

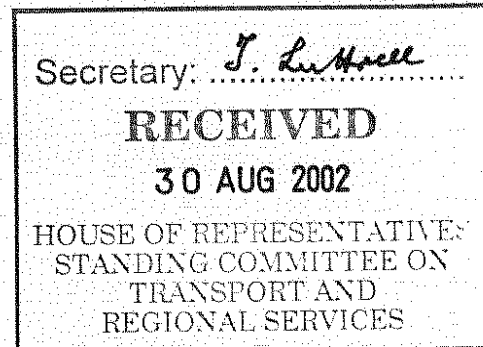


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27 August, 2002

Mr. Ian Dundas
Secretary
House of Representatives Standing Committee
on Transport and Regional Services
Parliament House
CANBERRA ACT 2600



Dear Mr. Dundas,

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

Please find enclosed the submission from the Australian Airports Association on the subject inquiry. Should there be any further queries, please do not hesitate to telephone me on the above number at any time.

As mentioned in the submission, the Chairman of the Association, Cr. Peter Byrne LLB, from the Rural City of Mildura in Victoria, and I, would welcome an opportunity to meet with the Committee and to discuss in more detail some of the issues and concerns highlighted in our submission. We await your further advice in due course.

In the meantime, we extend every good wish to you and the Committee with your deliberations and look forward with keen interest to any consequential recommendations.

Yours sincerely,

Ken Keech
Chief Executive

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SUBMISSION TO
HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
TRANSPORT AND REGIONAL SERVICES

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

AUGUST 2002

INTRODUCTION:

This submission to the Inquiry on behalf of the membership of the Australian Airports Association takes a more general view of the issues identified within "The Terms of Reference". It is important to note that the Association placed the "Terms of Reference" for the Inquiry on its Website within the confidential file, (only accessible to the membership) and members were encouraged to make their own individual written submission to the Inquiry by the due date.

To ensure that the Inquiry received a diverse and comprehensive range of views, the Association recommended that each individual response should focus on the issues and their impacts relative to the local community served by the responding airport member. Anecdotal advice to date seems to indicate that the Inquiry may well expect a significant response from the aerodrome/airport members of the Australian Airports Association.

BACKGROUND:

The Australian Airports Association (AAA) was founded in 1982 in recognition of the real need for the one coherent, cohesive, consistent and vital voice for all aerodromes and airports throughout Australia. It is a non-profit organisation that represents the interests of over 255 airports Australia-wide, from the local country council-owned and operated community service landing strip, to the major privatised international gateway airports. There are a further 60 Corporate Category members representing major stakeholders in the Australian aviation industry.

The Charter of the AAA is to facilitate co-operation among all member airports and their many and varied partners in Australian aviation, whilst maintaining an air transport system that is safe, secure, environmentally responsible and efficient for the benefit of all Australians.

CURRENT SITUATION:

As previously mentioned, the AAA represents over 255 airports across Australia and within its territories. Of those 255 airports, approximately 220 member airports are actually located in rural and/or regional Australia and are owned and operated by the local community through their Shire or Council (Local Government Authority) (LGA). As might be expected, much of the AAA's activities are centred on supporting aviation activities throughout regional Australia.

The demise of the Ansett Group of Airlines has left many communities without what they perceive to be adequate access to RPT and/or charter operations. Furthermore, as a result of the Ansett collapse, airports (read communities through their LGA) throughout regional Australia, are owed just over \$12 million as unsecured creditors, with no likelihood of ever receiving payment. This has placed quite an overwhelming financial burden on some communities where the shortfall in their airport revenue will have to be met.

At the time of writing there are some positive signs that overall air traffic is on the improve, although the AAA contends it is in the context of at least some 20% or more less seats available (capacity) than at the same time last year. Rural and regional traffic levels are estimated to be still down by 30% for over the same period with some regional airports experiencing better than average growth with just the one RPT carrier, where in the past there was two competing airlines. Some other regional airports (communities) with serious cutbacks on capacity are on their knees!

The current situation regarding regional RPT operations throughout the country is still somewhat confused. The recent acquisition of Kendell and Hazelton by Australia-wide has already seen some significant cutbacks in services to regional centres. There is an expectation that more cuts (the carriers prefer to use the term 'schedule rationalisation') in regional services are on the way.

The intercession of the Commonwealth Government in providing operational subsidies to Kendell and Hazelton when Ansett collapsed, seemed like a positive initiative at the time, to protect the interests and RPT access for regional communities. Those regional communities are now facing the delayed reality of hard-headed commercial decisions by the airlines. At the time there were a number of third level operators who were seriously considering expanding their operations, re-equipping and stepping up to the mark to fill the void left by the Ansett Group's demise. The simple fact is that by the Government providing subsidies to the incumbent airlines, there was no way the smaller unsubsidised carriers could compete on either service or ticket price. We see this as short-term gain for some regional communities, with the potential for those communities to eventually experience long-term pain.

Currently there are major concerns within some regional communities on the subject of airport/aviation security.

Our advice to members to date, is that assessment and any decision for any regulatory changes to include passenger screening at more regional airports, is a matter for the Aviation Security Division of the Department of Transport and Regional Services.

TERMS OF REFERENCE:

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

This is a very subjective question. If it were asked a year ago, in general terms the answer would have been in the affirmative. Although it is important to acknowledge that some communities at that time (and still do) had a view that their access (if any at all) to commercial RPT services was 'inadequate' when the commercial reality may well have dictated otherwise.

Unless certain city pairings are subsidised (by whomsoever) there is no 'community service' imperative for any airline to continue to operate if it cannot do so at a profit. Those State Governments that have retained control of intra-state air services provide a 'quasi subsidy' in terms of denying competition on certain routes. This is but one way of ensuring 'adequacy' of commercial air service for some rural and regional communities.

The issue of commercial air services in rural and regional Australia is presently undergoing great change and a service that is today perceived as adequate for a particular community may be withdrawn by the airline for 'commercial reasons' at a moment's notice. As a consequence, rural and regional communities are much more vulnerable to the commercial vagaries of the airlines than the major populated cities.

➤ *Policies and measures required to assist in the development of regional air services, including:*

- *regional hub services*

Given historic and more current traffic patterns there are very few regional airports that provide a suitable hub for on-carriage or interlining to a major centre airport. As an example, New South Wales is a State where there are some small regional hubs with interlining to Sydney. This situation arose as a result of the limited availability of suitable slots at Sydney Airport – a unique and unfortunate consequence of a curfew and an unrealistic threshold on the number of aircraft movements per hour. Canberra airport has also been considered as a 'regional hub' in terms of access to Sydney and on-carriage to Melbourne and Brisbane.

A recent Commonwealth Government Discussion Paper on a 10-year Plan for Tourism alluded to the fact that direct international services to some regional centres is a benchmark for success. The AAA view is that regional centres can best access the benefits from tourism (whilst retaining vital air service links for the local community) through efficient, competitive, safe and accessible domestic RPT services to the major city hubs.

These major city hubs have developed as a result of economies of scale that derive from being host to significant base populations which underpin outbound flows, as well as ticket yields. These vital factors are not accessible to regional centres.

The timings of regional services to and from the major city airports is an important factor for success. Regional originating passengers should be able to have at least a full day in which to conduct their business, attend medical appointments or other activities at the major city centre.

The AAA encourages competition among member airports, and strongly opposes any market or regulatory intervention by Government to direct traffic in support of any artificially-created hub. Simply put, tourists vote with their feet and a bum in a seat to destinations to which they are attracted. Whilst on the subject of hubs and their likely impact on tourism (if at all) sometimes of necessity, airport owners such as shires and councils, find themselves involved in a delicate balancing act to meet the demands and expectations of the local community whilst also adopting a responsible approach to tourism. For many rural and regional communities throughout Australia, international tourism as such only represents the 'icing on the cake of economic benefit'.

- *small scale owner/operator services*

It is the view of the AAA that both Federal and State/Territory Governments should make every effort to encourage the development of further third level RPT operators. Contrary to popular belief, we consider that in many instances these particular carriers, operating at the financial margin, provide a valuable community service that requires formal recognition.

The demise of the Ansett Group of Airlines also had an adverse effect on a number of the 'small scale owner/operator services'. We are well aware that some of these operators were owed amounts from around \$150,000 to \$2M. So much for interlining and the timely exchange of flight coupons!

Small scale owner/operators that provide a valuable rural/regional community service, that fulfil all their statutory responsibilities in terms of CASA and their AOC, should be nurtured and given regulatory protection commensurate with their operational environment and exposure. If necessary, as part of any 'rationalisation' and 'pricing' program they should be exempted from certain provisions of the Trade Practices Act.

- *the development of most suitable aircraft types*

The answer to this question is probably best left to the commercial judgement of each individual operator and the level of risk they are prepared to accept. The issue of ageing aircraft in rural and regional RPT service should be seriously addressed in this Inquiry. Questions from the Committee should be directed to the Regional Aviation Association of Australia (RAAA) as well as to the established third level operators.

Re-equipment programs to ensure continuity of service for rural and regional communities are at great risk. The current depreciation and capital gains tax laws represent significant constraint. The changes to the Tax Act in 1998 removed the carriers' ability of 'rolling over' accumulated depreciation from an old aircraft being sold on the new equipment and now requires capital gains tax to be paid on the 'profit' of the sale of the older aircraft. The current taxation regime for the small operators simply means that in many instances they cannot afford to upgrade to the most suitable 'new generation' aircraft types.

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

In most instances the adequacy of air and sea services to the major populated islands are complementary. During the 'traditional tourist' peak times to most islands, the airlines schedule extra capacity to fulfil passenger demand. Likewise, ferry and sea cargo services ramp up capacity as and when determined by the market. The recent acquisition by the Tasmanian Government of the two new, and very large, roll-on, roll-off ferries for service between Melbourne and Devonport is an example of meeting current demand and planning for the future. Unfortunately shipping companies do not enjoy the scheduling flexibility that airlines are able to deploy at short notice.

There are a number of Queensland 'island destinations' that rely purely on tourist traffic, most of whom arrive by air. The necessary 'goods and chattels' each island needs to service those tourists is provided by a regular ferry service. This is a prime example of how complementary sea and air operations can successfully supplement one another.

- *Interconnectivity between regional air transport systems, major national air services and international services (including on-carriage, through ticketing, freight handling, timetabling and airport slotting).*

If this question had been posed for comment twelve months ago, the response would have been decidedly different to what follows. Whether we like it or not, the reality is that the whole commercial aviation landscape in Australia has changed as a result of the demise of Ansett. At the time of preparing this submission the industry was still enmeshed in uncertainty and turmoil. It may well be that by the time the Inquiry embarks on its public hearings much of what follows will be redundant.

It is estimated that over 30% of all passengers commencing their travel on a regional airlines service do so to connect with another airline and another service to another (final) destination. Of necessity, most regional services either commence or conclude at a major airport serviced by one of the domestic trunk carriers. In the industry, this is referred to as on-carriage and is a valuable source of revenue, particularly to the major carrier involved, because usually the sector length (fare!) is greater than that undertaken on the regional carrier.

Anecdotal evidence suggests that currently both Qantas and Virgin, given their 'dominance' in a highly capacity-constrained market, are paying little or no attention to on-carriage opportunities from the third level operators. Although it must be acknowledged that Qantas, through their wholly-owned subsidiary airlines, do have a high level of 'convenient on-carriage opportunities' at Melbourne, Sydney and Brisbane airports. There is a consistent view that passengers originating their travel in regional Australia are paid no attention whatsoever and must arrange their travel plans in accordance with the scheduling priorities determined by the major airlines. International carriers servicing Australia, in the scheme of things, don't give two hoots for the air travel requirements and on-carriage convenience of regional Australians. Their scheduling opportunities are solely centred on slot availability at Sydney Airport.

'Seamless travel' as such for regional originating passengers is currently somewhat dysfunctional. Interline ticketing agreements between many of the third level operators and the major carriers are still subject to ongoing negotiation. On this issue it is also important to remind ourselves of how much money many of the regional airlines lost due to on-carriage and 'interlining' as a result of the Ansett demise. Freight handling arrangements, particularly for small parcel priority consignments, are constrained in much the same way as passenger services. Given the type of aircraft in regional airline service there is simply not the capacity to shift large quantities of bulk and/or perishable cargo. Most of this cargo is transported by road to the major capital city airports where there are specialised cargo-handling facilities, coupled with sufficient capacity on large jet aircraft to provide virtually an overnight service to anywhere in the world.

The issue of regional airlines having access to a nationwide Computer Reservation System (CRS) is paramount if they are to be successful in conducting their RPT operations. The way in which CRSs work can have a major impact on the sustainability of any new regional RPT operator over any two city pairs. Historically, both Qantas and Ansett have had the ultimate local control of the two main worldwide CRSs – namely Galileo and Sabre.

In 1993, the then Trade Practices Commission (TPC) granted an authorisation for the operation of Sabre and Galileo, exempting them from some of the restrictive trading provisions of the then Trade Practices Act. That application by the carriers concerned was accompanied by a code of conduct. The TPC concluded that, on balance, the perceived advantages of the code of conduct outweighed its potential anti-competitive effects. The authorisation expired in March 1997 and has not been renewed.

There is also a CRS code of conduct, drawn up by the International Civil Aviation Organisation (ICAO). Australia is a signatory state to the conventions of the ICAO. According to that code of conduct an ideal CRS should have a visual display which is fair, non-discriminatory, comprehensive and neutral. It should not favour particular airlines, or airports. It should list flight options according to objective criteria, such as minimum elapsed flying times, direct flights and those with minimum intermediate stops preferred.

These features are particularly important for regional Australia, given the historical dominance of the major airlines in the areas of ownership of regional airlines, ownership or control of travel agents (the product distribution system), ownership or control of private airport facilities, and ownership of the reservations systems themselves. A number of specific examples demonstrate that these ideal CRS features do not always apply in practice, despite the previous code of conduct and its international counterpart.

Of necessity, Australian aviation flight patterns have traditionally focussed on the capital cities, with most regional air services coming to capital cities (refer to previous comments on hubbing) either as a final destination or, as mentioned earlier, to enable passengers to make onward connections. All airport owners and operators are keen to further develop regional services, but it appears that the major airlines are not really interested in routes with less than 50,000 passengers per annum, because their smallest existing or planned aircraft, 34 seaters, can service a market of this size.

This provides an opportunity for new independent regional airlines to emerge. They will be more difficult to establish or sustain if the CRSs do not display their flights or are biased against them – just ask Golden Eagle and Broome Airlines in Western Australia, or Shepparton Airlines in Victoria. Unfortunately there are far too many similar stories to be told by emerging regional airlines and perhaps the committee might pursue this issue with the RAAA during the course of the Public Hearings.

- *The role of all three levels of Government in supporting and assisting the development of regional air services and island transport systems.*

The first and most important point the Association would wish to make on this subject is that Australia now needs a National Aviation Policy, inclusive of all the many and varied stakeholders. The AAA Board is of the view that it is clearly the responsibility of the Commonwealth Government to initiate a consultative process and to play a leadership role in policy formulation. House of Representatives Inquiries into just regional aviation issues is not the answer – it is just another part of the large jigsaw puzzle that represents a national aviation industry – an industry for which there is yet to be determined a national policy.

The role of the State and Territory Governments should be to complement Commonwealth initiatives and to adapt them as appropriate for the benefit of their State/Territory communities. It may well be, for any number of reasons, that a State/Territory Government chooses to provide some sort of 'financial assistance' to regional airlines over certain routes. In some other instances, they may 'protect' the continuity of service by legislating against 'competition' over certain routes. In any event, the State/Territory Governments have to determine what formula best suits their communities and insodoing fulfils their community service obligations.

In terms of fulfilling community service obligations, there are numerous instances of similar stories to the one that follows. A number of State Government Departments within a particular State, annually spend hundreds of thousands of dollars on chartering air services for medical specialists to fly into an airport (community) that does not have an RPT operation. This same State Government, via another department, rejected an application by a carrier to operate an RPT service to the airport on the basis of a subsidy that was well under \$100,000. This is a prime example of a lack of co-ordination and understanding within some State Governments as to the impact of regional RPT services on seemingly unrelated activity.

Given the differences in geographic size and community concentration with the various States and Territories, there can be no 'one size fits all' formula for the way in which the State and Territory Governments support regional aviation. Obviously for those smaller (geographically speaking) States, intra-state regional air services are not going to be as important and vital as for say, Western Australia or Queensland.

The regional airlines interface with the third level of Government, Local Government Authority, such as Shires and Councils, provides the major opportunity for local community impact. Going back some years the Federal Government introduced the ALOPS scheme whereby many communities throughout rural and regional Australia, through the transfer of airport ownership to the LGA, were 'forced' to take over the responsibilities for the efficient and safe running of their local airport, if for no other reason than to supposedly 'protect' RPT and RFDS access for their ratepayers.

In most instances, there was at that time, insufficient local expertise, knowledge and financial resources to adequately transfer these rather onerous responsibilities. The attaching financial olive branch, handed out at the time by the then Federal Government, on the surface may have seemed somewhat generous and satisfactory. However, as we now know, the financial support was totally insufficient to do the job for which it was intended. Unfortunately some of those new local Government airport owners have now had to spend most of the money that was to have been set aside for specific aerodrome or airport maintenance and future upgrade programs.

With this background, it is not hard to understand why some LGAs, now many years further on, are delving into their council's consolidated revenue to cover costs associated with the running of their local airport and to fulfil CASA statutory obligations. To make matters worse, many rural and regional airports do not have access to sufficient income or revenue-producing streams to cover their airport's basic operating costs, and are never likely to, let alone put money aside for maintenance and upgrade programs.

Therefore, understandably, many ratepayers are not all that happy, particularly within Shires with a small population base, to see large amounts of precious Council money directed to maintaining an airport, a facility which many of them may never choose to use.

All council-owned and operated aerodromes/airports in support of rural and regional aviation, face the challenge of maintaining the right revenue and cost absorption balance on what is fair and reasonable in the commercial sense and perhaps more importantly, what is fair and reasonable in the community service sense. It is acknowledged that there are a great many rural and regional airports, that are not serviced by RPT carriers, and that for one reason or another, do not have access to commercial revenue and income streams to assist with defraying some of the costs of maintaining the facility. It is also generally acknowledged that these types of airports fulfil a valuable community social service obligation deserving of some special recognition and appropriate compensation. The fulfilment of the community and social service aspect is not confined to just the relevant local ratepayer. Should you live in suburban Sydney and if you've had the unfortunate experience of being involved in a serious motor vehicle accident in the north-west of the State, requiring the use of an air ambulance, you would no doubt be sympathetic as to the ongoing necessity for the maintenance of these airfields.

One issue requiring acknowledgement and comment relates to landing fees charged at rural and regional airports throughout Australia. Last year the AAA conducted a survey of those airports, and the average cost component for landing charges and passenger service fees represented less than 5% of the value of the actual economy class ticket price. Not an insignificant amount, but it by no means represents an impediment to the development of RPT regional aviation. As an example, the charges at Tamworth, which is an important regional airport within NSW, represent just 4% of the normal return economy class airfare to Sydney.

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

In view of comments made earlier in this paper, there is little doubt that the major air transport carriers are only interested in 'cherry-picking' those regional routes that suit their aircraft type and demographic market mix. They do not believe that they have any social service obligations in support of regional aviation and their interest in such activity is only stimulated by the impact it might have on their balance sheets.

CONCLUSION:

The future of aviation is the future of Australia!

For sometime the AAA Board, and its elected Chairman, Cr. Peter Byrne LLB, from the Rural City of Mildura, Victoria, have been canvassing the need for the development of a National Aviation Policy.

It is our expectation that a positive outcome from this Inquiry will be a recommendation that a process be established to develop a National Aviation Policy as a matter of priority. A suitable stakeholder 'template' for this process has already been successfully developed.

The 'Co-ordinating Catchment Management Report of the Inquiry into Catchment Management' by the House of Representatives Standing Committee on Environment and Heritage, chaired by the Hon. I.R. Causley MP, provides a 'template' worthy of the consideration of this Inquiry.

That document refreshingly takes a national approach to the whole question of salinity and land management, recommending national solutions to what hitherto has been approached by State Governments on a perceived needs basis. It is the view of the AAA that the Australian aviation industry has the will and the structure to undertake a similar consultative process.

Finally, the elected Chairman and Chief Executive Officer of the Australian Airports Association would welcome the opportunity to personally meet with the Committee of Inquiry should it be considered in any way helpful with their assessment of the issues confronting regional aviation services in Australia.