

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Phone: +61 2 6277 3511

Fax: +61 2 6277 5811

rrat.sen@aph.gov.au

Submission: The operation, regulation and funding of air route service delivery to rural, regional and remote communities.

Air services to the Indian Ocean Territories of Cocos and Christmas Islands (IOT's) are the major limiting factor on economic development in both locations. The Federal Government has historically allocated tenders to air service providers based primarily on the need to provide a minimum standard of resident services within operational requirements as set down by CASA and the Department of Transport.

The capacity for tourism development is consequential and not considered as an economic opportunity for Government to reduce unemployment and create the essential environment for the private sector to invest with confidence in the IOT's. This long-standing attitude / policy continues to be dysfunctional and inefficient, denying development opportunities that the private sector will fund when they can do so with confidence in support services.

Regulatory air service inhibitors to the IOT's need to be addressed to create the window for a service level that ensures regular, reliable and cost competitive air services. Current aviation policy as applied to existing air service contracts to the IOT's actually raises the service cost considerably and as the service is underwritten by the Federal Govt, it comes at a cost to treasury.

Reference:

a. Social and economic impacts of air route supply and airfare pricing;

There are significant numbers of training programs carried out on the IOT's to reduce the high levels of unemployment. The eventual outcomes of that training rarely result in tourism related employment because the pool of opportunity is limited to servicing a very small group of tourists at any one time.

Increased and improved access to the IOT's by airlines will increase the number of tourists and therefore create service industry needs such as on island transport, accommodation, food and entertainment and related activities such as bird watching, diving and fishing. The standard of these experiences on the IOT's is world class but the unreliability, requirements to transfer through Perth, confusion and access difficulties mean they are usually overlooked as a destination by tourists resident outside Australia.

For residents of Australia they are faced with an air fare structure to the IOT's that is many times more expensive than holidaying in alternative South East Asian destinations where the local cost of meals and activities etc is also much lower. Currently a return airfare from Sydney or Melbourne to Christmas Island is in excess of \$2500 and involves two Perth stopovers of a minimum 10 hours. No meals and accommodation included. The same expenditure can and does provide Australian citizens with two weeks plus inclusive of airfares, accommodation and meals in a resort environment anywhere in SE Asia.

- b. different legal, regulatory, policy and pricing frameworks and practices across the Commonwealth, states and territories;

The issue of cabotage is the answer to many of the questions raised within this reference. Cabotage is the regulation by which Australian domestic passenger air services are limited to carriers who are owned and operate within Australian air space. I.e. Foreign carriers cannot carry passengers between Australian airports. Note: Air New Zealand provide services from Sydney and Brisbane to Norfolk Island because New Zealand is exempt from cabotage.

Due to the application of cabotage, foreign carriers cannot fly in from the north of the IOT's (Jakarta, Denpasar Singapore or Kuala Lumpur) and carry passengers from Christmas Island to Cocos Islands. They are restricted to carriage from a foreign airport to Christmas Island. Were they able to do so, the extended services would see the return of tourism to the levels that existed when the Christmas Island Casino operated flights from Jakarta to Christmas Island.

As both the IOT's are considered international destinations by Border Force and other Government entities including the ATO, there is considerable merit in waiving the cabotage for inter-island travel, opening the Christmas to Cocos Island sector to foreign carriers from the north. Such consideration may extend to eventually allowing foreign carriers operating down to Perth.

As an alternative, the Australian Govt could consider incentives for their contracted Australian carrier service provider to the IOT's to follow through to a northern destination as part of its contract. In that circumstance, all Australian passengers to the IOT's from the east of Australia could fly direct to that northern airport and connect at far lower costs than now apply under existing arrangements. This would include significant numbers of Govt paid airfares and the accommodation costs associated with flying through Perth

Additionally the concept outlined above may allow airlines to file a northern airport as an "alternate" and therefore help reduce fuel loadings and increase capacity out of Perth. The regulations as they now stand require fuel loads that allow for return to Australian airports and Christmas Island cannot be used as an alternate on the Cocos Island sector because of weather and equipment issues.

- c. How airlines determine fare pricing

Insofar as the IOT's, this is unknown as the contract specifics are not available. It is noted however, that the same aircraft type flying the same distance across Australia as the distance from Perth to Cocos Island, does so at a massively lower total revenue capacity. I.e. Notionally sell every seat on the flight and calculate total revenue, then Perth to Melbourne return yields significantly less (without underwriting or contract) than Perth to Cocos Island which has a contract in place.

- d. the determination of airport charges for landing and security fees, aircraft type and customer demand;

The aircraft type currently in use is adequate, but its operational tasking could be significantly improved. Customer demand is driven primarily by residents and Govt and non Govt passengers in services provision. This captive market will never provide economic growth which must come from fresh and increased demand. The private sector will spend to develop this opportunity but cannot do so in the face of regularly disrupted services ex Perth. The social media is awash with complaints of missed connections, cancelled and rescheduled services, equipment failures and medical conditions requiring air travel which is unreliable.

- e. pricing determination, subsidisation and equity of airfares;

This information is contained within existing Government contracts and no comment is offered.

- f. determination of regulated routes and distribution of residents' fares across regulated routes;

The route is open to free enterprise (see cabotage under b of this submission) but it will never be taken up by Australian carriers on an unsubsidised basis because of regulations, high operational costs and risks plus the established existence of Government underwriting. Fresh and bold recommendations are required to open the window of service provision and allow the private sector to expand services to meet demand. The private sector cannot create the demand, they can only service it.

- g. Airline competition within rural and regional routes

There is no airline competition per se to the IOT's, as the airlines with the capacity and willingness to service the IOT's are foreign carriers denied access to the inter-island sector that would make it all work so more efficiently for tourism. Currently foreign carriers operate into Christmas Island only. One of those is contracted by a private dive business on Christmas Island and the other by an Island business providing a service to the many Chinese and Malay residents of Christmas Island plus disaffected Australian passengers returning to eastern Australia via Kuala Lumpur rather than the less reliable Australian service through Perth.

- h. consistency of aircraft supply and retrieval of passengers by airlines during aircraft maintenance and breakdown;

A constant and ongoing problem as the contractor only has two ageing aircraft of the type suited to this service. There are regular cancellations for operational issues and weather often affects Christmas Island to the extent the carrier has cancelled services without even leaving Perth.

Major runway maintenance for Cocos Islands will allow alternative equipment (737- 600 +) but as the combined seats and cargo capacity are actually lower than current aircraft (A320), there will be an increased pressure on mail medical and perishable foodstuffs delivery that may require more frequent flights to be assigned under future contracts.

- i. all related costs and charges imposed by the Civil Aviation Safety Authority

No comment

- j. any related matters

No comment

Prepared and submitted by (James) Andrew Cameron. Founder of Freightshop, the aircargo service provider to the IOT's and Territories Courier Service, a purchasing and forwarding service for IOT business and residents operating of Perth.

