

**Submission
No 60**

INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Commonwealth Department of Infrastructure and
Regional Development

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Australian Government

Department of Infrastructure and Regional Development

File Reference: 14/993
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The Hon Rick Colless MLC
Chair
Standing Committee on State Development
New South Wales Legislative Council
6 Macquarie Street
SYDNEY NSW 2000

Dear Chair

Inquiry into regional aviation services

Thank you for the opportunity to provide a submission to the Committee's inquiry on regional aviation services. The Commonwealth Department of Infrastructure and Regional Development (the Department) has policy and regulatory oversight of a range of issues within the Terms of Reference of the Inquiry, including regional airline access and charges at Sydney Airport, and aviation security. An overview of these arrangements is outlined below, as well as information on NSW Regional Development Australia Committees and a range of statistical information compiled by the Bureau of Infrastructure, Transport and Regional Economics relating to regional aviation.

Regional Airline Access and Charges at Sydney Airport

The Australian Government recognises Sydney Airport's role as an essential transport hub for regional New South Wales and ensures access and reasonable pricing for regional airlines.

To ensure access, the Australian Government regulated Slot Management Scheme for Sydney Airport includes specific conditions for the allocation of slots to operators of regional services (defined as air services operating wholly within New South Wales). The Scheme establishes "Permanent Regional Service Series" (PRSS) slots to ensure slots held by services operating within New South Wales are not progressively transferred to non-regional services. The number of PRSS slots during peak periods was capped in 2001 at the northern winter and northern summer rates under the Slot Management Scheme 1998. The Scheme requires the Slot Manager to offer a vacant PRSS slot series to regional operators to conduct a regional service. If no regional airline takes up the offer, the slot series may then be offered to an operator to conduct an interstate or international service. The slot series remains a PRSS slot series going forward meaning that non-regional services could not gain historic precedence rights to the slot series in the future. 'Ringfencing provisions' under the Scheme provide further protection by restricting the transfer of slots at peak hours from regional services to non-regional services.

Regional services comprise approximately 26 per cent of the peak morning hour operations and 33 per cent of the evening peak. Throughout the course of a scheduling season, regional slots account for 22 per cent of services at Sydney Airport.

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These measures are designed to ensure operators of regional services have equitable access to Sydney Airport by providing access during all operating hours of the day. The Government is committed to maintaining these protections.

Any proposed price increases for regional airlines to access aeronautical services and facilities at Sydney Airport are currently capped at the rate of the Consumer Price Index (CPI). Additionally, the provision of aeronautical facilities to regional air services is declared to be a notified service under the *Competition and Consumer Act 2010 (Cth) (CCA 2010)*. As a notified service, Sydney Airport Corporation Limited (SACL) must inform the ACCC if it intends to raise the prices charged to regional operators. This price cap and notification are set out by Direction no. 34 and Declaration no. 93 made by the Assistant Treasurer under subsection 95X(3) of the *CCA 2010*. Direction no.34 and Declaration no. 93 were renewed on 1 July 2013 and remain in effect until 30 June 2016.

On 24 June 2010 SACL submitted a price notification to the ACCC proposing to increase terminal, runway and passenger security charges applicable to regional air services at Sydney Airport by 2.9 per cent. This was to be the first price increase since 25 May 2001. In submissions to the ACCC's issues paper on the price notification (ACCC Issues Paper 9 July 2010), it was contended that Sydney Airport Corporation Limited (SACL) should not be allowed to increase its prices for regional operators for the following reasons:

- That the notified 2.9 per cent price increase should be considered in light of other price increases communicated to regional airlines by SACL, including runway and security charges, which had not formed part of the notification to the ACCC.
- Increasing charges to regional operators could not be justified by economic efficiency.
- Increasing the cost to regional air services would threaten the viability of independent regional airlines.
- Increased charges to regional air services did not reflect any increased level of service.
- Increased regional passenger numbers had led to increased revenue for SACL.

The ACCC rejected SACL's application for a price increase, finding SACL had not sufficiently demonstrated that the proposed price increase was required to recover costs for the efficient provision of services. The full finding can be accessed at <www.accc.gov.au/regulated-infrastructure/airports-aviation/sydney-airport-regional-aviation-2010/decision>. Consequently, there have been no price increases for access to aeronautical services for regional carriers at Sydney Airport since 2011.

Aviation Security

The Department is responsible for the administration of the *Aviation Transport Security Act 2004* and the *Aviation Transport Security Regulations 2005*. The legislation establishes a regulatory framework to safeguard against unlawful interference with aviation, as well as to meet Australia's international obligations under the Convention on International Civil Aviation (Chicago Convention).

NSW Security Regulated Airports

There are 31 airports in NSW that are subject to the provisions of the *Aviation Transport Security Act 2004*. Of these, 10 airports provide aviation security screening services. It is open to these airports to recover the cost of these services. A full list of NSW security controlled airports is provided at Attachment A.

Wagga Wagga, Tamworth and Dubbo airports commenced screening on 1 July 2012 and received the Australian Government funding for the purchase of aviation security screening equipment. It should be noted the other seven NSW screened airports operated passenger and checked bag security screening for a number of years prior to the regulation changes in 2012.

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Typically a regional airport screening operation involves walk through metal detection, carry-on and checked baggage x-ray and explosive trace detection equipment. It may include five to seven screening officers.

Costs Attached to Security Requirements

The Australian Government does not regulate the amount and structure of fees and charges for aviation security screening operations. These are business decisions negotiated between airports and airlines. Passenger ticket prices are set by airlines. Airport landing charges are negotiated between airports and airlines and may vary considerably. The extent to which the range of an airport's costs are passed on to passengers by airlines, including security costs, remains a commercial decision for the airline operator. Airlines typically do not disclose this information.

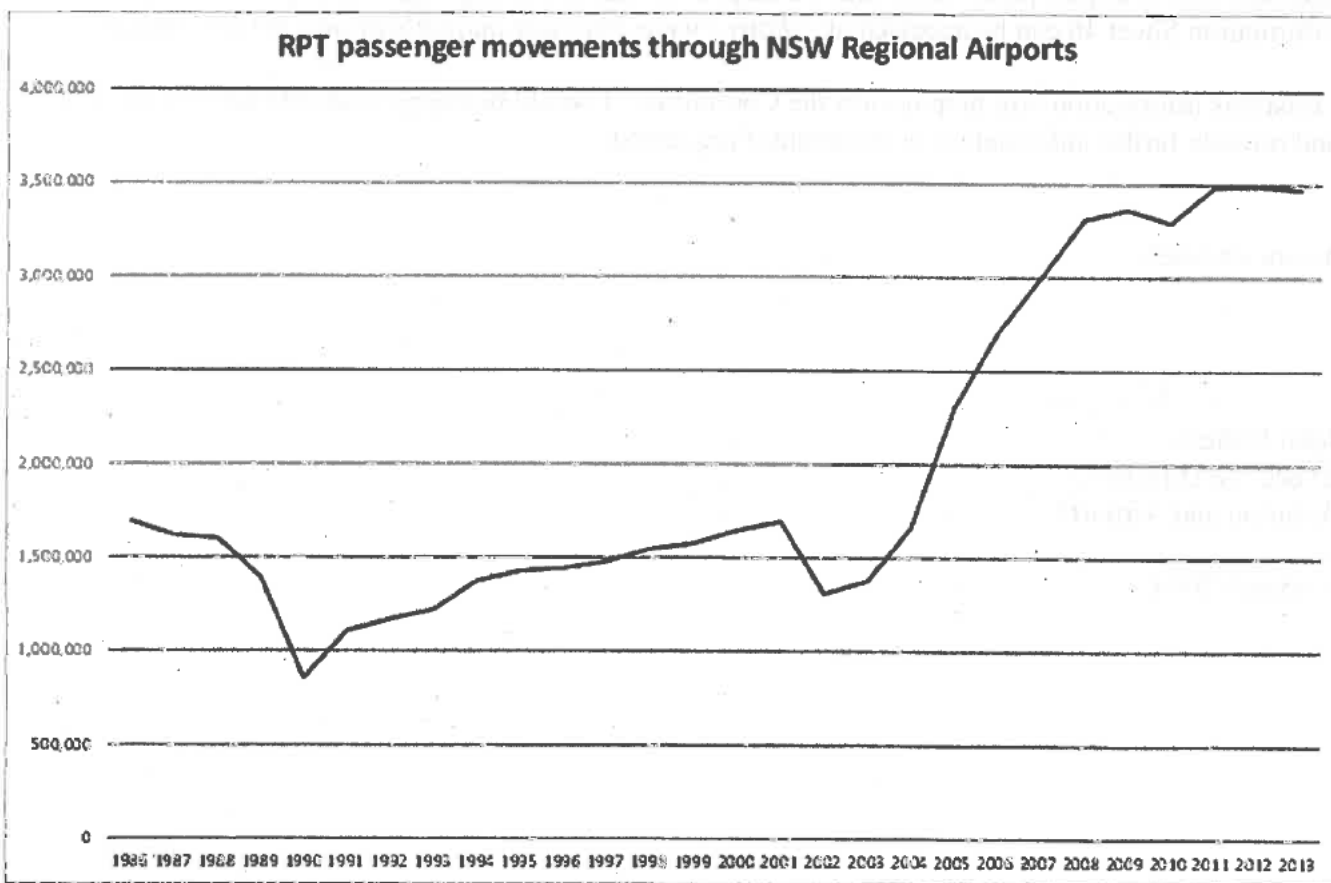
Regional Development Australia and Airport/Aviation Development

The Department administers Regional Development Australia (RDA) which is a national network of 55 committees made up of local leaders who work with all levels of government, business and community groups to support the development of their regions.

The Department's records indicate that 80 per cent of NSW RDA Committees identify various forms of airport and aviation development as an economic priority for their respective regions. Most RDAs refer to the economic value of air services to the region, directly or indirectly, in their Regional Plans.

New South Wales Regional Airports Regular Passenger Transport (RPT) Movements

RPT movements at NSW regional airports (all airports except Kingston-Smith, Bankstown, Parramatta and Rose Bay) grew strongly between 2003 and 2008, but growth stalled at about the time of the Global Financial Crisis (see chart below).



[Source: Bureau of Infrastructure, Transport and Regional Economics]

Further, the growth has not been even across airports. Some airports have experienced strong growth while others experienced declines or even ceased RPT services (examples at Attachment C).

The reasons for the differences in growth vary. Some of these figures may be due to airport consolidation. For example, passengers through Lismore have fallen significantly, while passengers at Ballina (33km away) have increased significantly.

Employment Generation and Airports

There is a positive association between the rate of growth in passenger numbers at an airport and the rate of growth in employment at the airport site. However, an increase in passenger numbers does not always lead to the creation of additional on-site jobs, with the 19 per cent increase in passenger numbers at Sydney Airport between 2006 and 2011 resulting in only a very minor (1 per cent) increase in on-site jobs.

On average, across the ten selected major Australian airport sites (all mainland capital city airports plus Gold Coast, Cairns and Townsville), there were about 580 people employed on-site per million passengers per annum (MPPA) in 2011. European evidence on the direct on-site jobs created by airports suggest medium to large size airports create around 1000 jobs per MPPA and equivalent American airports about 700 jobs per MPPA.

A review of the international evidence shows that the reported total employment generated by an airport (the sum of direct, indirect and induced jobs) relative to direct employment is, on average, two to three times the number of direct jobs.

The Bureau of Infrastructure, Transport and Regional Economics Information Sheet 46 'Employment generation and airports' provides estimates of onsite employment for the 16 busiest Australian airports (including Sydney and Newcastle airports in NSW). Further, it provides information on the industry and skill mix of airport jobs, which may be helpful for understanding regional impacts of airports. The Information Sheet 46 can be accessed at: <https://www.bitre.gov.au/publications/2013/is_046.aspx>.

I trust this information will help inform the Committee. I would be happy to clarify any information and provide further information or comment if requested.

Yours sincerely

John Doherty
Executive Director
Aviation and Airports

26 March 2014

NSW SECURITY CONTROLLED AIRPORTS

Airport	Screened
SYDNEY	Yes
NORFOLK ISLAND	Yes
ALBURY	Yes
BALLINA	Yes
COFFS HARBOUR	Yes
DUBBO	Yes
NEWCASTLE (RAAF WILLIAMTOWN)	Yes
PORT MACQUARIE	Yes
TAMWORTH	Yes
WAGGA WAGGA	Yes
ARMIDALE	
BANKSTOWN	
BATHURST	
BELMONT	
BROKEN HILL	
COBAR	
COOMA	
COONAMBLE	
GRAFTON (CLARENCE VALLEY)	
GRIFFITH	
INVERELL	
LISMORE	
LORD HOWE ISLAND	
MERIMBULA	
MOREE	
MORUYA	
MUDGEE	
NARRABRI	
NARRANDERA	
ORANGE	
PARKES	
TAREE	

EXAMPLES OF NSW REGIONAL AIRPORTS ACTIVITY

Strong growth airports (5 year CAGR*)	Declining activity airports (5 year CAGR)	Regular Transport Services ceased (in the last 5 years)
Port Macquarie (9.9 per cent)	Cooma (-29.0 per cent)	West Wyalong (year ending June 2009)
Cobar (9.3 per cent)	Lismore (-12.1 per cent)	Bourke (year ending June 2010)
Tamworth (7.5 per cent)	Grafton (-8.3 per cent)	Coonamble (year ending June 2010)
Mudgee (5.6 per cent)	Narrandera (-6.8 per cent)	Inverell (year ending June 2010)
Armidale (2.4 per cent)	Merimbula (-5.8 per cent)	Lightning Ridge (year ending June 2010)
Ballina (2.4 per cent)	Taree (-5.7 per cent)	Wollongong (year ending June 2010)

[Source: Bureau of Infrastructure, Transport and Regional Economics]

*CAGR - Compounded Annual Growth Rate