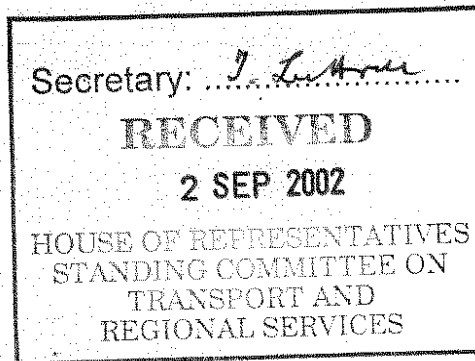


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Committee Representative
House of Representatives
Standing Committee on Transport and Regional Services
Parliament House
CANBERRA ACT 2600



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

Local Government is a key stakeholder in the provision of aviation services to regional Australia. Many airports in regional centres are owned and operated by local councils and the infrastructure, and associated airline services are vital components for the economic and social development of regional areas. Similarly, many urban councils are directly affected by policies regulating access to the larger city airports, especially relating to aircraft noise issues. Rather than addressing each of the inquiry's individual terms of reference, Lgov NSW will outline a range of issues that our members have raised in relation to regional aviation services. These are listed under the broad headings of:

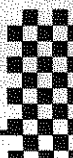
- Cost pressures impacting on regional aviation
- Access to Sydney Airport including impacts of the recent sale of the airport, and
- The role of governments in regional aviation

We are also aware that some of our member councils are planning to make individual submissions to the inquiry which may explore some of these aspects in more detail.

1. Cost Pressures Impacting on Regional

1.1 Fuel

Increases in the price of fuel over the last 3 years have an unacceptable affect on the viability of small regional airlines. For example the increase in the price of Avgas from 57.5 cents per litre in 1999 to around 91 cents per litre in 2002 provide in many cases a prohibitive increase to relatively small companies with annual turnover of less than \$1.5 million. While it is recognised that governments have little influence on the fluctuations of world market prices of fuel, the Federal Government has direct control over the level of excise levied, and even a relatively small reduction in this excise would represent a tangible relief measure for many small regional airlines.



1.2 Compliance Costs

All stakeholders involved with the provision of regional aviation services in NSW recognise the importance of high standards of air safety and acknowledge that under no circumstances should corners be cut in specifying and administering air safety regulations and standards. Nevertheless, we are concerned that many recent air safety regulatory initiatives have been overly bureaucratic, poorly administered in terms of consistency, efficiency and fairness, and in some cases an unacceptable degree of subjectivity. The need to upgrade aircraft to new standards also has a major effect on new hub and spoke operations or larger aircraft into Sydney Airport (KSA). KSA regulations may also force small airlines into more expensive aircraft which may make these airlines unviable.

1.3 Location specific and en-route charging

The introduction of location specific charging for terminal navigation, rescue and firefighting services and en-route navigation charges for low capacity RPT operators, while justified from a strict resource allocation and economic efficiency point of view, provides significantly increased costs for these operators. The increased landing fees at Sydney Airport significantly adds to the cost of small planes compared to larger aircraft, discriminates against regional airlines generally and should be changed to a per passenger charge.

1.4 Landing Fees

Small regional air operators have noted that the minimum landing charge at Sydney Airport provides a structural pricing disadvantage compared to the landing charges for larger aircraft arrivals.

At airports outside of Sydney, operators have noted that landing charges have steadily escalated over recent years. While it is reasonable to expect the owners of these airports to recover the costs of their operation, their pricing practices have contributed to the cost pressures of small regional operators. Regional airports are almost exclusively owned and operated by Councils. Currently some councils charge fees reflecting the cost of the service provide, while others subsidise the services through their ratepayers, justified on tourism or regional development grounds. A consistent approach to airport charging including the possibility of government subsidies where the taxation burden is shared by the community as a whole may address this imbalance.

1.5 Value of Australian Dollar

The current low value of the Australian Dollar has contributed to significantly increased costs for all regional airlines in the areas of aircraft purchase costs, aircraft parts costs and the price of fuel, all of which cannot be offset by higher fares due to the relative price elasticity of demand for regional air travel.

2. Access to Sydney Airport

The issue of access to Sydney airport is one that is crucial to Local Government in NSW. While cognisant of the economic logic of using larger aircraft to manage and expand the capacity of Sydney Airport, there are other broader economic, social and regional development issues which should also be considered. Local Government in NSW, including both urban and regional councils, is united in its support for continued regional access to Kingsford Smith Airport at affordable prices.

We are nonetheless concerned at the statement made by the successful bidder for Sydney Airport that the development of a second Sydney airport could be delayed by 40 years through the use of larger planes and better use of non-peak times, allowing the number of passengers passing through the airport to be more than doubled in that period. Clearly this could only be achieved either

through a reduction of the present curfew or the substitution of slots currently available to smaller regional aircraft for larger aircraft.

The Associations have therefore sought guarantees from the Federal Government that the sale of Sydney Airport will not result in:

- Any reduction in the curfew arrangements and associated noise management polices presently in place, or
- Regional airlines being forced out of Sydney Airport, or to use slots which are inconvenient to the vast majority of regional users

Regional communities remain concerned that while the existing slot management regime may be adequate, particularly for peak hour access, there are no guarantees about future access. It is vital to these communities that access is maintained and that services are appropriate to the local community. Pricing and access mechanisms should not focus solely on the optimal outcome for Sydney Airport, but should also address the continued provision of viable, profitable services delivering frequency and quality of service appropriate to the needs and size of rural communities.

A suggestion that regional operators be encouraged to use larger aircraft to maximise Sydney Airport's capacity also disadvantages smaller regional operators and therefore the communities they serve. This process could require new infrastructure at airports in regional centres (ie runway lengthening/ strengthening requirements) to facilitate larger aircraft. Local Government may not be able to fund these infrastructure improvements from their own funds. Federal Government may need to support these infrastructure improvements as the costs that may in many cases be unable to be borne by small communities. Without these infrastructure improvements, the use of larger aircraft will inevitably reduce the number of ports being serviced. While this may encourage the growth of larger centres such as Dubbo, Wagga Wagga, Albury, Lismore etc, it will be at the expense of medium sized communities served by smaller aircraft.

The prospect of regional airlines using Bankstown rather than Sydney is not attractive to regional operators and unacceptable to regional communities. State and Federal Government would need to spend enormous sums of money on transport infrastructure between Bankstown Airport, KSA and the CBD. Even if transport infrastructure were provided, there would still be extra time and cost for country people having to do business in Sydney or transferring to interstate or international flights.

3. Role of Governments

3.1 Regional Hub Development

The Associations are particularly concerned with the continued uncertainty in the airline industry, especially where it relates to the availability of air services in regional areas. Clearly one of the key aspects of the regional aviation issue is the ongoing economic viability of many services particularly those to remote or distant communities, or those with low traffic volumes. In recognition of these constraints on the commercial provision of many services, the Associations are proposing that a study be conducted into the feasibility of establishing regional aviation hubs in various strategic centres in regional areas of NSW. These hubs would aim to facilitate the commercial viability of services to that region, and may include various elements such as airport and runway enhancements, terminal developments and enhanced integration and connectivity with other services or transport modes in that region.

Lgov NSW was encouraged by the Minister for Regional Services, Territories and Local Government to seek funding under the Regional Solutions Programme towards the engagement of a consultant to investigate the feasibility of this proposal. In his reply, while declining the application at this time, the Minister foreshadowed future policy developments in the regional aviation sector,

including this inquiry. Nevertheless we reiterate our stated views on regional aviation hubs and call for an urgent application of funding either under the Regional Solutions programme or from other sources to progress this proposal.

3.2 Community Service Obligations

Councils have expressed support for the principle of Community Service Obligation (CSO) for air transport to regional and remote Australia as it does for telecommunication services to those same regions. It is important that the Government develops a CSO scheme for air transport.

We acknowledge the Federal Government's existing subsidy arrangements under the 'Remote Area Subsidy Scheme (RASS)'. The scheme is designed to provide transport services to communities located in some of the most remote areas of Australia. In 2000/01, the scheme provided subsidy funding totalling \$1.588 million to assist 5 air operators to provide air services to 200 remote aerodromes throughout Australia. Similarly the loans available under the Rapid Route Recovery Scheme (RRRS) has assisted airlines restart services on the routes that were served only by Ansett or its subsidiaries.

The Federal Government's Community Service Obligation (CSO) payments for the provision of telecommunication services to regional/ rural Australia is an example of the type of principles that could be applied by the Federal Government in the development of a CSO scheme for air transport services to regional and remote Australia.

It is the Associations' view that the Federal Government should finance CSO payments from the interest savings (on borrowings) which will result following the sale of Kingsford Smith Airport. It is understood that the Federal Government currently outlays some \$340 million annually in interest payments for KSA. With the sale of the airport, the Federal Government will be in a position to allocate a proportion of these former interest payments to the establishment of a CSO scheme for air transport services to regional and rural Australia. This is particularly important for the smaller regional centres that may be disadvantaged by the development of regional hubs or by potential Sydney Airport access measures, or have been forced to close due to the loss of RPT services in recent years.

Zones could be established at reasonable distances from regional centres, or even sliding scales depending upon the annual numbers eg 50,000 is less than 30,000 is less than 15,000 passenger numbers etc. A scheme along the lines of the former Aerodrome Local Ownership Program (ALOP) could serve as a useful starting point for discussion. Ultimately, some subsidy has to be paid, at least on regulated routes.

3.3 Whole of State Development

At the recent NSW State Assembly of Local Government, the Associations resolved to promote a whole-of-state development dialogue across Local Government, between spheres of government and with business and the community. This covers a range of issues relevant to regional development and aviation services in regional areas, including

- That the three spheres of Government must work together to find mechanisms to encourage a whole-of-state approach, in a national context, to transport, infrastructure and regional development planning and policy development
- That transport policy addresses the transport needs of regional communities as well as urban communities and that governments provide for greater investment in transport inclusive of all communities
- That Local Government promote public debate on infrastructure funding with full consideration of options including infrastructure bonds, and regional targeting of business migration investment funds, etc

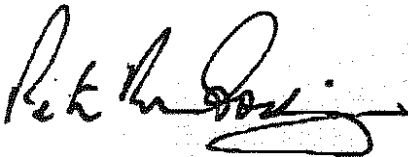
In summary, the Associations have long sought to break down the city/ country divide on issues of state and national importance. One of the critical components to the breakdown of this divide is the implementation of appropriate transport policies, including those affecting regional aviation, to encourage investment and development in a whole-of-state context.

4. Summary

Small regional airlines not only provide a much needed service to their communities, especially to the local business community, but also provide a service to the whole community by allowing access for food, medical supplies, mail and other urgent supplies and by providing these communities with access to the Capital cities, larger regional centres and other smaller centres, and through connections with overseas destinations. The provision of airports and associated aviation services also provides a significant development impetus to regional areas and helps to further encourage development and business investment in that region. In light of its importance to the future sustainability of regional Australia, we seek the Federal Government's commitment to ongoing support for the regional aviation services in Australia.

Thank you for the opportunity to make a submission to this inquiry.

Yours sincerely



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cc: Hon Wilson Tuckey MP
Minister for Regional Services, Territories and Local Government