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INQUIRY INTO REGIONAL AVIATION SERVICES

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INQUIRY INTO REGIONAL AVIATION SERVICES

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AUSTRALIAN
AIRPORTS
ASSOCIATION

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1. AUSTRALIAN AIRPORTS ASSOCIATION

The Australian Airports Association (AAA) is the national industry voice for airports in Australia. The AAA represents the interests of more than 260 airports and aerodromes Australia wide – from local country community landing strips to major international gateway airports. The AAA's members include Adelaide, Brisbane, Cairns, Canberra, Darwin, Gold Coast, Hobart, Perth, Melbourne and Sydney Airports.

The AAA serves airports across the entire national aviation infrastructure network. These include:

- Tier 1 Capital City Airports
- Tier 2 Non-Capital International Gateway Airports
- Tier 3 Major Regional Airports with direct interstate services
- Tier 4 Major Regional RPT airports without direct interstate services (with more than 20,000 passengers)
- Tier 5 Regional Airports without direct interstate services (with less than 20,000 passengers)
- Tier 6 Regional Airports without Regular Passenger Transport services (general aviation operations only)
- Tier 7 Remote Community Aerodromes (exist for community service aviation, medical emergency flights)

There are a further 100 corporate members who provide goods and services to airports. The Charter of the AAA is to facilitate co-operation among all member airports and their many and varied partners in Australian aviation, whilst maintaining an air transport system that is safe, secure, environmentally responsible and efficient for the benefit of all Australians.

If you have any questions regarding this document please contact the AAA National Office on 02 6230 1110.

Australian Airports Association

9/23 Brindabella Circuit

Brindabella Park ACT 2609

T: 02 6230 1110

F: 02 6230 1367

E: info@airports.asn.au

2. NEW SOUTH WALES REGIONAL AVIATION SERVICES

Over the last 20 years, traffic to regional New South Wales has grown, with a 221% increase in passenger numbers. There are presently 26 regional centres serviced by six airlines across New South Wales. The AAA represents 25 of the regional airports serviced.

Most of the significant regional airports in New South Wales were owned and operated by the Commonwealth Government prior to 1991. The ownership of these airports was progressively transferred to Local Government's with this transfer of ownership being completed by 1991.

Regional airports provide access to major capital cities and other major regional centres to those living in each airports catchment area. These airports enable a vital transport link for these centres. Regional airports as they facilitate tourism; personal and business travel; freight delivery services, and access to health, education and other important community services not available in these regions.

Regional New South Wales has experienced the rapid development of the mining industry and regional airports play an increasingly critical role in the economic development in these regions, as well as allowing the movement of labour and services between regions.

3. AAA NEW SOUTH WALES MEMBERS

| | |
|-----------------|------------------|
| ALBURY | LAKE CARGELLIGO |
| ARMIDALE | LIGHTENING RIDGE |
| ASHFORD | LISMORE |
| BALLINA | MERIMBULA |
| BANKSTOWN | MOREE |
| BARADINE | MORUYA |
| BATHURST | MT HOPE |
| BOURKE | MUDGEE |
| BROKEN HILL | NARRABRI |
| BURREN JUNCTION | NARRANDERA |
| COBAR | NARROMINE |
| COFFS HARBOUR | NEWCASTLE |
| COOLAH | NYMAGEE |
| COONABRABRAN | ORANGE |
| COOTAMUNDRA | PARKES |
| COROWA | PORT MACQUARIE |
| COWRA | QUIRINDI |
| DELUNGRA | SCONE |
| DENILQUIN | SYDNEY |
| DUBBO | TAMWORTH |
| EUBALONG | TAREE |
| GLEN INNES | TEMORA |
| GOOLGOWI | TRANGIE |
| GRAFTON | TUMUT |
| GRIFFITH | WAGGA WAGGA |
| HILLSTON | WARREN |
| INVERELL | WEST WYALONG |
| KEMPSEY | |

4. ABOUT AUSTRALIA'S AIRPORTS

Australia's network of airports, across major urban centres and regional areas, form an integral part of the national economic infrastructure and are critical to connecting communities and building economies.

The AAA published a study conducted by Deloitte Access Economics which showed that, in 2011, Australia's airports generated a total economic contribution of around \$17.3 billion, equivalent to around 1.2% of Gross Domestic Product. National employment at airports was estimated at approximately 115,200 full-time equivalent (FTE) workers. Consisting of nearly 56,500 air transport jobs (ABS 2012), the broader aviation industry supports activity at airports and air service dependent sectors. A copy of that study, [Connecting Australia – the economic and social contribution of Australia's airports](#) is available from the AAA – website: www.airports.asn.au

There are around 250 airports which receive Regular Passenger Services (RPT) and many more much smaller airfields and landing strips around the country supporting emergency service, training, maintenance, mail, freight etc with reports of some 2000 across Australia.

Airports are very capital-intensive businesses, underpinned by their principal role as transport infrastructure providers. As such, airports are deeply linked into most economic activities, with these linkages increasingly driven by growth in leisure tourism and the regional expansion of resource and agricultural activities.

Major airports will invest approximately \$9 billion over the next decade in infrastructure development. These projects will add significantly to the nation's GDP, and employment. Continued investments allow airports to better link with other modes of transport, such as road, rail and seaports, increasing the efficiency with which sales, logistics and inventory management operations are conducted. These efficiencies add to the nation's productivity helping Australia to compete in increasingly competitive global markets.

The AAA has also published a major research paper that brought together little known and seldom recognised facts about Australia's regional airports; it sought to dispel various myths that circulate about them, and it catalogued the serious challenges they face in meeting the future needs of the communities they serve. The paper, [Australia's Regional Airports – Facts, Myths and Challenges](#), is available on the AAA website.

This research highlighted that 50% of regional airports are unable to cover the costs of their operational expenses. This has implications for the long-term viability of these facilities that support the industry through provisions of flight training, aircraft maintenance, distribution of goods and a network of emergency services. It also places on already strained regional councils' operating budgets.

More than 70% of regional airports are only serviced by one airline operator. This demonstrates the economic power these airlines hold over the regional airports and how dependent the local communities are on the success of the airline's operations.

On average, capital city and major regional airports attribute 4% of total expenses for regulation and compliance purposes, compared to an impost of around 12% at regional airports. This largely occurs at airports with Regular Passenger Transport.

Beyond their immediate economic footprint, airports play an important social role in connecting individuals, families and communities with the rest of the country and indeed the world.

Airports provide vital services to their communities, including the facilitation of mail and time-sensitive freight deliveries, the Royal Flying Doctor Service, CareFlight, bush taxis, and the transfer of workers to employment centres and job sites.

Many airports provide training facilities and precincts for high-tech jobs in aviation to ensure the continued and sustainable development of a skilled workforce for the industry.

Shortages of skilled labour are constraining the operation of many airports, particularly in key regions where mining operations and resource projects are attracting large numbers of workers.

5. EXECUTIVE SUMMARY

The AAA welcomes the opportunity to make a submission to the New South Wales Legislative Council's Inquiry into the provision of aerial regular passenger transport (RPT) services to regional centres in New South Wales. The AAA sees that this review as both necessary and timely to reflect the latest developments in the provision of regional aviation services in New South Wales.

Airports are often thought to be "big business" because they have large assets and some even suggest that they are a "cash cow" used by their local government owners to cross subsidise other municipal services. However for regional airports this is absolutely not the case.

There are significant financial and regulatory burdens on regional airports due to the disproportionate burden that these airports carry for legislated costs such as terminal charges, aviation rescue and firefighting services, aviation security and safety compliance.

Airport infrastructure is expensive and requires specialist expertise to maintain and operate. In relative terms these costs are significantly higher in regional New South Wales. Regulatory costs are also proportionately greater for regional airport operators.

Access to major funding for the majority of regional airports is difficult and expensive in a highly volatile and changing economic environment. Councils are still required however to invest in aeronautical, safety and security infrastructure that is required by government and airline operators to enable RPT air services.

Operators of regional airports also assume considerable risk when investing in fixed airport infrastructure given that airlines make no guarantees to continue RPT services at current schedules (frequency) or with current size aircraft (capacity). Indeed, in the case of the collapse of Brindabella Airlines, we understand that regional airport operators are owed close to a million dollars in unpaid airport charges which are unlikely to be recovered. This does not include the income lost into the future, nor the broader economic and social costs which will ultimately be borne by the respective local government authorities, ratepayers and the broader communities.

Regional airports are being targeted by major airlines demanding reductions in airport charges and levies to assist with their cost management issues. Local government and ratepayers are being asked to provide the airlines with discounts of airport fee rebates in order to maintain services. Over one-third of Australia's regional council airports run at a loss and those that do make a profit reinvest the funds into airport infrastructure to support ongoing aviation services for their communities.

There are a number of key recommendations that we would like to see adopted by the inquiry. These include:

- The requirement for airlines to pay all fees related to accessing the regional airports in a timely manner be included in the licence agreements terms of operation.
- That the New South Wales Government commissions the development of a New South Wales Aviation Strategy.
- That the New South Wales Government and the Federal Government work to reduce the cost of regulatory compliance for regional airports, acknowledging that a one size fits all regulatory approach to aviation regulation is both costly and unnecessary. In particular the AAA supports a risk based and outcomes driven approach to aviation security.

6. CHALLENGES OF THE CURRENT REGULATORY REQUIREMENTS FOR AIRPORTS

The paper, [Australia's Regional Airports – Facts, Myths and Challenges](#), highlighted the significant challenges being faced by regional airports. There were four key challenges that all airport members experience in relation to the regulatory requirements:

6.1 LIVING WITH THE COST OF AVIATION SAFETY REGULATION

Aviation is, by its nature and consistent with community expectations, highly regulated. Safety is not negotiable and rightly so. Achieving the high levels of safety rightly expected of the industry while not imposing unnecessary costs and in the future of increasing costs is an ongoing challenge. Again the AAA supports a risk based and outcomes driven approach.

Regional and remote airports spend a greater share of resources complying with relevant regulations, including mandatory audits and inspections. On average major and major regional airports attribute 4% of total expenses for regulation and compliance purposes, compared to 12% at regional and remote airports. That is, the regulatory impost for regional and remote airports is around three times higher than that faced by larger airports.

6.2 UNNECESSARY AND INCONSISTENT REGULATION

It is a well-established principle in Australia that government regulation should intrude into the affairs of Australian people and businesses only where it is necessary to do so in the public interest, and then only to the extent necessary to safeguard that public interest.

Complying with new regulatory requirements necessarily involves cost, and any unnecessary increase in costs is something that regional airports especially have a clear need to avoid – particularly as so many already operate at a loss.

Increases in airport security requirements such as checked bag screening and front-of terminal security and the introduction of other measures such as requirements for Drug and Alcohol Management Plans (DAMP) constitute a potentially overwhelming burden on the limited budgets of smaller airports and should only be imposed where the balance between risk and benefit clearly requires it in the individual circumstances.

And, where existing legislation is applied inconsistently between airports, this too means an increased cost for those airports at which inconsistency imposes a higher burden.

A challenge therefore for all airports is to seek to ensure that airport regulation is sufficiently “granular” to treat materially different categories of airports in an appropriate manner and, within each category, in a consistent and predictable manner.

6.3 MAINTAINING REGULATORY AWARENESS

Australia's airports are subject to a diverse and complex range of regulatory requirements that change and evolve over time. Achieving and maintaining an operational familiarity with all these requirements is a demanding challenge for even a dedicated regulatory affairs professional. At regional airports where all airport operational tasks must be undertaken by only a few individuals (and sometimes even just one), this can be a near impossibility.

Not only airport operators and the AAA as their industry association but also government regulators need to be constantly searching for improved ways in which airports can be consulted in and informed about the development of new and changed regulatory requirements that affect airports whether directly or, through their impact on airlines or others, indirectly.

6.4 LIVING WITH THE COST OF SECURITY REGULATION

Smaller regional and remote airports typically have lower levels of passenger throughput or commercial activities, reducing the level of mandated security. However, if these airports receive passenger services involving aircraft greater than 20,000 kg Maximum Take Off Weight (MTOW) they need to undertake passenger screening. In this case, relevant screening costs are often far higher than those at larger airports as the costs are effectively spread over a far smaller passenger base.

There have been significant changes since 2001 to the regulatory regime governing aviation security requirements. While the industry accepts these changes, there is a common view that security requirements can be disproportionate to the risks involved and need periodic review across the various categories of airport to determine that regulatory measures are compatible with current risks and threats.

The resourcing of increasingly busy and complex regional airports is highlighting the cost of compliance and the shortage of skilled personnel in many communities, particularly those in areas of major resource projects. A number of regional airport owners have been struggling to meet the requirements of the new regulations. Aviation security screening and the development of Transportation Security Plans, for example, are new undertakings for these operators. In addition screening activities generally require much greater numbers of staff than were typically required before the new regulations were prescribed.

Whilst the Federal Government has in many cases funded the screening equipment it has required to be installed, airport owners are required to meet all other capital and operating costs. These changed regulatory requirements also require significantly more sophisticated airport management skills. Compliance is mandatory and in many cases requires skills, experience and qualifications not available locally.

The cost of implementing the new security regulations has been significant, and continues to grow. Given the fixed level of costs, the smaller the airport, the more significant the per passenger cost of compliance, relative to total revenue. Ultimately this cost must be passed on to the passenger and is additional to the already relatively high aeronautical charges required because of the smaller scale of regional airports.

The demand paradigm facing regional airports is one which requires very careful consideration of marginal operating costs and revenue. Given the high elasticity of demand for regional air travel, due to the comparatively high fares, which in turn are affected by the low passenger numbers, each

marginal dollar of cost borne by passengers through airfares can have a significant impact on the decision to fly or drive. This in turn reduces total revenue without reducing operating costs. In effect this creates a downward spiral of demand and revenue. Ultimately non-viability of regional routes can become a reality, resulting in services or being withdrawn or downgraded to smaller aircraft. This has happened recently at Wagga Wagga for example with the decision by Qantaslink to downgrade a number of daily services from Q400 (74 seat) to Dash 8 300 (50 seat) aircraft. This is particular concern given the investment in security screening equipment, terminal modifications and operating costs to support to operation of the Q400.

7. COST OF ACCESS TO SYDNEY AIRPORT, REGIONAL NEW SOUTH WALES AIRPORTS AND OTHER LANDING FIELDS.

7.1 COSTS OF RUNNING AN AIRPORT

The operating cost of an established regional airport “ticking over” is not inconsiderable, especially when viewed in the context of already strained local government budgets. In order to allow core aviation activities to occur at any airport a range of aeronautical- related facilities and support services are required:

- Airport runways and taxiways need to not only be established and inspected and serviced on a daily basis but also maintained to the requisite standard – and if traffic grows, these may need to be enlarged, strengthened or replaced, particularly when heavier aircraft seek to use the airport. Infrastructure at many regional airports was originally developed to accommodate, F27 sized aircraft. Aircraft now operating from these airports include for example SAAB 340’s, Bombardier Q400’s, ATR 72’s, Dash 8 Q300’s etc. These aircraft are far more damaging to pavements than the F27 and as a result many regional airports have had to undergo significant pavement upgrade works, and ongoing maintenance.
- Wildlife incursions into aircraft operational areas need to be managed in an environmentally sensitive manner;
- Airport lighting and other navigational aids need to be operated and maintained to ensure safe air navigation;
- Airport rescue and fire-fighting services may be mandatorily required and an Airport Emergency Plan is required for all certified airports;
- A statutory Drug and Alcohol Management Plan must be developed and implemented in respect of safety sensitive airport personnel at certified and registered airports;
- Airport aviation security such as passenger and checked baggage screening may be required by law, or simply demanded by aircraft operators concerned to protect their aircraft on the ground;
- Passenger facilities for check-in, awaiting departure and baggage collection on arrival must be provided;
- Facilities for refuelling aircraft may be required;
- Landside infrastructure renewal and maintenance including car parks and roads.

Albury City Council has in recent years spent over \$10 million to upgrade terminal and car park facilities at Albury Airport to be able to better facilitate RPT passengers and a further \$2.5 million was spent on expanding and overlaying the apron to accommodate RPT aircraft. Albury Airport will also be undertaking an overlay of the runway to ensure it is suitable for RPT flights this will cost \$4 million and in 2015 they will be upgrading the parallel taxiway at the airport to reduce the time RPT flights are required to taxi which will cost a further \$2 million.

Dubbo Airport, where RPT passenger numbers grew by 13.5% over the five years 2005/06 to 2010/2011 has had to spend over \$9 million on capital works since 2000/01 and has a further \$14 million or so forecast for the 2012/2013 to 2021/22 period, including over \$1.9 million to extend their terminal due to Commonwealth Government security regulations regarding RPT services.

Wagga Wagga Airport has invested approximately \$22 million into their airport over the last six years, including aeronautical infrastructure upgrades as follows:

| WAGGA WAGGA AIRPORT | Total Capex 2006/07 - 2012/13 |
|---|--|
| Precinct 2A - Commercial Aviation and Light Aircraft | \$ 7,582,220 |
| Aircraft Pavement Upgrade - Runway | \$ 6,704,407 |
| ILS | \$ 1,975,193 |
| Terminal works | \$ 1,499,045 |
| Security Screening | \$ 1,167,573 |
| Stage 1 Apron Refurb | \$ 632,258 |
| Carpark extension | \$ 388,069 |
| Total | \$ 19,948,765 |

Regional airports do not just exist to service the commercial airline industry. They are also critical infrastructure for fire protection, freight, aeromedical, correctional services transfers and general aviation. Like every major airport, infrastructure needs continual improvement to ensure adherence to the safety and security regulations and enable efficiency use of the airport.

The AAA stated in our submission to the Productivity Commission's Inquiry into the Economic Regulation of Airport Services, *"it is worth noting the scope within the current arrangements for airports to signal to users through airport charges the long-run incremental cost of providing the relevant infrastructure. This includes the costs associated with constructing additional capacity once those costs become reasonably predictable. For example, if demand growth gives rise to the need for investment in additional runways or terminal expansion, those costs are properly recoverable from today's users."*

7.2 AIRPORT REVENUE

It has been suggested by airlines that airports are used by their local government owners / operators as “cash cows” to cross subsidise other municipal services. The AAA knows of no evidence to support such contentions. Over one-third of regional council operated airports run at a loss, and those that do make a profit reinvest the funds in infrastructure to support ongoing aviation services for their communities. The short fall in operating costs is funded by the Councils’ general operating budget for many of these airports.

There are many constraints on the extent to which an airport, and particularly a regional airport, can increase its revenue through increasing charges. Airlines and other airport users possess marked countervailing power. As such regional airports in many respects can be considered price takers. A regional airport negotiating with any significant airline has far less capacity to press a commercial outcome than a larger airport. Airline businesses are so cost sensitive that they will abandon routes if regional airport charges are increased to a point approaching anywhere near a monopoly rent, or simply refuse to pay even though they may continue to use the airport – indeed, it seems likely that for a large portion of regional airports, airport charges do not even reach cost recovery.

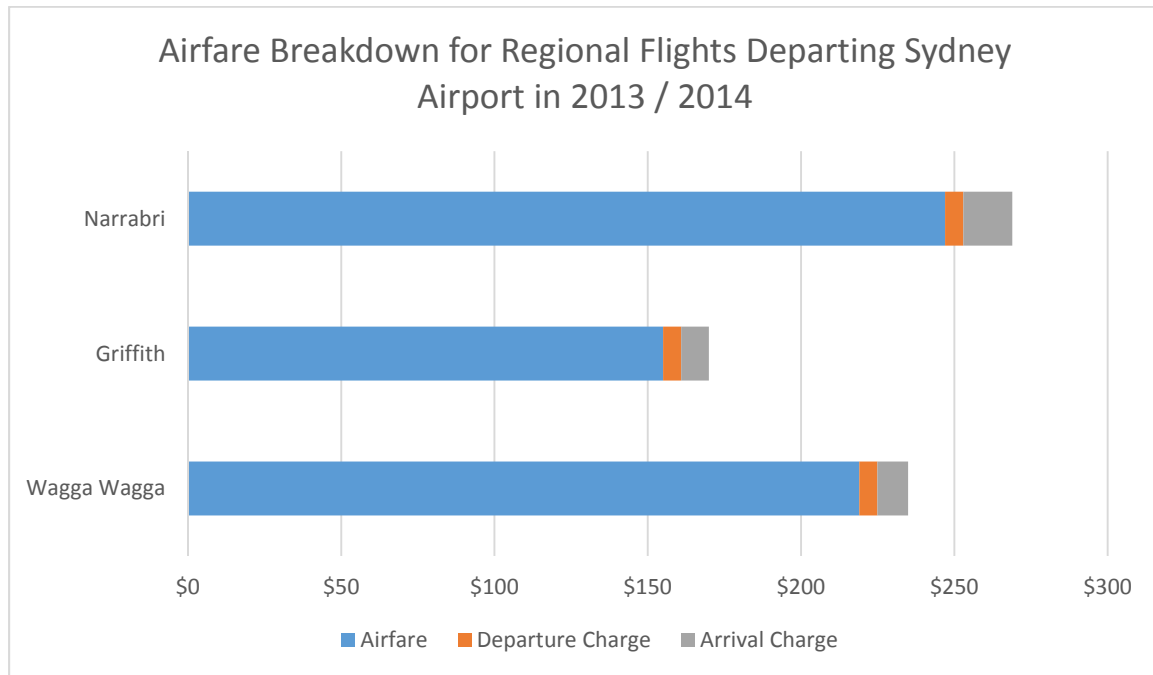
The BITRE publication *Avline 2010-11* highlighted that charges at 6 NSW Regional Airports serviced pre-dominantly by non-jet aircraft and handling the highest number of passengers in 2005-06¹ generally remained unchanged in nominal terms and fell by 3.4% in real terms between July 2010 and July 2011. At Dubbo airport, the charges increased in real terms by 0.5% and at Wagga Wagga Airport the charges reduced in real terms by 6.1%.

¹ Albury, Armidale, Dubbo, Port Macquarie, Tamworth and Wagga Wagga

7.3 AIRFARES

The revenue generated by passenger charges, while adding to the cost of a ticket, is vital to ensure the smooth running of regional airports and does not make up the bulk of fare prices; in fact they represent a relatively small percentage.

The following graphically shows the portion that departing and arriving passengers use airport levied charges is of airfares charged by three regional airlines servicing three NSW regional routes.



NOTE: These examples use anecdotal information based on the lowest airfare of the day available for flights between Sydney and these destinations on the Qantas, Regional Express and Vincent Aviation websites and the passenger charges information available from the airport operators.

Airlines have raised concerns about the behaviour of regional airports when raising these fees. A council owned airport, like Orange Airport, would advise of plans to increase their charges (generally only by CPI) well in advance of the adoption by the council. This allows the airline sufficient notice and opportunity to present a submission to the council regarding the increase.

7.4 SYDNEY AIRPORT

Sydney Airport is committed to maintaining the strongest network of regional routes. It currently provides facilities to six regional airlines who service twenty six routes across New South Wales, eight of these regional destinations are served only by Sydney Airport.

As infrastructure service providers, airports are always subject to the threat of regulatory intervention if they seek to abuse market power or set prices at levels that exceed a fair return – history and three Productivity Commission inquiries have conclusively shown that Sydney Airport has not abused their market power. Sydney Airport charges are set by the ACCC and are significantly discounted for regional flights within New South Wales.

Sydney Airport provides regional communities with access to an extensive route network during the peak hours, facilitating connectivity with international and domestic routes. The regional charges at Sydney Airport, when adjusted for inflation, have declined by 31% over the past decade.

Access for regional services in these peak periods is legislated by government policy and supported by slot allocation rules. The Sydney Airport Demand Management Act 1997 controls the number of movements on an hourly basis at Sydney Airport which at present cannot exceed 80 movements in a defined hour period. A movement is classed as either a take-off or a landing.

There are slots into Sydney Airport that have been “ring fenced” for regional services, this was implemented in September 2001 following the collapse of Ansett. The twenty six regional routes have an average of six movements each during the peak hours.

The movement cap at Sydney Airport artificially constrains the airport’s ability to operate as efficiently as its infrastructure allows. Despite being able to operate at 85 movements an hour or more, legislation restricts the number of movements to 80 per hour. However, in practice, because of the way in which the legislation is implemented on a day-to-day basis, only around 75-76 aircraft movements per hour can be achieved. Reforming the movement cap and the way in which it is implemented therefore has the potential to create additional capacity for all flights at Sydney Airport, including regional flights and including during the peak.

As the smaller quieter aircraft used by some regional airlines (less than 34,000 kg, MTOW) are exempt from Sydney Airport’s curfew, it would be logical to exempt them from the movement cap as well. This would not only enhance capacity for regional airlines, it would allow Sydney Airport to accept more high value international flights, which would boost tourism activity in Sydney and regional NSW.

7.5 MONOPOLY

There is a frequently disseminated myth that airports are powerful monopolies. In most cases an airport is in a monopoly position – it is usually, but not always, the only airport in the area. However, even when an airport is the monopoly supplier of airport services in an area, it is far from powerful. As previously stated, regional airports are effectively price takers, and have no real monopoly power to exercise in their negotiations with airlines. Indeed there are many constraints on the extent to which an airport, and particularly a regional airport, can use the commercial power often associated with a monopoly business:

- As previously mentioned, airlines and other airport users possess marked countervailing power;
- Aircraft by their very nature are moveable assets, compared to airports as fixed assets;
- Airports have to compete with one another, particularly to secure RPT services where there are other airports within a relatively close distance or when vying for slot availability at capital city airports
- Airport owners are predominantly local government bodies who exert inward pressure to ensure that airports attract and maintain the air services that their communities demand;
- The threat of regulatory intervention if they seek to abuse market power or set prices at levels that exceed a fair return.
- The threat of withdrawn services if airports seek to increase passenger charges above what airlines accept.

7.6 BRINDABELLA AIRLINES

The cessation of Brindabella Airlines services to several regional destinations across New South Wales has had a major negative economic and social impact. These impacts extend to local government authorities who for the most part own, operate and fund the airport infrastructure for the communities they serve.

We understand that regional airport operators are owed close to a million dollars in unpaid airport charges which are unlikely to be recovered. This does not include the income lost into the future. These costs will ultimately be borne by local government authorities and ratepayers, resulting in less capital for other important community assets.

8. FINANCIAL MANAGEMENT AND VIABILITY MATTERS OF RPT OPERATIONS

The regional connectivity provided with regularity, predictability and convenience through RPT services is critical and a major enabler to regional communities. However, there has been a declining trend in the number of regional airports serviced by RPT. Some of the RPT-discontinued airports are now only serviced by charter flights. This adds significantly to the cost of business in regional locations and reduces the revenue generating capacity of regional airports.

It is not just passenger numbers on lower density routes that drives the cessation of RPT services. The development of aircraft technology also affects airports. The trend towards larger and more fuel-efficient planes impacts on the ability of airports to cater for a larger number of arrivals at a single time; and may require some infrastructure and runway, taxiway and pavement changes.

Orange Airport is currently undergoing upgrade work to their airport costing \$19 million. This upgrade is to build a new terminal and extend the runway, taxiway, apron, lighting and general aviation area of the airport. This is to ensure they can cater for the changing technology, the trend towards larger aircraft and the need to have increased facilities for the greater numbers in passengers.

For regional airports, the development of modern turboprop aircraft which are larger pressurised and more fuel efficient is also having an effect on the delivery of air services. There has been a shift towards greater “hubbing” of regional air routes.

But other airports and their communities have lost RPT services as a result, which is a concern for many smaller regional centres. The “hub and spoke” system significantly increases the travelling times between these smaller centres and increases the costs for the travelling public.

The “spoke” operations have higher costs than the “hub” sectors, due to the larger aircraft being used for these operations having greater infrastructure and maintenance requirements for the affected regional airports. This would require the introduction of government subsidies to keep airfares at an affordable level for those smaller regional communities that would be serviced by “spoke” services. To this end the AAA supports and recommends the reintroduction of the enroute subsidy scheme.

9. ECONOMIC IMPACT ON REGIONAL COMMUNITIES OF RPT SERVICES

It is widely recognised that beyond immediate contributions, the link between communities and the access to air services has helped transform the functioning of the New South Wales economy – strengthening and accelerating trade and social connections across the state, country and abroad.

RPT flights from regional, rural and remote airports allow those who work and live outside the major cities to access the specialist health, education, commercial and recreational facilities that are not available where they normally reside, allow travel by health professionals to regional communities, and enable regional residents to maintain and enjoy the pleasure of their relationships with distant families and friends, surely an important part of the fabric of Australian society and quality of life.

These social impacts were particularly evident in the recent disruption to services following the collapse of Brindabella Airlines with many travellers' plans for Christmas celebrations disrupted and medical specialists unable to travel to regional centres including Narrabri and Moree. This left residents in these remote communities no choice but to travel to Sydney, by car, bus or from an RPT service from a larger regional centre.

RPT flights allow the more efficient development of New South Wales' natural resources, weekly bringing fly-in, fly-out workers to regional centres to work in the mining and agricultural sectors and on development sites from both capital cities and other regional centres. These regional air services support the attraction of staff to, and their retention in, regional and remote communities by minimising the isolation that can be involved in working away from family and friends.

The extent to which the existence of RPT services indirectly contributes to the performance of other industries and indeed the overall economy are typically termed 'catalytic impacts'. More specifically, catalytic impacts involve a range of positive spill over effects, including:

Accessibility and trade – access to air services allows regional centres to gain better access to larger markets. Trade is recognised as a driver of economic growth and rising living standards and allows regions to specialise in producing goods and services in which they have a comparative advantage.

Productivity – by facilitating increased mobility, RPT services play a vital role in supporting other parts of the economy to operate more productively and efficiently. RPT services provide easier access to suppliers, staff and customers, particularly over longer distances, increasing business efficiency and thereby contributing to stronger productivity performance and economic growth.

In 2012 Wagga Wagga Airport commissioned the AEC Group to undertake an Economic Impact assessment of the aviation sector in the region.

In the context of the broader economy, the Wagga Wagga aviation sector currently represents 4.8% of regional GRP (direct and indirect) comprising:

- 3.6% direct contribution to GRP
- 1.2% indirect contribution to GRP

4.6% of regional employment (direct and indirect) comprising:

- 3.5% direct contribution to employment
- 1.1% indirect contribution to employment

The direct activities of the aviation sector are equivalent to almost 70% of Wagga Wagga's agriculture, forestry and fishing sector activity and double that of the Wagga Wagga wholesale trade sector. This highlights the importance of Wagga Wagga's aviation sector in the broader economy, and an indication of the importance of regional aviation and certainly airports to regional economies. (AEC Group - Wagga Wagga Aviation Sector, Economic Impact Assessment, January, 2012).

RPT services help facilitate passenger entry and exit to regional areas, generating income and employment in the tourism industry and related sectors in the local economy.

Businesses looking to relocate to a regional area will look for a centre which has a good and reliable air service. Air travel enables organisation to be managed more effectively, by making it easier for executives to visit customers, business partners, subsidiaries or parent companies in these regional areas. In this way, management expertise can also be transferred across offices. The propensity for collaboration, innovation and networking is also increased.

An increase in the economic development in the regional areas through having an RPT service leads to an expansion of businesses and the expansion of the community. This will result in an increase in activity in the general aviation arena and support industries, through a greater number of participants in recreational flying activities and an increase in charter flights.

The loss of RPT services has an immediate economic and employment impact on the airport operator and local business through the loss of an important source of revenue. This will have a flow on effect for the local councils which operate these airports, as the facilities still need to be maintained at an increased costs to rate payers.

Airlines commencing new regional RPT services are not prepared to give an assurance to the airport operator that those services will continue to operate indefinitely, or even for definite periods. They reserve the option to cease services at short notice if load factors render a route uneconomic for them, or to maintain the route but substitute smaller aircraft or reduce frequencies.

Regional airports have needed to expand their infrastructure capacity in order to attract new RPT services of real potential benefit to the local community. This means that there is a considerable risk that regional airport investment can become "stranded" and lie idle for many years before its cost has been recovered by the airport operator. For airports with borrowings, their interest and principal repayments still need to be met.

The existing licensing arrangements in New South Wales for services with less than 50,000 passengers works well to provide a continuity of service to regional communities. There needs to be more local community involvement into the decision making process of the granting of the licence. This will ensure that the airlines operating the licence have a greater understanding of the services that are required for that location.

RECOMMENDATION:

The AAA recommends that the requirement to pay all fees related to accessing the regional airports in a timely manner be included in the licence agreements terms of operation.

10. THE FUTURE OF AVIATION IN NEW SOUTH WALES

The aviation industry requires a highly skilled and diverse workforce. By nature the industry is heavily reliant on technical occupations – not just pilots, air traffic controllers, aircraft engineers and IT professionals, but also airport specific technical professionals such as Airport Managers, Work Safety Officers and Aerodrome Reporting Officers. The development of a sufficient number of professional and skilled workers is critical to ensuring the industry's continued strategic role in the New South Wales economy.

The training arrangements are sometimes complex as aviation skills development is pursued at a number of levels by industry, through higher education, and through vocational education and OTS training. In the past, the aviation industry has seen poor recruitment numbers, barriers to education funding and limited access to practical training facilities and skilled trainers

A constant challenge is an ageing workforce and labour shortages in key skill areas and locations, especially where staff trained at regional airports are enticed to move to larger airports in search of perceived career progression.

A further challenge is avoiding de-skilling of staff at smaller airports where traffic is not sufficient to require that they work at the airport on a full-time basis and they are deployed part-time to other more generalist duties.

Regional Airports across New South Wales are leading the country in relation to the development of the aviation industry and providing resources for airlines to operate their national networks.

A number of regional airports currently offer facilities for pilot training for those who wish to earn their living flying commercially in Australia or overseas. These regional airports provide flexible training facilities that do not conflict with the flight paths of capital city airports.

Tamworth Regional Airport is host to BAE Systems Flight Training Australia, which conducts flight screening and the first stage of flight training for all Australian Defence Force pilots. It also has flight screening contracts with the Republic of Singapore Air Force and the Royal Brunei Airports, under which it provides facilities and aircraft, and it hosts training courses in aircraft mechanics and engineering.

QantasLink's heavy maintenance base for Dash-8 aircraft is also based at Tamworth Regional Airport. This important maintenance facility is a vital resource to enable QantasLink to support its national route operations.

The Australian Airline Pilot Academy (AAPA) at their state of the art facility located at Wagga Wagga Airport provides a 32 week full-time course for trainee pilots to meet the current and future demand for Regional Express pilots as well as development courses for current Rex pilots. This facility also provides a critical role in providing highly trained and skilled pilots to other domestic and international carriers. AAPA have recently received approval from the United Arab Emirates' (UAE) General Civil Aviation Authority (GCAA) as an approved Flight Training Organisation to conduct Integrated Airline Transport Pilot Licence (ATPL) training for UAE carriers. AAPA now becomes one of only three non UAE-based flight training organisations worldwide approved by the GCAA and the first approved to conduct ATPL training. AAPA had also been selected by Jeppesen (part of Boeing Training and Flight Services) to be one of its global partners in aviation flight training. AAPA currently conducts cadet pilot training programmes for its parent company Rex and recently conducted Multi Crew Pilot Licence (MPL) core flying training for cadets of Air Arabia. This is a significant step in

strengthening Australia's stance in international aviation training arena and bringing export dollars to the region.

Regional Express Engineering heavy maintenance facility is also based at Wagga Wagga Airport providing maintenance including "C Checks" for their fleet of more than 40 Saab 340 aircraft.

Douglas Aerospace have established a modern aircraft painting and refurbishment facility at Wagga Wagga Airport. This facility can cater for domestic and international aircraft up to Boeing 737-800 and Airbus A321. Douglas have recently achieved CASA Pt 145 approval for their new facility, one of only two such approved facilities in Australia. On completion of their second hangar and training facility in 2014/15 they will employ more than 40 full time staff skilled in aeronautical refinishing.

Many regional airports presently have daily dedicated freight services operated through specialist logistics providers such as Toll Aviation. These freight services allow many businesses to operate "just-in-time" inventories and access markets for often high-value or time-sensitive products.

While existing RPT aircraft such as Saab 340, Q400, ATR 72's and the Dash 8 have the capacity to carry additional freight, these services have limitations in varying weather conditions and load capacity restraints. Any increase in the size or number of the aircraft operating at regional locations will require significant capital investment – for example, by strengthening, widening or lengthening the runways and taxiways.

Regional airports can provide opportunities for further development and opportunities for manufacturing and servicing. There is adequate land is available for the development of maintenance and hangar facilities, the rental costs at regional airports are significantly lower than at capital city airports and regional communities have a more stable and committed workforce to draw from.

It is noted that Bankstown Airport can play a significant role in strengthening the future of the State economy with the introduction of regional and point to point services in turbo prop and regional jet aircraft. A market study undertaken by Bankstown Airport established that there is 1.8 million people in the catchment area serviced by the airport and the study identified that a sufficient market exists for standalone flights – both intra and interstate.

The use of Bankstown Airport for RPT services would provide a greater choice of destination within the Sydney region for those travelling from regional locations and would significantly grow the economic prosperity of Western Sydney, with improved air access, expanded aeronautical and non-aeronautical facilities and more skilled jobs.

RECOMMENDATION:

The AAA recommends that the New South Wales Government commission the development of a New South Wales Aviation Strategy. The strategy would establish a clear vision for aviation in New South Wales that will support and promote the economic and social development of the State through the provision of safe, affordable, efficient and effective aviation services and infrastructure. It would also aim to provide a sound framework for policy setting, future planning and investment in New South Wales air services and airport infrastructure.

11. CONCLUSION

New South Wales' regional airports are a unique community resource of enormous value and a vital component in the provision of aviation services. However, they are also economically fragile. Inappropriate decisions by government owners, government regulators and airlines can readily impede the capacity of a regional airport to provide the vital services its community requires.

Accordingly, an ongoing challenge for all airports is to ensure that the complexities and sensitivities of this situation are recognised and understood amongst the government owners, regulators and airlines, and amongst the broader community.

This submission outlines the challenges that face regional airports across New South Wales in providing facilities for RPT services. The AAA make a number of positive recommendations, that if implemented, will help to ensure that the New South Wales regional aviation services stay on the right track to meet the future challenges that the growing demand on aviation presents to this evolving and dynamic industry.

The AAA welcomes the Inquiry into the regional aviation services in New South Wales and looks forward to the outcomes.



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