

**Submission
No 59**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Regional Aviation Association of Australia ff555L

Date received: 26/03/2014



RAAA SUBMISSION

NSW LEGISLATIVE COUNCIL STANDING COMMITTEE ON STATE DEVELOPMENT INQUIRY INTO REGIONAL AVIATION SERVICES

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Serving regional aviation, and through it, the people and businesses of regional Australia

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26 March 2014

The Hon Rick Colless, MLC
Chair
Legislative Council
Standing Committee on State Development
New South Wales Government
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Mr Colless,

**RAAA SUBMISSION
NSW LEGISLATIVE COUNCIL
STANDING COMMITTEE ON STATE DEVELOPMENT
INQUIRY INTO REGIONAL AVIATION SERVICES**

The RAAA is pleased to provide this submission to the Legislative Council Standing Committee on State Development for consideration in the Inquiry into Regional Aviation Services.

I. The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) is a not-for-profit organisation formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia (RAAA) and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 28 Ordinary Members (AOC holders) and 72 Associate/Affiliate Members. The RAAA's AOC members directly employ over 2,500 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$1.5b, carry well in excess of 2million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, freight companies, engineering and flight training companies, finance and insurance companies and government entities. Many of RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional and remote areas of Australia.

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II The RAAA Charter

The RAAA's Charter is to promote a safe and viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members to have input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry by direct lobbying of Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

III RAAA Response to Inquiry into Regional Aviation Services

Background

A little over a decade ago, the Commonwealth House of Representatives Standing Committee on Transport & Regional Services Inquiry into Regional Aviation ("the Neville Committee") described the regional aviation environment thus –

- 1.1 Regional aviation services are vital to the economic and social wellbeing and development of Australia's regional and remote communities. To most communities, the local aerodrome is a symbol of their prosperity, and a generator of business in the surrounding region.
- 1.2 Nearly all communities wish to retain their local airport despite the cost of having them sometimes exceeding their direct income.
- 1.3 However, the economics of regional air services are posing a threat to their existence, and creating a pressure for their rationalisation.
- 1.4 The business costs of regional air services have been rising due to a number of factors. Some of the costs have come from the deregulation of the industry and increases in taxes. In combination with rising costs has been a general decline in demand for some air services.

Against this background -

The committee found that the key issues affecting regional aviation services were costs, returns, service levels, interconnectivity, the maintenance of country airports, regulation and coordination.

- The costs of operating regional air services are high and rising;
- The returns to regional operators are often low and declining, because their passenger numbers can be small and variable;
- Because of high costs and low returns, the levels of service are often poor in terms of the size of the operating aircraft, the frequency of services and the schedule of services;
- Poor interconnectivity between services exists because of a lack of interline agreements between regional and domestic service operators. The schedules some regional airlines fly do not arrive at appropriate times for passengers;
- The owners of some country airports are unable to sustain the cost of maintaining their airports, relying on rate payers to meet the shortfall;
- Aviation safety regulations and the way they are administered impose significant costs on small operators in particular. This is contributing to the decline in the number of regional operators and the level of air services in regional areas. However, to achieve aviation safety outcomes a strong, effective and credible regulator is essential, and there is a need for the Civil Aviation Safety Authority (CASA) to strike the right balance between fostering a culture of safety in the industry and policing the regulations; and
- A lack of coordination of government policies is creating potentially difficult business environment conditions. For example, all levels of government imposed many taxes on regional aviation services with little regard for the cumulative effect. The Commonwealth's aviation policy, and its other transport and regional policies appeared to be largely independent of one another.

In the decade since that environment has not changed significantly and the consolidation into larger aircraft on regional routes, with the consequent loss of services to smaller centres, forecast by the Neville Committee has continued.

As the Chair of this Inquiry said in December 2013 “too many towns have lost their air services and the economic impact on those communities has been unacceptable”.

In the view of the RAAA to achieve the Chair's stated aim for this Inquiry “to secure more reliable and comprehensive services to and from regional centres, particularly the smaller regional centres” certain fundamentals must be recognised.

Principal amongst these is that “thin” routes where low capacity aircraft are operated, often with low load factors (ie: few of the available seats actually occupied) necessarily means greater per seat costs. These seat costs can only be reduced by larger aircraft on more populous routes. Where operators have moved to larger aircraft, they have sought to reduce their route structure and increase their passenger load factors by ceasing services to smaller communities.

This will continue unless and until cost pressures on regional operators are reduced.

The RAAA has consistently argued these cost pressures can only be reduced by –

1. Ensuring regional carriers are not excluded from major city hubs (in New South Wales, Sydney-Mascot) by a relaxation of the protection for regional operating slots or by excessive pricing for both regulated aeronautical services and unregulated non-aeronautical services;
2. Preventing the monopolistic practices of those regional airports operators, most often local government authorities, who see their airports as profit centres rather than as cost centres, which should be managed in the public interest as other cost centres (eg: roads) for the overall benefit of the community. In this regard, the RAAA is concerned by the number of local authorities who build airport infrastructures that cannot be justified on any reasonable projection of passenger numbers and then expect to pass those costs onto aircraft operators;
3. Ensuring the costs of aviation security measures are commensurate with the actual security risks and the prescribed requirements of the Commonwealth transport security legislation. It is simply not appropriate or sensible to impose security costs for large aircraft on small regional aircraft because of some “feel good” factor; and
4. Government policies that recognise that in this area a totally unregulated market simply does not provide the desired outcome. The RAAA does not advocate subsidies per se and is ambivalent about route regulation. It does, however, consider that directed subsidies are appropriate where particular government charges impact adversely on smaller operators (eg. Airservices Australia’s enroute navigation charges) and the government authorities should use their purchasing power to aid, rather than disadvantage, regional operators. It is, also, appropriate that where a need for a particular air service is identified (eg: a community for which an air service is the only viable means of transport due to location or terrain) that cannot be provided profitably (or profitability cannot be demonstrated in advance), the service be purchased (or subsidise until profitability can be demonstrated).

Recommendations

1. Sydney Airport

That the NSW Government petitions the Federal Government to:

- Direct the ACCC to oversee and regulate pricing at Sydney Airport under Part IIIA of the Competition and Consumer Act 2010.
- Guarantee regional air services access to Sydney Airport in the event that a second Sydney airport is constructed.
- Review the movement cap at Sydney Airport, with the purpose of lifting the cap to 85 movements per hour, which it operated to prior to the 1996 federal election when it was dropped for political purposes. Consideration should be given to removing propeller aircraft from the cap as these aircraft are not the subject of noise complaints.
- Review the curfew at Sydney Airport. The curfew should be reformed to allow aircraft that meet the appropriate noise criteria to operate within the curfew period.

2. Regional Airports

- Provide a mechanism of price monitoring or review by an Ombudsman so that there is a course of appeal for regional airline operators subject to unfair price increases.

3. Security

- Enact regulation or take other action to prevent airport operators from charging for passenger and baggage screening services for aircraft that do not legally require such services and for which the operator has elected not to have.

4. NSW Government Policy

- Abandon the NSW Regulated Routes system
- Investigate whether a directed subsidy along the lines of Queensland Transport's Contracted Air Services scheme is appropriate for some NSW outback destinations.

IV Conclusion

The RAAA hopes this submission is of assistance to the Legislative Council Standing Committee on State Development. If we can be of further assistance or you require additional information please feel free to contact us on Ph: or email

Regards,

Paul Tyrrell
Chief Executive Officer