

JR:A0820020

24 July 2014

STANDING COMMITTEE ON STATE DEVELOPMENT

STATEMENT AT INQUIRY

Dear Committee

INQUIRY INTO REGIONAL AVIATION SERVICES

We appreciate the invitation to appear before the inquiry and provide further information to the Committee on the subject of regional aviation services.

Our submission made in February this year provides a broad response from Mid-Western Regional Council to the Terms of Reference and we are pleased to receive your questions on this submission.

We would also like to take this opportunity to explain the current situation being experienced on the Mudgee to Sydney air services route to highlight just how critical the issue of regional aviation services is to regional communities like Mudgee. By hearing our story first hand we hope that this will help the Committee to understand just how difficult it is in regional aviation and the dire situation that is being faced by regional communities which rely heavily on these services for social and economic reasons.

1. Lack of RPT Service Providers

Re-establishing the Mudgee to Sydney air services route is a major priority for Council and the local community. However, the current model of regional aviation is not working and is not commercially viable for locations such as Mudgee with less than 20,000 annual passengers. We have had Rex, Brindabella and more recently Vincent Aviation, all withdraw from the service in the last 5 years for commercial reasons.

We have left no stone unturned in trying to find another regular passenger transport (RPT) service provider to take over the Mudgee to Sydney route. The reality is that there are no RPT service providers willing to take over these smaller passenger routes as it is not financially viable for them to do so in the long term. The recent experience of other operators provides a strong business justification for the extremely cautious approach by the remaining regional operators Qantaslink and Rex.

Document tendered by <i>Julie Rebertsen</i>
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2. Financial Viability

In attempting to attract another RPT service provider, we understand that there are a number of factors which contribute to the lack of financial viability for regional aviation. They are:

- Access to Sydney Airport – it can cost up to \$1,000 for each turnaround at Sydney Airport after landing, departure and baggage facility fees have all been taken into account. This is a significant fixed cost which needs to be paid regardless of passenger numbers.
- Operating Costs – these are largely fixed costs in the form of fuel, routine maintenance and the employment of staff. The operation of older aircraft pushes the costs of maintenance up significantly, but the minimal returns available on routes with small passenger numbers makes investment in newer planes virtually impossible.
- Licencing Costs – the estimated upfront cost of obtaining an RPT licence is approximately \$150,000 which includes the actual application fee and establishment costs.
- Airfare Revenue – there is limited ability for the full recovery of costs through the setting of higher airfares. Many passengers utilise services for medical reasons and they simply cannot afford to pay higher airfares.

3. Addressing a Critical Community Need

There is strong demand for air services between Mudgee and Sydney to service a strong and diverse local economy. We have a rapidly expanding mining sector and thriving wine industry both of which rely heavily on the air service to transport consultants, technicians and professional staff between Mudgee and Sydney. The current lack of a service leaves local businesses with no option but to drive directly to Sydney, or to Dubbo for an onward flight to Sydney. The productivity and efficiency of these local businesses is severely impacted as travel time represents an opportunity cost which cannot be recovered.

The service is also critical to provide medical access for local residents to specialists. A number of visiting specialists would utilise the air service so that they could complete a day of appointments in the Region. This is no longer happening as the majority of specialists cannot spare the additional travelling time. A speech pathologist and psychologist have both withdrawn their services as a result. Many residents would also travel to Sydney for medical appointments or treatment when the air service was operating. Making alternative travel arrangements is very difficult for unwell or elderly patients.

As a significant tourism area, we attract a large number of conferences and major events to the Region each year. Access to an air service is often a critical factor in the ability to attract these large conferences and events. We recently received notification that a large conference scheduled for later this year was being cancelled due to the absence of an air service.

The lack of an air service has a critical impact on the economic sustainability and liveability of the Region. In the short term, it is impacting on the attractiveness of the Region as a location to establish new business or to relocate to a regional area. In the long term, it will contribute to businesses and residents leaving the Region for more accessible locations.

4. Possible Solutions

As explained above, we believe there are no commercial operators willing to provide air services on routes with less than 20,000 annual passengers in regional NSW due to the lack of financial viability. Therefore, serious consideration needs to be given to other more innovative solutions to ensure that regional aviation cannot only survive but once again thrive in servicing communities across regional NSW.

Hub and Spoke Model

The Hub and Spoke model has been raised as an option for regional aviation. We have investigated this option for Mudgee passengers. However, the nearest hub would be Dubbo which would add both time and distance to the trip to Sydney and would also attract a higher airfare, all of which are undesirable from a passenger perspective.

Mudgee is well positioned to act as a Hub for smaller regional and remote communities such as Narrabri, Coonamble, Coonabarabran etc. Whilst this would help to boost annual passenger numbers through Mudgee Airport, none of the current regional operators are interested in this "milk run" solution.

Regional Aviation Subsidy

Serious consideration should be given to providing subsidies to support regional aviation, where the annual passenger numbers are below what is commercially attractive for a large operator to service (for example, routes with less than 20,000 passengers). The decision to provide services for routes with small passenger numbers should not be left to the market, because no operator would decide to fly to a town regularly if it will knowingly lose money.

A subsidy could be provided whereby an operator is guaranteed a fixed percentage return per annum on its costs (eg. 5%) to make servicing regional NSW more attractive. We understand some other states have provided subsidies in the past to address the shortage of operators willing to service inland areas.

Licence Requirements for Charter Operators

We understand that proposed reforms to licencing arrangements by CASA will open up the operation of regular air service routes to current charter operators by abolishing the distinction between small regular public transport operations and charter flights.

We have been contacted by numerous charter operators who would be interested in providing air services between Mudgee and Sydney. The current CASA rules prohibit charter operators from providing "scheduled services" which essentially means they cannot publicly advertise seats available for regular flights to Sydney.

Under the proposed changes, small aeroplanes (with a maximum of 9 seats) would be operated under Part 135, which would provide common levels of maintenance and safety for current charter and RPT operators. As these changes would increase the ability of regional communities to attract or re-establish a regular air service, it is important that the timing of introducing these changes occurs sooner rather than later. The proposed changes would bring Australia into line with international standards.

Once again, thank you for the opportunity to participate in this inquiry. The issue of regional aviation is at the heart of many regional towns like Mudgee and we look forward to seeing some positive developments in this area in the future.

Should you have any queries in relation to this matter please contact Brad Cam on 02 6378 2820.

Yours sincerely

A handwritten signature in black ink, appearing to be 'B. Cam', with a horizontal line extending to the right.

BRAD CAM
GENERAL MANAGER