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**REPORT OF PROCEEDINGS BEFORE**

**STANDING COMMITTEE ON STATE DEVELOPMENT**

**INQUIRY INTO PROVISION AND OPERATION OF RURAL AND**

**REGIONAL**

**AIR SERVICES IN NEW SOUTH WALES**

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**At Wagga Wagga on Friday, 24 July 1998**

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**The Committee met at 9.30 a.m.**

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**PRESENT**  
**The Hon. A. B. Kelly (Chairman)**  
**The Hon. J. Gardiner, The Hon. E. M. Obeid**

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**JOHN RICHARD HARDING**, Mayor, Wagga Wagga City Council, sworn and examined:

**CHAIRMAN:** Councillor Harding, what is your full name and occupation?

**Cr HARDING:** John Richard Harding. I am retired, but I serve as the Mayor of the City of Wagga Wagga.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Cr HARDING:** I am appearing as the Mayor of the City of Wagga Wagga.

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

**Cr HARDING:** I did.

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

**Cr HARDING:** I am.

**CHAIRMAN:** I understand that you have just handed to the Committee a written submission. Would you like that submission to be incorporated as part of your sworn evidence?

**Cr HARDING:** Yes, please.

**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 brief statement before Committee members ask you some questions?

**Cr HARDING:** Yes, Mr Chairman. I have presented you with a written submission, and I would like to pick out some of the highlights from that relatively brief submission. By way of background, the city of Wagga Wagga is the largest inland city in this State, and as such we believe ourselves to be a major stakeholder in regional air services. Each and every day of the year we have some 350 people travel to or from the city by air. It is important that the Committee recognise that it is not just the numbers that are important, but the reasons for which the travellers choose to fly.

Briefly, by way of background, people travel in and out of Wagga Wagga for economic development purposes. Air transport is a major link in the economic development chain. For businesses to work effectively in Wagga Wagga, and for businesses to be attracted to Wagga Wagga and the region that surrounds Wagga Wagga, efficient and timely and economic air travel options are most important.

Because of the position of Wagga Wagga between Sydney, Melbourne and Canberra, we have tended to become recognised as a suitable centre for major conferences and for major sporting and other tourism related events. As we speak, we have an international agronomy conference going on in this city. Last night we had an international sporting event between an Australian team and a Swiss team as a major event.

The ability of organisations to include in their promotion of the city access to the city via a good, economic and timely air transport system is very important in terms of the economy of the region and the promotion of the region. Wagga Wagga is the base of two very large military establishments, and of course there is a large amount of travel to and from those establishments. The Army base here has a graduation or march-out every week, and large numbers of families fly in and out of the city in order to attend those events, quite apart from the uniformed personnel.

In terms of health, Wagga Wagga is a regional health centre, and generally speaking we are well served by health facilities. Nonetheless, it is often essential for residents to be able to access Sydney and Melbourne easily and quickly for a variety of health reasons, and the air service plays an important part there. Education is another generator of travel. The university here is a major regional university that caters for resident students and a huge number of external students. Those external students come and go on a regular basis for residential schools and the like, and again their use of the airport is important.

The bottom line of the presentation that I will make to you today is that the citizens of Wagga Wagga do not want to see any erosion of the access that they now have to Kingsford Smith airport. They do not want to be shunted off to Bankstown or some other because that will add time to their trip to and from Sydney, and they do not want their ability to fly in and out of Kingsford Smith airport taken away from them by landing restrictions or excessive charges.

Briefly, the current situation as we perceive it is this. Wagga Wagga airport is operated by the city council in an extremely efficient and cost-effective manner. Council assumed control of the facility from the Commonwealth in 1992. Prior to that, it undertook a complete refurbishment of the main runway; and since taking over it has embarked on expansion and improvement strategy from that date.

In 1992 the New South Wales Department of Transport predicted that the number of passengers using the Wagga Wagga airport would peak at 115,000 in the year 2005. What has in fact happened is that this figure was reached in 1995-96—ten years before the predicted peak was to occur. In the subsequent two years usage has grown, and in 1997-98 it sits on 119,000 travellers in and out of the airport.

The benefit of the council operating the airport is that local control allows the standard of service to be tailored to the local market. The landing charges are structured to provide a sufficient income to ensure that the facility is self-sustaining. A detailed development plan has been prepared for the facility, and capital works flowing from this plan will see council spending some \$4.7 million over the next 10 years on further improvements and maintenance of the facility. The airport will have the capacity to accommodate the next generation of commuter aircraft and the increased number of passengers that we believe will need to be handled.

Deregulation of air service operations in 1999 may well see a third operator on the route and intense competition for passengers. This is expected to generate more travellers between Wagga Wagga and Sydney, Wagga Wagga and Melbourne and other destinations. Current air services at Wagga Wagga airport are by two main operators: Kendell Airlines operates 29 flights weekly to Sydney and 19 to Melbourne; Hazelton Airlines operates the Sydney to Wagga Wagga route, with 20 flights a week. All flights to Sydney, and most to Melbourne, are on Saab 340 aircraft, and some Melbourne flights are on Metro 23 aircraft. There is little doubt that the increase in passengers is due to improved scheduling and competition between those airlines, and at least one of those airlines to our knowledge is actively investigating now upgrading to another, larger aircraft.

Kendell Airlines is the largest regional airline in Australia, and Wagga Wagga is proud to be their home base. A major maintenance facility operates at the airport. This in itself creates employment in our city, and the local industry gives Wagga Wagga a unique position in regard to regional aircraft operations.

I would like now to move to the specific points in your terms of reference and make just brief comments. With regard to landing fees at Kingsford Smith airport, it is imperative that regional airlines are not locked out of Kingsford Smith airport by the introduction of a landing fee regime that has the effect of significantly increasing the cost of travel. The choice travellers make regarding their mode of travel is often related to price. The comparisons of costs, comfort and convenience of air travel against car, coach or train will be weighed up by many travellers. It is felt that the \$100 per aircraft landing fee currently applicable to the regional airlines at Kingsford Smith airport is acceptable for Wagga Wagga passengers.

With regard to landing fees at regional airports, as the operator of a regional airport, Wagga Wagga council is conscious of the implications of escalating fees. There is no suggestion that landing fees for Wagga Wagga will spiral upwards. As noted earlier, a detailed plan for the operation, maintenance and improvement of the airport is in place. The funds to achieve the goal of the plan will come from modest landing fee increases and expanding passenger numbers. I should add, Mr Chairman, that the council has established an airport advisory committee, which, apart from council personnel, includes airline representatives and other industry people. So the industry is well able to influence council in its financial management of this facility.

With regard to the allocation of slot times at Kingsford Smith airport, the Minister for Transport and Regional Development in the Federal Parliament indicated on 2 March that "New entrant and regional airline access will be guaranteed under the Slot Management Scheme, which is a disallowable instrument." He further indicated that an aggrieved airline would have recourse through the Kingsford Smith Coordination Committee. These statements give council a degree of comfort.

Whilst it is possible for a regional airline to transfer slot times from one regional destination to another, this is not seen as a threat to the flights to and from Wagga Wagga. This may, however, pose a threat to centres that are serviced by smaller aircraft, where declining profitability may be an issue.

With regard to proposals to limit access to Kingsford Smith airport and direct country services to Bankstown airport I would say this to the Committee. Travel time to and from Wagga Wagga is undoubtedly one of the major reasons that patrons elect to utilise air travel. The prospect of landing in Sydney and then travelling to the central business district from Bankstown is not palatable to the vast majority of regional air travellers. It is unreasonable to expect that country people who have contributed financially to the Kingsford Smith airport by charges and taxes should then be relegated to utilising a remote airfield. Many of the travellers from Wagga Wagga to Sydney need to connect with flights to other interstate cities or regional centres, or to join international flights, and they would be unacceptably disadvantaged by the need to travel to another airport for such a flight.

There are two other points that are not in the script but which I would like to refer to here. One is that the time benefit of flying from Wagga Wagga is shrinking. When one recognises the improvement to the highways that have occurred, and when one recognises the requirement for early arrival at Wagga Wagga airport because of the slotting system, and the importance of the flights leaving on time, and then allows for the current travel from Kingsford Smith airport to the city, the margin between that total air travelling time and travelling by car is shrinking. There is still a margin, but it is not great. That means that the cost of access to Kingsford Smith airport and the fact that it is Kingsford Smith airport and not Bankstown or somewhere else becomes very important.

The second thing that I would add to the printed material is that I would refer the Committee to the unanimous decision of the special conference of the Local Government Association that resolved that affordable access to Kingsford Smith airport should be retained for regional airlines. That decision was based on a motion from the Country Mayors Association, representing the larger regional centres, and again the Country Mayors Association is

unanimous in that point of view. I think that is quite significant in that it refers to the regional centres in New South Wales that have airports.

I now turn to the impacts of deregulation of New South Wales air services on the provision of services to smaller regional centres and towns in New South Wales, including considerations of measures to maintain services. The Chairman of the Independent Pricing and Regulatory Tribunal, Dr Parry, said that "for the full benefits of competition to be realised all intrastate air routes should be simultaneously deregulated from May 1999." Dr Parry concluded that deregulation in South Australia and New Zealand generally produced lower fares, more services and expanded into new areas.

It is possible that increasing fees and the availability of slot times into Kingsford Smith airport may have a detrimental impact on small airports. It may be that regional airlines will shuffle their slot times to give increased flights for the more viable routes, to the detriment of low-volume routes. It is not envisaged that this would be the case for Wagga Wagga. The loss of any service, however, is seen as a detriment to regional Australia, and we remain concerned about the impact on smaller communities.

The process of hubbing out of centres such as Wagga Wagga has been mooted, and the viability to this option must be questioned. As noted earlier, the main reason that travellers elect to use air transport is to save time. The additional time taken by people within the region to fly into Wagga Wagga to connect with another flight would lessen the attraction of a flying option.

Mr Chairman, what I have presented to you today is probably nothing terribly new, nothing terribly original. But let me say that the community of Wagga Wagga is watching with a great deal of interest, and some concern, the trends that are occurring in air transport in Australia. We believe, in essence, that the service that we have now is quite good. When, some years ago, we were able through an earlier inquiry to arrange for aircraft to be garaged at Wagga Wagga and fly out early in the morning from Wagga Wagga, thus avoiding on most days the fog issue, that was a single major improvement to the services for Wagga Wagga.

The current service provided by the two airlines is appropriate and very adequate, but we sit in some fear of the possibility of the relocation to Bankstown or elsewhere. We sit in some fear of the fee regime being adjusted in such a way that it effectively will make it not practical for small aircraft to go in and out of Sydney. So, on the one hand, we might have all sorts of statements by governments and by departments and authorities that regional airlines will continue to have access, but, on the other hand, if the fee structure goes too high then that clearly will not be attractive.

Our observation is that slotting is working. It is reasonably attractive. I think it can be dangerous. It can be dangerous if the airlines move their allocation around unduly. Only a few weeks ago I did have the experience of the European slotting, travelling from a very small airport to a very large airport, and it was presenting some difficulties in that setting. I do not claim to know enough about it, except that it signals to me that we need to monitor the impact of slotting quite seriously.

Mr Chairman, the citizens of Wagga Wagga are generally happy with the air services now provided. We appreciate the services that are given by both Hazelton and Kendells, and we are most anxious not to see any degradation of access that we now have to Kingsford Smith airport.

**CHAIRMAN:** Thank you very much, Councillor Harding. As you have said in your statement, what you have had to say were probably not unexpected. We have a number of questions that we would like to ask you so that you might help us with our report. I reside in Wellington, and I am in a fairly similar situation in getting to Sydney from

Wellington. From my home, the difference in transport modes is probably about three quarters of an hour, being a five-hour trip by car. It would be very marginal if we had to go to Bankstown at the end of our air travel, and I would end up driving all the time, although that would probably result in a loss of efficiency. What time does it take to travel from Wagga Wagga to Sydney?

**Cr HARDING:** It is about four hours from here. It depends who is driving, but if you do it legally it is about a four-hour drive from here to Liverpool, and then it depends where you are going in the city obviously. Not so long ago that trip took six to seven hours. Of course, the flight times have not changed to any extent. So the margin is getting smaller and the times are getting closer.

**CHAIRMAN:** So, if there was any alteration whatsoever to air travel times, that could seriously affect air services?

**Cr HARDING:** Yes, that is right, and I think that is an important point.

**CHAIRMAN:** You have given the Committee some idea of the scheduled flights per week. I think you said that Kendell had 29 to Sydney and 19 flights to Melbourne. Those were return flights?

**Cr HARDING:** Yes.

**CHAIRMAN:** And Hazelton had 20.

**Cr HARDING:** That is my understanding.

**CHAIRMAN:** Is it the same size of aircraft in both cases?

**Cr HARDING:** They are Saab 340s. All flights to Sydney are on Saab 340 aircraft.

**CHAIRMAN:** You gave us a passenger figure of 350 a day, or 119,000 per annum. You have said that the community is well satisfied with the services that you are now being provided with. What is the largest aeroplane that can land at Wagga Wagga?

**Cr HARDING:** We do get fairly large Air Force planes coming in, Hercules and the like. It is my understanding that we can handle the smaller jets. We do not on a regular basis, but occasionally VIP flights come in, and things of that kind. So we can handle the smaller jets.

**CHAIRMAN:** What is the level of general aviation at Wagga Wagga?

**Cr HARDING:** It is increasing. The Air Force base technically is not a flying base, but it is sometimes used for The Roulette display team when it comes here to practise. The helicopter trainer sometimes comes here. We have a fairly good level of private flying activity. There is an aero club in the city that has fairly recently been established. There are quite a lot of services such as air courier services and so on that are in and out of the airport on a regular basis. I have not brought with me the overall statistics, I have concentrated on passengers, but the usage of the airport is increasing quite steadily. I should indicate, hopefully without the media listening to me—

**CHAIRMAN:** You can do that in the country.

**Cr HARDING:** They will do that, yes. There is an investigation going on into the possibility of an aviation training

facility being established in the city. So there is quite a lot of activity.

**CHAIRMAN:** What are the sharing arrangements with the RAAF? I should indicate, Councillor Harding, that you might take on notice any of these questions that we ask you, so that you may send in some information at a later stage. We would be quite happy to receive your evidence in that way. I was going to ask you a question about landing fee charges, and how they compare with charges at other airports.

**Cr HARDING:** I do have with me a member of council staff who is able to answer that question, but it would be better if I take that on notice and undertake to provide that to you in a written form, as to the basis of our fees.

**CHAIRMAN:** And the development plan that you have got.

**Cr HARDING:** We could make that available to you.

**CHAIRMAN:** Probably a lot of your answers will be dealt with in that.

**Cr HARDING:** With the development plan, what we did was bring in external consultants and invited them to look at the plan. Some elements of it are confidential, and others have been made public. But, yes, I would be happy to make a copy of it available to you.

**CHAIRMAN:** Is that a five-year or 10-year plan?

**Cr HARDING:** It is probably a 10-year plan. It depends a little bit on the rate of growth of the industry, as airlines go to bigger aircraft and so on. But it indicates to us that we have the capacity to absorb that growth as traffic numbers increase and as aircraft increase in size. It provides for improvement of the terminal facility, which is still relatively modern, but it still plans for future improvement to it. It picks up a few things that we think are likely to change in the future, such as the need for improved security arrangements and improved baggage handling arrangements. It addresses the opportunities presented industrially in terms of making use of some of the land on the airport for aviation-related businesses and activities and so on. It is a substantial document.

**CHAIRMAN:** Is there any conflict with the RAAF regarding the demand for slots to land here?

**Cr HARDING:** The relationship is a friendly one. There are no difficulties in it. They make us an annual payment in respect of the through traffic that they put on the airport. It is not a great deal, but when it occurs it is recorded and they do make us an annual payment. But the air strip is ours, the Air Force base is theirs. We lease of course. We do not own it. We lease it from the Commonwealth. But the relationship works out very well.

**CHAIRMAN:** What is the capital value of the airport and what is its rate of return? No doubt that will be in the plan.

**Cr HARDING:** That will be in the report, yes.

**CHAIRMAN:** That will deal with any expansions and how they will be funded.

**Cr HARDING:** I have mentioned the funding. When we took it over, we made the commitment to the community of Wagga Wagga that it would not become a drain on the ratepayers' funds; that we would run the airport as a business—not necessarily to establish a huge profit, but at least to make it self-sufficient. It certainly has been self-sufficient. We do make provision in the reserves every day, and every year. Every piece of income is divided into



reserves, and that level of reserve is designed to provide for the anticipated future maintenance, including the major maintenance of needing to upgrade the strip from time to time, which is a very large expense. So funds are being accumulated for that. We remain confident that a reasonable and steady development in growth of the facility can be funded simply through its operation.

**CHAIRMAN:** You have given the Committee fairly clear answers in relation to the view of the local community on the mooted proposals to redirect country air services to Bankstown. It is fairly unusual, but I should probably report to you that the people of Bankstown have a very similar view to that of country New South Wales.

**Cr HARDING:** I am not surprised.

**CHAIRMAN:** In fact, the staff at the office in Sydney are getting more inquiries, and quite irate ones, from Bankstown people. So, today, we have done some media releases in that regard. It is good to see that at least some parts of the city agree with the country. Wagga Wagga is probably one of the better places suited to deregulation. Tom Parry, in his report, suggested

*"Larger towns—such as Albury, Wagga Wagga, Coffs Harbour, Tamworth, Armidale, Dubbo, Port Macquarie and Ballina—are likely to see more innovative services and more competitive fare packages....It is only for the very small rural centres, where air services are currently marginal, that deregulation might lead to some reduction in service levels."*

Most people have disagreed with that.

**Cr HARDING:** I guess the only nervousness that has been expressed in Wagga Wagga is that if we do get a third player coming into the equation, whether that may have the effect of making all three of them less than viable. I am not sufficiently privy to the financial status of Hazelton and Kendell, but, just watching it as an observer, one wonders, if a third player comes in, whether there is in fact the rate of growth sufficient to keep all three of them viable, or whether it would result in all three of them running at something less than a viable situation. I am not qualified to answer that, but that is a concern that has been expressed from time to time in the city.

**CHAIRMAN:** So you are obviously very happy with the current situation.

**Cr HARDING:** Yes, we are very happy with the current situation. If a third airline comes in, we are satisfied that the airport can cope with it, and that it would do so very adequately. I guess we have just that one reservation.

**CHAIRMAN:** Do you have any suggestions on what the council would like to see the government do to ensure that services are maintained if air services were deregulated? You might take that question on notice, because it is not an easy question.

**Cr HARDING:** Yes. I had not really thought about that.

**CHAIRMAN:** The slot system seems to be working in Sydney at the moment. However, the general view is that there is still a bit of mistrust that some government in the future and some future economics could lead to a change in the slot situation. It has been suggested at a country summit that a charter of user rights be worked out to guarantee country commuters access to their city capital.

**Cr HARDING:** I obviously support that. We would encourage that, because there is a certain nervousness about the

operations of the slotting system. That nervousness is that the slots at Kingsford Smith airport may eventually erode for whatever reason, and that a trading of slots may occur. I understand that you cannot trade peak or major routes with regional routes, but that you can trade as between regions. I think there would be a fairly widely-held view in local government that that is a worry for the smaller communities. I do not think we see that as being a worry for Wagga Wagga. In fact, it might even benefit Wagga Wagga. But we do see it as a concern of the smaller regional communities.

**CHAIRMAN:** This standing committee has been asked by Minister Carl Scully to look at that suggestion of a charter of user rights, and to sound out the community on what sorts of things they would like to see in that charter. So, what I would like you to do is take on notice that question, and perhaps when you reply to us in writing you might include some suggestions that you would like to see incorporated in that charter of user rights.

**Cr HARDING:** I am happy to do that. I think it is a matter of endeavouring to build the confidence of the community. There is nervousness about governments changing, and changing their minds, and there are issues of the noise problems, and there are issues of new ownership and operation of Kingsford Smith airport on a more commercial footing. Those changes often end up hurting the country. The country is perhaps fairly cynical about statements like, "Trust me, I am a politician, and it will be right." They say that about councillors too, of course. There is a nervousness, and the charter I guess would not be locked in stone, but it would be one more plank in the confidence-building exercise.

**The Hon. E. M. OBEID:** There is talk that the RAAF might move its facilities north. What effect would that have on your air service facilities?

**Cr HARDING:** It would have a devastating effect on the community, but that is not what you want to talk about. It would have only a very limited impact on the airport. Obviously, the real answer to that question lies in what becomes of the property. If the Air Force were to move off and were to dispose of its property, then one would hope and imagine that some aviation-related industries may, at least in part, move into that facility. That could create more airport activity than the Air Force in fact generates now.

I believe, as a result of a great deal of discussion with the Federal Government and with the Australian Defence Force, that it is not very likely that the air force will close. We are becoming increasingly confident that it will remain open. However, it may well change what it does. It may have different Air Force functions. From an economic and community point of view, our concern is that the quantum of that activity remain fairly similar, but it does not matter terribly if the nature of it changes.

But, to answer your question, I do not believe it would have a major impact on the airport if the RAAF facility were to be moved out. If the Air Force changes its activity, that could increase airport activity, because they go from almost no flying to perhaps some flying. So I do not think it is a worry.

**The Hon. E. M. OBEID:** Are there any joint facilities that you are presently using that you might have to take on yourself? And are you able to do that?

**Cr HARDING:** There are not joint facilities other than in the sense that New South Wales TAFE now carries out a great deal of training on the Air Force base. If the Air Force base were not there, they would not do it because they would not need to do it. There is a willingness of the Air Force now to enter into joint activities. I do not believe any exist at this moment, but there is the possible future activity to which I alluded earlier and it would involve such joint use.

**The Hon. E. M. OBEID:** Finally, on deregulation, you seem to be happy with how things are.

**Cr HARDING:** Yes.

**The Hon. E. M. OBEID:** Could deregulation affect you in any way?

**Cr HARDING:** It will affect us if the airlines using our airport, for whatever reason, become unviable and therefore reduce their services. It could have a positive effect, if competition drives prices down. Our prices are pretty high at the moment, and there is always the hope in the community that prices will reduce. They are in fact reducing in the sense of special packages and so on that the airlines are offering in a marketing sense, but the rack rate, if you like, is still fairly high, and that may come down as a result of deregulation.

But our main concern is to maintain viable operations in and out of Wagga Wagga so that there is a good range of services. If we were to have less flights a day, or if we had to fly somewhere else, or if the price goes too high, then the whole operation will be in jeopardy.

**The Hon. J. GARDINER:** Councillor Harding, I would like to follow up on that question. If there were another entrant to the market and it worked out that there were three, though less viable, airlines, apart from the service question, if they did become less viable are there any job implications for Wagga Wagga of such a scenario?

**Cr HARDING:** Well, there would be, of course. If a new airline came in and one of the original operators dropped off because of being unviable, yes, there would be implications. Maybe your next speaker will answer this question, but the Kendell work force here is substantial. The Hazelton work force is not as big, but it is still significant to the city. We would be very concerned if there was an increase in unemployment. As you would understand, communities such as this are facing a general downturn in employment. We had an announcement only a fortnight ago of a fairly large multi-national factory closing. Those things are happening, and we would want to avoid them. So that is a possibility, and that is one of the implications of my comment about viability.

**CHAIRMAN:** I was trying to do some quick mathematics on the number of flights to work out what the occupancy rate of planes is.

**Cr HARDING:** I suppose that can be worked out mathematically from the figures I have given you. I have not worked it out. I am sure you will ask that question of Mr Breust in due course. My own observation, from travelling quite regularly, is that the flights seem to be carrying good loads—not necessarily full, but quite good loads most of the time.

**CHAIRMAN:** I thank you very much for your time. It is excellent information. In fact, we have amended a media release to reflect some of your comments.

**(The witness withdrew)**



**GEOFFREY JAMES BREUST**, Chief Executive, Kendell Airlines, and

**BERNARD ANTHONY RYAN**, Director of Finance and Administration, Kendell Airlines, sworn and examined:

**CHAIRMAN:** I think you have given the Committee a written submission.

**Mr BREUST:** We have.

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

**Mr BREUST:** I am appearing in my capacity as Chief Executive of Kendell Airlines.

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

**Mr BREUST:** I did.

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

**Mr BREUST:** I am.

**CHAIRMAN:** Ben, in what capacity do you appear before the Committee?

**Mr RYAN:** As Director of Finance of Kendell Airlines.

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

**Mr RYAN:** I did.

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

**Mr RYAN:** I am.

**CHAIRMAN:** Would you like your written submission incorporated as part of your sworn evidence?

**Mr BREUST:** Yes, except that there is one part of the submission, relating to charges at regional airports, entitled "Landing fees at regional airports", that we would like to be treated as confidential, and certainly the second page of that.

**CHAIRMAN:** We might double check with you that we know exactly the area that you wish to be kept confidential. We might highlight that on our copy. If you should consider at any stage during your evidence that in the public interest any other 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.

**Mr BREUST:** I would like to take that option in relation to that particular item.

**CHAIRMAN:** Perhaps we could go through the general public part of the hearing first, and at the end of that we could resolve into confidential session. Does that suit you?

**Mr BREUST:** That is very suitable, yes.

**CHAIRMAN:** Perhaps you would like to make a verbal statement first, and then we will ask you some questions.

**Mr BREUST:** First of all, thank you for the opportunity to speak to the Committee, and welcome to Wagga Wagga. I am sure the Mayor has already passed on that welcome, but I express our welcome as well. I would, initially, like to go through the first few parts of the terms of reference of the Committee and make some comments in regard to those. I will deal with each one in turn, and comment briefly in regard to each of those particular items.

In regard to landing fees at Sydney airport, we believe that the negotiations and consultations that have gone on with the Federal Airports Corporation and the Sydney airport organisation at this time have produced a result that is acceptable for the time being. There was a lot of work done in negotiating with that organisation from the position that was first put to the airlines back some six months or so ago, to the position that we have now reached, where we have no peak period pricing; and we have a situation where the minimum charge to operate an aircraft into Kingsford Smith airport is now \$100, when it was hinted at being \$140 previously. We believe that that is acceptable for the time being.

However, we do believe very strongly that, over the next 12 months or so, that consultation process needs to continue, on the basis that we can really find out what the costs of running Sydney airport are, and really look at the way those costs are treated in determining the charges, because the information that we are currently getting from that organisation is less than acceptable in terms of the split-up of the costs. They say to us that they do not really know because their accounting system is such that they cannot identify it. I do not think that is appropriate or indeed acceptable. We are hopeful that in the next 12 months or so we will be able to get that sort of detail, and at the end of the day reach a situation where the real truth of the matter is known.

One of the major concerns that we have is the treatment of depreciation of the asset in the accounts. We have a strong suspicion that there is a very high level of depreciation being included in the annual accounts, and on that basis the costs are a lot higher than they should be. We are also concerned that, given that this is the last airport to be sold, there may be things done in this process to ensure that the sale price is maximised, or that the attractiveness of the facility is maximised to the potential buyer.

**CHAIRMAN:** If I could interrupt you. We are going to the airport, so we are interested in what you are saying to us. In fact, I anticipate that you will get a lot of questions on what you are saying. We may well ask questions of the organisation.

**The Hon. J. GARDINER:** In fact, you might be able, on notice, to provide the Committee with some specific questions that you believe we should ask them.

**Mr BREUST:** We would be happy to do that.

**CHAIRMAN:** That can be done confidentially or otherwise.

**Mr BREUST:** We are happy to do that.

**CHAIRMAN:** I am sorry that I broke your train of thought.

**Mr BREUST:** I really do not think there is much more that I could say on that particular issue. As I said, we are hopeful that at the end of the day we will get some rationality.

**CHAIRMAN:** Could you explain to us a bit more the pricing situation. I thought it was suggested that it was originally a \$28 landing fee and that it was to go to \$140 in three years. Is that not true? You said it is \$100 now and it was proposed to be \$140.

**Mr BREUST:** Initially, there was a sliding scale. I just cannot recall exactly how it all went. I think the initial proposal did involve a sliding scale, but it meant that we were going to get to a very high figure in a very short period of time. The questions that we put back to the Sydney Airport Corporation were on matters concerned with the actual determination of the costs, and the treatment of those costs in working out the actual charge. We just could not get any satisfactory information to enable us to determine whether those sorts of levels were going to be appropriate or not. But it was on a sliding scale. We can provide the Committee with background and the documentation that they provided to us so that you could have a look at that.

**CHAIRMAN:** I thank you very much for that.

**Mr RYAN:** I think the minimum charge was \$28.50.

**CHAIRMAN:** How long ago was that?

**Mr RYAN:** That was a proposal put forward about six months ago, and that progressed to the stage that the final one over three years was going to increase to \$140.

**CHAIRMAN:** That was my impression: that it went from \$28 to \$140 in three years.

**Mr RYAN:** Yes.

**CHAIRMAN:** And even this fall-back position of \$100 is not all that flash, but it is acceptable.

**Mr RYAN:** No. But at the time it included a \$250 peak period charge, so you had to add that in as well.

**CHAIRMAN:** So it would be detrimental to country people obviously.

**Mr RYAN:** Yes. So, now, we have gone from the position of \$28 plus \$250, with the potential of \$140 plus \$250, down to \$100.

**CHAIRMAN:** So it is much better?

**Mr RYAN:** Yes. It is far more acceptable.

**CHAIRMAN:** I am not sure you were here when the Mayor was here this morning, but his evidence and other evidence we got from other councils indicated that they all appear to have five-year and 10-year development plans in which they have incorporated all their future expansion programs, all their costs and charges, and how they will have to rise. It does not appear that the Federal Airport Corporation has such a public document.

**Mr BREUST:** I guess there was not the pressure because there were going to be new owners fairly soon, and it

moved away from being part of the FAC to Sydney Airport Corporation only in July. It has been not well managed at all in terms of being able to supply that sort of information.

**Mr RYAN:** One problem we see is that they could be boosting the airport so that it will have its maximum value when they do go to sell it. The problem for the airline and the passengers as a result of that is that we will be stuck with a legacy of those charges after that.

**Mr BREUST:** One of the very important issues to come out of the sales of all those other airports so far is that the new owners have suddenly found that they have probably paid far too much for them, and they are now starting to scramble and look for other means to generate more income. That is particularly true of Perth, and possibly Brisbane. I know the Canberra people are starting to become concerned as well.

**CHAIRMAN:** They do that by actually charging extra for the outer facilities that you have to pay for.

**Mr BREUST:** That is the big risk associated with it. There are caps associated with the landing and passenger charges, and what they are now doing is looking for other avenues of operation of the airport to generate income. Brisbane has been involved in putting a charge on the throughput of fuel through the system. I am sure, with the entrepreneurial capability of the new owners of these organisation, they will think up some really nice ways of generating some income. So we will have to be on our toes regarding what those avenues will be.

**CHAIRMAN:** Ben, do you have some comments to make before we come to questions?

**Mr RYAN:** No, I am happy with that.

**Mr BREUST:** I am conscious of the limited time that you have, but I would like to make a fairly brief statement, given that there are members of the public here, in terms of the charges for regional airports. We are becoming quite concerned about the activities of various airport owners in this area. Most of the airports that we operate to are operated by local councils, and most of them too are also members of the Airport Owners and Operators Association of Australia, and they get together and talk about these sorts of things. I might even say that in some cases they play one off against each other in terms of how well they have done that.

We are becoming quite concerned, particularly over the last couple of years, that there is this tendency by these operators to increase their charges by far in excess of the CPI and inflation rates. In addition to that, it appears that the councils are using the national competition policy as a means of justifying these sorts of increases.

We are now seeing a ratcheting effect, because what the councils are doing are looking at the charges that are being levied by other airport operators around the country, and then doing a direct comparison on a dollar-for-dollar basis, simply on the charge—not on the final revenue but simply on the charge. A comment that we hear quite regularly is, "Look, it is only \$6 here, but Albury is \$7 or \$10, or Tamworth is \$14," or whatever it is around the place, "and on that basis we believe we should be able to increase our charges." The charges are not related back to the cost of operation, and we believe this is starting a trend that is not acceptable not just for the industry but for the travelling public, because it is a means of generating additional revenue.

We are also rather intrigued to hear from the various councils, particularly in New South Wales, of the shock horror of movements in terms of increases at Sydney airport, but at the same time they are putting up their own charges. So we have some concern in that area. I make that as a general statement on that particular matter.

In relation to the slot system for Sydney airport, may I say that we believe that the slot system has worked very well.



Slot schemes are mechanisms which are tried and proven right round the world. They are well-known to the industry, even though they might not be that well-known to the industry in Australia. They are certainly well-known to the industry round the world.

The current system is working well, but we still have a real concern about the mechanisms by which slots for regional New South Wales are ring-fenced, because under current arrangements the legislation simply provides that the Minister makes a determination in relation to those sorts of issues. It is not specifically mentioned in the principal legislation, the Act itself. It is my understanding that in New South Wales this ring-fencing can be removed effectively by another determination by the Minister. That causes us a degree of uncertainty. I am sure the communities of New South Wales also have a degree of uncertainty. I do not believe that arrangement is appropriate.

We understand that this matter has been raised previously, and we understand that the Minister for Transport and Regional Transport, Mark Vaile, has suggested that maybe there should be some sort of charter of user rights. That, too, does not have the sort of teeth necessary to guarantee that the ring-fencing of those slots will be able to be maintained.

**The Hon. J. GARDINER:** You think that should go back to the principal Act?

**Mr BREUST:** We believe it should be in the legislation, because at the moment the Minister can simply make a determination, and it will all be off.

**CHAIRMAN:** One of our tasks is to make some suggestions on what should be in the charter and whether or not charter is the way to go.

**Mr BREUST:** I believe the charter would have even less legal enforceability than the Minister's determination. That too is of concern, because governments change and Ministers change.

**CHAIRMAN:** Legislation can be changed too, but it is more difficult.

**Mr BREUST:** Yes, it is more difficult.

**CHAIRMAN:** And that has to be done in the open.

**Mr BREUST:** I might pass on to you that at a meeting in Sydney, when this was being considered and put together, I made that particular comment to the fellow from the Department of Transport and Regional Development who is in charge of it all, and he said, "Look, it is all okay. It is in the explanatory memorandum and in the second reading speech. Trust us." I said, "Look, I did not work in Canberra for 20 years not to know that that sort of system does not work."

**CHAIRMAN:** If you want to send us any supplementary suggestions in relation to that particular item, we would welcome it.

**Mr BREUST:** Thank you very much. But, as far as we are concerned, there is really no option other than to try to push it in that direction. I do not think that anything else you will do around the edges will achieve what we really want to achieve. Can I just say in regard to the slot system for Kingsford Smith airport that the six-month trial in terms of compliance has gone very well. We have not had any real difficulties at all. To a very large extent, the operators are complying.

The real issue for Kingsford Smith airport is not really the infrastructure arrangements around it; it is the whole system. The air traffic management system is not up to speed. The noise sharing arrangements reduces the efficiency of the airport. The aim of trying to get to 80 movements per hour is not really being met at all because of all these other external influences which are put on it not to achieve it. Really, we have there a piece of infrastructure which to my mind has become a political impossibility.

There really is not going to be any efficient solution in respect of Kingsford Smith airport, in my view. What governments have to do is to try to find a solution. To my mind, the solution is to start off with a greenfield park somewhere to the north of Goulburn and build another complete system with a train system between Canberra and Sydney. Let us build a proper airport and spend some real money on providing the country with some infrastructure for well into the next century, rather than trying to find an easy fix. That is a personal view, I might say.

In regard to access to Bankstown airport, I am sure the Committee appreciates that we and the air transport industry work in a global system; we are not simply a regional operator that flies between Wagga Wagga and Albury and Sydney in that sense. We are part of a global system. People use our services all through regional Australia to travel to all parts of the globe. We are all part of the one system. To take us away from a major international airport would create major difficulties for that system to work properly.

In addition to that, there are major physical limitations in the operation of our sort of aircraft into Bankstown. Increasing the activity of those sorts of aircraft into Bankstown anyway will put further pressure on Kingsford Smith airport in terms of the air traffic management system of that whole area. To my mind, that is not an issue that has been raised much, but it must have a major impact. I will give you an example.

We operate into Melbourne's Tullamarine airport. Essendon airport is a little closer to it than Bankstown is to Sydney, but nevertheless Tullamarine is restricted in its capabilities, because of the physical location of Essendon just down the road, in terms of its air traffic management system. We can be held going into Melbourne and coming out of Melbourne because there is a movement at Essendon that will clash with us. In effect, the whole operation of that air space round Melbourne is operated as one airport, not two. That effectively is what you will get with Bankstown and Kingsford Smith airport when you get the high-performance aircraft that we operate, in the sorts of numbers that would be involved, going into that sort of system. So, in terms of overall benefits of trying to shift capacity or movements away from Sydney, you will not achieve what you set out to achieve because of the influences of the system that I have described.

I now come to the issue of deregulation. Kendell Airlines has always been a major supporter of deregulation and not having regulated services at all. We have been around for over 30 years, and we have always operated in markets that have not been regulated. Our involvement with regulation has only been in the last four or so years, since we commenced operations from here to Sydney. We strongly believe that the market should determine the level of services provided. We believe that regulation provides all sorts of artificial influences and distorted outcomes in terms of benefits of air transport.

In relation to our network of services, in the submission I have referred to the three ports in the last 10 years from which Kendell has withdrawn services. They include Streaky Bay—and I am not sure that the Committee would actually know where Streaky Bay is.

**The Hon. J. GARDINER:** It is on the west coast.

**Mr BREUST:** Yes, just south of Ceduna. It has a population of about 150. It used to receive services from us three

days a week linked with Ceduna. It is 110 kilometres from Ceduna, and of course at 110 kilometres an hour, which is the speed limit there, it takes an hour. That service got down to well below 500 passengers a year. We withdrew the service from there. Another operator took it up. In fact, there have been a couple of operators take it up since, and they do have some services there. But, because it is so relatively close to the port of Ceduna, people have driven across, and we have been able to increase the frequency of our services into Ceduna.

So, overall, the Ceduna people have received some additional benefits through that, but also the people of Streaky Bay have still had access to services. So, at the end of the day, we believe that it has provided the region itself with a better service. We used to have one service, Monday to Friday. Now, on two days a week, we have a return service—so that we have a morning and evening service out of Adelaide—and now people are able to visit that area and return in a day, whereas they used to have to stay overnight. In a sense, that withdrawal has meant for that area a better service at the end of the day.

We withdrew from Woomera. In the fifties, of course, Woomera was a booming area. Hopefully, it will come to life again. But again, Woomera is only about 80 kilometres away from Roxby Downs, the major uranium and copper development in the middle of South Australia. We service that port as well. We have now increased services to Olympic Dam. On Sundays we have four returns a day, most days two, and some others three. Again, we are still looking at a drive of less than an hour from Woomera to Olympic Dam, and that means that the region itself has been able to maintain a high level of services. I might say that another operator has been operating into Woomera since we departed, with a smaller aircraft. But, again, because of the frequency and the amenity of the service to Olympic Dam—which in Sydney terms is probably a short drive in terms of time, because I know people in the Sydney area have a drive to the airport of more than two hours—that area has ended up with what we believe is a better level of services.

Cooma, unfortunately, has been the only one that has not been taken up by somebody else. We used to operate from Melbourne to Cooma.

**CHAIRMAN:** I was there last week and I thought I saw your planes there.

**Mr BREUST:** No, not ours.

**CHAIRMAN:** You still fly to the snowy, don't you?

**Mr BREUST:** No.

**CHAIRMAN:** You still have advertising on the ski tube—55 minutes from Sydney to Cooma.

**Mr BREUST:** No, that is a competitor. That is probably Impulse.

**CHAIRMAN:** Yes, it was Impulse.

**Mr BREUST:** No. We flew from Melbourne to Cooma when Ansett withdrew many years ago. Cooma, of course, when the snowy mountains scheme was in its heyday, was quite a major port. Over the years it has dwindled away. We linked Cooma with Merimbula. That worked reasonably well, because Merimbula was a holiday destination in the summer, and Cooma was a holiday destination in the winter. But, unfortunately for Cooma and for us, the development of snow fields just to the north of Melbourne meant that people could very easily drive from Melbourne and stay. In addition to that, the cost and attractiveness of New Zealand as a ski holiday proved to be, on a price basis

particularly, as competitive if not in some cases a little cheaper.

So the level of demand for the service dwindled away, and unfortunately we had to stop our services there. But that is the only one that has not been serviced subsequently by another operator. I might say again that people who wish to fly from Melbourne to the snow fields still have the option via Canberra, and the upgrading of the road between Canberra and the snow fields has meant that it is not too bad a drive, and there are coach services and things like that. We are aware that people have changed their travel patterns to do it that way.

In the last 10 years, those are the three centres to which we have reduced services. So there appear to be two big fears of deregulation in rural and regional New South Wales. One is the fear of the loss of their service, and the other relates to issues concerned with safety. But I honestly do not believe that, in a deregulated market, communities should fear the loss of their services. If there is a requirement for the service, in the long term they will receive the service. Whether that will be at the same level as they are currently getting, the market will determine. In some cases I believe they will be far better off. I believe that regulation at the moment is probably putting inefficient services into regional New South Wales when communities could have quite efficient and cheaper regional air services.

In our submission we have given you quite a bit of information about the comparison of fares in various markets around our network particularly but around Australia in general. What we have done is compared routes of similar distances, and we have looked at fares available in regulated monopoly, regulated competitive, and deregulated monopoly and competitive markets. You will see that in almost all cases the regulated markets have higher fare levels, and substantially higher fare levels. If the Committee would like us to do some more work on that, we will be more than happy to assist in that regard.

**CHAIRMAN:** Certainly, any other information in that regard would be appreciated. Do you give passenger numbers in the chart that you have provided? You may have given them to us somewhere else.

**Mr BREUST:** There are passenger number statistics elsewhere. Should we get the size of the markets?

**CHAIRMAN:** Yes. I know you have given us those somewhere else, but I just do not know whether they are related to that same area.

**Mr BREUST:** We will try to get those. Obviously, we will need to go to the Department of Transport and Regional Development for the ones that we are not familiar with.

**CHAIRMAN:** Is that the conclusion of the open hearing?

**Mr BREUST:** That is basically it.

**CHAIRMAN:** You talked about slot times being limited to 80 per hour because of noise problems. It has been suggested to me that regional airlines using aeroplanes the size of Saabs are not creating a noise problem in Sydney and that the noise problems really relate to the bigger jets.

**Mr BREUST:** Yes, the heavy 747s and so on.

**CHAIRMAN:** And that country New South Wales is unnecessarily becoming tied up with the noise problem. It has also been suggested, perhaps a little flippantly, that in a lot of cases country airlines would land on the parking lots in Sydney and do not necessarily need big strips, and it might be an option to have an additional strip at Kingsford Smith airport purely for regional airlines. Have you given any thought to that suggestion?

**Mr BREUST:** I have heard of that option. At the moment I really do not think that that, as a single action, would be the solution. The real issue, as I said before, comes back to not so much the infrastructure that is there, the physical runways and taxiways and matter like that; it is the management of the throughput of the air traffic system. There are two major competing issues there. One is the sharing around of the noise. The other is the management of the actual aircraft in the system.

What has occurred in the last five to 10 years is that we have moved into a system of standard arrival and departures for aircraft, and that means that arriving and departing aircraft are from the same general direction and all following the same route, regardless of the type of aircraft. As a result we have a mix of the largest aircraft, which is the 747-400, and the smallest of the aircraft in Sydney, which are either a Navajo Chieftain or our friends from Aero Pelican in a twin Otter, which is a fixed undercarriage, high wing, turbine, unpressurised aeroplane which is very slow and is designed to take off on sixpence and hopefully land on the same too. But all of those aircraft are currently managed the same way.

So we can arrive over Bindook going into Sydney and we can fit into a slot the same as a 737, a 767 or indeed a 747, and we can track for 60 miles in a big square to come in and land in Sydney, and we all follow the same track. It is easy for the air traffic controllers because it is like having everyone running down a single-lane highway. They say that is good for safety, and I accept that, however it is not good air space management.

The Saab, for argument's sake, being a regional airliner and a turbo-prop, can actually maintain 250 knots from five miles from touchdown. A 747, a 767 or a 737 must be put into an attitude some 60 miles back to actually come in and land. That is what is called a stabilised approach. The aircraft must be set up well back from the runway to actually come in and land. In the last 30 to 15 miles it is relatively slow, and on the two parallel runways in Sydney quite often we will have a Saab coming in to land and we will pass a 737 because the aircraft can keep up at a high speed, and when it gets close to the runway it can decelerate using propellers and everything else and can come in and land quite easily.

The efficiencies of all of that are simply not being taken into account in the traffic management system for Sydney. There is possibly a solution, but the solution is not being considered in that sense. The solutions at the moment are being considered in terms of either infrastructure or the sharing of the noise.

**CHAIRMAN:** Rather than management.

**Mr BREUST:** Rather than effectively managing the throughput of the airport.

**CHAIRMAN:** It was suggested in an article in this week's or last week's *Bulletin* that wind sheer could cause a problem as well.

**Mr BREUST:** Yes, lay turbulence.

**CHAIRMAN:** And therefore there has to be a larger separation of the two sizes of planes than if they had a whole host of jets come in or a whole host of small planes.

**Mr BREUST:** That is quite right, but it is very difficult to manage everybody to turn up in the right order at the right time. But you are quite right. Those are other influences that affect traffic. I am sure that, with some good management of that air traffic system, the efficiency of Sydney airport can be increased considerably. However, as we all know, we have all these other competing influences, and unfortunately we have got a mess. At the end of the day,

I do not believe that we can find a solution that will satisfy everybody. I think the only real solution is to try to keep muddling through with Sydney as much as we can at the moment, but go and build a better one somewhere else.

**The Hon. J. GARDINER:** Mr Breust, could you expand on your comment with respect to local government charters and how they are using the national competition policy to justify their case? How are they going about doing that?

**Mr BREUST:** I would like to deal with that in the in-camera session.

**The Hon. J. GARDINER:** I will leave that question until then. You have given us the examples of Ceduna and Streaky Bay and how in the end the community possibly benefited with a stronger service. It is understandable that smaller communities do fear the loss of yet another service, particularly a transport service. You might take this question on notice, but are there other examples that you can point to of a stronger service resulting in other parts of Australia which might help to allay the fears of smaller operators if there is to be a deregulated market?

**Mr BREUST:** The reason I chose those few is that they related specifically to us, and I have first-hand knowledge of those. I guess we could look at some of the centres out of Dubbo which, following withdrawal of services by Hazelton some years ago when they were regulated, effectively opened up. Air Link in Dubbo commenced operations into some of those centres, linking those back through Dubbo. My understanding—and I know David Miller very well—is that those communities probably have got a better service now than they had previously. But I guess that is a subjective judgment because I do not have access to the numbers.

**CHAIRMAN:** We have had some evidence from Air Link.

**Mr BREUST:** Elsewhere in our network, I might point you to the situation in Tasmania, which is still going through a shake-out in terms of the demise of Airlines of Tasmania.

**CHAIRMAN:** Was that tied up with Tamair?

**Mr BREUST:** Tamair were involved in that organisation, yes. I cannot remember when Airlines of Tasmania was an operator who had monopolistic rights throughout the State of Tasmania, including Flinders and King Island, and it received quite heavy subsidies or assistance from the State government, and it also received preferential treatment in the carriage of mail and freight. That was an organisation which, from a community perception and satisfaction point of view, was a disaster. I have a close knowledge of that because we operate from Melbourne into King Island, and have done for a long time.

Airlines of Tasmania used to operate from Burnie, Devonport, Launceston into King Island, and bring in the mail, freight and everything else, and there were always problems with the aircraft. The aircraft they operated were very old, and they ended up having Herons, which were aircraft that Kendell had 25 years ago; they had small, piston-engine, unpressurised aeroplanes; and the level of services and the level of fares were not considered by the community as being really acceptable. There was a lot of pressure put on us in that period to expand our services into the Tasmanian market—and this pressure came from the community—but that was not accepted by the State government.

The State finally was forced into deregulating air services down there when Airlines of Tasmania—which struggled on for years and years, to my observation—finally failed. They went broke. In regard to a single King Island to mainland Tasmania market, that was immediately taken up by other operators. The service levels, in terms of frequency and seating capacity, on those markets increased. There has been a little bit of variation, and there has been an operator come and go, but the market is sorting out the level of services required. It is going through that

process.

I believe that, on a long-term basis, both King Island and Flinders Island will be far better off under a deregulated system than they were when Airlines of Tasmania were operating under such a protected position. I think that is a pretty good study case to work through.

**The Hon. E. M. OBEID:** Mr Breust, on deregulation, you say quite categorically that you are a supporter of deregulation, and in the same vein you say that the market should determine air services. How can you guarantee this Committee or any government that if the air services were deregulated that you would still continue to service areas where the bottom line is not good enough for you?

**Mr BREUST:** Well, the bottom line may not be good enough for us, but in terms of our own decisions we will come to a judgment in regard to that. But that does not necessarily mean that the community will not have a service. There are other operators and other organisations that have different cost structures and different capabilities, and in those circumstances there is nothing to stop those operators coming in and providing that level of service. We honestly believe that if there is a requirement for a service, if there is a market for the service, there will be an operator who will come along and provide that service. But you cannot artificially impose something which the market itself cannot sustain.

**The Hon. E. M. OBEID:** You are saying: Let's take the cream of the areas and let someone else come in and take over the minor routes that do not have a lot of cream.

**Mr BREUST:** It is all relative. We operate on some routes that are actually marginal, and we operate them with Saab aircraft. We operate routes that do quite okay in a deregulated environment with a Metro, and we operate in some markets with that same smaller aircraft that are marginal, but that is our cost structure in terms of that activity. We fly fairly complex, turbine, pressurised aircraft. We pay our pilots a lot more than a lot of other operators. Our engineering costs are greater because of the sophistication of the aircraft, and that all reflects in cost and price. But an operator with a slightly smaller or less sophisticated aircraft can provide that service at a lower cost. That, at the end of the day, may well end up being what that market requires.

**The Hon. E. M. OBEID:** How can we guarantee a community that it will have that service?

**Mr BREUST:** It is very difficult to guarantee anything, but you have to continue to point to the actual experience elsewhere. We went into South Australia in 1985. South Australia, really, has never been regulated. We went into South Australia in 1985 after Ansett Australia closed down Airlines in South Australia. Airlines of South Australia operated the old F27s, the Fokker Friendships. They certainly provided a high standard of service in a large aircraft, but the frequency and the actual amenity of service was not there. We went in and provided services with 16-seat Metroliners and Saabs—small, faster aircraft, but offering greater frequency. The frequency has been the issue that effectively has allowed us to grow those markets, because the industry right round the world will say to you that the major determinant of growth in any market is not aircraft size, it is frequency of service.

That has been proven in South Australia. It has been proven even on the Sydney-Canberra market, where we went in with Ansett to operate the capital shuttle. We do 13 return Saab services a day on that route. They used to have eight Fokker 50s on it, but we do 13 return Saab services and we have grown the market. The communities at both ends are better off. The same principle applies in almost any community. So operation of large, costly aircraft with very low frequency will stagnate your market. Operating a high-frequency service with an efficient aeroplane will grow your market, because you are providing a service when the customer requires it.

**The Hon. E. M. OBEID:** Regarding landing fees, I note that the \$28.50 has gone up to \$140 and then come back to \$100 for Kingsford Smith airport. I am not for moving to Bankstown by the way, but assuming that you were given a good package of landing fees at Bankstown, would that not influence you?

**Mr BREUST:** I would not go there. Even if it was for nothing, we would not go.

**CHAIRMAN:** We will now resolve into confidential session so that Mr Breust can give us some confidential information.

**(Evidence continued in camera)**

**(The witness withdrew)**

**(Public hearing resumed)**



**LESLEY CLEMENTS LANGFORD**, Representative, Albury City Council, and

**DAVID ROBERT WARD**, Manager, Engineering Services, Albury City Council, sworn and examined:

**CHAIRMAN:** Councillor Langford, what is your full name and occupation?

**Cr LANGFORD:** Leslie Clements Langford, retired dentist.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Cr LANGFORD:** As the representative of Albury City Council. That is the first hat.

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

**Cr LANGFORD:** Yes.

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

**Cr LANGFORD:** Yes.

**CHAIRMAN:** David, what is your full name and occupation?

**Mr WARD:** David Robert Ward, Manager of Engineering Services.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Mr WARD:** Supporting Councillor Langford, as an officer of Albury City Council.

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

**Mr WARD:** Yes, I did.

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

**Mr WARD:** Yes, I am.

**CHAIRMAN:** Councillor Langford, you have a submission on behalf of the Australian Airport Association, of which you are a member.

**Cr LANGFORD:** Yes.

**CHAIRMAN:** Would you like that submission to be incorporated as part of your sworn evidence?

**Cr LANGFORD:** Yes.

**CHAIRMAN:** David, you have a submission on behalf of the Albury City Council. Would you like that submission to be incorporated as part of your sworn evidence?

**Mr WARD:** Yes.

**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. Councillor Langford, would you like to commence with a verbal submission before Committee members ask some questions?

**Cr LANGFORD:** Yes, Mr Chairman. I have two submissions. The first speaks on behalf of the Albury City Council. It was deemed by myself and others subsequently that it was better to make sure they were kept separate because of one or two differing points of view and because they were coming from different directions. Some of the views of the airport owners are different from those of the Albury City Council. However, I will get back to the Albury City Council submission.

You have our written submission, so I have gone through that and listed the five points relative to the terms of reference of the inquiry, and I will speak to those rather than read through them. But I would like to point out, as has become patently obvious to everyone perhaps, that since the inquiry was called certain things have happened, such as the charges announced by Mr Vaile and the slot times and so on. So, when the fees were made part of the draft of the inquiry of the FAC, and when the news of that got out there was publications from the Local Government Association of New South Wales, and people started to jump up and down.

But, getting back to the landing fees of Kingsford Smith airport and the figures that we have looked at that are in the submission, it seems to us that, from the point of view of the Albury City Council, we are not unhappy with those charges at all. It seems pretty reasonable for what we have been offered at Kingsford Smith airport, what we have to pay at Kingsford Smith airport, and what the aircraft has to pay, because it comes out at a slight reduction.

A typical charge at Sydney is at page 3. I think that charge at Kingsford Smith airport, particularly with the removal of the peak period surcharge, which was never very popular, to say the least. Yet one always had to be sympathetic to the fact that a jumbo is a lot more important in some ways than a seven-seater coming in in peak periods. I suppose that is being the devil's advocate again, but we are quite happy with that.

The next part of the inquiry was the landing fees at regional airports. I probably need to take a little bit more time on this. We have in the report the type of business activity that we have in Albury city. We are busy doing an inquiry into that at the moment to fit in with the NCP requirements. It would seem at the moment, from what we can ascertain, that we are looking at about an 8 per cent profit on the investment, from the income from the Albury airport. That is taking into account landing charges, concessions, and so on. We do not think that that is terribly unreasonable, but that will be refined and we will make any necessary adjustments.

We have been criticised for our account procedures in the Albury City Council and the fact that in some peoples' eyes we seem to make huge profit. We have had the airline people in to have a look at our accounting procedures. They have had access to all our books. That goes back some time, when one airline accused another of not being honest about the number of passengers that they were landing there, and we felt that that should be looked at. That has all been sorted out now, but it is still an honour system.

**The Hon. J. GARDINER:** You say that the airline operators have been in to have a look at your books.

**Cr LANGFORD:** Yes, they had access to the books. I think one of the airlines raised a question and disputed our accounting methods and so on, so we thought the best way to deal with it was to go and sit down with our finance department and go right through it. I still do not think they were very happy about it in one way, because we put any excess of income over expenses for a period into consolidated revenue, rather than put it in a bickie tin for a reserve and build up one or two million in reserves, so that when we re-sheet the runway we have got the money there. We put that into the general funds, and then the general funds borrows money to do the upgrading of the airport, because our feeling is that, rather than have one and a half million sitting there and borrow one and half million to upgrade the library, well, the man who controls the lending of the money said, "Well, that is probably not a wise thing to do. You have got the million and a half there. Why not use it?" That philosophy does not agree with Kendells, but that is the way our council does it.

We have talked about an increase in fees of up to \$10 a landing charge per head. The airlines are not very happy about it. We will be reviewing it for the next budget and trying to get a really good handle on what the assets are worth. That is terribly difficult, but that is what we are trying to do. We do come in fairly well, we feel, compared with not only New South Wales charges but charges throughout the whole of Australia, going from a dollar at Toowoomba to Norfolk Island at \$18. That is at page 6. Bear in mind that some of those places charge per head, some charge a tonnage, some charge a mixture of both. Orange and one other, Tamworth perhaps, came to an agreement on so much a year for an airline to use the facilities. It works out at \$7 a head or \$7.50 or maybe \$8. But that is just done by agreement, and it saves them counting the heads all the time. It is just so much a year. That seems to work out quite well. We all have different needs, so we all do it differently. Some come out the same. But that is about how we work the charges. The tables are there. If the questions get too technical, David Ward can help me there. I might go on to the slot times at Kingsford Smith airport.

**CHAIRMAN:** In relation to that, have you got a management plan or development plan or business plan for the airport?

**Cr LANGFORD:** Yes, we certainly have.

**CHAIRMAN:** Would you mind taking that on notice and supply the Committee with that? I take it it is a public document.

**Mr WARD:** Yes.

**Cr LANGFORD:** It goes back some years, and it has been updated.

**CHAIRMAN:** You attach it to your annual budgets, do you not?

**Cr LANGFORD:** Yes. I was thinking more of the master plan for development out there. We have purchased more land for industrial use and so on. But, certainly, that and the business plan. On slot times, about six or nine months ago we had a talk with the Airline Association. Julianne Alroe was the lady at the time from Sydney airport. It was FAC then. She talked about the slot times, and that was our first introduction to those, and they have gradually come to fruition. They may have caused concern for some people, but certainly not to Albury City Council. We see them as fair. The market will dictate the slot times belonging to the airline rather than the airport. That is the way the market will work. We have always got pretty good demand, so whoever comes to our place will need slot times, and if we have got access to Kingsford Smith airport that is great. We have no problems with the principle of slot times.

On the proposal to limit access to Kingsford Smith airport, it might be time that I mentioned that I have not had time to produce enough copies to go round, but I have here some copies of letters that came to the Mayor of our council, Councillor Gould, in response to local government resolutions that came out of the western suburbs. There are 20 letters of support for regional airlines to continue to have a fair price, continuing access to Kingsford Smith airport and not to be diverted to Bankstown.

**CHAIRMAN:** I might ask you to formally table that.

**Cr LANGFORD:** Yes, I formally table that documentation. By chance, the top letter is written by the Premier of New South Wales.

**CHAIRMAN:** I did not know he was a ratepayer!

**Cr LANGFORD:** It was in response to other councils. No doubt other councils will go through it, but one and a half hours of travelling, no infrastructure. Bankstown, for example, has probably got more than twice the number of aircraft movements that Kingsford Smith airport has, so it is pretty well at its peak capacity. There is no way that we could see Bankstown as a port when we are coming out of Albury and heading for Sydney. But not only Sydney; it may be that we are heading for Cairns or overseas, and trans-shipping could become a nightmare. There has probably been so much said about that that I will not dwell on that.

The fifth item in the terms of reference relates to the deregulation of air services in New South Wales. We did have the Air Transport Council meet with us in Albury a year and a half ago when it looked like a third airline might come in, Eastern, to join Kendell and Hazelton. The Air Transport Council met in Albury, and their decision was with the status quo to continue to the middle of next year when perhaps deregulation occurs. So we said we would have the two airlines. If we have a third under deregulation, we say the market forces will decide which one goes broke. Hopefully, they will not, because a lot of that rubs off on the local community. But we are not in the process of saying that we will fight to keep a limited number coming into Albury. It will cost us somewhat to develop a new space at the terminal facility, but not a great deal. So I guess when that happens, it happens—if it does happen.

**CHAIRMAN:** Do you actually favour deregulation, or does it not worry you much which way it goes?

**Cr LANGFORD:** All I can say is that it does not worry us. In the other submission I will talk differently. But in Albury it does not worry us. We have been through that a few times. A year or two ago we went through the procedure. We had a resolution come out of council a fortnight ago to say that we are not concerned if deregulation comes, that we would be quite happy to go with it.

There is a summary at the end of the presentation, at page 15. Really, we know there is a feeling out there about what we charge for landing charges, or what is called a passenger tax these days. There is no way we feel we could go through Bankstown.

**CHAIRMAN:** Mr Ward, do you have anything to add?

**Mr WARD:** Not unless there are any questions from the inquiry. The only thing I would highlight is the matter of deregulation. Albury is very similar to Wagga Wagga. Being on the border, we have two deregulated services that operate interstate, and they have been very successful. One goes to Melbourne and one goes to Canberra. They have not been regulated. We have the regulated duopoly on the Sydney route, which are Kendell and Hazelton. Albury has experienced an example on the Canberra route that emulates small country services in our mid-west. The service has a market of about 8,000 passengers per annum. Then we had another small operator who came in and posed a

challenge to the operator who was there, and for 18 months there was fierce competition, but eventually one of the airlines withdrew from the service and left the remaining operator on board. So we have experienced that situation that emulates deregulation that would perhaps be similar in country New South Wales. There was a survivor and at the end of the day it worked reasonably well. Council at that time had to carry some of the costs.

**CHAIRMAN:** The council had to subsidise it during that competition period?

**Mr WARD:** No, it did not subsidise it. It had to come into some business arrangement with the operator that survived to pay off his debt. That has all been cleared. I am just saying that that is an experience that we had at the time, and it worked out at the end of the day.

**CHAIRMAN:** What happened with prices in that competition period?

**Mr WARD:** I think they were fairly marginal.

**CHAIRMAN:** They did not go up or down?

**Mr WARD:** No.

**CHAIRMAN:** They did not change?

**Mr WARD:** No. Melbourne is similar. There have been smaller operators who have come in from time to time to offer niche market services to Melbourne. However, they have come and gone, and the main operator has remained there.

**CHAIRMAN:** Councillor Langford, did you have any other specific comments that you wanted to make, apart from what is in your submission directly from the Airport Owners Association?

**Cr LANGFORD:** Yes.

**CHAIRMAN:** We might take that before we go to questions, then we might ask questions on any matter.

**Cr LANGFORD:** I think there are two or three aspects that I have made mention of. Many of the airport owners who are members, around 50 in New South Wales—and that is the dotted page in one of the addenda. That is how our members are represented, by those dots on the addendum.

**CHAIRMAN:** This covers all of the States?

**Cr LANGFORD:** Yes, we cover all States, and about 70 or 80 airports throughout Australia, which is getting near to 50 per cent of all licensed airports, as they used to call them. The majority of our airports are on a losing streak financially. That dates back to the seventies when we took on the airports under a local ownership plan. All the runways were built or upgraded by the Federal government. Half the cost of terminal buildings and half the maintenance was paid by the Federal government. That was a good, firm contract that we had with the Federal government—or so we thought.

**CHAIRMAN:** That was in 1973, or round that time, was it?

**Cr LANGFORD:** Yes. There has been a lot of water flow under the bridge since then, and a lot of money went out, some of it a bit unnecessarily too. There were some massive terminal buildings, depending where the aviation Minister lived at the time, some people say. In the late eighties and early nineties the Federal government walked away from the ALOP, tore up the contract and gave some of the airports a bit of a subsidy, bonus or whatever you like to call it. They said, "Here is some money," \$300,000, to Albury to make the apron and runway safe and said, 'You are on your own now.' That was a disaster for many of the smaller airports that had only a small RPT service or just general aviation.

We put on a landing charges that were different from place to place, and whoever collected them did collect them as best they could. Sometimes they could not. There were schemes like Avdata, where they tuned in on the radio, and they said they would not pay, and some airlines went broke, and the council lost a heck of a lot of money. Fortunately, the State government, as one of the best thing they ever did in New South Wales a year or so ago, was to modify the Local Government Act to make it legal to charge the COR holders of the aeroplanes so that we could legally bill them. That has changed things around, so Avdata should be able to work pretty well these days. The other States are looking to follow suit because neither of the parties is interested. I am not getting into party politics there. We have approached people when they have been in government or in opposition, and they have walked away from any support for regional airlines. The only States where regional airlines get support are Queensland and Western Australia. Some got \$4 million to go into a privatisation deal with Western Australia. I gather there are some sort of subsidy for regional airlines, but it does not happen anywhere else.

**CHAIRMAN:** So they are direct subsidies to the airline operators for less profitable routes? In Queensland it came about because of deregulation, to try to guarantee continued service.

**Cr LANGFORD:** David might be able to speak a little more on that particular aspect, of how that comes about in those other States. The point I was really trying to make was that everyone was on their own. We find it difficult to get some of these people to tell us how much it costs them to run their airports. The Association has been trying to do a survey, and has put aside \$10,000 to get a consultant to put it all together to present a case to the State Ministers or the Federal Minister to say we need help. Yet our members are a bit reluctant to come forward. So we have a bit of guesswork here and there. But we know that the majority of them lose money, and the community supports it out of the ratepayers' money, and other people use it. Cobar was a good example. The mines used the airport, and they never paid anything. One of the mines has walked away now at Cobar, but hopefully that will be sorted out. They are always crying poor-mouth about it, and rightly so.

So, what we have done is work out our landing charges, what the traffic will allow. Some aim to break even. Some, not very many, make a profit. Albury is one of those. Some do not charge because they are so close to Sydney that if they start charging people will hop in a car. That is what happens in Albury sometimes at the moment. It is not so much the landing charge; just the fare on the plane. It is only three hours to Melbourne by car, and if there are two of you going it is \$450 to \$480, and two of you in a car can do the trip in three hours each way. That is a restraint of the operator rather than of the landing charges. So that is how we came about the different landing charges at different airports.

Some of the smaller airports, the northern group, probably will be talking to you about their concern about the slot times because the slot times apparently go with an airline, because the airline has that slot at Kingsford Smith airport. The feeling around Tamworth is that one or two of those have been in trouble with their users, the airlines. If they have an airline that is not doing so well, it could be taken over by someone else who has a bit more money, and that slot time for Kingsford Smith airport will be used somewhere else. If they want to come to Albury they need a slot time, and if they are not doing so well at Tamworth they could use the slot time and get into Kingsford Smith airport. That is the concern of the northern group, Inverell, Dumaresq, Tamworth and Newcastle. No doubt, if they have a

guernsey, they will be coming to you and putting that on their behalf. That is their worry about slot times. It is not such a worry to us at Albury and Wagga Wagga; we are a bit bigger. It is the little ones that might lose if they go elsewhere and take the slot time.

Deregulation is of great concern to the northern group and some smaller people. Whether or not the frequency of service changes with another airline operator coming in... It is more likely you will get smaller aircraft. Some of our people feel that the smaller the aircraft the less the safety factor. I subscribe to that belief too. I would not like to travel in a nine-seater if I can travel in a Saab. The fire control services in some of these smaller aircraft are nowhere near the same as they are in a Saab. But passengers do not know that. If you ask Dick Smith, he will tell you. It is one of his pet theories. It was put to the Australian Transport Council that passengers should be aware of the degree of safety that each class of aircraft has. If I had a choice, I would rather go in a Saab than a Piper. That is by the by.

They are concerned that they would have a situation that happened on the Canberra route: someone comes in, someone goes broke, and someone owes the local owner—councils mostly—a fair deal of money, as well as local fuellers and all that sort of thing.

One of the concerns about not only Kingsford Smith airport but other privatised airports was that they might set the pace with landing charges. When the landing charges were announced, in the formula for the privatised one there is a CPI-minus figure for the annual increase in charges. If that is applied to Kingsford Smith airport, or they call themselves now the SAC, they could operate the same way as the others, whereby they are limited in how much they can increase their charges.

But that only applies to 40-odd per cent of the charges; it does not cover the other slugs that passengers get hit with—car parking and other charges round the airport. One or two are looking at putting a fuel levy on. That does not come into that restriction on the price increase of CPI-minus figure put on them for five years. I do not think that will worry Kingsford Smith airport for a year or two because I do not think that will be privatised for some time. Who knows?

I think those are the basic differences in concerns about deregulation, time slots and pricing. We are very concerned that the small aircraft are going to go up 200 or 300 per cent in landing charges. I think Mr Vaile has taken care of that with subsidies for the very small ones. They are probably not worrying so much about it now, but they did initially.

**CHAIRMAN:** A lot of both of our submissions and the management plans will contain the answers to a lot of questions that members will ask you now. What I would ask you to do is take them on notice if they are not already incorporated in the documentation and submissions. How many scheduled services are there a day from Albury airport? How many operators service Albury? And is the community satisfied with the level of service? What size planes are scheduled on the service, and are they appropriate? What is the largest plane that the Albury airport can handle? What is the level of general aviation usage at Albury airport.

What are the landing fees at Albury airport, and how do they compare with other airports? What is the capital value of the airport, and what is the rate of return? Does the airport require any expansions? If so, how will they be funded? What impact would the deregulation of the State's air services have on country communities? If deregulation proceeds, what would the council like to see the government do to ensure that services are maintained? What would be the impact on the local community of the mooted proposals to redirect country air services to Bankstown airport? I will give you a copy of those questions. Would you take on notice those questions that you have not already answered and supply us with that information.

**Cr LANGFORD:** Yes.

**The Hon. E. M. OBEID:** Councillor Langford, in the Albury City Council submission you have used passenger numbers for the 1995-96 year. Why is that when there are up-to-date figures that others have submitted to us? The reason I ask that is that shows 101,000 whereas in the current passenger list we got from other sources it shows 151,000 currently.

**Mr WARD:** We have only given you the passenger numbers for the Sydney route. They are not total passenger numbers to Melbourne, Canberra and so on. The total number is 150,000. For the Sydney route it is about 102,000. At the time the submission was prepared the financial year 1997-98 was not completed and we did not have the final figures at that stage.

**The Hon. E. M. OBEID:** I am sure you realise that the costing that you have got is a most controversial matter, and you are going from \$7 to \$10 in one whack. How have you valued the capital value of your airport in order to work out your net return in accordance with the NCP values?

**Mr WARD:** The council has just received a further report from the joint finance and works committee on 13 July. You are free to have a copy of that report, which may answer that question.

**CHAIRMAN:** Yes.

**Mr WARD:** The book values have been used in this analysis, and all of that information that you are after is in this.

**CHAIRMAN:** If you would send that along to us, we would be grateful. Or you could table it now if you have a spare copy of it.

**Mr WARD:** I only have the one, but I could table it if there are no further questions about it. But the book value nominated in this report is \$4.2 million.

**Cr LANGFORD:** Council is seeking an updated valuation of the airport. That is in the process of being done at the moment. As I mentioned earlier, we are following this up, and we will go through all the figures again and do the budget on it, because we are very much aware of the opposition out there. We had always worked closely with the airlines up till perhaps the last 12 months, when we have not been having our user groups and council meetings the way we used to, and that is probably an internal problem that the council has got, for political rather than any other reasons. But we are aware—and we have given a commitment to at least one of the airlines—that we will get together with the users and have further talks when we have got further figures, because they are just sniping at one another out there. We have always tried to get on with the airlines.

**The Hon. E. M. OBEID:** Would you clarify one thing for me. What is the basis of your determination to increase the landing cost for passengers from \$7 to \$10? When did this occur?

**Cr LANGFORD:** It has been to council and it is coming to council again. It has been up two or three times to have another look at it. Mr Ward might like to answer that question.

**Mr WARD:** The council initially resolved to increase the cost on 23 March this year. There were representations from the airlines to council, both by letter and by personal representations to one of its committees. Council then resolved to further examine that issue. The report that you have before you now is a further examination of the financial model using national competition policy guidelines. I think that will possibly explain what you are after.



**The Hon. E. M. OBEID:** Councillor Langford, being chairperson of the Australian Airport Association.

**Cr LANGFORD:** New South Wales branch, yes.

**The Hon. E. M. OBEID:** Are you concerned that councils could, as owners of the airports, increase the costs to a rate where you will have airlines not using that airport? Is there a possibility that you will put them out of business if you increase the charges, particularly in view of the fact that Kingsford Smith airport might be going private, that it looks like being sold. Do you think that is a possibility unless costs are controlled and contained at the bare minimum in the interests of the community?

**Cr LANGFORD:** Believe you me, I have given the matter a lot of thought. I have watched movements around the country in relation to the various airport charges, not just Albury. There are some airports that are not going to put up their charges because they feel that the competition will move to another airport that is only 20 to 30 kilometres away.

I think there is a message in that anyway that we need both airports. I am not sure whose advocate I am there, but there are some in the north-east of New South Wales that are close together, and there are one or two over the other side.

Quite frankly, one of these days maybe they will start using only one of those airports, and then the costs will be less to the members of the community. But always at the back of my mind is that the people who use the aeroplanes are the people who pay, not just the local community. For example, if you straddle the border and you have a couple of municipalities, or you have a shire and a city and one owns the airport, if the shire owns the airport and the city council does not, it is the city council people and the business people who come in there and pay the landing taxes. The user pays. I will give an example of the Mildura shire—and this happens to be in Victoria—there is a shire and a city, and the airport is in Mildura shire, with a very low rate income, but it is the city people who use the airport. How much can you charge per head to make sure your ratepayers do not suffer? You have got to try to break even until you get the yells from the airlines, and then you have got to try to reach a compromise. But most of our people could never charge enough to pay their way anyway. So it is the community pays.

**The Hon. E. M. OBEID:** On what I can see in the tables that have been provided to us, the major airports such as at Albury, Wagga Wagga and Coffs Harbour, are taking advantage of their size and passenger turnover and can literally put up the figures, whereas the smaller centres that want to keep their airline services at any cost have reduced their costs. Going on your line, if you have business people and you have a good transport system, business will follow and that will create employment in that area. So maybe you might have one business person coming down to Albury or Wagga Wagga, but in essence he could be creating economic activity for 100 employees. So it is not just based upon the community user, but on the benefit to the community. My concern is that the tables reveal that the bigger airports are making their own rules as to how they charge and whether they are considering the community benefit by putting up their prices, disregarding how beneficial the air services are to their community. I am not against returning costs and building up sufficient reserves to enable you to keep maintaining your capital works projects.

**Cr LANGFORD:** I understand Wagga Wagga, for example, does just better than break even. Albury, looking at the figures at the moment, is getting 8 per cent on the investment. We are trying to refine those figures. But we have just had 20 airports that have been privatised, and all the people who have bought those airports have bought them to make a profit. I do not think profit is a dirty word, but because we have the facility there and we can charge 8 per cent, I do not think 8 per cent is over the fence. If we find that it is, and we have more money than we need, we will go back. By my feeling is that we are not there to make a huge profit out of the airport. That is my personal feeling. And I was on council for some years before I found out that it did not work quite that way. I thought we try to break

even.

**The Hon. E. M. OBEID:** You are suggesting that if figures show you are making a huge profit, you will bring down the charges and it will be only a reasonable profit on costs?

**Cr LANGFORD:** That would be what I would be striving for if I thought it was too much.

**The Hon. J. GARDINER:** Following on from Mr Obeid's question: in terms of the timetable, you said the \$10 mooted charge is being reviewed in the lead-up to the next budget. Are you possibly going to change that figure before you put it into the budget?

**Cr LANGFORD:** That is not planned at this stage, no.

**The Hon. J. GARDINER:** So you are going to go ahead with it?

**Cr LANGFORD:** Yes.

**The Hon. J. GARDINER:** And then have a review afterwards?

**Cr LANGFORD:** I am sure we could make some adjustment, but it is a bit late then for the passengers because they have come and gone and paid their tax. I am not sure how you would do a payback in retrospect, but we cannot put it down now, because it is seen that we should be putting it up, until we go through all the facts and figures and the re-valuation and so on, to see that it does look squeaky-clean and that we are not overdoing it. But I would not like to be seen to be part of that. That is a personal opinion. There are 11 other councils.

**CHAIRMAN:** Is the 8 per cent return based on \$7 or \$10?

**Cr LANGFORD:** That is based on the \$10, I think.

**Mr WARD:** Yes.

**The Hon. E. M. OBEID:** Let me assure you, Councillor Langford, that governments are the best at manipulating figures and how they are represented.

**Cr LANGFORD:** I would not disagree with that. I hope we are quite transparent.

**CHAIRMAN:** Local government has a bit more transparency.

**The Hon. J. GARDINER:** Could I ask a question of you wearing your Australian Airport Association hat. You have 50 country airport owners in the Association, and you have mentioned in particular the northern group being concerned about the question of deregulation. How many of the 50 airport owners in New South Wales share the views of the northern group? In other words, does the Association itself and you come down to a policy decision on the question, or whether you agree to disagree, and what is the proportion of those in favour and those against?

**Cr LANGFORD:** I find that a bit difficult to quantify.

**CHAIRMAN:** Perhaps you could take that on notice.

**Cr LANGFORD:** I certainly could do some work on it. It tends to be that the smaller the village the more

concerned it is about deregulation. So I would say that it is about half of our members. But the Association is split.

**The Hon. J. GARDINER:** So it could be split down the middle?

**Cr LANGFORD:** Yes. As I said, Wagga Wagga is not concerned about it, and we are not concerned about it at all at Albury. I would say at least half our members are. But I will try to define that for you.

**CHAIRMAN:** If you could, because there are only six or eight big ones.

**The Hon. E. M. OBEID:** It would go without saying that the fewer smaller airports there are, the more the regional airports will benefit.

**Cr LANGFORD:** Yes.

**The Hon. J. GARDINER:** Have you ever heard of anyone who supports the idea of going to Bankstown?

**Cr LANGFORD:** No.

**The Hon. J. GARDINER:** Nobody at all?

**Cr LANGFORD:** Except John Fahey.

**CHAIRMAN:** I think he changed his mind very quickly. I think it was next day.

**Cr LANGFORD:** One point I did not make about going to Bankstown and the Very Fast Train. There are 140 commuters from regions who use Kingsford Smith airport a day. There are about 22 come out of Canberra, and about 18 out of Newcastle. The rest come from the regions. So, what the heck a Very Fast Train from Sydney to Canberra has got to do with it, I do not know. What only one-seventh from Canberra has got to do with it I do not know. I meant to mention earlier that the Very Fast Train is a bit of a red herring.

**CHAIRMAN:** Thank you very much for your evidence, Councillor Langford and David Ward. We might write to you. But would you send in that additional information that you have got.

**Cr LANGFORD:** Yes.

**(The witnesses withdrew)**



**TERENCE DAVID MCKENZIE**, Managing Director, Country Connection Airlines Pty Ltd, sworn and examined:

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

**Mr McKENZIE:** As Managing Director of County Connection Airlines.

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

**Mr McKENZIE:** I did.

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

**Mr McKENZIE:** I am.

**CHAIRMAN:** Have you made a submission to the Committee?

**Mr McKENZIE:** I have not.

**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 short presentation or statement?

**Mr McKENZIE:** You would like me to make a short statement on what items?

**CHAIRMAN:** On some of the issues that you might consider important, such as access to Kingsford Smith airport and slot times and deregulation.

**Mr McKENZIE:** It is quite evident that the landing fees at Kingsford Smith airport is just a move to shift the small operators out of the airport. I do not really think they care whether we go to Bankstown or not. I think that was evident when they brought in Mr Fahey and took the matter away from the Minister for Transport. The interesting thing is that they came out and said it would be \$140. They have now pushed the media to believe that they are great guys because they are reducing it from \$140 to \$100, when in actual fact we pay \$27.50.

**CHAIRMAN:** So you are paying \$27.50 per landing?

**Mr McKENZIE:** Yes. The \$100 is slightly better than \$140, but we could not sustain a \$100 landing fee on top of all the other charges. It costs us \$60 now for terminal fees at Mascot. It costs us around another \$20 to \$40 per aircraft for checking staff. If you take those into account, we have 1.3 people off an aircraft just to land in Sydney and handle them. So any massive increase over \$27.50 we could not sustain.

It is interesting to note that the other airports that have been sold have not been allowed to put their charges up. Brisbane is still on \$27.50, and the others have been controlled in what they can put the fees up by—only the CPI. Why Sydney can go to \$100 I do not know. We have told that it will be phased in over a five-year period. It starts in October. I have spoken to the Minister's office, and they do not know what the phase-in will be at this stage. So,

basically, although they have said it will be phased in, they do not know what the period will be. It could be over five years, or it could be over two years. It will be a major burden on small operators like myself.

I think enough has been said about landing fees in Sydney. You probably have heard enough about it. In relation to landing fees in regional airports, I cannot complain about the councils of the five towns of Cootamundra, Young, Cowra, West Wyalong and Forbes. We pay nothing at some airports, and at some we pay a very minimal fee. Those towns are more than happy to have the service and to provide the airport and terminals for us.

At the larger airports, I think it is quite evident that some of them are turning them into cash cows. They were given to them by the Federal government, and now they are making a lot of money out of them. If it affected me, I think I would holler a bit louder than this. But, as far as the towns I service, I do not have any complaints at all.

As to the allocation of slot times in Sydney. Sydney is capped at 80 movements per hour, which is a political move. Sydney will handle and operate correctly, I believe, with somewhere around 115 movements an hour. The slot times is only a way of managing the 80 movements per hour and nothing else. It will be detrimental to the regional operators down the line. It is very difficult to maintain the 80 per cent use it or lose it for certain months of the year. In January, we will have to cut flights back. We do combine flights. We base an aircraft at West Wyalong that does West Wyalong and Forbes, and on days of light passenger loading we combine with Cowra because the Forbes aircraft goes past 10 minutes before the Cowra one departs.

**CHAIRMAN:** So you do a bit of hubbing?

**Mr McKENZIE:** We do hub when necessary. The people understand it. You must realise that with a small operator like us, between 80 and 86 per cent of our passengers are regular users, business people, and they understand that to keep it viable we do have to combine services. But, of course, that is detrimental to our retaining our slots in Sydney, so it will be an interesting meeting next week on slots to see whether, in their eyes, we have gone outside the 20 per cent of non-use. It will be very close, but I do not think we will go over it.

Slots will eventually go to the major cities. You will find down the line that the peak period slots eventually will end up with the major regional carriers and will be taken away from the small towns. They should have been locked into those small towns and not locked in with the airline itself. The slots should have been allocated to the towns. No doubt you could move them down the line with the right negotiation if the town became unviable. But I believe a lot of the small towns will lose their slots through takeovers. They only need to buy the business and the organisation to move them; they do not need to operate under that name. They just need to buy the business and the organisation that owns those slots. I think you will find down the line that the smaller towns will suffer from those slots being moved to the bigger towns. Quite possibly too, with deregulation coming in, someone like myself could move them off to a larger centre. So they are not safe in any way, shape or form the way they are set up now.

If deregulation did come in, and we saw there was an opportunity to operate into a larger centre, and we needed the slot from the smaller centre, it is not beyond the realms of doubt that for commercial reasons we may move those slots ourselves to those larger centres. What I am saying is that it is probably detrimental to me in many ways if they were locked into the town, but I believe that in the interests of the communities those slots should be locked to the towns and not to the operators.

Regarding the limit on smaller aircraft into Mascot, I suppose it is inevitable that they will try to move us out. But Bankstown is certainly not acceptable in any way, shape or form. If they go ahead with Bankstown—well, they are going ahead with Bankstown, going on the plans that have been drawn up—I believe that it should be at the option of the operators as to whether they operate services to Bankstown as well as to Mascot. Very few of the people that we

carry want to go to Bankstown. However, there may be other people who are driving who want to do business in the Bankstown-Parramatta area, and you may increase passenger numbers with extra services and cover both Mascot and Bankstown. That is a possibility.

I think it is inevitable that Bankstown will have jet services to Brisbane and Melbourne. I think that is a foregone conclusion with the major airlines that they will operate out of there at least to Brisbane and Melbourne. If that happens, I believe that some of the regionals will put services into Bankstown, but that will not be so with all services because the majority of people either want to go to Sydney to do business in the central business district or that area, or they want to connect with an overseas flight or a flight to somewhere else that the jet services out of Bankstown will not be servicing. So, to move out to Bankstown would basically ruin my business. I just do not think the number of people would support that move. There may be the possibility of running one flight a day, on a hubbing system, into Bankstown for people who want to go to that location.

On deregulation, I am completely down the middle of the road on the question. I ran on deregulated ports. All my ports were deregulated. It was not easy. We had a regulator who was not doing his job, and you know the outcome of what happened. But, while we have regulation there is no chance for me to expand. With deregulation, there is a chance for me to expand my services, albeit possibly detrimental to towns that I run because of the slot times into Mascot. I do not believe that if I pulled out of those five towns tomorrow that any more than possibly two of them would be serviced by another operator. I just do not think there is another operator who could run them viably. We are fortunate that we own a large aircraft maintenance company in Cootamundra called South West Aviation. That is our main base. It would be very difficult for a Sydney-based operator to come out and run around those towns and make it viable. It is difficult enough to keep it viable now.

So, if we went ahead with full deregulation—and I have run under it before, and it was not easy—then, yes, it allows me the opportunity to expand. If it remains the way it is, it just means that I will not have to go and borrow millions of dollars and get more grey hairs. Basically, that is my submission.

**CHAIRMAN:** If, at some later stage, you think of some other comments you would want to make, you might write to us.

**Mr McKENZIE:** Yes.

**CHAIRMAN:** You did mention that the regulator was not doing his job. I take it that that comment was in relation to the accident.

**Mr McKENZIE:** Yes.

**CHAIRMAN:** Did you have any more comments on that?

**Mr McKENZIE:** If we are on that subject. It is not part of the terms of reference.

**CHAIRMAN:** You are talking about the safety regulator.

**Mr McKENZIE:** Yes.

**CHAIRMAN:** As opposed to the State governments regulation.

**Mr McKENZIE:** Yes. They certainly were not doing their job back in those days. I think that became evident from

the inquiry afterwards.

**CHAIRMAN:** That has changed though.

**Mr McKENZIE:** No. It is about to go to worse. Dick Smith is looking at downgrading all aircraft 10 seats and under to what he calls air taxi. There was a meeting in Canberra recently convened by Dick Smith. The government would like to see the same level of safety for all fare-paying passengers, whether it be a charter or regular public transport. Mr Smith said that it was impossible to lift the charter operators up to our standard, so we would have to lower the standard of the smaller RPT operators. That has met with a lot of resistance from us, because, on top of doing that, he also wants to change regulation 206(c), which says you must have a licence, et cetera, to run scheduled services and to advertise those schedules. He believes that with a service of 10 seats and under, anybody should be able to advertise a service and run it without having the necessary licence. If he gets his way, it will be much worse than it was before.

Operators like myself, who are operating now, certainly will not lower our standard, which means that operators who come in with a lower standard—not doing things like checking their pilots on the routes, et cetera—will have operating costs that are much lower, and it will be nearly impossible for us to compete with them. That consultation in Canberra was all done in an hour and a half, and I have seen now in a magazine that they have put out that they are going ahead with the air taxi proposal. So that is probably going to have a greater impact than deregulation or going to Bankstown. It will basically mean that, without any licences other than a charter licence, I can pull up at Wagga Wagga airport on a Friday afternoon and say, "\$99 to Sydney" and stick an advertisement in the paper, and when it is full we will go. You will get a lot of unsuspecting people who will jump on board. But that is what is contemplated now.

**CHAIRMAN:** Is your terminal outside the Qantas terminal?

**Mr McKENZIE:** I operate out of the Australian Jet Centre. It is very difficult to get terminal space. I am in the Qantas system, but there just is not terminal space there. Even Eastern have difficulty getting enough ramp. There is terminal space, but not ramp space. So I operate out of the Australian Jet Centre.

**The Hon. J. GARDINER:** If slots were able to be allocated to towns and not to the owners, are you saying you could continue services to the smaller centres but then take the opportunity to perhaps capture some of the market share in the regional centre as well?

**Mr McKENZIE:** What I said about the slots being allocated to the operator was that I believe that a lot of those slots from the smaller towns will end up in the bigger regional centres, being used by the bigger regional centres. There is no protection there for the smaller community to have a slot time. If the operator who does Merimbula feels that he would like to run another service out of Dubbo at 7.30 in the morning when he has a slot that comes in from Merimbula, there is nothing to stop him from moving that slot to say Dubbo and Merimbula getting a flight at 10 o'clock in the morning, and that does not suit business people. I think, down the line, the larger centres will win out and the smaller ones will lose out.

**The Hon. J. GARDINER:** How many other businesses are roughly similar to yours?

**Mr McKENZIE:** Yanda Airlines; Dave Miller of Air Link out of Dubbo. There are only Yanda and myself that operate 10-seaters into Mascot. We have Aeropelican operating 18-seaters, but the aircraft they operate are very slow. The aircraft that we operate, although they are 10-seat aircraft, do fit into the traffic flow much better than their aircraft do. We will sit right beside a 747 on parallel runways all the way.



**CHAIRMAN:** Yanda is at Singleton, is it not?

**Mr McKENZIE:** Yes. We are a minority that I think they would like to get rid of. But we do not in any way clutter up their air space system, because our pilots are all trained to fly the aircraft about 30 knots than is normal on an approach, and it does not hurt the aircraft. It is well within its capabilities, but it puts us in at the same speed as the jets on approach. We are slower on flying time, of course. It all comes down to dollars—dollars to Mascot airport when they sell it. I might say that the State government probably should buy it; it would make a good cash cow.

**The Hon. E. M. OBEID:** Mr McKenzie, if we did have deregulation, what in your opinion would be the best way to guarantee that small towns get service? Not considering that people have to go by air for medical or other reasons regardless of the cost, how do you provide that in some way they are guaranteed a service?

**Mr McKENZIE:** Only deregulating the towns over say 12,000 passengers a year. Our main base is Cootamundra, and the aircraft from Cootamundra goes to Sydney twice a day return. It goes Cootamundra, Young, Cowra, and on to Sydney. The other aircraft that is based at West Wyalong does West Wyalong, Forbes and on to Sydney. We do have the capability, with our timetable, to be able to hub it if there is only a load for one aircraft.

The problem that I have is that, if someone came in under deregulation and took one of those towns away from me—well, if they took any one, but if they took Cowra or Forbes, which are the two major ports—I would have to shut the whole thing down. I could not run with any less ports. No doubt there will be some fly-by-nighters out there who will try to do something like that. We have weathered them before, but whether I am interested in trying to weather them again and tear up a lot of money, I don't know. So I would look very closely at not deregulating anything under about 12,000 people. Now, that is towns much larger than I operate from. I carry around 10,000 people in total out of the five towns.

**CHAIRMAN:** When you say 12,000 people, you mean 12,000 passengers?

**Mr McKENZIE:** I mean 12,000 passengers in and out of that port. It is a controlled deregulation. And let the market forces sort out Wagga Wagga and Dubbo. I believe that one of the three major regionals in New South Wales will not survive deregulation, and I believe we will be back to two. I do not know whether Hazeltons could survive deregulation if another operator came into a port like Dubbo. I may be wrong there. The other thing is that we have only two reservation systems, and one belongs to Qantas and one belongs to Ansett. It is very easy for the reservation system to put the other operator on the next page by going five minutes earlier. If you come up on the second part of the screen, well, travel agents have a large turnover of staff, and even the airlines have a large turnover in reservations, and if you try to make reservations yourself it is like to talking to a brick wall very regularly. Most of them do not even know to look at a second page and see whether there is another airline that operates. My estimate would be two years and we would be back to two major regional operators under deregulation.

**CHAIRMAN:** It has been proposed at a country summit that there be a charter of user rights in an attempt to lock in continued operation by regional airlines into Kingsford Smith airport. However, it has been suggested to us this morning that, unless that is done by legislation, or unless the legislation is amended to incorporate that proposal, it would not be worth the paper it is written on. Have you got some comments on that? If you wanted to send something along in writing to us about what should be in the charter of user rights, you could send that in.

**Mr McKENZIE:** You could write it in there, unless there is something in there on charging.

**CHAIRMAN:** Actually, I think it is assumed that it is affordable guaranteed use.

**Mr McKENZIE:** Yes. Unless it is affordable guaranteed use, there are two ways to regulate that.

**CHAIRMAN:** Have you got any comment to make on the difference between using a charter of user rights, which is written in some document that does not have legislative force, or incorporating it in legislation? Do you have any preference?

**Mr McKENZIE:** I would really have to think about that and find out the pros and cons of it.

**CHAIRMAN:** If you have some evidence on that particular subject, would you send us a letter? That would be much appreciated by the Committee. I thank you very much for your time.

**(The witnesses withdrew)**

**JAMES LACHLAN GRANT**, Regional Manager, Southern, New South Wales Department of State and Regional Development, and

**FRANCIS HAROLD MILLEN**, Member, Murray Regional Development Board, and

**GEOFFREY ANDREW LECOUTEUR**, Project Officer, Murray Regional Development Board, sworn and examined:

**CHAIRMAN:** You have not put in a submission, have you?

**Mr MILLEN:** That is right, Mr Chairman. We have only recently been able to complete it, and we would like to submit that now.

**CHAIRMAN:** I now have some formal questions to ask. Mr Millen, what is your full name and occupation?

**Mr MILLEN:** Francis Harold Millen, Computer Consultant.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Mr MILLEN:** As a member of the Murray Regional Development Board.

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

**Mr MILLEN:** I did.

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

**Mr MILLEN:** I am.

**CHAIRMAN:** We have just received the submission that you have tabled. Do you wish that to be included as part of your sworn evidence?

**Mr MILLEN:** If you would, Mr Chairman.

**CHAIRMAN:** Mr Grant, what is your full name and occupation?

**Mr GRANT:** James Lachlan Grant, Regional Manager, Southern, of the Department of State and Regional Development.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Mr GRANT:** As Regional Manager, Southern, for the department.

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

**Mr GRANT:** I did.

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

**Mr GRANT:** I am, the agricultural one.

**CHAIRMAN:** Mr LeCouteur, what is your full name and occupation?

**Mr LECOUTEUR:** Geoffrey Andrew LeCouteur, Project Officer with the Murray Regional Development Board.

**CHAIRMAN:** In what capacity are you appearing before the Committee?

**Mr LECOUTEUR:** As Project Officer for the Murray Regional Development Board.

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

**Mr LECOUTEUR:** I did.

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

**Mr LECOUTEUR:** I am.

**CHAIRMAN:** If any of 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.

Your submission relates to the operation of regional and rural air services. I take it that Jim Grant will have some agricultural material to table.

**Mr GRANT:** I have not read the terms of reference for the airports inquiry, and I will give my evidence in relation to the agricultural inquiry only.

**CHAIRMAN:** We will ask Frank first to speak to the submission.

**Mr MILLEN:** I would like the opportunity to speak to the submission. I think the Committee is probably aware of the role of regional development boards in New South Wales. The Murray Regional Development Board covers an area of southern New South Wales from Tumbarumba in the east to Wentworth, which abuts the South Australian border along the Murray River. The population within our region is about 120,000 people, and the region covers approximately 90,000 square kilometres. The main population centres include Albury, Deniliquin, Corowa, Holbrook, Tumbarumba, Moama, Jerilderie, Balranald, Wentworth, Moulamein, Culcairn, Berrigan, Finley and Tocumwal.

Obviously, this region is quite remote from Sydney by road, taking anything from 7 to 14 hours to travel by road to Sydney, and consequently air services are a very important component of the infrastructure and services available to the communities in the region.

There are three major regional airports that are used by the region. There is only one actually located within the

Murray region, which is Albury. However, there are also Wagga Wagga and Mildura, which is located just across the river in Victoria, so they do provide a major regional service for the region. Out of those airports operate the regular passenger transport to and from Sydney and indeed other airports.

Many business, professional, local government, and government instrumentality staff have a need to travel to Sydney on a regular basis and consequently rely upon both those major regional airports and the rural airports throughout the region. For many, it is an essential element of being able to operate or conduct their business that they have in the region.

In the submission we have addressed all of the issues raised in the terms of reference, but I might concentrate in this oral submission on just the landing fees at regional airports with which we have particular issues, the impact of deregulation of the air services in New South Wales, the allocation of slot times at Kingsford Smith airport, and the proposals to limit access to Kingsford Smith airport and divert that regional traffic to Bankstown airport.

With regard to the landing fees at regional airports, I might first say that even the small rural airports, where there are not RPT services operating to and from, are very important for those communities that do utilise them. For example, business people looking at business opportunities in that region can use those airfields to fly in from Sydney, have a look around, and fly out again. They are heavily used by aircraft that are used in agricultural operations such as aerial sowing, spraying and fertiliser application. Those activities are done from rural airfields.

Also, there are charter flights that operate to or from other major regional airports or from Sydney. That also includes charter flights that might be used by tourists or business. They tend to be used by aero clubs, gliding clubs, sky-diving clubs, et cetera. They can be used for the delivery and dispatch of urgently required goods such as bank documents that need to be delivered to Sydney, medical samples and other urgent deliveries.

Geophysical surveys and other mapping surveys are undertaken utilising those airfields, and even natural resource management, involving for instance kangaroo population surveys, are undertaken using the airfields. They are obviously utilised by private aircraft operators in the region. They are also utilised by air ambulance, the Royal Flying Doctor Service and other emergency services such as police, SES and fire services when there is a fire crisis within the area. They can be used for fire spotting, mapping fires and fire suppression.

Landing fees are really the only source of revenue to the councils that do operate those particular airfields. There is a table on page 4 of the submission that indicates those particular airfields that I am referring to. That is the only source of revenue available to the councils to maintain or upgrade the airports. However, many smaller councils are reluctant to impose those landing fees, because anecdotal evidence that they have given us indicates that that can discourage some of the sky-diving clubs, aero clubs, and gliding clubs. If they were to impose fees, those clubs, which often draw visitors from out of town, will pick up their operation and move to another airfield. So most councils actually sustain a loss on the airport operations due to that significant capital and operating expense.

Within that table on page 4 is an indication of the populations of those different local government areas. There is certainly an impost as far as the cost of that, on a per population basis, goes. Nonetheless, the councils view them as a community service obligation to their respective communities, and they also assist them with economic development.

Where landing fees are charged, that is normally done through the aircraft operators to calculate and remit the appropriate amounts to the councils. Of course, that relies on an honour system between the aircraft operators and the councils. An alternative would be incurring overheads employing council staff to undertake that collection, and that would merely add to the costs of the overheads to the council.

Because of that cost to council, the board believes it is worth investigating whether some additional form of grant could be considered, possibly using a formula similar to that utilised by the New South Wales Local Government Grants Commission, to enable some sort of compensation to be made to those rural councils that are operating airports at a loss, so that there is not necessarily that larger impost on those smaller councils that have a very small rating base.

I would like to move on to the issue of the impact of deregulation on New South Wales air services. The board believes that the Albury-Sydney route is vigorous enough and robust enough to benefit from deregulation. Currently, there are approximately 105,000 passenger per annum utilising that route. The board believes that a third carrier could benefit that particular service through possibly the driving down of fares, which would obviously assist with business development in the region and would assist the tourism element within the region as well.

It is probable that that market could sustain only two carriers in the long term, but nonetheless the board would see benefits in the deregulation of those larger airports. However, for the small regional centres the board does have a concern that that deregulation will have an impact on those smaller airports and airfields and believes that the State government has a broader community service obligation to ensure that those more isolated communities do have access to air services. The concern of the board is that any carriers that are servicing those more remote airfields on less viable routes could fail as a consequence of the impact of deregulation and through carriers looking at trying to rationalise their operations to more viable routes.

Deniliquin is an example of this situation. It is approximately 2 hours from Albury by car. Until recently, they did have RPT services operating between Albury and Deniliquin. Unfortunately, the viability was marginal and the service recently closed. We understand that there are some carriers looking at the possibility of re-introducing these services. Deregulation may have an impact there which may make them reconsider that. So, again, the board believes that the State government could provide some sort of subsidy to carriers to either continue or commence operations on some of those less viable routes, in a similar way to the sorts of subsidies that we understand rail services get on fairly thin routes.

The other issue that I would like to allude to is the allocation of slot times at Kingsford Smith airport. The board understands that there is now a slot management system which does include the setting aside of dedicated regional slots for regional airlines. We understand that these are not available for swapping or sale to domestic interstate operators or international services. We also believe that new entrants will have access to those slots. But there are some issues that we would like to raise.

Firstly, there is the issue of existing carriers utilising their existing slots for newly entered routes. Under deregulation, which is imminent, and the slot management system, the board believes that it is possible that airlines that currently have routes within New South Wales but under deregulation would be looking to enter new routes that they have not previously serviced, may be able to transfer their slot allocations from the less profitable routes to the more profitable or lucrative routes. The bill does not seem to have much clarity on this point. It seems to be included with the slot management system documents, which we have not been able to sight at this stage. That may lead to the less profitable routes being abandoned by the carriers, and therefore having an impact on those more isolated rural communities.

Secondly, there is the availability of slots to new entrants to New South Wales regional markets. There is an apparent commitment for those slot times to be allocated to new entrants. The board is not aware of the detail by which this process will occur, and there is concern that if new entrants cannot gain access to peak period slot times that could affect the commercial viability of the services to regional areas.

Finally, with regard to this particular issue, there is concern that regional carriers do continue to have access to peak period slot times. The board is keen that regional carriers do have adequate access due to the importance of Sydney to these peak period slot times. Obviously, adverse slot times would affect business people and air travellers from regional communities in general being able to carry out their business in Sydney, which is such a key element of business and activity for communities in this area.

Mr Chairman, the final issue that I would like to talk on is the proposal to limit access to Kingsford Smith airport and direct country services to Bankstown airport. The board is very resolute in opposing any proposals that would lead to restrictions on regional aircraft accessing Kingsford Smith airport by diverting those aircraft to Bankstown airport. The board is concerned that the Federal government may plan to use Bankstown airport as an overflow, not only during the Year 2000 Olympic Games but on an ongoing basis.

We are certainly concerned, as has been reported in the media, that the Minister for Finance and member for the Badgerys Creek area, the Hon. John Fahey, is proposing that the overflow traffic from Sydney airport could be sent to Bankstown instead of constructing a second airport at Badgerys Creek. That, I suppose, raises a fear in the community that there may be some vested interests that could adversely impact on regional communities in other parts of New South Wales.

We also understand that from July this year the Bankstown airport will be managed by Bankstown Airport Limited, a subsidiary company of Sydney Airports Limited, which we understand is the managing company for Kingsford Smith airport. That raises suspicion in our minds that Kingsford Smith airport could increase the revenue by undertaking some means of diverting smaller aircraft from Kingsford Smith airport to Bankstown airport.

We understand that regional airlines make up 39 per cent of Kingsford Smith airport movements, or around 104,000 movements per annum. As I have stated, many air commuters from this region do travel to Sydney to do business in the central business area, or they have other air links to other regions of Australia, to other interstate services, or to other international services emanating from Kingsford Smith airport. Obviously, if our regional flights were terminated at Bankstown, that would create enormous difficulty for those regional travellers who are wanting to get central Sydney or Kingsford Smith airport. We understand that a one-way taxi fare from Bankstown to central Sydney commonly exceeds \$40, and commonly exceeds 45 minutes in travel time, which has quite a significant impact on hidden fare costs for any air travellers, as well as an addition period of time spent getting to and from either central Sydney or Kingsford Smith airport.

We also believe that Bankstown airport is close to capacity. We understand the second Sydney airport draft EIS gave Bankstown's capacity as 450,000 movements. We further understand that Air Services Australia statistics for 1997 indicate that Bankstown's flight movements are 406,000 movements per annum. Obviously, if all regional air services were diverted from Kingsford Smith airport to Bankstown, that would exceed the capacity of Bankstown of 450,000 movements per annum. If this did happen, it is obviously going to have an impact in terms of going back to the bad old days of Kingsford Smith airport where we spent a lot of time circling Kingsford Smith airport waiting for a landing slot, and generally creating inconvenience for passenger and additional costs for the airlines, and generally disrupting the type of business that the regional air traveller was looking to carry out in Sydney or beyond.

So I would certainly ask that the Committee ensures that regional communities are not hijacked by vested interests in regard to Bankstown and Kingsford Smith airport, and that these issues that we have raised are considered by the Committee. That, Mr Chairman, concludes the oral submission. The Murray Regional Development Board would like to thank the Committee for the opportunity to present these submissions and raise these concerns and issues with

you. We do look forward to receiving your final report.

**CHAIRMAN:** Your comments, and the comments of the Albury Council made this morning, suggest that you cannot see any great disadvantages in relation to deregulation and that there may be some advantages in price dropping through competition. The council and another witness this morning suggested that they might get three carriers for a period of time and that one of two things would then happen: they would either have fewer services and smaller planes or one of the three operators would go broke. In fact, one of our witnesses nominated the one of the three that would go broke. At the end of the day apparently there would not be a lot of difference in the current services. He also suggested that there would be a significant impact from deregulation on the smaller communities with air services. Inherent in all that it would appear that there is a bit of cross-subsidy through the airport operator subsidising the less profitable routes.

You suggested that, if there is deregulation, the way to get over that is for the government to make that subsidy. We have yet to get evidence, but we have heard privately that that is the case in Queensland, that when Queensland deregulated its air services for some of the unprofitable routes the government came to some arrangement with the airlines to ensure that those services continued. So it would appear one way of maintaining those services would be for the government, as a community service obligation, to subsidise those unprofitable routes that might suffer from deregulation. The question that emerges from all of that is: What do you think might be the chances of subsidising those unprofitable services, as distinct from letting the companies do that themselves?

**Mr MILLEN:** It is fairly slim, Mr Chairman, but I wondered if there was room for some sort of scheme for say Avgas, similar to the 3 x 3 scheme for petrol; that is, whether there is some means of looking at that type of tax that would enable the government to source some funds that could be passed on to those airfield operators. We have not put that in submission.

**CHAIRMAN:** That is the first time I have heard that suggestion. You also mentioned that from 1 July the Bankstown airport would be run by the Sydney Airports Corporation.

**Mr MILLEN:** That is my understanding, Mr Chairman.

**CHAIRMAN:** There might be some commercial reasons why the Sydney Airports Corporation might want to divert the lower-paying smaller aircraft to Bankstown in future.

**Mr MILLEN:** Yes. I imagine that under the changes in the landing fees at Kingsford Smith airport there would be the possibility of increasing the revenue stream from landing larger aircraft rather than the smaller aircraft. Now, I have not sat down and analysed that in any detail, but a quick overview of the changes in the landing fees at Kingsford Smith airport would lead to that supposition that they would get a better income stream from a larger number of passengers in larger aircraft with larger landing weights.

**CHAIRMAN:** Geoffrey, did you have some additional thoughts on the airlines issue before we go on to questions?

**Mr LECOUTEUR:** In relation to deregulation, you have raised the very critical area that we have considered, and that is whether a route like Albury can sustain two or three carriers. There is a history there already. Once upon a time there was a single carrier who provided a jet service. Now we have a better service in terms of numbers of services and times at which they leave, but they are on smaller aircraft, and they are slower services. I support the board's view quite clearly.

If I could go back a step. Albury already runs deregulated interstate services to Melbourne and to Canberra. They



work quite satisfactorily, and I do not think anyone would voice any complaints about the way that they operate. We would be fairly confident that, in the longer term, the deregulated service from Albury to Sydney will shake out to be quite satisfactory. Clearly, there would be an advantage to the regional community, and possibly in terms of aircraft movements into Kingsford Smith airport, if it was a larger jet aircraft running that route. But, again, it is difficult to see how that could be deregulated. Really, it has to be left to the commercial interests to make that determination.

**The Hon. J. GARDINER:** A previous witness, speaking about the deregulation question, suggested that there should be a threshold of perhaps 12,000 passengers per annum and that the market be deregulated for the larger areas but that we still have managed regulation for others. Does the board have a view on that sort of suggestion?

**Mr MILLEN:** I do not think we have considered the particular question as to whether or not we could have a quasi-deregulated market. I suppose, on the face of it, there may be some value in exploring that option to see whether that would help to ease the impact on the more remote rural and regional communities.

**CHAIRMAN:** If there are any questions that you feel you might be able to get supplementary information on and forward to the Committee, by all means do so. You need not go away from the hearing today and think that that is the end of your evidence. You could send in any additional evidence you wish.

**Mr MILLEN:** We might take that question on notice then, Mr Chairman.

**The Hon. J. GARDINER:** Regarding your 3 x 3 Avgas proposal, have you canvassed that with any authority so far?

**Mr MILLEN:** No, not at this stage. I suppose our knowledge of the air industry is not detailed, and we are not quite sure as to what the current systems are.

**The Hon. J. GARDINER:** How is the service from Mildura to Broken Hill going, do you know?

**Mr MILLEN:** I am not too clear on how that has been progressing. We do not get a great deal of information from the Mildura airport as to how the operations are going. I might ask Geoff to respond to that because there are possibilities with the Adelaide to Mildura route.

**Mr LECOUEUR:** There is quite a lot of interest in providing air services to that part of regional Australia, and it certainly has great benefits for us, the shire of Wentworth, which adjoins Mildura. There was only recently introduced a service from Mildura to Sydney, and of course the Mildura to Melbourne route is fairly well established. The operators of that have been looking at potential connections through Adelaide and other routes that would pick up maybe places like Swan Hill and Deniliquin. My own view is that there is a commercial need for companies to keep in contact with where the potential routes are, and that would be part of their normal activity. In relation to the Mildura to Broken Hill service, that is not one with which we have had contact.

**The Hon. J. GARDINER:** The Mildura to Deniliquin problem might conceivably be helped by that Mildura to Sydney route, the South Australian link.

**Mr LECOUEUR:** Yes, it certainly could.

**Mr GRANT:** Mr Chairman, I believe there are discussions currently taking place in relation to one of those Mildura-based airlines, picking up passengers through Deniliquin. There are certainly discussions currently under way.

**The Hon. E. M. OBEID:** Anyone may wish to answer this question. Deregulation is all about having cheaper fares.

As much as you can trust politicians when they tell you "Trust me", can you trust private enterprise to ensure that the bottom margin will not get bigger by deregulation, rather than the fares get smaller, affecting the smaller towns.

**CHAIRMAN:** You mean like the dairy industry?

**The Hon. E. M. OBEID:** The dairy industry is a very good example. I do not see how anyone can say, in fairness, that the airlines will bring prices down as a consequence of deregulation. What is the incentive for the airlines to do that? All they are doing is cutting out the unprofitable areas that we have given them so that they can take the profitable areas. I do not see how we can say to the government, "Look, private enterprise wants to take the cream routes, and we will leave you to subsidise areas that are unviable." It would be a great world if we could do that, but in essence this is all about making sure that there are services for everyone. I do not know how we can deregulate and allow the major airlines to take the good routes and leave the small, less profitable sectors, which in most instances feed into the main routes, for someone else to pick up the tab, whether it be the government or someone else. Do you have a comment on that? It is hard to see how that would work.

**Mr MILLEN:** We share that concern with regard to the more remote rural and regional airfields that do not have such a high passenger turnover as perhaps the likes of Albury. The other issue about Albury is that, although we have two operators there, they are actually both badged under Ansett.

**The Hon. E. M. OBEID:** Competing against each other?

**Mr MILLEN:** Yes. Our feeling is that if a third operator came in, it is likely to be a Qantas-badged operator who might be more interested in trying to cut some of those fares on the Albury-Sydney route, which are often more expensive than comparable interstate air fares at this stage because there is some commercial pricing there. But we recognise that there is the view that fares may reduce if a Qantas carrier looked to enter that particular market. I think your point is valid, and I guess the proof will be in the eating of the pudding as to whether we actually see some differences there.

**The Hon. E. M. OBEID:** We have not had great success at the moment with deregulating and expecting private enterprise to do the right thing, unless we can legislatively force the issue.

**Mr MILLEN:** I will have to leave that.

**CHAIRMAN:** We are a bit pressed for time, because we have to get some agricultural information from you as well, so if you are happy to send in more information on air services in New South Wales, we would be happy to receive that.

**(The witnesses withdrew)**

**(The Committee adjourned)**