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Overview

> It is recognised that the regional aviation industry in Australia today is a strong reflection of the Government's competition policies over time … Government taxes and levies … now account for between 25 – 45% of many average airfares.[1]

Introduction

1.1   Regional aviation services are vital to the economic and social well-being and development of Australia's regional and remote communities. To most communities, the local aerodrome is a symbol of their prosperity, and a generator of business in the surrounding region.

1.2   Nearly all communities wish to retain their local airport despite the cost of having them sometimes exceeding their direct income.

1.3   However, the economics of regional air services are posing a threat to their existence, and creating a pressure for their rationalisation.

1.4   The business costs of regional air services have been rising due to a number of factors. Some of the costs have come from the deregulation of the industry and increases in taxes. In combination with rising costs has been a general decline in demand for some air services.

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1   Regional Aviation Association of Australia, submission no. 93, p. 2

Issues affecting regional aviation services

1.5   A regional airline is an airline performing regular public transport services and primarily servicing regional centres.[2] Regional aviation services are taken to mean regional airline services and services provided by regional airports.

1.6   To some extent, the current state of regional aviation services in Australia is a reflection of those policies and regional policy more broadly.

1.7   Regional aviation services grew rapidly in the 1950s when they received significant government funding and regulatory support. However, as part of Australia's microeconomic reform agenda, the Commonwealth sought to improve service quality and reduce airfares. It did this by deregulating the aviation industry and increasing competition commencing in the 1990s. Increased competition in the industry was intended to encourage efficient operators and innovation.

1.8   Initially this strategy appeared to yield benefits. However, a number of factors have combined to impede competition in the regional aviation sector and reduce the ability of the market to operate effectively. Taking their toll on the industry are the economics of marginal routes, competition from alternative means of transport, long term demographic changes in regional Australia, and the recent events of terrorism and the collapse of Ansett.

1.9   Competition policy can only be successful where the market is well developed and the industry structure is sound. Otherwise, government has a role to intervene in the market to ensure the delivery of those services. As the industry currently stands, only Australia's major trunk routes between capital cities and some larger regional centres such as Cairns, Coolangatta and Coffs Harbour can support unbridled competition.

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2   Bureau of Transport and Regional Economics, *Avline*, Issue Two, April 2003, p. 15, http://www.bte.gov.au, last accessed 29 August 2003.

1.10   Market forces tend to fail on smaller routes where passenger numbers are lower and the aircraft serving them are smaller. The economics of operating small aircraft come into play and restrict the supply of air services. This is because as the size of aircraft declines the cost per passenger-kilometre increases. Where aircraft are carrying few passengers the costs begin to outstrip revenue.

1.11   Exacerbating the economics of smaller routes are up to 11 different taxes imposed by the three levels of government.

1.12   State governments have intervened in marginal regional air routes to improve their sustainability and keep the operators in business serving the communities. For example, the New South Wales Government regulates routes with up to 50 000 passengers per annum by allowing only one operator to provide services. In Queensland, the state government uses a competitive tendering system to select the operators for marginal regional routes.

1.13   Remote communities separated from the rest of Australia by long distances or water often do not have an adequate alternative means of transport such as road or frequent shipping services.

Inquiry findings

1.14   The committee found that the key issues affecting regional aviation services were costs, returns, service levels, interconnectivity, the maintenance of country airports, regulation and coordination.

- The costs of operating regional air services are high and rising;

- The returns to regional operators are often low and declining, because their passenger numbers can be small and variable;

- Because of high costs and low returns, the levels of service are often poor in terms of the size of the operating aircraft, the frequency of services and the schedule of services;

- Poor interconnectivity between services exists because of a lack of interline agreements between regional and domestic service operators. The schedules some regional airlines fly do not arrive at appropriate times for passengers;

■ The owners of some country airports are unable to sustain the cost of maintaining their airports, relying on rate payers to meet the shortfall;

■ Aviation safety regulations and the way they are administered impose significant costs on small operators in particular. This is contributing to the decline in the number of regional operators and the level of air services in regional areas. However, to achieve aviation safety outcomes a strong, effective and credible regulator is essential, and there is a need for the Civil Aviation Safety Authority (CASA) to strike the right balance between fostering a culture of safety in the industry and policing the regulations; and

■ A lack of coordination of government policies is creating potentially difficult business environment conditions. For example, all levels of government imposed many taxes on regional aviation services with little regard for the cumulative effect. The Commonwealth's aviation policy, and its other transport and regional policies appeared to be largely independent of one another.

Inquiry background

1.15   On 18 June 2002, the Minister for Transport and Regional Services, the Hon John Anderson MP, wrote to the House of Representatives Standing Committee on Transport and Regional Services, agreeing to refer to the committee an inquiry into the commercial regional aviation services in Australia and transport links to major populated islands.

1.16   The committee pursued this inquiry into regional aviation in the aftermath of significant events of late 2001 that affected global and domestic aviation in all countries, namely the terrorist attacks in the United States and the collapse of Ansett. The committee also wished to link this work with the broader issue of regional development in Australia.

1.17   The committee takes a keen interest in transport and regional service issues, and it has shaped strategic thinking on a number of aspects of transport.

1.18   Some significant works by the committee on surface transport are
        *Beyond the midnight oil, Planning not patching, Tracking Australia, Back
        on track*, and *Moving on ITS*. Significant works on shipping are *Ships of
        Shame*, and *Ship Safe*. In aviation, the committee's significant works
        include *Plane Safe*.

Conduct of the inquiry

1.19   The inquiry was advertised nationally on 3 July 2002. It generated
        considerable interest in the community, receiving nearly 192
        submissions and over 33 exhibits.

1.20   The information received from submissions, exhibits and verbal
        evidence provided the committee with a variety of views and a
        fruitful source of possible policy initiatives. The evidence came from
        state, territory and Commonwealth government departments,
        agencies and statutory authorities, industry peak bodies, lobby
        groups, community groups and individuals.

1.21   The committee conducted 14 public hearings and visits in Launceston,
        Flinders Island, Melbourne, Adelaide, Kangaroo Island, Wagga
        Wagga, Sydney, Brisbane and Canberra. It also conducted an informal
        hearing in Alice Springs and an industry round table on aviation
        safety in Adelaide. The committee heard from 111 witnesses.

Structure of the report

1.22   Chapter 2 introduces the industry, discusses its history and the
        adequacy of current regional aviation services. The regional airline
        industry is currently negotiating a very difficult series of obstacles.
        Some of these obstacles are the result of Australian government
        policy. Others are the result of world events, and long term economic
        and demographic changes in Australia's regions. However, the
        regional airline industry is no stranger to adversity. It has quite a high
        turnover of businesses because of mergers, acquisitions, liquidation
        and bankruptcy.

1.23   Chapter 3 discusses the business environment in which regional
        aviation operates. Factors external to the firms help to sustain them,
        but also threaten their existence. The way each firm operates, its

strengths and weaknesses, are also important to the survival of the firm and the vitality of the industry. These issues set the scene for what government and the industry can do to improve service delivery in the industry.

1.24   Chapter 4 discusses regional aviation services from the perspective of regional communities and how government policy has affected the delivery of air services to those communities. Regional airports are vital infrastructure to the regional aviation industry and to the communities they serve. In larger communities that generate substantial aviation traffic volumes, the local airport is seen as a good source of revenue. However, where traffic volumes have fallen away, the cost of maintaining the airport is imposing costs on the community. Many airports now require improvements to meet higher safety specifications and higher traffic volumes. For these and other economic reasons, there is pressure to rationalise regional airports. It may be time to consider the impact of this policy.

1.25   Chapter 5 is similar to chapter 4 and focuses on Australia's islands and remote communities. These communities are a special case of regional communities in that they are more reliant on regional aviation services, since roads are either non-existent or the distances are extreme. The air links are vital to moving people and time-sensitive freight.

1.26   Chapter 6 discusses government policies for aviation, taxation and purchasing, their coordination and their impacts. Government policy is an important contributor to creating a stable business environment that encourages industry growth and investment. Governments intervene in markets to achieve economic and social objectives. Interventions are often justified on the grounds of improving economic efficiency and equity. Chapter 6 proposes a number of policy developments that are required to reduce costs on regional airline operators and improve their survival prospects, without imposing unreasonable costs on the Australian community.

1.27   Chapter 7 discusses aviation safety regulation. The regulation of aviation safety is vital to preserving public confidence in air services and thereby maintaining patronage. However, regulation and the manner in which it is administered impose costs on operators in the industry. Chapter 7 identifies how administration in particular could be improved to lessen cost impositions on the industry while not compromising the high level of safety that Australia has come to expect.