—Yes

Mr Gardiner—It depends on what we are doing—

CHAIR—Including your sinking fund for resealing, of course.

Mr Gardiner—Recurrent expenditure is around \$250,000 a year. That is an estimate.

CHAIR—So you make a heavy loss?

Mr Gardiner—In the last couple of years, since we have increased the passenger tax, we have made money. Several years ago, we had a consultant look at our runway—and there are some major defects in it. The council at the time decided to increase the passenger tax to help pay for a refurbishment, which we have estimated at around \$2.5 million.

Mr SCHULTZ—How much was the tax increase?

Mr Gardiner—It went from about \$8.75 to about \$12.

CHAIR—Are we talking about tonnage or per seat?

Mr Gardiner—Per passenger. There is no tonnage rate for the RPT aircraft.

CHAIR—You don't charge one?

Mr Gardiner—No.

CHAIR—What does that aspect bring in then, at \$12 a seat?

Mr Gardiner—In the next financial year, it will be up to \$14. The income is around \$450,000 to \$500,000 a year.

CHAIR—If your costs are about \$250,000 then you are making money.

Mr Gardiner—We are making money. Councillor Shearing mentioned the fact that council has been proactive in running the airport.

CHAIR—How much of that \$150,000 surplus goes into the sinking fund for the upgrade?

Mr Gardiner—Any money that we are now making beyond expenditure is going into reserve, to fund that upgrade.

CHAIR—Have you done a study on the total cost of a ticket out of Orange in terms of local, Commonwealth and other charges?

Mr Gardiner—No, we have not.

Mr McARTHUR—I raise the issue of the comparison between road travel and air travel. Can you inform the committee of the travel time by road to Sydney and the competition to the commuter aircraft? Can you give the committee an assessment of those issues?

Mr Shearing—From Orange to Parramatta by road would be an easy three-hour drive. From Bathurst, it would be less. If you had to come to work in the city area, it would be another hour on top of that, which would be four hours. There are bus services that go to Lithgow and you can catch a train from Lithgow.

Mr McARTHUR—So it is four hours by road. How long does it take by aircraft—door to door?

Mr Shearing—It would be 45 minutes door to door by aircraft.

Mr McARTHUR—But door to door; if you are leaving Orange and you want to get to the CBD?

Mr Shearing—On the hour.

Mr McARTHUR—So it is four hours versus one hour. What would your comment be on the competition from road and the pricing? Are you saying that from Orange it is a classic road-airline relativity competition? Will businesspeople take the option of driving their vehicle or taking an aircraft?

Mr Shearing—I will give you my view. Kelvin might have a different view. Basically, aircraft usage in Orange has been on the increase since 1996, with a 16 per cent increase. September 11 did make some difference. The decision to drive or to fly depends on where you want to go in the metro area. For instance, a lot of people I know will drive in preference to flying if they are going to the Parramatta region, because it is on the outskirts. Flying is an option if they are coming into the inner city. I think individuals in the private sector opt for driving because of the cost of flying.

Mr McARTHUR—And business will take the aircraft?

Mr Shearing—Basically, yes. We have the agriculture department in Orange, so government usage of the aircraft is reasonably high.

Mr McARTHUR—Is the agriculture department a mainstay of Rex, the current operator?

Mr Shearing—I believe so.

Mr McARTHUR—That says a lot for decentralisation.

Mr Shearing—We do have a very good economic base. Orange has had a growth rate of two per cent over the last two years. Tourism is increasing, but along with that we have our economic

base, with Cadia Hill Gold Mine. Newcrest Mining Ltd, Bindaree Beef, the ag department and local government use the aircraft frequently.

Mr McARTHUR—What would happen to the ag department if you withdrew a regional airline—whichever one it was?

Mr Shearing—I think they would make a fair bit of noise, because they are frequent flyers on the aircraft.

Mr McARTHUR—So, from the city's point of view, would you need to keep the airline there to keep the department there?

Mr Shearing—I think it would be a major issue if we took the aircraft out of it, yes. To keep the viability of the aircraft as well as the ag department business, it would have to stay there. I would certainly be batting for that.

Mr McARTHUR—Thank you.

CHAIR—Mr Andren, the local member, has some questions. You are not to go easy on them, Mr Andren.

Mr ANDREN—I will not. I welcome both gentleman to this hearing, and I am pleased to see your submission. I want to tease out for the record a bit more around the head tax and the landing fee charge, which you say is set to increase to \$14.

Mr Gardiner—That is the passenger tax, not the landing charge.

Mr ANDREN—Right. The figures that Sydney airport have provided in their submission show that Orange stands out, for both Saab and Dash 8, as the highest charger in the regional areas, according to their figures. Would you refute those, and could you just further tease out some of the reasons? Is it not only for your upgrade—I understand that there has been usage of the airstrip by touch-and-go training and that sort of thing? To what degree is the airline training contributing to any damage?

Mr Gardiner—I do not know what the figures that you have shown me in their submission relate to, to be quite honest. They do have a passenger figure there, and I am assuming that that is a multiple of the number of seats on the aircraft. I think they call the other figure a 'turnaround' figure: is that how it is described?

Mr ANDREN—Runway and parking.

Mr Gardiner—We do not charge any runway or landing charges for RPT aircraft. We do not have Dash 8s coming into Orange; we only have Saabs and the odd Metro, so I am not quite sure what those figures relate to. But certainly the passenger tax is the only thing that applies to the RPT aircraft. In terms of the increase in the tax, as I have mentioned, we are looking at a major runway refurbishment. Council has taken a proactive approach to the airport, and over the last five to seven years we have made substantial improvements out there, including a complete refurbishment of the terminal. We have completely renewed the lighting out there. You will find

that a lot of the airstrips similar to Orange, of that vintage, are going to have to look at similar things with their lighting. We had problems with ours breaking down, and we decided to just pull the whole lot out and replace it. We have introduced precision approach indicator lighting for aircraft. We have put in runway threshold identification lighting. We have upgraded the apron lighting. We have introduced emergency power generation. Actually, our airport was affected a lot of the time by power outages and now it is virtually stand alone, which is good, and it makes it reliable for RPT and GA aircraft. So we are making a lot of improvements out there. The money that we are making is going back into the airport.

Mr ANDREN—Given the significant number of state and federal passenger loads there would be through Centreline and other organisations, in your research have you ever done a breakdown of percentages? Given that there is a significant percentage, would you consider the Commonwealth and indeed the state taking on more of the infrastructure responsibility for key regional airports, particularly Orange?

Mr Gardiner—We would certainly be open to any funding arrangements that would help us maintain and improve the facilities.

Mr ANDREN—Would you see any argument in the Commonwealth taking back total responsibility for key airports or do you want to retain ownership of the asset?

Mr Gardiner—That is a good question. It is really a political one, which the council would have to decide.

Mr Shearing—I would rather see the three levels of government work together to enhance the economic viability of the region. Tourism and the wine industry are growing in our region.

Mr McARTHUR—Would that mean that the Commonwealth would do the buying and you would take the credit?

Mr Shearing—That would be good.

Mr McARTHUR—It is often how it is interpreted—three governments work together, as long as the Commonwealth pays.

Mr Shearing—Equal percentages would be my suggestion. I believe the region as a whole needs to grow and we need to do that by introducing, if we can, hubbing and spoking with Cowra, Forbes and Parkes. You would have less stress here in Sydney if you were to have one aircraft coming in which catered for that whole region. I guess that is one point, looking at it as a whole region.

Mr ANDREN—What sort of tax relief or what areas of Commonwealth and state financial arrangements are inhibiting you, do you believe, in not being able to reduce that head tax?

Mr Shearing—We have mentioned \$2.5 million for the continuing upgrade of the airport that we are currently doing. Before September 11 we were looking at extending the runway and buying further property to include jet aircraft. At that stage, Kendall were using jet aircraft into Albury, Wagga and Tamworth, and we were looking at that, so that was capital expenditure that

we had to make a decision on. Obviously, now when flight aircraft in rural and regional areas are down some 21 per cent on passengers, we have had to come back a little bit further, but we have been proactive also in working with the aero club out there. We are building hangars and so forth which will probably in the long term give us a bit of an income. To get back where you are coming from, I believe that, if we can work together to enhance these and make them viable, everyone will win, the region as well as the state and federal governments.

Mr ANDREN—Can you just give us a brief rundown—it may be in your submission, I cannot recall—of your passenger numbers now, compared with pre September 11?

Mr Gardiner—I will go back one step. In regard to percentages of people travelling on RPT aircraft, we did a survey back in 2000. Seven per cent of those people were private, 82 per cent were business, 6 per cent holiday, 4 per cent medical and 1 per cent other, which included education.

Mr ANDREN—Business would include Centrelink and the department of agriculture. You have not attempted to break down those?

Mr Gardiner—No, I have not.

Mr ANDREN—And your numbers pre September 11 and now, roughly?

Mr Gardiner—Pre September 11 we were just over 48,000 passengers. Since that time we are down to about 36,000.

Mr Shearing—Thirty-two thousand.

Mr ANDREN—Thank you.

Mr SCHULTZ—Looking at your survey and some of the comments that followed on from your survey, there is obviously a very real concern about air fare costs, timetables and more specifically the airline servicing the route's practice of suddenly dropping into, say, Bathurst, which adds an additional half-hour to the flight time. Taking those factors into consideration, how can you possibly convince the committee that hubbing is going to help solve the problems at Orange Airport, in terms of passengers in one single aircraft going in in an environment where the passengers will have to pay for the hubbing leg to Orange and then pay for the Orange leg to Sydney? How is that going to affect the air fare? The debilitating factor for people travelling, apart from the contingencies that I just mentioned, is the air fare itself, and your air fare of about \$445 is pretty average for air fares from other major centres like Wagga to Sydney, which is about \$450. On every occasion on which we have received evidence here, there seems to be a reluctance of people to use aircraft for a variety of reasons, but one of the most outstanding features of their concerns is the air fare itself. How do you overcome that problem with hubbing?

Mr Gardiner—I do not know that you could. The gentleman with the model aircraft who was here before us might help, but I think that is one of the big hurdles we have if we are looking at hubbing and spoking in New South Wales or anywhere in regional Australia. If it is not cost effective and convenient for the passenger, they will not do it. Five, six or seven years ago we were having trouble getting into Sydney airport because they were putting aircraft in holding

patterns and there was a delay. We found that passenger numbers dropped because people did not want to use the aircraft; they decided to hop back into the car. It does not take much to affect places such as Bathurst and Orange.

Mr SCHULTZ—Do you think that, if governments made a contribution to removing some of the charges which would obviously impact, hopefully, on the ticket price, it would be beneficial in assisting Orange in attracting more people into an air service? Having said that, do you have any views on what sorts of charges we should be looking at and, indeed, what sort of subsidisation government should be looking at in terms of services from regional areas? More importantly, how would government identify that sort of subsidisation, and how would it justify giving it to one group of people and not another? It is a longwinded question.

Mr Shearing—I will answer a bit of that. We are a member of the AAA, which is the Australian Airports Association. I think there has been a submission from them, or there is going to be one. As members of that, we have spoken with them. In conjunction with the submission they have put up, I think a plan for all regional Australians needs to be looked at nationally—rather than looking at just one individual port—so that, to manage individual ports, that help or subsidy would be put together in one plan. I do not have exact answers for that, but we stated in our submission that we do not believe that hubbing and spoking would be a proposition—or we did not, until we heard the previous speaker. We cannot change our thoughts on that pattern straightaway.

If you look at airports, in 1996 the flight charges to Sydney were around the \$200 mark. They have basically doubled in seven or eight years, for a lot of reasons. Obviously, it is more expensive to run airports and aircraft and fuel costs are higher. I think it has to be closely looked at by you chaps now, to get that information and give some helpful feedback. I really do not have an answer for our region, straight off the cuff. I think that 80 flights per hour was the maximum that could get into Sydney when that trouble started a few years ago where people declined to fly because of the holding patterns. I think the maximum number of aircraft into Sydney can be 120. I do not know whether that has been looked at closely or expanded on, but I know that 80 was the maximum previously. So, if we can hub and spoke and have one full aircraft come in, rather than having five or six little aircraft with three or four people, it has got to help you guys here in the Sydney area especially; it would have to be a viability to be looked at.

Mr SCHULTZ—What about the prospect of the Commonwealth taking back from the rural communities control of the airports? How would that affect your particular situation? What contribution would your council make to ensuring that that expense or control by the government of that infrastructure would result in lowering the costs that contribute to the price of air fares?

Mr Shearing—We would be happy to work with state or federal government in that respect. The main issue is that we maintain a viable air service. As to the cost of that, I am sure we in the council—as it is our ratepayers who pay the fees—would like to see whether we could help with the reduction of aircraft. We would probably have more numbers on those flights. As the previous witness mentioned, 82 per cent of the passengers on those flights are business people. If we could have the average Joe Blow in respect of holidays and the private sector, we would make it viable for both parties. I am sure that council would attribute funds—I am not sure of the exact amount—to make sure that the airport remained viable for all the ratepayers.

Mr SCHULTZ—Without compromising public safety, which is paramount in everybody's mind, what sort of regulations do you think we should look at? I refer particularly to those relating to government agencies that may be seen to be oppressive or obsessive both in their demands and in their costs to you. Do you have any views on any charges and regulations that create a problem for you that we might look at making recommendations on? Does CASA create any problems for you guys?

Mr Gardiner—CASA undertake an audit on us every 12 months. We have never had a problem with what they have required: we have always worked well with them and I have always found the inspectors to be very obliging and helpful in anything that we have to do.

Mr Shearing—An example is that in the last few years we have put in a PAPI landing system. Basically, due to weather conditions in Orange, aircraft could not get down to a certain height. We can now bring them down a bit lower because of the lighting system, which lines up when the plane gets a bit lower and the pilot can land. That was expensive for council and was done for two reasons. The first reason, which goes to your question, is safety. Secondly, it gives us another tick on the CASA board for the equipment and OH&S issues that we have put in place at Orange. We believe we are in front of the requirements. Kel mentioned the outside lighting earlier. That is brand new. Again, that was done because of safety and keeping in front of the requirements of CASA. So we believe we are there; but the runway is certainly an issue that is creeping up on us and that we need to look at.

Mr SCHULTZ—To sum up your views, it would appear from your comments that you would not be favourably disposed towards the Commonwealth taking back control of the airport but you would be very grateful if the Commonwealth were to make a one-off contribution to rural and regional airfields to assist in the upgrading of infrastructure—which is a very costly one-off operation over time. Am I right in assuming that?

Mr Gardiner—I think we would have to agree with that. The day-to-day running costs can be met by the airport, especially an airport like ours. Where you have airports that do not have RPT operations it is a different matter, because of questions of how they get their income—it is very difficult. We are lucky in that we have an RPT service, which is offsetting our costs. There are major capital works that have to go on, particularly with the larger aircraft. While that is probably not the case with the way the aircraft industry is at the moment, if it gets to where it was pre-September 11 and there is congestion at Sydney airport, with the larger aircraft coming out of places like Orange, Dubbo and Wagga we will have to look at land acquisition, runway lengthening and so forth. Commonwealth assistance with that would be appreciated.

Mr SCHULTZ—I have an observation in closing. You would probably agree with me that the government is doing more decentralisation exercises and putting more public servants into places like Orange so that you can get more people on seats in aircraft. From what we have heard in this inquiry, they are the largest group using the aircraft out of the major centres.

Mr Shearing—Yes.

CHAIR—From your submission and that survey, it seems that your business community is quite happy with the services—the figure here is over 80 per cent. That was in March 2002. How many services a day and per week did you have in those days, compared to now?

Mr Gardiner—I think we had four a day.

CHAIR—And now you have two a day except at the weekends?

Mr Gardiner—On weekdays we have four.

CHAIR—To clarify, are we talking about two in and two out or four in and four out?

Mr Gardiner—Can we provide you with a timetable? That is probably the easiest way to do it.

CHAIR—Yes. Could you tell us how many air services there are?

Mr Shearing—In 2002, there were four a day, in and out.

CHAIR—Four a day, in and out?

Mr Shearing—Now it has been reduced. From Sunday to Wednesday, I believe there are two a day—that is, two in and two out. On Thursday, Friday and Saturday, there are three in and three out.

CHAIR—How long is it since you had competition?

Mr Gardiner—We have never had competition.

CHAIR—How many services are there into Bathurst?

Mr ANDREN—The same.

Mr Shearing—Yes, about the same. There are a few more private operators that run out of Bathurst.

CHAIR—Do Rex service Bathurst?

Mr Shearing—Yes.

CHAIR—With the same aircraft—with a Saab, or not?

Mr Shearing—Orange to Sydney is direct. I believe Bathurst does Bathurst to Parkes. They do a hop.

CHAIR—With a Saab?

Mr Shearing—Yes.

Mr ANDREN—And occasionally a Metro.

Mr Gardiner—Occasionally Metros.

Mr ANDREN—The next thing on the agenda is going to be security, one would imagine. Given the increasing capital costs to councils, do you think that there is a very strong argument to deliver a means of hubbing and spoking—even if it is a subsidised road transport system from some of these ports into places such as Orange—not only in order to increase your critical loads and improve the economy but also to ensure that your major security upgrades are at your key hubs? To what degree do you see that as a federal or a state responsibility?

Mr Gardiner—I see security as a federal issue and one that should be funded federally, or at least assisted in that way. I can see a lot of merit in subsidised transport fares to a place like Orange or Dubbo or Wagga. If you can bring those costs down, then people will use the service. I have no doubt about that.

Mr ANDREN—Subsidised from the spoke into the hub?

Mr Gardiner—Yes.

CHAIR—I compliment you on your survey. It is good that you have something more than anecdotal evidence to base your judgments on, and obviously your airport committee does a good job. It would appear, however, that of your business community—at least up until 2002—about half travelled to Sydney by car, about a third by plane and the rest by various other means. Do you still think that is largely the case today? Would you like to run this survey again before August and let us have the results?

Mr Gardiner—We could try to do that.

CHAIR—It would be very interesting to see how public opinion has moved.

Mr Gardiner—How it has changed? Are you talking about the business survey?

CHAIR—Yes.

Mr Gardiner—We could try to do that.

CHAIR—An interesting thing in the survey is the fact that 41 per cent of your business community would like a link to Canberra. That is a very interesting statistic. There is nothing else there that is remotely like that. The closest finding is that 16 per cent would like a link to Newcastle. I suppose what follows from that is that it would be interesting to know if there is enough demand there for Rex to justify a service. We have evidence in Victoria of a similar trend of people wanting to go to Canberra rather than Melbourne, which we found unusual as well. It may be—especially as you have such a large government department community there—that there is a need for a link to Canberra. It would be interesting to know whether people would expect a Saab for that or whether they would be satisfied with one of those new aircraft we heard about from the previous witness.

Mr Gardiner—That is probably one of the things we could put in the survey. In 1995, we did have a link from an aircraft company, flying from Dubbo to Orange to Canberra, but that run ended up closing down. I do not know what the reason was for its closure.

Mr ANDREN—It might be handy to include in your survey some questions about the level of comfort that people might require if there were a new 18-seat single engine plane. You are almost inviting a ‘no’ straightaway. I guess some sort of qualitative survey should be done as well, if it means the difference between a service and no service, say, to Canberra—or from Cowra to Orange or from Forbes to Orange. I am interested in some sort of exploration, through CENTROC perhaps, of the degree of support from the regional councils for that concept—instead of forever insisting that we want to restore services that are gone and, for economic reasons, will probably never return, we need to say, ‘What is the next best option?’ Maybe they could help feed some survey data into this as well.

Mr Gardiner—Sure.

Mr Shearing—We can certainly put a survey together, as requested by the chair. I think that we should be surveying CENTROC on how many people would fly, for example, out of Cowra or Forbes if that service were provided. I am always asked why there are no direct flights to Canberra. If the 18-seater single engine aircraft were viable in that respect, it probably would be a viable proposition to fly directly from Orange to Canberra, with those types of cost benefits.

Mr ANDREN—We will ask Rex that question later.

CHAIR—I am not trying to tell you how to suck eggs, so by all means ask extra questions if you do that survey, but try to frame the questions in the same way as the last survey so we can compare apples to apples.

Mr Shearing—Those questions were carefully put together, with all due respect, to try not to put people on the back foot when they were asked the questions, because the survey was done at the airport as they got either on or off the aircraft. It was done at their leisure. It was not something that was poked in people’s faces, so it is a pretty true and accurate record.

CHAIR—I would just like to clarify one other thing in the light of the information provided by the Sydney Airport Corporation. You have absolutely no landing by weight, by runway or by parking to any RPT service that uses your airport?

Mr Gardiner—We do not.

CHAIR—It is all contained in the passenger tax?

Mr Gardiner—Correct. The only aircraft that attract a weight charge are aircraft over 2,000 kilograms and non-RPT operators. Just for your information, that is another survey that we undertook in the year 2000. That was actually done with anybody who wandered in through the terminal, not just businesspeople, so you might be interested in that as well.

CHAIR—Thank you. I would like to thank the Orange City Council for their evidence. It is very important to get an on the ground feel for the types of difficulties that cities and major

towns are experiencing. I always think that a city that has an airport committee usually has a better handle on what is happening than one that does not. I commend you for that as well.

Mr Shearing—Thank you.

CHAIR—Would someone now like to move that the year 2000 survey by the Orange City Council and Hazelton Airlines be taken into the record as an exhibit?

Mr ANDREN—I so move.

CHAIR—It is so ordered.

[11.15 a.m.]

ALROE, Ms Julieanne, Head of Asset Management and Policy, Sydney Airport Corporation Ltd

FALVEY, Mr Chris, Head of Corporate Affairs, Sydney Airport Corporation Ltd

SCHUSTER, Mr Dominic, Manager, Economics, Sydney Airport Corporation Ltd

STUART, Mr Glen, Manager, Land Use Planning, Sydney Airport Corporation Ltd

THOMAS, Mr Ian Colin, Senior Consultant, Industry Affairs, Centre for Asia Pacific Aviation

CHAIR—Although the committee does not require any of you to give evidence on oath, these are important proceedings of the parliament and warrant the same respect as would attend to the House itself. It is customary for me to remind witnesses that the giving of false or misleading evidence is a serious matter and can be considered a contempt of the parliament. Having said that, you are most welcome. Can someone indicate who will lead?

Mr Falvey—I will.

CHAIR—Will the others speak or just answer questions as they come up?

Mr Falvey—Just answer questions as they come up.

CHAIR—Mr Falvey, would you like to give us a five- to seven-minute overview of your submission and then we will break into questions. May I thank you and your colleagues for not only one briefing to the committee but two—one last time and one this morning. I might refer to that at the end as we sum up.

Mr Falvey—We are happy to have done that.

Mr McARTHUR—Can I endorse that on behalf of the committee. We had a very extensive tour of the airport, the security facilities and the general arrangements.

Mr Falvey—Thank you. I would just add that Julieanne, while appearing as a witness for Sydney Airport Corporation Ltd, is also Chairman of Airport Coordination Australia, which is the slot allocation company here at Sydney airport. Committee members would have a great interest in how that slots regime works, and we would be prepared to take questions on that issue as well. The committee has our earlier submission. I do not propose to go through that in detail other than to say that we decided to obtain some independent analysis of airport charges at Sydney as against how they are at regional centres and what proportion they make up of regional airline charges. It shows that landing charges at Sydney are lower than at regional centres, and it also confirms the general analysis that landing charges as a proportion of total airline costs are not overwhelmingly significant.

The analysis also shows that charges for regionals at Sydney over the five-year period to the end of 2002 have actually declined, when charges for domestic and international airlines have increased quite sharply. Those increases were obtained following a very extensive consultation process and a review by the Australian Competition and Consumer Commission. Since that analysis was presented, regional airline charges at Sydney airport have not increased. Aeronautical charges generally are deregulated by the federal government. They continue to be monitored by the Australian Competition and Consumer Commission. The exception is regional aeronautical charges at Sydney airport, and the government has capped those at CPI and they continue to be regulated by the ACCC. A number of submissions have also focused on access to Sydney airport. Access is managed under the slots regime, which is set up under the Sydney Airport Demand Management Act 1997. That has special provisions for regional airlines.

Our master planning, which is still a work in progress, is predicated on regionals continuing to have access to Sydney throughout the 20-year period to 2024. Our traffic forecasts show continued growth in regional passengers with some up-scaling in average aircraft size offsetting a decline in forecast regional aircraft movements. Importantly, the forecasts show continued regional airline access to Sydney airport during the peak period, and we have some storyboards illustrating that that we can show the committee. We have provided a CD with a presentation on it, which has those statistics. I have prepared for the committee some further information, which is compiled largely from speaker notes we used in yesterday's tour, and the updated master planning information. I propose to seek leave to table that as a supplementary submission for the committee.

CHAIR—Do you want to table that now?

Mr Falvey—It is with the secretariat.

CHAIR—Is there any objection to the CD presentation and the supplementary submission of Sydney Airport Corporation Ltd being tabled? There being no objection, it is so ordered.

I will make just one point. We were not checking up on you—this came up in the form of other evidence—but the Orange City Council denies there are any airport charges whatsoever on RPT aircraft. The total charges at Orange are in the form of a passenger tax that is all-inclusive; there is no landing charge by weight, by parking or by runway usage for RPT aircraft. You might like to consult Orange and correct that record, because as a public document it does show that airport in a fairly bad light as being the dearest in New South Wales. Also, in those figures you quote on page 13 of your submission for passenger charges, have you added the Commonwealth charges and the Ansett levy or are they just the raw charges from the Orange City Council?

Mr Falvey—Those would be just the raw charges. It was essentially done by checking web sites, calling airports and asking questions.

CHAIR—These are interesting as a basis for comparison, but has anyone done any work to identify the average price of council and Commonwealth charges and levies on the average regional to Sydney airline ticket? Do we have a benchmark figure on that?

Mr Falvey—I could not provide you with a benchmark.

CHAIR—I have heard figures as high as \$42.

Mr Falvey—Security charges can be quite significant. I think the level of charge varies a lot from one airport to another as to what they might have for their own regional terminal and whether they have security charges on top of it. I think the charge reflects a lot the peakiness of the market and the fact that some of these regional airports have to try and recover costs from a relatively small number of services.

CHAIR—We might follow up on that. This is one of the things I am interested in, and Ms Alroe might like to comment: Is it fair to say that Saabs and Dash 8s at least will continue to be accepted into Sydney airport for the foreseeable future?

Mr Falvey—Yes.

CHAIR—There is no question of them being phased out?

Mr Falvey—It is ultimately a decision for the airlines. What we are seeing with Qantas is that they have progressively moved to larger Dash 8s. Rex is with the Saab, and they are the only one with Saab. QantasLink is flying 717s and Virgin Blue are flying 737s to Coffs Harbour.

CHAIR—I just make the point because I noticed in the survey that Orange City Council conducted that approximately 75 per cent of people do not wish to fly to Bankstown. That might be something for the corporation to take on board. We have asked Orange if they would conduct that survey again in the light of Rex's operations and see if the figures are still valid on the 2002 figures.

Mr McARTHUR—Following our inspection last night, I will raise four or five issues for the record. Could you comment on the security measures for regional passengers and, secondly, on the slotting arrangements or the actual departure areas for Rex and some of the regional airlines? The landing charges for regionals: there has been a fair bit in your submission that they are in fact less. We have heard from other witnesses about the ring fencing of slots by way of legislation of regional airlines. What is your philosophical position on that, apart from the legislative pressure to maintain the regional airline slots? Certainly other witnesses have been concerned that if the regional airline slot becomes inoperative for 12 months then it will move to somebody else and then another regional airline could not establish itself and find a slot at Sydney airport.

Mr Falvey—I will take some of it and then Julieanne might take other parts. The security measures for regionals are essentially looked after in T2. It does not matter what sort of passenger you are, you go through the same security measures at T2, which is the former Ansett terminal. All passengers are screened. The government has indicated that it wants to move to some form of check bag screening on domestic. But the final details of that are a work in progress.

On the departure areas for Rex, Rex has its own lounge areas in T2, and it seems to work fairly well for them. There is a commercial agreement we negotiated with them which gives them a level of surety for their business for the future.

Mr McARTHUR—Do you think regional passengers are happy with that; that they have a special location which is known, is not changing every second day and has been taken into account by Sydney airport?

Mr Falvey—Rex passengers seem to be relatively happy with it. Anecdotal evidence is that Rex's loads are increasing, so it is obviously a fairly good product. I think Rex's biggest challenge is how it can connect up with the bigger domestic airline system and how to maintain flow. It was certainly very important to them that they had their own branded presence, their own lounge and their own walk-up product which allowed them to compete with Qantas on the Sydney-Canberra route. All of that is provided for them under the commercial agreement we have with them in T2. We have certainly done a lot to look after Rex. We certainly did a lot to look after Hazelton and Kendell when they were in administration. Regionals have always been well looked after here in Sydney.

In terms of the slots regime and the regional treatment of them, there has been a series of policy measures announced by the government. We support those policy measures. We are not opposed to them. We have never expressed opposition to them. We recognise that it is the right of the government to put those policy measures in place. We do not have a problem with it. Julianne might talk a bit more about the technical operation of the regional slots.

Ms Alroe—The ring fence covers what they call the permanent regional slots. The permanent regional slots were capped in the regional change of June 2001 to the regulations that pertain to the Airport Demand Act. That capped peak-hour slots at Sydney airport at about 40 per cent of the available peak-hour slots because it sort of drew the line at the slots that were allocated in that particular time, which was the northern winter 2001. At the time, as I said, it was about 40 per cent of slots. They are now in the ring fence. Any slot that is not operated for two consecutive seasons falls out, so it would actually be two years before a slot could fall out of the regional ring fence. At any time, any other regional can pick up that slot and operate it and get historic precedence. It is only if it is left idle for a very long period that the regional slot would lapse. There are also a series of protections that have stayed in place, pretty well since the collapse of Ansett, to protect not only regional but also some of the domestic slots while the aviation industry is sorting itself out. That is still in place at the moment, so there is a little bit of a hiatus on the regional ring fence operating on some of those slots that were affected by the collapses that occurred around 2001.

Furthermore, in this current season we have basically suspended the use it or lose it rule, recognising the turmoil the industry is in generally. This applies right across the board. One of the basic rules with the slot is, if you do not operate it throughout a season, it does go back to someone else who will use it. But, because of SARS and all the other things that have occurred to the industry this year, that rule is basically in abeyance for the time being. Those sorts of things regularly happen to extend the life of slots inside the regional ring fence. But the legislation is there, and it does allow a two-year period of non-use to allow a slot to fall out of a ring fence.

Mr McARTHUR—What would you say to Brindabella Airlines as a fledgling airline that approached you in year 3 to say, 'We wish to take up a slot which we know has not been used in the last two years'? What would your attitude be to that airline?

Ms Alroe—We would not have anything to do with it. The slot management company Airport Coordination Australia runs the slot scheme on behalf of the government. They are appointed for a period of three years; they have just been reappointed for three years. The slot manager—the manager of the company—is independent. The owners of ACA fund the company and manage it, but we have no role in who gets a slot. The system is fairly extensively detailed, both in legislation and regulation and in some administrative rules which are managed by the KSA Coordination Committee, which is chaired by the Department of Transport and Regional Services. The airport itself has no role in the allocation of slots. The slot manager will take a slot on its merits and will allocate a slot purely based on the legislation, the regulation and the administrative rules.

Mr McARTHUR—That set of arrangements does not seem to be clear to some of the witnesses that have put evidence to us yesterday and at other times. They have a fear in New South Wales that the slots will suddenly become not available. I think they have a precedent in some of the other airlines that are no longer with us that were unable to get slots from Qantas and Ansett. That is certainly a fear that some witnesses have put to us.

Ms Alroe—I would say that, back in the 1999-2000 period, Sydney airport was full in a couple of the peak hours, so there were just no slots for anybody. It was not so much that there was not a slot for a particular airline; it was just that we were running at 80 movements an hour. That is no longer the case, unfortunately.

Mr McARTHUR—What you saying to us is that these smaller regional airlines can have every confidence that, if they are viable, they will find a slot in the scheme of things.

Ms Alroe—If there is a slot vacant in the pool—whether it is the regional pool or even the general pool—and they come along and bid, and if no one else wants it and there is no drop down in priorities—

Mr McARTHUR—Some of us would say that, historically, Qantas and Ansett made sure there were no slots available for any competitors. That seemed to be quite clearly on the record.

Ms Alroe—As I said, there is a use it or lose it rule. That is purely designed to stop an airline slot banking. If they do not operate that slot for 80 per cent of the season, it will just be taken off them.

Mr McARTHUR—So you are confident that this new system is working well.

Ms Alroe—There is a full compliance regime associated with the second part of the act. There is a slot compliance group which has voting rights. Sydney airport is a member of that committee with voting rights, along with Air Services, BARA, Qantas, formerly Ansett, Virgin has been invited onto that group, and the regional airlines association. You cannot vote if you have a conflict. For example, if it is a Qantas matter, Qantas cannot vote. The Compliance Group with the act and it monitors the use it or lose it rule. That committee meets at least once a quarter and, as I said, it is chaired and all the minutes kept by the department. ACA supports that committee in the information required on each performance.

Mr McARTHUR—It would appear to some of us who read the literature that Mr Corrigan and Virgin Airlines are a bit unhappy with the slotting arrangement. Do you think this new process has managed to keep it fairer than they have indicated in their public comments?

Ms Alroe—This process has been available since 1997. It is not new. There were a couple of amendments to it back in June 2001 to tighten up some of the regional ring fence issues and to stop the leakage out of the ring fence of slots. But the basic slot system has been there since 1997 and has always been at arms length from the airport. We contribute to the running of it and we sit on the board, but we do not involve ourselves in the day-to-day operation of the slot scheme.

Mr McARTHUR—Some of us would hope that it works better than the historical position.

Mr ANDREN—I want to put on the record the figures on the aircraft runway and parking charges, which we mentioned earlier when the Orange Council was here. There is a figure of \$149 for Orange, and Orange Council put on the record today that that is for a Dash 8. I do not remember Hazelton running a Dash 8, so I do not quite know where that \$149 figure came from. With regard to the slots and access, I understand that the pressure on Sydney airport from a general sense looks like being relieved with the new generation of bigger passenger loads. That is largely where the revision of the pressure came from, is it not?

Mr Falvey—There have been quite a few major industry trends going through the aviation industry. Some are aviation specific and some are just changes in the world economy that are impacting aviation. Glen Stuart can answer this in more detail but, to give you a bit of a snapshot about what has happened in the last couple of years, our current master plan thinking is that will take us until about 2010 to get to April 2001 traffic levels. So most of the capacity has come from collapses in carriers, rationalisation in the market and slower than expected growth rates that were anticipated or thought of five or six years ago. There has been a general trend to up-scaling of aircraft, which certainly assists, but the critical driver has been the collapse of airlines, changes in market economics and so on.

Mr ANDREN—In terms of ensuring regional access beyond the slot allocation process, how would you see regions best able to consolidate loads? I am thinking of hubbing, spoking and processes like that. How feasible is that process given that the infrastructure upgrades for regions may include key airports with proper and high security—expensive infrastructure that councils may or may not have to contribute to? Given the context of the suggestion of our gentleman earlier that at the end of the year he is hoping to put into the air a more economical transport aircraft, do you see hubbing and spoking as a way of consolidating traffic and getting payloads in at an economic rate?

Mr Falvey—Airlines are probably better qualified to comment on that because they are closer to the customer market than we are. We talk to the airlines, but the airlines talk direct to the customers and they have a much better feel for how that market will respond to hubbing and spoking. Our analysis shows a significant up-scaling in average aircraft size. We assume there will be some hubbing and spoking, but you can see that there will still be a lot of direct services.

Mr ANDREN—You say in your submission:

The only way that regional services abandoned in NSW in the past 18 months will be reinstated is if significant direct subsidies can be supplied ...

If, theoretically, subsidies were applied to the 15 towns or whatever it was that have lost services in the last couple of years, you would suddenly have 15 subsidised services looking for a slot at Sydney airport. You would not want it to trend that way, surely?

Mr Falvey—I suppose I would say, ‘Where are the subsidies going to come from?’ I do not see anyone wandering around offering large subsidies which would allow those services to suddenly come back.

Mr ANDREN—Would you be supporting encouragement in regional areas to find ways of consolidating passenger loads so that you would minimise the number of aircraft and expand your services? I am thinking of road transport subsidies, for instance, over shorter distances.

Mr Falvey—I am not sure how sustainable any form of subsidy is going to be and I am not sure what the policy objective would be. A number of people now drive to Sydney instead of flying because the road network has improved. Air travel will continue to be very expensive, relative to road travel, and will continue to be essentially business demand driven. How viable it is will depend on the viability of some of these regional centres. I have not been out there extensively but, when you get out there, you see some centres doing well and some centres not doing well, and it is not obvious to me why some are doing well and some are not.

Mr ANDREN—Most of the major centres are doing pretty well. That makes me wonder whether, even if direct services were cut back—if we were heading into a third year of drought, for instance, and one of the companies decided to drop Dubbo, Sydney or whatever—there is enough flexibility in the slot system to absolutely ensure that that slot would be available if the second service were resumed.

Ms Alroe—If there is a slot currently in the regional ring fence, yes. Access to Sydney airport for slots in the peak is capped at the level of 2000-01—the period Chris was referring to—so, if the industry group act on that position, they would have to move out of the peak. The peak is defined. It is a relatively short period of the day—I think it is between 6 a.m. and 8 a.m. and then an hour in the afternoon. That would be the only restriction and that is a legislative restriction or a regulatory restriction, not an airport restriction.

Mr Falvey—The other thing with slots is that they are not destination specific. A regional slot is a regional slot; it is not a destination specific slot.

Mr Thomas—Regarding your comments about pricing at Orange, my understanding is that the figures originally came from the IATA table of charges which they provide for all airports. Sometimes they do not differentiate between actual landing charges and taxes. In this case, I am only surmising that that might have been the case. The point about the Dash 8 is that it is a representative list of charges, so these are the relative charges for a Dash 8 should it use Orange.

Mr ANDREN—And yet we are told that it costs \$18 per person to land in Orange, and I suppose that if you had 34 passengers you would be up around \$700 for that plane load. Where do they get these figures; are they averages?

Mr Thomas—They are all on the basis of a 65 per cent load.

Mr ANDREN—And yet Orange would dispute that. Could you try to clarify that for this committee, as Orange has undertaken to do?

Mr Thomas—I will certainly take that up.

Mr SCHULTZ—I want to put on record that, after my observations in the last 24 hours and as a regular regional flyer and user of Sydney airport in the past, I am most impressed that the Sydney Airport Corporation are going down the right track in supplying more than adequate facilities which regional and rural people would be very grateful for. My question is centred on the Commonwealth government's announcement in March of the sale of Bankstown, Camden and Hoxton Park airports and the public comments made by the Minister for Regional Services, Territories and Local Government, Wilson Tuckey, that the restructuring of the industry since 11 September 2001, the collapse of Ansett and the trend to use larger aircraft on regional routes means that Bankstown is no longer needed as an overflow—and apparently the Bankstown City Council does not want any expansion of Bankstown to include regional aviation services. Given those factual occurrences, how will the government's recent decision about the sale of Bankstown Airport impact on Sydney airport? What impact will new arrival and departure procedures at Bankstown have on Sydney airport operations?

Mr Falvey—The first point is that we would agree with Minister Tuckey's analysis. Our master planning does not anticipate any spill to Bankstown or any other airport throughout the 20-year period. We believe that all traffic can be accommodated at Sydney airport. As far as the sale of Bankstown goes and its impact on Sydney, it does not really impact on us because it is essentially a general aviation sale process and there are some property aspects there associated with Hoxton Park. We are not a bidder in that process and, as far as we are concerned, it is just a sale. It will be the last Commonwealth airport sale. As far as the new arrivals and departures procedures are concerned, I am not aware of any, but Julieanne might like to comment.

Ms Alroe—No, I am not aware of what the particular proposals are. The interface between our aircraft movements and Bankstown is on the east-west runway, and most of the interface there is making sure that we can have the long-term operating plan modes operate at full efficiency. So it is making sure that we get the noise sharing in at Sydney by using the express runway very adequately. All of those procedures are designed for both airports by Airservices, and I would be deeply and frankly very surprised if they are not completely compatible with the ambitions and aims of both airports.

Mr SCHULTZ—I refer now to the hubbing process that is a very wide-ranging topic in many of the rural communities that have had input into this inquiry. The hubbing operations obviously take a lot of smaller aircraft out of the loop and create a situation where larger aircraft are bringing their passengers into Sydney. They would take pressure off the slotting problems that there have been over the last five or 10 years. Because of the trend now to use larger aircraft perhaps in the hubbing situation or because of new larger aircraft coming online to pick up the milk runs, they will carry more passengers; that is, instead of carrying, say, eight or 10 passengers, they will be carrying up to 20 passengers. We saw an instance of that today with a very exciting, in my view, opportunity for somebody to introduce an aircraft into the industry in Australia. Would I be correct in saying that the concerns about slots at Sydney airport are not

going to be an issue? The demand for those slots will diminish as far as rural and regional aviation is concerned because of the use of larger aircraft.

Mr Falvey—I think that is a pretty fair assessment, yes.

CHAIR—Regarding costs, anecdotally—and I am sure there is some truth in it—airport charges are a significant part of ticketing, whether we like it or not. I suppose the job of this committee is to try and analyse that to see whether any parts of that can be reduced or removed as part of the committee's recommendations. I notice on page 12 of your analysis you say that the cost of a Saab landing at Sydney airport is \$14 per passenger. Then, in your media release of 11 May, you say that even though you will almost double your revenue from \$93 million to \$183 million, which represents a return of 6.4 per cent, the impact on a passenger on a domestic flight from Sydney will only be \$1.50 and the impact on a passenger on an international flight will only be \$7. If the normal benchmark is \$14 and you will double your revenue, it is a bit hard to comprehend how that only puts it up \$1.50. Can you explain that to me? Am I looking at two different sets of figures?

Mr Falvey—No. When that ACCC decision came through, there was an international component, a domestic component and a regional component. The domestic component went up substantially and the international component went up even more substantially, and that is where most of the additional is represented.

CHAIR—The third category was regional?

Mr Falvey—Yes. They were basically given special treatment throughout.

Mr McARTHUR—As a matter of interest, in US dollar terms is the international component relative to other international airports about the same or above or below theirs?

Mr Falvey—As far as international goes, we are the most expensive in Australia. We have never shied away from that.

Mr McARTHUR—I meant compared to airports worldwide.

Mr Falvey—We are about average. Auckland is cheaper. The ones that blow out the averages are Narita, Osaka and New York. We are a long way from them.

CHAIR—What does it cost per international passenger coming to Sydney or per passenger to turn around an aircraft?

Mr Falvey—It costs \$40 a passenger.

Mr McARTHUR—Which is the most costly airport to operate from a passenger point of view and which is the least costly?

Mr Falvey—The most costly is always Narita. Narita is always up there as No. 1. Osaka is always No. 2. I am told the least costly is Wellington.

Mr McARTHUR—What about real airports?

CHAIR—All Kiwis in the room, block your ears.

Mr Falvey—Auckland is cheaper than we are, but not by much.

Mr McARTHUR—What about Singapore and New York?

Mr Falvey—Singapore is a bit cheaper. New York tends to be a fair bit more expensive.

CHAIR—What about Heathrow?

Mr Falvey—Heathrow is slightly cheaper. It is very difficult to benchmark international airports, because we all provide different services.

Mr McARTHUR—Is a key feature throughput or is it related to land values and a whole lot of other things?

Mr Falvey—I am not an economist and I have always found airport economics to be quite a black box.

Mr Schuster—The differences generally depend on whether the airports are price controlled. Some have an inflation minus something cap on their charges, which distorts the way their charges relate to their costs and asset values. The other influences are, of course, their costs and asset values, and throughput is important because the more throughput you have, the lower the charges based on the asset values.

CHAIR—Does the \$14 charge apply to a plane coming in and a plane going out? I would like to understand the dynamic of your total airport charges. You obviously do not charge this \$14 per passenger; you have a suite of charges for runway parking, departure and arrival. Is that amount an average for someone coming and going? I want to understand what that figure represents. If I get on a plane to go to Orange, has \$14 been added to my ticket, assuming that the plane is two-thirds full?

Mr Schuster—For regional aircraft, we have traditionally charged a tonnage based landing fee—a landing fee based on the aircraft weight—a terminal charge based on passenger use and a passenger screening charge. Late last year, we offered regional airlines a choice of converting that to a passenger based charge, which they all accepted. That is for terminal use. They now pay a weight based runway charge for landing and departure, and they pay a single passenger based charge which covers their terminal usage.

CHAIR—I can see that in your figures. I want to know: would Rex have to apply a \$14 charge to their passengers? I am trying to get it clear in my mind. Passengers come into Sydney and other passengers go out. Does that charge apply equally to both?

Mr Schuster—This is based on the total cost of landing and departing in the aircraft, spread across an average passenger load. These figures do not necessarily appear on a passenger's ticket.

CHAIR—I understand that, but what influence do they have on the passenger's ticket? Is it an influence of \$14 for a round trip or is it an influence of \$28 for a round trip?

Mr Schuster—It is an influence of \$7 for a departing passenger and \$7 for an arriving passenger.

CHAIR—Thank you for clarifying that. I just wanted to get it clear in my mind.

Mr McARTHUR—How do you collect the money? Some of our regional airports are very concerned about collecting the money for the charges. As a matter of record, how do you collect the money from the airlines?

Mr Schuster—We simply deal with airlines based on the weight of their aircraft landed and the number of passengers put through.

Mr McARTHUR—What do you do if they do not pay?

Mr Schuster—We have a conditions of use which specifies what service we provide and what we expect of them. If they do not pay, we move to a dispute resolution mechanism. If we cannot negotiate an outcome, we move to a mediated negotiation. We reserve the right to take legal action beyond that.

Mr McARTHUR—How did you get on with Mr Ansett?

Mr Schuster—I do not recall the outcome of our recovery of any outstanding charges. That was a slightly different issue because they were in receivership.

CHAIR—Does that come under commercial-in-confidence at all or is it subject to court proceedings?

Mr Falvey—Part of it is. Our airline customers, I hasten to add, are very good payers. We do not have bad debtors among our airline customers. When Ansett went into receivership, we had already been in close contact with them to ensure that debtor management principles were being appropriately applied. The ultimate debt that Ansett owed us was essentially taken into account in our last financial year, and part of it was reflected in the commercial settlement we reached with the administrators in relation to the acquisition of T2.

CHAIR—Did that include Hazelton and Kendell at that time?

Mr Falvey—Yes.

Mr McARTHUR—It is worth noting that a lot of the witnesses who represent council run airports have been complaining to this committee about the collection of airport charges. Some of them are saying that that is a very difficult operation under the new regime. Would you care to comment on that from their point of view?

Mr Schuster—I cannot really speak for them, but if they were collecting directly from passengers—if that is the way they impose the charges—I can see that that would be much more

complex. Because we collect from the airlines directly under a contracted conditions of use, we certainly do not have any difficulties.

Mr McARTHUR—Has this matter of smaller, regular transport operators who do not pay their dues to some of the smaller airports been drawn to your attention?

Mr Schuster—No, it has not.

Mr McARTHUR—That does not come across your horizon?

Mr Schuster—No. We are primarily concerned with our own debts.

Mr SCHULTZ—On 26 March this year, the Australian Air Traffic Control Association briefed this committee on Airservices Australia's proposal to consolidate the terminal control units at Sydney, Adelaide and Perth to Melbourne, and there appears to be no quantifiable benefit from the proposal. Can you tell this committee what impact this proposal will have on Sydney airport operations? Can you elaborate on the rationale for the proposal and whether it will work?

Ms Alroe—We have been seeking assurances from Airservices that it will have no operational impact. And we are still in discussion with them to have those assurances. We will be primarily concerned with the long-term operating plan management—the noise sharing and how that is managed. We will also be concerned with redundancy. If they lose the facility in Melbourne, they would have some redundancies so that Sydney airport is not impacted. The assurances to date are that they are okay, but we are still in that process. I understand the rationale was cost savings. With the new technology they have, they could do this. The technology is available; they could provide a cheaper product to the airlines. The airlines could be the main beneficiary of that. It will not have any impact on the airport. But we are still going through that process with Airservices at the moment.

Mr SCHULTZ—The reason I asked the question is that I have some concerns about the safety and integrity of the proposal, keeping in mind that there are recorded instances which we had brought to our attention through a submission of the breakdown of particular parts of that system, and it would worry me if you took the control of those towers out of places such as Sydney.

Ms Alroe—The tower would remain in Sydney. It would be the terminal unit—the 40 nautical miles of the control zone out of Sydney. As I said, we are still seeking assurances that there will be no operational impacts, and that is an ongoing discussion.

Mr McARTHUR—These changes have been foreshadowed for some time, haven't they?

Ms Alroe—Yes.

Mr McARTHUR—It has been on the drawing board for five—

Ms Alroe—About two years, I think.

CHAIR—Longer than that.

Ms Alroe—Yes, but they have been talking to us for about two years.

Mr McARTHUR—The committee had an inspection of the site and discussed it with them three or four years ago.

Mr SCHULTZ—We just know it is another Victorian grab for power.

Mr McARTHUR—The air is better down there so it will work better.

CHAIR—Does Sydney come under the Brisbane centre or the Melbourne centre for control? There are two centres.

Ms Alroe—Yes, there are two centres. At the moment, primarily they do en route control, which is managing the aircraft in between the city centres. Sydney has its own control zone at the moment, which is run out of the Kyeemagh building.

CHAIR—Would it come under Melbourne or Brisbane?

Ms Alroe—Under the proposal, it would come under Melbourne.

CHAIR—When the committee was briefed in Brisbane, I think we were told that in an emergency either Melbourne or Brisbane could run the whole of Australia.

Ms Alroe—I am not saying they cannot. I am saying that we are seeking assurances of what that arrangement would be.

CHAIR—Once again, thank you for your evidence and for your hospitality to the committee yesterday and this morning. A number of my colleagues have said that what you are doing is very impressive, and we thank you for that.

[12.05 p.m.]

MORANDINI, Mr John, Specialist Adviser, New South Wales Transport Coordination Authority

ROGAN, Mr John, Acting Director-General, New South Wales Transport Coordination Authority

CHAIR—I welcome witnesses from the Transport Coordination Authority. As representatives of the government you might find my introduction galling, but I have to advise you that these are proceedings of the parliament and warrant the same respect as would attach to the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence is a serious matter and can be regarded as a contempt of the parliament. Having said that, I also say that you are most welcome. Would you like to make a five- to seven-minute overview of your submission, so as to allow us as much time as possible to talk to you.

Mr Rogan—I will probably take much less than that.

CHAIR—All the better.

Mr Rogan—There are probably only three real points I want to make. I think the heart of our submission so far as the federal government is concerned is really related to the cost imposts on the industry. From a New South Wales perspective, we have endeavoured over a couple of years to try to reduce as much as possible the costs that the state has imposed on the regional airline industry. We recognise that, while the Commonwealth has taken some initiatives in that regard, there still remains some fairly significant imposts and it is really costs that are at the heart of the problem. There is probably a demand problem as well, but costs are really at the heart of the service problem.

The second area is that since we lodged our submission there have been a number of service changes in the state—some positives, some negatives. We have had service withdrawal from Inverell and Glen Innes to Sydney, and we have also had service withdrawal from Armidale and Tamworth to Brisbane. On the positive side, we have had a new Dubbo service introduced and a service from Brisbane via Ballina and Coffs Harbour to Williamtown. So there have been some positives and some negatives. While there has been less instability, there clearly remains instability in the industry in service provision.

The third thing that I wish to say, which is probably significant from a New South Wales government perspective, is that since the submission was lodged there have been two significant policy initiatives. One is that the regulation limit, basically for issuing of a single licence for towns which have passenger demand, has been raised to 50,000 a year from 20,000. So, in effect, we have one operator on routes up to 50,000 passengers per annum. That may in part reflect the commercial reality of those routes, where we were finding that second operators were withdrawing, but we have certainly given certainty to the existing operators on those routes that they are there and they are protected by a regulatory regime in New South Wales. The other thing we have endeavoured to do to provide greater certainty to the industry is that we have

recently re-issued licences to all the people that we regulate and they are now five-year licences. Previously, they were three, but all existing operators now have licences—this is in the markets up to 50,000 passengers per annum—going through to March 2008. We are now happy to take questions.

CHAIR—Thanks very much for that. Do you provide any subsidies in New South Wales to any intrastate services?

Mr Rogan—For intrastate air services? Essentially, no. We provided some support, as did some other states, prior to Rex with Horizon and the fallout from the Ansett subsidiary failures.

CHAIR—They were interim measures.

Mr Rogan—But they were interim arrangements, which a number of other states did too, to try to shore up what was a very difficult situation at the time.

CHAIR—Do you have anything like Queensland has, with that competitive tendering for the south-western and north-western routes?

Mr Rogan—No.

Mr SCHULTZ—I have a question on the comment you made with regard to extending the licences from three to five years. Did you also place an additional cost on that licence for that extension?

Mr Rogan—No, we have removed the cost.

Mr Morandini—There is a licence fee that is charged for routes above 50,000 passengers a year. It is an ongoing fee—0.2 per cent of the gross revenue—but only for routes above 50,000 passengers per year. Below that level, there is no such licence fee. That has been effectively removed.

Mr McARTHUR—Can you tell me the philosophic argument behind why the New South Wales government should get involved in airline regulation when it is generally in the area of Commonwealth jurisdiction?

Mr Rogan—I probably need to be a little careful how I respond. It is fair to say that there was an attempt during the last parliament in New South Wales to remove the regulatory regime. That proposed legislation did not pass the upper house. My sense would be that, in light of the change that has occurred in the regional aviation industry principally since 2001, but perhaps even prior to that, there would actually be pressure to maintain some regulatory regime in New South Wales that basically says, ‘We’re giving you one operator per route up to 50,000 people per annum.’ So I think there was perhaps a push coming out of competition policy reform and other things in the mid to late nineties that now has abated in light of the very difficult situation in which a large number of towns in regional New South Wales have found themselves.

Mr McARTHUR—It is an interesting scenario that a state government has taken over certain areas of aviation. That is an unusual aspect from this committee’s point of view.

Mr Rogan—Historically, clearly the federal government has provided the prime role in relation to a whole range of aviation issues—obviously from airport provision right through the regulatory arrangements. In most of the other states—and Victoria, from my own experience, I know has been an exception—there has been modest supplementary state regimes for a variety of reasons. I cannot actually describe to you the history in New South Wales of why it is there now. All I will say is that, compared to say four years ago, I think there is likely to be more pressure for it to remain now than perhaps there would have even been then. But at that stage it did not pass.

Mr McARTHUR—But you are reporting that there was a move to remove the state regulation and allow the federal—

Mr Rogan—And it did not pass the upper house.

Mr McARTHUR—Yes, but there was political pressure to have aviation under the Commonwealth's jurisdiction?

Mr Rogan—Yes. I think a lot of it came out of the competition policy reform process of the mid-1990s where a whole lot of regulatory arrangements were reviewed.

Mr McARTHUR—And out of competition policy are you saying that there was a special circumstance in New South Wales so you are entitled to run a few regulatory regimes?

Mr Rogan—I think we are not the only state that still has a limited regulatory regime. My understanding is that certainly Western Australia has one. I think Queensland has elements of one also.

Mr Morandini—South Australia has just introduced legislation to have the power to license services. I understand that in Tasmania services are licensed. I also understand that, from discussions with Commonwealth departments, it is a constitutional power that the state has to use if it wants to.

Mr Rogan—For intrastate aviation.

Mr Morandini—Yes.

Mr Rogan—I think also, if you look at the current situation in which we find ourselves, the pressure really over the past two or three years has been to try to retain services wherever possible. The regime that we have got is actually supportive of that. It is trying to give a bit more certainty to the incumbent operator that they are not going to be cherry picked off, perhaps by a larger operator on a more profitable route. I think it is actually supportive of the community concern out there.

CHAIR—Just on that point, you mentioned before that there was a move to totally deregulate but, philosophically, and given what you have just said, is the New South Wales government of a mind to have competition or to essentially maintain one good operator into major ports?

Mr Rogan—I think we are trying to be pragmatic, which is recognising now that markets of 50,000 passengers and less have essentially retreated to one carrier, although there would be a risk in some of those markets that perhaps someone might come in and cherry pick. Certainly, from our perspective, the stability is more important than the competition. We are quite comfortable at this stage with there being competition on the markets above 50,000, although even that is now diminishing.

CHAIR—It was an in and out operation at Coffs Harbour, wasn't it, that Virgin went into?

Mr Rogan—One went in and one went out but there have been—

CHAIR—Alliance went out.

Mr Rogan—Where are some of the locations where we have reduced from two carriers to one?

Mr Morandini—Tamworth, Port Macquarie and Armidale are examples. So there has been a loss of competition on some of the routes that are still unregulated.

CHAIR—You make quite a strong point about cost pressures. Have you done any studies on what you think it adds to the cost of the ticket?

Mr Rogan—No.

CHAIR—We are groping with this. We have talked to the airlines and we have talked to the Sydney Airports Corporation, which seems to come closest to being able to provide us with a figure. You mentioned the cost of fuel, CASA charges, landing and terminal fees and you talk about the introduction of navigation charges by Airservices. Are you saying that no unit within state government has done an analysis of what happens to a ticket?

Mr Rogan—There is also the Ansett ticket levy for craft with a capacity of 19 passengers or more. That would also have an impact, but no, we have not done any economic analysis of that. In fact, we would not be privy to a lot of the information. There would be other participants in this inquiry in the market that are far better placed to do that.

Mr ANDREN—What role do you think the hub and spoke process might play in terms of guaranteeing the availability of slots into Sydney on a long-term basis? Should government get involved in helping to support such things? I am thinking particularly in terms of regional development, the states' role in encouraging it and all the infrastructure that we will have whenever Telstra makes broadband available to all. That may be a way off, but with the ability to do e-business the missing link in all this is air transport to make it viable for business. What sort of commitment could the state government make to effect some sort of access to critical load mass in places such as Wagga, Orange or Dubbo by road or by air?

Mr Rogan—There are a few questions there. I will start with the hub and spoke. Obviously, direct service from a country community perspective, from economic development access to services in Sydney and the like, is better than a hub and spoke. A hub and spoke is clearly

preferable to no service that all. That is reasonably logical. To date the hub seems to be working to a degree in Dubbo, but probably really nowhere else in the state.

Mr Morandini—That is correct. Sydney is the hub and spoke predominantly. Dubbo is the only example of a regional hub and spoke that has been working for some time successfully serving outlying towns that have quite low volumes of passengers—in some cases extremely low volumes.

Mr Rogan—We have had a couple of triangulated groups. Griffith-Narrandera is working in a triangulated manner.

Mr Morandini—The airlines use discretion as far as triangulation goes.

Mr Rogan—Moruya-Merimbula is also triangulated; it is the only other one. The difficulty that the hub-spoke concept will have for most of the spokes is that some of the real benefits that they need, such as people being able to get in and out of Sydney in a day or people being able to get out to their location and return in a day, are not going to happen. Clearly, it is the preferable option to no service at all. It looks as though the Dubbo one will continue to sustain some services in the north-west of the state that otherwise simply would not be there.

Mr ANDREN—I want to draw your attention to an earlier presentation by Integrity Airlines. They are looking at an 18-seater, single-engine plane along the lines of the—

CHAIR—The Trislander.

Mr ANDREN—which flies the Cook Strait in New Zealand. The idea is that it will be built in Romania and assembled here. This gentleman suggests that it will be available and able to deliver a very economical hub and spoke operation. I draw your attention to that evidence. You may want to access it when it is available. I am just wondering, if there was an idea and technology being suggested, to what extent the state government would be there to facilitate the development of such a proposal.

Mr Morandini—Our licences are structured so that hub and spoke arrangements can be implemented at any time.

CHAIR—No, I think you are missing the point of the question.

Mr Rogan—You are asking a State and Regional Development question.

CHAIR—Despite the fact of it being a state development question, you are the policy people in transport. I think Mr Andren is asking what the state government's attitude is to helping an aircraft manufacturer who might alleviate a problem.

Mr Rogan—I have to say I am not fully across that issue. The Department of State and Regional Development does deal with it. What I can say, and we made reference to this in our submission, is that we were mindful that the aircraft that is manufactured in Gippsland—which is an eight- or nine-seater—may well be an appropriate opportunity for some of those sorts of markets. The 18-seater you refer to is appropriate also. In general we leave the aircraft selection

decision up to the airlines themselves. It is a licensing issue with the federal government. I am not sure whether any of these would produce any significant manufacturing or assembly within New South Wales. I am simply not privy to that, and I would really need to ask State and Regional Development that question.

Mr ANDREN—It may be worth you reading that evidence from Integrity—

Mr Rogan—I appreciate that.

Mr ANDREN—and maybe we can make it available to you as well. With routes of less than 20,000 passengers per annum, what state assistance is available to keep them afloat?

Mr Rogan—There is none at this point—other than that we have removed all our fees on that part of the industry.

Mr ANDREN—What federal fees would you see? Have you got an opinion on what sort of relief could be given?

Mr Rogan—There is a range of things that the Commonwealth government does for regional development purposes that are in the nature of support. Clearly, if the Commonwealth government is of a mind that regional airlines could be supported, there are a range of fees that they could choose to absorb partially or wholly themselves rather than passing them on as imposts on the industry. In the same way, they might support a range of regional development initiatives, for example in the roads area. It is clearly open to them. You have got to be careful with some measures. For example, if GST was removed from an aircraft purchase for regional areas, you would have to ensure that it was in fact used in that area rather than just being sold on in the market.

There is clearly a range of opportunities available to the federal government. We are not saying that the federal government is not fairly pricing; we simply do not know. The airlines and the federal government can tell you more about that. What we are saying is that there clearly are a number of recognised charges out there that are impacting on regional development and regional areas, and the federal government should be mindful of those. They are clearly the big impost from all three levels of government. They are overwhelmingly the largest impost.

CHAIR—When the federal government returned airports to local authorities, how did the state government view that? Did it have—

Mr Rogan—It is 20 years ago now, in many cases. I just do not know the answer.

CHAIR—Yes and no. Twenty years was the partial handover; it was about 10 years for—

Mr Rogan—the balance.

CHAIR—I suppose the rationale at the time was that a council with engineering facilities and asphaltting abilities could look after an airport better than a centralised bureaucracy. The evidence now is that, once you get down to a certain population level, whether it is under 20,000 or 10,000 people, the ability to maintain an airport is more difficult. These airports have to be

maintained for small RPT services, charter services, freight services and aerial ambulance services, but councils do not seem to have the ability to keep up with that. Do you have any evidence of that or have you had any feedback from local government associations on that issue?

Mr Rogan—Some councils have certainly written to us about support. Temora, which does not have services at present but is trying to establish a museum facility, is one that I am conscious of. I think there are others that are mindful that it is becoming increasingly difficult. I think there is a wider issue here for the Commonwealth in what it is supporting in a national sense. It clearly supports the roads network very extensively, even into many smaller communities around the country, and I think it is going to have to look at how it supports other transport infrastructure. Clearly, air is the lifeblood for a number of these places—not just in New South Wales but even more significantly in some other states—and that is going to include the airport runway facility itself. We have clearly moved in one policy direction over 20 years, and now it is probably time to take stock, as we have done in the road and rail areas in recent times.

CHAIR—The committee's principal term of reference is the adequacy of services to regional Australia, not just in their own right but in what they provide in giving interaction between that community and the rest of the state, whatever state that might be. The thing that troubles me—and it is not formally part of this inquiry—is that when Mr Tony McCafferty of McCafferty's coaches addressed the committee not so long ago he said that it was even becoming challenging for him to maintain services to some country areas. I suppose the question the committee is asking of you as the policy unit of transport in New South Wales is: what do you see as the main method of connection to small and isolated New South Wales communities? Is it by bus, is it by plane, or is it time for a rail revival? What is your policy position on this?

Mr Rogan—One of the things to look at is how far locations are from existing airport services. Mr McCafferty has also visited us and made the point. Clearly, there has been a diminution in coach services across the state. That has become harder, particularly as air fares between the major capital cities have come cheaper. They have shrunk the interstate market, so in effect they are shrinking the intrastate market, or the amount of service provided, in the process.

It is a little bit horses for courses. For example, in some cases people on the fringe of Sydney would drive for 90 minutes to two hours to get to Sydney airport. If you extrapolated a 90-minute rule, that would bring a lot of country towns that do not have services at least within the purview of an airport. But if, for example, services to Broken Hill ceased, we would have a major situation that would need to be addressed. There are probably other locations in the state of significant size where, if services ceased, we would have to have a hard look at the situation. But you have to take into account how far they are from the next airport and the driving time to Sydney.

A number of places that have lost services are probably in the range of three to five hours driving time from Sydney and perhaps an hour from the next airport, and they are difficult cases. It is not obvious that air is necessarily the right means of transport. Clearly, we support significant rail services into a number of parts of New South Wales, just as the private sector supports a range of coach services. You have to look at it individually, but it is certainly an issue we have given some thought to in some of the policy factors we have tried to justify. The

overwhelmingly obvious one here is that, if services to Broken Hill ceased, clearly that would need to be addressed. But we are mindful that when people are out of reasonable driving range of Sydney and cannot drive for an hour or an hour and a half to the next airport, that is a real issue for us too.

Mr ANDREN—I think it was to Sellwood of Orange that I made a suggestion that there are two XPT markets in the central west, and one of them is the tourism market in Dubbo. It seemed logical to me to start an XPT in Orange and bring it back at night as a commuter. The bus industry said to me, ‘You are offering a \$2.70 pensioner fare on the XPT out to Dubbo and I operate my bus service with no subsidy.’ Some might say that the trucking industry does not pay enough on their taxes; notwithstanding that, the difficult thing when we are talking about lowering taxes to enable air services is that we have got to analyse who the beneficiary of the air service is. I guess half of the use of regional air transport, at least to major centres, is government or quasi-governmental. So there is an in-built taxpayer subsidy through that payload, isn’t there?

Mr Rogan—I will respond to two aspects of what you said. The pensioner excursion ticket arrangements enable a person outside the greater Sydney metropolitan area, which for this purpose is either Lithgow or Bathurst, to travel to a metro boundary, say, Bathurst, for \$2.20. It does not then enable them to travel on into Sydney. Those arrangements have been in place for quite a number of years. That market was probably never going to travel by air anyway. There has been some extension of the ability to travel on the country ticket, because we had a number of places in the state. Nyngan-Dubbo was a classic example of where we had imposed a 129 kilometre limit. A citizen in Nyngan simply could not get to a larger regional town under that limit. So we looked at it and said, ‘We are trying to recast that policy so that, pretty much in any part of the state, you can get to a significant regional town for services if there is a CountryLink service. I do not think that has had a huge impact on the airline industry. You may be right in that it has had some impact on the coach industry.

In terms of the governmental traffic, the secretary of the Premier’s Department is about to issue a circular reminding all departments that they should take up opportunities offered not only by Qantas, which have probably been the prime beneficiary of New South Wales traffic, but by all the other airlines supporting regional areas where there are alternative services, because we want to support all the carriers that are out there. That second one is something we are mindful of.

Mr SCHULTZ—I would like to comment on the CountryLink service. I think the New South Wales government has done an excellent job in its attempt to get people who did not have public transport onto the public transport system, particularly through the CountryLink process. I am also mindful of the fact that that is predominately used by pensioners and people who get concessional rates—and that in itself is a difficulty.

Getting back to some of the points that you made in your submission, under the heading Cost Pressure Issues dot point 4 states:

Increasing compliance processing costs associated with CASA air safety regulation, which have a relatively greater cost impact on regional operators compared to domestic airlines

Would you like to elaborate on that point? It is of interest to me and the committee.

Mr Morandini—That finding came out of the New South Wales Air Transport Summit, which was run in June 2001. There was an effort to try to quantify costs coming onto the small end of the market. We did provide the inquiry with a copy of that submission, which includes the assessment of those costs. It actually endeavoured to stratify the regional aviation industry and see whether the bigger end of the regional aviation industry met more or less of the government charges compared to the smaller end. That is where the finding came out that government influenced cost categories were found to account for at least 50 per cent more of the total cost of small regional airlines compared to large regional airlines. It is a factor of a number of things but is mainly influenced by the small number of passengers that they can distribute their costs over. But it was a significant finding coming out of that regional air transport summit. So we have simply repeated it here.

Mr SCHULTZ—I appreciate that. It leads to the question of taking into consideration geographic isolation and the economies of these smaller communities; whether we should have a different scale set up which takes into account those particular downsides of living in rural and regional Australia. In other words, what I am saying is that governments of all political persuasions at various levels do not seem to factor into the equation those sorts of downsides of living in rural and regional Australia. We have other positives but because the communities in general are isolated from major regional centres they do not have the capacity to get into transport modes that are available to those people who live in far greater densities of population. The question I want to put to you is: do you think there is a valid argument for governments to reassess the charges based on geographic isolation and those sorts of things?

Mr Morandini—Yes.

Mr SCHULTZ—Should they scale down the charge to allow for those contingencies?

Mr Morandini—Clearly it is the case that the cost of providing air services becomes higher per passenger as the remoteness of where that passenger is coming from increases. You have this situation where the pressures on air fares are obviously going upwards so you have the cheapest air fares on the most voluminous runs. It is also evident, and this has come out in the recent Bureau of Transport and Resource Economics study, that as you get further away and the trip length becomes longer then the desire to use air services increases quite substantially. If you look at the number of trips 200 kilometres from Sydney that is air trips, it is a fairly small percentage. But if you look at the number of trips to Sydney from 1,000 kilometres away, a high percentage of those trips are air trips. The dependency on air increases as you become more isolated, but the cost increases.

Mr Rogan—The last point is a good one. What we have to watch here is that for the communities within Australia that are genuinely remote there is going to be support for air services. However that comes out will be the practical answer, possibly out of governments at both federal and state levels. But there is a whole squeeze going on in regional Australia. If you start simply running the isolation argument, there is a danger that we will lose perspective on the problems not just in the whole range of New South Wales but perhaps equivalent towns in Queensland particularly that perhaps should get air services. It is not a simple isolation argument. We need to think perhaps about some of the towns in Mr Andren's electorate and

perhaps your own electorate that there is still a case for. But if we describe it as isolation my fear is that they will miss out because they are not really thought of as genuinely isolated or remote. The towns and cities that have lost services in New South Wales are very much that sweep in that middle arc out of Sydney; it is not the towns at the most extreme parts of the state.

Mr SCHULTZ—I did not want to give the impression that I thought we should do something for all of the people in the category that I just designed. Certainly, if you look at history, there is an enormous amount of pressure on government infrastructure in the metropolitan areas, and governments are always talking about trying to move the population back into the regional and rural areas. But because of the lack of transport infrastructure, sometimes that is difficult. People, unfortunately—for selfish reasons or whatever reasons—tend to want to have access to those sorts of services. If we get into a situation where we have to, for want of a better phrase, pick winners and losers, do you think there is an argument based not only on geographical isolation but on those sorts of arguments for taking the pressure off the infrastructure in the urban areas and helping people?

Mr Rogan—That one is probably harder to sustain. But we are very mindful of the towns that are in that range of, say, four to seven driving hours from Sydney and how they can get some sort of access to an air service—even if it is not in their own town, but in a town that is an hour or an hour and a quarter drive away. If the market shrank further—we hope that does not happen—those would be some of the things that we would be taking into account seriously.

CHAIR—On that point but taken at a slightly different angle, earlier today we heard Orange City Council being apprehensive about holding government departments in the country. That is a unique set-up—to have the head office of a department in a regional area. If air services are not maintained at a certain level, that will disadvantage decentralisation. Have you ever talked to state development and the department of tourism about the extent to which the diminution of air services has impacted on decentralisation?

Mr Rogan—We have made reference in the submission to the tourism impacts and we are mindful of those. We are also mindful of the business impacts. From a government department perspective, the state government is still moving departments out to regional locations and has announced in the recent election campaign that it will do more, so I am not sure there is a direct link here with state government employment in regional locations. There clearly is an impact in the private sector and how they assess whether a location is attractive by the availability of air services.

Mr ANDREN—Are you aware of any qualitative studies on this issue? If they have not been done, do you think they should be? I am thinking of, perhaps, Cowra. It had an air service not only through tourism, with the Japanese gardens, but through the ability to offer serviced industrial lots for a growing food industry and so on to attract a processor out to that area who absolutely needed air access to his market in Sydney and his clientele. Has any qualitative work been done on air services for attracting decentralised industry not to places like Orange or Bathurst but to those intermediate towns that are on the cusp of growth? Many of them have natural attractions—and until recent years telecommunications was a big issue—but they lack air access.

Mr Rogan—We certainly have not done any. I could take that on notice and talk to the Department of State and Regional Development. If there is information they have got, we will forward it to the inquiry. None have been done to my knowledge.

CHAIR—That would be very helpful. On that note, we would like to thank you as representatives of state government, particularly the policy area of the department of transport. Your evidence has been very good, very straightforward. I mentioned to my colleague that your evidence stands in stark contrast to that of some of your other state colleagues, who seemed to obfuscate direct questions. It was refreshing to have such straightforward and meaningful answers from you. We appreciate that very much.

Mr McARTHUR—I also remark on the quality of your submission and the policy areas that you have covered.

CHAIR—You will receive a copy of the *Hansard* draft. If there are any inaccuracies, please correct them. You will come back to us with any further information.

Proceedings suspended from 12.45 p.m. to 1.52 p.m.

TIPPETT, Mr Alan Raymond, Consultant, Basair Australia Pty Ltd

WARD, Mr Darrin Richard, Managing Director, Basair Australia Pty Ltd

CHAIR—Although the committee does not require you to give evidence on oath, I have to remind you that these are proceedings of the parliament and as such deserve the same respect as would attend to the House itself. You should be aware—and we advise all witnesses of this—that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. However, having said that, you are most welcome. Mr Ward, would you like to give us a five- to seven-minute overview of your submission? Then we will go to questions.

Mr Ward—Thank you for the opportunity to talk today. In opening, I would like to say that we appreciate that our submission to this inquiry is quite brief in the context of the terms of reference, but we have quite specifically dealt with only two points of the terms of reference—and those are our areas of expertise.

CHAIR—That is quite okay. You do not have to comment on everything.

Mr Ward—As a background, Basair Australia are a general aviation company. We are a small operator based at Bankstown Airport here in Sydney. We have a staff of around 25 people, so we are that sort of size. With relevance to this inquiry, most if not all small regional operators actually start as or are small operators like ourselves. The vast majority of small airlines, for example, are mother and father type operations based in the country. While we are not a regional airline ourselves, we are fairly typical of the small general aviation operator.

Our view is that the two government authorities—the Civil Aviation Safety Authority and Airservices Australia—need to improve the way they interact with the small aviation operators. I will go first to the Civil Aviation Safety Authority. People within the industry and even some people in the Civil Aviation Safety Authority consider the organisation as, to quote, ‘a rudderless ship’—that is, without direction—and as being intent on divesting itself of responsibility. CASA, as an organisation, shows little consistency in dealing with industry, particularly the small operators. Changes to the industry are often pushed through for the sake of change, as far as we can ascertain, and with little regard to the effect that those changes will have on the industry. Airservices Australia, as quite a different entity in itself, has become a corporate monolith that seems intent on making a profit at all costs, regardless of the commercial necessity of the service it imposes on the small operators.

Summarising our submission, the impact on small operators comes from several areas. First of all, there are significant compliance costs brought about by the Civil Aviation Safety Authority. The cost to operators is quite significant and is getting worse all the time. As they divest themselves of responsibility, they push that responsibility onto the operator purely and add to the costs involved there. Another impact on small operators is the allocation of resources to address CASA issues. I have an example in terms of the pile of documents I have sitting in front of me. This was sent to operators last year, and these are proposed changes to the whole way aviation operates in this country. If you asked for them, you received these documents and had about six weeks to read all the documents, digest the documents and then put a submission back to CASA

about the entire future of the aviation industry. Admittedly, CASA extended that time, but that was a completely unrealistic time frame to give the industry to digest such documents as these.

There is another example in the documents. This document—and the actual title of the document is not relevant—tells you how you are going to operate, but the costs of doing that are actually hidden in the back of this document. That is the other issue you find: you have to read several different documents and cross-reference the documents, and right at the very back of one of them you come across a table that gives you an idea of the costs. You can imagine that for a small operator the amounts of time, energy and resources that have to be devoted to digesting all of this and cross-referencing all of this is simply not feasible for us.

As well, CASA implements changes in the industry very frequently. They occur so frequently at the moment that it is actually very difficult for small operators to remain compliant. There are many occasions where a small operator will find almost by accident that a change has come through. Once again, often these changes are for the sake of change. When these changes come through and a small operator finds it difficult to be compliant, we then have the situation of CASA having the ultimate power to close an operator down virtually without notice and for whatever reason they choose. Coupled with that is a lack of consistency in how CASA deal with operators. Where an operator may be non-compliant due to a change they were not even aware of, they can be quite uncertain of how CASA will deal with that situation when they find out that it has occurred.

Also, changes that can potentially put businesses in this industry out of business are pushed through. These changes—to how small commercial operations are going to be conducted—are an example, and they are in our submission as well. These changes come with a relatively small amount of notice and, at the same time, prevent people planning ahead for the future of their business. For example, our business, in terms of our charter operations, would be put out of business by these changes coming through, so how would a small operator be able to plan, invest, buy new aircraft and so on if CASA were to bring these sorts of changes through at relatively short notice?

We do not want to be seen as just complaining about CASA. CASA has a vitally important role to play as a regulatory authority. What we ask is that it undertakes that function with regard to the commercial realities of the small operators—which are crucial—and with fairness and consistency as well. We ask the same of Airservices Australia in its capacity, which is different from CASA's, as a service provider. That concludes our short summary. I would like to thank you for the opportunity of appearing, and we would be more than delighted to answer any questions you may have.

CHAIR—Give us an example of one of the things that would contribute to your being put out of business.

Mr Ward—Are you talking about things in the new requirements or just anything?

CHAIR—Give us a typical example.

Mr Ward—A broad summary of this is that the requirements for a charter operator are going to be raised to the same level as those of a small airline operator. In a general context that may

seem fair and reasonable, but the reason charter exists as a type of flying operation is that those flights or operations do not justify—be it in terms of the number of passengers, the frequency of flights or whatever it might be—the much more strict standards that are required of a regular public transport operation. An example would be someone conducting joy flights. There is no possible way that joy flights could be conducted to the same standard as a regular public transport operation.

Mr Tippett—The potential to put someone out of business comes from the fact that to conform with the RPT standards you would have to employ significant additional staff, and that is a very significant cost. You would also be required to introduce check and training pilots over and above those required for a charter operator. We were given an example—admittedly it was anecdotal—only last week of one small operator who had four pilots: one was the chief pilot, and CASA was suggesting they needed two check and training pilots. The fourth pilot was wondering what he was going to do. It is that sort of situation that brings all sorts of problems.

CHAIR—A lack of engagement with the industry.

Mr Tippett—Yes.

CHAIR—Briefly describe what your operation does.

Mr Ward—It is primarily a flying school with a small air charter component. We are not a regional airline operation.

CHAIR—What type of aircraft do you use in the training school?

Mr Ward—Everything from Cessna 152s, which are two-seat basic trainers, through to four-seat light twins. On the charter side, we use up to 10-seat, twin engine Piper Chieftains.

CHAIR—Where do they mainly go? Where are you based?

Mr Ward—We are based at Bankstown here in Sydney. It would be fair to say that the charter flights that we do—as I have said, they are a small component of our business—are mostly within New South Wales, going to most limits of the state. The training is very localised in that regard. Canberra, Parkes and Port Macquarie are the typical limits of training.

Mr ANDREN—We had a couple of submissions about CASA from operators yesterday, and I would like you to comment on them. Experienced operators and the people CASA deal seem to lack confidence in CASA's expertise. Operators often believe CASA to be inferior in terms of their understanding of the industry. Yet, it seems that Qantas, having talked with them this morning, essentially have no problems with CASA. Rex, a medium sized operation, has a few issues. But the smaller operators seem to have many problems with CASA. Is there a perception within CASA that smaller the riskier? What is it?

Mr Tippett—It is difficult to second-guess CASA. I can only assume that they assign people who are very well versed, are very senior and have many years of experience to airlines like Qantas and the larger regional airlines. Some of the people that we have had assigned to us as flight operations inspectors may interpret the rules slightly differently, and there are varying

views on how those regulations should be interpreted. Perhaps the experience is not there. There is a well-known adage within the industry: if you do not get the answer you want the first time, go and talk to someone else.

Mr ANDREN—One fellow yesterday put it fairly well when he told us that he would not hire any of the engineering expertise for his business nor, if he were out of a job, would he seek a job with CASA to ensure a safer aircraft industry. How extreme is that view?

Mr Ward—I would agree with that, but not from a maintenance side. I have certainly heard that anecdotally from engineers. Another statement you very often hear in the industry is that, if you cannot get a job in the industry or if you get sacked from the industry, you go and get a job in CASA. That is most unkind because there are some very good people in CASA who do have excellent experience, are very good operators and are knowledgeable. However, there is no doubt that, from a small operator's point of view, a large number of people do not have the respect of the industry, for various reasons. It could be because of their past, the previous experiences people have had with them, the fact they act very bureaucratically or the fact that they act more to throw hindrances in front of you all the time than to genuinely address safety. Sometimes that is because they are out of their depth and they are trying to deal with an operator who has far more experience, knowledge or whatever than they do. That in itself is not a problem. There is no problem with someone without a lot of experience dealing with you, but it is important that they conduct themselves in the appropriate manner.

Mr ANDREN—It has been suggested to me in recent times that the arrival of CASA to do an audit is a bit like the Gestapo arriving and that there is a lack of connection and cooperation on audits. Is it about the culture? How pervasive is that attitude?

Mr Ward—I do not know that the culture is deliberate, but I think a lot of the people in CASA are not given direction and guidance from above, hence the rudderless ship analogy. A lot of these guys are trying to do the best they can, but there is certainly a group who conduct themselves more like the Gestapo. I have commented very many times that I wish that CASA would visit us, sit down, have a cup of tea and ask: 'Where are the problems? Where are you having issues? Where are the safety issues?' and work through it on a regular basis rather than just appearing unannounced, like the Gestapo, and trying to literally pick where you have not dotted the i's or crossed the t's—and that comes back to their being able to close you down in that situation. It is almost an antagonistic reaction between the operator and CASA because the operator always feels: 'They're just trying to find something on which to close me down.' And that has been evidenced in the past. Some operators have been really unreasonably closed down, while other operators have been allowed to go on until problems have occurred and have been much bigger than they needed to be.

Mr ANDREN—Given the sensitivity of CASA, the minister, the government and the public to the Whyallas and the Monarchs in recent years, can you understand that there is a perception that the risks might be located at the smaller end of the industry? How would you overcome that? It seems as though it is a 'one model fits all' approach. How would you divvy it up to ensure a fairer go for you guys?

Mr Ward—I agree that the perception certainly is that the small operators are dangerous. We encounter the idea that small aeroplanes are dangerous all the time. In fact, that is not the case. I

think the problem with the way CASA conducts itself in relation to small operators is that, in the absence of direction, support and guidance from the authority, the flying operations inspectors will often go for the easy path. The easy path is to pick on a small operator, find a piece of paper that is not filled out correctly and say, 'Right, we'll close you down on that basis.' The true way to address safety is to go to the heart of how the company operates, what systems are in place and things like that. When you find deficiencies in the company in that regard, changing them or the whole industry is much harder than just closing someone down because of a small technicality. At the moment, it is very much in that technicality side rather than in consistent monitoring and working with the industry to see what the problems are. For example, from what I can remember, CASA has never come to us as an operator and asked, 'Where are there problems in the industry?' or, 'Where are there problems in your operation?' or, 'Where do you see safety issues arising?' We have told CASA about issues, but we have never had responses from them, and they have never come in and asked for that information. They have never asked the industry, who are the experts in it.

Mr ANDREN—Have they never had a forum or a feedback session with the industry?

Mr Ward—They occasionally have forums, but it is more to present changes that they are proposing and to get some feedback on them. I am talking about regular, constant feedback from the industry as to where there are issues. The information is there and the industry wants to convey it, because the vast majority of the industry has an interest in being safe. We do not like seeing the Monarchs and Whyallas on the news, because it does terrible harm to our industry. But then there is this problem of feeling that it is difficult to come forward with the information, because CASA can then start picking on you as an operator and you do not have anything behind you to protect you in that situation.

Mr ANDREN—Brindabella gave evidence yesterday of the absolute and costly process they went through to prepare an operations manual. They put an enormous amount of effort into this, with no real input or guidance from CASA. They believed that they were on the right track, but then it was basically rejected. They had to go back and redraft the whole thing, and they were offered a 1968 Hazelton's manual as their guide. I think the exercise cost them \$30,000. They could not afford a consultant or anything to help them with it. They had to devote their own hours to it. Is that typical of what happens?

Mr Ward—That is absolutely typical, and I can give you a better example than that. We were operating with our operations manual for a period of eight or 10 years when CASA came in and said, 'Your operations manual is not acceptable.' I said to them, 'Hang on. We've been using it for eight or 10 years.' They said, 'That doesn't matter. All these changes have to be made.' So, because there is no guidance for these sorts of documents, not only at the initial stage, but even when you have been using a manual, the manual can be declared inadequate or insufficient and sections can be removed and added and so on just as part of a normal CASA audit. That becomes a real problem for us, because we theoretically get an audit about every 12 months. When they come in, I think to myself, 'Goodness, I'm going to have to allow another month after this to fix all the faults they're going to find with the operations manual, because we've got a different person looking at it and he's going to have all his opinions as to how the manual should be written.' They never give you guidance. They never tell you so much as, 'This is how to fix it.' They only ever say, 'It's incorrect. You've got to go and change that section.'

Mr SCHULTZ—Mr Ward, in your submission you refer to the time it took CASA to amend your air operators certificate. Would you tell this committee how long it took CASA to complete the process and extrapolate a bit on how it affected you and what it cost you?

Mr Ward—I am pleased to say that we did finally get the amendment done. That was pleasing. It came through about a week after we put this submission in. We wanted a very minor change to our air operator's certificate. We wanted to add one aircraft type to the certificate so that we could use it. CASA has a new system in place, which sounded like a good idea, where they have a service centre in Brisbane, and all these sorts of things go through the service centre. It took the service centre seven weeks—I might be out by a week—to give us a quote as to how much it would cost to put the aircraft on the air operator's certificate. During this time we were not able to work with the student who owned the aircraft and wanted to do training in it. This was business we were not able to do in that period of time. After we said, 'For goodness sake, just do it. The quote is fine,' it took approximately another five weeks before the certificate was finally issued. So it took in the vicinity of three months just to add an aircraft onto the air operators certificate—a process which literally required nothing more than typing it onto the certificate. We did not have to do anything other than submit an application saying, 'Could you please add this to our certificate?'

Mr ANDREN—You did have to answer any questions or anything like that?

Mr Ward—No, there was nothing like that, and we did not have to supply any other documentation. It was purely a case of getting it done. In our situation, the cost to us was limited to the training we could not do with the student and probably five or six hours of our chief flying instructor's and chief pilot's time to do this backwards and forwards sending of documents. While in itself it was not a huge cost, if we had been trying to use that aircraft for a regional air service, for example, it would have been disastrous. It would have been literally sitting on the ground for three months purely because a piece of paper did not have that name on it.

Mr SCHULTZ—In your submission, you also refer to the fact—and this is a theme that has come through consistently in evidence to this committee—that CASA is divesting itself of responsibility and function by putting the onus on the operator, and CASA's reaction to not covering an issue is to introduce more regulation. Could you explain what you meant by CASA divesting itself of responsibility by putting the onus on operators?

Mr Ward—Probably the best way to explain that is to give an example of what CASA calls the 'compliance statement' that we have to produce as part of our air operators certificate. This is another change that just came out of the blue about two years ago. We had no warning and suddenly we were told, 'At the renewal of your AOC, you have to produce this compliance statement.' The compliance statement was a book—ours was around 100 pages long. We had to list every regulation and I had to sign next to it that yes, we would be compliant with that regulation, and reference how we were going to be compliant with the regulation. The crazy part of that is that our whole operation is only allowed because we have to be compliant with all the regulations and so on. In my time alone, I spent about two weeks going through this compliance statement, which was simply a document that, if we ever did anything wrong, CASA would then hold at us and say, 'You said you would comply with all the regulations. You signed there that you would comply with that regulation. You did not do so, so it's your fault.' I do not know what happens with these documents, but they are certainly of no use whatsoever to the operator. It was

simply a huge amount of paperwork that had to be filled in for no benefit in terms of safety or usefulness to the industry. It was purely CASA having something else to wave at the operator, saying, 'You said you would be compliant, and yet you weren't.' That is only one small example.

These changes that they are talking about here—for example, charter operations and so on—are a classic case of CASA admitting that they are not policing charter operations properly. The way to divest themselves of that is to say, 'Let's make them more compliant with regular public transport operations,' which makes it far easier from their point of view because regular public transport is much more involved in paperwork and dotting i's and crossing t's. It is much easier for CASA to walk in and close someone down because that piece of paper is not there than it is for them to go out and do meaningful examinations and check operators of charter flights.

Mr SCHULTZ—What about the issue of potential investors in the industry having the confidence that a regulator like CASA is unbiased and transparent before they make a commitment to invest in and expand the industry? Could you outline some specific cases of where CASA—and indeed government—was acting to discourage that sort of investment?

Mr Ward—To be honest, it is a little difficult from our point of view because we are not at that end of the scale. But from my own point of view, I find it very difficult to invest in anything in the industry that is not fairly liquid, if you like. So we will invest in aircraft, but it is very difficult for us to invest in facilities and so on. It is a little off the subject in terms of CASA and Airservices, but we cannot invest, for example, in our premises at Bankstown airport because of the uncertainty of what is happening with the airport. So the whole of the airport has stagnated now because of government policy on selling the airport: who is going to buy it and how much are they going to charge us? People are simply not investing in that airport whatsoever. In fact, many people have left the airport because they have refused to renew leases, so they have lost a lot of business there as well—that is government policy doing that. In terms of CASA, from our point of view, it is very difficult to invest in the industry generally because you have always got the threat over you that CASA could, literally, walk in and close anyone down tomorrow if they wanted to. They could probably close Qantas down if they wanted to. You could always find something that you were not compliant with. As long as that threat is over an industry's head, people will not invest in it.

In fact, it has been going the other way. You see an awful lot of operators who are getting out of the industry now. I apologise; I have not got the statistics here but you may have them already. The number of regional airlines that have closed down in New South Wales alone in the last two or three years is just frightening. There are many country towns that realise the value of what they had in the past. It might have been only a Chieftain aircraft, but at least they could get to Sydney in under two days or something like that. All these airlines have gone because many people—and I have spoken to a couple of operators—simply say: 'It's all too hard now. I'm not going to put all my livelihood on the line when CASA comes and picks on me for silly pieces of paper and can potentially close my operation down without any recourse to me at all.'

Mr SCHULTZ—I would just like to make an observation. It is interesting that the larger organisations such as Qantas are loath to make any criticism of CASA, yet we continually hear from the smaller operators about the significant problems that they have with CASA which are impacting on their businesses and pushing them down the path that you have just described. It indicates to me that CASA finds it easier to exert the sort of pressure it wants to exert on the

smaller operators rather than the larger operators. I just make that observation for what it is worth. You might like to make a comment on it.

Mr Ward—There are two issues. Firstly, it is much easier to pick on the small guys because they are going to make a lot less noise and, secondly, it is an issue of resources and so on. Aviation is typically made up of the huge operators like Qantas and the fairly small operators, the mum and dad backyard businesses. We just do not have the resources to fight CASA if they want to come and take us on. I think that is a large component of it as well.

Mr SCHULTZ—It emphasises the point that I made about smaller businesses being an easier target.

Mr Ward—Absolutely. Without a doubt.

Mr MOSSFIELD—What role does Bankstown Airport play in your company and what needs to be done to improve it so that the small operators are getting the maximum benefit?

Mr Ward—Bankstown Airport is our whole business. Our entire business is, at this point in time, based on Bankstown Airport. What happens there and the choices that are made there affect everything about our business. This was the case with the general policy of what was previously the Federal Airports Corporation and is now Bankstown Airport Ltd—it is essentially the same organisation. Probably the best example I can give is that last year our parking charges on the airport doubled. We had three weeks notice of our parking charges doubling on Bankstown Airport. That is a real problem for us as an operator. The comment was made from Bankstown Airport Ltd, ‘It only works out to be a few dollars an hour on your charge-out rates when you’re training students and so on.’ What people seem to forget is that, although flying is in itself expensive, the actual profit margins are very, very small. I have many people who say, ‘I don’t know how you guys can stay in business with the margins that you make.’ Everyone has this attitude of: ‘It’s just a few extra dollars. It doesn’t matter. You can absorb that.’ It is simply not the case and it cannot be done. That is why many people say it is all too hard. But I apologise for digressing.

The doubling of charges and the general charges now are such that parking aircraft at Bankstown Airport is a terribly expensive exercise to the point where very few private owners will leave aircraft at Bankstown Airport. The vast majority of privately owned aircraft have now gone to Wedderburn and Warnervale airports, away from those charges. In terms of the non-air site operations as well, the attitude regarding leases is a problem. I know a person on the airport who recently wanted to extend their lease but the terms of the lease that Bankstown Airport Ltd were going to put on them were completely untenable, so Bankstown Airport said: ‘Leave, then. We don’t care.’ They know that as an operator either we can be at Bankstown or we cannot be in existence. They know that you basically have to cop whatever they throw at you. Otherwise, they just throw their arms up and say, ‘Go elsewhere,’ knowing very well that you cannot go elsewhere.

The fact that businesses have not located on Bankstown Airport because of the attitude of the organisation is quite appalling. Some fairly big businesses wanted to set up there but they simply could not negotiate a reasonable lease to set their businesses up. The airport’s whole attitude to the commercial side of the property and to the aviation side, where they seem to think that they

should just extract as many dollars as they can out of the aeroplanes, is a real problem for us and is of concern to us as a business. I cannot see a future for small operators at Bankstown Airport. In a few years time, they will have no-one left and then they will be saying, 'Where have all the aeroplanes gone?'

Mr MOSSFIELD—So there are no other small airports in, say, the Sydney, Newcastle or Wollongong areas that—

Mr Ward—I am sure there are but, if someone is going for a flying lesson, how far are they willing to drive? They are not going to drive to Newcastle. I was talking to people from Bankstown Airport Ltd about some issues and someone said, 'You're free to go to Goulburn, if you want.' Goulburn is 220 kilometres out of Sydney, so it is ludicrous for them to say, 'Well go to Goulburn airport, because you don't have to pay the charges there.'

CHAIR—What is it at present? Is it a government corporation?

Mr Ward—It is, yes. It is Bankstown Airport Ltd, but it is still essentially a government corporation, I believe.

CHAIR—Does it have a board? Who runs it?

Mr Ward—It is attached to Sydney Airport Corporation, I think.

Mr Tippett—Yes, I think it is still attached to Sydney Airport Corporation.

Mr Ward—It cannot be, because that has been sold.

CHAIR—It has been privatised.

Mr Ward—Yes—I am honestly not sure.

Mr Tippett—It is about to be sold; that is all we know. For the last two years they have adopted what is in their view a very commercial attitude. We would regard it as somewhat unrealistic. They are also very keen on attracting non-aviation industry to the airport to utilise the land, in some instances even using airside access for places like tile factories and carpet factories.

Mr ANDREN—Camden is another one, isn't it?

Mr Ward—Yes.

Mr ANDREN—What is the third one?

Mr Ward—Hoxton Park.

Mr ANDREN—Are they all Commonwealth owned?

Mr Ward—Yes. But the government have just announced that when they sell Hoxton Park in the near future it is going to be sold with only a five-year lease, and then they are going to be free to do what they want with it. So Hoxton Park has essentially gone, as far as the government are concerned.

Mr ANDREN—So even if you look at, say, Camden, it is not an option, because you have the same insecurity around it in terms of what its future ownership structure might be—or does it have other problems?

Mr Tippett—Certainly, but the other problem is distance. People wanting to learn to fly do not want to drive 100 kilometres to get to the aerodrome. It has to be within a reasonable distance. It would just kill the business.

Mr ANDREN—Would Camden be that far?

Mr Tippett—If you live in northern Sydney, yes.

Mr Ward—Even at Bankstown, for example, we have very few students from northern Sydney. Statistically, they will not even come to Bankstown to learn to fly. I think that has a lot to do with Sydney traffic, of course. But if the government did the right thing and said to, for example, all flying schools at Bankstown, ‘We are going to move you to Camden and we’re going to pay for it and do it properly,’ I think everyone would be happy to do it—if it was done properly. The concern is that it seems to be being done at the moment almost on a basis where they are saying, ‘We will try to charge you out of business,’ if you like, ‘or force you off the airport by other means’, rather than actually moving people in a proper fashion. For a long time, when they were talking about Badgerys Creek, we were saying, ‘For goodness sake, build baby Badgerys and move general aviation out to Badgerys Creek.’ That would have been an ideal opportunity to get a better airport for the Sydney region for small operations. It could have got the problems out of Bankstown airport and solved a lot of issues there. But, of course, that has been abandoned.

CHAIR—Another issue you raised in your submission is that of the towers being left at Camden and Archerfield and how that largely impacts on the small number of people who utilise that airport. What sorts of charges are they? Can you give us a feel for that?

Mr Ward—For a very small, two-seater aeroplane, the charge is about \$7 to land there. I will expand on that somewhat. Camden and Archerfield are two airports where studies have been done that have said that these towers should go. Even more important are airports such as Coffs Harbour, Tamworth and so on, where the tower service is provided for the major operator in and out of the airport and yet everyone is forced to pay for that service. There is no requirement for a tower at Coffs Harbour Airport, for example, for the small operators. It is there for the airline service that goes in and out. However, everyone there is told, ‘You must have the tower.’ The same sort of thing happens at Archerfield.

I will go back to that costing, to give you some idea: when we talk about \$7, that fee comes on to a flight where the flying school might have made \$15 to \$20 profit—to put the size of the actual charge into context. The flight itself might have been \$150 to the client; the actual profit is a very small component of it.

Mr ANDREN—Yet at a place like Orange there is no tower.

Mr Ward—That is right.

Mr ANDREN—There have been as many as four commercial flights a day in and out—three now and two other days—with no contribution to a tower necessary and no tower needed. So you have this inconsistency across our airport infrastructure—some with towers, some without, some paying, some not. For what purpose?

Mr Ward—That is very much the case. In some ways Orange and Coffs Harbour and so on are good comparisons. In terms of traffic levels I would suggest that Orange may have more traffic than Coffs Harbour. I think the large answer to all that is that they are there for purely political reasons. Because the towers have been there I think it would be difficult for the government to take the towers away—for political reasons. My answer to that is: 'That's fine, if the government chooses to do that, but, for goodness' sake, you cannot put the costs of all that on to the operators there. They are barely surviving in the first place.' If they want to keep the towers for political reasons, then it has to be a community service obligation that those towers are put there.

CHAIR—Today towers are not erected any more unless you have pure jet services going in—is that right?

Mr Ward—It is been an awfully long time since a tower has gone in, so I am not sure of the criteria. There is an argument at the moment. There is no clear establishment or de-establishment criteria. We have been arguing for about four years about whether Bankstown should have a tower and, if so, for what hours and so on, and no-one can actually give us an answer. So I do not know if that has become a requirement.

Mr ANDREN—Do you know if Dubbo has still got a tower?

Mr Ward—No, they didn't have a tower. They had flight service at Dubbo. That has now gone to Brisbane, I think, for Dubbo. They did not have a tower as such, but it is one of the busiest regional airports.

Mr ANDREN—And you have two airlines going in and out of there.

Mr Ward—Dubbo is a really busy airport, and there are several flying schools and a couple of charter companies as well.

Mr ANDREN—You mention:

Alternatives to Airservices' air traffic control system, and even changed procedures within that system have been ignored by Airservices, with Government failing to ensure these were implemented.

What are the alternatives?

Mr Ward—The various different alternatives include a change in procedures—the sorts of things we were talking about at Bankstown, for example, where we could reduce the costs to the

operators by changing procedures. We went through many meetings with Airservices—I have lost count of how many meetings—to try to get those procedures changed, and we ran into the bureaucracy. We had to go through this massive process before those things could be changed. The different alternatives range from that simple element of changing procedures through to a situation where, instead of having a tower, you have a traffic advisory on the airport, so that someone can actually be on the airport and advise you about where the guys are—but they are not controlling you positively in terms of ‘clear to take off’ and ‘clear to land’.

There are a lot of situations where it is actually far safer for you to be listening to information about where the other aircraft are and observing them than relying entirely on what someone on the ground is telling you. Airports like Coffs Harbour and Tamworth are not radar controlled and so on. They are doing it with binoculars, keeping people west of highway and east of highway and all this sort of thing. In a lot of ways it is much better to be told about the other aircraft and to work it out yourself in that situation. The cost of that is five per cent of the cost of a tower in that situation. So that can have a huge impact in places like Coffs Harbour and so on.

Mr ANDREN—I suppose it depends where your airport is too. You would not want that sort of arrangement at Bankstown, for instance.

Mr Tippett—At certain times of the day there is a need for a tower at Bankstown; there is no question about that. But if you were to go out to Bankstown now you could fire a shotgun anywhere in the airport and probably not hit an aeroplane. It would be almost deserted. The tower purely gives clearances for take off and landing. There is no longer taxi clearance as required. As evidence of the fact that they do not positively control traffic flow, that unfortunate mid-air collision at Bankstown last year proves that they are not on the lookout for that. In fact, there have even been reports—again, it is anecdotal—of where they have on a calm day changed the landing direction so that the tower controllers did not have to look into the sun. Instead, the poor old pilot trying to land the aeroplane is flying directly into the sun, trying to see the runway. I think that has happened on numerous occasions. The tower purely regulates the flow of traffic. It really does not have a role in controlling. If it happens to see two aircraft on a converging path, it will issue an alert, but that is about as far as it goes.

Mr ANDREN—There is no radar?

Mr Tippett—No, no radar.

Mr Ward—Just to clarify, that is the airports like Bankstown, Archerfield, Jandakot and so on. It is the secondary airports—that is how the tower works. It is purely take-off and landing and that is all.

Mr ANDREN—That is Bankstown?

Mr Ward—Yes, it certainly is.

CHAIR—Thank you, Mr Ward and Mr Tippett. That has been excellent evidence. You have added another dimension to our knowledge of this matter and you have confirmed some of the misgivings we have about CASA. We thank you for making your time available today. We wish

you well in your flying school and other operations. You will receive a copy of the *Hansard* draft to check for accuracy.

[2.36 p.m.]

MILLER, Mr David Norman, Managing Director, Air Link Pty Ltd

CHAIR—Welcome. The committee does not require you to give evidence on oath, but I have to remind you that these are proceedings of the parliament and need to be treated with the same respect as proceedings of the House itself. I have to caution you and all witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. If you would you like to give us a five- to seven-minute overview of your presentation, we will then ask questions.

Mr Miller—In my submission to this inquiry, I concentrated mainly on the regional hub services. I should give you a brief background on Air Link. I have been involved with it since 1985. It commenced as a two-man charter operation. In 1991 I commenced scheduled services, servicing the western towns of Coonamble, Walgett, Lightning Ridge, Nyngan, Brewarrina and Bourke. I had a hubbing arrangement with Hazelton Airlines at Dubbo, which we worked quite successfully for almost 10 years prior to the 2001 problems. During that time I learnt quite a bit about how to service thin routes in New South Wales. I also commenced operations in 1995 between Mudgee and Sydney, which we continue today.

Our relationship with Hazelton was very good. As a small operator, we were able to utilise Hazelton's engineering facility at Cudal to assist us with the maintenance of our aircraft. We did what we called 'code-share' with them. People that were wanting to access those towns simply got the travel people to call up on their computer the availability from Sydney to Bourke or Sydney to Walgett or Sydney to Lightning Ridge. The computer showed that there was a flight out of Sydney with Hazelton Airlines connecting with Air Link through to those towns. There was a disclaimer as to the fact that there were two operators and as to the aircraft size. A through fare was quoted and life was relatively simple for the customer. They had through baggage and all sorts of things that we find seem to be a lot more difficult these days.

In 2001 when we were faced with the problems of the Ansett collapse and, unfortunately, the Hazelton collapse, one night we found ourselves with a debtor who owed a six figure sum that we were not going to get. We had nowhere to take our services. We had nowhere to go with our Mudgee services. We went through a fair bit of hell for quite some time. I am not sure that we are not still going through it.

But what happened was that we were fortunate enough to gain hosting arrangements with Qantas. For 15 to 18 months, we hubbed into Qantas in Dubbo. We did run into quite a few problems there. We did not have the right timetable, and we ran into capacity problems, particularly on Sundays, Mondays and Fridays, when the QantasLink service would be fully booked and we would end up running our small aircraft on into Sydney, simply to get our customers back to where they wanted to be, and then ferrying home empty. So we have had a fair bit of experience with hubbing.

With the problems we had, we made a conscious decisions that we wanted to stay as a regional airline in 1991 and that we wanted to continue to service our traditional markets. We

found that we suffered up to a 30 per cent decline in traffic, even on a run from a port like Mudgee to Sydney. We have basically been working very hard to put in place services to get the timetable right, so that we can give people day return services into those western New South Wales towns. That brings us to where we are today. Because hubbing has been suggested as one of the answers for some of these smaller centres, I felt that was an area in which I had some expertise that I might be able to offer to this inquiry. If necessary, I can also speak to you about the issues for a small owner-operator. We basically started as a two-man business, and we now employ over 30 people. We own 10 aeroplanes and lease an eleventh one. That is a bit of background on Air Link Pty Ltd.

CHAIR—Thank you very much; that is very impressive. We have not been to WA or Queensland yet, but so far Dubbo seems to be the only port that has really made a success of hubbing.

Mr Miller—It was successful; I am not sure that it has been successful in the last 18 months. I do not believe it has been successful in the last 18 months, certainly not financially.

CHAIR—Was the problem with the demise of Ansett or have there been other factors?

Mr Miller—One of the ingredients for hubbing is that your timetable needs to be right. It is a bit difficult for me to explain—I usually do it on a whiteboard—but, generally, what you need for a hub is for an aircraft to come out of the bush and an aircraft to come out of the city and meet at around 8 o'clock at a hub, so that the people from Sydney are able to get out to those western ports and the people from the west can change over and come back into the city. At the moment, we have a 19-seat aircraft that departs out of Sydney at 6.35 every morning and gets into Dubbo at 7.30. A lot of those passengers are travelling on to Bourke, Cobar, Coonamble, Walgett and Lightning Ridge. Those passengers are at their destination by 9.30 in the morning, and the people who started out from, say, Cobar at 6.40 in the morning are in Sydney at 9.05.

In the afternoon, we do a similar thing. We leave the western ports just before 5 o'clock, we leave Sydney at 5 o'clock, we meet in Dubbo at 6 o'clock and everybody is home again by 7.30. So we are able to achieve day return services. I think that is a crucial part of a hub, if it is going to work. With any hub that I have seen work successfully, that is how it has worked. If you are waiting on an aircraft to leave, say, Dubbo at 6.30 in the morning, that is too early for us to get, say, from Bourke into Dubbo. If you are getting people out of bed and into an aircraft by 5 o'clock in the morning or before and your aircraft has to get to Dubbo by 6 o'clock for a 6.30 connection, it simply does not work. A schedule is very important to hubbing.

Through air fares are very important. People in the travel industry, like most of us, are fairly lazy. If you rang up today and wanted to go to Bourke tomorrow, your travel agent would be more likely just to ask the computer for the availability of Sydney to Bourke; they would not ask for the availability of Sydney to Dubbo and then Dubbo to Bourke, because they would not know that that service exists. So your relationship with the larger operator that runs between the major centre and the capital city is a very important relationship.

Mr ANDREN—Why then, if you had a relationship with Hazelton before, and he was leaving Dubbo at 8 o'clock—

Mr Miller—No. They had a service out of Sydney at 6.40 each morning to Dubbo—

Mr ANDREN—And that got to Dubbo at 8.00?

Mr Miller—It got into Dubbo at about 7.30. It departed Dubbo again at 8.00, to come back into Sydney.

Mr ANDREN—Are you linked in with Qantas still?

Mr Miller—That is right.

Mr ANDREN—Why doesn't that work for them?

Mr Miller—It appears that the most profitable services for the larger regionals actually commence from the bush first thing in the morning. We have the situation in Dubbo at the moment where QantasLink and Rex both leave Dubbo at 6.30 every morning.

Mr ANDREN—So they are satisfied at this point with the critical mass they can get out of Dubbo, and people can get to Dubbo by whatever means they like, basically, to satisfy that? That is their optimum timetabling is it—they believe?

Mr Miller—Yes, it seems—

Mr ANDREN—Whereas, say, Max Hazelton would make that little compromise to accommodate, because perhaps he had more of a culture of servicing the bush. There was a compromise there, was there?

Mr Miller—He was a bit reluctant to do it, initially. They gave us a 19-seat aeroplane initially and then they upgraded it to a 36-seater, because it was fairly successful. But certainly it appears that there is more strength in the 6.30 flight. Mathematically and scheduling wise, I think you can fit more services into a day if you start out in the bush. It seems that overall you can do better by starting out in the country first thing in the morning.

Mr ANDREN—I am interested in how they get their payload, with two services out of Dubbo—with both Rex and Qantas leaving at the same time—when you, I assume, were delivering bodies into the former operator from all over. Are the passenger numbers significantly different now to what they were out of Dubbo?

Mr Miller—Dubbo probably has a market of somewhere between 100,000 and 120,000 passengers a year. Traditionally, we believed we had a market of about 10,000 passengers a year from the spokes, if you like—from Cobar, Bourke, Coonamble, Walgett and Lightning Ridge. So we were probably contributing about eight or nine per cent of that market.

CHAIR—Were you the only hubbing operator, or were there others.

Mr Miller—We are the only ones. Probably the only other successful hubbing operation that I knew of was back when Ansett used to service Wagga. That is going back a fair way now. John

McKnight operated from Deniliquin into Wagga twice a day. But he was hubbing on a Fokker Friendship that left Sydney first thing.

If you look at the history of servicing New South Wales, back when airlines in New South Wales were doing it, to the best of my knowledge they did not overnight aeroplanes in the bush. Most of the Friendships—there were five of them—used to crank up here at half past six or quarter to seven and go out to the country and come back in again. That trend has changed now. QantasLink and Rex generally overnight in the bush, in those major regional centres.

Mr ANDREN—Talking about plane utilisation, if they leave at 6.30 and do a Sydney run, will they then do another run on a more productive Canberra route or something like that with that plane. Is that right?

Mr Miller—No, that aeroplane tends to turn around and go back. QantasLink are doing five returns a day to Dubbo. To places like Albury and Wagga, they do at least four returns a day—I am not too sure of the exact numbers. There are probably four or five returns a day to Tamworth.

Mr ANDREN—And you had 10,000 that you used to deliver to the 8 o'clock service: what are you carrying now?

Mr Miller—We are down to about 8,500 at the moment. We found that when we tried to meet the 9.30 flight, we were not getting our customers out to the western ports until after 11.30 in the morning sometimes, and then we would be departing to get back to Dubbo at about 3.15 or 3.30 each day. So the working day in the country town was quite short. We also found that there were capacity problems on the peak flights, like on a Friday afternoon, because of the dominance that QantasLink ended up with in the regional markets. So in many cases what we would do to overcome that was put additional capacity into the market by putting in a parallel schedule and running a nine-seat aeroplane—say between Dubbo and Sydney on a Friday afternoon—simply so that we would not lose the customers that we had taken out on the previous Sunday, Monday, Tuesday, or whenever they had gone out. What would then happen in reality is that we might have six or eight passengers and then, come 5.30, when everyone was booking in, if there were no-shows on the Dash 8, our passengers—quite fairly, I believe—would transfer off our flight onto the QantasLink flight. We would be left with two or three passengers and then be obliged to still get those passengers into Sydney and lose quite a bit of money in the process.

Mr MOSSFIELD—In general terms, could you tell us something about the financial position of your company? Do you see any prospects of expansion or are you concerned—

Mr Miller—I will tell you what we have done. Firstly, to give you an idea, there are only two shareholders in Air Link, and they are my wife and me—and my wife wishes she wasn't one. Basically, we own 10 aeroplanes—and we actually own them outright now. We fund our own debtors. I am a bit old-fashioned, and I do not lease anything, and all the rest of it. So, fortunately for us, we had the financial reserves in September 2001 to decide whether we should pull out of this crazy game or keep going. We decided we would keep going. We have lost a lot of money, there is no doubt about that.

To solve the hubbing problem, 10 weeks ago we introduced into service a 19-seat aeroplane and we are feeding our own services at Dubbo. So we have developed this crazy situation now

where we are the third operator on Dubbo. But, in saying that, what we are doing is this: our aeroplane overnights in Sydney every night and we offer a complementary service to the ones Rex and QantasLink are offering. So, while they are leaving the bush and coming into Sydney, we are going from Sydney out to Dubbo. We are satisfying the needs of the hub and we are also satisfying the needs, obviously, of those people who like to get into Dubbo early in the morning—9.30 is getting a bit late for them. We did that on the basis that we believed we had almost half the market to sustain this bigger aeroplane. We believed that there was a market out of the Dubbo-Sydney traffic and that we would need probably 10 to 12 per cent of the Dubbo market to sustain this bigger aeroplane. That is what we have done. If you are asking me about our expansion, we have expanded to try to protect or re-establish what we had before. I felt that was what was important for people to understand about hubbing—how it works and what the ingredients are for a hub to work.

Mr ANDREN—What is the aeroplane you bought?

Mr Miller—It is a Beech 1900D.

Mr ANDREN—What would be the cost for that?

Mr Miller—About \$5½ million.

CHAIR—Gee.

Mr ANDREN—We had in this morning a fellow by the name of Lance Watson, from Integrity Aircraft Wauchope, who is putting together an aircraft made in Romania—an 18-seat, single engine plane that is similar to the Trislander used in the New Zealand Cook Strait service. It is an 18-seater and costs \$US1.5 million. Do you know anything about it, him or that sort of concept? What was the figure on delivering services? He was basically talking about a bus fare from Port Macquarie to Sydney. He said Qantas will not be running that route once this thing starts going. Is that just pie in the sky? Have you heard about that sort of option?

Mr Miller—Did you say it is a single engine aeroplane?

Mr ANDREN—Yes. It is tail mounted. He used the Trislander as an example.

Mr Miller—But with one engine?

Mr ANDREN—One engine.

Mr Miller—Aircraft type is probably another subject for further on. In my submission, I have suggested to you that there are really three markets in regional air traffic, and those are really dictated by availability of aircraft. There is the eight- or nine-seat market that has traditionally been serviced by the Navajo Chieftain, Cessna 402 or 404 type aeroplanes. Peter, I guess you would be very familiar with the Chieftain. We have five of those that we service and one of those operates Mudgee-Sydney twice a day; the others operate on western New South Wales ports. To replace those aeroplanes with what is available now in nine seats would basically be replacing those with the Cessna Caravan, which is a single engine turbine, or the Pilatus PC12, which is the Swiss built aeroplane that is pressurised and all the rest of it.

How you get a return on a \$US2 million or \$US3 million aeroplane with nine seats is an issue. I think the other issue that has to be tested is the acceptability to the market of those aeroplanes. I have tried to test people's reaction to them and, quite interestingly, I had a different reaction to the Pilatus from what I had to the Cessna Caravan. I think the Cessna Caravan was developed basically for freight operations. I think it is ideal for certain markets. I am not so sure that in New South Wales it is a replacement for the Chieftain type aeroplane, mainly because of its speed and acceptability. It is a tough one. If somebody were to come up with an 18-seater, it might be feasible. I know there are some aeroplanes being built in the Eastern bloc that are quite cheap, but you also have to look at the ongoing airworthiness and serviceability of those aeroplanes and the availability of spare parts for them. There are a lot of issues there. I wish them well.

Mr ANDREN—I would be interested in any feedback you can give us on his evidence. That will be available before long in *Hansard* on the web, won't it?

CHAIR—Yes, it will be on the web in about 10 days.

Mr ANDREN—Have a read of it. We would be interested to know what you think, as an experienced operator, of the figures he put up and the feasibility of his ideas.

Mr MOSSFIELD—Do you employ your own aircraft mechanics?

Mr Miller—Yes, we do.

Mr MOSSFIELD—How many do you employ?

Mr Miller—Our engineering involves seven full-time people.

Mr MOSSFIELD—Do you have any difficulty getting skilled staff?

Mr Miller—Yes, in engineering: that is an industry problem. There are a lot of people out there that have got a lot of experience but have not got a licence, for example. We have got a couple of fellows like that. We are encouraging them and paying for them to go away to do courses and gain licences, but it is a long process. We also have an apprentice on at the moment, and we will continue to try and foster that aspect of training as well.

Mr MOSSFIELD—Organisations such as Qantas have been cutting back on their apprenticeship training. How has that affected the industries in the region?

Mr Miller—The cutback generally in training, and particularly of engineers, is something that goes back a long time now. That has been recognised in recent years, and I think that a lot of operators are starting to embrace that. I know that QantasLink have been doing quite a bit of training in Tamworth. We send our apprentice up to Tamworth. The pain is going to be there for quite some time yet. The industry has to get pretty proactive in training people, because we have not been doing it. We have all employed an apprentice. I was an apprentice once myself. My employer went broke when I finished, and I moved on to work for another business. I think a lot of people have taken the attitude that you put an apprentice on, you just get him trained and he goes. If we all put apprentices on and they all go, it has got to start coming back again.

CHAIR—Of your 30 employees, do you have your own LAME?

Mr Miller—That is what we were just speaking about. Yes, we have seven people in engineering and four of them are licensed engineers.

CHAIR—Maintaining how many aircraft?

Mr Miller—Eleven.

Mr ANDREN—Do you pay city rates for your top people?

Mr Miller—Yes. You have really got to. You are really getting up there to get the right people.

CHAIR—How many of those aircraft would be on the Dubbo-Sydney run?

Mr Miller—One.

CHAIR—And one for Mudgee?

Mr Miller—One for Mudgee, that is right.

CHAIR—What about all the rest of them? Are some charter and some freight?

Mr Miller—We have never done freight work. We have always been in either passenger charter or RPT. One aeroplane is working all the time on going between Mudgee and Sydney. The larger one does three returns a day between Dubbo and Sydney. We generally have another three servicing western New South Wales, Cobar, Burke, Coonamble, Walgett and Lightning Ridge each day. So that takes us to five, and then I can have three or four on charter and one in being serviced at any one time.

Mr ANDREN—I look at a place like Cowra that is still going reasonably well but it was on the cusp of significant regional decentralisation in terms of attracting food technology business from Sydney—when it had an air service. The bottom line is that, if you are going to bring out a bloke who is going to employ 100 people and all the multiplier effects in that community, he wants to be able to get to Sydney by air. Is it feasible for a Forbes or a Cowra to expect to have an air service again, or now should you expect someone to drive an hour to get on a plane? We put this matter to the state government people too.

Mr Miller—Please pull me up if I ramble here because I have a view on this. One of the views we had as independent operators prior to deregulation was that all you would do, if you deregulated New South Wales, would be to hand the regulation from your local council, your communities and your state government over to the major airlines. What actually happened was that we did see some major benefits, as a result of deregulation, in the major centres like Coffs Harbour, Tamworth, Dubbo, Wagga and Albury. But what actually happened was that in the fight for market supremacy you had the Ansett regionals and the Qantas regionals dominating those markets. For example, in Dubbo we had 240,000 seats in a 100,000-seat market at one stage. Mathematically it could never work, but what did happen was that the Hazeltons and Kendells of this world concentrated there. They were not so worried about the smaller routes.

But what actually occurred, in my view, is that, with the heavy discounting that went on, Cootamundra people, say, would drive down to Wagga because they could pick up an \$89, a \$99 or a \$109 air fare, and Cowra people could drive up to Orange if they wanted. So really we started to suffer in those smaller markets. I think that had a lot to do with it. For an operator to go back to a centre like Cowra or Young or Cootamundra, you would want to have deep pockets because your costs are so high. There is the cost of coming in and out of Sydney, for example—your fixed costs are so high that just to get the load factors and the average air fare that you need is a big ask. People say they want the service, and we keep being told that it is so important to regional development—and I am a great advocate for it, but even I have begun to wonder how real it is. People in Cowra can drive to Sydney, I believe, in less than three hours.

Mr ANDREN—No.

Mr Miller—You can't?

Mr ANDREN—No. It is 3¾ hours with your foot down pretty hard.

Mr Miller—Mudgee is a similar example. Before I took that over I drove to Sydney, and I had not driven to Sydney for years. Fortunately for me when I drove back I hit a traffic jam and it took me over 3½ hours to get from Sydney to Mudgee and so I said, 'Okay, it is worth having an air service to this place.' But we really need—with a nine-seater aeroplane giving two services a day plus a Sunday service—to get about 5½ thousand passengers a year to sustain that aircraft, and we have not been getting it.

CHAIR—This is Mudgee?

Mr Miller—That is right. Every time we land we still pay a landing fee. Every time we come into Sydney we still pay a landing fee. Every time we still have to pay turnaround agents to bus our passengers and to check our passengers in, irrespective of whether there is one passenger or seven or eight or whatever.

Mr ANDREN—Say you had what they used to call a milk run—you had one of the 18-seaters that this fellow was talking about and you did Cowra-Young-Forbes, hubbing into Orange. Wouldn't you be delivering the best part of the fare to your affiliate rather than doing it yourself?

Mr Miller—My belief is that, unless you save your customer a three-hour drive, forget hubbing. We dropped Nyngan from our schedule. We had it in the schedule and would go there on our way to Cobar. However, it upset the Cobar passengers, particularly in summer when it is hot and bumpy. Also, there is no hire car service there—not even a taxi service. It is very difficult. Even though there is possibly a need for the service with the mines at Girilambone just west of Nyngan, it did not work because the other services that were required were not there.

Mr ANDREN—Do you do Coonabarabran?

Mr Miller—No.

Mr ANDREN—Why wouldn't that justify hubbing or spoking?

Mr Miller—Again because we cannot save a three-hour drive.

Mr ANDREN—What is it?

Mr Miller—You can drive from Coonabarabran to Dubbo or from Coonabarabran to Tamworth in about an hour and a half. The number of passengers from Coonabarabran was down to about only 1,000 a year.

Mr ANDREN—I agree—that is not worth it.

CHAIR—Do you have a lot of trouble with CASA?

Mr Miller—No.

CHAIR—Why do you think a lot of charter people do? We get mixed signals.

Mr Miller—Irrespective of what CASA say, my attitude to safety is, if you are a potential client of mine, you have to feel comfortable with the service, the way I have presented my product and all the rest of it. I think one of the problems is that a lot of operators begin to fight the change before they have really looked at it to see how it might benefit them. Some of the things you hear about CASA are correct—there can be some difficulties. I have been dealing with CASA for 18 years and I dealt with Bankstown, which everybody gets up in arms about—I have even heard senior CASA people condemn the Bankstown office—but we have never had too much difficulty at all. I do not know why. There are some very good people in CASA. There are obviously some problems in CASA, but there are over 600 people there, so there are going to be a few problems. We are all probably struggling to keep up with the changes because we are all struggling to stay in business as well. A lot of us do not have the resources or the time we would like to have to participate in a lot of the proposed changes. The Regulatory Services Division cops a fair amount of flak. In the United States at the moment the FAA, CASA's equivalent in America, is being criticised for one district office making a decision or an interpretation and giving an operator certain guidance while other people give completely opposite advice. I think one of the reasons CASA put in the reg services division was to ensure that that did not happen in Australia.

We have just gone through over 12 months of upgrading our air operator's certificate to operate a larger aeroplane, and that did require the rewrite of our manuals. There are times where you wonder—you have done everything you need to do but you do not get the feedback you would like. However, I have generally found that, if you are not getting the feedback, you ring up and say, 'Is there a problem with what I have provided to you? Can you tell me when I can expect an answer on this?' I sympathise with anybody who is trying to introduce another aircraft. To say it is just another aeroplane that needs to be put onto an AOC is probably being a little flippant, because a safety regulator needs to know how you are going to operate that aeroplane and there should be an amendment to your ops manual as to how you intend to operate it. But you put that in. If you do not hold an air operator's certificate for an aircraft type, you are not allowed to advertise the service. When we got a Beech 1900, which is quite an expensive aeroplane, we were not able to promote that service, without contravening one of the civil aviation regulations, until we had the AOC. That was a bit frustrating. Generally, I think there are some problems, but I do not see it quite as other people have stated.

CHAIR—You obviously run a very successful hubbing operation and have for some time. What is your perception of the standard of presentation and maintenance of the smaller country airports? Is it becoming a more difficult job for the shire councils to maintain them? You must land on quite a few of these country strips. What is your gut feeling? Are they maintaining the standard, or are they falling behind?

Mr Miller—Some airports are certainly falling behind. In New South Wales, airports are a major form of revenue for the councils of major regional centres like Dubbo, Wagga, Albury, Tamworth and Coffs Harbour.

CHAIR—I am not trying to anticipate the committee here, but we are getting anecdotal evidence that once a town's population gets above 30,000 or 40,000, the town does not have a lot of trouble maintaining an airport.

Mr Miller—It does not.

CHAIR—I am more interested in the shires of 5,000, 6,000 or 7,000 people, that have to retain an airport for people like you, for charter work, for freight and for the flying doctor or an aerial ambulance. They are doing that on a very small rate base.

Mr Miller—The airport association of Australia would probably be able to give you a bit more in-depth information on this, but one of the things I have felt is that the operators that service those ports are against landing fees and, therefore, the councils are not getting the revenue that they should for the maintenance of the aerodrome. My criticism is that it is generally the fare paying passenger who is paying a landing fee, because they are easy to capture, whereas a freight operator will go through that airport just as many times and charter operators will go through that airport, but they will pay nothing. I feel that everybody should pay a little, then the council could slowly build up some reserves for major works like reseals and all the rest of it. I think it is a genuine problem. I often wonder whether the councils think they are going to get a grant from the federal or state government when the time comes. In some of those centres, an airport can be considered a necessity for access for the air ambulance and all the rest of it. There is also an argument from the smaller users that you do not pay a toll to drive into a town so why should you pay to land at the airport? That is still a very strong argument among people at the lower end of the industry and even private owners of aircraft. But my feeling is that, if everybody paid a little bit, that would help.

There are probably ways of streamlining, say, some of the smaller airports. A groundsman will go out early in the morning and do a runway inspection on the airport; we as the airline operator will retain the services of someone to assist with passenger check in; somebody else will come out to do the fuel; and somebody else will come out to mow the lawns. There is room for smarter thinking there. One person could probably do the lot and collect the landing fees at the same time.

CHAIR—Mr Miller, your evidence has been compelling. Obviously you are one of the people who have made a success of hubbing, albeit that you are having some difficulties at present. Your evidence has been quite valuable. We thank you for the trouble you have gone to in coming here today and we hope you can get your flight back in time this afternoon. Will you be going back on your own flight this afternoon?

Mr Miller—Yes, at 5 o'clock.

CHAIR—We will send you a copy of the draft *Hansard*, which you can check for accuracy. Thank you very much.

Proceedings suspended from 3.21 p.m. to 3.31 p.m.

JONES, Mr Michael, Chief Executive Officer, Regional Express**LEATE, Mr Peter, General Manager, Public and Government Affairs, Regional Express**

CHAIR—Gentlemen, although the committee does not require you to give evidence on oath, I have to remind you that these are proceedings of the federal parliament and, as such, they warrant the same respect that attaches to proceedings of the House itself. I have to caution you and all other witnesses that the giving of false or misleading evidence is a serious matter and can be considered a contempt of the parliament. Having said that, you are most welcome. Perhaps you would like to give us a five- to seven-minute overview of your submission and then we will break into questions.

Mr Jones—Thank you for the opportunity to appear. Here. It is getting towards the end of a long day, so I will try to keep my opening address fairly short so that you can maximise your time in asking questions.

Suffice to say that Regional Express has now been operating for just under a year. We grew out of the administrative rebirth of both Kendell and Hazelton airlines—long established regional airlines in Australia. My experience in the last nine months in running Regional Express has been interesting and challenging. I have now formed the view that, given the current economic circumstances facing most airlines worldwide, it would be hard to contest that the airline industry is somewhat fundamentally flawed. There is the very high fixed-cost base that most airlines experience, plus the elastic price pressures that are upon their ticket pricing, as well as the extremely high labour costs with entrenched and archaic work practices that are imposed on essential technological development, which means an increasing cost of operating and maintaining aircraft. As an example, I signed off in the last few weeks on the implementation of TCAS2, a \$5.2 million upgrade to our aircraft which does nothing to its operational effectiveness or its money earning capability; it is just an additional safety measure. Whilst essential, it is just an indicator of the added costs that are continually growing and being placed on aircraft as higher demands are being placed on operators for safety and efficiency of their operations.

In addition, we are also in an environment where the market is very depressed in a post-Ansett collapse era, a post-September 11 era, with a drop in confidence in air travel generally worldwide compounded by the worst drought in 100 years in regional areas, particularly in Rex's area of operations in South Australia, Victoria and New South Wales. We are also going through a massive process of privatisation of government instrumentalities and infrastructure at particular airports and a lot of the air traffic control services. We are also finding that there is increasing pressure on regional operators and provisions of services to regional airlines such as fuel and, obviously, route services and the like at regional airports.

I will now turn quickly to direct comments in relation to our submission. One of the key areas is the increasing impost being placed on regional airlines and their passengers as a result of taxes. We find that a lot of our regional passengers are paying up to 11 or more taxes as part of their air fare—from a departing head tax through to a fuel excise by the time they reach their destination. This can best be categorised by taking the Port Lincoln to Adelaide fare structure, which is one of the routes that we operate on a competitive basis. In June 2000, before the

introduction of the GST, a discount fare of \$89 included a tax of around \$19.66. One year later the same fare was priced at \$114 and included taxes of around \$31.61. Today we price that fare at \$110 and it comprises taxes of \$38.61—a 96 per cent increase in the tax component in just under three years. As for the single largest block of taxes and charges, 33 per cent of this fare can be attributed to the head taxes of both Port Lincoln and Adelaide airports as landing fees. That just goes to what I have said about privatisation and the charge back, in that having to make money out of the airports is being imposed upon by taxes.

We have examples in Griffith, where we are what we call an essential regional service operator or the sole major RPT operator out of that airport, and the market has shrunk from 40,000 passengers a year to 30,800. From our exit polls of passengers and market surveys, a lot of that is because we have gone beyond the elastic limit of the price which the passengers are prepared to pay, and they are either driving or not travelling. That characteristic does not bode well for regional survival within this country.

What is of interest to us next is the environment into which Rex came. Rex does not have a big brother like Ansett to feed into and it does not have a lot of what would be the anticompetitive protection that would be afforded by having a big brother like Ansett. In particular, that is characterised by a number of things. The first is the lack of worthwhile interline facilities that we have. Whilst Qantas is our largest customer by a long way and would account for up to a third of our revenue on a monthly basis on our routes which we service as the only RPT carrier—and that is inbound and out bound—there are tickets on us that are sold by Qantas, but without a baggage service. I believe that just enhances the perception of the customer that ours is a substandard service, and there is nothing we can do about it. We operate a Sabre reservation system, which is part of a global distribution system, and our web site with its booking site was just rated as the sixth best in the world.

So it is not as though it is a problem with us; we have just been denied that interline by Qantas, despite continual requests to have it. I find it somewhat bizarre that a passenger who booked in the other day in Parkes on Regional Express was issued boarding passes, tickets and bag tags through to Manchester in England but cannot fly from Parkes to Brisbane on Rex because, once they go to Sydney, they have to change tickets, pick up their bags and recheck in on Qantas. I find that somewhat an absurd situation in a country like ours.

We are trying to rectify that. We have been pursuing Virgin Blue airlines, as the competitor of Qantas, to get an interline because the natural competitive strain between the two main line carriers indicates that that is our line of least resistance and the way we are most likely to achieve success. That has been difficult because Virgin Blue's distribution model is such that they have a stand alone reservation system; the IT incompatibility between our global distribution system with its compatible Sabre reservation system and their Open Sky system is a significant hurdle which both airlines are working very hard to overcome, albeit that we believe we are carrying an inordinate amount of that burden because it is in our interest to get that additional revenue.

The main reason we need the interline is the estimate that somewhere between 10 per cent and 35 per cent of our revenue would be made up of interline if we had worthwhile interline on the domestic trunk routes, and we do not have that at the moment. Put on top of that the fact that in regional New South Wales to 31 December, year on year, our markets on average are down 28

per cent of travelling passengers as a result of the conditions I spoke of earlier, which is the drought compounded by Ansett and September 11. It means that a whole bunch of passengers who used to travel in regional Australia are not there now.

Given that environment, it is a pretty tough sort of world for a regional airline; hence my comment in opening about it being a fundamentally flawed industry. Likewise, on a number of our routes where we compete with Qantas, we find that very difficult to do on a head-to-head basis. Part of that is because, as we vie for corporate accounts, as a regional airline we find it difficult to compete against bundling practices, where a corporate account will be given incentives at a steep rate to place their account with Qantas for their regional, domestic and international travel. So we are competing against three airlines and not one, and they can spread their competitive rebate and/or discount across a larger segment of travel. We find that very difficult. Of course in the United States that practice is outlawed, but here it is common practice.

The last thing I want to mention is in relation to Qantas business travel, which is now the predominant service provider as the travel booking agent for the federal government and the sole booking agent for the New South Wales government. That materialises as a problem for us with the colloquial statement that we have the fox in charge of the henhouse. I use the graphic example of the Canberra-Sydney route, which is the largest prop route in Australia. I say it is a prop route because, whilst Qantas services it with four to six return jet services a day, with its stage length and nature it really is a propeller operation by world standards; the 18 to 20 return services that Qantas does a day in a Dash 8 aircraft would indicate that it is a prop route.

The federal government travel and patronage across that route on a weekly basis would average out somewhere in excess of 19,000 passengers a week. We provide 14 per cent of the capacity on that route. Our fare price on average is 30 per cent cheaper than the Qantas fare. But at this point in time, instead of our 14 per cent capacity in market share to be gained from that federal government traffic, we are getting in the order of 0.4 per cent of that travel. That means in financial terms that at the moment, instead of getting our fair share of what is effectively a \$220 million a year revenue bucket, which would be about \$13.8 million, we are getting virtually none. Our peak load from federal government traffic on the Canberra-Sydney route to date has been 121 passengers for a weekly period. Having a competing airline providing an independent travel service to the federal government, I believe, is a fundamentally flawed process, and I am aware that the government is currently reviewing how that fundamentally flawed process can be overcome.

We have exactly the same situation in New South Wales. Whilst we do get a fair share of government traffic on routes where we are the only operator, through freedom of information and also through ACCC requests we have evidence and have been given indications that we are getting a single-digit percentage, even where we provide 50 per cent of the capacity and, on commercial terms, where we get close to 50 per cent of market share. So again there is a large inequity with the situation where we have a competing airline providing the independent travel service supposedly on a best fare-of-the-day basis.

It is a tough environment for regional airlines. Regional Express is surviving in that environment. We are getting close to exhausting our reserves, but we believe that we will survive as an airline and go on and be successful on a long-term basis—because, if we have been able to

survive in the very tough environment that we have had in our past nine months as the market has recovered, we think that that will hold us in pretty good stead.

CHAIR—So online operations have been very difficult for you with Qantas. Why will they give you services to international flights but not to domestic ones?

Mr Jones—What happens is that Qantas will sell tickets on Rex. We have a one-way or a unilateral agreement with them; they will not make it bilateral. So they can sell tickets on Rex, so a passenger who is originating in Brisbane and going to Orange for instance, will travel on Qantas to Sydney, collect their bags, walk across to the terminal and then travel on Rex. We will then get the revenue from that as a sole ticket from Qantas at some stage later as an availed commercial process. However, we cannot sell a ticket to a passenger from Orange to Brisbane; we can only sell the Brisbane to Sydney sector. Whilst we can do that on our monopoly routes, the best example is a passenger out of Wagga travelling to Brisbane is unlikely to travel on Rex on the basis that they have to have two tickets, collect their bags at Sydney and recheck in, whereas they can do it as a seamless process on Qantas. From a fundamental management perspective I believe that the reason we have not been offered an interline service is that it is very difficult for Qantas within the systems to corral one route against another rather than a holistic service. The easiest way for them to do that is to deny us an interline service.

Mr Leate—The chairman might have been referring to the fact that when we check the passengers through to Manchester we have an interline agreement with Singapore Airlines.

CHAIR—I see.

Mr Jones—Sorry, I misunderstood you.

CHAIR—Your agreement is with Singapore Airlines and not with Qantas?

Mr Jones—Yes. We have interline agreements with 19 international airlines, including Lauda, United, Emirates and most of the carriers which come into this country. Singapore Airlines is our most active interline agreement and, obviously, we have a unilateral agreement with Qantas but it is not for bag tranship and things like that.

CHAIR—Did both Hazelton and Kendell have Saabs?

Mr Jones—Yes, they did.

CHAIR—I notice you refer to them as A and B. Were they two slightly different aircraft?

Mr Jones—They were two slightly different models. The first aircraft came out as an A model. From the exterior, the untrained eye could not tell the difference. There is a difference in the dash number of the engine and the propeller type, and some of the interior configurations are different. But to all intents and purposes the aircraft are very similar. They have a slight difference in performance characteristics so we tend not to use the A models on airfields which have elevation or a higher operating temperature because of the weight restrictions and runway length restrictions.

CHAIR—Do you receive subsidies from any state governments?

Mr Jones—No. We received a one-off \$5 million grant from the federal government under the Rapid Route Recovery Scheme as a rebate to the administrator on the purchase price when we bought the airline. We have been given—although it is still in the throes of being executed—a \$200,000 waiver on stamp duty on the acquisition cost of the aircraft from the New South Wales government. That was coupled with a three-year payroll tax relief for regional employees in New South Wales, and there are certain hurdles in the number of employees. We effectively have to pay the payroll tax and we get rebated a percentage of that. There was an element of assistance, to the maximum of \$250,000 matched dollar for dollar by us, for relocating key personnel from outside New South Wales into regional New South Wales jobs. We receive no financial assistance from any state government in terms of route subsidies or rebates in any way.

Mr ANDREN—Would you see any sense in that sort of assistance being granted to some of the other smaller operators? I am thinking of Brindabella, which has just started up, and Mr Miller who is still in the room. Does the industry need that ongoing assistance?

Mr Jones—In the past there have been route subsidies particularly for operators to be able to continue operating on marginal routes. I think it is entirely sensible, if we take the view of what is good for Australia, that having everybody leave regional Australia because they cannot afford to operate any businesses or to live there is not a good thing for us long term. In this modern world we need provision of infrastructure and support of a daily air service that is available to everybody who pays taxes—we certainly pay enough taxes. If there are air operators who, on a justifiable basis, need support, I think it should be forthcoming—absolutely. We certainly get taxed enough: we have indicated that, in our operations, somewhere between 21 to 50 per cent of regional air ticket prices go in various taxes and charges. They don't go to us. So putting some of that back into the industry would be a nice thing.

Mr ANDREN—Can you tell me a bit about the central west, the Parkes and Bathurst areas? Bathurst is down to around 12,500 passengers. At what point does an operation become unviable?

Mr Jones—The industry terminology is downgauging aircraft. We currently operate Parkes and Bathurst on a triangulated route structure using the Saab aircraft. That is purely a function of the circumstances in relation to the administration of Hazelton. During the early days of the administration of Hazelton they did not have a lot of cash at the bank, and I believe the Hazelton administrator took the view of selling the four Metros which they owned outright for cash and then turned that back in. Therefore they continued to operate those services, which are a licensed, protected route for Hazelton, using the Saab aircraft. On a daily basis, whilst sometimes we get very good loads, we are traditionally getting very good Metro loads and very poor Saab loads. We are currently making a loss on both the Bathurst and Parkes routes, even though we have continued to operate those services, because we want to maintain the market there. But in the very near future we will be downgauging those routes. Once we merge the air operator's certificate from Australiawide—which is the old Kendell Airlines—and the Hazelton air operator's certificate, which will be completed on 30 June, we will downgauge into a Metro operation on Bathurst and Parkes. That should continue the viability of those routes for some time.

If the market continues to slip into what I would call a drive alternative market, where the market of travelling passengers reduces even further, you would get to the point where even the Metro would be unviable or a 19-seat aircraft, whatever it may be, would be unviable on that route. And you might need to downgauge yet again if you were to continue services. However, as an operator, Regional Express has a policy of not operating anything less than a 19-seat aircraft. Too many aircraft types does not make sense for us. So it would be a situation that we are not foreseeing in the immediate future; but in the long-term future, the likes of Cowra and places like that have gone that way, and it is not beyond the realms of possibility that Parkes and Bathurst could head in the same direction.

Mr ANDREN—Is there any potential for spoking and hubbing into Orange from any of those ports, or are they too close to Sydney?

Mr Jones—That is a traditional methodology which Max Hazelton has used for the 50 years that Hazelton has been operating. When he first started his operation he was basically using increasingly larger aircraft from smaller airports to hub into various areas. It is quite a conundrum, but as the federal and state governments improve road systems, rather than travelling on a six- or nine-seat aircraft—depending on how bad the tyranny of distance is—people will choose to travel on road. I am not denigrating Mr Miller in any way, shape or form, but the operators who operate small aircraft are finding it increasingly difficult, except for routes where you do have a large tyranny of distance. In his case, west of Dubbo, flying people into Dubbo makes sense rather than making the drive all the way to Sydney; that intermediate stop is inconsequential when you compare it to the drive time. But say you were to go from the surrounding areas—Parkes into Orange: you would turn up, travel on a nine-seat aircraft, fly to Parkes, wait around for the next connection then fly on an aircraft into Sydney. You are getting two tickets or one ticket with two route costs on it—because each time you cycle the aircraft, you are increasing your costs. You now have three lots of landing fees and charges in there. The ticket price would all of a sudden drive you—pardon the pun—to use road transport. I believe that that is what has been happening in a lot of regional centres.

Mr ANDREN—The Sydney Airport Corporation gave a table in their submission showing representative regional aircraft turnaround charges at which, according to their figures, Orange topped the list at \$117 for a Saab and \$149 for a Dash—which does not go into Orange anyway. They are going to find out where those figures came from. What is your experience with Orange?

Mr Jones—I am not sure whether that charge is not a composite charge of Sydney airport's and Orange's charges combined. That number does not ring true to me. Please forgive me, but we do operate to 30 different ports across Australia and I do not carry that information around in my head. Certainly the table we work off is that there is a head tax of around \$12.71 at Orange and when you add the Ansett levy, which is on the ticket face, you are getting up to a \$41 charge out of Orange, but certainly not the number that you are talking about. That is just from an origin and destination pattern and that does not put in the Sydney component of it.

CHAIR—Have you worked out all your route sector government and council charges?

Mr Jones—We have.

CHAIR—Can we have a copy of that? That would be very helpful to the committee.

Mr Jones—I happy to provide it to you but I am concerned about providing it, because I make the point—and this might make it more desirable for you—that if each of the councils were given through *Hansard* the availability of it and they looked at what everybody else charges, my fear is that some of them would put their charges up.

CHAIR—So you would allow us to have it on a confidential, non-published basis.

Mr Jones—I am very happy to do that.

CHAIR—If you would send it to us with a covering note to that effect, we will honour that.

Mr MOSSFIELD—What would be the argument for government support for the provision of the aviation services in regional Australia, and what form should the government assistance take?

Mr Jones—It is a very complex question. I could put it in two parts, one of which is how you provide that support equitably in what are competing commercial entities. That is one of the big challenges. The second one is, should you be providing subsidies where you are not providing them elsewhere? That comes down to the fundamental question I asked before: do you view the provision of regional air services to regional Australia as an essential service? I believe it is. If you believe it is fundamentally the case, I think all of us as taxpayers, and government as the instrumentality of actioning that, have a responsibility to ensure that those services are safe, viable, timely and efficient in order to stimulate the economies of regional areas. Therefore, whilst we spend a lot of money on roads and 82 per cent of government transport money goes in rail, why is air any less important? Why is that left to commercial operators to bear the burden, particularly when it is heavily taxed and burdened by all levels of government? I think the answer is clear: there should be some sort of rationalisation, and perhaps a reduction in charges becomes the subsidisation rather than a positive injection of cash. For instance, why does the government need to make profit out of air services?

Mr MOSSFIELD—Fair enough. What about the regulation in New South Wales, where the routes below 20,000 annual passengers are regulated? You have an argument that it should be routes below 60,000. What is the background to that?

Mr Jones—Carl Scully, I think it was late last year, made an amendment to the New South Wales regulations increasing the licensing to 50,000. I suppose it is serendipity, or, if you look at the landscape of New South Wales in particular and the size of the regional centres, there are a number within the second decimal point of a percentage of the 50,000 and it could go either way. I am talking about places like Armidale, which sits very close to that. What we are advocating is that, rather than there being a theoretical limit, the actual limit of what the towns are suggest that 60,000 is probably more appropriate than 50,000. But wherever that level is it needs to find a balance. Everything in this world increases in cost over time; that is why we have the CPI. We are finding that the cost of operating aerial services to a lot of areas is increasing and over time that level at which it is viable to operate a certain standard and frequency of service is increasing. I think the increase of the level from 20,000 to 50,000 has made New South Wales a

much more stable aviation environment than a lot of the other states. I think the measure of having that licensed and legislative protection on routes has been a good thing.

Mr ANDREN—On page 11 of your submission it says:

... continued vigilance is required to ensure that regional passengers are not discriminated against by the major capital city airport operators in the provision of landing slots and terminal access to independent regional airlines.

Do you have any emerging difficulties there or do you think those have been smoothed over since this submission was put in?

Mr Jones—Speaking for Regional Express, I can say that we are in reasonably good shape. As part of the purchase of the two airlines that I bought, I negotiated for our slots to be protected until the end of 2008; so we actually have our slots preserved as a contractual arrangement. However, I can see that we are going to have difficulty beyond 2008. We are already slot constrained at the peak times in the morning. Regional Express operates 1,500 flights a week. On a peak business day out of Sydney airport, where we obviously have the most problems, at times we are operating up to 75 flights a day. A lot of those are at peak periods, which are characterised as being between 7.30 and 8.30 in the morning and between 4.30 and 6.00 in the evening. At times, we have wished to change our schedules such that regional passengers departing at approximately 6.30 a.m. can arrive in Sydney to commence a full business day in the CBD of the capital cities.

We have had times where we have not been able to get additional slots—our hours have been retained, but as we have wanted to compete or put extra density into some of our markets, we have had to push them into slightly shoulder times. The pressure upon Sydney airport is only going to increase as we get other operators. The federal government is currently negotiating for a free sky arrangement with Singapore, for other flag carriers to come into the country into those international slots.

I can characterise it simply. We have 34-seat and 19-seat aircraft. We get charged a passenger facilitation charge per head and a landing charge per tonne. When you have 34 passengers versus 438 passengers, you can see where the revenue flows to the commercial operator in charge of an airport—they want more international flights and less regional flights because they can obviously clip the ticket a lot more on those. It is likewise with Virgin Blue, who we share a terminal with. Their passenger facilitation charge has been negotiated on a per passenger basis based on volume targets, and they pay a lot less than us on a per passenger basis. However, in total volume they are putting nearly three million passengers a year through Sydney terminal, where we are putting in the order of 600,000 to 700,000. They are obviously getting economies of scale, but the volume and revenue to Sydney airport is much larger and that is putting pressure on the slots.

There is some concern that, over time, the commercial pressures and the desire of the owners of these major airports to deliver returns to their shareholders—and they have spent a lot of money buying those airports—will mean there is going to be a squeeze somewhere. As long as I have been in the aviation industry, there have been discussions of regional air operators being pushed out to Bankstown. From my perspective, that would sound a death knell for regional operations.

CHAIR—And the 36 per cent of customers who want to have on-carriage are going to have a problem.

Mr Jones—Correct. Particularly when those passengers are generally business travellers, the inconvenience of having disparate airports is nonsensical.

CHAIR—Could I ask you a few questions. The committee travelled on your flight from Adelaide to Kangaroo Island.

Mr Jones—Thank you for that.

CHAIR—We found that was one of the few populated offshore islands where there was a reasonable service. Is that sort of service viable? If it is, have you ever contemplated King Island and Flinders Island on a triangular or quadrangular route with Launceston? Can you comment on services to the populated islands.

Mr Jones—We operate a daily service to King Island. It is predominantly a Metro aircraft but on a load and capacity basis it is quite often supplemented on peak flights by a Saab aircraft. We operate a number of daily services to Kangaroo Island. It is no secret that on a route profitability basis we lose about \$82,000 a month on that route.

CHAIR—How long can you keep that up for?

Mr Jones—We have been operating it for the nine months that we operate there. The reason we do it is that our contract with the inbound tour operators who make up 90 per cent of the passengers who fly that route supplements our income on other South Australian routes and, on a network basis, makes it viable for the moment. The packaging and the times of the flights are very demanding in order to meet schedules of inbound, outbound and other tour operations and we have very little flexibility. We are about to do a network reschedule of our most profitable routes of Olympic Dam and Port Lincoln to Adelaide which have very yielding business class passengers. We need to put in extra capacity to service those routes or we risk losing them and our market share to other operators. At the moment, we are reviewing whether we could sustain our service to Kangaroo Island on the basis of the continued losses that we are making and whether it makes economic sense to cross-subsidise it.

CHAIR—Why are your South Australian fares so much cheaper than in other states? The question is not asked with any criticism; I would just be interested to know. I thought your fares from Kangaroo Island to Adelaide and from Port Lincoln to Adelaide, which you just quoted, are very reasonable, given the distance and so on.

Mr Jones—Like it or not, a lot of fare setting is driven by competitive pressure. With the size of our airline, it has been my directive that we will never be a price leader where we compete against Qantas because of their ability to discount. If we discount we will set a precedent which cannot be protected by law and the ACCC in relation to predatory pricing. So I have taken the policy that we will never be a price leader. We always peg our prices just below or at parity with Qantas.

In South Australia we do not compete against Qantas. We compete against Airlines of South Australia, O'Connor Airlines, Emu Airways and a number of smaller operators, and our pricing is more akin to the elastic limit of the market. Whilst we think our fares are good value, on some of our routes in South Australia our fares are not necessarily cheap. There are pricing pressures on competing routes—Mr Miller would probably say the same—such as Dubbo, Wagga, Albury and Mildura. We would love to be making a lot more yield out of routes where we compete head to head with QantasLink. I also think the ticket prices are far too low. However, the competitive nature of the markets is such that that is where it is. But in South Australia, in particular, if we can set yields, grow the markets et cetera, we can still provide good value. We do not have to rape the market. The market will tell you very quickly by your loads whether you have overpriced your market—and we track those things daily. You have to remember that we came out of administration, and there was a lot of customer concern as to whether we would be a viable airline on a long-time basis. All the industry pundits gave us six months, so we were very conscious of not going out and driving customers away by overpricing. We have tried to stay competitive.

CHAIR—Without giving away any of your commercial secrets, do you plan to expand your operations?

Mr Jones—Yes, we are looking at a major schedule redrive on 26 May, and we will be adding additional services from Wagga to Melbourne direct. We will be doing a number of rejigs in the way we do things and putting giving some extra capacity to South Australia, as I said. We are continually looking at new routes and doing route analysis on a number of operations. Fundamental to the success of expanded operations for us and why we have not really paved the way for a lot of new routes and have withdrawn from some is that we need a solid interline arrangement which can give us that extra margin of passenger numbers and fills up the normal sinusoidal nature of travelling patterns.

Mr ANDREN—What is the cost of your fare from Dubbo to Sydney?

Mr Jones—That is a good question. I do not have that right off the top of my head. As I said, we fly to 30 destinations, and there are a lot of fare categories.

Mr ANDREN—What is your market share out of Dubbo?

Mr Jones—It would be about 34 per cent to 36 per cent.

Mr ANDREN—How many passengers? What is the market up there—160,000?

Mr Jones—Our current full economy fare from Sydney to Dubbo is \$250.95.

Mr Leate—Our market size is 89,000, on the latest department of transport figures.

Mr ANDREN—I thought it was much bigger than that.

Mr Leate—It was down 11 per cent last year and the previous year was similar.

CHAIR—The figure I heard last was 112,000.

Mr Leate—The latest figure from the New South Wales Department of Transport for the year ended 31 December 2002 is 81,362.

Mr ANDREN—So with 34 per cent of 90,000—which is roughly 30,000—you can afford to charge only \$250. Is that the competitive pricing pressure from Qantas?

Mr Jones—That is for a full economy fare. If I got \$250.95 on every ticket, I would be a wealthy man. Our lowest fare is \$130, on a base fare of \$100.05. It is an Internet-only fare but fully commissionable to travel agents. That competes against a \$148.66 fare from Qantas.

CHAIR—How far in advance do you have to book to get that \$100 fare?

Mr Jones—It is an instant purchase fare. You can buy it straightaway.

CHAIR—Off the Internet.

Mr Jones—Yes. We have recently completely changed our pricing structure. We have done away with advance purchase requirements. We have reduced the number of fare categories down to five. Full economy is a fully flexible fare. It is changeable, refundable, there are no penalties for changing anything, you have seven days to pay for the ticket once it has been booked, and it is valid for 12 months. If you miss your flight you do not lose it. We have a corporate discount, which is done for volume commitment to the airline; that is a discount of a full Y. We then have three fares which are what we call ‘flexible fares’, and they have some restrictions on them. They must be paid for within 48 hours and they are changeable subject to availability within that fare category. There is a \$22 charge for the transaction change—which is a GDS charge that we have to recoup. We get charged about \$US8.30 for each GDS charge that goes through, so we are recouping some of that.

Mr ANDREN—Is that \$250 one-way?

Mr Jones—Correct.

Mr ANDREN—What is your one-way Orange-Sydney fare?

Mr Jones—Orange-Sydney is currently \$240.63 one-way.

Mr ANDREN—Have the Orange numbers gone down in those latest figures too?

Mr Leate—I believe so. There is a 16 per cent decline for that year—34,887.

Mr MOSSFIELD—Could you give us your views on hubbing and whether it is effective or not? We have had some discussion about that system.

Mr Jones—We do not do hubbing as such. We do point-to-point flying regionally to capital cities throughout the four states where we operate.

CHAIR—But do you accept hubbing from another operator?

Mr Jones—Not at this point in time—not because we do not accept it; we have not been approached. We are currently in the process of accepting it from Aeropelican, and Horizon have approached us to do it. To my knowledge they are they the only airline that have approached us to do it.

Mr MOSSFIELD—Is it feasible to have flights originating from regional centres, from your company's point of view?

Mr Jones—Yes, in rough terms. We have crew bases in Lismore, Dubbo, Wagga, Albury, Melbourne and Adelaide, as well as Sydney. Around 50 per cent of our flights originate first thing in the morning out of a regional centre, and we see that as the predominance of our market; but, because of the way most people book return fares, we cannot work out exactly where that origin is. From all the indicators that we have got, we think that around 65 per cent originate from a regional area, and others are returning to a regional area or, in a lot of cases, they are professional people and services going to regional areas—doctors, circuit courts, professional and business people.

Mr ANDREN—You say that markets below 60,000 should be regulated. How many markets that you operate to are above 60,000? Dubbo is one, obviously.

Mr Leate—Albury; Ballina; Dubbo, of course; and Wagga Wagga, with 86,000.

Mr ANDREN—So that is half a dozen out of how many?

Mr Jones—There are about 18 within New South Wales.

Mr ANDREN—You talk about a solo operation on those routes. Should no other entrepreneurs, crazy as they might be, ever have a crack at it?

Mr Jones—It is difficult to say why you should be granted a monopoly on a certain route et cetera. We do not make money on a lot of routes where we are the sole operator. We do it on a network basis, because of a feed and because, on a carrying-the-cost basis, it contributes to the aircraft meeting a schedule. The cost of ownership of that aircraft is spread over a number of routes and, if you did not do that, you would burden another route with more cost. It may be contribution positive, albeit that on a route-alone basis it makes a loss.

The reality of the matter is that, if you are going to provide a reasonable service—and what I mean by 'reasonable service' is that you have an aircraft that gets you there in a reasonable time and that meets a certain standard as far as safety and what passengers would expect for business travel et cetera—that does need to be protected. Otherwise, you will find that everybody on the route suffers and businesses will die or dwindle over time. Certainly, entrepreneurs will start up businesses and operate and forge new routes that are not licensed et cetera—and more power to them for doing so—but history has proven that a lot of those people fail.

Mr ANDREN—I was just thinking of Mr Miller's submission earlier. You probably heard him say that, with you guys and Qantas out of Dubbo, it is like the old two airlines system; that you take off at the same time, basically. Are you parallel in all your services in and out of there?

Mr Jones—No.

Mr ANDREN—I mean in the mornings.

Mr Jones—We do do that, and we do it on most of our competitive routes with Qantas. It is not a function of doing it to compete directly with them; it is when the people want to travel. We set our schedules not on what our competitor does but on where the marketplace is, and they are timed based on the slots of arrival into the capital cities and the travelling times. I will give you an alternate solution: our flights out of Mildura are timed to arrive at Tullamarine and to take into account a taxi ride geared to a 9 o'clock meeting in Melbourne's CBD. They are timed in reverse, and that is how they work.

The reason our airline and Qantas are out of Dubbo, for instance, at the same time—and we do it out of Albury and Wagga—give or take 10 or 15 minutes depending on the speed of the aircraft, is so that we arrive at a set time. We do that same arrival time calculation because that is when the passengers want to travel, and it is a competitive thing. For instance, if we did not leave Dubbo at 6.30, but we left at 7.30 when Qantas had left 6.30, they would take the lion's share of the passengers, because that is when the passengers want to travel. It is more the convenience of the time than the schedule.

Mr ANDREN—What are you carrying on those flights—65 per cent?

Mr Jones—It depends. For Dubbo, we would be in the 70 per cent load factor area at peak times. For middle of the day flights and depending on how we act—a lot of our middle of the day flights continue through to Broken Hill and we allocate seats depending upon which route the flight is on—we would drop down to in the 50 per cent load factor area.

CHAIR—I have two short questions to finish on. Have you ever applied for the Bass Strait subsidy with respect to the Melbourne-King Island leg of that journey?

Mr Jones—I was not aware that there was a Bass Strait subsidy.

CHAIR—It applies to shipping. The argument put to us by people on the island is that flights to Devonport and Launceston are essentially intrastate and therefore are not eligible. They cannot understand why sea based operations get a subsidy to Melbourne but not aviation based ones—in other words, from the northern tips of Tasmania to the mainland.

Mr Jones—It is an interesting quirk that King Islanders see themselves as Victorians, although the Tasmanian government sees otherwise. It is actually a part of Tasmania and therefore it is still an interstate flight from Melbourne to Tasmania. That is the problem. We have looked at which way to do the route effectively to King Island. We do not operate from King Island to the mainland. Whilst we have direct services from Melbourne to Burnie and Melbourne to Devonport, we have looked at whether we triangulate the route through King Island in the middle of the day flights et cetera, and it still does not make sense. Once you have an extra cycle on the aircraft, with the costs and the stage length, it does not make economic sense to do that cycle. So we are continuing to operate Melbourne to King Island at this point in time. In answer to your question, I am still not sure that the Bass Strait subsidy would equate, because it is still intrastate.

CHAIR—As a regional operator, you go to 30 major ports, some of them in small towns and cities. I am not talking about towns of 40,000 upwards. I think the anecdotal evidence is that towns of 40,000 upwards do not have any trouble maintaining their airports. What is your view of the smaller provincial cities and, in particular, any country towns that you go to? How are they surviving? Over your period of knowledge of this airline and its predecessors, have you noticed any deterioration in the quality of the airports?

Mr Jones—It would only be a qualitative comment rather than a quantitative comment. Certainly it is noticeable that there is a vast difference between the quality and standard of services provided at regional airports—where there is a large population base and therefore a concomitant large revenue base—and the quality and standard of services at the very small ones. A classic example would be—I am not denigrating it—the Ceduna airport; it is a fairly basic airport and airstrip. It is a 9,000-person town and it cannot support upgradings to the airport. Some of the airports we fly to have outstanding services; the runways and the environments and airports are absolutely pristine. It is interesting in different towns to see the attitude that they have to their airport. Every one of them would probably rate having air services as very close to first or second in importance to the success of the township and the local area. It puts them on the map if they have air services as against the town next to them that might not. Therefore, how much do they invest in it?

We are currently going through a process whereby we talk to the regional operators and say that they need to have a look at it. We have produced a model for them which we go through and say, ‘If you actually reduced the number of charges that we could then put back into reductions of ticket pricing, you would probably stimulate the market more and you would probably stimulate the economy in your area by doing so.’ It is quite an eye-opener to most of the councils. They are so busy doing other things that it is not something that they sit around and contemplate on a daily basis. When presented with it, we are getting a fairly favourable response from each of the councils as we present this model to them. It is a fairly compelling story. We are in the very early days of this process of going around to all of our 30 ports to say, ‘You should do this to reduce your charges.’ We are going to pass it straight through to passengers, because we see the increase in the cost of tickets as one of the biggest hindrances to air travel.

You probably have not had the main operators give you the numbers. Airlines use weird sorts of metrics to work out their cost basis. They use available seat kilometre costing, so you have cents per available seat kilometre. On a 34-seat aircraft and across our whole network, our available seat kilometre cost is in the region of 23.7c. That is normally a trade secret, but I think it is important that you hear these things. With QantasLink, depending on how they attribute their costs between shared services et cetera and transfer pricing within the company, generally their cost per available seat kilometre is probably somewhere in the order of 26c to 28c per available seat kilometre—for every seat kilometre that you fly, that is what it costs the airline to run.

Virgin Blue runs on about 8.8c per available seat kilometre. A couple of years ago, Qantas mainline was at about 15.7c and has reduced that to down around the low 13-point-something cents per available seat kilometre. As you can see, there is a huge disparity between the 8.8c per kilometre of Virgin and the 23.7c that we operate at, and therefore we cannot get down to the fare prices that they have on the main trunk routes. It is just a simple matter of their flying 168-seat aircraft and our flying 38 seats. We can amortise our costs across the 34 seats versus 168,

and it is a hard metric to get over. Adding additional charges onto those ticket prices makes it very hard.

Mr ANDREN—In Orange's case this morning, we heard that they are up for a \$2½ million airport upgrade. Would you see any virtue in the feds taking back some of the control of infrastructure or assisting in a greater way? What sorts of ideas have you got around that?

Mr Jones—As I said, it is a large impost on a town to expect them to pay for 100 per cent of their air infrastructure when their road and rail infrastructures are highly subsidised. It is a big cash burden that would come as an abnormal to a local town. Depending on who is in power and under local government regulations—I cannot remember what act it is, but I think the local government regulation is 151 in New South Wales—the New South Wales Treasurer can veto how they spend their money, because they gain their money by gathering rates. It makes it very hard for a town as to how they actually spend their money. I think some rationalisation of that and sharing of the burden at both a state and a federal level is needed.

Mr ANDREN—If there are 35,000 people in Orange, which is about the town's population, and you divide that by 12, there would be 3,000 people a month travelling—and half of those would probably be regulars. Given that the infrastructure to enable those individuals to fly has been paid for by the ratepayers and, although you have got to look at the multiplier from the point of view of business and everything else, half of those people flying would be local, state and federal government employees, I presume, isn't it a fair argument that a USO is involved in this? Isn't this a universal service obligation of government as a decentralisation initiative to encourage growth?

Mr Jones—Absolutely. I would go back to my point that we have an increasing trend—and I do not have the statistics with me—of people leaving regional areas. A lot of the reason for that is the viability of their businesses. Their costs of getting goods and services into regional areas and their costs of travel to do business and to trade out of regional areas are escalating all the time. That is a trend that we probably need to reverse. Whilst we are no longer an agrarian economy, we still have a large reliance on agriculture in regional areas for our GDP. It is a trend that we need to stop somehow.

CHAIR—On that very interesting note, we would like to thank you for your very thoughtful submission and to congratulate you on your enterprise in bringing those two airlines together. Although I was not there myself yesterday, I also want to thank you for the courtesy you extended to the committee in showing us over your operations at Wagga.

Mr Jones—My pleasure. I hope it was interesting to see the sort of size and scale of what we are doing there.

CHAIR—It is important for us to see these things on the ground. We saw the Alliance base in Brisbane on a previous visit, and that was also interesting. It gives a better idea of some of the things that you are doing and some of the challenges that you face. We will be forwarding you a copy of the *Hansard* draft in about 10 days time, which you might check for accuracy.

Resolved (on motion by **Mr Andren**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day, having regard to the fact, however, that we have given Rex an undertaking that when they supply certain figures referred to in the evidence they will remain confidential.

CHAIR—These proceedings of the hearings in Wagga and Sydney are now concluded and I thank all those associated with them. Thank you, Hansard and the secretariat, and the last witnesses of the day, Regional Express.

Mr Jones—Thanks very much.

Committee adjourned at 4.10 p.m.