



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**

WEDNESDAY, 4 JUNE 2003

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES



## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

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

**Wednesday, 4 June 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 Haase, Ms Ley, Mr McArthur, Mr Mossfield, Mr Neville, Ms O'Byrne, Mr Secker 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.

**WITNESSES**

**SMITH, Mr Richard Harold (Dick) (Private capacity) ..... 571**



**Committee met at 9.52 a.m.****SMITH, Mr Richard Harold (Dick) (Private capacity)**

**CHAIR**—Ladies and gentlemen, 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. Today's hearing is the ninth one of this inquiry. We have previously held public hearings in Tasmania, Victoria, South Australia and New South Wales, and next week the committee visits Queensland.

Prior to calling the first witness, I would like to advise members of the committee that the media have asked if they may take photographs. What is the will of the committee on that matter? We have a request from News Ltd and from Fairfax. There being no objection, they can be invited in.

I welcome Mr Dick Smith. Although the committee does not require you to give evidence under oath, I have to advise you that these proceedings are formal proceedings of the parliament, and consequently they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. However, having said that, you are most welcome. Please make a five- to seven-minute opening statement, if you would like to do so, and then we will break into interaction with the committee.

**Mr Smith**—I welcome the inquiry because there is a major catastrophe at the present time in commercial regional aviation in Australia. I am going to give you some figures. I will leave this with you; it is our slide in general aviation from the Bureau of Transport and Regional Economics. I am going to mention the business and private flying hours too, because it brings into regional aviation especially the flying training. It shows a reflection of what is happening to the industry, especially on the general aviation side.

The figures show that in private aviation 261,000 hours were flown in 2001. If you compare that figure with the one for 1980, which was 305,000 hours, you can see the drop. In business aviation, 144,000 hours were flown in 2001 whereas the figure was 279,000 hours in 1978. So it has nearly halved. And, most importantly, I refer to the figure for flying training—406,000 hours were flown in 2001, the lowest in 13 years. The figure was 394,000 hours in 1988. Even if you look at charter operations at the present time, the 2001 figures show 466,000 hours whereas five years ago it was 480,000 hours.

I do a lot of flying in Australia. I am fortunate in that I own a number of aircraft. At Easter I flew my Citation aircraft to Goolwa, Port Lincoln, Flinders Ranges, Birdsville, Bourke and home again. Recently, my wife and I, in our little jet ranger, went across the Simpson Desert to Alice Springs, right out to Lake Mackay and then up following the new railway line to Tennant Creek, Mount Isa, Longreach and down the coast. When you fly in the system—I love flying and I obviously love Australian aviation—you realise that something terrible is happening. The airports which used to be busy basically have no traffic. I recently went up to Port Macquarie. We refuelled and went into the terminal, and the terminal was locked. We then went up to Casino

where the terminal was not only locked but it had cobwebs on the doors, which was very disappointing. You can just tell there is something terribly wrong.

The answer is very simple: it is basically high costs. I think the intentions were good back in 1988 or thereabouts when the then Labor government decided that aviation should in effect pay its own way. In 1988, if my figures are right, the old department of aviation—or whatever you called it in those days—had about a 50 per cent subsidy from the general taxpayer. In round figures, it was a \$500 million cost and \$250 million came from the general taxpayer. In those days the safety regulation and air traffic control was combined. But nowadays, with respect to the total taxpayer input, there is very little into Airservices, the air traffic control company, and it varies for the Civil Aviation Safety Authority, as you would know, but it is some \$40 million or \$50 million. What has happened is we have gone from a situation where there was a very substantial taxpayer subsidy to basically the industry mostly paying its own way.

There have been some efficiency savings with Airservices Australia but not enough to counteract that large increase. I remember at the time when it was mooted—it should be remembered that at one stage Kim Beazley, when I think he was Minister for Finance, decided that CASA should also pay its own way from the industry and should not be taxpayer funded. I said at that time, ‘Look, unless you make some very substantial changes in both efficiencies and in the regulatory regime, you are not going to have an aviation industry,’ because there was simply no way an industry that was making 3c or 4c in the dollar profit could withstand probably a 20 per cent increase. That is what has happened.

Our problem now is that we have an expensive air traffic and fire fighting system which has no competitive pressures. But, worse than that, we have a regulator which has a code of denying that cost has really anything to do with safety. If you remember, a number of years ago the media gave me a hard time because I mentioned that safety had to be affordable. I was absolutely surprised because it was made out by the media that I was introducing this concept. I said that, no, I was not introducing a concept. It is like saying two and two is four or the law for the conservation of energy. If you end up with safety rules which are a higher cost to society than society can afford, then you will end up with participation dropping. That is exactly what has happened.

I am in an excellent position, because I own a number of aircraft and I fly constantly, to know that just about everything I do is not two per cent or three per cent dearer than if I were doing it in the United States, Canada or New Zealand; it is 20 per cent. I will give you an example. I had to turn my helicopter around and land at my farm because I do not have a helicopter instrument rating. I am going to get one, but in Australia you have to do 20 hours in the helicopter at about \$2,000 an hour. Under ICAO, the International Civil Aviation Organisation, recommendations and under the rules in Canada, New Zealand and America, it is 15 hours. So someone has added a third to the hours because it increases safety, which it certainly does, but you have added a third to the cost. What it invariably means is that virtually no-one has a helicopter instrument rating in this country.

This is a list of maintenance which is coming up for my Citation aircraft and in it are things like AD instrument 9 which is 30 hours of labour and is going to cost about \$3,000. It is a unique Australian standard brought in in the 1950s for DC3s. It requires things like all the engine instruments to be removed and checked but, because they are digital, the company says, ‘We



cannot really check them. They are uncheckable. They have to go back to the manufacturer,' and we are not going to do that. So what they do is pull the instruments out, fudge it and put them back in again and probably charge you \$8,000 or \$9,000 for the total extra service. For 10 years I have been trying to have that extra requirement removed, which is added on top of the servicing requirements which were set by Cessna. The unfortunate thing is that CASA will tell you, 'Look, we have no direction about participation levels. We have no direction about cost,' and that is absolutely true. If you look at the New Zealand act, one of the first things in the act is 'functions of authority' and the first one states:

The principal function of the Authority shall be to undertake activities which promote safety in civil aviation at a reasonable cost.

Then it very quickly mentions:

Reasonable cost is where the value of the cost to the nation is exceeded by the value of the resulting benefit.

As chairman twice of CAA and CASA, each time my board has been unanimous in endeavouring to make sure that we are absolutely open in the act and that we say we must allocate our limited resources effectively and cost is most important. Every time we have never been able to even get it through the bureaucracy, let alone get it to a stage where the parliament might accept it. That is because we seem to be in this country living under this delusion that, in aviation alone, safety comes before cost. But if you put safety before cost and you do not balance safety with cost, you simply reduce participation levels because you cannot force people to fly.

When I go to Gunnedah and other towns that used to have viable small air services—they could tomorrow if we had modern regulations—and see there is no air service there, I say, 'That is just a fact of life. It is just basic economics.' It is all very well to put Dick Smith down and for politicians to say, 'Look, Dick, you are quite right about what you say, but you cannot mention cost when it comes to aviation.' I can assure you that you can and you have to.

A couple of days ago, the Prime Minister got up in parliament and said words to this effect, 'Come off it, you cannot spend unlimited amounts on aviation security. It is incredibly safe as it is and some day there is a limit.' I can assure you what we have done is that we have gone past the limit.

I am just about to use up my time but I wanted to show you the new regulations for part 91 that CASA has been working on. I started the rule rewrite with one direction only, and that was to save unnecessary cost. But the day I left that was removed from any direction. So well-meaning people in CASA have looked around the world and taken the best regulations or, where they can, made things better. I went through that in about 20 minutes and put a red marker on all of the increased costs, if these new rules for part 91 ever came in. You basically will not have a general aviation industry at all if this came in.

I will very quickly give you one example of aerobatic flight to show you that CASA does listen to pressure groups in the industry but does not have a direction about cost. In the rest of the world, you can fly to 1,500 feet and do aerobatics, but CASA decided that we would go to the world standard. However, the aerobatics industry makes money by training people to fly at

lower level to 1,500 feet, so they went to CASA and said, 'Look, we would like you to keep the level at 3,000 feet and if you want to come down to the ICAO or American level, you will have to do more training.' Instead of CASA saying, 'No, we are not accepting that. You are a pressure group and we can understand you want to make money out of that,' what they said was, 'We agree it does improve safety so we will write that into the rule.' This is completely riddled with extra costs, because there is an ideology within CASA that cost is not important and they say, 'Dick, we do not look at cost.'

Only recently I received a letter from Mick Toller. I was talking about the new air space changes which are aimed quite directly at removing costs; in other words, running it more efficiently with fewer air traffic controllers, and he wrote to me and said, 'Look, the air traffic controller numbers are nothing to do with me, the safety regulator,' and I am sure he is right legislative wise. But it means that, if you have a regulator who is writing rules which are safer and safer, we have a participation problem. We do not have a safety problem at the moment; we have a participation problem. We are basically extremely safe and we have been for the last 20 years but we have a participation problem because costs are too high. Thank you for listening to me.

**CHAIR**—Thanks for that. Talking about your view of these costs, given that both the previous government and the current government focused on a fair amount of cost recovery and also bearing in mind this is an inquiry into regional aviation and given there is a community service obligation, or at least an implied one, where should government draw the line when it comes to regional airports and regional aviation?

**Mr Smith**—I happen to be an Australian who lives in the city, like most Australians, and I have a definite belief that city people should subsidise the country. I have no problems there, because you will never have the efficiencies that you can get in a city. A good example of that is Telstra where you can buy a telephone service in many country properties at the same price as I would get one at Terrey Hills, and I totally support that.

The problem that has happened with this so-called cross-subsidisation is that it has basically gone to air traffic controllers and to Airservices. It has gone to a Canberra based bureaucracy and it is terribly sad. The intentions are good. You may remember we were going to move to location specific pricing at the various towers, because that would immediately put pressure on to bring in efficiencies. We were about to move to it when the government decided that it would subsidise these towers. Most of the subsidy goes to city towers—places like Bankstown, Moorabin and Parafield—and that subsidy actually meant that no efficiency gains were brought in, or nothing appreciable. You end up with a situation where the subsidy goes to paying air traffic controllers \$120,000 a year; whereas in New Zealand when they had the same problem, they got the local flying schools to run the tower at the training airport and they run it at 10 per cent of the cost. We have given subsidies, and the subsidies go basically to Airservices Australia or to the fire fighting side of Airservices; they do not go to bringing in efficiencies.

I would far prefer to see a situation where the maximum amount of competition was encouraged. And certainly when it comes to the fire fighting services and the towers, I am told there would be a safety problem with this. By crikey, the most important things about safety are, first, the aircraft itself, and that is owned by competitive companies; and, second, maintenance on aircraft. There is nothing more safety important than maintenance. It has always been done by

competitive companies. I have a friend who does maintenance on fire bottles for Qantas. He has to quote and give them the best price so they can hand on the best price in their air tickets and they have enough money to spend on important safety issues.

I believe our parliament let us down recently when legislation was introduced to bring in competition which would have dropped these prices dramatically and helped country people especially, and that was stopped. I understand Labor and the Democrats said, 'No, we do not want competition when it comes to air traffic control and fire services.' So that means that the subsidy is actually being used to prop up an inefficient monopoly instead of being used to help general aviation thrive. So I agree with the subsidy, but it should go to the people who are going to get more people flying.

**CHAIR**—You put great emphasis in your submission and today on fire fighting services. If you look at the average provincial or country airport that has a fire fighting service, the airport is generally located anywhere from five to 15 kilometres from the township, and therefore there is almost a requirement that you have a fire engine at the airport. How do you maintain two fire stations in a community and not have to incur some cost?

**Mr Smith**—Of course you are going to have a cost, but it is a matter of doing it more efficiently. If you look at the figures, we had a report done when I was chairman of CASA by Air Commodore Russell Smith. By the way, Australia is the only country I know in the world where the fire fighting service is run by a government monopoly from the capital. Even the United States, which is very socialistic with aviation, does not have the FAA running the fire fighting service; it is run by the independent towns or airports.

The Russell Smith inquiry showed that in New Zealand the rescue and fire fighting charge per tonne landed was about 50 per cent of what it is in Australia. Since that report, Airservices have brought in some efficiencies, so maybe the saving would only be 40 per cent. A good example is that, if you land at Karratha in a 146, the rescue and fire fighting charge was about \$500 when I did the checks because the staff are employed from Canberra. They are run by a monopoly from Canberra. You can imagine the inefficiencies of that. If you land the same Qantas 146 at Queenstown airport where the local airport is in charge of the rescue and fire fighting—

**CHAIR**—This is Queenstown, New Zealand?

**Mr Smith**—Yes, New Zealand, the charge is less than 10 per cent of that. I rang them and said, 'You must be subsidising them,' and they said, 'No, we are not. We have one permanent employee who is in charge of the fire service; the baggage handlers who are not handling baggage when the plane lands and when the plane takes off are dual trained; the people who do the airport work are dual trained; and that is how we get the efficiencies.'

Another example would be Coffs Harbour airport. I went in there with my wife not so long ago on a Sunday and the place looked as though it was one of those movies from outer space where someone had come and just removed everyone. It was absolutely dead, but when I looked around up in the tower I could see two people. If the Coffs Harbour airport ran that tower, they would very quickly come to a deal with their air traffic controllers so that, when there was no traffic, they would not be there; they would be at home with their families having lunch; and they would have a very efficient process.

I do not know if it is still the situation, but Airservices had a deal with their controllers where the shift time was seven hours and obviously three sevens do not add up to 24, so it is quite inefficient. You bring in some competition—I will give you an example of the FAA. They subcontract many of their smaller towers by getting, dare I say it, the best price. The FAA does the safety regulation, as CASA does at Qantas or Virgin, but they go out and get the best price. Steve Brown, who is in charge of air traffic, said that it is about a 50 per cent saving. FAA is a very efficient organisation because it has incredible efficiencies of scale, but it can still save 50 per cent by getting the best price. We do not have that situation.

**CHAIR**—Let me go to my colleagues. I go first to Sussan Ley, who is a pilot.

**Mr Smith**—And ex air traffic controller.

**Ms LEY**—Yes. I was very worried about what you were saying about those particular people. During our inquiries, we have certainly heard a lot about the culture within CASA and the rules that are preventing an efficient regional aviation service. Just as an example, you cannot carry passengers and freight on the same charter flight and the old reg 203 exemption meaning that you have to move yourself into RPT instead of charter. Can you give the committee some practical examples of how the rules that CASA now has are restricting regional aviation so that we can see how it really works in practice?

**Mr Smith**—I will give you one. This is an article called ‘Air taxi standards—charter or RPT?’ because the problem is not just CASA, it actually involves the industry. When I was chairman of CASA last time, one of the things which was drawn to my attention was that we actually had two standards for these Piper Chieftains, and Chieftains are a very popular small aircraft flying to country towns. If you go to other countries like the United States or Canada, they run a fantastic service; they are not a safety problem; it is not a big deal; it is just a very efficient way of moving lots of people into small country towns. In Australia—and I brought these reports along—we have had the Seaview report, the Monarch report and the Advance report. We have had a situation where these planes crashed and it was beaten up in the media and in huge, expensive inquiries that cost \$15 million to \$20 million. What invariably comes out to the public is that these small planes are unsafe. But in fact it is not true.

The story with all of these crashes is that, if you read the reports, they are companies which have not complied with the rules for years and years. But no action is taken—by the way, nothing has changed with CASA—so eventually when a company that does not comply has a crash, everyone brings up all of the claims of all of the things they did not do, and this discredits small aircraft and aviation. If in the days of Advance or Seaview Airlines, CASA gave them two tries and then prosecuted them, and you would end up with the company either going broke very quickly or, more importantly, fixing up its problems very quickly.

We have a situation in Australia which is really strange, whereby the small nine-passenger aeroplanes can never have the safety level of a 747. There is one simple reason: in a 747, there are 300 to 400 people paying for the safety; in a Chieftain, there are nine people; so it will always have a totally different safety level. But people at CASA 20 years ago tried to delude themselves by saying they could actually get a higher level of service for these small aircraft by calling them ‘air transport’ and by bringing in some more paperwork. It was very difficult to become one of these small third-level operators. A number of them complied, including Advance

and Seaview, but a tremendous amount of their resources which they had from their nine passengers and quite often less was going to do the type of paperwork which Qantas required.

A good example is this: if a passenger does not arrive at an airport, Qantas touch a button and it does the weight and balance by computer. In these small planes in the United States and in Canada, if the pilot is out at the airport at Bourke and one passenger does not arrive, he can make the judgment that, 'Well, the passenger would normally be in the back. I know where the weight and balance is, I can fly safely.' In the Australian rules and if you look at Monarch and Seaview, they used to send them non-compliance notices because the pilot did not sit out there and redo a complete weight and balance, because that is required for airlines. It is not required for these smaller planes.

What became obvious to me is that in the United States, New Zealand, Canada and most other countries, for nine passengers and below, they call the operator a 'scheduled air taxi'. They do not kid anyone that it is an airline. As I mentioned to you, there is a part 91, which is basically private aircraft; then they have a part 135, which is air taxi; and then they have a part 121, which is air transport. The air taxi standard, part 135, is very simple and inexpensive. It is very much based on common sense and it works very much with a strong enforcement system. In other words, it is a bit like if you owned a truck—the reason you do not need an air operators certificate to drive a truck is the policemen will pull you over and book you constantly, and in a country town very quickly someone will say, 'He is not maintaining his brakes, he is not doing that,' and they will get the person. So it is fixed very quickly.

What happened here was they brought on this standard, which is still there, that most people cannot comply with. So the mates network using common sense allows some operators not to really comply and have certain favours. After finding out about this, it was obvious that we needed to move to the American part 135 scheduled air taxi standard and that would allow our small planes to these country towns to boom and to be certainly far safer than going by road. When we called a meeting, the people who had the approvals to run the small RPT operations objected. They said, 'No, if you allow this air taxi standard, people will be able to fly on our routes. They will just come up to Dubbo and they will fly on our routes.' I said, 'Yes, it is called competition.' But it was really interesting. Instead of seeing what I as a businessman or Richard Branson would have seen as an opportunity in that and said, 'I am going to go and take over everyone else's business,' they saw—I am talking about the people who are still operating these small carriers now—the CASA extra rules as a bar to competition. It was very difficult to actually get this approval and that would stop other people coming in.

But it was also a bar to them making good profits. If you want to have a safe small airline, it has to make good profits. There are two reasons for that: most small business people put half the money back into the business so they can buy new aircraft; and, more importantly, small business people dream about the day they are going to sell their business and retire. So they want to have lots of good will, a safe operation built up and a lot of resources in that business. But in this particular case, because they were not making any money and they could not sell their business, there was no incentive to be safe in a long-term way.

I, as chairman, said, 'I do not care what these people say, we are going to have a part 135.' I resigned and very quickly the industry put the pressure on. So CASA decided, and as of this day we are not like New Zealand, we are not like Canada and we do not have a part 135. We have a

part 121 airline standard and they call it A and B. The B is being watered down so that it is very similar to part 135, but it is still more expensive.

You asked the question about the extra costs. There is just a myriad of them. I will give you an example. Under part 135, you can have a torch when you are flying at night, but under part 121B they say you need an emergency lighting system. My Cessna Citation is built to the full airline standard. It holds only nine passengers, so you can build a small plane to the airline standard. The emergency lighting system would be worth about \$100,000. It is a completely separate system run on a separate NiCad battery with a G switch and everything. When I rang CASA and said, 'You have actually taken the air transport one for these small Navajos and so forth,' they said, 'Oh, no, you could interpret it as a torch.' The American requirement calls it a flashlight, I think. I said, 'You have actually said an emergency lighting system and used the same text from the airline standard.'

When you talk to the people at CASA, they are very well meaning but they are destroying an industry. It is the dream job. They can sit there and, without this pressure of cost, they can dream up safer ways of doing things. That is what they are doing. Then what happens is they go to an industry meeting and, instead of there being any government policy about this, they then get the pressure from people from every little pressure group who want to make a bit more money here and want to make a bit more money there and they kowtow to it.

The reason I was universally disliked not just by the unions but also by the industry is that, as chairman of CASA, I said, 'We are going to be the best people in the world for aviation. We have the best weather conditions. We have a high standard of living. We are going to get a billion dollars in training in the world. We are going to have people coming from America and flying here. We are going to be the leaders in the world. And the formula was simple, we are going to go around the world and take the best from each country, incorporate it into our own rules and then surely we are bright enough to pick a few things that are pretty bright and make them more efficient for ourselves.' What they have actually done is to pick the safest in many cases, but that actually misallocates the safety dollars. So if this ever comes in the part 91 I am showing you—can tell you it will not, but millions of dollars and five years have been spent on it—basically these figures will drop down so that you will probably have 10 per cent of the flying now.

One day politicians have to say, 'Look, aviation is the same as driving cars, education for your kids or your health, it depends on the amount of money you put in and there is a limit with the amount of money because we cannot force people to fly.' There is a limit to the amount of subsidy you can put in from a government, even if you decided to subsidise it, so we just have to be like everything else—smart. I can assure you we could have Piper Chieftains running to most of these country towns with incredibly safe services. If we followed this part 135 and even made it less onerous and expensive, aviation could boom in this country.

At the present time, I see us like the Soviet Union in the 1960s when I went there. There were all these deluded people saying, 'If we just persevere with this system, one day it will work,' when everyone from outside said it will never work. What you have in CASA and in the bureaucracy in the department of transport at the moment is this belief that, if we can just persevere with this, it is sure to work. It will not. I do not see it changing for 10 or 15 years. My belief is it has to get so bad that someone will say, 'This is ridiculous. Aviation safety has to be affordable.' It is like anything else, we have to be smart. We have a limited amount of money.

We just have to be smarter than everyone else in the world in allocating that money. And we can lead the world.

I just want to add one thing which is incredibly important. In talking to these CASA people, I know them well and, believe it or not, I get on with them well. When I have explained that these extra costs on my aircraft stop my company from competing, they do not understand that. They said, 'What has our cost got to do with America?' I have had to try and explain. I said, 'We have a global economy. I use my aircraft for Dick Smith Foods and other purposes. I have to compete with American companies. They are flying their corporate aircraft at a 20 per cent lower cost. Don't you understand that it is a world market now whether we like it or not?' They do not understand that. What their belief is, and it is very genuine, is that we can actually have costlier standards and it will not matter. It is a sort of regulatory tariff they have put on and it is reflected in the marketplace—you hardly have any business aviation any more; you hardly have anyone with an instrument rating.

In Australia at the moment, if you have an instrument rating, then every 35 days you have to do an instrument landing system, an ILS. In America, it is every six months. I could go on and on. In America, over 60 per cent of the licences for young pilots are done by family and friends—a person can get an instructor rating and train. That is not allowed in Australia where you have to have an air operators certificate. CASA has said, 'We are now going to have a more enlightened air operators certificate which, instead of costing \$20,000 or \$30,000 more than in America, will cost \$15,000 more,' and I said, 'You cannot do that.' With respect to the cost of doing the exams at the moment, if a young pilot wants to fly to the country and wants to get a pilots licence, the cost of the exams in America is about \$60 whereas in Australia it is about \$600. Virtually everything is safer and more expensive. Now, you cannot do that. You actually have to say right up front like the New Zealanders do—'cost'.

Anyone can write rules that are more expensive. But we need to write rules which are smarter. We are smart in Australia, even though it does irritate me that our new airline was started by Richard Branson, a Pom. Where is the Aussie doing that? I will tell you the only reason I did not do it is that, with the present regulatory system, I would not make any money. But I admire someone like that who comes and does it. Most of the smart business people I know just say, 'Dick, you would not even try. With our regulatory system as it is, you would not even try. You would move to something that was easier.'

**Mr SCHULTZ**—But that is not the case just with aviation, flying aircraft themselves, it is also related to the back-up industries that service those aircraft that have problems with regard to CASA and the costs imposed upon them. I am talking about people involved in repairing aircraft, spraying aircraft and doing all those sorts of things. I am originally from Cootamundra, and one of the reasons that Cootamundra is going out of business is the pressure that is being put on them.

**Mr Smith**—Are you talking about the cost pressure?

**Mr SCHULTZ**—Yes.

**Mr Smith**—You are absolutely right. Governments have decided that we should be in a global economy and, even though allegedly I am against it, I am not. I just say it is a fact of life; we are

in a global economy. You cannot then write rules which are more expensive than our major global partners. It is not just the rules. I am sure John Forsyth will not mind me quoting this. John Forsyth is very competent. He owns Dymocks Books; he is very wealthy; and he is the chairman of Airservices. He is on a group called the Aviation Reform Group. This is what he has been pushing:

That CASA and Airservices be required to relinquish the current Australian prescriptive/penalising/overcontrolling mindset in favour of the North American user friendly, non-prescriptive/keep-it-simple/can-do mindset.

He says that we comply with ICAO classifications but that we should comply with world's best practice rather than ICAO rules, and world's best practice is doing it smarter, less expensively and more efficiently. What CASA tend to do is they will say to you, 'We are complying with ICAO.' ICAO has these cargo cult people who sit at meetings and dream up the most expensive way of doing things. You will be interested in this: their latest requirement is that all crop dusters shall have a transponder and TCAS equipment so they can avoid other aircraft. If you were sitting in ICAO in Montreal and you did not have to look at cost, at every meeting you would dream up some more expensive ways of making things safer.

America and New Zealand just said, 'We completely ignore ICAO for things like that. Our only obligation is to notify a difference.' In Australia, you will have it brought in because they say it is ICAO. It goes back to this fact that, as yet, no politician from either side of parliament has been game to get up and say the facts; and that is, aviation is just like everything else. You never have enough money to do everything you want to do, especially when it comes to safety, so you have to be really smart and you must not misallocate even \$1. Once we admit to that, we do that and we look for the smartest regulations, we can be leaders in the world.

**Ms O'BYRNE**—Mr Smith, I have a series of questions. I want to ask you about part 135 and the fire safety stuff. But, first of all, you have mentioned quite a lot how the costs are higher and you have given the comparison with the USA, Canada and New Zealand. Can you actually break up the cost structure for me? What is spent on maintenance? What is spent on regulation?

**Mr Smith**—No, I cannot tell you that. But I can tell you that to run my Citation aircraft here is about 20 per cent dearer—

**Ms O'BYRNE**—You have said that but what actually makes up your cost structure? You have X amount of dollars on the cost of a particular flight that you run; how much of that is maintenance? How much is the regulation?

**Mr Smith**—I am very fortunate. I am well off. People have said to me, 'Dick, how much does your aircraft cost per hour?' I said, 'If I worked that out, I would sell it.' I have never been in business to make money out of aviation. I said I would need to be certified but I can get those figures to you.

**Ms O'BYRNE**—Could you supply that to the committee?

**Mr Smith**—What you are probably going to say is that the charges for flying en route and the rescue and the fire fighting charges are only a very small part—and this is the common claim—of running an airline. Do you know what the problem is? The difference between success and



failure is a razor's edge in business. We are working on a new air space system now which would save, the figures show, about \$70 million a year. If I had been able to bring that in in 1992 when it was supposed to come in, Ansett, I believe, would exist today because there would have been a \$700 million saving minimum to the industry at that time. People do not seem to understand, and it is rife in the industry, and they say, 'Dick, all these things you are talking about are only small savings.'

As a businessman, that is how I have made my money. With Dick Smith Electronics, with *Australian Geographic* and with Dick Smith Foods, I have looked around the world and copied the best and been just a little bit smarter at doing it. That is what Richard Branson is doing. These costs are small, but you cannot in a globalised world have any inefficiencies at all. And that is what we have.

**Ms O'BYRNE**—How efficient then are most small operators? How extensive are their business skills?

**Mr Smith**—Most of them are not very efficient, and I must explain this to you, because regional aviation for the last 20 or 30 years has not really made any money, the good business people have tended to move to something else. This is a catch-22 situation, because I can understand the CASA inspectors thinking that most capitalists are irresponsible. They look at the Monarchs, the Seaviews and the Advances and they say, 'Look at the way these people run their business.' That is not a good example of a successful business person. If you could somehow get the costs down so that good money could be made, the riffraff quickly cannot compete or they get fined out of existence. You then get the competent business people.

**Ms O'BYRNE**—So we currently have a system where people come in more with a passion for flying and a desire to be involved in that rather than any good business—

**Mr Smith**—And many of them are just grossly incompetent. I will give you an example. CASA recently did a survey on why they were doing this regulatory review because I do not think they knew. So they went off and they spoke allegedly to the top 100 industry people—they did not speak to me—and not one of them mentioned cost. I could not believe this. Surely someone must have mentioned cost, because the reason we started this reform was to remove unnecessary cost. And no-one did. I went and spoke to a number of industry people and most have no idea. They pay all these extra costs. I have complained to CASA as a wealthy person about all these extra costs. There is a very good man there, Neville Probert, who is actually fixing these things now and he will tell you that I am the only one who writes.

**Ms O'BYRNE**—But you have also admitted that you actually never look at your own cost structure as well—

**Mr Smith**—No, let me explain this to you: I have never added up what the total costs are but my whole life has been about turning off unnecessary lights that are left on and saving a dollar. It is just my old training as a business person. So even though I have never sat down and read balance sheets, from day to day I run my business in making sure that there are no unnecessary costs.

**Ms O'BYRNE**—But you will provide to the committee a break-up of the sort of cost structure that means we have high cost in Australia?

**Mr Smith**—I am delighted to, but the best thing would be to ask a commercial airline operator that—

**Ms O'BYRNE**—I am happy to do that as well.

**Mr Smith**—Because many of them do not know, and that is where it is important.

**CHAIR**—Mr Andren had another question on that point.

**Mr ANDREN**—I just want to cut to some real examples. Bathurst has, say, 12,000 passengers a year at the moment. We have heard anywhere between 20,000 and 30,000 is break-even for an airline. Rex are saying they will maintain the service I gather in the short term, but it is under a lot of pressure. Obviously, we are not going to talk about compromising safety for the airline, Rex, are we? Are you talking about the Piper Chieftain taxi service on a hub and spoke from outlying towns to top up their numbers in Bathurst? Is that the sort of thing—

**Mr Smith**—If Rex cannot provide an economic service to a country town, you can do two things: you can go the CASA way which says if you cannot provide in effect a 19-passenger airline service, you cannot provide one at all; or you could go the way of the rest of the world, and that is you provide a smaller aircraft. I do not like to use the word 'lesser' standard because compared to going by road it is far safer, but certainly it does not have two turbine engines and two crew—it has two piston engines and one crew. You then have to ask, 'Is there any country doing this successfully?' I have spent a lot of time in the USA asking the FAA this and they have said, 'Of course, we do not know what you have got on about these small aircraft. They run hub and spoke systems all across the United States under the air taxi regulations. There is no beat-up in the media if they have a crash, which is very occasional. They are very safe operators, because we are very tough with them in making sure they comply with the very reasonable but inexpensive and not onerous requirements.'

**Mr ANDREN**—So you are talking about consolidating airports such as Orange, Dubbo, Wagga, Tamworth and Bathurst and then flying an airline into Sydney or are you talking about, if the numbers are not there, flying more smaller aircraft taxis into Sydney?

**Mr Smith**—I tell you what I am talking about: I do not think that you could ever subsidise enough to make an inefficient operator efficient. My attitude is that you give an environment so the operators can be really efficient and then very quickly they will provide a service if the marketplace, dare I say it, can afford it. And I know it can. That is the difference.

The mindset here is that you actually have to subsidise these services in small towns. I am convinced, by looking at Canada especially but also the United States, that you can provide very successful and safe services by just making sure there are no unnecessary costs. At the present time, do you realise I think there is 1c or 2c on every litre of fuel that the small country airlines pay which subsidises Bankstown tower? It is ridiculous, because I get my landings at Bankstown subsidised. The people start at six or so in the morning when there is nothing going on, and it costs about \$3 million a year to run the tower.

By the way, I know it is popular to talk about privatisation. When Labor sold off all the airports, they called it local ownership, which was the truth because all of those airports were locally run by the councils and, even though some councils do not like it, there is a lot greater efficiency for Australia. I call this allowing competition with the rescue and fire fighting and the towers 'local ownership'. If you allowed the people at Coffs Harbour to run their tower, they will still have a tower there. They will still have a person in it. It may not be an air traffic controller but it will be a pilot, a flight trainer or someone giving a fantastic service at 10 per cent of the cost. You cannot have a half-and-half system. You either have to go back to a 50 per cent government subsidy—and these days that would be \$400 million or \$500 million a year; it would be something enormous—or you allow the efficiencies to come in and you force them to come in and we will have a fantastically viable industry.

**Mr ANDREN**—One quick one, affordable safety—

**Mr Smith**—You are using the word, not me.

**Mr ANDREN**—Whatever we call it, how would you apply that concept to security in the current context?

**Mr Smith**—Exactly the same.

**CHAIR**—I think to be fair, I will just let finish her questions.

**Mr ANDREN**—Sorry.

**Mr Smith**—I will answer quickly then.

**Ms O'BYRNE**—Mr Smith, if you could answer quickly that would be fantastic.

**CHAIR**—We have to be out at 10 to 11; we might stretch it a minute or two.

**Ms O'BYRNE**—It has been touched on by other committee members, Mr Smith. You talk about one level of safety being unaffordable for country areas and they really cannot sustain it. If you had an ideal world, not necessarily taking any particular country as an example, how many levels of safety would you anticipate? Would you be looking at a high level, a low level?

**Mr Smith**—No, I would have the levels which are pretty well set internationally. That is the large airlines, 30 passengers and above; then I would have the small operators, between 30 and 10 passengers; and then I would have 10 passengers and below. That is really pretty well internationally set. It does not matter how well meaning the bureaucrat who writes the rule is, if you write a regulation which adds to cost more than the passenger can afford, unless you can force them to fly, you do not have an air service there.

**Ms O'BYRNE**—As an example, you are suggesting the US regulation and you mentioned the torch issue as opposed to the emergency power system.

**Mr Smith**—Lighting system.

**Ms O'BYRNE**—You said that that cost \$100,000.

**Mr Smith**—No, in my Citation it does but in a normal plane you would fit one and get it certified in a small Chieftain I would say for \$5,000.

**Ms O'BYRNE**—So you would actually have to get it fitted? It would not come when it was produced? It was not something that is installed by the manufacturer?

**Mr Smith**—Here is the problem. Because the aircraft are not made like that where they are made in the United States, you would have to get it completely recertified for Australia.

**Ms O'BYRNE**—And how long would it last?

**Mr Smith**—It would last forever.

**Ms O'BYRNE**—Okay, so it is a one-off of \$5,000. What would that be in terms of—

**Mr Smith**—And the maintenance would probably cost let us say \$1,000 a year.

**Ms O'BYRNE**—So we are looking at that. What does that actually translate to in terms of the cost of a ticket?

**Mr Smith**—A tiny amount of money, a couple of cents. Here is the key: if Rex could put 2c on each ticket and keep the same number of passengers, they would do it tomorrow. This is where people forget. They know that, if they put too many cents or an extra dollar on a ticket, unless their competitor is forced to put the same money on, they will lose people flying. All I am trying to explain to you is that you cannot actually come up with anything that costs any more. The worst thing by the way is that to pay that extra say \$1,000 a year, \$20 a week, the business person will take that off training. Most airlines do more than the CASA minimum. They will say, 'We used to do 30 hours of training and we will now do 29 hours.' Then if someone asked how much extra safety does the emergency lighting system give compared to training, the extra training would be 20 times safer. What will happen if you add these crazy ideas is that, because there is a finite money available, people just shuffle it around—always.

**Ms O'BYRNE**—With respect to the cost of a BAe 146 to land at Karratha, you gave the example of \$531 the last time that you checked. What is the cost to land at Sydney or Melbourne?

**Mr Smith**—It is far cheaper than that. It would be \$70 or \$80. This is the fire fighting charge only?

**Ms O'BYRNE**—Yes.

**Mr Smith**—It is far cheaper because they have location specific pricing now.

**Ms O'BYRNE**—You think that is the extent of the difference between the cost structure?

**Mr Smith**—It is staggering. It is a completely crazy idea to have fire fighters in Karratha—I think they are about to close it down anyway but it has been there for 10 years when I have tried to remove it—who are employed from Canberra. It is just ridiculous. I would presume the houses get provided from Canberra.

**Ms O'BYRNE**—If you looked at the insurance responsibility for local airports to provide that service—

**Mr Smith**—I would not take it away, I would just say, 'If it is required for safety, how can we do it the most efficient way?'

**Ms O'BYRNE**—But if they then took it on as their responsibility, would not they also then have significant insurance costs as well and does that add to the cost?

**Mr Smith**—No. All of these furbies, if you do not mind me say so—I know you would believe it but you have been told this—

**Ms O'BYRNE**—No, I am trying to find this out.

**Mr Smith**—Airservices have to be insured and so the council has to be insured. In fact, this happened when I was trying to talk to some of the airports about why do they not take over the responsibility of the fire fighting and they talked about insurance. I then checked with the department, and they said, 'Well, the government guarantees that terrorism insurance or whatever it was and it would be the same whether it was the airport doing it or Airservices.' That is where you have to be smart. You have to say, 'If we are going to get the local airport to run it, it has to be on a level playing field.'

**Ms O'BYRNE**—I have lots of questions but I will pass on in the interests of time.

**Mr McARTHUR**—We have had a number of witnesses who say that running a small airline is a very simple operation—you have the cost of maintenance, the cost of capital and the number of seats that are occupied in the flights, if you do those calculations then the airline will be viable or not. The difficulty they are facing is the number of passengers who will fly. One or two have mentioned the arguments about safety regulation and the cost. How do you refute that general observation that you need passengers, bums on seats in the aeroplanes to cover the costs? They do not mention this whole argument about—some of them do.

**Mr Smith**—But that is just the marketplace. I could say, 'My pizza shop is not doing well. I did not have enough customers.' It is the marketplace. That is so basic, and I agree—some of these people have so little business knowledge that it is just amazing. They say, 'My airline would be profitable if I had more passengers,' and you see them open a service that you think could never be viable. All I am saying is what we have to do as Australians is be as smart as Americans and make sure our cost structure is no higher, and then I believe in the marketplace. It is why our country is so successful. I believe there are times where you assist—

**Mr McARTHUR**—But you are really saying that the cost of fire services and regulation is so much so that you said Ansett would not have gone broke if you had cut those costs. That is what you said.

**Mr Smith**—Ansett went broke because they did not even look at cost they were so badly managed.

**Mr McARTHUR**—No, you have said on the record that the safety regulations was one of their major factors and they would have survived.

**Mr Smith**—No, what I said was that if we brought the air space in, which was about \$700 million, when Ansett had over 50 per cent of the market, Ansett would have got over \$300 million out of that \$700 million saving. If you take \$300 million and then said could Ansett still have existed if they had another \$300 million—

**Mr McARTHUR**—It was a \$2 billion collapse.

**Mr Smith**—I know, but the amount missing over 10 years was about \$900 million. The reason Ansett collapsed is they did not keep their costs below their income. It is as simple as that. If they had been able to increase their income, not really possible—

**CHAIR**—That would have been one component of it.

**Mr Smith**—It was a major component. I can assure you that with Ansett, and it's the whole problem with our industry at the moment, they never focused on cost. You will find what I am saying, I get virtually no support from Qantas.

**Mr McARTHUR**—Thank you, Chairman, I am happy.

**Mr HAASE**—I am pleased you were discussing the issue of Karratha airport. It has been a vexed question with local people being convinced that we must maintain the ground fire fighting services because without them flying will be less safe. I would like you to elaborate, if you would, about 300,000 passengers being the level over which ground services are required and under which are not required. How do you compare that rationale of requiring a particular service above so many movements with CASA's attitude where there is no consideration of costs or any rationale when applying or developing those standards?

**Mr Smith**—They state that they do not look at cost, but at the present time they have part 121 A and B and part 91 all based on cost. It is quite amazing to have this ideological movement where you do not look at cost but your rules—if you drive a motor vehicle, there is one level of safety. When you are flying a plane, there are quite different levels of safety depending on, dare I say it, affordability. Those rules which were written are ICAO based and that says you need a fire fighting service at a certain size is exactly that—it is looking at cost and benefit, and nothing else. It is basically saying, 'If we put a fire fighting service at every country airport, we will increase cost but we will reduce the participation, the number of people flying, so much that that would be too great.' So what your decision is, if you tell the truth, is constantly balancing benefit and cost, like everything else in life. At Karratha, I would say, 'Let us look at the statistics, how many lives are saved by a fire engine at the airport?' The first thing you would find is that most crashes are not on the airport. They are off the airport.

**Mr HAASE**—I have heard, and you may be able to confirm this, that ground based fire fighting services at airports have not saved a life.

**Mr Smith**—Never in Australia. But we could have a jumbo jet crash tomorrow so they could do it. It is like all of aviation and everything in life, you are playing cost and benefit. There is absolutely no doubt that, if you want to have something at Karratha, it should be the local airport that is employing grounds people having a small Isuzu truck that will do 98 per cent of what the hugely expensive one does. That is location specific up there, so they are paying I think it is some \$25 a head. That money can be reduced in price which will get more people flying there or, if the airport wants to keep the same price, they can spend it on other safety features—dare I say it a certified air ground operator. That will prevent the accident from happening.

Fire fighting is after the accident happens. It is a matter of saying, ‘Where do we spend the money?’ The reason you have the fire fighting there is there is a very strong union which keeps its positions employed there, and good on them. I reckon that is good, but you need to have other people who say, ‘That is maybe not the best way to spend the money.’

**CHAIR**—We are out of time. One quick one from Mr Secker and then one from Mr Shultz.

**Mr SECKER**—Do aircraft such as Jet Streams and Metros need two pilots for most services?

**Mr Smith**—Yes, I reckon 19 passengers can afford to have two pilots. The cost is about 50c a ticket extra, so it is nothing.

**Mr SECKER**—What do you think of Airservices Australia’s proposal to consolidate Sydney, Perth, Adelaide in the Melbourne tower?

**Mr Smith**—It is all the wrong way around. Very quickly, what I would do with Airservices is that I would not sell it off; I would not privatise it. I would form it into two separate government owned businesses, one north and one south, and then let them compete with each other.

They could quote on any tower. You would end up with a really good managing director, at least in one of them, who would say, ‘Hold on, this is unbelievably inefficient. I can do it smarter than the other one would have to compete.’ That would give us some great efficiencies.

**Mr SECKER**—What about the principle of having just the two hubs for air services? What is your view on that?

**Mr Smith**—That is great. I was the instigator of the TAAATS system, as you would know, as chairman. To have two systems, it means that if one burns down if there is a catastrophe, then you can do it from the other. It is not going to one, which I think some countries have done.

**Ms O’BYRNE**—I think what is meant is consolidating in Melbourne and Brisbane so that you are removing a full radar facility at Sydney.

**Mr Smith**—I will tell you why I would not do that. What I would do with Sydney is give the responsibility for the terminal ATC to Sydney airport because they would go out and get a quote. I believe if the quote said it is cheaper to run it in Melbourne, I would do that, but I reckon the quote would be to run it here at a third of the price. That is where the failing is.

For Birmingham airport, the Birmingham council owns the airport, as far as I know, and every five years they go out and get the best quote to run the terminal ATC services. At the moment it is the British CAA or the equivalent—it is now an industry owned organisation. You just do what you do with maintenance or with anything or what you do when you decide to buy an air ticket. Presumably, if you are going to go overseas, you can buy an expensive Qantas ticket because you know it is very safe or you can buy a cheaper ticket and take three people for the same price in an airline that spends less money on safety.

**Mr SECKER**—One very quick one, Mr Chairman: what is going to happen to regional air services when all these nine-seater aircraft get too old? Is there going to be a replacement?

**Mr Smith**—I think so, if there is a market for them. I have a Cessna Caravan which is a nine-seat turbine aircraft—extremely safe—and people will move to that. You need big savings to be able to pay for a Caravan.

**CHAIR**—If I can interrupt you there, the evidence the committee has is that the piston-driven aircraft that are in the market at present cost about \$300,000 to \$400,000 and the aircraft that will replace them will cost \$3 million to \$4 million. Mr Secker's question is: how do we translate that into the bush? What is your view on that?

**Mr Smith**—You get costs down, because you will see when we get these figures that the actual capital cost of the aircraft is a very small part of the whole catastrophe of running an airline. All you have to do is say, 'Can we somehow get the cost down so we can run 19-passenger planes to these airports?'—in many cases you can—'or can we run the replacement, a \$1.2 million Caravan instead of a \$300,000 Chieftain?' I believe we can.

Down in the Gippsland Valley at the moment is an Australian company making this beautiful little aeroplane, which is extremely safe and it is brand new. But that is where you just need to be smart and say, 'How can we operate those aircraft at the minimum cost so you get a really high level of safety for seven or eight passengers?' If it is safer than going by road, why would you not do it? But it will not be as safe as going by 747.

**Mr SCHULTZ**—Dick's comments led up to an observation that I want to make and then a question I want to ask. One of my friends and a number of constituents were killed in the Monarch air crash. The main problem centred around the lead-up to that was deregulation where a number of small airlines were put into competition on a route that could not sustain one, and that now has been compounded by overregulation. So you have a combination of deregulation and overregulation creating enormous pressures on airlines to cut costs because of the costs being imposed on them. Do you agree with that? That is the first question.

My second point is: how far do we go with subsidies to create efficiencies like that in the industry? It is my view that small aircraft businesses are generally headed by responsible people interested in aviation. They are in themselves aware of their responsibility for safety to keep their businesses alive and they are being restricted from doing that as business people because of the overregulation that is coming in. I suppose my question is: do you think it is possible for organisations like CASA to back off on some of the regulations that they are putting on these people and still maintain the safety levels that we have in this country today, and which we are acknowledged for having—



**Mr Smith**—Yes, if they use a proper enforcement system. The problem with Monarch was that they wrote backwards and forwards for two years about non-compliance and never took any action. They are doing exactly the same today. We introduced an administrative fine system, and I think they have used it three or four times secretly. I cannot find out who they have used it with.

I will mention very quickly the example of a friend of mine who has a truck company in one of the country towns in Victoria. He said, ‘Dick, we do not have air operators certificates, we do not have a CASA, we do not have anything. But crikey if me or my competitor drives the truck with bad brakes, someone talks and we are pulled over within a day by the police. And the driver gets some points and all the rest of it.’ That is all that would have to happen here in aviation, but it still is not because it is very much a mates’ network. These people go and they try and help them and all the rest of it; whereas all they should be doing is saying, ‘No.’ That is if the rules are reasonable. The reason they have to help them at the moment is the rules are so ridiculous that no-one complies. So what you need are rules which are absolutely based on cost. We want to put right in the front of the act that cost and safety are the two things we are going to look at.

**CHAIR**—On that note, I am sorry, we have colleagues waiting in the corridor. I would like to thank you, Mr Smith, for coming. Your evidence as always is stimulating. We trust we can come back to you. I think this has been a very stimulating session. If we get a gap somewhere between now and when we get into the consideration phase, we might call you back—perhaps here or in Sydney.

**Mr Smith**—Any time, any place.

**CHAIR**—You have given us some documents. Would someone please move that we incorporate that into the record as an exhibit?

**Mr HAASE**—I will.

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

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.

**Committee adjourned at 10.58 a.m.**