

- Thank you for the opportunity to speak to you today.
- Regional Aviation is critical economic driver in NSW and the work of this committee is incredibly important.
- The AAA is encouraged that the NSW Government has recognised the importance of regional aviation in NSW by forming this inquiry.
- By way of background, I have been the CEO of the AAA for four years. The AAA represents more than 260 airports around Australia, including 44 airports in NSW.
- We have state divisions around Australia, so I am familiar with aviation issues nationally. I have with me here today Stephen Prowse, our NSW Division Chair, who is also Airport Manager at Wagga Wagga Airport.
- There are four main recommendation we would like to see this inquiry make:
 1. That a NSW Aviation Strategy be developed by Government.
 2. That the process for the appointment of airlines to regulated routes be improved to ensure that only financially viable airlines are appointed and that they have strict requirements to maintain the routes.
 3. That key regulated remote and regional routes be identified for a government subsidy similar to what we see in QLD.
 4. That a state based aviation fund be established to assist regional airports with infrastructure upgrades.
- The AAA is involved at a Commonwealth level in advocacy on all issues relating to aviation but of particular relevance to this inquiry is our representation of industry at the Office of Transport Security Regional Industry Consultative Forum and on the CASA Consultative Forum. We have also been involved with the development of the WA and QLD

Aviation Strategies. We also have a AAA Regional Security Working Group and a NSW Small Regional Aerodrome Working Group and a national Standards Working Group.

- The opening observations I would like to make as a starting point is that regional airports in NSW do not have monopoly power. Most NSW routes actually see the local airline, as the sole provider of services in most cases and particularly with regulated routes, as having conferred monopolies. So we refute observations made by REX and the RAAA that some airports are charging excessive fees.
- Work completed by the AAA in 2012 found that as many as 50% of regional airports in Australia run at a loss each year.
- Typically regional airports hold their aero charges artificially low to pursue broader economic objectives like increasing tourism.
- Most aero charges at airports in NSW are not reflective of the long run incremental costs of the airport, which are then largely subsidised by local rate payers.
- The AAA supplementary submission, which will be tabled today for the Committee's consideration, outlines the results of a recent survey of our NSW membership. This survey focused on seeking information from NSW aerodromes on their RPT services, fees/charges, general financial position and ability to fund airport works and maintenance.
- It is important to note that rises and falls in passenger numbers, even of a moderate nature, can have major impacts on a regional aerodrome. Airport operators are required to plan for growth and future demand, which often requires substantial investment. To justify investment there needs to be a degree of certainty, which is severely lacking in the regional aviation market. This environment makes it difficult for regional airports to manage facilities to accommodate increases in activity, in

addition to ensuring the aerodrome remains viable and self-sufficient when or if passenger numbers weaken.

- In relation to fees and charges, results from the AAA survey indicated that passenger charges generally provided little more than one third of an airport's revenue, with landing charges tending to account for less than one quarter of revenue in most cases. The result also demonstrated that for the majority of regional airports the passenger charge is simply based on a historical figure that is adjusted annually in accordance with CPI. For many regional airports, these historical figures were originally determined by local councils, presumably on a primarily cost-recovery basis, however the original methodology is difficult to source. This can create difficulties for regional airport operators that need to negotiate fee increases with the airlines servicing the airport.
- In negotiating fee increases with airlines, many NSW aerodrome operators felt that airlines were unfairly exercising their market power during these negotiations. Multiple airport operators provided examples of airlines threatening to withdraw or reduce services due to proposed increases in fees, not to mention the ethically questionable use of media and political influence to attempt to limit service fees.
- The AAA would also like to bring to the Committee's attention the fact that of the NSW airports surveyed, over 60 per cent indicated that they would not generate a surplus this year. Of those airports that would not generate a surplus, the level of loss that would be recorded for this year ranged from \$90,000 through to \$405,000, with the average loss being approximately \$180,000. The majority of airport operators also indicated that they did not have access to an airport reserve fund to utilise for capital works and non-ongoing infrastructure maintenance, with those that did have a reserve fund indicating that it would not be sufficient to cover the costs of these upcoming works. One aerodrome operator provided an example that over the next ten years routine maintenance

costs on the pavements alone at the aerodrome would come to \$8,920,000, with the current funds available in reserve totalling \$400,000.

- With the funding required for upcoming capital works or non-routine maintenance far out-weighting any reserve funding in place for most regional airports, the result is that the Council then need to subsidise the funding for this airport work through increased rates or reductions in other Council programs. This is a less than ideal outcome for the local community and not a viable on-going business model for the airport.