
REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

**INQUIRY INTO PROVISION AND OPERATION OF RURAL AND
REGIONAL
AIR SERVICES IN NEW SOUTH WALES**

—
At Orange on Thursday, 11 June 1998

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The Committee met at 2.15 p.m.

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PRESENT

**The Hon. A. B. Kelly (Chairman)
The Hon. I. Cohen, The Hon. J. R. Johnson, The Hon. Dr B. P. V. Pezzutti**

GREGORY PETER RUSSELL, General Manager, Hazelton Airlines, sworn and examined:

CHAIRMAN: Mr Russell, in what capacity are you appearing before the Committee?

Mr RUSSELL: As General Manager of Hazelton Airlines.

CHAIRMAN: Did you receive a summons issued under my hand in accordance with the provisions of the Parliamentary Evidence Act 1901?

Mr RUSSELL: I did.

CHAIRMAN: Are you conversant with the terms of reference of this inquiry?

Mr RUSSELL: Yes, I am.

CHAIRMAN: You have made a submission to the Committee. Do you want that included as part of your sworn evidence?

Mr RUSSELL: I would, Mr Chairman.

CHAIRMAN: If you should consider at any stage during your evidence that in the public interest certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will be willing to accede to your request and resolve into confidential session. Perhaps you would like to speak to your submission and then we will ask you questions.

Mr RUSSELL: Thank you, Chairman and members of the Committee, for this opportunity to talk to you today. Hazelton Airlines certainly welcomes this inquiry. We have not had a great deal of time to put this submission together, and I would have appreciated being able to get it to you beforehand, because I too do not like going to meetings where you get handed this amount of paper when you arrive. But perhaps I could talk you through it, and if there are questions that arise I would be happy to answer them or supply supplementary information at some point in time.

In making an opening statement I might say that the issues that we are talking about in this inquiry are very important in regional New South Wales. What has happened in the public discussion of some of these matters over the past couple of years is that they have been discussed as isolated issues, rather than being interconnected, which they are.

I make the point in the submission that we are not just talking about the issue of landing fees at Sydney airport and the slot system, or Bankstown airport as an alternative to regional airline operations, or regulation or deregulation of intrastate aviation in New South Wales, but also the sale of Sydney airport, the change in name of the Federal Airports Corporation to a new entity from early July. So there are a number of issues that will have an outcome and which we think need to be thoroughly debated. I think this Committee process will help that process.

Just a word or two on Hazelton Airlines, although there is some information in the submission. We are one of the major regional airlines in New South Wales. We operate to 17 of the major centres in the State. We conduct 479 flights every week, and this year we will carry round about 440,000 passengers. We are regionally based. Of our 267 full-time staff, 162 are located in regional New South Wales in centres like Lismore, Casino, Dubbo, Orange, Wagga Wagga and Albury. We see our future very tightly interwoven with and linked to the future of regional New South Wales. That is our patch; that is where we intend to stay and doing what we are doing, but doing it better.

I guess there is a widespread view in regional New South Wales that areas of this State that are non-urban do not seem to be getting a fair go. The issue of access to Sydney airport and the pricing of that access, which became an issue in regional centres at least earlier this year, surprised me in that there was strong galvanised opinion on the issue. I attended the country summit that was held in Wagga Wagga in March, and I really was quite surprised by the strength of feeling on this issue.

In the submission that we have made we have talked about the issue of slots and landing fees first of all. I have provided you with a submission that we made to the Senate inquiry that looked at this issue only a few weeks ago and is due to report, I understand, later this month. In that document are also included a number of letters that came in at fairly short notice prior to that committee hearing from a number of organisations in our network, to tell us what they thought of the issues of pricing and access into Sydney airport, and on the issue of landing at Bankstown airport. I have included those under attachment 2 to the lengthy set of papers that you have in front of you.

First of all, as to landing fees at Sydney airport, you would be aware that in February this issue was raised by the Federal Airports Corporation at a meeting of all industry representatives. The original proposals were roundly criticised by virtually everyone who was at the meeting, including the internationals, the domestics, and certainly the regionals.

The issue has been the subject of a number of working parties, and two weeks ago, on Tuesday 26 May, there was the final meeting of representatives of the industry with the Federal Airports Corporation prior to submission of these pricing proposals to the Federal Airports Corporation board and thence the Minister. That has now occurred, the board has accepted those principles, sent them to the Minister, and sent them to the ACCC, which has 21 days in which to report to the Federal Government. That time expires, as I understand it, on 19 June.

The revised position is that there will be a minimum landing fee of \$140 per landing. The proposal is that the peak period surcharge, which has been a discriminatory tax on regional airlines of \$250 per movement for landings and departures between the hours of 8 and 9 in the morning and 6 and 7 at night, will be abolished. A system of rebates will apply for operators of regional aircraft.

The way that that is going to work is that they will take an average landing fee per operator in the 1998-99 year, and they will increase that fee by 20 per cent, until they get to the level of \$140, over a period of five years. That does allow more opportunity to introduce a higher fee rather than the original proposal, but in our view it certainly does price out of Mascot airport smaller propeller-driven aeroplanes.

It also, in our view, puts pressure on 19-seat aircraft, which we have described in this submission. Currently, 12 of the centres in New South Wales that have direct air services from country centres to Sydney are catered for in 9-seat aircraft, and a further 14 centres catered for in 19-seat aircraft. Some aircraft in those ports are operating 36-seat modes as well. So we are saying that in our view there is pressure on the 9-seaters but I think pressure on the 19s, and you will see that in the details as we talk through the submission.

The key issue in our view is not necessarily the guarantee that the Federal Government has given to regional New South Wales that the slots that apply to regional New South Wales will be guaranteed; it is whether or not you can physically afford to use those slots. I think that is the key issue. It is the relationship between slots and pricing, and it goes back to the point that I made earlier, that looking at these issues in isolation really does not give you the total picture.

We think that there are some issue of principle, even though Hazelton have come out of this round of pricing proposals better than we did in the first round, for regional New South Wales. First is the right of people in regional New South Wales to access their capital city. In our view, if these proposals are adopted it could mean that residents of larger centres have the right to fly directly into Sydney but not people in smaller centres. We think that the pressure could well come on the next level of the regional aviation industry, being the 30-seat market, after the 19-

seat market.

We think that the concern that we now have is going forward with what we believe to be the sale of Sydney airport timed after the Olympics and that potentially there will be put in place by the new owners of this airport a pricing regime that will not help the development of regional New South Wales. We have information from other regional airlines that fly to airports that are newly privatised throughout Australia that there have been new and expanded fees on their operations suddenly imposed on them, and that this has happened over the past 12 months.

If I could come now to the pricing proposals with respect to Hazelton Airlines. On page 3 of our submission we indicate that the passenger landing fee for a Saab aircraft is now \$6.48 under the proposals.

The Hon. Dr B. P. V. PEZZUTTI: Assuming a 60 per cent loading.

Mr RUSSELL: With a 60 per cent loading. That is quite right. With a Metro it is \$12.28, and with a Chieftain it has risen to \$29.17 per passenger. I might say that number has risen from \$5.50 to \$29.17. As these fees are calculated on a per-operator basis, rather than a per-aircraft-type, Hazelton Airlines does not qualify for any rebates. So the increase in the price, at least for Hazelton Airlines, of landing a Chieftain aircraft is dramatically more than it is for another operator who only flies Chieftain aircraft at the moment, if you get my drift.

In relation to the slot legislation, in our view the cap of 80 movements per hour necessitated the introduction of the demand management system into Sydney airport, and that system has been in effect since 29 March. It has only operated on weekends, not during peak periods, and will not operate in our view until the middle of July, when air traffic management systems will change. So we really have not had a proper introduction to it. In our view, it will put a discipline on our business. It will certainly improve the on-time performance of airlines, which passengers want, and it should decrease the amount of holding in-bound to Sydney.

Our estimate, for instance, of the savings was a question asked during the Senate inquiry. It was a saving that we could estimate from reduction in holding in-bound to Sydney. We took a typical flight, if we were able to reduce that flight by one minute over all our flights during the year, that would account for a \$205,000 saving to our business.

One of the ironies of the slot system, however, is that it was imposed because of jet noise at Sydney airport because of the cap. The point we make on page 4 is that the people who really are paying the price of the cap are the people who operate quieter propeller-driven aircraft into Sydney airport, and the people ultimately paying that price are the people in smaller country centres. That is the way we see this boiling down.

The question of landing fees at regional airports has been raised by your Committee. I am pleased that you have. It is becoming a major problem for our business. This year, Hazelton Airlines will pay \$2.64 million to regional councils throughout the State, and we have included in this volume of papers an analysis, at attachment 5, of the various charges that are levied at various airports in New South Wales on operations of ours.

In our view, there is a trend for some councils to use their monopoly position to generate profits that they are using for non-airport activities. The long and short of it is that when we compare the new pricing proposals from the Federal Airports Corporation with the cost of landing Saab aircraft in regional airports, it costs more in country New South Wales than it does at Mascot airport.

The question of Bankstown airport in our view is simply an unworkable situation. Regional aircraft of the type of the 340B Saab aircraft cannot operate at maximum takeoff weight out of that airport; the runways are too short. The ground transport infrastructure between Bankstown and Sydney is inadequate. The reason that people fly with us is that 60 per cent of them are operating some sort of business, and they need to get to the city quickly. Another hour onto that journey and they will drive.

Apart from everything else, Bankstown airport is one of the busiest airports in Australia already. Last year, 410,000 movements occurred, compared with Sydney's 279,000. So it is an air traffic nightmare for a start. It is just not an option.

I will conclude on the question of deregulation. We have been working towards the likelihood of deregulation occurring at the end of this licensing period, in May 1999. We understand the pressure on governments through national competition policy. We do have a couple of concerns, however. We believe that, when it is thoroughly thought through, together with the issue of slot times and pricing at Kingsford Smith airport, deregulation can have an impact on smaller centres in regional New South Wales, and in our view over a short time the combination of these three factors will mean that some centres will certainly lose air services.

Secondly, as a large independent and regionally based airline, Hazelton Airlines has some concerns, which we have made to Professor Parry's inquiry into this issue some time ago, about the power of the airline duopoly in Australia. There is a view that the interstate level of the industry has deregulated. Prima facie, that is the case. But there is a very strong commercial duopoly at work

I make the point to you that when it comes to regional activities, the major airlines wholly own two of the largest regional airlines in New South Wales; they have access to long-term leases in prime terminal space and tarmac facilities at Sydney airport; and both, importantly, own and operate the computer reservation systems that effectively control 90 per cent of the distribution of airline seats sold in Australia. However, having said that, if the playing field is level, Hazelton Airlines see real opportunities for this business.

Mr Chairman, if I could summarise, we believe that this is an inquiry of great significance for regional New South Wales. Indeed, I believe it is a threshold issue for this State, or certainly regional areas in this State. The investment community is not going to invest money in regional New South Wales if there are not reliable and efficient air services to these centres. Secondly, in my view, the absence of air services to some of these smaller centres will hasten the decline of centres and regional cities in the State. I thank you for your time and I welcome questions.

The Hon. J. R. JOHNSON: What has been the percentage or scale of fee increases at these other privatised airports?

Mr RUSSELL: I can provide you with specific examples, but they revolve around a couple of issues. At the moment, there is a levy being charged for the movement of fuel through Brisbane and Melbourne airports, which is a completely new charge. I believe that in Melbourne there are some charges now for carparking and facilities that simply were not charged in the past. I believe—and it is the view within our industry—that too much money is being paid for these airports, and the realities of life are coming home to roost. But I will certainly provide you with more information.

The Hon. J. R. JOHNSON: In other countries in which deregulation has taken place, particularly in the United States, has there been an increase in air traffic accidents?

Mr RUSSELL: On the question of safety, I would answer by saying that I do not believe that deregulation of air services in New South Wales would add to the issue of any safety concerns in this State. I believe that, at an operating level, the Civil Aviation Safety Authority has worked very effectively with airlines such as ourselves and others, and I think that the standard of safety in this State is now very high. I am, of course, aware of the unfortunate accidents—"accidents" is probably too strong a word—with respect to Monarch and the Seaview issues. I think that those days are long gone.

The Hon. J. R. JOHNSON: With a deregulated industry, do you maintain that your answer would still hold good?

Mr RUSSELL: I think safety is an issue that is within the area of responsibility of the Federal authority, which has

now got its act together, quite frankly. We see the level of surveillance that occurs at our level of the industry as high.

We think that standards have improved right across the industry. I do not believe that deregulation would cause an additional safety concern.

The Hon. J. R. JOHNSON: The places shown on your map are the only places that Air-Link flies to?

Mr RUSSELL: Yes, that is right. We have a commercial relationship with Air-Link, and we have had for seven or eight years. They provide services into that north-west area of New South Wales that Hazelton Airlines once provided but withdrew from in 1991. We have worked a very successful hubbing operation in Dubbo over those years. As it has grown and matured we have put more services, more seats, better times, and it has worked very well indeed.

The Hon. J. R. JOHNSON: So it is only a commercial relationship, and not a shareholding relationship?

Mr RUSSELL: No, there is no shareholding. We undertake some engineering services for them, and they use our flight designator, but, apart from there being a close commercial relationship, and one that works well, there are no cross-shareholdings.

The Hon. J. R. JOHNSON: Again referring to the network map that you have shown: how many of the establishments that you have here do you now have competition with? You would certainly have them into Canberra.

Mr RUSSELL: We do not fly to Canberra, unfortunately. We would like to. If I could start in the north of the State and work our way round. In Lismore and Casino we are a sole operator, but we are in competition with Ballina, which is 30 miles away. And we are in competition with a propeller-driven Saab aircraft that we operate with 737 jet aircraft in the middle of the day. So it is a very competitive market indeed.

In Armidale we compete with Eastern Australia Airlines. In Dubbo we compete with Eastern Australia Airlines. In Mudgee we are a sole operator, and that is a market of about 6,500 people, and we operate a Chieftain aircraft into that market. In Broken Hill we are a sole operator. It is a market of about 12,000 people a year. In Parkes we are a sole operator. Cudal is an airport that we own, and although we fly there it is for maintenance, not to carry people unfortunately. In Orange we are the sole operator. In Bathurst we are the sole operator. In Griffith and Narrandera we are the sole operator. In Wagga Wagga we are in competition with Kendell, and in Albury we are in competition with Kendell. In Moruya and Merimbula we are a sole operator. Traralgon in Victoria is outside the scope of the issue of regulation in New South Wales.

I might say that, from looking at a map like that it might seem that the number of places at which we compete with competitors is limited, about 70 per cent of the passenger numbers that we carry come from these larger markets where we have very strong competition indeed.

The Hon. J. R. JOHNSON: If the industry was deregulated, in the majority of these places somebody would have to withdraw or not continue in them?

Mr RUSSELL: I have indicated separately in this submission—I think in attachment 3, which is on the third-last page of this heap of paper—that the map that you are referring to is a network map of Hazelton Airlines. But, if you looked at attachment 3 you would see that the markets where 9-seat aircraft operate to, and the markets where 19-seat aircraft operate to, I believe are under pressure in this new environment going forward, as a combination of not just deregulation but of issues of landing at Sydney airport and the pricing of that landing at Sydney airport.

With respect to our network, we would have to look—and are running now—a number of scenarios about the shape of what we would do in a different environment. There is no airline in New South Wales that is not doing the same

thing. Clearly, I would expect competition in some more of these markets, and there are some of them that perhaps we may not operate to in the future.

CHAIRMAN: Following on from that: it has been suggested that if deregulation does go ahead, some companies that have made some forward purchases obviously would get into markets—and I am not sure that you are in the same boat—and, if deregulation did not go ahead and they had to change their plans, they would have to use those planes interstate. Have you undertaken any research that you are able to tell us about?

Mr RUSSELL: We have recently expanded our fleet by two additional Saab aircraft. We brought them into our system late last year. We now operate eight Saab, four Metro and one Chieftain aircraft. We see changes to our fleet composition going forward, depending on what occurs.

CHAIRMAN: But you have not placed any additional orders?

Mr RUSSELL: Not additional ones, not at this stage, no. I think it is important that we make the point that, whatever is decided, if there is some lead time involved the industry could gear itself. I regard that as being important. There are lead time issues, but there are also issues in terms of the way that your business is organised and in that respect you really need some time to be effective.

CHAIRMAN: Not just a few months?

Mr RUSSELL: No.

CHAIRMAN: Some people have suggested to us that the advantage of deregulation in some of these profitable areas—in Dubbo, for example—would be that with additional operators the prices would come down because of competition. The concern of some is that if the actual air fare drops and you do not get additional passengers, then the income to the airline operator effectively is reduced, and then you have got either to reduce or cut out your services. Is that scenario correct?

Mr RUSSELL: I think there are a limited number of fliers in regional New South Wales. There is no doubt in my mind that a competitive environment does assist the growth of those market-places to some extent. However, for instance, if we take Dubbo, we are currently operating in excess of 45 return services into that market between Sydney and Dubbo each week. Eastern Australia Airlines are operating 25 return services.

There is, at the moment, a gross over-supply of seats for the number of people who want to fly. The market at present is running at a total of about 106,000 or 107,000 per year. There are over 220,000 seats in that market. Now, if a third operator comes in, all it is going to do is get worse. A market of the size that we are talking about is not sustainable for three operators long term. It is just not.

CHAIRMAN: So, either somebody has got to drop out, or you get smaller planes, or you reduce your costs in other ways?

Mr RUSSELL: I think this is at the heart of the question or the sharp edge, if you like, of deregulation in a regional environment. In theory, these markets work when the market size is significant—Sydney to Melbourne for instance—but, when you get into smaller markets that are of limited size, you have got to start asking yourself some

pretty hard questions. Having just given you the example that I have of Dubbo, I do not believe that if that situation had a third operator in there longer term—and, clearly, in a deregulated environment, a third operator has every right to come into a market like that—that simply would not be sustainable long term. I might say that in Dubbo at the moment we are in a highly competitive market. There is now, and has been in the market for some weeks, an air fare of \$59 to Sydney. No-one is making any money in that market.

CHAIRMAN: You cannot drive for that.

Mr RUSSELL: No-one is making money long term with that.

The Hon. Dr B. P. V. PEZZUTTI: It is a bit cheaper than from Lismore to Sydney.

CHAIRMAN: There are a couple of issues that I am not sure you have touched on yet. One is the computer reservation system. Would you care to make some comments on that? Is that a monopolistic situation?

Mr RUSSELL: As a regional airline we need a couple of services from a major airline. In most cases the arrangement works quite well. We need a terminal access at a major airport, and tarmac access, mainly because a good number of passengers who fly with us then want to get off our aircraft and get on a jet aircraft to go interstate or overseas. The airline industry world-wide has been working on introducing seamless service, so that it becomes as easy as possible to transfer from one level of the industry to the other.

The issue of the computer reservation system is perhaps the most significant: that is, we must be hosted in a computer reservation system of one or other of the major airlines, because half of our traffic comes out of the Sydney market. Now, in Sydney we do not have the critical mass to be able to develop a brand name, therefore if you want to fly you either ring up Qantas or Ansett. In doing that, you find us located, at the present time under our commercial agreement, in the Ansett Merlin system. It is a critically important part of how we sell our product, and it is an area that has been the subject of some public debate in this country, and certainly in the United States over the years. It gives, potentially, very strong commercial control of the region by the major operator. It is where you appear on the screen; it is how easy it is for an agent to book you; and it is the chronological order that your flights appear. It has to do with all those issues as to the way you appear in the market. It is a very important service.

CHAIRMAN: For example, notes are given to us by our staff that we pick up our tickets at Hazeltons, and we go to the Hazelton counter and they would be automatically given to us at Ansett; whereas, when Committee members fly back by Qantas or Eastern tomorrow, the tickets are there in the normal system. Does that actually limit you to some degree?

Mr RUSSELL: We have a separate ticket counter at Sydney airport, and that seems to work reasonably well. I think there are relationship issues between regionals that are wholly owned and regionals that are not. I think Qantas has every right, for instance, to make the service between themselves and Eastern as seamless as possible. But it is a potential market disadvantage for an independent operator like ourselves, yes.

CHAIRMAN: Another concern with deregulation is that obviously there are some internal subsidies, in that you use profits from some of the more profitable routes that you are on to subsidise the less frequented routes.

Mr RUSSELL: Yes.

CHAIRMAN: There has been a suggestion—and I think it occurs in other States—that, where there is a cross-

subsidy charge on the profitable routes, the government might take a charge and contribute towards the less profitable routes. Have you any comments on that? Obviously, you do this internally now.

Mr RUSSELL: It is a community service obligation in some of the smaller centres. I would think that that is going to be pretty hard to get up, quite frankly. I know that a subsidy arrangement still operates in Queensland, but it is one of the few places in Australia where it does. I think if you are operating in a commercial environment, to try to have government understand the economics of operating at the very small end of the regional business is a very difficult task indeed. I cannot see it being successful.

The Hon. I COHEN: At present, under the regulated model, are you running non-profitable flights or routes to particular areas?

Mr RUSSELL: Yes.

The Hon. I COHEN: Are you forced to do that?

Mr RUSSELL: Yes.

The Hon. I COHEN: What would some of those areas be?

Mr RUSSELL: I would not like to go into a lot of detail, if you do not mind, but there are parts of our network that we currently operate that are unprofitable.

The Hon. I COHEN: So, with deregulation, would you expect that those services would wither on the vine?

Mr RUSSELL: In a deregulated environment, we would have to look at how we used our resources to achieve the maximum return for our shareholders. One view is that airlines will concentrate on the larger centres where there are potentially more passengers, and that they will, with the issue of Sydney airport, slots and fees for landing in Sydney, seek to maximise the size of the aeroplane and the number of passengers on board to maximise the value of the slot that they have and the price they pay to access it. I see that as being one of the developments. So there would be, if you like, a concentration on some of the larger centres in the State, mainly because you would be forced to do that, and perhaps less emphasis on some of the smaller centres.

The Hon. I COHEN: In those areas, would there be a downgrading to smaller aircraft as an automatic reaction to deregulation? For example, out of Ballina—where you mentioned you are dealing with one substantial size jet per day, and there are Saabs at other times, and I think on Saturday for example they have only the one jet in service from Sydney, if I remember rightly?

Mr RUSSELL: Yes.

The Hon. I COHEN: Will we be dealing, in a deregulated market, with an increase of smaller craft?

Mr RUSSELL: Not into those markets. It comes back to not just looking at deregulation but looking at Sydney airport. If, as a regional operator, you intend to open a new service, you need a slot to land at Sydney. If you do not have a slot, it is going to be awfully difficult to get into Sydney, particularly at a peak period when people want to fly.

The Hon. I COHEN: So it will still be regulated into Sydney?

Mr RUSSELL: Effectively, demand management at Sydney airport will have that effect, yes. I do not see, with the way that pricing at Sydney airport is going, that smaller aircraft will be there longer term. I just do not see that happening. So, therefore, in terms of accessing Sydney, I think that you will not see a growth in smaller aircraft into Sydney. It will be quite the reverse.

CHAIRMAN: They could go to Bankstown though.

Mr RUSSELL: Well, that is possible.

The Hon. I COHEN: You mentioned before that there are almost twice the number of flights in and out of Bankstown by small aircraft, like KSA is dealing with.

Mr RUSSELL: Bankstown is a major training facility as well, so there may be a decision made to move some of those training aircraft from Bankstown. But I do not know.

The Hon. I COHEN: Out of the Sydney basin altogether?

Mr RUSSELL: It could be.

The Hon. I COHEN: Are cargo flights a factor as well in this whole deregulation debate?

Mr RUSSELL: Not from our viewpoint. Cargo is a relatively small amount of what we do. I might come back to finish a point. You asked whether we would see more smaller aircraft. I do not believe in the bigger air routes you will see more, because I do not think they will have great difficulty going to Sydney.

The Hon. I COHEN: I was referring to the marginalised areas.

Mr RUSSELL: That is the issue. The issue is: how do those small centres then maintain an air service? One way is to have, for instance, a stop on route, with a 19-seat aeroplane. So that you might fly from point A, pick up at point B and then go on to point C. The people at point A do not like it, I can assure you, if they have to stop on the way. Another alternative that there be developed a system of hubbing such as we have mentioned operates very successfully in Dubbo at the moment.

Dubbo is somewhat unique in New South Wales in that it is far enough away from Sydney to make it difficult and most inconvenient to drive, whereas some of the smaller centres in the Hunter Valley and places such as Mudgee and some areas around this part of the south-west are much more accessible by road. I think that hubbing will be fairly difficult to pull off. It is something that Hazelton Airlines would look at doing to assist small operators fly to another airport, but I am not sure that the market would wear it. We are in real competition with the motor vehicle, particularly in markets that are distant from Sydney to the extent that Orange is. The biggest competitor that we have in this market is the motor vehicle. There is no question about that.

The Hon. I COHEN: Without wishing to be seen to be casting aspersions on small airlines, is there not a safety factor involved with smaller aeroplanes?

Mr RUSSELL: This debate is currently going on within the Civil Aviation Safety Authority.

The Hon. I COHEN: If I could interrupt you there: and also the stop-start service, with one aircraft making a number of stops on the way. Does that have any effect potentially?

Mr RUSSELL: I would answer that question by saying this. I think that there are some very reputable airlines in this State that happen to operate smaller aircraft, and one is our colleague in Dubbo. I think it is very much a question of operator as to how those aircraft are flying and how they are maintained, rather than the fact that they are smaller aeroplanes. That, ultimately, is what this is about: pilot training and maintenance of aircraft, and how those aircraft are surveilled by the Civil Aviation Safety Authority. As I say, I think that has improved dramatically at that end of the industry over the years. That is really my answer. I think it very much depends on who is flying the aeroplane and who has looked after it, rather than size.

The Hon. I COHEN: You mentioned the sale of KSA after the Olympics.

CHAIRMAN: Before.

The Hon. I COHEN: No, I thought it was after.

Mr RUSSELL: We think after. Maybe there is another view.

The Hon. Dr B. P. V. PEZZUTTI: It depends on whether the market-place is right.

The Hon. I COHEN: Where does that come from? Is that just a gut feeling?

Mr RUSSELL: An educated gut feeling. I mean, if I was in business, when would I sell an asset like that? When you have just put through as many people as you possibly can, coming to an Olympic event.

The Hon. I COHEN: How will this affect the deregulation debate?

Mr RUSSELL: I am not sure I can do justice to an answer. Our concern has principally been that where airports have been privatised in Australia in the last 18 months, we have seen evidence that the new owners are looking at ways of increasing revenue, mainly because I think some of them have paid too much for those airports, but that is my personal point of view. We would need an assurance from the new owners that regional access was still to be maintained at affordable levels.

The point I make is that, whilst you can have a guarantee under the slots legislation that regional airlines will have a ring-fenced number of slots to operate into Mascot airport—and we certainly welcome that, and we have said so publicly—it is our concern that that is one arm of the Federal Government acting, but another agency of the Federal Government at the moment, the Federal Airports Corporation, can determine the price of those slots and therefore whether or not you can afford to access them. That is our concern.

The Hon. Dr B. P. V. PEZZUTTI: Our party is mostly responsible for this review and this reference, and the current Government had planned to deregulate. However, the issue is that it works pretty well to have a control process for some close-to-the-city small airline operations for country towns, but it works very much against places like Ballina and Lismore, where I come from. The costs of flying in and out of Ballina and Lismore are very, very high indeed. It is profitable from those more profitable markets that give you the ability to subsidise your smaller markets. Is that correct?

Mr RUSSELL: I dispute the fact that air fares are very, very high.

The Hon. Dr B. P. V. PEZZUTTI: But it is from those markets that you will make a profit that will allow you to subsidise your smaller operations?

Mr RUSSELL: From some markets.

The Hon. I COHEN: You do not fly out of Ballina though, do you?

Mr RUSSELL: No, we do not fly out of Ballina. We do fly out of Lismore.

The Hon. Dr B. P. V. PEZZUTTI: And Casino.

Mr RUSSELL: Can I go back and make a point to you about that?

The Hon. Dr B. P. V. PEZZUTTI: Yes.

Mr RUSSELL: We entered that market at the end of 1992, after Ansett withdrew. We offered that market three return services a day. We said to that market that we would base air crew and an aeroplane there, and that we would open an office in that market-place. And we have grown the market since we have been there. Consistently, our load factors out of those markets are high, because it is a growing market, and we are very competitive in that market.

If you are comparing our fares with air fares that are charged by interstate and international airlines—and frequently that occurs—then I would need to take you through, and in a lot of detail, the price regimes. For example, we frequently get compared to being able to fly to New Zealand for the cheapest possible discount on that aeroplane, and it might have four or five seats on a 747. Yes, we are in a different area of the industry, and our costs, as you can see from some of the information I have given you today, are not getting any less; they are increasing. I believe that in Lismore we have provided the market with an outstanding service and that we have been rewarded through patronage. In my view, that is the best answer that I can give you.

The Hon. Dr B. P. V. PEZZUTTI: Would it be fair to say that it is the most profitable part of your operation?

Mr RUSSELL: No. It is not.

The Hon. Dr B. P. V. PEZZUTTI: It is not the most profitable?

Mr RUSSELL: No, it is not.

The Hon. Dr B. P. V. PEZZUTTI: The circumstance that I face, living in Lismore and flying to Sydney, is that I have a choice of Hazelton Airlines, getting on at Lismore and dropping into Casino on the way to Sydney which, as you say, people do not like doing if they are in New South Wales, and I do that regularly; or I go out of Ballina, with the same jarring Saab or whatever it is called; or I take the chance and I drive to Coolangatta, which is an option because it costs the same, and I get a jet; or I wait until the middle of the day, when Ansett—because it is unchallenged—deigns to put a jet in there in the middle of the day when they are not using it for anything else. That is the only time we get the jets, when they are not using it for something else. All of the people who fly from the north coast have suffered from what is effectively no competition.

Mr RUSSELL: I disagree with that. I absolutely dispute it. We have come into that market-place. There are three airports in 30 nautical miles.

The Hon. Dr B. P. V. PEZZUTTI: I accept that.

Mr RUSSELL: We have come into that market-place and provided very strong competition. It was not there prior to the end of 1992. I absolutely reject what you are saying, I am sorry.

The Hon. Dr B. P. V. PEZZUTTI: If only one airport operated and two or three operators flew into one airport, we would be able to have, I presume, the same frequency with larger aircraft. Is that correct?

Mr RUSSELL: I think that that is one of the great fallacies and misunderstandings of aviation. What you have got at the moment is frequency in small aircraft, and that is what the market wants. That is what we provide in Dubbo. If we ran jet services into Dubbo, we would reduce the number of flights by probably two-thirds. People do not want them. They want a flight in the morning and the ability to come back.

The Hon. Dr B. P. V. PEZZUTTI: At a site like Lismore, when you have Lismore, Ballina and Casino within 30 nautical miles of one another and are a driving distance apart of about 40 minutes, if I wish to get a jet in the middle of the day, that is by far the fullest plane of all of them. People are obviously choosing to fly at that time. I often fly down at that time because I want to take the jet. If all of those three loadings were put into one passengers terminal, you are saying that there would not be a jet?

Mr RUSSELL: Yes.

The Hon. Dr B. P. V. PEZZUTTI: Find out, when it is deregulated, whether or not Qantas joins the flights, because it is simply not possible at the moment.

Mr RUSSELL: I can tell you now what will happen in a deregulated environment. That jet will go. There is no question about that. Part of the reason it is there—and you are right—is utilisation of the aeroplane at midday, and the number of seats that are available in heavily discounted numbers are very large indeed. It is operating there for aircraft hour utilisation; it is not there to make money, I can assure you. Can I equally remind you that before the end of 1992 Lismore and Casino had Fokker 50 aircraft, a 50-seat aircraft bigger than the Saab, yet one service used to arrive at a quarter past three in the afternoon. We found that when we put in a service in the morning and gave people the opportunity to spend a day in Sydney, the business market was absolutely overjoyed by that.

The Hon. Dr B. P. V. PEZZUTTI: It is interesting that Ansett instantly followed that in Ballina. It was something that we had been calling for for some time.

Mr RUSSELL: But is that not competition? I would have thought that is exactly what I am saying to you.

The Hon. Dr B. P. V. PEZZUTTI: I am saying that what we need up there is probably more competition, probably not less.

CHAIRMAN: But it is managed competition now, really.

The Hon. Dr B. P. V. PEZZUTTI: It is a regulated market. There are two operators: one gets Ballina, and one gets Lismore and Casino. In a deregulated market, probably Casino will drop out. But the opportunity for expansion of the tourist trade, rather than the business trade, would be for an operator an opportunity that does not exist at the moment.

Mr RUSSELL: I do not agree with you.

The Hon. Dr B. P. V. PEZZUTTI: So you think that everybody will lose with deregulation? Is that the message that you would give the Committee?

Mr RUSSELL: I am not saying that at all. I have given you our views on deregulation. We believe that it will come and have been gearing up for it. But——

The Hon. Dr B. P. V. PEZZUTTI: Will everyone in New South Wales lose?

Mr RUSSELL: No. But we do have some concerns about it. We believe the smaller markets in this State will suffer. We believe they will, yes, because ultimately people like ourselves will have to devote our attention to some of these larger market-places. That is issue one. Issue two is that we believe that the domestic industry in this country is a very tightly controlled duopoly, and we think that that may not be in the best interests long term. We can live with it as long as the playing field is fair. That is the point I make to you. We are used to operating in a strongly competitive environment.

The Hon. Dr B. P. V. PEZZUTTI: Even the big markets, like Lismore, Ballina and Casino, will suffer as a result of deregulation?

Mr RUSSELL: I did not say that. I believe that what has happened up there in the last six years has been good for that whole market-place. That is the overwhelming opinion of people who live up there, I can assure you.

The Hon. Dr B. P. V. PEZZUTTI: Yet have you taken out figures on the number of people from Lismore who fly out of Coolangatta?

Mr RUSSELL: I have taken, and take on a daily basis, a look at what happens to those flights that we operate—how many seats we have sold, and in what category they are sold. I can say to you, without equivocation, that we have been good for that northern New South Wales market. You will find, if you talk to people like John Crowther, the former mayor up there who has come from being concerned about Hazelton coming into the market to being one of our strongest supporters.

The Hon. Dr B. P. V. PEZZUTTI: Given that there is a subsidy of \$1.5 billion into public transport in New South Wales for Sydney, Newcastle and Wollongong, is there room for the government to provide some form of community service obligation payment, following on what the Chairman talked to you about, for regional airlines, or subsidising regional airline passengers for their transport, in the same way they have subsidised the railways, trains and buses?

Mr RUSSELL: I do not believe it would work. I believe it is totally at odds with the reality of national competition policy in this country.

The Hon. Dr B. P. V. PEZZUTTI: Do you think that the government in New South Wales will reduce the subsidy to railways and buses in Sydney, Newcastle and Wollongong, that they will deregulate those markets?

Mr RUSSELL: Frankly, I am interested in what you say about the trains and buses, but they really have very little to do with me. If anything, I would have a concern about the amount of public expenditure that is occurring in the cities, rather than in regional centres, if that is the question. But, in terms of whether they deregulate transport, quite frankly, it does not make any difference.

The Hon. Dr B. P. V. PEZZUTTI: Is the Albury \$10 landing fee the same size as the landing fee that you would find at other regional centres?

Mr RUSSELL: It has been, yes. If you read through our submission, you will find that attachment 5, at the very last page, has an analysis. Some councils charge a per-head tax, some charge a combination of per-head and per-tonne tax, some charge a monthly fee. What we are saying is that Albury is certainly at the upper end of it, but, if you look at it in isolation, you have got to see how many people fly into those centres and multiply out exactly what revenue is being achieved and what they are doing with it. In our view, there is a super profit being made out of Albury airport, and we have objected, so have Kendell Airlines and So have Air Facilities, three major operators into that airport, that the council is taking funds from the airport and using them for other purposes. We believe it is a slug on people who fly on that route, because ultimately they are the ones paying for it.

The Hon. Dr B. P. V. PEZZUTTI: The amount for Casino is obviously high, as it is per head, as is the amount at Armidale.

Mr RUSSELL: Yes, they are.

CHAIRMAN: Thank you for that information. If there is any further information that you want to send along, we would be pleased to receive it.

Mr RUSSELL: Thank you, Mr Chairman.

The Hon. Dr B. P. V. PEZZUTTI: How many of the contracted airline services that you had in 1991 have you since declined to continue to operate?

CHAIRMAN: In answering that question, we should bear in mind that you were not the general manager at the time.

The Hon. Dr B. P. V. PEZZUTTI: No, not you personally, but Hazelton Airlines.

Mr RUSSELL: I would be happy to do that. There were 14 services from which we withdrew in September 1991, basically because the company could not afford to continue to operate them and stay in business.

CHAIRMAN: Some are now Air-Link services.

Mr RUSSELL: Some are now operated by Air-Link. I might say that that came at a time when there was a severe recession hit country New South Wales, as well as a drought.

CHAIRMAN: Thank you for your evidence today.

(The witness withdrew)

THOMAS RODERICK GORDON, Manager, Marketing and Operations, Air-Link Air Lines, sworn and examined:

CHAIRMAN: In what capacity do you appear before the Committee?

Mr GORDON: As the Marketing and Operations Manager for Air-Link Airlines.

CHAIRMAN: Did you receive a summons issued under my hand in accordance with the provisions of the Parliamentary Evidence Act 1901?

Mr GORDON: I did.

CHAIRMAN: Are you conversant with the terms of reference of this inquiry?

Mr GORDON: I am.

CHAIRMAN: You have not given the Committee a written submission.

Mr GORDON: No. I would like to make a verbal submission.

CHAIRMAN: If you should consider at any stage during your evidence that in the public interest certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will be willing to accede to your request and resolve into confidential session. Would you like to make a statement first before we ask questions?

Mr GORDON: Yes, Mr Chairman. As I stated, I have a verbal submission. I think it might be pertinent to give you some background to Air-Link Airlines and the services that we provide, to give you an understanding of where we fit into the picture of regional services in New South Wales, even though it has been mentioned somewhat in the Hazelton Airlines submission.

Air-Link provides central air services to and from Dubbo to the western New South Wales centres and towns of Cobar, Nyngan, Bourke, Brewarrina, Coonamble, Walgett and Lightning Ridge. On an annual basis, we will carry approximately 10,000 passengers. That represents about 12 per cent of the total traffic that operates on the Dubbo and Sydney route. We operate the spokes of a hub and spokes system, based on the city of Dubbo, and we connect with Hazelton flights to and from Sydney, with a 20-minute connection time at Dubbo airport.

That system has been operating since 1991, when, as was mentioned previously, Hazeltons withdrew from a number of centres, including the ones that Air-Link now services. The type of aircraft that we operate are 8-passenger and 5-passengers twin-engine, piston-engine aircraft, non-pressured, namely the Piper Navajo Chieftain and the Cessna 310. We have a commercial arrangement with Hazelton Airlines, part of which allows to co-share, that is, use their ZL flight designator for the sale of flights and the central reservation systems. By virtue of our arrangements with Hazelton Airlines, we are therefore hosted in the Ansett Merlin reservation system.

With our scheduling, we attempt at a very minimum to provide a daily service to each of the centres to which we fly. There are a couple of exceptions to that, notably Nyngan and Brewarrina, where only very small number of passengers, between 1 and 200 each year, travel on our airline. The reason that we try to provide at least a daily service is that we know the market requires frequency of service, unlike it did many years ago where a lot of centres both in that area and in New South Wales in general received perhaps three services a week. Improved road

conditions, less travelling time and better coach services now dictate that air services have to be more frequent. In the case of Cobar, we provide twice-daily services.

Our schedules are also aimed at, and biased to, the Sydney market. We find that most of the traffic, probably with the exception of Cobar, is coming from Sydney or interstate and going to the western areas of New South Wales to conduct business, and then returning to Sydney or interstate destinations. When I say most, I mean the majority of 60 to 65 per cent. It is for that reason that we try to bias our schedules towards that end of the market. Cobar, being a major mining centre in New South Wales, is a little different, and we have equal opportunity of schedules for that centre.

We also provide, in conjunction and by arrangement with Hazelton Airlines, through fares—in other words, one fare from Bourke to Sydney, so that they do not have to buy separate fares to fly on our aircraft to Dubbo and then buy a separate fare to travel through to Sydney. That is just a little of the background of Air-Link and where we sit in the system.

As is fairly obvious from that, our presence in Sydney is nil, so that a lot of what this inquiry is about in regard to looking at the issues of Kingsford Smith airport, we do not have a direct interest, but we certainly have an indirect interest, and we would like to make some comment on these various issues as I go through my opening comments. I will start with the landing fees at Sydney.

Firstly I would mention that, in the collection of revenues for the provision of services at Sydney airport, there are basically two sides: revenues coming from the air side, from the aircraft landing at and taking off from Sydney airport; and there is also revenue raised from the land side, being rentals on property from commercial car hire firms, shops, and so on and so forth. It is our understanding that the air side revenue is the only revenue considered for the function and operating of that airport. We do not think that is correct and right. We think that revenue from the land side should also be included and combined to give the total operating costs for the airport.

The current review of charging by the Federal Airports Corporation we see as detrimental to regional services in New South Wales. It is an increase in fees. Though the peak period charging has been removed, there are planned increases in fees. That can only reflect in dearer ticket prices for passengers, and it is going to make the operations of smaller aircraft into Sydney more difficult to sustain. That will have a direct effect on the smaller communities of New South Wales.

On the 80 movements per hour cap, we make the following comment. The 80 movement per hour cap is nothing to do with the capacity of the airport. It is really a cap, applied for political reasons, on the noise level in and out of Sydney airport. Regional traffic contributes very little to the noise problems of Sydney airport, and therefore it could be argued that the regional traffic should be excluded from the cap.

If that was to be the case, that would give more capacity to Sydney airport, which it desperately needs because there are a lot of periods of time when the slots are totally booked out, and there is no capacity left at certain times of the day. It is also going to provide additional revenue for the functioning of that airport, again allowing the pressure on ticket prices to be reduced. It will also provide more surety for the provision of regional services in New South Wales should that be allowed.

As to landing fees at regional airports, we see a vast difference in approaches across the State. It ranges from the larger commercial centres, such as Dubbo, Albury, Wagga Wagga and so forth, through to the very small centres such as Brewarrina and Walgett. We believe that in a lot of these larger airports the revenue raised is in excess of that required to maintain the airports, but we also see in a lot of the smaller airports that there is no revenue raised from any type of air traffic for the provision of maintaining these airports. I will give you a little bit more detail on some of our services.

For example, at Walgett, we do not pay any passenger charges and we do not pay any landing fees. I do not believe there is any system of collection of moneys for the control and maintenance of that airport. The funds that that council uses comes out of the general funds for the provision of that airport. Another example is at Cobar airport, where we do pay a head tax, or per passenger fee, but we are the only operator who pays any fees at that airport. Even though we only provide 40 to 50 per cent of the movements in and out of that airport, we are probably paying 95 per cent of the fees towards the maintenance of that airport.

The Hon. J. R. JOHNSON: The rest are private, are they?

Mr GORDON: The rest are charter aircraft, bank-run aircraft, private—the whole range.

CHAIRMAN: They do not even charge for the bank runs?

Mr GORDON: No. It is a matter of the difficulty in collection, and the cost of the collection of fees. We pay on an honour system. We count the passengers that we have in and out of that airport, and we pay them a set amount per head.

CHAIRMAN: I investigated one or two matters with a councillor, and I was led to believe that there was some system that you book in a landing when you come in and that there is some printout that you get once a month or something.

Mr GORDON: It is known as Avdata, which a lot of the airports do use. It is, apparently, a fairly expensive service to provide. Airport operators can also operate voice-activated recorders that collect their own information on airport, but that relies on someone actually recording the landing at that airport. From an overall point of view, apart from the discrepancies that occur out there, the best and fairest way for the funding of regional airline traffic is on a per-head passenger fee; it is equitable, and it then depends on that local council setting its own fees. But we have great difficulty where other users of the airports do not pay for their share of the use of that airport.

I would now like to comment on the slot system in Sydney from our perspective. There is no doubt that it has certainly given on-time performance back to regional services in New South Wales. In fact, it is now quite common for us to see flights early. That is good. But we are very concerned as a regional airline about the slot system. It is good that there is a ring-fence there for regional services, but any plan or system on the pricing of those slots would be hugely detrimental to regional air services. Time and again, when we are talking about pricing, it is all very relevant to the size of the aircraft. The smaller the aircraft, the smaller the community, the more detrimental it becomes.

As far as Bankstown airport is concerned as an alternative, be it for large or small operators, we do not see it as a realistic option. The air system in Australia is interdependent. It is meshed. It is not only regionals, it is not only domestics, but it is international, and they are meshed as one. I think if you try to fragment one of those from the others, you will upset the balance of the whole system.

I will give an example. I understand that on-carriage from international traffic for some of the domestic carriers is around 40 per cent, therefore they want to be at the same airport. On-carried to domestic is something like 12 or 15 per cent, but again a very important source for both types of airlines to be at the same airport. Relatively, it is more important for the regional airline to be able to access the same airport as the domestic carrier I would think, and it is not only important for on-carriage, but it is important to access Kingsford Smith airport for its proximity to the business centre in Sydney. Bankstown airport just does not have the infrastructure, it does not have the ground transport system to get to and from Sydney, and if any service were forced to go to Bankstown it would quickly degenerate into a non-service. I think overall, from our point of view, the answer is that it needs a second airport, and

it needs the opportunity for all types of traffic to use that second airport.

On the issue of deregulation we are a little unique I suppose, because we have operated in a deregulated environment.

In 1991 some areas of New South Wales were deregulated, including most of the western area of New South Wales. Those are the places that we fly to now, with the exception of Cobar. That occurred for four years. I believe it was 1995 when there was last a review of services, and in New South Wales those areas were re-regulated. Basically, the difference between what we have done in a deregulated and a regulated environment has been absolutely nil. However, we did not get competition as you would expect; there were no other airlines flying over the same routes as Air-Link in a de-deregulated environment. Had there been, it would have been a completely different picture.

I would support the comments about regional airlines, and particularly independent regional airlines. There are probably three absolutely fundamental things that they need. They need a central, computer reservation system. There are only two in Australia. One is owned by Ansett, and one is owned by Qantas. Flying into Sydney, you need terminal facilities. You have got to be able to park your aircraft, and you have to be able to board your passengers from terminal facilities. That ability is extremely limited in Sydney and again, with some exceptions, that is controlled by the two major airlines.

Finally, because of the relationship between regional traffic and interstate traffic, you basically need the support of one of those major domestic airlines to allow that meshing and that interchanging with traffic to happen. From our perspective, the domestic airlines need the regional airlines as much as the regional airlines need the domestic airlines too. It is a happy marriage. But it is also a barrier to new entrants or for existing airlines to take over additional routes, because it is as much a matter of capacity and willingness to do it as anything else.

So, in a de-deregulated environment, if it is trying to encourage existing airlines to come onto new routes, or to encourage new airlines to take up those routes, these fundamental issues have to be overcome. That is where there are barriers, and there will continue to be barriers, to achieving the desires of deregulation. There is a very good example of this right now. If we look at the interstate market, there is a route called Sydney-Canberra which is absolutely plum for regional types of operations. In fact, in the last few years, there have been regional carriers who have entered that market to provide higher frequency, but the regional carriers operating on that frequency are wholly owned by the two major domestics. There is no other airline operating over that route. That is fairly indicative of what the two-airline duopoly is about.

The question to be asked or answered is: is it going to be constructive or destructive? We have a position now where we have managed competition on some of the larger ports and sole operators on some of the smaller ports. In our mind, there is no doubt that where managed competition has been introduced at the larger ports there have been more flights and more services. Overall, the air fares may have been reduced to some extent. But that does not necessarily apply to the smaller centres, particularly bearing in mind the barriers that have been put up by Sydney airport and the costs, so on and so forth. We are of the view that pricing at Sydney airport will drive out the smaller aircraft types over the years.

On the opportunity of hubbing, I repeat that we are the spoke in a spoke and hub operation. That works very well. It works very well for us. It allows us to provide a good service to the centres that we service, and it works well for Hazelton Airlines because I believe it gives them additional traffic over the Dubbo to Sydney route. But, if you like, it is the remote areas of New South Wales that we are servicing. It is a long way from Sydney, and it is difficult to get there.

We do not believe that hubbing and spoking will operate in those areas closer to Sydney. For anything that is a three-hour or four-hour drive of Sydney I just do not believe it is an option. I think people will just hop in their cars and go. Passengers—even where our passengers are—are not fussed about getting on a plane, going to another destination and changing aeroplanes. In our area, it is a good option because it is a long way to any other alternative. If you are talking about the same principle close to Sydney, it is not a viable option because the car and—the coach become an

option.

Gentlemen, that is basically all that I have to say at the moment. I would be more than happy to field your—questions at this point.

CHAIRMAN: We might have some supplementary questions to put to you, and we might write to you in future as other issues come up and get you to send in some information. If we run out of time here, or you would like to get some further details, would you just take the questions on notice and provide the answers to us in writing. There is a comment that I would make before I ask you a couple of questions. You talked about the link between the regional airlines and the air trips out of Sydney and perhaps interstate. I could imagine the frustration of somebody from Coonamble who wanted to go to Brisbane who got on one of your planes and flew to Dubbo, then jumped on a Hazelton aeroplane and flew into Bankstown—this is on the scenario that they are all shifted to Bankstown—then hops in a car, drives to Kingsford Smith airport, and then hops on an aeroplane to Brisbane. Those people would be better off hopping in a car and driving direct to Brisbane.

Mr GORDON: That is right.

The Hon. J. R. JOHNSON: He can go straight through from Coonamble to Dubbo and then straight through to Brisbane.

CHAIRMAN: With Hazeltons he can.

Mr RUSSELL: It is only a weekly service, on Saturdays.

CHAIRMAN: Who can give us more information on the issue—that you have raised and was also raised by the regional airline operators—on the noise levels of aeroplanes? You raised the issue about the slot allowing only 80 flights in and out an hour. It is really only the noise of those bigger planes.

Mr GORDON: It is.

CHAIRMAN: Whereas most of the aeroplanes that we are talking about have very little noise, and some of them could land on some of the taxiways. Who could give us some more information on that?

Mr GORDON: Have you asked that question of the regional airlines?

CHAIRMAN: We have not yet, but we intend to.

Mr GORDON: I think they would be the appropriate persons.

The Hon. I COHEN: I was interested to hear that you had that period of deregulation from 1991 to 1995, did you say?

Mr GORDON: Yes.

The Hon. I COHEN: And that there was no change in your operations. Was that in the frequency or number of those active on those routes? Was there no change?

Mr GORDON: No, there has been no change. Basically, when Air-Link first started operations it was in a deregulated environment, and it could have been that somebody else decided to operate over those routes as well. Bear

in mind the type of aircraft that we operate—because we operate 8-seaters and 5-seaters. The reason that we have both is because, when we get small loads—and I am talking about twos and threes here—we will drop back to the 5-seater, which still can provide an economical way of providing that service. If you were still to use the larger aircraft you would basically be losing money.

That is about as small as you can get in regional type of aircraft. If you get two operators operating over a route, and the market is just not big enough. Someone will have to drop their frequency, or they will have to drop their aircraft size permanently. At the end of the day, I would suggest that the reason that no-one has come in is that they know it has not been a viable option. If they had a big pocketful of money, we would not stick around for too long losing money either.

The Hon. I COHEN: Would you expect that to happen if there was deregulation? We are talking here about your outer sections, from Dubbo out? Would you expect any change in your scenario?

Mr GORDON: The difference between now and then is that Cobar, which is the largest port we service, was not deregulated; it was still under a regulated environment. It generates about 5,500 passengers per annum. If an additional operator chose to introduce a service, that would be one service that they would pick, I think. That could have a big impact on us as an operator, because not only do we provide a service from Dubbo to Cobar, but we have connecting services so that we can use the one aeroplane to go from Cobar to Bourke.

If we had to reduce our frequency at Cobar because of competition, then that is going to upset Bourke. It is just like on the Coonamble-Walgett-Lightning Ridge run: we go to all three stops, but if someone came in and decided to operate a service to Coonamble that made it unviable for us, that would have a huge impact on the services to the other two centres.

The Hon. I COHEN: With the Dubbo, Cobar, Bourke and Brewarrina services, are the Brewarrina and Dubbo services separate services operated at different times, or was that aeroplane doing a complete circuit?

Mr GORDON: It mixes throughout.

The Hon. I COHEN: So sometimes it will go to Cobar and Bourke?

Mr GORDON: Sometimes it will go Cobar-Bourke, and sometimes it will go Brewarrina-Bourke. Once weekly we go Dubbo-Brewarrina-Bourke-Cobar-Dubbo, which is round in a circle. But that is only once a week.

The Hon. I COHEN: How marginal are those routes in terms of competition from the car?

Mr GORDON: Very marginal, because right now—and this goes back to my comment about the way we flavour our services to cater for the Sydney market—Coonamble to Dubbo has a drive time of about an hour and a half or an hour and fifty minutes, therefore that centre is in competition to Dubbo. It is quite easy for people to drive from Coonamble to Dubbo and hop on a flight at Dubbo to go to Sydney. They might do that for economic reasons, or they might do it because they have a business in Dubbo anyway, or they might do it because their mother lives in Dubbo and they want to see her on the way through.

So we are in competition with the car. Even though those centres are a long way away, we are still in competition with Dubbo as such as a route. Yes, they are marginal, because we have air fares from Bourke to Sydney as well as Bourke to Dubbo, and we have to be very conscious of our Bourke to Dubbo air fares in order to try to attract traffic between Dubbo and those centres, traffic which does exist.

The Hon. I COHEN: With deregulation, if there is deregulation, how do you think that will impact on your airline

specifically and on your routes? Would it have a flow-back effect on services to Dubbo?

Mr GORDON: On the Dubbo to Sydney route?

The Hon. I COHEN: Looking at your routes, which are west of Dubbo.

Mr GORDON: If we went into a totally deregulated market—and bear in mind that it is very difficult to predict what is going to happen, and who is going to do what—what happens to us will very much be dependent on what happens on the Dubbo to Sydney route. On the Dubbo to Sydney there are now two operators: there is one hosted by Ansett and one Qantas operator. I really would not expect any change on that route. I would not expect any difference in air fares. I do not think anyone else would come on board.

CHAIRMAN: You can't get much cheaper than \$59.

The Hon. I COHEN: Then what about frequency?

Mr GORDON: I do not see a great deal of difference at all. I believe that Dubbo is basically deregulated. In fact, we have had, and probably still do have to some extent, the opportunity to be a third operator on the Dubbo-Sydney route, and we have chose not to, because it just would not be viable, particularly when you have two well-entrenched major regional airlines providing those services. The reason that, at the last review of air services we actually applied to be an operator on the Dubbo to Sydney route was quite simply that we prefer to be providing our own services between Sydney and Dubbo and feeding our own traffic, but not at the expense of being a third operator.

Under a deregulated environment on our own routes, if someone else came in and started to provide services either to Dubbo or directly to Sydney, that would have a huge impact on our business, because the margin is just so thin. I mean, Bourke is a 1,200 passenger a year service, and Coonamble is about 500, and Lightning Ridge is about 800. There is just not the number of people out there who are flying.

The Hon. I COHEN: So there is the possibility, if someone came in under a deregulated market, and looked at the whole package of Dubbo and Sydney and outer areas that you service, that could be disastrous for your airline?

Mr GORDON: We are certainly not going to continue to provide services on a non-viable basis, whether it is regulated or deregulated.

The Hon. J. R. JOHNSON: Can I book a seat from Sydney to Bourke with one ticket? Or do I have to book from Sydney to Dubbo and then buy another ticket? Or is there any arrangement whereby Hazelton Airlines and the other carrier will book through to Bourke and make an adjustment with you?

Mr GORDON: You can book a seat from Sydney to Bourke and buy one ticket if you fly with Hazeltons to Dubbo and then Air-Link from Dubbo to Bourke. That is because of the commercial arrangement that we have with Hazeltons, and by virtue of the fact that we have to be hosted in a reservation system, and in reality you can only be hosted in one reservation system, not both. So, if you choose to fly from Sydney to Dubbo with Eastern Australia Airlines, which are hosted in the Qantas system, you would buy a separate ticket and pay a separate fare, and then you would book a separate seat and pay a separate fare with Air-Link. You could do it on the one ticket though.

The Hon. J. R. JOHNSON: Yes, but only through Hazelton?

Mr GORDON: Only through Hazeltons can you book an air fare or pay for an air fare from Sydney to Bourke.

The Hon. J. R. JOHNSON: Eastern do not issue the ticket?

Mr GORDON: They can issue a ticket.

The Hon. J. R. JOHNSON: To Bourke?

Mr GORDON: Yes. Any airline or any travel agent can issue a ticket to Bourke, and anyone can make a reservation to Bourke.

The Hon. J. R. JOHNSON: From Sydney?

Mr GORDON: From Sydney.

The Hon. J. R. JOHNSON: There is a question I should have asked Greg Russell. Why are not flights over Botany Bay utilised more?

Mr GORDON: Are you asking me that question?

The Hon. J. R. JOHNSON: Yes, I am asking you, but I should have asked Greg.

Mr GORDON: I cannot answer that question.

CHAIRMAN: We might take that on notice to send to Greg.

The Hon. Dr B. P. V. PEZZUTTI: I asked Mr Russell about a community service obligation payment to the operator. For isolated communities like yours, is it possible, in any sort of administrative or commercial way, for the New South Wales Government to provide a payment to the operators, either by way of a flat payment to the operator, whoever that operator is, to make services more convenient or to increase the quality of services to those areas?

Mr GORDON: I would have to answer that, yes, it would be possible.

The Hon. Dr B. P. V. PEZZUTTI: Getting away from the commercial operation of the deal, if it was a flat rate per year?

Mr GORDON: I would think so. It is a matter of a subsidy, if you like, for providing air services.

The Hon. Dr B. P. V. PEZZUTTI: Say it was \$10 per person, or \$1 per kilometres flown, or something like that, is there an efficient way of doing that, or does any subsidy make the whole thing inefficient?

Mr GORDON: The airline knows how many kilometres it flies, and it knows how many times it goes to a centre, and it knows how many passengers it carries, and it knows what its air fares are. There has got to be a mechanism in there that I believe could be used to provide that sort of information on which to base a subsidy.

The Hon. Dr B. P. V. PEZZUTTI: Do you get many people travelling on the Isolated Patients Transport and Accommodation Service in your area?

Mr GORDON: No, we do not get a lot from IPTAS, but we do get a lot of other government-funded travellers though, such as children attending boarding-schools. I am not talking about private schools here; I am talking about the Aboriginal population to a large extent. We have funded travel from Veterans Affairs, and I believe we have funded travel from other government sources.

The Hon. Dr B. P. V. PEZZUTTI: They simply pay the routine fare.

Mr GORDON: They just pay a normal air fare.

The Hon. Dr B. P. V. PEZZUTTI: IPTAS would come out of a government bucket and that would be paid directly to you as a fare?

Mr GORDON: Yes.

The Hon. Dr B. P. V. PEZZUTTI: So those people are in fact subsidised. There are a range of people who are subsidised in different ways from the government's pockets?

Mr GORDON: Yes.

The Hon. Dr B. P. V. PEZZUTTI: If there were a general subsidy across that area, would that unbalance the market, or make the world fall apart, or make the whole commercial operation look funny? Would it disturb competition in the area, would it reduce the quality of flights?

Mr GORDON: No, it would not. I do not know the mechanism. I have not got the answer on a mechanism of introducing it, but I do not see why it would upset any of the services. We have subsidised travel now for specific segment or market groups, such as IPTAS. You are talking about a total market, all passengers. That would be basically predicated on where they are going to or from, and it would have to be granted to the airline, or over a route on an annual basis, or on a per-passenger basis.

The Hon. Dr B. P. V. PEZZUTTI: And that would then be able to be applied to whichever operator wanted to fly?

Mr GORDON: I think so.

CHAIRMAN: We will correspond with both you and Mr Russell and hopefully you will be able to give us some further information. I thank both of you for coming along today for the start of our inquiry. I thank you for the information that you have given us.

(The witness withdrew)

(The Committee adjourned)

