
The Parliament of the Commonwealth of Australia

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

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

**House of Representatives
Standing Committee on Transport and Regional Services**

November 2003
Canberra

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Contents

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

THE REPORT

1 Overview.....	1
Introduction.....	1
Issues affecting regional aviation services.....	2
Inquiry findings.....	3
Inquiry background.....	4
Conduct of the inquiry.....	5
Structure of the report.....	5
2 Regional Air Services.....	7
Introduction.....	7
History of regional air services.....	7
Loss of regional aviation services.....	10
Recent losses of services.....	11
Cessation of regional routes.....	12
Regional Express.....	12

Airlines of South Australia and Emu Airlines.....	13
Other failed routes.....	14
Collapse of regional operators.....	15
Ansett Australia.....	15
Compass Airlines.....	16
Compass II.....	16
Impulse Airlines.....	17
Smaller regional operators.....	17
Horizon Airlines.....	19
Current operations	20
Major carriers and their subsidiaries.....	20
Qantas and QantasLink.....	20
Virgin Blue.....	22
Regional carriers.....	23
Macair Airlines Pty Ltd.....	23
Tasair Pty Ltd.....	24
Brindabella Airlines.....	24
Air Link Pty Ltd.....	24
Airnorth Regional.....	25
Re-birthed regional carriers.....	25
Regional Express.....	25
Alliance Airlines.....	26
Why regional air services are important	26
Economic and social wellbeing of regional and remote communities.....	27
Community Service Obligation.....	29
3 The operating environment for regional air services	35
Introduction	35
Changes in the demand for regional aviation services	36
The supply of regional aviation services	38
Costs.....	39
Route factors	40
Sustainability of regional routes.....	40
Regional hub services	46

Predatory behaviour of larger airlines	50
Access and interoperability with major carriers	51
Agreements between airlines.....	51
Computerised reservation systems	53
Access to finance.....	55
Possible solutions.....	57
A community airline cooperative.....	57
Government programs	59
Business skills of small operators	59
Possible solutions.....	62
Skilled labour development	63
4 Issues facing regional communities	67
Community expectations	67
Adequacy of commercial air services in regional and rural Australia	68
Adequacy of services.....	69
Expectations	72
Aerodrome Local Ownership Plan	73
Regional Airport Survey	73
How the plan worked.....	74
Impact of local ownership of airports.....	77
Positive effects	77
Negative effects.....	79
Those prepared to subsidise the airport.....	80
Ongoing maintenance costs and upgrade of regional airports	81
Capital upgrades are unaffordable	85
Management and technical skills.....	86
Consequences.....	87
Possible solutions	87
Current programs.....	87
Local Government landing fees.....	87
Commonwealth Government programs	89
Commonwealth resuming control of airports	91
Change in Commonwealth policy.....	92

Commonwealth Review of ALOP	93
Commonwealth financial assistance	93
Consolidation of regional airports	97
5 Island and remote communities	101
Commonwealth transport infrastructure policy and application to remote and island communities	102
Remote communities	104
Northern Territory	104
Western Australia	105
Queensland.....	107
Major populated islands	107
Tasmania's passenger and freight schemes.....	107
Flinders Island.....	109
Background.....	109
Current services, needs and expectations.....	109
Possible solutions.....	111
King Island	112
Background.....	112
Current services, needs and expectations.....	112
Possible solutions.....	114
Kangaroo Island.....	115
Background.....	115
Current services, needs and expectations.....	115
Possible solutions.....	120
Norfolk Island.....	121
Background.....	121
Current services, needs and expectations.....	121
Tiwi Islands	126
Background.....	126
Current services, needs and expectations.....	126
Possible solutions.....	127
Cocos (Keeling) Islands	128
Background.....	128

Current services, needs and expectations.....	128
Torres Strait Islands	129
Background.....	129
Current services, needs and expectations.....	129
Possible solutions.....	131
Lord Howe Island.....	131
Background.....	131
Current services, needs and expectations.....	131
Christmas Island	132
Background.....	132
Current services, needs and expectations.....	132
6 Government policies: regulation, and taxes and charges	133
Introduction	133
Australia’s aviation policy	134
Impact of government policies on the sustainability of regional air routes.....	136
National Competition Policy issues.....	137
Other policy issues	140
Government coordination of aviation policy.....	141
Concerns about national aviation policy	141
Machinery of government arrangements for aviation policy.....	143
Attention to regional aviation issues	144
Conflicts with transport policies	146
Possible solutions.....	147
Improving data for policy formulation.....	147
Airservices Australia.....	149
Aviation rescue and fire fighting services	152
Cost of rescue and fire fighting services	152
Conditions for providing rescue and fire fighting services.....	154
Impact of taxation on aircraft replacement.....	159
Ageing aircraft.....	159
Impact of taxation arrangements	162
Impact of fuel costs.....	167
Government travel contracts.....	169

Airport costs.....	175
Airport landing and takeoff slots	178
7 The regulator – Civil Aviation Safety Authority	181
Impact of regulation	182
Regulation reform	182
Cost impacts of regulation changes.....	183
Regulation impact assessment.....	186
CASA processes.....	189
CASA's responsiveness to clients and the cost of its services	190
Quality of CASA's advice to industry	193
Industry consultation.....	196
A differential approach to firms in the industry	199
Attitude of CASA's officers	202
CASA's future role: enforcer or leader.....	207

APPENDICES

Appendix A – List of submissions.....	213
Appendix B – List of exhibits	221
Appendix C – List of public hearings	227
Appendix D - Regional Airport Survey.....	239
Survey aims	239
Who was surveyed	239
Survey design	240
Results	240
Taxes and levies	240
Airport operations and maintenance costs.....	241
Airport profit and loss	242

Appendix E – Survey of Regional Airports	249
Fees and charges.....	249
RPT revenue passengers.....	249
Operation and management	250
Airlines currently serving the location	250
Appendix F - Aviation policies of Australia’s states and territories	251
Australian Capital Territory	251
New South Wales	252
Northern Territory	253
Queensland	253
South Australia	255
Tasmania	256
Victoria	257
Western Australia	258
Appendix G - Australia’s ageing fleet of small aircraft and possible replacements	261



Foreword

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Paul Neville MP
Committee Chair



Membership of the Committee

Chair Mr Paul Neville MP

Deputy Chair Mr Steve Gibbons MP

Members Mr Peter Andren MP

Mr Stewart McArthur MP

Mr Barry Haase MP

Mr Frank Mossfield MP

Mrs Sussan Ley MP

Mr Alby Schultz MP

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

Mr Patrick Secker MP

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

Committee Secretariat

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



Terms of reference

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

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



List of abbreviations

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

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



List of recommendations

3 The operating environment for regional air services

Recommendation 1 55

The committee recommends that the Australian Competition and Consumer Commission:

- Investigate the anti-competitive behaviour of the operators of computerised reservation systems as it affects regional airlines;
- Report its findings by the end of 2004; and
- Take action against any party found to be abusing its market position with regard to the operation of computerised reservation systems.

Recommendation 2 63

The committee recommends that the Department of Transport and Regional Services and the Department of Education, Science and Training in conjunction with the Regional Aviation Association of Australia and other relevant industry bodies:

- Identify management training needs of the regional airline industry;
- Develop and deliver an awareness program that encourages greater uptake of management training in the industry; and
- Develop and deliver a program that improves the business management skills in the industry.

Recommendation 3 66

The committee recommends that the Department of Transport and Regional Services:

- Investigate the issue of pilot shortage in regional airlines;
- Report on its findings regarding the shortage of pilots by the end of 2004; and
- Develop an appropriate program to expand pilot training in regional Australia along the lines of its program to expand aircraft maintenance training, if a pilot shortage is identified.

4 Issues facing regional communities

Recommendation 4 91

The committee recommends that the Department of Transport and Regional Services ensure that small and medium regional aviation enterprises are well represented in the initiatives and benefit directly from the initiatives arising from the Commonwealth's action plan for its *Stronger Regions: A Stronger Australia* framework.

Recommendation 5 96

The committee recommends a new airport ownership subsidy scheme covering capital works and essential maintenance, as follows:

- For communities with a population above 30 000, assistance is to be provided only on special one-off cases where there is demonstrable evidence of the inability to fund a major runway upgrade or terminal extension; and
- Communities with a population under 30 000, supporting a regional or hub airport with RPT services, to receive a 50 per cent subsidy; and
- Still smaller communities supporting an airport with low RPT, charter and air ambulance to receive a 33 per cent subsidy.

Recommendation 6 96

In the absence of an airport local ownership assistance program similar to that outlined above, the committee recommends that the Commonwealth resume ownership and funding of all essential airports in communities with a population under 30 000.

Recommendation 7 96

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

Recommendation 8 97

Subject to the findings of the Joint Statutory Committee on Public Accounts and Audit's inquiry *Review of Aviation Security In Australia*, the committee recommends that, for communities with a population under 30 000, the Commonwealth Government should assist with the provision of appropriate security measures where risk assessments indicate that security upgrades are required.

5 Island and remote communities

Recommendation 9 105

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

Recommendation 10 112

The committee recommends that the Department of Transport and Regional Services work with the Tasmanian Government to bring about an improvement in cargo services to Flinders Island.

Recommendation 11 121

The committee recommends that the Department of Transport and Regional Services works with the South Australian Government to examine the possible solutions suggested by the committee to improve ferry services and port and wharf facilities for Kangaroo Island, including:

- Introduction of fair competition; and
- State Government contribution to maintenance and upgrade of port and wharf facilities.

Recommendation 12 126

The Committee recommends that, as per the findings of the Commonwealth Grants Commission, Norfolk Island receive Commonwealth assistance in upgrading or renewing its shipping infrastructure facilities.

Recommendation 13 126

The Committee recommends that the Commonwealth Government accept the recommendations outlined in the *Delivering the Goods* report by the Joint Standing Committee on the National Capital and External Territories, especially in respect of an appropriate subsidised vessel for heavy freight.

Recommendation 14 128

The committee recommends that the Department of Transport and Regional Services works with the Northern Territory Government to conduct, on a subsidised trial basis, a passenger ferry service to the Tiwi Islands.

6 Government policies: regulation, and taxes and charges**Recommendation 15 139**

The committee recommends that the Commonwealth:

- Recognise the exceptional circumstances that exist in regional aviation markets in its review of state and territory compliance with National Competition Policy, and agree to states and territories regulating intra-state regional aviation markets where such exceptional circumstances exist; and
- Strengthen the public interest test of the National Competition Policy by specifically requiring regional aviation and island transport policies to be assessed against the interests of rural and regional communities.

Recommendation 16 149

The committee recommends that the Commonwealth:

- Provide the resources necessary to the Bureau of Transport and Regional Economics for the timely collection, interpretation and public provision of data and information, particularly though not exclusively, in regard to:
 - ⇒ consumers services and prices;
 - ⇒ congestion in the aviation system and interfaces;
 - ⇒ connectivity available to regional passengers from regional airlines;
 - ⇒ regional services activity;
 - ⇒ share of the domestic market held by each operator;

- ⇒ the origin and destination of domestic and regional trips;
 - ⇒ airport charges, including charges levied by regional airports; and
 - ⇒ air freight; and
- Through the Department of Transport and Regional Services, publicly report on the health of the regional aviation industry at least once every two years.

Recommendation 17 158

The committee recommends that the Department of Transport and Regional Services and Airservices Australia introduce a universal service charge for aviation rescue and fire fighting services at regional airports to reduce the wide disparity in the charges for those services and to reduce the overall impact of the charges on regional aviation costs.

Recommendation 18 158

The committee recommends that:

- The Department of Transport and Regional Services and Airservices Australia form a working group with key stakeholders (such as the relevant local government associations, town planning and standards bodies) to advise on the strategic and optimal co-location of fire fighting services; and
- Airservices Australia provide the initial aviation rescue and fire fighting equipment and crew training, at no cost, to communities where fire fighting services become co-located.

Recommendation 19 166

The committee recommends that the Department of the Treasury:

- Review the taxation arrangements relating to the replacement of small ageing aircraft by the end of 2004;
- Publicly report the findings of the review by the end of 2004; and
- If justified, introduce provisions in the taxation legislation that assist the owners of small ageing aircraft to replace these aircraft; or
- Introduce incentives to assist in the replacement of aged aircraft.

Recommendation 20 174

The committee recommends that the Department of Finance and Administration and the Department of Transport and Regional Services ensure that regional airlines have an equitable share of the Commonwealth's travel market by:

- Setting an objective share of key routes used by the Commonwealth and an overall share of the Commonwealth travel market, consistent with 'best fare of the day' and 'value for money';
- Auditing the compliance of Commonwealth departments and agencies with criteria based on 'objective share of key routes used by the Commonwealth', 'best fare of the day' and 'value for money'; and
- Publishing the results of the compliance audit.

Recommendation 21 175

The committee recommends that the Department of Finance and Administration monitor and report on the effectiveness of the 'best fare of the day' policy by:

- Conducting periodic, random and anonymous spot checks to determine the fare offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, and how this fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel; and
- Reporting the results of these spot checks to the Minister for Finance and the Minister for Transport and Regional Services.

Recommendation 22 180

The committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney airport and other capital city airports.

7 The regulator – Civil Aviation Safety Authority

Recommendation 23 189

The committee recommends that the Department of Transport and Regional Services:

- Verify the adequacy of regulation impact statements for amending aviation safety regulations prepared by the Civil Aviation Safety Authority; and
- Assess that the cost impacts calculated are reasonable and justified, taking into account the importance of regional aviation to regional, rural and remote communities.

Recommendation 24 193

The committee recommends that the Civil Aviation Safety Authority introduce into its service charter mandated response times and fixed and fair prices for its services.

Recommendation 25 196

The committee recommends that the Civil Aviation Safety Authority:

- Review its training processes to ensure consistency of the Civil Aviation Safety Authority’s interpretation of the law and regulations;
- Introduce an ongoing program of staff training in regulation interpretation to ensure improved consistency of the Civil Aviation Safety Authority’s interpretation of the law and regulations; and
- Regularly assess and record in its annual report, the levels of knowledge and competency of its staff in interpretation of the law and regulations.

Recommendation 26 198

The committee recommends that the Department of Transport and Regional Services:

- Conduct an annual confidential client satisfaction survey to test industry’s satisfaction with the services that the Civil Aviation Safety Authority delivers, and assess compliance with its service charter; and
- Publicly report the results of these surveys, ensuring that confidentiality is maintained.

Recommendation 27207

The committee recommends that:

- The Civil Aviation Safety Authority provide customer relations management training to its staff, particularly those in regional offices;
- The Commonwealth establish an Aviation Ombudsman, and ensure that this position is filled by an appropriately skilled person, to consider all aviation industry related complaints; and
- The duties of the Aviation Ombudsman would include, in addition to examining operational complaints, conducting independent surveys of industry, ensuring that the confidentiality of respondents is maintained. These surveys would assess the effectiveness of the Civil Aviation Safety Authority's measures to improve the consistency of its interpretation of aviation regulations.

Recommendation 28211

The committee recommends that:

- The Civil Aviation Safety Authority, in addition to enforcing aviation safety compliance, place greater focus on activities to assist industry players in complying voluntarily with the regulations; and
- The Australian National Audit Office periodically audit and report to Parliament on the Civil Aviation Safety Authority's:
 - ⇒ compliance with its service charter;
 - ⇒ fulfilment of fostering a culture of safety in the industry;
 - ⇒ policing the regulations to achieve aviation safety outcomes; and
 - ⇒ provision of information and education services provided jointly with the industry.

Overview

It is recognised that the regional aviation industry in Australia today is a strong reflection of the Government's competition policies over time ... Government taxes and levies ... now account for between 25 – 45% of many average airfares.¹

Introduction

- 1.1 Regional aviation services are vital to the economic and social well-being and development of Australia's regional and remote communities. To most communities, the local aerodrome is a symbol of their prosperity, and a generator of business in the surrounding region.
- 1.2 Nearly all communities wish to retain their local airport despite the cost of having them sometimes exceeding their direct income.
- 1.3 However, the economics of regional air services are posing a threat to their existence, and creating a pressure for their rationalisation.
- 1.4 The business costs of regional air services have been rising due to a number of factors. Some of the costs have come from the deregulation of the industry and increases in taxes. In combination with rising costs has been a general decline in demand for some air services.

1 Regional Aviation Association of Australia, submission no. 93, p. 2

Issues affecting regional aviation services

- 1.5 A regional airline is an airline performing regular public transport services and primarily servicing regional centres.² Regional aviation services are taken to mean regional airline services and services provided by regional airports.
- 1.6 To some extent, the current state of regional aviation services in Australia is a reflection of those policies and regional policy more broadly.
- 1.7 Regional aviation services grew rapidly in the 1950s when they received significant government funding and regulatory support. However, as part of Australia's microeconomic reform agenda, the Commonwealth sought to improve service quality and reduce airfares. It did this by deregulating the aviation industry and increasing competition commencing in the 1990s. Increased competition in the industry was intended to encourage efficient operators and innovation.
- 1.8 Initially this strategy appeared to yield benefits. However, a number of factors have combined to impede competition in the regional aviation sector and reduce the ability of the market to operate effectively. Taking their toll on the industry are the economics of marginal routes, competition from alternative means of transport, long term demographic changes in regional Australia, and the recent events of terrorism and the collapse of Ansett.
- 1.9 Competition policy can only be successful where the market is well developed and the industry structure is sound. Otherwise, government has a role to intervene in the market to ensure the delivery of those services. As the industry currently stands, only Australia's major trunk routes between capital cities and some larger regional centres such as Cairns, Coolangatta and Coffs Harbour can support unbridled competition.

2 Bureau of Transport and Regional Economics, *Avline*, Issue Two, April 2003, p. 15, <http://www.bte.gov.au>, last accessed 29 August 2003.

- 1.10 Market forces tend to fail on smaller routes where passenger numbers are lower and the aircraft serving them are smaller. The economics of operating small aircraft come into play and restrict the supply of air services. This is because as the size of aircraft declines the cost per passenger-kilometre increases. Where aircraft are carrying few passengers the costs begin to outstrip revenue.
- 1.11 Exacerbating the economics of smaller routes are up to 11 different taxes imposed by the three levels of government.
- 1.12 State governments have intervened in marginal regional air routes to improve their sustainability and keep the operators in business serving the communities. For example, the New South Wales Government regulates routes with up to 50 000 passengers per annum by allowing only one operator to provide services. In Queensland, the state government uses a competitive tendering system to select the operators for marginal regional routes.
- 1.13 Remote communities separated from the rest of Australia by long distances or water often do not have an adequate alternative means of transport such as road or frequent shipping services.

Inquiry findings

- 1.14 The committee found that the key issues affecting regional aviation services were costs, returns, service levels, interconnectivity, the maintenance of country airports, regulation and coordination.
- The costs of operating regional air services are high and rising;
 - The returns to regional operators are often low and declining, because their passenger numbers can be small and variable;
 - Because of high costs and low returns, the levels of service are often poor in terms of the size of the operating aircraft, the frequency of services and the schedule of services;
 - Poor interconnectivity between services exists because of a lack of interline agreements between regional and domestic service operators. The schedules some regional airlines fly do not arrive at appropriate times for passengers;

- The owners of some country airports are unable to sustain the cost of maintaining their airports, relying on rate payers to meet the shortfall;
- Aviation safety regulations and the way they are administered impose significant costs on small operators in particular. This is contributing to the decline in the number of regional operators and the level of air services in regional areas. However, to achieve aviation safety outcomes a strong, effective and credible regulator is essential, and there is a need for the Civil Aviation Safety Authority (CASA) to strike the right balance between fostering a culture of safety in the industry and policing the regulations; and
- A lack of coordination of government policies is creating potentially difficult business environment conditions. For example, all levels of government imposed many taxes on regional aviation services with little regard for the cumulative effect. The Commonwealth's aviation policy, and its other transport and regional policies appeared to be largely independent of one another.

Inquiry background

- 1.15 On 18 June 2002, the Minister for Transport and Regional Services, the Hon John Anderson MP, wrote to the House of Representatives Standing Committee on Transport and Regional Services, agreeing to refer to the committee an inquiry into the commercial regional aviation services in Australia and transport links to major populated islands.
- 1.16 The committee pursued this inquiry into regional aviation in the aftermath of significant events of late 2001 that affected global and domestic aviation in all countries, namely the terrorist attacks in the United States and the collapse of Ansett. The committee also wished to link this work with the broader issue of regional development in Australia.
- 1.17 The committee takes a keen interest in transport and regional service issues, and it has shaped strategic thinking on a number of aspects of transport.

- 1.18 Some significant works by the committee on surface transport are *Beyond the midnight oil*, *Planning not patching*, *Tracking Australia*, *Back on track*, and *Moving on ITS*. Significant works on shipping are *Ships of Shame*, and *Ship Safe*. In aviation, the committee's significant works include *Plane Safe*.

Conduct of the inquiry

- 1.19 The inquiry was advertised nationally on 3 July 2002. It generated considerable interest in the community, receiving nearly 192 submissions and over 33 exhibits.
- 1.20 The information received from submissions, exhibits and verbal evidence provided the committee with a variety of views and a fruitful source of possible policy initiatives. The evidence came from state, territory and Commonwealth government departments, agencies and statutory authorities, industry peak bodies, lobby groups, community groups and individuals.
- 1.21 The committee conducted 14 public hearings and visits in Launceston, Flinders Island, Melbourne, Adelaide, Kangaroo Island, Wagga Wagga, Sydney, Brisbane and Canberra. It also conducted an informal hearing in Alice Springs and an industry round table on aviation safety in Adelaide. The committee heard from 111 witnesses.

Structure of the report

- 1.22 Chapter 2 introduces the industry, discusses its history and the adequacy of current regional aviation services. The regional airline industry is currently negotiating a very difficult series of obstacles. Some of these obstacles are the result of Australian government policy. Others are the result of world events, and long term economic and demographic changes in Australia's regions. However, the regional airline industry is no stranger to adversity. It has quite a high turnover of businesses because of mergers, acquisitions, liquidation and bankruptcy.
- 1.23 Chapter 3 discusses the business environment in which regional aviation operates. Factors external to the firms help to sustain them, but also threaten their existence. The way each firm operates, its

strengths and weaknesses, are also important to the survival of the firm and the vitality of the industry. These issues set the scene for what government and the industry can do to improve service delivery in the industry.

- 1.24 Chapter 4 discusses regional aviation services from the perspective of regional communities and how government policy has affected the delivery of air services to those communities. Regional airports are vital infrastructure to the regional aviation industry and to the communities they serve. In larger communities that generate substantial aviation traffic volumes, the local airport is seen as a good source of revenue. However, where traffic volumes have fallen away, the cost of maintaining the airport is imposing costs on the community. Many airports now require improvements to meet higher safety specifications and higher traffic volumes. For these and other economic reasons, there is pressure to rationalise regional airports. It may be time to consider the impact of this policy.
- 1.25 Chapter 5 is similar to chapter 4 and focuses on Australia's islands and remote communities. These communities are a special case of regional communities in that they are more reliant on regional aviation services, since roads are either non-existent or the distances are extreme. The air links are vital to moving people and time-sensitive freight.
- 1.26 Chapter 6 discusses government policies for aviation, taxation and purchasing, their coordination and their impacts. Government policy is an important contributor to creating a stable business environment that encourages industry growth and investment. Governments intervene in markets to achieve economic and social objectives. Interventions are often justified on the grounds of improving economic efficiency and equity. Chapter 6 proposes a number of policy developments that are required to reduce costs on regional airline operators and improve their survival prospects, without imposing unreasonable costs on the Australian community.
- 1.27 Chapter 7 discusses aviation safety regulation. The regulation of aviation safety is vital to preserving public confidence in air services and thereby maintaining patronage. However, regulation and the manner in which it is administered impose costs on operators in the industry. Chapter 7 identifies how administration in particular could be improved to lessen cost impositions on the industry while not compromising the high level of safety that Australia has come to expect.

Regional Air Services

Introduction

- 2.1 Regional aviation in Australia has been through a difficult period over recent years. There is now a long list of airlines that have ceased operations to regional centres. Many smaller operators claim that a difficult business environment, high capital costs, rising operating costs, over-regulation, and narrow profit margins have caused many companies to fold.
- 2.2 In this chapter, the committee examines the history of regional aviation services in Australia, the recent failures of some airline services, and carriers that are currently operating.

History of regional air services

- 2.3 A large number of airlines have conducted regional aviation operations, with many of those now out of business for various reasons. Despite so many failures, there are still new airlines coming into the market. Even with new regional operators, the evidence gathered leads the committee to believe that, given the circumstances, services to some regional centres will be not replaced.

- 2.4 Over the past 20 years, more than 73 domestic airlines have gone into demise through liquidation, bankruptcy, receivership, merger or the subject of a takeover. At the time of the Domestic Air Policy Transport Review in 1978, there were two major domestic airlines (Ansett and Trans Australia Airlines), five regional airlines (Ansett Airlines of South Australia, Ansett Airlines of New South Wales, MacRobertson Miller Airline Services, East West Airlines and Connair), and 36 commuter airlines. Of the two major domestic airlines, neither exist today, although Trans Australia Airlines became Australian Airlines, which the government of the day sold to Qantas. Of the five regional airlines, none exist. Of the 36 commuter airlines only four exist in their same name today.¹
- 2.5 While the high cost of starting an airline acts as a barrier to entry, the history of regional aviation has demonstrated that new regional airlines are always emerging to fill the place of those that have departed.²
- 2.6 Regional aviation has had a chequered history in recent years and airlines continue to find it difficult to conduct profitable services to regional areas. Costs have risen beyond the ability of many airlines to sustain economic operations causing some to cease to exist and others to re-emerge under new ownership.³
- 2.7 This chequered history is well illustrated by the submission from the South Australian Government which summarised the history of regional aviation services for that state:
- Prior to the Commonwealth's introduction of Regulation 203 under the Air Navigation Act in 1967, all South Australian regional services were operated by a second-level regional airline, Airlines of South Australia;
 - By 1978, the Commonwealth had licensed five third-level airlines within South Australia. They, plus Airlines of South Australia, were operating scheduled services to 19 communities;
 - From 1979, after the Commonwealth withdrew from economic regulation of intrastate services altogether, airlines and services proliferated so that by 1983 they peaked with twelve airlines operating to a total of 28 communities;

1 Regional Aviation Association of Australia, submission no. 93, p. 1.

2 Bureau of Transport Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*'.

3 Qantas Airways Ltd, submission no. 146, p. 1.

- In 1986 Lloyd Aviation Jet Charter won the Santos-Moomba supply contract previously held by Airlines of South Australia, which was commercially affiliated with Ansett. This caused the withdrawal of Airlines of South Australia from the market altogether and Kendell Airlines commenced services in the state, also in commercial affiliation with Ansett;
- By 1989, fourteen out of twenty four regional airlines which had implemented services since 1967 had ceased operating, but services were still being maintained to twenty two communities by twelve airlines;
- The ten years after that were marked by significant rationalisation of both routes and airlines so that by 1999 the number of airlines operating had shrunk to six and the number of ports they served to sixteen. This period showed an increasing tendency for failed airlines not to be replaced by other airlines, and vacated routes to remain vacant;
- Over the three years from 1999 to date, the most significant attrition has occurred without any replacement of failed airlines or sustained replacement of vacated routes:
 - ⇒ Southern Sky Airlines ceased operations in June 1999 resulting in the withdrawal of its services to Renmark, Kingscote, Port Lincoln, Wudinna, Streaky Bay and Ceduna. It was the sole operator to Renmark and Streaky Bay, and those communities remain unserved;
 - ⇒ Whyalla Airlines ceased operations in May 2000 following its accident. This resulted in the withdrawal of its services to Whyalla, and to Cleve and Wudinna to which it was the sole operator. Its Whyalla service was replaced by O'Connor Airlines in September 2000. Its Cleve/Wudinna services were replaced by Airlines of South Australia in August 2000 but withdrawn again twenty months later;
 - ⇒ Airlines of South Australia withdrew services to Woomera in May 2000, to Leigh Creek in June 2001 and to Cleve and Wudinna in March 2002. Those communities remain unserved; and
- In summary, during the three years from 1999 to date, all air services have been withdrawn from Streaky Bay, Woomera, Leigh Creek, Renmark, Cleve and Wudinna.⁴

4 South Australian Government, submission no. 148, pp. 4-5.

- 2.8 The combined submission from the City of Warrnambool, Southern Grampians Shire Council, and Moyne Shire Council provided a similar story of air services to western Victoria. From the 1970s, Ansett operated Fokker 27s on a triangular route with Hamilton and Mount Gambier. Anecdotal evidence indicates that an average of 12 passengers was picked up and set down at Hamilton for each service. Ansett also serviced Warrnambool using a Fokker 27 throughout the 1960s and 1970s. Services to Warrnambool and Hamilton ceased around 1981-82. Services were taken up by Kendell Airlines operating 19-seat Metroliner aircraft on up to six services per day, between January 1982 and May 1985. Services ceased due to demand proving non-viable. Kendell was offered license-protected routes by the South Australian Government in 1986. These routes were taken up to the detriment of the remaining Hamilton and other Victorian services. Since that time several operators have attempted services from Hamilton and Warrnambool, but currently, there are no Regular Public Transport (RPT) services to or from Hamilton or Warrnambool. The nearest air service links with Melbourne are operated from Portland. Portland is a one-hour drive from both Hamilton and Warrnambool but in the opposite direction to Melbourne.⁵
- 2.9 The descriptions above are only samples of the history of regional aviation operations, based on the submissions received for this inquiry. The committee believes that these descriptions are representative of the Australian regional aviation industry as a whole and provide a valuable insight into the fluctuating services and the problems the industry faces.

Loss of regional aviation services

- 2.10 The committee analysed the loss of services to regional areas. An overview of the recent losses of services is provided, with some speculation as to why services have declined, based on the evidence provided. The committee examined the cessation of regional routes by existing airlines, and also looked at the collapse of several regional operators.

5 Southern Grampians Shire Council, City of Warrnambool and Moyne Shire Council, submission no. 112, p. 7.

Recent losses of services

- 2.11 There have been many examples of loss of aviation services to regional centres in the past two to three years. The closure of particular routes can be attributed to the closure or financial collapse of airline operators, or the analysis and subsequent consolidation of operations by airlines.
- 2.12 The accelerated rate of regional airline failures and route withdrawals appears to be a result of escalating cost pressures on regional operators together with declining patronage caused by regional population changes, improved road conditions and vehicle efficiency, uncertainty generally in regional aviation markets following Ansett's collapse and other factors.⁶
- 2.13 The Department of Industry, Tourism and Resources stated that the fragility of regional carriers remains a concern for some regional tourism destinations and may be a deterrent to potential travellers booking in advance and utilising certain airlines. The department added that further airline failures have the potential to cause additional regional disruption and have a negative impact on tourism industry confidence.⁷
- 2.14 Qantas Airways Ltd stated the following at the Sydney public hearing:

We continue to hold to the view expressed in our submission that the maintenance of regional aviation services across the many small and widespread population centres in Australia is a very difficult task. The underlying economics of operating regional services are not good, and there is only very limited growth potential in regional markets. The Bureau of Transport and Resource Economics estimates that over the past 15 years passenger numbers to and from regional airports have grown by about 1.4 per cent per annum and have generally been negative at airports where the throughput is under 10 000 passengers a year. That is clearly reflected in the number of airline operators that have failed and the number of smaller population centres no longer served by scheduled airline services.⁸

6 South Australian Government, submission no. 148, p. 3.

7 Department of Industry, Tourism and Resources, submission no. 159, p. 12.

8 Qantas Airways Ltd, transcript of evidence, Sydney, 8 May 2003, p. 473.

- 2.15 Macair Airlines Pty Ltd stated that the continued loss of air services to small towns and rural communities is inevitable. This in turn will discourage new investment and prompt established businesses and rural residents to relocate. As a result, tax revenues will shrink and rural and regional populations will continue to decline.⁹

Cessation of regional routes

- 2.16 There have been recent examples of air services to particular destinations ceasing. In most cases, the service has not been well patronised. Some recently closed routes are operated by successful companies, or new companies that are establishing themselves, such as Regional Express (Rex). The recent pattern of services being withdrawn is illustrated by the rationalisation of some routes operated by Rex and Airlines of South Australia.

Regional Express

- 2.17 Rex stated in its submission that it will withdraw services which are not supported, and are therefore not commercially viable. Rex has announced that it has withdrawn from Port Macquarie, and rescheduled services from Merimbula and Moruya to Sydney to provide a better service and more seats with Saab aircraft.¹⁰
- 2.18 Rex explained that the Port Macquarie service to the New South Wales north coast was not sustainable at the current passenger numbers. Rex previously offered three return flights Sunday to Friday and two return flights on Saturday, all continuing on to Lismore. In total there were some 240 seats per week allocated and available for Port Macquarie passengers. In July 2002, the total number of passengers to Port Macquarie for the month was only an average of four per flight. In comparison the support from the Lismore community for the month was outstanding, with Rex carrying 2 663 passengers during the same period.¹¹
- 2.19 Rex stated that the commercial situation and the operational imperatives meant that the only responsible choice was to withdraw the service. Rex announced it will continue to review the situation and is continuing discussions with the Port Macquarie community.¹²

9 Macair Airlines Pty Ltd, submission no. 76, p. 4.

10 Regional Express, submission no. 116, p. 3.

11 Regional Express, submission no. 116, p. 4.

12 Regional Express, submission no. 116, p. 4.

- 2.20 With regard to the services between Sydney and Merimbula via Moruya, the South Coast route incurred losses of approximately \$500 000 over the last three months of the 2001-2002 financial year, with planes operating at an average load factor of approximately 38 per cent. Rex stated that this is both unacceptable and unsustainable. These losses can be attributed to overcapacity caused by the replacement of the 19-seat Metro aircraft with 34-seat Saab aircraft, with no reduction in frequency, by the administrators. Rex added that it does not have the option to reinstate the Metro aircraft on the route, as those aircraft were sold by the administrators of Hazelton Airlines. Instead, Rex has implemented a schedule with two daily round trip Saab services. This has resulted in capacity in the market which is slightly higher than that which existed prior to administration.¹³

Airlines of South Australia and Emu Airlines

- 2.21 The City of Whyalla described the air services to the small regional centres of Wudinna and Cleve on Eyre Peninsula, South Australia. Both centres were formerly serviced by Whyalla Airlines, for over 20 years, until their unfortunate demise after their tragic air crash. A new operator, Airlines of South Australia, commenced services on 7 August 2000. Unfortunately, they serviced the routes from Adelaide and not from Port Augusta or Whyalla. As a consequence, they did not provide flight schedules that were suited to the locality they were servicing, and thus patronage was less than previously experienced.¹⁴
- 2.22 Airlines of South Australia attempted some juggling of flight schedules, including a reduction in the number of flights per week, but ceased services on Friday, 24 March 2002. With the assistance of the state government's Aviation Transport Policy Group, the councils prepared an information brief and canvassed all potential aviation groups to provide a service. There was no interest apart from some charter operators, although they needed to seek RPT accreditation. The South Australian Government was not prepared to provide financial assistance, but would assist with approvals and route licensing. They sought to promote the Air Transport (Route Licensing—Passenger Services) Act 2002 as the government's contribution.¹⁵ Discussions commenced with Emu Airways in October 2002, and a new service commenced on 23 January 2003. This provided a direct service to Wudinna using a nine-seat Chieftain aircraft.

13 Regional Express, submission no. 116, p. 4.

14 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, pp. 392-393.

15 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, pp. 392-393.

The service was to be incorporated into their Ceduna service, which utilised a 19-seat Beechcraft aircraft. The initial strategy did not include Cleve because Cleve advised that the specifications of their airstrip did not accommodate the bigger aircraft. Rex, which had taken over Kendell services, improved schedules, reduced fare structures and fiercely defended the Ceduna market. The Emu service to Ceduna terminated on 10 March 2003. The Wudinna service provided by Emu terminated with 24 hours notice on Monday, 24 March 2003.¹⁶

- 2.23 With regard to social justice, the withdrawal of the only air service to central Eyre Peninsula is a considerable loss. The catchment for this service includes Kimba, Cleve, Lock, Elliston, Le Hunte and Streaky Bay. Access to air transport is an extremely important option for people living in remote locations such as Eyre Peninsula. The loss of this service has considerable financial, health, safety and convenience implications for these communities.¹⁷

Other failed routes

- 2.24 Some other examples of recent failed services include:

- Horizon Airlines began regional services in March 1998, and operated the Sydney-Mildura-Broken Hill and Sydney-Deniliquin-Swan Hill routes, adding Shepparton-Wangaratta-Sydney in March 2000. Horizon Airlines withdrew from regional service in August 2000. Horizon Airlines was in voluntary administration as of 16 October 2003;¹⁸
- Virgin Blue began operations to Mt Isa, soon after the company began operations in 2001. Upon commencement of services to this destination, a major competitor [believed to be Qantas] swamped the route with overcapacity, forcing Virgin Blue to abandon its service;¹⁹ and
- Brindabella Airlines Pty Ltd, a newcomer to the regional aviation market, announced on 3 July 2003, the scrapping of afternoon flights between Canberra and Wagga Wagga, citing disappointing passenger numbers.²⁰

16 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, p. 393.

17 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, p. 393.

18 Australian Regional Airlines Index, G-M, Horizon Airlines, <http://users.chariot.net.au/~theburfs/regional3.html>, last accessed 18 June 2003

19 Virgin Blue, submission no. 182, p. 1.

20 David Crawshaw, 'Brindabella Air in doubt', Daily Advertiser, Wagga Wagga, 4 July 2003.

Collapse of regional operators

- 2.25 The continuous failure of airlines through the creation of unrealistic markets and fares causes instability and results in substantial financial hardship for regional and rural communities. As a result of the Ansett collapse these communities have lost over \$12 million as unsecured creditors and they have been advised by the Ansett administrators that these funds will not be recoverable.²¹
- 2.26 The collapse of regional carriers has resulted in substantial financial burdens for regional airports. King Island Council, in its submission, gave detailed figures on landing charges remaining unpaid after withdrawal of air services. Over \$70 000 in landing charges has been written off by the Council in the past few years: Airlines of Tasmania folded in 1997, leaving \$16 274 in unpaid landing charges, followed by Australian Air Charters, owing \$30 065, and Kendell Airlines with a debt of \$23 791.²²

Ansett Australia

- 2.27 Flights operated by Ansett Australia ceased operation from midnight on Monday 4 March 2002. The collapse of Ansett Australia received a great deal of media attention and is well documented.
- 2.28 Many impacts on regional aviation services were identified during the aftermath of the collapse. An immediate consequence of the collapse of the Ansett group was the reduction of capacity in terms of seats available and the number of flights. This was inevitable as Ansett held 39 per cent of the domestic air travel market. The Bureau of Transport and Regional Economics (BTRE) found that the immediate impact of Ansett ceasing flights was a reduction of 21 per cent in domestic airline capacity, and a 28.4 per cent reduction in the number of domestic flights for October 2001, compared to October 2000.²³ With respect to the effect on fares, despite a widespread perception that domestic discount air fares increased following the demise of Ansett, BTRE found that the large reduction in flights and capacity reduced the availability of discount seats.²⁴

21 Tamworth City Council, submission no. 95, p. 4.

22 King Island Council, submission no. 132, p. 16.

23 Bureau of Transport and Regional Economics, *Avline*, Issue One, January 2003, p. 10.

24 Bureau of Transport and Regional Economics, *Avline*, Issue One, January 2003, p. 8.

Compass Airlines

- 2.29 Compass Airlines was created in 1990 as one of Australia's post-deregulation airlines. It survived until 1991. Its reincarnation, known as 'Compass II', lasted from 1992 to 1993.
- 2.30 Compass encountered problems in early 1990. Five Airbus aircraft it proposed to use were sold or leased elsewhere after Compass failed to meet a deadline for raising equity. Compass began operations on 1 December 1990, offering various discounts, including free travel for children in family groups. By August 1991 Compass claimed 10 per cent of the domestic market and 21.3 per cent of the routes it was contesting, with 30 per cent being predicted by its first anniversary. Compass, however, was unable to compete with the established domestic airlines. It ceased operations on 20 December 1991, due to massive financial problems.²⁵

Compass II

- 2.31 By 1992, a new Compass Airline was in the market. The provisional liquidators of 'Compass I' accepted an offer from Southern Cross Airlines to take over Compass Holdings. Compass II operations began at the end of August 1992. Although Compass prices were below those of its competition, it was adamant that it would not get into heavy discounting, one factor in the demise of Compass I, when tickets were sold well below cost. By late February 1993, Southern Cross Holdings announced a loss of \$10.953 million for the half year. It ceased operations on 11 March 1993, having carried 266 711 passengers since recommencing operations. Its chairman was arrested on 9 March 2003 for allegedly providing false information to the board. Ironically, he had been seen as the person most responsible for getting Compass back in the air. An inadequate financial base was once more a key factor in the failure. It was not helped by retention of the Compass name, which led to caution among financiers and demands from suppliers that the airline purchase many assets it would normally have leased.²⁶

25 Compass Airlines, MkI & MkII, <http://users.chariot.net.au/~theburfs/compasspage.html>, last accessed 21 July 2003.

26 Compass Airlines, MkI & MkII, <http://users.chariot.net.au/~theburfs/compasspage.html>, last accessed 21 July 2003.

Impulse Airlines

- 2.32 Impulse Airlines was one of Australia's largest independent regional passenger and freight operators, with a fleet of five Boeing 717-200 jets and thirteen 19-seat Beech 1900D turboprop aircraft, flying about 500 services a week. It became the third new trunk route jet operator since domestic deregulation took effect in Australia in 1989. The New South Wales regional operator Oxley Airlines fell into financial difficulties in 1993. Impulse acquired their Oxley's assets from their receiver. Unprofitable routes were dropped in favour of others with better potential, and the company replaced old aircraft.
- 2.33 In early 2000, the company was able to claim to be debt-free, making a margin of over 8 per cent on passenger routes, with a break-even point of less than 48 per cent load factors. Revenue increased by 20-25 per cent per annum, and Impulse achieved a consistent record of operating profit. The company became the only airline other than Qantas and Ansett to operate its own terminal from its operational headquarters at Sydney Airport.
- 2.34 August 2000 saw an Australian airline fares war involving Qantas, Ansett and Impulse. Perhaps significantly, it only involved fares in the eastern Australian states serviced by Impulse and the even more recent Virgin Blue venture. On 1 May 2001, Impulse announced it was ceasing service as a major airline. Its eight Boeings and 13 Beech aircraft and crews were contracted to operate some regional services for Qantas.²⁷

Smaller regional operators

- 2.35 Since 1990, the following airlines have ceased operating RPT services (for a range of reasons) in Queensland: Sunbird Airlines, Norfolk Airlines, Australian Regional Airlines (Queensland), Sabair, Majestic Airlines, Piccolo Airlines, Flight West Airlines (twice), Eastland Air, Kendell Airlines, Countryair, Sungold Airlines, Uzu Air, Southern Pacific Regional Airlines, Lloyd Air, Queensland Pacific Airlines, Air Cairns, Transtate Airlines and Air Swift.²⁸
- 2.36 In its submission, Flinders Council explained that it has witnessed, since 1980, the demise of RPT services provided by the following companies: H C Sleigh, Executive, Air Tasmania, Flinders Island Airline, Promair, Airlines of Tasmania, Aus-Air, Island Air and Par Avion. There were also

27 Impulse Airlines, <http://users.chariot.net.au/~theburfs/impulsepage.html>, last accessed 21 July 2003.

28 Macair Airlines Pty Ltd, submission no. 76, p. 4.

numerous charter operators that disappeared during this period. When Airlines of Tasmania failed, Tamair, a regional carrier from Tamworth, also went into receivership as the company was cross hiring a Metroliner to Airlines of Tasmania to service the islands, Launceston and Gippsland.²⁹

- 2.37 Flinders Island Airlines began regional airline services in November 1986. The company operated a network linking Moorabbin and Tullamarine with 18 locations in Victoria and southern New South Wales, and the Bass Strait Islands. Adelaide was added to their network in November 1988. In January 1990, they began a service from Tullamarine to the Tasmanian ports of Burnie, Devonport and Wynyard. The airline ceased operations in May 1990 due to financial problems. At that time they were operating to ten ports in New South Wales, Victoria and Tasmania from Moorabbin and Tullamarine.³⁰
- 2.38 Country Connection began regional services in September 1991, operating to former Hazelton destinations, on the Cootamundra-Young-Cowra-Sydney route. In August 1993, Temora-West Wyalong-Forbes-Sydney was added to the network. Condobolin was added in February 1994, while Temora was removed. In 2000, Country Connection operated 24 weekly flights into Sydney. In May 2001, the airline closed its regional service linking the six New South Wales towns to Sydney, with the closure attributed to increasing costs. The Country Connection charter business continued.³¹
- 2.39 Yanda Airlines began serving Cessnock, Maitland, Singleton and Scone from Sydney, in September 1988. In late 1993 the fleet had increased, and Coonabarabran, Gunnedah and Quirindi were added to the network. In 1998 the company was operating 12 weekly returns from Coonabarabran and Gunnedah to Sydney, and 22 returns from the Hunter Valley ports to Sydney. Early in January 2001, Yanda was grounded following an incident in which pilot error was admitted. The owner, Paul Rees, subsequently decided to close the airline. Yanda did not reapply for operator's certification.³²

29 Flinders Council, submission no. 110, p. 5.

30 Australian Regional Airlines Index, C-F, Flinders Island Airlines, <http://users.chariot.net.au/~theburfs/regional2.html>, last accessed 18 June 2003.

31 Australian Regional Airlines Index, C-F, Country Connection, <http://users.chariot.net.au/~theburfs/regional2.html>, last accessed 18 June 2003.

32 Australian Regional Airlines Index, T-Z, Yanda Airlines, <http://users.chariot.net.au/~theburfs/regional6.html>, last accessed 18 June 2003.

- 2.40 Air Facilities, established in Albury in 1971, began regional operations in November 1992, and operated between Albury and Canberra. In March 1993, the original schedule of 12 weekly return trips between the two ports had increased to 17. A weekly Albury-Corowa-Essendon service began in February 1994, but was soon discontinued. In May 1994, a twice daily weekday service between Deniliquin and Canberra began, and the following month a daily weekday service between Deniliquin and Hay was added. Air Facilities took over the Traralgon-Morwell route from Hazelton in mid 1997, but terminated the route by the end of the year. Air Facilities suspended its Albury-Canberra route in February 2002 and did not resume regional services. Charter operations continue from its Albury base.³³
- 2.41 Flight West Airlines commenced commuter operations in May 1987, and operated a network of services from their Brisbane, Townsville and Cairns bases to 28 locations throughout the state. During 1991-92, Flight West dropped Canberra, Coolangatta and Groote Eylandt from their network. Services to Torres Strait islands, begun in 1991, were suspended in September 1993. In 1999-2000, Flight West benefited from Ansett's withdrawal from various northern routes between Cairns, Darwin and Alice Springs. On 19 June 2001, Flight West, Australia's largest privately owned airline, ceased operations. Closure was attributed to tough competition, rising costs of fuel and the poor standing of Australian currency. It was sold by administrators in April 2002.³⁴

Horizon Airlines

- 2.42 Horizon Airlines began regional services in March 1998. Although several routes have been cancelled over recent years, the company now operates services between Sydney and Newcastle, Taree and Cooma. The company announced on 4 July 2003 that a new service between Sydney and Grafton would begin on 28 July 2003, running up to 25 flights per week. The new service would go via Kempsey once a day, the first service for the town since 2001. The New South Wales Minister for Transport Services, Michael Costa stated:

Kempsey will be the first town to regain its air service since regional aviation began to decline in 2000.

33 Australian Regional Airlines Index, A-B, Air Facilities, <http://users.chariot.net.au/~theburfs/regional1.html>, last accessed 18 June 2003.

34 Australian Regional Airlines Index, C-F, Flight West Airlines, <http://users.chariot.net.au/~theburfs/regional2.html>, last accessed 18 June 2003.

- 2.43 Horizon Airlines announced in mid-October that it had gone into voluntary administration. The appointment of an administrator comes just three months after Horizon was granted the sole licence on the Sydney-Grafton route. The administrator announced that the airline would continue to trade while it was determined if improvements could be made to assist the company to trade out of administration.³⁵
- 2.44 The committee received many submissions describing examples of the closure of air services. Although there are many more examples of failed services across Australia, the committee considers that the above examples again give a good representation of the problems in the industry.

Current operations

- 2.45 The committee has examined existing regional aviation operations, including those services provided by major carriers and their subsidiaries, dedicated regional carriers, and regional carriers that have been reborn after airline failures.

Major carriers and their subsidiaries

Qantas and QantasLink

- 2.46 Qantas' wholly owned subsidiary, QantasLink operates to 55 regional destinations, flying more frequently and to more destinations than the core Qantas domestic operation.³⁶
- 2.47 QantasLink, encompasses four regional airline entities: Airlink (operated by National Jet Systems), Sunstate Airlines, Eastern Australian Airlines and Impulse Airlines.³⁷
- 2.48 When, in July 2001, major Queensland operator Flightwest ceased operations, followed only weeks later by Ansett and its regional subsidiaries, QantasLink and other regional operators mounted hundreds of additional services to provide immediate relief to 25 regional ports affected by these airline closures. QantasLink's contribution to rescuing stranded regional passengers immediately after the collapse of Ansett,

35 Horizon Airlines appoints administrator, <http://www.travelbiz.com.au/articles/66/0c01ae66.asp>, last accessed 20 November 2003.

36 Qantas Airways Ltd, supplementary submission no. 146, p. 10.

37 Qantas Airways Ltd, supplementary submission no. 146, p. 10.

Hazelton, Kendell and Skywest was to carry more than 4 000 passengers, either free of charge or at highly discounted rates, to a value of more than \$1 million.³⁸

2.49 Nine of the ports previously served by Flightwest and Ansett, in Western Australia and Queensland, have now been added to Qantas' regional network as permanent destinations. New and expanded operations include:

- New direct services: Sydney to Rockhampton, Proserpine and Mackay; Hobart-Gold Coast, Adelaide-Gold Coast, Brisbane-Alice Springs; and
- Additional services: Alice Springs to Cairns and Broome; Melbourne to Mildura, Canberra, Burnie and Devonport; and Sydney to Albury, Ballina, Coffs Harbour, Dubbo and Wagga.³⁹

2.50 The Qantas network includes (destinations added since July 2001 are italicised):

- Northern Territory: Alice Springs, Ayers Rock, Darwin, Gove;
- New South Wales: Albury, Armidale, Ballina, Coffs Harbour, Dubbo, Grafton, Lord Howe Island, Moree, Narrabri, Newcastle, Port Macquarie, Sydney, Tamworth, Wagga Wagga;
- Australian Capital Territory: Canberra;
- Queensland: *Barcaldine, Blackall, Blackwater, Brisbane, Bundaberg, Cairns, Charleville, Emerald, Gladstone, Gold Coast, Hamilton Island, Horn Island, Longreach, Mackay, Maroochydore, Mt Isa, Proserpine, Roma, Rockhampton, Townsville, Weipa*;
- South Australia: Adelaide;
- Tasmania: Burnie, Devonport, Hobart, Launceston;
- Victoria: Melbourne, Mildura, Mt Hotham (seasonal); and
- Western Australia: Broome, Kalgoorlie, Karratha, *Newman*, Paraburdoo, Perth, *Port Hedland*.

38 Qantas Airways Ltd, supplementary submission no. 146, p. 11.

39 Qantas Airways Ltd, supplementary submission no. 146, p. 11.

- 2.51 Qantas has a number of partnerships with regional airlines: Airnorth, Airlines of South Australia, Macair, Norfolk Jet, National Jet, O'Connor Airlines, Aeropelican, Sunshine Express, Australian Airlines and Horizon Airlines. Qantas Frequent Flyers can earn points on eligible Frequent Flyer Partner Airline flights. Qantas works together with Aer Lingus, American Airlines, British Airways, Cathay Pacific Airways, Finnair, Iberia and LanChile to offer seamless travel to over 650 international destinations.⁴⁰

Virgin Blue

- 2.52 Since its establishment in late 2001, Virgin Blue has grown to be a substantial player in Australian aviation. The company now has around 30 per cent of the domestic aviation market. Virgin Blue operates 30 Boeing 737 aircraft, and will expand services upon the arrival of ten new aircraft in the coming year. The company claims to offer attractive fares and friendly, efficient service.⁴¹
- 2.53 In addition to operating to all major capital cities, Virgin Blue also operates services to the following regional locations: Alice Springs, Broome, Cairns, Coffs Harbour, Coolangatta, Launceston, Mackay, Maroochydore, Proserpine, Rockhampton and Townsville.⁴²
- 2.54 Virgin Blue and Rex announced on 10 June 2003 that they have joined forces to provide regional travellers with a convenient and cost effective method of flying around the country. The two carriers signed an agreement, which will streamline travel by allowing passengers to book flights on both airlines through one call to Rex, and check their luggage through to their final destination when travelling on connecting Virgin Blue and Rex flights. Recent surveys highlighted a trend of regional passengers taking advantage of great value fares by flying on Rex to capital centres then continuing their journey on a Virgin Blue flight. This involved having to make separate bookings with each airline, as well as collecting their luggage in between flights.⁴³

40 Qantas, <http://www.qantas.com.au>, last accessed 27 June 2003.

41 Virgin Blue, submission no. 182, p. 1.

42 Virgin Blue, submission no. 182, p. 1.

43 Virgin Blue, <http://www.virginblue.com.au>, last accessed 27 June 2003.

- 2.55 Virgin Blue continues to add new routes to its network. The company announced daily flights between Brisbane and Proserpine will begin on 5 September 2003. The company claimed that it is responding to demand for travel to the Whitsunday Coast, and that the services are part of a strategy to nurture domestic tourism.⁴⁴

Regional carriers

- 2.56 There are many regional carriers currently operating in Australia. Below are details regarding a selection of some of these operators.

Macair Airlines Pty Ltd

- 2.57 Since its inception in 1992, Macair Airlines believes it has grown to become one of regional Australia's most substantial airline operators, and that it plays a crucial role in both passenger and freight transportation throughout regional Queensland and northern New South Wales. Macair claimed to have achieved a reputation for delivering safe, efficient, friendly and cost effective air services to its clients through its focus on customer service and its ability to identify and meet its customers' needs in a timely manner.⁴⁵
- 2.58 Macair operates two Saab 340B aircraft, eight Fairchild Metros and two DeHavilland Twin Otters, combining a mixture of RPT and contracted charter operations from its Townsville, Cairns and Brisbane bases in Queensland. In 1998, Macair introduced regular passenger services on regional routes in north Queensland, and now operates a network of 34 routes throughout regional Queensland and New South Wales. One of the busiest routes on Macair's network is the link between Townsville and Mt Isa. Macair services this route 32 times each week with most of the flights being Saab 340B services.⁴⁶
- 2.59 Macair has worldwide distribution through a hosting in the Qantas reservations system. The introduction of the Saab 340B has led to the signing of Qantas' first domestic code share agreement. This enables Qantas to offer its customers seats on selected Saab 340B flights.⁴⁷

44 Anon., 'More flights north', Courier Mail, Brisbane, 28 June 2003, p. 11.

45 Macair Airlines Pty Ltd, submission no. 76, p. 1.

46 Macair Airlines Pty Ltd, submission no. 76, p. 1.

47 Macair Airlines Pty Ltd, submission no. 76, p. 1.

Tasair Pty Ltd

2.60 Tasair Pty Ltd, a long established charter and training company, began RPT operations in 1998, operating between Hobart, Devonport and Wynyard, and between Devonport, Wynyard and King Island. Tasair uses Piper Chieftain nine-seat and Aerocommander seven-seat aircraft. When Tasair commenced operations between King Island and Tasmania there were three operators flying for a very limited customer base: Tasair, Ausair and Geelong Flight Services. Within eighteen months, Tasair was the only surviving operator, and has continued to provide a reliable, viable and regular passenger and freight service to the island.⁴⁸

Brindabella Airlines

2.61 Brindabella Airlines has been operating for 14 years, originally as a maintenance organisation, then as a charter business and flying school operator. In May 2003, the company started regular public transport services to three regional destinations, Newcastle, Wagga Wagga and Albury, operating nine-seat Piper Chieftains. There are two return services to Newcastle and Albury on weekdays. There is also a Sunday evening service to Newcastle. The service to Wagga Wagga ceased after a trial period, as it was economically unviable. The company employs 21 full-time and ten part-time people. There had always been a service between Albury and Canberra until February 2002, when the operator stopped the service for reasons other than the service being unviable.⁴⁹

2.62 Brindabella is receiving booking, marketing and other support from Qantas Airways, under the agreement originally struck between the Australian Capital Territory and Impulse Airlines. All passengers receive Qantas Frequent Flyer points for their travel with Brindabella Airlines.⁵⁰

Air Link Pty Ltd

2.63 Air Link Pty Ltd is headquartered at Dubbo in central New South Wales and provides scheduled services to regional centres within the state, as well as to Sydney. Air Link operates to the ports of Bourke, Cobar, Coonamble, Dubbo, Lightning Ridge, Mudgee and Walgett within the

48 Tasair Pty Ltd, submission no. 35, p. 1.

49 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 449.

50 Brindabella Airlines, http://www.brindabella-airlines.com.au/airline_frameset.html, last accessed 27 June 2003.

north-west of New South Wales, to which a total of 105 scheduled sectors are provided each week.⁵¹

Airnorth Regional

2.64 Airnorth is northern Australia's regional airline, servicing the whole of the Northern Territory, the Top End of Western Australia and Queensland, with bases in Darwin, Katherine, Tennant Creek, Alice Springs and Maningrida. The airline services 13 northern Australian destinations weekly, as well as Dili, East Timor. The fleet of 32 aircraft consists of prop jet, pressurised aircraft, including 19-seat Metros and 30-seat Embraer 120 Brasilias. The major route networks include:

- 'The Centre Run' (Darwin, Katherine, Tennant Creek, Alice Springs);
- 'Arnhemland' (Maningrida, Milingimbi, Elcho Island, Lake Evella, Ramingining);
- 'Kimberley' (Kununurra, Broome);
- 'Gulf' (Gove, Groote Eylandt, Cairns); and
- 'East Timor' (Dili).⁵²

Re-birthed regional carriers

Regional Express

2.65 Rex was created on 1 August 2002 by the merger of Kendell and Hazelton Airlines to create a new regional airline servicing communities in regional New South Wales, Victoria, Tasmania and South Australia. Both airlines had previously been in administration for some eleven months following the collapse of Ansett Airlines. In their submission, Rex claimed to provide a vital transport service for regional and rural south-eastern Australia's business, tourism, leisure, and family markets. The airline expects to carry one million passengers in the year 2002/2003.⁵³

2.66 The new airline is a high quality, efficient carrier operating 21 Saab 340 aircraft plus seven Metroliner aircraft. Rex services the capital cities of Canberra, Adelaide, Melbourne, and Sydney and 27 regional centres, with more destinations being introduced.⁵⁴

51 RAAA Members – Air Link, <http://www.raaa.com.au>, last accessed 27 June 2003.

52 Airnorth, <http://www.airnorth.com.au>, last accessed 27 June 2003.

53 Regional Express, submission no. 116, p. 1.

54 Regional Express, submission no. 116, p. 2.

- 2.67 In its submission, Rex announced the creation of a daily Sydney-Griffith-Mildura service, and the upgrade of the Melbourne-Mildura service, from a Metro 23 to a Saab 340 aircraft, effectively doubling capacity. Also, Rex commenced operating twice daily from Melbourne to Merimbula on the New South Wales south coast.⁵⁵

Alliance Airlines

- 2.68 Alliance Airlines was created when the former Flight West Airlines was sold to Queensland Airline Holdings Pty Ltd. Operations commenced on 31 July 2002. Alliance Airlines operates RPT and charter services between Brisbane and Townsville, and a Brisbane-Norfolk Island-Sydney route. The company operates from bases in Brisbane and Townsville, and employs 160 staff. Its maintenance facilities are at Brisbane airport. Alliance services to Rockhampton and Gladstone ceased recently. Alliance is an all jet operation utilising three 100-seat Fokker 100 twinjet aircraft. Alliance moved to total e-ticketing through Australian travel agencies in February 2003. It currently provides e-ticketing through the Sabre and Galileo global distribution systems, and will also offer e-ticketing to agents using the Amadeus global distribution systems. Alliance has interline agreements with international carriers Air New Zealand, United, Thai, Malaysian and Korean. Additional agreements are under negotiation.⁵⁶
- 2.69 The committee found that airline companies are collapsing and emerging on a seemingly regular basis. The travelling public are looking for stability in the industry and a security of services to regional areas. The committee notes that some companies have changed aspects of their operations during the period of the inquiry, attempting to find a viable and hence stable level of operations.

Why regional air services are important

- 2.70 Many submissions to the inquiry, particularly those from regional areas, focussed on the need for aviation services to be provided as a community service obligation. The committee found that many communities require reliable air services to support the economic and social wellbeing of regional and remote areas. Outlined below is a summary of the evidence

55 Regional Express, submission no. 116, p. 3.

56 Alliance Airlines, <http://www.allianceairlines.com.au>, last accessed 26 June 2003.

received arguing for aviation services to support regional and remote communities.

Economic and social wellbeing of regional and remote communities

- 2.71 In remote and regional communities, basic services such as public transport and delivery of fresh food, medical supplies, mail, educational materials, and urgent supplies rely on the use of airport infrastructure. Airports gain further importance as entry gates to regions for business and industries that support and encourage ongoing regional and economic development.⁵⁷
- 2.72 The Australian Airports Association (AAA) is concerned about the social implications of the level of service which is now available to communities. The AAA also stated that air services are vital to the economic and social wellbeing of remote areas, in particular, the Northern Territory. Suitable aircraft and aerodromes are essential, as there are generally very large distances to cover, and there are many non-all-weather roads.⁵⁸
- 2.73 The Northern Territory's Department of Infrastructure, Planning and Environment stated that sustainable air services are critical to the social and economic wellbeing and development of northern Australia. The Northern Territory, due to its vast expanse and scattered population, arguably depends on air transport to a greater degree than other jurisdictions. Whilst major population centres in the Northern Territory rely on air services for the carriage of people and goods, many remote communities are cut off for extended periods due to harsh weather conditions with their air service providing the only link to the outside world.⁵⁹
- 2.74 There are many councils that consider air services vitally important to their communities. Glenelg Shire in Victoria, for example, considers the airport and air services to be of strategic importance to council and to the shire generally, for economic development, business and industry and also as a key community service.⁶⁰

57 Australian Local Government Association, submission no. 108, p. 1.

58 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 228.

59 Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 2.

60 Glenelg Shire Council, transcript of evidence, Melbourne, 26 February 2003, p. 187.

- 2.75 Narrandera and Leeton Shires are both aware of the economic and social benefits of maintaining an air service. To that end, the two shires contribute between \$60 000 and \$100 000 per annum towards the costs of operating air services.⁶¹
- 2.76 The shires also suggested in their submission that both the Commonwealth and state governments could recognise the economic benefits that arise from regional development, and should be supporting those services where a social and economic benefits analysis of marginal cases may prove that there will be substantial benefits.⁶²
- 2.77 The City of Whyalla stated that the difficulty for rural residents in accessing services, education, medical facilities and training is a matter of social justice. Access to air transport is an extremely important option for people living in remote locations such as Eyre Peninsula. The loss of services has considerable financial, health, safety and convenience implications for these communities.⁶³
- 2.78 Residents of Kangaroo Island consider their degree of remoteness to be a significant social cost. Residents find that getting off the island at a reasonable price, and when they need to, is an impediment to travel. Kangaroo Island has a significantly lower income level than some other regional locations, and the cost of living on the island is around 25 to 30 per cent higher than in a comparable rural community on the mainland.⁶⁴
- 2.79 Queensland Transport established that one of the stated objectives of the Transport Operations (Passenger Transport) Act is to provide a reasonable level of community access to public passenger transport and mobility in support of the government's social justice objectives. On these particular routes the Queensland Government uses competition for exclusive service contracts as a method of achieving the best result for rural and remote Queensland.⁶⁵ Queensland Transport believes the provision of air services is a social issue, and has been addressed:

61 Narrandera and Leeton Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 435.

62 Narrandera and Leeton Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 443.

63 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, p. 393.

64 Kangaroo Island Development Board, transcript of evidence, Kangaroo Island, 15 April 2003, p. 335.

65 Queensland Transport, transcript of evidence, Brisbane, 12 June 2003, p. 673.

In the 2002 air services review that was conducted by the Queensland Government, we investigated a principle of community access whereby we believe that, notwithstanding weather patterns that may influence people's access by road, a regulated or commercial air service should exist within 200 kilometres of every community. We have mapped 200-kilometre circles throughout the state for every community that receives an air service.⁶⁶

- 2.80 The National Farmers' Federation stated that regional air services are vital to farmers for both economic and social reasons. While farmers export most of their production by sea, air exports form an important and increasing part of Australia's farm-related exports. Air travel is also vital to ensure social cohesion, access to service, and the ongoing viability of rural communities.⁶⁷

Community Service Obligation

- 2.81 Many of the submissions place a great deal of emphasis on the need for governments to provide or support services as part of a community service obligation. The main arguments are that people in regional and remote areas should be able to access the same level of service that metropolitan communities enjoy, and that regional and remote people should be able to engage with other Australians.
- 2.82 The Regional Aviation Association of Australia (RAAA)⁶⁸, the Local Government Association of the Northern Territory⁶⁹, the National Farmers' Federation⁷⁰, the New South Wales Farmers' Association⁷¹, the South East Australian Transport Strategy Inc. (SEATS)⁷², and Rockhampton City Council⁷³ all stated that the Commonwealth should develop community service obligation principles and payments for the provision of air transport services to remote and regional Australia, and provide further assistance to regional communities in the form of funds for major repairs and maintenance projects to selected regional airports.

66 Queensland Transport, transcript of evidence, Brisbane, 12 June 2003, p. 677.

67 National Farmers' Federation, submission no. 139, p. 3.

68 Regional Aviation Association of Australia, submission no. 93, p. 11.

69 Local Government Association of the Northern Territory, submission no. 87, p. 5.

70 National Farmers' Federation, submission no. 139, p. 15.

71 New South Wales Farmers' Association, submission no. 179, p. 7.

72 South East Australian Transport Strategy Inc, submission no. 140, p. 16.

73 Rockhampton City Council, submission no. 121, p. 11.

- 2.83 The AAA have called upon the Commonwealth to provide support to the aviation industry:

Historically, the federal government provided assistance to develop a vibrant airport and aviation infrastructure. Now they need to be more proactive with the remote area service subsidy scheme and community service obligations rather than just leave it to the market to work out the situation.⁷⁴

- 2.84 The Australian Local Government Association seeks the introduction of a universal service plan by the Commonwealth, to ensure regular aviation services are provided to regional and remote communities at a reasonable cost. Such a plan would enable aviation providers to tender and compete for provision of services to regional and rural areas. Cross-subsidised pricing structures would in effect produce a community service obligation ensuring remote Australians are not disadvantaged compared to their counterparts in more populated regions of the nation. A comparative example is the deregulation of telecommunications, where the government took steps to ensure that remote Australians were not disadvantaged.⁷⁵

- 2.85 Orange City Council stated that aviation has a very important role to play in regional Australia, and that local, state and Commonwealth governments have an obligation to ensure services are maintained, giving subsidies, if necessary, to ensure this occurs.⁷⁶

- 2.86 The shires of Narrandera and Leeton also believe the government must monitor regional airlines and if necessary, impose a community service obligation to ensure services continue to key centres.⁷⁷

- 2.87 The Shire of Parkes has also admitted to incurring a substantial loss in the operation of its airport, in meeting its community service obligations. The shire claims it keeps landing fees to a minimum.⁷⁸

74 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 228.

75 Australian Local Government Association, submission no. 108, p. 2; Local Government Association of New South Wales, submission no. 109, p. 4.

76 Orange City Council, transcript of evidence, Sydney, 8 May 2003, p. 495.

77 Narrandera and Leeton Shire Councils, submission no. 74, p. 2.

78 Parkes Shire Council, submission no. 137, p. 1.

- 2.88 King Island Council recommended that there must be, at some level in government, recognition that there is a community service obligation to provide air services to remote populated islands.⁷⁹ King Island Council also recommended that government, as a community service obligation, should establish a service centre to cater for regional passengers who do not have access to fares via the internet.⁸⁰
- 2.89 Flinders Council, King Island Council and the Cradle Coast Authority were among many to argue that the Commonwealth should support, as a community service obligation, air services to locationally disadvantaged communities reliant on those services for daily transport services. This obligation was variably described as including maintenance of aerodromes and associated facilities for such communities, and centralised ticketing facilities.⁸¹ Others to argue for a Commonwealth community service obligation included the District Council of Grant and the Kangaroo Island Development Board (KIDB).
- 2.90 Despite the recognition of a community service obligation, some council landing fees may be too high, adding considerable cost to regional air fares. Paul Bredereck, a former regional airline owner, believes that the local airport owner's landing fees and charges are far too high. In over 80 per cent of the routes that he operated, council charges were a barrier.⁸² An example given by Mr Bredereck:
- If a Greyhound or a McCafferty's bus drops a passenger in a small regional town, the local council is not expecting to pick up a \$12 passenger head tax—there would be a huge outcry over that. But if a local operator drops a passenger off in his Piper Chieftain, the local council has its hand out.⁸³
- 2.91 However, the committee notes the weakness in this argument. A bus drop off point does not commit a council to the same level of infrastructure as does an airport.

79 King Island Council, submission no. 132, p. 12.

80 King Island Council, submission no. 132, p. 14; transcript of evidence, Melbourne, 26 February 2003, p. 260.

81 Flinders Council, submission no. 110, p. 6; King Island Council, submission no. 132, p. 14; transcript of evidence, Melbourne, 26 February 2003, p. 260.

82 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 641.

83 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 641.

- 2.92 Qantas Airways Ltd claimed that it operates under community service obligations in some circumstances, in that the company operates on particular routes, despite making a loss on those routes. The company also claimed that, on a case by case basis, it is prepared to take into account sustaining more losses on particular routes, in order to maintain services to areas suffering under difficult circumstance, e.g. an extended drought.⁸⁴ Qantas, however, did not provide specific examples of where this occurred, nor did they demonstrate where their consideration of such factors actually resulted in the retention of unprofitable services.
- 2.93 Qantas advocates minimal regulation and support for the industry, although it concedes that there is one exception to that argument. There may be a case for government support through subsidy, in markets where no air service would exist otherwise. The subsidy should only be sufficient to encourage, through a competitive tendering process, a single operator on a route. Should the government deem it to be a community service obligation to have an air service to a particular location, the government would then through a tender offer enough subsidy to attract a single entrant onto a route. This particular model does work in Queensland under the state government's remote network policy. It creates competition at the point of selection on routes that would have no air service.⁸⁵
- 2.94 Qantas Airways Ltd believes there are certain aspects of the aviation industry that should be paid for by government, as a community service obligation. Qantas claims that the costs of operating regional air traffic control towers are not fully recovered, despite a government subsidy of \$7 million, and that the remainder of these costs are hidden in Airservices Australia's charges, the bulk of which fall onto Qantas. Qantas believes the entire cost of these towers, the main beneficiaries of which are light aircraft operators, should be a community service obligation, transparently and discretely accounted for in the Commonwealth Budget.⁸⁶
- 2.95 Rex submitted that independent regional carriers should get government support to reduce the cost impost of both aeronautical charges and landing fees at major airports, which would in effect recognise the community service obligation nature of essential regional services.⁸⁷

84 Qantas Airways Ltd, transcript of evidence, Sydney, 8 May 2003, p. 479.

85 Qantas Airways Ltd, transcript of evidence, Sydney, 8 May 2003, p. 482.

86 Qantas Airways Ltd, submission no. 146, p. 8.

87 Regional Express, submission no. 116, p. 9.

2.96 The issue of government support in meeting community service obligations is complex. Regional aviation is a very uncertain and difficult business as history has shown. Instability and the withdrawal of services has adversely affected regional communities and their local economies. Therefore the committee considers that there is a need for the Commonwealth to review its approach and consider the possible role of community service obligation standards, and the extent to which the Commonwealth should provide support. This is discussed further in chapter 4.

The operating environment for regional air services

Introduction

- 3.1 The business environment in which regional airlines operate is influenced by some factors external to the individual firms and others that are internal to the firm. External factors range from global issues and events to Australian government policies and the behaviour of other firms in the industry. Internal factors are, for example, the business and technical skills of small operators.
- 3.2 The network nature of aviation means that economic shocks affecting international aviation have an impact on regional aviation. Equally, government interventions in the domestic aviation industry also impact on the regional aviation sector.¹
- 3.3 Government policy issues and their effects on airlines are considered in chapters 6 and 7.

¹ Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 21; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. 42.

Changes in the demand for regional aviation services

- 3.4 The committee found consensus in the evidence that the regional aviation industry is adjusting to the short and long term shocks that are continuing to affect the demand for regional air travel. The most notable of these shocks are:
- Terrorism and security;
 - Ansett's collapse;
 - Rising insurance costs; and
 - Severe Acute Respiratory Syndrome.
- 3.5 Ongoing factors that continue to affect the demand for regional air travel are:
- Long-term changes in Australia's population distribution;
 - Competition from alternative means of transport and communication; and
 - Drought.²
- 3.6 Airline passengers want affordable airfares, comfortable aircraft, convenient flight times and connections to other services and security. The travelling public base their decisions on whether to use road, rail or air transport depending on their circumstances. The cost of airfares appears to be a key issue determining this choice.³ However, the New South Wales Government and others alluded to road safety as an issue that may not be considered in a person's decision to choose road over air travel.⁴
- 3.7 The public's expectation of what they should pay for an airfare has been shaped by the discount airfares offered by major domestic airlines between capital cities.⁵ This is the result of the Commonwealth's 'open skies' policy that has created strong competition between the major domestic airlines Qantas and Virgin Blue on the trunk routes between capital cities.
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2 Department of Transport and Regional Services, submission no. 81, pp. 3-4; Macair Airlines Pty Ltd, submission no. 76, pp. 4-5; Regional Aviation Association of Australia, submission no. 93, p. 3; Regional Express, submission no. 116, pp. 3, 8-10.

3 Orange City Council, transcript of evidence, Sydney, 12 June 2003, p. 494; Macair Airlines, transcript of evidence, Brisbane, 11 June 2003, p. 592.

4 New South Wales Government, submission no. 151, p. 8.

5 Qantas Airways Limited, submission no. 146, pp. 4-5; Tasmanian Government, submission no. 155, pp. 5-6.

- 3.8 The committee found that people would choose to drive their car for three to five hours instead of flying. The reason given was that cars and major roads are good or improving and road transport is more convenient and represented better value.⁶
- 3.9 Recent BTRE research showed over the past 15 years that air travel accounted for about 26 per cent of all non-urban passenger travel on a passenger-kilometre travelled basis, and the private car accounted for 65 per cent. Alternatively, for all long-distance regional passenger travel, air accounted for three per cent on a passenger-trip basis, and the private car accounted for 91 per cent.⁷
- 3.10 Air travel is primarily used for travelling distances over 400 kilometres. Research by BTRE showed that in 2000, about 94 per cent of all car trips are to a destination within 400 kilometres, while the reverse is true for air – over 90 per cent of air trips are to a destination more than 400 kilometres from home.⁸
- 3.11 Evidence presented to the committee showed that regional air travel was down by 20 to 30 per cent in recent years.⁹ BTRE research supported this, showing that total domestic air travel was down by 10 per cent. The demand for air travel was beginning to slow before the recent terrorism and Ansett collapse events. This was explained by airfares having stabilised¹⁰ following aviation deregulation and the heavy discounting that accompanied the struggle for market share. BTRE considered that the prospects for growth in regional air travel were very low.¹¹

6 Qantas Airways Pty Ltd, transcript of evidence, Sydney, 12 June 2003, p. 475; Orange City Council, transcript of evidence, Sydney, p. 497; Sydney Airports Corporation, transcript of evidence, Sydney, p. 513; New South Wales Government, transcript of evidence, Sydney, pp. 526, 529, 551-552.

7 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 8.

8 Bureau of Transport and Regional Economics (2000), Working Paper 51, '*Regional Public Transport in Australia: Long Distance Services, Trends and Projections*', p. 97.

9 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 545; Regional Express, transcript of evidence, Sydney, 8 May 2003, pp. 556-557; Albury City Council, transcript of evidence, Wagga Wagga, 7 May 2003, p. 433; Hervey Bay City Council; submission no. 186, p. 2.

10 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 8.

11 Qantas Airways Limited, transcript of evidence, Sydney, 8 May 2003, pp. 473-474; Bureau of Transport and Regional Economics (2000), Working Paper 51, '*Regional Public Transport in Australia: Long Distance Services, Trends and Projections*', p. xxvii.

- 3.12 Qantas drew on the finding of the BTRE research that regional air travel has declined and there is little prospect for growth, saying:

The underlying economics of operating regional services are not good, and there is only very limited growth potential in regional markets. [BTRE] estimates that over the past 15 years passenger numbers to and from regional airports have grown by about 1.4 per cent per annum and have generally been negative at airports where the throughput is under 10 000 passengers a year. That is clearly reflected in the number of airline operators that have failed and the number of smaller population centres no longer served by scheduled airline services.¹²

- 3.13 The changing demand for airline services is one of many challenges the industry, particularly regional aviation services, has to face.

The supply of regional aviation services

- 3.14 The committee found that the major impediments to the expansion of existing regional airlines and the emergence of new ones were costs, route factors, interoperability with major carriers, access to finance and the high cost of new aircraft, the predatory behaviour of larger airlines, the business skills of small operators, and the shortage of pilots and aircraft mechanics.¹³
- 3.15 Research by BTRE found that airlines are able to control the service quality-price tradeoff, but their ability to influence prices relative to other modes of transport is limited by their cost structures.¹⁴

12 Qantas Airways Limited, transcript of evidence, Sydney, 8 May 2003, p. 473.

13 Regional Aviation Association of Australia, submission no. 93; Local Government Association of New South Wales, submission no. 109, pp. 1-2.

14 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. xii.

Costs

- 3.16 A significant amount of evidence presented to the committee indicated that the costs of operating a regional airline have risen significantly in recent years.¹⁵ This rise in costs appeared to be one of the most significant factors affecting the viability of many operators. If operators are not viable, their withdrawal from the market reduces the supply and therefore the adequacy of regional aviation services.
- 3.17 Some of the cost increases have come from global issues such as currency fluctuations. The Department of Transport and Regional Services (DOTARS) explained the effect and cause of currency movements by saying:
- ... fuel prices fluctuate quite heavily and are probably the largest single contributor to variability in the input costs in the industry. The US dollar's effect on the capital side is also difficult. These things are not entirely in the control of government.¹⁶
- 3.18 Currency movements are significant because aircraft are priced in American dollars and fuel prices are based on international prices. Currency movements also affect maintenance costs because most aircraft parts come from the United States. The volatility of currency movements also has substantial impact because it increases the uncertainty of costs, makes financial planning difficult and can affect cash flow.
- 3.19 During the inspection of its engine maintenance facility at Wagga Wagga, Rex told the committee that major engine overhauls can cost hundreds of thousands of dollars.¹⁷ Even minor currency fluctuations can therefore be significant.
- 3.20 Island Airlines Tasmania Pty Ltd put fixed and running costs in perspective saying:
- The ongoing costs are what you will pay attention to, not the initial purchase. A new Chieftain would have a \$7,000-a-month lease payment. That is insignificant against a \$120,000-a-year maintenance bill for labour alone.¹⁸

15 Regional Express, submission no. 116, pp. 9-10; Regional Aviation Association of Australia, submission no. 94; National Farmers Federation, submission no. 139.

16 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 652.

17 Regional Express, inspection of Wagga Wagga facilities, 7 May 2003.

18 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, p. 294.

- 3.21 There is limited opportunity to pass increased costs on to passengers. Many customers are sensitive to the price of airfares and to changes in airfare prices.¹⁹ Because of people's sensitivity to the prices of alternative means of transport, called cross-elasticity of demand, in many instances they will drive to the destination in preference to flying.
- 3.22 The committee noted that the BTRE surveys and reports on airline costs and other performance information are in its publication *Avline*.²⁰ From the evidence presented, the committee considered that the variability of costs has a significant impact on the adequacy of regional air services.

Route factors

- 3.23 As described above, much has happened in recent years to erode the markets of regional airlines. Evidence suggests that there is little prospect for market expansion in the industry. Another factor impacting on the supply of air services is improved aircraft technology. While technology has made new aircraft more capable, evidence suggests that many markets cannot sustain them.

Sustainability of regional routes

- 3.24 The viability of a route depends on costs and revenue. Regional airlines are faced with very high capital costs and high operating costs.²¹ This makes the cost per seat kilometre very high and reduces profit margins. To remain viable, regional airlines need to operate their aircraft with nearly full loads and have them fully utilised earning income. Load factors of 60 to 70 per cent are sufficient, but in some instances load factors as low as 50 per cent are adequate.²²

19 Paul Bredereck, submission no. 42, p. 1.

20 Bureau of Transport and Regional Economics, 'Avline', Issue One, January 2003, <http://www.btre.gov.au>, last accessed 6 August 2003.

21 Qantas Airways Limited, submission no. 146, p. 4.

22 Captain Shrubbs, submission no. 43, p. 2; Edge Aviation, submission no. 65, 9; Paul Bredereck, submission no. 42, p. 1; Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 642.

- 3.25 Many routes can only offer small numbers of passengers that will not generate adequate load factors. Other routes such as Flinders Island have strong seasonal flows of passengers in one direction and near empty aircraft on the return leg.²³
- 3.26 The viability of regional air routes varies from sustainable to marginal to unsustainable, depending on the customer demand and type of aircraft the operator uses on the route. The smaller the aircraft and the shorter the sector length flown, the higher the unit cost per passenger or seat. Marginal routes that will sustain a Piper Chieftain would not sustain a Dash 8.²⁴
- 3.27 The New South Wales Government offered to the committee the research of Hazelton's administrator and bidders for the airline. This research provided greater clarity on the issue of airline viability (at the time of Ansett's collapse in late 2001).²⁵ The research found that:
- Routes with a volume of more than about 100 000 passengers per annum could support two airlines, each using a 36-seat aircraft full time providing three daily services per day to Sydney. Four routes in this category were Coffs Harbour, Albury, Dubbo and Wagga Wagga;
 - Routes with a volume between about 65 000 and 100 000 passengers per annum could support one airline full time and another with a partly committed aircraft, each using a 36-seat aircraft providing three daily services per day to Sydney. Routes in this category were Ballina, Tamworth, Port Macquarie, Armidale, and Newcastle-Williamstown;
 - A route volume of between 35 000 and 65 000 passengers per annum could support only one operator using a 36-seat aircraft full time. Routes in this category were Orange, Lismore and Griffith;
 - A route volume of between 6 000 and 35 000 passengers per annum could support one operator using a 19-seat aircraft on a full time or part time basis. Routes in this category were Taree, Grafton, Moree and Narrandera amongst others; and
 - Routes with volumes of less than 6 000 passengers per annum could only support nine to 12-seat aircraft. Routes in this category were Inverell, Glenn Innes and Bourke amongst others.

23 Tasmanian Government, submission no. 155, p. 5; Tasmanian Government, transcript of evidence, Launceston, 24 February 2003, pp. 62, 76.

24 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 644; Paul Bredereck, submission no. 42, pp. 1-2; Qantas, submission no. 146, p. 4.

25 New South Wales Government, submission no. 151, pp. 7-8.

- 3.28 In the current New South Wales regional aviation market, the New South Wales Government considered that routes with volumes of 65 000 to 35 000 passengers per annum would support up to a 19-seat aircraft.
- 3.29 The Western Australian Government commissioned research from Tourism Futures and the Centre for Asia Pacific Aviation that was completed late in 2002.²⁶ The Western Australian Government has used this research to assist it in adjusting its aviation policy.
- 3.30 The research classified routes into five classes ranging from those that could sustain competition with jet aircraft to those routes that may require government subsidisation. Western Australia's routes can be characterised as having long sector lengths compared with other states.
- 3.31 In general terms, routes with a volume of more than 100 000 passengers per annum (carried in both directions) could support competition amongst jet operators. Routes in this category are Perth to Broome, Karratha and Kalgoorlie.
- 3.32 The research also found that in general terms for turboprop aircraft:
- Routes with more than 60 000 passengers per annum (carried in both directions) could support competition amongst turboprop operators, although competition would have a potentially destabilising impact on the RPT network. The Perth to Geraldton route was the only route in this category;
 - Routes with between 40 000 and 60 000 passengers per annum, are unlikely to sustain competition. These routes would need to operate as a network (hub services) to maintain a viable and ongoing level of service to regional communities. Competition would undermine the capacity of existing operators to cross-subsidise marginal services. Some routes in this category are Monkey Mia, Kalbarri, Laverton and Leonora;
 - Routes between 10 000 and 40 000 passengers per annum could operate commercially but not competitively. Competition could result in a degraded service and medium-term instability. These routes are likely to require an exclusive licence to be viable on an ongoing basis. Examples of these routes are Perth to Albany, Esperance, Carnarvon, and Broome to Kununurra; and

26 Tourism Futures, and Centre for Asia Pacific Aviation (2002), *Review and assessment of the Effectiveness of Air Services in Western Australia, Overview Report for Department for Planning and Infrastructure*, pp. 24-25, <http://www.dpi.wa.gov.au>, last accessed 11 September 2003.

- Routes with less than 10 000 passengers per annum generally need to be part of a network to operate commercially or may require a subsidy. Routes include the network Exmouth to Broome via Karratha and Port Hedland, and the routes Broome to Wiluna, Derby, Fitzroy Crossing and Halls Creek, and Perth to Meekatharra and Wiluna.

3.33 Island Airlines Tasmania Pty Ltd told the committee that the cost of operating a turboprop aircraft is about double that of a piston-engined aircraft. Economies of scale in the turboprop aircraft are not realised until the seating capacity of 18 is reached. At this point the cost per seat kilometre of each aircraft is reached:

In aircraft of nine seats, if we look at an analysis, say, of running a turbocharged piston engine aircraft as against a turboprop, we find the seat to mile cost of a turboprop aircraft is nearly double that of a piston engine aircraft of roughly the same seat capacity. Although turboprops are much more reliable, they do not tend to have the same economic capacity until you get to about the 18-seat capacity, and then you start getting economies of scale, which means you are starting to get to roughly the same operating costs per seat as a piston engine aircraft.²⁷

3.34 Qantas provided to the committee a comparison of a 36-seat aircraft operating on a regional route and a 260-seat aircraft operating on a trunk route:

- The crew costs per seat on a 36-seat aircraft are four times per seat greater than for a 260-seat aircraft;
- The maintenance costs per seat on the same 36-seat aircraft are more than twice those of the 260-seat aircraft;
- Aircraft ownership costs for the 36-seat aircraft are more than 50 per cent higher per seat than the 260-seat aircraft; and
- Landing and enroute charges for the 36-seat aircraft are more than 40 per cent higher per seat than the 260-seat aircraft.

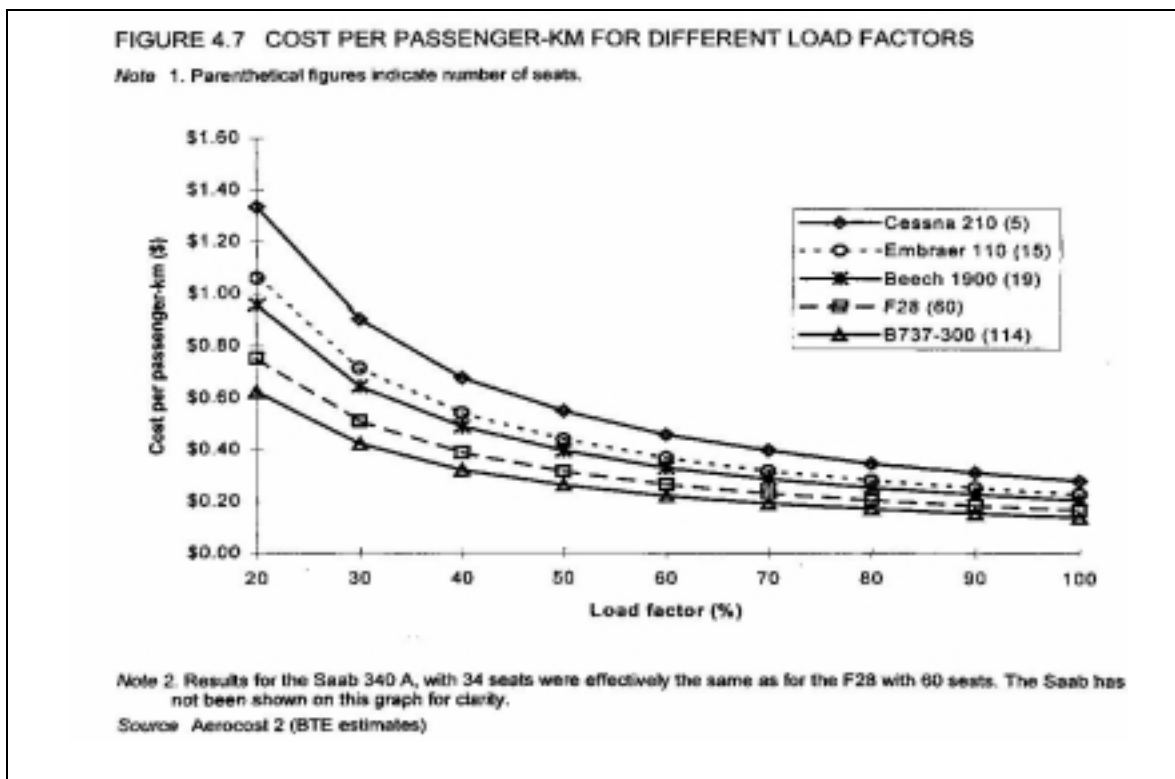
3.35 Research from BTRE supports these findings. These findings are summarised in Figure 2.1 and show that:

- The cost per seat generally declines as the aircraft size increases, because the fixed costs are spread among more passengers;

27 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, p. 282.

- The cost per kilometre flown declines as the stage length increases. Propeller aircraft are cheaper to operate over shorter distances than jets;
- All aircraft are relatively expensive to operate over distances up to 200 kilometres; and
- The cost per passenger declines as the percentage of seats filled on the aircraft increases.²⁸

Figure 3.1 Cost per passenger-kilometres for different load factors.²⁹



3.36 From an operator's perspective, an ideal route should have passengers and freight. The passengers should comprise a mix of different types of passengers paying a fare according to their preference. Business passengers can afford to pay the highest fare and want the flexibility of being able to obtain a seat at the last minute. Many people travelling by air

28 Bureau of Transport and Regional Economics (2000), Working Paper 41, 'Regional Aviation Competitiveness', pp. 59-60.

29 Bureau of Transport and Regional Economics (2000), Working Paper 41, 'Regional Aviation Competitiveness', p. 61.

for leisure or visiting friends and relatives are less willing and often less able to pay the full fare.³⁰

- 3.37 Given these passenger preferences, airlines are able to obtain a higher price for business related air travel. International evidence suggested that business and government travellers can represent up to 50 per cent of passengers and provide up to 80 per cent of revenue. In Australia, recent research indicated that around 65 per cent of regional air passengers were business travellers.³¹ The larger routes regional routes to and from say Coolangatta or Launceston are more likely to offer these characteristics than smaller routes to remote communities in Western Australia or Northern Territory.
- 3.38 To improve their revenue, operators can use yield management techniques. Yield management enables the airline to compare the demand for seats or freight space with potential supply on a route and set fares and space availability accordingly.
- 3.39 Revenue depends on the number of paying seats occupied, the yield from each seat (load factor x yield) and the reliability of the aircraft to deliver the service.³²
- 3.40 Using yield management, an airline knows how many of each type of fare to offer to increase the revenue. Yield management relies on airlines using the electronic commerce-based booking systems linked with the global distribution systems such as Apollo, Sabre, Amadeus, Galileo or Abacus.³³

30 Tasmanian Government, submission no. 155, p. 5; Queensland Government, submission no. 153, p. 5; Department of Industry, Tourism and Resources, submission no. 159, p. 6; Grossman, D, '*Restructure the airline industry? Dream on*', <http://usatoday.printhis.clickability.com>, last accessed 1 August 2003; Costa, P.R., Harmed, D.S., and Lundquist, J.T., '*Operations Strategies in the Airline Industry*', McKinsey Quarterly, 31 December 2002, <http://bctim.wustl.edu/topics>, last accessed 4 August 2003; Leeton and Narrandera Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 444-445; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. xii, 43-53.

31 Grossman, D, '*Restructure the airline industry? Dream on*', <http://usatoday.printhis.clickability.com>, last accessed 1 August 2003; Costa, P.R., Harmed, D.S., and Lundquist, J.T., '*Operations Strategies in the Airline Industry*', McKinsey Quarterly, 31 December 2002, <http://bctim.wustl.edu/topics>, last accessed 4 August 2003; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. xii, 43-53.

32 Paul Bredereck, submission no. 42, p. 1-2; Macair Airlines, submission no. 76, p. 6.

33 Optims, 'Definition and history of yield management', http://www.tims.fr/UK/hight_profits.html, last accessed 14 July 2003; 'Yield Management a Growth Key Driver', http://airlinesgate.gree.fr/articles/growth_drivers.htm; last accessed 4 August 2003;

- 3.41 An alliance with a larger airline can provide the regional airline access to electronic commerce-based booking systems linked with global distribution systems. The issues surrounding electronic commerce based booking systems are discussed later in this chapter.

Regional hub services

- 3.42 Given the variability of costs and marginal viability of many regional routes, models for assessing and delivering are critical. There are two contending models for providing air services: the point-to-point model and the hub-and-spoke model.
- 3.43 The point-to-point model for air services has one airline flying from one airport to another.
- 3.44 The hub-and-spoke model has smaller airlines operating on the 'spokes' flying between a large regional centre and smaller outlying towns. A larger carrier provides a linking service from the large regional centre to another major port such as a capital city.
- 3.45 Regional hub services have been suggested as a solution to building a critical mass of passenger numbers at certain larger regional airports for their movement to capital cities. Regional hub services could improve the viability and adequacy of regional air services³⁴ and reduce air traffic congestion at capital city airports.
- 3.46 A significant amount of evidence presented to the committee indicated that hub services are uneconomic at smaller regional centres. Regional operators claimed that hub services are very costly to the airlines on the 'spokes'.³⁵ This is because the spoke airline would generally fly short sector lengths which are subject to higher costs. Most costs of operating an aircraft are incurred in taking off and landing rather than during cruising at altitude. Where there are more takeoffs and landings, maintenance costs

Davis, P., 'Airline Ties Profitability Yield to Management', *SIAM News*, Vol. 27 No. 5, May/June 1994.

34 Department of Transport and Regional Services, submission no. 81, p. 5.

35 Macair Airlines Pty Ltd, submission no. 76, p. 6; Paul Bredereck, submission no. 42, p. 3; Narrandera and Leeton Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 439.

are also higher because of increased wear and tear on engines.³⁶ Short sector length flights are therefore more expensive to operate.

- 3.47 Paul Bredereck explained to the committee the cost penalties of operating hub-and-spoke services:

I am personally not a proponent of hub services. The reason is that the bulk of the cost on regional air services is in your take-off and your landing. Once you are up in the cruise it is just burning a little bit of fuel. To operate into a hub you duplicate and multiply your costs.³⁷

- 3.48 A further difficulty of the hub-and-spoke model is the time penalty it may impose on passengers.³⁸ The importance of time to travellers was explained by a number of witnesses who told the committee that, unless an air service can save a passenger a three to five hour drive, people will drive to the nearest major centre.³⁹ Hub services must be timed to coincide with other linking services at capital cities and have access to landing slots at major airports. However, if passengers have to wait to make connections from hub services to major carriers, they may choose to drive instead.

- 3.49 Brindabella Airlines told the committee that its clients preferred point-to-point services over hub-and-spoke services:

...the success of our Williamtown service seems to be based around the fact that people have rejected the hub-and-spoke-through-Sydney idea.⁴⁰

36 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 460; Lance Watson, transcript of evidence, Sydney, 8 May 2003, p. 484.

37 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 647.

38 New South Wales Government, submission no. 151, p. 6.

39 Air Link Pty Ltd, submission no. 94, p. 3; City of Albury, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 425-426; Leeton and Narrandera Shire Councils, submission no. 74, p. 1; Leeton and Narrandera Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 439, 445; Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 451; Paul Rees, transcript of evidence, Wagga Wagga, 7 May 2003, p. 466; Orange City Council, submission no. 138, pp. 1-2; Orange City Council, transcript of evidence, Sydney, 8 May 2003, pp. 494, 501.

40 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 451.

- 3.50 For regional airlines to be viable, operators must provide the convenience that passengers want. This requires a streamlined interconnectivity between spoke and hub service operators, which has been achieved in some instances by an interline agreement. The issue of interoperability and airline agreements is considered in more detail later in this chapter.⁴¹
- 3.51 Currently, many regional air services have ceased and larger airlines are using hubs centred on the larger centres such as Cairns and Melbourne, Canberra, Brisbane, Sydney and Adelaide.⁴² Such hubs are inconvenient for passengers wanting to travel between regional centres. These hubs may discourage tourism⁴³ and increase airline costs.
- 3.52 Despite these criticisms, there was some evidence that hubs have applications in certain circumstances.⁴⁴
- 3.53 Air Link Pty Ltd, based at Dubbo, New South Wales, operates a very successful hub operation. The service collects passengers from outlying towns early in the morning, collects additional passengers at a major regional centre such as Dubbo, and carries the passengers on to Sydney.⁴⁵
- 3.54 Rex does not use hubs for its operations. However, two other airlines, Aeropelican and Horizon, have requested Rex to be part of hub operations.⁴⁶
- 3.55 Macair uses a mini-hub at Mt Isa, but uses the point-to-point model elsewhere in Queensland to connect to major coastal centres of Brisbane, Townsville and Cairns. This combination of hub and point-to-point services enables passengers to make other connections.⁴⁷
- 3.56 A triangular hub is operating to Griffith and Narrandera in New South Wales.⁴⁸

41 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. 47-48.

42 Queensland Government, submission no. 153, pp. 9-11; Government of Tasmania, transcript of evidence, Launceston, 24 February 2003, p. 75; Latrobe City Council, transcript of evidence, Tullamarine, 26 February 2003, p. 175.

43 Hervey Bay City Council, submission no. 186, p. 2.

44 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, pp. 319-323.

45 Air Link Pty Ltd, submission no. 94, pp. 1-2; New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 524.

46 Regional Express, transcript of evidence, Sydney, 8 May 2003, pp. 565-566.

47 Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 12 June 2003, p. 594.

48 New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 524; Narrandera and Leeton Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 435.

- 3.57 The Regional Aviation Association of Australia told the committee that the United States used the hub-and-spoke model 10 to 12 years ago. However, as airlines are now returning to the point-to-point model.⁴⁹
- 3.58 Qantas said that hubs have merit in limited circumstances, but are not a solution to the decline of services in regional centres.⁵⁰
- 3.59 The 'hub-and-spoke' model has been rejected by foreign national and international carriers in the current business environment. The point-to-point model is used by smaller airlines because it keeps costs relatively low.⁵¹
- 3.60 While some evidence suggested that government subsidies should be used to encourage hubs⁵² the Regional Aviation Association of Australia told the committee that most operators did not support subsidies. Operators, they claimed, just wanted a fair go at making money.⁵³
- 3.61 This was confirmed by other evidence that suggested that government did not have a role in encouraging the formation of hub-and-spokes.⁵⁴ The committee formed the opinion that the hub-and-spoke business model for regional air services had limited applications in the current business environment of high operating costs and low and declining passenger numbers. While it can be argued that the hub-and-spoke model provides the critical mass of passenger numbers that make services economic to provide, the cost and time penalties make them unattractive for airlines and passengers.
- 3.62 However, the committee considered that the decision on which was the most appropriate model to use was a commercial one. Consequently, there is no role for government to encourage the development of hub-and-spoke services.

49 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 709.

50 Qantas, submission no. 146, p. 6.

51 Ferguson, A., 'Wounded Kangaroo', BRW, p. 35; Woods, W., Atlanta Business Chronicle, 'Frustrating times for Delta', <http://www.bizjournals.com/atlanta/stories/2002>, last accessed 31 July 2003; Hansson, T., Ringbeck, J., and Franke, M., 'Flight for Survival: A New Operating Model for Airlines', <http://www.strategy-business.com>, last accessed 31 July 2003.

52 Bundaberg City Council, transcript of evidence, Brisbane, 12 June 2003, p. 607; Riverina Eastern Regional Organisation of Councils, submission no. 152, p. 1.

53 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 709.

54 Australian Airports Association, submission no. 93, p. 4.

Predatory behaviour of larger airlines

- 3.63 The committee heard evidence that larger airlines have entered the routes of smaller airlines in an attempt to increase their market share. Once the smaller airline had been forced out of business the larger airline then withdrew from the route or increased its ticket prices.⁵⁵ Other than the example discussed in chapter 2 concerning Virgin Blue's attempt to commence a service to Mt Isa, the committee did not receive evidence that named other routes where predatory behaviour had occurred or evidence that named larger airlines which had practiced such behaviour. The committee understands the reluctance of smaller airlines to provide names or specific examples of where this behaviour might have occurred.
- 3.64 A possible explanation for this predatory behaviour is the struggle for market share, particularly following deregulation. The larger airline could offer lower fares, better aircraft and better services. However, once it is established in the new route it finds the route to be unviable and withdraws. The community is then left without a service. In this environment, a new operator may have difficulty re-establishing a service due to the lack of community support.
- 3.65 The committee noted that in a competitive business environment predatory behaviour can occur. Although this type of behaviour obviously impacts on the viability of regional airlines, it is not considered one of the major factors affecting the industry. The committee notes that competition laws and trade practices legislation offer some protection against this behaviour. State government route protection also offers some protection to existing operators, as the Western Australia, Queensland and the New South Wales governments told the committee.⁵⁶

55 New South Wales Government, transcript of evidence, Sydney, 8 May 2003, pp. 522-523; Edge Aviation, submission no. 65, p. 2.

56 Western Australia Government, transcript of evidence, Canberra, 10 September 2003, p. 740; New South Wales, transcript of evidence, Sydney, 8 May 2003, pp. 522-523.

Access and interoperability with major carriers

- 3.66 Airlines often enter agreements with other carriers to integrate their functions to provide a range of improved networks, services and facilities for travellers, including computerised reservation systems.

Agreements between airlines

- 3.67 A number of regional airlines and the RAAA said that it is vital for a regional airline to negotiate an agreement with major airlines.⁵⁷ This agreement provides the regional airline with access to the major airline's computer reservation system, technical and information technology support, through-ticketing, on-carriage to and from trunk services, ground handling and ramp handling services and terminal facilities.
- 3.68 Three common types of agreement are alliance, code sharing and interlining:
- An *alliance agreement* - this involves high level cooperation and may include the integration and consolidation of resources, coordination of schedules, services and marketing, as well as revenue sharing;⁵⁸
 - A *code sharing agreement* - this is the assignment of one airline's designator code, e.g. QF for Qantas, to a flight operated by another airline.⁵⁹ A code share agreement between two carriers commonly specifies the services each carrier will perform, the insurance requirements, a schedule for sharing the revenue and the origin and destination of the flights to be code shared and operated by each carrier;⁶⁰ and
 - An *interlining agreement* - this gives one carrier the authority as agent to issue tickets for the carriage of passengers and/or freight on behalf of the other carrier. It involves the coordination of baggage checks, carriage or air cargo, and the honouring of tickets between airlines. The

57 Macair Airlines, submission no. 76, pp. 4-5; Brindabella Airlines Pty Ltd, transcript of evidence, Wagga Wagga, 7 May 2003, p. 450; Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 556; Regional Aviation Association of Australia, submission no. 93, p. 9.

58 'Code Sharing, Issues and Solutions from the Perspective of Leading Underwriters and Aviation Counsel', March/April 2000, p. 4., www.baig.co.uk, last accessed 1 August 2003.

59 Productivity Commission, 'International Air Services', Report No. 2, 11 September 1998, p. XIV, www.pc.gov.au, last accessed 1 August 2003.

60 'Code Sharing, Issues and Solutions from the Perspective of Leading Underwriters and Aviation Counsel', March/April 2000, p. 4., www.baig.co.uk/white%20paper.pdf, last accessed 1 August 2003.

identity of each carrier is maintained whereby the operating carrier's designator code to identify the flight.⁶¹

- 3.69 The evidence indicated that an agreement between a regional airline and the major airlines to work together provides benefits to both parties. The smaller regional airline partner benefits from offering its passengers to or from a domestic or international destination a better quality of service. This may entail relatively seamless travel across an expanded route network, better connections, increased frequent flyer program benefits, and more streamlined ticketing, check-in and baggage handling.⁶²
- 3.70 Evidence from the Centre for Asia Pacific Aviation indicated that about 20 per cent of regional aircraft loads are generated from linking flights with the group or through interline partners. This enhances the airline's marketing capability, broadens the potential market base and enables it to offer more competitive fares on a 'through rate' basis.⁶³
- 3.71 Air Link Pty Ltd confirmed the complementary nature of interline agreements saying that the contribution of regional airlines to the passenger numbers of major domestic airlines is up to 20 per cent.⁶⁴
- 3.72 While Rex did not have a bilateral interline agreement with Australia's major carrier Qantas, it did have such agreements with 19 international airlines.⁶⁵ Rex told the committee that it wanted interline agreements with domestic carriers because they had the potential to increase revenue up to 30 per cent:
- The main reason we need the interline is the estimate that somewhere between 10 per cent and 35 per cent of our revenue would be made up of interline if we had worthwhile interline on the domestic trunk routes.⁶⁶
- 3.73 Brindabella Airlines told the committee that its alliance with Qantas was essential to its success in providing RPT services.⁶⁷

61 Productivity Commission, *'International Air Services'*, Report No. 2, 11 September 1998, p. XV; *'Code Sharing, Issues and Solutions from the Perspective of Leading Underwriters and Aviation Counsel'*, March/April 2000, p. 4., www.baig.co.uk, last accessed 1 August 2003.

62 Bureau of Transport and Regional Economics (2000), Working Paper 41, *'Regional Aviation Competitiveness'*, p. 25.

63 Sydney Airports Corporation Limited, submission no. 158, enclosure Centre for Asia Pacific Aviation, *'Airport Charges for Regional Airlines at Sydney Airport'*, p. 9.

64 Air Link Pty Ltd, submission no. 94, p. 4.

65 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 558.

66 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 556.

67 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 450, 460-461.

- 3.74 Qantas told the committee that it offers interlining arrangements to its affiliates and it is working to extend electronic ticketing to its affiliates.⁶⁸
- 3.75 Underlining the importance of alliances in regional air movements, BTRE said that in 1997 just over half of the regional airlines had an alliance with one of the domestic airlines - then Qantas and Ansett. These airlines carried 97 per cent of the regional passengers. The remaining 21 non-aligned airlines carried only three per cent of regional traffic. Airlines with an alliance with a domestic airline operated on 84 per cent of regional routes.⁶⁹
- 3.76 The committee considered it important for regional carriers to gain access to a major airline's computer reservation system, technical and information technology support, through-ticketing, on-carriage to and from trunk services, ground handling and ramp handling services and terminal facilities. This access is best achieved through the negotiation of some type of agreement with other carriers.

Computerised reservation systems

- 3.77 The committee was told that for an airline to have reasonable exposure in a computerised reservation system environment it should participate in at least three computerised reservation systems. For the same airline to receive bookings from travel agents that use computerised reservation systems it would need an International Air Transport Association airline designator, and hosting on a central computer.⁷⁰
- 3.78 The cost of building the necessary computer links, being listed on a computerised reservation system, and transaction costs can be high. One witness told the inquiry that it cost around \$50 000 to build the necessary computer links to enable the systems of both the major and minor airline to communicate with one another. The owners of these reservation systems charge an access fee and a transaction fee.⁷¹
- 3.79 The committee noted that the lack of compatibility between computerised reservations systems makes the cost of being a member of multiple systems even more expensive.

68 Qantas Airways Limited, transcript of evidence, Sydney, 8 May 2003, pp. 476-477.

69 Bureau of Transport and Regional Economics (2000), Working Paper 41, 'Regional Aviation Competitiveness', p. 25.

70 Air Link Pty Ltd, submission no. 94, p. 2; Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 461.

71 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 565.

- 3.80 One impediment to small operators listing on computerised reservations systems is the potential for some travel agents that are owned by major airlines giving priority to companies in their own network over other airlines.⁷²
- 3.81 Paul Rees gave a note of caution saying that it is possible for a small regional carrier to be listed on 'page 2' of a computerised reservations system. Placed on 'page 2', it was possible for the travel clerk to easily overlook a competitive regional carrier if they did not look beyond the first page.⁷³
- 3.82 The AAA told the committee that in 1993 the then Trade Practices Commission granted the two of the global computerised reservation systems, Galileo and Sabre, an exemption from the restrictive trading provisions of the Trade Practices Act. The exemption was allowed on the condition that a code of conduct applied. The code of conduct was intended to enable third level operator services to be displayed alongside the services of the larger competitor.⁷⁴
- 3.83 Historically, Australia's largest domestic airlines had ultimate control over these computerised reservation systems. The authorisation for the code of conduct arrangement expired in 1997 and it has not been renewed.⁷⁵ The Australian Competition and Consumer Commission advised that under these circumstances the normal provisions of the legislation apply.⁷⁶
- 3.84 There is also a code of conduct for computerised reservation systems drawn up by the International Civil Aviation Organisation (ICAO). Australia is a signatory to the ICAO conventions. This code states that an ideal computerised reservation system should have a visual display that 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 flight times, direct flights and those with minimum intermediate stops preferred.⁷⁷
- 3.85 The committee believes that a competitiveness issue has emerged with computerised reservation systems, particularly those operated by the larger airlines and by travel agents linked to major airlines.
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72 Macair Airlines, submission no. 76, p. 5.

73 Paul Rees, transcript of evidence, Wagga Wagga, 7 May 2003, p. 466.

74 Australian Airports Association, submission no. 70, p. 6.

75 Australian Airports Association, submission no. 70, p. 6.

76 Australian Competition and Consumer Commission, communication with secretariat, 18 August 2003.

77 Australian Airports Association, submission no. 70, p. 6.

- 3.86 The committee considered that the interoperability between major carriers, travel agents and regional airlines could be improved in the area of computerised reservation systems. This view was based on evidence that the current market environment could be contributing to restrictive trade practices. Improving the interoperability of players would provide regional airlines greater market access.
- 3.87 The committee considered that the competitiveness of computerised reservation systems warranted investigation and that appropriate action should be taken if necessary.

Recommendation 1

3.88 The committee recommends that the Australian Competition and Consumer Commission:

- Investigate the anti-competitive behaviour of the operators of computerised reservation systems as it affects regional airlines;
- Report its findings by the end of 2004; and
- Take action against any party found to be abusing its market position with regard to the operation of computerised reservation systems.

Access to finance

- 3.89 Regional aviation businesses need finance to expand and improve the levels of air services to regional and remote communities. The availability and cost (interest) of that finance are some factors that limit the ability of small operators to expand their market services and achieve economies of scale.⁷⁸
- 3.90 Macair and Airnorth Regional told the committee that undercapitalisation contributed to the failure of many regional airlines. Small regional operators do not have the size to absorb large unexpected changes in their costs or revenues. To survive, an aviation business should be of sufficient size and have a number of contracts and a spread of business interests.

78 South Australia Government, submission no. 148, p. 11; Regional Aviation Association of Australia, submission no. 93, p. 6; Airnorth Regional, submission no. 102, p. 11.

Each of these revenue earning centres should be independently strong to enable the organisation to cross-subsidise its activities during difficult times.⁷⁹ Australia's largest airline Qantas uses this business model and cross-subsidises its regional services as part of its network economics.⁸⁰

- 3.91 Smaller regional airlines experience difficulties obtaining loan or debt finance. Unlike their large counterparts, such as Qantas, small airlines are generally unable to draw on loans from overseas sources at low rates of interest. Small regional airlines may have to resort to a finance company with higher rates of interest. They may also face even higher interest rates because they are assessed as a higher risk of not meeting repayment obligations.
- 3.92 There are a number of reasons that lending institutions do not generally consider small airlines to be attractive investments. Small airlines offer relatively low potential returns stemming from their route low capacities, the lack of secure cash flow, the high operating costs and the variability and uncertainty of future.⁸¹
- 3.93 Island Airlines Tasmania told the committee that it was difficult to obtain finance for an aircraft to service Flinders Island. Flinders Island is a marginal route and has a high turnover of airlines serving it. In addition, the general downturn in the world aviation industry, followed by the 11 September 2001 terrorist attacks in the United States, has made the finance market very sceptical about the aviation industry.⁸²
- 3.94 A further change in the industry is the ownership of aircraft. Traditionally, airlines have owned their aircraft. Now, it is becoming more common for airlines to lease aircraft. BTRE reported in 2000 that more than 25 per cent of the regional airline fleet was leased.

79 Macair Airlines Pty Ltd, submission no. 76, p. 4; Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 12 June 2003, pp. 598-600; South Australia Government, submission no. 148, p. 11; Airnorth Regional, submission no. 102, p. 12.

80 Qantas Airways Limited, transcript of evidence, Sydney, 8 May 2003, pp. 474, 478.

81 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, pp. 639-640; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. 62-63.

82 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, p. 282.

- 3.95 When an aircraft is leased, there is no large initial cash outlay, and instead payments are made throughout the lease period. Consequently, airlines have to match revenues and outlays each year. Lease payments must continue to be met regardless of passenger numbers or services offered. In this case, an airline is more likely to experience severe financial difficulties, or even go bankrupt, in years when it experiences a downturn.⁸³
- 3.96 The lack of finance and sufficient depth in a regional airline can have an influence on the airline's ability to deal with unforeseen unavailability (unserviceability) of its aircraft. Tasair said that its ability to meet peaks in demand with the right type of aircraft was a reason for its success in the industry.⁸⁴ However, if an airline does not have sufficient aircraft, or other options such as a colleague airline, as a backup, its consistency of service delivery will suffer.⁸⁵

Possible solutions

A community airline cooperative

- 3.97 Edge Aviation and Paul Bredereck independently proposed a community airline cooperative for smaller regional communities. The cooperative would service marginal air routes that are not serviced by a commercial operator. It was suggested that the cooperative would own its own aircraft, and the government could provide some seed finance to assist the cooperative to become established.⁸⁶
- 3.98 Some states and territories already subsidise marginal or unsustainable air routes. For example, the Queensland Government has a policy of ensuring all communities are within 200 kilometres of an air service.⁸⁷ The concept of an airline cooperative would be used for those states and territories where subsidies are not available.

83 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. 63; Macair Airlines Pty Ltd, submission no. 76, p. 5.

84 Tasair Pty Ltd, submission no. 35, p. 1.

85 Macair Airlines Pty Ltd, submission no. 76, p. 5.

86 Paul Bredereck, submission no. 42, p. 3; Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 646; Paul Bredereck, communication with secretariat, 16 June 2003; Edge Aviation, submission no. 65, p. 12.

87 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, pp. 677-678.

3.99 Champions of the Bush supported the concept saying:

[the Bendigo Bank model] ... is a very interesting model and one which, I think, is certainly worth pursuing.⁸⁸

3.100 Island Airlines Tasmania offered words of warning regarding a community airline. It stated that for a community airline to survive, it needed more than just community support. For the concept to be successful the community would have to know about running such a business:

... It gets down to a critical mass of passengers ... There needs to be a commitment and ownership by the community itself saying: 'This is our airline. We will send our freight with them even though it will cost us 2c a kilo more ... So there needs to be almost a Bendigo Bank type involvement ... there are a lot of traps ... Setting up an airline is not just a matter of a group of people going out there and getting an air operator's certificate, just like you cannot just go and set up a bank ... people find they suddenly need equity capital and that sort of thing ... regional airline operators such as me will have to become a lot more community involved and will have to diversify, because it will be hard for one community to support one airline operator.'⁸⁹

3.101 DOTARS considered that the idea of a community owned airline 'has prospects'. However, it was noted that the success of an idea depended on community patronage of the airline.⁹⁰

3.102 The committee noted that Commonwealth financial assistance to the industry has been forthcoming in exceptional circumstances – notably following the September 2001 terrorist attacks, and the collapse of Ansett in 2001-02. After the collapse of Ansett the Commonwealth established the Rapid Route Recovery Scheme to provide assistance to domestic carriers to enable the restoration and maintenance of air services to regional communities affected by the collapse. The program was designed as a short term, transitional response to the sudden impact of the Ansett collapse and has since expired after assisting about 18 operators.⁹¹

88 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 218.

89 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, pp. 294-294.

90 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 651.

91 DOTARS, submission no. 81, p. 7.

Government programs

- 3.103 However, the provision of seed funding to assist the establishment of community cooperative airlines is a more commercial issue and one that the committee sees is not the direct responsibility of the Commonwealth. The committee notes that there are a range of competitive industry development grants operating and suggests that applications to these programs would be more appropriate.
- 3.104 The committee considered that there were other policy options that improved the financial attractiveness of smaller regional airlines. While seat subsidies were one solution proposed to supporting regional air services, other evidence said that it was preferable for government to provide assistance to a route rather than a particular airline.
- 3.105 In this regard, the committee noted that some state governments regulate routes. In the case of New South Wales, this can take the form of licensing the route to one operator for a low nominal fee. In the case of Queensland, it takes the form of competitive tendering for the provision of air services on a particular route for a period of time.
- 3.106 The committee noted that the Commonwealth's Sustainable Regions Program, through the action plan accompanying the Regional Business Development Analysis, addresses a number of impediments to stronger growth in regional Australia. Amongst the impediments identified in the action plan is the limited access that small and medium regional enterprises have to finance.⁹²
- 3.107 The committee recommends that small and medium regional aviation enterprises utilise the action plan accompanying the Regional Business Development Analysis to improve their access to business and management skills training (see Recommendation 2).

Business skills of small operators

- 3.108 The evidence indicated that the difficulties of some regional airlines arise from poor commercial decisions.⁹³ This often results from a lack of management expertise.

92 Anderson, J., Minister for Transport and Regional Services, media release, '*Minister Receives Action Plan for Regional Business Development*', 7 July 2003, <http://www.ministers.dotars.gov.au>, last accessed 14 August 2003.

93 Department of Transport and Regional Services, submission no. 81, p. 4.

- 3.109 The committee was particularly interested in improving the business prospects of the smaller regional airlines because they are the ones that service many regional and remote communities. The existence of these commercial operations is essential to the social and economic development of these communities.
- 3.110 In a business environment that is changing rapidly, life-long learning or continuing education will help firms to remain competitive.
- 3.111 Management decisions rely on a set of generic business skills and other skills that are particular to the aviation industry.
- 3.112 Generic management skills relate to business planning, marketing, financial and risk management, quality management, customer relations management, and knowledge and information management.
- 3.113 Management decisions needing more specific industry knowledge relate to aircraft selection, routes, networks and aircraft allocation.
- 3.114 Paul Bredereck told the committee that lack of basic business skills contributed to the failure of many regional airlines:

I believe the reason my company [Tamair] went out of business was as a direct result of the inadequacy of some of the smallest of business skills. I had a business that in 10 years was very profitable. It had an average marginal revenue of about 10½ to 11 per cent. In three years, it lost it.⁹⁴

- 3.115 Randal McFarlane, Managing Director of Macair Airlines said that small operators are enthusiastic at grasping new market opportunities. However, this enthusiasm should be balanced with a full understanding of the implications of their business decisions:

I think part of the problem is that aviation is an emotional thing—people get the whiff of kerosene, avgas or something in their nostrils and away they go. They think: ‘Gee, why doesn’t someone fly between here and here. There’s no-one doing it. We’d better get a plane and go and do that.’ Those people should be discouraged rather than encouraged because, unless the market is really there, it will be a failure.⁹⁵

94 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 645.

95 Macair Airlines Pty Ltd, submission no. 76, pp. 4-5; Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 600.

3.116 He said that it is important for the regional airline to clearly understand what business it is in:

We are not in the business of flying aeroplanes as such. We are in the business of being in a business, which happens to be an aviation related business, and we will do it the best we can.⁹⁶

3.117 Randal McFarlane went on to say that having a realistic business plan is essential. The business plan must be built around the market in which the airline is operating, and controlling costs tightly whilst maximising yields and revenues. The airline should have an excellent business knowledge. It should demonstrate consistency and reliability in its operation, and offer excellent customer service.⁹⁷

3.118 Airnorth Regional said that a reasoned and long term business plan is needed to ensure the survival of regional airline firms.⁹⁸

3.119 Dick Smith considered that the poor profitability of regional airlines meant that the industry was unable to retain high quality business people. In turn, this impacted on appropriate business decisions and profitability:

Most of them are not very efficient ... 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 ... the Monarchs, the Seaviews and the Advances [are] 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.⁹⁹

3.120 The committee considered that improving the management expertise of the managers of smaller regional airlines would build their capacity and enable them to respond effectively to opportunities and threats as they arise.

3.121 The committee noted that adequate training can improve business decision-making and avoid a business failure. It can also reduce business hardship arising from factors outside the firm's control or within the control of the firm.

96 Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 599.

97 Macair Airlines Pty Ltd, submission no. 76, p. 5.

98 Airnorth Regional, submission no. 102, p. 12.

99 Dick Smith, transcript of evidence, Canberra, 4 June 2003, p. 581.

Possible solutions

- 3.122 Paul Bredereck, Chief Executive Officer of Aviation Australia, told the committee that Aviation Australia offers 30 short courses in management and professional development, in addition to technical training. Some 32 airlines and bodies were receiving this training in Australia. The Queensland Government, Australia's major airlines, aerospace companies and Queensland's universities support Aviation Australia.¹⁰⁰
- 3.123 The Commonwealth and state and territory governments provide a range of advice and training programs on setting up, managing and expanding a small business.¹⁰¹
- 3.124 The committee was satisfied that appropriate professional training is readily available to smaller regional airlines. However, the evidence suggested that these resources are not being adequately accessed.
- 3.125 The committee considered that two key issues are the extent to which appropriate professional training is taken up by smaller operators and how much this training can influence positive outcomes in industry.
- 3.126 The committee strongly urges the industry association to consider the managerial training needs of its members and initiate a program of ongoing training to assist with this.
- 3.127 The committee notes that Commonwealth departments provide a range of programs that can improve the commercial knowledge of regional airline operators.
- 3.128 The committee considered that the relevant Commonwealth departments should work cooperatively with themselves and with the industry associations to improve the business management skills of regional airline operators.

100 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 645; Aviation Australia website, <http://www.aviationaustralia.net.au>, last accessed 21 July 2003.

101 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. 19, 21-22; Department of Industry, Tourism and Resources '*Small Business*', <http://www.industry.gov.au>, last accessed 14 July 2003; Australian Bureau of Statistics, '*Characteristics of Small Businesses*', <http://www.abs.gov.au/ausstats>, last accessed 14 July 2003; Business Entry Point, <http://www.business.gov.au>, last accessed 18 November 2003.

Recommendation 2

- 3.129 **The committee recommends that the Department of Transport and Regional Services and the Department of Education, Science and Training in conjunction with the Regional Aviation Association of Australia and other relevant industry bodies:**
- **Identify management training needs of the regional airline industry;**
 - **Develop and deliver an awareness program that encourages greater uptake of management training in the industry; and**
 - **Develop and deliver a program that improves the business management skills in the industry.**

Skilled labour development

- 3.130 The committee received evidence that there is a shortage of skilled labour in the regional aviation industry. Skill shortages mainly related to pilots and aircraft maintenance engineers.
- 3.131 Some of this shortage resulted from ‘poaching’ by larger airlines. This practice imposed costs on the regional aviation industry in terms of recruitment, training and wages. Higher wages are needed to attract qualified staff to regional locations. In comparison, larger airlines can more easily offer higher wages, additional benefits and offer more attractive city locations.
- 3.132 Macair Airlines said in its submission that the loss of regional airline flight crew to major airlines, and the associated costs of continual recruitment and training of aircrew, is a factor contributing to the failure of regional airlines.
- 3.133 Airnorth Regional said that regional airlines carry the cost of training inexperienced pilots because the larger airlines then recruit their trained pilots.¹⁰²

102 Airnorth Regional, submission no. 102, p. 10.

- 3.134 Rex told the committee that it has difficulties firstly, attracting qualified engineering staff to its regional location, and secondly, retaining them against competition from other employers, such as Qantas.¹⁰³
- 3.135 David Miller of Air Link Pty Ltd told the committee that the industry is now proactive with its engineering training. Air Link is committed to developing its staff:
- ... in engineering: that is an industry problem. There are a lot of people out there that have got a lot of experience but have not got a licence ... We are encouraging them and paying for them to go away to do courses and gain licences, but it is a long process. We also have an apprentice on at the moment, and we will continue to try and foster that aspect of training as well.¹⁰⁴
- 3.136 Air Link said that many of its apprentices leave at the end of their training. Ironically, some smaller airlines use the training facilities of the larger airline. For example, Air Link sends its apprentices to a training facility in Tamworth.
- 3.137 Despite the difficulties of training and retaining staff, Air Link took the view that all airlines in the industry should invest in training engineering staff for the good of the industry.¹⁰⁵
- 3.138 Aviation Australia provides a range of aviation related training including training for prospective pilots and aircraft maintenance engineers.¹⁰⁶
- 3.139 The committee noted that, in August 2001, the Commonwealth announced that it will spend \$4.1 million over four years to expand aircraft maintenance training in regional Australia. The funding will support the development of a new aircraft engineering college at Tamworth Airport called the Australasian-Pacific Aeronautical College.

103 Regional Express, committee inspection of the engineering facilities, Wagga Wagga, 7 May 2003.

104 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 549.

105 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 549.

106 Aviation Australia, 'Courses', <http://www.aviationaustralia.net.au>, last accessed 8 August 2003.

- 3.140 The college is a joint venture between BAE Systems, Eastern Australia Airlines, the New England Institute of TAFE, the Tamworth City Council, the New England North West Area Consultative Committee and the New England North West Development Board. The first students will graduate in 2004.¹⁰⁷
- 3.141 Based on the evidence presented to the committee, the shortage of aircraft mechanics appears to have been recognised and is being addressed.
- 3.142 Commercial pilot training is also available from various firms, but the committee noted that the shortage of pilots and the cost of their training could remain an issue for the regional aviation industry. In 2001, the Commonwealth said this was an issue and that it was examining closely what it could do to assist the industry.¹⁰⁸ However, no new initiatives have been announced.¹⁰⁹
- 3.143 The pilot shortage has not been ameliorated by the collapse of Ansett in 2001-02. The Aircraft Owners and Pilots Association of Australia (AOPA) claimed that there are certain impediments to the employment of these pilots elsewhere in the industry. AOPA also said there is the possibility of a shortage of pilots in the medium term because of the cost of training and testing and the complexity of CASA regulations. This complexity of regulations may be deterring new entrants to the industry.¹¹⁰
- 3.144 Apart from statements that pilot shortage is an issue and some anecdotal evidence, the committee found that there was a lack of quantitative and qualitative information on the issue of pilot shortage and pilot retention. The committee considered that this issue required further investigation to determine the extent of the possible problem and to devise an appropriate training response.

107 Anderson, J., Minister for Transport and Regional Services, media release, '*Federal Government Boosts Aircraft Engineer Training*', 24 August 2001, <http://www.ministers.dotars.gov.au>, last accessed 8 August 2003; National Office of Local Government, '*National Perspective February 2003*', '*Regional Aviation a Commonwealth Priority*', <http://www.nolg.gov.au>, last accessed 30 June 2003.

108 Anderson, J., Minister for Transport and Regional Services, media release, '*Federal Government Boosts Aircraft Engineer Training*', 24 August 2001, <http://www.ministers.dotars.gov.au>, last accessed 8 August 2003.

109 Department of Transport and Regional Services, communication with the secretariat, 8 August 2003.

110 Aircraft Owners and Pilots Association of Australia, communication with secretariat, 8 August 2003.

Recommendation 3

3.145 The committee recommends that the Department of Transport and Regional Services:

- **Investigate the issue of pilot shortage in regional airlines;**
- **Report on its findings regarding the shortage of pilots by the end of 2004; and**
- **Develop an appropriate program to expand pilot training in regional Australia along the lines of its program to expand aircraft maintenance training, if a pilot shortage is identified.**

Issues facing regional communities

- 4.1 This chapter examines Australia's regional communities, their expectations, their airports, and the adequacy of services to their communities.

Community expectations

- 4.2 In evidence given by the AAA, the organisation's Chief Executive Officer, Mr Ken Keech, stated:

I think most regional and rural communities around Australia should have the right to and the expectation of the sorts of services that we who are either lucky or unlucky enough to live in the major centres have.¹

- 4.3 When asked what a reasonable level of service would be for a regional community, Mr Keech added:

My view is that it is up to each individual local council to find the balance between what is socially acceptable and what they can actually afford. With the new licensing certification that CASA is about to introduce, it may well be that some airports decide to go to a lower level of certification, perhaps because they cannot afford to maintain the levels that would be needed to have certain levels of operation, or aircraft into their airport. That is something that each local council has to determine.²

1 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 231.

2 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 231.

4.4 Many submissions, particularly those from regional communities that have inadequate services, stated that air services to their community should meet the following criteria:

- Regular, daily services;³
- Enough seats, and available at short notice;⁴
- Large, pressurised, turbo-prop aircraft;⁵
- Flights direct to a main port, to improve connectivity;⁶
- Flights at convenient times;⁷
- Cheap fares;⁸ and
- Substantial freight capacity.⁹

Adequacy of commercial air services in regional and rural Australia

4.5 Comments arising from submissions and evidence considered by the committee, concerning adequacy of regional aviation services, ranged from those provided by community organisations that considered air services were inadequate, to those provided by regional councils that considered air services to be adequate. These opinions are aligned with the smaller and more remote communities ranging to the larger, more well-endowed communities. They can be grouped into four main categories:

3 L.J. and C.D. Cox, submission no. 100, p. 2; Flinders Island Tourism Association, submission no. 127, p. 2.

4 J. Willis, submission no. 28, p.1; B.W. Wells, submission no. 31, p. 1.

5 King Island Gem, submission no. 21, p. 1; Geoff Humphries, submission no. 29, p. 1; W. Humphries, submission no. 33, p. 2.

6 Gerard Walker, submission no. 40, p. 1; Flinders Island Quality Meats, submission no. 59, p. 1; Forbes Shire Council, submission no. 88, p. 2; Barcaldine and Blackall Shire Councils, submission no. 147, p. 1.

7 Gerard Walker, submission no. 40, p. 1; P. James Owens-Brownbill, submission no. 44, p. 1; Forbes Shire Council, submission no. 88, p. 2; Bruce and Pat McKenzie, submission no. 111, p. 5.

8 King Island Gem, submission no. 21, p. 1; Liz Penfold MP, submission no. 10, p. 1; Forbes Shire Council, submission no. 88, p. 2.

9 Flinders Island Quality Meats, submission no. 59, p. 1.

- Those from representative organisations, mostly giving general statements claiming major inadequacies in regional aviation services¹⁰. Some specific examples were provided;
- Those from regional councils and members of the public claiming major inadequacies due to recent loss of regional aviation services;
- Those from regional councils and members of the public with access to services, although there are many claims of inadequacies concerning service frequency, lack of seats, high fares, aircraft type, aircraft size, and lack of connectivity; and
- Those from regional councils claiming that services are generally adequate.

Adequacy of services

- 4.6 Submissions claiming that regional aviation services are adequate generally came from larger regional centres with established, well patronised services. Despite having largely adequate services, many of these submissions claimed that, continued closure of airlines and increasing cost of airfares and services are contributing to a struggling aviation industry.¹¹
- 4.7 The committee heard evidence that inadequate air services can impede the development of a range of industries and result in the loss of investment dollars.
- 4.8 SEATS believes inadequate transport is impeding orderly development with hundreds of millions of dollars of identified investment being withheld from the region. South-eastern Australia is rich in primary resources, has a skilled labour force and a wealth of natural assets. Limited access is reducing the returns for existing businesses, and independent consultants report that key transport improvements could generate many millions of dollars worth of new investment.¹²

10 Country Women's Association of New South Wales, submission no. 51, p. 2; Australian Airports Association, submission no. 70, p. 3; Regional Aviation Association of Australia, submission no. 93, p. 2.

11 Rockhampton City Council, submission no. 121, p. 6; Mackay City Council, submission no. 26, p. 1

12 South East Australian Transport Strategy Inc., submission no. 140, p. 2

- 4.9 Rex believes that commercial air services in regional and rural Australia are at present inadequate and that this provides a business opportunity.¹³
- 4.10 The adequacy of air services offered in Western Australia has been measured by recent public comment collected as part of an aviation review process. Results showed a general satisfaction with the basic daily level of service offered to most major towns in Western Australia. However, there is concern in regional communities that the level of service is inadequate to meet economic growth and social needs, particularly from towns that are tourism driven.¹⁴
- 4.11 The Local Government Association of Tasmania is concerned that the services that are being provided to the Bass Strait islands are not adequate for current needs, that they do not meet current demands and that they certainly are inadequate for the future expansion of industry and the future of the islands generally.¹⁵
- 4.12 The Launceston Chamber of Commerce stated that the Bass Strait islands are part of Tasmania, contribute to the economy, and the air services there are inadequate. The organisation is aware that there is a significant impact on the lifestyle and economic viability of both islands.¹⁶
- 4.13 King Island Council believes that the services that are being provided are inadequate to meet the current and future needs of the remote, populated island, and that the uncertainty concerning air and sea services is a cause for grave concern.¹⁷ Tourism Council Tasmania supports the view that the services being provided to remote King Island are inadequate to meet current and future needs.¹⁸
- 4.14 Many submissions were received from regional councils claiming that regional aviation services were totally inadequate, largely due to the loss of services to each centre. For example:
- The regional towns of Scone¹⁹ and Gunnedah²⁰ lost services in February 2001 when Yanda Airlines ceased operations; and

13 Regional Express, submission no. 116, p. 6

14 Western Australian Government, submission no. 150, p. 6.

15 Local Government Association of Tasmania, transcript of evidence, Launceston, 24 February 2003, p. 49.

16 Launceston Chamber of Commerce, transcript of evidence, Launceston, 24 February 2003, p. 29.

17 King Island Council, submission no. 132, p. 4.

18 Tourism Council Tasmania, submission no. 142, p. 11.

19 Scone Shire Council, submission no. 80, p. 1.

- The regional centres of Forbes, Cootamundra, Young²¹, Cowra²², and West Wyalong²³ all lost services in May 2001, when Country Connection ceased operations.

4.15 In its submission, the Shire of Cowra stated:

The adequacy of commercial air services in regional and rural Australia has been severely compromised by Federal Government Policy. Changes to the taxation rulings on small aeroplanes and alterations to the fuelling pricing system resulted in our only airline being cancelled. The cancellation of Country Connection services to Cowra was a direct result of Federal Government policy and should not be confused with the demise of Ansett or its regional carriers.²⁴

4.16 The Deniliquin Council considers that the provision of commercial air services in regional and rural Australia is totally inadequate. Deniliquin is a vibrant service centre of 8 500 people, and a regional population of 16 000. Up until two years ago the town had a regular passenger transport service into Sydney. Since the demise of the Horizon Airlines service there is no regular passenger service or hub service out of Deniliquin. The closest air service is some three hours away by road transport. For over thirty years there was a successful hub service provided to the community and region via Wagga, for an air service into Sydney. Deniliquin could be referred to as an 'island' because its location disadvantages the people living in the region.²⁵

4.17 Over thirty submissions were received from residents of, and visitors to, Flinders Island. The island has a relatively small population of 864 people.²⁶ There are also a number of Victorian-based property owners that travel to the island regularly. With very limited sea services, air travel is considered the only reasonable way to get on and off the island.²⁷ Although the island currently has an air service, it is deemed to be inadequate, with the submissions claiming that:

20 Gunnedah Shire Council, submission no. 122, p. 2.

21 Forbes Shire Council, submission no. 88, p. 1.

22 Shire of Cowra, submission no. 90, p. 1.

23 Bland Shire Council, submission no. 27, p. 1.

24 Shire of Cowra, submission no. 90, p. 1.

25 Deniliquin Council, submission no. 38, p. 1.

26 Flinders Council, submission no. 110, p. 4.

27 Flinders Island Adventures, submission no. 36, p. 3; Flinders Island Tourism Association, submission no. 127, p. 5.

- There are too few services;²⁸
- Fares are too high;²⁹
- It is difficult to get a seat at short notice, with flights often being booked out up to six weeks in advance;³⁰
- There is no access to national booking systems;³¹
- Timetable does not allow passengers to conveniently meet connecting flights, causing lengthy delays and requiring overnight stays;³²
- Luggage can often not be put on the same flight as the passenger;³³
- The Piper Chieftain planes used by the current operator are ageing, too small and are piston driven;³⁴
- There is no opportunity to carry small amounts of cargo;³⁵ and
- Subsidies for travel to the Tasmanian mainland do not apply, as it is deemed intra-state travel.³⁶

Expectations

- 4.18 The committee is of the view that the main issue in terms of adequacy of regional air services concerns the equity of access to services. The committee believes regional communities have a right to have reasonable air services, and especially so where no alternatives exist.
- 4.19 In August 2001, the Minister for Transport and Regional Service, the Hon John Anderson, released the *Stronger Regions, A Stronger Australia* statement, which outlined the Commonwealth's policy for regional Australia. The statement sets out the vision for regional Australia and

28 Flinders Island Tourism Association, submission no. 127, p. 2.

29 B.W. Wells, submission no. 31, p. 1.

30 B.W. Wells, submission no. 31, p. 1; The Parish of the Furneaux Islands, submission no. 23, p. 1; L.J. and C.D. Cox, submission no. 100, p. 1.

31 Flinders Island Adventures, submission no. 36, p. 2.

32 The Parish of the Furneaux Islands, submission no. 23, p. 2.

33 Alan and Margaret Wheatley, submission no. 55, p. 1.

34 Mr Gerard Walker, submission no. 40, p. 1; Flinders Council, submission no. 110, p. 13.

35 L.J. and C.D. Cox, submission no. 100, p. 2; Flinders Island Quality Meats, submission no. 59, p. 1.

36 Flinders Island Adventures, submission no. 36, p. 3.

underscores the Commonwealth's commitment to the seven million Australians who live outside the capital cities.³⁷

- 4.20 In light of this, the committee believes that the Commonwealth has an ongoing commitment to supporting regional services and regional development, and to creating a framework for social and economic viability. The committee recognises, and is committed to promoting, equity of access to services.
- 4.21 The committee considers that adequacy of services is related to needs. Some regional communities may have unrealistic expectations of the service levels sustainable in regional areas. The committee encourages regional communities to be aware that some of their desires may not be economically viable, nor socially responsible.
- 4.22 Chapter 6 describes what the Commonwealth, states and territories are doing to meet community expectations.

Aerodrome Local Ownership Plan

- 4.23 Many submissions discussed the implementation of the Aerodrome Local Ownership Plan (ALOP) and its impact on local councils. This section examines the plan, its impacts and possible solutions.

Regional Airport Survey

- 4.24 As described in the submissions and evidence, many councils expressed varying degrees of difficulty in managing their airports. The committee therefore decided to conduct a survey of councils that own and operate regional airports, in order to gain an understanding of:
- The variation in fees charged by airports;
 - How much it costs to operate and maintain an airport;
 - How much income is generated from airport operations; and
 - Which councils were struggling to operate and maintain their airports.
- 4.25 The committee found a great deal of variation in the fees and levies charged by regional airports.

37 DOTARS, Regional Statement – '*Stronger Regions, A Stronger Australia*', <http://www.dotars.gov.au>, last accessed 11 September 2003.

- 4.26 The committee found that there were dramatic differences in costs associated with operating and maintaining an airport, and the amount of income generated by airport activities.
- 4.27 From the data collected, the committee concluded that most airports were probably coping with operating a basic airport, but had difficulty in coping with major maintenance tasks.
- 4.28 An explanation of the survey, including a detailed analysis, can be found in Appendix D. An example of the survey form is included in Appendix E.

How the plan worked

- 4.29 The Commonwealth has, over time, divested itself of ownership of regional and local airports, while almost all capital city airports have been transferred to private operators on long-term lease arrangements. From the 1950s to the 1980s, the Commonwealth funded the transfer of local and regional airfields and aerodromes to local government authorities under the ALOP.³⁸
- 4.30 ALOP had been in operation since 1958, with the essential feature that the airport owner, usually local government, was eligible for 50-50 financial assistance from the Commonwealth for both maintenance and approved development. Most airports in rural New South Wales were part of the ALOP scheme. As at April 1992, Cudal, Belmont and Maitland were the only airports with scheduled air services that are privately owned.³⁹
- 4.31 The Hon. E. P. Pickering, the New South Wales Minister for Police and Emergency Services, in addressing the New South Wales Legislative Council in April 1992, provided the following description of the Commonwealth's intentions regarding local airports:

The Federal Government in 1989 announced its intention to withdraw from ALOP over five years. Past capital investment was written off, and no further development funds were made available. The shires and councils that already own the local airports were 'invited' to take over full responsibility. In instances where the Commonwealth retained temporary ownership, it also ceased its system of uniform charges and began full recovery of operating costs for each airport with a 'reasonable' upper limit.

38 Department of the Parliamentary Library (2003) *Turbulent Times: Australian Airline Industry Issues 2003*; Research paper No. 10, p. 32.

39 New South Wales Legislative Council Hansard, Full Day Transcript for 30 April 1992; <http://www.parliament.nsw.gov.au>, last accessed 1 July 2003.

The introduction of higher 'location specific charges' is intended as an incentive for local government to take over the airport.⁴⁰

4.32 The Hon. E. P. Pickering, with regard to the consequences for local airports, added:

Airport closure would be the inevitable outcome if the preceding steps are unsuccessful. This would be a disaster for rural communities. The long-term consequence of the end of the ALOP is likely to be that many airports deteriorate because revenue will not be able to support maintenance programs. ... ALOP would be progressively wound down by withdrawing Federal funding for rural airports by 1994-95. Negotiations were continuing between airport owners and the Commonwealth when the Federal Government announced ... on 26th February 1992 that the ALOP withdrawal would be accelerated so that all transfers would occur by 1992-93. That allowed only 14 months for local government to budget for airport maintenance and development.⁴¹

4.33 There seems to be some confusion amongst councils regarding the establishment of the ALOP. Several councils recognise that the plan has been in place since the 1950s. Some councils are of the opinion that the plan was devised by the Hawke Government in a move to pass control of local airports to local government. Flinders Council, for example, stated:

Federal Governments since 1986 have progressively withdrawn from the provision of air service infrastructure except for defence force purposes. The Aerodrome Local Ownership Plan (ALOP) initiated by the Hawke Government effectively passed control of national infrastructure to under-resourced local communities. Those communities now pay for using a service and also fund the cost of the facilities used by the service provider without any support or assistance from the centralist government financial resources.⁴²

40 New South Wales Legislative Council Hansard, Full Day Transcript for 30 April 1992; <http://www.parliament.nsw.gov.au>, last accessed 1 July 2003.

41 New South Wales Legislative Council Hansard, Full Day Transcript for 30 April 1992; <http://www.parliament.nsw.gov.au>, last accessed 1 July 2003.

42 Flinders Council, submission no. 110, p. 14.

- 4.34 Many councils stated that the Commonwealth government of the day passed the ownership of airports to local governments that could not afford to maintain them. Many councils were opposed to the move. Flinders Council stated:

I think that basically we were forced into that position. Flinders Council put up opposition to it right until the end.⁴³

- 4.35 Payouts at the time of handover appeared to enhance the deal for many councils. After over ten years, opinions have changed as councils no longer have adequate funding resources for maintenance and upgrade. Some councils are faced with distributing the burden across their rate bases.

- 4.36 Further, the AAA stated that local governments were greatly disadvantaged by the handover of airports to under-resourced councils. The Chief Executive Officer of the AAA, Mr Ken Keech stated:

I have been on record saying for quite some time that my personal view is that the ALOP scheme was the greatest con job of all time. I think it was all very well for the government of the day to hand over the airports to the local councils and shires. It might have seemed a good idea at the time, and there was some money associated with it at the time of handover. But, by and large, it was handed to people who did not necessarily have the experience or the expertise to manage the facility and to develop it.⁴⁴

- 4.37 Mr John Keller of Glenelg Shire Council, considered that, on handover of the airports, many councils' expectations of being able to operate them might have been a bit optimistic:

The buy-outs were pretty good—it was a bit like a hand in a money jar: if you could demonstrate there was a need there into the future you could ask for the money, for example, to seal a runway and have it there. But I do not think councils properly understood the longer term.⁴⁵

43 Flinders Council, transcript of evidence, Melbourne, 25 February 2003, p. 164.

44 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 231.

45 Glenelg Shire Council, transcript of evidence, Melbourne, 26 February 2003, p. 195.

Impact of local ownership of airports on communities

- 4.38 The AAA represents over 255 airports across Australia. Of these 255 airports, approximately 220 are located in regional and rural Australia, and are owned and operated by the local community through their local government authority (shire or council).⁴⁶
- 4.39 Airports that are owned and operated by local government are the major component of infrastructure required for the provision of aviation services to regional and rural Australia and are often critical for the social and economic development of local and regional communities.⁴⁷
- 4.40 The impact of local ownership of airports has been variable. There have been very negative impacts on some communities, while others have experienced few problems.
- 4.41 Mr Paul Rees, owner/operator of the former Yanda Airlines stated that how a community manages its airport depends on how much use it receives:

I think it depends on what use the airport gets. Places like Tamworth and Armidale in my area actually make a profit out of their airports, so they are undoubtedly more than happy with their airport. Coonabarabran, which now gets no air service and has this great white elephant sitting up on top of the hill above Coonabarabran, probably is not so happy. So I think it depends on what they earn from their asset.⁴⁸

Positive effects

- 4.42 Those communities that have experienced few problems include those that make a profit from their airport, or at least cover costs.
- 4.43 The District Council of Grant is the owner and operator of the Mount Gambier regional airport, which has roughly 60 000 passengers per year. The landing fee for adults is \$5.50. The council makes a net profit per year of roughly \$250 000. It has reserves of about \$1.9 million which have been built up over some period of time. The council is currently working through potential additional income streams for the Mount Gambier Airport.⁴⁹

46 Australian Airports Association, submission no. 70, p. 2.

47 Australian Local Government Association, submission no. 108, p. 1.

48 Mr Paul Rees, transcript of evidence, 7 May 2003, p. 464.

49 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 312.

- 4.44 Tamworth City Airport is operated as a business entity of Tamworth City Council, and is one of the few airports around New South Wales at the present time that could claim that it is a profitable facility. The manager of the facility ensures that not only are costs covered, but also a return is made for the council.⁵⁰ The council will most probably make a profit this year of about \$300 000.⁵¹
- 4.45 Kangaroo Island Council assumed local ownership of its airport in 1991, at the time that Mrs Janice Kelly became Mayor. In giving evidence on Kangaroo Island, Mrs Kelly stated:
- Honestly, I believe the federal government was quite generous at that time. They certainly gave us a cushion of money for maintenance, and I think that has to be recognised.⁵²
- 4.46 Although admitting that the funding was a short-term proposition, Mrs Kelly claimed that:
- I think, really, as far as airports go, we have managed it extremely well. We are probably more fortunate than some other regional areas because of tourism.⁵³
- 4.47 Bundaberg, a major regional centre on the Queensland coast, has a population of over 46 000, with more than 120 000 in the greater area.⁵⁴ Bundaberg City Council stated that operating their airport is effectively cost neutral. This has been determined after a full economic review carried out as part of the council's budget process.⁵⁵
- 4.48 Kempsey Shire Council claimed that New South Wales would have about six profitable airports.⁵⁶

50 Tamworth City Council, transcript of evidence, Brisbane, 12 June 2003, p. 687.

51 Tamworth City Council, transcript of evidence, Brisbane, 12 June 2003, p. 688.

52 Kangaroo Island Council, transcript of evidence, Kangaroo Island, 15 April 2003, p. 352.

53 Kangaroo Island Council, transcript of evidence, Kangaroo Island, 15 April 2003, p. 352.

54 Bundaberg City, <http://www.bundabergcity.qld.gov.au>, last accessed 2 July 2003.

55 Bundaberg City Council, transcript of evidence, Brisbane, 11 June 2003, p. 608.

56 Kempsey Shire Council, submission no. 162, p. 1.

Negative effects

- 4.49 There are many examples across the country of small local councils struggling to maintain their airports. The Commonwealth withdrew from the ALOP in 1990 leaving most councils with the full responsibility for care and control of the airport. The annual maintenance and operational costs effectively doubled for councils through this arrangement, as they no longer received the 50-50 financial subsidies.
- 4.50 The City of Whyalla claims that the airport really should be a self-sustaining business, but, unfortunately, it is becoming more and more of a liability. The council is in the situation now where it has no surplus revenue from its operating costs, and is starting to dip into reserves accumulated for capital works. In the longer term the council will struggle to keep the airport open.⁵⁷
- 4.51 Flinders Council stated that regional councils owning airports is fraught with financial difficulty for small municipalities such as theirs. One of the problems is that the council must impose landing charges, and landing charges are very difficult to recoup.⁵⁸
- 4.52 The District Council of Renmark-Paringa owns and operates a licensed airport at Renmark, South Australia. The difficulty for this council is that the current non-use of the airport by commercial passenger operators is reducing airport income and placing greater financial strain on the capacity to maintain the airport to a high standard for use by private aircraft users and emergency flights. While the council accepted responsibility for airport ownership some years ago, reduced patronage is creating a dilemma in terms of local viability.⁵⁹
- 4.53 The Snowy River Shire Council claimed that the cost of managing the Snowy Mountains Airport has reached a level where it is questionable as to whether the council can continue. In view of this situation the council commissioned an independent public consultation process and report on the future options for the airport. Should the council continue to incur losses on behalf of the community owned asset, it will consider implementing whatever options are feasible to lessen the financial, risk management and maintenance burden.⁶⁰

57 City of Whyalla, transcript of evidence, Adelaide, 16 April 2003, p. 391.

58 Flinders Council, transcript of evidence, Flinders Island, 25 February 2003, p. 168.

59 The District Council of Renmark Paringa, submission no. 16, p. 1.

60 Snowy River Shire Council, submission no. 107, p. 3.

- 4.54 King Island Council owns and operates the aerodrome and has done so since it took over that responsibility from the Commonwealth in 1992. Despite considerable downsizing of staff, the refurbishment of the terminal to reduce maintenance and other cost saving initiatives the aerodrome has consistently operated at a loss. Landing charges do not cover the full cost of operating and maintaining the aerodrome and for 2002 the estimated shortfall between operating costs and income is estimated to be over \$49 000. The cost of upgrading aerodromes to meet increasing technological requirements is also of concern with the council currently using reserves set aside at the time of the ALOP transfer to meet capital costs of owning the aerodrome. The remaining reserve of \$470 000 is not sufficient to fund any significant aerodrome upgrades or sealing.⁶¹

Those prepared to subsidise the airport

- 4.55 Bland Shire Council (West Wyalong, New South Wales) has identified its airport as a key community service. The council does not collect landing fees or passenger charges from operators, and maintains the airport at its own expense, spending approximately \$48 000 per annum. The only air service closed in May 2001. Passenger numbers for 1999-2000 totalled 1405.⁶² The population of West Wyalong is 3 433, with 6 702 in the shire. The closest regional centre is Wagga Wagga, 163 kilometres to the south-east.⁶³
- 4.56 Leeton and Narrandera shire councils jointly operate an airport. Despite the fact that both councils subsidise the airport, the councils have not had any resistance to airport expenditure. The local people see it as an essential service and are quite prepared to pay for it by way of council funds.⁶⁴
- 4.57 Eurobodalla Shire Council currently subsidises the operation and maintenance of the Moruya Airport, by approximately \$125 000 per year. This does not take into account the need to carry out extensive rehabilitation of the main runway in 20 years time.⁶⁵

61 King Island Council, submission no. 132, p. 15.

62 Bland Shire Council, submission no. 27, p. 1.

63 Bland Shire Council, <http://www.blandshire.nsw.gov.au>, last accessed 2 July 2003.

64 Narrandera and Leeton Shire Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 437.

65 Eurobodalla Shire Council, submission no. 48, p. 7.

- 4.58 Parkes Shire Council is incurring a substantial loss in the operation of Parkes Airport. The council aims to keep landing fees to a minimum in order to maintain services as part of its community service obligations.⁶⁶

Ongoing maintenance costs and upgrade of regional airports

- 4.59 In Queensland, since the handover of rural airports to local governments there has been a significant deterioration of aviation infrastructure in some rural and remote towns. This can largely be attributed to the inability of local governments to raise sufficient funds through property rates and grant monies to provide for aviation, as well as other basic infrastructure and services, and the lack of private investment. In recognition of this, the Queensland Government has provided \$1 700 000 for facilities at Bamaga, Bedourie and Windorah in 1996-97 and upgrades at Longreach, Cloncurry, Emerald and Kingaroy in 1997-98.⁶⁷
- 4.60 A similar situation exists in other states, where regional aviation infrastructure has deteriorated over the last decade due to lack of adequate funding for maintenance and capital upgrades. Several regional airstrips are not of an adequate standard that will cater for larger aircraft. For example, the District Council of Grant, in its evidence, claimed that the runway at Mt Gambier Airport is not strong enough to accommodate the new government VIP fleet. The committee understand that there is a limited number of runways in South Australia that are able to take jets including VIP aircraft.
- 4.61 The District Council of Grant added that the runway is capable of taking a Dash 8 aircraft, but the weight and wheel loading of jet aircraft are too great for the existing surface. Major capital works would be needed in order for the runway to be able to take larger aircraft.⁶⁸
- 4.62 The Northern Territory Government also recognised the need for assistance in maintenance of basic infrastructure. The government assists in the maintenance of a strategic network of 72 aerodromes which service major indigenous communities.

66 Parkes Shire Council, submission no. 137, p. 1.

67 Queensland Transport - Aviation Plan for Queensland, <http://www.transport.qld.gov.au>, last accessed 1 June 2003.

68 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, pp. 318, 320-321.

- 4.63 The Australian Local Government Association expressed its concern over ongoing costs of aerodromes for local councils, and its impact on the community:

There is concern with the ongoing cost of aerodromes, including maintenance, and any possible liability claims that may be made. It would appear that funds provided under the ALOP at the time of transfer to local government are not sustainable in the long term. Where there is a deficit in operating an aerodrome, it is most likely to be borne by the local community, which raises an equity issue for access to services by members of that community.⁶⁹

- 4.64 Ownership of the Flinders Island aerodrome was transferred to the Flinders Council in 1993.⁷⁰ At the time of transfer, the council was given a sum of money which was to be banked so that it could derive future income to assist in the operation of the airport. That was originally about \$750 000. The council's initial aim was to have a higher amount available for that purpose, as things like runway lighting, the construction of the new terminal building and some other enhancements needed to be completed. The Commonwealth's financial allocation at transfer time was subsequently shown to be inadequate to meet the costs of improvements.⁷¹
- 4.65 King Island Council acquired ownership of the local airport in 1992. Current budget allocations amount to around \$300 000 per annum to administer and maintain the facility. The council has also adopted a policy which states that the airport is to be self-funding and is not to be a financial burden on the ratepayers of the island. This policy objective has been difficult to achieve in recent years due to the collapse of three airline operators and loss in revenue to the council of around \$100 000 in landing charges.⁷²
- 4.66 King Island Council is also concerned about the cost of upgrading aerodromes to meet increasing technological requirements. The council currently uses reserves set aside at the time of the ALOP transfer to meet capital costs of owning the aerodrome. The remaining reserve of \$470 000 is not sufficient to fund any significant aerodrome upgrades or sealing.⁷³

69 Australian Local Government Association, submission no. 108, p. 2.

70 Flinders Council, submission no. 110, p. 3.

71 Flinders Council, transcript of evidence, Flinders Island, 25 February 2003, p. 165.

72 Cradle Coast Authority, submission no. 149, p. 8.

73 King Island Council, submission no. 132, p. 15.

- 4.67 The Commonwealth has implemented a number of policies and programs which assist regional aviation, such as its subsidisation of general aviation airport control towers and enroute navigation charges for small aircraft operators. These have been offset by other policies which have devolved costs to other parties and increased costs incurred by regional air transport providers.
- 4.68 The most significant policy decisions have been the transfer of the last South Australian regional community aerodromes to local government ownership under the ALOP in 1991, and the withdrawal from the funding of regional aerodrome maintenance or development.⁷⁴
- 4.69 Some state governments have initiated financial support schemes or provided grants to aid in the maintenance and upgrade of regional airports.
- 4.70 When the Commonwealth transferred ownership of its airports to local councils in the early 1990s, it was not long before it was realised that the transfer payments through the ALOP were not sufficient in most cases to meet future infrastructure requirements. In Western Australia, the state government stepped in, and has provided support for regional airports through its Regional Airports Development Scheme (RADS) since 1994.
- 4.71 Since its inception, RADS has invested \$14 million in over 60 airports and airstrips around the state. This has generated about \$35 million in leveraged funding from the Commonwealth, local governments and the private sector.
- 4.72 Western Australia has continued with RADS, as it views airport infrastructure as a vital component of air services development in the state. RADS is set to continue for a further two annual funding rounds. The demand for airport infrastructure supports the need for the scheme, however, the Western Australian Government believes that there is more to be achieved, which is beyond the funding capability of RADS.⁷⁵
- 4.73 The District Council of Grant is the owner and operator of the Mount Gambier regional airport. The council treats the airport as a separate business unit or stand-alone facility. The airport was the first to be handed over under the ALOP. The airport was offered to Mount Gambier City Council, who declined to take it up. The District Council of Grant saw the need for the airport to be maintained within the community, and so accepted it, and has since worked hard to build the funds to maintain it.
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74 South Australian Government, submission no. 148, p. 4.

75 Western Australian Government, submission no. 150, p. 14.

- 4.74 Upcoming costs and heavier aeroplanes are overtaking the District Council of Grant's capacity to keep the aerodrome to an acceptable standard. The council will be unable to accommodate growth within the city unless capital funding comes from elsewhere.⁷⁶ The airport makes a net profit of roughly \$250 000 per year. The council has reserves of about \$1.9 million which have been built up over some time. The council is now looking at potential additional income streams for the airport, and is revisiting the five-year airport plan. One of the issues to be looked at as part of the plan is the upgrade of the main runway, which will be a significant cost. Although tenders have not yet been sought, it will probably cost around \$1.8 million to both strengthen and upgrade the runway.⁷⁷
- 4.75 The Riverina Eastern Regional Organisation of Councils (REROC) has 15 member councils. Airports in the REROC region are located at Tumut, Cootamundra, Temora, West Wyalong, Holbrook and Wagga.⁷⁸ The City of Wagga Wagga runs its airport, which is leased from the Commonwealth as part of an arrangement with Forest Hill RAAF base. REROC claims that councils spend substantial sums of money to maintain their airports. REROC stated that of its six airports, only Wagga Wagga, has regular passenger transport services. Country Connections, ceased operations to Cootamundra and West Wyalong in 2001.⁷⁹
- 4.76 Tumut Shire Council has been trying to get an air service for some considerable time, without success, and has spent some funds upgrading the airport, with the aim of trying to secure a regular provider.⁸⁰ REROC did not indicate how much had been spent by Tumut Shire Council.
- 4.77 REROC explained that the primary purpose of the airport in Temora is tourism and industry rather than passenger services. It has a large aviation museum, has managed to attract a substantial number of support providers, and has been quite successful in creating an industry base around aviation.⁸¹ Despite the fact that Temora does not have a current

76 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 30.

77 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 312.

78 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 411.

79 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

80 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

81 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

RPT service, the council is set to invest \$2.2 million on runway development.⁸²

- 4.78 For Tumut, Cootamundra, West Wyalong and Holbrook, REROC estimated that it is costing about \$250 000 to \$300 000 a year just to maintain those airports in this region. Without any of them having a regular passenger service, there is virtually no revenue coming in to offset those costs. The councils are maintaining the airports to allow them the opportunity to take advantage if an air service decides it wants to again service those areas.⁸³
- 4.79 REROC added that the councils would be very reluctant to see their airport facilities downgraded. They are a signal to the community that the community is willing to support an air service. If councils were to stop maintaining or upgrading the facilities, it would send a fairly clear message to the community that they have given up on air services.⁸⁴
- 4.80 The committee concluded that many small towns suffer from the ‘chicken-and-egg’ scenario. Towns do not receive RPT services because the airport is not up to standard. Towns have no RPT services, therefore cannot afford to maintain and upgrade their airports.

Capital upgrades are unaffordable

- 4.81 The major cost of maintenance and upgrade of airport infrastructure is a significant problem for some local councils. Bega Valley Shire, the owner of the Merimbula Airport, claimed that significant capital investment will be needed in the next five to ten years even just to maintain the current airport standards. A move to possible larger aircraft in the medium term will likely necessitate several million dollars of additional capital works for runway improvements, associated apron trafficking areas and increase in the capacity of the airport terminal. The council stated that it can reasonably address the ongoing maintenance issues of its airport asset, yet its funds for major new capital works to support growth in air services are extremely limited.⁸⁵

82 Sandra Firth, ‘Runway approval for Temora Shire’ 2WG News, Wagga Wagga, 20 May 2003

83 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

84 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

85 Bega Valley Shire, submission no. 61, p. 2.

Management and technical skills

4.82 The transfer of airports to local ownership has significantly reduced the pool of affordable expertise in airport operations and maintenance. It is critical for the sustainability of air services to communities that airports are maintained and operated effectively and safely. For example, the Torres Strait Regional Authority, which operates the Horn Island airport, has not been able to attract a suitably qualified airport manager with the funds that it has available. In any review of regional commercial aviation, due consideration needs to be given to the maintenance of airport infrastructure. While government subsidies are available for selected air routes and airport infrastructure development, the lack of subsidies and profitability of such airports makes finding suitable management resources extremely difficult.⁸⁶

4.83 When considering the skills and expertise a council requires in managing an airport, Lorraine MacGillivray of Edge Aviation stated:

It is a specialised industry. It concerns me, essentially, that we have—for want of a better expression—bureaucrats managing such an asset. Perhaps a mechanism should be put in place where they are forced to have some industry involvement or management of the airport.⁸⁷

4.84 Concerning how councils cope with managing their airports, Ms MacGillivray added:

Management committees made up of a good proportion of aviation people would be beneficial. For local government to try and manage that type of asset is very difficult. In all fairness to local government, I do not think that they get enough support from the state government or, for that matter, the Commonwealth government. They are left pretty much on their own day to day to try and manage a very significant asset that can make or break our transport infrastructure. That is a significant burden for a local government to have in an area that is ... highly regulated and very specialised. It would be unreasonable for us to expect them to be able to do it to an extremely high standard.⁸⁸

86 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 225.

87 Edge Aviation, transcript of evidence, Melbourne, 26 February 2003, p. 210.

88 Edge Aviation, transcript of evidence, Melbourne, 26 February 2003, p. 211.

Consequences

- 4.85 The committee shares the view that the long term ramifications of local ownership of airports were not fully understood by the majority of councils at the time of handover. The committee is aware that many councils are struggling to operate and maintain their airport facilities, and that some sort of assistance may be required in certain circumstances.
- 4.86 The committee formed the view that there may be a certain population level, possibly around 30 000 people, under which a community is less likely to support RPT services that will provide enough income to support essential airport operations and maintenance.
- 4.87 The committee is also aware of the responsibilities local governments have in managing their airport facilities. In particular, the operation and maintenance of significant valuable infrastructure, to a high safety standard, involves specialised management.

Possible solutions

- 4.88 This section examines the potential avenues of assistance for local councils in the operation and maintenance of their airports.

Current programs

Local Government landing fees

- 4.89 The collection of landing fees is the prime method of income generation for regional airports. How this is done, however, is highly variable, with no set systems in place. The setting of landing fees by councils is left largely to market forces. However, the Commonwealth has the trade practices legislation. The ACCC is the Commonwealth's prices 'watchdog', and the states and territories conduct their own prices oversight. A detailed examination of landing fees is given later in Appendix D.
- 4.90 Airnorth Regional, in its submission, claimed there are now very few measures or checks in place to stop airport owners charging what they like in terms of landing fees, to the detriment of the industry and regional Australia. Airnorth Regional claimed that following the finalisation of the Commonwealth's ALOP, small regional air transport operators have reported a steady increase in landing charges, at New South Wales

airports outside Sydney. Although, it is quite reasonable to expect that regional airport owners should seek to recover costs of airport operation, the pricing practices at some regional airports may be contributing to the cost pressures impacting on small regional airlines. This is true particularly at those airports which are used to hub regional services and where in some cases dual 'head tax' charges are applied for passengers transferring to a connecting air service.⁸⁹

- 4.91 Airnorth Regional added that in November last year, Darwin Airport increased charges more than three fold, and this was on top of significant price rises only two years ago. Numerous other airport owners have done likewise in the wake of Ansett's collapse.⁹⁰
- 4.92 Airnorth Regional also claimed that there are examples where airport owners (in this case, local councils) are using their airport as a revenue generator to fund community projects such as swimming pools and the like.⁹¹
- 4.93 There are other examples where councils are setting prices based upon the land value of their asset as opposed to the cost at which the asset was transferred to them. An example of this is the Maroochydore Airport where the land has been re-valued (at a significant premium) yet the land was transferred to them by the Commonwealth for only \$1.00.⁹²
- 4.94 Eurobodalla Shire Council explained that it is often suggested by airlines that if local government wishes to ensure the viability of regional air services it should be willing to charge low or no landing fees. The council added that any reduction in its passenger charge would increase the level of subsidy to the airport from ratepayers. The council is currently looking at ways to generate new or additional revenue to offset this operational subsidy.⁹³
- 4.95 The Tasmanian Government has legislation that enforces the payment of unpaid landing fees.

89 Airnorth Regional, submission no. 102, p. 9.

90 Airnorth Regional, submission no. 102, p. 9.

91 Airnorth Regional, submission no. 102, p. 9.

92 Airnorth Regional, submission no. 102, p. 9.

93 Eurobodalla Shire Council, submission no. 48, p. 7.

Commonwealth Government programs

4.96 The committee recognises that the Commonwealth has programs that are currently in place. The committee acknowledges the value of these programs and concludes that these programs must continue into the future.

4.97 DOTARS manages the following programs:

Remote Air Service Subsidy Scheme

4.98 The Remote Air Service Subsidy (RASS) scheme ensures communities in remote and at times isolated areas of Australia have reasonable access to essential services by guaranteeing a regular air transport service. Under the RASS scheme, subsidised air services provide regular deliveries of mail, educational materials, medicines, fresh food and other urgent supplies, and carry passengers. Because of the distances involved and the fact that road access to many of these communities is cut off for several months during the wet season, a regular air service offers the only reliable means of transport.⁹⁴

4.99 The Commonwealth is spending an additional \$5.2 million on the scheme over four years from June 2000, effectively doubling the scheme's previous level of funding. The additional funding is enabling all RASS operators to provide a passenger service as well carrying mail and cargo. Therefore all RASS operators are now required to hold, or be in the process of securing, a RPT Air Operators Certificate (AOC). The additional funding is also permitting an expansion of the scheme to include more remote communities. The RASS scheme presently subsidises seven air operators providing regular air services to approximately 270 remote communities located in Queensland, the Northern Territory, South Australia and Western Australia. These RASS subsidised air services reach a population of around 10 000 people and operators fly more than one million kilometres on RASS subsidised routes each year.⁹⁵

94 DOTARS Transport Programs - Remote Air Service Subsidy (RASS) Scheme, <http://www.dotrs.gov.au>, last accessed 14 July 2003.

95 DOTARS Transport Programs - Remote Air Service Subsidy (RASS) Scheme, <http://www.dotrs.gov.au>, last accessed 14 July 2003.

Aerodrome Inspection Program

4.100 This program provides aerodrome safety inspection services and technical advice to remote northern Australian indigenous communities that rely on air services. It was initiated as part of the Commonwealth's response to recommendations contained in the Report of the Royal Commission into Aboriginal Deaths in Custody. The program is funded by a special allocation in the Commonwealth Budget. Normally, aerodrome inspections of this type would be the responsibility of the aerodrome owner/operator. However, they require specialised technical expertise not readily available in remote communities. The Commonwealth funded service is seen as a practical way of assisting remote communities heavily reliant on air services.⁹⁶

Regional Programs

4.101 Regional aviation is a service industry that is integral to regional economies. As part of the Commonwealth's *Stronger Regions: A Stronger Australia* regional statement of 2001, DOTARS has sponsored the development of an action plan to address significant impediments to the growth of regional businesses. The Commonwealth has yet to formally respond to the action plan.⁹⁷

4.102 This report identifies the significant impediments to the growth of small and medium regional aviation enterprises as limited access to finance, business skills, taxation, and attracting, retaining and developing skilled mechanics. These impediments are amongst those identified in the action plan.

4.103 In support of initiatives that address the impediments and build capacity for strategic and informed decision making, and encourage small businesses and local enterprises, the 2002-03 Budget provided \$36.2m from the \$100.5m Sustainable Regions Program. The majority of the funding will be available from 2002-03.

96 DOTARS Transport Programs - Aerodrome Inspection Programme, <http://www.dotrs.gov.au>, last accessed 14 July 2003.

97 Anderson, J., Minister for Transport and Regional Services, media release, 'Minister Receives Action Plan for Regional Business Development', 7 July 2003, A72/2003, http://www.ministers.dotars.gov.au/ja/releases/2003/July/a72_2003.htm, last accessed 14 August 2003.

- 4.104 The committee recommends that small and medium regional aviation enterprises benefit from the action plan agreed to by the Commonwealth, particularly in the areas of access to finance, business skills, taxation, and attracting, retaining and developing skilled workers.

Recommendation 4

- 4.105 **The committee recommends that the Department of Transport and Regional Services ensure that small and medium regional aviation enterprises are well represented in the initiatives and benefit directly from the initiatives arising from the Commonwealth's action plan for its *Stronger Regions: A Stronger Australia* framework.**

Commonwealth resuming control of airports

- 4.106 When asked about council's view on the Commonwealth assuming control of regional airports, Mr Christopher Nelson, the District Council of Grant's Airport Manager stated:

I think it would be baffled. Previously when the Commonwealth maintained all the airports, there were economies of scale in doing that. They had people who were expert in the various fields who could quickly move about, although they probably had higher labour costs. I think the ideal would be perhaps for the infrastructure to be owned by the Commonwealth and the maintenance side of it to be addressed by the local government, where the onus for the capital did not lie with a small group of ratepayers.⁹⁸

- 4.107 Mr Russell Peate, Chief Executive Officer of the District Council of Grant, added:

It would be interesting to compare the financials of the operation when it was undertaken by the Commonwealth and when it was undertaken by local government.⁹⁹

98 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 24.

99 District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 24.

Change in Commonwealth policy

4.108 DOTARS considered that there is merit in reviewing a number of existing policies and programs with a view to removing unnecessary burdens and barriers to adjustment for regional operators. Issues that may be examined by the department include:

- The level and basis of regulatory fees and non-commercial charges imposed on regional operators by state, local and Commonwealth governments, to ensure that they are closely related to the actual cost of services provided, and hence contribute to improved economic efficiency;
- The compliance burden of CASA safety obligations; and
- The operation of the ALOP.¹⁰⁰

4.109 The Queensland Government commented on the support required for regional airports and the possibility of Commonwealth assistance:

Local governments alone cannot sustain the financial responsibility for the upgrade and maintenance of airports in rural and remote Australia. The Queensland government's current budget upgrade of funding for rural and remote airports of \$2 million per annum is clearly insufficient considering that more than \$10 million of funding is sought in applications lodged in the 2003-04 financial year. Notwithstanding its commitment under ALOP, the Commonwealth may consider being involved in a multilevel agreement program to support airport infrastructure, especially for airports receiving RPT and/or Remote Air Service Subsidy services.¹⁰¹

4.110 King Island Council claimed they would benefit from the introduction of Commonwealth or state legislation allowing airport owners to take direct action to prohibit RPT aircraft from landing, or allowing the impounding of aircraft, where fees remain unpaid. At present, the only course of action for airport owners is the costly and time consuming alternative of pursuing the matter through the courts.¹⁰²

100 Department of Transport and Regional Services, submission no. 81, p. 7.

101 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, p. 675.

102 Cradle Coast Authority, submission no. 149, p. 8.

4.111 REROC raised the possibility of the Commonwealth contributing to funding of regional airport maintenance and upgrade:

When the federal government handed back the airports to local councils, there was a sum of money which came with that, but that was soon exhausted. There is difficulty in maintaining the airports to a standard, let alone upgrading. If the Commonwealth government were to give regular payments—maybe even as much as half the cost of maintaining the airports—that would certainly go a long way towards alleviating the problems that local governments are facing in maintaining airports.¹⁰³

Commonwealth Review of ALOP

4.112 Flinders Council suggested a review of the ALOP, considering that it is over ten years since the ownership of local airports was handed to local councils. Flinders Council proposed to DOTARS that the outcomes of the ALOP should be reviewed to establish the economic impacts of the Commonwealth divestment program.¹⁰⁴

4.113 Flinders Council has written to the secretary of DOTARS, suggesting that now would be an appropriate time for the Commonwealth to review the outcomes of the ALOP, not just on Flinders Island but also in all the other council areas or communities that have been required to take ownership of aerodromes. The only response Flinders Council has so far received is that DOTARS has agreed to review the terms of the transfer, to remove the requirement to consult the department if councils want to lease part of the aerodrome to another party.¹⁰⁵

Commonwealth financial assistance

4.114 Since the transfer of airports to local ownership, maintenance of safe and efficient airport infrastructure has been a challenge for many remote and regional communities.

103 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 413.

104 Flinders Council, submission no. 110, p. 14.

105 Flinders Council, transcript of evidence, Flinders Island, 25 February 2003, p. 168.

- 4.115 In the case of Queensland, the state government has a program focused on improving the infrastructure at a number of regional and populated island airports.¹⁰⁶ The AAA added that while this investment has gone some way towards the maintenance of critical airport infrastructure, the transfer to local ownership has significantly reduced the pool of affordable expertise in airport operations and maintenance.
- 4.116 The AAA is not recommending that the Commonwealth take back ownership of airports. The AAA does however believe there ought to be recognition for special cases. Special recognition is needed for some communities where the impact of aviation on the social structure of that community is so important.¹⁰⁷ The AAA, in its evidence, gave Cobar in New South Wales as an example of a special case, but did not provide any details.
- 4.117 Many local governments do not have the funds to provide infrastructure improvements and may require assistance from the Commonwealth. The funding from the ALOP has long been expended.¹⁰⁸
- 4.118 The committee is aware of the difficulties faced by many councils in maintaining their airports. To assist in this, the committee has formed the view that a funding program should be developed and implemented to address issues concerning the upgrade of major capital facilities at regional airports.
- 4.119 The committee recognises that some states provide small amounts of funding. However, the committee sees a role for the Commonwealth to provide funding for capital upgrades based on equity of access.
- 4.120 A survey conducted by the committee showed that there are many airports that are economically viable, with good population bases and good passenger numbers, that have sustainable services which are driven by market forces. It has become apparent to the committee that many local councils can cope with the cost of airport operations, but cannot cope with the cost of major capital upgrades.
- 4.121 The proposed funding program will assist those airports that have difficulty in paying for major capital upgrades, such as runway re-surfacing.

106 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 225.

107 Australian Airports Association, transcript of evidence, Melbourne, 26 February 2003, p. 231.

108 Dubbo City Council, submission no. 39, p. 3.

- 4.122 The committee recommends that DOTARS works with state governments to develop and implement a funding program for regional airports that will assist regional airports with major capital upgrades, utilising an index for the appropriate distribution of funding.
- 4.123 The use of the Accessibility/Remoteness Index of Australia (ARIA) as a tool to be used for distribution of funds has been suggested by several submissions to this inquiry.¹⁰⁹ ARIA was developed on behalf of the (then) Commonwealth Department of Health and Aged Care. It is also used by the Department of Family and Community Services.
- 4.124 The committee concluded that ARIA can be used as a basis for the funding program, in association with other key criteria and data from the Australian Bureau of Statistics. Other criteria may include potential impacts on tourism, industry, business, medical and social needs.
- 4.125 The committee concluded that assessments for the funding program be conducted on a regional basis. This, when making an assessment of a particular town's facilities, would take into account accessibility to other towns with airports and air services.
- 4.126 A funding program using strict criteria will eventually see the consolidation of regional airports. There will be some airports that will always miss out on funding as they will not meet the criteria.
- 4.127 In 2001, the RASS scheme was increased by \$5.2 million, for the period 2000-01 to 2003-04¹¹⁰, which increased the networks around Australia significantly. In Western Australia, the number of ports receiving RASS services increased from eight to 35. The RASS scheme funding level is to be reviewed in the near future, with the Western Australian Government under the impression that, for the next financial year, funding levels will be reduced.
- 4.128 The committee is of the view that the current level of RASS scheme funding should be maintained at the current level, and not reduced to the pre-2001 level.

109 Flinders Council, submission no. 110, p. 1; transcript of evidence, Flinders Island, 25 February 2003, p. 171; Suzanne Napier, State Liberal member for Bass, transcript of evidence, Launceston, 24 February 2003, p. 2.

110 This effectively doubled the funding for the RASS scheme over the four year period 2000-01 to 2003-04.

Recommendation 5

4.129 **The committee recommends a new airport ownership subsidy scheme covering capital works and essential maintenance, as follows:**

- **For communities with a population above 30 000, assistance is to be provided only on special one-off cases where there is demonstrable evidence of the inability to fund a major runway upgrade or terminal extension; and**
- **Communities with a population under 30 000, supporting a regional or hub airport with RPT services, to receive a 50 per cent subsidy; and**
- **Still smaller communities supporting an airport with low RPT, charter and air ambulance to receive a 33 per cent subsidy.**

Recommendation 6

4.130 **In the absence of an airport local ownership assistance program similar to that outlined above, the committee recommends that the Commonwealth resume ownership and funding of all essential airports in communities with a population under 30 000.**

Recommendation 7

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

Recommendation 8

- 4.132 **Subject to the findings of the Joint Statutory Committee on Public Accounts and Audit's inquiry *Review of Aviation Security In Australia*, the committee recommends that, for communities with a population under 30 000, the Commonwealth Government should assist with the provision of appropriate security measures where risk assessments indicate that security upgrades are required.**

Consolidation of regional airports

- 4.133 The committee believes that there may be an opportunity for some smaller regional airports to close, saving their councils considerable amounts of money. Airports that may be able to close include those that are within a one to two hour drive from a larger regional airport. This is supported by evidence described previously, indicating that people are prepared to drive for two to three hours.

Holbrook, New South Wales

- 4.134 REROC estimated that it is costing about \$250 000 to \$300 000 a year to maintain the airports at Tumut, Cootamundra, West Wyalong and Holbrook. There is virtually no revenue coming in to offset those costs, as none of the towns has a regular passenger service.¹¹¹
- 4.135 The committee believes that some of these towns are unlikely to receive air services, simply due to the fact that the towns have small populations, very low passenger numbers, and are too close to other regional centres with existing services.

111 Riverina Eastern Regional Organisation of Councils, transcript of evidence, Wagga Wagga, 7 May 2003, p. 412.

- 4.136 Air Link Pty Ltd claimed that people will use air services only if a three hour drive can be saved. Mr David Miller from Air Link described the example of air services to Coonabarabran, and the proximity of the town to two major centres:

You can drive from Coonabarabran to Dubbo or from Coonabarabran to Tamworth in about an hour and a half. The number of passengers from Coonabarabran was down to about only 1,000 a year.¹¹²

- 4.137 The committee is of the opinion that even with a funding program in place for airport capital upgrades, there will still be airports that will not be economically viable. Based on strict selection guidelines, these airports are unlikely to receive funding.
- 4.138 The committee realises that almost every town maintains an airport that is capable of taking emergency services such as the aerial ambulance. Many towns also support active general aviation including charter operations, flying clubs and aviation museums, and will continue to maintain their facilities for those purposes. The committee also understands that regional centres will continue to defend their right to have a direct air service to their town, and will continue to spend rate resources on maintaining airport facilities. However, the committee is of the opinion that some councils should re-assess the standard to which their facilities are maintained and how much funding is committed to upkeep of the facility. The committee urges councils to look at the broader picture, and attempt to meet more realistic expectations. Councils should focus on what is sustainable, and maximise gains on the valuable rate payer dollars they have to spend.
- 4.139 Smaller towns that are more remote will maintain their air services, either hubbed or direct, despite low population and low annual passenger numbers. For example, several western New South Wales towns will still continue to hub into Dubbo, and some smaller centres such as Narrabri will continue to have direct services.
- 4.140 The committee also urges councils to examine integrated passenger movement systems. It may be much more affordable for a council to spend money on a commuter bus service to the nearest main regional centre that has an air service, rather than spend that money on maintaining an airport that will not be used.

112 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 552.

4.141 Below are two examples of airports that the committee believes may not have an RPT service introduced or restored in the foreseeable future. While recognising the right of communities to maintain facilities for business and tourism charter, medical and private purposes, the committee accepts evidence that RPT services are unlikely under current circumstances.

Cowra, New South Wales

4.142 Cowra is close to Orange on the central tablelands of New South Wales. Cowra lost its air service in 2001. The committee believes it is unlikely that the town will see the return of RPT services. Evidence from Orange City Council indicated that people would prefer to drive for one hour to Orange to catch a plane to Sydney, rather than catch a smaller plane for the flight into the hub at Orange. Orange City Council believes that the majority of people would either drive to Orange to catch a plane, or drive straight to Sydney rather than flying to Orange in a smaller aircraft.¹¹³

Warwick, Queensland

4.143 The submission from the Shire of Warwick outlined the shire's need to upgrade their airport, in order to attract an RPT operator to the town. The shire claimed that air services are needed for the development of regional tourism and medical services. The shire also aims to attract business to the region, and support current major economic development projects. The runway is currently unsealed. The shire has spent \$20 000 on a master plan for the airport, and has budgeted \$1.1 million for the runway upgrade. Recently, the shire failed in its bid to obtain \$500 000 from the state government for assistance in paying for the upgrade.¹¹⁴

4.144 Warwick has a population of 11 000, with approximately 23 000 people in the shire.¹¹⁵ The committee believes that Warwick is too close to a main regional and a capital city for it to warrant an air service, especially as there is high quality road transport infrastructure servicing the town. Warwick is connected by major highways to Toowoomba and Brisbane:

- Warwick to Toowoomba: 83 kilometres (one hour driving time);

113 Orange City Council, transcript of evidence, Sydney, 8 May 2003, p. 494.

114 Shire of Warwick, submission no. 46, pp. 2-5.

115 Shire of Warwick, <http://www.warwick.qld.gov.au>, last accessed 30 July 2003.

- Warwick to Ipswich: 120 kilometres (1¼ hours driving time); and
- Warwick to Brisbane: 157 kilometres (under two hours driving time).¹¹⁶

116 Travelmate - Australian Travel Guide, <http://www.travelmate.com.au>, last accessed 30 July 2003.

Island and remote communities

- 5.1 Regional communities face a number of issues relating to the provision of regional air services in an equitable, accessible and financially viable manner.
- 5.2 Remote communities and island communities together form a subset of regional communities. Although remote and island communities experience problems similar to those experienced by other regional communities, they are subject to circumstances that are specific to their own circumstances.
- 5.3 Chapter 4 has considered air services to regional communities including some remote and island communities. Specific access and especially sea services issues for remote island communities are considered in this chapter.
- 5.4 Some remote communities, particularly in northern Australia, are isolated by seasonal weather conditions, meaning that air and sea services are heavily relied on. Some remote communities are vast distances from major regional centres or capital cities, making regular road transport for people and freight expensive and time consuming.
- 5.5 There are transport issues that are exclusive to island communities. The most obvious island-specific problem is the lack of roads, which means a reliance on air and sea services to maintain connections with the mainland. Community issues of equity and accessibility are then more specific to the provision of regional air, and in some situations, sea, services. The Commonwealth has a key role in ensuring that

appropriate transport services can be maintained to all regional, remote and island communities.

Commonwealth transport infrastructure policy and application to remote and island communities

- 5.6 The Commonwealth manages a strong suite of policy programs aimed at regional development and equity. While these address common regional issues, the particular situation of remote and island communities is not always fully addressed under these broad initiatives.
- 5.7 The Commonwealth currently manages several regional development funding programs, e.g. the Sustainable Regions Programme. The committee considered that these programs generally support regional development and do not necessarily favour any types of regional communities.
- 5.8 The Commonwealth also has in place several funding programs for transport infrastructure (e.g. National Highway, Roads to Recovery). However, there is no overarching policy concerning infrastructure and access to islands.
- 5.9 Island communities claim that the air and sea services are their 'roads' and that the level of infrastructure funding assistance provided to regions should also be provided to islands, despite the lack of roads.
- 5.10 The committee is of the opinion that island communities should have equity of access to services and standards enjoyed by mainland communities.
- 5.11 The National Highway which extends around the mainland also exists from Hobart to Devonport. The Bass Strait subsidy schemes recognise that there can be no link between Devonport and Melbourne. The Tasmanian Government recognises that it has a similar responsibility in providing roads to Flinders Island and King Island as a theoretical extension of the Tasmanian road system. The committee believes that equity of access should enable Flinders Island and King Island to engage on just terms with the mainland.

- 5.12 However, in the case of other island communities, such as Kangaroo Island, Tiwi Island and Torres Strait Islands, there is a level of state responsibility. The committee believes that the Commonwealth's role in this instance should be one of providing appropriate landing and port facilities.
- 5.13 There is some recognition of the specific air service needs of some remote communities. Remote northern communities currently receive subsidised services through the Commonwealth's RASS scheme. The RASS scheme presently subsidises five air operators to provide regular air services to approximately 200 remote ports located in Queensland, the Northern Territory, South Australia and Western Australia.
- 5.14 The committee is of the opinion that remote and island communities should not be disadvantaged in terms of access to Commonwealth infrastructure funding programs. These programs should be sufficiently flexible that they are able to assist with the provision of infrastructure for the most appropriate form of transport service for each community situation – whether that be air, road or sea travel.
- 5.15 Providing equity of service is necessary in order for the Commonwealth to fulfil its overarching policy objectives concerning regional Australia. Specific objectives concerning air and sea services need to be examined for each remote and island community.
- 5.16 This chapter sets out the issues facing remote communities across various states and territories, and provides specific recommendations to improve services for each of these areas. Island communities are considered separately. The committee suggests a number of possible solutions specific to these island communities and argues that states and territories consider these options and implement appropriate improvements.

Remote communities

- 5.17 The Northern Territory Government made the argument that sustainable air services are critical to the social and economic well being and development of northern Australia.¹ Western Australia and Queensland made similar arguments in relation to air services.

Northern Territory

- 5.18 The Northern Territory, due to its vast expanse and scattered population, arguably depends on air transport to a greater degree than other jurisdictions. Many remote communities are cut off for extended periods due to harsh weather conditions, with their air services providing the only link to the outside world.
- 5.19 Road transport is also an issue, with many local government roads having deteriorated over time, to the extent that all urgent travel must be undertaken by air. In many cases regional air services are actually an essential service. The Northern Territory Government stated that service delivery for the Northern Territory's remote and mainly Aboriginal population, and a degree of equity of access, is only made possible through regular air services.²
- 5.20 The Northern Territory Government contributes to regional transport services by maintaining a strategic network of 64 aerodromes, which service major communities and towns and their outlying areas. Similarly, assistance is also provided for the upkeep of 14 key barge landings.
- 5.21 There are two Commonwealth programs operating in the Northern Territory which directly support the provision of air services:
- The RASS scheme; and
 - The Aerodrome Safety Inspection and Technical Support program.
- 5.22 The RASS scheme enables important basic mail and freight services to almost a hundred pastoral and community destinations, using Northern Territory based operators.

1 Northern Territory Government, submission no. 101, p. 2; Western Australian Government, submission no. 150, p. 15.

2 Northern Territory Government, submission no. 101, p. 2.

- 5.23 The Northern Territory Government is of the view that RASS services should be able to carry paying passengers.
- 5.24 However, many remote aerodromes are not to the standard required to take passenger services. The major issue of how to raise the aerodrome standards has not yet been fully addressed.
- 5.25 The Safety Inspection Program provides assistance to 59 Aboriginal community aerodromes north of the 19th parallel, in Queensland, the Northern Territory (29 locations) and Western Australia. The Northern Territory Government considers this program a valuable initiative and recommends that it be extended to include other remote communities south of the 19th parallel.³
- 5.26 The committee is of the opinion that more communities in remote northern Australia should be allowed to access existing Commonwealth funding programs.
- 5.27 The committee, however, is not in the position to provide funding for all aerodrome upgrades. The committee is of the opinion that the funding program proposed in chapter 4 will be able to provide funding for some aerodrome upgrades.

Recommendation 9

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

Western Australia

- 5.29 Remote areas of Western Australia share similar characteristics with remote areas in the Northern Territory and Queensland. The Western Australian Government shares similar opinions as those expressed by the Northern Territory Government.

3 Northern Territory Government, submission no. 101, p. 4

- 5.30 Since 1994, the Western Australian Government has provided support for regional airports through its RADS Scheme. Since its inception, RADS has invested \$14 million in over 60 airports and airstrips around the state. This has generated about \$35 million in leveraged funding from Commonwealth and local governments and the private sector.⁴
- 5.31 Western Australia has continued with RADS, as it views airport infrastructure as a vital component of air services development in the state. However, the state believes that there is more to be achieved but this is beyond the funding capability of RADS.
- 5.32 The Western Australian Government believes the Commonwealth should support the work undertaken by RADS by contributing funds to airport infrastructure.⁵
- 5.33 The Commonwealth's RASS scheme network, which is administered by DOTARS, is important in maintaining air links with the more remote locations in Western Australia.
- 5.34 Recently, DOTARS increased the RASS network across Australia including routes in Western Australia. The new scheme allowed the carriage of passengers, however this triggered a higher level of operator and airstrip standards required by CASA. This meant that many of the airstrips on RASS routes did not meet the new standards, although they had previously been receiving mail and plane services. The cost of upgrading the airstrips is significant.⁶
- 5.35 The Western Australian Government stated that there is a view within the Commonwealth that the state will upgrade the airstrips. The state government has provided some funding for this work through RADS and may provide additional funds in 2003-04. However, the scheme can only meet a small proportion of the cost and Commonwealth assistance is needed.⁷
- 5.36 The committee is not in the position to provide funding for all aerodrome upgrades. However, the committee is of the opinion that the funding program proposed in chapter 4 will be able to provide funding for some aerodrome upgrades.

4 Western Australian Government, submission no. 150, p. 14.

5 Western Australian Government, submission no. 150, p. 14.

6 Western Australian Government, submission no. 150, p. 15; transcript of evidence, Canberra, 10 September 2003, pp. 747-748.

7 Western Australian Government, submission no. 150, p. 15.

Queensland

- 5.37 The Queensland Government operates a regulated air service regime, which enables adequate air services to be delivered to remote areas of the state.
- 5.38 The Queensland Government's aviation policies are incorporated into an overarching Queensland Aviation Strategy, enabling a coordinated approach.⁸
- 5.39 Queensland Transport's Rural and Remote Airport Development Program provides grants to local governments to assist in the upgrade of airstrips throughout rural and remote Queensland. This program helps to ensure access to essential air services for Queensland's transport-disadvantaged communities.⁹
- 5.40 As with the Northern Territory and Western Australia, the committee is not in the position to provide funding for all aerodrome upgrades. However, the committee is of the opinion that the funding program proposed in chapter 4 will be able to provide funding for some aerodrome upgrades.

Major populated islands

- 5.41 The following sections outline each major island community, and discuss their existing services, their needs, and any alternatives and solutions.

Tasmania's passenger and freight schemes

- 5.42 This section examines the passenger and freight schemes that apply to Tasmania. The Flinders Island and King Island sections below refer to these schemes.

8 Queensland Government, submission no. 153, p. 3.

9 Queensland Government, submission no. 153, p. 15.

- 5.43 The committee received evidence regarding the equity of access for people and freight to and from Tasmania as provided for by the Tasmanian Freight Equalisation Scheme (TFES) and the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES). Mr Peter Brohier, in his submissions, argued that Tasmania needed to be connected to Australia by equal links for people and freight.¹⁰
- 5.44 Mr Brohier claimed that the TFES benefits products from Tasmania entering mainland markets and business inputs entering Tasmania, but not consumables entering Tasmania.¹¹ Public information available from the Commonwealth confirmed these statements.¹²
- 5.45 Mr Brohier argued that the TFES disadvantages people in Tasmania who rely on goods imported from the mainland. On the issue of the BSPVES, Mr Brohier claimed that it does not provide equality of access to people entering Tasmania on foot and in passenger motor vehicles. He also stated that the scheme was designed to encourage tourism rather than provide equality of access to all types of passengers travelling to and from Tasmania.
- 5.46 Based on the range of evidence considered during the inquiry, the committee concluded that the TFES and BSPVES encourage the movement of specific types of freight and people. However, this does not constitute the restriction of movement of other types of freight and people. On the contrary, transport links to and from Tasmania have been improved in terms of the quality of vessels and schedules.¹³
- 5.47 The committee noted that the schemes are supported by the Commonwealth. The Budget appropriation in 2002-03 for the TFES was \$71 million, and for the BSPVES it was \$31.8 million. BTRE monitors the effectiveness of the BSPVES annually in accordance with Ministerial directions. The TFES was reviewed in 1998.¹⁴

10 Peter Brohier, submissions no. 166 and 178; submission to Senate Poverty Inquiry; Peter Brohier, transcript of evidence to Senate Poverty Inquiry, Ballarat, 30 June 2003, pp. 775-785.

11 Peter Brohier, transcript of evidence to Senate Poverty Inquiry, Ballarat, 30 June 2003, pp. 776-777.

12 What Goods Qualify Under the Tasmanian Freight Equalisation Scheme?, <http://www.centrelink.gov.au>, last accessed 29 August 2003.

13 Tasmanian Government, submission no. 155, pp. 13-14; Tasmanian Government, transcript of evidence, Launceston, 24 February 2003, p. 61.

14 Department of Transport and Regional Services, Transport Programs - Bass Strait Passenger Vehicle Equalisation Scheme, <http://www.dotars.gov.au>, last accessed 29 August 2003; Department of Transport and Regional Services, Transport Programs - Tasmanian Freight Equalisation Scheme, <http://www.dotars.gov.au>, last accessed

Flinders Island

Background

- 5.48 The Flinders Municipality includes the Furneaux Group of Islands and other islands in eastern Bass Strait, located within an area which begins a short distance from the north east coast of Tasmania to 16 kilometres south of the Victorian coastline. Flinders Island, the principal island in the Furneaux Group, has an area of approximately 1600 square kilometres and is located some 160 kilometres from Launceston. The second largest island is Cape Barren Island with an area of 403 square kilometres.
- 5.49 The islands are almost totally reliant on regional air services for links to the rest of the world.¹⁵
- 5.50 Flinders Island has 864 residents.¹⁶ Cape Barren Island, just to the south of Flinders Island, has 58 residents.¹⁷

Current services, needs and expectations

Air services

- 5.51 The adequacy of air services to Flinders Island has been described in chapter 4.

Ferry and freight services

- 5.52 Flinders Councils, amongst other submissions, claimed that existing cargo ferry services to the island are acceptable, although they are inadequate as passenger services.
- 5.53 The Furneaux Group has a shipping service provided by Southern Shipping Company Pty Ltd. The operator provides 300 tonne capacity, stern loading vessels. The company is based at Bridport,

29 August 2003;

Department of Transport and Regional Services, Transport Programs - Bass Strait Passenger Vehicle Equalisation Scheme BTRE Monitoring Report No. 5, 2000-01, <http://www.dotars.gov.au>, last accessed 29 August 2003;

Media Release - Senator Ian Macdonald, Minister for Regional Services, Territories and Local Government, '*Increase in funding for Tasmanian Freight Equalisation Scheme*', <http://www.dotars.gov.au>, last accessed 29 August 2003.

15 Flinders Council, transcript of evidence, Flinders Island, 25 February 2003, p. 153.

16 Flinders Council, submission no. 110, p. 2.

17 Flinders Island Online, www.flindersislandonline.com.au, last accessed 1 September 2003.

- Tasmania, and under an agreement with the state government, provides at minimum a weekly service between the islands and Tasmania, with other services provided according to freight volumes.
- 5.54 The company provides an as-needed service to Port Welshpool in Victoria. The service to Victoria is also subject to cost recovery principles established by the agreement with the state government. The shipping service is the principal transport mode for the movement of bulk goods and non time sensitive freight.
- 5.55 In addition to the movement of freight, including livestock, the company's vessels are licensed to carry 12 passengers. Passengers share crew facilities, and access is available to tea and coffee facilities. No other services are provided.
- 5.56 The company's operations at Bridport are determined by tidal conditions in the Brid River. Accordingly, departure times are not scheduled and sailings coincide with high tide. Passengers are required to be at the terminals used by the ship at least one hour before the advised sailing time. Travel time directly between Tasmania and Flinders Island is eight to nine hours, depending on sea conditions.
- 5.57 In addition to the movement of general freight, vehicles and livestock, the company has the contract to deliver fuel to the Furneaux Group. For this purpose, the trading vessel operates via Bell Bay on the Tamar River to allow the fuel tank-tainers to be craned onto the vessel. One weekly sailing per month is via Bell Bay, with travel time becoming around 22 hours in good sea conditions. Most passenger traffic on the vessels are people accompanying vehicles.¹⁸
- 5.58 The Commonwealth subsidises the cost of crossing Bass Strait under the BSPVES. Flinders Council believes that governments ignore the transport needs of residents of the Bass Strait Islands, who must use air transport for daily commuter needs. The principle of the BSPVES is to equalise the cost of the interstate movement of people and vehicles. Flinders Council believes the principles of the scheme should be applied to the air services to Flinders Island because there is no adequate alternative transport mode other than the trading vessel service.¹⁹
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18 Flinders Council, submission no. 110, pp. 13-14.

19 Flinders Council, submission no. 110, p. 16.

- 5.59 Although the BSPVES subsidy is available to islanders for interstate travel, it is currently not available for intrastate travel.²⁰
- 5.60 Mrs Suzanne Napier, the Liberal Member for the Tasmanian state seat of Bass, told the committee that the biggest issue associated with Bass Strait is the size of the seas and the potential for seasickness on ferry journeys. Mrs Napier said that the interstate ferry services have opted for much larger, longer, monohull ferries in order to provide a better ride on rough seas. Mrs Napier believed that it would still be possible to use catamarans on the shorter runs.²¹

Possible solutions

- 5.61 The committee is of the view that current air services to Flinders Island are only just adequate, although they could be improved, particularly at peak seasonal times. Principles must be established that will deal with the problem of replacing piston-engine aircraft with turbo prop aircraft. Other solutions are discussed in chapter 6.
- 5.62 The committee recognises that the current trading vessel service is inadequate as a passenger service, largely due to the lack of passenger facilities and the lengthy travelling time.
- 5.63 The committee is of the opinion that a passenger ferry service may not be a viable option for the Bass Strait islands. This is largely due to the low volume of passengers, long distances, lengthy travelling times, rough seas and highly variable weather. There may be a possibility to include the Bass Strait islands in an island-hop route as part of the interstate service, which utilises the larger ferries.
- 5.64 The committee concluded that the cargo vessel service to the islands could be upgraded to improve load capabilities and efficiency. In particular, the committee noted that services from Flinders Island to mainland Australia were infrequent and unreliable.
- 5.65 The committee recommends that DOTARS work with the Tasmanian Government to bring about an improvement in cargo and passenger services to Flinders Island.

20 Dept. Infrastructure, Energy and Resources, Tasmania, transcript of evidence, Launceston, 24 February 2003, p. 73.

21 Suzanne Napier, State Liberal member for Bass, transcript of evidence, Launceston, 24 February 2003, p. 7.

Recommendation 10

- 5.66 **The committee recommends that the Department of Transport and Regional Services work with the Tasmanian Government to bring about an improvement in cargo services to Flinders Island.**

King Island

Background

- 5.67 King Island is situated at the western entrance to Bass Strait, approximately 120 kilometres south of Victoria, and the same distance north of mainland Tasmania. The island, which is 64 kilometres long and 27 kilometres wide, enjoys a reputation for excellence in the production of fine beef and superior dairy products as well as magnificent seafood.
- 5.68 King Island has a population of approximately 1 800 permanent residents of which 800 reside in the township of Currie, situated on the west coast.

Current services, needs and expectations

Air services

- 5.69 All visitors to the island travel by air, with three RPT airlines servicing the island on a daily basis. There are also numerous private planes and air charter operators.²²
- 5.70 The adequacy of air services to King Island has been described in chapter 4.

Ferry and freight services

- 5.71 Apart from air services, the only other means by which goods arrive or leave the island is by ship. The only commercial shipping line that moves freight to King Island is Patricks' Searoad Mersey. This vessel operates from the Port of Melbourne once per week, weather permitting. The Searoad Mersey has a capacity of 4 000 tonnes and is

22 King Island Council, submission no. 132, p. 6.

capable of taking and delivering almost all of King Island's regular needs at one berthing. At 127 metres long, it is able to manoeuvre in the harbour facilities at King Island, which are unable to handle a larger vessel.

- 5.72 The Searoad Mersey is a custom built vessel somewhat shorter than its sister ship the Searoad Tamar which also operates on the Melbourne-Devonport route.
- 5.73 The service is currently cost effective for the operators because the ship sails on a Sunday, a lay-day when it would otherwise be in port.
- 5.74 Up until 1991 the Tasmanian Government operated the shipping service to King Island. At that time it let a contract to Holymans (now Patricks) to provide a shipping service to King Island and provided a subsidy of approximately \$230 000 a year to the company to guarantee that service. This meant that on the occasion when the vessel ran aground and was out of service for repairs, the shipping company was required to, and did provide, a replacement vessel.
- 5.75 This arrangement appeared to work satisfactorily until the contract expired in April last year. Since then the service has been operating without subsidy and without any guarantee as to continuity since then. Negotiations on a new contract have faltered and the service could be withdrawn at any time. Shipping agents on the island have only negotiated short-term freight forwarding contracts with some of the major exporters on the island, leaving the entire island exposed to the commercial desires of a major national shipping agency. The committee sees this as an unsatisfactory arrangement.
- 5.76 As the vessel providing the service is leased by Patricks, the council is keen to ensure that its replacement will meet the needs of the island. Given the lead time for construction of such a vessel, the council is also concerned that a replacement has not as yet been planned.
- 5.77 King Island Council has recently learned that another company, Southern Shipping, has recently acquired a new ship similar in size to its flagship, the Mathew Flinders (that serves Flinders Island), and that the state government may be considering the use of this ship as a replacement to meet King Island's needs. However, the ship that may replace Patricks ship is much smaller and the council is concerned that it will not meet the island's needs.

- 5.78 To put this issue in perspective, the Searoad Mersey is 127 metres long and carries 4 000 tonnes of cargo, while the Mathew Flinders is 35 metres long and carries 250 tonnes of cargo. The Searoad Mersey calls once a week and is able to offload and load all cargo in one day. Wharfage is therefore significantly lower than for a smaller ship that may be required to be loaded and unloaded a number of times each week. It would be much more efficient to use the larger vessel than have multiple journeys on the smaller vessel.²³

Possible solutions

- 5.79 The committee formed the view current air services to King Island are generally adequate, although there are issues with the smaller operators concerning small, ageing aircraft.
- 5.80 King Island Council requested that the committee provide incentives for airlines to recommence particular services to King Island. The committee is not in a position to provide such incentives, however, the committee believes that a particular service will exist if there is indeed a definite market for those services. The committee encourages the council to actively negotiate with the relevant airlines.
- 5.81 King Island currently has no passenger ferry service. The committee is of the opinion that a passenger ferry service may not be a viable option for the Bass Strait islands. This is due to the low volume of passengers, long distances, lengthy travelling times, rough seas and highly variable weather. However, as with Flinders Island, it may be possible to include King Island in a triangulated route as part of the interstate service, which utilises the larger ferries.
- 5.82 The committee was concerned about the lack of long term security for the shipping services to the island. The committee, however, recognises that the service is a commercial arrangement and encourages the council to pursue all avenues of inquiry concerning ongoing services.

23 King Island Council, submission no. 132, pp. 17-18.

Kangaroo Island

Background

- 5.83 Kangaroo Island, the third largest island off the coast of Australia is 4 350 square kilometres in area, and approximately 130 kilometres south-west of Adelaide. The island's population is 4 237.²⁴
- 5.84 Kangaroo Island has up to 138 000 visitors annually, with an average yearly growth rate in visitation of around 10 per cent.²⁵ The island relies on a healthy tourism industry to sustain adequate air services. The island also relies heavily on sea ferry services to get more residents, visitors and freight onto and off the island.²⁶

Current services, needs and expectations

Air services

- 5.85 Kangaroo Island has one airport located at Cygnet River, approximately 13 kilometres south of Kingscote. There are currently two airlines operating from the island. These airlines offer frequent services between Adelaide and Kingscote. The journey takes approximately 30 minutes.²⁷
- 5.86 The KIDB claimed that the cost of using Kingscote Airport is very high when compared to other regional airports. The airport currently collects a \$5 charge per passenger arriving on Kangaroo Island, which amounts to a total charge of \$90 per landing at Kingscote, for an 18-seat Metroliner. KIDB feels that this does not compare well with landing fees of \$40.81 at Port Augusta and \$25 at Port Lincoln. The cost of landing at Adelaide airport is also cheaper at \$30.²⁸

24 Kangaroo Island - island facts,
<http://www.kangaroo-island-au.com>, last accessed 6 August 2003.

25 Kangaroo Island Development Board, submission no. 164, p. 1.

26 Kangaroo Island Council, submission no. 83, p. 1; Kangaroo Island Development Board, submission no. 164, p. 1.

27 Kangaroo Island Development Board, submission no. 164, p. 2.

28 Kangaroo Island Development Board, submission no. 164, p. 6.

- 5.87 KIDB also believes government should investigate the possibility of providing financial incentives or subsidies that can assist with the costs of airport facilities and infrastructure, where there is a small population base. As there is a very small rate base, Kangaroo Island Council is not in a position to fund airport losses or heavy maintenance or upgrading costs.²⁹
- 5.88 The committee, in its survey of regional airports, found that the passenger head tax at Kingscote Airport was one of the lowest in the country. While acknowledging the need of an infrastructure subsidy for small councils, the committee is of the opinion that the passenger head tax could be raised to be in line with many other regional airports. This would provide additional income to the airport.

Ferry Services

- 5.89 Sealink provides the Kangaroo Island ferry service. Kangaroo Island Council stated that, unlike the ferry service between Tasmania and Melbourne, the 16 kilometre stretch of water between Penneshaw on Kangaroo Island and Cape Jervis on mainland South Australia has not been declared a sea road, making the cost of travelling on and off the island by car expensive.³⁰ The council explained that currently, there is a small freight subsidy which applies to the ferry service, however, this will cease in less than two years. There are no travel concessions for islanders or visitors using ferry or air services. The council claimed the lack of concessions financially disadvantages an already isolated community.³¹
- 5.90 KIDB provided statistics for passengers travelling to the island. In 2001, the total number of passengers by ferry service and airline to Kangaroo Island was approximately 143 500. Visitors accounted for 136 000 passengers, or about 95 per cent of the total. Ferry services transported 108 500 passengers (75 per cent), with the remaining passengers using air services.³²
- 5.91 The following table, provided by KIDB, presents a comparative cost analysis for vehicular travel from the mainland to three Australian island tourism destinations.

29 Kangaroo Island Development Board, submission no. 164, p. 6.

30 Kangaroo Island Council, submission no. 83, p. 2.

31 Kangaroo Island Council, submission no. 83, p. 2.

32 Kangaroo Island Development Board, submission no. 164, p. 2.

Table 1: Comparative cost analysis for vehicular travel from mainland to three Australian island tourism destinations.³³

	Kangaroo Island (SA)	Fraser Island (QLD)	Tasmania
Distance	15km	15km	400km
One way fare (adult & car)	\$101	\$30	\$158
Cost per km	\$6.73	\$2.00	\$0.39

- 5.92 Travel between the mainland and Tasmania is greatly influenced by the Commonwealth's BSPVES. The cost of traveling one way on the ferry from the mainland to Kangaroo Island is 336 per cent more expensive than to Fraser Island and 1 725 per cent more expensive than to Tasmania.³⁴
- 5.93 KIDB believes air and sea services should be treated by government as an essential service, and that government should allow a reasonable subsidy, similar to that available for the Tasmanian ferry service, for the Kangaroo island ferry service. KIDB believes the ferry service should be seen by government as an arterial road.³⁵
- 5.94 With regard to subsidies for vehicles coming to the island, KIDB suggested that an evaluation would have to be completed, examining the advantages and disadvantages of subsidies, versus investment in infrastructure and allowing competitively operated services.³⁶
- 5.95 KIDB stated that the state government currently receives \$500 000 in revenue, collected as port charges. KIDB claimed that this goes into general revenue at a state level rather than back into port maintenance or into revenue for the Kangaroo Island Council. KIDB added that there has been very limited investment in infrastructure in the last three years.³⁷

33 Kangaroo Island Development Board, submission no. 164, p. 2.

34 Kangaroo Island Development Board, submission no. 164, p. 2.

35 Kangaroo Island Development Board, submission no. 164, p. 2.

36 Kangaroo Island Development Board, transcript of evidence, Kangaroo Island, 15 April 2003, p. 335.

37 Kangaroo Island Development Board, transcript of evidence, Kangaroo Island, 15 April 2003, p. 335.

5.96 The Kangaroo Island community has been lobbying state and Commonwealth governments to recognise the crossing from Cape Jervis to Penneshaw as being a continuation of the road network. It is the council's opinion that the situation is no different to crossing the River Murray on a bridge or punt, which is free of charge to users. Costs flow on to the passengers and the movement of freight.³⁸

5.97 Mrs Janice Kelly, the Mayor of Kangaroo Island Council, discussed the sense of arrival at Kangaroo Island, and the need for upgraded facilities:

Infrastructure funds are needed to improve all entrance ports—air and sea. Passenger facilities at Penneshaw are appalling, with no shelter and only basic toilet facilities. This is how we introduce overseas visitors to a destination promoted as a nature based experience with an environmentally friendly rural aspect which includes niche products that are peculiar to Kangaroo Island. The emphasis is that tourism is important to the economy nationally, and our limited resources cannot provide the funds necessary to provide those facilities that would make us proud to bring people to Kangaroo Island.³⁹

5.98 Concerning wharfage charges, Mrs Kelly added:

Wharfage charges ... (around \$500 000 per annum) ... are directed into Treasury funds and become part of general revenue. This in fact is an additional tax that is imposed on the users of the Sealink service and one which does not apply to any other roads, bridges or punts. I believe that everybody who uses that service, wherever they come from, is paying an additional tax that does not apply to anyone else in Australia.⁴⁰

5.99 Mr Prakash Dhupelia, the Managing Director of Kangaroo Island Ferry Services, described his company's planned operations, and the services he will be in competition with:

SeaLink has a virtual monopoly over the ports of Cape Jervis and Penneshaw and ... the construction of the infrastructure to service their [custom built] vessel, actually prevents access to the public jetty. For that reason, it is virtually impossible

38 Kangaroo Island Council, transcript of evidence, Kangaroo Island, 15 April 2003, p. 346.

39 Kangaroo Island Council, transcript of evidence, Kangaroo Island, 15 April 2003, p. 346.

40 Kangaroo Island Council, transcript of evidence, Kangaroo Island, 15 April 2003, p. 346.

for any other operator to consider operating out of Cape Jervis or Penneshaw ... We have chosen alternative ports that are more serviceable in providing passengers with what they want, which is a direct route to the key attraction areas ... Despite this virtual monopoly over the ports, SeaLink repeatedly seeks government assistance in the form of subsidies.⁴¹

5.100 Mr Dhupelia added some details regarding demand for services and his proposed fare structure:

Demand is outstripping capacity, hence the introduction of a new service by Kangaroo Island Ferry Services. We could have commenced earlier but it was a four-year process to gain approvals, for which we are still awaiting formalisation ... We have offered cheaper fares ... There have been several submissions over a period of time and in every one I have been consistent as far as that is concerned ... We will offer discounted fares without subsidies. We have not requested any assistance from the government to date, and despite this we shall be able to position ourselves to provide a range of fares, including student, hardship and pensioner fares at appropriate levels.⁴²

5.101 Mr Dhupelia discussed the viability of his business:

Despite that [cheaper fares] we will still be viable. While our model is predicated on an average of 50 per cent capacity over a three- or four-year period in our business plan, we would still be extremely profitable despite the additional burden of travelling a longer distance and despite the fact that we have received no government assistance to date. Built into our model is an offer to build our infrastructure at American River.⁴³

41 Kangaroo Island Ferry Services, transcript of evidence, Kangaroo Island, 15 April 2003, p. 360.

42 Kangaroo Island Ferry Services, transcript of evidence, Kangaroo Island, 15 April 2003, pp. 360-361.

43 Kangaroo Island Ferry Services, transcript of evidence, Kangaroo Island, 15 April 2003, p. 361.

- 5.102 Mr Dhupelia also expressed the view that no subsidy should be provided to any operators until the full impact of competition is felt. Mr Dhupelia explained:

If subsidies are warranted for any single party, they should be provided equitably on a per route basis—whether for competitive sea routes or airlines—as a policy issue, as opposed to servicing the needs of a single operator or complying with the request of a single operator.⁴⁴

Possible solutions

- 5.103 The committee is of the view that current air services to Kangaroo Island are adequate, however the issue of smaller, ageing aircraft still needs to be addressed.
- 5.104 The committee is of the opinion that the current ferry service is adequate in terms of service level, although it is expensive when compared to other services.
- 5.105 The committee formed the view that ferry services will benefit from competition, which will in turn see improved passenger services at a reduced cost. The committee encourages and supports any operators attempting to compete in this market.
- 5.106 The committee actively encourages the South Australian Government to ensure that it facilitates fair competition in the provision of ferry services to Kangaroo Island.
- 5.107 The committee also formed the view that the South Australian Government should contribute to the maintenance and upgrade of the port and wharf facilities, which should be paid for from the \$500 000 it collects annually.

⁴⁴ Kangaroo Island Ferry Services, transcript of evidence, Kangaroo Island, 15 April 2003, p. 361.

Recommendation 11

5.108 **The committee recommends that the Department of Transport and Regional Services works with the South Australian Government to examine the possible solutions suggested by the committee to improve ferry services and port and wharf facilities for Kangaroo Island, including:**

- **Introduction of fair competition; and**
- **State Government contribution to maintenance and upgrade of port and wharf facilities.**

Norfolk Island

Background

5.109 Norfolk Island is an external territory under the authority of the Commonwealth (*Norfolk Island Act 1979*). The island has a large degree of self-government, more so than that of the mainland states and territories. The Commonwealth is responsible for the island's foreign affairs and defence requirements. Norfolk Island is located 1 676 kilometres east/north-east of Sydney and has an area of 3 455 hectares.⁴⁵ The island has a population of about 1 800.⁴⁶ Norfolk Island limits potential visitor numbers by imposing a cap on the amount of licensed tourist accommodation.⁴⁷

Current services, needs and expectations

Air services

5.110 Scheduled air services operate from Brisbane, Sydney and Auckland. Norfolk Jet Express operates a Boeing 737-400 aircraft twice a week from Brisbane and four times a week from Sydney. Norfolk Jet code-shares with Qantas. One of the Sydney services originates in

45 The Administration of Norfolk Island, submission no. 143, p. 1.

46 Norfolk Island - things you need to know, <http://www.norfolkisland.com.au>, last accessed 5 August 2003.

47 The Administration of Norfolk Island, submission no. 143, p. 1.

Melbourne.⁴⁸ Alliance Airlines has commenced flights between Brisbane, Norfolk Island and Sydney, using Fokker F100 aircraft, with services increasing in frequency in September 2003.⁴⁹ Air New Zealand operate two services a week from Auckland using a Boeing 737-300 aircraft.⁵⁰

- 5.111 The main runway at Norfolk Island airport is 1 950 metres long, and is the only runway suitable for Boeing 737 operations. Tyre pressure and weight restrictions on Boeing 737 aircraft operating to the Norfolk Island airport requires reductions in passenger numbers. The Fokker F100 is also subject to payload restrictions. Few aircraft have the ability to operate from Australia to Norfolk Island, due to the need to have sufficient range to reach Norfolk Island, and any necessary alternate airport, while operating within the weight, tyre pressure and runway strength and length restrictions of the airport.⁵¹
- 5.112 The airport is regularly used by the Australian and New Zealand Air Forces, and by ferry flights crossing the Pacific. The island is strategically important to Australia.⁵²
- 5.113 Norfolk Island Airport is operated to an international standard, which is expensive, with regard to the comparatively small number of passengers each year. Although a substantial airport movement charge is imposed (\$18.30 per paying passenger inwards and \$18.30 per paying passenger outwards) it is difficult to fund the runway resealing which must be carried out each ten to fifteen years.⁵³
- 5.114 The Norfolk Island Government expressed the desire to have control over the number of airlines operating to the island, so as to maintain appropriate levels of service, and to manage visitor numbers.
- 5.115 There are difficulties in terms of medical evacuations from the island. Most medical evacuations are carried out on scheduled air services, but from time to time there is a need to charter aircraft from Australia or New Zealand, which can be very expensive (more than \$20 000). The Royal Australian Air Force provided assistance in the past. The submission suggested that the Royal Australian Air Force, on a cost

48 The Administration of Norfolk Island, submission no. 143, p. 1.

49 Alliance Airlines - scheduled flight to Norfolk Island, <http://www.allianceairlines.com.au>, last accessed 5 August 2003.

50 The Administration of Norfolk Island, submission no. 143, p. 1.

51 The Administration of Norfolk Island, submission no. 143, p. 1.

52 The Administration of Norfolk Island, submission no. 143, p. 2.

53 The Administration of Norfolk Island, submission no. 143, p. 2.

recovery basis, provide a quotation to the Norfolk Island Government for the provision of such services in the future.

- 5.116 There were only two submissions to the inquiry from the Norfolk Island community. The Norfolk Island Government submission commented on the ability to evacuate medical emergencies, and briefly commented on the control over the number of airlines operating to the island. The submission from Mr Peter Woodward entirely concerned the lack of an adequate harbour for shipping services. The committee assumes that services currently provided by several operators, using large jets, are adequate, although the airport infrastructure may need periodic Commonwealth subsidies.

Ferry and freight services

- 5.117 Norfolk Island is serviced by two shipping companies, each operating monthly break-bulk shipping services from the Australian mainland. One service per month operates from New Zealand. Sea freight is expensive, due to the low volumes of freight, the minimal amount of return freight, and the lack of a harbour on the island. Ships can only unload in suitable weather conditions.⁵⁴ There was no mention of sea passenger services in the submissions from Norfolk Island, and the committee believes, in the absence of adequate wharfage, these are unlikely to develop.
- 5.118 Norfolk Island relies on sea transport for the importation of most foodstuffs and all gas, fuel and general cargo. A number of shipping companies currently service the island. The lighterage⁵⁵ service is a business enterprise of the Norfolk Island Government. Because of outlying reefs and the lack of harbour facilities, all general cargo ships (and any visiting passenger liners) anchor up to one kilometre off the Island. Lighters are then used to transport the goods (or people) from the ships to one of two small jetties at Kingston and Cascade Bay, weather and sea conditions determining which is used. It was estimated that 16 ship working days were lost in 1993 due to unfavourable weather.⁵⁶

54 The Administration of Norfolk Island, submission no. 143, p. 1.

55 Lighter: a large flatbottom barge, especially one used to deliver or unload goods to or from a cargo ship or transport goods over short distances.

56 Commonwealth Grants Commission, *Report on Norfolk Island*, 1997, pp. 122-123.

- 5.119 Because of the inability to get standard shipping containers onto the island, the current sea freight arrangements entail added costs through delays and handling inefficiencies. In particular, a ship's cargo has to be unloaded in pieces weighing a maximum of seven tonnes, the most that the crane can lift when transferring freight from the lighters to the piers. Large pieces of equipment are 'broken down' so that individual components weigh no more than the seven tonne limit.⁵⁷
- 5.120 According to the submission from Mr Peter Woodward, the construction of a new landing jetty at Ball Bay, Norfolk Island has the potential to improve the reliability of sea services to the island. The existing two jetties are considered inadequate, with some shipping services delayed due to the inability to access the jetties when sea conditions are unsuitable. The existing jetties are ageing and becoming unsafe.⁵⁸
- 5.121 The capital cost of the new jetty is beyond the Norfolk Island Government. Mr Woodward claimed that assistance is required from the Commonwealth.⁵⁹ Mr Woodward also stated that the Commonwealth acknowledged in the 1997 Grants Commission Report that, at the time of obtaining self government, the harbour infrastructure for the island was inadequate for its needs, and that there is some justification for the Commonwealth to make a contribution to overcome safety and infrastructure problems.⁶⁰ The committee strongly supports this view.
- 5.122 In the 1995 report *Delivering the Goods*, the Joint Standing Committee on the National Capital and External Territories was:
- of the view that the existing lighterage service is inadequate for Norfolk Island's future freight handling requirements ...⁶¹

57 Commonwealth Grants Commission, *Report on Norfolk Island*, 1997, p. 123.

58 Peter W. Woodward, submission no. 45, p. 1.

59 Peter W. Woodward, submission no. 45, p. 1.

60 Peter W. Woodward, submission no. 45, p. 1; Commonwealth Grants Commission, *Report on Norfolk Island*, 1997, p. 179.

61 Report of the Joint Standing Committee on the National Capital and External Territories, *Delivering the Goods*, AGPS, 1995, p. 168.

- 5.123 The Joint Standing Committee on the National Capital and External Territories found that the need for action on Norfolk Island's freight handling facilities was urgent. Five ways of improving the freight handling infrastructure were suggested to the committee, and were examined in detail in the committee's report. These were:
- Upgrading the existing jetties and lighterage system;
 - Installation of a land based derrick;
 - Use of motorised barges for ship to shore transport of containers;
 - Construction of a deep water harbour; and
 - Use of a stern loading vessel requiring minimal infrastructure.⁶²
- 5.124 The Joint Standing Committee on the National Capital and External Territories recommended that the Commonwealth provide a grant, equivalent to the Ships Capital Grant, for the purchase of an Australian built vessel (smaller than otherwise would qualify for the Ships Capital Grant), on condition that any proposed vessel would be used principally on the Norfolk Island trade for at least the first two years following commissioning.⁶³
- 5.125 The Commonwealth Grants Commission stated that the infrastructure available to the Norfolk Island Government to provide shipping services is less than satisfactory. It added that if the infrastructure at Cascade Bay or Kingston were upgraded, then more efficient landing of goods should result, which would lead to reductions in handling costs for the benefit of all people on the island.⁶⁴
- 5.126 The Commonwealth Grants Commission concluded that there is some justification for the Commonwealth making a contribution to overcome safety problems or to improve items of infrastructure that were known to be inadequate before self government, such as the harbour.⁶⁵

62 Report of the Joint Standing Committee on the National Capital and External Territories, *Delivering the Goods*, AGPS, 1995, pp. 183-189.

63 Report of the Joint Standing Committee on the National Capital and External Territories, *Delivering the Goods*, AGPS, 1995, p. 218.

64 Commonwealth Grants Commission, *Report on Norfolk Island*, 1997, p. 124.

65 Commonwealth Grants Commission, *Report on Norfolk Island*, 1997, p. 179.

Recommendation 12

- 5.127 **The Committee recommends that, as per the findings of the Commonwealth Grants Commission, Norfolk Island receive Commonwealth assistance in upgrading or renewing its shipping infrastructure facilities.**

Recommendation 13

The Committee recommends that the Commonwealth Government accept the recommendations outlined in the *Delivering the Goods* report by the Joint Standing Committee on the National Capital and External Territories, especially in respect of an appropriate subsidised vessel for heavy freight.

Tiwi Islands

Background

- 5.128 The Tiwi Islands consist of Bathurst and Melville Islands. The islands are located off the Northern Territory coast, approximately 70 kilometres north of Darwin. Melville Island is Australia's largest island after Tasmania. Together, the islands cover an area of approximately 3 200 square kilometres with a total population of less than 2 500 people. Nguiu, on Bathurst Island, is the main town centre of the two islands, with a population of 1 500.⁶⁶
- 5.129 There are also more than 5 000 people living on another seven islands off mainland Northern Territory.⁶⁷

Current services, needs and expectations

- 5.130 Movement of people and goods is very dependant on air services for transport to and from the mainland. Barge services also operate to the islands, but are totally dedicated to freight, and vary between weekly and monthly services.⁶⁸

66 Tiwi Islands Local Government, submission no. 189, p. 1.

67 Local Government Association of the Northern Territory, submission no. 87, p. 6.

68 Local Government Association of the Northern Territory, submission no. 87, p. 6.

Air services

- 5.131 The Tiwi Islands are currently serviced by one RPT operator, providing daily services to three communities on the islands. A second airline provided a competitive service until July 2003. Nguiu receives three flights a day, with two flights a day to two other centres.⁶⁹
- 5.132 Since the second airline collapse, it has been difficult to obtain seats on scheduled flights. There is also no booking office on the island, limiting the ability to pay for flights in advance. The ability to carry freight is very limited. Freight rates have recently risen by 30 per cent.
- 5.133 Aircraft currently used for air services to the islands are very old and require a high level of maintenance. There is a perception that old and dilapidated aircraft are less safe.

Ferry and freight services

- 5.134 The Tiwi Islands are also serviced by regular freight shipping services, with a weekly service to Nguiu on Bathurst Island, and fortnightly services to the communities on Melville Island. The services are operated by a private company called Tiwi Barge, in partnership with the Tiwi Land Council. This commercial arrangement has prevented other operators servicing the islands.
- 5.135 The shipping service is freight only, with no passenger services available.
- 5.136 There is currently a proposal to establish a passenger ferry service during the dry season.

Possible solutions

- 5.137 The committee is of the opinion that current freight operations are sufficient for the needs of the Tiwi Islands, however, services should be open to competition.
- 5.138 The committee fully supports the proposal to begin passenger ferry services to the Tiwi Islands.

⁶⁹ Tiwi Islands Local Government, submission no. 189, p. 1.

Recommendation 14

- 5.139 **The committee recommends that the Department of Transport and Regional Services works with the Northern Territory Government to conduct, on a subsidised trial basis, a passenger ferry service to the Tiwi Islands.**

Cocos (Keeling) Islands

Background

- 5.140 The Cocos (Keeling) Islands are an Australian Territory located in the Indian Ocean, and lie 2 768 kilometres north-west of Perth, 3 685 kilometres west of Darwin, around 900 kilometres south-south west of Christmas Island and around 1 000 kilometres south-west of Java and Sumatra. The highest point above sea level is nine metres which is located on South Island. The islands in the southern atoll comprises an area totalling 14 square kilometres.
- 5.141 The two inhabited islands are:
- Home Island, the home of the Cocos Malay community and the Shire office. The population is around 450; and
 - West Island, on which is located the airport, quarantine station, government offices, and the homes of government and contracted employees. The population is about 200.⁷⁰

Current services, needs and expectations

- 5.142 The only passenger transport connection with the rest of the world consists of twice weekly flights to Christmas Island and Perth. The Cocos (Keeling) Islands Shire Council is keen to maintain the link to Perth as many island residents have family in Western Australia. The council recognises the subsidy paid by the Commonwealth in maintaining flights, and also recognises efforts in arranging a second service per week.

70 Shire of Cocos (Keeling) Islands, <http://www.shire.cc>, last accessed 9 September 2003.

- 5.143 The council is of the view that plane capacity is restrictive in terms of freight, and contributes to the high cost of perishable items. The cost of airfares from Perth to Cocos is very high, at around \$1 600 return, and is a disincentive to tourism and business travel.⁷¹
- 5.144 Some state government agencies believe the services to Christmas and Cocos Islands need reviewing in terms of more business friendly schedules and the prohibitive cost of airfares.⁷²
- 5.145 The committee formed the view that existing services to Cocos (Keeling) Islands are adequate in terms of a basic service, although they are not likely to encourage business or tourism development.

Torres Strait Islands

- 5.146 Although no formal submission was received from Torres Strait Island communities, the Queensland Government's submission briefly discussed the islands.

Background

- 5.147 The Torres Strait islands lie between Cape York Peninsula, Queensland and Papua New Guinea. There are approximately 100 islands, and the overall population of 8 000 is dispersed throughout 19 small island communities. Each community has a population between 80 and 1 200 people.⁷³
- 5.148 Approximately half of the people live on or near Thursday Island, which is the main commercial and government centre. The nearest major city is Cairns, over 900 kilometres to the south-east.⁷⁴

Current services, needs and expectations

Air services

- 5.149 Air and sea transport options are available between the islands in the Torres Strait. Each community has access to other islands and the mainland via the air and sea transport options, from Thursday Island to either Bamaga or Cairns.

71 Cocos (Keeling) Islands Shire Council, submission no. 98, p. 1.

72 Western Australian Government, submission no. 150, p. 11.

73 Queensland Government, submission no. 183, p. 14.

74 Travelmate - Australian Travel Guide, <http://www.travelmate.com.au>, last accessed 5 August 2003.

- 5.150 A twice daily air service between Cairns and Horn Island (Thursday Island) operates as part of the Queensland Government's regulated air service regime. The flight takes two hours and a one way full economy fare costs \$374.
- 5.151 A ferry service connects passengers landing on Horn Island to Thursday Island, as there is no airstrip on Thursday Island.
- 5.152 Regional Pacific Airlines and Aerotropics Air Services provide commercial RPT services to the outer islands of the Torres Strait.⁷⁵
- 5.153 Although the regulated air service network extends to the Torres Strait, RPT airfares and air charter costs are still too high for many Aboriginal and Torres Strait Islander people who are generally not well off financially. For example, bringing a family to Thursday Island from Mer Island (outer Torres Strait) would cost approximately \$350 to charter a plane for six people, or \$750 per person return.⁷⁶
- 5.154 Additionally, many Torres Strait people are afraid to fly due to:
- The number of small aircraft accidents in the past few years;
 - The poor condition of small charter aircraft;
 - Extremely cramped conditions of smaller aircraft; and
 - The state of island airstrips (which is currently being evaluated).⁷⁷

Ferry and freight services

- 5.155 Peddells Ferry provides a sea service between Thursday Island and Siesia, twice daily from June to September, with three services per week provided from October to May. A one-way trip for an adult costs \$40.
- 5.156 Peddells Ferry provides a sea service between Thursday Island and Punsand Bay daily, from June to September only. A one-way trip for an adult costs \$40.
- 5.157 Seaswift provides a weekly barge service between Cairns and Thursday Island. This service takes 48 hours and costs approximately \$300 one-way.⁷⁸

75 Queensland Government, submission no. 183, p. 15.

76 Queensland Government, submission no. 183, p. 15.

77 Queensland Government, submission no. 183, p. 15.

78 Queensland Government, submission no. 183, p. 15.

- 5.158 Alternative boat services are very time consuming which provides little advantage to island councils and government workers.⁷⁹

Possible solutions

- 5.159 The committee is of the view that, with the subsidies already available from Commonwealth and state governments, current air and sea services to the Torres Strait Islands are satisfactory, but are not likely to lead to greater community engagement. The matter of the ageing of small aircraft is a serious issue to be faced by state and Commonwealth governments in the short to medium term.

Lord Howe Island

- 5.160 The committee did not receive a submission concerning Lord Howe Island.

Background

- 5.161 Lord Howe Island, part of New South Wales, is approximately 550 kilometres east of Port Macquarie, and is only a two hour flight from Sydney. The island has a population of 350, with a limit of 400 visitors at any one time.⁸⁰

Current services, needs and expectations

- 5.162 There are regular direct flights from Sydney to Lord Howe Island on most days. There are Sunday services from Brisbane all year round with a second service on Saturdays from September to February. There are also direct flights from Coffs Harbour, from September to December.⁸¹
- 5.163 The island depends on ships to transport cargo, with two vessels currently operating - one maintaining a service from Sydney and another providing a fortnightly service from Yamba, New South Wales.⁸²

79 Queensland Government, submission no. 183, p. 15.

80 Lord Howe Island information, <http://www.lordhoweisland.info>, last accessed 9 September 2003.

81 Lord Howe Island - media release '*More Brisbane Flights to Lord Howe*', <http://www.lordhoweisland.info>, last accessed 9 September 2003.

82 Lord Howe Island - Transportation and communication, <http://www.lordhoweisland.info>, last accessed 9 September 2003.

- 5.164 On the evidence received, the committee was not able to form a view regarding adequacy of services to the island. However, the committee noted that current air services appear adequate.

Christmas Island

- 5.165 The committee did not receive a submission concerning Christmas Island, although undoubtedly there are analogies to be drawn with the Cocos (Keeling) Islands.

Background

- 5.166 The Australian Territory of Christmas Island lies in the Indian Ocean, approximately 2 600 kilometres north-west of Perth, and only 360 kilometres south of Java. The island is 135 square kilometres in area, and has a population of around 1 500.⁸³

Current services, needs and expectations

- 5.167 There are two flights a week to the island from mainland Australia, incorporating stops at Cocos (Keeling) Islands, operated by National Jet Systems. There are also weekly flights to the island from Jakarta, Indonesia.⁸⁴
- 5.168 On the evidence received, the committee was not able to form a view regarding adequacy of services to the island. However, the committee noted that current air services appear adequate.

83 Christmas Island Tourism Association, <http://www.christmas.net.au>, last accessed 9 September 2003.

84 Christmas Island - flight services, <http://www.christmas.net.au>, last accessed 9 September 2003.

Government policies: regulation, and taxes and charges

Introduction

- 6.1 The Commonwealth has moved away from a direct and interventionist role in the Australian aviation industry since late 1990 when it commenced deregulating the industry.¹ The aim of this policy was to encourage efficient operators and innovation.²
- 6.2 With this change in role, the state, territory and local governments assumed greater responsibility for intrastate aviation. This was supported by the Constitution.³
- 6.3 The decision to deregulate interstate aviation was taken in an environment of more certainty than has subsequently existed and at a time when other countries were deregulating their domestic aviation industries.

1 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. 3, 35; Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', pp. x, 21-22.

2 Department of Transport and Regional Services, submission no. 81, p. 3; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. x.

3 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', pp. 6, 22.

- 6.4 The evidence indicated to the committee that Commonwealth policy has imposed additional costs on the regional aviation industry that it has been struggling to deal with along with other significant pressures on the industry.
- 6.5 The committee formed the view from evidence and discussions with local councils that operate airports that at the time that they assumed ownership of local airports from the Commonwealth they did not have a full appreciation of the costs of maintaining and upgrading their airports. The committee also found that at the time some councils were subject to undue pressure from the Commonwealth to assume full responsibility for their local airports.

Australia's aviation policy

- 6.6 The Commonwealth's aviation policy focuses on safety, security, regularity and efficiency. Regularity and efficiency have been interpreted as relating to safety and navigational issues.⁴ The Commonwealth retains responsibility for safety, air traffic services and Sydney Airport slot management regulation. Relevant law at each level of government controls the commercial activity in the industry.
- 6.7 The Commonwealth aims to set the appropriate business environment through such things as lower business tax rates, low interest rates and low unemployment. In addition, it has a number of business and community support programs and services that indirectly assist businesses to provide services where they are needed.⁵
- 6.8 The network nature of aviation means that government policy interventions in the domestic aviation industry will also impact on the regional aviation sector.⁶

4 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. 35.

5 Department of Transport and Regional Services, submission no. 81, p. 8; Bureau of Transport and Regional Economics (2003), Working Paper 55, '*Government Interventions in Pursuit of Regional Development: Learning from Experience*', p. xi.

6 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 21.

- 6.9 Government intervention in the market is often justified on the grounds of economic efficiency and equity. Policies aimed at achieving economic efficiency objectives focus on improving social benefits where markets fail to provide the most efficient allocation of resources. Policies aimed at equity objectives address issues such as disparate income distribution and access to services that may exist between different groups in society or regions.⁷
- 6.10 Following the Ansett collapse in 2001-02 and the continuing volatility in the industry, DOTARS set the following market-based objectives for aviation:
- A safe, secure and sustainable aviation sector;
 - Price and service competition for consumers where possible; and
 - Reasonable access to services for regional communities.⁸
- 6.11 Whilst the Commonwealth does not currently have a direct role in economic regulation of the industry, it has several interventions aimed at achieving certain objectives. These are:
- Reduced aviation fuel excise to 2.8 cents per litre (CASA element valued at \$59 million in 2002-03);
 - Subsidy for the transition to location specific pricing for air traffic control towers (valued at about \$7 million per annum);
 - Subsidy for Airservices Australia for enroute charges (estimated to save regional airlines about \$1 million per annum);
 - Protection of regional slots at Sydney's Kingsford Smith Airport;
 - Remote Area Services Subsidy Scheme (valued at about \$3.2 million in 2003-03);
 - Regional Aerodrome Inspection Program;
 - Assistance to the Australasian-Pacific Aeronautical College (about \$4 million over four years, announced in August 2001);

7 Bureau of Transport and Regional Economics (2003), Working Paper 55, 'Government Interventions in Pursuit of Regional Development: Learning from Experience', p. 10; Bureau of Transport and Regional Economics (2003), Working Paper 54, 'Regional Public Transport in Australia: Economic Regulation and Assistance Measures', pp. 11-16.

8 Matthews, K (Secretary, Department of Transport and Regional Services), Speech to Regional Aviation Association of Australia 2002 National Convention, Coolum, 24 October 2002.

- Rapid Route Recovery Scheme (total of \$23 million to 18 operators that provided support to regional communities); and
 - Exemption from the ‘Ansett Levy’ for small regional airlines with aircraft having 16 seats or less.⁹
- 6.12 All states and territories have some form of economic regulation of regional aviation aimed at ensuring that people living in regional areas have reasonable access to air services.¹⁰

Impact of government policies on the sustainability of regional air routes

- 6.13 Many stakeholders were unhappy with the Commonwealth’s competition and ‘user pays’ policies.
- 6.14 The evidence presented to the committee suggested that limitations on these policies should apply on ‘thin’ regional aviation routes that do not have the same high passenger numbers that occur on routes between larger centres. Thin regional routes do not have effective market forces, which reduces the opportunity for competition to satisfy the consumer.
- 6.15 Most states have or are reviewing their aviation policies in light of the changing aviation environment.¹¹ The policies of the state and territory governments are summarised in Appendix F.
- 6.16 DOTARS provided the following perspective on some of the unintended consequences of subsidising regional aviation services:

The government has taken the view since then [the Ansett collapse]—and, in fact, to a considerable extent before then—that interventions to subsidise regional air services are a very blunt instrument and often do not achieve the results that are intended. Part of this is about squeezing out alternative forms of transport, such as bus operators. Often it ends up being a

9 Bureau of Transport and Regional Economics (2003), Working Paper 54, ‘*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*’, pp. 22-26.

10 Bureau of Transport and Regional Economics (2003), Working Paper 54, ‘*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*’, pp. x, 6, 22.

11 Department of Transport and Regional Services, submission no. 81, p. 3; Queensland Government, submission no. 153, p. 11; NSW Government, submission no. 151, p. 5; Western Australia Government, submission no. 150, p. 5; South Australian Government, submission no. 148, p. 15; Tasmanian Government, submission no. 155, p. 6.

subsidy to an operator rather than the maintenance of a continued provision of services on regional routes. So that has been the challenge.¹²

6.17 The evidence indicated to the committee that state and territory government policies address the shortcomings of the Commonwealth's aviation policy as it affects marginal and unsustainable regional routes within state and territory boundaries. For example:

- New South Wales, South Australia and Victoria regulate marginal routes but do not subsidise them;
- Queensland subsidises the provision of services on marginal routes and it ensures that everyone is within 200 kilometres of an air service; and
- Northern Territory maintains a number of strategic aerodromes.

6.18 The governments of Western Australia, New South Wales and Queensland told the committee that they regulated certain rural and regional routes for public benefit to achieve economic and social outcomes. They also said that their route regulation was not entirely within the framework of national competition principles.¹³

National Competition Policy issues

6.19 The committee noted that National Competition Policy (NCP) is intended to improve the economic well-being of Australians and it is not an end in itself. The major benefits of NCP are lower prices, and better choice and service quality for consumers. However, competition is one policy option in a range of policy measures that can be used to improve the well-being of Australians.¹⁴

12 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 650.

13 Western Australian Government, transcript of evidence, Canberra, 10 September 2003, p. 740; Queensland Government, transcript of evidence, Brisbane, 12 June 2003, p. 673; New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 521.

14 Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

- 6.20 The Commonwealth recognises that where competition is not effective in delivering consumer benefits because of a market failure, government intervention is justified to achieve economic and social objectives. This is given effect by the public interest test in the Competition Principles Agreements (clause 1(3)) that states and territories have signed with the Commonwealth.¹⁵
- 6.21 When states and territories propose new legislation that restricts competition, such as is occurring with some regional routes, they are required to provide evidence of a net benefit to the community from the legislation, under clause 5 of their Competition Principles Agreements. Governments must demonstrate in their periodic NCP compliance assessments that the restriction of competition is in the public interest and that it provides a net community benefit. Governments must also review their restrictive legislation every 10 years.¹⁶
- 6.22 The factors that state and territory governments might use to argue their case for restricting competition are social welfare and equity, and economic and regional development.¹⁷
- 6.23 Following the August 2001 Regional Statement, the Commonwealth announced that it proposed to strengthen the public interest test of the NCP by specifically requiring policies to be assessed against the interests of rural and regional communities.¹⁸
- 6.24 At the time of writing, the Commonwealth had not strengthened the public interest test.¹⁹ However, states and territories have arrangements for the scrutiny of restrictive legislation.²⁰
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15 National Competition Council, '*Legislation Review: Public Interest Test*', <http://www.ncc.gov.au>, last accessed 15 September 2003; Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

16 National Competition Council, '*Assessments: Publications, 2002 Assessments of governments' progress in implementing the National Competition Policy and related reforms – Volume One: Assessment*', pp. 2.1-2.2, 2.6-2.13, <http://www.ncc.gov.au>, last accessed 16 September 2003.

17 National Competition Council, '*Legislation Review: Public Interest Test*', <http://www.ncc.gov.au>, last accessed 15 September 2003.

18 Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

19 National Competition Council, communication with secretariat, 15 September 2003.

20 National Competition Council, '*Assessments: Publications, 2002 Assessments of governments' progress in implementing the National Competition Policy and related reforms – Volume One: Assessment*', pp. 2.11-2.13, 5.93-5.94, <http://www.ncc.gov.au>, last accessed 16 September 2003.

- 6.25 While the committee recognises that the current measures in place enable states and territories to regulate regional aviation markets in the public interest, the committee is concerned that the Commonwealth recognises that exceptional circumstances exist in certain regional aviation markets in its review of state and territory compliance with NCP.
- 6.26 The committee notes that competition policy is not about the pursuit of competition for its own sake. Rather, it seeks to achieve efficient resource use and maximum community benefit.²¹ In the context of regional aviation, community benefit can be measured in terms of the community's ability to maintain access to regional aviation services on reasonable terms. This access, in turn, provides regional and rural communities access to services that satisfy a range of social and economic requirements.

Recommendation 15

- 6.27 The committee recommends that the Commonwealth:
- **Recognise the exceptional circumstances that exist in regional aviation markets in its review of state and territory compliance with National Competition Policy, and agree to states and territories regulating intra-state regional aviation markets where such exceptional circumstances exist; and**
 - **Strengthen the public interest test of the National Competition Policy by specifically requiring regional aviation and island transport policies to be assessed against the interests of rural and regional communities.**

21 Department of Treasury, 'Commonwealth National Competition Policy Annual Report 2000-2001', pp. 6-7, <http://www.treasury.gov.au>, last accessed 10 October 2003.

Other policy issues

- 6.28 Some stakeholders have suggested that Commonwealth policies can contribute to increased costs. Such policies are the deregulation of the domestic aviation industry, safety regulations, taxation arrangements, competition policy, the privatisation of airports, and the transfer of local airports to local government. The cost of additional security at regional airports has yet to be fully realised.
- 6.29 While the costs arising from each government policy are relatively small, when combined they can add up to 50 per cent of a regional airfare.²²
- 6.30 Rex told the committee that many of its regional passengers are paying up to 11 taxes from the three levels of government as part of airfares. The taxes range from departure head tax, payroll tax and stamp duty to fuel tax.²³
- 6.31 For its part, Commonwealth-imposed costs are as follows:
- Airservices costs are about 4.3 per cent;
 - Airport landing and terminal charges are about 6.2 per cent;
 - GST is nine per cent;
 - A noise levy of about \$3.60 also applies at Sydney and Adelaide airports; and
 - The terrorism insurance levy ranges from \$2.50 to \$10.²⁴
- 6.32 The committee found that the cost to industry of complying with aviation safety regulations administered by CASA is significant.

22 New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 528.

23 Regional Express, transcript of evidence, Sydney, 8 May 2003, pp. 555, 559.

24 Queensland Government, submission no. 151, p. 5; Regional Express, submission no. 116, p. 9; Australian Airports Association, submission no. 70, p. 9; Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, pp. 233-234; National Farmers Federation, submission no. 139, pp. 6-8; Regional Aviation Association of Australia, submission no. 3, p. 3; Macair, transcript of evidence, Brisbane, 11 June 2003, pp. 597-598; Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, pp. 707-708; Paul Bredereck, transcript of evidence, Brisbane, p. 640; Airservices Australia, submission no. 119, p. 6; New South Wales Government, submission no. 151, p. 5; Department of Transport and Regional Services, correspondence with secretariat, 30 June 2003.

- 6.33 In addition to these significant costs, the committee found costs imposed at the local level that also add to the cost of a ticket, such as:
- Passenger head taxes;
 - Landing charges; and
 - Ground support charges.
- 6.34 In short, the committee formed the opinion that certain aspects of the ‘user pays’ policy require attention, particularly where it imposes significant costs on regional operators and their passengers.

Government coordination of aviation policy

Concerns about national aviation policy

- 6.35 Coordination of policies by the different levels of government in Australia was a general theme in the evidence. The concerns appear to arise from a lack of satisfaction with the Commonwealth’s aviation policy and responses to regional aviation issues by the different levels of government.
- 6.36 However, industry and community concerns appear to stem from an incomplete understanding of what mechanisms are in place and how they work.²⁵ Also, government policies are often reactive rather than proactive.
- 6.37 Commonwealth, state, territory and local governments share responsibility for aviation policy and the delivery of some aviation services. The aviation policies of states and territories address market failures within their boundaries.
- 6.38 Under the Australian Constitution (section 51), the Commonwealth has responsibility for trade and commerce among the states. The states and self-governing territories are responsible for intra-state trade.

²⁵ Latrobe City Council, submission no. 25, p. 10; East Gippsland Shire Council, submission no. 92, p. 7; Shire of Derby/West Kimberley, submission no. 24.

- 6.39 The current national aviation policy is deregulation to encourage efficient operators and innovation. Each state and territory has its own aviation policy (see Appendix F). At the local level, councils own and operate airports and set their pricing and access policies.²⁶
- 6.40 The AAA, Mildura City Council, Adelaide Airport, Dubbo City Council, Paul Bredereck and the Western Australia Government called for a national policy for the aviation industry.
- 6.41 The AAA, Mildura City Council and Adelaide Airport (the latter two stakeholders are members of AAA) put the onus on the Commonwealth to lead the formulation of a national aviation policy that is inclusive of all stakeholders²⁷:
- ... it is clearly the responsibility of the Commonwealth Government to initiate a consultative process and to play a leadership role in policy formulation.²⁸
- 6.42 The AAA went on to say that state and territory initiatives should complement Commonwealth initiatives. The state and territory initiatives should be tailored to the needs of communities. This might include financial assistance to some routes and legislation to restrict competition in certain routes to fulfil community service obligations.²⁹
- 6.43 State and territory aviation policies address community needs as those jurisdictions see fit, as described earlier.
- 6.44 Paul Bredereck said the Commonwealth should have greater proactive involvement in aviation policy formulation, and indicated that policy should recognise the needs of small regional communities and involve them in policy formulation³⁰:
- ... there is a need for a greater level of Commonwealth involvement, probably even to the level of a national aviation policy that incorporates the smaller regional communities.³¹

26 Department of Transport and Regional Services, submission no. 81, p. 3.

27 Australian Airports Association, submission no. 70, p. 7; Mildura City Council, submission no. 91, p. 3; Adelaide Airport, submission no. 8, p. 1.

28 Australian Airports Association, submission no. 70, p. 7.

29 Australian Airports Association, submission no. 70, p. 7.

30 Paul Bredereck, submission no. 42, p. 5.

31 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640.

- 6.45 Evidence from the Queensland and the Northern Territory governments called for a national aviation strategy and for the Commonwealth to better coordinate the delivery of aviation services and the industry's development. It was claimed that the Commonwealth's 'leave it to the market' policy is insufficient.³²
- 6.46 In contrast, the Queensland Government took the view that the policy framework and machinery were suitable. However, obtaining agreement amongst the various parties at Commonwealth, state and territory levels was an issue.³³
- 6.47 The RAAA accepted that there was a national aviation policy of deregulation, while the policy of the states and territories was to address market failures:
- We already have a national aviation policy, which is a federal policy, which is a totally deregulated, free market system. However, that is not the states policy. So we have a system whereby from a federal perspective we have an open skies policy, from a states perspective we have in most cases a protected environment and from a local government perspective we have local organisations that own the airports and are responsible for the provision and upkeep of those services and are, of course, looking to recover the cost of those.³⁴
- 6.48 Qantas was broadly satisfied with the current Commonwealth aviation policy arrangements.³⁵

Machinery of government arrangements for aviation policy

- 6.49 The government 'machinery' for addressing aviation policy issues is:
- The Australian Transport Council (ATC), a forum for Commonwealth, state, territory and New Zealand Ministers to consult and provide advice to governments on the coordination and integration of all transport policy issues at a national level;³⁶

32 Queensland Government, submission no. 153, p. 3; Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 10; Western Australia Government, submission no. 150, p. 22.

33 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, pp. 679-680.

34 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

35 Qantas Airways Limited, submission no. 146, p. 9; Paul Bredereck, submission no. 42.

36 Australian Transport Council, <http://www.atcouncil.gov.au>, last accessed 2 July 2003.

- The Standing Committee on Transport (SCOT), which comprises the relevant government agency heads from the Commonwealth, states and territories.³⁷ The National Aviation Working Group deals with aviation issues for SCOT; and
- The network of 56 Area Consultative Committees across rural and metropolitan Australia that provide advice on regional issues to the Commonwealth.³⁸

6.50 The committee considered that Australia has a national aviation policy and that the machinery for aviation policy formulation is appropriate. The machinery has a forum for the political leaders from the Commonwealth, state and territory levels of government – the ATC. It has a forum for the administration leaders – SCOT. The community has input to policy formulation through the Area Consultative Committees.

Attention to regional aviation issues

6.51 In September 2001, SCOT had proposed that the ATC consider nine key policy recommendations aimed at improving regional aviation services. The ATC did not consider these issues due to the Federal election.³⁹

6.52 Since September 2001, the industry has been dealing with the aftermath of the 11 September 2001 terrorist attacks, the collapse of Ansett, and a major drought. These events sent significant shocks through the industry and fundamentally changed the environment in which regional aviation operates. Government has responded to these issues with targeted assistance packages and there are indications that the industry is recovering. These assistance measures are delivered under the RASS Scheme, the Aerodrome Inspection Program, and the waiver of Airservices Australia enroute charges. Chapter 4 provides further details of these Commonwealth assistance measures.

37 Australian Transport Council Substructure, <http://www.atcouncil.gov.au>, last accessed 12 August 2003.

38 Department of Transport and Regional Services, submission no. 81, p. 6; <http://www.acc.gov.au>, last accessed 2 July 2003.

39 Tasmanian Government, submission no. 155, p. 8.

6.53 DOTARS summarised the aims of regional aviation policy as follows:

The Commonwealth is after safe, secure and sustainable aviation price and service competition where possible, but the nature of regional routes in Australia to a large extent is that they are almost inevitably going to be single-operator routes. Competition is not going to give the answers on those routes. The Commonwealth, to the extent that it is possible, aims to maintain the access of regional communities to services such as aviation.

6.54 DOTARS told the committee that it is conducting a policy review of the aviation industry and that it intends to put proposals to the Commonwealth in due course:

We are currently undertaking an overall policy review, which is trying to look at the different segments of the aviation industry and come to a view on the overall policies that should apply. That is obviously something that will have to be considered by the government in due course. In addition, the government is providing a range of support to elements of the regional aviation industry—for instance, subsidised tower control services. ... [The] passenger ticket levy for small aircraft will now be stopped from the end of this month. Even though the protection of regional aviation's regional passenger transport slots—for example, at Sydney airport—is not the best economic outcome, it is the best economic outcome for regional New South Wales.⁴⁰

6.55 DOTARS told the committee that it was progressing regional aviation issues with state colleagues in the following way:

We are working with our state colleagues on aviation issues in particular. We have an aviation working group with our state colleagues and we are starting to try and get into those infrastructure and service delivery issues and the question of re-regulation of routes and so on.⁴¹

40 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 650-651.

41 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 654.

Conflicts with transport policies

- 6.56 Some evidence argued that transport policies conflict with one another and may result in detrimental impacts to particular transport industries.⁴² For example, government road funding encourages greater use of roads, at the expense of air routes.
- 6.57 The RAAA expressed its concerns about the Commonwealth's policy of user pays for aviation and the subsidisation of roads:
- Aviation is a totally user pays system, and it cannot compete with road funding—and road funding can, in some circumstances, lead to the removal of an aviation route. When you look at the AusLink green paper, there is very little mention in there of the needs of regional aviation.⁴³
- 6.58 The Northern Territory argued that air services cannot be looked at in isolation from roads as roads are sometimes the most efficient means of transport.⁴⁴
- 6.59 DOTARS told the committee that one of the elements of the Commonwealth's AusLink Program is to focus on good connections between the different modes of transport. The department said that its policy review would consider the balance between investments in road, rail and aviation infrastructure to meet community expectations of the convenience that the different transport means provide.⁴⁵
- 6.60 In formulating policy responses, the committee recognised that government has regard to the needs and wants of the travelling public and that people make judgements about the most suitable means of transport, depending on their circumstances. The issue that follows is the extent to which each mode is entitled to be assisted by government.

42 Department of Transport and Regional Services, submission no. 81, p. 7.

43 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

44 Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 4.

45 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, pp. 651-653.

Possible solutions

- 6.61 The committee was concerned at the cumulative nature of costs to regional airlines, and the impact of deregulation, privatisation and user pays policies.
- 6.62 The committee noted that DOTARS was conducting a review of the costs carried by regional aviation.⁴⁶ It also noted that subsidies can be a blunt instrument and that competitive access to a route subsidy may be an appropriate approach.
- 6.63 While the Commonwealth had reduced some of its costs imposed on regional aviation, the committee considered that the cost structures of regional aviation services needed thorough review. The review should include an analysis of the relative impact of all taxes and charges from all levels of government, and the impact of subsidies to alternative means of transport such as roads. The review should consider community wants and needs.
- 6.64 The committee recommends that the Commonwealth reduce imposed costs on regional aviation, or provide appropriate incentives for the provision of essential regional aviation services. This should be done in collaboration with states and territories to ensure policy coordination. Specific recommendations for reducing taxes and charges on regional aviation are given below.

Improving data for policy formulation

- 6.65 Monitoring the impacts of interrelated events and national policy changes requires accurate and ongoing data. BTRE stated that there are major gaps in the current availability of data and information on the aviation industry. Future government and industry efforts to develop better aviation policy and provide better services to consumers rely on quality data and information. Gaps currently exist in the areas of:
- Consumers services and prices;
 - Congestion in the aviation system and interfaces;
 - Regional services activity;

46 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 654.

- Share of the domestic market held by each operator;
 - The origin and destination of domestic and regional trips;
 - Airport charges; and
 - Air freight.⁴⁷
- 6.66 The committee considered that gaps in the data and information on regional aviation were an issue. Closure of these gaps is essential for providing quality and timely policy advice to government and industry itself. Knowledge of the value of all the government taxes and charges and how these had changed over time is also necessary.
- 6.67 Accordingly, the committee considered that the Commonwealth should provide the resources necessary to address the shortcomings in the data and information available on the regional aviation industry. This would enable better aviation policy formulation and program delivery to improve services to consumers.
- 6.68 To ensure that aviation policies are achieving their objectives, the committee considered that the Commonwealth should report on the health of the regional aviation industry at least biannually. This report would include information on trends and emerging issues, as well as the success of existing policies.
- 6.69 Regular reporting would inform all stakeholders in the industry, including regional communities, all levels of government and airline operators. Discussion later in the chapter refers to the requirement for public information on the prices charged by regional airports for aviation services.

47 Bureau of Transport and Regional Economics, 'Avline', Issue One, January 2003, <http://www.btre.gov.au>, last accessed 6 August 2003.

Recommendation 16

6.70 The committee recommends that the Commonwealth:

- **Provide the resources necessary to the Bureau of Transport and Regional Economics for the timely collection, interpretation and public provision of data and information, particularly though not exclusively, in regard to:**
 - ⇒ **consumers services and prices;**
 - ⇒ **congestion in the aviation system and interfaces;**
 - ⇒ **connectivity available to regional passengers from regional airlines;**
 - ⇒ **regional services activity;**
 - ⇒ **share of the domestic market held by each operator;**
 - ⇒ **the origin and destination of domestic and regional trips;**
 - ⇒ **airport charges, including charges levied by regional airports; and**
 - ⇒ **air freight; and**
- **Through the Department of Transport and Regional Services, publicly report on the health of the regional aviation industry at least once every two years.**

Airservices Australia

6.71 Airservices Australia provides air traffic management services, and aviation rescue and fire fighting services. Air traffic management services comprise air traffic services, an information service, a radio navigation service and a telecommunications service. Airservices Australia is legally obliged to comply with CASA regulations.⁴⁸

6.72 The committee received a significant amount of evidence that expressed concern at the cost of services provided by Airservices Australia.

48 Airservices Australia, submission no. 119, pp. 1, 4.

- 6.73 The New South Wales Government told the committee that in July 2001, Airservices Australia's charges were about 4.3 per cent of the costs carried by regional airlines.
- 6.74 DOTARS said that the contribution of Airservices Australia's charges to a one-way flight from Ballina to Sydney in July 2002 would be 2.8 per cent.⁴⁹
- 6.75 The committee noted that Airservices Australia increased its charges by five per cent in 2002-03 following 11 September 2001 and Ansett's collapse and has proposed to increase its charges again.⁵⁰ However, Airservices Australia told the committee that its location specific prices had remained unchanged since 1998 and that its enroute charges had fallen by 20 per cent relative to other costs that had risen such as fuel, labour and maintenance.⁵¹
- 6.76 Airservices Australia showed the committee how its real prices had declined by some 25 per cent since 1997-98. It achieved these reductions by investing \$400 million in a world-class air traffic management system called 'The Australian Advanced Air Traffic System'. Airservices Australia argued that continuous improvement in its operations save the industry an estimated \$130 million in fuel costs per annum.⁵²
- 6.77 On 26 November 2002, the Commonwealth announced that Airservices Australia's enroute charges would be reduced by 3.6 per cent from January 2003.⁵³

49 Queensland Government, submission no. 153, p. 18; Department of Transport and Regional Services, correspondence to the secretariat, 30 June 2003.

50 National Farmers Federation, submission no. 139, p. 7; Alliance Airlines, briefing to the committee, Canberra, 28 May 2003.

51 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, pp. 661-662; Airservices Australia, exhibit no. 27.

52 Airservices Australia, exhibit no. 24, 'Cumulative Real Price Savings'; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, pp. 658-660.

53 Bureau of Transport and Regional Economics, 'Working Paper 54 Regional Public Transport: Economic Regulation and Assistance Measures', <http://www.btre.gov.au>, last accessed 30 June 2003.

- 6.78 Certain thresholds apply to service pricing. Control tower charges are capped at certain locations. The Commonwealth subsidises control tower services at regional airports and exempts small regional airlines and aeromedical operators from enroute navigation charges. The Commonwealth provides \$7 million to the Airservices Australia program.⁵⁴
- 6.79 There is a wider issue of what is an appropriate amount for industry to pay for services delivered by government, and how much should the community subsidise these services.
- 6.80 On the one hand, the industry argues that its cost structure is too high for many operators to remain viable. Airservices charges contribute to those costs.
- 6.81 On the other hand, a government commercial enterprise is charging for its services and those charges are approved by the ACCC.
- 6.82 To demonstrate the effectiveness of the ACCC, in June 2003 it made a ruling against Airservices Australia's proposal to increase prices for control tower services until 30 June 2004.⁵⁵
- 6.83 In addition, the Australian community benefits from the dividend of \$20-25 million per annum that Airservices Australia provides to the Commonwealth.⁵⁶ The dividend is the community's return on its investment in the services.
- 6.84 The committee considered that, in light of the facts outlined above, the likely impacts of Airservices Australia's charges for air traffic management on regional air services were in themselves relatively small overall.
- 6.85 In coming to this view, the committee noted that as a commercial enterprise, Airservices Australia is subject to the ACCC's oversight of its prices, and the ACCC has made a ruling against Airservices Australia increasing its control tower charges. The committee noted that control tower service charges are capped at certain locations. The Commonwealth also subsidises control tower services at regional

54 Airservices Australia, submission no. 119, pp. 3-5; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 670; Department of Transport and Regional Services, submission no. 81, p. 7.

55 ACCC Aviation Group, <http://www.accc.gov.au>, last accessed 4 July 2003; Airservices Australia, submission no. 119, p. 2, 4; ACCC current projects, Airservices Australia 2003-04 Price Notification, <http://www.accc.gov.au>, last accessed 10 July 2003.

56 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 669; Airservices Australia 2001-02 Annual Report, p. 19.

airports and exempts small regional airlines and aeromedical operators from enroute charges. The committee also noted the benefits that Airservices Australia's services provide to the industry and the community.

Aviation rescue and fire fighting services

- 6.86 The industry was particularly concerned about the cost of aviation rescue and fire fighting services, and the conditions under which these services are provided.

Cost of rescue and fire fighting services

- 6.87 The cost of aviation rescue and fire fighting services is different in different locations because of the 'user pays' policy of Location Specific Pricing (LSP).⁵⁷
- 6.88 Airport owners and operators carry the cost of these services and charge airport users. Local communities do not wish to pay these costs, so this cost is passed on to passengers and freight by levying air movements. While the higher charges tend to discourage use of the airport⁵⁸, LSP is intended to encourage investment in the services when the Commonwealth allows private companies to provide these services.⁵⁹
- 6.89 At regional locations such as Cairns and Mackay the cost of providing services could be higher than at capital city locations. Therefore, each passenger and kilogram of freight would have to pay a relatively higher price at the regional location than at a capital city.
- 6.90 The Queensland Government said that total air service charges (rescue and fire fighting and control tower) for Cairns are almost twice the cost at Brisbane airport, three times the cost at Melbourne airport, and twice the cost at Sydney airport.⁶⁰

57 Airservices Australia, submission no. 119, p. 3; Department of Transport and Regional Services, exhibit no. 23, '*A Measured Approach to Aviation Safety Reform*', 1999.

58 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 662; Airservices Australia, submission no. 119.

59 Airservices Australia, submission no. 119; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 662.

60 Queensland Government, submission no. 153, p. 18.

Mackay Port Authority, the operator of Mackay airport, said it had disproportionately high Airservices charges. The rescue and fire fighting charge is some 13 times the charge at Sydney airport. The tower service charge is \$2 per tonne higher than the weighted average charge.⁶¹

- 6.91 Airservices Australia acknowledged that regional airports may be disadvantaged because of their relatively low throughput of aircraft tonnage and the type of aircraft used by airlines. Some larger carriers argued that LSP disadvantages them and that they cross-subsidise regional airlines.⁶²
- 6.92 Airservices Australia paid for rescue and fire fighting services at the remote locations of Karratha and Port Hedland under its community service activities.⁶³
- 6.93 Airservices Australia provided the committee with recent comparisons that show that its rescue and fire fighting pricing compares very favourably with elsewhere in the world. However, Airservices Australia also received international recognition in 1999 for its LSP model.⁶⁴
- 6.94 The committee noted that international comparisons may not be relevant for a service that is not traded internationally and is not subject to market forces.
- 6.95 Airservices Australia is the monopoly service provider and the ACCC monitors its activities and prices.

61 Mackay Port Authority, submission no. 5, p. 3; Mackay Port Authority, transcript of evidence, Brisbane, 11 June 2003, pp 625-626.

62 Airservices Australia, submission no. 119, p. 5.

63 Airservices Australia 2001-02 annual report, p. 20, <http://www.airservicesaustralia.com>, last accessed 4 July 2003.

64 Airservices Australia, submission no. 119, pp. 3-5, Airservices Australia, exhibit no. 22, 'Performance Benchmarking'; Airservices Australia, exhibit no. 25, 'Aviation Rescue and Fire Fighting Benchmarking'.

- 6.96 The ACCC investigated Airservices Australia's proposed price increases in early 2003.⁶⁵ The ACCC's decision of 26 June 2003 was to object to Airservices Australia temporarily increasing its prices for control tower services and its aviation rescue and fire fighting services for 2003-04. Further, the decision states that prices should remain at their current levels for a further 12 months until 30 June 2004.⁶⁶
- 6.97 The committee considers that while the ACCC provides sufficient monitoring of Airservices Australia's prices for aviation rescue and fire fighting services, it disagrees with the method the Airservices Australia uses for allocating those charges to individual airport locations, as discussed below.

Conditions for providing rescue and fire fighting services

- 6.98 There was some disagreement in the evidence about the justification for fire fighting and rescue services being provided at airports. Virgin Blue argued that global statistical evidence shows that the majority of aviation incidents do not occur on an airfield. Whereas, Airservices argued that despite Australia having an excellent safety record, studies in the US showed that up to 80 per cent of accidents occur at or near aerodromes and within the jurisdiction of the airport fire fighters.⁶⁷
- 6.99 The committee's investigations, as discussed later in this chapter, indicate that 70 per cent of air crashes occur at aerodromes.
- 6.100 Virgin Blue argued for a risk management approach to be used for the provision of fire fighting and rescue services. This would involve considering the likelihood that an incident, such as an aircraft undercarriage not extending before landing will occur and providing appropriate services.⁶⁸

65 ACCC Aviation Group, <http://www.accc.gov.au>, last accessed 4 July 2003; Airservices Australia, submission no. 119, pp. 2, 4.

66 ACCC current projects, Airservices Australia 2003-04 Price Notification, <http://www.accc.gov.au>, last accessed 10 July 2003.

67 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 660.

68 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, p. 735.

6.101 Virgin Blue and others argued that the thresholds for rescue and fire fighting services are arbitrary:

There seem to be these cut-offs that are contrived for reasons that have nothing to do with the actual aviation outcome, sometimes.⁶⁹

6.102 The Australian Civil Aviation Safety Regulations require airports with annual passenger numbers exceeding 350 000, and that accept international passengers, to have rescue and fire fighting services.⁷⁰ This standard aims at minimising risk to the greatest number of passengers.⁷¹

6.103 Australia is signatory to the Convention on International Civil Aviation - the ICAO's Chicago Convention. This agreement sets out international standards for signatory states. The ICAO standard for aviation rescue and fire fighting services is based on the following statistics and parameters:

- About 70 per cent of aircraft crashes occur on aerodromes;
- Of those that occur on aerodromes, 90 per cent are survivable;
- People on board a major aircraft that is involved in fire can survive up to four minutes; and
- Intervention of an aviation rescue and fire fighting service within the four minutes can extend that time limit allowing people on board to be rescued.⁷²

6.104 ICAO standards do allow a degree of flexibility regarding the provision of services. However, Australia's standards for these services are very high. CASA's regulations endeavour to provide rescue and fire fighting services for 90 per cent of people on RPT services. To achieve this coverage, 16 of Australia's 600 airports have rescue and fire fighting services.⁷³ However, as explained below, the services to two airports, Port Hedland and Karratha, were withdrawn in mid-2003.

69 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, p. 735.

70 Civil Aviation Safety Regulations 1998, regulation 139.755 (2) (b), <http://scaletext.law.gov.au>, last accessed 4 July 2003.

71 Airservices Australia, communication with secretariat, 15 August 2003.

72 Airservices Australia, communication with secretariat, 15 August 2003.

73 Airservices Australia, communication with secretariat, 15 August 2003.

- 6.105 The cost of providing the service is determined by the equipment needed to meet the standards for delivering water and foam to the remotest part of the airport within three minutes of a call-out.⁷⁴
- 6.106 Virgin Blue said it was hard to justify the continuous provision of rescue and fire fighting services at locations such as Rockhampton that had only a few international flights per year. It said that there were many locations around the world where the local fire brigade provided services to the town and the airport. This represented better use of resources.⁷⁵
- 6.107 Airservices Australia told the committee that rescue and fire fighting services may be withdrawn if they are not needed for safety reasons. To show that this does occur, Airservices Australia withdrew the rescue and fire fighting service at Port Hedland and Karratha in 2003. The reason given was that the number of passengers using the airports did not meet the threshold of 350 000 passengers per annum.⁷⁶ Trained local volunteer crews will provide the service in the future.⁷⁷
- 6.108 An independent survey, conducted by the University of NSW in 2001, showed that more than three-quarters of respondents were prepared to pay an extra \$5 in their airfare to ensure that aviation rescue and fire fighting services were available at airports.⁷⁸
- 6.109 Airservices Australia said that regional communities are divided on the withdrawal of rescue and fire fighting services. On the one hand, it is argued that if there are no rescue and fire fighting services, the increased risk will discourage RPT services. On the other hand, provided that minimum safety standards continue to be met, the reduced cost will attract RPT services.⁷⁹

74 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 660.

75 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 735-736.

76 Airservices Australia, correspondence with secretariat, 4 July 2003; Civil Aviation Safety Regulations 1998, Part 139.755 (2) (b) <http://scaleplus.law.gov.au>, last accessed 4 July 2003.

77 Airservices Australia, correspondence with secretariat, 4 July 2003.

78 Airservices Australia, exhibit no. 26, '*ARFF facts and figures*'.

79 Airservices Australia, submission no. 119, p. 4.

- 6.110 There are two issues to be considered:
- The provision of rescue and fire fighting services to airports with limited numbers of passenger landings; and
 - Whether these services are provided by Airservices Australia or by local fire services.
- 6.111 The committee considered that to the extent possible, all Australians should be entitled to aviation rescue and fire fighting services. It considered that location specific pricing was a blunt instrument. Furthermore, location specific pricing was inequitable and it put a different price on safety depending on location, rather than need.
- 6.112 The committee considered that the price of aviation safety should be a matter of equity and universality.
- 6.113 The committee considered that the wide disparity in the cost of providing rescue and fire fighting services at regional airports required further investigation with the view of lessening its impact.
- 6.114 The committee did not wish to see the cost of these services met by an increase in costs elsewhere in the cost structures of regional aviation such as an increase in fuel excise.
- 6.115 The committee considered that the introduction of a universal service charge for aviation rescue and fire fighting services could be underpinned by lowering the cost of providing the services. This could be achieved by town fire brigade delivering the services.
- 6.116 The committee considered that this could be achieved if town planning policies were changed, where appropriate, to provide an optimal service to the town and the airport, by co-locating aviation rescue and fire fighting services and town fire services between the town and the local airport, so that mandatory response times can be met. It is conceded that this may not be practical in many instances.
- 6.117 Accordingly, the committee recommends that DOTARS and Airservices Australia form a working group to investigate and make recommendations on the strategic co-location of aviation rescue and fire fighting services with town fire services. The working group would comprise key stakeholders such as the relevant local government associations, town planning and standards bodies.

- 6.118 Where the town and airport rescue and fire services become co-located, the committee recommends that Airservices Australia provides the initial aviation fire fighting equipment and crew training at no cost to the local community.
- 6.119 The committee considered that while this town planning recommendation may not have an immediate impact on costs, over time the necessity of having a fire service at the airport as well as the nearby town may be obviated.

Recommendation 17

- 6.120 **The committee recommends that the Department of Transport and Regional Services and Airservices Australia introduce a universal service charge for aviation rescue and fire fighting services at regional airports to reduce the wide disparity in the charges for those services and to reduce the overall impact of the charges on regional aviation costs.**

Recommendation 18

- 6.121 **The committee recommends that:**
- **The Department of Transport and Regional Services and Airservices Australia form a working group with key stakeholders (such as the relevant local government associations, town planning and standards bodies) to advise on the strategic and optimal co-location of fire fighting services; and**
 - **Airservices Australia provide the initial aviation rescue and fire fighting equipment and crew training, at no cost, to communities where fire fighting services become co-located.**

Impact of taxation on aircraft replacement

Ageing aircraft

- 6.122 A number of submissions and witnesses expressed concern about the ageing fleet of small aircraft. It was a matter of prime concern to the committee.
- 6.123 Small aircraft are the backbone of RPT and charter services in regional Australia. Small aircraft are those that seat about nine passengers. Many of these aircraft are more than 20 years old and some are 30 to 40 years old.
- 6.124 The small aircraft affected in this category are mainly the Piper Chieftain and Cessna 400 series. In addition, there are some smaller aircraft, such as the Raytheon (formerly Beechcraft) Baron and the Piper Seneca, and single engined aircraft such as the Cessna 206 used by charter operators in the northern Australia.⁸⁰
- 6.125 In contrast to small regional operators, the aircraft used by the large domestic airlines Qantas and Virgin Blue, are two to eight years old. These operators aim to keep their fleet age under 10 years.⁸¹ The reason for this could be partly due to the life of an aircraft being 10 years for taxation purposes.
- 6.126 The real issue affecting ageing fleets of small aircraft is their fatigue life. The fatigue life of an aircraft is determined by its inherent design, service use, the number of cycles (defined as one takeoff and landing) and maintenance standards.⁸²
- 6.127 The Chieftain is approaching the end of its fatigue life of about 25 000 flying hours. Under Australian Civil Aviation Safety Regulations, Chieftains must be completely refurbished or taken out of service. These aircraft are currently valued at between \$220 000 and \$300 000

80 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, p. 1.

81 Rod Bencke, submission no. 6, p. 4.

82 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, pp. 1-2.

plus GST, and refurbishment costs are around \$250 000.⁸³ At most these aircraft will have about 10 years of service remaining.⁸⁴

- 6.128 Australia has many regional aviation markets that justify nine or 19-seat aircraft, but cannot justify larger aircraft. In the US, economics and deregulation have led to 19-seat aircraft replacing nine-seat aircraft.⁸⁵
- 6.129 In Australia, for reasons of economics and deregulation, the smallest aircraft used by Qantas have 30 to 36-seats. Rex operates the 34-seat SAAB and the 19-seat Metroliner. Where route economics do not justify these medium sized aircraft, third level operators use the smaller nine and 19-seat aircraft.⁸⁶
- 6.130 There are more than 100 nine-seat aircraft used predominantly by low capacity RPT and charter operators. These aircraft are aged between 18 to 27 years.⁸⁷ Appendix G provides further details on the age and usage of relevant aircraft.
- 6.131 The New South Wales Government also gave evidence that CASA is putting pressure on small regional airlines to introduce new turbine aircraft. Furthermore, the New South Wales Government told the committee that the production of aviation gasoline used by piston-engines is expected to cease in the foreseeable future. This will force small operators to upgrade to turbine aircraft.⁸⁸
- 6.132 Mr Bruce Gemmell, the Acting Director of CASA, strenuously refuted the claim that it is planning to ground old twin piston-engine aircraft in the near future, saying:

Some of what you have been told is quite simply inaccurate. For example, you have been told that CASA is planning to ground old twin-engine piston aircraft in a few years time.

83 Civil Aviation Safety Authority, '*Ageing Aircraft*', 30 January 2001, document provided to the secretariat, p. 4.

84 Edge Aviation, submission no. 65; Tasmania Department of Infrastructure, Energy and Resources, submission no. 155, pp. 11, 16; Tasmania Department of Infrastructure, Energy and Resources, transcript of evidence, Launceston, 24 February 2003, pp. 67-71; New South Wales Government, submission no. 151, p. 8; Rod Bencke, submission no. 6, p. 4.

85 Air Link Pty Ltd, submission no. 94, p. 4.

86 Qantas Airways Limited, submission no. 146, p. 10; Regional Express, submission no. 116.

87 Civil Aviation Safety Authority, '*Ageing Aircraft*', 30 January 2001, document provided to the secretariat, p. 1.

88 New South Wales Government, submission no. 151, p. 5.

We are not. I simply have no idea how this rumour started and why it keeps running around industry, but we are doing nothing of the sort.⁸⁹

- 6.133 Other evidence indicates that a new low-octane unleaded aviation gasoline could replace the existing fuel. This fuel could be suitable for more than 50 per cent of existing piston-engined aircraft. The specification for a high octane replacement for the remaining aircraft is also available. Together, these substitutes would be suitable for up to 90 per cent of small piston-engined aircraft.⁹⁰
- 6.134 The question remains however, of whether there would be sufficient critical demand in smaller centres to justify oil companies and their agents carrying tanks and infrastructure for both types of fuel replacements.
- 6.135 The older piston-engined Piper Chieftain aircraft are relatively cheap to purchase at around \$350 000. Newer turboprop aircraft are more expensive at four to ten times the price of piston-engined aircraft.⁹¹ Operating costs of turboprop aircraft are generally higher than piston-engined aircraft.⁹²
- 6.136 The limited financial resources of small operators means they delay investing in new or newer aircraft that would provide a higher level of service to their clients. Consequently the fleet of smaller aircraft is ageing.
- 6.137 The committee noted that over the next 10 years a number of smaller aircraft will have to be replaced as they reach the end of their life. It appears that refurbishment of aircraft like the Chieftain will not be an option.
- 6.138 CASA has identified a number of possible replacement aircraft. Prices are in the order of \$550 000 for the Gippsland Aeronautics GA8 to \$650 000 for the Cessna 208 Caravan. These aircraft have eight seats.

89 CASA, transcript of evidence, Canberra, 10 September 2003, p. 752.

90 CRC Unleaded AVGAS Development Group (2003), <http://www.crcao.com>, last accessed 12 August 2003; EAA Aviation Centre (2001), 'A Future Without 100LL', <http://members.rogers.com/sproatr>, last accessed 12 August 2003; Aircraft Owners and Pilots Association, 'New Unleaded Aviation Gasoline Approved Following A Decade of Effort by Industry and AOPA', July 28, 1998, <http://www.avweb.com/other/aopa9831.html>, last accessed 12 August 2003.

91 Tasmania Department of Infrastructure, Energy and Resources, submission no. 155, pp. 11, 16; transcript of evidence, 24 February 2003, pp 67-71.

92 Rod Bencke, submission no. 6, p. 4.

- 6.139 Larger single-engined turboprop replacement aircraft are the Pilatus PC12 and the Cessna 208 Caravan. The PC12 is an executive style aircraft used by the Royal Flying Doctor Service. It costs about \$6 million. The Caravan is an unpressurised aircraft with fixed undercarriage ideally suited for the outback. These aircraft cost about \$1.5 million secondhand, and around \$2.8 million new.⁹³ (Note: it is an industry convention that new aircraft are valued in US dollars. The prices of new aircraft in this paragraph have been converted to Australian dollars for ease of comparison. The prices are drawn from a CASA paper dated in 2001. The value of the Australian dollar used for the conversion is US\$0.54.)
- 6.140 Integrity Aircraft told the committee that it will manufacture an 18-seat single-engined turboprop aircraft that sells for US\$1.5 million. The aircraft is very cheap to operate.⁹⁴
- 6.141 Some possible replacement aircraft for the ageing fleet are given in Appendix G.
- 6.142 The committee considered a number of options for the Commonwealth to assist with the replacement of ageing aircraft. These options are outlined in the following sections.

Impact of taxation arrangements

- 6.143 The taxation issues of particular concern to operators are aircraft depreciation and capital gains tax. The evidence indicates that The New Tax System introduced by the Commonwealth in 2001, has increased the cost for operators to upgrade their fleet. The increased cost discourages small operators from investing in new or newer aircraft that may be more capable.⁹⁵

93 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, p. 4.

94 Integrity Aircraft, submission no. 19; Integrity Aircraft, transcript of evidence, Sydney, 8 May 2003, pp. 484-493.

95 Regional Aviation Association of Australia, submission no. 93, pp. 4-6; Tasmania Department of Infrastructure, Energy and Resource, submission no. 155, pp. 11, 16; Tasmania Department of Infrastructure, Energy and Resources, transcript of evidence, Launceston, 24 February 2003, pp. 67-71; Airnorth Regional, submission no. 102, pp. 6-7; Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 593; National Farmers Federation, submission no. 139, p. 6.

- 6.144 The RAAA said that the biggest impact from the Commonwealth is their national policy and taxation decisions.⁹⁶
- 6.145 The RAAA went on to explain that:
- One of the impediments to changing the ageing aircraft system is the depreciation system that we currently have. Prior to the Ralph report in 1999 and the change to the taxation system, the regional operator could roll over the depreciation issues from the sale of aircraft. They are no longer able to do that, and as well as that they have to pay capital gains tax on the capital gain between the written down value and the value at sale of the aeroplane.⁹⁷
- 6.146 Under the old tax system, the effective life of an aircraft was a shorter period. When the aircraft was sold before the end of this period, the owner had a larger deposit because there was no tax liability. This was called balancing charge rollover.⁹⁸
- 6.147 Under the new arrangements, called the uniform capital allowance system⁹⁹, the effective life of an aircraft used by a regional operator is increased to 10 years.¹⁰⁰ This effectively reduces the depreciation rate. If, after five years, the owner sells the aircraft for more than the depreciated value calculated under the legislation, the owner has to pay tax on the difference between the selling price and its depreciated value. The effect is that the owner has a smaller deposit for the new aircraft.¹⁰¹

96 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

97 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 708.

98 Regional Aviation Association of Australia, submission no. 93, pp. 4-6; Airnorth Regional, submission no. 102, pp. 6-7.

99 Australian Taxation Office, '*The New Uniform Capital Allowance System*', <http://www.taxreform.ato.gov.au>, last accessed 30 July 2003.

100 Australian Taxation Office, '*The New Uniform Capital Allowance System: effective life of aeroplanes and helicopters – fact sheet*', <http://www.taxreform.ato.gov.au>, last accessed 30 July 2003.

101 Regional Aviation Association of Australia, submission no. 93, pp. 4-6.

6.148 Champions of the Bush told the committee:

... tax policy is another area [of] encouragement. [Previously] the ... balancing charge ... meant that as you turned aircraft over the loss or gain on the capital cost could be rolled into the next aircraft. Aircraft ... have very long lifespans and they tend to appreciate in value. So, frequently, after depreciation the changeover to a new aircraft resulted in a capital profit. That was changed in 1999. Many operators ... are now faced with such a tax liability if they upgrade again that it is a strong disincentive to do so.¹⁰²

6.149 The RAAA explained the impact of the new tax arrangements by comparing Australian changes to New Zealand. A member company claimed that before the changes to the tax system, it imported 18 turboprop aircraft into Australia for lease purposes between 1985 and 1998. After the taxation changes, the company imported just one turboprop aircraft. The same company imported four aircraft into New Zealand before 1999 and after 1999 it imported nine aircraft into New Zealand. New Zealand does not have the same depreciation arrangements as Australia.¹⁰³

6.150 The committee noted that the decision to purchase an aircraft involves a number of factors and considerations, and that factors other than taxation may also have influenced the purchase of new aircraft in Australia and in New Zealand.

6.151 Champions of the Bush suggested that the Commonwealth consider a capital allowance as an incentive for small operators investing in new aircraft:

In the past ... when the government perceived that industry needed to invest more money in capital assets such as machinery, manufacturing equipment and so on, capital allowances have been used ... quite effectively, to encourage the upgrade of equipment ... the government might like to look at ... whether in a regional setting when it comes to RPT services it is possible to have some sort of capital allowance.¹⁰⁴

102 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 215.

103 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 708.

104 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 215.

- 6.152 The AAA agreed with other evidence that pointed to the need for the Commonwealth to provide tax relief to regional air service operators:

We believe that tax and depreciation matters need to be looked at to make it simpler and easier for services to be started and maintained.¹⁰⁵

- 6.153 The King Island Council told the committee that remote island communities should be served by better aircraft and that the Commonwealth should encourage the replacement of ageing aircraft:

The second [recommendation] is that the government offer appropriate tax or other incentives to encourage RPT air operators to upgrade and modernise their fleet in order to meet both the demand and the essential service requirements of remote populated islands.¹⁰⁶

- 6.154 The taxation issue needs to be seen in the context of other costs imposed by government policy and the cost structure of regional airlines.

- 6.155 Island Airlines Tasmania Pty Ltd said that profitability, not the taxation arrangements, is the primary issue driving the replacement of aircraft. The company said by way of example that cash flow is needed to service a loan or lease (e.g. \$84 000 per month), pay for maintenance (e.g. \$120 000 per annum for labour only) and wages. The running costs could tend to heavily outweigh lump sum payments such as the tax that may be payable to upgrade an aircraft.¹⁰⁷

- 6.156 Macair Airlines Pty Ltd suggested a different priority list of business costs:

If you look at our overall cost make-up—we have a list—it is finance, fuel, maintenance and staffing. You then come to air navigation charges and landing charges and all of the other operational stuff.¹⁰⁸

105 Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, p. 214.

106 King Island Council, transcript of evidence, Tullamarine, 26 February 2003, p. 261.

107 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, pp. 291-294.

108 Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 597.

- 6.157 The committee noted that the Commonwealth introduced the changes to taxation to remove inequities in the former arrangements.¹⁰⁹ However, the issue of improving the adequacy of regional aviation services remains.
- 6.158 In a number of cases, the aircraft that third level operators use are approaching the end of their economic life. These small operators should have some respite from high and increasing costs that are causing them to go out of business. The Commonwealth should consider, as part of a package of possible assistance measures to these operators, providing assistance that encourages small operators to upgrade their aircraft. This assistance could be in the form of taxation relief when they upgrade their aircraft, or an incentive that offsets the effects of the new taxation arrangements.

Recommendation 19

- 6.159 **The committee recommends that the Department of the Treasury:**
- **Review the taxation arrangements relating to the replacement of small ageing aircraft by the end of 2004;**
 - **Publicly report the findings of the review by the end of 2004; and**
 - **If justified, introduce provisions in the taxation legislation that assist the owners of small ageing aircraft to replace these aircraft; or**
 - **Introduce incentives to assist in the replacement of aged aircraft.**

109 Australian Taxation Office, <http://www.taxreform.at0.gov.au>, last accessed 30 July 2003.

Impact of fuel costs

- 6.160 A number of submissions expressed concern at the cost of fuel and its impact on the viability of regional airlines.¹¹⁰ Two aspects to this were raised. Firstly, the rising fuel prices. Secondly, the Commonwealth's fuel excise.
- 6.161 Small operators in particular were concerned at the high price of aviation gasoline that is used in the smaller piston-engined aircraft. For operators using this type of aircraft, the margins are tight and they lack the buying power of larger competitors. Larger competitors are able to use a different fuel, called aviation kerosene, which is suitable for turboprop aircraft and jets.¹¹¹
- 6.162 Paul Bredereck told the committee how significant the price of fuel was:
- ... in 1995 my business was purchasing about \$40,000 a week in jet fuel. The bowser price at that stage, I recall, was about 63c a litre. I was buying fuel for 42c and I understand that my competitor, which was a Qantas owned subsidiary, was purchasing fuel for at least 12c a litre cheaper again. That is a massive difference, particularly when those charges have to be passed on to the communities.¹¹²
- 6.163 The New South Wales Government told the committee that fuel costs had increased more than 80 per cent over the past two years. It also said that the production of aviation gasoline would cease in the foreseeable future.¹¹³

110 Paul Bredereck, submission no. 42, p.2; Local Government Association of NSW, submission no. 109, p. 1; Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 7; South Grampians Shire, transcript of evidence, Tullamarine, 26 February 2003, p. 248; Edge Aviation, transcript of evidence, Tullamarine, 26 February 2003, p. 214; Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, p. 232.

111 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640; District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 323.

112 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640.

113 New South Wales Government, submission no. 151, p. 5.

- 6.164 In regard to the second concern relating to the impact of fuel excise on fuel prices, the committee notes that in recent years, the Commonwealth has reduced substantially the excise used by small aircraft. The excise on aviation gasoline has fallen from 18.5 cents per litre in 1996 to 2.8 cents per litre since 2000 – a reduction of 85 per cent.¹¹⁴ This suggested that increases in fuel prices were due to factors other than excise.
- 6.165 The committee noted that the Commonwealth uses the revenue from the fuel excise to fund CASA. With the reductions in excise per litre of fuel, the Commonwealth has provided CASA a special appropriation valued at \$59 million in the 2002-03 Budget.¹¹⁵
- 6.166 The committee noted that in mid-1998 the Commonwealth removed the component of fuel excise on aviation gasoline related to the provision of control tower services when Airservices Australia introduced location specific pricing.¹¹⁶ Airservices Australia now receives income from other sources such as international contract work, and the Commonwealth. The Commonwealth provides Airservices Australia with a \$7 million subsidy for control tower services in certain locations.
- 6.167 The committee considered that under the circumstances the level of excise of 2.8 cents per litre was not unreasonable.
- 6.168 Discounts for bulk purchases of fuel could reduce the cost of fuel to small operators. Evidence suggested a regional airline that had an interline agreement with a larger airline could potentially benefit from purchasing cheaper fuel whose price is negotiated by the larger airline.¹¹⁷

114 Bureau of Transport and Regional Economics, Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 23; Anderson, J., (Minister for Transport and Regional Services) 2000, *Government reduces aviation fuel taxes by 85 percent*, media release, Parliament House, Canberra, 4 April; Department of Transport and Regional Services, submission no. 81, p. 7; Anderson, J (Minister for Transport and Regional Services) 2000, *Government reduces aviation fuel taxes by 85 percent*, media release, Parliament House, Canberra, 4 April.

115 Bureau of Transport and Regional Economics (2003) Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 23.

116 Bureau of Transport and Regional Economics (2003) Working Paper 54 '*Regional Public Transport: Economic Regulation and Assistance Measures*', pp. 22-23.

117 Sydney Airports Corporation Limited, submission no. 158, enclosure Centre for Asia Pacific Aviation, '*Airport Charges for Regional Airlines at Sydney Airport*', p. 10.

- 6.169 Paul Bredereck suggested that smaller operators could form a buying group to enable them to purchase aviation fuel in bulk at reduced prices.¹¹⁸
- 6.170 The committee strongly urges the industry to investigate options for purchasing fuel in bulk and to take a proactive approach to collaboratively assisting small operators.

Government travel contracts

- 6.171 Commonwealth business travel contracts are estimated to total hundreds of millions of dollars per annum.
- 6.172 The regional carriers Virgin Blue and Rex raised concerns about their access to the government business travel market. These airlines indicated that the purchasing mechanism for the Commonwealth was flawed, and the 'best fare of the day' policy was not being enforced. They were seeking greater equity in the awarding of government travel contracts.¹¹⁹
- 6.173 Virgin Blue told the committee that the Commonwealth does not use its services on the Canberra-Sydney route because it does not provide them with sufficient frequency. However, on the Sydney-Melbourne route, where Virgin Blue provides 18 services per day and has one-quarter of the business market, it has less than one per cent of the Commonwealth's travel in dollar terms.¹²⁰
- 6.174 Virgin Blue said that on the Sydney-Canberra route its 'walk up' fare was \$49. The ticket was fully changeable in terms of when the purchaser chooses to fly, and the purchaser can cancel at any time. This ticket price was on average 30 to 40 per cent below the competition. Virgin Blue had plans to make even better ticket offers from July 2003.¹²¹

118 Paul Bredereck, submission no. 42, p. 7; Paul Bredereck, correspondence with secretariat, 12 June 2003.

119 Virgin Blue, submission no. 182, p. 2; Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 728-733; Regional Express, submission no. 11; Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

120 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 728-729.

121 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 729, 731.

- 6.175 Rex told the committee that the total Commonwealth demand for air travel on the Canberra-Sydney route was more than 19 000 passengers per week. Rex provided 14 per cent capacity on that route and its fare price was on average 30 per cent lower than Qantas. However, Rex only received 0.4 per cent of Commonwealth travel, and its peak load was 121 Commonwealth travellers per week.¹²²
- 6.176 Rex also said the situation was similar regarding New South Wales Government travel. Rex had evidence that where it provided 50 per cent of the capacity, it received only single-digit percentage of the government travel.¹²³
- 6.177 Rex told the committee that it had difficulty competing with Qantas in the corporate and government markets. Qantas can offer government a more complete range of services at a more attractive overall price that covers regional, domestic and international travel than many regional airlines are able to do. Rex expressed it in the following way:
- So we are competing against three airlines and not one, and they can spread their competitive rebate and/or discount across a larger segment of travel ... Of course in the United States that practice is outlawed, but here it is common practice.¹²⁴
- 6.178 While a bilateral interline agreement between a larger carrier like Qantas and the smaller Rex can provide Rex greater advantages than might otherwise exist, this is not the case with the unilateral interline agreement that Rex has with Qantas.
- 6.179 Rex explained the competitive disadvantage it faces with its unilateral interline agreement with Qantas. Under this arrangement, Qantas provides all the services that it can, and allows Rex to provide those services that do not disadvantage Qantas.
- 6.180 To demonstrate the competitive disadvantage Rex experienced from a unilateral interline agreement with Qantas, Rex provide the following examples:
- A passenger who purchases a Qantas ticket to travel from Brisbane to Orange, would fly with Qantas on the Brisbane-Sydney leg and Rex on the Sydney-Orange leg. Qantas would pay Rex for its service.

122 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

123 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

124 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

- However, a passenger who purchases a Qantas ticket to travel from Wagga Wagga to Brisbane would fly with Qantas all the way. If they wished to fly with Rex on the Wagga Wagga-Sydney leg they would need two tickets. Also, at Sydney they would have to collect their baggage and recheck-in with Qantas.¹²⁵
- 6.181 The Commonwealth's travel policy is that its travel agent must offer it the 'best fare on the day'. This is given effect in the travel contracts of Commonwealth departments and agencies. Under the *Commonwealth Procurement Guidelines*, departments and agencies are obliged to achieve 'value for money' in all aspects of their procurement.
- 6.182 'Value for money' does not necessarily mean best price alone. It can entail consideration of a range of qualitative, risk and timeliness factors according to the circumstances of each procurement. For example, in the case of air travel services, factors such as reliability, timeliness, refund arrangements and ancillary services may need to be weighed in determining best value.¹²⁶
- 6.183 Underpinning the assessment of value, the *Commonwealth Procurement Guidelines* are the principles of efficiency and effectiveness and industry development. To ensure accountability for Commonwealth spending, departments and agencies are obliged to have records that show that they have considered the benefits and capabilities of all reasonable suppliers. Accountability can be tested by an Australian National Audit Office performance audit and a series of business support process audits.¹²⁷
- 6.184 DOTARS claimed that it had strengthened its travel procedures and that this had resulted in a threefold increase in the use of smaller airlines.¹²⁸

125 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 558.

126 Department of Finance, Commonwealth Procurement Circular, CPC01/1, '*Reasonable Access for Smaller Airlines to the Government Business Travel Market*', <http://www.finance.gov.au>, last accessed 2 August 2003.

127 Department of Finance, Commonwealth Procurement Circular, CPC01/1, '*Reasonable Access for Smaller Airlines to the Government Business Travel Market*', <http://www.finance.gov.au>, last accessed 2 August 2003.

128 Department of Finance, Commonwealth Procurement Circular, CPC01/1, '*Reasonable Access for Smaller Airlines to the Government Business Travel Market*', <http://www.finance.gov.au>, last accessed 2 August 2003.

- 6.185 Qantas Business Travel, a Qantas subsidiary, was the travel agent for many Commonwealth departments and agencies. The regional airlines questioned the impartiality of Qantas Business Travel in awarding work to airlines other than Qantas according to the Commonwealth's travel policy.
- 6.186 At the time, it was reported that Virgin Blue claimed that the booking system used by Qantas Business Travel could not readily access Virgin Blue's internet booking system. Virgin Blue explained that it was able to keep its costs low by not being a member of the various international booking systems. It was also claimed that the Commonwealth Department of Finance had said that Qantas Business Travel would charge the Commonwealth a fee to examine Virgin Blue's internet site.¹²⁹
- 6.187 A potential impediment to Commonwealth staff using an airline other than Qantas was that many staff were members of the Qantas frequent flyer and its airport departure lounge programs. They were not entitled to use these facilities if they flew with an airline other than Qantas.
- 6.188 The Commonwealth took the following action to address the issue in mid-2003:
- The Department of Finance issued a Commonwealth Procurement Circular reminding departments and agencies of their purchasing obligations;
 - The Minister for Finance and the Minister for Transport and Regional Services set an objective of 10 per cent of government travel on the Canberra-Sydney route going to smaller airlines;
 - Commonwealth departments and agencies reported their performance against the objective regularly to the Department of Prime Minister and Cabinet;
 - Qantas Business Travel guaranteed to offer the best fare of the day, or the best logical fare of the day;

129 Tingle, L., 'Dogfight over government travel deals', Australian Financial Review, 28 July 2003.

- The Commonwealth appointed an independent assessor from mid-August 2003 to examine procedures for travel bookings in agencies, and review the efforts of Qantas Business Travel to provide the best fare. The assessor examined agencies' management of travel contracts, the extent to which smaller airlines are used, and the reasons given by public servants who are offered the best fare but choose not to take it; and
 - Department of Prime Minister and Cabinet took action to ensure that no department or agency would sign any further contracts until the Commonwealth had considered the issues further.¹³⁰
- 6.189 The Department of Finance and Administration advised the committee that since these measures had been introduced by the Commonwealth in July 2003, the Commonwealth's use of smaller airlines on the Canberra-Sydney route has increased by some three per cent from 11.9 per cent in July to 15.3 per cent in August 2003. By comparison, the Commonwealth's use of smaller airlines nationally had declined by one per cent from 7.9 per cent in July to 6.9 per cent in August.¹³¹
- 6.190 The committee considered that the actions taken by the Commonwealth have improved access to the Commonwealth's business travel market for smaller regional airlines. This action could promote competitiveness in the market and improve the diversity of services.
- 6.191 The committee noted that Qantas is affiliated with many small airlines, and consequently, admitted that any measures taken by the Commonwealth would not automatically mean that Virgin Blue and Rex would receive a greater share of the Commonwealth's air travel market.
- 6.192 The committee also noted that the 'best fare of the day' criterion would not necessarily provide Virgin, Rex or other smaller airlines with additional Commonwealth business. Qantas' dominant position in the market enabled it to match or better any fare that Virgin or Rex could offer, in the knowledge that it could carry any loss better than the other two airlines.¹³²

130 Minchin, N., and Anderson, J., Joint Media Release, 23/2003, '*Government air travel: use of smaller airlines*', 24 July 2003.

131 Department of Finance and Administration, communication with secretariat, 14 October 2003.

132 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

- 6.193 The 'value for money' criterion was also in Qantas' favour because the company's product bundling practices enabled it to offer the Commonwealth a more complete service.
- 6.194 Consequently, the committee considered that the Commonwealth should put in place longer term arrangements to ensure that there is greater equity in the awarding of its business travel to regional airlines. This would require the Commonwealth to give closer scrutiny to who benefits from Commonwealth business, and to use its buying power to ensure equitable outcomes are achieved.

Recommendation 20

- 6.195 **The committee recommends that the Department of Finance and Administration and the Department of Transport and Regional Services ensure that regional airlines have an equitable share of the Commonwealth's travel market by:**
- **Setting an objective share of key routes used by the Commonwealth and an overall share of the Commonwealth travel market, consistent with 'best fare of the day' and 'value for money';**
 - **Auditing the compliance of Commonwealth departments and agencies with criteria based on 'objective share of key routes used by the Commonwealth', 'best fare of the day' and 'value for money'; and**
 - **Publishing the results of the compliance audit.**
- 6.196 The committee noted that Qantas Business Travel has a near monopoly on the Commonwealth's travel market, and that this could enable it to offer a Qantas airfare that would at least match any airfare offered by a smaller regional airline.
- 6.197 The committee considered that there should be greater transparency in the way in which Commonwealth departments and agencies make their decisions regarding 'best fare of the day'.

- 6.198 Accordingly, the committee recommends that the Department of Finance and Administration monitor the 'best fare of the day' offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, by conducting periodic, random and anonymous spot checks. These checks would determine the fare offered by Qantas Business Travel, and how the fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel.
- 6.199 The committee further recommends that the findings from the spot checks be reported to the Minister for Finance and the Minister for Transport and Regional Services.

Recommendation 21

- 6.200 **The committee recommends that the Department of Finance and Administration monitor and report on the effectiveness of the 'best fare of the day' policy by:**
- **Conducting periodic, random and anonymous spot checks to determine the fare offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, and how this fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel; and**
 - **Reporting the results of these spot checks to the Minister for Finance and the Minister for Transport and Regional Services.**

Airport costs

- 6.201 Many airlines and representatives of users of air services expressed concern to the committee at the impact of airport charges on ticket prices, because of their influence on a potential passenger's decision to fly or drive. Fewer passengers using a route reduces its viability and the quality of services.¹³³

133 Regional Express, submission no. 116, pp. 8-9; Launceston Chamber of Commerce, submission no. 82, p. 2; NSW transcripts and submissions.

- 6.202 The ACCC monitors prices, costs and profits related to the supply of aeronautical services and aeronautical related services at Australia's capital city airports, with the exception of Hobart. The services only relate to aircraft movement facilities and activities, and passenger processing facilities and activities. The *Prices Surveillance Act 1983* covers these issues.¹³⁴ The Productivity Commission has investigated the price regulation of airport services. The Commonwealth released the most recent review of airport prices in May 2002.¹³⁵
- 6.203 Some witnesses argued that there is the potential for a local council or owner/operator of a regional airport to have an airport monopoly, particularly where the demand for airport services at the location is relatively strong.
- 6.204 There is no formal prices oversight of the charges that local governments levy for the use of their airports. It is left up to market forces between individual councils and air service operators.¹³⁶
- 6.205 The issue remains of whether there is a need for some form of monitoring of the prices charged by councils for airport services.
- 6.206 On the one hand, the arguments for no Commonwealth monitoring of prices charged by councils for airport services are based on jurisdiction and competition.
- 6.207 The jurisdictional argument says that the trade practices of regional airports are the responsibility of the state or territory in which the airport is located.
- 6.208 The jurisdictional argument does not apply to airports of national significance, such as capital city airports, which are a Commonwealth responsibility. As mentioned elsewhere in the report, the ACCC monitors the prices of aeronautical and airport related services of these airports.

134 ACCC, 'Airport Pricing', <http://www.accc.gov.au>, last accessed 29 July 2003.

135 Productivity Commission's Inquiry Report on Price Regulation of Airport Services, <http://www.pc.gov.au>, last accessed 29 July 2003.

136 Australian Competition and Consumer Commission, communication with secretariat, 19 September 2003; Australian Airports Association, correspondence with secretariat, 13 August 2003.

- 6.209 Where a party took issue with the prices charged at a regional airport it could seek to resolve the matter with the owner or operator of the airport concerned. If the outcome of this was unsatisfactory, the complainant could resort to the relevant state or territory trade practices body. Alternatively, the complainant could resort to seeking the assistance of the local member.
- 6.210 The competition argument says that local councils have an interest in keeping their airport prices reasonable. The committee found that many local councils have a great interest in encouraging the use of their airport facilities because of their contribution to economic and social development. This has some influence in capping the prices that individual councils charged for airport services.
- 6.211 Despite the self interest of regional airports to keep their prices reasonable, the committee found that regional airlines such as Rex remain concerned at the prices charged by some regional airports. In addition to raising its concerns with local members and governments, Rex has called on regional airports to reduce their prices.¹³⁷
- 6.212 On the other hand, the arguments for the Commonwealth monitoring prices charged by councils for airport services are based on overcoming a market failure such as a lack of information or the market power of an airport.
- 6.213 Knowledge of airport prices is essential for a regional airline to make sound business decisions on which airports to use. Gathering this information can be expensive for smaller airlines.
- 6.214 Another counter argument to the Commonwealth monitoring prices charged by local councils says that the cost of maintaining airports in communities of under 30 000 people was not properly taken into account by the Commonwealth at the time of local ownership. This, coupled with other Commonwealth charges, are major influences on the level of costs the councils must recoup.
- 6.215 The Commonwealth's prices monitoring agency, the ACCC, can hardly rule on the fairness of regional airport charges where the principal driver of those charges is the inability of a council's rate base to provide sufficient funds to adequately maintain a facility inherited from the Commonwealth.

137 Regional Express, '*Charges crippling regional air services, Rex warns*', <http://www.travelbiz.com.au>, last accessed 19 September 2003.

- 6.216 The committee considered that there was a strong argument for the prices charged by regional airports to be readily and publicly available. BTRE is ideally placed to provide this information to the marketplace.
- 6.217 Accordingly, as stated in the second recommendation in this chapter, the committee recommends that BTRE provide publicly, information on the prices charged by regional airports for aviation services. The Bureau's *Avline* publication would be the appropriate publication to make this information available publicly.
- 6.218 In respect of council-owned airports, BTRE should arrange, in conjunction with the Australian Local Government Association, for this data to be updated following the annual round of council budget tablings.

Airport landing and takeoff slots

- 6.219 Regional communities and small regional air services asked the committee that landing and takeoff slots continue to be available at peak times at capital city airports. This enables passengers from regional Australia to enter and leave capital cities at convenient times.
- 6.220 Many regional business and private passengers want to attend to business, medical or other appointments and return home in the one day. Off-peak departure times are often inconvenient. They increase the cost and time to regional travellers by necessitating them to stay overnight at the capital city. This issue was of particular concern in New South Wales where Sydney Airport has certain capacity constraints.¹³⁸
- 6.221 At capital city airports with capacity constraints at peak times and under private ownership have an incentive to maximise the return from landings. At peak times in particular, the small regional air services compete with larger domestic and international airlines for landing and takeoff slots. However, they are at a disadvantage compared with the larger airlines that have greater financial resources and bargaining power.
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138 National Framers Federation, submission no. 139, p. 5; Macair Airlines Pty Ltd, submission no. 76, p. 4; Tasmania Government, submission no. 155, p. 15; Country Womens Association, submission no. 51, p. 2; City of Albury, submission no. 37, p. 2; Riverina Eastern Regional Organisation of Councils, submission no. 152, p. 1; New South Wales Government, submission no. 151, pp. 4-5.

- 6.222 The Commonwealth has ensured that regional airlines have access to major airports through its lease arrangements and legislation.
- 6.223 A particular feature of the slot system at Sydney Airport is that slots for regional airlines are effectively protected by the 'regional ring-fence' covered by the *Sydney Airport Demand Management Act 1997*. A private company called Airport Co-ordination Australia manages the allocation of slots to users.¹³⁹
- 6.224 Under this arrangement, slots inherited from long-standing usage patterns ('grandfathered') by regional airlines can only be swapped for slots for domestic and international airlines within 30 minutes of their originally scheduled time. Regional slots are capped at the December 2000 levels during peak times. Outside peak times, regional airlines would be free to bid for new slots, but would be subject to new rules about aircraft size. This is intended to encourage the use of larger aircraft.¹⁴⁰
- 6.225 The committee noted that one measure of the needs of regional communities for connectivity with major centres is given by regional travellers making up about 20 per cent of passengers using domestic airlines.¹⁴¹
- 6.226 The committee considers that it is the absolute right of regional communities to have connectivity of air services. The connectivity of air services is an essential amenity for travellers from and to regional centres to meet their business, health, educational and social needs. The Commonwealth's regional statement *Stronger Regions, a Stronger Australia* and the Regional Business Development Analysis Action Plan, sponsored by the Commonwealth, endorse these rights.¹⁴²
- 6.227 An essential aspect of this connectivity is access to Sydney airport and other capital city airports at times convenient to travellers from regional communities.

139 Sydney Airport, exhibit no. , p. 1.

140 Kain, J., and Webb, R., '*Turbulent Times: Australian Airline Industry Issues 2003*', Department of the Parliamentary Library, Research Paper No. 10 2002-03; Anderson, J., '*Regional access to Sydney Airport guaranteed*', Media Release A198/2000, 13 December 2000, <http://www.ministers.dotars.gov.au>, last accessed 1 August 2003.

141 Air Link Pty Ltd, submission no. 94, p. 4.

142 Department of Transport and Regional Services, '*Stronger Regions, a Stronger Australia*', <http://www.dotars.gov.au>, last accessed 19 September 2003; Regional Business Development Analysis Action Plan, <http://www.rbda.gov.au>, last accessed 19 September 2003.

- 6.228 Accordingly, the committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney and other capital city airports. The committee also recommends that this be monitored as part of the task assigned to BTRE in the earlier recommendation in this chapter (referring to the regular monitoring and regular reporting of the connectivity available to passengers from regional airlines).

Recommendation 22

- 6.229 **The committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney airport and other capital city airports.**
- 6.230 The committee received evidence that the slower aircraft of small regional airlines do not mix with high density jet operations at Tullamarine. This means that regional flights entering Melbourne are encouraged to use Moorabbin and Essendon with lower landing fees.¹⁴³
- 6.231 However, the use of Melbourne's regional airports creates difficulties for passengers transferring to and from domestic and international flights. These passengers must pay the taxi fare to Tullamarine from Moorabbin or Essendon. Furthermore, they have the inconvenience of transferring themselves and their baggage. In the case of a transfer from Moorabbin to Tullamarine, the fare is expensive.
- 6.232 The committee did not receive evidence on how many people and how much freight is affected by this arrangement. The committee considered that this issue warranted further investigation. However, the committee noted that, with the exception of a limited number of Tasmanian services, the issue was potentially an intrastate issue and should be dealt with by the Victorian Government.

143 Southern Grampians Shire Council and Shire of Moyne, submission no. 112, p. 16; King Island Council, submission no. 132, pp. 7-9; East Gippsland Shire Council, submission no. 92, pp. 5-6; Flinders Island Tourism Association, submission no. 127, p. 4; Furneaux Enterprise Centre, submission no. 136, p. 2; Walker, G., submission no. 40, p. 2; Wheatley, A & M., submission no. 55, p. 5; Witten, Rev. R, submission no. 23, p. 2; Cradle Coast Authority, submission no. 149, p. 19.

The regulator – Civil Aviation Safety Authority

- 7.1 Evidence to the committee suggested that aviation safety regulations and the way they are administered impose significant costs on small operators in particular. This is contributing to the reduction in the number of regional operators and the level of air services in regional areas.
- 7.2 The regulator is CASA, established in 1995.
- 7.3 Aviation safety regulation has been a vexed issue, having had some 15 reviews over the last 20 years. The most recent of these, announced in November 2002, is intended to improve CASA's accountability, enhance consultation with industry and build greater fairness, flexibility and strength into its enforcement processes.¹
- 7.4 The *Civil Aviation Amendment Act 2003* gave effect to these intentions which are expected to address many of the industry's concerns.²
- 7.5 However, some industry leaders, witnesses and others were sceptical about the potential for the CASA reform legislation to achieve its intended outcomes.³ The committee believes that the matter requires further consideration.

1 Media release, the Hon John Anderson MP, Minister for Transport and Regional Services, 27 March 2003, A25/2003, 'CASA Reform Bill Introduced to Parliament'.

2 Media release, the Hon John Anderson MP, Minister for Transport and Regional Services, 9 October 2003, A119/2003, 'CASA Reform Bill Passed in Parliament'.

3 Banham, C., 19 November 2002, <http://www.smh.com.au>, last accessed 21 June 2003; Creedy, S., 'Reforms on course, say pilots', *The Age*, 20 November 2002, p. 18; Lloyd's List daily Commercial News, Airfreight, 'Industry and operators cautious about CASA shakeup', 21 November 2002; Paul Rees, transcript of evidence, Wagga Wagga, 7 May 2003, p. 467.

- 7.6 The committee noted that the accident rate in the RPT sector (comprising high capacity and low capacity RPT) had remained low and stable for the past 10 years, and that the overall accident rate for Australian aviation had declined at an average rate of eight per cent per annum over the same period. The overall accident rate is currently about five accidents per 100 000 flying hours, and the number of fatal accidents is less than one per 100 000 flying hours.⁴
- 7.7 The committee noted that there is tension between achieving aviation safety that preserves public confidence and maintains patronage, containing the compliance cost so as not to stifle the industry, and enabling the regional aviation industry to develop and provide an adequate level of services to regional and remote communities.
- 7.8 Achieving a balance between these objectives is difficult and controversial. However, the committee considered that there is a clear need for CASA to improve its performance in three areas:
- Assessing fully and accurately the impact of its changes to regulations;
 - Improving the quality of its services and the time that it takes to deliver its services; and
 - Improving the skills and attitudes of CASA staff, particularly in the regional offices.
- 7.9 The committee considered that CASA's performance should be tested regularly to assess its improvement in these areas.

Impact of regulation

Regulation reform

- 7.10 In 1996, CASA initiated its Regulatory Framework Program after it recognised that many safety regulations were unnecessary or unnecessarily restrictive compared with international standards, and at times ambiguous, difficult to comply with and difficult to enforce. To make them work, the regulations frequently required exemptions. This imposed costs on the industry and on CASA.⁵

4 Australian Transport Safety Bureau, 'Aviation Safety Indicators 2002', pp. 5, 28.

5 CASA, Regulation Impact Statement, RIS 9801, 'Certification and Airworthiness Requirements for Aircraft and Parts', <http://www.casa.gov.au>, last accessed 21 August 2003.

- 7.11 The objective of the Regulatory Framework Program was to produce regulations that were clear, concise and unambiguous, enforceable, consistent with Australia's international obligations and harmonised with overseas requirements where possible.⁶
- 7.12 To achieve the program objective, CASA reviewed and revised Australia's aviation safety requirements jointly with industry.⁷
- 7.13 In regard to Australian aircraft and aircraft components manufacturers, CASA recognised that inadequacies in the legislation hampered the emergence of an Australian aircraft industry by imposing unnecessary and unproductive delays.⁸
- 7.14 Despite CASA responding to industry needs since 1996, the committee found that some parts of the industry continued to have concerns about the regulations, their impact on the industry and the way regulation reform was being implemented.

Cost impacts of regulation changes

- 7.15 The committee received evidence that suggested that CASA appeared not to consider the full impact of regulation and the cost-benefits.⁹ For example, Dick Smith told the committee:

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.¹⁰

- 7.16 As Basair told the committee:

Changes to the industry are often pushed through for the sake of change, as far as we can ascertain, and with little regard to the effect that those changes will have on the industry.¹¹

6 CASA, 'Why we are doing it', extract from speech by Mick Toller to the 2001 Safe Skies Conference, <http://www.casa.gov.au>, last accessed 21 August 2003, p. 1.

7 CASA, Regulation Impact Statement, RIS 9801, 'Certification and Airworthiness Requirements for Aircraft and Parts', <http://www.casa.gov.au>, last accessed 21 August 2003.

8 CASA, Regulation Impact Statement, RIS 9801, 'Certification and Airworthiness Requirements for Aircraft and Parts', <http://www.casa.gov.au>, last accessed 21 August 2003.

9 Regional Aviation Association of Australia, submission no. 93, pp. 3, 7; transcript of evidence, Canberra, 18 June 2003, pp. 715-716.

10 Dick Smith, transcript of evidence, Canberra, 4 June 2003, p. 578.

11 Basair Australia, transcript of evidence, Sydney, 8 May 2003, p. 531.

- 7.17 Rex told the committee that it had to upgrade its aircraft to meet CASA regulations at a cost of \$5.2 million. Whilst Rex did not describe what it had to do to upgrade its aircraft, Rex argued that the upgrade did nothing to improve the operational effectiveness or earning capacity of the aircraft; it was ‘just an additional safety measure’ to meet CASA requirements.¹²
- 7.18 The committee was told that some safety requirements introduced by CASA were putting at risk the economic viability of small airlines which do not have the operating margins necessary to fund upgrades. It was argued that CASA’s regulations were written for medium to high capacity operators rather than being written to accommodate low capacity RPT operators also. Consequently, only a limited number of aircraft models could meet CASA regulations cost-effectively over the medium term.¹³
- 7.19 For example, CASA regulations require aircraft with more than nine seats to have two pilots and expensive ground proximity warning systems (GPWS). The committee was told that the cost of upgrading an aircraft to have a GPWS was about \$100 000. This was a significant cost penalty to a small operator on a low yielding route.¹⁴
- 7.20 Macair outlined further the impact of these costs:
- ... imposition by CASA and others of things like the GPWS [ground proximity warning system] equipment fit. It has never saved a life yet in Australia, in our opinion, yet, out of some incident or some committee room somewhere in Canberra, somebody dreamed this up as a great idea—we have to go and fit it in an unbridled fashion. It caused us to retire our Bandeirante fleet. We could not afford to fit it. How do you fund these things? It is \$150,000 an aircraft. If you ask Qantas to fit a \$150,000 piece of equipment to their \$100 million jumbo, it is slightly different to asking someone to fit \$150,000 worth of equipment to their \$500,000 to \$1 million aircraft.¹⁵

12 Rex, transcript of evidence, Sydney, 8 May 2003, p. 555.

13 Edge Aviation, submission no. 65, pp. 2-3, 5-6; Edge Aviation, transcript of evidence, Tullamarine, 26 February 2003, p. 208; Island Airlines Tasmania, transcript of evidence, Tullamarine, 26 February 2003, p. 282.

14 Edge Aviation, submission no. 65, pp. 2-3; Edge Aviation, transcript of evidence, Tullamarine, 26 February 2003, p. 208; Island Airlines Tasmania, transcript of evidence, Tullamarine, 26 February 2003, p. 282.

15 Macair Airlines, transcript of evidence, Brisbane, 11 June 2003, pp. 601-602.

- 7.21 State governments such as NSW and Tasmania supported these claims by operators.¹⁶
- 7.22 The committee noted that CASA had introduced the requirement for medium capacity RPT aircraft with turbine engines to be fitted with GPWS by 1 January 1999 to accord with a requirement of the ICAO.
- 7.23 Before introducing this requirement in Australia, CASA conducted a cost-benefit analysis of fitting GPWS to medium capacity RPT and charter aircraft. This analysis showed that the benefit would outweigh the cost by 60 per cent. At the time, CASA acknowledged the industry's concerns about the capital cost, the implementation date, and the threshold for aircraft size and capacity that it had chosen.¹⁷
- 7.24 A particular regulatory matter that concerns regional and remote air service operators was CASA's proposal that charter operators must comply with safety requirements very similar to those of RPT operators. Currently, the requirements on charter operators are less stringent than those applying to RPT service operators.
- 7.25 The committee received mixed responses to CASA's proposal to amend its regulations to remove the distinction between charter operators and those providing RPT services.
- 7.26 The Queensland Government said for example that operators that already provide charter and RPT services would incur no cost from the amendments. Whereas, those operators that only provide charters, will incur costs to upgrade their aircraft to the higher safety standard.¹⁸
- 7.27 Paul Bredereck argued that those airlines unable to comply because of the cost will cease operating. This could force more people on to the roads, possibly exposing them to greater risk of injury.¹⁹

16 NSW Government, submission no. 151, p. 5; South Australia Government, submission no. 148, pp. 2, 8-9; Western Australia Government, submission no. 150, pp. 9-10, 20; Tasmania Government, submission no. 155, p. 12.

17 CASA, 1997-98 Annual Report, p. 30.

18 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, pp. 682-683.

19 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 641.

7.28 Remote communities would be most affected by this amendment, as the RAAA said:

... [Civil Aviation Safety Regulation] 121B coming in next year may be a major issue, particularly in some of the remoter parts in the north-west of Western Australia, I suspect, and in the Northern Territory.²⁰

7.29 A contrary argument expressed was that charters can reduce the viability of RPT providers where the both types of air services share the same route.²¹ As one small operator providing RPT services to remote Flinders Island in Bass Strait told the committee:

Current regulations for air operators are skewed to financially favour charter operators rather than RPT operators.²²

7.30 The Tasmanian Government supported the proposed amendment to remove the distinction between charters and RPT operators because it will build the critical mass needed to support RPT services. The change will also have the effect of increasing the use of Flinders Island airport and therefore the revenue to the local council.²³

Regulation impact assessment

7.31 The Commonwealth requires that all its departments, agencies, statutory authorities and boards prepare a statement on regulation that impacts on business. This ensures that all best practice processes are adopted for developing and amending legislation.²⁴

7.32 A regulation impact statement explains the impact of a policy proposal, including the cost and benefit of each option. The statement enables the department or agency to fully consider compliance and other cost issues when formulating its policy. It includes an assessment of the impacts of

20 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 July 2003, p. 715.

21 Macair Airlines, transcript of evidence, Brisbane, 11 June 2003, p. 605; Government of Tasmania, submission no. 155, p. 10; Government of Tasmania, transcript of evidence, pp. 66-67; Flinders Council, submission no. 110, p. 15.

22 Island Airlines of Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, p. 282.

23 Tasmanian Government, submission no. 155, p. 10; Tasmanian Government, transcript of evidence, Launceston, 24 February 2003, p. 66.

24 Office of Regulation Review, 'A Guide to Regulation – Second Edition: December 1998', <http://www.pc.gov.au>, last accessed 24 July 2003; CASA, 'Standards Development and Rule Making Manual', <http://www.casa.gov.au>, last accessed 24 July 2003.

- the proposed regulation on different groups in the community, including a specific focus on small business. For a proposal that requires legislative change, the impact statement must be tabled in Parliament, thereby making it available to the public.²⁵
- 7.33 CASA stated in its annual report that it is 100 per cent compliant with regulation impact statement requirements.²⁶
- 7.34 CASA's initial proposals for changes to regulations or legislation do not have a detailed cost-benefit analysis. Such an analysis is done after the industry consultation phase and when CASA has decided what change it will make to the regulations or legislation.²⁷
- 7.35 CASA's regulatory efforts focus on protecting air travellers. To achieve this outcome, CASA centres its efforts on improving safety by changing the culture of operators and having them accept responsibility for safety. CASA recognises that simply mandating safety does not work effectively on its own to achieve aviation safety outcomes.²⁸
- 7.36 For example, for its proposal to amend the regulations for charters, CASA argued that statistics from the Australian Transport Safety Bureau (ATSB) showed that charters have substantially more accidents than low capacity RPT operations (by as much as seven times). CASA also said that the Government had expressed the view that CASA should minimise the difference between the accident statistics for charter and RPT.²⁹
- 7.37 However, CASA limited its consideration of the impacts arising from amending the regulations to the operators, aircraft owners, flight and cabin crews, and ground staff.³⁰

25 Office of Regulation Review, 'A Guide to Regulation – Second Edition: December 1998', <http://www.pc.gov.au>, last accessed 24 July 2003; CASA, 'Standards Development and Rule Making Manual', <http://www.casa.gov.au>, last accessed 24 July 2003.

26 CASA Annual Report 2001-02, Part 1, Performance Scorecard, safety, <http://www.casa.gov.au>, last accessed 24 June 2003.

27 CASA, transcript of evidence, Canberra, 8 October 2003, p. 9; CASA 'Standards Development and Rule Making Manual', March 2002, <http://www.casa.gov.au>, last accessed 16 October 2003.

28 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 1, 7, 17-18; CASA (2002), 'CASR Part 121B, Air transport operations – small aeroplanes' <http://www.casa.gov.au>, last accessed 24 July 2003.

29 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 1, 8, 17.

30 CASA (2002), 'CASR Part 121B, Air transport operations – small aeroplanes' <http://www.casa.gov.au>, last accessed 24 July 2003.

- 7.38 CASA told the committee that the main costs to operators to implement the proposed changes are in the areas of training, checking, a fatigue management system and a safety management system.³¹ CASA supported this advice with an estimate of the costs for small airlines to implement these systems and to subsequently comply with them per annum.³²
- 7.39 CASA also told the committee that it had received relatively few (36) responses to its Notice of Proposed Rule Making for amending the charter regulations, and that there was not overwhelming opposition to the regulation amendments. CASA's explanation for industry's general acceptance of the proposed regulation changes after some initial objection was that it had amended its original proposal after its consultation process with industry.³³
- 7.40 The committee noted that CASA planned to introduce the changes to the regulations for charters in 2005, and to allow a transitional period of a further three years for operators to comply with the new regulations. CASA told the committee that it was already encouraging industry to adopt safety management systems and fatigue management systems.³⁴
- 7.41 The committee considered that these measures would lessen the impact of the regulation amendments on charter operators.
- 7.42 However, it was possible that some marginal operators may not be able to afford the changes and they may cease operating. The effect of this would be the withdrawal of some services to regional, rural and remote communities, or a more expensive service provided by an RPT operator.
- 7.43 The committee agreed with the views put to it in the evidence that CASA does not have sufficient regard to the likely broader cost of its changes to regulations on regional, rural and remote communities.
- 7.44 The committee considered that there was a need for an effective process for assessing the full impact of changes to aviation safety regulations. Further, the committee considered that CASA may not be best placed to consider these broader implications of aviation safety regulation, changes to regulation and the associated cost-benefits. DOTARS may be better placed to do so. The new administrative arrangements for aviation safety regulation being introduced by the Commonwealth present an opportunity to address this issue.
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31 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 5-7.

32 CASA, communication with the committee, 29 October 2003.

33 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 5-7.

34 CASA, transcript of evidence, Canberra, 8 October 2003, p. 7.

Recommendation 23

- 7.45 **The committee recommends that the Department of Transport and Regional Services:**
- **Verify the adequacy of regulation impact statements for amending aviation safety regulations prepared by the Civil Aviation Safety Authority; and**
 - **Assess that the cost impacts calculated are reasonable and justified, taking into account the importance of regional aviation to regional, rural and remote communities.**

CASA processes

- 7.46 CASA's service charter describes the service experience that the public and the aviation community can expect in dealing with CASA. The service charter states that its clients have the right to expect high standards of service and behaviour from CASA staff. CASA's commitments to clients are justice and timely delivery of quality services. CASA's values are reliability, honesty, patience, even-handedness, thoroughness, professionalism, trustworthiness and objectivity.³⁵
- 7.47 CASA states in its service charter that the standards of service response time do not apply to its consideration of applications for aviation documents, such as AOCs, the suspension and revocation of aviation documents, its consideration of exemptions and the enforcement of provisions and regulations.³⁶
- 7.48 Evidence to the committee suggested that CASA's processes require improvement. The specific industry concerns are described below.

35 CASA '2001 Service Charter', <http://www.casa.gov.au>, last accessed 21 August 2003.

36 CASA '2001 Service Charter', <http://www.casa.gov.au>, last accessed 21 August 2003.

CASA's responsiveness to clients and the cost of its services

- 7.49 The evidence indicated that CASA should improve responsiveness to clients, provide more accurate quotes for services, improve clients' understanding of its requirements and processes, and better manage its processes.
- 7.50 Brindabella Airlines, for example, advised the committee that CASA took 18 months to upgrade Brindabella Airlines' AOC from charter to RPT. CASA charged more than three times its original quote.³⁷ This cost did not include the cost to the company of revenue lost from the delay in commencing its proposed RPT operation, and its management and staffing costs to deal with constantly changing requirements.
- 7.51 As Brindabella Airlines explained:
- When we applied, we were given an approval date of August last year [2002]. It blew out from August last year till January this year [2003]. The original quote for the approval from CASA of our manuals and upgrading was \$5,000. The end bill was just over \$17,000.³⁸
- 7.52 The South Australian Government gave one instance where CASA invoiced an operator \$34 000 to upgrade its Low Capacity RPT AOC to include a turbine powered aircraft.³⁹
- 7.53 Air Link Pty Ltd said that CASA took 12 months to upgrade Air Link's AOC:
- We have just gone through over 12 months of upgrading our air operator's certificate to operate a larger aeroplane, and that did require the rewrite of our manuals.⁴⁰
- 7.54 In her submission, Mrs Maxine Reid, said:
- It is ridiculous to expect that a type of aircraft takes twelve months to get into an AOC, leaving the airline totally unable to respond to market needs. Again it is the restrictive, unrealistic and obstructive nature of CASA that is the biggest hurdle for any airline, big or small, to overcome.⁴¹
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37 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 449.

38 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 453.

39 South Australia Government, submission no. 148, p. 9.

40 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 552.

41 Maxine Reid, submission no. 4, p. 2.

- 7.55 CASA told the committee that, while it recognised there was scope for further improvement, over the past three or more years it had improved its service performance. Currently, it issues 83 per cent of AOCs on time and 75 per cent of certificates for approval for maintenance organisations on time.⁴²
- 7.56 To continue improving its service performance, CASA said that it had a range of initiatives. These included cultivating a non-adversarial relationship with its clients and using a case management approach. Its case management approach was aimed at providing applicants with better guidance, advice and better ‘tools’ to enable them to comply more easily with application requirements.⁴³
- 7.57 An independent business analyst, appointed as part of the current reform process, has identified a number of opportunities for CASA to improve further its service delivery. The business analyst’s study of CASA, completed in August 2003, focused on aviation permissions and licenses for general aviation and low capacity RPT, with an emphasis on efficiency and the layers involved in the process.⁴⁴
- 7.58 While the study found that CASA had achieved significant improvements in service delivery outcomes and processes over the last two years⁴⁵, it made a number of additional recommendations which:
- Address matters of procedure and the relationship between two key divisions that deal with regulatory services and safety compliance to further enhance service delivery;
 - Address deficiencies in collecting information on the delivery of regulatory services to enhance measuring and monitoring efficiencies in service delivery; and

42 CASA, transcript of evidence, Canberra, 10 September 2003, pp. 752-755.

43 CASA, transcript of evidence, Canberra, 10 September 2003, pp. 753, 755.

44 CASA and KPMG, ‘Independent business review of CASA’s processes in providing regulatory services to general aviation and low capacity RPT operators’, 12 August 2003, exhibit no. 33, p. 1.

45 CASA and KPMG, ‘Independent business review of CASA’s processes in providing regulatory services to general aviation and low capacity RPT operators’, 12 August 2003, exhibit no. 33, p. 6.

- Require CASA to make philosophical and policy changes to its service delivery practices. In particular, the study strongly recommended that CASA issue certificates in perpetuity or for periods of 10 years or more, and that there be a segregation of responsibilities between those responsible for regulatory service activities and surveillance.⁴⁶
- 7.59 The committee noted that for regional airlines to be competitive in the Commonwealth's deregulated business environment they have respond to market needs in a timely manner. The Commonwealth's policies have imposed significant costs on the industry. Administrative delays can increase business costs on an airline by delaying an investment in a new aircraft, or having aircraft lying idle. This reduces the cash flow to the airline by denying it the opportunity to service a market.
- 7.60 The committee noted that the cost increases over the amounts initially quoted by CASA not only impact on the cash flow and financial viability of smaller operators in particular, but they increase the level of financial risk to which firms are exposed.
- 7.61 The committee considered that the industry needs a regulator that provides world-competitive services to all players in the industry. CASA should work strenuously to continue improving its service delivery to meet the industry's needs without compromising aviation safety outcomes.
- 7.62 The committee noted that CASA charges a fixed fee for some services and an hourly rate for other services. Industry's concerns centred on those services charged at an hourly rate, and particularly where the time to deliver the service became excessive and the cost of the service escalated. The committee considered that in such cases CASA should introduce measures aimed at limiting cost increases by improving the efficiency of its service delivery.
- 7.63 The committee also noted that charging for services at hourly rates can result in savings to firms in situations where the service is delivered in less than the predicted time.

46 CASA and KPMG, 'Independent business review of CASA's processes in providing regulatory services to general aviation and low capacity RPT operators', 12 August 2003, exhibit no. 33, pp. 6, 24-36.

- 7.64 The committee formed the opinion that mandated response times and fixed prices would assist in improving CASA's service response to industry. The committee noted that the independent business analyst who contributed to the CASA reform process made a recommendation on this issue.⁴⁷

Recommendation 24

- 7.65 **The committee recommends that the Civil Aviation Safety Authority introduce into its service charter mandated response times and fixed and fair prices for its services.**

Quality of CASA's advice to industry

- 7.66 Evidence pointed to inconsistencies in CASA's interpretation of the law and its regulations.
- 7.67 Brindabella Airlines attributed CASA's delay processing its AOC application in part to inconsistencies in interpretation of the regulations by different staff. As Brindabella Airlines explained:

The manuals we wrote in the first place went back and forth, back and forth. Changes were made. Depending on which CASA representative you had—often with a different opinion on a different interpretation of the same regulation—it was changed.⁴⁸

- 7.68 After Brindabella Airlines obtained the intervention of the Minister for Transport and Regional Services, and CASA assigned different airworthiness staff to the case, Brindabella said it had relatively few difficulties, and:

The manuals that [Brindabella] submitted in the first place were basically accepted.⁴⁹

47 CASA and KPMG, 'Independent business review of CASA's processes in providing regulatory services to general aviation and low capacity RPT operators', 12 August 2003, exhibit no. 33, p. 35.

48 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 453.

49 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 454.

7.69 Basair Pty Ltd reported similar difficulties, saying:

Some of the people that we have had assigned to us as flight operations inspectors may interpret the rules slightly differently, and there are varying views on how those regulations should be interpreted. Perhaps the experience is not there. There is a well-known adage within the industry: if you do not get the answer you want the first time, go and talk to someone else.⁵⁰

7.70 Edge Aviation made similar comments about the lack of consistency of CASA's interpretation of the regulations, saying that different CASA officers interpreted the rules differently. It identified the flying operations inspectors in particular as a source of this inconsistency.⁵¹

7.71 Brindabella Airlines considered that as CASA changed the regulations it needed to train its staff and ensure they are fully conversant with existing and the new regulations:

The airworthiness or maintenance side of the approval [for upgrading its AOC from charter to RPT] was an absolute shambles.

As CASA change the regulations—and I have said this to CASA representatives—they need to be training their staff.

Particularly in airworthiness, you have people who, to be quite blunt, would not get a job as an aircraft engineer working for me but who are in there writing the rules and auditing the organisations.⁵²

7.72 CASA told the committee that all applicants must support their applications to conduct aviation-related activities with sufficient and appropriate evidence. It said that the cost and time that is incurred in gaining CASA's approval of an application is directly proportional to the quality of the submission. CASA's estimate of its charge for a service is based on a 'best case' scenario of a first class submission.⁵³

7.73 CASA provides interpretation of its regulations in what are called Aviation Rulings, Advisory Circulars and Civil Aviation Advisory Publications. However, these interpretations have a caution that says the operator should always have regard to the law and regulations rather than

50 Basair Australia Pty Ltd, transcript of evidence, Sydney, 12 June 2003, pp. 533.

51 Edge Aviation Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, pp. 205-206.

52 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 453, 457-458.

53 CASA, communication with committee, 29 October 2003.

the interpretation offered in the ruling. The reason given by CASA is that the ruling is one interpretation of the regulations as they apply in the particular situation explained in the ruling and as CASA understands the law from time to time.⁵⁴

- 7.74 When asked by the committee about the ‘inconsistency’ issue, CASA told the committee that it had implemented a range of initiatives to address the issue. These included aviation ruling systems and rewriting its manuals.⁵⁵ CASA has made its manuals available publicly through the web, centralised its decision making and tightened its internal procedures. It now has a business model and quality assurance accreditation with an international standards body.
- 7.75 With these measures in place, CASA can measure its performance, identify the source of any inconsistencies and take appropriate remedial action.⁵⁶
- 7.76 CASA also told the committee that the new manuals with a common set of rules enabled CASA to provide effective training to industry and its staff.⁵⁷
- 7.77 CASA explained the current issues that industry has with inconsistencies in CASA’s advice to industry arise from its suspension of regulation development whilst it completes the regulation reform program.⁵⁸
- 7.78 The committee considered that it is unacceptable for the regulator to provide substandard services that impose delays and costs on smaller regional airlines in particular. The committee noted however, that CASA is aware of the issue and is taking action to rectify the situation.
- 7.79 However, the committee considered that the effectiveness of the measures it employs should be audited regularly using independent and anonymous surveys of industry. The committee also considered that CASA should continuously train new and existing staff to improve the consistency of interpretation of the law and regulations across the organisation.

54 CASA Aviation Ruling 02/2003, <http://www.casa.gov.au>, last accessed 23 July 2003.

55 CASA, transcript of evidence, Canberra, 10 September 2003, p. 754.

56 CASA, transcript of evidence, Canberra, 8 October 2003, p. 19.

57 CASA, transcript of evidence, Canberra, 8 October 2003, p. 20.

58 CASA, transcript of evidence, Canberra, 8 October 2003, p. 20.

Recommendation 25

7.80 **The committee recommends that the Civil Aviation Safety Authority:**

- **Review its training processes to ensure consistency of the Civil Aviation Safety Authority’s interpretation of the law and regulations;**
- **Introduce an ongoing program of staff training in regulation interpretation to ensure improved consistency of the Civil Aviation Safety Authority’s interpretation of the law and regulations; and**
- **Regularly assess and record in its annual report, the levels of knowledge and competency of its staff in interpretation of the law and regulations.**

Industry consultation

7.81 The committee received evidence that CASA’s processes for changing regulations do not recognise the commercial realities. Small operators have very little time to consider the full implications of proposed changes. This means that they have limited time to provide constructive comment to CASA.⁵⁹

7.82 Furthermore, the committee was told that the regulations change frequently, lack clarity and often have significant cost implications. Also, an operator risks being put out of business if it accidentally discovers that it is non-compliant. Consequently, it is particularly difficult for small operators to plan their business with any certainty.⁶⁰

7.83 Basair Pty Ltd explained this situation to the committee:

I have [a] ... pile of documents ... sent to operators last year, and these are proposed changes to the whole way aviation operates in this country. If you asked for them, you received these documents and had about six weeks to read all the documents, digest the documents and then put a submission back to CASA about the entire future of the aviation industry. Admittedly, CASA extended

59 Basair Australia Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 532.

60 Basair Australia Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 532.

that time, but that was a completely unrealistic time frame to give the industry to digest such documents as these.⁶¹

- 7.84 The committee noted that the regulations are a significant factor influencing the regional aviation industry, and that a lack of awareness of future rules governing flight operations may compromise the economic viability of an airline.
- 7.85 The committee was not convinced that CASA's industry consultations have sufficient influence on its decisions regarding introducing changes to the regulations. The committee considered that if all parts of the industry did not view the consultation process as taking adequate account of their views then CASA's credibility with industry would suffer. In coming to this view, the committee noted that CASA has a leadership and educative role to more adequately explain the rationale behind its decisions to change the regulations to all parts of the industry.
- 7.86 The committee noted that CASA is conducting a wide ranging review and rewrite of its regulations to improve their clarity through its Regulatory Reform Program. Such a major exercise can be expected to generate a greater volume of regulation amendments than during CASA's normal periods of business.
- 7.87 CASA's Annual Report 2001-02 showed that it had recognised many of industry's concerns more than a year before the inquiry's public hearings. The annual report stated that:
- It has extended the timeframe for the completion of the rewrite of the regulation by some 15 months to December 2003;
 - Sixty five per cent of draft new sections of the regulations had been released;
 - The review of the Regulatory Reform Program confirmed the need for CASA to consult more effectively with industry on proposed regulatory changes; and
 - The implementation of regulatory reforms will be supported with greater industry education, promotion and training.
- 7.88 CASA surveys the satisfaction of the public and the industry and reports these in its Annual Report. CASA reported that the August 2001 industry satisfaction survey showed that the majority considered the general standard of air safety to be good. However, there was overwhelming support for the current regulations to be reviewed and overhauled

61 Basair Australia Pty Ltd, transcript of evidence, Sydney, 8 May 2003, pp. 531-532.

urgently. All those surveyed wanted the new regulations to be easier to understand, simple and effective, uniform and consistent, and aimed at improving air safety.⁶²

- 7.89 The committee noted that the reforms of CASA and its Regulatory Improvement Program are intended to deliver the outcomes for which industry is calling.
- 7.90 The committee also noted that CASA has introduced a safety systems awareness program to guide operators in the implementation of safety systems ahead of proposed legislative requirements.⁶³ CASA webcasts its conferences and workshops to provide operators with a more cost-effective way to hear the proceedings.⁶⁴ CASA also has other online resources such as safety quizzes to assist operators.⁶⁵
- 7.91 The committee considered that while CASA stated in 2002 that its processes involve greater engagement with industry, some smaller operators remain unsatisfied with what CASA is doing. This level of client satisfaction should be tested regularly and CASA should address industry's concerns where appropriate.

Recommendation 26

- 7.92 **The committee recommends that the Department of Transport and Regional Services:**
- **Conduct an annual confidential client satisfaction survey to test industry's satisfaction with the services that the Civil Aviation Safety Authority delivers, and assess compliance with its service charter; and**
 - **Publicly report the results of these surveys, ensuring that confidentiality is maintained.**

62 CASA Annual Report 2001-02, Part 1, <http://www.casa.gov.au>, last accessed 1 April 2003.

63 CASA Annual Report 2001-02, Part 1, <http://www.casa.gov.au>; CASA, transcript of evidence, Canberra, 8 October 2003, p. 7.

64 CASA media release, 4 March 2003, 'First on-line conference for regional aviation', <http://www.casa.gov.au>; CASA media release, 25 March 2003, 'Key safety conference back on-line', <http://www.casa.gov.au>, last accessed 24 June 2003.

65 CASA media release, 12 June 2003, 'Online air safety quiz', <http://www.casa.gov.au>, last accessed 24 June 2003.

A differential approach to firms in the industry

7.93 The committee received evidence that CASA has a differential approach to operators in the industry. Larger airlines such as Qantas, Virgin Blue and Rex appeared to have fewer difficulties in dealing with CASA compared to smaller airlines.

7.94 Basair's explanation of this was that CASA assigns senior and experienced officers to deal with larger airlines:

I can only assume that they assign people who are very well versed, are very senior and have many years of experience to airlines like Qantas and the larger regional airlines.⁶⁶

7.95 Qantas confirmed to the committee that it has a very good working relationship with CASA:

I would like to emphasise that we have a very strong and, I think, effective working relationship with the relevant government bodies involved in those safety and operational areas ... we do not have difficulties with CASA's operations.⁶⁷

7.96 Virgin Blue also confirmed that after a difficult start with CASA and having worked hard to build its relationship, it now had a good working relationship with CASA. Virgin Blue described this as follows:

... we have a good working relationship with CASA. It would not be unknown that we had a bit of bumpy start on the first day when we got going, but since then we have really tried to work with CASA.⁶⁸

7.97 Some smaller airlines such as Air Link Pty Ltd and Macair Airlines also have a very good working relationship with CASA. Airlink said:

I have been dealing with CASA for 18 years ... but we have never had too much difficulty at all.⁶⁹

66 Basair Australia, transcript of evidence, Sydney, 8 May 2003, pp. 533-534.

67 Qantas Airways Ltd, transcript of evidence, Sydney, 8 May 2003, p. 483.

68 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, p. 722.

69 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 552.

7.98 Macair said it manages its business to the required standards⁷⁰ and consequently:

As a company we enjoy a very good relationship with CASA on [an] operational basis.⁷¹

7.99 The committee found that operators who followed the regulations, and did not question or object to regulations or the way CASA conducted its business, had fewer difficulties than other operators. As Air Link put it:

... one of the problems is that a lot of operators begin to fight the change before they have really looked at it to see how it might benefit them.⁷²

7.100 The priority that CASA accords to certain sectors of the industry is based on its risk management approach to managing aviation safety. This approach is founded on aviation safety statistics which CASA appears to interpret as reflecting the level of maturity in the 'attitude' and 'culture' that the different sectors have to safety. This was born out by evidence taken by the *Seaview* inquiry of 1996 that pointed to the company's attitude to safety and regulation as contributing to the accident.⁷³

7.101 Further evidence of factors contributing to the safety culture in different sectors of the industry was provided by the *Plane Safe* inquiry report of 1995 which discussed the relationship between operator profitability and safety. The report said that higher operating margins appeared to be correlated with lower accident rates. Equally, lower margins would be expected to be correlated with higher accident rates.⁷⁴ This suggested that companies with lower operating margins used unsafe practices and pressured pilots to compromise safety in an effort to remain financially viable.

70 Macair Airlines, transcript of evidence, Brisbane, 11 June 2003, p. 601.

71 Macair Airlines, transcript of evidence, Sydney, 11 June 2003, p. 601.

72 Air Link Pty Ltd, transcript of evidence, Sydney, 8 May 2003, p. 552.

73 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 3-4, 7-8; Commonwealth of Australia, 'Commission of Inquiry into the Relations Between the CAA and Seaview Air, Report of the Commissioner', Volume 1, September 1996, p. 64.

74 House of Representatives Standing Committee on Transport, Communication and Infrastructure (1995), *Plane Safe, Inquiry into Aviation Safety: the commuter and general aviation sectors*, Australian Government Publishing Service, Canberra, pp. 54-57.

7.102 CASA's Safety Maturity Curve expresses the correlation between industry maturity and safety.⁷⁵ At the bottom left of the safety maturity curve are typically small marginal operators which are described as lacking a mature attitude to safety and having a low level of safety. At the top right of the curve are the larger domestic airlines which are described as having a mature attitude to safety and a corresponding high level of safety.



7.103 To highlight the rationale for its risk management approach, CASA told the committee that, according to ATSB statistics, the accident rate for the charter sector of the industry was five to seven times greater than the RPT sector (a total of 375 accidents compared with 50 accidents respectively over the past 10 years). In contrast, the private/business sector has an even higher incidence of accidents (a total of 852 accidents over the past 10 years).⁷⁶

75 CASA, exhibit no. 6.

76 CASA, transcript of evidence, Canberra, 8 October 2003, pp. 7-8; Australian Transport Safety Bureau, 'Aviation Safety Indicators 2002', pp. 5, 28-30; CASA, transcript of evidence, Canberra, 8 October 2003, pp. 7-8.

- 7.104 The committee noted that the statistics show that the accident rate for general aviation, which includes agriculture, charter, flying training, other aerial work and private/business, had declined significantly over the past 10 years, and this had lowered the overall accident rate and fatal accident rate for the whole industry. The average annual rate of decline in accidents and fatalities was seven and eight per cent respectively.⁷⁷ This could reflect the positive influence of CASA on aviation safety.
- 7.105 The committee agreed that, based on aviation safety indicators, CASA's risk management approach was reasonable.

Attitude of CASA's officers

- 7.106 Allegations of CASA officers having a vindictive attitude to smaller operators was presented in written and verbal evidence.⁷⁸
- 7.107 Brindabella Airlines' Jeff Boyd told the committee that he expected some retribution from CASA for what he had told the committee and for his assertiveness in resolving his airline's AOC issue with the Minister's help:
- We will get undue attention—there is no doubt about that ... Because, as you said, there is a vindictive attitude in there. People are people, and there are people in there with a vindictive attitude—so we will get singled out ... The undue attention that I think we get, and will continue to get, is from the airworthiness side.⁷⁹
- 7.108 Anecdotal evidence from Ord Air of Western Australia suggested that CASA paid undue attention to Ord Air after its owner questioned some of CASA's decisions. The undue attention took the form of frequent 'ramp' inspections by CASA. Some of these inspections were conducted in the presence of passengers, which had the effect of diminishing the airline's reputation.⁸⁰ Ord Air ceased trading in January 2000 after 30 years of operation.⁸¹

77 Australian Transport Safety Bureau, 'Aviation Safety Indicators 2002', pp. 5, 28- 30; CASA, transcript of evidence, Canberra, 8 October 2003, pp. 7-8.

78 Paul Bredereck, submission no. 42, p. 3.

79 Brindabella Airlines, transcript of evidence, Wagga Wagga, 7 May 2003, p. 456.

80 Maxine Reid, transcript of informal discussions, Alice Springs, 6 November 2002, pp. 6-16

81 Australian Regional Airlines Index – N to R, <http://users.chariot.net.au/~theburfs/regional4.html>, last accessed 25 July 2003.

- 7.109 The SBS program *Insight* of 17 July 2003 provided allegations of CASA's vindictive attitude towards the managing director and chief pilot of the former large aviation charter company, Schutt Aviation, Mr Stan van der Weil. Mr van der Weil told *Insight* that CASA forced him out of business because he challenged CASA over its delay in responding to the December 1999 fuel contamination incident.⁸²
- 7.110 Mr van der Weil said that CASA's response to his action was to inspect his aircraft up to six times per day. Schutt Aviation's competitors were not inspected for weeks or months in the same period.⁸³
- 7.111 Paul Rees and Ken Cannane gave evidence that CASA had not followed due process, took a long time to respond to issues and had ignored critical pieces of evidence in reaching a decision that impacted on the future of airlines.⁸⁴
- 7.112 The *Plane Safe* inquiry also found that CASA had a vindictive attitude in some instances. To improve CASA's accountability, that inquiry recommended that:
- ... industry associations be asked to encourage their members to take their complaints of victimisation by officers of the Civil Aviation Safety Authority to the Commonwealth Ombudsman.⁸⁵
- 7.113 CASA told the committee that its centralised decision making was intended to address the issue of vindictiveness. However, it said that it could not guarantee that CASA officers did not intimidate operators.⁸⁶ There are two possible interpretations from this. Either, CASA's central office directed its regional staff to conduct ramp inspections and other actions designed to intimidate and frustrate operators. Alternatively, CASA was unaware of, and unable to exercise sufficient control over, the behaviour of some of its regional staff.

82 SBS program 'Insight', 17 July 2003.

83 SBS program 'Insight', 17 July 2003.

84 Paul Rees, submission no. 78, pp. 2-3; Paul Rees, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 467-469; Paul Rees, submission no. 191; Ken Cannane, correspondence with secretariat, 12 May 2003.

85 House of Representatives Standing Committee on Transport, Communication and Infrastructure (1995), *Plane Safe*, Inquiry into Aviation Safety: the commuter and general aviation sectors', Australian Government Publishing Service, Canberra, pp. 128, 131.

86 CASA, transcript of evidence, Canberra, 10 September 2003, p. 757; CASA, transcript of evidence, Canberra, 8 October 2003, p. 2.

- 7.114 The communication and interpersonal skills of CASA's technical officers may have contributed to the difficulties experienced by operators. In addressing this issue, CASA told the committee that the communication skills of its staff that deal with industry could be better. CASA's explanation of this was that it draws most of its staff from the aviation industry, and that the interpersonal communication skills of these recruits are not their strongest attribute.⁸⁷
- 7.115 CASA told the committee that it will take action if it receives an allegation from industry concerning the professional conduct of its officers, provided that it believes there is significant truth in the allegation.⁸⁸
- 7.116 The committee noted that the *Civil Aviation Amendment Act 2003* gives effect to a number of reforms, some of which focus on procedural fairness and enhance natural justice.⁸⁹
- 7.117 One of these reform measures is an automatic stay of a CASA decision to suspend, vary or cancel a civil aviation authorisation such as an AOC, licence or certificate where there is no immediate risk to air safety. A second reform measure is a demerit points system for more minor breaches of the regulations.⁹⁰
- 7.118 The automatic stay enables people affected by CASA's administrative decisions the opportunity to argue their cases before an independent arbiter – either the Federal Court or the Administrative Appeals Tribunal.⁹¹ This measure also allows the operator to continue conducting its business while the issue is being resolved.
- 7.119 In addition to the measures introduced by the *Civil Aviation Amendment Act 2003*, the committee noted that there are several avenues available to an individual to resolve an issue that they may have with a government body such as CASA. The avenues are as follows:

87 CASA, transcript of evidence, Canberra, 8 October 2003, p. 22.

88 CASA, transcript of evidence, Canberra, 8 October 2003, p. 2.

89 Media release, the Hon John Anderson MP, Minister for Transport and Regional Services, 9 October 2003, A119/2003, 'CASA Reform Bill Passed in Parliament'; The Parliament of the Commonwealth of Australia, House of Representatives, 'Civil Aviation Amendment Bill 2003, Explanatory Memorandum'.

90 Media release, the Hon John Anderson MP, Minister for Transport and Regional Services, 9 October 2003, A119/2003, 'CASA Reform Bill Passed in Parliament'; The Parliament of the Commonwealth of Australia, House of Representatives, 'Civil Aviation Amendment Bill 2003, Explanatory Memorandum'.

91 Media release, the Hon John Anderson MP, Minister for Transport and Regional Services, 9 October 2003, A119/2003, 'CASA Reform Bill Passed in Parliament'.

- The complainant can attempt to resolve the matter with CASA on an individual basis. CASA has an Internal Ombudsman to deal with matters of serious impropriety. The Internal Ombudsman can give an opinion about whether a decision was arrived at in a proper manner. The Internal Ombudsman reports to the Director of Aviation Safety;⁹²
- The complainant can take the matter to the local Member of Parliament, Parliamentary committees, the Minister or DOTARS;⁹³
- The complainant can take the matter to the Commonwealth Ombudsman if it considers CASA's actions and decisions are wrong, unjust, unlawful, discriminatory or unfair.⁹⁴ The *Ombudsman Act 1976* sets out the grounds for an investigation.⁹⁵ The Ombudsman may decide not to investigate a matter until the complainant has complained to the agency concerned about the matter;⁹⁶
- Criminal matters can be referred to the Australian Federal Police;⁹⁷
- The freedom of information legislation enables a complainant to obtain relevant documents pertaining to the administrative decision;⁹⁸
- The administrative decisions legislation enables a person affected by an administrative decision to obtain a statement of reasons for the decision from the person who made the decision (sections 13 and 28 of the Act). However, there are classes of decisions to which this section (s. 13) of the Act does not apply.⁹⁹
 - ⇒ Under the *Civil Aviation Amendment Act 2003*, in circumstances of a breach of the regulations where there is not a serious or imminent risk to aviation safety, CASA must provide an operator with a statement of reasons why it is considering making the decision; and

92 CASA Industry Delegates and Authorised Persons Management Manual, 1.5.4, <http://www.casa.gov.au>, last accessed 24 September 2003.

93 CASA '2001 Service Charter', <http://www.casa.gov.au>, last accessed 21 August 2003; CASA, transcript of evidence, Canberra, 8 October 2003, p. 2.

94 Commonwealth Ombudsman website, <http://www.comb.gov.au>, last accessed 25 July 2003.

95 *Ombudsman Act 1976*, s 15.

96 *Ombudsman Act 1976*, s 6(1A).

97 CASA, transcript of evidence, Canberra, 8 October 2003, p. 2.

98 *Freedom of Information Act 1982*.

99 *Administrative Decisions (Judicial Review) Act 1977*, s. 13.

- The complainant could refer the matter to the Administrative Appeals Tribunal¹⁰⁰, the Federal Court or the Federal Magistrates Court.¹⁰¹ The *Civil Aviation Act 1988* (s. 31) provides for applications to be made to the Administrative Appeals Tribunal to review 'reviewable decisions'.
- 7.120 The committee noted that CASA's service charter specifies the complaints-handling process that clients can pursue.¹⁰² CASA's 'Enforcement Manual' also sets out the appeal mechanisms available to a person affected by a decision by CASA.¹⁰³
- 7.121 The committee noted the limitations inherent in these remedies and considered that CASA should do more to address some of the difficulties industry has in dealing with it by training its staff in better ways to manage customers. This would be part of CASA reforming its corporate image to one of aviation safety leader and educator. This is discussed in greater detail later in the chapter.
- 7.122 Furthermore, the committee considered that industry associations and individuals had every right to pursue complaints with an independent appeals or review body. The committee is of the opinion that complaints made to the Commonwealth Ombudsman may not have satisfactory outcomes for aviation industry complainants, due to the complex nature of the aviation sector and its regulations. The committee recognises that such skill-specific industry complaints need to be dealt with by an appeals or review body that has the appropriate skills and expert knowledge. Consequently, the committee strongly recommends the establishment of an independent Aviation Ombudsman.

100 *Administrative Appeals Tribunal Act 1975*, s. 28.

101 *Administrative Decisions (Judicial Review) Act 1977*, s. 5.

102 CASA '2001 Service Charter', <http://www.casa.gov.au>, last accessed 21 August 2003.

103 CASA, 'Enforcement Manual', <http://www.casa.gov.au>, last accessed 30 October 2003.

Recommendation 27

7.123 The committee recommends that:

- The Civil Aviation Safety Authority provide customer relations management training to its staff, particularly those in regional offices;
- The Commonwealth establish an Aviation Ombudsman, and ensure that this position is filled by an appropriately skilled person, to consider all aviation industry related complaints; and
- The duties of the Aviation Ombudsman would include, in addition to examining operational complaints, conducting independent surveys of industry, ensuring that the confidentiality of respondents is maintained. These surveys would assess the effectiveness of the Civil Aviation Safety Authority's measures to improve the consistency of its interpretation of aviation regulations.

CASA's future role: enforcer or leader

7.124 The committee heard the concerns of a number of witnesses that CASA has a culture of policing the regulations rather than educating the industry. A sample of some of these concerns is provided.

7.125 Edge Aviation said that CASA could improve its service delivery if it concentrated more on education than on enforcement:

I think CASA could probably have a bit more of a capacity to learn from the industry. More recently CASA have lost their capacity, their ability or their willingness to educate, not just regulate.¹⁰⁴

104 Edge Aviation, transcript of evidence, Tullamarine, 26 February 2003, p. 206.

7.126 The Champions of the Bush told the committee that CASA behaves as the aviation safety police whereas previously:

... [in the old days] there was a great depth of experience at CASA, and that experience was very readily available. When the experienced flight operations inspector came into a small airline, he was willing to provide guidance and assistance. The attitude now seems to be, 'We are the regulator, we are the policeman; it is not appropriate for you to do that, so just go and look, and don't say anything'.¹⁰⁵

7.127 Paul Rees said:

Now CASA's attitude is that it is not there to assist; it is there to regulate. My argument has always been that you do not force people to do things; you lead them to do them. If you cannot lead them to do something, then you should not be doing it at all ... A lot of people are saying that the field staff have to be brought up to speed. Leadership starts at the top and works down; it does not start at the bottom and work up.¹⁰⁶

7.128 The RAAA said that CASA should be more of a leader and educator than an enforcer of regulations:

I believe there are better opportunities for CASA to be more interactive with the operators at a lower level, rather than being the policeman. I think they should be looking to move in with a lot of these operators—almost have their local man on the ground and take them by the hand and lead them through that safe culture that they need and that this country will need at the end of the day.¹⁰⁷

7.129 The committee formed the view that CASA's emphasis on policing aviation safety rather than educating operators appeared to have developed relatively recently and arose from the *Plane Safe* inquiry of 1995 and *Seaview* inquiry of 1996.

105 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 223.

106 Paul Rees, transcript of evidence, Wagga Wagga, 7 May 2003, pp. 463-471.

107 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 713

7.130 In coming to this view, the committee noted an observation in the *Plane Safe* inquiry report that:

The committee believes that this ‘accountability to the aviation industry’ approach could be [an] explanation for some shortcomings of the [Civil Aviation Authority] CAA in the performance of its duties.¹⁰⁸

7.131 The *Plane Safe* inquiry report went on to say:

The Civil Aviation Authority was never captured by the industry. On the contrary, the regulator offered itself as a willing captive.¹⁰⁹

7.132 The *Seaview* inquiry provided evidence indicating ‘institutional timidity’ in the then Civil Aviation Authority (CAA) against taking strong action for transgressions by the aviation industry. The then CAA accepted this observation and asked for the Commission of Inquiry to:

... give clear and unequivocal support for the view that regulatory staff are entitled to and should take strong action against contravention of safety regulations.¹¹⁰

7.133 The *Seaview* inquiry went on to provide the regulator with a clear role to protect the travelling public by saying that:

The travelling public has a right to expect that their safety will be protected by the regulatory body.¹¹¹

7.134 Evidence presented to the committee in this inquiry indicates that the industry considers that the policing of aviation safety currently has preeminence for CASA.

7.135 Nevertheless, CASA believes it has recognised industry’s need for greater consultation in regulation changes and guiding industry in the implementation of changes by its Regulatory Reform Program and Regulatory Reform Program Implementation.

108 House of Representatives Standing Committee on Transport, Communication and Infrastructure (1995), ‘*Plane Safe*, Inquiry into Aviation Safety: the commuter and general aviation sectors’, Australian Government Publishing Service, Canberra, p. 24.

109 House of Representatives Standing Committee on Transport, Communication and Infrastructure (1995), ‘*Plane Safe*, Inquiry into Aviation Safety: the commuter and general aviation sectors’, Australian Government Publishing Service, Canberra, p. 24.

110 Commonwealth of Australia, ‘Commission of Inquiry into the Relations Between the CAA and Seaview Air, Report of the Commissioner’, Volume 1, September 1996, pp. 3-4.

111 Commonwealth of Australia, ‘Commission of Inquiry into the Relations Between the CAA and Seaview Air, Report of the Commissioner’, Volume 1, September 1996, p. 4.

- 7.136 CASA's service charter states that industry leadership and education are cornerstones of its role as the aviation safety regulator.¹¹²
- 7.137 However, the committee considered that reforming the regulations and addressing an organisational culture of policing are separate issues, needing different remedies. Culture can be a difficult thing to change quickly. One indicator of a dysfunctional relationship between industry and the regulator is the evidence of an endemic distrust of CASA in the industry. This distrust has developed over time as suggested by the *Plane Safe* inquiry that found:
- ... rampant distrust between the regulator and certain sections of the industry and within CAA/CASA itself'.¹¹³
- 7.138 In light of this history, the committee formed the opinion that to deliver aviation safety outcomes, the regulator has the dual roles of leading firms in the industry to adopt a safety culture, and of enforcing the regulations.
- 7.139 The committee considered that CASA should initiate a continuing process of improving the way it interacts with industry to improve its effectiveness in achieving aviation safety outcomes. As part of achieving this, CASA should reform its corporate image to one of aviation safety leader and educator.
- 7.140 However, in coming to this conclusion, the committee cautioned against CASA again becoming a 'captive of the industry' again. The committee recognised that a strong, effective and credible regulator is essential for the industry. The committee considered that CASA should aim to strike the right balance between fostering a culture of safety in the industry and policing the regulations to achieve aviation safety outcomes.
- 7.141 To test that this was occurring, the committee considered that there was a need for regular independent monitoring and assessment of CASA's performance, and of its implementation of recommended changes.
- 7.142 The committee noted that the Australian National Audit Office (ANAO) provides an independent view of the performance and financial management of public sector agencies and bodies.

112 CASA '2001 Service Charter', <http://www.casa.gov.au>, last accessed 21 August 2003.

113 House of Representatives Standing Committee on Transport, Communication and Infrastructure (1995), *Plane Safe, Inquiry into Aviation Safety: the commuter and general aviation sectors*, Australian Government Publishing Service, Canberra, pp. 109, 123.

- 7.143 To achieve its audit outcomes of improving public administration and assurance, ANAO conducts a range of audits including performance audits, assurance audits, and other audit and related reports. As part of this service, ANAO can develop better practice guides. ANAO tables its audits in the Parliament to enable public scrutiny of the activities of public sector agencies and bodies.¹¹⁴
- 7.144 Notwithstanding the importance of the Aviation Ombudsman in dealing with individual aviation complaints, the committee considered that ANAO should audit CASA on the broad issues identified in this report.
- 7.145 Accordingly, the committee recommends that ANAO audit CASA periodically to ensure that CASA is achieving its outcomes and implementing the recommendations of this committee. Of particular concern to the committee is the auditing of CASA's performance management and service delivery.

114 Australian National Audit Office (ANAO), 'About Us', <http://www.anao.gov.au>, last accessed 25 September 2003; ANAO, 'Audit Work Program 2003-2004', July 2004, <http://www.anao.gov.au>, last accessed 25 September 2003.

Recommendation 28

7.146 **The committee recommends that:**

- **The Civil Aviation Safety Authority, in addition to enforcing aviation safety compliance, place greater focus on activities to assist industry players in complying voluntarily with the regulations; and**
- **The Australian National Audit Office periodically audit and report to Parliament on the Civil Aviation Safety Authority's:**
 - ⇒ **compliance with its service charter;**
 - ⇒ **fulfilment of fostering a culture of safety in the industry;**
 - ⇒ **policing the regulations to achieve aviation safety outcomes; and**
 - ⇒ **provision of information and education services provided jointly with the industry.**

Paul Neville MP

Committee Chair

6 November 2003



Appendix A – List of submissions

Number	Organisation
8	Adelaide/Parafield Airports
94	Air Link Pty Ltd
161	Aircraft Owners and Pilots Association of Australia
102	Airnorth Regional
119	Airservices Australia
114	Allison, Judy
15	Alternate Dwellings Pty Ltd
70	Australian Airports Association
135	Australian Customs Service
108	Australian Local Government Association
68	Bankstown City Council
147	Barcaldine and Blackall Shire Councils
85	Basair Australia
72	Bathurst City Council
17	Baulkham Hills Shire Council

117	Bean, Mr Andrew
61	Bega Valley Shire Council
6	Bencke, Mr Rod
27	Bland Shire Council
18	Blyth, Ms Kay
145	Boyes, Ms Joan
42	Bredereck, Mr Paul
166	Brohier, Mr Peter
192	Brohier, Mr Peter [supplementary submission]
178	Brohier, Mr Peter [supplementary submission]
54	Bryson, Ms Fran
96	Bundaberg City Council
77	Burdekin Shire Council
41	Bushby, Mrs Jane
144	Cabonne Council
134	Canberra International Airport
170	Cape York Helicopters
62	CEO Collegiate Pty Ltd
99	Champions of the Bush
37	City of Albury
168	City of Ballarat
124	City of Bunbury
167	Civil Aviation Safety Authority
180	Clark, Mr Neil Jameson
66	Cobham, Mr Marc
98	Cocos (Keeling) Islands Shire Council
12	Code, Grahame & Lynda
141	Coffs Harbour City Council

34	Cohen, Mrs Barbara
129	CONFIDENTIAL
51	Country Women’s Association of New South Wales
90	Cowra City Council
100	Cox, L J & C D
149	Cradle Coast Authority
9	Dalby Wambo Aerodrome Board
38	Deniliquin Council
150	Western Australian Government
154	Department of Agriculture, Fisheries and Forestry – Australia
160	Department of Foreign Affairs and Trade
159	Department of Industry, Tourism and Resources
81	Department of Transport and Regional Services
22	District Council of Coober Pedy
181	District Council of Elliston
69	District Council of Grant
173	District Council of Le Hunte
16	District Council of Renmark Paringa
39	Dubbo City Council
57	E M Bowman & Co. Pty Ltd
92	East Gippsland Shire Council
65	Edge Aviation (Aust)
11	Entsch, Mr Ronald H
48	Eurobodalla Shire Council
89	Fairfield City Council
110	Flinders Council
36	Flinders Island Adventures
59	Flinders Island Quality Meats

127	Flinders Island Tourism Association
165	Flinders Island Tourism Association [supplementary submission]
50	Flinders Red Travel
88	Forbes Shire Council
156	Foulkes, Mr Stephen
120	Fraser Coast Development Council
136	Furneaux Enterprise Centre
128	Gordon WDA, Mr Robert J
163	Great Barrier Reef Airport – Hamilton Island
122	Gunnedah Shire Council
157	Hastings Council
105	Henwood, Mrs Olga
106	Henwood, Ms Frances
186	Hervey Bay City Council
29	Humphries, Mr Geoff
33	Humphries, W
71	Hunter Business Chamber
133	Hunter Economic Development Corporation
2	Hyndman, Mr Ian
19	Intergrity Aircraft
175	Integrity Aircraft [supplementary submission]
184	Inverell Shire Council
64	Ipswich City Council
177	Ipswich City Council [supplementary submission]
125	Jindabyne Chamber of Commerce
83	Kangaroo Island Council
164	Kangaroo Island Development Board
171	Kangaroo Island Ferry Services Pty Ltd

169	Kangaroo Island Regional Plantation Committee
130	Katherine Town Council
60	Kempsey & District Chamber of Commerce & Industry Inc.
162	Kempsey Shire Council
132	King Island Council
21	King Island Gem
86	Lake Macquarie City Council
25	Latrobe City
82	Launceston Chamber of Commerce
104	Lees, Jan & Ady
103	Lees, Mr Jason
74	Leeton Shire Council and Narrandera Shire Council
187	Legislative Assembly Norfolk Island
32	Lipski, Jadwiga & Wojciech
84	Lismore City Council
109	Local Government Association & Shires Association NSW
113	Local Government Association of Tasmania
87	Local Government Association of the Northern Territory
185	Loipune Cooperative
76	Macair Airlines Pty Ltd
26	Mackay City Council
5	Mackay Port Authority
123	Maryborough City Council
118	McKenzie, Bruce & Pat
4	Middap, Mrs Maxine
91	Mildura Rural City Council
7	Mulherin, M.P. Mr Tim
97	Napier MHA, Hon Sue

139	National Farmers' Federation
151	New South Wales Government
49	Newcastle Airport
131	Newcastle City Council
190	Nguiu Ullintjinni Association Inc.
3	Nhulunbuy Corporation Limited
1	Northern Areas Council
172	Northern Areas Council [supplementary submission]
79	Northern Tasmanian Regional Development Board Ltd
101	Northern Territory Department of Infrastructure, Planning and Environment
179	NSW Farmers' Association
58	Nugent, J B & P M
138	Orange City Council
44	Owens-Brownbill, Mr P James
137	Parkes Shire Council
73	Partridge Farm
10	Penfold, M.P. Mrs Liz
146	Qantas Airways Ltd
183	Qantas Airways Ltd [supplementary submission]
174	Qantas Airways Ltd [supplementary submission]
153	Queensland Government
78	Rees, Mr Paul
191	Rees, Mr Paul [supplementary submission]
93	Regional Aviation Association of Australia
47	Regional Chamber of Commerce
116	Regional Express
67	Reilly, M J
152	Riverina Eastern Regional Organisation of Councils

121	Rockhampton City Council
80	Scone Shire Council
188	SeaLink Kangaroo Island
56	Shannon Coastal Cottages
24	Shire of Derby/West Kimberley
14	Shire of Glenelg
75	Shire of Greenough
13	Shire of Plantagenet
46	Shire of Warwick
43	Shrubb, D G
30	Smith, Mr Dick
107	Snowy River Shire Council
148	South Australian Government
140	South East Australian Transport Strategy Inc
112	Southern Grampians Shire Council, City of Warrnambool and Moyne Shire Council
158	Sydney Airports Corporation Limited
176	Sydney Airports Corporation [supplementary submission]
95	Tamworth City Council
35	Tasair Pty Ltd
155	Tasmanian Government
143	The Administration of Norfolk Island
23	The Parish of the Furneaux Islands
189	Tiwi Islands Local Government
63	Toowoomba City Council
142	Tourism Council Tasmania
182	Virgin Blue
40	Walker, Mr Gerard
53	Wave Watcher Holiday Units

126	Wellington Shire Council
31	Wells, B W
111	Western Sydney Alliance
55	Wheatley, Alan & Margaret
20	Whyalla City Council
28	Willis, Mrs J
115	Wilson, Robyn
45	Woodward, Mr Peter W
52	Yallaroi Shire Council



Appendix B – List of exhibits

- 1 'Review and Assessment of the Effectiveness of Air Services in Western Australia' tabled by Mr Forte, Australian Airports Association, at a public hearing in Melbourne on 26 February 2003
- 2 Correspondence from the Australian Airports Association, 3 March 2003, with a document *Budget Planning and Financial Analysis*.
- 3 Correspondence from Mr Jack Moore, Champions of the Bush, 7 March 2003, with additional information on Balancing Adjustments and Investment Allowances.
- 4 E-mail from Mr Doug Berry, Department of Industry and Resources Tasmania, 13 March 2003, providing additional information and responses to questions taken on notice.
- 5 Correspondence from the Northern Tasmanian Regional Development Board, 18 March 2003, providing responses to questions taken on notice.
- 6 'Safety Maturity Curve' tabled by Mr Toller, at the round table discussion in Adelaide on Monday, 14 April 2003.
- 7 Airfares paper, tabled by Mr Furniss, at a public hearing in Kangaroo Island on Tuesday, 15 April 2003.

- 8 Presentation notes from the Kangaroo Island Development Board, tabled by Mr Furniss at a public hearing in Kangaroo Island on Tuesday, 15 April 2003.
- 9 ‘Kangaroo Island Ferry Links Issues Paper, March 2003’, tabled by Mr Milln at a public hearing in Adelaide on Wednesday, 16 April 2003.
- 10 Presentation by the Whyalla City Council, tabled by Mr Smith, at a public hearing in Adelaide on Wednesday, 16 April 2003.
- 11 Documents tabled by Mr Smith, at a public hearing in Adelaide on Wednesday, 16 April 2003:
- Letter about Emu Airlines from the City of Port Lincoln to Whyalla City Council;
 - Letter about air services from District Council of Le Hunte to Whyalla City Council;
 - Letter from District Council of Cleve to Whyalla City Council.
- 12 “*Advisory Opinion, Review of Rates of Assistance, 30 November 1996*” presented by Cr Neil Graham of King Island Council at a public hearing in Melbourne on 26 February 2003. Authorised by the committee on Wednesday, 14 May 2003.
- 13 Correspondence relating to Whyalla Aerodrome pavement strengthening presented to the committee by the City of Whyalla. Authorised by the committee on Wednesday, 14 May 2003.
- 14 Correspondence from the Civil Aviation Safety Authority Australia, with a document ‘*Survey of public attitudes to aviation safety*’, providing additional information and responses to questions taken on notice at the round table discussion in Adelaide on Monday, 14 April 2003.

- 15 Document '*NSW Air Transport Summit Working Party, submission to The Australian Transport Councils Aviation Working Group review of costs impacting on small regional airlines*', tabled by the New South Wales Government at a public hearing in Sydney on Thursday, 8 May 2003.
- 16 Document headed *Air Safety Australia* of 5 May 2003 tabled by Mr Watson and authorised by the committee on Wednesday, 8 May 2003.
- 17 Correspondence from Ms Liz Penfold MP, 28 May 2003, providing responses to questions taken on notice at the public hearing in Adelaide on 14 April 2003 and authorised by the committee on Wednesday, 4 June 2003.
- 18 Documents tabled by Mr Dick Smith at the public hearing on Wednesday, 4 June 2003 in Canberra and authorised by the committee.
- 19 A spreadsheet of statistics on airport charges presented by Mr Doug Press, Airport Manager at Rockhampton Airport on 11 September 2002.
- 20 Airport survey tabled by Mr Shearing at a public hearing in Sydney and authorised by the committee on Wednesday, 8 May 2003.
- 21 Documents tabled by the Mackay Port Authority at a public hearing in Brisbane and authorised by the committee on Wednesday, 11 June 2003.
- 22 Document '*Performance Benchmarking*', tabled by the Airservices Australia at a public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 23 Document '*A Measured Approach to Aviation Safety Reform*', tabled by the Airservices Australia at a public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 24 Document '*Cumulative Real Price Savings*', tabled by the Airservices Australia at a public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.

- 25 Document '*Aviation Rescue and Firefighting Benchmarking*', tabled by the Airservices Australia at a public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 26 Document '*ARFF Facts and Figures*', tabled by the Airservices Australia at a public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 27 Document '*Are there differences between the cost structures of small and large regional airlines?*' tabled by the Airservices Australia at the public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 28 The following documents tabled by the Queensland at the public hearing in Brisbane and authorised by the committee on Thursday, 12 June 2003.
- 'Queensland Aviation Strategy'*
'Queensland Airports and Regulated Air Transport Plan'
'Queensland Commercial and Tourism Aviation Plan'
'Queensland Aerospace Industry Development Plan'
- 29 Document 'Statement by Mr Peter Brohier on Bass Strait transport' received as an exhibit and authorised for publication by the committee on Wednesday, 25 June 2003.
- 30 Discussion paper '*Model to establish a community based regional air service for margin air routes*' presented by Mr Paul Bredereck on 12 June and authorised by the committee on Wednesday, 25 June 2003.
- 31 Answers to questions taken on notice by Airservices Australia at the public hearing on 12 June in Brisbane. Received on 1 August and authorised by the committee on Wednesday, 13 August 2003.
- 32 Additional information provided by DOTARS in relation to evidence provided at the public hearing on 12 June in Brisbane. Received on 30 June and authorised by the committee on Wednesday, 13 August 2003.

- 33 Document '*Independent Business Review of CASA's processes in providing Regulatory Services to General Aviation and Low Capacity RPT Operators*', Final Version 12 August 2003, tabled by the Civil Aviation Safety Authority was received and authorised for publication at the public hearing on Wednesday, 8 October 2003.
- 34 Letter distributed to Charter Operators and CD titled '*CASA consultation documents*' tabled by the Civil Aviation Safety Authority was received and authorised for publication at the public hearing on Wednesday, 8 October 2003.



Appendix C – List of public hearings

Wednesday, 6 November 2002 - Alice Springs

Individuals

Mrs Maxine Reid

Aboriginal Air Services Pty Ltd

Mr Michael Higgins, Coordinator

Barcaldine Shire Council

Mr Mark Crawley, Chief Executive Officer

Emerald Shire Council

Cr Peter Maguire, Mayor

Eyre Peninsula Local Government Association

Mr John Smith, Chairman

Gunbalanya Community Government Council

Mr Kristof Dietze, Chief Executive Officer

Hinchinbrook Shire Council

Mr Keith Phillips, Mayor

Johnstone Shire Council

Cr Barry Moyle, Mayor

Katherine Town Council

Mr Terry Buss, Chief Executive Officer

Local Government Association of the Northern Territory

Mr Peter McLinden, Manager, Transport and Infrastructure Services

Minjilang Community Inc.

Mr Samuel Bush Blanas, Deputy Chair

Ms Heather Smith, Chief Executive Officer

Ngaanyatjarraku Shire

Mr Damian McLean, President

Shire of Cocos (Keeling) Islands

Mr Robert Jarvis, Chief Executive Officer

Shire of Derby/West Kimberley

Cr Christopher Kloss, Councillor

Mr Jonathan Throssell, Chief Executive Officer

Monday, 24 February 2003 - Launceston**Individuals**

The Hon. Donald Wing MLC, President, Legislative Assembly

Business North

Mr Russell Reid

Cradle Coast Authority

Mr Roger Jaensch, Chief Executive Officer

Department of Infrastructure, Energy and Resources (Tasmania)

Mr Doug Barry, Acting Manager, Transport Logistics Branch,
Infrastructure Policy Division

Launceston Chamber of Commerce

Ms Josephine Archer, Executive Officer

Local Government Association of Tasmania

Mr Geoffrey Brewster, Member Council Representative

Parliament of Tasmania

Hon Sue Napier MHA, Past Shadow Minister for Transport

Tuesday, 25 February 2003 - Flinders Island**Anglican Parish of the Furneaux Islands**

Rev. Bob Witten

E M Bowman & Co. Pty Ltd

Mrs Lois Ireland, Flinders Island Tourism Association

Flinders Council

Mr Anthony Bickford, Finance and Administration Manager

Cr. Helen Cooper, Mayor

Cr. Terence Klug, Deputy Mayor

Flinders Island Adventures

Mrs Lindsay Luddington, Owner/Operator Partner

Flinders Island Cabin Park

Mr Gerard Walker, Owner/Manager

Flinders Island Council

Mr Lee Connors, General Manager

Flinders Island Quality Meats

Mr John Chapman, Managing Director

Flinders Island Tourism Association

Mrs Lindsay Luddington, Vice President

Mrs Louise Mason, President

Mrs Barbara Wells, Tourist Operator (Accommodation)

Mrs Margaret Wheatley, Vice President

Flinders Island Transport Services

Mr Leedham Walker, Owner-Manager

Furneaux Enterprise Centre

Mr David Sell, Secretary

Killiecrankie Enterprises

Mr & Mrs Alan & Margaret Wheatley, Partners

L.J. & C.D. Cox

Mrs Carol Cox, Partner

Wednesday, 26 February 2003 - Melbourne**Australian Airports Association**

Mr Michael Dubois, Chairman, NSW Division

Mr Andrew Forte, Chairman, WA Division

Mr Ken Keech, CEO

Mr Paddy Martin BEM, JP, Chairman, TAS Division

Mr John McArdle JP, National Chairman

Mr Don McDonald, Chairman, NT Division

Mr David Piper, Deputy National Chairman

Cr. Bill Watkins OAM, Chairman, SA Division

Champions of the Bush (Inc)

Mr Jack Moore, Treasurer and Foundation Member

East Gippsland Shire Council

Mr Nicholas Kearns, Strategic Planner

Edge Aviation

Ms Lorraine MacGillivray, General Manager

Glenelg Shire Council

Mr John Keller, Infrastructure Group Manager

Island Airlines Tasmania

Mr Robert Pratt, Managing Director

King Island Council

Cr. Geoffrey Brewster, Mayor

Cr. Neil Graham, Councillor

Latrobe City

Mr Bill Barber, Investment Manager

Southern Grampians Shire Council

Mr David Miller, Executive Manager, Economic Development

Monday, 14 April 2003 - Adelaide**Individuals**

Mrs Liz Penfold M.P., Member for Flinders

District Council of Grant

Mr Christopher Nelson, Airport Manager, Mount Gambier Airport

Mr Russell Peate, Chief Executive Officer

Monday, 14 April 2003 - Adelaide**Aircraft Owners and Pilots Association of Australia**

Captain Frederick Pike, President

Australian Airports Association

Mr Ken Keech, CEO

Mr John McArdle JP, National Chairman

Civil Aviation Safety Authority

Mr Bruce Gemmell, Acting Director

Mr Peter Ilyk, General Counsel

Mr Mick Toller, Director of Aviation Safety

Northair Surveys

Mr Richard Rudd, Manager, Pilot, Photographer

Regional Airlines Association of Australia

Mr Robert Mason, Chief Executive Officer

Regional Aviation Association of Australia

Mr Terry Wesley-Smith, Chairman

Singleton Air Services Pty Ltd

Mr Paul Rees, Governing Director

Tocumwal Aviation Services Pty Ltd

Mr Timothy Becroft, Managing Director, Owner, Chief Engineer

Wettenhall Air Services

Mr Nigel Wettenhall, Owner

Zauril Aviation

Mr Mark Riley, Chief Pilot, Chief Flying Instructor

Tuesday, 15 April 2003 - Kangaroo Island**Kangaroo Island Council**

Cr. Janice Kelly, Mayor

Kangaroo Island Development Board Incorporated

Mr David Furniss, Chief Executive Officer

Mr John Lavers, Chairman

Kangaroo Island Ferry Service Pty Ltd

Mr Prakash H Dhupelia, Managing Director

Wednesday, 16 April 2003 - Adelaide**District Council of Coober Pedy**

Mr Trevor Peek, Economic Development Officer

Northern Areas Council

Mr Keith Hope, Community Projects Development Manager

South Australian Government, Department of Transport & Urban Planning

Mr Mike Milln, Senior Adviser-Aviation, Transport Planning Agency

Whyalla City Council

Mr Mike Blythe, Manager Infrastructure

Mr John D Smith, Mayor (Elected Member)

Wednesday, 7 May 2003 - Wagga Wagga**Brindabella Airlines**

Mr Jeffrey Boyd, Chief Executive Officer

City of Albury

Mr Leigh Ashford, Commercial Businesses Manager

Mr Dale Blampied, Manager Albury Services

Mr Bradley Ferris, Albury Services, Civil Services Team Leader

Leeton Shire Council

Mr Ray Pluis, General Manager

Narrandera Shire Council

Mr Des Edwards, Mayor

Mr Kevin Scully, Economic Development Officer

Riverina Eastern Regional Organisation of Councils

Mrs Julie Briggs, Executive Officer

Mrs Lola Cummins, Deputy Chairperson

Singleton Air Services Pty Ltd

Mr Paul Rees, Governing Director

Thursday, 8 May 2003 - Sydney**Air Link Pty Ltd**

Mr David Miller, Managing Director

Basair Australia Pty Ltd

Mr Alan Tippett, Consultant

Mr Darrin Ward, Managing Director

Centre for Asia Pacific Aviation

Mr Ian Thomas, Senior Consultant, Industry Affairs

Integrity Aircraft

Mr Lance Watson

New South Wales Transport Co-ordination Authority

Mr John Lee, Director General

Mr John Morandini, Specialist Advisor

Orange City Council

Mr Kel Gardiner, Commercial & Emergency Services Manager

Mr David Shearing, Councillor

Qantas Airways Ltd

Mr John Kerr, General Manager, Government & Industry Affairs

Mr Christopher McArthur, General Manager, Regional Airlines

Regional Express

Mr Michael Jones, Chief Executive Officer

Mr Peter Leate, General Manager, Public & Government Affairs

Sydney Airport Corporation Limited

Ms Julieanne Alroe, Head of Asset Management

Mr Chris Falvey, Head of Corporate Affairs

Mr Dominic Schuster, Manager Economics

Mr Allan Stuart, Manager, Land Use Planning

Wednesday, 4 June 2003 - CANBERRA**Individuals**

Mr Dick Smith

Wednesday, 11 June 2003 - Brisbane**Bundaberg City Council**

Mr Peter Byrne, Chief Executive Officer

Ms Jacinta Clancy, Economic Development Officer, Planning & Development Services

Cr Kay McDuff, Mayor

Ipswich City Council

Mr Laurie Mundt, Business Development Manager

Macair Airlines

Mr Ian Landers, Marketing Manager

Macair Airlines Pty Ltd

Mr Randal McFarlane, Chairman/Managing Director

Mackay Port Authority

Mr Trevor Heard, General Manager Mackay Airport

Mr Gregory Mann, Chief Executive Officer

Thursday, 12 June 2003 - Brisbane**Individuals**

Mr Paul Brederick

Airservices Australia

Mr Alan Barber, Manager, Financial Strategy

Mr Paul Dawson, Manager, Government Relations and Corporate Secretariat

Mr Tom Grant, General Manager, Organisation Development and Corporate Secretary

Department of Transport and Regional Services

Mr Martin Dolan, First Assistant Secretary, Aviation & Airports
Policy Division

Mr Shannon Wandmaker, Policy Officer, Liberalisation Section,
Aviation Markets

Queensland Government

Mr Allan Parsons, Director, Public Transport Management

Mr Damien Vasta, Acting Manager, Air Services

Tamworth City Council

Mr Michael Dubois, Business Development Manager

Toowoomba City Council

Mr John Hickey, Manager, Marketing & Commercial

Mr Tom Redwood, Manager, Asset Management

Tourism Queensland

Mr Matthew Yarrow, Senior Aviation Analyst

Wednesday, 18 June 2003 - CANBERRA**Regional Airlines Association of Australia**

Mr Robert Mason, Chief Executive Officer

Wednesday, 25 June 2003 - CANBERRA**Virgin Blue**

Mr Stephen Carney, Consultant Advisor

Mr David Huttner, Head of Communication & Strategy

Mr Phil Scanlon, National Security Manager

Wednesday, 10 September 2003 - CANBERRA**Civil Aviation Safety Authority**

Mr Rob Collins, Acting Deputy Director

Mr Bruce Gemmell, Acting Director

Mr Peter Ilyk, General Counsel

Mr William McIntyre, Executive Manager - Aviation Safety Standards Division

Mr Arthur White, A/Executive Manager, Aviation Safety Compliance Division

Department for Planning and Infrastructure

Mr Nick Belyea, Executive Director - Strategic Policy and Evaluation Division

Mr Drew Gaynor, A/Director - Aviation Policy Directorate

Wednesday, 8 October 2003 - CANBERRA**Civil Aviation Safety Authority**

Mr Rob Collins, Acting Deputy Director

Mr Rob Elder, Executive Manager, Corporate Affairs

Mr Bruce Gemmell, Acting Director

Mr Peter Ilyk, General Counsel

Mr William McIntyre, Executive Manager - Aviation Safety Standards Division

Mr Arthur White, A/Executive Manager, Aviation Safety Compliance Division



Appendix D - Regional Airport Survey

Survey aims

1.1 As described in the submissions and evidence, many councils expressed varying degrees of difficulty in managing their airports. The committee therefore decided to conduct a survey of councils that own and operate regional airports, in order to gain an understanding of:

- The variation in fees charged by airports;
- How much it costs to operate and maintain an airport;
- How much income is generated from airport operations; and
- Which councils were struggling to operate and maintain their airports.

Who was surveyed

1.2 The committee chose to survey all of the councils that had made submissions to the inquiry, and added another 30 or so councils whose passenger statistics up until 2001 appeared in Bureau of Transport and Regional Economics' Avstats data. The number of surveys was considered representative of councils that own airports, and was also manageable given the time available. Councils surveyed included those with large populations and viable air services, through to smaller councils that have no current air services.

Survey design

- 1.3 A simple survey was designed and mailed to 89 councils. The survey featured 16 simple questions. A copy of the survey can be found in Appendix E. The survey was approved through the Statistical Clearing House at the Australian Bureau of Statistics.

Results

- 1.4 The committee received 69 responses from the total of 89 surveys sent out to councils. A total of 63 surveys provided data for analysis. The committee was disappointed that 20 councils could not find the time to respond to the survey.

Taxes and levies

- 1.5 Twenty airports charged a passenger tax and a weight levy, 21 airports charged the passenger tax only, and six airports charged a weight levy only. There seemed to be no guidelines as to which charges are made by a particular council.
- 1.6 Passenger head taxes varied dramatically. Some passenger head taxes were given as GST inclusive, some as GST exclusive. Forty airports charged a passenger head tax, with values ranging from \$5.00 (Flinders Island) to \$22.00 (Derby/West Kimberley), with an average of \$11.30 (n=41).
- 1.7 Only Narrandera Shire stated that it had waived its head tax. Fourteen councils had no RPT services, therefore had no passenger charges.
- 1.8 Twenty six airports charged a weight levy for passenger aircraft. All levies were charged per tonne, with some airports charging nothing below a certain weight, and having higher fees above a certain weight. Levies ranged from \$4.00 per tonne (Port Augusta), to \$17.60 per tonne (Port Hedland), with an average of \$8.30 per tonne (n=26). Only four airports with RPT services charged by weight only, rather than a combination of weight levy and passenger head tax. These four airports were Barcaldine, Port Augusta, Cooktown and King Island.

Airport operations and maintenance costs

- 1.9 Operations and maintenance costs ranged from very low figures to just over \$4 million (Mackay Airport), with a mean of \$535 508 (n=62). Nine airports had costs of over \$1 million.
- 1.10 For the airports that do not currently have air services, operations and maintenance costs ranged from \$7 500 (Yallaroi Shire Council) to \$193 000 (Richmond Valley Council), with a mean of \$73 337 (n=15).
- 1.11 The committee formed the view that many councils were spending considerable amounts of rate payers' money on maintaining a facility that is not providing a service for its community. In most cases, these towns have not had RPT services for a considerable time, and in the committee's view, are unlikely to see services return. The committee is of the opinion that some of these councils should abandon any hope of having RPT services, and limit the amount of money spent on little used community facilities.
- 1.12 For the airports that currently have RPT services, operations and maintenance costs ranged from \$35 389 (Barcaldine) to \$4 024 000 (Mackay), with a mean of \$697 246 (n=47).
- 1.13 The committee found there to be a considerable difference in costs between various airports. The committee would expect high operations and maintenance costs at airports that have high passenger numbers. However, the cost of operating Mackay airport seems to be extraordinarily high at \$4 024 000 per annum, given that 362 000 passengers use the airport. In comparison, Rockhampton Airport serves a relatively high 300 931 passengers per annum, yet the annual operations and maintenance costs amount to only \$682 115.
- 1.14 Another example concerns the centres of Gladstone in Queensland and Albury in New South Wales. Gladstone has 131 883 passengers per annum, with an annual operations and maintenance cost of \$1 591 608. Albury has a similar number of passengers at 130 000 per annum, yet the cost of operations and maintenance is almost twice that of Gladstone, at approximately \$3 000 000.
- 1.15 The dramatic differences in operations and maintenance costs between various regional centres have not been accounted for. The committee suspects that irregular, major maintenance projects may have contributed to the somewhat out of proportion figures for some airports.

- 1.16 The committee also found several examples of airports that have very high operations and maintenance costs, yet have only low numbers of passengers per annum. The Shire of Wyndham/East Kimberley, for example, has only 18 512 passengers per annum, yet operations and maintenance costs amount to \$933 757.
- 1.17 The committee concluded that the remoteness of the north west of Australia, and the subsequent increase in the cost of transport for maintenance materials, may be a contributing factor to high costs in the region.

Airport profit and loss

Airports with a funding shortfall

- 1.18 Many regional councils are spending a great deal of money on airport operations and maintenance. Some of these councils do not have current RPT services to their towns, and are unlikely to regain those services. Without a service contributing to the airport's income, many councils are having to cope with a shortfall between income and operating costs.
- 1.19 Thirty five survey responses claimed a shortfall. Of the 27 responses that provided figures, the shortfall ranged between \$7 500 and \$184 800, with a mean of \$57 362 (n=27). In most cases, the shortfall is paid for by councils from their rate base, or from a reserve fund.
- 1.20 Fifteen of the 37 responses that claimed a shortfall, were from councils that do not currently have RPT services.

Wyndham/East Kimberley

- 1.21 Based on the figures provided to the committee by the Shire of Wyndham/East Kimberley, it is estimated that the council has a shortfall of more than \$320 000. Described below are details of the airport's operations, and calculations of income and shortfall.
- 1.22 The airport has 30 flights per week landing at the airport, a total of 1560 flights per annum. This has been provided as a general guide as some flights may be cancelled or added at short notice.

- 1.23 All Airnorth Regional flights use an Embraer Brasilia aircraft, which has a maximum take off weight of 11 500 kg. The airport landing charges, for aircraft over nine tonnes, amount to \$16.50 per tonne and part thereof. Therefore, it costs \$198 to land an Embraer Brasilia aircraft. With 1560 flights per annum, the total income from landing charges is calculated at \$308 880.
- 1.24 Income from passenger head taxes, based on 18 512 passengers in 2002-2003 at \$15.95 per head, is calculated at \$295 266 per annum.
- 1.25 The council claimed that it spends \$933 757 on operations and maintenance annually.
- 1.26 When the income (\$308 880 plus \$295 266) is subtracted from the costs (\$933 757), there is a shortfall of \$329 611.
- 1.27 The above calculations do not take into account other income from general aviation, property leases and other fees charged by the airport. However, the committee is of the opinion that the income generated from such activities is still unlikely to cover the shortfall.

Richmond Valley Council (Casino)

- 1.28 Richmond Valley Council (the town of Casino in northern New South Wales) spends \$193 000 on operations and maintenance annually. With an income of approximately \$8 000, the council has a shortfall of \$184 000. Currently, the town does not have an RPT service. Of the 15 councils that do not have RPT services, but still operate and maintain an airport, Richmond Valley Council has the largest shortfall. The city of Lismore, which has three RPT services per day with Rex is just 30 km away from Casino. Ballina is 63km from Casino and is serviced by QantasLink.
- 1.29 Again, the committee is of the opinion that towns such as Casino should cease to spend valuable rate payer funds on facilities that will not be used.
- 1.30 Some airports claimed that they incurred a funding shortfall, despite the fact that the figures provided indicated that they actually make a profit. The committee suspects that this was done deliberately in order to give the impression that the councils needed funding assistance.
- 1.31 The committee believes that some councils have used the survey as a lobbying tool, with some councils happy to demonstrate that they do indeed operate at a loss, therefore requiring government assistance.

Airports that break even

- 1.32 Thirteen survey responses claimed that their airports did not incur a shortfall between income and expenditure, and did also not make a profit.
- 1.33 Annual passenger numbers for these 13 airports ranged from 8 848 at Katherine (with annual costs of 260 755) to 362 000 at Mackay (with costs of 4 024 000).
- 1.34 Some smaller airports have effectively demonstrated that it is possible to own and manage a small airport, at minimal cost, in order to serve a relatively small number of passengers.
- 1.35 The airport at Narrabri in northern New South Wales is a good example of a small airport that serves a modest number of passengers and is relatively affordable to manage and maintain. In 2002-03 the town's airport received 10 838 passengers, and with a passenger head tax of \$12.50, had an income of \$135 475. The airport's costs were only \$83 406. It is unclear whether any money had been spent on major capital upgrades during this time.
- 1.36 However, not all smaller centres follow this example. The committee formed the view that some councils may be trying to give the impression that they are coping with operation and maintenance costs, in order to maintain current RPT services, or to lure an RPT service back to their town.
- 1.37 Cowra Shire Council stated that it spent \$46 000 per annum on operations and maintenance, and received only a small amount of income through general aviation and leases. Despite an obvious shortfall, the council claimed to break even.
- 1.38 Katherine Town Council also claimed to have no funding shortfall, despite not charging passenger head tax for 8 848 passengers in 200-01, and having costs of \$260,755. The committee believes it is unlikely the airport covers its costs through income from general aviation and leases.
- 1.39 Mackay Airport claimed to break even, although the committee formed the view that if the airport's overheads were lower than \$4 million per annum, they would be making a considerable profit.

- 1.40 There are many councils that claimed to have a general airport fund, from which deficits are paid, and into which profits go, depending on the year's expenditure. Some airports will make a profit one year, and a deficit the next, depending on the amount of major capital works completed during that year.
- 1.41 The committee formed the view that more councils should keep their profits in a suitable reserve fund, which would then be used to fund major capital upgrades.

Airports that make a profit

- 1.42 Thirteen survey responses claimed that their airports made a profit, ranging from as low as \$27 000 to estimates of up to \$900 000. Several airports that made an obviously large profit did not provide exact figures relating to income.

Whitsundays

- 1.43 The Whitsundays Airport at Proserpine, Queensland, provided figures which led the committee to conclude that a large profit is being made by the council each year. The airport charges a very high passenger head tax of \$15.00, and receives 69 457 passengers per annum, which amounts to an income of \$1 041 855 in passenger head taxes alone¹. The council claimed that it spends \$418 622 on operations and maintenance costs annually. Subtracting the costs from the income leaves a profit of \$623 223. This figure does not include any income from general aviation, leases or concessions.
- 1.44 The committee is of the view that either the passenger head tax could be lowered to a more reasonable level, which would provide added savings for passengers, and lower costs for airlines.

Rockhampton

- 1.45 The city of Rockhampton is in a similar situation. The council claimed that it spent \$682 115 in operations and maintenance during 2002-03. The airport had 300 931 passengers that year, and at a reasonable \$5.50 per head, had an income of \$1 655 120 in passenger head taxes².

1 This is an estimate, as the passenger head tax for children is \$9.00. It is not known how many children travelled during the year.

2 This is an estimate, as the passenger head tax for children is \$2.75. It is not known how many children travelled during the year.

- 1.46 The Rockhampton Airport also charges each aircraft \$4.40 per tonne in landing fees. Landing costs at Rockhampton are in the order of \$83.60 for a Dash 8, \$224.40 for a Boeing 717 and \$299.20 for a Boeing 737³.
- 1.47 QantasLink has 63 weekly flights from Brisbane, Mackay and Sydney to Rockhampton. A Boeing 717 is used for 23 flights, and 40 flights use a Dash 8 each week. A total of 1 196 Boeing 717 flights per year amounts to \$268 382 of income from landing fees per annum. A total of 2 080 Dash 8 flights per year amounts to \$173 888 of income from landing fees per annum.
- 1.48 Virgin Blue has seven flights per week using a Boeing 737. A total of 364 flights per year amounts to \$109 909 of income from landing fees per annum.
- 1.49 The total annual income from landing fees is calculated to be \$552 179. Added to the 1 655 120 in passenger head taxes, the total income from RPT operations is \$2 207 299.
- 1.50 Subtracting the operations and maintenance costs total of \$682 115 from the RPT income total of \$2 207 299 gives a profit of \$1 525 184. This figure does not include and income derived from general aviation, leases or concessions.
- 1.51 The committee is of the view that either the passenger head tax or the aircraft landing fees could be lowered, which would provide added savings for passengers, and lower costs for airlines.

Orange

- 1.52 Orange City Council claimed that it spent \$270 371 on operations and maintenance in 2002-03. The council gave its income as \$442 141, resulting in a profit of \$171 769. The airport has one of the high passenger head taxes, at \$14.40 per head. The airport has a moderate number of passengers for a regional airport (37 950 passengers in 2002-03), and can operate without losing money.

3 QantasLink's Dash 8 weighs 19 tonnes, the Boeing 717 weight 51 tonnes, and Virgin Blue's Boeing 737 weighs 68 tonnes.

- 1.53 The committee is of the opinion that the council should lower its passenger head tax to a more reasonable level, which again would provide added savings for passengers, and lower costs for airlines. Recently, Rex has been in negotiations with Orange City Council, among others, to lower passenger head taxes. Rex claimed the charges at Orange are the highest of any in its network, and has driven passenger numbers down by 16 percent⁴. High taxes may force airlines to abandon services to particular destinations.
- 1.54 The committee noted that Orange City Council had recently lowered its passenger head tax, under an agreement with Rex. Rex claimed the charges at Orange were the highest of any in its network, and had driven passenger numbers down by 16 per cent. Passengers flying between Orange and Sydney can now travel for as little as \$79 one way, under a joint initiative between Rex and Orange City Council. Council has reduced its local airport head tax to help promote local tourism, with Rex matching Council's financial commitment to provide a further reduction in prices. A similar joint venture was also recently announced between Rex and Griffith City Council.⁵

4 Prime Network News, Orange. 28 May 2003.

5 http://www.regionalexpress.com.au/corp_info/media_release003.aspx accessed 5 November 2003;
http://www.regionalexpress.com.au/corp_info/media_release002.aspx, accessed 5 November 2003.



Appendix E – Survey of Regional Airports

Fees and charges

What are your landing fees for RPT operations:

(please provide a comprehensive breakdown of fees charged, including items such as passenger tax, tie down fees, security charges, rescue and fire fighting services)

What are your landing fees for general aviation operations:

(please provide a comprehensive breakdown of fees charged, including items such as passenger tax, tie down fees, security charges, rescue and fire fighting services)

Any other fees or charges imposed on operators by Council:

RPT revenue passengers

(This information will add to that already available from the Bureau of Transport and Regional Economics. Please provide figures for the financial years indicated, or the last year of service operation)

Total number of passengers, per year:

2001-2002:

2002-2003 (if available):

Seasonal fluctuations in passenger numbers:

(Please provide details of any peak periods for travel, e.g. summer holiday period; are peak periods directional e.g. children travelling to school):

Peak periods:

Times of directional flows:

Operation and management

Annual airport running cost:

Annual airport maintenance cost:

Funding sources for airport maintenance (*e.g. rates, airport revenue*):

Alternative sources of funds:

Shortfall between revenue and costs:

Airlines currently serving the location

Names of current airlines/operators:

Period of operation:

Number of services in, per week:

Number of services out, per week:

Type(s) of aircraft used:



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

Australian Capital Territory

- 1.1 The Australian Capital Territory Government's aviation policy is aimed at supporting the development and retention of an effective regional aviation industry. To this end, the Government supports the further development of Canberra International Airport as a regional transport hub. The Government supports the continued operation of the regional airline REX by requiring each ACT Government department to purchase a minimum of 15 percent of their travel from that airline.¹

1 Australian Capital Territory Government, communication with secretariat, 22 October 2003.

New South Wales

- 1.2 The New South Wales Government reviewed its aviation policy in 2001 following its Air Transport Summit and its June 2001 Regional Airlines Summit.²
- 1.3 The features of the New South Wales Government's aviation policies are:³
- The policies aim to help stabilise lower volume services within the intrastate aviation industry and maintain competition for higher volume services.
 - The policies aim to create a positive business climate for regional areas as part of its regional development strategy by attracting and maintaining business investment, serving local industries and accessing a range of capital city based services. They are also linked to the broader regional air service needs such as are articulated in regional tourism development plans.⁴
 - To achieve its aviation outcomes, the New South Wales Government:
 - ⇒ Regulates lower volume routes of up to 50 000 passengers per annum to ensure their long-term sustainability by issuing an exclusive license to the operator for five years up to 2008. License fees do not apply to these routes. It does not use competitive tenders to select the exclusive operator.
 - ⇒ Allows open competition on higher volume routes of over 50 000 passengers per annum and levies a license fee of 0.2 percent of gross revenue.⁵
 - The New South Wales Government provided financial assistance to secure the sale of Ansett's regional subsidiaries in the state in 2002. It works to identify and reduce cost pressures at local, state and federal level, and to facilitate stability and growth opportunities in

2 New South Wales Government, submission no. 151, pp. 2-3.

3 New South Wales Government, communication with secretariat, 29 September 2003.

4 New South Wales Government, communication with secretariat, 29 September 2003; New South Wales Government, submission no. 151, pp. 1, 3.

5 New South Wales Government, communication with secretariat, 29 September 2003; New South Wales Government, transcript of evidence, pp. 520-521.

regional and rural air services. It strongly supports ongoing access of regional aviation to Sydney Kingsford Smith Airport.⁶

Northern Territory

- 1.4 The features of the Northern Territory Government's aviation policy are:⁷
- The maintenance of a strategic network of 72 aerodromes which service major indigenous communities.
 - The Northern Territory has an open skies approach to intra-territory air services.
- 1.5 The Northern Territory also provides assistance for the upkeep of 14 key barge landings also serving indigenous communities.⁸

Queensland

- 1.6 The Queensland Government reviewed its aviation policy following the events of 2001.
- 1.7 The features of the Queensland's Air Services Policy are:⁹
- Queensland's policy framework which ensures that rural and remote communities receive air services that interconnect with domestic and international services.

6 New South Wales Government, communication with secretariat, 29 September 2003.

7 Northern Territory Government, submission no. 101, p. 4.

8 Northern Territory Government, submission no. 101, p. 4.

9 Queensland Government, submission no. 153; Queensland Government, transcript of evidence, Brisbane, 12 June 2003; Queensland Government, communication with secretariat, 18 September 2003.

- Queensland's Airports and Regulated Air Transport Plan addresses the delivery of air transport infrastructure and services to remote and regional communities in Queensland to ensure essential access to a range of business, education, medical and social opportunities.¹⁰
- To achieve its aviation outcomes, Queensland:¹¹
 - ⇒ Regulates air services requiring market entry restrictions to ensure the long-term sustainability of air services. It regulates certain routes by means of public tender and the issue of an exclusive licence for five years.
 - ⇒ Subsidises air services to regional areas to improve the affordability of air travel for transport-disadvantaged communities where there is a shortfall between in the cost of operating the service to the prescribed standards, and the revenue collected as fares.

Following its 2002 review of air services, Queensland believes that every community should be within 200km of an air service. It currently provides \$7m pa to subsidise essential air services to these communities.¹²
 - ⇒ Provides grants to assist local governments with the upgrade of remote and regional air strips for basic access and regional development. Since 1997, Queensland has provided \$12m in capital grants to support projects.
 - ⇒ Controls planning in the vicinity of certain airports and aviation facilities to protect infrastructure from incompatible developments and to protect the amenity and safety of communities.
- The Aviation Steering Committee coordinates Queensland's Aviation Strategy to ensure the integration of the State's wide-ranging aviation responsibilities.

10 Queensland Government, 'Queensland Aviation Strategy', exhibit no. 28.

11 Queensland Government, 'Queensland Aviation Strategy', and 'Queensland Airports and Regulated Air Transport Plan', exhibit no. 28; Queensland Government, submission no. 153; Queensland Government, transcript of evidence, Brisbane, 12 June 2003; Queensland Government, communication with secretariat, 18 September 2003.

12 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, pp. 677-678; Queensland Government, communication with secretariat, 18 September 2003.

- The *Transport Operations (Passenger Transport) Act 1994* is the legislative head of power that allows the Queensland Government to place market entry restrictions on certain rural and remote air routes. Queensland has contracts with the providers of air services on those routes. The contract specifies service levels, amongst other things, to ensure the deployment of the most suitable aircraft types on the regulated routes.
- Queensland's aviation strategy integrates key overarching policy elements and comprises the Queensland Tourism and Commercial Aviation Plan, the Queensland Aerospace Industry Development Plan, and the Queensland Airports and Regulated Air Transport Plan.¹³
- The Queensland Government established Aviation Australia to provide training to support the development of the aviation and aerospace industries in Queensland and the Asia Pacific. Australia's major airlines, aerospace companies and Queensland's leading universities support Aviation Australia.

South Australia

1.8 The features of the South Australia Government's aviation policy are:¹⁴

- The facilitation of South Australia's regional communities' access to social and business services, and economic and tourism development opportunities.
- A long standing commitment to minimise government intervention in the state's aviation sector.

13 Queensland Government, 'Queensland Airports and Regulated Air Transport Plan', exhibit no. 28, p. 4.

14 South Australia Government, submission no. 148, pp.2, 3, 4, 11; South Australia Government, transcript of evidence, Adelaide, 16 April 2003, pp. 370-371; South Australia Government, communication with secretariat, 15 September 2003.

- 1.9 To achieve its aviation outcomes South Australia:
- Has provision to regulate interstate air routes under the *Air Transport (Route Licensing – Passenger Services) Act 2002*. Under this recent legislation, South Australia may offer licenses to operators by competitive tender or other means on declared routes for the provision of scheduled air services when that is in the public interest. This is intended to provide for community needs by encouraging investment by operators in very marginal routes suitable for single operators only.
 - Funds regional aerodrome inspections and reporting officer training and some outback and regional aerodrome refurbishments.
 - Participates with the Commonwealth in the Remote Air Subsidy Scheme.
 - Indirectly supports regional aviation through funding its medical patient transport assistance scheme.
 - Assists airport owners to recover movement fees with legislation that enables the airport owner to recover the fee from the holder of the certificate of registration for the aircraft.¹⁵
- 1.10 South Australia provides a declining freight subsidy to the Kangaroo Island ferry operator which concludes in 2005. It has also improved access to Kangaroo Island by providing \$28.5m in assistance to Kangaroo Island since 1995 to improve roads and port.

Tasmania

- 1.11 The Tasmanian Government does not have a formalised aviation policy. It has not regulated aviation services within Tasmania since July 2000.¹⁶

15 South Australia Government, transcript of evidence, Adelaide, 16 April 2003, p. 378.

16 Department of Infrastructure, Energy and Resources, Tasmania, communication with secretariat, 2 October 2003.

- 1.12 The Tasmanian Government advised the committee that it would only consider regulating aviation services where the market fails to provide an appropriate service and it is in the public interest for that service to exist. However, it does have a range of legislative and policy frameworks that promote the smooth operation of aviation in the state. These include the *Aerodrome Fees Act* and the *Civil Aviation (Carriers Liability) Act*.¹⁷
- 1.13 The Tasmanian Government monitors aviation services to and from the State to ensure that these services meet Tasmania's access needs, both socially and economically and for both passengers and freight. It also monitors these services in respect to the Bass Strait Islands (principally King and Flinders Islands).¹⁸
- 1.14 The Tasmanian Government supports the provision of aviation services and infrastructure through the development of appropriate planning, land use and environmental frameworks and controls.¹⁹

Victoria

- 1.15 The Victorian Government has a non-interventionist approach to regional aviation markets, infrastructure and services. It has not seen the need to intervene in any aspects of regional aviation to achieve strategic outcomes. In coming to this position, the Victorian Government recognised the relatively low number of passenger air services and routes, the geographical size of the state and the comprehensiveness of land-based transport networks and services.²⁰

17 Department of Infrastructure, Energy and Resources, Tasmania, communication with secretariat, 2 October 2003.

18 Department of Infrastructure, Energy and Resources, Tasmania, communication with secretariat, 2 October 2003.

19 Department of Infrastructure, Energy and Resources, Tasmania, communication with secretariat, 2 October 2003.

20 Victorian Government, communication with secretariat, 20 October 2003.

- 1.16 Nevertheless, the Victorian Government is preparing an aviation industry strategy in collaboration with key stakeholders in industry, education and training, and government. The strategy will endeavour to link transportation, communication and regional development strategies with aviation.²¹

Western Australia

- 1.17 Following a review of aviation in WA, the features of the WA Government's aviation policy are:²²
- The WA Government's aviation policy is to assist those routes that are unable to sustain competition. These are ports that have less than 60 000 passengers per annum. Assistance is in the form of regulation by the issue of an exclusive licence to an operator, or subsidisation. The State subsidises commercially unviable routes such as between Broome, Derby, Fitzroy Crossing and Halls Creek.
 - An Aviation Industry Observer monitors the aviation service levels on supported routes and all services operating in the State market.
 - The Regional Airports Development Scheme provides leveraged assistance to a number of regional airports that have difficulty in maintaining the facilities.
 - The WA Government is collaborating with the mining and the tourism industries to build the capacity of certain routes and improve air services to regional communities. In the case of mining industry charters, the WA Government is working to have these combined with RPT services, where possible.
 - Establish the Regional Air Services Program comprising the Essential Air Services Program and the Air Tourism Route Development Program. The Essential Air Services Program serving mainly the north of the state will be reviewed to ensure funds are targeted and meet community service obligations.

21 Victorian Government, communication with secretariat, 20 October 2003.

22 Department of Planning and Infrastructure, correspondence with secretariat, 5 September 2003.

- The Regional Tourism Route Development Program will support and develop routes that have limited tourism seat capacity and engage industry and the community in developing such routes.
- The WA Government will liaise with airport owners to assist with the development of air services.
- Regional Air Services Consultative Committees will be formed to work with industry to develop services, monitor service levels and identify opportunities and issues affecting regional aviation services, and to develop community awareness of the need for them to support regional air services.
- The WA Government will engage the Commonwealth at the executive and the departmental level on aviation policy.



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

The age of Australia's fleet of small 9-seat aircraft was an issue for the industry as discussed in Chapter 6. These piston-engined aircraft are used predominantly by low capacity RPT and charter operators. The table following gives details of the age and make-up of the fleet.

Table G1: The number of 9-seat aircraft on the Australian register at the end of 2000 used predominantly by low capacity RPT and charter operators¹

YEAR OF MFR	CESSNA				PA-31		
	402	404	414	421	PA-31	-325	-350
1966	1						
1967	4				4		
1968	2		1	1	5		
1969	8				12		
1970					1		
1971	1				5		
1972			1	2	3		
1973			1	4	2		10
1974	7		2	2	6		14
1975	5						7
1976	5	1		3	2	1	9
1977	1	9		2	5		8
1978	3	5	2	3	6		16
1979	7	4	3		5	1	15
1980	5	4		1	5	1	4
1981	9	7	5	1	5	3	16
1982			1		4	1	6
1983							2
1984	1						2
1985	1						
1986	1						
TOTAL	61	30	13	19	70	7	109

Note: (1) PA refers to Piper aircraft. (2) 'Mfr' means manufacture.

¹ Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, p. 2.

Table G2: Some possible replacement aircraft for the aging 9-seat fleet aircraft

Below 15 seats	16-28 seats
GA8 Airvan	Fairchild Metroliner
Integrity Aircraft	Beech 1900
Reims Cessna F406 <i>Caravan II</i>	Pilatus PC12
Cessna 404 Titan	Britten-Norman Trislander
Cessna 441 Conquest II	BAe Jetstream 31/32EP
Cessna 402C	DeHavilland Twin Otter
Britten-Norman Islander	
Cessna Caravan	