

**AIRLINES OF TASMANIA**

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*Rural and Regional Affairs and Transport Reference Committee*

Dear Committee,

I am writing on behalf of my company, Airlines of Tasmania Pty Ltd, regarding the Inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities.

Yours faithfully,

Shannon Wells

Managing Director

*Par-Avion*

## Introduction and about us

Airlines of Tasmania Pty Ltd (Air Tas) ACN 009 510 847, trading as Par Avion, is a general aviation company based in Hobart, Tasmania. We are a family business which has been established for over 40 years.

- Own and operate Hobart/Cambridge Airport
- Civil Aviation Safety Authority Air Operators Certificate 225441
  - Regular Public Transport
  - Passenger & Freight Charter
  - Aerial Work (including international operations)
    - Surveillance, Flying Training (CASA CAR 141 pending 142), Aerial Survey
  - Maintenance (CASA CAR 145)
- Registered Training Organisation (40601) including CRICOS (International Student) approval
  - Diploma of Aviation (Commercial Pilot & Command Instrument Rating)
- Aircraft Fleet
  - 17 Aircraft, including 9 Twin engine aircraft and 8 single engine aircraft
    - 2 x Cessna 404 Titan (RPT Standard)
    - 2 x Piper Navajo (Charter)
    - 3 x Britten-Norman Islander (Charter)
    - 2 x Beechcraft Duchess (Charter / Flying Training)
    - 2 x Cessna 206 Stationair (Charter / Flying Training)
    - 6 x Cessna 172 Skyhawk (Charter / Flying Training)
  - Operate 1 Helicopter, with an agreement to access an additional 5 helicopters
- Other Assets
  - Own and operate 3 Boats
  - Own and Operate Wilderness Base Camp ([www.southwestwildernesscamp.com.au](http://www.southwestwildernesscamp.com.au)) in Bathurst Harbour, Southwest Tasmania
  - 2 Public Vehicle (Bus)

We are a diverse company with multiple revenue streams and markets, but in addition are subject to multiple legislative requirements from local, state and federal governments and respective agencies.

## RPT Routes flown, currently and previously

We currently operate a regular public transport flight from Launceston to Cape Barren Island, primarily funded through a Remote Air Services Subsidy Scheme (RASS). However, in recent years we have operated, Melbourne (Essendon) – Griffith & Hobart – Burnie/Wynyard as a RPT service, however due to insufficient revenue, we terminated these services, after incurring ongoing financial losses.

Most of our revenue is based on tourism and flying training, however we have some significant costs due to us being a RPT operator (mainly Part 42 / 145 and mandated safety and quality management processes)

We stress to the committee while we are a RPT operator, we class ourselves as General Aviation company. Many routes in Australia could be flown by aircraft of the size we operate. For example, we have been approached to fly Hamilton – Essendon, Devonport – Hobart, Strahan – Hobart and Deniliquin – Essendon. Due to concerns that we would not be able to make a financial return, we haven't started these routes, despite having surplus aircraft available to operate these routes.

Over our comparatively long history, we have seen a variety of changes within the aviation industry, however in recent years some of our primary issues have been:

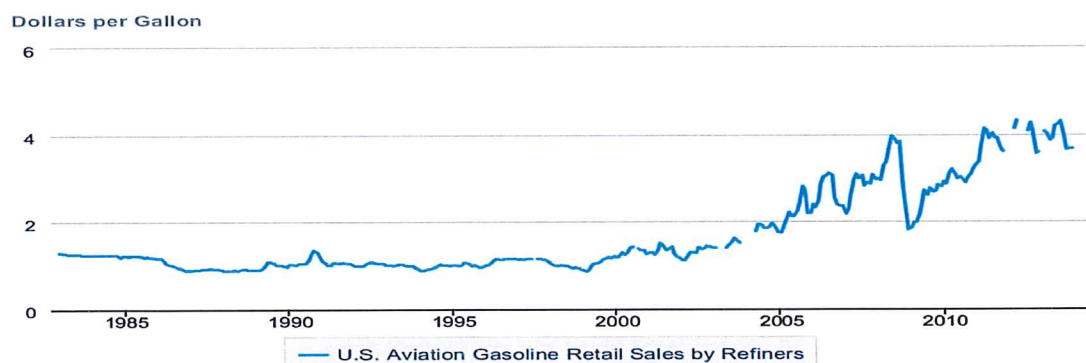
- Increased costs
  - Fuel price (AVGAS)
  - Compliance
    - Staffing
    - Fee for service by regulator / cost recovery
    - New equipment mandated by regulator
    - Manual amendments – “modernisation of regulations”
    - Part 145 / 42
    - Part 135?
  - Third Party private costs increasing
- Changing patterns in demand
  - Customer needs & expectations changing
  - Streamlining of services, technology improvements
  - Prices increase, so demand decrease
- Industry structural issues
  - Skilled labour
  - Aging Aircraft
  - Cost of capital
  - Required rates of return

#### Increasing Costs to Operate.

##### ▪ AVGAS

Our entire fleet is a piston engine-based fleet, meaning we operate of similar fuel to motor vehicles. The cost of this fuel has been increasing over the last 20 or so years. Historical data for Australia is not easily found, however the US Energy Information Administration keeps a record, and the price change would be similar in Australia

#### **U.S. Aviation Gasoline Retail Sales by Refiners**



 Source: U.S. Energy Information Administration

<https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMA EPPV PTG NUS DPG&f=M>

Fuel has tripled in price in these years, however piston aircraft have not experienced any form of fuel efficiency as enjoyed by modern jet aircraft. A Cessna 172 (4 seat trainer) using 35 Litres of fuel an hour, would have had a fuel bill of around \$24.50 an hour in the late 90's to now being \$77 an hour. (In real terms this is an increase of 65%).

Refineries around Australia are being closed, and it is well known that AVGAS days are limited. However, replacement (Diesel) aircraft are far from perfect, especially for known brands like Cessna and Piper, and any replacements, are expensive.

Our larger aircraft require an investment of several million dollars to replace with turbine engine aircraft, and with the uncertainty of regulation in the future (Part 135 see below) this is a difficult decision to make.

- **Compliance**

- **Staffing**

We acknowledge that our company has a diverse range of operations, and has “many hats” however for a company of around 20 staff, we have the following management positions

- CEO / Accountable Manager \*
- Chief Pilot \*
- Chief Flying Instructor \*
- RTO Manager
- Continuing Airworthiness Manager / Responsible Manager Part 42 \*
- Chief Engineer / Responsible Manager Part 145 \*
- Office Manager
- Quality & Safety Manager \*

Starred positions require interview / approval by CASA, as are KEY personnel which effectively can ground the company if vacant. CASA charge us to interview these positions, and these positions require training courses and higher salaries. 10-15 years ago, doing the same operations as we are now, at least 2 positions wouldn't have been required within the management structure.

- **Fee for service by regulator / cost recovery**

As we have transitioned operations from “old CASA rules” to new legislation, the nature of approvals has changed, to be a fee for service approach. For example, our maintenance procedures are under new regulation, however our Air Operators Certificate remains on old regulations. CASA charge us to amend our maintenance processes, but not our Air Operators Certificate processes.

- **New equipment mandated be regulator**

Over the last 24 months, CASA / Airservices have mandated additional instrumentation to be carried on most of our aircraft. This was Airservices wishing to remove ground-based equipment for primarily cost saving measures. This equipment, including new GPS units and new ADSB transponder equipment did not result in any benefit to our operations and was simply a cost. General Aviation receives little benefit from this equipment and was simply a cost to our business. Cost to install on each aircraft was around \$10,000 - \$15,000

In theory, this was done to make airspace more efficient, however in Hobart and the lack of the use of radar being used (despite the well-publicised ministerial directive) we are flying extra track miles to meet the preferences of Jet traffic.

○ **Manual amendments – “modernisation of regulations”**

My staff have spent countless hours amending our existing documents to meet CASA requirements, for example Part 42 / 145, Part 142, and soon to be (whenever it is announced) Part 135.

○ **Implementation of Part 145/42**

- As a regular public transport operator, we have been imposed with the cost of CASA mandating Part 145 and Part 42.
- We have been required to have additional management staff, and follow additional procedures
- Many of our suppliers including services and parts have met these new standards and those who have remained have increased their costs. i.e., engine costs (only 1 in the country for our Cessna 404 Titan) have increased around 20%-30%
- Outside of our own maintenance base, there are limited options for providers who can maintain our RPT aircraft. For example, there is only one maintenance provider in Melbourne who can do this. They have had additional costs to get a Part 145 approval, which has led to their costs to service our aircraft further increasing (i.e., they have had to employ a Quality Manager)
- Whenever we update our exposition, generally we are required to pay CASA for cost recovery
- Our key personnel, must be approved by CASA (with cost)
- Parts on aircraft, which would be ok for NON RPT flying, are not acceptable for RPT flying (older propellers for example)
- This has been covered in the BITRE report, General Aviation Study  
[https://bitre.gov.au/publications/2017/files/cr\\_001.pdf](https://bitre.gov.au/publications/2017/files/cr_001.pdf)

○ **Delay of Part 135**

The merger of RPT and Charter operations has been discussed for nearly two decades, the CASA website itself refers to 1999 (<https://www.casa.gov.au/standard-page/casr-part-135-australian-air-transport-operations-small-aeroplanes>). CASA has been saying that “new rules are coming in the next 6 months” for at least the last 5 years, yet there is still a differentiation between Charter and RPT services. This is leading to inefficiencies in the industry, which need to be addressed. There are many issues here which need to be addressed however the overarching question is:

*What maintenance standard will passenger aircraft be operated under?*

Mandating Part 145 across the entire GA industry will destroy the industry. For example, many maintenance providers will simply exit the industry.

The other issue is that our company is operating on a different cost basis than many of our competitors, and there is some uncertainty around some of the rules, i.e., what airports will Part 135 operators be allowed to fly into. This has been part of the reason for our hesitation to upgrade to turbine aircraft, as we have no certainty as to what the future of the legislation will be, and we are already paying increased costs.

▪ **Third Party private costs increasing**

Over the last 20 years, there has been an increase in costs airlines pay to third parties, this includes, landing fees (airports sold/privatised), airservices fees, security fees. As well as new costs such as CASA medical fees, ASIC fees, Drug and Alcohol Screening.

### Changing patterns in demand

#### ▪ Customer needs & expectations changing

Thanks mainly to the airlines, and the low-cost carrier model, flying is now more affordable than ever. Customers have an expectation that they can fly where they want, when they want, and at a reasonable price, with a higher price point being correlated to a distance further away (i.e., overseas flight), or an improved service (i.e., Business Class). General / regional aviation isn't like this. Economies of scale are difficult to achieve in small aircraft and fare discounting is difficult to achieve

#### ▪ Streamlining of services, technology improvements

In regional areas, NBN has the capacity to replace some air travel. Roads are improving so cars are easier to drive. In Tasmania, air freight services have been consolidated to larger aircraft operated by major airlines. Post GFC, many corporations stopped or restricted charter flights for "budgetary" reasons. Also, government work has slowed down (i.e., charter flights) this is partially due to media exposure (paradoxically, in some instances, it's more expensive to drive when factoring in accommodation, meals etc – however driving seems to be more "socially acceptable".) While this doesn't impact on airfares directly, it results in aircraft having less hours flown a year, become more inefficient and increasing their fixed costs as a proportion of overall cost.

#### ▪ Prices increase, so demand decrease

These increases have led to our company needing to increase hourly rates for aircraft, which in turn lowers demand further.

### Industry structural issues

The recently published BITRE report, study into general aviation, provides a good context for issues for operators of our size, however other issues include:

- Skilled labour
  - Licenced Maintenance Engineers; the average age of engineers in general aviation is aging rapidly and education process for apprentices is not simple
  - Commercial Pilots; while making headlines now, this is an issue which could be addressed if the government investigated making flying training easier and more affordable. **We should NOT need to import pilots on 457 Visas**, but rather we should be training and exporting pilots around the world. We have plenty of airspace to train, we should be using it.
  - Safety / Quality Managers & Continuing Airworthiness Managers; a growing industry, as new CASA regulations require these roles.
- Aging Aircraft
  - General Aviation aircraft are aging; however, replacements are expensive. With limited rates of return, it is difficult to invest funds into general aviation aircraft. Thus, aircraft which probably should have been retired, continue to fly, however at an increased operating cost due to parts being replaced at a higher rate (and cost)
- Cost of capital
  - Finance for aircraft can be difficult to obtain.
- Required rates of return
  - "If you want to be a Millionaire, start with a billion dollars and launch a new airline." - Richard Branson. Aviation is a notoriously difficult industry to make a profit in. Arguably more airlines have shut down to protect themselves from ASIC, rather than shut down by CASA.

## Specific Questions for Terms of Reference

*The operation, regulation and funding of air route service delivery to rural, regional and remote communities, with particular reference to:*

- a. social and economic impacts of air route supply and airfare pricing;  
we acknowledge there is a community benefit in operating an airline route. We would be very happy to expand the routes we operate, however we need to make a financial return
- b. different legal, regulatory, policy and pricing frameworks and practices across the Commonwealth, states and territories;  
we primarily deal only with the federal government and find no differences between states
- c. how airlines determine fare pricing;  
as discussed above
- d. the determination of airport charges for landing and security fees, aircraft type and customer demand;  
we operate Cambridge Airport, fees have been set as a cost recovery, and minimised as much as possible to not affect demand.
- e. pricing determination, subsidisation and equity of airfares;  
pricing as discussed above, we would not operate Launceston – Cape Barren without a subsidy. We would consider opening other routes if there was a subsidy / agreed rate of return.
- f. determination of regulated routes and distribution of residents' fares across regulated routes;  
We provide a "residents airfare" however we are not under a contractual obligation to do so.
- g. airline competition within rural and regional routes;  
We are not in a position to compete directly with any airline on any route we operate. Apart from flights to Melbourne, there is limited capacity for multiple operators for flights to/from or within Tasmania.  
We would not have any competitive advantage to operate aircraft outside of Tasmania against an established and existing airline.
- h. consistency of aircraft supply and retrieval of passengers by airlines during aircraft maintenance and breakdown;
  - a. Part 145 complicates this – as a local airport maintenance provider may not be able to service our aircraft in case of breakdown
  - b. Piston aircraft are less reliable; thus, a second aircraft is usually required to be available, however this also requires crewing considerations
  - c. Passengers have an expectation to get to their destination
  - d. Policies for an "obligation of service" and "hardship" (i.e., providing accommodation) are haphazard, and end up going back onto the ticket price for the customer.
- i. all related costs and charges imposed by the Civil Aviation Safety Authority; and  
discussed above
- j. any related matters.