
REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

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

—
At Sydney on Friday, 21 August 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. I. Cohen, The Hon. J. Gardiner
The Hon. J. R. Johnson, The Hon. I. M. Macdonald, The Hon. Dr B. P. V. Pezzutti**

BEVAN JAMES COOTE, General Manager, Eastern Australia Airlines Pty Ltd, sworn and examined:

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

Mr COOTE: As General Manager of Eastern Australia Airlines.

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

Mr COOTE: I did.

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

Mr COOTE: I am.

CHAIRMAN: You have already provided the Committee with a submission. Do you wish the entire submission to be regarded as confidential, or only parts of it?

Mr COOTE: Is it possible for us to decide on the release of that at a later point in time?

CHAIRMAN: Perhaps at this stage if you simply say that the entire submission is confidential, you can then tell us which parts you are happy to make public.

Mr COOTE: It is agreed at this time that it is confidential.

CHAIRMAN: The Committee will take the submission as part of your sworn evidence but will regard it as confidential. That ensures that the Committee does not release any of it which might cause you a problem, and that we do not put it in a report.

Mr COOTE: Yes.

CHAIRMAN: If you should consider at any stage during your evidence that it is in the public interest that certain evidence or documents you may wish to present to the Committee should be seen or heard only by the Committee, the Committee would be willing to accede to your request and resolve the Committee into camera for that evidence. Would you give the Committee a precis of your submission, state your concerns in relation to the terms of reference, and then Committee members will ask questions.

Mr COOTE: Eastern Australia Airlines' submission addresses each of the terms of reference. However, by way of introduction, this particular aspect—that is, transport as an integrated service that links the vital geographic areas of communities of New South Wales with the city—has very important economic and social implications for regional Australia, apart from the industry connection in the major agricultural and aquacultural areas with industries that are produced by New South Wales.

Within the State something in the order of 1.2 million intrastate passengers per annum now travel between the capital city and about 42 regional ports, so it is an important level of carriage for the entire State as a transport mode. For the outcome of decisions regarding changes to infrastructure for regional aviation and regional transport systems, they are integral to the long-term development of the State. Part of that development is not only that of industries associated with agriculture but those associated with tourism development. Aviation plays an important part, particularly in the development of New South Wales destinations as part of the international domestic networks for the large carriers.

From the point of view of Eastern Airlines, which is a wholly owned subsidiary of Qantas, part of the development of the New South Wales tourism and business market is dependent upon that smooth transition and the marketing capability into the network of New South Wales. We have seen the market grow substantially over the last 10 years, in terms of transport of passengers within the intrastate markets. If we were to see similar growth in the future to support the natural growth of the State, careful consideration must be given to any changes that will impact not only the transport via air but those associated regional activities such as educational, medical and industry outcomes.

As far as regional aviation within the State is concerned, it is a major employer. Eastern Australia Airlines presently employs 70 people in Tamworth, which is, on average, around a \$3 million input into that regional community, or if one uses a nine-times multiplier it becomes a \$27 million contributor to the area. On a broader scale, our estimate is that somewhere in the vicinity of at least 500 people are directly employed by regional airlines in regional communities. That alone is something in the order of a \$15 million salary contribution, which extended to multiplier effects is somewhere in the order of \$135 million directly within regional communities.

CHAIRMAN: That number is 500?

Mr COOTE: We believe that 500 people are directly employed by regional airlines in regional communities, excluding Sydney—those who operate at airports, who operate within the direct employ or contract employ of the airlines. I mention that because I believe that any dislocation of the regional airlines industry has the effect of dislocating those employment numbers. We have seen that in Tamworth with the demise of East-West Airlines, and it has had a continuing impact on Tamworth. That would apply to many other regional centres within the State if, for some reason, dislocation occurred.

Essentially, that is the framework within which we have provided our submission. We endorse the issues that have been raised in the terms of reference as being important ones. If I may now walk through each of the terms of reference in order of their listing. Firstly in relation to landing fees at Sydney airport, there have been some changes in recent times in the pricing process. Kingsford-Smith Airport has now changed to a different ownership regime. We have seen the pricing structure change from a \$27.50 minimum landing charge with an associated peak-period surcharge of \$250 per movement to a minimum charge of \$100 per landing. Whilst the airlines, particularly Eastern Australia Airlines, have agreed with that pricing regime, we believe that the State should be ever vigilant in the question of this being used as a basis for pricing regional airlines out of Kingsford-Smith Airport. Basically, access is being priced out. Issues have been raised as to the basis on which charges to regional airlines should be levied as against those for other types of aviation, particularly heavier aviation. Essentially, our position is that we would not wish to see more than \$100 charged per landing as it would be in excess of what regional airlines could afford to pay.

The Hon. J. R. JOHNSON: Did you say, "have agreed to pay"?

Mr COOTE: We have agreed to pay the \$100. I now move to the second item, which is landing fees at regional airports. The history to this would be known, I am sure, to your Committee. Previously the Federal Government had ownership and transferred ownership by a series of arrangements to local organisations, mostly to local councils, taking up full ownership of each of the regional airports. There are some exceptions, but primarily that is the case. Development of regional airports has taken place on a one-by-one basis. I guess it could be construed to be largely unstructured, particularly in the benchmarking of what services of a regional nature are required at an airport, the level charged, the collection procedure, and then how the revenue is used.

We submit that the State Government, through its relationship with local government, should and could ensure that the level of fee charged is proportionate to a statewide measurement, that revenues raised from fees should be applied to airport operations and constrained to that, and that should there be major works at an airport—which there will be from time to time—it should be subject to a committee which includes the operator stakeholders who eventually have to pay.

CHAIRMAN: The Committee wishes to ensure that time is available to ask you questions. If the matters are referred

to in your submission, would you skim through them, or just tell the Committee the basic premise of the submission, and then the Committee will flesh out matters later. If you are reading from a confidential document, perhaps the Committee should resolve into camera.

Mr COOTE: Yes.

CHAIRMAN: Perhaps we should resolve into camera for this.

Mr COOTE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: Certainly for the questions I would like you to be frank. You cannot do that if you are giving evidence in public.

CHAIRMAN: Are you happy with that?

Mr COOTE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: Since this is confidential material, it should be dealt with in camera.

(Evidence continued in camera)

(The witness withdrew)

(Public hearing resumed)

ANTHONY MICHAEL McGRANE, Hotelier Investor, and

MARK GEOFFREY RILEY, Local Government Director, Corporate Development, Dubbo City Council, and

GEOFFREY WILLIAM DARBY, Airport Manager, Business Operations, Dubbo City Council, sworn and examined:

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

Mr McGRANE: As Mayor of the City of Dubbo.

Mr RILEY: Divisional director of council.

Mr DARBY: As the Airport Manager, Dubbo City Council.

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

Mr McGRANE: Yes.

Mr DARBY: Yes.

Mr RILEY: Yes.

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

Mr McGRANE: Yes.

Mr DARBY: Yes.

Mr RILEY: Yes.

CHAIRMAN: The Mayor has provided the Committee with a written submission. Would you like it to be taken as part of your sworn evidence?

Mr McGRANE: Yes.

CHAIRMAN: If you should consider at any stage during your evidence that it is in the public interest that certain evidence or documents you may wish to present should be heard or seen only by members of the Committee, the Committee will be willing to accede to your request and resolve in confidential. Would you give the Committee an overview of the submission rather than read through it, and the Committee members will ask questions.

Mr RILEY: Before the Mayor starts, the submission to which you refer is 21 July, is that correct?

CHAIRMAN: Yes.

Mr RILEY: The Mayor has an opening statement.

Mr McGRANE: This morning I thank the Committee for the opportunity for myself and my officers to meet with you on this very important matter in regards to regional New South Wales. Firstly I would like to provide the Committee

with some background on the operations of council's airport function. Dubbo City Council owns and operates Dubbo City Airport and has done since 1 July 1970 when council accepted the transfer of ownership from the Department of Civil Aviation under the airport local ownership plan.

Dubbo City Council airport is a viable regional airport which, during the 12 months period ended 30 June 1998, saw a record 108,000 passengers embark and disembark between the routes Dubbo-Sydney and Dubbo-other routes. Under the present arrangements Eastern airlines and Hazelton air services have been granted licences by the Air Transport Council to operate on the Dubbo-Sydney routes. Between those two companies Dubbo is served by some 147 flights per week utilising generally 36- to 38-seat aircraft with the market share ratio being 66:33 in favour of Hazeltons. To my knowledge that level of service per week is unparalleled in the State of New South Wales.

It is interesting to note in respect of passenger movements on the Dubbo-Sydney-Dubbo route that 63 per cent of the passengers are business people, 31 per cent are leisure passengers and the remaining 6 per cent are passengers travelling for medical purposes. Of the 108,000 passengers previously referred to 10,000 come to Dubbo from the western ports of New South Wales. They utilise the hub and spoke operation operated by Air Link Pty Ltd based in Dubbo which brings passengers from Cobar, Bourke, Walgett and Coonamble with flights connecting with operations between Hazelton and Eastern to and from Sydney. That is a tremendous service which provides easy access to Sydney and allows businesses to be conducted by western area residents within a day within Sydney without the added expense of overnight stays here in the city of Sydney.

In terms of aircraft charges at Dubbo, the RPT passengers pay a flat rate of \$6 per head each time they embark or disembark at Dubbo airport. That money is collected by the airlines in conjunction with the sale of air tickets. Council recognises that that fee is at the lower end of the fee scale, however, such fees will basically need to be doubled in the next 10 years to fund proposed capital improvements of some \$5 million over a period and further provision of funds must be put away or put in reserve for runway reconstruction. To ensure that the council airport operations remain self-funding and viable in the future it is imperative that the frequency of the services provided to airline customers within the city and beyond is maintained at the minimum as it is now.

Accordingly, in respect of the terms of reference of this inquiry I advise that my council has long held the view that the existing managed competition scenario best serves the residents of Dubbo and the western areas of New South Wales. Council maintains that a reliable regional airline system is imperative to the growth and development of regional New South Wales. It is submitted that to deregulate intrastate aviation would cause significant damage to the aviation service infrastructure within the State of New South Wales, which no doubt will undermine the growth potential of rural communities throughout New South Wales.

Managed competition in Dubbo, which comprises the presence of two major airline companies, has seen passenger numbers increase each year since 1990, competition occur between the two companies in respect of air fares, a significant increase in the reliability of services, and further it provides for Dubbo residents to have access to either Qantas or Ansett facilities in Sydney. Deregulation has not worked on the major interstate route of Sydney-Melbourne which has millions of passengers per annum. My council and I cannot see how deregulation would work within finite and much smaller regional markets.

I would contend that deregulation and the entry of further players into the market will result in the diminishing market share for the existing operators which could result in the utilisation of probably smaller aircraft by affected companies in an attempt to maintain profitability. Smaller aircraft with less than 36 seats are not to the betterment of the travelling public and, in fact, result in buyer resistance, and cut directly across attempts to ease the congestion at KSA. I further question the ability of KSA to host additional players in the market in respect of terminal facilities. In addition, my council is most concerned at any proposal that would limit access for regional airlines to KSA in favour of direct services to Bankstown.

Moving regional airlines to Bankstown would be an absolute disaster for regional New South Wales in general. As indicated earlier, the majority of passengers who travel the Dubbo to Sydney route do so for business purposes. When

a person travels to Sydney that person basically undertakes to do business in the central business district or surrounding areas. Likewise, business people coming to Dubbo in the main come from the eastern and northern suburbs of Sydney. Certainly Bankstown would add significantly to the time travelled for Sydney-based passengers. In terms of the Dubbo-Sydney interstate and international passenger market, the need to transfer from Bankstown to KSA to catch interstate or international flights would be most inconvenient and more costly in most cases. Council looks forward to completion of the rail link between KSA and the city in terms of improved access to KSA. In conclusion, my council contends that the existing managed competition scenario best meets the needs of the travelling public both to and from Dubbo and from Sydney to the regional parts of New South Wales.

The Hon. I. M. MACDONALD: You say there has been an increase in the number of passengers since 1990. What roughly is the increase and what is the rate of increase per annum?

Mr McGRANE: In 1990-91 the throughput of passengers was 74,900; the following year it was 77,771; 1992-93, 79,000; 1993-94, 87,700; 1994-95, 100,000; 1995-96, 104,000 and 1996-97, 108,000. In regard to the one big year there was 13,000 but the general increase would level out at about 4,000 per annum.

The Hon. I. M. MACDONALD: About 4 per cent?

Mr RILEY: About 5 per cent.

Mr McGRANE: I think it is the competition with regard to air ticket pricing. At present with the operators into Dubbo the highest full fare, including \$6 each way for the Dubbo airport tax, is \$368 and the lowest is \$150. That is a \$218 difference in ticketing. It depends on the time of the day and how long the ticket is booked prior to collection of the ticket itself. The average is \$256. One can see from that that with the increase in throughput is also an increase in price structure competition.

The Hon. I. M. MACDONALD: What is the overall budget per annum of the airport? We can work out the passenger side fairly easily but do you have a freight charge?

CHAIRMAN: The Committee might put some questions on notice. I am sure that with such a well-run council as yours you have a development or management plan for the airport.

Mr McGRANE: We do.

CHAIRMAN: That will show the projections. I ask you to take that on notice.

Mr McGRANE: Yes.

The Hon. I. M. MACDONALD: How do you see this expansion? What do you plan to put in place as part of the \$5 million capital improvement program?

Mr RILEY: In Dubbo we have developed a 20-year program and consultants have prepared a facilities area master plan. The major initiative is extension of the runway to take into account different changing requirements of aircraft in the future. We have an amount of \$2 million in there. This involves discussing issues with the RPT operators to ascertain their plans. That is how we came up with this plan. We will not spend \$2 million if they do not require that. It is a matter of liaison with those operators.

The Hon. I. M. MACDONALD: So overall you are very happy with the current regime?

Mr McGRANE: Yes.

The Hon. I. COHEN: Does that include also the spokes of the hub out of Dubbo to the smaller areas? With

deregulation do you see those flights under threat? Are we talking about size of plane or actual services being cut down?

Mr McGRANE: I think with deregulation they could be under threat because at present Air Link Airlines ferry passengers from towns such as Cobar, Bourke, Walgett, Coonamble and Lightning Ridge into Dubbo to catch the early morning flights and also pick up the afternoon flights. They are basically up to capacity. Those planes are nine-seaters with some six-seaters. It is imperative they meet a bigger aircraft, which will then come on to Sydney. With deregulation, if we have the same size aircraft and another player in there, we would have different times. It is not managed competition.

The Hon. I. COHEN: Your council is opposed to Bankstown as a viable alternative. Could you foresee a scenario where Bankstown might work with more frequent flights and therefore greater accessibility and flexibility for passengers.

Mr McGRANE: No, I do not think that Bankstown should even be in the equation. Only one person I know seems to be pushing for Bankstown. There is not a person in the country who would want to go to Bankstown to do business and 63 per cent of our passengers are business people. They come to Sydney and other business people go to the country. Many of those are medical people who basically live in the eastern suburbs and who fly out to Dubbo to do professional work in the morning and fly back at night. The same with the legal profession. It is a fact of life that those people live in certain parts of Sydney.

I would fly to Sydney every week of the year, and sometimes twice. I never go to the western suburbs. It would be difficult for me to fly into Bankstown; to have to come into the city to do my business and then go back to Bankstown to fly home. I would have to stay overnight or look at alternative methods of transportation. It is not good for the airline industry to have to fly into Bankstown. Also, at present one can put luggage on at Dubbo and with connecting hubs at Kingsford-Smith airport with Qantas and Ansett we can take our luggage off wherever we alight from that international flight, be it London, Tokyo or wherever. That would not happen with Bankstown. We would have to bring our luggage into Bankstown, transfer to Kingsford-Smith airport and then go from there. The inconvenience of not having the intrastate airlines with the interstate and international airlines all hubbing into one would have a detrimental effect on people who live in regional New South Wales.

The Hon. I. COHEN: It has been suggested that it could be possible to have partial regulation of the major routes, the big-ticket areas, particularly on the coast. Is there a possibility that the Dubbo to Sydney route could in some part be deregulated but maintain a stricter regime on the smaller spokes such as Dubbo?

Mr McGRANE: I do not follow the whole line of your question. The scenario we have at present is the right scenario. Dubbo is the hub of the spoke for the western areas and many people from the mining industry fly to Dubbo and then on to Cobar and vice versa. The scenario at present works well. I am sure hub and spoke areas in other parts of the State work well also. It is not viable for 36-seaters to fly into Cobar or places like that but it is viable to have three services out of Cobar of nine-seaters instead of having two services of 36-seaters, which would not be viable.

The Hon. J. R. JOHNSON: How do your landing fees compare with other council-owned or operated airports?

Mr McGRANE: We are probably one of the lowest in the State at \$6 per passenger. We have indicated that there will be increases in the future but \$6 per passenger is low. We do pay a dividend to our general fund. Like all operations of Dubbo City Council airport operation is run on a business plan and has to pay a dividend to the general fund similar to the saleyards, the caravan park and the land development with which we are involved with those types of businesses. The \$50,000 we pay to the general fund has a return of about 1.4 per cent or 1.5 per cent of our investment in regard to the airport itself. We have reserves for ongoing expansion and development of the airport. They are kept separately to the general fund. It is run as a business but we pay ourselves a dividend to the general fund and our fees are very low.

The Hon. J. R. JOHNSON: Do Hazelton and Eastern airlines satisfy council with the services they provide?

Mr McGRANE: Yes. With regard to setting of fees, we meet with all the users of the airport before we actually set the fees so it is not an arbitrary decision by council. We have discussions each year with every user of the airport and we say to the users what we propose to do and get their concurrence. On the odd occasion there are discussions about various aspects of our redevelopment but in the main they are satisfied, and so they should be because they pay \$6 at Dubbo whereas in some places they pay up to \$13. Therefore, they would be satisfied with Dubbo.

The Hon. J. R. JOHNSON: I take it that your council is diametrically opposed to deregulation?

Mr McGRANE: Totally opposed to deregulation. We want managed competition and we want to be involved in how the airline industry for our city and our region is managed. With the present system we have an input and we feel that we have the knowledge on how to best serve our citizens and the citizens of the region. Managed competition is regulation but with management input by us.

The Hon. J. R. JOHNSON: What is the total population of your city and the peripheral areas that are serviced by Dubbo airport?

Mr McGRANE: The city of Dubbo has a population of 38,000 and the region we serve has a further 120,000.

The Hon. J. R. JOHNSON: On top of the 38,000?

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: What was the value of the airport and its buildings when it was handed over by the Federal Government to Dubbo City Council?

Mr DARBY: There was no land content under the Local Government Act; it was revalued. Comparing the market value of what it is now to then I would suggest it was about \$4 million to \$5 million and we value the airport now at \$8 million.

The Hon. Dr B. P. V. PEZZUTTI: How much have you spent on the airport terminal since you were handed the land and the airport?

Mr DARBY: Overall in capital improvements, et cetera, it would be approximately \$1 million.

The Hon. Dr B. P. V. PEZZUTTI: Mayor, you say you are happy with managed competition. That is what you have now. What difference would it make to you if it was deregulated?

Mr McGRANE: We feel that with deregulation, apart from the inconvenience of having three or four operators operating out of the terminal and it being necessary to provide extra space for those operators, which would be another capital expenditure for us, we would not be getting better services than what we are getting at the present moment.

The Hon. Dr B. P. V. PEZZUTTI: How do you know?

Mr McGRANE: I suppose you could say it is a gut feeling, but we know our present service is very good with the number of services from Dubbo to Sydney and Sydney to Dubbo. As I noted in my preamble, one airline has 75 per cent of the business and the other has 25 per cent. There is a lot of competition in fee pricing for both airlines to maintain their percentage or for one to increase its percentage. A third airline is moving in and there probably will be more competition, but no-one would make any profit on services out of Dubbo. It is a bit like a pack of cards: once the end card is weakened the whole lot tumbles down.

The Hon. Dr B. P. V. PEZZUTTI: Dubbo used to have a jet service in the past. Is that no longer the case?

Mr McGRANE: No. The jet service into Dubbo was probably 18 to 20 years ago. We had only about three services a day and only one airline flying into Dubbo at the time.

The Hon. Dr B. P. V. PEZZUTTI: How many direct services are there to Sydney at the moment?

Mr McGRANE: Depending on the day of the week, 10 to 11 a day.

The Hon. Dr B. P. V. PEZZUTTI: What is the flight time?

Mr McGRANE: It ranges from 6.30 to about 8.00 p.m. at night.

Mr RILEY: It is about 50 minutes.

The Hon. Dr B. P. V. PEZZUTTI: On what do you base your earlier assessment that deregulation has made no difference to the Sydney-Melbourne route?

Mr McGRANE: We read the papers like everybody else in the State.

The Hon. Dr B. P. V. PEZZUTTI: I am sorry, I thought you had made your own assessment.

Mr McGRANE: My statement was based on the Compass disaster.

The Hon. Dr B. P. V. PEZZUTTI: A question was asked earlier about smaller routes under either managed competition, which is the same as being regulated, or a deregulated market. We are concerned about the loss of access for smaller places. Do you believe government has a place to provide community service obligation payments, which could be made in a number of ways, in much the same way as it subsidises the train service, such as the XPT to Dubbo?

Mr McGRANE: We have not had any deliberations on that.

The Hon. Dr B. P. V. PEZZUTTI: Is your focus entirely on Dubbo?

Mr McGRANE: Our submission talks about Dubbo and the region. Perhaps 30 per cent of New South Wales, and that is the north-western area, calls Dubbo its city. It is a vast area, but not vast in population. People come to Dubbo for their professional business and to fly to Sydney.

The Hon. Dr B. P. V. PEZZUTTI: If more government departments moved to regional centres would that improve the frequency, nature and quality of air services? For example, if a whole department was moved to Dubbo would that en bloc movement of public servants generally improve the number and quality of services to Dubbo?

Mr McGRANE: I would have to take that question on notice because I really cannot say. Many government people travel to Dubbo from Sydney and vice versa. By having more government officers in the country in lots of ways it could be said that those officers would not have to fly from Sydney to Dubbo. If more decisions were made in government departments in regional areas, I assume those regional officers would not have to go to Sydney so often. In some ways it could result in fewer people flying from regional New South Wales to Sydney.

The Hon. Dr B. P. V. PEZZUTTI: Has council undertaken an assessment of the impact of an announcement by Peter Collins that that is what he would do?

Mr McGRANE: Not regarding the airport. As a council we welcome what the Leader of the Opposition has said about

regionalising government offices. We have no problem with that at all.

CHAIRMAN: Has he made a promise that he will shift a government department to Dubbo?

The Hon. Dr B. P. V. PEZZUTTI: Yes, that has been announced.

CHAIRMAN: Which one?

The Hon. Dr B. P. V. PEZZUTTI: Not particularly to Dubbo. He has made an announcement about the concept of movement of large numbers of public service jobs. Dubbo would be one of the few places with Ansett and Qantas flying in. Given that travel time to Dubbo is 50 minutes, 36-seater planes and frequency of flights are probably reasonable, but what about longer routes to places such as Ballina or Albury where travel times are vastly longer for 36-seater planes. Do you believe managed competition service would be better or that an open market would be a better arrangement?

Mr McGRANE: I suppose travel time to Albury is an hour and 30 minutes at the most. Aircraft such as Saab and Dash-8 with 36 seats are quite comfortable. I do not think anyone would have any problem sitting on that type of aircraft for that amount of time.

The Hon. Dr B. P. V. PEZZUTTI: Personally I must disagree with you because I come from Ballina, which takes an hour and 45 minutes, and it is not a comfortable flight.

Mr McGRANE: I suppose the alternative is a jet service from Ballina to Sydney. Dubbo had jet services 20-odd years ago and everybody thought that was fantastic, but the economics of a 30-odd minute flight to Sydney on a jet with 50-odd seats—cost of fuel and everything else—proved to be unviable for Air New South Wales at that time. They actually went back to the ordinary prop Fokker aircraft.

The Hon. Dr B. P. V. PEZZUTTI: They were the same size with 50 seats?

Mr McGRANE: Yes, but they returned to them after the jets because of the economics. We are quite happy with 36-seaters; 19-seaters are too small and with 50-odd-seaters we would have fewer services during the day and less flexibility with flight times. We feel that 36-seater aircraft are the right type for our route.

The Hon. Dr B. P. V. PEZZUTTI: What percentage of passengers are tourists to the Dubbo region?

Mr McGRANE: It is 31 per cent.

The Hon. Dr B. P. V. PEZZUTTI: And business travel would be?

Mr McGRANE: That is 63 per cent.

The Hon. Dr B. P. V. PEZZUTTI: Is the remainder just Mum and Dad going to Sydney?

Mr McGRANE: Medical trips. It is 63 per cent for business, 31 per cent for leisure and 6 per cent for medical reasons.

The Hon. Dr B. P. V. PEZZUTTI: Of the 31 per cent leisure passengers I am referring to those who do not originate in Dubbo and go home to Dubbo; rather that they are from a postcode outside Dubbo, travelling to Dubbo and then back to Dubbo from Sydney. Have you separated those figures?

Mr McGRANE: No.

Mr RILEY: We can get that information for you.

The Hon. Dr B. P. V. PEZZUTTI: I would appreciate that.

The Hon. JENNIFER GARDINER: Hazelton Airlines submitted to this inquiry that deregulation will force airlines operating in the State to focus on larger regional markets, presumably that would include Dubbo, and that this would intensify competition. Hazelton also said it had some reservations about deregulation. However, you clearly say that from Dubbo city's point of view deregulation is not the way to go?

Mr McGRANE: Yes.

The Hon. JENNIFER GARDINER: A number of councils in non-metropolitan New South Wales have submitted to this inquiry that routes with, say, greater than 12,000 landings per annum should perhaps be deregulated but smaller routes should have managed regulation. Obviously, from the Dubbo City Council point of view and also from those communities further to the west, you take a different line?

CHAIRMAN: That suggestion was from a council smaller than the figure quoted. It said, "It might be okay for the larger ones, but it is not okay for us."

Mr McGRANE: The perception is that with deregulation there is a chance to get somebody who will fly and give you a service that you have not had in the past and you will have cheaper air fares. We say that the proof is in the pudding. The proof of the pudding in our case is that the full gate rate of \$368 return is down to \$150 if booked at the right time and taken not at peak time. That is a saving of \$218 on a ticket. We are getting competition and we are witnessing the proof and increase in patronage. People have the benefit. Those who say they want deregulation have not got the proof we have. None of us has the proof of deregulation. What I say could happen with deregulation is supposition just as much as it is supposition by those who say they will get a better and cheaper service.

The Hon. JENNIFER GARDINER: Kendell says it has the proof because it operates in other States on regional routes, for example, in Tasmania and South Australia. It has submitted that there is a better deal for some smaller communities. Obviously, you are sceptical about that?

Mr McGRANE: In the area we serve, which is all the western areas, under the hub and spoke system that operates now those areas receive a far better service than they did in the past when airlines used to fly in from Dubbo and then from Dubbo to places like Cobar, a milk run from Lightning Ridge, Coonamble, Coonabarabran, Sydney. Those routes are gone and they are now getting a better service by hubbing into Dubbo. They are getting a better time factor because it is in the morning and in the afternoon. On a cost factor that means not being in Sydney overnight or for an extra day.

I had properties up Coonamble way and I would fly out of Coonamble one day at lunchtime and would not be able to fly back until the next afternoon. It was a compulsory overnight stay in Sydney. Now people can fly into Dubbo in the morning and be home at night after doing business in Sydney. It is a long day but it still can be done. The same applies for people flying out from Sydney. We always seem to talk about those who fly in from the country to Sydney, but many people fly from the city to the country. We do not give that enough credence.

The Hon. JENNIFER GARDINER: If it had not been for this Committee establishing this inquiry Mr Scully would have proceeded with deregulation. If the Government sticks to its policy, what would Dubbo City Council like to happen to ensure that services are maintained to Dubbo and the far west?

Mr McGRANE: We have been beating the same beat on the drum right through on this deregulation/managed competition issue. I have had lots of battles in lots of areas: Local Government Association, the Shires Association, the Senate standing committee. We have been consistent and we have been beating the drum long enough that some people in power, the Minister and this Committee are now examining the matter. We are pleased that we have forced people

to start thinking more about it. In the past it was just, "Yes, deregulation, we will all get a better service", but it was unknown and people are starting to realise that we need managed competition.

CHAIRMAN: Perhaps it has something to do with improved representation in the western area?

Mr McGRANE: You are so modest, Mr Chairman.

CHAIRMAN: You mentioned earlier that the service to Dubbo is unsurpassed. Obviously, I am a regular user on the same flights and I hold a similar view. Are you aware of any other area in the State that provides as many flights or better services per day?

Mr McGRANE: I assume Wagga Wagga and Albury would.

Mr RILEY: Albury has a similar number.

The Hon. Dr B. P. V. PEZZUTTI: Ballina and Lismore do not.

CHAIRMAN: I am not aware of a region that has a better service.

The Hon. Dr B. P. V. PEZZUTTI: The approval process by the Transport Council of routes, which comes out each year, is subject to a competitive process, is it not? Do you have a say in the quality and frequency that the council takes into account?

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: That is a form of competition for routes, but there is no guarantee that if an operator gets that route he will honour that process and not just walk away, is there?

Mr McGRANE: No, and there has been experience of that in recent times.

The Hon. Dr B. P. V. PEZZUTTI: It has happened at least 14 times in the past triennium.

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: The managed competition you talk about is managed competition to get the routes, which the council has a say in. Is it effectively the case that the only difference with deregulation would be competition without your council having a say?

Mr McGRANE: We have had input all the way through, and we think that the system has been very good.

The Hon. Dr B. P. V. PEZZUTTI: I am asking you a direct question. Is it correct that the only difference would be that at present there is a tendering process.

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: The Air Transport Council asks your opinion then someone in Sydney makes a decision about what is going to happen.

Mr McGRANE: Yes.

CHAIRMAN: It has been suggested to the Committee that some areas will get a licence to run a Saab, for example, yet within two weeks the airline may decide to service an area with a Metro and, subsequently, with a Chieftain. Do you think that the Air Transport Council should say that all bets are off if the conditions are changed from those pertaining to the original licence?

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: At present that does not happen, which is what I am trying to point out. At present there is a competitive tendering process. The council has an input in that process but the decision is made in Sydney.

Mr McGRANE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: It may be that the operator decides not to service an area, and there is no penalty for that, and the route is readvertised. It is my understanding, however, that if an airline decides to service an area with a 19-seat aeroplane rather than a 36-seat aeroplane nothing can be done about that. The airline merely goes to the air traffic council, which may decide that such arrangement is satisfactory. There is no requirement on the airline to consult a local council. I am saying that the managed competition is not quite so rosy as you may think. It has served Dubbo well until now, because that area has good loadings, but I wonder whether this is the best system for the future, even for Dubbo. Perhaps there should be changes to the way in which the air transport council operates, and that is one of the terms of reference of this inquiry. I am not saying that I am blown away by the idea of a completely deregulated market; I am just seeking information.

Mr McGRANE: Fairly recently the airline had only a 19-seat aeroplane available for our area but promised to provide a Dash 8. Our area had to put a lot of pressure on Eastern Australia Airlines to it live up to the guarantee it made to me and my council to service the area with a Dash 8. It took some time, the airline was rather slow. It came back to a question of the number of passengers. Had the airline not serviced the area with a Dash 8, it would not have the numbers it now has—25 per cent—because people were not satisfied with the choice between a Saab and a 19-seat aeroplane. As people said, traffic would all go one way unless there was a realistic choice. I agree with what you are saying, Dr Pezzutti. Unless there is an extraordinary reason for a massive downturn in traffic in a particular region then the airlines will have to answer some questions. Of course they cannot be expected to service an area if they get no passengers, but there is a requirement for consultation.

The Hon. Dr B. P. V. PEZZUTTI: Your council alone would have a fair commercial buying power, given the amount of travel undertaken by its officers. It has the ability to place a fair amount of business one way or another if an airline does not live up to its commitments.

Mr McGRANE: That is probably so. My council tries to maintain a balance; it tries to spread the passenger traffic. You have referred to airlines not keeping their promises. I know that we did not have the power to make airlines do what they promised to do. However, in the end, they were forced to keep their promises because of economics. Had they not lived up to their commitments they would have lost more of their limited share of the market.

CHAIRMAN: I have an unrelated question. This Committee is undertaking two inquiries, one of which is an inquiry into the future role of government in the competitiveness of agriculture in this State. A few weeks ago the Independent Pricing and Regulatory Tribunal appeared before the Committee. Incidentally, IPART suggested that Dubbo is an area that may benefit from deregulation. It would seem that all the other areas IPART considered may benefit from deregulation do not want deregulation either. IPART spoke about its water pricing policy and suggested that irrigators should pay 90 per cent of the cost of dams. Of course, that suggestion came a week before part of Dubbo was flooded and Lake Burrendong went from a 50 per cent to a 124 per cent content.

I would be interested to hear your comments as to whether you believe the Government has some responsibility to the communities to build and maintain dams and should consider taking on a share of the cost of dam construction and maintenance. I ask you that question as your area was affected by the recent floods and had Lake Burrendong not existed

then Dubbo may not have existed either.

Mr McGRANE: Dams are not for the irrigators only. Dams serve many purposes and they should be sponsored and developed by governments. Things have probably gone wrong along the way with the pricing of water, quotas, over allocations of water rights from various dams and so on. Certainly dams are a joint effort and they are a government responsibility. It is not only the end users who have the responsibility for the building and development of dams.

(The witnesses withdrew)

WILLIAM BAWDEN BOTT, Farmer, and

SHAUN CHRISTOPHER McBRIDE, Policy Officer, Local Government and Shires Associations, and

PATRICK BRASSIL, Retired, sworn and examined:

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

Mr BOTT: As President of the New South Wales Shires Association.

Mr McBRIDE: As Policy Officer of the Local Government and Shires Associations.

Mr BRASSIL: As a member of the Executive of the Local Government Association.

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

Mr BOTT: I did.

Mr McBRIDE: I did.

Mr BRASSIL: I did.

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

Mr BOTT: Yes.

Mr McBRIDE: Yes.

Mr BRASSIL: Yes.

CHAIRMAN: You have provided the Committee with a submission. Do you have any documents that you wish to table or a submission that you wish to provide?

Mr BOTT: There is a written submission, which has been provided.

CHAIRMAN: Do you wish that submission to be taken as part of your sworn evidence?

Mr BOTT: Yes.

CHAIRMAN: If you at any stage during your evidence you consider 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 would be willing to accede to your request and would resolve into camera. Would you give the Committee a short precis of that submission and state your concerns, and then Committee members will ask questions.

Mr BOTT: Perhaps I will commence, and at the conclusion of my remarks I will pass over to Councillor Brassil, who will give more detailed insight into the regional necessity of continued access into Kingsford-Smith airport.

I gave evidence before the Independent Pricing and Regulatory Tribunal inquiry, representing the New South Wales

Shires Association and the Local Government and Shires Associations. The basis of that evidence was support for deregulation, which still stands. However, the position is that that support was qualified in a number of areas. In regard to access, we believe it is imperative that regional and rural New South Wales be able to enjoy continued access into Kingsford-Smith airport. There are a number of reasons why that is so. We support the recommendations that came out of the IPART inquiry in regard to slotting. We believe it has given protection to regional airlines to be able to continue to gain access, because the slotting is based upon the current operations there, that is, the historical basis. It also gives the opportunity for an increase in operations there; the unallocated slots are to be distributed between new ventures and existing airlines in terms of their operation into Kingsford-Smith airport. So we are quite satisfied with that aspect and have little difficulty with it.

Our concern relates to pricing and the proposals that came out of the IPART inquiry in relation to the impact upon smaller airlines. May I refer to the chart shown on page five of the submission. I apologise for the chart being somewhat difficult to read; in the printing of it the items have not lined up. The chart clearly demonstrates that in terms of the operation of the larger aircraft there will be a decrease in the fees that will be charged on a passenger basis, or it is a minimal charge there. The impact will be felt in regard to the smaller aircraft. In relation to regional operations, they are the ones that we need to give continued protection to in regard to access.

In relation to the operation of Beech aircraft, there is a proposal to increase the charge in the peak period by 32.7 per cent, as against a Boeing, which will have a decrease of 32.8 per cent. In regard to the Piper aircraft, there is a considerable increase. When one takes into account the factor that obviously those smaller aircraft will be carrying smaller numbers of passengers, it can be seen that the passenger costs are substantially to the disadvantage of those smaller operations. We have contended that there needs to be some protection for the continuation of these services into Kingsford-Smith airport. The proposal we have put forward in that regard is that, rather than going for the increase that is being mooted, as shown on page 8 of our submission, we believe that the increase should be capped at 30 per cent. We believe there should be a 10 per cent increase for each year over a three-year period, rising to the 30 per cent. That, in turn, gives the sort of response that we believe is essential in order to retain the access of those smaller aircraft into Kingsford-Smith airport.

Obviously, in terms of regional access, it is important to be able to gain access to Kingsford-Smith airport. There has been some talk about diverting the smaller aircraft to Bankstown. The concern there is that they will obviously not link up with interstate and intrastate services. There will be difficulty in regaining access from Bankstown to the city. I had to go out to Bankstown last Wednesday. I think it took me an hour to make the journey by train. So it will certainly be an enormous disincentive in terms of our opportunity to be able to access, in a regional capacity, the central business area and government in the way in which we need to. That is a potted view of the submission. As the last State to have a regulated air service, we believe that, on balance, the value will be to deregulate, but protection and consideration must be given to the impact upon smaller operations having regard to the small capacity of those planes.

Mr BRASSIL: I want to reinforce the view that if we are to remain committed to regional and rural development we have to provide easy access into Sydney. Sydney is the capital and the centre where most business houses and medical services are located, particularly specialist services. If we are to encourage regional development, it is essential that the centres throughout New South Wales have easy access into Sydney.

At the moment access into Kingsford-Smith airport is quite good and the associations agree with the slot system and the type of charging, although with modifications, and in so doing they believe this will ensure continued access into Kingsford-Smith airport. There is no point coming to Sydney if one has to go to Bankstown first. Even from as far away as Wagga Wagga one might be better off driving, if that was the case. The flight from Wagga Wagga is 55 minutes. The total time taken to get from Wagga Wagga to Sydney is probably two hours. The total driving time is only about five hours, depending on the time of the day one does it. If the airport is anywhere else the access would not be so good and it would mitigate against attracting people to country areas.

CHAIRMAN: We will now proceed with questions. I will commence. Anyone who likes to answer may do so. After we started our hearings the Minister for Transport received a letter from the honourable member for Tamworth, as a

result of a country summit looking at a charter of user rights. We were asked to make some inquiries about that. We have done so. Are any of you on the committee?

Mr BOTT: I am.

CHAIRMAN: This is the task force that has been set up to look at continued access to Kingsford-Smith airport?

Mr BOTT: With regard to Kingsford-Smith airport, no I am not. I am on the State regional committee under the Premier's Department, looking at regional development on the broad front, and on which Councillor McGrane and Councillor Torbay are represented.

CHAIRMAN: But you are not involved in that other committee?

Mr BOTT: That is right.

CHAIRMAN: We have been asked to make some inquiries about what should go into that charter of user rights, to try to get some guarantees that country people can have affordable access to Kingsford-Smith airport. There are two types of access. They can say one can have access but if they jack up the prices it becomes irrelevant. Some councils in country areas have suggested that a charter of user rights is not enough, that Federal airports legislation at the moment guarantees access for international and interstate flights but makes no reference to intrastate or regional flights. Does the Local Government and Shires Associations have any view on that? If you want to take any of these questions on notice, you may write back to us with your answers.

Mr BOTT: At this stage I would have to say it is not something that has come to my attention. However, I overlooked two things in my presentation that will probably give you an indication where we are coming from. Any potential there might be to privatise the operation of Kingsford-Smith airport at any stage needs to be written into a formal agreement, charter, whatever, to give protection that is essential to the smaller regional operators. The other thing needed is some mechanism to monitor the outcome, to ensure continued operation, that what you are saying does not occur, and that we have reasonable access and the operators are not priced out of the market. So, it is essential that those two things happen. If a charter is going to give protection—and I presume that is the thrust of it—to regional and rural access to Kingsford-Smith airport, we would be in support of that. I do not have any need to take that away, I can give you that answer.

The fundamental plank of our position is that there must be that continued access, for the reasons Councillor Brassil has outlined. The view on deregulation is not consistent throughout local government across New South Wales, but on balance we believe deregulation will be an advantage, with additional competition and the opportunity for packaging into regional situations that currently does not exist. As I say, that support for full deregulation is predicated on continued access and a regime that does not effectively price airlines out of the market.

CHAIRMAN: The other thing we have picked up from a number of councils is that they are generally happy with the slot system. They have seen some improvements and they see that as a form of guarantee for regional airlines to operate out of Sydney. However, the complaint is that the slot system allocates slots to regional airlines as opposed to town centres. The worry is that if deregulation comes in perhaps some of the airlines might clamour for the more productive routes with more passengers, still keep their slots, but instead of going to Griffith, for example, they might go to Wagga Wagga. Has the Local Government and Shires Associations addressed that point yet?

Mr BOTT: We have not addressed it but it is an issue we need to give some consideration to. We are arguing that safeguards need to be put in place to protect regional airline operations into Kingsford-Smith airport, but we are also arguing that there needs to be a community service obligation in place to protect the interests of the smaller centres. Obviously the scenario you are outlining would be of concern to us should that eventuate.

The Hon. Dr B. P. V. PEZZUTTI: Perhaps I could ask Mr Brassil whether he believes that one of the ways to

encourage airlines—during deregulation, or even during a regulated process—to give some equity to people in outlying areas where they might not get the same frequency as the people travelling out of Wagga Wagga, Dubbo, Lismore or Armidale is for the State Government to make a community service obligation payment?

Mr BRASSIL: Yes. I believe there is a community service obligation for everybody in the State to have affordable access to Sydney. This has to vary a little with one's location. Obviously someone living at Penrith can get to Sydney easier than someone living at Bourke. It has something to do with centres of population. Someone living in Wagga Wagga has the option of six flights a day to Sydney whereas someone living at Hay does not have such a frequent service. As long as some service is available to those people at a reasonable cost, I think the community service obligation is being fulfilled.

The Hon. Dr B. P. V. PEZZUTTI: Given what the Chairman suggests, given the cost of modern aircraft and the cost of maintenance, to have a 19-seater aircraft drop into Hay on a daily basis, for example, may require the customer to be charged a cost per kilometre vastly greater than the cost to someone in Dubbo or in Wagga Wagga. Therefore, the cost differential for people from Hay would be vastly higher. Under those circumstances, given that the Government subsidises the railways, do you think some subsidy should be given to people to give them the same equity of access?

Mr BRASSIL: Yes.

The Hon. Dr B. P. V. PEZZUTTI: I am not saying it should be cheaper.

Mr BRASSIL: No. I think when the cost gets to be prohibitive we have to look at community service obligations. I know "prohibitive" is a nice term, it is hard to define. I suppose one needs to look at individual cases.

The Hon. Dr B. P. V. PEZZUTTI: Mr Bott, would you support that view or do you have a different view?

Mr BOTT: I certainly support the continuation or the establishment of the community service obligation to protect those ports. This comes back to a question of government and it ultimately resides in State Parliament rather than with us. It does not worry me how that is achieved, whether by some direct form of subsidy—and that is the issue I am wrestling with—or whether it can be achieved through regulation of the slotting mechanism to ensure that existing slots for those smaller centres are maintained. break/brown That could be a way of providing the access that those communities require without the direct intervention of a subsidy from the State Government.

I actually favour the structure. I am not terribly keen on direct subsidy as such. I favour the establishment of a regulatory regime under the slotting mechanism which gives continued access to the existing services. while you were asking your question I was trying to think about what centres currently do not have that sort of access. Certainly Broken Hill is one. The mayor of Broken Hill has expressed his concern to me about that city's direct opportunity under the present regime. He believes that deregulation will be to Broken Hill's advantage. I was trying to think of a smaller centre that may have a need that is not currently being fulfilled, but I am having difficulty. Deniliquin might fit that category, but, generally speaking, I favour the continuation of the existing opportunity. The line put by the chair a few moments ago—that came from the country councils in regard to slotting being directed towards centres rather than towards airlines—might be the regulatory mechanism that would achieve my objective, rather than direct subsidy.

The Hon. Dr B. P. V. PEZZUTTI: It has been suggested that the Committee consider deregulation of the larger routes, stand-alone routes such as Wagga Wagga, Dubbo, Albury, Armidale, Lismore, Ballina and Coffs Harbour, but leave the smaller routes regulated.

Mr BOTT: True.

The Hon. Dr B. P. V. PEZZUTTI: Do you have any idea what loadings would be a stand-alone, open competition approach versus a more regulated approach, if we go down the partial deregulation path?

Mr BOTT: I am not sure I understand your question.

The Hon. Dr B. P. V. PEZZUTTI: People have referred to the larger routes. How big is big and how small is small?

Mr BOTT: From my perspective I would believe—and this is straight off the top of my head—the Saab service operating out of Albury and Wagga Wagga, I would regard them as being able to compete quite adequately. I believe the cut-off line would be Piper, Beech and smaller passenger aircraft. The chart demonstrates that they are the ones in real danger of being disadvantaged under the present pricing regulation. Unless some mechanism is put in place to give them protection, they are going to be priced out of the market. In a totally deregulated situation they will not be able to gain access.

The Hon. Dr B. P. V. PEZZUTTI: It may be necessary to have a partially- regulated system.

Mr BOTT: That is a possibility. As I say, that ultimately comes back to the determination of government. We are saying it is necessary to have the protection of those less frequented routes, but how it is achieved ultimately comes back to the determination of government.

The Hon. Dr B. P. V. PEZZUTTI: You may care to take my next question on notice. The Leader of the Opposition recently announced his intention to move more government jobs to country areas. Would this have an impact, in a positive or negative way, on air transport needs and services in regional New South Wales?

Mr BOTT: My immediate reaction would be to say that it would, but as I think about the number of times I have had to travel to Sydney on business, there would probably be business people coming to Sydney to meet with government, I think I would need to take that question on notice.

The Hon. Dr B. P. V. PEZZUTTI: One might need to travel to Lismore or Dubbo instead of travelling to Sydney.

Mr BOTT: I would say that it would have a positive effect, but we will undertake some research and provide you with a definitive answer.

The Hon. JENNIFER GARDINER: With respect to the new minimum charge, which you have suggested be capped, the Committee has heard evidence from one of the smaller airlines that that could mean that the services become unviable. That related to the service that operates on the southern slopes, Cootamundra and Temora. Do you know of any service in other parts of the State that might be in difficulties?

Mr BOTT: Not specifically. May I clarify your question. The question is that the service to Cootamundra will become unviable under what is proposed, rather than what our association is proposing?

The Hon. JENNIFER GARDINER: Yes.

Mr BOTT: I have not done the specific exercise but I would say centres such as Griffith and Narrandera and quite a number of others would have difficulty in being able to maintain the service. I have not done the exercise but I can do it without any difficulty.

The Hon. JENNIFER GARDINER: Thank you, if you would. You have acknowledged that the association's view is not a completely consistent view among the constituent councils and the Committee has heard evidence from the Dubbo City Council opposing deregulation. However, you state that on balance your submission represents the view. How strong is the view that you have put?

Mr BOTT: The view that was expressed in both executives, that I have put here today, has been carried by both

executives, which are, if you like, the representative groupings of the councils across New South Wales. That is the collective view point. I am saying there is going to be divergence from that, depending upon how the particular centres see the impact upon them in their particular situation. Just as you have found that Dubbo supports the continued regulation, if you talk to the mayor of Broken Hill you will find that he is equally strong that there should be deregulation.

CHAIRMAN: In regard to the Broken Hill situation, the Committee heard from a company yesterday that is having negotiations with the council. That particular company did not want deregulation; it wanted managed competition. It wanted the system to be opened again so they could all submit bids and so that they could have two operators at Broken Hill, but regulated so that no-one else could come in and those two operators could be viable. He considered that in the event of deregulation he would not be able to provide a viable service there.

Mr BOTT: It sounds to me like wanting to eat your cake and have it too.

The Hon. JENNIFER GARDINER: In reference to the association's recommendation that there should be a process whereby intervention may be taken if a rural community loses all services, and a determination of the most appropriate means of obtaining revenue to subsidise unviable routes, I suppose there would have to be some benchmark as to what was unviable. It could be bad management, for example, so obviously a government would have to work out what unviable actually means. In the first instance you would be talking about the number of passengers, say, in a five-year period in and out of that smaller community as a benchmark.

Mr BOTT: Obviously that is one way by which you could do it. To commence with I would say that passengers movements and the size of vehicles is a very, very important consideration. If you do not have the passengers movements, management is almost irrelevant to the outcome. You will not be able to continue the service. At the same time I accept the point you are making that management has to be an issue which will impact as well.

The Hon. J. R. JOHNSON: What are your landing or passenger charges at the airport?

Mr BOTT: I have a document somewhere.

Mr McBRIDE: I will provide the Committee with a table.

The Hon. J. R. JOHNSON: How do those charges compare with airports of comparable size?

Mr BRASSIL: The charges vary according to this table from \$4.75 to \$11 per passenger. In the case of Wagga Wagga this table states \$5.65, but that is no longer true. We have just increased it to \$6, but it was true at the time this document was drawn up. Some airports obviously have to charge \$10 or \$11. Generally those with the lower passenger numbers have the higher charges, but this is fairly reasonable. The airports are mostly owned by councils and in the case of Wagga Wagga, and I presume other council areas, we try to run them so that we do not use the ratepayers' funds to prop up the airport.

On the other hand, we do not try to make an enormous profit. We go for cutting even and we have found that \$5.65 now \$6 does a number of things: it provides for the relaying of the airstrip, which you would need to do every 20 years. We put money aside for that; it provides for ordinary maintenance and reasonable capital works for expansion, in the event of their being not more than two firms operating out of the airport; and it provides normal running expenses. We consider it to be a reasonable charge, but the situation would be different for different councils. Some councils have to subsidise their airports very strongly to keep them open. They would generally be the small centres with very few passengers.

The Hon. J. R. JOHNSON: Has your council had any difficulty collecting the fees, and how many bad debts have you incurred?

Mr BRASSIL: Very, very few. We did have some difficulty earlier, but we pursued them and the system that we have seems very good. We no longer make some charges, so that our main income is from the regular passenger planes. A firm operates to provide you with numbers of people when you have a per-passenger charge and the system appears to work very well. The airlines co-operate very well and pay their fees promptly.

The Hon. J. R. JOHNSON: How far is your airport from Canberra?

Mr BRASSIL: It is 150 miles in the old measure.

The Hon. J. R. JOHNSON: Those on the periphery of Wagga Wagga would obviously use Wagga Wagga airport as distinct from Canberra, would they not?

Mr BRASSIL: Oh, yes. I do not know where the cut-off point would be but I think it would be very close to Canberra. Yass people would probably go to Canberra to catch a plane. If they wanted to come to Sydney they would probably drive.

The Hon. I. COHEN: Where does Wagga Wagga stand on deregulation or a regulated market?

Mr BRASSIL: The policy of the Wagga Wagga City Council, decided a couple of years ago, is in favour of deregulation. As with other decisions on deregulation, it was not a unanimous council decision.

The Hon. I. COHEN: You may care to take this question on notice. Do you have a list or a general assessment of those councils? Given that you are a statewide association or country areas association, you may have a rough idea or could provide the Committee with the numbers of councils for or against deregulation. You mentioned Broken Hill was in favour of deregulation. I was under the impression that there was a very strong feeling in country council areas that there was a need to maintain regulation and that there was great concern about it. Appreciating that Wagga Wagga has one view and Broken Hill has another point of view, are you able to provide a balance in that regard?

Mr BOTT: Certainly in terms of those that are operating airports, in other words from where services are running, we have no difficulty in providing that. The point I made earlier was that the issue of concern is one of continued access and the potential to be priced out of KSA. The overriding consideration of all councils, which is consistent right across the board, is that there must be continued access into KSA. The association believes that that can be maintained in a deregulated environment through the appropriate mechanisms as detailed in the association's submission. We can certainly give that information relating to councils that operate airports with services terminating at KSA or in Sydney.

The Hon. I. COHEN: In your association's experience, and in your own experience, do you feel comfortable in a deregulated market that there will be a guarantee of a service for the smaller and less profitable spokes on the system? Has there been much feedback with local government areas about the guarantee of a service to the community, which is what I am more interested in rather than just measuring profitable routes? The Hon. Dr B. P. V. Pezzutti mentioned the possibility of a subsidy to maintain those spokes. Can you elaborate on community concerns?

Mr BOTT: In regard to those that would be subject to spokes?

The Hon. I. COHEN: In regard to the smaller routes, the spoke routes that are not necessarily directly getting to KSA.

Mr BOTT: The concern that has been spoken about before certainly will be evident in those centres. The concern is probably accentuated in those centres with smaller services. Quite obviously they are the ones that will potentially be under the greatest danger of losing the access either through pricing or whatever. Our experience is in the deregulation that occurred in the interstate airline services. We believe that the outcome of that deregulation was one of a positive result rather than a negative result. I know that is open to debate as well.

At the same time the potential for an intrastate deregulation for packaging, say, at off-peak periods and weekends, and

the opportunity to develop packages in a deregulated market is certainly something that needs to be given consideration, together with the potential of increased competition and what that will do to the price of air fares. I come from Albury where we are close to the snow fields and what have you. Currently I pay in the order of \$440 return air fare from Sydney to Albury. I can fly probably Sydney to Melbourne for a very similar fare or if not it would be marginally different. Under the present regime pricing is not terribly conducive to flying inside New South Wales. We believe that there is potential to address that through opening up the market to competition.

The Hon. I. COHEN: Are the present routes, hubs, and spokes system deficient? I am thinking of the Parkes airport plan, even though we are looking mainly at cargo. From your association's point of view is there a turnabout in its structure?

Mr BOTT: Currently I guess we are in a regulated situation and we have arrived at the point we have. I suppose one can always cast one's eyes about and find some centres that are not being serviced in the way in which their communities would wish them to be. There has to be a line drawn at the point at which we are unable as a society to go any further. With regulation we have the current network. We say it is reasonable that with deregulation there should be the continuation of that same level of service opportunity. I have a view about Parkes and I will not get into a debate about it because this is not the appropriate time to deal with it.

CHAIRMAN: The Committee has not deliberated on what we are likely to do but there is a general view that there are a couple of issues involved, one of which is the upcoming Federal and State elections.

Mr BOTT: The election has triggered my thinking about an important point I missed regarding introduction. I would say from your remarks that a decision will not be made by December 1998 and then the proposed 1999 date would be reasonable in terms of time frame of adjustment and what have you. We need to push it past the Olympics.

CHAIRMAN: The Committee would like the Shires Association and the Local Government Association to keep a watching brief on this matter and to keep sending us submissions on it because there is a possibility that after the elections we will do further or different investigations. The Committee values your continued input.

Mr BOTT: Mr Chairman, could I just say to yourself and to the members of the Committee I have had the ordeal of appearing before a number of parliamentary inquiries and this has been, if you like, one of the most relaxed and indeed the easiest to be able to deliver.

(The witnesses withdrew)

GEORGE RICHARD TORBAY, President and Chairman, Country Mayors Association, care of Armidale City Council, sworn and examined:

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

Mr TORBAY: As Chairman, Country Mayors Association.

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

Mr TORBAY: Yes, I did.

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

Mr TORBAY: Yes I am.

CHAIRMAN: The Country Mayors Association has made a submission. Would you like that submission to be included as part of your sworn evidence?

Mr TORBAY: 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 then the Committee would be willing to accede to your request and resolve in camera.

Would you like to give the Committee a brief overview of the position of the Country Mayors Association and then the Committee members will ask questions?

Mr TORBAY: Most of the details are in the submission. I will touch very briefly on some of the points and I am obviously happy to answer any questions. In relation to landing fees—and it has already been commented on today—we would remind the Committee that a larger percentage of the ticket price, obviously the effect on short haul flights rather than the longer flights, has a remarkable effect on the passenger price of tickets. For example, a \$10 increase in landing fees at KSA would mean a five to eight per cent increase from Armidale to Sydney.

Perhaps the greatest concerns of the Country Mayors Association are in relation to the slot times which have eased recently given the changes that have occurred. There is general support for what has occurred. The proposal to redirect potential access from KSA to Bankstown airport for some country services was unanimously rejected by the association for many reasons that have already been given. The association was united in that view. It was felt that it would be very detrimental to country areas for a wide range of reasons that have been commented upon by the submission of the Local Government Association and indeed by other members.

Deregulation has also been debated at length. Given that currently the Country Mayors Association has 32 member councils, there were varying views in relation to that issue. Almost without exception the major concern was the mechanisms that should be put into place to support smaller regional communities to ensure that they have equitable access to KSA, and to ensure that deregulation does not result in smaller communities having a large decrease in the level of service that they enjoy today.

Whilst there were some other views, it was the overwhelming view of the association that full deregulation would have a potentially detrimental effect, particularly on smaller communities. There have been terms used about managed or partly managed or what have you but there was a strong view to support a form of regulation to protect those

communities. I am happy to take any questions.

The Hon. I. COHEN: Do we have a clash of learned philosophy and real community needs? It seems as though there is some inability to say that we want to maintain an old-fashioned regulated activity. Would you comment on that?

Mr TORBAY: Almost without exception the concerns of every community that perhaps does not have what you consider a large load or large numbers is that if the market was deregulated the number of providers would increase but the level of service would in fact decrease. That is almost a unanimous position by those communities. A lot of it is a little unknown. A document has not been put before me that accurately analyses the impacts, but that is certainly a perception that is very strong in the community.

The Hon. I. COHEN: Does your association have a formula that could guarantee those smaller spokes and communities their rights to access, and at the same time some sort of partial deregulation of the major routes?

Mr TORBAY: The Country Mayors Association has simply been liaising with the Local Government Association in looking at some of the mechanisms that would be available. We seek to work with the association in putting the view forward that there are mechanisms and indicators that could be used to protect those communities. I think a considerable amount of the concern would ease if a model could be designed to protect those communities. We are not actively working on a model other than working with the association in putting forward our views for something that will protect those communities.

The Hon. I. COHEN: Would that be regulation through fee structure rather than saying X number of airlines are able to use this route? Is that the way to go?

Mr TORBAY: I do not think we would exclude anything in the process of looking at a model. There are so many wide-ranging views about regulation, deregulation and somewhere in between that we would be happy to leave the doors wide open in order to arrive at a model that would assist those communities. Tremendous concern has been expressed in every debate that those communities would be disadvantaged. We would be happy to see all those forces thrown in the melting pot to see what model could be arrived at to protect them.

The Hon. I. COHEN: It is similar to the closure of banking in post offices. Is this a widespread concern in the community?

Mr TORBAY: Yes. At almost every meeting of country mayors there has been overwhelming and wide-ranging concern. The perception is very strong that deregulation will have a detrimental impact on airlines in regional communities, particularly smaller communities.

The Hon. J. R. JOHNSON: Do you have many bad debts from airlines that have used your airports?

Mr TORBAY: The feedback that I have received from country mayors is that there have been one or two quite significant issues but all in all it is not a major problem from their point of view.

The Hon. J. R. JOHNSON: I am talking more about your area?

Mr TORBAY: The area around the Dumaresq shire, the Armidale airport?

The Hon. J. R. JOHNSON: Armidale, Tamworth?

Mr TORBAY: No, it is not a major issue there.

The Hon. J. R. JOHNSON: Tamworth?

Mr TORBAY: I am only commenting on what I have read but Tamworth had a difficulty recently given the Tamair situation. However, I do not believe generally there is a problem other than that issue.

The Hon. JENNIFER GARDINER: Glenn Innes and Inverell?

Mr TORBAY: Yes, there have been some changes there given the demise of Tamair.

The Hon. J. R. JOHNSON: I am concerned with the bad debts.

Mr TORBAY: They have not communicated that to me, no.

The Hon. Dr B. P. V. PEZZUTTI: They said that you had taken the matter up with the Premier?

Mr TORBAY: In relation to Tamair?

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

Mr TORBAY: I am excluding that particular matter.

The Hon. J. R. JOHNSON: I am not.

Mr TORBAY: No, as far as Tamair, there are a number of bad debts around the whole area and those matters have been taken up.

The Hon. J. R. JOHNSON: But no money on the table?

Mr TORBAY: Not at this stage, but they were fairly recent representations.

The Hon. J. R. JOHNSON: Representations to whom?

Mr TORBAY: I wrote to the Minister.

The Hon. J. R. JOHNSON: I am not following you. The debts were incurred by the airlines?

Mr TORBAY: Yes.

The Hon. J. R. JOHNSON: And you have written to the Minister?

Mr TORBAY: I have written to the Minister because the community wanted to make the Minister aware of it. Also, discussions have been held with the local member there.

The Hon. J. R. JOHNSON: Is Armidale well serviced?

Mr TORBAY: Yes, Armidale is well serviced.

The Hon. J. R. JOHNSON: By whom?

Mr TORBAY: The Armidale to Sydney route that you are referring to is serviced by both Hazelton Airlines and Eastern Australia Airlines and they both have 36-seat aircraft.

The Hon. J. R. JOHNSON: Would the academics and the students be major users of air transport—and I am talking about students not only from the university but from the good schools in the area?

Mr TORBAY: Definitely.

The Hon. Dr B. P. V. PEZZUTTI: I am looking at the timetable you provided as part of your submission. You have six services a day each way?

Mr TORBAY: Yes.

The Hon. Dr B. P. V. PEZZUTTI: And on Fridays you have seven services a day each way?

Mr TORBAY: Yes.

The Hon. Dr B. P. V. PEZZUTTI: How do two airlines operating 36-seaters end up out of making a profit out of a service that delivers 50,000 people?

Mr TORBAY: As far as profitability, that is up to the airlines, but changes have occurred in aircraft since both Hazelton and Eastern airlines have been operating it. Hazelton has from time to time reduced the Saab aircraft down to a smaller aircraft and then switched it back, depending on the demand.

The Hon. Dr B. P. V. PEZZUTTI: The Lismore service, which has only three services a day, delivers 50,000 people and the Ballina service, which has four services a day Monday to Friday—I do not know how it operates on the weekends—has 110,000 people. Under a deregulated market, places like Armidale may be disadvantaged and places like the north coast may be more advantaged. Do you have a view on that?

Mr TORBAY: When this was debated in our community it was the view of both councils that deregulation would disadvantage Armidale and that we would have in real terms a decline in our level of service for the reasons that you have touched on.

The Hon. Dr B. P. V. PEZZUTTI: When you next have negotiations, the airlines may well end up making bids less than what is already on the table. If they came back to the regulated process next time, you would end up with exactly what you have now?

Mr TORBAY: The last several times that these issues have been debated two carriers have always been bidding. They have been strong bids and the recommendations have obviously gone on. If the structure were to remain the same, we would expect the same process from the two major airlines bidding again for the services.

The Hon. Dr B. P. V. PEZZUTTI: But you would have no guarantee that would happen under a regulated system?

Mr TORBAY: No.

The Hon. Dr B. P. V. PEZZUTTI: Because they would have to be driven by profit under a regulated system or a deregulated system?

Mr TORBAY: Yes, they would be driven by the same.

The Hon. Dr B. P. V. PEZZUTTI: The services into Ballina and Lismore continue to grow rapidly and now Dubbo and Armidale together move 150,000 people in and out of Sydney with 16 services each way each day, whereas Lismore and Ballina have the same number of people with only seven services each way each day. If the Ballina service were

deregulated and there were more flights into Ballina, there would be pressure on landing times at Sydney airport. Would Armidale and Dubbo welcome a challenge to the number of slot times that they may achieve, given that those slot times are allocated to the airlines?

Mr TORBAY: No, they most certainly would not, with their support for the slot times that have been put into place recently since the changes occurred in March. But I have to say that grouping together two communities that are so far apart is a difficult example. We are saying that if you believe there should be a regional New South Wales, for example, resources have to be there to support it. When one is looking at numbers one can always see a cost-effective or so-called efficient process that would reduce fixed costs somewhere to a provider or a government, but we are saying that people in these areas, regardless of the population, deserve what is considered to be a reasonable level of service.

The Hon. Dr B. P. V. PEZZUTTI: I understand what you are saying. Because the number of landings and take-offs at Kingsford-Smith airport are limited, and given that those slot times are allocated to airlines and not communities, how do you see the Committee best making recommendations to the Parliament to ensure that whilst places like Ballina and Lismore might have better access, it does not have to be at the expense of Armidale and Dubbo?

Mr TORBAY: I am not sure. I would have to consider that.

The Hon. Dr B. P. V. PEZZUTTI: We would welcome any thoughts you have on the matter. It is a direct and open question.

Mr TORBAY: Sure. It is a good question.

The Hon. Dr B. P. V. PEZZUTTI: If there is deregulation and, say, the north coast gets two operators instead of just Ansett, there might be more frequency with smaller planes but that would put pressure on landing slot times. Eastern Airlines may want to go into Ballina and Lismore but it would have to take slot times from somewhere else because at the moment peak slot times—times when everybody wants to travel—are being fully occupied. Could you turn your mind to that?

Mr TORBAY: Yes. It is a good question.

The Hon. Dr B. P. V. PEZZUTTI: Has the Country Mayors Association looked at the policy announced by the Leader of the Opposition of moving government jobs to regional centres? Will that have an impact on the nature and quality of air services and a change to the re-jigging of air services? Also, what impact in totality is that likely to have?

Mr TORBAY: If we were to get an understanding of the departments or the infrastructure proposed to be put into country areas I would be able to answer the question but, regrettably, the statement that I read was similar to what the State Government has been saying about locating government areas. No details have been provided to me so I am not really in a position—

The Hon. Dr B. P. V. PEZZUTTI: You can take it from me that he is planning to move wholesale public service jobs to the country rather than just one or two, which does not balance what has already been taken out by the current Government. This is what is proposed. Given that proposition, what impact do country mayors believe that would have on air transport services? In the light of that different scenario is deregulation or regulation the way to go?

Mr TORBAY: If I were to go to the association and say that given the statement that has been issued, which is similar to a previous statement about which we have heard comments, by the Premier about decentralisation and location of government services—and I am not politicising it—I do not think that the association would accept at face value that there will somehow be these sorts of changes in country areas. We hear about them but I could not say that it would affect our submission without seeing something of more substance in the future.

The Hon. Dr B. P. V. PEZZUTTI: But what if the top big ones, everything over 40,000 or 100,000 even, were deregulated and the others remained the same? To ensure equity of access to Sydney for regionally based people, do you believe there should be a CSO payment by State governments in the same way as there is for railway transport, for example?

Mr TORBAY: From the point of view of smaller communities certainly that should be considered because the market forces alone, with deregulation or part deregulation, are not enough to protect those communities.

The Hon. JENNIFER GARDINER: I am trying to get a handle on the amount of consensus. You have said there is an overwhelming view in the association against deregulation yet councillor Brassil supported deregulation. How many mayors are currently in the association and how many of them would support the view of Councillor Brassil's council?

Mr TORBAY: Currently there are 32 mayors. It has been as high as 37 and a little lower. They are generally for populations of 10,000 or more. I must say that when I use the term "deregulation" it means something different to most people in the room. I must qualify what I am saying by that. A direct answer would be that overwhelming means all but four or five would not support deregulation. However, once we start breaking it down into what deregulation means and are we talking about a managed process with safety mechanisms that would support smaller regional areas, it starts to fragment again. When you simply ask the question about deregulation, I have to say there is an overwhelming view against deregulation and the concern it would raise with services, particularly to smaller communities.

The Hon. JENNIFER GARDINER: Therefore, there would be an overwhelming view against the deregulation that was introduced to the Parliament and passed through the lower House?

Mr TORBAY: Yes.

The Hon. JENNIFER GARDINER: Would the association agree that there could be a two-tier approach with deregulation on some routes and managed regulation on others?

Mr TORBAY: Yes. The Country Mayors Association says that if those protection mechanisms are built in and there is a process that is equitable, it would be happy to consider those issues. We do not think it is that difficult to look at.

The Hon. Dr B. P. V. PEZZUTTI: I presume country mayors are against landing at Bankstown?

Mr TORBAY: That was unanimously and wholeheartedly rejected.

CHAIRMAN: Yesterday the Committee asked a representative from an international airline company at Bankstown what problem that company would envisage with shifting to Bankstown. He said, "No passengers."

Mr TORBAY: We would support that view. The term "hated" would accurately describe people's views across the spectrum.

CHAIRMAN: How do landing fees at regional airports affect residents of country New South Wales?

Mr TORBAY: The range is enormous.

CHAIRMAN: Why are there differences?

Mr TORBAY: It boils down to infrastructure issues. Armidale city services Dumaresq shire and the landing fees are at the higher ebb of other country areas. Recently a new terminal was established there for several million dollars. It is quite a nice upgrade, but it has been suggested that there is a disincentive, given the landing fees on some country

airlines. Because volume is not substantial in that sense, it creates the old balancing act: is it a user-pay situation? The Dumaresq Shire Council receives a modest rate of return for that development which has enhanced tremendously the city's infrastructure, but it is at the higher end of the scale.

CHAIRMAN: Are the fees based on per passenger or tonnage rate?

Mr TORBAY: Both.

The Hon. Dr B. P. V. PEZZUTTI: Given that the legislation was introduced into the lower House, did the Country Mayors Association write to the Minister for Transport, Mr Scully? If so, could you provide a copy of that letter?

Mr TORBAY: Yes. When was the legislation put through?

The Hon. Dr B. P. V. PEZZUTTI: It was passed through the lower House during the last session just before Parliament broke for the winter recess. The Independent Pricing and Regulatory Tribunal conducted an inquiry and made recommendations, but the Government proceeded with deregulation and the abolition of the Air Transport Council.

CHAIRMAN: That might have been after I addressed the Country Mayors Association on that matter.

Mr TORBAY: Yes.

CHAIRMAN: That was in November. Harry Woods and I addressed the association.

The Hon. Dr B. P. V. PEZZUTTI: No, the legislation is recent.

CHAIRMAN: Whenever it was, it was at the same time.

The Hon. Dr B. P. V. PEZZUTTI: The legislation went ahead after that.

CHAIRMAN: I passed the concerns on to the Minister and that is the reason he gave the Committee the reference.

The Hon. Dr B. P. V. PEZZUTTI: No. The Committee received the reference from the Legislative Council. It did not come from the Minister.

CHAIRMAN: No. I received it from the Minister.

The Hon. Dr B. P. V. PEZZUTTI: The reference for this inquiry by this Committee resulted from a parliamentary reference. The legislation was passed on 1 April in the lower House. The setting up of this inquiry resulted from a vote of the Legislative Council, which refused to pass the legislation until it was referred to a committee.

CHAIRMAN: The legislation was due to be returned and after discussions by Australian Labor Party members following meetings with the Country Mayors Association the Minister gave the Committee the reference. It was not from the upper House.

Mr TORBAY: Do you still want me to look for any correspondence?

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

CHAIRMAN: What other measures, apart from regulation, could the Government implement to ensure services are maintained?

Mr TORBAY: I will take that on notice.

CHAIRMAN: The Minister has also asked that the Committee examine the charter of user rights. Do you think that is enough or does the association feel that it should be embedded in legislation to guarantee for ever continued affordable use of Kingsford-Smith airport?

Mr TORBAY: Yes.

The Hon. Dr B. P. V. PEZZUTTI: On 1 April the Minister said, "I am disappointed with the Opposition. Following input from the Leader of the House it is appropriate that I commend this bill to the House." In spite of the Opposition in the lower House, the legislation was passed. As a result of that did the Country Mayors Association write to the Minister, and if so, could you provide a copy?

Mr TORBAY: Yes.

(The witness withdrew)

JOHN GARY REGINALD BEATTIE, Business Provider, Upholsterer, sworn and examined:

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

Mr BEATTIE: As Mayor of Narrandera Shire Council.

CHAIRMAN: Did you receive a summons issued under my hand to attend the sitting of this Committee in accordance with the terms of the Parliamentary Evidence Act 1901?

Mr BEATTIE: I did.

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

Mr BEATTIE: I am.

CHAIRMAN: Do you have any documents you would like to table before the Committee?

Mr BEATTIE: I have my presentation.

CHAIRMAN: Would you like that included as part of your sworn evidence?

Mr BEATTIE: Yes.

CHAIRMAN: If you should at any stage during your evidence consider that in the public interest certain evidence or documents you may wish to present should be heard or seen by the Committee only, the Committee would be willing to accede to such request and resolve itself into camera.

Mr BEATTIE: I understand that.

CHAIRMAN: Perhaps you would like to speak to your submission before Committee members ask you questions.

Mr BEATTIE: Members of the Standing Committee on State Development, I should like to thank you for the opportunity to speak today on an issue of great importance to the Narrandera and Leeton shire councils. On behalf of my shire and the Leeton shire I shall address the impact upon the operation of Narrandera and Leeton airport of recent decisions emanating from the Federal and State governments and the Federal Airports Corporation. I understand that since the instigation of this inquiry a new fee structure has been announced and is to be introduced later in the year. That structure removes the \$250 peak charge and reduces the minimum landing fee from \$140 to \$100. Further, the landing charge for domestic flights is being reduced from \$5.72 to \$2.92 per tonne. Council welcomes these changes. The local community has invested considerable funds in the Narrandera and Leeton airport. The total value of the airport and the infrastructure is \$5 million. The airport is owned by our shire and is managed jointly by the Leeton and Narrandera shire councils. It requires an annual subsidy of \$84,000.

The region has been served by larger aircraft since 1940, devolving in recent years to the Saab 340B aircraft operated by Hazelton Airlines. Passenger numbers for the 12 months ended 30 June 1998 amounted to 11,991, which represents a market increase of approximately 20 per cent. The Narrandera Shire Council believes that regional development in Australia is dependent upon a viable air service between Sydney and regional and rural centres. An important component of successful air service will be its ability to meet expectations of business, tourists and the general public with respect to service quality, safety, price and access to the Sydney (Kingsford-Smith) Airport. Committee members would be aware that the Riverina is one of the few areas in this country currently experiencing growth in industry. The local community certainly does not want any obstacles in the form of a decrease in air services.

With respect to the terms of reference of this inquiry, I should like to address briefly the issues of access to the Sydney (Kingsford-Smith) Airport, deregulation, slot times because of a likely impact upon a number of aspects of air services, and proposals to limit access to Sydney (Kingsford-Smith) Airport and direct country services to Bankstown Airport. It is vital that rural and regional travellers have access to the main airport of Sydney. The arguments against directing traffic to Bankstown are well known. Any decision to restrict country services to Bankstown Airport would affect many travellers, not the least being business representatives who are reliant on single-day access to the Sydney central business district.

A high percentage of trips from our region are of a business nature. It is thus of great importance that the journey to the city be achieved as quickly and as efficiently as possible. Flights to Bankstown Airport would add significantly to travel time and would in many instances require an extra night's accommodation. Business meetings that once could have been completed in a single day could well require an overnight's stay. Similarly, people required to catch connecting flights to other States or other countries could face additional accommodation expenses. The cab fare from Bankstown Airport to Sydney city at present amounts to approximately \$60, and two such cab fares would add considerably to the cost of a trip to Sydney.

The impact upon tourism to our region would be disastrous. International and interstate travellers rely on quick connections and make their travel plans accordingly. The diversion of air services away from Sydney (Kingsford-Smith) Airport to Bankstown Airport would result in a significant loss of patronage on routes such as the Sydney to Narrandera and Leeton route. In short, Bankstown Airport is not an option for regional passengers as its location and lack of infrastructure would effectively result in the demise of air services. If this item is to include the assessment for limiting aircraft by size or carrying capacity into Sydney (Kingsford-Smith) Airport, council would be opposed to such a proposition. This sort of arrangement could introduce the operation of a hub-and-spoke system. Such system has been tried and has been shown to fail.

Travelling times and cost are the main factors. I believe, for example, the Hay service—now not operational—was based on a return airfare to Griffith of \$80. That fare when added to the standard fare from Griffith to Sydney—which in today's terms amounts to \$440C is a cost beyond the means of most potential users. The same problem has occurred in the operation of air services from the Murrumbidgee Irrigation Area through Wagga Wagga connections to Melbourne. Such a system would result in additional travelling time and cost. Potential passengers would consider other options to access Sydney, to the detriment of the airline industry, business development and tourism.

The Narrandera Shire Council is not opposed to the principle of deregulation. However, it has consistently argued that recognition be given to the vulnerability of air services in marginal routes. In council's numerous discussions with developers and representatives of existing industry it has been evident that air services are critical to the success of regional development. The 1994 report by McKenzie & Co. to the Federal Government entitled "Lead Local, Compete Global" identified the critical role of air services for regional communities to achieve their growth potential and the importance of access to domestic and international airports as considerations in selecting a regional centre for a business relocation.

Council believes that deregulation would on marginal routes with established services utilising larger aircraft of 36 seats plus result in an influx of smaller aircraft by competitors, which would erode the viability of the established service operating with larger aircraft. Obviously, that service would have greater overheads and narrow profit margins. The history of air services utilising smaller aircraft of five- to 18-seat capacity shows a fragile operating environment and often withdrawal of services. By way of example, I point to Forbes in the 1970s and Hay in the 1980s. The community is then left without an air service. Once an established service is lost, it is very difficult to re-establish.

It is essential to the economic development of our community that, as a minimum, it have pressurised aircraft on the route. That requirement is likely to be protected under licensing than under deregulation. In thin routes managed competition is considered necessary to preserve not only the service but also the standard required by the public. The use of community service obligations is not the answer and would eventually fall victim to budget cuts. It is equally

important to note that smaller aircraft—aircraft with less than 36 seats—are less able to access Sydney (Kingsford-Smith) Airport. Council supports the air transport council argument for managed competition for routes of less than 30,000 passengers per annum. Under that arrangement licences are advertised every three years.

For the community the arrangement offers the following advantages. The successful airline is required to operate within set standards, with an element of competition. The public can evaluate the licence renewal application on: first, frequency; second, size of aircraft; third, onboard service and special provision for the disabled and disadvantaged—and I add that sizeable number of aged people and disabled people who would not be able to access flights to Sydney if that meant travelling on a smaller aeroplane; fourth, fare structure; fifth, reservation facilities. For the airline the arrangement offers the advantage of security for the investment involved on the route over a set period of time.

I turn to the issue of slot times. As noted above, I am pleased that from 1 October a revised charging system is to be implemented and that the proposed peak period surcharge has been abandoned. Early indications are that these revisions should be cost-neutral for Hazelton Airlines, which operates on the Sydney to Narrandera route. On that basis council welcomes the revised charging system, given that it is not likely to lead to increased airfares for our community. However, council asks that consideration be given to introducing some mechanism under which regional passengers would be protected from indiscriminate price increases in the future. Without such a mechanism there is the distinct possibility of regional airlines being forced out of business over time as more and more pressure is brought to bear for access to Sydney (Kingsford-Smith) Airport.

I thank the Committee for the opportunity to make this presentation on behalf of the Narrandera and Leeton shires. In summary, council urges the Committee to endorse the principle of managed competition. The benefits of deregulation for regional centres are unproved, and any possible benefits are likely to be offset by the damage to air services resulting from the introduction of smaller aircraft and eventual diversion of services away from Sydney (Kingsford-Smith) Airport to other airports such as Bankstown Airport. All of those scenarios would have a disastrous impact upon regional development.

The Hon. J. R. JOHNSON: What does your council charge passengers and/or freight?

Mr BEATTIE: Are you referring to passenger charges?

The Hon. J. R. JOHNSON: Yes.

Mr BEATTIE: I am not sure of the tonnage rate, but the passenger rate is approximately \$5.

The Hon. J. R. JOHNSON: How far is Narrandera from Wagga Wagga?

Mr BEATTIE: It is approximately 120 kilometres from the Wagga Wagga airport.

The Hon. J. R. JOHNSON: Does Wagga Wagga take many of your clients?

Mr BEATTIE: Yes, depending on the time frame for certain visits to Sydney and so on.

The Hon. J. R. JOHNSON: Do aeroplanes fly to Sydney only, or to Melbourne also?

Mr BEATTIE: From Narrandera flights go to Sydney only.

The Hon. J. R. JOHNSON: How many flights are there each day?

Mr BEATTIE: Two.

The Hon. J. R. JOHNSON: Is that one flight in and one out?

Mr BEATTIE: No, there is a round flight from Sydney to Narrandera and then Griffith in the morning, and another flight in the evening.

The Hon. J. R. JOHNSON: Does only one airline operate a service on that route?

Mr BEATTIE: Yes, Hazelton Airlines.

The Hon. J. R. JOHNSON: Do small commuter aeroplanes come to the Narrandera airport to connect with flights to Sydney?

Mr BEATTIE: Not that I am aware of. Smaller aeroplanes do use the airport for private use.

The Hon. I. COHEN: You have said that your council is in principle not opposed to deregulation. Have I understood you correctly, however, that in this circumstance council is strongly in favour of maintaining managed competition, which is regulation?

Mr BEATTIE: That is correct.

The Hon. I. COHEN: Why do you feel the need to mention that council is in principle not opposed to deregulation? It would seem that there is a strong voice for regulation coming from your council and from other country councillors. Could you perhaps explain that dilemma?

Mr BEATTIE: We are not opposed to competition, but in our circumstance as a marginal airline we are strongly opposed to it simply because we do not feel we can afford a drop in their services. If competition came in, I think we would get that. Access to Sydney (Kingsford-Smith) Airport is high on the agenda, and if we ended up going to smaller planes we would not necessarily get that. Globally we are not against it, but locally we are very much against it.

The Hon. I. COHEN: I think it is reasonable to say that there is local community concern, which has been reflected throughout the country areas.

Mr BEATTIE: Yes. I think that any rural community would be feeling much the same as we are feeling, whereas, with the bigger communities, coastal areas and larger cities, it is not really a problem and competition is probably a good thing.

The Hon. I. COHEN: The Hon. J. R. Johnson raised the matter of the number of flights that come into your airport and those that go to Sydney. At present the route is Sydney-Griffith-Narrandera and return. Do you envisage any improvement occurring in your local area to facilitate a greater attraction for an airline? Would a different hubbing system be of advantage, both to the local community and the viability of the airline?

Mr BEATTIE: I do not think so. I think what we have now works extremely well and most people are happy with it. Probably the only thing we lack is a direct route to Melbourne. Sydney is the city that we mostly use; most of our businesses and councils use Sydney quite a bit. For that purpose the current system is quite good; it does not need altering at all.

The Hon. I. COHEN: I was interested to hear your view on smaller aircraft, the perception of safety, and the difficulty that people, particularly those with disabilities, have. You said that the minimum would be a pressurised aircraft. Is that a major factor in terms of people's ability to fly?

Mr BEATTIE: I think that size is probably the main thing. As I mentioned, a lot of elderly people need a hostess. If you go to a smaller plane than the Saab that we are currently using, you will not get that service. It is the same for disabled people in wheelchairs; they need a hostess as well. I do not think that small planes will accept a wheelchair easily anyway. I think that if we go to a smaller plane we will miss out on that service.

The Hon. I. COHEN: Is that a bigger issue than the frequency issue?

Mr BEATTIE: I would say so, yes.

The Hon. I. COHEN: Could you give the Committee a percentage figure as to usage of your aircraft by tourism and business?

Mr BEATTIE: I do not know those figures, I am sorry.

The Hon. I. COHEN: Would you be able to ascertain the figures as to the percentage use of your aircraft for tourism, business and medical services?

Mr BEATTIE: Yes, I will do that.

CHAIRMAN: Council may have a management plan or a development plan showing statistics of numbers, projection of costs, and so on. Would you be able to provide the Committee with a copy of such a plan?

Mr BEATTIE: Yes.

The Hon. Dr B. P. V. PEZZUTTI: I have suggested to other witnesses that in order to protect some of the smaller routes and to keep them at a reasonable price to give people access to the city there may be a need for the State Government to make a community service obligation payment. Firstly, do you think that would be a good idea, and secondly, how could it best be applied?

Mr BEATTIE: I do not know that I could answer that.

The Hon. Dr B. P. V. PEZZUTTI: For example, the train that goes to Dubbo does not make a profit, it makes a considerable loss, which is picked up by the State Government. There are various ways in which the State Government transfers money to the State Rail Authority. For example, pensioners pay \$10 for a trip to Sydney, and State Treasury gives State Rail the difference in the price for first-class rail travel. Do you think a system like that could operate, which would help to build the numbers and also to make the services more profitable and therefore more attractive for people to provide quality services to isolated areas?

Mr BEATTIE: Yes, I think that something like that would be good. I am not sure what is in place at the moment for people on pensions. Is any system operating?

The Hon. Dr B. P. V. PEZZUTTI: No, nothing, unless it is part of the isolated patients transport and accommodation service—IPTAS. Under that service, if people have to travel more than 200 kilometres to see a doctor or receive a medical service they can then receive payment from, in your case, the Greater Murray Area Health Service to assist with that travel, either by air or rail.

Mr BEATTIE: I am aware of that. I think anything in that line would certainly be of benefit, particularly to our town. As I said earlier, we have quite a large percentage of old people, and I would certainly support that sort of a move.

The Hon. Dr B. P. V. PEZZUTTI: What sort of plane currently operates the service?

Mr BEATTIE: It is a Saab 340B, which is a 35- or 36-seater.

The Hon. Dr B. P. V. PEZZUTTI: What is the travel time to go directly from Narrandera to Sydney?

Mr BEATTIE: About an hour.

The Hon. Dr B. P. V. PEZZUTTI: What is the travel time if one goes via Griffith?

Mr BEATTIE: It adds about half an hour, so it is about an hour and a half.

The Hon. Dr B. P. V. PEZZUTTI: Generally speaking, do the flight times give one a reasonable time in the city?

Mr BEATTIE: They do. As I mentioned earlier, I found myself with quite a bit of time on my hands today because I got an early flight in and did not have anything else to do but to come here today. For any sort of business it is excellent, because you get here early in the morning and the evening flight gives you a full day in Sydney.

The Hon. Dr B. P. V. PEZZUTTI: Given that slot times, which at present are quarantined for regional travellers, are currently owned by airline companies, do you think there is a way of ensuring that those airline companies continue to value services like yours, which have relatively low passenger numbers, that the slot time is not given to a service that may be more profitable for them, and that your slot time is not altered so that you would not get a whole day in Sydney?

Mr BEATTIE: I think what is happening at the moment works well. I cannot see any benefit whatsoever in changing it.

The Hon. Dr B. P. V. PEZZUTTI: That does not relate to either deregulation or regulation; it is a completely separate issue which relates to the fact that the airlines own the slot times and your community does not?

Mr BEATTIE: Yes.

CHAIRMAN: The problem is that some of the big companies might decide they will go with the areas that have 150,000 customers a year, instead of Narrandera.

Mr BEATTIE: Currently, if Hazeltons cease their service they can retain the slot times they already have.

CHAIRMAN: And use them on a more productive route?

The Hon. Dr B. P. V. PEZZUTTI: Or they can change your slot time to a slot time that lands at 10 o'clock in the morning?

Mr BEATTIE: Yes, or lunchtime. I would certainly agree to any sort of control that could be put on that.

The Hon. Dr B. P. V. PEZZUTTI: It is a Federal matter; nevertheless, it is a matter that the Committee is concerned about.

Mr BEATTIE: To tell you the truth, I had not thought about it, but I think it is extremely important. As you say, if deregulation comes in and we lose the service that we have, we may very well lose our slot time.

The Hon. Dr B. P. V. PEZZUTTI: Regardless of regulation or deregulation, every three years the Air Transport Council seeks expressions of interest and consults with you; various companies make proposals, and the Air Transport Council in Sydney makes a determination as to what is best for you. If we retain regulation, can you suggest anything

that will improve that process? At the end of the day, you might have input as to what your community thinks. The airlines will come along and make their bids, but the Air Transport Council will make the final judgment.

Mr BEATTIE: I would like to see input from us as far as that judgment goes.

The Hon. Dr B. P. V. PEZZUTTI: Currently, for example, Hazelton may decide to operate a 9-seater plane. That might be in breach of Hazelton's current licence with the Air Transport Council, but Hazelton will go to the Air Transport Council and say, "We are not making a quid, so we will pull out altogether." Currently the Air Transport Council, without a need to consult with you at all, can approve such an arrangement. Do you think that that is fair, or that it should be improved if the regulation is returned?

Mr BEATTIE: I will have to come back to you on that. I do not think that will be fair. I do not see that happening, though, because Hazeltons are operating extremely well in our area at the moment. It is a hypothetical situation that probably does need to be pursued.

The Hon. Dr B. P. V. PEZZUTTI: Given that Tamair went belly up recently, that there is nothing certain in the commercial world, and that Hazelton's licences have gone in the last triennium, under the current arrangements of regulation what could your community do to force Hazelton, or any other company, to fly to Narrandera?

Mr BEATTIE: There is nothing that we could do to force anyone.

The Hon. Dr B. P. V. PEZZUTTI: Under a deregulated market, what could you do—exactly the same? In commercial terms, at the end of the day would it make any difference to Narrandera whether it was deregulated or regulated?

Mr BEATTIE: I think it would make a difference in commercial terms. As I said, regulation gives security for an operator to come in and operate. On the basis of what is happening now, we cannot determine future market needs as far as the airport is concerned, but on current levels of usage Hazelton Airlines is running at a profit and providing an excellent service. I cannot see any reason why that would change, particularly with the growth of industry in our area. I really do not see that the question is a valid one.

The Hon. Dr B. P. V. PEZZUTTI: Currently, as part of the bid, the airline company that bids for your service under the regulation process also has to give an indication what its prices will be. If it wants to have a price rise it has to give six months notice. That is then judged by the Air Transport Council, as I understand it, and although one might have certainty or some semblance of certainty, one has no control over the price nor, frankly, any input into that decision by the Air Transport Council. Do you think that should change?

Mr BEATTIE: Yes. I think we should have an input into the control of prices.

The Hon. JENNIFER GARDINER: Firstly, is it fair for the Committee to assume that Leeton council is as one with Narrandera council in the submission you have made?

Mr BEATTIE: Yes.

The Hon. JENNIFER GARDINER: You have said there is a subsidy from the councils to the extent of about \$84,000 for the running of Narrandera airport?

Mr BEATTIE: Yes.

The Hon. JENNIFER GARDINER: Is that a fairly constant proportion of your outgoings?

Mr BEATTIE: It is fairly constant. It does not vary greatly.

The Hon. JENNIFER GARDINER: So it is a fairly stable burden on your ratepayers?

The Hon. Dr B. P. V. PEZZUTTI: That is over and above their income?

The Hon. JENNIFER GARDINER: It is a subsidy.

Mr BEATTIE: We make a loss of \$84,000 a year.

The Hon. JENNIFER GARDINER: Which would be fairly normal for the smaller airports?

Mr BEATTIE: I think it is fairly standard, yes. Leeton does contribute to offset that a little, but Narrandera does contribute to most of the cost.

The Hon. JENNIFER GARDINER: Do you know of any prospects of the defunct Hay service being revitalised?

Mr BEATTIE: No, I am not aware of anything. The indications I get from speaking to other people are that it is not likely to happen at all.

The Hon. JENNIFER GARDINER: I think most of the issues have been covered by other questions, but is there anything that has not been covered that you would like this Committee to recommend to Parliament?

Mr BEATTIE: No, I think we have put everything we are concerned about in the written submission.

The Hon. J. R. JOHNSON: How many passengers a year are serviced by your town's airport?

Mr BEATTIE: In the past 12 months it was 11,991. Before that it was a little less but because Hazelton's changed their times and did a little with their pricing structure, the usage is increasing.

CHAIRMAN: One of the things the Minister has asked us to look into is the possibility, as suggested by the country summit, of a charter of user rights to guarantee continued access to Sydney (Kingsford-Smith) Airport. You might have some comments on that. I do not necessarily expect you to give them to me today but council might write in with some suggestions of what it would like to see incorporated in a charter of user rights. Some other councils have suggested it needs to go further and some Federal legislation is needed to guarantee affordable continued use.

Mr BEATTIE: I will get back to the Committee on that. But I can say we do support that initiative, because we have discussed it. I will send you some information as to what council feels about that.

(The witness withdrew)

PAUL ROBERT BREDERECK, Company Director, sworn and examined.

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

Mr BREDERECK: As managing director of the Tamair group of companies.

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

Mr BREDERECK: Yes.

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

Mr BREDERECK: 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 camera. If you would like to give us a statement and then we will ask you some questions.

Mr BREDERECK: Most of the issues in the Committee's terms of reference are issues I am passionate about. I would like quickly to give you a little background on me personally and my company that you may not have. I have 22 years experience in the aviation industry, having started as an apprentice mechanic/pilot with the old Tamair, which ultimately grew into what is today Eastern Australia Airlines. Along the way I shared a dual career as an engineer and pilot. In 1985 I bought a basically one-man operation from the old Tamair, which was a small flying school, charter business. Over a 13-year period I developed that into a highly-respected regional airline that in recent times is facing its demise.

The background to that is that in 1992 and 1993 we operated scheduled services between Tamworth and Bankstown. We were one of two companies that tried it. Western Airlines from Wagga Wagga did as well. I have some valuable experience on that, and I am happy to field questions about Bankstown in due course. Furthermore, we had up to 10 years experience operating up to nine aircraft on freight services to and from Bankstown. In 1993 we were awarded the Sydney-Tamworth route licence as a third licence. At that stage the other two licences were held by Eastern Australia Airlines and Ansett Express, and that was following Ansett's acquisition and closure of East West Airlines subsequent to the pilots' dispute in late 1989, 1990 and 1991.

When we took over the Sydney-Tamworth route total passenger numbers were in the order of 52,000 a year. We put the 19-seat Metro on the route in a high-frequency configuration, with a different approach to the range of airfares previously being offered. We did not necessarily drop the fares but the discounts were concentrated in the middle of the day, as opposed to being two seats on one flight and 10 seats on another that other airlines used. It is interesting to note that with the control of those cheap seats in the middle of the day we now have a totally different class of people flying on the route. In the middle of the day we have people in sloppy joes and track suits, compared to the suits that we have on the two morning and two evening flights.

Within 18 months of commencing that service the total route traffic had grown back to about 75,000. Going back 15 years, the market was a 75,000 passenger market. In those same years comparable regional centres such as Wagga Wagga, Albury and Dubbo all had markets of about 65,000. Those markets are now over 100,000. At Tamworth, in East West airlines days with Fokker Friendships and turbo props, the market was 75,000 and it is now back to 75,000, although it peaked at almost 90,000 in 1988 when they had jet services. That is a good indication of how jets can stimulate a market.

We eventually increased services to Tamworth to seven flights a day. Although it did not increase the overall market, the frequency did win customers. When we were operating seven services a day we had 58 per cent of the Sydney-Tamworth market in a 19-seat aircraft competing with Eastern's 36-seat, full cabin service Dash-8, with a similar net fare structure. In late 1994 we commenced services in Tasmania on a contract to a company called Airlines of Tasmania. In hindsight that was my second worst ever business decision. The first was not to get out as quickly as was necessary. That contract involved supplying a Metro 3, a Bandierante and five Piper Chieftains, providing services from Launceston to Flinders Island and King Island; across to Sale and Traralgon in southern Victoria; and services from Hobart to Wynyard and Devonport. The issue is very interesting and I will go through some comparisons of which your Committee should be mindful. In Tasmania at the time the Government controlled airfares and the environment dictated the cost.

CHAIRMAN: At the time you went in?

Mr BREDERECK: Yes, because it was a monopoly situation held by Airlines of Tasmania. They specified the airfares. At the time we got involved Airlines of Tasmania was about \$1.8 million the wrong way on the balance sheet. Its aircraft were old 1950 de Havilland Herons. On the day we took over services one of the aircraft had 1.6 hours to run to its ultimate fatigue life. The company was in bad shape but had a good monopoly route structure. Even putting in place the Metros and the aircraft we had, without going into the money situation, the problem we had was that first of all we underestimated the operating costs in the environment—gravel runways, short sectors and high fuel prices in Tasmania, costs that were beyond our control, and very high landing fees. The landing fees at Flinders Island and King Island were some of the highest in Australia.

The situation we had with the contractor was that our component of the operation ran into marginal viability and made small losses due to the environment and cost side of it. On the reverse side the company that was paying us was underrecovering significant revenue due to the fare structures that were imposed by the Government. The Government believed that by having a monopoly that it should be able to provide fares at a level that was not sustainable and it took two years to get the fares from 69 per cent of an equivalent mainland fare to an average of 84 per cent of an equivalent mainland fare.

In that time my company incurred set-up costs of the order of \$700,000, operational losses of about \$1.2 million and other costs associated with the exit path and so forth, probably the best part of \$4 million. It went from being a very profitable small regional airline in 1994-95, which made about 10 per cent or \$800,000 on an \$8 million turnover, to being a basket case. Quite frankly, we have never been able to climb out from under that level of debt. In 1996 we were awarded the licence to service the Inverell-Glen Innes route as a result of changes to that licensing review proposal from Impulse Airlines. Impulse Airlines met an obligation for the review in 1993 that was awarded to Oxley Airlines, which won the licence from Eastern Australia Airlines, who won it from East West Airlines.

In 1977 East West Airlines was providing one Fokker Friendship per day and the total route market was of the order of 22,000 passengers. By 1984 that market had declined to the order of approximately 17,000 passengers, when it was serviced by two 18-seat Jetstream services per day. Oxley Airlines won the licence, based on the premise that it would provide a 19-seat Beech 1900D, offering three services a day and a range of discounted fares. What occurred was that the market did not change: it stayed reasonably static. It stayed at about the 14,000 or 15,000 market. The frequency did not stimulate that market and neither did the air fares, but it reduced the yield quite dramatically for the operator. Accordingly, after 12 months, Impulse Airlines reduced to two services per day, and increased the fares.

The Hon. Dr B. P. V. PEZZUTTI: Was that Oxley Airlines or Impulse Airlines?

Mr BREDERECK: Impulse Airlines. Oxley Airlines did not get up and running. It was another victim. When services were reduced to two a day and air fares were increased, patronage declined to the order of 12,500 or 13,000 passengers. The cost on Impulse in the subsequent year, I presume, was such that eventually it reduced the services to one a day and the passenger numbers fell back to 9,000. From the analysis that I have done there were a number of factors involving the decline in passengers. Initially Impulse Airlines reduced the fares to very low levels, hoping to attract a new market and new business—that did not occur; there were no extra passengers wanting to fly, to any significant degree—but it

sensitised the market to the price and when the prices went back up to realistic levels, the market declined quite rapidly. When we took over the route, we based our projections and assumptions on the lower operating cost of the Metro and that we would be able to sustain two services a day.

In the first year of operation, with two services per day on that route direct to Sydney, our company lost approximately \$250,000 on a turnover of the order of \$1.9 million. In the second year of operation we reduced the services by two per week. We cut out Tuesday and Thursday afternoon services and made the morning flight a little bit later. That decline in service did not have any appreciable effect on passenger numbers because the people who required the same-day service could use other days of the week. However, it had an effect on certain key rural services. To my knowledge at least three specialist doctors who were visiting Inverell no longer visit there. We lost an oncologist and a heart specialist that I know of, and there is anecdotal evidence that a hearing specialist no longer visits Inverell.

Nevertheless, with the revised schedule our operating losses reduced to only \$135,000 and within a recent restructuring of the company we determined that that could not continue in the future. We had cut all our costs to the bone for the operation. We applied to put in place a service that had one direct Metro that hubbed with two Chieftain services, morning and evening on five days per week into Tamworth. Whilst there was a vociferous outcry from Inverell and Severn Shire councils, the market actually responded positively. We noted that we were running at a 10 per cent to 15 per cent increase in passenger numbers as a result of the Chieftain services.

CHAIRMAN: From those two towns?

Mr BREDERECK: Yes. We noted that the ability to do that same-day travel was not affected by having to go through a hub-and-spoke system. That is getting into a nine-seat aircraft when passengers have the choice of flying two hours later in a 19-seat aircraft. That determined to us that travel times were very, very important to that market. Most of you will have read the reports in the *Australian Financial Review* and so on, and those reports are, to a degree, fairly accurate. I will turn now to the key issues. I believe the real issue is about rural communities and I believe five key elements are involved—transport, communication, health, education, and law and order and they are all interdependent to some degree. If we reduce transport services it will affect all the other provisions of infrastructure in that community.

I believe it is essential for smaller regional communities to have the continued right to convenient access to Sydney airport. That is not to say that if the market is not viably sustainable that it should necessarily operate directly, but it should have the mechanism whereby it has regional air services that are acceptable to that community, and acceptable in a way that is probably not necessarily apparent to the civic leaders in those communities. I have recently described the exercise of Inverell and Severn Shire councils. What those councils were saying was at odds with what the market was saying. Certainly people would much rather have a 36-seat aircraft, but if the market cannot sustain it, it cannot sustain it. The market forces will dictate the type of service that the community will have.

I believe that fees and charges in themselves, such as the cost increases that were recently proposed by the Sydney Airports Corporation—before that the Federal Airports Corporation—is not the major issue: it is the rate of increase of the cost. Over a period of time the market can absorb those costs, but when we go from a minimum landing charge of \$43 on the Metro to the \$140 that was proposed, it is not the magnitude of the charge as much as the increase in the rate of the charge. Certainly the magnitude is important, but the increase in the rate of charge will have an effect on the market. That should also apply to local governments. A number of local councils in this State have a view that their airports are profit centres, which they are not.

The charging methodologies have been known to change from time to time. Last year the Tamworth City Council elected to go from a composite weight-based charge and head tax to a single head tax charge. As a result, they helped themselves to a significant increase in rates and charges. To quantify that, in the first year it was a \$3 increase per passenger. The \$3 increase per passenger that we had to pass on, also came at the time of the fall in the value of the Australian dollar. That necessitated cost increases of the order of \$4 or \$5 per passenger. We passed \$3 of that on to our customers. We had rate increases of \$6 on a fare of the order of magnitude of \$170 one way. We noticed an

immediate reaction in the marketplace, not the first 28 days but the subsequent months, and it was only after 12 months we noticed the market starting to react to that change and come back.

It is that sensitive at the end of the day. The overall price in many markets can be higher, it is the rate of change that is important. Some proposals are being put forward with the contractors of terminals at Sydney airport, where charges are set to rise dramatically. They are things that must be kept in mind. If the proposed charges by the FAC, or SAC, for the \$27.50 minimum on the Piper Chieftains or the weight-based minimum charge of approximately \$43 on the Metro are managed to a rate of increase of the order of 20 per cent a year, I do not believe it will have a significant effect on the overall amount of people using the facility.

Before I move away from the Sydney airport aspect, there is one issue that I believe should be of concern to the Committee and I would like you to take note of it. The methodology proposed by the Sydney Airports Corporation is wrong. They have factored into their fixed-cost component of the charge a level of depreciation that is not realistic in the real world or in the business world. They have factored in a level of return to the owner or return on capital that is also not realistic in the business world.

CHAIRMAN: It helps to sell the airport though, does it not?

Mr BREDERECK: It certainly does. On any given route the air fare revenue is finite. It is my opinion that in respect of a small marginal regional route that has two services per day, if we were to halve those services the total number of people using them would drop by 25 per cent. It is my view that if we had two services a day on a regional route and were to increase air fares, over and above normal consumer price index increases, of a magnitude of 20 per cent, there would also be a 25 per cent decline in the short term. They are only my gut feeling estimates, based on experience I have gained from small changes in the past five years.

In respect of the slot management scheme at Sydney airport, I believe from the outset, without being too longwinded about it, that it has to be recognised that the slot management scheme is a community service obligation for the people that live in Sydney. The fact that we have put an artificial cap on Sydney airport of 80 movements per hour has created a value on those slots, particularly during the peak and high-demand periods. Whilst there is a process in the legislation to ring fence regional airline slots, I believe that process is inadequate in that it does not prevent the operator of Sydney airport from pricing out regional communities.

For example, had the minimum charge risen from \$27.50 straight to \$140 without the process, it would have had a very, very serious consequence for many small air services. It is my view that because of that artificial slot and because it is a community service obligation for people in Sydney, regional communities should not pay any more per passenger to operate into Sydney airport than do any other domestic passengers in Australia. A passenger flying on a domestic flight from Melbourne to Sydney, on a 19-seat Hazelton aircraft from Bathurst, or a nine-seat aircraft from Gunnedah should not be penalised any more than the same per-head rate.

I believe Bankstown is not an option, because it has a number of limitations. Firstly, we have to be concerned that there is demand for services to Bankstown. In the time I operated Sydney-Tamworth I introduced cheap fares and I ran a good service twice a day. Ours was a local airline and we marketed it heavily. To quantify, based on gut feeling and experience, I would say that the level of demand on the Sydney-Tamworth route in 1992 was 4 per cent of the total market that wanted to fly to Bankstown. It was a business market: people going to Bankstown for various reasons and some people desired to support the new boy, the local carrier. The atmosphere was quite political after East West Airlines had only recently been closed up.

Our passengers were travelling to places west and north of Bankstown, to Wetherill Park, Parramatta and so forth. The main single limitation at Bankstown is access. Access to Parramatta is inadequate and access to the central business district is inadequate. I believe other witnesses have indicated the cost of getting to the CBD and the time factor involved. To develop the infrastructure at Bankstown would incur problems that are possibly insurmountable, based

on the local community. We would have a greater noise lobby at Bankstown than we would have at Sydney airport, because of the proximity of houses to that airport.

I know from my experience of flying in light aircraft of a night on freight operations in bad weather the number of times we had complaints. Above all else I believe that safety at Bankstown Airport should be the prime consideration. Bankstown Airport has more than twice the number of movements of Sydney airport, mostly general aviation and light aircraft. They are operating in what is called a GAAP—General Aviation Procedures—environment which is vastly different to class “AS” airspace at Sydney airport.

With the high level of traffic at Bankstown I do not believe air services could be operated safely into Bankstown with the mix of general aviation traffic. There would then be the issue of the number of businesses already existing on Bankstown Airport and their importance that would be affected. Furthermore on the issue of Bankstown, one important factor which I dare say has already been pointed out to you by previous speakers on the list is on-carriage.

On my airline approximately 20 per cent of passengers for the last five years have connected to another Ansett flight elsewhere in Australia and we can determine somewhere in the order of about 3 per cent of my passengers have connected to a Qantas flight elsewhere in Australia. Quite clearly, without the ability to go north or south then it would not be an option. The issue about which I probably feel most passionately, and I would suggest it is a plan that has been designed to create noise and to create the most inefficient possible use of Sydney airport, is the long-term operating plan (LTOP).

The long-term operating plan would have to be the worst piece of policy that could possibly be designed to hamper the way an airport operates. The long-term operating plan is a politically motivated system at a Federal level to use the Sydney airspace and runways, and is designed to share noise. It does just that: it shares the noise over more of Sydney. It also creates more noise. Since the long-term operating plan has come into place the average flight times of my company to Sydney have increased in the magnitude of around eight minutes.

In the course of the last five years my company's average flight times to Sydney have increased in the magnitude of around 12 minutes. Our average flight times from Sydney during that five-year period have increased in the order of about four minutes, with no change since the long-term operating plan going from Sydney. The basic problem, to put it very simply without going into detail, is that on approach aircraft go over a point 50 miles out of Sydney, which is fine; that is exactly how they should operate. From there on, aircraft go directly to Sydney, come down low early and power up, operating what jet aircraft call a dirty configuration—although we are not necessarily in a dirty configuration.

Effectively, with a turbo prop or jet aircraft from the top of descent to landing, in an ideal world, as one glides one is not burning fuel. The engine is throttled right back and its profiles are designed to maximise the use of the available energy with altitude. Under the long-term operating plan, and particularly operating on runway 3-4 at Sydney coming in from the north, aircraft get down nice and early, get in close to the city, turn left, fly out to the north, go out to sea to a considerable distance maintaining a level altitude, power back up to cruise power. But at low altitudes a turbo prop aircraft burns a lot more fuel than it does at high altitude. We are at an altitude low enough that we are back to making noise over the city again before turning around and coming in to landing.

To quantify the cost increase since the commencement of the long-term operating plan to date, in an annualised term, for one 19-seat aircraft operating on the Sydney to Tamworth route the direct costs of fuel and maintenance increased in the magnitude of about \$300,000 per year, in an operation that turns over about \$4.5 million a year. As an aside, I would suggest that is one of the fundamental reasons that led to the inability of my company to eventually make a profit. We got loads, yields and revenues up but we could not contain our costs, and that was a very significant cost factor.

I believe the fix for the long-term operating plan is easy but I do not know whether any political party would have the guts to do it. Quite frankly, take the politics out of it, give the brief to improve the efficiency and to reduce noise at Sydney airport to a group of air traffic controllers, Australian international pilots, Australian domestic pilots and

Australian regional pilots. Within a very short period of time those of us who actually fly and operate aeroplanes into Sydney will come up with a very good plan that will make far better use of the air space. They will reduce noise but unfortunately they will not see aeroplanes flying over more of Sydney. Aeroplanes will fly less over Sydney. How that can be achieved, I do not know.

Quite frankly the long-term operating plan needs to go. It is one of the biggest cost burdens on regional airlines and regional communities. We are travelling shorter distances and the effect of those delays at the end is a higher percentage of our operation than it would be for an aircraft, say, coming from Los Angeles with a very small percentage of its overall flight.

CHAIRMAN: Are the shorter flights delayed more than the longer flights?

Mr BREDERECK: No. In five years holding has improved dramatically; notwithstanding that, whilst we used to get 45 minutes holding on one flight and then all the rest of the flights went straight in, we now get speed reductions, delays, vectoring and a little bit of holding. So the average flight time across all flights has increased.

The Hon. Dr B. P. V. PEZZUTTI: Do you get told to take off a bit later?

Mr BREDERECK: In the last few years what is called a controlled departure time program has occurred. The night before we are faxed what the expected delay is, based on forecast, weather, winds and so forth. That has reduced the amount of holding but it has not necessarily reduced the amount of delays. The controlled departure time program is very different to the long-term operating plan. That is in a nutshell the guts of what I wanted to say. I can probably answer the rest I have by way of questions.

The Hon. Dr B. P. V. PEZZUTTI: Obviously you are a short-term study in a new operator breaking into the market. Yesterday we heard from an interstate organisation called International Aviation Pty Ltd which is breaking into the market from Broken Hill to Mildura to Sydney, similar to what you did breaking into the market from Tamworth to Bankstown. What can be done to improve the opportunities for new airlines that see a business opportunity to break into a regulated market rather than a deregulated market, whether it is a group of businessmen in Tamworth, Butler airlines or New England airlines which just happens to start in Tamworth?

Mr BREDERECK: In a regulated market there is no avenue to do so unless one is operating to a route that is not currently serviced, or if a licence structure is not taken up. I am quite opposed to the current system of regulation in New South Wales as it has been. It allows for a false level of protection or perception, as is seen by many regional communities. Market forces will dictate the air services provided on a given route.

The Hon. Dr B. P. V. PEZZUTTI: That is whether it is regulated or deregulated?

Mr BREDERECK: Correct. The reality is if there is no alliance with Ansett or Qantas the pickings are slim on regional services. The major airline alliance to a high degree will dictate what will be in the marketplace. It is very important that one is hosted in a reservation system and one has terminal access, unless one has a particular and unique quality that can be given. In the case of Tamworth there was a considerable uncertainty in the marketplace.

There had been dramatic changes with the loss of East West Airlines when a local new boy came along, popped his head up and he is local and he will have a real good go. We put a very high level of service back into a route that was being serviced poorly. This morning I flew down on Eastern and its level of service has dramatically improved from what it was five years ago as a result of having vigorous competition.

The Hon. Dr B. P. V. PEZZUTTI: We met this alliance issue before. In a regulated or a deregulated market we have the ability to land at KSA and end up on that wonderful series of concourses and walk 12 miles. By the same token that access is needed to allow for people who want to travel to Melbourne or wherever. Although it is 20 per cent of your company's market, for some it is higher. Do you think that the major players, Ansett and Qantas, give companies such

as yours a fair shake of the whip or do they overcharge you for being part of that reservation system first of all? Are there reasonable charges for the terminal, security and those sorts of things? Are the charges transparent?

Mr BREDERECK: The charges to the operator are transparent, yes. The charges are high and expensive.

The Hon. Dr B. P. V. PEZZUTTI: Are they the same prices that Ansett would charge itself?

Mr BREDERECK: I cannot answer that, but what I can say is that the size and the magnitude of the charge will be reflected in the regional carrier's value to Ansett. If I were to provide a service from Sydney to Tamworth with 50 per cent on-carriage, theoretically my charge could be much lower than my charge with 20 per cent on-carriage. If I did not have any on-carriage whatsoever it would be fairly difficult to be in the terminal.

Obviously airlines such as Ansett and Qantas will behave in a manner in keeping with all the appropriate laws in Australia but the good example is that I tried for three years to commence services at Tamworth to Brisbane. Because I had an Ansett alliance I wished to operate to the Ansett terminal, but for any additional regional services the Brisbane Ansett terminal was far too busy to accommodate my flights. Ansett never denied me to fly; I am welcome to fly there, but the reality is there are mechanisms in place.

The way the structure worked for my airline was that Ansett charged me a certain fee and charged for ground handling. Ansett gave me a rebate which put a dollar value on what it considered the value of the on-carriage to it was, which effectively gave me half price for the turnarounds. Compared with the magnitude of some of the charges by local councils these days, the charges to use the terminal at Mascot I consider were reasonable. Moving forward, Ansett was proposing that there were going to be dramatic increases in those charges.

The Hon. Dr B. P. V. PEZZUTTI: Is that because the Sydney Airports Corporation charged Ansett more for rental and the like?

Mr BREDERECK: I do not know the reasons. They just said their cost of providing the service has increased and they were proposing to negotiate a higher fee structure. However, Ansett was mindful of the effect it would have on our operation. Ansett was negotiating with us and I believe it would have been a fair resolution. What concerned me most was not so much the magnitude of the charge but the rate of increase.

The Hon. Dr B. P. V. PEZZUTTI: Were you able to hawk yourself from Ansett to Qantas?

Mr BREDERECK: No competition whatsoever.

The Hon. Dr B. P. V. PEZZUTTI: What if you had gone to Qantas and asked "How much will you give me?" They were not even vaguely interested?

Mr BREDERECK: No.

The Hon. Dr B. P. V. PEZZUTTI: Did Ansett take you on simply because it felt sorry about losing its other operator?

Mr BREDERECK: Basically Ansett wished to preserve its on-carriage; that is the value of a regional airline. As I said, when we took over the Tamworth route we were a third licence—a bit of a lucky door prize—but no-one really expected us to take it up. The fact that Ansett was not able to maintain the services with Southern Pacific Airlines, nor was it able to hand that service to Hazelton in 1993, it was faced with two licences on the route—Eastern having one and ourselves having the other. From that moment on the relationship changed from, "Look fellas, we do not want to talk to you" to, "Come into the fold, son."

The Hon. Dr B. P. V. PEZZUTTI: Today we have heard that Armidale, Dubbo and Wagga Wagga, and now Tamworth, have three licences. Yet on the north coast of New South Wales there is a single operator, either Hazelton,

Kendall or Ansett, which are all the same. Why does the Lismore service have 50,000 people on it—more than Tamworth—with one operator, and Ballina with more than 100,000 people on it with one operator?

Mr BREDERECK: Because the regulatory process with the Air Transport Council in my view has effectively rubber stamped what the local governments want on their routes for those towns. Ballina is a good example. Ballina says it wants jets, Ansett says it will provide jets provided there is only one licence, because the market is not big enough to sustain two jet operators. The same is good for the previous speaker, Mr Beattie, in that the market to Griffith and Narrandera is not big enough to sustain two carriers providing 30-seat aircraft. Consequently, it is about local governments having a fair degree of say in dictating their services, and certain of those ports in the past, without dwelling on it too long, quite often have been based on false promises by the operator at the time of the review. Ultimately the market will dictate what service that operator provides.

The Hon. Dr B. P. V. PEZZUTTI: At the end of the day if an operator, for instance Tamair, says it will go into Inverell with two flights a day and that is unsustainable, it has two choices: it either gives it up—is there a penalty for giving it up?

Mr BREDERECK: No.

The Hon. Dr B. P. V. PEZZUTTI: Sell it or go to the Air Transport Council and say, "We want to drop back to 19". Does the Air Transport Council go back to the local government body and say, "We have had an approach from Tamair to drop from two flights to one", or do they just make a decision?

Mr BREDERECK: Effectively they have made a decision, but there have been numerous occasions in which the process has not been in the community's best interests and the community has said to the Air Transport Council that it wants a change.

The Hon. Dr B. P. V. PEZZUTTI: What about your circumstance in which you have gone belly up for reasons other than the intrastate service in New South Wales; it relates more to your operation in Tasmania.

Mr BREDERECK: The reason we went belly up was not as a result of Tasmania. The reason we went into administration was, yes, that was one of the major factors but the ability to operate 19-seat aircraft in a small operation, I use an analogy that one cannot run a one-cow dairy. My company was the first airline in Australia to achieve ISO 9002 quality assurance accreditation. We run a dedicated safety department, our own reservation department, and so forth. Whether we have one aeroplane or 10, the overheads do not change appreciably.

With two 19-seat aircraft in the fleet, even though I am carrying loads that if I was part of a greater network they would say "Gee, they are wonderful flights", the type of equipment I was operating and the cost of operating that equipment in the environment of operating into Sydney and local government environments were such that the company was not able to make a profit or a reasonable return with its size without the ability to grow.

The Hon. Dr B. P. V. PEZZUTTI: And in a regulated market you had no ability to grow?

Mr BREDERECK: Correct. I will give an analogy with the benefit of hindsight. At the end of 1995 we made the decision to acquire a new 19-seat Metro 23 aircraft from the United States. Had we had the ability to operate on any other route as well as Tamworth, at that stage we would have purchased probably a Saab 340 aircraft. However, in reality the Tamworth market by itself could not sustain the Saab but if we had the ability to run into any other market, albeit where we saw opportunities—and we saw several and that is not just taking the cream off another carrier—we would have expanded at that point in time. Had we continued the expansion, I do not know whether the outcome would have been the same but I think that was probably the turning point in our company, that is, at the end of 1995 when we did not continue with the growth that we should have continued with at that point.

The Hon. Dr B. P. V. PEZZUTTI: Given that you have no real axe to grind at the moment, Deniliquin, for instance, has no service at the moment and has been subject to the issue of a licence by the Air Transport Council, in a regulated or a deregulated market is there a place for improving the access to Sydney for people resident in Deniliquin by the payment in various forms of a community service obligation by the State Government—in other words, a subsidy to the person travelling, the airline operator or airport operator that would reduce the end cost to the consumer by way of that CSO, as exists for trains, Sydney Buses and the like.

Mr BREDERECK: I believe so and there is good precedent for that in Australia in operations in Queensland where Flight West Airlines' western routes in Queensland are subsidised by the Queensland Government. A genuine community service obligation must be shown, particularly in the more remote, smaller communities in New South Wales—and Deniliquin and Hay are good examples. I believe there is a good case for a community service obligation, particularly in the remote communities which mainly sustain a very small aircraft. I would suggest that the most appropriate means of doing to would be into a hub centre.

CHAIRMAN: If you wish to take a question on notice or provide supplementary information, you may do so.

The Hon. JENNIFER GARDINER: If there was an open or unregulated market for the bulk of the routes but if the smaller and remote communities such as Deniliquin and Hay were protected, do you know what number of passenger flights would serve as a benchmark for determining where the CSO would come into play?

Mr BREDERECK: There are two issues in your question and I will have to get through the first to answer the second. The question I would ask is: why would you bother deregulating the smaller routes? There is no obligation on a carrier to service a route if it is not profitable or viable. I am not familiar with the mechanism of Hay but if such a community feels it needs an air service and that it would have community benefit—and there would be great community benefit in getting doctors and other medical people to the town—and that it would assist with potential development opportunities, it would be up to that community to convince either the State Government or the Federal Government to shell out and the mechanism would then be in place.

I personally do not feel there is a future for the air transport council, but it might well be that its future is in deciding whether subsidies should be given to places like Hay, Deniliquin and so forth. This area needs to be fully explored. I do not believe the routes should be regulated. The western Queensland routes are not regulated now and every few years operators bid for the provision of those services. They are assessed on the merit of the type of equipment and services appropriate for the community and the operator has to basically go with an open book and disclose how the operation will be run because the markets are finite. One can predict fairly accurately what will be the level of demand and what the markets will be.

The Hon. JENNIFER GARDINER: You were very critical of the long-term operating plan. Has there ever been an unofficial opportunity for traffic controllers and people who are apolitical but who have expertise in the aviation industry to come up with a plan that would increase the efficiency of KSA but at the same time have regard to the noise problem, or has it been disregarded and have politics taken over totally?

Mr BREDERECK: To my knowledge there has been no co-ordinated plan. Representations have been made by various bodies, including the Regional Airline Association. However, it is fair to say that the political process has steamrolled what would be good commonsense for Sydney airport, particularly with regard to the long-term operating plan.

The Hon. JENNIFER GARDINER: We have heard varying accounts of the level of consultation between regional airlines and relevant local government councils. What sort of consultation did Tamworth City Council have with Tamair in relation to changing from weight base to head tax, so to speak?

Mr BREDERECK: There was a consultation process which said, "We intend to change this to this. This is what we

propose. What do you think?" We objected loudly and strongly. We made representations to council saying, "If you bring it in, we cannot afford this much this quickly. We need to bring it in over a longer period of time". I believe it all fell on deaf ears. Local government believes that when a regional airline says, "If you increase the charge this quickly, it will have a negative effect on the market" you are lying to them. However, we have a fair idea what effect it will have. All providers of regional airline services respect that we have to pay our fair share and pay our way, but the reality is what the markets will bear from time to time and what the margins are. All regional airlines operate on very fine margins.

The Hon. JENNIFER GARDINER: Safety is not within the strict terms of our reference but I read a comment by you this week in the *Leader* to the effect that there may be some discrimination or extra harshness by the Civil Aviation Safety Authority—CASA—with respect to regional airlines than might apply to certain types of incidents if they occurred with a larger player such as Qantas or Ansett?

Mr BREDERECK: I am glad you asked that question. I believe that the current CASA board and management of the board have an underlying view that safety is directly linked to the financial performance of a regional airline. I would refute that. I believe that safety is a product of the commitment of the management of a regional airline. For the last two years my staff will attest to how much we have lived and breathed safety, systems, quality assurance and so forth. I believe the fate of my company was sealed the day we appointed the voluntary administrator on 10 June, irrespective of what occurred out of that. I believe that at some point in time CASA was going to get us. Whether that was right or wrong it is academic. It is in the past.

A good analogy would be that it is a bit like driving around with a policeman in your rear vision mirror the whole time; you are under intense scrutiny. I have seen the situation develop in my company over the last two or three months where the level of pressure on experienced, qualified, licensed staff has been such that it has put them under a level of pressure where they were not doing their job to the degree that they should. Things within our company that would not raise an eyebrow in a larger airline dramatically affect the operation of aircraft. Every "t" has to be crossed and every "i" dotted.

We all realise in a perfect world that does not exist. We have human beings operating machines and they will do their absolute best to operate strictly in accordance with the regulations and operating procedures—and do—but there are always times when they need to make a judgment based upon their experience, their training and within the parameters of what they have been allowed to with the licences they have been issued either as engineers or pilots. I believe that the CASA issue in regard to financial performance and safety has been well and truly blown out of all proportion. There are certainly some very good, safe airlines in this country that do not have a particularly good financial performance but safety is not a matter in question. We could reflect back to the two that started this whole ball rolling on safety, Seaview and Monarch. The financial performance was not an issue in either of those companies.

The Hon. I. COHEN: Was the safety light issue a beat-up?

Mr BREDERECK: No, it is not a beat-up. There was an incident, that is true. The incident that occurred on 4 August was that on approach to Sydney a chip detector light came on for somewhere between three to five seconds in one of our aircraft. On arrival in Sydney the pilot contacted the shift leader engineering manager, a guy with 35 years experience and licensed by CASA to certify for that aircraft. He consulted about the situation. The chip detector light went out immediately; it did not reappear again after that. The aircraft had a history of the chip detector light every now and again flickering on and off.

The Hon. I. COHEN: That type of aircraft or that particular aircraft?

Mr BREDERECK: Both our aircraft, and the source in the past had always been corrosion of the terminals. If the light came on and stayed on the aeroplane certainly would never have flown again, or not until the problem had been rectified, but the light was not on. In the manual it says that if the light illuminates, monitor the parameters, proceed to your next intended landing point and identify the cause. The light was not on. Subsequently that aircraft returned to Tamworth. The light did not occur. The pilot again consulted the engineer who released the aircraft. He went back to Sydney, and

then back to Tamworth. On the subsequent flight back to Tamworth the light came on for a period of somewhere between five and 10 minutes and again went out.

On arrival in Tamworth the aircraft was taken for engineering inspection. There was some metal contamination in the oil filter. The system was flushed out, a new filter put in, an oil sample was taken, the engine was ground run, the filter again dropped with no further sign of contamination. The aircraft was returned to service with the filter again being pulled after two subsequent flights with no further contamination detected. When the chip detector was removed from the lower part of the gearbox there was no sign of contamination. There was an incident, we reported it to CASA the next morning. As a result, there was an anomaly. The pilot had a warning light come on and off. We took measures, addressed it and identified it.

Consider that for three months we had an intense level of CASA scrutiny. At least four out of five days we had CASA officers on our premises inspecting every aspect of people doing their work. In that four month period they did not detect any other discrepancy or defect. The only discrepancy and the reason that led to us returning our AOC last Friday morning resulted from a discrepancy we reported to CASA. We did not hide it. As a result, the interpretation of the letter of the law is that CASA believed there was an issue. When the aircraft was released that night, for example, no less than three experienced engineers inspected it, tested it and certified the aircraft.

The Hon. I. COHEN: Nevertheless, metal contaminant in the oil system or filter—as I understand it, translating it to a motor vehicle—has the potential to cause engine failure?

Mr BREDERECK: It certainly can, but having said that, these aircraft engines make a small amount of metal.

CHAIRMAN: Bulldozers and graders are tested all the time and there is always some sort of metal contaminant. It depends on the quantity.

Mr BREDERECK: At each service we take an oil sample, a spectrographic sample, and send it to Mobil laboratories in Melbourne. It is called a SOAP test. It monitors the trend of the engine for any signs of wear. Prior to this aircraft being released the engineer referred to the history of the engine to see if there was any wear pattern developing. A sample was taken at that time and the day after. There was no history of wear pattern occurring in the engine. The most likely areas in the engine, to my knowledge, from where metal would come is the gearbox or the rear scavenge pump. If the rear scavenge pump was making metal, it would have been evident in other parameters. If there was metal being made in the gearbox, there would have been far more deposit on the chip detector.

The Garrett engine has a big prop shaft that runs into a big bearing. We regularly take lightning strikes on the prop. After known lightning strikes we pull the gearbox apart within 10 hours and change that bearing. It is a four hour job. But sometimes we get minor lightning strikes that we don't know about and it is quite possible from time to time that the bearing is worn. In the time I have been operating Metros we have had somewhere in excess of 30,000 flying hours and we have had quite a number of occasions when we have changed those bearings as a result of that due process. It is a machine and it is normal wear and tear.

CHAIRMAN: What would have happened if those circumstances with the light coming on had occurred with Qantas?

Mr BREDERECK: CASA would never have heard about it. It would have been hushed up.

The Hon. I. COHEN: Does New England Airlines have the same operation as the Tamair fleet? Does it have the same route and same planes? I may have missed some headlines but I believe you are out of a job. You operated that route and went belly up with a significant number of creditors that were local councils, which have not had obligations fulfilled to them, particularly in relation to landing fees and such like, yet this other route still functions.

Mr BREDERECK: No. No route is currently operating. We ceased all airline operations. Tamair Pty Ltd went into

voluntary administration in June. It was separated into the business units, into distinct separate companies. Those companies went to the administrator and said, "We propose to put in place a deed of company arrangements where the assets and the profits of that company going forward are beneficial to the creditors of the old company." We had two options going forward: to realise those assets by liquidation or sale of the business' going concern, which would have meant a much greater realisation, or the company could continue to trade and all future profits would have gone back to whatever. It became obvious to us in the course of the last two weeks that the company going forward would not be able to meet the profit projections, certainly without the Glen Innes-Inverell route. It was not likely we would retain those services combined with a high level of staff attrition.

The Hon. I. COHEN: Are you saying that the Glen Innes-Inverell route was a drain on your services?

Mr BREDERECK: No. As we had restructured it, because we had gone back to one Metro and two Chieftains a day, it was now a profitable route and it was essential for the level of profits that the creditors of the old company were expecting to return. What will occur now is that what is left out of all this company is that the engineering section is closed and the airline operation was sold last Friday to Impulse Airlines. However, it is up to Impulse Airlines to apply to the Air Transport Council for its licence on that route in the long term. The monetary realisation of the engineering division and the airline will be distributed, as per the deed of company arrangements, back to creditors of the old company. Basically, all assets of the company are held beneficial for the old company.

The Hon. I. COHEN: What would have happened under the scenario you have described in a deregulated situation?

CHAIRMAN: The same.

Mr BREDERECK: The same.

The Hon. Dr B. P. V. PEZZUTTI: No penalty to the Air Transport Council.

The Hon. I. COHEN: I am not talking about penalty to the Air Transport Council. Given that you had a regulated route, a relationship with authorities and local council, and landing facilities and such like on a regulated model, what would the scenario have been if it had been a deregulated model?

Mr BREDERECK: If we had a deregulated model, we would have had additional competition on that route. Notwithstanding that, we would have potentially had additional competition on other routes. I looked at my company's strategy with 19-seaters going into a deregulated environment. I believed that May of this year we were going to have deregulation. Instead of providing 34 return services, for example, on Tamworth, we probably would have reduced that to 22 or 23 return services per week, reduced the schedule, but we would have redeployed that aircraft into other markets. For example, had Hazelton started competing with me on Tamworth, I would have probably gone from five services a day back to three and redeployed that aircraft to two services a day on, say, Dubbo. At the end of the day no-one would have been a net winner, but there would have been an increase in competition in the short term and maybe some changes in community benefit. I do not know. Most operators will need to be convinced that there is a viable market. Had the routes been deregulated several years ago I would not have just been operating 19-seat aircraft for the last five years. The company would have had the ability to grow and expand whereas it has been a significant constraint for growth.

CHAIRMAN: You have given the Committee some interesting information and the Committee may write to you for additional information. No doubt it has been a difficult time for you to be involved, but your forthright evidence has been valuable.

(The witness withdrew)

(The Committee adjourned)

