INQUIRY INTO REGIONAL AVIATION SERVICES

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The Hon Rick Colless MLC
Chair
Standing Committee on State Development
Legislative Council
Parliament House
Macquarie St
Sydney NSW 2000

Dear Mr Colless

Re: Inquiry into regional aviation services

The NSW Business Chamber ("the Chamber") welcomes the opportunity to make a submission to the inquiry into regional aviation services.

The Chamber is one of Australia's largest business support groups, helping around 30,000 businesses each year. Tracing its heritage to the Sydney Chamber of Commerce founded in 1825, and the Chamber of Manufactures of NSW founded in 1885, the Chamber works with thousands of businesses from owner operators to large corporations, from product-based manufacturers to service provider enterprises. Operating through a network of offices in metropolitan and regional NSW, the Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

Together with the Tourism Industry Council of NSW ("TIC"), which has recently amalgamated its operations with the Chamber, we aim to represent and enhance the needs of tourism businesses across the state of NSW by working with government, industry and community stakeholders to boost investment, employment and promotional opportunities whilst providing business support, communication and advocacy for our members with a primary interest in tourism.

The importance of regional aviation services to rural and regional communities and the state of NSW cannot be understated. Aviation brings with it a range of economic, social and health benefits and ensures interconnectedness between our regions, our cities and the rest of the world.

To ensure continued and improved regional access to aviation services we make the following recommendations:

1. That the Committee recognises the importance of having sufficient aviation capacity in the Sydney region to sustain and grow regional aviation, and recommends the State Government to call on the Federal Government to:

> i. Update regulations which govern KSA's operation to better reflect modern aviation; and
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> ii. Commence the development of a supplementary airport at Badgerys Creek to commence operation by 2027.
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> 2. That the Committee notes the significant impact on regional NSW of access to aviation, from a business, tourism and social perspective.
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> 3. That the Committee support the maintenance of the current regional ring fencing provisions in KSA's Slot Management Scheme and price control mechanisms to ensure regional air access to KSA
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> 4. That the Committee recommends a NSW Government review of the appropriateness of current licensing mechanisms for regional aviation.
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> 5. That the Committee supports a cost-benefit analysis of the threshold and implementation of security screening regulations.

Aviation capacity in the Sydney region

Sydney's Kingsford Smith Airport (KSA) is the major international visitor gateway to Australia and the major domestic visitor gateway to NSW. KSA is also Australia's largest air transport and logistics hub and, with demand for both passenger aircraft and air freight forecast to grow, managing capacity at KSA will be an increasing challenge.

To ensure Sydney can remain globally competitive, aviation capacity must keep up with growing demand. Although KSA still has remaining capacity to meet projected demand over the short term, Federal and NSW Governments need to agree on a site for a second airport for Sydney now so that adequate planning – both for the site itself and broader land use and transport planning – can occur. As has been identified in numerous studies, Badgerys Creek with its proximity to western Sydney businesses and transport links, remains the most obvious and sensible site for a second airport.

It must be emphasised however that in conjunction with a decision to build a second airport in Sydney, more needs to be done to allow KSA to expand its current capacity to ensure it can meet forecast demand over the medium to longer term. Sydney Airport Corporation Limited (SACL) has outlined in its Master Plan a proposal to reconfigure the terminals and airport access points to better manage in and out bound passengers and aircraft during peak demand periods. While such changes will help, current regulatory constraints at KSA are significantly inhibiting capacity at KSA. Raising the statutory cap on airport movements to 85 or more movements per hour and increasing the minimum number of flights allowed in the shoulder curfew period will both help to enhance capacity at KSA and alleviate pressure on maintaining regional air access to Sydney.

Regional access to KSA

The regional ring fencing provisions in KSA's Slot Management Scheme provides a minimum number of landing slots for regional air services. Regional communities deserve equitable access to KSA and these provisions support this outcome.

Without these provisions, regional flights would not be able to compete with interstate or international services for landing space at KSA and accordingly, the Chamber opposes any change to these current provisions.

Similarly, we would not support the removal of the controls that limit potential price increases in SACL's regional carrier charges for the provision of terminal, check-in, security, runways and apron parking services. The Chamber is aware of a number of regional airlines who are concerned with their ability to negotiate with SACL on an equal basis. In light of the recent events in the regional aviation market, we do not think any significant changes to the price controls would be appropriate at this time. Any future changes to charges would need to take full account of the potential impact on regions.

We note that the *Joint Study on Aviation Capacity in the Sydney Region* recommends further limitation of access to new KSA runway slots for smaller aircraft, thereby encouraging a progressive upgauging of small aircraft operations in the medium term. While we appreciate the capacity concerns at KSA, we have concerns about what impact this would have on the viability of regional services. We would recommend that prior to any changes in this regard that an assessment of these impacts be undertaken.

While the Chamber is aware of concerns regarding regional air access to KSA following the development of a second Sydney airport, we believe that rather than diminish regional access to KSA, a second airport would instead help ensure the viability of regional air services into Sydney over the longer term. The *Joint Study on Aviation Capacity in the Sydney Region* found that the number of slots set aside for NSW intrastate movements has already been heavily taken up in the morning and afternoon peaks, therefore there is limited scope for growth in intrastate movement in the busiest periods of the day. Given the emerging capacity constraints at KSA, a second airport would open up additional capacity both at that airport and at KSA to meet demand from regional carriers.

Regional Airports

Differences in management and finance strategies were identified in our discussions with airlines as key challenges in dealing with regional airports. One airline suggested that regional airports that choose to finance their operations through levies, such as a tax per passenger, are more efficiently maintained. The airline suggested that such levies gave the airports oversight over useful demand data on which to base its maintenance and investment schedules. In contrast, airport owners who choose not to apply such fees have less oversight on current levels of demand and as a result plan unnecessary upgrades such as lengthening runways and terminals, to attract more business, without the robust passenger data required to justify such upgrades.

With that said, airport charges make up a significant amount of each ticket charge. With a total profitability last year of $5million, REX reported profits of less than $10 per passenger using their services. With such thin margins, any move to increase

airport charges by regional airports significantly impacts the airline operators. Decisions to increase airport charges should therefore only be made in close consultation with operators to ensure that any proposed charge is appropriate to the level of demand for air services and the impact on ongoing operations is minimised.

Compliance Costs

The carbon tax impacted on the viability of regional airlines. Due to thin margins, regional airlines have found it extremely difficult to pass on these costs, especially given car travel – which is exempt from the carbon tax – is the main competition for regional aviation.

In addition, the end of the Federal Government's En Route Rebate Scheme which provided a rebate for regional commercial airline carriers to support low volume and new routes to small and remote communities, has had a financial impact on regional airlines. We note that the reintroduction of a revised Scheme formed part of the Federal Coalition's pre-election platform.

Economic impact on regional communities

Access to regional aviation has a significant impact on the local business community. This manifests through:

- Direct access to major commercial hubs, often within same-day travel;
- Better access to the labour market;
- Access for tourism/recreational travel; and
- Better access to medical services.

The case study set out below demonstrates the economic impact both air access and a lack of air access can have on a regional community.

Case Study: Broken Hill

Broken Hill is in the Far West of New South Wales, 50km from the border of New South Wales and South Australia. The city is 1,165km from Sydney, 849km from Melbourne and 508km from Adelaide.

Broken Hill is currently serviced by a single carrier – REX Airlines. The carrier has exclusive rights to the Broken Hill-Sydney route until 2018 and had been providing daily direct services between these two destinations. This arrangement has been in place since 2002. Other public transport options to Sydney include rail and coach services.

The current monopoly of air services and the isolation of Broken Hill leaves the community at risk if the airline determines not to, or is unable to, provide air services to Broken Hill.

For business travellers, government services, medical specialists and fly-in / fly-out workers the service between Broken Hill and Sydney is absolutely critical.

In 2012, REX Airlines announced new air services linking Broken Hill with Mildura and Melbourne. Mildura is the nearest regional centre to Broken Hill and already has important business links to Broken Hill, including freight, bus passenger services, larger retail suppliers and other key services. Melbourne is Broken Hill's second-closest capital city (after Adelaide), and the opportunity for Broken Hill residents to pursue business and recreational opportunities in Melbourne was strongly welcomed. The new services also created opportunities for Mildura and Melbourne-based business travellers and service providers (such as health professionals) to be able to efficiently provide services into Broken Hill for the first time.

However, the new flight schedules cancelled daily direct flights to and from Sydney with that service replaced with flights via Dubbo. Daily direct flights had enabled Broken Hill-based business travellers to arrive in Sydney by around 9.20am, meet a full day of business commitments and depart from Sydney at 6.20pm and be home in Broken Hill by around 8.30pm. This was a very cost effective way to do business in Sydney. To fly to Sydney for a single day of business, Broken Hill-based business travellers are now required to depart on the day prior to their commitment and return the following day incurring an extra cost of two nights' accommodation in Sydney, in addition to the significant cost of airfares. It is also often cheaper to fly to Adelaide and on to Sydney rather than take the Sydney flight via Dubbo.

The loss of a daily air service to Sydney has a clear impact on the economy of Broken Hill across a wide range of industries. The Business Plan for the Broken Hill Film and Television Precinct recognises that airport capacity, service frequency and cost of air travel mean higher cost for film makers and fewer tourists.

The shortfalls and gaps in the provision of health services across country NSW, and specifically Far Western NSW are also impacted by this decision. These gaps are often filled by fly in fly out medical specialists – loss of daily flights into and out of Sydney has impacted on the provision and availability of health services. If the existing airline were to withdraw service completely this would have significant consequences on health services for both Broken Hill and surrounding communities.

Furthermore, the lack of competition with only one operator flying the route means passengers do not have the option to compare pricing and availability. The significant cost of air travel prohibits many families from using this form of travel, impacting on potential passenger numbers and potential of expanding services and improving economies of scale.

During April 2013, Broken Hill City Council undertook community consultation to identify additional priorities to those in the existing Broken Hill 2030 Community

Strategic Plan. These include options to redevelop the Broken Hill Airport. Without expansion of the airport, the City cannot offer airlines the capacity to land larger aircraft, inhibiting the capacity to grow the visitor market. With council owning the airport however, there are limitations on their ability to fund such upgrades without strong support from the community to do so.

Problems associated with Route Licensing Policies

The NSW Government regulates intrastate air routes by limiting competition on low volume routes and licensing these routes on a one-route, one-licence basis. Higher volume routes are deregulated, or unlicensed, which allows open competition. These arrangements recognise that higher volume routes can operate competitively, while low volume routes are protected from competition to provide greater stability and encourage route development.

While this can provide some degree of stability in smaller markets, this does not guarantee services to communities, nor provide any guarantee of the survival of airlines. Higher operating costs and increasing regulation and compliance mean it is difficult for airlines to survive and as such, regional air services are becoming increasingly less viable. Many regionally based airlines in NSW have ceased operation in the past two decades and very few providers have commenced operations in recent years to fill their place.

The current licensing regime of annual passenger carriage below 50,000 fails to give any protection. Newer airlines that emerge to fill demand in the market are also sometimes unable to cope with the expected level of service, ultimately contributing to decline of the airline and a lack of access to air services for residents until a new carrier is awarded the route licence.

The Chamber welcomes attempts by government to provide certainty of access to services for the regions, but is unsure of the appropriateness of the current rationale and approach to licensing. Airline services which are not commercially viable will not be sustainable purely because of the fact they hold an exclusive license on a route.

We would call for further investigation by Government into whether the current licencing framework is appropriate and is meeting the policy objective of maintaining regional air access.

The development and supply of sufficient numbers of trained and skilled aviation personnel

Many regions find it hard to compete with metropolitan areas when retaining trained and skilled aviation personnel. The Civil Aviation Safety Authority has recognised that the aviation industry experiences shortages of skilled personnel,

particularly in the regional centres, which is an ongoing issue. The availability of skilled and experienced personnel, particularly in operational management positions, is critical to the health and wellbeing of operators' safety systems.

Where appropriate, we must examine all possible avenues to address skills shortages within the industry by providing greater incentives to recruit and train young skilled professionals in the aviation industry and reduce the costs associated with obtaining the required training and licences by way of dedicated scholarships or living allowances. There are also a number of options that are available for pilots with foreign licences who wish to fly in Australia including converting existing overseas licences, which may assist in addressing skills shortages.

Freight

The inclusion of freight on passenger flights will depend overall on the economics of each route. Moving more freight onto passenger flights should be encouraged where it is economically feasible to do so, as this would result in either growth in freight movements or a rationalisation of the number of flight movements in and out of KSA – both having distinct advantages. Dual use would also help to improve the economics of running services along these routes. However, we have been advised that including freight on all planes is not possible due to weight restrictions.

We are currently not aware of any obstacles to finding opportunities for dual use RPT services, however we would support further analysis of whether opportunities for dual use are being missed and whether there is a need for further actions to address any impediments to this occurring.

Security screening requirements

As of 1 July 2012, any aircraft under 20 tonnes of maximum take-off weight does not need security screening. Any aircraft above that weight is however subject to security screening requirements. This roughly translates to planes that carry more than 50 passengers. Airports in NSW currently undertaking security screening include Albury, Ballina, Coffs Harbour, Dubbo, Newcastle, Port Macquarie, Sydney, Tamworth and Wagga Wagga.

Airlines must contribute to the cost of these screening processes. The day to day operating costs associated with security screening at a single airport is very high, often ranging between $800,000 to $1.2 million per year. This requires multiple staff, with at least two shifts a day, between 6 AM and 8 PM. This can be quite costly for the airlines involved and disadvantages those airlines that choose to operate aircraft slightly above this limit as it incurs time and financial penalties and can make them less competitive than their counterparts who wish to use aircraft below the threshold.

Certain carriers such as REX are currently not required to undertake security screenings as their aircrafts are below the limit. However, some councils have implemented flat usage rates across their airports in which all carriers must

contribute to the costs of security screening, despite some carriers not actually having to use the services as stipulated by legislation. This is an inherently flawed approach.

Where multiple providers are servicing a route, there may be an issue surrounding per passenger costs associated with a flat usage rate. For example, a provider that services 200,000 passengers on one route might incur a $10 per person cost, whilst another provider flying the same route with a limited number such as 20,000 passengers might incur security costs of around $50 per person.

While the security thresholds should not be removed altogether, we would recommend reviewing the costs and benefits of the current thresholds. Given the Joint Study on Aviation Capacity in the Sydney Region has recommended increasing the minimum size of aircraft, the impact of these security requirements should be reviewed in light of this policy direction.

For further information on this submission, please contact

Yours sincerely,

For Paul Orton
Director, Policy and Advocacy