

**Submission
No 65**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Bega Valley Shire Residents & Ratepayers Association

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BEGA VALLEY SHIRE RESIDENTS & RATEPAYERS ASSOCIATION Inc

Registration No. INC9897717

The Director,
Standing Committee on State Development
Legislative Council,
Parliament House,
Macquarie Street,
SYDNEY. NSW. 2000.

Correspondence to:
The Secretary,

By Email: statedevelopment@parliament.nsw.gov.au

June 30th, 2014.

Attention: Ms Donna Hogan

Dear Ms Hogan,

In response to the invitation extended by the chair of the NSW Legislative Council's Standing Committee on State Development, the Hon Rick Colless MLC, dated June 25th, 2014, the Bega Valley Shire Residents & Ratepayers Association (BVSRRRA) is delighted to make a submission to the Committee's Inquiry into Regional Air Services in New South Wales.

For the information of the Committee, the BVSRRRA is a voluntary, community-based, not-for-profit organisation concerned with local government affairs in the Bega Valley Shire, with a current membership of around 150 residents & ratepayers.

The BVSRRRA believes that it is important to acknowledge that it claims no special knowledge or qualifications in the area of air services, nor a particularly strong understanding of the workings of government in the formulation of strategy & policy, beyond the experience of its Members, in particular at a local government level.

Having said that, the BVSRRRA has an abiding interest in pursuing & supporting policy initiatives & strategies that will serve the best interests of the residents/ratepayers of the Bega Valley Shire, whilst also serving the best interests of New South Wales & Australia.

It is for those reasons that the BVSRRRA would like to make some contextual comments about the nature & importance of regional air services generally, before offering specific comments in response to the Inquiry's terms of reference.

Background Context

The BVSRRRA is firmly of the view that the need for government to be involved in the provision of regional air services is no different to its need to be involved in the provision of other kinds of essential infrastructure serving the needs of our country, including roads, hospitals, schools, energy networks, telecommunications etc.

As is the case with other types of essential infrastructure, the BVSRRRA believes that there is a critical role to be played by all levels of government in the provision of regional air services. Having said that, the BVSRRRA believes that the current 'system' for managing regional air services is disjointed if not dysfunctional due to the absence of coherent integrated policies & strategies shared & supported by all levels of government.

2.

Whilst the BVSRRRA respects the efforts of the Committee to address the issue of regional air services in NSW, it believes that the Committee's overarching imperative must be to pursue a comprehensive commitment by governments at all levels to facilitate the development of integrated & aligned policies & strategies to achieve a holistic approach to the future development of regional air services, not just in NSW, but across the entire country.

The BVSRRRA believes that such an approach should recognise the financial limitations & responsibilities of the various levels of government for the various funding requirements necessary to establish, maintain & grow regional air services.

For example, the BVSRRRA believes that it is simply not practical for municipal government to be expected to assume responsibility for the capital cost of providing airport infrastructure & that such responsibility should clearly rest with the federal government.

Acceptance of such responsibility by the federal government should result in capital funding requirements being included in annual budgets, just as are provisions for other infrastructure projects, rather than municipal government having to rely on a 'hit & miss' hand-out system of grants as is currently the case.

The BVSRRRA would also argue that the capital cost of providing air service infrastructure required under commonwealth legislation, such as security screening, air traffic control & emergency safety services, should also be funded by the commonwealth.

And finally, the BVSRRRA believes that the commonwealth government has a responsibility to work with & support state & municipal governments to ensure that regional air services are afforded access to commonwealth regulated facilities & services at an equitable cost.

The BVSRRRA believes that the principle role of state governments should be to ensure that there is a regulatory framework in place to facilitate the development & operation of efficient & effective regional air services across the state, taking account of the balanced interests of all stakeholders, including regional communities.

At the same time, the BVSRRRA believes that state governments should meet the capital cost of airport operators in satisfying the requirements of state legislation, including the provision of safety & emergency services.

The above division of financial responsibility would leave municipal government with the local role of managing & maintaining air services infrastructure, including meeting maintenance costs for facilities & providing the necessary human resources required to operate them.

The BVSRRRA also believes that state & commonwealth governments should take the 'in-principle' view that regional air service facilities being operated by municipal government on a "cost centre" basis should be able to access support subsidies, whilst regional air services which have grown to sufficient stature to be operated as "profit centres" should not be eligible for support subsidies.

3.

As stated at the outset, the BVSRRRA understands that achieving a holistic approach to regional air services by all levels of government is beyond the remit of the Committee however, the BVSRRRA believes that it is open to the Committee to use its report & recommendations to pursue such an integrated approach to policy & strategy development for regional air services, in particular in respect of the financial accountabilities involved.

The BVSRRRA believes that unless the Committee uses the opportunity presented by its Inquiry to pursue a total government approach to the issue of regional air services, the existing issues & problems will continue to act as a sea anchor on the future viable development of those services, regional Australia & its communities.

Specific Responses to Terms of Reference

1. *Cost of access to Sydney Airport, regional New South Wales airports & other landing fields including:*

- a) airport operator landing fees imposed at various airports and services & facilities included in those fees;***
- b) methodology for calculating landing fees for different classes of aircraft.***

The Sydney/Merimbula RPT service is currently a regulated service, with the licensed air service operator being Rex Airlines.

The BVSRRRA understands that the cost to Rex Airlines of access to aeronautical services & facilities at Sydney Airport is currently regulated, with the charges for such services subject to approval by the ACCC.

The BVSRRRA believes that such regulatory controls are essential to ensuring that the regional air service remains viable & that air service operators are not denied access to the critical port of Sydney by 'price' factors.

The BVSRRRA understands that Merimbula Airport applies an \$11 'per passenger' charge on RPT services & in return provides a sealed runway, taxiway & apron, a passenger terminal & car parking facilities.

The BVSRRRA believes that income from the current landing charge is insufficient to meet the ongoing maintenance costs of the airport & this must be augmented by contributions from residents/ratepayers. On that basis, the BVSRRRA believes that the removal of the passenger charge would render the operation of the airport unviable.

Whilst the BVSRRRA believes that the current landing charge represents only a small part of ticket prices, it accepts that commercial considerations make it difficult for Rex Airlines to accommodate an increase to those charges.

At the same time, the prospect of additional financial burdens arising for airport operators, whether through additional costs incurred in satisfying new regulatory requirements or just everyday cost increases, acts to underscore the fragile nature of the current business model.

4.

The BVSRRRA believes that regional airport access charges should be subject to regulatory approval by IPART, whereby a minimum per capita passenger landing fee should be determined in order to allow airport operators to at least recover their annual airport maintenance costs. The BVSRRRA believes that the minimum fee could be determined annually based on the prior year's audited passenger volumes & full year maintenance costs.

In the case of regulated routes, the BVSRRRA believes that airport operators should not be permitted to charge a landing fee higher than the set minimum whilst, in the case of non-regulated routes, air service & airport operators should be allowed to negotiate the quantum of any landing fees beyond the minimum fee.

By regulating the basis for determining minimum passenger landing fees, the interests of both air service & airport operators are protected, in particular in the case of regulated routes.

2. Financial management and viability matters impacting on RPT operators, including:

- a) economics of operating various types of aircraft, including modern single engine turbine compared to older twin engine piston aircraft;**
- b) impacts of compliance costs, including per passenger costs;**
- c) suitability of "hub and spoke" systems for potential routes for smaller passenger numbers;**
- d) the viability of passenger loading for different classes of aircraft.**

The BVSRRRA believes that these issues are quite vexed in the context of the current regional air services model, in particular where the commercial imperatives of an air service operator in wanting to introduce larger aircraft to maximise passenger loads & cost efficiencies might also give rise to significant cost increases for airport operators as a result of having to meet additional regulatory requirements.

The BVSRRRA believes that these conflicting interests are an even larger problem in the case of regulated routes as the impact of associated cost increases can be much harder to manage for smaller regional airport operators.

The BVSRRRA believes that if the funding responsibilities proposed at the beginning of its submission were adopted, air service & airport operators would be more likely to co-operate with each other in the development of more robust regional services, in particular if accessing capital funds for airport improvements was dependent on the commercial merit of the supporting business case.

The BVSRRRA believes the above issues are pertinent to the development of Merimbula Airport & regional air services for the Bega Valley.

Having said that, the BVSRRRA also agrees with Bega Valley Shire Council (BVSC) that the further development of tourism is crucial for the viable development of successful air services in the region over the longer term but it does not believe that tourist air travel volumes will significantly increase in the short to medium-term, based on current plans & initiatives.

5.

The BVSRRRA believes that there are currently a number economic barriers to increased tourist passenger volumes being achieved through Merimbula Airport, not only including the relatively high cost of airfares. Even if the Sydney route was deregulated & air service operators offered lower fares, the BVSRRRA does not believe that the tourist volumes forecast by BVSC would eventuate.

The BVSRRRA believes that the evidence in support of its contention lies in the fact that the Melbourne route is unregulated, but there has been no move to provide discounted passenger services from that airport or from the nearby airport of Canberra.

The fact is that the majority of tourists visiting the south coast of NSW are from Victoria & they travel by road in order to bring caravans. Likewise, the majority of tourists coming from surrounding regions travel by road as, at the end of the day, access is relatively easy & economical & they understand that they will still need a vehicle once they get here.

The BVSRRRA believes that far from building tourist numbers through Merimbula Airport, lower airfares will simply make the commercial operations of air service providers less viable & create added pressure for access to reduced fares from business travellers & local communities, whilst ultimately rendering the future viability of air services in the region unsustainable.

To add to its 'glib' view of future air tourist potential, the BVSRRRA also believes that BVSC's plans to build air passenger volumes to capitalise on planned cruise ship operations into the port of Eden are ill-conceived.

Whilst the BVSRRRA hopes to be proved wrong, it has seen no evidence that planned cruise ship activity at the port of Eden will underpin an increase in passenger volumes through Merimbula Airport.

Even if increased passenger volumes did eventuate, the BVSRRRA believes that the economic value would be quite small, as lower airfare costs would simply undermine the profitability of air service providers, whilst what would essentially be a transit service would add little real value to the local economy.

The BVSRRRA does not believe that the future of Merimbula Airport can be secured in the short to medium-term via air passenger growth in tourism. Having said that, the BVSRRRA believes that there are far more lucrative opportunities available to achieve the same result, if the necessary investment can be found to underwrite the required infrastructure.

The BVSRRRA believes that BVSC should be focusing on encouraging this kind of local development which will, in its opinion, generate more wealth for all stakeholders, including the local economy, than an increase in air tourist numbers will.

At present there is a real opportunity on the south coast of NSW for the establishment of a quality Convention facility, incorporating accommodation & related activities. Whilst there are presently a number of venues which can cater to significant functions up to 250 people, they cannot provide on-site accommodation, which raises an immediate logistics challenge for groups wishing to be located & supported in the one venue.

6.

The BVSRRRA believes that the development of such a facility within a reasonable distance of Merimbula Airport would significantly enhance passenger volumes without the need to discount airfares, whilst also contributing significant economic value to the economy of the shire.

Members of groups attending conventions/conferences would also be able to access the many facilities available on the south coast, contributing to their viability & profitability.

Such a facility would be of appeal to both local organisations & groups, as well as those from overseas. It is also reasonable to assume that a significant number of convention/conference visitors might return for private holidays with family on future occasions, thereby creating further economic value.

The BVSRRRA believes that the convention/conference market holds far greater potential for the future viability of both Merimbula Airport & the local economy, whilst minimising the potential loss of economic value that often accompanies the pursuit of high volume tourist numbers.

Of far greater potential importance is that such a facility would provide a much stronger local economic base to underpin the future development of Merimbula Airport, ultimately securing its transformation from a “cost centre” based model to a “profit centre” based model, to the benefit of the entire region & the wider economy.

Turning to the question of the proposed “hub & spoke” model, the BVSRRRA supports the adoption of this proposal however, it does not think that it has an application in the case of the Bega Valley at this point in time.

On the question of compliance costs, the BVSRRRA has already enunciated its position above.

3. Economic impact on regional communities of gaining or losing RPT services, including:

- a) the local business community;**
- b) the impact on general aviation and regional airport management of the gain or loss of RPT services to regional centres;**
- c) the potential for future economic development;**
- d) impacts for local, state and Federal governments, including licencing arrangements for services less than 50,000 passengers per annum**

The BVSRRRA believes that the loss of RPT services in any part of regional Australia represents a significant economic set-back for all the communities concerned however, to remove or deny access to such services is to remove a crucial building block for regional economies & to ignore the disadvantage such communities already face in comparison to major urban centres.

The BVSRRRA believes that the provision of RPT services represents one of the few significant opportunities for regional communities to develop sustainable economies over the medium to long-term & that government at all levels should be taking every opportunity to use the provision of such services as a basis for securing the long-term viability of regional communities.

7.

In arriving at its position on the economic impact on our community of a loss of RPT services, the BVSRRRA held discussions with another community organisation – the Merimbula Airport User Group (MAUG).

MAUG counts among its members business & aircraft owners & operators whose operations are domiciled within the Merimbula Airport precinct.

MAUG expressed serious concerns about the viability of the activities of its Members if the current RPT services to Merimbula were discontinued, in particular as they believe that BVSC would not be able to maintain the operation of the Airport in such an eventuality, thereby rendering their businesses inoperable.

Quite apart from any implications that the loss of RPT services would have for MAUG, the BVSRRRA contends that Merimbula Airport is a key contributor & future enabler of the economy of the Bega Valley Shire & the loss of those services would cause irreparable economic loss & damage to the entire Shire, as well as significantly stifling opportunities for its future economic development.

The BVSRRRA understands that the current passenger profile at Merimbula Airport is predominately business related, reliant on timely, convenient & affordable access to capital city destinations.

At the same time, the service also provides crucial access to medical services both locally & in capital cities, whilst also affording critical access to intrastate & overseas air services. The retention of the RPT service is therefore crucial to the local economy & the health & wellbeing of communities within the Shire.

In addition, Merimbula Airport acts as a hub for economic activity in its own right, attracting related air service & other businesses. In the view of the BVSRRRA, the loss of the RPT service would sound a death-knell for such businesses & significantly damage the local economy & its future prospects.

The BVSRRRA believes that RPT services represent a cornerstone for both regional airports & regional economies. Whilst the BVSRRRA believes that it is important that regional airports & economies must develop the economic capacity to thrive free of government subsidies, it also believes that they can only do so if there is a degree of assistance provided in the early stages of their development.

The BVSRRRA believes that providing such assistance is a crucial role for all levels of government & one that governments at all levels must fulfil.

- 4. Potential for development of future modern RPT aviation including:**
- a) opportunities for regional aviation manufacturing and servicing;**
 - b) the development and supply of sufficient numbers of trained and skilled aviation personnel;**
 - c) local, state and Federal government arrangements for staff travel;**
 - d) opportunities for dual use RPT services to include both freight and passenger legs on the same routes.**

8.

As previously stated, the BVSRRRA believes that regional airports are not only of economic value in their own right, but that they represent a cornerstone or pivot point off which regional economic growth can be leveraged. The BVSRRRA believes that all levels of government have a role to play in enabling & fostering this economic potential.

The BVSRRRA believes that the air services sector & therefore regional economies are dependent on having reliable access to a skilled workforce in all disciplines, including pilots, air traffic controllers, airport managers & operational staff, & engineering & maintenance staff. The BVSRRRA believes that an integrated approach to providing for the ongoing training & development of these crucial human resources is essential to the long-term viability of the air service & airport operators who employ them.

The BVSRRRA believes that regional communities are looking to all levels of government to reassure them that regional air services will be maintained & that government is committed to the development of these services & their associated infrastructure in ways that will underpin & secure their long-term economic health & wellbeing.

5. *Any other matter relating to the provision of aerial regular passenger transport services.*

The BVSRRRA wishes to reiterate its call for the Committee to use its Inquiry to advocate for a commitment from all levels of government to pursue an integrated & aligned strategy in support of all regional air services & airport operators across Australia, & in doing so to encourage all governments to recognise & accept their specific roles & responsibilities in that regard, but in particular their financial responsibilities.

In conclusion, the BVSRRRA once again thanks the Committee for extending an invitation to offer a submission to its Inquiry into regional air services.

We would appreciate the Committee advising the BVSRRRA when it will be free to circulate its submission to the Association's Members & other interested parties.

Finally, should you or the Committee wish to pursue any discussion or pose specific questions in respect of this submission, please do not hesitate to contact the undersigned.

Sincerely,

John Richardson
Secretary
Bega Valley Shire Residents & Ratepayers Association

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