

CORRECTED

REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

INQUIRY INTO REGIONAL AVIATION SERVICES

CORRECTED PROOF

At Sydney on Friday 15 August 2014

The Committee met at 9.00 a.m.

PRESENT

The Hon. R. H. Colless (Chair)

The Hon. C. Cusack

The Hon. P. Green

Mr S. MacDonald

The Hon. M. Veitch (Deputy Chair)

The Hon. S. J. R. Whan

CHAIR: Ladies and gentlemen, welcome to the final hearing of the Standing Committee on State Development's inquiry into regional aviation services. The inquiry is examining the provision of regular aerial regular passenger transport services to regional centres in New South Wales. Before I commence, I acknowledge the Gadigal people who are the traditional custodians of this land. I also pay respect to the elders, past and present, of the Eora nation and extend that respect to other Aborigines present. Today is the last of seven hearings we have held for this inquiry. We will hear today from Transport for NSW, NSW Trade and Investment, Airport Coordination Australia, the Aviator Group, Sydney Airport Corporation, Australian Airports Association, the Local Government and Shires Association, the NSW Business Chamber and the Civil Aviation Authority.

Before we commence, I will make some brief comments about procedures for today's hearing. In accordance with the broadcasting guidelines, while members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I also remind media representatives that you must take responsibility for what you publish about the Committee's proceedings. It is important to remember that parliamentary privilege does not apply to what witnesses may say outside their evidence at the hearing. I urge witnesses to be careful about any comments you may make to the media or to others after you complete your evidence, as such comments would not be protected by parliamentary privilege if another person decided to take action for defamation. The guidelines for broadcasting proceedings are available from the secretariat at the table to my right.

There may be some questions that a witness could answer only if they had more time or had certain documents to hand. In those circumstances, witnesses are advised that they can take a question on notice and provide an answer within 21 days. The audience is advised that any messages should be delivered to Committee members through the Committee staff. I ask everybody to please turn off their mobile phones for the duration of the hearing.

CORRECTED

TIM REARDON, Deputy Director General, Policy and Regulation, Transport for NSW, on former oath,

AMANDA CHADWICK, Executive Director, Innovation and Industry Policy, NSW Trade and Investment, and

ANTHONY WING, General Manager, Efficiency and Effectiveness, Policy and Regulation Division, Transport for NSW, sworn and examined:

CHAIR: Mr Reardon, would you or any of the others present like to make a brief opening statement before we start with questions?

Mr REARDON: Thanks, Chair, a very short statement. We provided evidence in Wagga Wagga and the transcript is there for the Committee. We provided a submission prior to that and subsequent to that submission and our attendance at the hearing in Wagga Wagga we provided further updates on questions on notice from that session. Apart from that, I thank you for the opportunity to come back and answer further questions from the Committee. I, too, would like to acknowledge the Gadigal people.

CHAIR: Thank you very much. Ms Chadwick, would you like to add anything to that?

Ms CHADWICK: Thank you, just a very short statement, if I could. Firstly, I would like to thank the Committee for this opportunity to provide evidence. NSW Trade and Investment is the Government's economic development agency. We collaborate—and I will draw on that collaboration in my evidence—with other New South Wales government agencies and levels of government in supporting businesses, industries and communities to advance investment, trade, innovation, productivity and regional growth. NSW Trade and Investment recognises that supporting and growing any industry needs to be considered in the context of a broader economic development framework. Ours is the New South Wales development economic framework. It involves facilitating government policy to provide a business environment that is conducive to providing sustainable and innovative investment throughout the State, including regional New South Wales, demonstrating leadership, competitiveness nationally and internationally and raising the global profile of Sydney in New South Wales.

The provision of transport and access is a key factor in our import-export, the movement of goods, services and people across all industries and sectors to achieve those goals. For Australia, international aviation services are essential to facilitating the arrival of goods and Sydney is the gateway to Australia. In New South Wales aviation services are integral to transport that enables the movement of goods, facilitation of trade and the access of services. We do this in collaboration with others, primarily Destination NSW, Infrastructure NSW, our own department and the Department of Transport. Our strategy could be divided under three particular headings. The first is advocacy to get the regulatory settings right, promotion and raising awareness of the competitive advantages of New South Wales and regional New South Wales, and targeted investments to build capacity and potential for growth.

CHAIR: Mr Wing, is there anything you would like to add to those comments?

Mr WING: I have nothing to add, Chair.

CHAIR: Mr Reardon, it has come to my attention that the Department of Premier and Cabinet [DPC] has been leading some work looking at the viability of restoring regular passenger services to Bourke and Walgett through leveraging travel demand from government agencies. Do you have any further information on where that program is up to?

Mr REARDON: I have read all of the transcripts in detail so I know that the issue of looking at services to Walgett, Brewarrina and Bourke has been raised several times. We noted when we gave evidence previously that the Orana strategy was something that we certainly were involved in. The Department of Premier and Cabinet is leading that process. In terms of looking at the viability of any service into those areas, DPC is looking at the demand and the demand, as has been noted in submissions and transcripts, is around how much commercial business and how much government business in terms of passenger numbers may be coming in and out of those locations either directly to Sydney or to Dubbo. We are participating in DPC's process. They are certainly taking the lead on it and we are providing all the factual advice we can on passenger statistics more

broadly and specifically the public service and/or any other information we can provide to support the case around the sustainable demand profile in those areas.

CHAIR: I know that you have read the transcript, as you just outlined. You would be aware that Transport for NSW came in for a degree of criticism, particularly from councils in the north-west. I want to give you the opportunity to respond to that before we proceed any further with questions. Is there any comment you would like to make in relation to those comments made by Moree and Narrabri councils?

Mr REARDON: I would like to respond. In the licencing process generally, in allocating an air licence for a route between Sydney and Moree, or any other regional locations, Transport for NSW uses the standard government procurement process that is overseen by an independent probity adviser. Transport for NSW used a competitive process in order to attract operators who were committed to providing a reliable and customer-focused service. We are bound to assess the licence applications using the criteria established under section 6 of the Air Transport Act 1964, which includes taking into account the needs of the community served by the route.

Before assessing those applications we asked all councils for their input on matters that they and their community require from a regional air service to Sydney. All input received from councils assisted in guiding the decision making of the licence evaluation process. For Moree, following that process, Brindabella airlines was selected to provide the service from March 2013. QantasLink requested an internal review of that decision as provided in the Act. The internal reviewer considered the documentation associated with the original decision and reached the same conclusion, awarding the service to Brindabella. The avenue of the Administrative Decisions Tribunal was provided to the other tenderer, being QantasLink, but that opportunity was not taken by QantasLink.

In November 2013 a number of Brindabella's aircraft were grounded by the Civil Aviation Safety Authority [CASA] and the airline was subsequently placed in receivership on 15 December 2013. In recognition of the feedback received by councils and the Moree and Narrabri communities Transport for NSW extended its consultation process, and I noted that in Wagga, to undertake further consultation prior to allocation of any new transport licence. We did that through community representatives and establishment of community advisory groups with nominees from each council to provide advice to the tender assessment panel. While we did that it needs to be noted that Transport for NSW has undertaken consultation and we are obliged to comply with the probity and commercial confidentiality requirements of the New South Wales Government procurement processes.

In doing so we reached a conclusion to grant, in December 2013, QantasLink with the Moree-Sydney route on a temporary basis and then ultimately on a more permanent basis. I would like to make some comments on due diligence in our processes. As part of the standard New South Wales government procurement process Transport for NSW undertakes due diligence on each airline at the time of the application and throughout the term of the licence, once granted. Airlines are required to provide Transport for NSW, within two weeks, a copy of any amendment to, or renewal of, the operator's declaration of insurance. Since March 2013 it is also a condition of any new licence that airlines provide Transport for NSW with the operator's annual audited financial statements within three months of the end of the relevant reporting period of that financial year.

That enables us to undertake an assessment of the financial position at the time of the application and each year the licence is in force. In addition, applicants had to sign a release form—I noted this in Wagga—allowing the sharing of information held by the Civil Aviation Safety Authority. This allows CASA to share any information that may be relevant to delivery of air services under a licence issued by Transport for NSW. Further to that, in 2007, when the last round of licence applications was undertaken, the process was for any regulated service in the State of New South Wales. At that time the Ministry of Transport ran that licence process and it ultimately achieved the issuing of further licences.

However, in Narrabri and Moree it did not achieve that outcome. There were issues associated with the process and when the expression of interest process ran through there were two operators looking to express interest in those locations. Ultimately that process was stopped. There were issues that the ministry at that time considered had compromised the tender process and it had to be restarted in late 2008. During that time QantasLink withdrew from the Narrabri route and another tenderer, being Rex, did not seek to participate in a new tender round. When QantasLink withdrew from Narrabri Brindabella took up that service in early 2009.

The process that was undertaken following the non-completion of the 2007 process for Narrabri and Moree in 2008 was exactly the same as the 2013 process that was undertaken. The expression of interest phase

for any operator let them know that we were entering into a new licence application process on a five year basis. We advised all councils and other interested industry associations that we were undertaking that process, inviting them indicate, in accordance with the Act, what matters we should take into account in that process. Many councils sought to have a conversation about that. Some did not seek to have a conversation about that.

We made it clear that the documentation we were putting out would lead to us undertaking a second stage licence application process following that first stage expression of interest process. We then took into account all of the feedback we had received and as I indicated we undertook the same process that was undertaken in 2008 and a tender evaluation panel was established within our organisation to run that process. That is what was undertaken under the confidentiality and probity requirements that we had. The only point I would add to that is with the demise of Brindabella airlines, and talking to the communities further, I noted in Wagga Wagga that clearly that process I just outlined was not acceptable to councils. They did not believe that was suitable enough community consultation.

We sought to bolster that by including, as best we could in terms of confidentiality and probity, councils in that process and that was the tweak we made to that process subsequent to the demise of Brindabella airlines. I think it was an improvement. Certainly the fine line between consultation and us having to take confidentiality and probity into account has to be trod in doing that. That is where we have landed. Those are my comments in response and I am happy to take questions.

CHAIR: I know other members want to ask about this issue as well. I spent a lot of years in local government and every time that our air transport was up for review the council considered those issues in committee so it was not public knowledge and the probity and confidentiality was respected. Are you aware if that level of discussion occurred with Moree and Narrabri councils before the Brindabella accepted?

Mr REARDON: I am not aware. If you ask about council processes I am not aware.

CHAIR: Was that information supplied to the council to give them the opportunity to discuss it?

Mr REARDON: In terms of the expression of interest process it was the same as 2008. There was an expression of interest period and then once we went through to the licence application, the licence application and tendering process was undertaken in Transport for NSW.

The Hon. MICK VEITCH: Mr Reardon, with all due respect, having been to Moree, having heard the mayor, having spoken to people up there and having heard the mayor of Cobar—who gave it to us at a morning tea prior to a hearing—the way you presented that to the Committee it sounded like everything was hunky dory and okay and that is not what we were told up there. Those communities are angry about the way they were treated. Do you accept that the Government got it wrong? In essence we rely on the Government to implement the process.

The Hon. CATHERINE CUSACK: It has been going on and on.

The Hon. MICK VEITCH: Do you accept it was wrong and that the process failed those communities?

Mr REARDON: Brindabella Airlines has collapsed and I think that has been a very disappointing outcome for those communities, absolutely. We have made the comment previously about the impact on customers when an airline collapses, as it has done, and more recently about Vincent Aviation. There are very heavy impacts for local communities. We have talked about the process of the licence application and what it means. We provide certainty for an airline to fly in and out of a location for a five-year period. We talked about what that means at the hearing in Wagga. It means providing a bridge between slots at Kingsford Smith and the local community, nothing more. In doing that the Act says we need to take into account the needs of a community.

There is something of an issue around the licence instrument providing certainty. I noted before that it is there to provide certainty for the community and for an air operator. I believe it is not for providing certainty for the community, and that has been drawn out by the straightforward commercial issues that become non-commercial issues for an airline. It is not providing that protection for the community in certain areas. It is providing protection to the air operator to give it the best shot at providing service, but when it comes to the straightforward and sometimes very quick demise of an airline it is not providing certainty to the community.

I went through the process to tell you what we do and do not do, because there was a comment about monitoring. We have bolstered the monitoring as much as we can in a light-touch regulation environment. Every question is about the next step in the regulatory regime. On one hand we are told to stay in a free-marketeer area and on the other hand we are told to provide more certainty. Looking at their insurances was not done previously; looking at their annual accounts post award of a licence was not done previously; and a range of other areas around licence conditions such as the fact they have to give an acknowledgement to disclose information between ourselves and CASA was not done previously. We are being asked to bolster certainty more and more, but at the end of it there is an airline taking its own view on and drawing up its own business plan for demand between a regional location and Sydney, and backing itself to deliver that.

Our licence provides them with certainty and protection from competition and not much else. I made comments in Wagga along the same lines. Are matters hunky-dory? I hope you do not take from my comments that that is the case. We lived through what happened. We provided Narrabri, Cobar, Cooma and Mudgee with a licence for the incumbent to continue along those routes. That incumbent started several years prior. If, in 2013, those regions had been faced with no operator, as they now are, or by us making a call to say we did not believe Brindabella should be flying to those locations, I can imagine the response I would have received. Brindabella was the operator willing to provide services to those communities—it is as simple as that. We fully accept the impact on the communities of the fact that the airline pulled out of those locations en masse. We have been to those communities so we understand the impact and we do not take it lightly.

In terms of the issues about our licence instrument the Committee has before it—the commerciality of the operator, the role of local government in owning the airport and any other grants and subsidies that are available at the airport or slots at Kingsford Smith airport—there are a range of inputs and regulatory instruments to how money is made in that supply chain. Clearly, there is turnover—and we talked about the turnover in Wagga. As I said, on my simple count of those that have entered the market, exited the market, ceased services, ceased being an entity or emerged as a new entity I added up about 80 since the year 2000. You have talked about the amount services withdrawn from various communities in New South Wales—there is an impact. I have watched these services over a long period of time, since before 2000. Every time a service goes, this conversation occurs. This issue needs to be grappled with, and I appreciate that, but I have outlined the process we have followed because the question was about the process. We are acutely aware of the actual impact on the community.

The Hon. MICK VEITCH: You said you have read the transcript of Committee proceedings. Were the criticisms levelled at your department by some mayors fair?

Mr REARDON: If a person wants to have an opinion about something, I do not want to comment. I could go through a range of consultation we have had with various councils. Some of them are confidential discussions, but needless to say we have many communications. They were very different in certain places. Certain locations work really hard to get an air service back up and running and we support them full-tilt. There was a comment about our role in Narrabri when it was said we have a facilitator role. That is a reasonable comment. We have a licence instrument and we are open for business for an airline that wants to run between Narrabri and Sydney. There is a strong push to see that work. With the licence instrument we will not stand in the way of nor chase business, because we are not in that business. We are in the business of providing protection under light-touch regulation for a service between Narrabri and Sydney.

If a council and an operator reach an agreement we will fulsomely support that but in a way that takes into account the churn in the market. From comments about two recent potential entrants made by Narrabri and the different views of those two entrants—one since 2009 and the other in 2013-14—we do not want to give a licence to someone planning to stay only for several months. However, if council and an operator see benefit in that—and Narrabri Shire Council saw benefit in Vincent Aviation and were surprised by financial due diligence, as we were, based on information given to us about small operators—we would fulsomely support that. My only caveat would be to make sure we all go into that with a sustainability lens to make sure the community gets an operator that will support it in the long term.

Comments by councils have been mixed. We support the comments Mudgee has made about the next step. We were asked if we knew what it would be. Our next step is that right now we are open for business with an expression of interest for a licence. We were in Wagga and we have been open for business ever since that air service was lost. If another operator emerges—either direct, hub and spoke or any other arrangement—we will talk to Mudgee council quickly. For Cobar we will do the same thing. If an operator seeks to provide services in

Cooma, it will be the same. However, there is the same caveat—it has to be tempered by the churn in the market, which is such that providing any expectation that a licence is a commitment by the operator to protect the community is not there. We need to make sure everyone is clear on that. That is New South Wales Government policy at the moment and that is what we have been delivering. The Committee's views on the appropriateness or otherwise of that are for the Committee to consider.

The Hon. MICK VEITCH: You mentioned audited financial statement. Did Brindabella lodge its audited financial statements with the department at any stage prior to its demise?

Mr REARDON: Brindabella, in going through their first financial year, were coming up to when we needed those financial statements. We obviously had to accelerate our due diligence. For the financial year 2013-14, we are just in that process right now for the reporting period. It is an annual reporting period. If there are views about the monitoring regime, that is what we are told. Every time we do one of these processes we have bolstered it further. For light-touch regulation vis-à-vis service contract, it is not a service contract, but we have been asked to do more and more oversight in this area because of what is occurring commercially with these airlines. We came forward and accelerated that process because of what happened.

CHAIR: Is the annual reporting requirement sufficient, particularly for a new airline coming in? Should it be done six-monthly or even quarterly?

Mr REARDON: In terms of what is occurring, it may well need to be more frequent. The only comment I would have is what is available? Again, as a regulatory instrument, think about a taxi. I do not get an audited financial statement from the operator of the 7,000 taxis in the State of New South Wales. It is the same thing in terms of that licence instrument.

CHAIR: The impact of a taxi falling off the rank is not quite the same as losing an air service from Moree.

Mr REARDON: My point being that a licensed instrument and the regulation around that licensed instrument is the same fact. The impact, as you quite rightly say, of an air service falling over leads to people asking us for more due diligence, more oversight, more frequency in terms of a monitoring regime. If that is what is required, so be it; the Committee can take views. The only comment I make is the frequency and availability of the information. For those that are publically listed we get to see what they say, and we certainly did over the past year. For those that are not, the only comment I make is that the seeking of that information is not as fast-moving.

The Hon. STEVE WHAN: You talked earlier about the assessment process within the department after the expressions of interest for Moree. It is very different. It was an area that had two airlines interested at the time you renewed the contract. What consultation did you have with the council and the community about the factors that you were going to take into account and the weight they carried when making a decision on the tenders?

Mr REARDON: We put information to council on a range of factors. Mr Wing, I might ask you to make a few comments if you would not mind.

Mr WING: We followed the same process as had been set up in 2008 after the previous process had to be abandoned. We approached councils and asked them what it was they wanted us to take into account for their routes. We are bound to take into account the factors that are set out in the Act. Councils basically sent us information about what was important to them on their route. Some of them rang us up and talked to us about it, some did not, but we got information from them, which was available for us to take into account when looking at it.

The Hon. STEVE WHAN: Were they set into the criteria and the weightings and the assessment that you made of the two tenders?

Mr WING: Yes. The Act sets out the criteria but one of those is the needs or the interests of the communities or the public of New South Wales, so that was where that input was taken into account.

The Hon. STEVE WHAN: A strong theme that we heard, particularly in Moree, was that the outcome of providing Brindabella with the contract was not their preferred outcome in terms of the size of planes and their happiness, I suppose, with the existing contract with Qantas.

The Hon. MICK VEITCH: Satisfaction.

The Hon. STEVE WHAN: Is there room for a local representative to be a part of the selection process?

Mr REARDON: To your last comment, yes, there is, and that is what we have sought to do in that last round for Narrabri, Cobar, Mudgee, Cooma and Moree. Two things: community advisory to try to get council to tell us, through whatever reference grouping they wish to have, and what we sought to do was have the general manager brought in within the confidentiality and probity regime. There certainly is room and that has occurred. If it needs to be bolstered further, certainly we would look at that. That is what was done. In terms of your comments about expressions of interest and the process for the community to be engaged, it was our expectation as it was for other locations—and they certainly did that—that council would be the conduit for that. In terms of the feedback from Moree, in particular, no, they were not happy. They were not happy with the operator chosen. I think they publicly expressed that many times. We were asked to do a process. We undertook a process. We took the issues into account that we were supposed to take into account. As I said to the community in Wagga, in terms of looking at a broader net for Moree and its surrounding areas, it is still the peak passenger numbers when Brindabella flew. They saw quite an upswing in the market for that little period.

The Hon. STEVE WHAN: We talked before about the Orana strategy that the Premier is working on. Do you know what the time frame is for that to be finalised?

Mr REARDON: I do not. All I know is that we will provide all the input we can to it. As I said, the mix between the business community and the public service that flies in and out of those locations and any information we have at hand we are providing that information, but I do not know the time limit.

The Hon. STEVE WHAN: Ms Chadwick, can you tell us what Trade and Investment's involvement in that strategy is and whether you have any more information on its time frame?

Ms CHADWICK: I have no other information on its time frame. Like other clusters, we have been asked for information about the travel of employees and their travel requirements and related projects. We have given those forecasts to the Department of Premier and Cabinet to inform their project.

The Hon. STEVE WHAN: Do you have any further involvement in the regional development implications of air services for the area?

Ms CHADWICK: Not in relation to this particular project, no.

The Hon. STEVE WHAN: Back to Mr Reardon. A number of communities have said to us that they should own the slots at Sydney airports, so slots should belong to Bourke or Moree.

The Hon. MICK VEITCH: Or Cobar.

The Hon. STEVE WHAN: Or Cobar. I know it is not a State Government regulatory responsibility, but do you have a view on it?

Mr REARDON: I think you asked me the same question in Wagga.

The Hon. STEVE WHAN: I could not remember that.

The Hon. MICK VEITCH: You can always take it on notice.

Mr REARDON: I believe Mr Veitch said, "Good answer", so I will have to say the same thing.

The Hon. MICK VEITCH: Well you need credit where it is due.

Mr REARDON: It is a Commonwealth responsibility. In terms of your comment about the supply chain and my view on it, there is a supply chain. People want to get to Kingsford Smith Airport. That is what people are telling us about the regional services. The very remote areas, and the conversation you had with Bourke, Brewarrina and Walgett, they want to get to Dubbo and then maybe get to Sydney. Clearly the jewel in the crown for them is getting those slots at Sydney airport. The ownership or the implied ownership is there for regional communities to access Kingsford Smith Airport. Should they have a say? Absolutely. Who has control—the Commonwealth Government?

The Hon. STEVE WHAN: Again, this may be slightly out of your area, but I noticed at Canberra airport that the new Brindabella planes are still sitting on the tarmac. Have you heard any information in the industry about whether any other regional airline will pick those up in order to expand routes anywhere?

Mr REARDON: No, I have not, in terms of their planes, but I thought the very same thing last week when I saw them there. I have not heard any more.

The Hon. MICK VEITCH: Mr Reardon, we have heard some evidence and you have read the transcripts. I will probably pinch the Hon. Catherine Cusack's question, but what is the process for getting a CountryLink bus to stop at a regional airport?

Mr REARDON: I suppose my comment on it is if it is made hard, we should make it less hard. I run policy and regulation and if anyone claimed that there was a regulatory instrument that was a barrier, I would probably be able to advise to do something about that. As I said, we have put out regional plans across each region of New South Wales. In terms of the customer expectation, if there is something locally that we need to look at, I am more than willing to look at it.

The Hon. MICK VEITCH: It just seems eminently sensible that if a bus is driving from one of those outlying towns—

CHAIR: Bourke to Dubbo, it should go via the airport and a railway station.

The Hon. MICK VEITCH: Instead, it goes to the train station—

The Hon. STEVE WHAN: It is TrainLink not "PlaneLink".

The Hon. MICK VEITCH: It goes to the train station and then you have to get a taxi back to the airport having just come past the airport.

Mr REARDON: I will take on notice the details about the cost of service going from train station to train station. As I said, if there was some regulatory barrier, implied or otherwise, that is within my remit I would certainly take a view on that and I am happy to hear what the Committee has to say about that. I have read it all and I have been on those CountryLink coaches and it reminded me that I had never stopped at an airport, as you correctly point out. It also reminded me of the fact that when we put in land transport for Cobar, Moree and Narrabri, particularly leading up to Christmas last year to ensure that people can get back and forth for school holidays and medical services et cetera, we ran those services, I think, to the airport. We did it during that period. So I take your point.

The Hon. MICK VEITCH: You mentioned there was an independent probity auditor in the process. Does the department use the same independent probity auditor for the RPT services or are they pulled off a panel of probity auditors?

Mr REARDON: There is a range of probity auditors used in the department, as other departments arrange. In terms of the turnover or change, it could be the same or it could be a different person. That does not have a bearing on having skill in the subject matter. In fact, if there were any issues with having a skill in a certain area, because they are probity auditors we should turn them over because they should be probity auditors.

The Hon. MICK VEITCH: I go back to the issue around the involvement of local government and being able to trust local government or have faith in the fact that local government will not breach the confidentiality arrangements. I too spent 12 years on local government and I do know they get criticised quite a

bit for going into the committee-as-a-whole process to deal with matters in confidence. The local communities get quite annoyed about that. But they do it on a very regular basis and they are very au fait with the requirements. I am certain the department could trust those councils to be involved in a much greater way with the sensitive nature of the information they have got.

For me, if that is not happening now, the department should take on board that maybe there needs to be a conversation with local government around your requirements and the Government's requirements before you hand information over, because the mayors are very vocal in representing; they are strong advocates for their community, and they are saying they want to be more involved in this process.

Mr REARDON: It has been taken on board already. I take your comment. What I said in Wagga was that we followed the process as for 2008 and had brought back community expectations through those councils. That clearly was not enough and we were told that. There is no use sitting here and saying it was otherwise. We heard that loud and clear. We sought, as I just talked about in terms of structure, bringing in a general manager. If there are other ways and means of achieving that, we are just balancing that with processes that in 2007 did not achieve an outcome and they basically delayed the process for a year because they did not achieve an outcome. That is the only balance with it. But in terms of any further bolstering we need to do in that area, we shall do it.

The Hon. STEVE WHAN: Currently there is a bus service running from Dubbo airport to Cobar. Is the department financing that service as a replacement for the airlines?

Mr REARDON: Yes, the NSW TrainLink service.

The Hon. STEVE WHAN: That is specifically running from the airport to Cobar. Can you tell us or take on notice what that is costing to operate and what the patronage is like at the moment?

Mr REARDON: In terms of the cost, I will take that on notice. The patronage, I will make one quick comment. Those services were put on board to fill when an airline fell over. We made the comment last time in Wagga about the flexibility and agility to do that when needed—generally, about regional services. That is why it was done. In terms of some of those services, their patronage was quite low, but in terms of providing a net to allow people to travel to Dubbo airport, that is why they were put in.

The Hon. STEVE WHAN: How long are you willing to keep it running?

Mr REARDON: We will keep monitoring.

The Hon. STEVE WHAN: The obvious question is: if we are willing to pay for a bus service why are we not willing to subsidise an air service?

Mr REARDON: I will leave that for the Committee.

The Hon. MICK VEITCH: Mr Reardon, is the State Aviation Working Group still operating?

Mr REARDON: No, it is not. To give you a bit of background: the State Aviation Working Group is in the Air Transport Act 1964. Several years ago I understand there was an expression of interest process put out to try and get further members onto that State Aviation Working Group. I do not believe we received any expressions of interest to be on that group, so it has been dormant. We noted that the Passenger Transport Act 1990 was going to be updated and, amongst many other things, it was going to have its objectives changed for further integration and customer focus; it was going to put all modes within the one passenger instrument, which is as it should be—trains, buses, ferries, light rail, taxis—

CHAIR: This is a bill that is before the Parliament at the moment is it not?

Mr REARDON: It is now before the Parliament. In terms of air services, the Air Transport Act 1964 would be integrated into the Passenger Transport Act. As part of that, a few things: one, that the State Aviation Working Group would no longer be required, and in terms of a few other improvements, particularly around when there are change events, when an airline removes itself from a regional community, that we can move as quickly as we need to. We moved as quickly as we could leading up to Christmas last year, but it is still—a technical term—a clunky process with the licence: revoking it and getting another operator on line. We got that

done within a week, a week and a half, but it should be a smoother process. So there are some temporary licence considerations within that new Passenger Transport Act.

The Hon. PAUL GREEN: In terms of the working group, if no-one was nominated on that is that an indication of a vote of no confidence in the achievements?

Mr REARDON: I think it is basically saying everything that the Committee is asking about: that we need to go to regional communities and work with councils and communities to understand their needs; that sitting on a State Aviation Working Group in Sydney is probably not the way to hear the message from the communities. That is how the behaviour is; that is where we find out the information. We need to go to councils and, as we have seen in the last few years, we need to go to councils and the communities as direct and as best we can. That is how information is given to us about what people's expectations are for services that we need to take into account under the Act. Therefore, it has laid dormant for the last few years.

The Hon. PAUL GREEN: In terms of representations to many councils, many witnesses proposed a strategic approach across regions to securing and managing air services. Do you see a role for Transport for NSW in pioneering or facilitating such an approach? For instance, some of the illustrations there were that obviously Sydney has got its ferries, taxis, trains, light rail—you name it, Sydney has got it. But out there in regional Australia if they do not have rail they have pretty well just got road and that is about it. A comment was made about maybe Countrylink in the air, where the government sponsors a couple of planes or buys a couple of planes and leases them to certain businesses to get the outcomes of making sure that passenger transport in remote areas can be achievable. Do you have comments about that?

Mr REARDON: We put out the Long Term Transport Master Plan for the State recently, as you would be aware. We then put out regional plans for each region, which talk about all modes of transport within a region. We are now going into what that means longer term for rail strategy and ultimately other modes as well. That is what we are doing in a planning sense. In terms of the agility between modes, there is more work to be done, absolutely. In terms of your specific comment about whether councils or operators come to us and talk about whether they want to fly hub and spoke or, as some people coin it, a milk run, we are more than willing to hear from those. In fact, the more we hear about it from council and from the operator jointly the better, instead of, as I said, the State Aviation Working Group sitting back and from the centre telling people where services might need to go, without hearing it from the business sector and councils. That is how we prefer it. If people have a view on how air services might need to operate—hub and spoke, milk run, if they collaborate, what else they might require—we are more than willing to hear those.

CHAIR: I have a follow-up question. Mr Green has raised an important issue. We need to look at the net cost of delivering transport services within metropolitan areas, particularly in relation to trains, buses and ferries. Sydney is very well serviced with public transport but really air transport is the only public transport required by those who live in the more remote regional areas. It would be useful to the Committee if you would take on notice to give us some figures on the net cost of delivering train, bus and ferry services in metropolitan areas.

Mr REARDON: I will take that on notice.

The Hon. PAUL GREEN: It is not just about the luxury of having transport from regional areas to Sydney. Of course, it is great to be able to make that quick trip to Sydney for business opportunities but one of the most distressing things this Committee has heard about was a particular situation in Dubbo. The sister of one of the witnesses who gave evidence to the Committee in Dubbo had pancreatic cancer. After her initial treatment she needed specialist treatment in Sydney. That was complicated by her husband having to organise the kids so he could catch a plane, park the car at the airport and make sure there was another car at home to get the kids around. He also had to get to Sydney and then back to run the farm. Accessibility to first-class health care whilst trying to run a farm and look after a family in a regional remote area is incredibly difficult.

In Sydney we can catch a quick bus, train or ferry to get to a medical appointment, but if someone from a remote area misses a medical appointment it is likely to be quite a while before they can book another one and one does not have that luxury with pancreatic cancer. Surely the Government should be in the right dialogue with remote areas to provide a situation where there may be an opportunity for government-sponsored planes in the hub and spoke situation to ensure that people can get first-class health care. If that treatment needs to be in Sydney then it is in Sydney. Indeed, the *Daily Telegraph* is running a very good campaign about the needs of those in the bush.

The Hon. STEVE WHAN: That is a statement, not a question.

The Hon. PAUL GREEN: I wanted to put that on record. We can talk about a lot of things, including procedures, but at the end of the day these are people's lives. Those who live in regional areas do not ask for much, but when they do it is normally because of health needs. People with pancreatic cancer or any cancer do not want to take a five-hour trip, nor do they want their loved ones to travel for five hours to spend time with them, which is usually in palliative care. We need to be linking those people in their time of most need and air travel will quicken the opportunity for them to be together. Mr Reardon, can you provide an update on the status of air services between Sydney and Mudgee and Sydney and Narrabri given that Vincent Aviation has been grounded?

Mr REARDON: Firstly, between Mudgee and Sydney. I have said previously that we have gone through a process where the incumbent remained there. Brindabella flew until they ceased and collapsed. We basically immediately asked council further how we should proceed and we started another expression of interest process. Various operators have expressed interest in delivering in a number of ways, whether a milk run or direct. When you go to the licence application process—we are out of expressions of interest—you then put up and say, "This is what I want to fly". We, Transport for NSW, have not had a bona fide licence application at this point in time. We have told Mudgee—and as I said, I noted their evidence as well—"We are open for business right now for an expression of interest or a licence application." So if someone wants to put their hand up and have that conversation they certainly can. But from where I sit right now, we have not had a bona fide application put to us that I am aware of. If Mudgee are communicating with an operator and wish to communicate with us at any time they know that is available to them and we will move as quickly as we can. But at this point in time I am not aware that there is a bona fide operator looking for a licence for Mudgee.

The Hon. PAUL GREEN: Have we ever had transport providers fall over and the New South Wales Government has had to foot the bill?

Mr REARDON: Not that I am aware.

The Hon. PAUL GREEN: In any of the services: ferries, buses or trains?

Mr REARDON: I will have to take that on notice.

The Hon. PAUL GREEN: Thank you. When Brindabella fell over some local councils were left to carry a financial burden. Do you think it would be a reasonable thing for the New South Wales Government to carry the burden of the financial loss of Brindabella rather than local councils?

Mr REARDON: I will respond by saying that I will take on notice the issue of landing fees between a council and an operator. Secondly, the regime with a licensed instrument is a bridge between Kingsford Smith Airport and the local region and nothing else. Do you want me to come back to an update on Narrabri?

The Hon. PAUL GREEN: Thank you.

Mr REARDON: Narrabri—again the comments were made at previous hearings—are actively seeking out what operators may wish to fly to Sydney. Again, it will be the same process. We will work with Narrabri as quickly as required if there is a bona fide licence application provided to us and we understand they are in active discussions on that. Again, for ourselves, if an operator or operators and council wish to come forward then we will move as quickly as we need to.

The Hon. PAUL GREEN: The New South Wales Government allocated \$5.9 million to support upgrades at Narrabri. Do you know if that is going to be carried through given the outcomes?

Ms CHADWICK: Money was allocated from what is called Resources for Regions, which is a program funded from Restart NSW. It is about communities that have been impacted by mining. So it is a grant process by which each of those communities can come forward with particular applications that best mitigate the impacts of mining on those communities. Funding of \$5.9 million was announced in March of this year by the Deputy Premier for the Narrabri upgrade. It is an upgrade and an expansion. I do not have an update as to whether or not that particular project is proceeding, but it does proceed against milestones. Those milestones are about actions and on the basis of those actions—

The Hon. PAUL GREEN: That is my point. Would the withdrawal of Vincent Aviation have had an impact on those milestones?

Ms CHADWICK: I will take the question on notice. I just add that investment in airports to make them more viable is obviously something that we would continue to do if it would increase the chances of an airline using that route. I will on notice where that contract is at.

The Hon. CATHERINE CUSACK: Mr Reardon, do you know how many planes the New South Wales Government owns?

Mr REARDON: I do not.

The Hon. CATHERINE CUSACK: Is there any means of finding that out?

Mr REARDON: I can take that on notice but I do not know.

The Hon. CATHERINE CUSACK: If there is any information I would be most appreciative. There are a large number of agencies and emergency services in particular do not pay councils for the use of their airports.

Mr REARDON: Is that a question about whether they do or they do not?

The Hon. CATHERINE CUSACK: Do you have a view about that?

Mr REARDON: No, I do not.

The Hon. CATHERINE CUSACK: What role are you playing in this drama to get air services happening? How would you describe your role?

Mr REARDON: At the moment we play a role which is simply to provide protection for an operator between two ports: Kingsford Smith and a regional centre. As I said, the Act requires us to take various issues into consideration, including the needs of the community. I have made the comment, with what is occurring in the turnover with the commercial operators when they become non-commercial, that it is difficult for us with that licence instrument alone to provide that protection to the community. It certainly provides protection to the operator to have no other competition but, as with what has happened for a long period, not just in the last couple of years, with protection of the community it is difficult to respond with what is occurring.

The Hon. CATHERINE CUSACK: In relation to buses, obviously the role of the Government is to ensure a service is being delivered; in relation to trains, a service delivered; in relation to cabs, a service delivered; in relation to air travel, protection for an operator. Is that a fair summary of the role?

Mr REARDON: Sorry, I thought we were simply talking about this process of air licences. I am happy to respond more fulsomely.

The Hon. CATHERINE CUSACK: No, I have been asking what your role is in relation to the delivery of air services.

Mr REARDON: In terms of our formal role, that is it. In terms of planning, in terms of regional transport plans, et cetera, they come into the range of services delivered by NSW Trains with train services, by NSW Trains with coach services—

The Hon. CATHERINE CUSACK: Sorry, you do not need to go through all the modes. I am just pointing out that that is about delivery of a service, whereas in relation to aviation, in contrast, it is literally just about protection of an operator.

Mr REARDON: I was getting to that. I was just going to say that for these services such as train services, coach services, local bus services, whether they be in country towns or rural and remote, community transport is delivered under service contracts and/or funding contracts. Taxis and air services are delivered under licence where the commerciality is borne by the operator and government provides some level of, as I said,

protection to that operator from competition on low-volume routes, under 50,000 passengers. That is the sum total but that is certainly the difference between a service contract—

The Hon. CATHERINE CUSACK: Sorry, my time is short. Basically, the Government does not see itself as responsible for a service being delivered in relation to regional air services. That is not your job here. Is that correct?

Mr REARDON: Services were largely deregulated in air services.

The Hon. CATHERINE CUSACK: That is fine. Is it yes or no? It is not really the role of government for the delivery of the service.

Mr REARDON: On commercial airlines?

The Hon. CATHERINE CUSACK: Yes.

Mr REARDON: No it is not.

The Hon. CATHERINE CUSACK: Is there a role for government, however, to be more proactive in advocating for those services to be delivered?

Mr REARDON: In terms of the mix of services to be delivered, if air services become the most optimal, certainly that is the case, and that is why they are reflected in regional transport plans.

The Hon. CATHERINE CUSACK: Interesting in relation to the Far North Coast because I cannot see our air services in the regional transport plan. I have submitted that regional air travel should be considered in that plan beyond a little dot point that simply says "We're going to do a tender process." That is virtually everything that is explained. Is there more of a role for your organisation to advocate across agencies such as Sydney airport? You say the slots issue is just a matter for the airport but Moree Council will not be able to do anything in terms of that important issue affecting their airline route by themselves, but maybe the New South Wales Government could act in the collective best interests of all councils on a matter like that.

Mr REARDON: Two points. One, the Commonwealth controls those regional slots. But your comment about best service for a route if it is air, we would take a view on that, absolutely.

The Hon. CATHERINE CUSACK: I am suggesting that it is the Commonwealth. If New South Wales saw itself as trying to get these services happening, why would New South Wales not advocate for those councils with the Commonwealth for something to be done about the landing slot issue?

Mr REARDON: I am not sure I understand the question, but maybe if I could just make a comment. If you believe we have a role in the mix of services, including air, absolutely we do. They happen to be commercial but in terms of mix of services to connect regional communities we do. In terms of your comment about advocacy at the national level, for example, through ministerial council—I am not sure of the question.

The Hon. CATHERINE CUSACK: It is so simple. Is there a role for the New South Wales Government to advocate on behalf of regional New South Wales with the Federal authorities?

Mr REARDON: Yes, there certainly is.

Ms CHADWICK: May I add to that response? The New South Wales Government, through what is called the visitor economy industry action plan, has accepted a responsibility for advocacy in relation to Kingsford-Smith. We have done a number of things at a senior bureaucrat, senior officials and tourism Ministers councils raising issues in relation to the optimisation of the existing regulatory framework. So it is our view that there is room within the Commonwealth's regulatory settings to create greater utilisation of Kingsford-Smith. If the recommendations that we have been advocating to the Commonwealth were in place, then more regional slots would be available. What we have been arguing is that peak movements should be increased from 80 to 85 and with shorter curfews there should be an additional number of movements in the morning and the evening. If those recommendations were adopted by the Commonwealth—

CORRECTED

CHAIR: Can I just follow up on that? There have been quite a few recommendations that we have received from various submissions that have suggested that aircraft that are exempt from the curfew should also be exempt from the slot mechanism.

Ms CHADWICK: Sorry, aircraft exempt?

CHAIR: From the curfew, that is, regional aircraft are exempt from the curfew. Should they also be exempt from the slot mechanism?

Ms CHADWICK: That is not a position around which my agency has an established view, but I do know that Destination NSW, which is the organisation very much responsible for the marketing and advocacy in relation to international tourism visits, has articulated its view and put forward a notion that the Commonwealth should exempt regional movement from the cap per hour, which is different to the curfew.

The Hon. CATHERINE CUSACK: Thank you for that answer because tourism is important. In relation to the airports we are concerned about, it is only a small amount of their business. It is really about health and business and meetings and all those sorts of things. It is great that Destination NSW is doing that. I do not understand why Transport for NSW is not doing that on behalf of the whole government and the whole community.

Mr REARDON: In terms of whether you want to take on notice about our role, our role is certainly to provide services to regional communities with every mode that we have available to us. Our role is certainly to advocate, as the comment was made, about the ring-fence of slots at Kingsford-Smith airport, absolutely.

The Hon. CATHERINE CUSACK: Why is DPC driving the Orana strategy? Why is that not Transport?

Mr REARDON: I understood it was a whole-of-government approach, as a lot of these things are in terms of looking at something that is not currently government policy. Current government policy is to deliver licences for commercial operators for under 50,000 passengers. If the Orana strategy is going to change that policy position, that is why DPC is running it.

The Hon. CATHERINE CUSACK: Were you trying to do anything before DPC stepped in to do it in relation to the Orana issues?

Mr REARDON: I am not—

The Hon. CATHERINE CUSACK: You do not understand my question.

Mr REARDON: No, I think I do. I will just ask my colleague. I do not know whether we had any involvement prior.

Mr WING: We worked for them from the outset. When they started work on it, we worked for them from the outset.

The Hon. CATHERINE CUSACK: What were you doing before that, before they took up the project? Given the role is to get regional air services delivered, you are the agency driving that role, what were you doing before DPC stepped in and took it up as a project? I am trying to understand why they felt they needed to, given that we have a Department of Transport to drive it.

Mr WING: When the project was initiated it was decided that DPC should run it because essentially the essence is the multiple different departments across government would be looking at how many seats they would purchase effectively. So since there were so many different departments involved, it was decided that the best thing was for DPC to coordinate all that.

CHAIR: DPC effectively is the lead agency in that process. There is a whole range of other agencies involved. Is that correct?

Mr WING: That is exactly right.

The Hon. CATHERINE CUSACK: If we were to look at that in other areas of the State we would need to get DPC to do it and not the Department of Transport. Is that the case?

Mr REARDON: Sorry, is your point about whether—

The Hon. CATHERINE CUSACK: I am hoping they can do this for Orana. I would love to see it in other parts of the State. Do we need to get DPC to do that if we are going to have that approach taken around the State on the basis that it is cross-portfolio and you cannot do that; you need DPC to do it for you?

Mr REARDON: No. We do many matters that are cross-portfolio within ourselves. As I said, we are currently delivering the Government's policy on air transport services. If there is a change to that, which is what the approach is in the Orana strategy, we will play our role. If DPC and the Government asked us to play a more formal role, if there was any change to that, then we will play that role as well.

The Hon. CATHERINE CUSACK: Why was Brindabella awarded the licence over Qantas?

Mr REARDON: I think I have gone through the tender evaluation process that we received. In terms of the criteria that we went against, it was awarded the licence to deliver services. It provided services and a timetable and seat numbers, regardless of air plane configurations. It had the potential to grow that market and it did so. In regard to financial due diligence I went through the steps we undertook. In regard to the response to that financial due diligence—

The Hon. CATHERINE CUSACK: Can I just stop you again, because I listened carefully to the process you went through the first time? My question is: Why did Brindabella get the licence over Qantas?

Mr REARDON: I believe I just answered that.

The Hon. CATHERINE CUSACK: No, you did not. You explained the process that you went through but you did not say what rated Brindabella ahead of Qantas.

Mr REARDON: In the selection criteria and tender valuation Mr Wing might want to comment on the evaluation.

The Hon. CATHERINE CUSACK: Not more process, if that is okay. I would really like to know why Brindabella was better than Qantas under your criteria that resulted in Brindabella getting the licence?

Mr WING: The panel looked at the various things that were required by the Act, for example, what was offered to the community, the number of services that were being offered. Brindabella was offering more services during the week. They looked at all those different things. They were the kinds of things they looked at.

The Hon. CATHERINE CUSACK: They are the kinds of things I want you to tell me about because I do not know what they are. The Committee does not have that information. What was it? Was it the number of services that Brindabella offered?

Mr WING: Certainly the number of services was an important factor, yes.

The Hon. CATHERINE CUSACK: Is there anything else?

Mr WING: I would have to go back and look at that. Certainly the number of services was definitely an important factor.

The Hon. CATHERINE CUSACK: Will you take that question on notice? Given the community of Moree was happy with its service from Qantas and expected it to continue, how would people in Moree have known to submit to your process? Will you pick an airline that maintains our baggage allowance? What persons in the community would expect the State Government to step in, take away an operator they are happy with and install somebody that reduces services such as the baggage allowance—decreasing from 32 kilograms to 19 kilograms? You are saying that the community was consulted about this process. But how could anybody have known or imagined that the Government would step in and cut the services that they were happily receiving?

Mr REARDON: As I indicated, we consulted through council when this process occurred and there was an award to Brindabella. In regard to the expectation of council and consultation with the community, our expectation was that that was the conduit role that council would play. That would not appear to have been the case, and we were told that fulsomely in response. When we went in again with the latest round—the community through an advisory group and bringing the general manager into our process even further—we received a lot more detailed feedback. But in 2012, when we went in the first time to do this round, that is where we were. Our expectation was that the council, as a conduit, would give us the voice of the community.

The Hon. CATHERINE CUSACK: My question is: Did you tell them, for example, that things such as luggage capacity could be reduced under that process? If community members had been told that they might have spoken up and said, "No, we don't want that reduced." Unless you tell them that, how are they supposed to know that the Government is considering doing that?

Mr REARDON: We asked council what matters we should take into account. We were happy to receive detailed information, which we did receive from various other parties, about what their expectations were for services.

Mr SCOT MacDONALD: I will spend about half my time asking questions about what happened and the rest of the time asking questions about the way forward, if you like. During budget estimates this time last year I asked about Brindabella as it was starting to show some problems. My questions will address the monitoring that took place. I appreciate and understand what you had to say about it being light touch. I do not know whether we necessarily can or want to have airlines reporting on a monthly basis or whatever. Are there some recommendations we could suggest to make the monitoring more effective? Do we need to require airlines to report material changes, like the ASX if you like, and I guess I am referring to liquidity. Twelve months ago in budget estimates the warning signs were flashing.

There were problems with reliability, landing fees were not being paid on time and CASA started to have some issues about the planes. I think the warning signs relating to Brindabella were starting to flash three or four months into its licence. Could we have more effective monitoring that does not overburden the small carriers and that is within the capability of the department to read, understand and respond to? Currently the department is required to look at annual statements every three months, but that is looking back and it could be too late in the case of Brindabella and Vincent. I am looking for more effective monitoring. I agree that it should be light touch but it has to be effective. I am not sure whether you necessarily want to respond now or whether you want to take that question on notice?

Mr REARDON: I will respond now. We have had a light touch regulatory regime in the past that has not required much at all beyond going through a process and then the operator is up and running. We have included the need for insurances and very quick notification of any changes to those insurances. If there are any changes to those insurances it is there to try to provide some lead indicator—an indication of where the airline is at. We require a positive acknowledgement so that we can more formally move information between us and the Civil Aviation Safety Authority, which I think is appropriate. The financial statements are to be provided to us on an annual basis. Your comments and mine about the balance and red tape that would be involved, with more frequency on that, needs to be taken into account.

Most of the licence instruments state that a service will be run between two locations with a timetable. More and more the licence instruments will say that a service will be run between two locations with a timetable with certain types of aircraft, with certain other luggage requirements—on which a comment was made earlier—and with certain other types of accessibility. The point is that we have added further regulatory controls onto these things. Whether they are the right ones is something that the Committee should take into account. But there is a balance between what we are saying about light touch regulation and starting to get into what would look like a proxy for a service contract. So there is some balance there. From what we are getting in terms of churn, it is still not right and we need to keep looking at it. But those are the ones that we have added over the past few years.

Mr SCOT MacDONALD: To my mind it refers to liquidity and to trading while insolvent. I think both those airlines must have been trading for two or three months, or something like that, while they were insolvent. I guess that will be disclosed over the administration. I make the point that I think they need to be required to report material changes to you.

Mr REARDON: We have taken on board the material change around insurances. If there are other areas the Committee wants us to look at we will. The other only other comment I was going to finish with was that because of the issues with councils being the airport owner and the linkage, for a long time we have basically said that commercial matters between the operator and the council are exactly that—commercial matters. Whether any monitoring is required between councils and the licence issuer, which is us, I will leave to the Committee. But certainly those are the issues that keep coming up.

Mr SCOT MacDONALD: Even then there was a big difference. Cobar was chasing outstanding landing fees fairly effectively, yet we heard from other councils that let it blow out to 90 days or even longer.

Mr REARDON: I would leave councils to respond to that. The only comment I would have on it is that we hear, because it is raised with us, about all operators in that matter. It is not just those that may not be with us any longer.

Mr SCOT MacDONALD: I have raised with a few witnesses the concept of a possible fund for airline failure being generated from the landing fees. Does the department have an opinion on that? I suppose it is not your function, but we are all drawn into it.

Mr REARDON: We do not have such a function at the moment. I would leave that with the Committee. I can take it on notice but my expectation is that they are some of the things that the Committee will deliberate on.

Mr SCOT MacDONALD: It comes back to this tune that we are all aware of about the difficulties the small airlines have. Anyway, we will consider it. It has been talked about in other hearings and I expect we will receive some good evidence later on about the difficulty of these smaller aircraft and that there is now no manufacturing of sub- 50 planes. Lord Howe Island is staring down the barrel of some pretty serious problems. Are you considering as part of your thinking what that means for the future of regional aviation?

Mr REARDON: Is your question specifically related to Lord Howe?

Mr SCOT MacDONALD: No, because there is a fair bit of good evidence about how that might be tackled in the future. I am thinking of those smaller country airports that will really find it difficult if they are being serviced by the 30s or whatever they are at the moment. As the fleet ages, whether it be five years or longer, where will that leave regional aviation?

Mr REARDON: Maybe in terms of Transport for NSW in our role with operators and airports—I have said in Wagga Wagga the same thing, that they need to make sure that the air operator and that landing strip are going to work for each other. But more and more our involvement in that, informally, has grown. We are now being asked or told things about what Saabs and Dash 8s are like in their various forms, et cetera. As I said, in the licence conditions we are being asked more and more to nail these things down and say it is not just so light touch that it is simply between A and B; it is a few more things than that. If the aircraft type is in there as well we are certainly being asked about that from councils in particular.

What that means for the future and the availability and the market, we have not had involvement in that. It is a commercial area where we would long term monitor other areas of vehicle standards like trucks or anything else but it is not an imposition role to understand what the stream of manufacturing of aircraft might be over the next two decades. In terms of the Committee's deliberations and the markets for regional airlines, our expectation is that those commercial operators will know what those airstrips like look, know the capability capacity in various areas and will take that forward when they come to us.

Ms CHADWICK: Where councils are aware or other parts of the aviation ecosystem are aware of opportunities to make investments that would grow jobs, grow the visitor economy or grow regional development there are a range of options available to them to seek capital contributions to that upgrade. Our submission details a number of regional airports and also aviation operators, aviation maintainers and flight schools that have taken advantage of that. These are available through Restart NSW, Resources for Regions, the Hunter infrastructure fund, the State Investment Attraction Scheme and the regional investment infrastructure fund.

Mr SCOT MacDONALD: From what I saw it seems that the bigger airports have good master plans for the next 20 or 25 years and they are in tune with that but some of the smaller ones are not. Should we be encouraging that medium- to long-term thinking more?

Ms CHADWICK: The councils have a number of processes to encourage their long-term thinking. It would be for the division of government to respond to the effectiveness of that. But there are a number of reports before the Government about strengthening the capacity of councils and their financial sustainability.

Mr SCOT MacDONALD: I can see the merit of reviewing section 135 in the charter in relation to some of the very small places where you have mining charter flights and that sort of activity to allow paying passengers to jump on board with that. I just worry if there will be some sort of possible perverse outcome from that if you have a marginal paying service at the moment and you amend 135 to allow charters to take paying passengers. Do you see any risk of an unintended consequence, if you like, of making a marginal paying service non-viable if you have charters taking paid passengers? Do you see what I am trying to say?

Mr REARDON: I am not sure if I do understand that question.

Mr SCOT MacDONALD: I think Mudgee and Narrabri might be an example. You currently get the charter with lots of high-vis jumping on and off. If section 135 was amended and those services were allowed to take paying passengers you would be potentially cannibalising the service. I wonder if you have any thoughts around that.

Mr REARDON: Maybe just broad thoughts. There is a discussion paper out from the Western Australian Government right now that includes comments on the regular passenger transport service and the charter services and their approach or proposed approach to protection between those two when they are going to the same regional community. We would be open to any suggestion where there is capacity flying in and flying out of a location. I think they are the types of discussions that places like Narrabri might want to have.

Mr SCOT MacDONALD: Particularly in the resources areas.

Mr REARDON: In resource-rich areas, that is right. I am more than willing to have that discussion in terms of what the Committee's deliberations might be but Western Australia is seeking to grapple with that in its own way right now with the discussion paper.

Mr SCOT MacDONALD: I can see the merits of it. Rex was very strong in its submissions about the risks and costs of overcapitalisation. There are various schemes going on. Narrabri might be an example with its \$5 million going into upgrading that airport. At the end of the day, that comes with ongoing costs that council will try to recover perhaps through landing fees and things like that. We all want upgraded airports, upgraded aprons and the right length of runway. Do you have any sympathy for Rex's concerns about overcapitalisation and potential excessive costs by way of landing fees?

Mr REARDON: The only comment I can make is about the air services themselves. With the tune that is in this market for some considerable period that is always going to be an issue.

Mr SCOT MacDONALD: Balancing that?

Mr REARDON: Absolutely. These are fully commercial airlines until they are not. They are for the fewer than 50,000 passengers and have protection for five years but it still does not guarantee that they will fly, as other people have said and we have said. Upgrading the airport on the basis of that operator or operators I imagine is a fairly large decision for a local government entity.

Ms CHADWICK: Using the example of Narrabri again, that is a joint project. The New South Wales Government is putting some money in through Restart NSW but equally the council are as well. I would expect that the council has gone into that transaction with its eyes open because they too are putting a substantial amount of money on the table and they have taken account of the impacts of the investment on their community. Certainly when we make our investment we undertake rigorous cost-benefit analysis about the potential and also take into account the sustainability of the infrastructure.

The Hon. PAUL GREEN: Do you have anything to do with the regulations relating to where the Blue Emu Bus that comes from the long-term parking area to terminal one at Sydney Airport can and cannot stop?

Mr REARDON: I am not aware. I will take it on notice.

CHAIR: Sydney Airport would run that service, would it not?

The Hon. PAUL GREEN: I know, but I want to clarify it because when the witnesses from Sydney Airport are here I do not want them to say that it is a matter for Transport for NSW.

Mr REARDON: I actually do not know the service but I will take it on notice.

The Hon. PAUL GREEN: It is just that with the street service from the car park there are some private places along there where you cannot get off the bus to get access to that service. I would have thought that it would be smart to have at least one official stop somewhere. I just wanted to make sure that it was not a Transport NSW issue?

Mr REARDON: If it is only on Sydney Airport Corporation land, I think that is exactly where—

CHAIR: It is on Ross Smith Drive. That is what you are referring to, in particular.

The Hon. PAUL GREEN: It is on the current route.

Mr REARDON: I think that question is best directed to the Sydney Airport Corporation but I will take it on notice. If we know anything about it, we will bring it back.

The Hon. STEVE WHAN: Ms Chadwick, Lord Howe Island looks like needing a runway extension of around 450 metres. Has your department looked at the funding of that or are you waiting until you get the report from the working committee that you are on at the moment?

Ms CHADWICK: Certainly, Lord Howe Island needs two things. The first is that there is a need for some further stabilisation of the current airway and \$8 million is being invested in resealing the current airway. The nub of the issue is that the current Dash 8-200s need to be retired—

The Hon. STEVE WHAN: Yes, we are aware of the issue and the bigger ones need a longer runway. As I have already outlined, there are a variety of instruments, many of which would be available to Lord Howe Island for that and the Government recently announced an extra \$110 million, which would be available after the election, pending other decisions being made. That would be available for Lord Howe as well as other tourism infrastructure. What I could update the Committee on is that the Lord Howe Island Board is meeting next month and it is the major item for their discussion. We need as much as anything a decision from them.

The Hon. STEVE WHAN: Is there not a process where that would be seen as essential infrastructure for the supply of the island and it should not perhaps have to go into competitive bids with other areas?

Ms CHADWICK: We are a fiscally constrained Government, as are all governments—

The Hon. STEVE WHAN: It will be a food-constrained island if they do not get a longer runway.

The Hon. MICK VEITCH: Mostly food goes out by boat.

Ms CHADWICK: I believe it is an issue that has been worked through appropriately, firstly, through maintaining the current airport, making sure that all parties are aware of the issues, that the options are on the table, that the Lord Howe Island Board is aware and that there is funding available.

The Hon. MICK VEITCH: Will the Regional Economic Development Strategy contain provisions for regional aviation and regular public transport [RVT] services?

Ms CHADWICK: The Regional Economic Development Strategy, which will be released next month, is a framework document that establishes the goals for the Government in regional economic development. Also, it reports on activities. It does include references to regional aviation but, no, it does not reflect on the licensing or other frameworks.

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CHAIR: We have run out of time. Thank you all very much for attending and Mr Reardon for your forthright comments on the criticisms that have been levelled at you; thank you very much for that. You have taken a number of issues on notice and the staff will be in touch with you in the next few days to clarify those issues. If you could return those answers to us within 21 days we would very much appreciate that. Thank you once again for your submissions and your evidence today.

(The witnesses withdrew)

(Short adjournment)

ERNST KROLKE, Chief Executive Officer, Airport Coordination Australia, sworn and examined:

CHAIR: I welcome our next witness, Mr Krolke. Thank you for coming along. Would you like to make a short opening statement?

Mr KROLKE: Airport Coordination Australia [ACA] is an independent company that allocates arrival and departure movements at congested airports. The Australian Government has appointed ACA to manage runway movements at Sydney airport in accordance with the 1997 Sydney Airport Demand Management Act which limits the movements to 80 movements per hour and the 1998 Slot Management Scheme. The scheme follows the principles of the worldwide slot guidelines published by the International Air Transport Association [IATA] on behalf of the industry. The scheme has protected New South Wales regional services operating to and from Sydney since its introduction in 1998. The ring fence does not allow New South Wales regional slots to be used by international or domestic interstate services, except in exceptional circumstances.

In 2003 the scheme was amended to freeze the New South Wales regional movements at the June 2003 level during the peak periods, which were declared to be 6 a.m. to 11 a.m. and 3 p.m. to 8 p.m. New South Wales regional services use about 20 per cent of all allocated slots at Sydney airport, with 28 per cent in the morning peak and 35 per cent in the evening peak, Monday to Friday. New South Wales regional slots are not route specific. Airlines have historic precedence for these slots if they use the slots at least 80 per cent of the time in a scheduling season. I am looking forward to questions.

CHAIR: The obvious question that has been before the Committee on a number of occasions is who actually "owns" the slots? Is it the Sydney airport? Is it the airline? Or should it rest with the local communities for those regional slots, could you clarify that?

Mr KROLKE: In my view nobody owns slot. A slot is nothing more than permission to arrive or depart at a time at an airport. It has no property value.

CHAIR: I understand that. For example, let us use one of the airlines that recently fell over, Vincent Aviation operating from Narrabri to Sydney. When that airline ceased running what happened to that slot position? Who reallocates that, is it reallocated and if so where is it reallocated to?

Mr KROLKE: When an airline ceases to operate the first thing we do is quarantine the slots and see whether another airline takes over the services. That has happened particularly when Brindabella fell over and Vincent took over and got the slots that Brindabella had. Then Vincent fell over so the slots are back with us. We can only hold the slots for a period of time. If nobody else comes and wants the slots we cannot let them go to waste. What we do then is put them out for any airline that wants to operate a service in New South Wales. If there is a new entrant it will have preferential use over an incumbent airline. We cannot let slots go to waste. As I said earlier, slots are not route specific. If an airline had a slot from Sydney to Narrabri and they believe that the route is commercially not viable they can take that Sydney slot and go to Coffs Harbour where they can have a viable service.

The Hon. CATHERINE CUSACK: Are there any conditions they have to comply with?

Mr KROLKE: The only conditions are that a slot has to be operated 80 per cent of the time in the season. That means, if you take the April-October season, that is 30 weeks, you have to operate 24 times in that season in order to maintain the slot. If you operate less you lose the slot and the slot will go back in the slot pool and will be reallocated.

The Hon. CATHERINE CUSACK: What sort of timeframe do you look at and what is the current status of the slots with regard to the Brindabella services that are no longer being delivered?

Mr KROLKE: They have been unused since March which means virtually for the entire April-October season they have not been utilised. At the end of the season they become available.

CHAIR: They are within the 20 per cent that is available for regional airlines, is that correct? They do not get transferred to international?

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Mr KROLKE: Those slots will stay New South Wales regional slots and we will only allocate them for operations from Sydney to a destination in New South Wales.

The Hon. CATHERINE CUSACK: What is the time frame before the reallocation of those slots is triggered.

Mr KROLKE: We will be in discussion with Transport for NSW and find out whether any new airlines want to take up the route and the time frame, but for the April-October season 2014 the slots were not operated. Nobody has historic precedence on them, in that sense. For the next season, April-October 2015, they can be available to anyone that wants to operate in New South Wales. The filing deadline for that is coming up in the middle of October, so we have a very tight time frame.

The Hon. CATHERINE CUSACK: They could go into the pool for reallocation at the end of October?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: What is the process for reallocation? Do airlines have to demonstrate a route?

Mr KROLKE: Those slots, particularly in the morning peak period, are in high demand. We always have a waiting list. We will tell the airlines that there is an available slot for New South Wales operations. If there is a new entrant—someone who wants to start operating in New South Wales—that airline will have preferential use. If there is more than one or no new entrant and only incumbents apply, the slot will be allocated to the airline that uses the largest aircraft. We then apply what is called the aircraft-size test. That means if an airline is allocated a slot on aircraft size it must operate 80 per cent of the time in the season with that aircraft size. You cannot apply for an 80-seat aircraft and operate a 33-seater.

The Hon. CATHERINE CUSACK: That makes it difficult for operators to be nimble when operating the service. Using an 80-seater aircraft may not be viable all the time and that would be a big constraint on the airline's profitability. Can they negotiate on that?

Mr KROLKE: It is rather limited.

The Hon. CATHERINE CUSACK: If a slot is a peak-hour slot, does it have to be used in peak hour?

Mr KROLKE: Yes, the slot is for a specific time. The difficult period is in the morning peak period and the afternoon peak period for obvious reasons. There are plenty of slots available between about 11 o'clock in the morning and 3 o'clock in the afternoon and after 8 o'clock at night. But in my view an airline would not buy an aircraft to operate in those hours only. It would not be commercially viable.

The Hon. CATHERINE CUSACK: Is a time range or a time allocated?

Mr KROLKE: A slot is within a quarter of an hour, so if you have an 8 o'clock slot you can use it at 8 o'clock, 8.05 p.m. or 8.10 p.m.

The Hon. CATHERINE CUSACK: That slot would go into the pool?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: Who in your organisation makes the decision about slots?

Mr KROLKE: The allocation, in the end, is done by me, because we are the independent company that does it in accordance with the guidelines that are set out. Those guidelines are set out in the Slot Management Scheme.

CHAIR: From an aircraft management point of view, would whether an aircraft comes in at 8 o'clock, 8.05 p.m. or 8.10 p.m. be determined by air traffic control?

Mr KROLKE: It is the choice of the airline at what time they operate. It depends on how it fits in with their turnaround and the flight time.

The Hon. CATHERINE CUSACK: Would it be possible for you to give the Committee a list of slot times that will go back into the pool at the end of October unless something happens between now and then?

Mr KROLKE: Yes, I can do that. It is a small list.

The Hon. CATHERINE CUSACK: What if nobody wants to take up those slot times for a New South Wales service?

Mr KROLKE: Somebody will, because we always have greater demand for slots in peak period than we can supply. If we get high demand in the first filings by airlines, which we always do, we then make offers to airlines outside the peak period when we have slots available.

The Hon. CATHERINE CUSACK: Is this system well supported by the airlines?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: It is uncontroversial?

Mr KROLKE: We have been operating as a company and business since 1998, when the limitation on Sydney to 80 movements per hour became effective. We have had no complaints against us and we are working very well with the airlines.

The Hon. CATHERINE CUSACK: I am interested that you say it does not have a property value, but access is valuable. Councils are trying to get air services. If the slots are reallocated, what can they do to get an air service?

Mr KROLKE: We have had councils come along who have services and who want additional services in the peak period and there are no slots available. They cannot get slots in the peak period. When you have existing services, all you can really look at in the first place is to get the operator to use a bigger aircraft.

CHAIR: Which is discriminatory against some of the smaller regional pools?

Mr KROLKE: Yes, it would be, but on the other side there are no subsidies. No council could buy an air service from an airline and guarantee that service, because they would have paid too much of their council rates. It is a very big problem.

The Hon. STEVE WHAN: I actually had no idea that your organisation existed so it is very interesting. Essentially what you are telling us is that, in October, the slot that Brindabella used to have for Cooma could be reallocated to Coffs Harbour or a busier centre and that if someone was to try and start the route again for Cooma they would have to wait for a slot to become vacant?

Mr KROLKE: Yes. They can start off outside the peak period and wait until somebody else drops a lot and be on the waiting list and then get a slot in the peak period.

The Hon. CATHERINE CUSACK: At that point it is the size of the aircraft.

Mr KROLKE: And that does not happen very often.

The Hon. STEVE WHAN: They would then compete with another big centre asking for another slot at the same time and who is running a bigger aircraft, a 16- or 18-seater, and they would probably come somewhere a long way down the list. We are heading to a point where it is going to become almost impossible for Cooma airport to re-enter into the peak period at Sydney airport. Would that be a fair assessment?

Mr KROLKE: I think that is a pretty fair assessment. A minimum aircraft size for Sydney is 19 seats, so you cannot get a slot for anything smaller than 19 seats.

The Hon. STEVE WHAN: What was the seating capacity of those old Aeropelican—

Mr KROLKE: Nineteen seats.

The Hon. STEVE WHAN: The rules that you operate under are set by the Federal authorities, is that correct?

Mr KROLKE: Yes.

The Hon. STEVE WHAN: You basically implement the rules you are given by the Federal Government when considering the criteria for the way the regional slots are reallocated?

Mr KROLKE: Yes.

The Hon. STEVE WHAN: This is the same topic that the Hon. Catherine Cusack was asking about. We have seen a lot of examples in the economy of things that once would not have had a property right, such as water allocations, which now get some right to be traded. Is there anything that stops those regional slots from being turned into a right which is owned by a council? Is there anywhere in the world where that happens?

Mr KROLKE: No. The only place where people pay money for slots, which is a very bad example, is Heathrow, but the slots are in the hands of the airlines, not the airport.

The Hon. MICK VEITCH: How does that work?

The Hon. STEVE WHAN: The airlines own a certain number of slots.

Mr KROLKE: Yes, and an airline that does not want to use a slot can—on what is called secondary trading—swap the slot with another airline and get some money for it.

CHAIR: That is effectively what happens here, is it not?

Mr KROLKE: No.

CHAIR: If Qantas has an 8 o'clock slot into Sydney and it wants an extra slot, it can swap that with one of its other slots. If it was flying a 200 from Moree and it wanted another slot for a 400 from Wagga, it could effectively drop the Moree service and run that other slot with a 400 from Wagga?

Mr KROLKE: They could do that, but that is not a new slot.

The Hon. STEVE WHAN: As long as they were already using both slots.

Mr KROLKE: It is within their existing pool.

The Hon. STEVE WHAN: Is there a way around effectively the loss of these slots for regional areas to have a look at? A number of people have suggested this already, so it is nothing new, but would it be physically practical to have the 80 movement cap and exempt the smaller aircraft from the cap?

Mr KROLKE: That would, in practice, have very little value. They would be exempt from the 80 movement limit, but we are constrained at the airport. Airservices Australia cannot handle more than 50 arrivals. In peak periods we are at 50 arrivals. You could not put any more arrivals in.

The Hon. CATHERINE CUSACK: That is a safety constraint.

The Hon. STEVE WHAN: So there is a safety constraint?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: Regulatory or safety?

Mr KROLKE: It is an environmental come political limit. The 50 movements is a physical limit.

The Hon. STEVE WHAN: Is technology likely to change to make that physical limit easier or less of a constraint in respect of the navigation technology?

Mr KROLKE: There is nothing that I know about but, of course, in future things can change. One thing that also has to be taken account of is the size of aircraft when you have a higher density of operations. If they are all the same size, then it is easier. When you put smaller aircraft in amongst bigger aircraft, the separation has got to be bigger because of wake turbulence.

The Hon. STEVE WHAN: Yes, and disturbance of the air and things.

Mr KROLKE: That would affect the smaller aircraft and make their ride uncomfortable.

The Hon. MICK VEITCH: Why is the Heathrow example you provided a bad example?

Mr KROLKE: It is a bad example because anywhere else in the world, if an airline needs a slot at a particular time and has a slot, they can swap with another airline. We have swaps in Sydney between airlines. Say you need to come in at a particular time and the slot is not available, the airline comes to us and says, "We have a crewing problem. Would a duty tour be exceeded if we changed, go 15 minutes later" or so. We then tell the airline of all the other slots that are held by other airlines at that particular time. They have the slot that is 15 minutes later. Maybe they find one airline that has the flexibility to move 15 minutes later into that one slot. That is a cool operative arrangement that has been working well worldwide since the mid 1960s.

The Hon. MICK VEITCH: Slot management worldwide is a niche market. To be honest, I never knew your company existed.

Mr KROLKE: Yes we have been operating, quite successfully, without many people knowing about it.

The Hon. CATHERINE CUSACK: Do you have an association of slot managers?

Mr KROLKE: We do. There are two associations. One is in Europe, EUACA, the European Union Airport Coordinators Association, and we have one here in the Asia Pacific, the Asia/Pacific Airport Coordinators Association, which I am the chairman of at the moment.

The Hon. MICK VEITCH: How many people are involved in your unit?

Mr KROLKE: In my organisation we coordinate eight airports in Australia. We are coordinating remotely from here Abu Dhabi, Muscat and Manila in the Philippines, and I have myself and five staff. We are very efficient. But, of course, we are also very dependent on good computer programs.

Mr SCOT MacDONALD: Can I go back to the question that was put to us by a number of councils that they would like that slot to be their property—for want of a better word? My concern about that would be surely that would erode flexibility. If you have a centre in regional New South Wales that is in decline—a mine has shut or whatever is going on—but you have another region that is growing, such as Coffs Harbour or Port Macquarie, are we not degrading flexibility? I am asking a rhetorical question but what is your view on that?

Mr KROLKE: That is why the slots are not route-specific; they can be changed. It comes down to tying an airline down to an operation and if the operation is not profitable the airline would go broke.

Mr SCOT MacDONALD: What other consequences, do you think? To me, that is a pretty clear one.

Mr KROLKE: In my view, if a council owns a slot and no airline would operate it, that slot would be blocked and could not be used. It would be a waste of capacity at the airport.

Mr SCOT MacDONALD: As much as we would like to be married to a regional town, that is the obvious problem with that, is it not?

Mr KROLKE: Yes. As I said, we are working very, very hard in trying to help the regional to be as much protected as possible.

Mr SCOT MacDONALD: But flexibility is important in this, is it not?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: Can you offer any suggestions as to how we could maintain for regional communities, particularly the remote ones, a service in the peak hour? It is a finite number of services; it is not 100 little planes trying to land in Sydney in peak hour. I live in the Ballina shire. We have now got up to three jets coming in and out of Sydney to Ballina and I am just realising with a sense of horror that those slots have come from smaller regional airports. This is a revelation. Can you see what our problem is and do you have any suggestions?

Mr KROLKE: Some of the Ballina services are operating in the middle of the day.

The Hon. CATHERINE CUSACK: True.

Mr KROLKE: Because they are fill-in services in amongst the morning, evening peak periods. In the middle of the day we have got plenty of slots available. The problem with small points in New South Wales regional, as I understand it, is that you want a service that lets people come from the city to the place, do a day's work and go back and vice versa. What you really need is a morning service and an evening service. Probably the only way to provide some of the communities with the service is to go and have a hub at another port. If you have ports very much in western New South Wales they can go to Dubbo and take the frequencies that are operating from Dubbo to Sydney and so on, or go to Newcastle—

The Hon. CATHERINE CUSACK: This does not have to be every day. These communities could work in, even if it was a couple of times a week that you could do that. It is not a lot of spots.

Mr KROLKE: We are always prepared to look at it because we may have a Tuesday morning slot available.

The Hon. STEVE WHAN: Would not the other way be to allow those smaller planes to go outside the curfew hours and then the airlines might see that as being of value in extending the use of their planes?

Mr KROLKE: There is no curfew for propeller aircraft. The curfew in Sydney is only for jet aircraft. They can operate. But they have a problem too, as I understand it. I have never been very close to the regional operation to that extent, but with crew rest requirements and sign-on requirements they cannot start operating before 6.30 in the morning. I have said many times you can come in on a 5.00 a.m. to Sydney. You have got to depart at 3.30 in the morning, which is not very nice in winter, from some of the communities, but that is possible. You can operate at the fringe.

The Hon. CATHERINE CUSACK: Thank you for that. That is really interesting. I do not think people thought about that.

CHAIR: How many slots in those peak-hour slots are taken up by 19-seater aircraft at the moment?

Mr KROLKE: I would have to look at it in detail, but very few, because virtually the minimum size, to a large degree, is about a 33-, 36-seater, between Saabs and Dash 8s and 200s. There is only probably a handful of lesser aircraft there these days. I can get you the number.

CHAIR: That would be good because as the regional ports have dropped off the radar, so to speak, over the last few years it has been mostly those smaller aircraft that have gone out of service.

Mr KROLKE: When I started coordination of the domestic environment in 1997 before 1998 we had nine-seater aircraft operating. We had services going to Scone, Maitland, Gunnedah and we had country connections coming in from West Wyalong and Cootamundra and so on. They have all gone.

The Hon. CATHERINE CUSACK: Every plane that is more than 15 minutes late needs to swap its slot with somebody else. Is that correct?

Mr KROLKE: No. We are working in the planning environment. The aircraft that operate in New South Wales have the tolerance in their operation of plus/minus 15 minutes.

The Hon. CATHERINE CUSACK: Ultimately it is the airport that needs to organise which plane lands—

Mr KROLKE: It is air traffic control on the day, because we cannot influence weather and so on. We are intentionally not interfering on the day of operation. We hand all the allocated slots over to Air Services at 4 o'clock in the afternoon on the day before, because we do not want to interfere. What Air Services does, any changes, cancellations, additions, they give back to us so that we can put them into our database and make the services legal, because if you operate without a slot a company can pay a very high fine.

The Hon. CATHERINE CUSACK: Do you have a number or something like that that you get? How does the pilot of the plane know he has got a slot and how does he tell the airport he has got a slot?

Mr KROLKE: He has a slot because he has a schedule and he flies to the schedule. If he flies off schedule, and that can quite easily happen—and it is particularly critical for Aeropelican all the time on their on-time performance in Newcastle-Sydney, which is a very short route—if they change runway direction he can get a 30-minute delay. So we would go to him and say, "Why was your flight 30 minutes late?" and he would say, "The runway direction got changed". That is a matter which is outside of his control. Matters that are outside the airline's control get excused.

The Hon. CATHERINE CUSACK: The on-time running for regulated airports is not calculated in the national figures, is it?

Mr KROLKE: No.

The Hon. CATHERINE CUSACK: Nobody knows what on-time running is for those airports.

Mr KROLKE: Not to my knowledge.

The Hon. CATHERINE CUSACK: Do you have any reporting on compliance with their slots into Sydney?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: Is that published at all?

Mr KROLKE: It is available. We do not publish it publicly.

The Hon. CATHERINE CUSACK: Is it information that could be provided to our Committee?

Mr KROLKE: Yes, sure.

The Hon. CATHERINE CUSACK: I would be very appreciative of that.

CHAIR: Is your company a publicly listed company or is it a private company?

Mr KROLKE: We are a shareholding company.

CHAIR: You have to prepare an annual report each year for the Australian Securities and Investments Commission [ASIC]?

Mr KROLKE: Our only annual report is really the financial annual report that we give to ASIC. That is all we do.

The Hon. CATHERINE CUSACK: Who are your shareholders?

Mr KROLKE: Our shareholders are Qantas, it used to be Ansett but it is now Virgin, the Regional Aviation Association—they together have 90 per cent of the share capital—and 10 per cent Sydney airport. That was on the request of the Australian Government. I must say that our share capital is \$1,000. The reason why we

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did this was because the Government cannot authorise a private person like me to act under the Act; it has got to be a company.

The Hon. CATHERINE CUSACK: As a regulator?

Mr KROLKE: Yes. Therefore we created the company so that we could be appointed by the Government.

The Hon. CATHERINE CUSACK: Has that always been the system at Sydney airport?

Mr KROLKE: Coordination in Sydney started way back in 1971, only for international services. That was done by Qantas. Qantas coordinated all the internationals Australiawide actually. In my previous life I worked for Qantas and at that time it was part of my job. When the Australian Government put the limit of 80 movements per hour Qantas could not do it anymore because there was conflict on the domestic side and at that particular time the new entrance fare was coming in, so we had to become really independent. I helped in the setting up of it and then I took early retirement from Qantas. I have been running that business ever since. I am very much involved also internationally with the International Air Transport Association [IATA] in the working groups to do with capacity and coordination.

The Hon. CATHERINE CUSACK: If you felt that a rule needed to be changed or could be improved, how would you accomplish that change?

Mr KROLKE: What we always look for is flexibility and having it as simple as possible. We have one very basic rule which I think gives sanity to the whole process—that is, historic precedence or grandfather rights. If an airline operates a flight in a season 80 per cent of the time they can operate at the same time in the next equivalent season. That means the airline can buy an aircraft and know if they do the right thing they can operate, and the airport knows that airline will come every year. So they can all plan their expenditure and expansion on the basis that those airlines will be operating there.

The Hon. CATHERINE CUSACK: When they borrow the money the banks would like to know they have slots to use at the airport. That would be part of their due diligence.

Mr KROLKE: And they can say with a certain level of confidence that the services will be there.

The Hon. CATHERINE CUSACK: Do you have a board?

Mr KROLKE: Yes.

The Hon. CATHERINE CUSACK: If you were going to change one of the rules that you operate by what would be the process? For example, if the airline said, "This really is not working for us anymore. We have to do it this way."

Mr KROLKE: If I want to change something, and be very controversial for one reason or another, yes, I would have to tell my board, I would have to tell the Federal Transport Minister that I need some change to the Slot Management Scheme and I would have to go to IATA.

The Hon. CATHERINE CUSACK: Who are they?

Mr KROLKE: The International Air Transport Association worldwide, because whatever I want to do maybe in conflict with worldwide standards. One would be very careful not to do anything that causes a conflict.

The Hon. CATHERINE CUSACK: So it is pretty difficult to change the rules?

Mr KROLKE: Yes, it is very difficult. The rules have not been created today or yesterday. The setting of the rules started very early in the 1960s. It was formalised for the first time in 1974. The Scheduling Procedures Committee of IATA published the first worldwide guidelines. I have been a member of that committee since 1981 and when I was with the airline for 10 years I was chairman of it. I know it forwards and backwards.

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The Hon. CATHERINE CUSACK: To me you look very well and healthy.

Mr KROLKE: Thank you.

The Hon. CATHERINE CUSACK: What would happen if you were to be run over in Macquarie Street on the way home?

Mr KROLKE: If a bus runs me over in Macquarie Street I have a very good deputy who has learned it all from me.

CHAIR: Returning to the issue of aircraft size, you mentioned that in years gone by there were seven, nine and 10 seaters on flying into Sydney airport. Who makes the decision about what the minimum aircraft size is?

Mr KROLKE: The minimum aircraft size is stated in the Act and the Slot Management Scheme.

CHAIR: Are you referring to the Federal Act?

Mr KROLKE: That minimum size of 19 was set in 2003.

The Hon. CATHERINE CUSACK: What is the name of the Act?

Mr KROLKE: Sydney Airport Demand Management Act—it is a mouthful—and the other document is the Slot Management Scheme.

CHAIR: Do you see that minimum size increasing as bigger aircraft are used more often on regional routes?

Mr KROLKE: It is very interesting because, as we touched on earlier, if there is a greater demand on a route and the aircraft are full and there are more slots available to operate, then the only way is to operate a bigger aircraft. One would have to look at some of the routes where at the moment a 30-seater aircraft operates and they grow to 50 and eventually to a 70-seater aircraft. That would be a sensible utilisation of the existing slots. If you step away from New South Wales regional, we have exactly the same issues when we talk about interstate services. Look at Sydney-Melbourne. In the peak period both airlines—I mean all four airlines operate but let's concentrate on the two main airlines—operate every 15 minutes. You cannot operate at a lesser interval than that; it makes no sense. So what you really have to do when you run out of capacity is put a bigger aircraft on.

Mr SCOT MacDONALD: Ms Cusack commented that you look pretty healthy, I agree with her. You might still be around in 20 years' time when Badgerys Creek airport is built and still doing the same job we hope.

Mr KROLKE: I hope I will.

Mr SCOT MacDONALD: Have you turned your mind to how the regional services will fit in with Badgerys Creek considering all the things we have talked about?

Mr KROLKE: I have a very strong personal view, and maybe not everyone at Sydney airport will agree with me, that what is in Sydney airport now has got to stay in Sydney airport. Regional services are not only providing a link between New South Wales communities and Sydney, they also provide service to other parts of Australia via Sydney and internationally via Sydney.

Mr SCOT MacDONALD: You see no reason as to why that could not continue?

Mr KROLKE: That would have to continue otherwise you would probably render a number of the regional services useless. I do not think Aeropelican would have ever operated Sydney-Newcastle services if it had not been for the on-carriage traffic domestically and internationally.

The Hon. PAUL GREEN: Does that comment also include the freight into Sydney airport?

Mr KROLKE: Freight is a bit more flexible. Bear in mind that about 80 per cent of the freight is carried on passenger aircraft but pure freighters can go—if the runway is long enough and so on—to another airport in the area. Freight aircraft, particularly international ones, involve a lot of trucking. They fly to Sydney and truck to Melbourne and truck to Brisbane.

Mr SCOT MacDONALD: There will be pressure to push out the smaller aircraft in whatever we are looking at in 15 to 20 years from now for all the reasons you said: larger aircraft are more efficient et cetera. But if you were to come under that pressure you could push back and say, "It is important that the regional services continue into Kingsford Smith Airport."

Mr KROLKE: Yes. I think the regional services have to continue. The aircraft size is a slightly different issue because even in New South Wales regions I think the pressure will be on to upsize the aircraft sizes. That is purely because the slot pool is relatively small and to get more value out of the slot pool. We have services from Ballina at the moment that are 30-seater aircraft and you have the 180-seaters. Eventually you would want to operate something bigger than the 30-seater on the morning and evening services.

The Hon. CATHERINE CUSACK: To Ballina, yes, but you would never be able to get a peak service in a remote area.

Mr KROLKE: But the same thing applies to all other destinations, whether it is Coffs Harbour, even when you come down to Dubbo or Orange. Eventually the aircraft size must increase in order to carry the traffic because there are no more slots available.

CHAIR: We are out of time. Thank you. It has been a very enlightening session for us because the issue of slot management has been brought to our attention by many people who have contributed to this process. It is good to get the real facts of the story from the person who does the work. I think you took some issues on notice.

Mr KROLKE: Yes.

CHAIR: The staff will be in contact with you over the next few days to clarify those issues.

Mr KROLKE: That is fine.

CHAIR: If you could get that information back to us within 21 days we would appreciate it.

Mr KROLKE: No problem at all.

(The witness withdrew)

IAN THOMAS VANDERBEEK, Chief Executive Officer, Aviator Group, sworn and examined:

CHAIR: I welcome Mr Vanderbeek to our hearing.

Mr VANDERBEEK: Thank you.

CHAIR: Thank you for your comprehensive submission. Would you like to start by making a short opening statement?

Mr VANDERBEEK: Thank you. It is a pleasure to be asked to appear before the Committee today. Aviator Group has a strong interest and quite a lot of experience in regional operations. We operate in Western Australia under the Federal Government's Remote Area Subsidy [RAS] scheme to remote communities using single-engine turbine aircraft. Of course, Western Australia is not the focus of this Committee's attention; it is New South Wales. We have some strong views as to regional operations in New South Wales itself, having had some experience in that area. But we see regional operations within New South Wales broken up into three areas, that is, the routes that currently have operations and will always have them—your Waggas, your Tamworths, your Dubbos, Coffs Harbour, et cetera—followed by those routes that could possibly be classed as marginal, sub-30,000 or sub-40,000 routes, your Parkes, your Morees, Armidales, et cetera, and then remote areas.

Of course, remote areas are the ones that now do not have any operations and are the ones that will be the challenge going forward. We believe, certainly in relation to the remote areas, you almost have to back into this issue and, firstly, determine whether there is an economic value in having air services to these areas, because if there is no value there is little point in going forward. If you address that issue first and you determine that there is an economic need for it, the question is how you solve that need. I think that is the conundrum we are facing.

The Hon. CATHERINE CUSACK: Do you think commercial or economic?

Mr VANDERBEEK: Economic in terms of what an air service brings to that region, not the commercial aspect of it. I think the commercial aspect of running the air service does not necessarily dovetail in with the economic rationale for having one, that is, you may need to subsidise it but you are subsidising it for a very specific reason: because of the overall economics that it brings.

CHAIR: You mentioned the Remote Area Subsidy scheme in Western Australia. One thing that has exercised our minds in this Committee is the issue of government subsidies applying to regional airlines. Can you give us some background on how that operates—how it is managed, how it is paid, those sorts of issues?

Mr VANDERBEEK: It is administered by the Federal Government and it applies to a number of routes operated in Western Australia, the Northern Territory and a couple of routes in South Australia. Effectively, it is run under a tender system so it comes up for renewal on an annual or bi-annual basis depending on the routes. There is a schedule that is put in place for an operation, certainly not daily—in some ports it is only once a month or once a fortnight; on some occasions and some operations it is a couple of times a week. Those flights literally carry everything from passengers to mail to freight, to dogs, to chickens, to you name it. It is a milk run that operates around the remote regions, out to remote stations and also Indigenous communities. People book to go on the service. They pay a fee for the service. The operator actually provides the Federal Government an amount for operating each service and the Federal Government subsidises the delta between what the carrier actually creates in revenue over the route versus the cost of the operation.

CHAIR: So it is not a typical regular passenger service in that case; it is more like a charter run.

Mr VANDERBEEK: It is a typical passenger service in that anybody can book. There are some specific constraints on it. My understanding is you cannot book a seat on it for commercial purposes—health specialists, people associated with the communities, the stations, et cetera, but if you are a travelling salesman going out with your pots and pans you will not be allowed to book a seat on it.

CHAIR: Another issue raised—you also mention it in your submission—was that you will be looking at commercial operations in Western Australia using single-engine turbine aircraft. What sort of aircraft are you operating? Can you give us a bit of an overview about the anticipated costs of operating those machines?

Mr VANDERBEEK: Under the RAS scheme now we operate single-engine aircraft called caravans, the Cessna caravan, which has 14 seats, one pilot and 13 passengers or two pilots and 12 passengers. Turbine aircraft, fixed undercarriage, are quite a good aircraft for the sort of work that we do into unpaved strips. It is fully instrument flight-rules compliance so it can fly in all weather. The standards for those aircraft have improved considerably over the years, so they are operated under what is called a ASEA approval by CASA which is approved single-engine aircraft. There are quite high operating standards applied to it. In terms of costs, the actually capital cost of the aircraft is quite high but the operating costs are lower than operating an aging piston- engine twin aircraft, for example. Once it is factored out over a 12-month operating period, there is a crossover point where the turbine actually becomes more cost effective than operating an aging aircraft, due to the amount of maintenance that is required on them.

CHAIR: What about the safety aspects? There is a lot of anecdotal evidence in rural communities that people do not want to travel on single-engine aircraft, although I have to say that the more remote you become, the more willing people are to travel on single-engine aircraft. Certainly, in some of the closer settled areas, and particularly people coming from a city and going to those remote areas, there is not a great deal of willingness to travel on single-engine aircraft. I would like your view on the relative safety between a single-engine turbine aircraft and an older twin-engine piston aircraft.

Mr VANDERBEEK: There has been a lot of research done on it. Evidence in the public forum suggests that single-engine turbine aircraft are six times safer than piston twin-engine aircraft by a large factor. We have been operating them since 1994 and the acceptance of them certainly in the Western Australian community is extremely high. There is nothing else on these routes. The aircraft are very well accepted. That is not the only aircraft. The particular aircraft we operate is an unpressurised aircraft that is good over shorter sectors but there is another aircraft, the Pilatus PC-12 that you are probably aware of that is pressurised with a retractable undercarriage—much quicker and again it has a very good safety record and is used elsewhere actually, particularly up in Alaska on these type of operations.

CHAIR: As I understand it the PC-12 is quite an expensive aircraft in regard to capital?

Mr VANDERBEEK: Absolutely they are. This is the issue that we will always face when we are looking at trying to service remote communities particularly. For example, if you take a Cessna Caravan with 12-seats offering two services a day, five days a week, you are looking at about 6,000 seats a year that you are putting into the market. Assume that you get on average a 75 per cent to 80 per cent load factor—4,500 passengers a year and work that out in terms of operating costs and the sort of ticket prices that you need to apply—you are talking very difficult numbers to actually to make these sort of operations work. There is no magic pill that you can apply to this to get it to become cost effective and work. All of this is a function of numbers.

The Hon. MICK VEITCH: What are landing fee charges in other jurisdictions, such as Western Australia?

Mr VANDERBEEK: They vary enormously. If you are operating out of the larger airports—Kununurra, Broome, Port Headland et cetera—as an operator you would always say that they are significant fees. If you are operating out into the remote regional areas, we do not pay any landing fees at all. We are paying from nothing to \$10 or \$15 per head where there is a head tax, or we are paying up to \$100 per landing, depending very much on the airport.

The Hon. MICK VEITCH: Do you have any involvement in the setting of those landing fees with airport owners?

Mr VANDERBEEK: No, I wish we did. No, none at all, it is foisted upon us. We do not have any choice.

The Hon. MICK VEITCH: In your submission you recommend that it be legislated that landing fees be reinvested into maintenance and improvement of the airport. The Committee has received testimony and submissions from RPT providers in this State that believe airports are being overcapitalised and overdeveloped. Why is your view different to some other RPT providers?

Mr VANDERBEEK: I do not think our view is necessarily different. I think when we are saying it should be reinvested, it should be reinvested in terms of the running costs of the airport and improving those facilities where there is an opportunity to improve them. We have always said, and from my experience when I was operating in regional New South Wales, that we do not want terminals that are a Taj Mahal but we want them fit-for-purpose which is particularly important. I think we are talking about two aspects: landing fees and passenger taxes.

The Hon. MICK VEITCH: Yes.

Mr VANDERBEEK: We are very much against landing fees per se. We believe it should be passenger taxes because the risk then is borne equally by the airport, or the local council or the region and by the operator. I think there has been a view that when airports were handed over to council they were great, "We have got this fantastic asset" and then suddenly when they look at the upkeep and running costs, it is "Oh, we have got to actually make this work and it has to be self-sufficient, so therefore let's apply a landing fee, let's apply a passenger tax because it is a captive market." The problem for an operator is you cannot actually pass the landing fee itself on to the passenger; you have to absorb it within their costs. The passenger tax can actually be added to ticket prices.

The Hon. MICK VEITCH: Have you challenged the airport owners at any stage about the fees, for example, at Broome? Have you ever sat down with them and said, "We need some discussion around the charge?"

Mr VANDERBEEK: Yes, it is an area over which I think every airline consistently goes head to head with an airport operator. Again it is very much a chicken and egg situation and different airports will view it differently. Some airports will charge nothing at all or a very nominal charge on the basis that they do see the economic benefit that the services bring, while others will charge an extremely high amount. It really depends on who is operating the airport. If it is a council-run airport versus a private corporation then there is very much a different approach that will be applied. It is fair to say that unless a community is begging for an air service then your ability to influence and negotiate landing fees or passengers taxes is very remote.

The Hon. MICK VEITCH: In the submission from Rex, from memory, to this inquiry it recommended that some sort of arbiter, an Ombudsman or maybe the Independent Pricing and Regulatory Tribunal, be involved in the process around the setting of those fees. In the jurisdictions in which you operate is there such an arrangement?

Mr VANDERBEEK: No, there is not. It is market forces that ultimately dictate the rate that is charged. As I said, we are fortunate where we operate there are very few charges apart from the major airports.

The Hon. MICK VEITCH: You recommend that the methodology to fix costs per passenger for the fees should be changed. What do you consider to be a reasonable charge?

Mr VANDERBEEK: If you look at the sorts of fees that are charged you will see from \$2 to \$6, to \$15 or \$18, or higher, just depending on the port. In breaking down the actual cost of running the airport versus the overall cost of infrastructure in a particular shire, sometimes that is not done, and therefore it all gets lumped into consolidated revenue and consolidated costs. How do you determine the cost? To a large extent it is an arbitrary number. It comes back down to whether you want an air service. What is the benefit of an air service? The view that taken is: How much can we charge and realistically get away with? When it is all said and done that is not the issue. Landing fees and head taxes are not the issues that are stopping the development of regional services. It is a minute part of the overall issue really.

The Hon. MICK VEITCH: You also mention that slots into Kingsford Smith airport be given to regional towns and not the operating carrier. I do not know whether you heard evidence earlier from the slot guru for a fascinating 25 minutes.

Mr VANDERBEEK: It was.

The Hon. MICK VEITCH: I never knew such a person existed. What are your views on his comments relating to the intricacies of managing slots at Kingsford Smith? Can your suggestion be accommodated?

Mr VANDERBEEK: We have had a reasonable degree of experience with the slots out of Sydney and we think they are managed extremely well under the current process. We do not believe the slots should be sitting with the regional council. We think there is a view for them to be sitting with the route as opposed to the council. Again it is a question of how it is administered and done. Clearly, if a route has not been operating then that slot should be released into the general pool for use. But it is a question of whether you quarantine that for future use so that sometime in the future, if that route becomes viable, those slots are still there and available.

Really by default there has almost been a duopoly created in regional aviation services in New South Wales now because Qantas and Rex have the majority of the slots. If you are involved in regional aviation, to some extent, you are robbing Peter to pay Paul. You have got some good routes on which you are operating 50,000 or so or well above 30,000 routes. Then you have your 15,000 to 25,000 routes. You are going to be spreading your costs over the overall operation itself. But if you are a new entrant trying to come in and you are looking at some of these smaller routes you are going to be stuck on the small routes. Why are they there? Why are the others not doing them? It is because they are not economical.

Unless you can spread that cost out by getting some larger routes, realistically it is recipe for disaster and these routes are never going to become economic. And we are just going to continue to repeat this cycle where operators attempt to come in, attempt to make them work, but they do not have the operating base through access to a range of routes and slots to take on some of the bigger routes to make it work.

The Hon. MICK VEITCH: I know Mr Whan has used Cooma as an example of quarantining. Its regular passenger transport [RPT] provider is no longer there and the slots will go in the middle of October. In your scenario you would quarantine them but how long would you quarantine them for? There has to be a point where those slots have to be made available; you just cannot hang on to them forever.

Mr VANDERBEEK: As I said in my earlier comment, if a slot is quarantined to a route but that route is not being used then that slot should be able to be used on another route. What is the time limit? Is it 12 months, two years, three years when you should say that this has no prospect of an operation ever coming onto it and therefore it should be released from the route altogether? I think there is more consultation and greater minds than mine that would really want to contribute to that sort of discussion.

The Hon. STEVE WHAN: I thought I heard you say that the Federal Government was involved in the design of the subsidised systems that you have in Western Australia.

Mr VANDERBEEK: They are.

The Hon. STEVE WHAN: What is their role and what do they fund?

Mr VANDERBEEK: They fund a portion of the route, i.e. the difference between the revenue generated by the operator versus the cost with a margin of operating the route, if you like.

The Hon. STEVE WHAN: In other words, it is a federally funded program?

Mr VANDERBEEK: It is a federally funded route, yes.

The Hon. STEVE WHAN: Is Western Australia the only State that the Federal Government does that in?

Mr VANDERBEEK: They do it in Western Australia, the Northern Territory and a little in South Australia.

The Hon. STEVE WHAN: I understand that the Queensland Government subsidises some routes. Do you know why the Queensland Government is paying for those and the Federal Government is paying for the other States?

Mr VANDERBEEK: I think we might be seeing some changes in the way that is funded coming forward from January next year as well.

The Hon. STEVE WHAN: What are you hearing on that?

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Mr VANDERBEEK: Those routes now are just coming up for retender. We are aware that the Government is looking at costs right across the whole of the Queensland Government and I do not know what they have in mind going forward. But we have seen at the Federal level that the subsidies that were previously available on the remote area routes have been peeled back and so the services have peeled back. I do not actually think necessarily that that is the right model for New South Wales remote routes. I think there are other things that can be done.

The Hon. STEVE WHAN: What is the basis for selecting whereabouts those subsidised routes operate? You mentioned that they obviously go to quite small locations such as stations and so on rather than just towns, but how are they selected?

Mr VANDERBEEK: I think it is called political. Those with the greatest voice ensure that they get the service. That is somewhat tongue in cheek, but I believe that decision is made by the Federal Government or the government department in consultation with the local communities and shires as to where that need actually sits. We are talking about considerably different services than we are here though.

The Hon. STEVE WHAN: Do they have criteria which is published anywhere, or is there a maximum number they operate or do they just grow?

Mr VANDERBEEK: I am not aware of any published details, no.

The Hon. PAUL GREEN: You said that there are other things that can be done. Will you elucidate that?

Mr VANDERBEEK: Within New South Wales, again if I talk about remote areas particularly, we know that there is a considerable amount of government travel that occurs. Health services, justice, et cetera, are all travelling to remote areas. That is either done by people driving cars or going on charter flights. If the numbers of people that were travelling on a daily or weekly basis on those sorts of services were required to travel on an air service then you would straightaway have a number of seats that are guaranteed to be occupied over a period of time. That is the sort of thing that we need to be looking towards as opposed to just saying, "Here's a cash handout, go and operate the route." There is already a latent pool of people out there that can just automatically be transferred on to these services.

CHAIR: Section 135 is going to impact on that. Is that correct?

Mr VANDERBEEK: Part 135 operations are a long way out. We are not going to see those, I do not believe, for the next five to seven years realistically. I think we are going to continue to operate under the status quo that we currently have for some time. I should also add that in Western Australia, which is an interesting model to look at, where a charter service operates over a regulated route within four hours of a scheduled operation they are required to make a contribution to the scheduled service cost, which is a way of trying to encourage people to use the regular service.

CHAIR: That would have a big impact on the fly in, fly out charter operations.

Mr VANDERBEEK: It occurs more to smaller ports because, again, they are the regulated routes, the sub-50,000.

Mr SCOT MacDONALD: To stop that potential cannibalising?

Mr VANDERBEEK: Correct.

The Hon. PAUL GREEN: In terms of the methodology Mr Veitch was talking about, do you know the breakdown of how they arrive at their passenger fees?

Mr VANDERBEEK: At the Federal level?

The Hon. PAUL GREEN: No, the regional level.

Mr VANDERBEEK: I do not, no.

The Hon. PAUL GREEN: It says you are supportive of increasing regulated route licensing quotas from 50,000 passengers to 75,000 passengers per year. Transport for NSW is considering removing the presumption of regulation and declaring all routes unregulated unless the Minister declares the route regulated. Do you have a view on that?

Mr VANDERBEEK: Deregulating the routes at the moment is not going to encourage another operator to come in because, as you heard earlier, there are no slots. You can deregulate the route if you wish but ultimately the slots are going to be—

The Hon. PAUL GREEN: So we are setting them up to fail?

Mr VANDERBEEK: In my view you are, yes.

Mr SCOT MacDONALD: In your submission you put a lot of emphasis on going to the larger aircraft. The issue is the charges, including that weight charge and the fixed charge. If I read that right, you very much see the future as 50-plus seater aircraft?

Mr VANDERBEEK: Yes, we think in the longer term in terms of access into Sydney—I know the Committee has been looking at a hub and spoke system and we see that as probably being a realistic alternative or option going forward.

Mr SCOT MacDONALD: Because it will get harder and harder to have sub-50s, basically?

Mr VANDERBEEK: The problem with the sub-50 seat market is there are no aircraft being built. So you are into ageing aircraft and when you are into ageing aircraft you are looking at considerable maintenance costs.

Mr SCOT MacDONALD: You will have 50-plus seaters going into Sydney and then out in regional New South Wales you may have that milk run feeding into Tamworth, Wagga, Dubbo or wherever?

Mr VANDERBEEK: We believe so. We believe that is what you will see going forward. We have seen a large number of regional towns lose their air services in the last 15 years and I think we will see more. They will be disappointed in me saying it, but I think the chances of the likes of Mudgee and so on getting an air service again is pretty remote.

Mr SCOT MacDONALD: Mudgee is harder because it is closer to Sydney. But for a town the size of Brewarrina or Bourke you are looking at the possibility of them feeding into a town the size of Tamworth, for example, and then having larger aircraft and frequent services coming in from Tamworth to Sydney?

Mr VANDERBEEK: Absolutely. Australians have a high propensity to drive. For people in the country, and I come from the country, just to sit in a car and drive five hours is just one of the things you accept that you need to do if you need to get somewhere. If it is going to take me five hours to get an air service to connect into Sydney I may as well just hop in the car and drive because then I have got a car at the other end and I have got my own time that I can work to and so on. I guess that is why our focus is really on the more remote services. I think that is where the need ultimately is and where an impact can be made, where you can make change. The hub and spoke model works in that environment where you are using the smaller aircraft.

Mr SCOT MacDONALD: Besides the landing charges and the weight versus the per passenger, are there any other levers you can think of to encourage that strategy or that development? It seems to be going to happen anyway, but are there any other levers there?

Mr VANDERBEEK: As I said earlier, the landing charges and the passenger taxes are really not the issue in the operation. The operating costs are the operating costs and the capital costs of the aircraft and the actual hourly operating costs are the main drivers. It is getting utilisation on those aircraft. We have looked at a couple of models as to whether you can use those aircraft for freight as well as passenger. There are potentially some opportunities like that because if you can drive the hourly utilisation up, you can actually bring the hourly cost itself down.

Mr SCOT MacDONALD: As you say, Qantas and Rex are quite happy to be doing those 30,000 at least and more like the 50,000 hub. Are there plenty within the sector capable of doing that hub and spoke

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model, that milk run, that feeding into Tamworth, Wagga Wagga or Dubbo? Is the industry there or is it struggling?

Mr VANDERBEEK: No. In fact, the industry has contracted a lot over the last even five years and we think it will continue to—

Mr SCOT MacDONALD: Sorry to interrupt; so you are saying that even if that future is there, with Qantas and Rex doing a good job moving into Sydney from the larger centres and we, as a Committee, say in five, 10 or 15 years that it will have to be a milk run for a range of reasons, there might not be the operators?

Mr VANDERBEEK: No, I think there will be the operators but I do not think you will have a choice of 20 or so operators. There might be a choice of five—three to five operators with the capability of doing it. We are continuing to see contraction in what I would call the general aviation sector within Australia. I do not necessarily think that is a bad thing. The barriers to entry in terms of costs and regulation are just continuing to increase but that in itself is making the standard of the product of what individual operators who remain in the market are delivering quite high.

Mr SCOT MacDONALD: I just want to picture in my mind: You see no interest from say Rex or Qantas operating that milk run sort of stuff with a different fleet, a different Qantas sub-link, if you like. They would be looking to the smaller end of the market to do that service for them?

Mr VANDERBEEK: Absolutely. Again, it comes down to the cost of operation. When you are operating 50-seaters or 34-seaters, you cannot be operating 12-seaters at the same sort of unit cost. It just cannot happen.

CHAIR: With respect to the CASA requirements for some of the smaller aircraft operating on passenger routes, such as the Caravans or the PC-12s, those types of single-engine aircraft, are they allowed to operate on a passenger run with a single-engine and a single pilot?

Mr VANDERBEEK: They are?

CHAIR: Under that CASA approval?

Mr VANDERBEEK: Yes.

CHAIR: As somebody who has been in the smaller aircraft industry, what do you see would be a viable model to operate one of the smaller single-engine, single-pilot turbine aircraft into some of the major centres? Is it potentially viable or is it simply out of the question?

Mr VANDERBEEK: I think it is potentially viable. There need to be safety nets built around it as guarantees, as I said earlier, to guarantee the carriage of government staff, for example, and issues around all the other charges that apply. Airways charges, landing fees, et cetera, would still need to be addressed as part of that but again the elephant in the room is the capital cost of the aircraft unless there can be some sort of surety against the route actually being profitable—and it is not a difficult process to work out how many passengers it would need to carry and at what sort of price for it to work. That now is probably the biggest challenge.

A reasonable second-hand Caravan fit-for-purpose for doing this sort of job will cost you about \$US1.5 million against a couple of years ago, five years ago or even today you could go out and buy a 30-year-old or 40-year-old twin-engine Navajo for \$250,000 to \$300,000. The capital cost is the real initial driver and as an operator you are not going to put that on to a marginal route unless there are some returns there. That is the challenge that I see.

CHAIR: And aircraft such as the PC-12s are twice or three times that price?

Mr VANDERBEEK: You can add another \$1 million on top of that at least.

CHAIR: I am aware of a company in Victoria called GippsAero. Are you aware of that company?

Mr VANDERBEEK: Yes, I am aware of GippsAero.

CORRECTED

CHAIR: I know they build single-engine turbine aircraft?

Mr VANDERBEEK: Yes.

CHAIR: Have you had any experience with them and what sort of capital costs are we looking at for those?

Mr VANDERBEEK: I have not had any experience directly with their turbine aircraft but again it is the same sort of numbers that you are applying. You will not get change out of \$US1.5million.

CHAIR: Thank you very much, Mr Vanderbeek. It has been a very useful session and I appreciate your comments on the single-engine turbine. We will be speaking to CASA later today so we will explore some of those concepts further with them. Thank you for your very comprehensive submission and your evidence today. Did you take some questions on notice?

Mr VANDERBEEK: I do not believe so.

CHAIR: If we have any other questions for you, we will get them to you in the next few days and we would appreciate any answers to those questions within 21 days of you receiving the questions. Thank you for your attendance today.

(The witness withdrew)

SALLY FIELKE, General Manager, Corporate Affairs, Sydney Airport Corporation Limited, and

TED PLUMMER, Head of Government and Community Relations, Sydney Airport Corporation Limited, affirmed and examined:

CHAIR: Would either of you like to commence by making a short opening statement?

Ms FIELKE: Thank you for the opportunity to appear before you today. Sydney airport is Australia's international gateway and premier airport. It is one of New South Wales and Australia's most important pieces of infrastructure. The airport generates or facilitates nearly 300,000 direct and indirect jobs, 28,000 of which are located on the airport site. It generates \$27.6 billion in direct and indirect economic activity for New South Wales, which is equivalent to 6 per cent of the state economy and 2 per cent of the national economy.

By 2033, it is forecast that the number of jobs generated or facilitated by the airport will increase to over 400,000. Economic activity will increase to over \$42 billion over the same period. Sydney airport is therefore a significant wealth generator for Sydney and for New South Wales, including, of course, regional and remote areas of the State. In 2013, 38 million passengers travelled through Sydney airport, roughly 100,000 a day. That includes more than 2.1 million regional passengers or nearly 6,000 a day. When you add airport workers and people meeting or farewelling passengers, there are more than 150,000 people a day who travel to or from the airport.

By 2033, passengers are forecast to increase to over 74 million, including 3.2 million regional passengers. For our part, we have invested \$2.3 billion in airport infrastructure since 2002. Our investment program over the next ten years will be similar to the last ten years. Our master plan, which was approved by the Deputy Prime Minister in February this year, details our plan to improve the experience for passengers and enable forecast growth well beyond its 20-year planning period. This includes growth in the number of regional passengers.

We have already begun implementing the new master plan. Only three weeks ago, we commenced work to upgrade the journey for people travelling to and from our T1 precinct. Plans to upgrade the journey for people travelling to and from our T2-T3 precinct are currently on public exhibition. Subject to approval, we expect work in that precinct to begin early next year. This work will make it easier to travel to, from or past Sydney airport by car, taxi or public transport. It will benefit airline passengers, airport workers and other airport visitors, as well as Sydney motorists and commuters generally. Our investment to upgrade on-airport road infrastructure will total around \$300 million. This will be complemented by a joint \$282 million investment by the New South Wales and Australian governments to upgrade road infrastructure in neighbouring areas, known as the WestConnex enabling works.

With respect to the WestConnex Motorway itself—which is of course a nationally significant infrastructure project in its own right—we welcome the fact governments are working to ensure effective gateway connections are provided to what is one of Australia's most significant economic precincts, the Port Botany and Sydney airport precinct. The Committee will have seen Sydney Airport's submission. It responds to a number of the Committee's specific terms of reference, including: how the aeronautical charges paid by regional airlines at Sydney airport compare with those of other regional New South Wales airports; how governments could further assist regional New South Wales airports to invest in airport infrastructure and increase capacity into and out of Sydney; and information on the extent to which many airlines have been up-gauging their fleet to accommodate growth in regional demand and boost capacity.

Contrary to what many may believe or say, there is ample capacity at Sydney airport. Only 65 per cent of our available slots are used, so more than a third of them are unused. That is why there is capacity at Sydney airport to grow in the way our recently approved master plan envisages. Of course peak periods, by definition, are busier than at other times. This is as true at Sydney as it is at all other Australian airports. However, Sydney is different because aircraft movements are capped at 80 per hour. This is despite the airport's ability to operate at higher movement rates than that. With the exception of Lord Howe Island, that has flights scheduled for a leisurely start for passengers' holidays, all regional destinations are served in the morning and afternoon peak periods.

Sydney airport's 24 regional routes have an average of six movements each during the peak hours. Sydney Airport has seen growth in regional demand matched by airlines up-gauging to larger aircraft. Over the

long term, seven to ten seat aircraft have been replaced with 17 to 19 seat aircraft, which in turn have been progressively replaced by 30 to 36 seat, 50 seat, 64 to 72 seat, 100 seat and 170 to 180 seat aircraft. In fact, regional aircraft have increased in size more quickly than any other market segment, and the increase in aircraft size has both responded to and promoted passenger growth. Over the past 20 years, this trend has seen a 221 per cent increase in regional passenger numbers.

To conclude, Sydney Airport is proud of the service it provides regional communities, including an extensive route network during the peak hours facilitating connectivity with international and domestic routes and lower airport charges than almost all other airports in the Sydney regional route network.

CHAIR: If you have a prepared statement, please table it.

Ms FIELKE: Yes, certainly.

CHAIR: Mr Plummer, would you like to add to the opening statement?

Mr PLUMMER: No, thank you.

CHAIR: You referred to the Deloitte Access Economics study that emphasised the economic impact of introducing larger aircraft into regional centres. Did that study look at the impact on the centres that have lost their air services?

Ms FIELKE: No, the remit of the study did not go into that. It was more about the overall economic impact of aviation services.

CHAIR: The increase rather than the decrease? You can understand where I am coming from. We are concerned about the loss of aviation services to smaller ports. Those ports have suffered economically as a result of losing air services. In your submission you make the point that the number of passengers from regional areas has increased by more than 200 per cent. Can you give us an idea of the decrease in the aircraft numbers from regional centres?

Mr PLUMMER: We would have to take that on notice. The Deloitte report expressed the benefits of upgauging in terms of additions to gross State product. It was statewide and did not attribute that to any one regional centre. We can look for information we can provide.

The Hon. CATHERINE CUSACK: Could that be done for a 10-year period so we can see the change in regional aircraft movements?

Mr PLUMMER: Yes.

CHAIR: In your opening statement you mentioned that 65 per cent of slots were unused.

Ms FIELKE: No, 65 per cent are currently used.

CHAIR: Did that refer to regional slots only?

Ms FIELKE: That refers to all slots, the current capacity at Sydney Airport.

CHAIR: Is the capacity in peak hour pretty much fully utilised.

Ms FIELKE: Not in all peak hours. We will clarify this but there is only one hour of the week when the full 80 slots are utilised. The 65 per cent capacity is across the day.

CHAIR: You commented that regional aircraft are exempt from curfew and should be exempt from the cap on movements. I am sure we support that comment.

Ms FIELKE: That is heartening.

CHAIR: How many extra movements would be possible if that cap were removed from regional services?

Mr PLUMMER: The best guide is the Commonwealth-New South Wales aviation study into the Sydney Basin, released a couple of years ago. It recommended the cap be increased to 85 movements per hour during the peak. That gives you a rough estimation of how many extra flights would be possible. The airfield and airport infrastructure can operate at that movement rate. The 85 movements per hour recommendation was previously made, not by us but by governments. The former Government did not pick that up, but the recommendation is sitting there.

CHAIR: We heard evidence that the maximum number of landings, I think, was 50 per hour.

The Hon. STEVE WHAN: Movements not landings.

CHAIR: I think it was landings. Is there a difference in the airport's capacity to handle departures and arrivals?

Mr PLUMMER: Yes, there is. It is a very complex matter and we should take it on notice. It depends on a range of factors like weather and the type of aircraft. A good example is an A380 landing with a Saab 340 from Rex behind it. The smaller aircraft needs to be further away because of wake separation. It depends on the mix of aircraft, how Airservices Australia sequences them, which runway is used, the weather et cetera. We will take that on notice and give you more detailed information. You cannot condense it to a single number; it would be a range.

CHAIR: Is it possible to have the north-south and east-west runways operating concurrently?

Mr PLUMMER: Yes, that happens all the time during what are called noise-sharing periods. There are various modes of runway operation that utilise all three runways at the same time. That happens at various times.

The Hon. MICK VEITCH: In your submission you provide a benchmark analysis of regional airport charges between financial years 2002-03 and 2012-13. Can you give us a breakdown of the charges for each of the airports in the analysis?

Mr PLUMMER: We will take on notice giving you the data that sits behind the table. As I understand, the information was sourced from the websites of the council owners of the airports. Local councils have to publish their fees and charges every year.

The Hon. MICK VEITCH: A second Sydney airport has been topical throughout this inquiry. What is your view on whether regional flights should stay with Kingsford Smith or go to a second airport?

Ms FIELKE: We have maintained that there will continue to be access for regional flights. Our recently approved master plan contemplates the ongoing access arrangements as they are now.

The Hon. MICK VEITCH: What will be the impact on slots of a second Sydney airport? Is that known at this stage?

Ms FIELKE: No, that is still to be worked through. There is a formal process between ourselves and the Federal Government that will commence at some point. That is yet to formally commence, so we will not pre-empt processes at this point.

The Hon. MICK VEITCH: What could the 80-movements per hour cap be increased to, taking into account the current capacity of the airport?

Mr PLUMMER: I refer to my earlier answer that 85 per hour has been recommended by the Commonwealth and State governments, but this has not been acted upon by the Commonwealth as yet.

The Hon. PAUL GREEN: Is that for any particular reason?

Mr PLUMMER: The only comment was that recommendation was not supported. No reasons were given.

The Hon. MICK VEITCH: How sustainable would 85 per hour be?

Mr PLUMMER: The airfield can operate at movement rates of 85.

Ms FIELKE: Greater than 85, but it is not a directly assessable figure, depending on wind, configuration, air services management et cetera. But 85 has been proposed by governments in the report. That is the recommendation on the table.

The Hon. STEVE WHAN: When we asked Mr Krolke from Airport Coordination Australia, the slots guru, about fitting in more flights I believe he gave the strong impression that he did not think that was possible. I believe he said that in practice the maximum was 50 movements an hour because of the separation requirements between planes and so on. The Chair asked whether that was just departures, but I took it to be 50 movements. Mr Krolke said it would not be possible to fit in more than 80 movements an hour. In practice, are there 80 movements per hour at the moment?

Mr PLUMMER: Some times of the day we are getting close to 80. I think I know what Ernst was saying. Depending on the weather, you will not get anywhere near 80. For instance if there is a very strong westerly wind and we can only use our east-west runway, the movement rates are down in the mid-50s. You certainly could not get 80 all the time because of the weather. It depends on a range of facts, including the mix of aircraft types. As understand it—and this is anecdotal; I can check the source of it—in the Olympic period the airport was operating at 80 or above.

The Hon. STEVE WHAN: Consistently?

Mr PLUMMER: I would not say consistently, but it was certainly capable of operating then and infrastructure has improved significantly since then. For example, rapid exit taxiways that enable aircraft landing to exit the main runway faster. It gets them off the active runway faster so another plane can land or take off. That is the way we can increase the capacities of these various runway modes of operation.

The Hon. STEVE WHAN: That is infrastructure that you provide?

Mr PLUMMER: That we provide, yes.

The Hon. STEVE WHAN: Is there other infrastructure you can provide within your planning that can make that capacity higher?

Mr PLUMMER: Our master planning contains a range of taxiway improvements that will improve mode capacity, so that is true. Other things would be technology improvements from Airservices Australia for air traffic control. I know they have done that. That is obviously a fast-moving area for technology. Everything is heading in the right direction so far as improving capacity at the airport and that benefits all classes of aircraft.

Ms FIELKE: The other factor is the 80 movement cap and the stringent application of it. As you are aware, it is administered every 15 minutes.

The Hon. STEVE WHAN: It is not 80 on average per hour. It is broken up—

Ms FIELKE: Twenty per 15 minutes. That is stringently monitored so it does not exceed the 80.

The Hon. STEVE WHAN: The other interesting information that we heard about this morning was slots. Once a slot becomes vacant due to a regional airline ceasing to operate, after a period of time they are up for grabs. Obviously the bidders still have to be a regional airline, but in the bidding process it goes to the aircraft with the largest capacity first. Is that policy that the Sydney airport has influenced? Presumably that is something which produces a bigger return for the airport in the longer term.

Mr PLUMMER: Again, we may as well take that on notice. I apologise. The slot management scheme is incredibly complex, but it is a Commonwealth instrument. It is a legislative instrument established by the Commonwealth. So it is not our policy, it is the Commonwealth's policy.

The Hon. STEVE WHAN: As that has been developed, do you think that has been influenced by an interest of commercial return for the airport?

Mr PLUMMER: I would not have thought so, no.

The Hon. STEVE WHAN: It seems to me to be a policy that makes it very difficult to reintroduce a small route once that slot has gone. Would you agree with that?

Mr PLUMMER: Yes, I can see how you have reached that conclusion. As Sally said in her introductory remarks, overall the trend has been for all classes of aircraft, including regionals, to increase in size.

The Hon. STEVE WHAN: I was interested in your numbers. I think you are going to give us some information, but it seems to me that some of your statistics on regional airlines increasing in size quicker than others has a lot to do with the small routes disappearing and the popular routes, such as the North Coast, Mid North Coast, taking over some of those regional slots. Albury as well.

Mr PLUMMER: They are decisions of airlines, certainly not the airport. They are airline economic decisions.

The Hon. STEVE WHAN: On another area, you are doing work to move people in and out of the airport quicker. Do you have a view about what should happen with the rail access fees?

The Hon. MICK VEITCH: We have had this conversation before in a previous Committee, have we not, Ms Fielke?

Ms FIELKE: In a previous inquiry, yes.

Mr PLUMMER: As members would be aware, there was a previous parliamentary inquiry into that, which made some very good recommendations. As I understand, I notice from your website that the Government is due to respond by 28 August. We will see what the Government says. It is worth noting that rail use is continuing to increase by about 1 percentage point a year.

The Hon. STEVE WHAN: I am a regular user. It is getting more crowded.

Mr PLUMMER: Last October trains went up from eight to 10 per hour, so that is a 25 per cent increase. The Government has said in its Transport Master Plan it potentially, subject to a second harbour rail crossing, go to 20 per hour. It is all heading in the right direction in respect of getting more capacity on the rail network, so we are very happy with those Government decisions.

Ms FIELKE: In previous inquiries we have talked about the fact that there are 28,000 people who work at the airport, a number of whom utilise the train. We certainly encourage that mode of transport to the airport. Likewise, we were pleased with the announcement that the Government will be putting on additional bus services to the airport. From our perspective, this is about convenient modes of accessing the airport.

The Hon. MICK VEITCH: At that inquiry we also spoke about regional passengers and the ability to bring luggage with you on the train and how difficult that was at peak hour times when getting off in town.

Ms FIELKE: Exactly.

Mr PLUMMER: One of the Committee recommendations addressed that issue. That was very sensible.

The Hon. STEVE WHAN: You were asked earlier about Badgerys Creek airport. Sydney airport has first right of refusal. What model of future use are you envisaging for Badgerys Creek airport? Would it start off as freight and international?

Ms FIELKE: Government have now announced the site, which is Badgerys Creek. We have supported that it makes sense to reserve a site for use in the long term. It is now moving to the point where, with our first right of refusal, we will be engaging with Government in respect of what this airport will look like, et cetera. That formal process has not yet begun. Obviously it will be a government-led process. Until that process begins,

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it is probably not appropriate for us to speculate on that at the moment. I am well aware that Government has announced some advisers and are working on what they see this airport would look like.

The Hon. STEVE WHAN: Would it be fair to summarise Sydney airport's view as being: We want the site reserved but we do not particularly want to start yet?

Ms FIELKE: No, but, again, that formal process is yet to commence. Obviously there will be more discussions that can be had once Government has commenced the process.

The Hon. PAUL GREEN: In respect of access to the airport, a previous experience of mine was that I had parked at Blu Emu—I think it was for this inquiry.

The Hon. MICK VEITCH: You have to just get over some things, Paul. Okay, one more time.

Mr SCOT MacDONALD: Did you incur the overstay charge?

The Hon. PAUL GREEN: I am committed to passenger experience and customer service as is the New South Wales Government. In that experience, even though we were using a private plane, I got off the plane to catch the bus back to the Blu Emu car park. The bus driver virtually ran over me as he went past. When I got on, he said, "Mate, I am not meant to stop." Has Sydney airport got some infrastructure where buses can stop between the car park and the T2 terminal, because there are a lot of stakeholders in that area.

CHAIR: We are talking about Ross Smith Drive.

The Hon. PAUL GREEN: Yes, across from the McDonald's area. Is there a formal bus stop for people to get on and off that service?

Mr PLUMMER: My answer is apparently not. We can take that up with our ground transport general manager.

The Hon. PAUL GREEN: Thank you. That would be lovely.

CHAIR: The operation of that bus comes under the airport's control does it?

Ms FIELKE: Yes.

The Hon. PAUL GREEN: It is not a safe place. **Mr**

PLUMMER: I take your point. It makes sense. **The**

Hon. PAUL GREEN: Both sides of the road.

Mr PLUMMER: Yes, because we service general aviation, which would include the charter flights.

The Hon. PAUL GREEN: That is what I thought. You collect fees from them, I am sure. We were using their service, but it would have been nice if the transition between the private companies was working well.

Ms FIELKE: We will verify that for you.

The Hon. PAUL GREEN: The Hon. Steve Whan's accessibility was through a train, mine was through a bus. In respect of local government, New South Wales is concerned that Sydney Airport Corporation has attempted to restrict access by regional airlines to key departure gates, lounges and maintenance facilities. Have any of these concerns been raised with you and do you have any views on these assertions?

Mr PLUMMER: I think we might have to take that on notice.

The Hon. PAUL GREEN: In your submission on page 10 you note that the regional passenger numbers have increased over 221 per cent over the past 20 years. Given the loss of regional services on several routes over the same period, what do you think has attributed to the increase?

Mr PLUMMER: I think, as Sally says, it is probably updating the aircraft size—the same number of flights carrying more people, and that, I might add, is not just unique to regional aircraft; that is unique to domestic and international aircraft types as well. There is a trend around the world of larger aircraft.

Ms FIELKE: Our broader statistics in relation to that are that in the past 10 years passenger numbers have increased by 50 per cent, yet the number of actual flights have only increased by less than 10 per cent, and that is because aircraft are getting larger overall.

The Hon. PAUL GREEN: So with the increase to the Q400s—the 70-seaters—you are thinking we will see that increase further?

Mr PLUMMER: That is, again, a matter for airline economics.

The Hon. PAUL GREEN: Your expectation would be that it would increase?

Mr PLUMMER: That is the historical trend.

Ms FIELKE: That is the trend that we have seen.

CHAIR: One of the other interesting statistics would be to look at where those passengers are going to and from. Obviously, the ports that are flying the bigger aircraft are where it has happened, whereas the passengers coming to and from the smaller ports have dropped off substantially.

The Hon. CATHERINE CUSACK: Ballina and Coffs Harbour have those planes.

Mr PLUMMER: And some airports have an investing in regional airports to accommodate the larger aircraft.

The Hon. CATHERINE CUSACK: Does Canberra fall into the definition of regional?

Mr PLUMMER: I am sure it does not, but I will confirm that for you. It would be domestic flights, I am sure.

The Hon. CATHERINE CUSACK: In terms of counting intrastate flights, Canberra is?

Mr PLUMMER: I am sure we class those as domestic.

The Hon. CATHERINE CUSACK: I am acutely aware of the increase, particularly since Jetstar operated to Coffs Harbour and Ballina, and our figures have just gone through the roof. Is there any way that those coastal destinations could be filtered out of the figures?

Ms FIELKE: Out of the classification of regional, is that what you mean?

The Hon. CATHERINE CUSACK: Is there any way you can look at the regional passenger numbers for changing that over time? Ideally, if Canberra is there excluding Canberra, but Ballina and Coffs Harbour definitely coming out?

Mr PLUMMER: We could certainly try.

The Hon. CATHERINE CUSACK: I do not mean to sound too parochial but these flights are Sydney people coming up for a holiday to Byron and places like that. The 6,000 a day does not mean more people from rural New South Wales will be using them; it could well be that they have been displaced by tourists on those flights from Sydney—which is good for those communities, but as an indicator of the access that country people have to Sydney airport, we cannot really tell unless we filter those numbers out.

Ms FIELKE: Are you excluding tourism from your observations?

The Hon. CATHERINE CUSACK: That growth in coastal tourism. I know you just cannot take out tourism but the simplest thing to do would be to take out the two main tourist airports that are operating those primarily tourist discount flights.

Mr PLUMMER: I am sure that could be done but you would have to assume it is a Boeing 737 and how many of those passengers are leisure passengers and how many would be, say, the doctor from Port Macquarie.

The Hon. CATHERINE CUSACK: Which is why I would not suggest that we do that. That is why I said it is easier just to take those airports out altogether, because the people using the other airports in rural New South Wales would primarily come from people travelling for health and business and that sort of stuff. So for the community to get a better feel for what the trend has been in those numbers, it would be great to exclude those three airports.

Mr PLUMMER: I would be pretty sure that the councils for New South Wales publish those statistics anyway for all airports.

The Hon. STEVE WHAN: Their statistics show that regional air traffic has been, numbers-wise, pretty stable but dropping in some of those centres and going up in the others.

The Hon. CATHERINE CUSACK: Every plane that lands at Sydney needs a slot, is that correct—whether it is a freight plane or a passenger plane?

Mr PLUMMER: Yes, except things like air ambulance.

The Hon. CATHERINE CUSACK: I am just wondering if that is the explanation for the number of differences.

Ms FIELKE: That could be a matter more for Ernst from Airport Coordination.

The Hon. CATHERINE CUSACK: What if President Obama wanted to land at Sydney Airport during peak hour?

Mr PLUMMER: That would be State aircraft flights, and they are exempt as well.

The Hon. CATHERINE CUSACK: They do not need a slot?

Ms FIELKE: No. We have just recently hosted John Kerry, the Defence Secretary.

The Hon. CATHERINE CUSACK: What are the times for peak hour?

Ms FIELKE: Roughly 7 to 9. The international peak is between 5.00 a.m. to 6.00 a.m. and the domestic is about 6 to 9. However, if I can take that on notice and confirm whether that applies to the runway peak hour? That is the airport peak hour in terms of traffic and passengers coming to and from the airport. We certainly see a noticeable peak from 5.00 a.m. to 6.00 a.m. into the international terminal and then across to domestic.

The Hon. CATHERINE CUSACK: I am interested in the definition of peak hour for the purposes of slots.

CHAIR: The runway peak hour.

Ms FIELKE: Can we take that on notice and come back to you?

The Hon. CATHERINE CUSACK: Yes, absolutely. You mentioned in your submission that there were six regional movements during peak hour. That is why I was interested to know what is peak hour for both ends of the day. Just remind me what the curfew is at Sydney Airport?

Ms FIELKE: It is 11.00 p.m. until 6.00 a.m.

The Hon. CATHERINE CUSACK: Do prop planes fly outside of those hours?

Mr PLUMMER: During that time?

CHAIR: Passenger ones particularly.

Mr PLUMMER: The Sydney Airport Curfew Act has the detail. The curfew is more complex than many would think. Overnight air freight operate at that time—about a dozen flights a night. In the Act there are explicitly identified aircraft types that can fly. Some international arrivals are permitted between 5.00 a.m. and 6.00 a.m. There are typically three every morning during the northern hemisphere summers, and any aircraft under 34,000 kilograms maximum take-off weight can operate during the curfew. That is the source of the part in our submission where we say some aircraft, potentially from regional airlines, could operate at that time, should it be economically viable.

CHAIR: Those aircraft less than 34,000 kilograms, that would include private jets, small jets, that sort of thing, that are allowed to operate?

Mr PLUMMER: Correct.

Ms FIELKE: And, obviously, certain regional aircraft as well.

CHAIR: Certainly the Q300s would be over that weight, would they not?

Mr PLUMMER: There are quite a few regional aircraft that are below 34,000 kilograms.

The Hon. CATHERINE CUSACK: But my question is do any operate?

Mr PLUMMER: No. My understanding is that there are no passenger services apart from those 5.00 a.m. to 6.00 a.m. ones that operate at that time, and obviously that comes down to the economics of an airline flying at those times.

The Hon. CATHERINE CUSACK: If an airline proposed to operate a service at 5.45 in the morning, say, to Dubbo, would they need to get a slot?

Ms FIELKE: Yes. Whilst the curfew is from 11.00 p.m. through to 6.00 a.m., there is a shoulder period, which is 5.00 a.m. to 6.00 a.m. and that is governed by the Curfew Act, and some regulations sit below that. So yes I understand they would have to get an approval of some kind.

Mr PLUMMER: They probably would, but that, again, is more a question for the Commonwealth and Ernst.

Ms FIELKE: I think at the moment it sits at 24 movements per week. It is perhaps a question better directed to—

The Hon. CATHERINE CUSACK: What are the 24 movements per week?

Ms FIELKE: That are allowed, between 5.00 a.m. to 6.00 a.m.

The Hon. CATHERINE CUSACK: For propeller planes, for which the curfew does not apply, is there any constraint in, say, at 5.45 in the morning a plane taking off?

Mr PLUMMER: My understanding is no, but should an airline wish to fly at that time the Commonwealth may well look at whether there should be some kind of slot scheme for that time of day.

The Hon. CATHERINE CUSACK: Because there is not a slot scheme at the moment?

Mr PLUMMER: Because there are no services, so it becomes a moot point. But if there were to be services I think the Commonwealth would probably want to look at that issue.

The Hon. CATHERINE CUSACK: Could the Commonwealth initiate a slot for that period—say, three slots for regional flights?

CHAIR: They probably would not look at it until there was a demand for it.

Mr PLUMMER: I guess they could. They would have to amend their slot management scheme.

The Hon. CATHERINE CUSACK: What else would they have to do?

Mr PLUMMER: That is the regulation that allows aircraft to operate according to various slots. That is the regulatory instrument that would have to have changed to allow that to occur. But the curfew Act would not be a limitation on the services operating at that time, as long as the aircraft was 34,000 kilograms or less.

The Hon. CATHERINE CUSACK: If the Federal Government wanted to it could say, "We are going to make three slots available between 5.30 and 5.45 in the morning for regional New South Wales flights and aircraft have to comply with those restrictions".

Mr PLUMMER: The Commonwealth is the regulator. It is up to the regulator, not the airport.

Mr SCOT MacDONALD: I am trying to understand how the Sydney Airport Master Plan works. You are a private company owned by Macquarie Bank?

Ms FIELKE: No, that is incorrect. We are a publicly listed company owned by more than 100,000 private shareholders, . Macquarie Bank does not have any involvement in Sydney airport.

Mr SCOT MacDONALD: In your submission you say that the landing charges for regional carriers are 29 per cent—they have actually decreased in real terms. You also talk about the smaller aircraft having to be pushed back a distance. You have got all those sorts of impacts. There must be a fairly large opportunity cost to not maximising the larger aircraft, if you like. How does your board, whoever owns it, justify that? How does your board say, "We are forgoing a significant income by not having more A380s" and that sort of thing?

Ms FIELKE: As I said earlier, we currently only utilise 65 per cent of our capacity so there is still a reasonable amount of room for growth. What our master plan seeks to achieve is to even further optimise this across the existing footprint that we have got. So there is no real plan to deviate from that at the moment. The regional access that is there is locked in and there is no intention that it be changed.

Mr SCOT MacDONALD: It is mandated. Are you saying there is no push internally or to your board to push out the less fruitful parts of the business, which would be the smaller aircrafts in those peak hour flights?

Ms FIELKE: No. What we have seen evolve as part of Sydney airport's exciting story is the influx of a lot more of the international low-cost carriers, which are more of a leisure market, demanding more of the middle of the day slots that are not anywhere near utilised to the capacity they could be. We are looking forward to welcoming Cebu Pacific. That Philippines low-cost carrier will be entering the market at Sydney airport. We are really concentrating a lot of our efforts around that broader international low-cost carrier market.

Mr SCOT MacDONALD: In your mind that is not competing with Regional Express Airlines flying in with 30 people at 8.00 o'clock in the morning?

Ms FIELKE: As I said, we have still got a fair amount of capacity to spread across the day. So these airlines are looking to take slots at 11.00 a.m. or—

Mr SCOT MacDONALD: The middle part of the day. I am not saying it is a bad thing, but I am curious as to why you have been content to have those lower charges for the regional carriers: 29 per cent? I find that odd.

Mr PLUMMER: It is not being a matter of content; they are price regulated. It is what it is. That is where they have been set and they have not been changed for ten-plus years.

Mr SCOT MacDONALD: So all the others go up but the regionals have gone backwards in real terms at 29 per cent?

Mr PLUMMER: That is a statement of fact, yes. Don't look a gift horse in the mouth.

Mr SCOT MacDONALD: Sooner or later it catches up with you. I am worried that it might catch-up.

Mr PLUMMER: It is what it is. It is not within our power to change it.

The Hon. CATHERINE CUSACK: Have you done any research on the revenue per passenger—namely, comparing the regional passenger with other passengers? Do you break that down?

Ms FIELKE: We certainly do in relation to nationality. I might have to take that on notice and see if we break it down to international, domestic and regional as well.

The Hon. CATHERINE CUSACK: Do you research as to why passengers are at the airport? Do you do that kind of profiling?

Ms FIELKE: Around nationality certainly, but I will take the balance of the question on notice.

Mr PLUMMER: For instance, we can tell the value of a passenger from China in terms of their spend. That information is published through tourism futures. You can estimate. For instance, a new A380 service from China coming to Australia daily would add \$388 million to the State economy every year.

The Hon. CATHERINE CUSACK: I am wondering about per passenger billing at Sydney airport? Do you understand what I mean?

Mr PLUMMER: I am pretty sure that information would be part of attachment B to our submission where we have per passenger fees and charges. For instance, it is \$15.30 per regional passenger fees and charges. We will take that on notice but it may be as simple as just multiplying that by the number of regional passengers.

The Hon. CATHERINE CUSACK: Do you have any information on why the regional passengers are coming to Sydney? For example, whether they are coming to connect to another flight?

Mr PLUMMER: A lot are. We can get you that number. Regional passengers are very valuable. I do not mean that in a financial sense but in an airport operating sense. It facilitates our international and domestic airport connectivity. The regional network is important because it meshes with the domestic and international airport.

Ms FIELKE: We do have the figures on how many regional passengers transfer through to international flights.

The Hon. CATHERINE CUSACK: That would be really interesting.

CHAIR: Thank you both for appearing before the Committee today and for your submission. You have taken some questions on notice. The secretariat will be in touch with you over the next couple of days to confirm those issues. It would be appreciated if you could get your answers back to the Committee within 21 days of the secretariat contacting you.

(The witnesses withdrew)

(Luncheon adjournment)

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STEPHEN PROWSE, Chair, NSW Division, Australian Airports Association, on former oath, and

CAROLINE WILKIE, Chief Executive Officer, Australian Airports Association, sworn and examined:

CHAIR: I welcome Ms Wilkie and Mr Prowse to the hearing. Would either or both of you like to make a brief opening statement before we get underway?

Ms WILKIE: Yes. Thank you for the opportunity to speak to you today. Regional aviation is a critical economic driver in New South Wales and the work of this Committee is incredibly important. The AAA is encouraged that the New South Wales Government has recognised the importance of regional aviation in New South Wales by forming this inquiry. The Australian Airports Association [AAA] represents more than 260 airports around Australia, including about 44 airports here in New South Wales. We also represent 25 of the 26 regional passenger transport airports in New South Wales. We have State divisions around Australia so I am familiar with aviation issues nationally. With me today is Stephen Prowse, our New South Wales division chair, who is also the airport manager at Wagga Wagga Airport.

There are four main recommendations we would like to see this inquiry make: first, that a New South Wales aviation strategy be developed by government and that this strategy includes a State-based economic analysis of the economic benefits of the aviation area in New South Wales, and that there be a State-based airport infrastructure audit; secondly, that the process for the appointment of airlines to regulated routes be improved to ensure that only financially viable airlines are appointed, and that they have strict requirements to maintain the services; thirdly, that key regulated remote and regional routes be identified through a New South Wales Government subsidy, similar to what we see in Queensland; and, fourthly, that a State-based aviation fund be established to assist regional airports with infrastructure upgrades, as we see the similar type of funds created in Western Australia, Victoria and Queensland.

The AAA is involved at a Commonwealth level in advocacy on all issues relating to aviation, but of particular relevance to this inquiry is our representation on the Office of Transport Security Regional Industry Consultative Forum and on the CASA Consultative Forum. We have also been involved with the development of the Western Australia and Queensland aviation strategies. In terms of our involvement within the organisation we have a regional security working group upon which all regional airports in Australia are members who have security requirements. We also have a New South Wales small regional aerodrome working group and a national standards working group which deals with all CASA standards with regards to aerodromes. The opening observation I would like to make as a starting point is that regional airports in New South Wales do not have monopoly power.

Most New South Wales routes see the local airline as the sole provider of services in most cases and, particularly with regulated routes, as having conferred monopolies. So we refute observations by Rex and the RAAA that some airports are charging excessive fees. Work completed by the AAA in 2012 found that as many as 50 per cent of Australia's regional airports are running at a loss each year. Typically, regional airports hold their aeronautical charges artificially low to ensure the broader economic benefit from having that airport operational. Most aeronautical charges at airports in New South Wales are not reflective of the long run incremental costs of the airport, which are largely subsidised by local ratepayers. Today we have put in a supplementary submission. I apologise that it got to you so late.

CHAIR: Thank you.

Ms WILKIE: That submission was based on a survey that we did. We had been reading the transcripts throughout the hosting of the inquiry and noted that there are a number of common issues that came up, and we thought there was merit in going back to our members on those issues.

CHAIR: That is very much appreciated.

Ms WILKIE: Additional information outlines the results of the survey but it mainly sought information about RPT services, fees and charges, their general financial position and ability to fund airport works and maintenance. In relation to fees and charges, results from the survey indicated that for small regional aerodromes passenger charges generally provided little more than one-third of an airport's revenue, with landing charges tending to account for less than one-quarter of revenue in most cases. The result demonstrated that for the majority of those airports the passenger charge is simply based on a historical figure but is adjusted annually

in accordance with CPI. For many regional airports, these historical figures were originally determined by councils or when they inherited the airports from the Federal Government, presumably on a primarily cost-recovery basis but bearing in mind that most of those were handed over in the early 1990s.

What those airports have done in the subsequent years is for the most part just try to increase it by CPI and even those attempts to increase by CPI sometimes receive a push back from regional operators. In negotiating fee increases with airlines, many New South Wales aerodrome operators feel that airlines are unfairly exercising their market power during these negotiations. Multiple airport operators provided examples of airlines threatening to withdraw or reduce services due to proposed increases in fees, not to mention the ethically questionable use of media and political influence to attempt to limit service fees. We also have examples here in New South Wales and also nationally of situations where airports and councils have levied fees on regional carriers, for example, a CPI increase. The airline operating to that airport continues to pay the original fee but for a number of years has not paid the CPI increase and just simply refuses to pay the increase. Because of the nature of the organisation, there is usually one airline servicing an airport so obviously the council needs to continue to maintain to have that airline service so there are quite a bit of arrears in a number of cases of airports around Australia.

The AAA would like to bring to the Committee's attention the fact that of the New South Wales airports surveyed more than 60 per cent indicated they would not generate a surplus this year. Of those airports that would not generate a surplus, the level of loss that would be recorded for this year ranged from \$90,000 through to \$405,000, with the average loss being approximately \$180,000. The majority of airport operators also indicated that they did not have access to an airport reserve fund to utilise for capital works and non-ongoing infrastructure maintenance, with those that did have a reserve fund indicating that it would not be sufficient to cover the costs of these upcoming works.

One aerodrome operator provided an example that over the next 10 years routine maintenance costs on the pavements alone at the aerodrome would come to approximately \$8,920,000, with the current funds available in reserve totalling \$400,000. With the funding required for upcoming capital works or non-routine maintenance far outweighing any reserve funding in place in most regional airports, the result is that councils then need to subsidise the funding for this airport work through increased rates or reductions in other council programs. This is a less than ideal outcome for the local community and not a viable ongoing business model for the airport.

CHAIR: Are you prepared to table that document?

Ms WILKIE: Yes.

Document tabled.

CHAIR: I appreciate the fact that you represent many airport owners that do not have regular passenger services, but one issue that has been raised with the Committee is a concern that if airports are downgraded it will have an impact on general aviation, on emergency services, et cetera. Has that issue been raised with you? If so, what actions do you propose will help overcome that problem?

Ms WILKIE: We have had examples of at least two airports in New South Wales in the past 12 to 18 months who have said that they are considering downgrading. There are probably another two that were also looking at it as well. One airport said to me that they would not pay the membership fee and they could not maintain the airport so they were going to put grass and cattle on it, which is a terrible state of affairs. With those particular airports, I think realistically the only option they would have had is if they were able to get some kind of government grant either in New South Wales or Commonwealth funding.

Unfortunately due to the nature of a lot of these funding arrangements that might be available—and there are very few, I might add—their requirements are very strict. Those airports that I have been talking to would not qualify because they do not have RPT. These communities that I am thinking of did not necessarily have another airport in close proximity so it was going to have longer-term implications for the economic viability of those communities.

CHAIR: What are your views on that regional approach? When you say the airport you were talking about was a long way from another airport, is there justification for having some sort of regional fund that goes

towards airport maintenance, particularly for those centres that do not have RPTs, because of the importance of those airfields as emergency landing grounds and so on?

Ms WILKIE: I think there is definitely merit for it and we have seen the success of it in Queensland, Victoria and Western Australia. The Western Australian Regional Airport Development Scheme [RADS] program is probably the most comprehensive. RADS was based on royalties for regions so obviously I appreciate Western Australia had a little more money. Its funding was based on a 50:50 split. It did not necessarily need to be for something large. I remember there was one example of an aerodrome that needed to get a new wind sock. Wind socks are quite expensive, and the funding went half in from them and half in from the council. It certainly has merit.

Victoria has been interesting. It did a lot of strategic planning so in order to get the grants the regional aerodromes had to plan and we have seen the success of that. For example, La Trobe in Victoria did a great business plan. They got partnered money with the Victorian Government and it has been able to grow a local aircraft manufacturer base at their aerodrome as a result of that which has led to significant broader economic benefits to the local community.

The Hon. MICK VEITCH: Were they competitive bids?

Ms WILKIE: Yes. Each State needs to submit grants, as would be normal. In Western Australia there was a division depending on the geographic region. In Victoria it was just the whole State. Then depending on the State they have criteria based on the size of airport. For Victoria, for example, the vast bulk of the money went to non-RPT aerodromes. In Western Australia there also seemed to be a tendency towards favouring either those aerodromes with non-RPT or those aerodromes with low numbers. So it was more likely to be regulated in Western Australia. For example, some projects were seen as such significant economic benefit to a wider community in remote areas of Western Australia that even though they might have jet services because of a mining growth, they would also still get funding even though they were RPT.

Mr SCOT MacDONALD: Obviously once those airports were handed back from the Commonwealth to local government there were successes and failures. With the benefit of your experience across the country—I am more particularly thinking of the smaller end of the range—are there other models of ownership that we could be thinking about? I am aware that in New South Wales there is an airport or two that is not owned by the council but by some other operator.

Ms WILKIE: From what I am aware of, in New South Wales I think there were Moruya and Cessnock.

The Hon. STEVE WHAN: Cooma.

Ms WILKIE: Cooma, sorry, and Goulburn, which has recently been privatised. In most of those circumstances the question is either the council retains ownership of the airport and just leases it or has totally privatised it. In those circumstances I have heard mixed results and obviously it is quite early stages. If you look broader nationally, off the top of my head we had some good examples in Queensland where the Queensland Airports Group, who own Gold Coast Airport, have taken over either ownership or running of airports like Mount Isa and Longreach and they are being seen as quite successful. Particularly for somewhere as remote as Mount Isa, they needed to have a completely new terminal, new security arrangements and I am pretty sure they also did an overlay of their pavement so it made sense for there to be an ongoing lease arrangement with Queensland Airports Group.

Off the top of my head I cannot think of any in Western Australia. There might be consultants that come in who run the airports but ownership is retained. When the airports were handed over under the Aerodrome Local Ownership Plans [ALOP] there were very specific requirements about how that airfield was maintained, the standard at which it was maintained and who would get access to it. In a lot of circumstances, that restricts handing them over.

Mr SCOT MacDONALD: I am also asking from the point of view of the skills behind it. We saw some very good airports like Wagga, Dubbo and Tamworth but then in some other places the airport is managed by the director of engineering. In the morning he might be looking at the waste transfer system, at lunchtime he goes up to the airport and in the afternoon he is looking at the abattoir. Can you make any comment on the skills

that are going into the management and how we might be able to do it better? Armidale Airport comes to mind. It is run by the director of engineering rather than someone who is dedicated to that role.

Mr PROWSE: It is an interesting question. I guess each airport needs to be looked at in isolation because what works at some of the smaller aerodromes that you have mentioned may not fit with others. To me it always comes back to: the skills are either there or they can be developed. The regulatory regime is in place and from a safety point of view the Civil Aviation Safety Authority [CASA] will audit or do a review of those aerodromes.

As I say, to me it comes back to a question of economics. For those smaller, more marginal aerodromes, particularly those that do not have regular passenger transport [RPT] services and possibly not even a great deal of business activity, whoever is operating it—whether it is the local council, a privatised company or even in fact the local aero club as an example—the revenue to fund the operations has to come from somewhere. So for councils that have smaller low-activity airports, having someone like an engineer or a manager that manages a number of facilities in charge of that operation is more about economics than skills. If they were to have a dedicated manager and perhaps one or two dedicated airport reporting officers then the cost base at the airport increases significantly.

Mr SCOT MacDONALD: I appreciate what you say, but does a director of engineering in the mid-level have access to people who have the skills to advise him or her on how to run an airport or are they flying blind, so to speak?

Mr PROWSE: I am not aware of any that are flying blind as you say. There is a very strict regulatory regime in place. If an airport did not have anyone with a skill set commensurate with the operations there the regulator would be making some fairly significant inquiries about that and taking steps to ensure that those things were addressed. Can they get access to those skills? Yes. For an airport that has the capacity to do it there is certainly any number of consultants out there that can provide some of that expertise. What it is about is establishing systems and manuals and operational standards.

Mr SCOT MacDONALD: And a vision for the future in terms of five, 10, 15 or 20 year plans and that sort of thing?

Mr PROWSE: Most certainly. That sort of expertise is available.

Ms WILKIE: The association also plays a role in this part. We have within the New South Wales division two meetings a year where all of the members are invited for free to come to either Sydney or a regional location. We meet and we have two days of presentations, networking with colleagues and technical workshops. We run a national conference with two days of national technical workshops. We also partner with a number of providers through the year to run these sorts of workshops as well.

As an association we are moving into the education space. We are looking at what online education we can provide. We also partnered with the Transport Logistics Industry Skills Council and the Commonwealth Government through the National Workforce Development Fund to do subsidised airport reporting officer training around Australia. We got to do some of that here in New South Wales. Then we also have a weekly e-newsletter that goes out to all of our membership around Australia. If members have a question they can post it on our—

Mr SCOT MacDONALD: So you are the go-to people?

Ms WILKIE: Yes, we are the go-to. We also have a website that has a lot of the forms and things that they might need. We try to look after everyone. Most of our small regional aerodromes pay less than what they get, if that makes sense. We see that we are contributing to the greater good by making sure that all of the aerodromes are safe. It is a key area of the association's work.

Mr SCOT MacDONALD: I have raised in the past the problem of Brindabella leaving a million dollars lying unpaid around the place. Do you have any thoughts about whether you would support a fund via 10¢ or 20¢ on the ticket price to build up a fund for the next failure? You can come back to us on that if you like. Can I leave that with you?

Ms WILKIE: If we could take that on notice. But I would say about the issue of the million dollars that there were bills that were unpaid for a number of months by Brindabella. What we would actually like to see is that when a regulated route is offered the financial viability test be quite strong for them to get it in the first place. Also, when that happened why was the Government not knocking on doors and saying, "What's going on?" That was a lot of money.

Mr SCOT MacDONALD: Some of those questions were put to the witness this morning.

Ms WILKIE: That is what I mean when I talk about maintaining the viability of the service. We need to ensure that does not happen again.

The Hon. CATHERINE CUSACK: I noted with interest your comments about the market power that the airline has over the airport. Do you have any suggestions as to a better model of governance that would make the relationship more equal?

Ms WILKIE: That is a challenging question. I think for the most part we would say that market forces should just be left to do what they will do. I think we are a bit hesitant about necessarily extra levels of regulation or involvement in the process, but I think that is probably one that we best take on notice and come back to you on in particular.

The Hon. CATHERINE CUSACK: If you could provide details of those examples you referred to where the consumer price index [CPI] was applied, I presume in a contract, and not paid.

Ms WILKIE: We might need to do that confidentially. I am just nervous about—

The Hon. CATHERINE CUSACK: Sure.

Ms WILKIE: We certainly can take that on notice.

The Hon. MICK VEITCH: First of all, thank you for your supplementary submission. It is very good and it provides a lot of information about many of our lines of questioning. With regard to the non-payment of the CPI, we have heard a fair bit of testimony from councils and airport operators around the State that would almost imply a bullying approach by the airlines about the payment or non-payment of the fees. I am just wondering whether non-payment of the CPI would be more likely to occur for a smaller airport operator than it would for a Wagga or a Coffs Harbour. Are they picking and choosing where they do and do not pay the bills?

Ms WILKIE: Yes, but based on national experience I would say it is not necessarily based on the size of airport.

The Hon. STEVE WHAN: Is it based on the operator?

Ms WILKIE: I would not say that either. I would say this is an issue that is common across and it does not matter what size or what operator. There are individual specific commercial issues at every aerodrome and I appreciate that. I am sure you have seen quite a variety of the media coverage that often comes up with the attacks. It is a sort of modus operandi that if the airline does not like what the council has put up as a charge or the airport, the airport operator might go and say, "Right, airline that services my airport. Here are the fees that we are scheduling to give you" as a council needs to, to say these are the fees, as they do with an abattoir or whatever it is that is just par for the course.

A lot of the time the airline does not even go to the general at the council; it takes it straight to the mayor, it takes it straight to the councillors and no-one is going to want to be the mayor or the councillor who sees an airline that pulls a service out of their town. So it does become very political and it makes it very difficult for our airport operators to legitimately say, "Look, I get what you are saying but I have got \$10 million worth of work I have got to do at this airport in the next 10 years. How am I going to pay for that?" And that is what it ultimately keeps coming down to and that work then just gets delayed and delayed and delayed because the council cannot afford it. If you do not put in the maintenance that you need to at the right time, at the end of the day it just ends up significantly increasing the costs when you finally get to it.

The Hon. MICK VEITCH: One of the State RPT providers in their submission suggested that we look at bringing in a body like the Independent Pricing and Regulatory Tribunal [IPART], or an ombudsman or

some sort of arbiter process for the setting of the landing fees. The view was that the fees were too high for them. Do you have any views on that? Do you think a body like that would have a role?

Ms WILKIE: It would depend on what that body would look like and what you propose to do. I certainly would not want to see a situation where anyone was doing an IPART-type "This is the fee that all the airports of this size should charge in New South Wales". However, I can see when the situation deteriorates between two parties in a commercial arrangement, sometimes having a third party might be nice but I would probably recommend that we take it on notice and provide a more fulsome response.

The Hon. MICK VEITCH: That would be good; we would really appreciate that. It appears to me—and this is a personal opinion and is not reflective of anything else—that over the last few months as we travelled around the State, that what one of the RPT providers said to us about the landing fees is not replicated and I do not think an IPART process would actually be in their favour. From what I can see, they might actually find themselves on the other end of the stick.

Mr PROWSE: Exactly, I was just going to make a very similar comment. The benefit of some sort of regulatory body being in place would purely be dependent on the underlying principles and models that were applied to that. I think you would find that if a standardised approach was taken of, let us say, cost recovery the airlines operating out of regional airports might find themselves having to pay a whole lot more than they currently are and that is really replicated in the data that is being provided and the statistics in the submissions from the Australian Airports Association when you look at 50 per cent of regional airports operating at a loss and that average of 180,000 of those surveyed.

So the operating costs are being funded from somewhere. That shortfall is coming from either rate funds or other council funds. I think putting in place a regulatory body would add another level of complexity and cost. As I have mentioned at a previous hearing in Wagga Wagga a standardised model, perhaps one for larger regional aerodromes with RPT services, is a worthwhile consideration for the Committee to give some thought to having a mechanism with an underlying principle of perhaps cost recovery plus a commercial mark up, for example, whether it is a building blocks model or some other regulated model. That would provide some certainty in charging. It would also provide an opportunity for airports to demonstrate quite clearly to the airlines operating from them exactly what the shortfall is in their operational revenues.

Ms WILKIE: I also make the point on the fees that as part of the Australian Airports Association's activities we have a contract with the Department of Defence, which means that we charge Defence any time Defence aircraft land at a civilian aerodrome and as part of that we did negotiations around maximum take-off weight [MOTW] and the rate that we would actually charge Defence to land at our airport. As part of those negotiations with Defence I actually did top level analysis of all the MOTW rates around Australia and looking at passenger fees. I just want to say that New South Wales is not charging any differently than anywhere else nationally and their rates are significantly lower than what we charge Defence. The MOTW with Defence is \$16.50. I think you will find that nearly all New South Wales airports are less than that so by no means is New South Wales any different to any other State.

The other thing I want to raise is that I appreciate that airlines are businesses and they need to make a profit but from my understanding last financial year both of the major airlines in New South Wales did make a profit and that is not the same for aerodromes. Whilst I appreciate that some of the airlines' view is that airports should be paid for by council as a community service and that subsequently airlines should pay little money to come and service them, there is nothing to suggest that decreasing aerodrome fees would have any difference in the number of frequencies that we will be servicing airports in New South Wales.

The Hon. STEVE WHAN: The point you made there was something I was going to ask about. In the submission you gave us today you talk essentially about the capital shortfall that most of our regional airports have and you also outlined, as a lot of people have, the importance of maintaining these airstrips for a range of reasons, not just for passenger services but for medical services and so on. Why should regional airports be considered to be something that is self-funded? Why wouldn't they be like roads and other infrastructure that council funds more generally through rates and do you have any ideas on how council might raise money for smaller airports?

Mr PROWSE: I think all regional airports look to develop and maximise revenue streams across the board—it is in their best interests to do so. By adopting a user-pays model, whether it is for car parking, for example, or other ancillary services, that reduces the need for airports to increase their passenger charges, which

is never a simple process. As to why airports should be seen to fund their own operations and not be looked at like a swimming pool, a park or some other community facility, there are a number of points that I could make on that, but underpinning it is the fact that all councils are not necessarily flush with cash.

The Hon. STEVE WHAN: That goes without saying in the country.

Mr PROWSE: Exactly right. I will Wagga Wagga council as an example. Let us say that we were not charging for any use at all at the airport. Suddenly the council would have to find \$3 million in its annual operating budget to fund the operations of that airport; and that is without making any provision whatsoever for future capital replacement or significant maintenance. To give you an example of Wagga Wagga's financial situation or position last year, we effectively had to find almost \$600,000 in principal repayments on borrowings for capital replacement after paying almost \$600,000 in interest. We have an annual dividend to council. That dividend has not been paid for the last three years. Making those provisions has meant we have been in a break-even position effectively, but without that the airport would have been in a dire financial position, so that is significant enough in itself, but looking at an airport, which is a viable means of generating revenue; they are economic drivers, there is no doubt about that and the model can work. It is a matter of finding the balance between supply and demand and where prices can be set that they do remain viable for the operators.

The Hon. STEVE WHAN: Some of them are economically viable, but I would have thought there are a number of areas where they could be considered to be essentially a community service?

Mr PROWSE: There are no doubt elements of that across all airports.

The Hon. STEVE WHAN: When the Federal Government handed these airports over they did not provide adequately for the long-term needs of these airports. Should we be going back to the Federal Government and saying, "You have handed over responsibility but without long-term consideration of the social need to keep them in good order"?

Mr PROWSE: Particularly when you put regular passenger transport [RPT] aside and look at the other critical services those airports provide such as all the health related flights that occur, education and firefighting—all of those critical services are provided from an airport and are a national responsibility. I think most definitely there is a case for the Federal Government to reassess those airports that were handed over and to consider providing a fund to support them.

The Hon. MICK VEITCH: Places like Tumut are looking to down grade.

Mr PROWSE: Absolutely.

The Hon. STEVE WHAN: Your Deloitte's report on the contribution of Australia's airports—I have not looked at it in detail—I might argue about the inclusion of the business park at Canberra airport as an economic contribution. Does it separate out the smaller regional airports' contribution to local economies?

Ms WILKIE: No, not in great detail unfortunately. That was a watershed piece of work that we did for our industry and we mainly focused on a national level. Hence why we were asking for any State aviation review to do a different analysis of the whole State. I do know that some specific airports have done their own but that depends predominantly on the location and size.

The Hon. CATHERINE CUSACK: I have been looking at the profits of the airlines.

The Hon. MICK VEITCH: They are doing is tough, are they?

The Hon. CATHERINE CUSACK: Yes, they are quite positive. In relation to the sources of revenue in the airport, such as charging for car parking and hire cars, do you have any of those sorts of details?

Ms WILKIE: We do not have them to hand. If you were specific about what you needed we could ask our membership and get something.

The Hon. CATHERINE CUSACK: What I am interested in is the non-airline component of airport revenues. I think even what they are being asked to pay is not a full contribution. If the airports were able to

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break even it still would not require the airlines to contribute to the full cost of the airport because there are other revenue sources in play.

Ms WILKIE: Correct.

The Hon. CATHERINE CUSACK: From the research and surveys that you have done do you have an estimate, from the New South Wales point of view, as to how big the asset backlog is?

Ms WILKIE: We do not at the moment. We hope that information would be done as research as part of the development of an aviation strategy.

The Hon. CATHERINE CUSACK: Can I ask about Wagga Wagga and the \$600,000 interest bill: how big is the loan?

Mr PROWSE: The latest balance I think was around \$10 million. I could come back with actual figures.

The Hon. CATHERINE CUSACK: It does not sound like a competitive interest rate?

Mr PROWSE: No, it was a competitive interest rate.

The Hon. CATHERINE CUSACK: That level of indebtedness prevents councils borrowing for other projects and infrastructure.

Mr PROWSE: It does have an impact on council's overall borrowing capacity, there is no doubt about that. We redeveloped our runway back in 2009-10 and that cost almost \$7 million. In 2011-12 we upgraded a number of assets and built new infrastructure.

The Hon. CATHERINE CUSACK: It is a nice airport.

Mr PROWSE: There has been a lot invested into it and picking up on some of the comments about the economics of airports: Wagga airport contributes 4.6 per cent to employment in our region—by Wagga airport I am talking more broadly about the aviation sector in our region—and about 4.8 per cent to the gross regional product. It is significant and some of that investment is about creating jobs and enabling the economic growth, it is not just about revenue for the airport.

The Hon. CATHERINE CUSACK: It would supply other industries such as access to freight?

Mr PROWSE: Yes.

The Hon. CATHERINE CUSACK: I think of them as the aristocrats of regional airports and those are the ones that have the air force collocated and contributing to the cost of the runway in particular. Do you have any comment on how that benefits local communities? It does seem the burden is incredibly unequal if you are at Williamtown or Tamworth?

Ms WILKIE: It is an interesting question. With regard to Newcastle and sharing with the military, whilst the military might be there and might provide some of the funding towards the finances, if you are an airport—in a perfect world—you would not have the military involved. In terms of Newcastle, for example, the collocation to some extent does stymie their operations. There are issues in terms of air traffic control such as when they have access to the runway, what access they have and how they develop their side of the site. I would argue that whilst there is an excellent relationship between Newcastle airport and the military that in a perfect world you would have your own site, and that is something I could say of any of the collocated airports in Australia.

The Hon. CATHERINE CUSACK: The military require a certain grade, hardness and length of runway, is that right?

Ms WILKIE: Yes. I think Tamworth is a bit different because Tamworth can actually operate the airport just as Tamworth airport and has arrangements and a partnership with them. It provides significant

economic benefit to Tamworth to have that facility there. I am not familiar with the commercial arrangements there as to whether or not that assists with maintaining the pavements.

CHAIR: The flying school at Tamworth has their own runway. They do not normally use the main runway. They have a runway apart from the commercial runway.

The Hon. CATHERINE CUSACK: So the ratepayers have to pay for that runway.

CHAIR: They do use it but they use their own smaller runway for training.

Mr PROWSE: It is a training facility, there is no military base at Tamworth airport, just the provision of that training.

The Hon. CATHERINE CUSACK: Is there a forum or relationship you have with New South Wales transport to ensure the New South Wales Government is properly focused on these issues and advocating in an effective way?

Ms WILKIE: No. We have tried to engage in the past. My understanding is that New South Wales does not have the internal structure within transport that we see in other states. Within most other states there is at least a two to five person team that looks specifically at aviation issues and then they have cross-interaction with other relevant departments as required. In Victoria there are least two and I have one permanent person who looks after aviation in the planning area. In South Australia I know there are three or four staff in their department that specifically look after aviation. There is something similar in Western Australia and up in Queensland. It is a different kind of environment.

The Hon. CATHERINE CUSACK: What are the resources, as you understand it, in New South Wales?

Ms WILKIE: I could be wrong, but based on my engagement I understood there is a person who on occasion does the regulated routes as that comes up every certain number of years. When I have tried to engage previously we have not got any further. I could be wrong; there could be a whole team I am not familiar with. In my reaches to date we have not discovered anyone who is dedicated to looking at this. In South Australia the manager of that area for transport whenever we have a division meeting comes along and does a presentation. They do analysis of all the State-based data, they know what is going on and they are engaged with CASA.

In South Australia we have issues at Cooperpeedy at the moment so the State Government is heavily involved with CASA to resolve that to ensure that community still has its services. They are involved with applications for federal funding, supporting when they are doing developments, maintaining any funding opportunities through other areas in South Australia. For example, when Port Lincoln got their upgrade—and a number of airports have had upgrades in South Australia—they are quite active. They are similarly active in Victoria, partly because they have a grant program that they monitor, and Victoria also has the only aviation Minister of any State jurisdiction in the country as well.

The Hon. STEVE WHAN: Which State?

Ms WILKIE: Victoria's Gordon Rich-Phillips.

The Hon. CATHERINE CUSACK: I feel that governments have an opportunity to get stakeholder feedback about how well regulations are going and the areas of strength and those that could be improved. Do other States have regional aviation plans?

Ms WILKIE: Western Australia has a state-based aviation plan that is in draft form at the moment. We expect it to be released later this year. Queensland has a plan that was developed predominantly through Tourism Queensland. That has been released. Victoria has a plan of sorts and as part of the funding arrangement there are regional arrangements. South Australia does not have a plan, but we are trying to get that State to develop a plan. South Australia has a big team and it is engaged. Its plan should be aimed at looking at the future direction as opposed to adding departmental grunt to the process.

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CHAIR: We are out of time so if members have more questions they can be put on notice. I thank Ms Wilkie and Mr Prowse for their attendance and giving useful evidence. Questions taken on notice will be confirmed by the secretariat and answers should be submitted within 21 days.

Ms WILKIE: Thank you for the opportunity. We can reach our 44 member airports very quickly and easily, so if the Committee has any further questions we would be happy to survey our members and provide that information. I appreciate you are getting close to writing the report, but we want to be sure you get all the information you need.

CHAIR: Thank you for that offer.

(The witness withdrew)

RICHARD CONNORS, Senior Policy Officer, Roads and Transport, Local Government NSW, and

KEITH RHOADES, President, Local Government NSW, sworn and examined:

CHAIR: I formally welcome Mr Connors and Mr Rhoades to our inquiry and thank you for your submission. Would you like to make an opening statement?

Mr RHOADES: I am an elected member of Coffs Harbour City Council. Local Government NSW made a submission on behalf of the 152 councils in New South Wales. In summary, local government is a key stakeholder in the provision of aviation services to regional New South Wales and, for that matter, across Australia. Most aerodromes in regional centres are owned and operated by local councils. The cost of maintaining and upgrading airport infrastructure is a significant issue for most councils. Cost recovery is always a challenge in trying to come out on top. In saying that, a lot of councils are successfully running stand-alone businesses, their airport operations. In the case of a few of them, some councils pay a modest dividend to the general fund of the council each year.

Airport infrastructure and air services are vital to the economic and social stability and growth of regional centres in New South Wales. Regional services are dependent on efficient and equitable access to major airports such as Sydney Airport. Local government strongly maintains that continued regional access to Kingsford Smith is vital to the survival of regional airports in New South Wales for the various reasons stated in our submission.

The first key point in the sustainability of the regional aviation services is that Local Government NSW believes all residents of rural and regional New South Wales should be afforded equitable access to ongoing and reliable air services. This includes travel for business, for education and, in particular the further west you go, for medical reasons and family and recreational purposes. Our airports are a vital link for tourism, which brings a lot of money to sought-after destinations.

Regional communities remain concerned that while existing state licensing arrangements have been adequate, the profitability of individual operators in the sector as a whole has been marginal. This is reflected in complaints about reliability and service levels. Operators in this sector of the industry, including Regional Express, have raised doubts about the future viability of some services. Local councils in New South Wales serviced by Brindabella Airlines were left with an outstanding debt from the collapse of that company of just shy of \$900,000. I remember doing a ring-around to those councils, including Cobar and Moree, and when I added up the figures it was a substantial sum.

In our submission we look at regional access to Sydney Airport, a crucial issue for all councils in New South Wales, whether they own an airport or they do not. On the North Coast we have places like Bellingen and Nambucca that rely on hubbing through their airport, which is Coffs Harbour. It is the same for many smaller regional communities. Local governments in New South Wales are united in their support for continued regional access to Kingsford Smith to source passengers. We have done brainstorming on the effect of having to go to a second airport in Western Sydney, or any other location such as Bankstown, Canberra or Newcastle. It does not take long to realise the impost on residents of regional and rural New South Wales of not having access to Kingsford Smith. It is mind-boggling when you look at the extra costs involved in travel to the central business district, which is where most regional people need to get to do their business or attend medical appointments in Sydney.

When we look at the regional airport infrastructure issues, as I said, regional airports are almost exclusively owned and operated by councils. At airports outside of Sydney, airport owners face significant issues in cost recovery for the use of their facilities, including the opposition and threats of withdrawal from operators if fees are increased. This is a common the thing. You have a terrific relationship with the operators. Most contracts a pricing structure for around two to three years. You are friends for 35 of those 36 months and then you are enemies for the month while you are negotiating who is going to do what, because as a council and an owner they will absolutely drive you to the ground as far as they can. That is what is called running a business. Listening to previous comments, most airports have moved away from the director of engineering or the engineering manager, for argument's sake, running their airports. Most of the major regional airports have dedicated airport managers and airport teams in place doing that work.

We are looking at a consistent approach to airport charging, including the possibility of Government subsidies where the taxation burden is shared by the community as a whole. Again, reflecting back to the previous discussion about the Commonwealth, the Commonwealth gave airports over to councils for basically \$1. Depending on the condition it was in at the time, it was then up to that council to bring it up to a standard that was acceptable. All of those councils, in our opinion, have done an absolutely magnificent job with those airports since that time. Yes, it is expensive. We have done an upgrade of the main runway at Coffs Harbour and, very similar to Wagga, you are looking at around \$7 million to do an upgrade. That will last you X amount of years but not in the long term. If you are fortunate to move into larger aircraft, A320s, 737s, that period comes down further because the weight factor allows you to construct your runway—the depth of it and what is used in it. The issues that have been raised at the hearings you have had around the State are fairly consistent with where we are.

Slot management is also a problem for us. We have airlines—no names mentioned—that are prepared to put in services to regional centres, overnight them, as most of them do now, and have an early departure, but you simply cannot get into Kingsford Smith until that 10.35 a.m. mark in the morning. It is very difficult to be able to gain the extra slot. No airline will relinquish a slot. They will use it somewhere else within that State. They will just hand it back into the pool and say, "There it is." I think there was some talk at the time when Brindabella, unfortunately, ran into trouble. A slot is a product that you can actually sell. Whether they were or not, I do not know as yet. I know there were inquiries made into the possibility of buying those to get access.

Local councils are strongly involved in airport master planning. Reflecting back to the previous discussions, it was only last night that Coffs Harbour council adopted a change to their master plan for the airport, which will now allow for an industrial park within the airport precinct on the northern end. Predominantly for an aircraft-related industry, it is a job creation industry. It is employment growth and it is a way that airports can recoup and stand-alone and not be a burden or a cost on their council, besides such things as car parking and the likes that was mentioned. Councils also get well and truly into advertising at airports. With respect to raising revenue, they look at anything that is available to them solely from a business point of view, because that is what they are running, a stand-alone business to make money.

The role of airports in regional New South Wales is very, very important to all of our communities and it is absolutely vital that access into Kingsford Smith is maintained forever in a day. If it was decided politically one day that that was not to be the case—wholly and solely related to health issues—the effects on people in places such as Cobar would be diabolical. When Brindabella went down people had to make a two-hour bus trip to the next airport to get an air service to Sydney. They are the consequences of those smaller towns losing a service, besides having to pick up a financial impost that was left behind. Chair, that is a basic overview of our submission as to where we were. Richard, do you want to add anything?

Mr CONNORS: I will leave it with your introductory comments.

CHAIR: Thank you for the introduction, Councillor Rhoades. I will take up the issue of when the airports were handed over. You said they were handed over without any future financial management or any management arrangements. Is it the case that it was left completely up to the local government bodies concerned to take on board everything that was required in respect of their conditions?

Mr RHOADES: To my knowledge, yes, that is the case. I can go by personal experience at my airport. I was first elected to council in 1991. If my memory serves me correctly, I think it was 1995 or 1996 that the transfer happened.

The Hon. MICK VEITCH: You have not aged a bit, Keith.

Mr RHOADES: The hair colour has changed. At the time there were some tags with ours as well. If, for argument's sake, the airport was sold, there would be no component that would be required for cultural facilities. There were some issues tagged with it. Leasing is being looked at by a lot of councils. I attended a seminar yesterday afternoon. I will not mention the company's name for commercial reasons but their role is to sink money from superannuation companies into investing in regional airports around Australia. At the moment they are looking for means of investment.

CHAIR: Councillor Rhoades, it has been suggested to us by several organisations that we need to have a regional strategy—a certain amount of research, assessment, planning, that sort of thing—for the development

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of airports to ensure that we have not just a few big airports but a network of airports across the regions. What role do you think local government could play in working towards that?

Mr RHOADES: It is probably difficult. For a council to go to a greenfield site to establish an airport—

CHAIR: It may not be a greenfield site per se.

Mr RHOADES: You would not see it. It simply would not happen. The money would not be there to do it. Collectively it is a very competitive sector that we are in. Even councils are competing against the next regional centre for business for those slots, for those services to go not just from Sydney to the regional centre but to other destinations. It is a competitive market. It is a difficult question to answer in respect to how could they assist.

CHAIR: It is not so much looking at your adjoining airports that may or may not have regular passenger transport [RPT] services. I am thinking more in respect of emergency services, emergency landing fields, that sort of thing, that would still require a certain level of management in order to provide those facilities, but some may not even have regular passenger services. Certainly in the western part of the State, as you have alluded to, there are a lot of airports that are still maintained in a condition that could support RPT services but are unlikely to ever get them again. They are still an important network of regional airports for a whole suite of general aviation purposes.

Mr RHOADES: It was only recently, and I am trying, while you were speaking, to think of the name of the town with that exact situation where they do not have RPT services but they do maintain an airstrip for the Rural Fire Service, for argument's sake. There was another organisation as well: State Emergency Services used it, but there was no commitment from those other agencies to assist in the maintaining of that airstrip for those emergency services. The name just slips me for the moment.

CHAIR: One of the airports that we visited was Cowra, which certainly falls into that category. It still maintains its airport in an RPT-ready condition, but they have not had RPT services there for many years. The mayor of Cowra advised us that his council considered it part of its community service costs to have that facility there, even though it was costing them quite a lot of money every year.

Mr RHOADES: The Rural Flying Doctor is another example of using airstrips that do not have RPT services that have to be maintained.

The Hon. PAUL GREEN: In relation to passenger fees, the comment has been made that passenger fees being charged by councils are steep. Do you think there should be a consistent approach to the way in which fees are calculated and increases imposed? Would you support their regulation?

Mr RHOADES: It is not difficult because it is very hard to find a level playing field for that. For argument's sake, if you have a runway that is 2,700 metres in length you can take a 767 fully loaded in and out—that is with a 45-metre wide strip. A lot of the councils have 30-metre wide by either 1,800 or 2,100. Again, I reflect back to mine, because it is something that is very dear to me: it is 2,100 and it is 45 metres. It is more costly to reseal that and to rejuvenate the surface than what it is if I had an 1,800. So if I was regulated I could only charge X amount, yet I have got 30 per cent or 40 per cent more of an airstrip when it comes to resealing—that is a greater cost on me that I have got to be able to recover. So to find a happy medium to regulate it I think would be very, very difficult unless you had all the ducks lined up that work equally in size and so forth and you knew basically what your costs were. I think it would be very difficult.

The Hon. PAUL GREEN: In regards to financial sustainability, I thought that the sum was about \$500,000 being lost, but you quoted \$900,000. Do you think it is right that those councils pick up that financial burden or do you think that State government should find a way to cover that?

Mr RHOADES: Councils would always love State government to come to the party on a lot of things, and that would be one of them, without a doubt.

CHAIR: You would know that, Mr Green.

Mr SCOT MacDONALD: Are you still in local government?

The Hon. PAUL GREEN: Yes, I am.

CHAIR: You never lose it.

The Hon. PAUL GREEN: You can take the boy out of local government but you cannot take local government out of the boy.

Mr RHOADES: That is exactly right. It was tough because the ones that took the biggest hits were the smaller operators—Narrabri took a big hit. I will not mention the figure publicly, it is probably commercial in-confidence for them, but it was the biggest hit of all of those, and to a town that size that hurts. But where do you turn? It is like the Commonwealth. As you would be aware, on 1 March this year screening at those airports is now your responsibility: you either had to buy or purchase new—you had to upgrade—or buy the equipment from the operator previously. The cost is there now. But when you put that charge up, if you tried to, the airline simply will not pay it. I am talking about the majors. Some do not even want to pay it at all at some airports—they are the smaller operators that service a lot of the regional airports like Wagga Wagga, Dubbo, Broken Hill—you will work out who I am talking about in a minute; they do not want to pay it at all because they say, "We don't need it". So where do you find that happy balance? It is difficult.

The Hon. PAUL GREEN: Are you aware of any council that charges under section 94 in relation to airport services for maintenance needs?

Mr RHOADES: Myself, no.

The Hon. PAUL GREEN: What would your comment be on that if that was to be explored?

Mr RHOADES: That would be a commercial decision of that council to make a decision as to whether they could, and, secondly, whether it would be accepted as a viable method under section 94. As you would be well aware, there is section 94 raised for local surf clubs and the like and libraries and whatever. But I have never heard of a section 94 that makes contributions to their airport, no.

The Hon. PAUL GREEN: It is an interesting question we have been asking around the local government areas as we have been going and no-one has, which I am really shocked about because normally council can find everything to throw into section 94s. The second thing is that these air services are not always financially sustainable so one has to look at how they contribute. You would be well aware of a regional area like Coffs Harbour when sometimes councils around the area will contribute to a regional centre of some sort. Would you be of the view that rural areas could, maybe, work for a regional cause, like a regional aviation centre where there are no little airports, for instance, to be able to contribute that way by way of a special rate levy?

Mr RHOADES: A difficult, difficult, difficult question. The smaller the council at the moment the more likely they are of being in a very, very difficult financial position at present. I recall, going back into the late nineties, we did a road trip around the Armidale area. Coffs Harbour airport in a space of 30 minutes can be turned from domestic into international; it is set up that way. We tried to get the likes of Armidale and all the smaller councils in between to the west, down to beyond Port Macquarie, into the Forster-Tuncurry area, and similar to the north, to be able to use it as a hub, for argument's sake, and contribute. As I sit here today, not one dollar came in from any other town to help build the service.

CHAIR: To use it as an international airport, you are referring to, or just as a major regional airport?

Mr RHOADES: Both. As a hub.

The Hon. MICK VEITCH: The Chair was asking questions earlier about the regional aviation strategy. That is along the way to having some sort of a regional aviation strategy.

Mr RHOADES: Yes, but I think my answer sums it up sort of fairly well, that it is difficult to get to that point again.

The Hon. PAUL GREEN: My point is that everyone wants a service but it does not come for free. Some councils have to carry the burden of the implementation of that if it falls in their electorate. In terms of the

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regional aviation strategy and everything else, the greater, wider strategy for Australia has been mentioned to be Badgerys Creek. Has local government been asked to be involved in consultations with how that may work?

Mr RHOADES: Not to my knowledge, no.

Mr CONNORS: No, not directly, other than in the general consultation processes that really have not commenced in any serious way anyway.

CHAIR: More of a conversation than a consultation?

Mr RHOADES: Yes. The councils in Western Sydney became very involved in the discussions, but as councils themselves, no.

The Hon. PAUL GREEN: Has the peak body?

Mr CONNORS: We would certainly hope that we would be involved in a formal way, yes, but we have not been at this point in time.

The Hon. STEVE WHAN: The Committee heard some interesting evidence this morning about the slots at Sydney airport.

The Hon. MICK VEITCH: We had the slot guru here.

The Hon. STEVE WHAN: We had the slot whisperer here. We were told that around mid-October the peak slots that used to be held by Brindabella for Cooma, Cobar and other centres it serviced will still be reserved for regional New South Wales airlines but they will become open again and other services will be able to bid for them. Those bids will be based on the operators of the biggest planes. That suggests they will end up going with your airport, the major coastal airports, Albury or Wagga, but if someone comes forward with a proposal for Cooma again there will not be a slot available. What is the association's response to that? Do you believe that those slots need to be reserved for the destinations rather than for country New South Wales generally?

Mr RHOADES: Not being a part of the decision-making process, it would be a political decision that is being made as to what will happen to those slots by the administrator or whatever.

The Hon. STEVE WHAN: So an administrator does it on the rules that have been set for him.

Mr RHOADES: Yes. We have had no consultation with those councils that would be affected if it went out to the bigger players and the smaller players lost the slots they had. We have not consulted them so it is very difficult to speak on their behalf as to their views. I would have to seek those views.

The Hon. STEVE WHAN: You talked about the importance of having the regional slots but do you think it is also necessary to break down those guarantees to being more than just about regional New South Wales and being about the destinations as well?

Mr RHOADES: What we are going to probably find is just through reality everybody can't have an airport, everybody can't have an entertainment centre, everybody can't have a major sporting facility; you have got to have one in a region so everyone can use it. The cost is prohibitive for everybody to have the same thing. You have got to try and work it out with your neighbours so that you have an entertainment centre that is within an hour's drive and the next centre will have something else. That is how I have always seen the regional future and I see it no differently for airports either. Distance is probably the biggest factor in there because you don't want to drive three hours for a one-hour flight if you can avoid it.

A lot of those slots that are available especially in far western New South Wales—I was in Broken Hill on Monday night and Wilcannia on Tuesday for the commission of inquiry. Just to put country people on the road after dark is not good when you see in far western New South Wales the road kill overnight for argument sake. When you are getting services at 3.30 p.m., 4.30 p.m., 5.30 p.m. and 6.00 p.m. leaving Kingsford Smith to go back to those centres it is harder for them. As I say, I have not consulted with those councils—I am quite sure they would be very passionate about retaining those slots.

The Hon. STEVE WHAN: From what we heard this morning it appears that Cobar's slot at Sydney airport will be gone at some stage in the not too distant future. If an airline wants to run a Cobar service then it will have to wait until a slot at peak time becomes vacant and bid for it. So if an airline with a 60 or 70 seat plane bids against them they probably won't get the slot. That is federal policy but do you think that is something this Committee should be making a recommendation about?

Mr RHOADES: What we have got to try and do is service the majority of our smaller communities as best we can. Aircraft size and type will also be a determining factor. We have only got a handful—we only had two Q200 aircraft left running around but in the last couple of weeks some more have been brought in from interstate, which are currently servicing the regional market, by QantasLink—I have seen more than two. They are going to go one day. You have got your Q300, your 54 seat, and then you have to start looking at those airports that may not even have the capacity to handle the Q300-type aircraft, before you get up into your ATR 72 and Q400, which I think is going to be the top end for a lot of years to come of the type of aircraft—the turboprop jet that is servicing New South Wales regional and rural areas. But it is a commercial decision for the airlines as to what they are running with. They will look at it.

CHAIR: The only other option is to look at some sort of hub and spoke system, is it not? For example, Cobar would fly into Dubbo and then onto Sydney in a Q400 or something.

Mr RHOADES: I think you all know Mayor Brady as well as I do; I do not think she would give up too easily.

CHAIR: She has already appeared before this Committee.

Mr RHOADES: I hope she was on her best behaviour.

CHAIR: She certainly was.

Mr RHOADES: I did not think she would be.

The Hon. MICK VEITCH: It would be fair to say that Mayor Brady is very strong advocate for the Cobar community.

Mr RHOADES: She most certainly is. She is a wonderful lady.

The Hon. STEVE WHAN: You mentioned before that you are not aware of any councils looking to sell their existing airports but they could possibly lease them. Some have chosen to do that in the past—Cooma is one—and their general managers consider that to have been one of the best decisions they have made. Do you think that many others have considered that option?

Mr RHOADES: As I mentioned in my opening remarks, it was only yesterday afternoon that I attended a seminar for an hour with a company that was explaining to us what is happening in regional aviation with investment and leasing airports in regional Australia. They have got some now—it could be that one of them is Cooma. There is a lot of money in superannuation funds at the moment and they are looking to invest into things like that—not to operate them, just to invest. There are companies that run leases on airports and the council just gets the—sometimes it can be upfront in a lump sum or they can take part payment and a yearly dividend. So there are various models out there. That is the first seminar or discussion forum that I have actually attended that related to my particular airport at Coffs Harbour in respect to that. So it is something that is becoming very much looked at.

The Hon. MICK VEITCH: I am aware of a local government area in New South Wales that is seriously considering downgrading its rating from a registered facility to an aircraft landing area: Tumut. It is not one of the bigger ones; it is like Young and Tumut. This is quite a significant step that they are going to take because in the summer months the airport becomes a strategically important landing strip for Kosciusko National Park and also in the winter months during the snow season. Are you aware of any other council that is now considering downgrading its airstrip to the extent that Tumut is?

Mr RHOADES: Not myself personally. Richard, have you had any correspondence at all?

Mr CONNORS: Not directly but we can take that on notice.

The Hon. MICK VEITCH: Do you think that may be the first of many?

Mr RHOADES: I am not aware of their situation or position or the reasoning behind the decision-making process.

The Hon. MICK VEITCH: Can you take that on notice?

Mr RHOADES: Yes, we will see what we can come back with as to the reasons behind it.

Mr SCOT MacDONALD: When you mentioned leasing in your opening remarks my ears pricked up. You have now clarified that it is leasing, not operating. You have not got proposers going out there saying they will take the whole lot on—owning it, leasing it but also operating it. They are not interested in operating?

Mr RHOADES: No, they are interested in operating. In other words, the council is the owner currently. They will come in with a figure to lease the facility—a lot of them are around the 49 or 50 year mark but a couple are a 99- year lease—invest in it—this is where the investor funds come from—and run the airport. They will either pay an upfront fee for that lease or they will pay a fee and some of the models will pay a dividend each year to the council. The council backs away from the operation side of the airport.

Mr SCOT MacDONALD: Was there any discussion around a minimum size or a minimum number of passengers? I cannot imagine them being interested in 10,000 or 15,000. Did they say 20,000, 30,000 or 50,000 as a cut-off?

The Hon. CATHERINE CUSACK: Is Cairns more interesting than Cobar?

Mr RHOADES: Most definitely.

Mr SCOT MacDONALD: Was there any discussion about capacity or size?

Mr RHOADES: No, but when you look at where this particular company is relaying the information to you about what is happening, you are talking about the larger regional as the bottom starting level and not going down to a Cobar, Tumut type thing. They are looking at the business park at Canberra airport, for argument's sake, incorporating those types of things. They would be the investor in that—

Mr SCOT MacDONALD: The cluster and the precinct and all that sort of thing.

Mr RHOADES: Yes.

Mr SCOT MacDONALD: Can we get some more information on that? You are a little reluctant to say who or whatever.

Mr RHOADES: It was a company that specialises—they are working their way around major airports at the moment. They just booked themselves a slot with my council last night to talk about the things that are happening and could be becoming even greater in the future. Naturally, they are looking for business—no two questions about that. I have my own personal view about whether my council should or should not—what other councils do is their business—but it is just something that is happening in the market now. It is moving that way.

Mr SCOT MacDONALD: I suppose to my mind one of the attractions of that is that that will bring the skills: they are dealing with CASA, they are keeping up-to-date with regulations, they know how to manage airports, they know how to put together long-term management plans for airports and that sort of thing. Is that the sort of thing they were pitching?

Mr RHOADES: The structure is that this company is the go-between between the investor and securing it and then putting a company into place that manages the facility. So you have that other operator in there, which is the airport manager. Their role is predominantly—

Mr SCOT MacDONALD: Facilitating that investment.

Mr RHOADES: Yes.

The Hon. CATHERINE CUSACK: Why would councils want to own and operate airports? Because there is a fundamental statement of principle?

Mr RHOADES: A council that is very passionate about its local economy, a council that is very passionate about increasing its tourism potential, a council that is very passionate about increasing its employment figures, a council that is very passionate about being able to provide good health services in its town that can import people instead of exporting people to Sydney for treatment for various things. We are finding in regional centres in New South Wales—

The Hon. CATHERINE CUSACK: Sorry, can I just summarise briefly because my time has almost expired? Essentially what you are saying is that councils want to see an air service for its community for a variety of economic and social reasons.

Mr RHOADES: I would be very confident in saying yes.

The Hon. CATHERINE CUSACK: So my next question is: Is owning and operating the airport the most effective way of delivering that outcome? Are there other methods that could be followed? For example, why does the Local Government and Shires Association not invest in Rex shares? That would have an interesting impact on its attitude towards the councils that it deals with. I am just talking about some other approaches or ideas.

Mr RHOADES: Yes.

The Hon. CATHERINE CUSACK: Why does the Local Government and Shires Association not get a group of councils, all of their airports together and do it as an infrastructure bundle and then ask someone to come and do a McDonald's type of franchising arrangement in airports around the area? It would definitely be more efficient and save people if councils could act collectively. We know it is a hindrance that councils cannot act collectively.

Mr RHOADES: I think I touched on it before when I said the parochialism between regional centres to try to be the best, offer the best and have the best is alive and strong, and it will always be there.

The Hon. CATHERINE CUSACK: I lived through the whole Lismore-Casino airport thing. The Casino people are still driving an hour and a half to get to the Gold Coast. So Lismore is not rewarded.

Mr RHOADES: That is the program.

The Hon. CATHERINE CUSACK: Is there a role for a collective?

Mr RHOADES: There has not been and I think it would probably be a difficult thing to possibly achieve. You could put a discussion paper out there and find out but I just do not think that the appetite would be there.

The Hon. CATHERINE CUSACK: What about the State? Unless we can act collectively on this we will not have a holistic solution. We will not be able to maximise the efficiencies that will save the ratepayer losses in these airports.

Mr RHOADES: When we talk losses of airports, in that particular case it is the council's responsibility to look at how their commercial operations are working. As I mentioned before, most of them are stand-alone business units of councils; they are not draining on the general fund weekly to pay wages. They are absolutely on their own. Most are paying a dividend—a modest dividend—which in a lot of cases will get bigger as time goes by. I just cannot answer the question about getting warm to the idea that you will have councils that are keen. Something would have to go out for discussion and come back.

The Hon. CATHERINE CUSACK: It could even be three councils in three corners of the State, the proposition being that the values of the airports would be enhanced if they were together. It would be more appealing to a potential investor. I am not suggesting that you do that. I am simply asking whether actual ownership and operation of the airport is the only model for councils to guarantee a service? It seems to me that

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councils assume all the risk and in too many cases they are not getting the service. Maybe there is a better way. I was wondering if your association has ever thought about that.

Mr RHOADES: Not in my time since 2008.

Mr CONNORS: Not specifically in the aviation space but I suppose this whole model of joint service provision is being explored more generally at the moment anyway, in a broader sense.

The Hon. CATHERINE CUSACK: But that was before he was elected to council, so it is not progressing quickly to a solution in terms of the urgency of the aviation issue.

Mr RHOADES: Even in my 23 years on council and six years now with the association it is something we have not crossed, except that experience I described before when we went out to Armidale to do the radius catchment area to try to get that interest generated. It did not work.

The Hon. CATHERINE CUSACK: Were you looking at a new airline or a small airline to do the spoke part of the service, were you looking at one airline to deliver the whole service, or were you looking at different models?

Mr RHOADES: Different models. The catalyst for what we did is that we were fortunate to be able to capture into New South Wales from Queensland, which is always good—the Australian Wallabies into Coffs Harbour for three years. That gave us the opportunity to explore how to get from Coffs Harbour to Dunedin, Wellington, Auckland and Christchurch without hubbing through Sydney. When we did the refurbishment we set that up. So a three-year contract with the Wallabies turned into nine. We actually did international flights from Coffs Harbour to those four centres described. We have a catchment from Armidale, a very strong rugby community. The Wallabies would take X amount of the planes, 737s. They would take X amount of seats and the remainder would go on sale, basically but were gone within that amount of time because you were not hubbing through. It was very successful but unfortunately they were not RPTs; they were all charters. You cannot get it; you have to charter it. To charter a 737, you go on the waiting list and you might get one in 12 months time.

The Hon. CATHERINE CUSACK: What about to Brisbane? Did you ever—

Mr RHOADES: Even my airport was a loser in the Brindabella downfall because we have not had a service from Coffs Harbour to Brisbane return daily since Brindabella fell over. We are trying and trying to keep our people off the road until such time as it is fixed completely—I am talking about the Pacific Highway—because, as you would be aware from your location, it is the top end that still needs work, from Grafton or Yarrawarra through and get that service available to them. Our business community is screaming for it. We are in very strong negotiations and discussions at the moment but since Brindabella fell over we have not had a Coffs Harbour to Brisbane service, which affects the North Coast.

CHAIR: We are out of time. Thank you for your submission and a very interesting discussion this afternoon. You have taken some issues on notice. The secretariat will be in touch with you in a few days to confirm those issues. If you would get that information back to us within 21 days, we would appreciate it.

(The witnesses withdrew)

(Short adjournment)

CORRECTED

LARISSA CASSIDY, Infrastructure Policy Advisory, NSW Business Chamber, sworn and examined:

LUKE AITKEN, Senior Manager, Policy and Advocacy, NSW Business Chamber, and

DEAN GORDDARD, Executive Manager, Tourism, NSW Business Chamber, affirmed and examined:

CHAIR: Do you want to make an opening statement?

Ms CASSIDY: Yes. The NSW Business Chamber is one of Australia's largest business support groups. It has more than 17,000 members ranging in size from owner-operators to large corporations, and spanning across industry sectors, including manufacturing, construction, agriculture and professional services with offices in both metropolitan and regional New South Wales. We support this inquiry as aviation provides a range of economic, social and health benefits to regional communities and ensures interconnectedness between our regions, our cities and the rest of the world. The chamber has put forward recommendations to the Committee which can be summarised as: ensuring there is adequate aviation capacity in the Sydney region for regional services, proposing the review of the appropriateness of current licensing mechanisms and reviewing the implementation of security screening regulations.

CHAIR: Does either gentlemen want to make an opening statement?

Mr AITKEN: No.

Mr GORDDARD: No.

CHAIR: Has the Business Chamber been involved in any discussions with respect to the proposed Badgerys Creek airport?

Ms CASSIDY: Yes, we have been quite actively involved with that, particularly through our Sydney Business Chamber. We fully support the development of Badgerys Creek airport.

CHAIR: Do you have any views or any positions on what sort of service should be offered by Badgerys and what the balance should be between Badgerys and Kingsford Smith airports?

Mr AITKEN: At this stage, no. It is quite obvious that Badgerys Creek will start out as quite a small airport and grow over time. We would not want to limit that growth in any way, shape or form. But our position is quite clear. We think Badgerys Creek really represents a new opportunity for Sydney. We want to maintain regional air access to Kingsford Smith Airport but at the same time we see Badgerys Creek as an opportunity to really open up air access across Australia and, indeed, across New South Wales.

CHAIR: Most people who come from the regions, in particular, for business purposes need to come into the central business district. The Committee has spoken to people from the regions, in particular, and they are absolutely adamant that they require their regional air services to be maintained into Kingsford Smith Airport rather than be diverted either to Bankstown or in the future to Badgerys Creek. What are your comments along those lines?

Mr AITKEN: We accept that access to Kingsford Smith Airport is absolutely vital but we would also say that Western Sydney is a growing region of Sydney with increasing numbers of major offices in the region. People from the regions will also be looking towards accessing Western Sydney more easily in the future. Obviously we are looking at a 10-year horizon before we get to Badgerys Creek becoming operational. Over that time I think that demand side will also increase from the regions. As an example, our State Council meeting was held yesterday with 40 councillors from across the State. I am sure a lot of them would have enjoyed getting to Badgerys and getting out to the meeting a little bit quicker yesterday than going via Kingsford Smith Airport and fighting through the traffic.

Mr SCOT MacDONALD: I want to flesh out more information in relation to recommendations 4 and 5 of your submission. Recommendation 4 states that the Committee recommends the New South Wales Government review the appropriateness of current licensing mechanisms for regional aviation. We have heard a little bit about some of the shortcomings, but what motivates you particularly in relation to that?

Ms CASSIDY: In light of recent events that have happened in the regional aviation market, we would like to see the New South Wales Government review the appropriateness of having a current licensing regime. We would like the Government to consider whether it is appropriate and if it provides the best outcomes for regional aviation. We are not sure either way if the Government should be responsible for determining which airline services should service which route.

Mr SCOT MacDONALD: There are only a few that are licensed; most of them are deregulated. You still have some concerns whether licensed, regulated or deregulated is the right model. Everything is up for grabs in your view.

Mr AITKEN: From a philosophical standpoint it probably would not surprise the Committee that the Business Chamber would like to see things freed up in that way. But other States do not apply licensing regimes in the same way that New South Wales does. It is probably that threshold question about whether licensing is really the most effective mechanism. Quite naturally, some services will just be one route, one service provider.

Mr SCOT MacDONALD: With or without government intervention?

Mr AITKEN: That is right.

Mr SCOT MacDONALD: Just to be clear, New South Wales is the only State that regulates?

Mr AITKEN: Not the only State.

Mr SCOT MacDONALD: Queensland does, is that right?

Mr AITKEN: Yes, it does.

Mr SCOT MacDONALD: Point 5 concerns the cost-benefit analysis of the security requirements. Are you getting feedback from members on this issue?

Mr AITKEN: Probably there are a couple of specific airports. The way in which the regulations around screening operates is as you get the larger aircraft in screening requirements then need to be put in place at the airport. Obviously that is a big cost impact for regional airports that are usually operated by local councils who, as I am sure you just heard from the local government association, are struggling in terms of maintaining and upgrading their airports. So there is a bit of a challenge there. You have got smaller aircraft coming in carrying just under that threshold and no screening requirements and then you bump up—

Mr SCOT MacDONALD: I think we saw that at Dubbo.

Mr AITKEN: Yes. You increase the size of the aircraft and all of a sudden you have got X-rays and everything else.

Mr SCOT MacDONALD: I think Dubbo took the attitude of one in, all in. And they put, I think, a \$4.50 charge per head to cover the security. Is it problematic to have a separate security charge to cover the capital or operating costs or both?

Mr AITKEN: Obviously the airlines operate on pretty thin margins, so it is quite difficult to say that this cost is absolutely fine to pass on to passengers. It may serve as a bit of a disincentive for people to travel. Obviously creating air access is not just about having a route; actually making it affordable for people is also a consideration.

There has previously been Federal government assistance in terms of upgrading airports. That might help councils get through and keep those costs down. That could be an option for government funding. There is some funding available at the moment for tourism infrastructure which the Government approved in the State budget. That may be something that some local councils might look to apply for.

The Hon. CATHERINE CUSACK: In your submission you supported the ring fencing of those slots at Sydney Airport. Are you aware that anyone can bid for any route in New South Wales as they come up and the largest aircraft gets it? I come from the North Coast and we have got nice big planes, but I cannot see how a smaller community could compete. On the North Coast we have low-cost tourism, so we are not relying on our

local population to sustain the service. There is a large group of people from Sydney who are using the service. I wonder if more needs to be done about the way in which it is ring fenced.

Mr AITKEN: We had a bit of a discussion through Mr Gorddard's tourism board in which a couple of members raised concerns around it applying to the airline, not to the air group or to the region. That is a concern, but at the end of the day these are commercial operations that do need to be able to make a profit. An air route does need to be profitable but we obviously need to look at things where there are critical service requirements for a region and make sure there is access available. There might be something within that but it is probably something that we are not in a position to fully comment on until we have all the available data.

The Hon. CATHERINE CUSACK: It is kind of a little kicker in the arrangement that we were not aware of. It is going to be like gravity working in reverse. Every time a slot becomes available a larger plane will take it over, and these communities could never justify a commercial service in a larger plane. There are not a lot of them now but they are going to be squeezed out completely in time. I also would comment that demand over the year can vary across regional communities. Where I live there is huge demand over Easter and we have to manage all of that on the same number of flights.

Mr AITKEN: I would probably say that it is something we strongly support. Obviously we pushed very, very hard for the Badgerys Creek Airport and very strongly welcomed the announcement of it but obviously there are some regulatory impacts at Kingsford Smith Airport [KSA] around the aircraft movement cap so looking at increasing that so that there is more accessibility at Kingsford Smith is something that maybe the Committee may wish to recommend because that would be one way of opening up more opportunities and ensuring access is available.

The Hon. CATHERINE CUSACK: And potentially we might have more flights coming in from Badgerys Creek giving Western Sydney better access to tourism opportunities out that way. Has there been any other feedback from your members about the quality of service they are getting at the moment?

Mr AITKEN: We did put in our submission a bit of a case study around the Broken Hill area and I think that probably reflects some of our concerns about the hub and spoke model that has been suggested. With the changes in Broken Hill and the way in which air flights happen, now they have basically lost a daily direct service. Previously you could leave Broken Hill early in the morning and be back mid-evening so you would not lose a day and you would not have to spend any money on accommodation. The way in which it operates now with a stopover in Dubbo you are facing a two night overnight stay to do one day of business in Sydney. That is of concern for members and looking towards that hub and spoke model, especially when you are competing with things like car travel, people are really going to start to toss up whether to take a flight if they cannot get that direct into KSA.

The Hon. CATHERINE CUSACK: It has almost become a hub and spoke model, even though it is not officially termed one because it is a Broken Hill flight?

Mr AITKEN: Yes, that is right.

The Hon. CATHERINE CUSACK: With pilots and small planes, it is not worth it. It has been made clear to us by Rex and Qantas that they are just not interested in getting into the little plane, flying in and may be connecting to Dubbo so people can get to Sydney. Are you aware of any regulatory issues that are making it too difficult for the smaller operators to get a licence to be able to provide that service or for a freight flight to be able to pick up a few passengers?

Mr AITKEN: Not from anything that we have heard; no feedback on that.

The Hon. PAUL GREEN: Do you have any comments on the impact of fly in and fly out on businesses throughout regional areas and whether or not it is good or bad?

Mr GORDDARD: It is an emotive subject.

The Hon. PAUL GREEN: I am after your comment; I am after your emotive.

Mr GORDDARD: It ranges from region to region. The feedback we have had is more around the psychological impacts it has on the families of those employees. There is no doubt that it has a dynamic on the

costs of the destination in services and products when it is in place, and we have seen that. There has been a fair amount of debate in relation to whether or not this could lead in the future to more overseas employees coming into these areas to live because of the costs arising. That is generally some of the feedback we have had.

The Hon. PAUL GREEN: We are getting near the end of the inquiry. What recommendations would the Business Chamber like to see come out of the inquiry that would contribute to a prospering New South Wales in regional aviation?

Mr AITKEN: Obviously we highlighted some of those at the start, the key one really being around the aviation capacity at Kingsford Smith Airport and probably looking at the threshold on the implementation of the screening systems. Obviously there are recommendations from the joint study on increasing the size of aircraft, so it is going to be a big problem into the future. I think those are two things. Obviously it is really that recognition of the benefit for air access and obviously it is not always a direct business commercial link. I have taken flights out to Orange and almost everyone on there is a doctor so I feel in very safe hands but health services are really reliant out in regional areas on having air access and it definitely plays a role in what we see as a challenge for our members, which is around attracting good people to the region to work—skills shortage is a problem. One of the reasons that people do not want to set up in a regional area with a family is obviously access to health. That just emphasises how important it is to have that access; it is really vital.

The Hon. STEVE WHAN: You answered earlier a question essentially saying that you do not believe the New South Wales Government should be involved in regulation of the air routes in New South Wales. In your submission you essentially put that as being—the way I read it—because the regulation only goes one way; it does not actually guarantee that a service exists. Is that a fair way to summarise your objection to it?

Mr AITKEN: That is pretty much right.

The Hon. STEVE WHAN: The evidence from some of the communities is that they like having the regulation in place and the guarantee of one airline because they feel that that makes it more likely that that airline will commit for a longer term knowing that they will not be undercut by another competitor. Do you think that is a valid argument as well?

Mr AITKEN: The reality is that it may give some comfort to people but we have seen airlines fall over in the last couple of years. I am sorry, I am not 100 per cent certain that the collapse of Brindabella was a regulated flight but ultimately it comes down to the fact that these airlines do operate on thin margins, regardless of what regulatory environment is there, so while it may provide some comfort, the reality is if a company is not able to operate on its thin margins, they are not going to be able to continue on, regardless of whether there is a regulation over the route or not.

The Hon. STEVE WHAN: What do your regional members tell you about the importance of their services for their areas? Have you ever done any research that gives you an indication of the economic benefit or need for regional air services?

Mr AITKEN: Not to my knowledge. We obviously are quite engaged. We have 15 regional offices around the State and we get feedback quite regularly on issues impacting them. Definitely the Dubbo example has been one we have been concerned about—about potential increases in costs because of the screening requirements and also within Tamworth but actually looking at access across the border to Queensland is something they do identify as problematic, but nothing on the economic impact of airports, unless you are talking about Badgerys Creek, which we did quite a detailed report on.

The Hon. STEVE WHAN: I understand that. When you are talking to local businesses and you ask them the important issues in their local area, is air transport something they bring up and is it more important than broadband communications, for example, or better roads. How important is it for your members?

Mr AITKEN: I have not done anything in a structured way around that but definitely when it is there they are very happy with it but when it has gone they realise they have lost something quite significant so they are quite keen to protect their access. Like I indicated, when we do get feedback from members it really is about getting access to Sydney—they really emphasise that—and having options available to them to either drive or fly if they need to get to Sydney quickly. There has been nothing quantitative that we have been able to do but definitely the feedback that we get from people is that they value the service.

The Hon. MICK VEITCH: Just to follow on from that, have your members said to you anything about the impact on their business or communities when they have lost the service?

Ms CASSIDY: I think the Broken Hill example we provided in our submission provides a good overview of that. They did detail the impacts that the loss of a direct flight did have on their region. They used the example of the film and television industry and said that because they had required direct access and as a result of the loss of direct access from Sydney, this industry was at risk in the region so that is an example. I think the health example does get used quite a lot and direct access to Sydney. Now they weigh it up: now that they require two nights of accommodation, the cost of travelling to Sydney for a business day is not stacking up any more.

The Hon. MICK VEITCH: I ask this question in the context of the communities in western New South Wales predominantly but also the smaller communities such as Cooma. Their air service has a significant role to play in the tourism market. Once the air service is gone it makes it more difficult for them. Have you received any feedback from businesses about that?

Mr GORDDARD: It is definitely a pipeline. Aviation is a key pipeline for regional areas. Sydney is the largest source market in Australia and within Sydney the trend towards taking short breaks by flights has increased immeasurably over the last 10 years. Before that people used to travel by car for a longer stay. The potential for regional areas to develop significant events is largely driven by access and the ability for them to attract markets that they normally would not attract due to the distances involved. If you look at the Sydney to Ballina route there is a very successful event up in Byron Bay, the music festival. The fact that there is a significant funnel of transportation through Ballina opens up markets that area would not have attracted in the past. It is part of the mix but it is definitely a key factor—also for business travel.

The Hon. MICK VEITCH: We heard testimony from Mudgee that once their air service terminated they lost a significant convention and they have put a dollar value on that hit to the community and economy. Do you have any other information along those lines?

Ms CASSIDY: The Deloitte study that was prepared for Sydney Airport Corporation did put some figures around this. They suggested that an additional daily B737-800 to a regional destination—you have it there—would contribute to \$24 million to Australian GDP. They have looked at the issue.

The Hon. MICK VEITCH: Some of the country communities are saying that there needs to be a subsidy arrangement to ensure that there is a service. We have heard testimony about various models and leveraging off the back of government passengers on air services. Do you have a view about the subsidy or leveraging off the back of government procurement?

Ms CASSIDY: We do support the reintroduction of the Federal Government's on-route rebate scheme. We think that is a sensible rebate. I guess our approach has been to look at it on a case by case example. It is important that if the Government is to provide a subsidy it should be in an area where there might not be much commercial value to an operator operating on the route but there are economic and social benefits.

The Hon. MICK VEITCH: Do you have any suggestions as to how the on-route subsidy is paid? Should it be bums on seats or maximum take-off weight?

CHAIR: When it was applied in the past it was based on a take-off weight of eight tonnes. Anything under that was exempt from the on-route charges.

The Hon. MICK VEITCH: I am happy for you to take that on notice, think it through and give a detailed and accurate response, because that would be valuable for where we are heading with this.

Mr AITKEN: I touched on the grant opportunities for certain things to help balance other things out and maybe if it is a council-run airport and they are able to apply some grant funding that may lead to reducing the levy that they might charge on passengers thereby making a route more attractive. That is another way to subsidise it through a different approach.

The Hon. MICK VEITCH: Looking at tourism, we heard early on in the inquiry about some of the areas looking to build off international visitors coming into KSA and trying to get them to fly out to Mudgee

and Dubbo for the zoo and leverage more of the potential of those international visitors, particularly Asian visitors.

Mr AITKEN: We do not have anything in particular but one thing that does come to mind is an opportunity that Brumby airlines in Cowra have taken. Within the last fortnight they have signed an agreement to develop aircraft for the Chinese market with an agreement that prospective Chinese pilots would come to Cowra and get trained up and developed that way. There are opportunities around those sorts of things. That is a novel approach. In terms of other approaches to capture that market, no. We recognise the Government's targets around growing the visitor economy and more bed nights for New South Wales, but all those strategies could be fed into the mix.

CHAIR: We had an inspection of the Brumby aircraft factory at Cowra. The way they were going about their business was impressive and since we were there this deal has been signed. It shows what can be done in regional areas with little innovation and initiative. In your submission you talk about the annual passenger carriage numbers of 50,000 being the licencing threshold and you say it fails to give any protection. I am wondering what figure you would put on it that you would see would be the appropriate licencing figure to give the protection that is required for smaller airlines?

Mr AITKEN: That is not a question we have put much thought into. I am happy to take it on notice and see whether or not there is anything we can provide.

CHAIR: I thank you for your submission and thoughtful evidence today. It has been worthwhile. You did take some issues on notice so the secretariat will confirm with you what those questions were in a couple of days time. If you could get that information back to us within 21 days we would appreciate that.

(The witnesses withdrew)

TERRY FARQUHARSON, Acting Director of Aviation Safety, Civil Aviation Safety Authority, before the Committee via teleconference, affirmed and examined:

CHAIR: Thank you for appearing before the Committee. You did not make a formal submission, but we have received some documents from you. Do you have an opening statement?

Mr FARQUHARSON: The rule set governing aviation safety in Australia is transitioning from a set that has been in existence, in some cases, since the 1970s. Some of those rules are still in existence, but over time they will all move into history and we will be dealing with a new regulatory structure known as the civil aviation safety regulations. Above these regulations sits the Civil Aviation Act and under them sit a number of manuals of standards and other advisory material. Understandably a number of people in industry are not as comfortable with the process of transitioning from one set of rules to another as other people may be. If we were to be talking 10 years from now, nobody would know the history of these rule changes and what they were about. The new system will be the only system they understand and work with in the future. While this has caused some consternation in the industry, I hope I can answer the questions you have provided in relation to that transition and how it may impact the industry.

CHAIR: I am interested in the use of smaller aircraft for regular passenger services, in particular single-engine aircraft with a single pilot. Are there any Civil Aviation Safety Authority [CASA] restrictions on the number of seats that can be operated under a single-engine regime or a single-pilot regime?

Mr FARQUHARSON: Historically the aircraft used have been small, single-engine, piston aeroplanes. They normally do not accommodate more than about eight or nine passengers. In recent times we have seen the introduction of single-engine turbine aeroplanes, such as the Cessna 208 or Pilatus PC-12. They have a capacity that exceeds the smaller piston-engine aeroplanes. From memory a Cessna 208 goes up to about 15 passengers. Generally speaking the smaller piston-engined aeroplanes will be allowed to carry passengers, but under certain restrictions that relate to the fact that they are single-engined and the aircraft is up to a particular standard. We are currently dealing with how we can accommodate single engine pilot operations in the single engine turbine class. That will be part of the rule CASR Part 135 that we hope will be issued shortly, such that they will be able to operate with a single pilot but with a reduced number of passengers.

CHAIR: When you say "a reduced number of passengers", what are the numbers going to be reduced to? Are we talking less than 15 or less than 10?

Mr FARQUHARSON: We are talking in the order of nine passengers.

CHAIR: The other issue that I wish to raise with you was raised by a small operator that is running from Griffith in New South Wales to Melbourne. They have difficulty getting approval to service their aircraft in Griffith even though that person is authorised to service non-regular passenger aircraft of the same class. Are you able to explain to us what is required?

Mr FARQUHARSON: Yes. Part 145 is the maintenance requirements in the new sets of regulations. It currently applies only to regular public transport [RPT] aeroplanes. This is a maintenance approval. It is an organisational approval and the decision to move to that rule set has been a function of the maintenance organisation itself. If they chose to continue to maintain aircraft operating in regular public transport, they have transitioned to Part 145. I understand that the maintenance organisation in Griffith has not made that election. They can continue to maintain other small aircraft but not RPT aircraft under what is called the civil aviation regulation [CAR] 30 approval. They are the older regulations that are gradually being retired. I understand that that operator is now having his aircraft serviced in Melbourne somewhere.

CHAIR: For the engineering company in Griffith that is not authorised or accredited, do they need to seek that accreditation from CASA or some other body?

Mr FARQUHARSON: From CASA. We have an ongoing transition process that can, on their election, move them from their current CAR 30 certificate to a 145 certificate. There is a distinction that must be drawn here and that is that Part 145 currently applies only to regular public transport aeroplanes.

CHAIR: Thank you. I will hand the questions over to the Deputy Chair, Mr Mick Veitch. He will ask the next few questions.

The Hon. MICK VEITCH: Mr Farquharson, can you hear me?

Mr FARQUHARSON: Yes, I can, sir.

The Hon. MICK VEITCH: The Committee is aware of a small airport in New South Wales that has seriously considered downgrading its registered facility to an aircraft landing area because of the costs required to upgrade its airstrip lighting. Is this common and is CASA concerned that if costs continue to rise, more country airports will do this?

Mr FARQUHARSON: Firstly, this is not a particularly common occurrence. We are aware, and you will be able to see from some of those documents that I forwarded to the Committee, that a number of country airfields are suffering because of the change in regional aviation's patterns of usage, but the cost of lighting is not under our control. If somebody wants to maintain night operations then lighting must be of a particular standard, and if they do not wish to maintain night operations they can do without runway lighting and still maintain their status as a registered facility or registered airport. The penalty for them in going from a registered aerodrome to an ALA is that if there is an instrument landing or instrument approach at that airport, as an ALA we do not certify them to continue having an instrument approach. So it would be a visual operation only.

The Hon. MICK VEITCH: You are saying this is not a regular occurrence?

Mr FARQUHARSON: No, it is not a regular occurrence that we have in airports stretched to the point where they cannot afford lighting. What we have seen over a number of years is because of the change in patterns of regional operations, a number of smaller airports do not have the financial wherewithal to maintain themselves and so they have closed.

The Hon. MICK VEITCH: On another matter, the Committee has been advised that the CASA regulation relating to maintenance is not applied to charter companies, which puts the smaller RPT operators at a disadvantage. What are the differences and can you let the Committee know why they are not applied to charter operations?

Mr FARQUHARSON: Firstly, there is a set of maintenance rules that apply to charter operations and those are the older rules; they are the CARs—the Civil Aviation Regulations—and a maintenance approval was issued there under CAR 30. In this transition to the new parts and the maintenance parties, part 145, we have done this in two stages. We have done it in two stages purposely. The first stage is to cover the maximum number of passengers carried, and that is in regular public transport. The part 145, as it stands at present, covers only regular public transport operations. Here we had two operators on an airfield, one of whom held a regular public transport certificate, as it stands at present, and the other did not but had charter operations, and there was a maintenance shed on that airfield that held a CAR 30 certificate of the holder of maintenance.

One of those operators, the charter operator, could have his aircraft serviced at that facility. The regular public transport operator would have to find a maintenance facility in the near vicinity or wherever they could. In the not too distant future we will be publishing the next step, the notice of proposed rule-making for the next step of moving all aircraft maintenance, including charter and all other parts of the general aviation community, into part 145. Those maintenance standards are graduated in a way to accommodate the various forms of aviation activity, but we will have to go through a long consultation period to move this into being.

The Hon. MICK VEITCH: What is the time frame for that?

Mr FARQUHARSON: We would hope to put the notice of proposed rule-making out in the next three months. There will be a period of consultation, and given the concern of the industry we will probably have that open for two to three months, following which we will go back and assemble all the responses, determine if there is a need to go forward again with another notice of proposed rule-making or whether we can move to a notice of final rule-making. So I cannot give you a definite time, but that rule having been made we usually, because of the need to transition such a lot of certificates, we then spend about a year preparing all the assessment forms, all the internal processes, training our people and educating the industry in relation to its responsibilities, and then we have a transition period. Recently those periods have been anywhere between, for a small part of a rule, 12 to 18 months. But these sorts of rules we are talking about would normally be three to four years.

Mr SCOT MacDONALD: When the New South Wales director general grants a licence, one of the criteria is looking at the applicant's character and suitability to hold the licence applied for. Is there any communication between the NSW Department of Transport and CASA? The reason I am asking is when Brindabella and Vincent fell over I think one of the key reasons—not the only reason—was the state of the aircraft and some of the maintenance issues. There were other things but that was certainly the catalyst that made them start to lose on-time reliability and things like that. Does the Department of Transport speak to CASA at any stage in this granting of a licence?

Mr FARQUHARSON: Not that I am aware of. That is an economic licence to operate the route, is that correct?

Mr SCOT MacDONALD: It is a licence, yes. There is a lot to it, not just economics but it is a licence to operate between Sydney Airport and another regional centre. Some of them are deregulated and are a monopoly licence.

Mr FARQUHARSON: We do not have any interest or powers in that area. CASA's role is purely a safety role and that hinges around us granting somebody the appropriate authorisation—in this case it would be an RPT authorisation and that certifies that either the maintenance organisation or in terms of a RPT licence that somebody has the wherewithal, the standards and the capability ongoing to operate in that environment and with the aeroplanes that they have in their stable. They do not communicate with the State regulatory authorities that I am aware of.

Mr SCOT MacDONALD: I hear you. Maybe you could take it on notice to confirm that.

Mr FARQUHARSON: Yes.

The Hon. CATHERINE CUSACK: I just wanted to ask about companies that have planes available for lease who would like to take paying passengers, perhaps even around an event, not full-on registered programs of flights. Has that ever arisen as an issue that it is challenging for them to get a licence just to run that as an aspect of their business? The cost of getting a licence to carry paying passengers, people who are intermittently paying airfares, why is it so difficult compared with just being registered to be a charter flight?

Mr FARQUHARSON: The regular public transport operation is taking people on scheduled services and seats are generally available. So, as you do with Virgin or Qantas or whomever, you buy your ticket in the expectation that the operator is certified to perform that operation. A charter operation operates to slightly lower standards, in that they do not operate on set routes, they can be called to go anywhere at any time, and in hiring the aircraft the assumption is that you, as the passenger, are doing so in an informed manner with a group of like-minded people and you are aware of what the conditions are that attach to that operation. The distinction between charter and regular public transport in the new environment will fundamentally disappear and the new terminology will be "passenger transport activities". People will be able to operate either on a scheduled service or on what we would now classify as a charter service. They will be certified to do that, rather than the distinction that is being made at present between regular public transport and charter.

The Hon. CATHERINE CUSACK: Is the safety standard going to change for them?

Mr FARQUHARSON: It is going to go up. For some years now governments of various persuasions have supported the need to remove, to the extent possible, the distinction between charter and regular passenger transport [RPT] and have a relatively common set of safety standards that apply to passenger carrying activities. Those new rules will, to some extent, raise the standard required for what were charter flights.

The Hon. CATHERINE CUSACK: I can see that this is going to increase their costs. Was a risk assessment done before deciding to go for the higher standard? Have we ever lost a charter flight in New South Wales operating under the current standards for charter flights?

Mr FARQUHARSON: Yes. Regrettably, the accident rate for charter is about five times higher than that for regular public transport. While this will become much more of a level playing field, there is not a huge difference in moving into this newer state. They will have to have things like an exposition of how they do business and a safety management system but the return on investment, we would hope, would be that we have a reduced accident rate and, certainly, a reduced fatal accident rate. Do we do a safety case and an analysis? When we prepare a rule, part of the process is to send our rule and our workings to the Office of Best Practice

Regulation through what is called a regulatory impact statement. They determine whether we have done the costings correctly and whether we have used our methods of determining safety value appropriately. It is not done capriciously; it is done as part of a review of any legislation of this type that we put forward.

The Hon. CATHERINE CUSACK: Do you expect that there will be greater flexibility and this will offer an opportunity for hub and spoke services to be provided in regional New South Wales?

Mr FARQUHARSON: I would—

The Hon. CATHERINE CUSACK: Sorry, to interrupt you. I wish to clarify my question. It has been made very obvious to the Committee that the larger operators like Qantas and Rex are not interested, and never will be, in operating that type of service. The only option really is going to be charter flights.

Mr FARQUHARSON: As a consequence of the work we did—it is in one of those documents that we forwarded to the Committee for its consideration—the nature of regional operations has changed substantially. The small piston engine operation is now not supported to anywhere near the extent that it used to be. A lot of that is because the sorts of journeys that people want to take are either now provided by Rex, QantasLink and so on or, if it is an interregional trip of up to 600 kilometres or thereabouts, there are much better roads and people are taking alternative means of transport. What we find when you look at the distribution of maintenance organisations or aircraft operators is that they have often positioned their businesses in a location that when they started gave them a good living but business conditions have changed. Regrettably, these people tend to be rugged individualists who are far better equipped to maintain and operate aeroplanes than actually run a business. It would seem to me that your proposal for spoke and hub in regional centres is one business model that would have some value to them.

The Hon. CATHERINE CUSACK: Especially if they did not have to provide it all the time. For instance, they could have a holiday and not have to get another pilot to cover the service or if there were no passengers they would not have to operate it.

Mr FARQUHARSON: They can choose to operate or not. I think there is an opportunity for them to reach a critical mass such that the business—

The Hon. CATHERINE CUSACK: A group or cooperative?

Mr FARQUHARSON: They could conjoin their current businesses whatever model they choose, but I do not think people are thinking in that way particularly.

CHAIR: Thank you for agreeing to appear before the Committee via teleconference this afternoon. You did take something on notice so the secretariat will be in touch with you to clarify those issues. If you could get that information back to us within 21 days of that notification it would be appreciated.

Mr FARQUHARSON: That is no problem at all. I only noted one thing and that was whether we communicate with Transport for NSW in relation to licence issue.

CHAIR: If the Committee has any further questions for you they will be included in the issues that the secretariat will talk to you about. The information you have provided has been most useful and will certainly contribute to towards the final report the Committee is shortly to prepare.

Mr FARQUHARSON: Anything we can do to help we will most certainly do.

(The witness withdrew)

(The Committee adjourned at 4.49 p.m.)
