

**Submission
No 56**

**INQUIRY INTO ECONOMIC AND SOCIAL DEVELOPMENT
IN CENTRAL WESTERN NEW SOUTH WALES**

Organisation: Brindabella Airlines

Date received: 19/10/2011



19 October 2011

The Hon Rick Colless, MLC
Chairman
Standing Committee on State Development
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr Colless

Inquiry into Economic and Social Development in Central Western NSW

Thank you for your letter dated 13 September 2011 inviting Brindabella Airlines to make a submission to the inquiry.

We are very pleased to offer these comments and suggestions on our own behalf and on behalf of Aeropelican, our affiliated, sister airline.

Both Ian Vanderbeek, CEO of Aeropelican, and I, would be happy to respond to any questions the committee may have.

Yours sincerely

Jeff Boyd
CEO
Brindabella Airlines



Brindabella Airlines Pty Ltd ABN 90 083 162 038
5 Rayner Road, Canberra Airport, P.O. Box 1542 Fyshwick ACT 2609
Tel: 1300 688 824 or (02) 6218 2970 Fax: (02) 6218 2999
www.brindabellairlines.com.au Info@brindabellairlines.com.au

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SUBMISSION TO STANDING COMMITTEE ON STATE DEVELOPMENT
INQUIRY INTO ECONOMIC AND SOCIAL DEVELOPMENT IN CENTRAL WESTERN NSW

Introduction

Aeropelican and Brindabella Airlines are small to medium sized regional airlines operating into western NSW from bases in Canberra, Sydney, Newcastle and Brisbane. Until recently they were entirely separate businesses with quite different histories. However, both are now part of the Business Air Holdings group (BAH), a UK based airline investment group. Aeropelican was acquired by BAH in 2008 and Brindabella Airlines joined the group in September 2011.

The two airlines are currently in the process of being merged together with the intention of creating cost efficiencies and greater financial resilience than each could achieve on its own.

Both airlines have a long standing commitment to operating on regional routes, particularly in New South Wales. Aeropelican has been operating since 1971 and Brindabella airlines started its scheduled passenger flights in 2003. Both airlines are now headquartered in Canberra but also have staff located in Sydney, Newcastle, Mudgee and Brisbane. The businesses employ approximately 120 staff and provide charter services and scheduled airline services. We also carry out the scheduled maintenance for our aircraft in our engineering facility in Canberra.

Background

Historically, aviation has been an important part of the progress of Australia as a nation. This reflects the Australian pioneering spirit and the practical need to link rural, regional and remote populations to each other across vast areas and to the major cities.

Originally, flying was for the select few. However modern equipment and business systems have enabled aviation to be brought to the masses and, in today's modern economies, most people have had the opportunity to fly somewhere with an airline. Within the wealthy western world, the availability of safe, reliable and cost effective regional, domestic and international flights, is often taken for granted.

Aviation is well known to be a challenging business. Across the world, aviation is often a loss making venture and even in the best years, may not generate the returns of other investments. Aviation faces large capital outlays and insurance costs, It is also a very volatile business environment from the point of view of operating costs. Fuel and labour costs, airport charges, government regulation, and scheduled and unscheduled maintenance costs can significantly impact on an airline's profitability, and yet many of these inputs are not within an airline's control, and they can be unpredictable and highly variable.



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Airlines are effectively high capital-intensive, high cost, low margin operations. Constant vigilance in running the business is important to ongoing survival. Revenue is predominantly a complex mix of fares and load factors and most airlines, even small airlines, manage revenue daily and focus heavily on minimising their costs.

The precarious nature of airline operations has seen many airlines fail in Australia and overseas. Recent years are no exception. The challenges can be exacerbated in smaller operations that have lower levels of bargaining power, smaller economies of scale and smaller financial reserves to stave off disaster.

The Bureau of Infrastructure, Transport and Regional Economics (BITRE) has published statistics that show the declining RPT for regional and remote communities in Australia:

- In 1985, 268 regional airports had RPT services, in 2008, 138 had RPT services.
- In 1985, 53 airlines serviced regional airports, in 2011, 24 airlines serviced regional airports.
- In 1985 there were 436 regional RPT routes, in 2008 there were 243 regional routes.

During the recent GFC a number of regional operators failed or ceased to operate and recent data suggests these trends are continuing.

Additional information about regional aviation can be found in the RAAA submissions to the Productivity Commission inquiry into Economic Regulation of Airport Services (www.pc.gov.au).

Brindabella Airlines and Aeropelican operations

Aeropelican and Brindabella Airlines operate between 14 destinations. Our routes include:

- Sydney/Cobar, Sydney/Cooma
- Canberra/Tamworth, Canberra/Albury, Canberra/Newcastle
- Brisbane/Armidale, Brisbane/Tamworth, Brisbane/Moree, Brisbane/Coffs Harbour and Brisbane/Narrabri
- Newcastle/Sydney, Newcastle/Narrabri
- Mudgee/Sydney

Brindabella Airlines operates 18-seat Metroliner IIIs and 30-seat British Aerospace Jetstream 41s, whilst Aeropelican operates 19-seat British Aerospace Jetstream 32s. These aircraft are ideal for routes and communities that do not justify and could not support larger aircraft operations.

Typically, 18-seat and 19-seat aircraft are some of the smallest aircraft operating on regular public transport (RPT) routes in Australia today. This has not always been the case; in the 1970's, 80's and 90's, airlines regularly operated 6-10 seat aircraft. As the financial challenges



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and complexity of the aviation industry grow over time, viability will continue to demand bigger aeroplanes, and airlines such as ours will look to up-gauge to larger aircraft with more seat capacity and bigger economies of scale, etc. It can therefore be expected that smaller communities that do not have the passenger numbers for the larger aircraft may have difficulty maintaining their air services.

Brindabella Airlines and Aeropelican have commenced a number of new routes in the past three years. In some instances the routes had previously had an air service that had been abandoned. The growth in mining has generated new opportunities for airlines across the country, in both RPT and charter, particularly to support fly-in fly-out requirements. Mining and other large commercial operations can attract air services to communities that would otherwise not have a service, but communities without these types of interests have tended to lose their air service if passenger demand doesn't match the airlines' needs to up-gauge to larger operations.

When considering a new route an airline typically considers a range of factors including:

- Information from state government, local councils, local business contacts, chambers of commerce, etc, about likely demand for an air service. (Some local councils will undertake a survey to determine this);
- Total passenger numbers for the airport over time;
- What air services are currently operating;
- What previous air services used to exist;
- What industries are in the area and whether they are growing, declining, etc;
- What government, education, health, social and other types of employees might use the service;
- Will passenger numbers be affected heavily by school holiday breaks, etc;
- Likely socio-economic position of travelers and their likely reasons for travel;
- Internal information such as aircraft availability and utilisation, staffing requirements, locations for bases, cost factors, etc;
- Operational issues – runway length, airport charges (including whether passenger screening is required), flight times, ground handling support, fuel availability etc.

The first, most practical criterion for commencement of an operation by Brindabella and Aeropelican is adequate infrastructure at the airport. This includes runway length, apron parking, ongoing maintenance of the airfield and terminal, availability of fuel services, and ability of the council to manage the safety and other regulatory requirements. In our experience, a positive working relationship between the council and the airline is very helpful to address practical issues that may arise. For example, in one country location where Brindabella Airlines and the fuel supplier had difficulty securing the right staff for check-in and refuelling, the council



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arranged for some of their staff to be trained and rostered on to assist, and Brindabella contributes to the cost of these services.

Another important factor is certainty of access to the necessary airport(s) at reasonable cost. In respect of NSW, some routes into Sydney's Kingsford Smith Airport are protected if passenger numbers are below 50,000 passengers per annum. Before operating on such a route, airlines must obtain permission and a licence from the NSW government. Regulations also protect a number of slots at Sydney Airport for intra NSW regional services, but given the increasing congestion at Sydney, few of these slots remain available. The peak morning and afternoon periods are most congested, but it is at these times that most travellers, particularly business travellers, wish to travel.

The limit on Sydney airport slots in the peak period is already limiting, and will increasingly limit, the expansion or recommencement of intra NSW air services. Air services for some NSW regions will increasingly connect to Brisbane. Travellers will travel on to other destinations from there or arrange appointments and business in Brisbane rather than Sydney. This is already happening and Brindabella Airlines and Aeropelican have been able to facilitate this movement, with services direct from Moree, Tamworth, Armidale and Narrabri - to Brisbane. However it should be noted that apron parking at Brisbane is also becoming increasingly constrained.

When considering a new route it is important for the local community and council to be supportive and helpful. Commencing a new service involves up-front costs and can be a high risk for a smaller airline that may not have deep pockets. Only large airlines can realistically carry losses on individual routes and can apply a broad approach to their network where they cross subsidise unprofitable routes from profitable routes. At Brindabella Airlines and Aeropelican, each route must be able to generate a profit – and whilst losses might be manageable for a short time during start up, we cannot carry them on an ongoing basis.

Financial support from the council and community, particularly in the first 6 or 12 months of an operation, can make a big difference. This can take the form of discounts on landing charges, assistance with marketing and advertising costs, creating linkages to potential business customers, financial guarantees for a minimum number of seats, etc. Allaying the up-front costs and financial risk can be the difference between starting or not starting a new route.

Particular challenges on the horizon

Recent decisions by the federal government have had a cumulative effect on the viability of all airlines. For regional airlines with smaller economies of scale, these challenges are more intense.

The excise on aviation fuel was increased from 1 July 2010 to help fund aviation regulatory agencies. This is despite the revenue growth that arose purely from the increase in fuel volumes



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over the past 10 years. Overseas airlines and airports do not pay the fuel excise so regional carriers bear an unfair share of the burden of financially supporting the regulatory agencies.

On the industrial relations front, changes to minimum shift times resulting from the review of federal Awards, has pushed up ground handling costs making these services more expensive and less flexible.

Other regulatory changes in recent years have added to the industry's costs. The introduction of Safety Management Systems, Transport Security Programs, Drug and Alcohol Management Plans, and Human Factors and Non Technical Skills training have all added complexity and, while they increase the level of safety and security, they cost money.

From 1 July 2012, regional airlines will face more challenges with the removal of the federal En-route charges subsidy, the introduction of the carbon tax, and the change to security rules. After 1 July next year, aircraft of 20,000kg or above and other aircraft operating within a half an hour of them, will have to be security screened. This means that a number of regional NSW airports are currently in the process of arranging for passenger and baggage screening – at considerable cost to their communities.

Federal government estimates of the likely ticket price rise necessary to cover the carbon tax are not accurate in respect of regional airlines. We expect that ticket prices may have to rise by \$4 to \$10 per sector (depending on the length of the flight) to cover this cost. And in locations where security screening must be implemented to meet the new standards, larger price rises are expected. Airports will pass their costs to airlines and in places where passenger numbers are relatively low, a higher charge per passenger will be needed to recover costs. Estimates vary wildly due to the variances in terminal extension costs, equipment costs, operating costs, and passenger numbers across airports, but it is possible that an additional charge between \$5 and \$25 per passenger could be applied.

By all accounts at this stage, 2012 will be a very difficult year for regional aviation – both airlines and airports – which are already in some instances struggling to maintain the air services that are vital to their economic development and essential community services.

Interestingly, the pressures on aviation, and particularly regional aviation, are occurring at the same time that the NSW government is providing \$7000 grants to encourage city dwellers to move from Newcastle, Sydney and Wollongong into regional NSW.

What can be done?

Brindabella Airlines and Aeropelican remain committed to providing air services to regional NSW communities. We are proud to contribute to the communities to which we fly. We provide an important service and we also create employment opportunities and contribute to local



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community events through sponsorships. However as explained above, it is not getting any easier.

The value of aviation

We believe that there is a lack of understanding within the policy environment of the importance and value that air services provide to a community and we submit that it would be useful for the industry and government to undertake a high quality research project to understand the value of aviation as a sector – within regions, within states and across the nation. This includes not only airlines, but other supporting and related businesses such as engineering companies, manufacturers, flight schools, fuel companies, etc.

Placing a value on aviation and understanding where the industry participants are located and what their key issues are, will help to raise the current level of understanding and allow the true value of the industry to be understood. It will also help to direct and focus future policy thinking and initiatives.

Technical expertise and administration to support collaboration and create efficiencies

We also support collaboration between councils where possible to achieve efficiencies and economies of scale. Local councils often own their local airport and this places a great burden on them and their communities to maintain and develop them. We are aware that some councils work collaboratively to tender for equipment or services and share information to minimise costs and maximise outcomes. Some consideration could be given to assisting these efforts through coordination or centralised support staff that can provide technical expertise and administration services in respect of different councils and their various challenges. Whilst this could be primarily directed to capital works (such as extending and maintaining runways, upgrading runway and taxiway lighting, implementing security and safety initiatives, extending terminals to accommodate screening requirements etc), it could also extend to actually providing some services. Passenger and baggage screening is an example of a service that many small airports and councils are now or will be required to provide. However, the regulatory requirements and insurance costs often preclude this being done by the councils themselves or even by local companies. While some large airlines have been prepared to provide the service to the airport, this is not always the case and without some overarching solution, there will be very few providers of these services and they will be able to offer the service to individual councils at 'take it or leave it' prices.

From an airline perspective, it is important for regional airports to keep costs as low as possible. In fact, there is a case for airports paying airlines to fly to them rather than charging airlines, because airlines bring passengers, goods and economic benefits to the town that are good for everyone and the community generally. However, councils usually seek to apply charges so that, in so far as possible, the airport charges cover the airport's costs.



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Airport charges are invariably passed on to passengers by the airlines because airlines are no longer able to absorb cost increases. As these charges push up the cost of travel, it becomes less and less affordable for individual passengers, which ultimately impacts overall passenger volumes and the long term viability of the service.

Constraints at Sydney Airport

It is difficult to suggest how the constraints at Sydney Airport can be overcome, but as a starting point, it is absolutely vital that the current regulatory protection of regional slots at Sydney should continue. There is debate from time to time about the protection of slots for intra NSW routes, and no doubt the airport would prefer to see the protected slots allocated to large domestic or international carriers arriving with hundreds of people on board rather than small aircraft with (say) 30 passengers from regional NSW. However, access to Sydney Airport is of vital importance to people who live in regional NSW. They must be able to continue to benefit from what is a key piece of NSW infrastructure and to access their capital city and other connecting air services.

The effect of failure by governments to ensure that airport services can continue to grow within the Sydney basin should not be borne by those living in regional NSW.

Broad initiatives that enable and encourage aviation

In light of the NSW government's current initiative to encourage people to move from the cities to the country, a state or federally based approach to regional expansion and development will be important if the goal is to be achieved. Whilst the up-front payment of \$7000 may give people a reason to consider a move, it will be the availability of jobs and key services that will be the key to their decision. Services such as hospitals, schools and access to transport (whether road, rail or air) are vital.

We would suggest that a broader approach be taken to encouraging population shift. To do this, there will need to be a better understanding of the factors that currently operate to push people towards the cities and a willingness to address these as well as to ensure that the key services are available in regional areas. Where services are provided by commercial entities, it will be important to ensure that policy settings and funding initiatives enable and encourage the necessary outcomes.



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