INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Aviator Group

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14 March 2014

Hon Rick Colless MLC
Chairman
Standing Committee on State Development
Parliament House
SYDNEY NSW 2000

Dear Mr Colless

Inquiry into regional aviation services

The Aviator Group is pleased to provide this submission to the Standing Committee on State Development.

The Aviator Group is one of the largest and most experienced providers of general aviation services in Australia. The Group's operations include Search and Rescue (SAR), Marine Pilot Transfer, Executive Charter, Utility, Contract Services, Electronic News Gathering, Tourism, as well as Film and Photographic work.

Founded in the early 1990's, Aviator Group has grown to become a major player in the Australian aviation industry and as one of Australia's largest providers of general aviation solutions turns over more than $40m per annum.

The company's Aviair subsidiary will shortly be commencing regular public transport operations in single engine turbine aircraft to remote regional communities in Western Australia.

Yours sincerely

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SUBMISSION TO

THE NSW STANDING COMMITTEE ON STATE DEVELOPMENT

INQUIRY INTO REGIONAL AVIATION SERVICES

Glossary

INQUIRY INTO REGIONAL AVIATION SERVICES

14th March 2014

1.   Executive summary

Introduction and background

In December 2014 the New South Wales Legislative Council's Standing Committee on State Development announced that it was conducting an Inquiry into regional aviation services and Aviator Group was invited to make a submission to the inquiry.

Our submission makes for the following recommendations:-

1. Maintaining Sydney (Kingsford Smith) Airport regional air service operators' airport charges.
2. Introduction of legislation that requires regional airport owners to reinvest landing and passenger facilitation fees, the total amount of which would be matched by Government grants, in order to maintain and develop regional airport infrastructure for the future.
3. Introduction of regional airport reviews of passenger facilities to ensure that a regional airport is an inviting place to transit.
4. Change in regional airport charge methodology to fixed cost per passenger.
5. Introduction of a hub and spoke system the feeds **other marginal service towns** in order to offer marginal routes additional support which will assist protect their viability.
6. Allocation of Sydney Kingsford Smith Airport slots to the regional town and not the operating carrier.
7. Increasing the regulated route licencing quota from 50,000 passengers to 75,000 passengers per year.
8. Requirement for Government employees to utilise regional air services that offer the closest service to their destination without preferences caused by favour and loyalty.
9. Requirement for freight forwarders to utilise regular public transport services and the introduction of levy's chargeable to charter and freight operators that are used to support regional aviation.

2. Cost of access to infrastructure

Within the invitation to make a submission to the Inquiry, the Standing Committee articulated an interest in feedback relating to the cost of access to Sydney Airport, regional New South Wales airports and other landing fields including:

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

Cost of access to Sydney Airport

Charges for regional public transport operators delivering intrastate services, and accessing Sydney (Kingsford Smith) Airport, are guaranteed not to rise above the Consumer Prices Index in accordance with the Trade Practices Act 1974. A Declaration and Direction under the Trade Practices Act 1974 was issued on 2nd June 2010, to secure access for regional airlines and reasonable pricing at Sydney (Kingsford Smith) Airport.

Furthermore, under the prices surveillance provisions of the Competition and Consumer Act 2010, the ACCC has a role in assessing new or increased prices for services that Sydney Airport provides to regional airlines operating regular passenger flights wholly within New South Wales. The ACCC can decide to object or not object to the proposed price increases.

Meanwhile access to Sydney (Kingsford Smith) Airport for regional air services is protected under the Slot Management scheme. The Sydney Airport Demand Management Act allows for the ring fencing of peak hour slots utilised by intrastate regular public transport operators to ensure regional communities have access to the state capital city airport.

Sydney (Kingsford Smith) Airport is an important hub for regional Australians, allowing them to be connected to other parts of Australia and the world. Access to the state capital major airport is vital to those regional Australians having to utilise specialist medical facilities, those seeking to access wider educational opportunities, or to open up regional towns to business, educational and medical skills that may not be readily available nearby.

Sydney (Kingsford Smith) Airport currently applies the following charges to regional airlines operating intrastate services:

Sydney Airport Charges – intra-state airlines

Charge	Regional Airlines (Intrastate services)
Terminal 2 Passenger Use Charge	$4.50 (ex GST) per arriving and departing passenger
Runway Charge	$3.44 (ex GST) per 1,000kg MTOW per movement
Passenger & Airfield Security	$0.87 (ex GST) per embarking and disembarking passenger
Aircraft Parking	$35.00 (ex GST) per 15 minutes *45 minutes is included within thre Terminal 2 passenger charge.

Source: Sydney Airport

While the costs for access to Sydney (Kingsford Smith) Airport for regional airlines providing intrastate services in New South Wales appear low when compared to those charged to other operators, consideration must be made to the following:-

✔ *Volume vs Frequency*

Sydney (Kingsford Smith) Airport is dependent on passenger volumes rather than the frequency of airline services. As a result of capacity limitations due to aircraft movement capping and night time curfews, Sydney (Kingsford Smith) Airport will no doubt be under considerable commercial pressure to develop the number of larger interstate and international services which deliver passenger volume.

The example below highlights the commercial attractiveness to Sydney Airport of one rotation (one inbound and one outbound flight) operated by an interstate carrier compared to that of a regional intrastate service with a seat load factor of approximately 75%:

Sydney Airport Remuneration – comparative – regional service vs interstate service

	Route	Aircraft Type	Pax	Seat Load Factor	Aircraft MTOW	T2 Pax Use Charge	Runway Charge	Pax & Airfield Security Charge	
One arrival - One departure SLOT	Sydney - Mudgee	Beech 1900D	14	73.60%	7,764kg	$63.00	$41.25	$12.18	
	Mudgee - Sydney	Beech 1900D	14	73.60%	7,764kg	$63.00	$41.25	$12.18	
	Total		28			$126.00	$82.50	$24 36	$232.86
	Sydney - Brisbane	Boeing 767	190	74.80%	450,000kg	$1,706.20	$735.30	$361.00	
	Brisbane - Sydney	Boeing 767	190	74.80%	450,000kg	$1,706.20	$735.30	$361.00	
	Total		380			$3,412.40	$1,470.60	$722.00	$5,605.00
	Difference		**352**			**$3,286.40**	**$1,388.10**	**$697.64**	**$5,372.14**

Source: Sydney Airport and ACC LLC

Cost of access to Regional New South Wales airports

As recent study by the Tourism and Transport Forum (TTF) states a short term recommendation:

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"Immediately review the existing pricing system for intrastate (regional) airlines to improve the current inequitable payment model between resident airlines at Sydney (Kingsford Smith) Airport. Establish a pricing incentive for regional airlines to up gauge aircraft in use on intrastate routes to improve capacity and maximise slot efficiency. Increase the minimum aircraft size limits over time."

We believe this recommendation is ill-founded, imposes serious economic risk to regional airlines which may have serious consequences to their viability.

The cost of access to regional New South Wales airports is on the whole punitive in nature. Regional airport landing charges and passenger facilitation fees do not reflect the financial risk adopted by regional airlines to service small towns on routes that may only be considered marginal. These fees often levied by local councils, who by majority are the landlords of regional airport infrastructure, may be seldom reinvested into the infrastructure that the owners claim are providing a critical service to their regional communities.

The table below highlights the disparity in aircraft landing charges levied by Sydney (Kingsford Smith) Airport (which benefits from the economies of scales associated with heavy passenger volume) in contrast to charges in excess of 600% at some New South Wales regional airports.

Regional Airport Charges NSW (Annual pax in excess of 10,000)
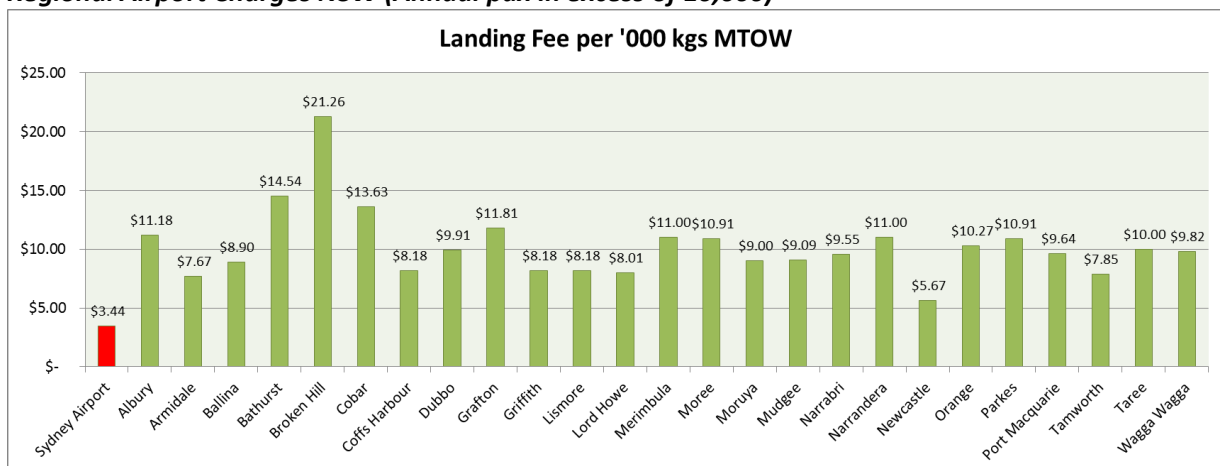
Source: Avdata & Council websites

Regional airlines are currently protected from increases to airport charges imposed by Sydney Airport. Since 2001, usage charges for regional airlines have not increased. As a result, it has been said that a subsidy to regional operations at Sydney (Kingsford Smith) Airport from international and domestic passengers has increased, with Sydney Airport's regional charges well below the charges applying at the regional airports.

This current fee structure for use at Sydney (Kingsford Smith) Airport is reported as creating an "inequitable payment model for Sydney Airport services among the resident airlines". Airlines operating trunk route interstate and international services say it is unreasonable to expect that because an airline operates only regional services it should be exempt from increases to reasonable operational costs that apply to other airlines.

When consideration is given to the gauge of aircraft used by regional airlines to service regional intrastate routes (the majority of which are marginal in passenger numbers), the frequency of service, past and forecasted patronage, and the sporadic regional population growth, it is not difficult to see that such routes would not viably respond to an increase in the gauge of aircraft that would be capable of delivering sustainable increased passenger volumes.

Intrastate destination	Range of aircraft seat capacity
Albury	33-72
Armidale	50
Broken Hill	33
Bathurst	33
Ballina	33-180
Cobar	18
Coffs Harbour	78-106
Dubbo	33-78
Mudgee	19
Griffith	33
Grafton	33
Lord Howe Island	36
Lismore	33
Merimbula	33
Moree	36
Moruya	33
Narrabri	19
Narrandera	33
Newcastle	19
Orange	33
Cooma	19
Parkes	33
Port Macquarie	72-78
Tamworth	78
Taree	33
Wagga Wagga	33-78

Source: OAG Schedule Mapper

New South Wales regional airports face considerable challenges in maintaining, let alone growing, the infrastructure they provide to their local communities.

Ring-fencing airport fee's collected by regional airports for development of aerodrome infrastructure

For the future long term viability of regional aviation it is essential that owners of regional aerodromes reinvest the funds generated by landing and passenger facilitation fees into developing and modernising their infrastructure. It is only through the investment in infrastructure that regional airports will be able to be positioned to serve their communities in the future.

However the investment of fees generated by regional airports alone will not be sufficient to meet the capital costs associated with modernising passenger conveniences such as departure lounges, or bare essential needs for future proofing regional aviation such as runway strengthening, lengthening and widening. This is particularly so for airports that have low (sub 50,000 passenger per year) patronage and do not benefit from volume collection of passenger facilitation charges.

The table below highlights that while populations in the regional towns of New South Wales that benefit from regular public transport air services with passenger numbers in excess of 10,000 are not in decline, population growth is significantly below the national average.

Population in Regional Airport vicinities (Annual pax in excess of 10,000)
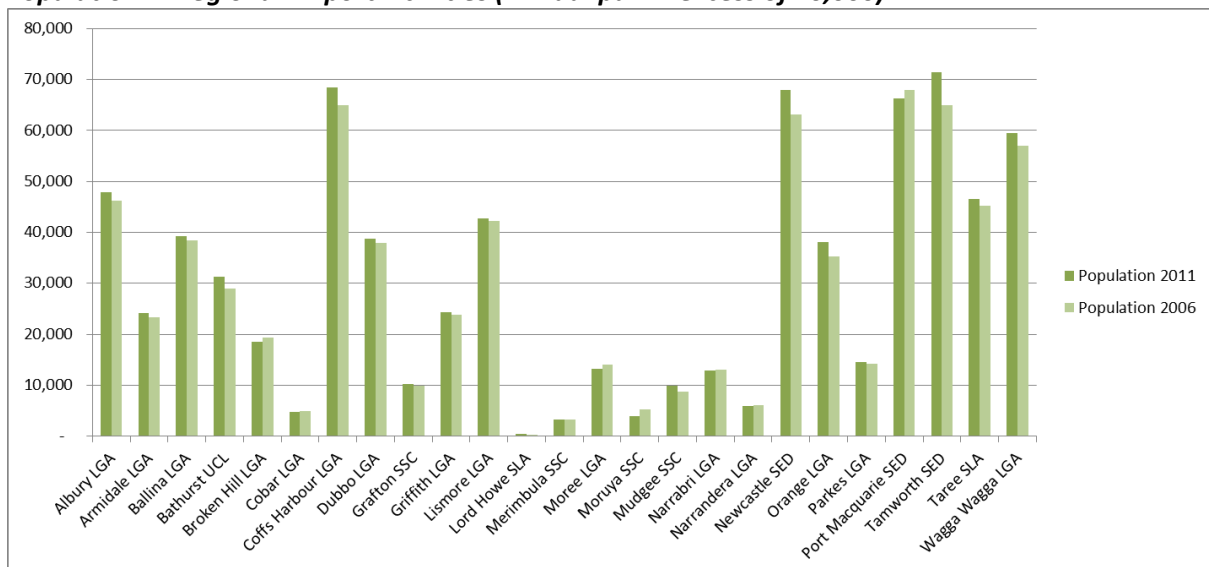
Source: ABS Census Data 2011 & 2006

In the 2011 Census it was reported that Moree had a population of 13,249, a decline of 5.2% against the Census completed in 2006. During the financial year ending 2013 Moree benefited from 1,092 regular public transport flights that carried 27,040 passengers. Based on the MTOW (maximum take-off weight) for a Bombardier Dash 8 200 aircraft of 16,400kg, the revenue generated by Moree Plains Shire Council from landing fees and passenger facilitation fees would equate to $519,865. This estimate in revenue generated by the airport through regular public transport operations shows by example that the revenue is alone insufficient to cover the costs of care, maintenance, and upgrade of the airport while allowing for capital to be raised for more substantial improvements to infrastructure.

Passenger volume at Regional Airports (Annual pax in excess of 10,000)
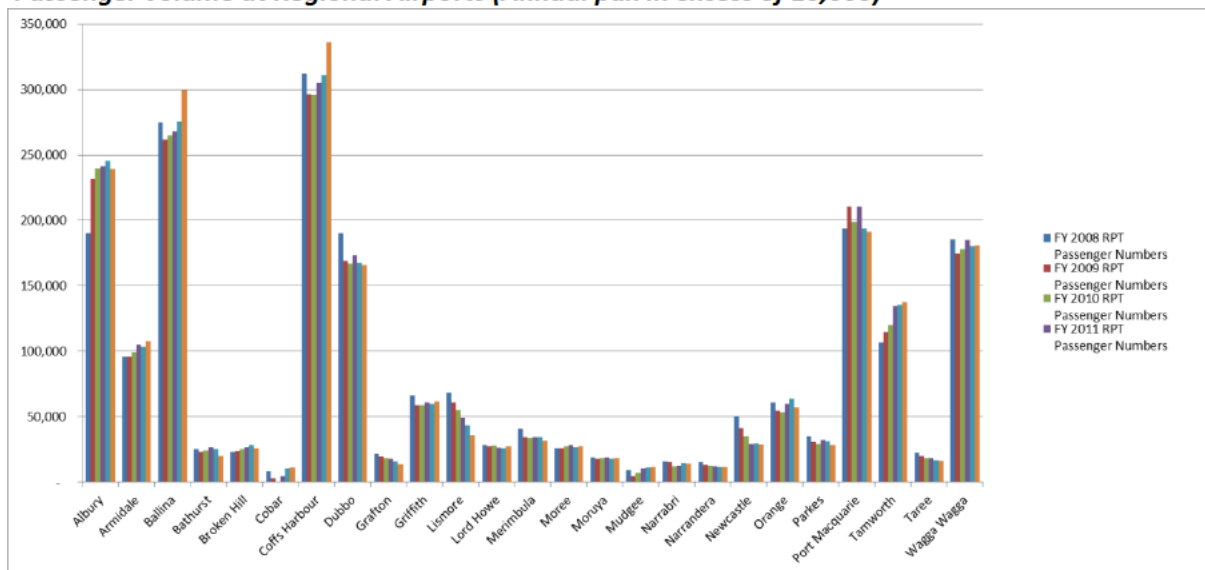
Year on year variance Passenger volume at Regional Airports (Annual pax in excess of 10,000)

	Albury	Armidale	Ballina	Bathurst	Broken Hill	Cobar	Coffs Harbour	Dubbo	Grafton	Griffith	Lismore	Lord Howe	Merimbula
FY 2009 vs 2008	21.92%	-0.16%	-4.78%	-7.86%	0.59%	-65.33%	-5.09%	-11.11%	-9.99%	-11.80%	-11.27%	-4.66%	-15.27%
FY 2010 vs 2009	3.47%	4.18%	1.35%	5.54%	7.07%		-0.19%	-1.20%	-5.82%	-0.07%	-9.96%	1.79%	-1.01%
FY 2011 vs 2010	0.48%	5.36%	1.14%	10.28%	6.74%		3.14%	3.45%	-1.51%	3.12%	-10.12%	-5.23%	1.05%
FY 2012 vs 2011	1.89%	-1.56%	2.62%	-6.18%	5.66%	111.54%	1.85%	-3.30%	-12.04%	-1.67%	-12.39%	-1.89%	0.90%
FY 2013 vs 2012	-3%	4%	9%	-20%	-9%	15%	8%	-1%	-12%	4%	-17%	6%	-7%

	Moree	Moruya	Mudgee	Narrabri	Narrandera	Newcastle	Orange	Parkes	Port Macquarie	Tamworth	Taree	Wagga Wagga
FY 2009 vs 2008	-0.06%	-4.45%	-51.07%	-2.83%	-13.75%	-19.03%	-10.14%	-13.03%	8.41%	7.72%	-11.46%	-5.97%	-2.80%
FY 2010 vs 2009	5.27%	1.01%	59.78%	-17.92%	-3.98%	-15.04%	-2.16%	-4.18%	-5.37%	4.64%	-6.63%	1.97%	-0.27%
FY 2011 vs 2010	3.97%	4.15%	44.43%	3.91%	-3.05%	-16.05%	12.10%	10.21%	5.67%	11.93%	-0.39%	3.95%	3.46%
FY 2012 vs 2011	-5.05%	-6.37%	13.32%	14.55%	-2.30%	2.77%	6.80%	-3.25%	-7.76%	0.95%	-8.82%	-2.45%	-0.55%
FY 2013 vs 2012	2%	3%	2%	-5%	-2%	-4%	-11%	-10%	-1%	1%	-2%	0%	1.02%

✗   Very minor population growth in regional towns

✗   Regional population growth lags behind metropolitan population growth

✗   Regional airline negative passenger growth in 3 out of 5 years

✗   Falling income for regional airports particularly on marginal routes

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The need of Government financial assistance to regional airport infrastructure.

Customer proposition at airports in New South Wales

The table below illustrates some of the facilities available to regular public transport passengers. Some of the most expensive airports by landing charge and passenger facilitation fee offer the weakest customer proposition.

Facilities at Regional Airports (Annual pax in excess of 10,000)

	Paid parking	Free Parking	Public transport connections	Taxi Stand	Toilet Facilities	Dining Facilities	Hotel accommodation	Airline Lounges	Retail outlet	Car rental outlet	Onsite police or security
Sydney	✔		✔	✔	✔	✔	✔	✔	✔	✔	✔
Albury	✔		✔	✔	✔	✔		✔	✔	✔	✔
Armidale	✔			✔	✔	VEND				✔	✔
Broken Hill		✔		✔	✔	✔				✔	
Bathurst		✔		✔	✔	VEND				✔	
Ballina	✔		✔	✔	✔	✔			✔	✔	✔
Cobar		✔		✔	✔					✔	
Coffs Harbour	✔		✔	✔	✔	✔		✔	✔	✔	✔
Dubbo	✔		✔	✔	✔	✔		✔	✔	✔	✔
Mudgee		✔		✔	✔	VEND				✔	
Griffith		✔		✔	✔	VEND				✔	
Grafton		✔		✔	✔	VEND				✔	
Lord Howe Island		✔	✔	✔	✔	VEND					
Lismore						VEND					
Merimbula											
Moree		✔		✔	✔	VEND				✔	
Moruya		✔		✔	✔					✔	
Narrabri		✔		✔	✔	VEND				✔	
Narrandera		✔		✔	✔	VEND				✔	
Newcastle	✔		✔	✔	✔	✔	✔	✔	✔	✔	✔
Orange		✔		✔	✔	✔				✔	
Cooma		✔	✔	✔	✔	✔				✔	
Parkes		✔		✔	✔	VEND				✔	
Port Macquarie	✔		✔	✔	✔	VEND				✔	
Tamworth	✔		✔	✔	✔	✔		✔	✔	✔	✔
Taree	✔		✔	✔	✔	✔				✔	
Wagga Wagga	✔		✔	✔	✔	✔			✔	✔	✔

Source: Qantas.com / Airport websites / Personal surveying

Some airports which are not equipped with dining facilities lack self-vend refreshment and snack machines, which in addition to improving the customer proposition for passengers are also revenue generating for the airport.

Methodology of fee calculation for airports in New South Wales

Currently regional airports apply charges to airlines by means of a landing fee, which is normally a fixed rate per 1,000kg of the aircraft MTOW (maximum take-off weight) plus a passenger facilitation fee.

Such a charging regime:-

- **✗** Discourages airlines from operating larger and more modern aircraft equipment to regional airports; and
- **✗** Is particularly punitive to an airline operating a marginal route (sub 50,000 passengers per annum) resulting in landing fees being applied with full vigour when an aircraft is only carrying a light load of passengers.

We recommend that regional airports apply a consolidated fixed charge per passenger which incorporates a landing fee and passenger facilitation fee. Doing so would result in:-

- **✓** Greater incentive for airlines to operate larger and more modern aircraft when demand warrants it; and
- **✓** Greater incentive for airlines to up-gauge an aircraft at a time when a lower gauge aircraft is unserviceable rather than cancelling a service.

3. Financial viability matters impacting RPT operators

The Standing Committee articulated an interest in feedback relating to the 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.

Economics of operating various types of aircraft and compliance costs

The sharp rise in aviation fuel prices annually since 2003 has increased the urgency for airlines to improve their overall cost efficiency and productivity levels. Airlines who are dedicated to the regional operating environment suffer from sizeable cost gaps between mainline network carriers and new low cost carriers.

The emergence and growth of low cost carriers has highlighted the need for many existing airlines to improve their cost efficiency and has heightened consumer expectations of access to discounted and more attractive fare pricing.

The sharp rise in oil and aviation fuel prices has added greater urgency to the need to make progress with cost saving initiatives. The average crude oil price has increased from $28.90 per barrel in 2003 to $98.50 per barrel in 2014. Major airlines and network carriers strive to procure and operate more fuel efficient aircraft, and carry a greater number of passengers per aircraft movement, which in turn allows greater use of tactical pricing and the low lead in fares to long haul destinations that we see today.

Regional airlines, however, are not in a position to simply up gauge aircraft to more fuel efficient machines due to the fact that regional airport infrastructure is not capable of accepting larger aircraft, and the volume required to allow an airline to operate such machinery viably is not present.

Currently there is no sub-50 commercial passenger aircraft in production, with aircraft manufacturers concentrating on producing larger aircraft that allow a reduced cost per passenger.

The lack of aircraft entering the commercial airline market that will replace small commercial turbo prop aircraft that operate in regional Australia today is deeply concerning and there is a very real risk of rural Australia being further distanced from larger towns or capital cities unless airport infrastructure is upgraded <u>and</u> regional populations grow sufficiently to warrant the services of a regional airline.

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Regional airline major cost units and cost saving handicaps

Cost Category	Cost Item	Level for reducing cost	Regional carrier handicap
Aircraft Ownership Costs	Ownership structure	Anti-cyclical purchasing	Small choice of available aircraft
	Fleet structure	Fleet harmonisation	Small choice of available aircraft suitable for all regional destinations
	Aircraft utilisation	Reduce turnaround times	Lack of demand in regional aviation during off peak hours to secure optimal aircraft utilisation
Fuel costs	Purchasing costs	Bulk procurement	Inability to secure attractive fuel prices in regional airports due to logistics of fuel delivery
		Carry cheaper return fuel	Cost of carrying fuel outweights the benefits of purchasing cheaper fuel from Sydney
	Weight reduction	Limit baggage allowances	Creates poor customer perception
	Route efficiency	Reduce turnaround times	Lack of demand in regional aviation during off peak hours to secure optimal aircraft utilisation
Maintenance costs	Fleet	Fleet harmonisation	Small choice of available aircraft suitable for all regional destinations
	Service costs	Reduce fleet age	Regional turboprop in sub 50 seat market no longer in production. Fleet age will become older
		Optimise maintenance activities	Aging fleet will create increase in mainenence expenditure
		Consolidated purchasing	Airlines operating regional aircraft are often localed in geographically dissimilar locations.
Crew costs	Productivity	Maximise shift times to achieve greater productivity	As commercially viable regional schedules tend to operate only at peak times, crew utilisation is poor with crew often flying only a small number of hours per shift.
	Wage related costs	Reduced need for overnight stops	Regional often attrracts more senior crew seeking lifestyle career thus commanding higher salary requirements
	Crew costs	Reduced allowances for overnight stops	Greater difficulty recruiting due to less glamourous role that long haul internations destinations.

As illustrated in the above table, owing to the nature of regional aviation, regional operators suffer from a number of handicaps verses mainline network carriers in terms of ability to control cost.

The low-density, sub 1,000 mile (1,600 km) market, profitably built upon the capabilities and economics of the sub 50-seat jet and Twin Turbo Prop, faces a crisis. Once the great competitive hope of the regional airline industry, 50-seat jets and Twin Turbo Props are now becoming a liability that the industry as a whole needs to address to move forward. All the obvious stakeholders in this issue - OEMs looking to provide other options, regional airlines serving routes up to 1,000 miles, and major airlines tied to regional operators through codeshare and alliance partnerships will face the consequences of an aging fleet with no obvious replacement. Ripples from this situation will also extend through the financiers, lessors, and insurers behind these businesses. The market remains viable subject to appropriate support, the issues are immediate, and the current solutions are, at best, imperfect.

The economic benefits of the sub 50-seat aircraft helped to establish the regional airline industry as it exists today. With their attractive labour and overhead cost structures and higher unit revenues, regional airlines flying sub 50-seat aircraft flourished and profitably filled the gap that mainline network airlines could not. On an absolute basis these smaller aircraft had lower fuel consumption and lower pilot costs. Relative to the mainline network operators flying a larger aircraft on the similar length route a regional airline flying a sub 50 seater could achieve higher revenue per available seat kilometre and feed the rest of a wider network.

As a result, beginning in 1998, regional airlines consistently outperformed their mainline partners in annual profitability. With their margin protection the regional airline segment's EBIT margins never fell below 7%. The number of regional aircraft in service globally grew 48% annually in this period; of the regional aircraft deployments, 26% replaced mainline flying, and 36% represented new routes.

Ironically, as articulated in the table above the same levers that had previously given the smaller regional aircraft superior economics in thin markets began to contribute to the decreasing attractiveness of sub 50-seat flying. Three factors have contributed to the steepness of the current decline - a global recession, the comparatively poor economics of these smaller low capacity aircraft, and the willingness of the airlines to experiment with alternatives. Volatile fuel prices add to the economic challenge because sub 50 seat aircraft have higher relative fuel consumption compared to larger commercial aircraft. Furthermore, fixed operating costs for a 34 seat turbo prop aircraft, such as dispatch, flight planning, navigation, and pilot costs must be distributed across fewer seats, making these smaller aeroplanes inherently more expensive to fly. As the mainline carriers entered and emerged from bankruptcy in the USA post 11th September 2001 mainline pilot wages dropped, thus shrinking the difference between mainline and regional cost per available seat kilometre (CASK).

Looking ahead, the bleak future of sub 50 seat commercial aircraft poses a problem for operators with low-volume routes and aging sub 50-seat fleets. Despite manufacturers

eliminating production of sub 50 seat commercial aircraft at present the reality is that the regional industry will still need such aircraft – or at least a viable alternative – to replace their fleets as they age. Although the industry is biased against sub 50-seat aircraft today, regionals, manufacturers, and mainlines must collaborate and find an agreeable alternative.

Previous voices from the Transport and Travel Forum (TTF) that seek the common adoption of Sydney (Kingsford Smith) Airport handling fees to those charges for high capacity network operators, the stealth charging by regional airports for use of their limited facilities that lack capital investment, the lack of a replacement of aging sub 50 seat commercial passenger aircraft and the high costs (regulatory and direct operating costs) associated with regional aviation in Australia leads to a wholly unsavoury recipe.

Suitability of a "hub and spoke" system to connect marginal routes with regionals hubs

There is opportunity within regional New South Wales for the introduction of a "hub and spoke" system whereby smaller marginal routes can be fed by traffic stimulated from rural communities that would not otherwise sustain a regular public transport service. This would allow:

- ✓ a marginal route with low annual passenger volume (sub 20,000) such as Narrabri to Sydney to be supported by additional passengers being delivered from rural communities by small sub 20 seat passenger aircraft; and
- ✓ rural customers access to larger cities through connecting air services and reduced journey times.

In our opinion such a "hub and spoke" system to feed regional services should not be operated from larger regional towns such as Dubbo, Tamworth and Wagga Wagga as doing so would further detract patronage from other routes which are marginal in nature such as Narrabri to Sydney and may contribute to the possible demise of that town's service. Rather, we foresee that such a system would operate from smaller towns with a twice daily service to Sydney that are within proximity to the new rural communities that could be serviced.

Such a "hub and spoke" system could viably result in the reinstatement of regular public transport services to towns that were once serviced by regional operators but lost their services due to the early advancement of aspects that adversely effect regional aviation that have been mentioned earlier within this submission.

We believe, owing to the populations of such towns, their locale, and ability to support other marginal routes that the following hub and spoke system should be formed:

- ✓ Incorporating eight towns which are not currently serviced by regular public transport air services and connecting them to two existing marginal routes that connect Sydney by air.

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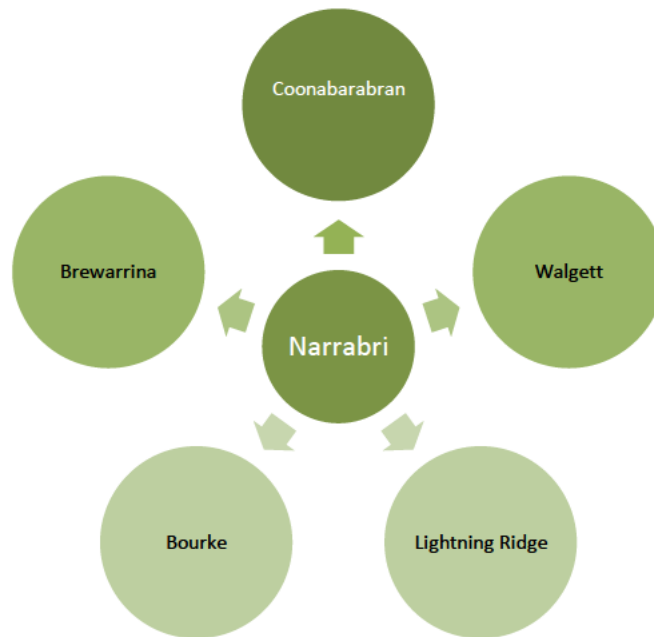
North East Feeder
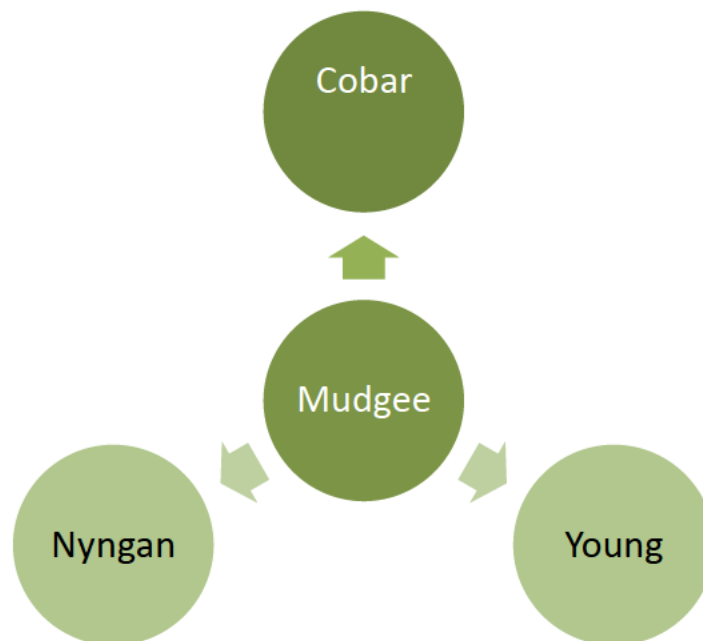
Western Feeder

To be commercially viable the price of airfares that would enable such a service would not be commercial attractive to consumers to warrant the operation of a "hub and spoke" network. It would be essential that either a state government subsidy or guarantees of government travel patronage or the like are provided to regional airlines operators.

It should be noted that a number of countries heavily subsidise regional aviation as a result of the past and forthcoming challenges ahead. For example, in China in 2014, to boost regional aviation, 23 airlines will receive a $150M subsidy for regional routes in 2014, a figure more than twice last year's subsidy.

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The Civil Aviation Administration of China spent more than 5 billion Yuan on subsidies in the past five years to support regional airlines, routes and regional airport construction.

Viability of passenger loading of different types of aircraft

As we have previously articulated the fact that sub 50 seat commercial aircraft are no longer in production, regional populations are suffering from sub optimal growth and regional airports are lacking infrastructure to accommodate heavier gauge aircraft, the outlook for regional aviation is not bright.

The only viable opportunity for the long term continuation of regional services, with exception to the successful development of a "hub and spoke system", will be for regional operators to increase the use of triangulated services that allow opportunity for them to benefit from greater customer audience associated with a multi stop service. From past experience we know that triangulated services are not a popular option with regional travellers and such services often result in people travelling by car instead as the time saving achieved by air when having to triangulate can be marginal when compared to a road journey.

4. Economic impacts of RPT services

The Standing Committee articulated an interest in feedback relating to the economic impact on regional communities of gaining or losing RPT services, including:

 a) the local business community;
 b) the impact of 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 licensing arrangements for services less than 50,000 passengers per annum.

Economic impacts on local business community

In addition to the increase in airport patronage that is naturally associated with regular public transport services in the regions, regional air services allow rural towns greater opportunity to integrate with greater New South Wales, the world and the broader economy.

Benefits exist in:

 ✓ Greater business activity outside of the regional town;
 ✓ Increased opportunity for importation of skilled workers as permanent residents to a regional community, as a reliable air service with often be considered where a person or a business relocates to a regional area; and
 ✓ Increased opportunity for importation of temporary skilled workers such as consultants delivering business improvement skills to regional businesses or visiting essential services such as medical specialists.

Impact of general aviation and regional airport management in the event of losing or gaining regular public transport services

We believe that it is certain a number of marginal regional routes operated in New South Wales will cease to exist in the near future owing to factors previously articulated. Already, we are seeing little interest in regional airlines taking up services to Cobar and Cooma that were lost in 2013 following the demise of Brindabella Airlines.

When a route is exited by a regional airline due to its lack of financial viability the airline typically ceases operations providing only a short period of notice, in some cases only a matter of weeks, before redeploying their aircraft to a route which may be more economically viable. Upon doing so, the premium Sydney slots with which the regional airline used to provide the marginal service will move with the carrier to be utilised for other services. As a result, there is a significant risk, due to the limited supply of peak hour slots at Sydney (Kingsford Smith) Airport that the regional town that has lost its service may also have lost access to the slots that would enable another carrier to attempt to resurrect a service to the town.

We recommend that slots used to access valuable infrastructure such as Sydney (Kingsford Smith) Airport are allocated and dedicated for the provision of services to a specific regional route, and in the event of a regional carrier exiting that route the slots associated to is would be retained until such time as an alternate operator can be found. In the present situation the exiting of a regional carrier from a marginal route places an alternate operator under significant pressure to obtain a suitable slot allocation that would enable the reintroduction of a regular public transport service potentially viable.

Licensing sub 50,000 passenger routes

It is essential for the protection of smaller regional carriers who invest significant sums of money on equipment and resources that the protection to a route by virtue of a licence is maintained. The granting of exclusivity in New South Wales where a route has fewer than 50,000 passengers annually allows an airline to commit to significant capital investment that makes a regional service possible. In fact, it should be considered that the benchmark of 50,000 passengers annually be lifted to 75,000 owing to the significant and ever increasing level of financial commitment required by an operator.

The withdrawal of a licencing regime would, we believe, lead to a significant decline in regional airlines services.

5. Development of modern RPT aviation

The Standing Committee articulated an interest in feedback relating to the potential 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 that include both freight and passenger legs on the same routes.

Opportunities for regional aviation manufacturing and servicing

Sub 50 seat commercial aeroplanes are no longer in production and all commercial aircraft used within the regional aviation sector in Australia are built overseas. We believe an opportunity for regional aviation manufacturing does not exist in Australia, and if it did the costs associated with it would be punitively priced.

Local, state, and Federal Government arrangements for staff travel.

It is of paramount importance that regional airlines that fall outside of the mainline network carrier operations are supported by local, state, and Federal government travel.

It is inexcusable when government employees travel by air on a major carrier to a regional town, only to rent a car or hire a public taxi to take them to their final destination which happens to be a town served by a smaller or less well known airline. It is frequent government travel by local, state, Federal officials, and essential services workers that assist the underwriting of a regional service that without such patronage would be unviable.

In cases of travel to regional towns, preferences created by commercial agreements between airlines and Government, rewards of loyalty bonuses, and certainly the facilitation of club or lounge access must be set aside.

Opportunities for dual use RPT services that include both freight and passenger

For the future sustainability of regional aviation to towns where often passenger numbers create questions over a routes viability, it is essential as much legislative support as possible is provided to the regional airline.

Regular public transport services already carry a degree of freight which may include essential supplier, documents and medicines.

Where a regional town is served by regular public transport we suggest that a licensing regime be created that governs the use of charter or freight airlines operating to such regional airports. Charter and freight services should be subject to either a prohibition of operating into such airfields or a regular public transport service levy that should be used as a contribution to state subsidies for regional passenger aviation.

Introducing the above would incentivise freight forwarders to utilise the services and capacity provided by regular public transport operators, thereby further underwriting the long term sustainability of a service.

6.   Conclusion

Aviator group is grateful for the opportunity to provide our views on regional aviation services in NSW to the Standing Committee on State Development.

If the Committee would like further information about the items contained in this submission, or clarification of any of the points we make, we would be very happy to assist.