

**Submission
No 19**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Eurobodalla Shire Council

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Inquiry into regional aviation services by the NSW Legislative Assembly's Standing Committee on State Development

The Committee is conducting an inquiry into the provision of aerial regular passenger transport (RPT) services to regional centres in New South Wales.

Eurobodalla Shire Council offers the following contribution on behalf of the businesses and organisations in the shire under the headings listed by the Inquiry Terms of Reference.

1. 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 included in those fees;

A head tax is applied to the Regular Passenger Transport (RPT) service at Moruya Airport which raises approximately \$150,000 per annum.

No other fees are charged for services provided to the RPT operator which include;

- Providing terminal facilities
- Car parking
- Compliance costs such as:
 - Provision of security
 - Serviceability and other technical inspections
 - Maintenance of (Obstacle Limitation Surfaces) OLS

It is understood that the head tax for passengers accessing Sydney airport is significantly more than Moruya and that charges are also levied for the additional services above.

The cost of a one way flight from Moruya to Sydney varies between \$150 to \$400. The landing costs at Moruya can be estimated to represent around 3% of the fare revenue per passenger.

In addition, fuel costs and the airlines staff costs per flight are estimated to be many multiples of the access cost to Moruya.

The lack of landing slot availability at Sydney Airport is a key factor here

- it keeps upward pressure on head tax costs
- it encourages airlines and Sydney airport to focus on larger routes but does not consider the broader socio economic impact of providing services to regional destinations

- it affects the frequency of flights and the same day connectivity to / from Sydney which is crucial to many business users of the Moruya service

b) Methodology for calculating landing fees for different classes of aircraft.

Provision of services at Moruya Airport remains heavily subsidised by the owner, Eurobodalla Shire Council, for all types of air user.

The landing fees for general aviation users are based on market conditions and maximum take off weights (MTOW). The head tax fee for RPT services is effectively provided at a discount to the costs charged to general aviation users because of the importance of the RPT service.

The RPT head tax has not changed significantly since the commencement of services by the current provider (REX) in 2002 i.e. it has not been indexed to CPI.

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

Operators regularly claim that regional services and routes are marginal. It is clear that some routes will be more profitable than others but it is essential to ensure that this is not the only factor in deciding which routes are serviced i.e. if a slot on a more profitable route comes up, the commercial imperatives for an RPT operator might encourage them to switch and leave smaller regional destinations without a service. The overall benefit to the regional NSW community would not be a factor in this decision if left solely to the RPT operator.

There is a delicate balance between the frequency and cost of flights. Bigger planes should mean cheaper flights but less frequency which impacts on the attractiveness of flights to business users.

a) Economics of operating various types of aircraft, including modern single engine turbine compared to older twin engine piston aircraft;

RPT operators would be best placed to comment on the economics of operating various types of aircraft however from an airport operator's perspective an increase in passenger carrying capacity would be seen as a positive as this has the most potential to decrease passenger costs.

This would have the flow on effect of making flying as opposed to using road transport a more attractive option and therefore result in an increased use of the airport and therefore increase in income to the operator.

However, it should be noted that the current aircraft used by the RPT service provider (SAAB 340) does not require baggage screening or improved navigational systems. A move to other suitable RPT aircraft currently available in Australia (e.g. Dash 8 Q400 or ATR72 turbo props) would require these to be implemented due to their higher MTOW (see section 2b below).

With the limited remaining service life of the existing aircraft, managing operational and other costs of moving to larger aircraft is seen as a real issue for the ongoing viability of the airport.

b) Impacts of compliance costs, including per passenger costs;

As mentioned above the Moruya Airport remains heavily subsidised by the owner Eurobodalla Shire Council with a significant component of costs relating to ensuring compliance with regulations.

Any increase to current compliance requirements would result in an increase in these costs. These would either have to be passed onto the airline and therefore the passenger or absorbed by the airport owner putting further pressure on the viability of the airport and the Council's ability to continue to provide the service. An example of this would be introducing increased baggage screening (or other additional security measures) requirements which would have significant set up costs and could be well in excess of \$4,000,000.

It would also result in additional staff costs on an ongoing basis. Regional airlines already run on marginal profitability (as shown by the recent Brindabella collapse) and therefore it would be unlikely Councils could pass on this cost putting further pressure on the financial viability of airports.

There is also potential for operating costs to increase due to maintaining current compliance standards. An example of this is the Maintenance operations required to prevent obstructions, in particular native vegetation, impacting on both the Visual Segment Surface (VSS) and the Obstacle Limitations Surfaces (OLS).

This is becoming increasingly difficult and costly to achieve due to continued growth and increased difficulties encountered when trying to undertake these works whilst complying with the current environmental legislation and planning policies.

c) Suitability of "hub and spoke" systems for potential routes for smaller Passenger numbers;

Moruya is currently on a triangulated route with Merimbula to Sydney – the only RPT service. Whilst the extra flying time for some flights is unattractive to some users, the increased frequency this provides more than outweighs the inconvenience.

It also bolsters the viability of the route for the RPT operator which is welcome.

Until recently, the RPT operator also had a connection from Moruya via Merimbula to Melbourne. Moruya numbers have reduced since this was withdrawn so any means of facilitating additional interstate triangulation would also be welcome.

The only other potential triangulation route could be via Canberra.

d) the viability of passenger loading for different classes of aircraft.

It is understood that the RPT operator considers 75% loading to be its target.

The operator does not appear to provide a low cost airline fares model or website to proactively manage loadings. Encouragement / assistance to take early bookings at discounted rates would increase the take up from the visiting friends and relatives market which currently makes little use of the service.

Encouragement of other airlines to facilitate joint Computer Reservation services and on-carriage of baggage would also be beneficial to regional carriers.

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

a) the local business community;

The Airport is a key regional access point and driver for economic growth in the region - currently 75% or more of our passengers are business travellers. A further 15% are travelling for medical reasons.

Continued air passenger access to Sydney Airport is critical to our community's economic sustainability and will impact on every area of the business community but the economic impact to a community through losing an RPT service is hard to measure.

There are currently 4 full time equivalent jobs dependent on the RPT service so the loss of the service would result in approximately \$300,000 less earnings going into to the local economy.

In addition, the car hire business at the airport would not be viable. This provides a valuable service to the local business community as there is no other car hire business in the vicinity.

The head tax from the RPT service generates approximately \$150,000 revenue to the owner, Eurobodalla Shire Council so this would be another specific revenue loss to the local community.

Studies have been conducted in South Australia looking at the actual and opportunity costs of road versus air travel. For an airport a similar distance from the capital city as Moruya is from Sydney, the estimated added value of the RPT service was \$643,000. Allowing for additional passenger volumes on the Moruya route, the estimated added value is \$845,000.

This study does not attempt to assess the additional employment and income that RPT services create in the broader community.

A US study from 2008 estimates that being within 40 miles (64 km) of a regional airport delivers a 2.0% increase in personal income and a 2.7% increase in employment.

Local businesses utilise the service to commute to work or for business support. Without a RPT service, many will be forced to leave the area having further impact on the community. The likelihood of attracting a new enterprise or business to the area without an RPT service is also dramatically reduced.

As mentioned elsewhere, many airport passengers are the visiting medical, legal and dental specialists who provide a valuable service to the Eurobodalla and who currently enjoy the potential for a 'working day' in Moruya of up to seven hours. Passenger air transport is critical to retain these visiting specialists' operations in the Eurobodalla.

The tourism industry in Eurobodalla is the major local industry delivering \$330 million to the local economy. The major airport users who contribute to the tourism economy are business travellers who stay an extra night or two and the Visiting Friends and Relatives (VFR) market – both of these sectors visit year round which helps address the tourism industry's issue of seasonality i.e. an over reliance on the peak January period

b) the impact on general aviation and regional airport management of the gain or loss of RPT services to regional centres;

Moruya Airport has two runways. The secondary runway is code 2 and suitable for the majority of the general aviation aircraft utilising the airport. The main runway at Moruya Airport is class 3C and services both the RPT service and other larger GA aircraft used by emergency services and for business purposes.

Without the RPT service, it is unlikely Council could justify funding for the upkeep of airport facilities as the RPT revenue represents the major income source for airport and drives the major benefits to the economy.

This could result in the closure of the airport or a steady decline in the asset over time which would gradually impact on general aviation and make the return of RPT services ever more unlikely.

c) the potential for future economic development;

The likelihood of attracting new enterprise or business without an area RPT service is dramatically reduced.

One example of this is the establishment of the River Cottage Australia TV show in Eurobodalla which is delivering a significant economic boost to the region. This show would have gone elsewhere without the RPT service as staff need to travel to and from Sydney regularly.

d) impacts for local, state and Federal governments, including licencing arrangements for services less than 50,000 passengers per annum.

There is currently no competition for services with fewer than 50,000 passengers and in NSW there is only one viable airline available.

The impact for airport operators with fewer than 50,000 passengers is that this offers minimal bargaining power when it comes to setting reasonable landing fees and other charges associated with the RPT service.

State and federal government agencies would incur a significant increase in costs for the provision of medical and other services as these such agencies are major users of the RPT service.

This would also increase the pressure on already stretched resources as valuable medical specialists have to spend more time travelling and less time providing their service.

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.***

The ongoing provision of RPT services is crucial to the viability of Moruya airport. State and Federal government employees, for example in the health and human services sectors, are one of the most significant regular users of the service.

Whilst general aviation and the demand for general aviation services is declining, the Moruya airport precinct has potential to expand and take pressure off busy and costly city airports.

This could include the relocation of training facilities, aircraft servicing and emergency services. Indeed Moruya airport is already used as a base by the Westpac Rescue helicopter and a small aircraft maintenance business.

The potential for freight to play a significant role is limited because of the closeness of Moruya to Sydney and the fact there is already an air freight service.

However, freight will play a bigger role as regional economies develop. Without RPT services, regional economies will be under pressure so freight would likely decrease.

The RPT operator does carry some freight, mainly for perishable items. The Oyster industry locally is looking to expand into the Sydney market so this is one potential avenue to increase freight for the RPT operator.

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

Access to Sydney Airport

The Moruya Airport's primary route is into and out of Sydney Airport. There are several threats to the ongoing viability of the Sydney route:

1. The potential for reduced slot times for REX at Sydney Airport due to increased flights from larger operators which are more financially beneficial to the airport owner. Note: The construction of a 2nd Sydney Airport at Badgerys Creek although some time off may alleviate some of this pressure on slots
2. The potential for regional operators to be forced away from Sydney Airport to either Bankstown or Badgerys Creek as this would significantly reduce the take up of passengers of the route.
3. It is strongly suggested that secondary airports are more suited to low cost carriers as they have a higher proportion of leisure travellers and these airports are closer to the population centres. Regional services are predominately business so need to be closer to the Sydney CBD. Any move to a secondary airport could affect the viability of the service
4. The likelihood of ongoing increases in landing fees at Sydney Airport

Conflict between CASA and Environmental Legislation

The need to comply with CASA regulations with regards to protection of the OLS from native vegetation in particular is becoming increasingly difficult due to the need to also comply with environmental legislation.

Airports are unique in that the airspace required to operate safely extends far beyond the property boundary of the airport (e.g. approach and take-off OLS extend 15km from the airport).

Whilst other infrastructure such as roads, communications and electricity has been granted exemptions in the infrastructure SEPP regarding removal or pruning of native vegetation, airports have been overlooked. Other acts such as the *Electricity Supply Act 1995* also allow for greater flexibility for the maintenance of infrastructure.

There needs to be:

1. A greater recognition of the importance of airports within the legal framework or we run the risk of forcing the closure of many regional airports due to either the

financial implications of ongoing maintenance works or in some cases the inability to undertake maintenance in certain areas and or;

2. A review of the OLS which would seem warranted given these were designed in the 1940's based on far less superior aircraft than those operating today.

Lack of other transport options

Many regions have limited transport options. The absence of an RPT service from Moruya would have a number of transport impacts which cannot be measured purely in economic terms:

- there are no other transport options which allow reasonable same day travel to & from Sydney
- access to Sydney is via the already overcrowded Princes Highway which is a 4.5 hour journey
- alternative access is via the Kings Highway which has a poor safety record so the RPT service has the effect of reducing road trauma
- the only public transport option would be a 7 hour bus journey. There is no train service within a 2 hour drive

Social / community benefits

Beyond the immediate economic impact, Moruya Airport plays an important social role in connecting individuals, families and communities with the rest of the country.

The existing catchment area for the airport covers three local government areas and provides a service to over 50,000 people currently with local populations predicted to grow substantially over the coming years. The RPT service allows for the transfer of workers to employment centres and job sites, access to training and professional development and also provides an important social link to friends and family in Sydney – thus bolstering the attractiveness of the region as a place to live, work or invest. Conversely, VFR visitors from Sydney contribute to the local tourism economy.

Many regions, Eurobodalla included already suffer a population loss in the 25-45 age bracket, the principal age earning bracket, leaving an over representation of school age and retired people. With RPT access to Sydney, this trend would only worsen.

One of the other key community requirements is a reliable air transport link for access to medical facilities. Medicare Local for the entire South West region (from Queanbeyan to Eden) has its head office in Moruya– something which its CEO states could not occur without Moruya airport as its 55 staff use the airport every week for meetings and professional development in Sydney.

Both Medicare Local and the Southern NSW Local Health District rely heavily on the airport and the frequency of flights to continue normal operations. Without a major local hospital

to house locally based medical specialists, several hundreds of doctors per year utilise the airport to travel to/ from the coast to provide services.

In addition, where patients are unable to be treated within our region, they travel outside the region for treatment. It is estimated that over 600 patients last year flew to Sydney for this purpose. Thus the loss of an air service would have a disproportionate effect on already disadvantaged members of the regional community.

Finally, many professional people have relocated to the area based on easy access to Sydney.

CLOSING COMMENT

For all the reasons outlined above, there is significant community support for the RPT services. This has been evidenced by comments received since the recent publicity about the viability of regional air services.

Eurobodalla Shire Council strongly supports any measures which protect the viability of aerial regional passenger transport services.