South Australian Government Submission

to

The House of Representatives Standing Committee on Transport and Regional Services

Inquiry into Commercial Regional Aviation Services in Australia and Transport Links to Major Populated Islands

September 2002

Government of South Australia

1. INTRODUCTION

1.1. The House of Representatives Standing Committee on Transport and Regional services ("the Committee") has invited the South Australian Government ("the State Government") to make a written submission to the Committee's Inquiry into Commercial Regional Aviation Services in Australia and Transport Links to Major Populated Islands. The Committee is to examine and report on:

- The adequacy of commercial air services in regional and rural Australia.
- Policies and measures required to assist in the development of regional air services, including:
  - regional hub services;
  - small scale owner-operator services; and
  - the deployment of most suitable aircraft types.
- The adequacy of commercial air services to major populated islands and the adequacy of alternative sea services.
- Interconnectivity between regional air transport systems, major national air services and international services (including on-carriage, through ticketing, freight handling, timetabling and airport slotting).
- The role of all three levels of Government in supporting and assisting the development of regional air services and island transport systems.
- The role of major air transport carriers in providing regional services.

1.2. Section 2 of this submission provides a summary of the key issues addressed in the submission.

1.3. Sections 3 to 5 provide necessary background about SA aviation policy and regional air service history.

1.4. The remaining sections then provide comment on the Government's particular interests in the issues under examination by the Committee in the context of this background.

1.5. The first point of contact for discussion of any of the issues contained in the submission should be:

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2. EXECUTIVE SUMMARY

2.1. SA has undergone comprehensive rationalisation of its regional route structure since the Commonwealth withdrew from its intrastate regulatory role in 1979. Services have been withdrawn from a large number of communities but generally from those either within reasonable road access to Adelaide or to another community with air services.

2.2. Deregulation, until recently, has generally resulted in good outcomes for regional SA measured in terms of frequency of services and relative fares. The State Government has therefore not intervened in the market.

2.3. However, SA in common with other states, has experienced unprecedented attrition of regional operators and routes over the last three years.

2.4. The accelerated rate of regional airline failures and route withdrawals appears to be a result of escalating cost pressures on regional operators together with declining patronage caused by regional population changes, improved road conditions and vehicle efficiency, uncertainty generally in regional aviation markets following Ansett's collapse and other factors.

2.5. Anecdotal evidence suggests that this has caused significant disadvantage to regional communities which rely on air services to provide access to social and business services and economic and tourism development opportunities.

2.6. In response, the State Government has introduced legislation to declare and licence routes. It intends to apply the legislation only to those routes which can support a single operator in order to encourage the provision of services on marginal routes. This will not include the subsidisation of regional airlines.

2.7. The State Government assists regional aviation by funding regional aerodrome inspections and reporting officer training, some outback and regional aerodrome refurbishments, participation in the Commonwealth's Remote Air Services Subsidy Scheme and, indirectly, through a medical patient transport assistance scheme.

2.8. The Commonwealth's withdrawal from its regional aerodrome ownership and funding roles, and its devolution of those responsibilities to local governments, has created a funding gap that is resulting in the deterioration of regional aerodrome infrastructure.

2.9. The Commonwealth has devolved other costs from the Commonwealth to users through policies including location-specific Airservices Australia charges which disadvantage users of lower-volume airports, and the recovery of Civil Aviation Safety Authority regulatory costs from users. This has exacerbated cost pressures on regional airlines.

2.10. The Commonwealth should reinstate funding of regional airports and should implement measures to mitigate the effects of its policies on regional airline costs.

2.11. All regional airline services in SA start or terminate in Adelaide and most regional flights connect to and from major international and interstate services in Adelaide. There is only limited connectivity of services such as through checking of passengers and baggage, and no through fares are available.

2.12. No major air transport carrier provides regional air services in SA other than through limited commercial affiliation with two of the four SA regional carriers.

2.13. SA's major populated island, Kangaroo Island, is well served by both air and sea transport. However, there has been considerable shrinkage in the number of air transport operators offering services and there may be reason for concern about loss of competition on the routes.

2.14. The State Government provides a declining freight subsidy to the Kangaroo Island ferry operator, which will reach zero in 2005, and has called for expressions of interest in operating competing ferry services. The State Government has also provided some $28.5m since 1995 to improve roads and ports providing access to and on Kangaroo Island.

2.15. The State Government is participating in the study of the options for developing a policy framework covering public transport services to regional areas presently being conducted by the BTRE for the Australian Transport Council. This is expected to suggest a range of policy options across all levels of government.

3. AVIATION POLICY BACKGROUND

3.1. The entire Commonwealth aviation operational regulatory structure is enabled to act within SA by the *Air Navigation Act 1937 (SA).*

3.2. The Commonwealth effectively withdrew all economic regulation of intrastate air services in 1979 following its decision to assess applications for licences to operate on intrastate routes on safety grounds only. This followed an earlier decision, in 1967, to allow exemptions for third-level charter carriers to operate scheduled regional air services under a "supplementary airline licence" (under *Regulation 203* of the *Air Navigation Act*).

3.3. Some States maintained or introduced economic regulations of their own when the Commonwealth withdrew from the role, but SA did not. Since then, SA intrastate air services have operated without economic regulation of any kind. No State licences have been issued and any carrier may presently enter any route subject only to satisfying the Civil Aviation Safety Authority's operational requirements.

3.4. The State Government does not subsidise intrastate air services, other than through its participation in the Commonwealth Remote Air Service Subsidy Scheme and indirectly through the provision of a passenger subsidy described in section 10.1.

3.5. The State Government does, however, intervene in various ways to assist regional aviation in the State and recently introduced legislation which will enable it to licence scheduled regional air services for the first time. These interventions and the reasons for them are described in sections 7 and 10.

3.6. The Commonwealth has implemented a number of policies and programs which assist regional aviation such as its subsidisation of general aviation airport control towers and enroute navigation charges for small aircraft operators, but these have been offset by other policies which have devolved costs to other parties and increased costs incurred by regional air transport providers.

3.7. The most significant of these are:

- The transfer of the last SA regional community aerodromes to local government ownership under the ALOP scheme in 1991, and withdrawal from the funding of regional aerodrome maintenance or development;

- The implementation of location specific charging by AirServices Australia which has resulted in Terminal Navigation and Rescue and Fire Fighting charges at smaller gateways being considerably higher than at the larger gateways; and

- The recovery of regulatory costs by the Civil Aviation Safety Authority from users.

3.8. Further information about the impact of these measures is included in Sections 6 and 10.

4. SA REGIONAL AIR SERVICE DEVELOPMENT HISTORY

4.1. Prior to the Commonwealth's introduction of Regulation 203 under the Air Navigation Act in 1967, all SA regional services were operated by a second-level regional airline, Airlines of SA.[1]

4.2. By 1978, the Commonwealth had licensed five third-level airlines within SA. They, plus Airlines of SA, were operating scheduled services to 19 communities.

4.3. From 1979, after the Commonwealth withdrew from economic regulation of intrastate services altogether, airlines and services proliferated so that by 1983 they peaked with twelve airlines operating to a total of 28 SA communities.

4.4. In 1986 Lloyd Aviation Jet Charter won the SANTOS Moomba supply contract previously held by Airlines of SA, which was commercially affiliated with Ansett. This caused the withdrawal of Airlines of SA from the market altogether and Kendell Airlines commenced SA services, also in commercial affiliation with Ansett.

[1] Not to be confused with the airline currently operating as Airlines of SA which is a third-level airline formed in 1997 after the purchase of Lincoln Airlines by Augusta Airways

4.5. By 1989, fourteen out of twenty-four SA regional airlines which had implemented services since 1967 had ceased operating, but services were still being maintained to twenty-two communities by twelve airlines.

4.6. The ten years after that were marked by significant rationalisation of both routes and airlines so that by 1999 the number of airlines operating had shrunk to six and the number of ports they served to sixteen. This period showed an increasing tendency for failed airlines not to be replaced by other airlines, and vacated routes to remain vacant.

4.7. Over the three years from 1999 to date, the most significant attrition has occurred without any replacement of failed airlines or sustained replacement of vacated routes[2]:

- Southern Sky Airlines ceased operations in June 1999 resulting in the withdrawal of its services to Renmark, Kingscote, Port Lincoln, Wudinna, Streaky Bay and Ceduna. It was the sole operator to Renmark and Streaky Bay, and those communities remain unserved apart from O'Connor Airlines' five-week trial program to Renmark in March/April 2001.

- Whyalla Airlines ceased operations in May 2000 following its accident. This resulted in the withdrawal of its services to Whyalla (also served by Kendell Airlines) and to Cleve and Wudinna to which it was the sole operator. Its Whyalla service was replaced by O'Connor Airlines in September 2000 as a result of O'Connor's affiliation with Qantas which had secured the BHP corporate contract. Its Cleve/Wudinna services were replaced by Airlines of SA in August 2000 but withdrawn again twenty months later.

- Airlines of SA withdrew services to Woomera in May 2000, to Leigh Creek in June 2001 and to Cleve and Wudinna in March 2002. Those communities remain unserved.

4.8. That is, during the three years from 1999 to date, all air services have been withdrawn from:

- Streaky Bay
- Woomera
- Leigh Creek
- Renmark
- Cleve
- Wudinna

[2] Maps showing the airlines operating and routes served in 1978, 1989, 1999 and 2002 are included as Attachment A

5. CURRENT SA REGIONAL SCHEDULED AIR SERVICES OPERATED

5.1. As at July 2002, only four Low Capacity Regular Public Transport (scheduled) airlines provide services within SA[3]:

- Airlines of SA
- Emu Airways
- Kendell Airlines (now Regional Express)
- O'Connor Airlines

5.2. To ten regional communities, eight of which are within SA:

- Broken Hill (NSW)
- Ceduna
- Coober Pedy
- Kingscote
- Mildura (Victoria)
- Mount Gambier
- Olympic Dam
- Port Augusta
- Port Lincoln
- Whyalla

5.3. Port Lincoln, Kingscote, Whyalla and Mount Gambier, the four largest SA centres, are the only communities with services to and from Adelaide by more than one airline. Those four destinations account for around 80% of all SA regional passenger movements and range from 40,000 – 100,000 passenger movements per year.

5.4. Of the remaining six single-operator routes, only Olympic Dam and Broken Hill generate movements in excess of 20,000. The other four, Ceduna, Coober Pedy, Port Augusta and Mildura are all in the 5,000-10,000 passenger movements per year range.

5.5. All routes are now operated by twin turbine engine powered aircraft with the exception of some 9-seat piston engined Piper PA35-350 Navajo Chieftain aircraft operated by Emu Airways to Kingscote and by Airlines of SA to Port Augusta. Emu Airways also operate 9-seat piston engined Cessna C402B aircraft on some flights to Kingscote.

5.6. Not included above is a program of weekly scheduled flights operated by Airlines of SA to a series of outback stations and communities between Leigh Creek and Boulia in Queensland. These flights are part of the Commonwealth's Remote Air Service Subsidy Scheme to which the State Government contributes, and are further described in section 10.

[3] These airlines, their aircraft, routes, frequency and capacity, together with reported passenger movements in 2000 and 2001 are tabled as Attachment B

5.7. High frequency small aircraft freight charters are operated overnight between Port Lincoln and Adelaide to position live rock lobster shipments for export. These are operated by various charter companies and by some of the scheduled airlines using their overnight aircraft downtime. These programs have operated for many years and are generally considered adequate for their purpose, although the Port Lincoln Airport runway was rebuilt in 1999 partly in order to be able to accommodate larger freighter aircraft.

5.8. Only very small quantities of air freight are carried on other regional routes in SA but the rapidly expanding aquaculture industry is expected to generate further demand for air freight capacity, particularly from the Eyre and Yorke Peninsulas.

5.9. SA based charter operators also provide tourism and special purpose charters to a wide range of destinations throughout the State. Special purpose charters include twice fortnightly closed charters for Flinders NRG between Adelaide and Leigh Creek which have replaced the scheduled services withdrawn by Airlines of SA, and SANTOS' long-standing Moomba charter program currently operated under contract by National Jet Systems.

5.10. Alice Springs based PY Air provides charter air services between Alice Springs and the Anangu Pitjantjatjara lands in the north of South Australia.

6. ADEQUACY OF COMMERCIAL AIR SERVICES IN REGIONAL AND RURAL SA

6.1. It has been argued by successive SA Governments that their decision not to implement economic regulation of the intrastate aviation market has resulted in positive outcomes for regional communities. Studies by the Director-General of Transport in 1990[4] and by Mr Paul Duldig in 1996[5] supported that view, at least for the periods for which the studies were carried out.

6.2. The 1990 study showed:

- *"a significant increase in the number of services offered in the South Australian air passenger markets";*
- *"the development of new single-firm routes, providing a number of centres with services for the first time and increasing the frequency of services to other centres";*
- *"scheduling departure and arrival times to fill empty slots and offering promotional fares in the most competitive markets";* and
- *"evidence of market contestability, and therefore efficiency."*

6.3. This was a period, however, during which there was very high turnover of operators experimenting in a newly deregulated market to a large number of new destinations.

[4] "The South Australian Airline Market in the 1990s" James Crowley & Christopher Findlay, University of Adelaide

[5] "The Dynamics of Intrastate Aviation Competition in South Australia" Paul Duldig, University of Adelaide

6.4. The 1996 study concluded that:

- *"It appears that intrastate aviation deregulation in 1979 in South Australia has been a qualified success. The implication of this for public policy with respect to intrastate aviation markets is that the calls by some for re-regulation can not be supported by the evidence of the impact of deregulation on the SA intrastate market."* Mr Duldig also stated *"the SA intrastate aviation market appears, despite high turnover, to be able to support at least 10 commuter airlines. The names, owners and aircraft used often change, but the network coverage appears to have reached equilibrium."*

6.5. This study was based on data and schedules up to 1992 only. It has been during the period since 1992 that the most significant route and operator attrition has occurred.

6.6. Up until 1999, route attrition mainly occurred where least community impact was involved. Although a large number of routes were discontinued, in the most part they either involved communities with reasonable road access to Adelaide (like Port Pirie, only 227 kilometres from Adelaide); communities in close proximity to a larger communities with air services (like Parndana, American River and Penneshaw to Kingscote on Kangaroo Island, Tumby Bay and Cummins to Port Lincoln, Minnipa to Wudinna, Andamooka to Olympic Dam; etc); or extremely small communities such as Tarcoola.

6.7. After 1999, service losses accelerated, with some lost to communities where there was either no alternative public transport available (Leigh Creek), or considerable enroute bus or private vehicle transit times were required (Wudinna, Cleve and Woomera all requiring bus transit times of 6 to 8 hours). Generally, however, reasonable transport alternatives to withdrawn services existed (Renmark - 255 kilometres from Adelaide, or Streaky Bay - 109 kilometres from Ceduna, for example).

6.8. No new routes were implemented during this period.

6.9. This accelerating rate of regional air service withdrawals has been caused by a number of factors including declines in regional populations, road and vehicle improvements, heavily discounted interstate fares diverting traffic from regional destinations to interstate ones, greater use of electronic communications and increased operating costs.

6.10. With regard to increased operating costs, SA regional airlines and charter operators have reported that they are suffering a range of unprecedented cost pressures. These are significantly affecting their viability and therefore the outlook for regional air services across the country. They include, but are not confined, to:

- **CASA compliance**: The regulatory changes described above whereby the Commonwealth took the decision in 1967 to allow third-tier carriers to operate low cost "airline" services under 'Supplementary Airline

Licences', are effectively being reversed. Evolving requirements of low capacity operators such as systemic safety management systems and crew fatigue studies, plus the cost of gaining and renewing CASA certification, are resulting in increasing compliance costs and less difference between third- and second-tier carrier costs. As an example of the burden of CASA certification cost, a South Australian Operator was recently invoiced $34,000 by CASA for the cost of upgrading its Low Capacity RPT Aircraft Operator's Certificate to include turbine powered aircraft.

Proposed new regulatory changes (CASR 121B) will add further to small carrier costs and there is widespread industry concern that the changes will make the 9-seat piston engined aircraft presently serving the thinnest routes unviable to operate. The age of these aircraft and the need to replace them is an issue in itself, but there is presently no affordable alternative aircraft available to their operators.

- **Airservices Australia cost**: SA regional airlines all cited this as a major cost pressure, but in fact the withdrawal of the Avgas fuel levy in 1998 and the exemption of aircraft under 15 tonnes maximum takeoff weight from enroute navigation charges, has reduced it in relative terms for small operators. However, Airservices Australia's implementation of location specific Terminal Navigation and Rescue & Fire Fighting charges has resulted in these charges being far higher at smaller gateway airports than at the larger gateways. While this might result in overall charges being lower for national operators whose flights are concentrated on the larger gateways, it disadvantages regional operators whose services are hubbed on a smaller gateway like Adelaide. Airservices' charges at Adelaide for a regional airline 19-seat Jetstream 32 aircraft are nearly three times those at Melbourne, for instance:

Airport	**Airservices Charges per Flight**	**Airservices Charges per Passenger[6]**
Adelaide	$91.36	$5.66
Perth	$72.69	$4.50
Brisbane	$47.19	$2.92
Sydney	$40.50	$2.51
Melbourne	$33.37	$2.07

- **Maintenance and overhaul**: These costs have been heavily impacted by US$ and UK£ exchange rates and cost increases implemented by suppliers. Regional airlines have reported that budgeted costs have been significantly exceeded in most cases which make recovery of the unbudgeted amounts difficult.

- **Lease and finance costs**: These costs have also been heavily impacted by US$ and UK£ exchange rates and affect both existing leases and aircraft replacement costs. Aircraft replacement costs have also been increased by

[6] Charge per passenger assumes 80% of available seats are occupied

changes to the Commonwealth's aircraft depreciation and capital gains tax regime made in 1999.

- **Fuel costs**: The cost of both Avgas and Avtur has increased at an annually compounded rate in excess of 8% over the last five years. The overall transport component of the CPI increased by less than 2% over the same period.

- **Pilot shortages and training costs**: Regional airlines continue to bear the cost of replacing pilots lost to larger airlines. One SA regional airline has reported losing 17 pilots over the past 12 months at a replacement training cost of $5,000-$10,000 per pilot.

- **Host airline costs**: Hosting by a major airline (described in section 9) is important to the viability of some routes. The cost of this, including CRS/frequent flyer plan hosting and airport ground handling has been reported to be over $40,000 per month.

- **Airport Charges**: All the airports in SA receiving regional services levy movement charges, except Olympic Dam which does not. Kingscote, Port Augusta and Mt Gambier have not increased charges over the past five years except to include GST. Ceduna, Coober Pedy, Port Lincoln and Whyalla have all increased charges by relatively minor amounts but significantly more than the CPI change over the period. Adelaide Airport's charges have increased very significantly since the Commonwealth lifted the cap on aeronautical pricing in October 2001 following Ansett's collapse, but charges to regional operators have not been increased.

6.11. Regional councils in SA consider that the disadvantage to communities which lose scheduled air services is significant. They have reported that it affects their access to services such as medical specialists travelling between Adelaide and their hospitals; country patients travelling to Adelaide for treatment; lawyers, judges and court services travelling to circuit courts; school teachers travelling to and from country schools; students travelling to and from city schools; regional businesses' access to sales, legal and accountancy services and country residents' access to the Capital generally. In some cases the services are important to the development of regional tourism and relatively minor amounts of perishable or high-value express freight are carried. The actual scale of the disadvantage is yet to be quantified.

6.12. In the current cost climate and depressed market conditions airlines are exceptionally risk-averse and unwilling to take on the cost of developing new routes. For instance, the South Australian Tourism Commission has long sought an operator to provide connecting services between the Ayres Rock Resort and Coober Pedy. These destinations offer complimentary tourism experiences and market surveys carried out for the Commission suggest that international tourism product involving entry through east coast gateways to Yulara then a routing through Coober Pedy to exit from Adelaide, if appropriately priced and promoted, could quickly justify the connecting regional air service required. No

airline has so far been willing to share the risk of developing such a service with Coober Pedy tourism operators and the Commission.

6.13. Policies have therefore been directed, in the current climate, towards the maintenance of existing routes. The policy interventions by the State Government in this regard are described in the next section.

7. POLICIES AND MEASURES REQUIRED TO ASSIST IN THE DEVELOPMENT OF REGIONAL AIR SERVICES

7.1. The State Government's assistance programs for the regional aviation sector are described in section 10 – 'The Role of All Three Levels of Government in Supporting and Assisting the Development of Regional Air Services and Island Transport Systems'.

7.2. In addition to these, the State Government, in view of the accelerating rate of service withdrawals from regional routes, has reversed the policies of the last twenty-three years and legislated provision for a system of State route licensing. The *Air Transport (Route Licensing – Passenger Services) Act 2002* which was passed by Parliament on 27 August 2002 and is expected to be proclaimed in the near future.

7.3. The legislation will enable the State Government to declare intrastate regional routes after consideration of certain criteria to ensure that doing so is in the public interest, then offer licences to operate the routes through a competitive process. A licence will be required to operate scheduled services on a declared route but not charter services, which generally cater to a distinct and separate market.

7.4. The State Government intends to apply this power only on the thin single-operator routes to encourage operators to maintain or establish air services on them. It is not intended that routes will be declared which are large enough to support competing services, or even those that are large enough that the State Government can be reasonably sure, in the absence of a declaration, that another operator will implement services if the existing operator withdraws.

7.5. This is intended to increase the confidence of small operators in making the start-up investment necessary in gaining CASA certification or acquiring aircraft etc, in order to implement services on a marginally viable route. It may also assure an operator prepared to enter an unviable market that can be developed to profitability that a competing operator will not enter the market once the initial operator has achieved profitability on the route.

7.6. This has most application to small scale owner-operators with low levels of capitalisation and limited resources to undertake risk.

7.7. The legislation also makes it absolutely explicit that the State Government is taking on no role in the adjudgement of a licensed operator's operational capability or safety, matters which remain entirely the responsibility of CASA.

7.8. It is clear that new policy interventions may be required at all levels of government in the current circumstances. Options have been canvassed by the Aviation Working Group in its report to the Standing Committee on Transport (SCOT) and to the Australian Transport Council (ATC) which mainly relate to ways in which the Commonwealth may mitigate the effects of its policies on the cost pressures on regional airlines. This has led to the commissioning of the Bureau of Transport and Regional Economics to undertake a study of inter-regional public transport services, to which appropriate agencies of the State Government are contributing.

7.9. Stage 1 of the study, to be completed in September 2002, is to scope the policy framework which should be in place to govern the provision of public transport services connecting regional Australia.

8. THE ADEQUACY OF COMMERCIAL AIR SERVICES TO KANGAROO ISLAND AND THE ADEQUACY OF ALTERNATIVE SEA SERVICES

8.1. The only 'major populated island' in SA to be considered in this submission is Kangaroo Island.

8.2. It has a small population in relation to the number of passenger movements generated between Adelaide and the Island, because of the success of the Island as a local, interstate and international tourism destination. Although the resident population of the Island is only 4,400[7], air passenger movements in 2001 between Adelaide and Kingscote totalled over 74,000 and ferry passengers 274,000.

8.3. Two airlines presently compete on the route, providing a total of up to eight return flights per day and a total of 56 flights per week. This frequency is 12.5% lower than that offered prior to Ansett's collapse. However, seats offered have fallen only 10.6% because Emu Airways is progressively replacing its 9-seat aircraft on the route with 19-seat Beech 1900C aircraft. The implementation of new schedules by Regional Express, the purchaser of Kendell Airlines, is expected to result in further increases in total capacity as the market recovers.

8.4. As recently as five years ago, four airlines operated scheduled services between Adelaide and four communities on Kangaroo Island (Penneshaw, American River and Parndana in addition to Kingscote). The market has proved difficult to serve because of its seasonality, high proportion of relatively low-yield leisure traffic and the uni-directional flow peaks resulting from large numbers of day-trip passengers. This has resulted in a high turnover of carriers and the current circumstance of all scheduled flights by only two carriers being concentrated at Kingscote.

8.5. Present scheduled capacity, augmented by charter flights to Kingscote and other airstrips on the Island, is adequate given the current state of the passenger

[7] 2001 Census data

market, but tourism and resident interests are keen to ensure that competition is maintained on the route.

8.6. Sea ferry services between Kangaroo Island and the mainland are currently operated by Sealink, on the 19 km Penneshaw to Cape Jervis route. The two-vessel Sealink service carries passengers, freight (including dangerous goods) and vehicles.

8.7. Overall, Kangaroo Island is well served by sea in terms of frequency for both passengers and freight (up to 11 passenger sailings per day during the high season and 6 sailings per day during the low season), although fares are perceived as generally high. The perception of high cost can in some part be attributed to the need to carry dangerous goods to/from the Island, as well as the need to provide a reliable service frequency and the consequently high vessel design requirements associated with the severe sea conditions sometimes experienced in Backstairs Passage and Investigator Strait. In addition, there is significant excess ferry capacity during off-peak seasons.

8.8. The State Government presently provides a declining freight subsidy scheme to Kangaroo Island producers. In 1995, following the cessation of the State Government provided Island Seaway shipping service to Kangaroo Island, the State Government put in place an economic development package for the Kangaroo Island community, which included provision of a ten year annually reducing freight subsidy scheme which commenced at $8 per linear metre of freight and reduces by $0.80 on 1 April each year. The subsidy is currently set at $2.40 per linear metre and will reduce to zero on 31 March 2005.

8.9. The State Government's economic development package also included funding for road improvements providing access to and on Kangaroo Island and to upgrade the ferry ports. Some $26m has been spent on improvements to the Noarlunga-Cape Jervis road and to seal the South Coast Road and West End Highway on Kangaroo Island. $2.5m has been spent on improvements to the ferry terminal at Cape Jervis and the port at Penneshaw to accommodate expanded Sealink ferry services.

8.10. A barge operated by Sea Tow Pty Ltd carries grain from Kangaroo Island to Port Adelaide for AusBulk Limited, the State's grain handler. This service operates for a two month period (January/February) and carries approximately 70% of Kangaroo Island's export grain volumes. The barge does not presently carry any backload freight although opportunities to do so are being assessed.

8.11. In addition, the State Government has called for Expressions of Interest from organisations interested in providing competing ferry services between Kangaroo Island and the mainland. This process is still underway.

8.12. The expanding timber industry on Kangaroo Island has raised concern regarding future port requirements to move approximately 500,000 - 750,000 tonnes of woodchip off the Island each year. Industry members are presently assessing port options on Kangaroo Island associated with Ballast Head (Eastern Cove) (formerly a gypsum export port for CSR).

8.13. While air services to Kangaroo Island provide a competitive alternative to ferry services, they generally compete for different market segments. Anecdotal evidence suggests that there is a higher usage of air travel by interstate and overseas originating visitors, for day-trips for leisure and business purposes and for travel by Kangaroo Island residents generally. Both modes are highly seasonal.

9. INTERCONNECTIVITY BETWEEN REGIONAL AIR TRANSPORT SYSTEMS, MAJOR NATIONAL AIR SERVICES AND INTERNATIONAL SERVICES

9.1. Two of the regional airlines operating in SA, Airlines of SA and O'Connor Airlines, are commercially affiliated with Qantas.

9.2. This affiliation involves hosting in Qantas' distribution system, the provision of passenger on-carriage, ground handling at Adelaide and limited interconnectivity of some passenger handling services. The latter may include the provision of through ticketing and check-in of the passenger and baggage from a Qantas originating city to the regional carrier's destination, but connectivity from the regional carrier to Qantas is less developed.

9.3. O'Connor Airlines may check a passenger's baggage from the regional originating point to the Qantas destination, but the passenger must re-check with Qantas in Adelaide. Airlines of SA has no facility to through-check baggage at all and its passengers must check-in with Qantas in Adelaide as if they are Adelaide originating passengers. Neither carrier has any interconnectivity of passenger services with any other carriers and neither carries significant quantities of freight.

9.4. Emu Airways and Kendell Airlines (now Regional Express) are currently unaffiliated and have no interconnectivity of passenger or freight handling services with other carriers.

9.5. No through fares are offered between international or interstate cities and regional points. The regional airline sectors are in all cases provided at additional fares as published by the regional airline involved.

9.6. The timetable connectivity between regional and interstate and international carriers varies by airline and route. In general there is good connectivity in Adelaide between regional and interstate flights, but most regional flights do not connect to Garuda and Cathay Pacific morning international departures from Adelaide. All international flights arrive in Adelaide between 6am and 9:30am and connect to all regional destinations.

10. THE ROLE OF ALL THREE LEVELS OF GOVERNMENT IN SUPPORTING AND ASSISTING THE DEVELOPMENT OF REGIONAL AIR SERVICES AND ISLAND TRANSPORT SYSTEMS

10.1. The State Government's assistance to the regional aviation sector presently consists of:

- Participation in the Commonwealth's Remote Air Service Subsidy Scheme. The State Government contributes, with the Queensland Government, to the subsidisation of a weekly passenger, freight and mail air service between Leigh Creek and Boulia in Queensland. The flights service 13 stations and communities along the Birdsville and Strzelecki Tracks. The SA and Queensland Governments are the only state governments which contribute to the national RASS Scheme.

- Funding of a SA Patient Assistance Transport Scheme, which provides financial assistance to people needing transport to access acute and tertiary health services not available within their community. This includes use of regional air transport.

- Provision of a comprehensive airport inspection and reporting officer training scheme together with the Local Government Association of SA Mutual Liability Scheme. The scheme includes seventy airports and airstrips operated by Councils, Progress Associations and State Government agencies throughout the State and aims to ensure that these airports are managed and maintained to appropriate safety standards.

- Transport SA produced a Regional Airport Strategy in 2000 which provides for a Regional Airport Support Program of cooperative funding with airport operators. To date the Program has been limited to the upgrading of remote airstrips required for basic community access and to support tourism events associated with the "Year of the Outback 2002". However, State Government funding for regional airports has been accessed from a range of agencies and programs over the last ten years, amounting to $2.47m in aggregate.

- The State Government has also made legislative interventions to assist the sector. In 1998 it had become apparent that Councils operating aerodromes lacked sufficient powers under the Local Government Act effectively to collect movement fees from aircraft operators. This was a national problem arising out of the transfer of aerodromes from the Commonwealth to local governments and the lapse of Commonwealth Air Navigation (Charges) Regulations. The State Government passed the *Aerodrome Fees Act (SA) 1998* which empowers airport operators to extract movement fees from the certificate of registration holder of the aircraft.

- The introduction of the *Air Transport (Route Licensing – Passenger Services) Act 2002* is described in section 7.

10.2. Commonwealth funding for regional aerodromes in SA since its 1991 withdrawal from its roles of regional aerodrome ownership and funding, has been limited to the provision of initial transfer grants totalling $1.84m to some airports to bring them up to a good condition and $2.5m from the Rail Reform Transition Program. Works were carried out in 1998/99 at Port Augusta, Port Lincoln and Ceduna aerodromes – all communities which suffered job losses as a result of the sale of Australian National.

10.3. This funding has only partially filled the gap created by the Commonwealth's devolution of its previous funding role to local governments. Funding in aggregate has been insufficient and has generally not been applied to aerodromes which cannot meet the criteria attached to economic development programs. Those tend to be the aerodromes with insufficient revenue streams to be self-funding and many are deteriorating as major recurrent maintenance and capital works are deferred. Resumption of Commonwealth funding is required.

10.4. In addition, regulatory changes to be introduced by CASA (CAR 139) will raise the standard for aerodromes that accommodate light aircraft charter flights to that required for scheduled flights. This has significant implications for communities which rely on charter services, including many indigenous communities on SA's Anangu Pitanjatjara lands.

10.5. The Commonwealth has devolved other costs from the Commonwealth to users through policies including location-specific AirServices Australia charges which disadvantage users of lower-volume airports, and the recovery of Civil Aviation Safety Authority regulatory costs from users. The effects of these policies are discussed in Section 6 and measures to mitigate them are required.

10.6. Responsibility for the funding of roads providing access to and on Kangaroo Island is divided between the State Government and Kangaroo Island Council as follows:

- Transport SA is responsible for arterial roads on Kangaroo Island (i.e., the Penneshaw to Kingscote road and the Playford Highway from Kingscote to Parndana only). Transport SA is also responsible for the Noarlunga to Cape Jervis Road which leads to the ferry terminal and provides the major access route for passengers and freight to/from Kangaroo Island.

- The Kangaroo Island Council is responsible for the remaining road network on Kangaroo Island but significant State Government funding has been applied over recent times to non-State Government controlled road projects including the sealing of the South Coast Road and the West End Highway (see section 8).

10.7. The ports of Cape Jervis, Penneshaw and Kingscote were removed from the Ports Corp SA sale process and were placed under the care, control and maintenance of Transport SA. The Kangaroo Island Council controls (under lease from Transport SA) a section of land ("Lot 89") at Penneshaw which all ferry traffic must cross.

11. THE ROLE OF MAJOR AIR TRANSPORT CARRIERS IN PROVIDING REGIONAL SERVICES

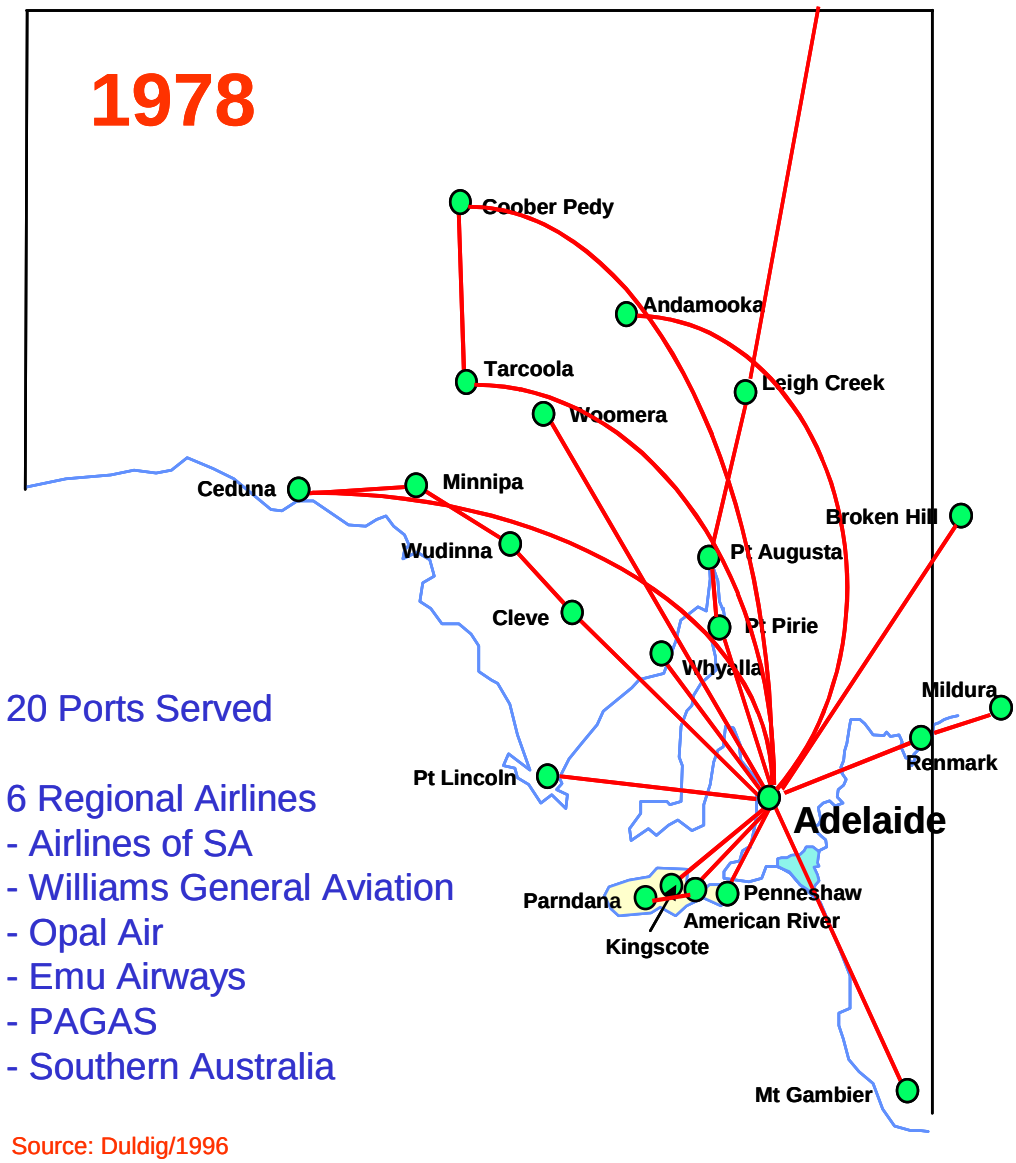
11.1. The major air transport carriers do not provide regional services in SA, other than through the commercial affiliations described in section 9.

11.2. Ansett effectively did so through Kendell Airlines as a direct subsidiary, even to the extent of sharing its code with Kendell Airlines. Since the collapse of Ansett, Kendell has operated without affiliation but it will be important for it to negotiate interline agreements to provide and receive on-carriage to and from Qantas or Virgin Blue Airlines or both as early as possible under its new ownership.

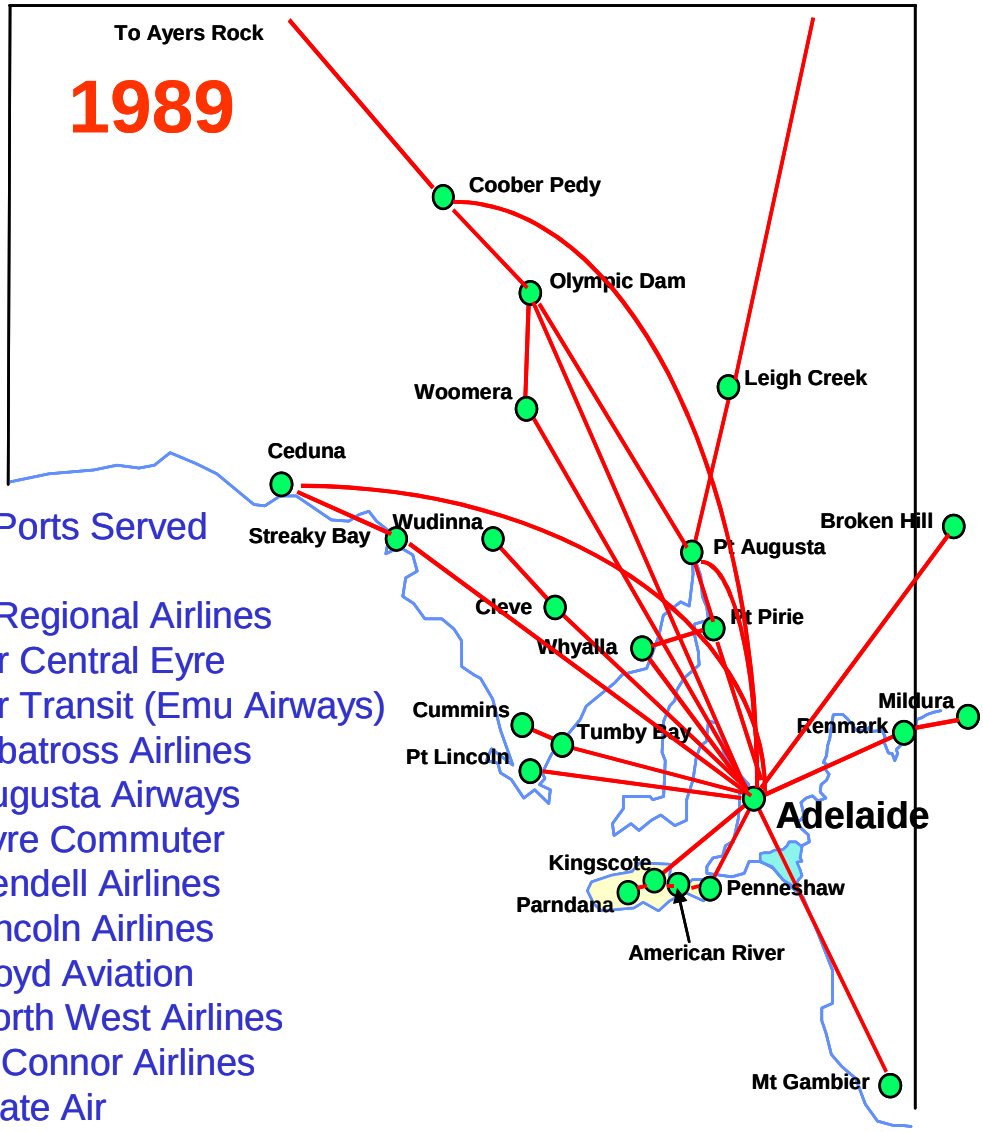
11.3. Qantas has not entered SA regional markets in its own right through QantasLink, although it has flagged that it may elect to do so on some of the larger routes.

11.4. Fuller integration of SA regional carriers with major carriers and their international alliances is important to ensure the distribution of their product in interstate and international markets, and to lessen their dependence on declining local populations.

SOUTH AUSTRALIAN REGIONAL AIRLINE SERVICES



SOUTH AUSTRALIAN REGIONAL AIRLINE SERVICES

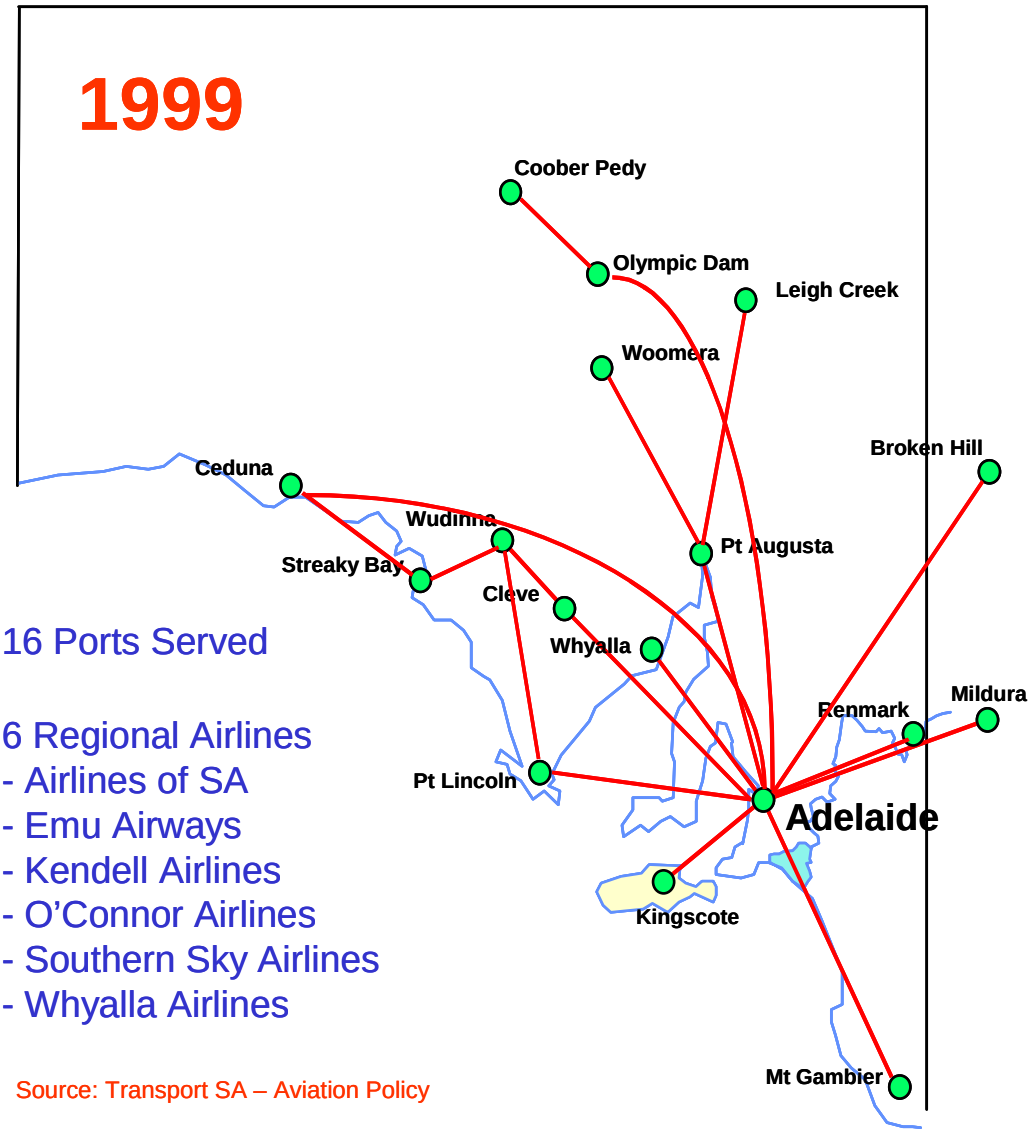


22 Ports Served

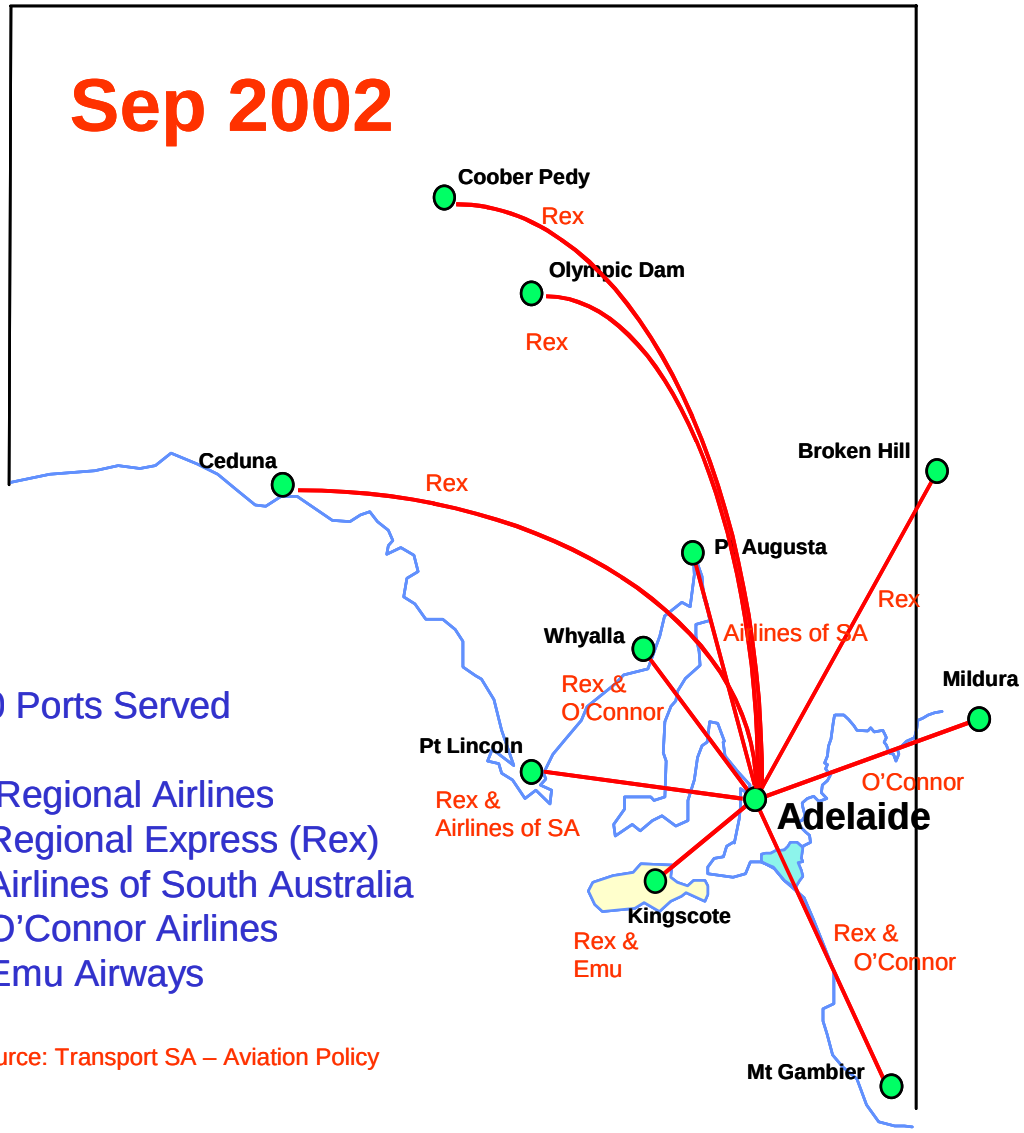
12 Regional Airlines
- Air Central Eyre
- Air Transit (Emu Airways)
- Albatross Airlines
- Augusta Airways
- Eyre Commuter
- Kendell Airlines
- Lincoln Airlines
- Lloyd Aviation
- North West Airlines
- O'Connor Airlines
- State Air
- Sunstate Airlines

Source: Office of Transport Policy and Planning

SOUTH AUSTRALIAN REGIONAL AIRLINE SERVICES



SOUTH AUSTRALIAN REGIONAL AIRLINE SERVICES



SOUTH AUSTRALIAN SCHEDULED REGIONAL AIR SERVICES
SCHEDULED WEEKLY FREQUENCY/CAPACITY AS AT 1 SEPTEMBER 2002

Route	Airline	Aircraft	Seating	As at 1 September 2002			Passenger Movements			Notes
				Schedule	Flts/wk	Seats EWEW	2000	2001	Change	
ADL-PUG	Airlines of SA	PA31	9	2xMo-Fr	10	90	8,778	6,087	-30.7%	
(Port Augusta)	Total									
ADL-PLO	Airlines of SA	EMB	15	4xMo-Th 7xFr 3xSa 5.5xSu	31.5	473	98,286	95,202	-3.1%	
(Pt Lincoln)	Regional Express	SB	34	4xMo-Fr 3xSa/Su	26	884				
	Total				57.5	1,357				
ADL-MGB	O'Connor Airlines	J32	19	4xMo-Fr 1xSa 2xSu	23	437	45,753	45,214	-1.2%	
(Mt Gambier)	Regional Express	Swm	19	3xMo-Fr 2xSa/Su	19	361				
	Total				42	798				
ADL-KGC	Emu Airways	PA31/C402	9	3xDaily	21	189	78,638	74,230	-5.6%	Emu capacity highly variable according to demand. This indicates basic schedule only, and does not reflect frequent X-hiring of additional aircraft and interchange of B1900C aircraft
(Kingscote KI)		B1900C	19	3xDaily	21	399				
	Regional Express	Swm	19	1xMo/Sa/Su 2xTu-Fr	11	209				
		SB	34	1xMo/Sa/Su	3	102				
	Total				56	899				
ADL-WYA	O'Connor Airlines	J32	19	4xMo-Fr 2xSa/Su	24	456	52,764	51,006	-3.3%	
(Whyalla)	Regional Express	Swm	19	4xMo-Fr 2xSa 3xSu	25	475				
	Total				49	931				
ADL-OLP	Regional Express	SB	34	2xMo-Fr 1xSa/Su	12	408	33,034	28,545	-13.6%	
(Olympic Dam)										
ADL-CED	Regional Express	Swm	19	1xTu/We/Th/Su 2xMo/Fr	8	152	10,612	9,738	-8.2%	
(Ceduna)										
ADL-CPD	Regional Express	Swm	19	1xDaily	7	133	5,736	5,460	-5.0%	
(Coober Pedy)										
ADL-BHQ	Regional Express	Swm	19	3xMo-Fr 1xSa/Su	17	323	24,662	21,704	-12.0%	
(Broken Hill NSW)										
ADL-MQL	O'Connor Airlines	C441	9	2xMo-Fr 1xSa/Su	12	108	7,296	7,590	4.0%	Additional routes were operated to Renmark, Woomera, Leigh Creek, Cleve and Wudinna during parts of 2000 and 2001.
(Mildura Vic)										
	Total Frequency/Capacity all routes				**270.5**	**5,199**	**365,558**	**344,766**	-5.7%	The total passenger movements for all routes shown in this table therefore do not reflect the total for all SA regional services.

Source: Schedules: Airline schedules
Passenger movements: DoTRS Avstats