

Government policies: regulation, and taxes and charges

Introduction

- 6.1 The Commonwealth has moved away from a direct and interventionist role in the Australian aviation industry since late 1990 when it commenced deregulating the industry.¹ The aim of this policy was to encourage efficient operators and innovation.²
- 6.2 With this change in role, the state, territory and local governments assumed greater responsibility for intrastate aviation. This was supported by the Constitution.³
- 6.3 The decision to deregulate interstate aviation was taken in an environment of more certainty than has subsequently existed and at a time when other countries were deregulating their domestic aviation industries.

1 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', pp. 3, 35; Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', pp. x, 21-22.

2 Department of Transport and Regional Services, submission no. 81, p. 3; Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. x.

3 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', pp. 6, 22.

- 6.4 The evidence indicated to the committee that Commonwealth policy has imposed additional costs on the regional aviation industry that it has been struggling to deal with along with other significant pressures on the industry.
- 6.5 The committee formed the view from evidence and discussions with local councils that operate airports that at the time that they assumed ownership of local airports from the Commonwealth they did not have a full appreciation of the costs of maintaining and upgrading their airports. The committee also found that at the time some councils were subject to undue pressure from the Commonwealth to assume full responsibility for their local airports.

Australia's aviation policy

- 6.6 The Commonwealth's aviation policy focuses on safety, security, regularity and efficiency. Regularity and efficiency have been interpreted as relating to safety and navigational issues.⁴ The Commonwealth retains responsibility for safety, air traffic services and Sydney Airport slot management regulation. Relevant law at each level of government controls the commercial activity in the industry.
- 6.7 The Commonwealth aims to set the appropriate business environment through such things as lower business tax rates, low interest rates and low unemployment. In addition, it has a number of business and community support programs and services that indirectly assist businesses to provide services where they are needed.⁵
- 6.8 The network nature of aviation means that government policy interventions in the domestic aviation industry will also impact on the regional aviation sector.⁶

4 Bureau of Transport and Regional Economics (2000), Working Paper 41, '*Regional Aviation Competitiveness*', p. 35.

5 Department of Transport and Regional Services, submission no. 81, p. 8; Bureau of Transport and Regional Economics (2003), Working Paper 55, '*Government Interventions in Pursuit of Regional Development: Learning from Experience*', p. xi.

6 Bureau of Transport and Regional Economics (2003), Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 21.

- 6.9 Government intervention in the market is often justified on the grounds of economic efficiency and equity. Policies aimed at achieving economic efficiency objectives focus on improving social benefits where markets fail to provide the most efficient allocation of resources. Policies aimed at equity objectives address issues such as disparate income distribution and access to services that may exist between different groups in society or regions.⁷
- 6.10 Following the Ansett collapse in 2001-02 and the continuing volatility in the industry, DOTARS set the following market-based objectives for aviation:
- A safe, secure and sustainable aviation sector;
 - Price and service competition for consumers where possible; and
 - Reasonable access to services for regional communities.⁸
- 6.11 Whilst the Commonwealth does not currently have a direct role in economic regulation of the industry, it has several interventions aimed at achieving certain objectives. These are:
- Reduced aviation fuel excise to 2.8 cents per litre (CASA element valued at \$59 million in 2002-03);
 - Subsidy for the transition to location specific pricing for air traffic control towers (valued at about \$7 million per annum);
 - Subsidy for Airservices Australia for enroute charges (estimated to save regional airlines about \$1 million per annum);
 - Protection of regional slots at Sydney's Kingsford Smith Airport;
 - Remote Area Services Subsidy Scheme (valued at about \$3.2 million in 2003-03);
 - Regional Aerodrome Inspection Program;
 - Assistance to the Australasian-Pacific Aeronautical College (about \$4 million over four years, announced in August 2001);

7 Bureau of Transport and Regional Economics (2003), Working Paper 55, 'Government Interventions in Pursuit of Regional Development: Learning from Experience', p. 10; Bureau of Transport and Regional Economics (2003), Working Paper 54, 'Regional Public Transport in Australia: Economic Regulation and Assistance Measures', pp. 11-16.

8 Matthews, K (Secretary, Department of Transport and Regional Services), Speech to Regional Aviation Association of Australia 2002 National Convention, Coolumb, 24 October 2002.

- Rapid Route Recovery Scheme (total of \$23 million to 18 operators that provided support to regional communities); and
 - Exemption from the ‘Ansett Levy’ for small regional airlines with aircraft having 16 seats or less.⁹
- 6.12 All states and territories have some form of economic regulation of regional aviation aimed at ensuring that people living in regional areas have reasonable access to air services.¹⁰

Impact of government policies on the sustainability of regional air routes

- 6.13 Many stakeholders were unhappy with the Commonwealth’s competition and ‘user pays’ policies.
- 6.14 The evidence presented to the committee suggested that limitations on these policies should apply on ‘thin’ regional aviation routes that do not have the same high passenger numbers that occur on routes between larger centres. Thin regional routes do not have effective market forces, which reduces the opportunity for competition to satisfy the consumer.
- 6.15 Most states have or are reviewing their aviation policies in light of the changing aviation environment.¹¹ The policies of the state and territory governments are summarised in Appendix F.
- 6.16 DOTARS provided the following perspective on some of the unintended consequences of subsidising regional aviation services:

The government has taken the view since then [the Ansett collapse]—and, in fact, to a considerable extent before then—that interventions to subsidise regional air services are a very blunt instrument and often do not achieve the results that are intended. Part of this is about squeezing out alternative forms of transport, such as bus operators. Often it ends up being a

9 Bureau of Transport and Regional Economics (2003), Working Paper 54, ‘*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*’, pp. 22-26.

10 Bureau of Transport and Regional Economics (2003), Working Paper 54, ‘*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*’, pp. x, 6, 22.

11 Department of Transport and Regional Services, submission no. 81, p. 3; Queensland Government, submission no. 153, p. 11; NSW Government, submission no. 151, p. 5; Western Australia Government, submission no. 150, p. 5; South Australian Government, submission no. 148, p. 15; Tasmanian Government, submission no. 155, p. 6.

subsidy to an operator rather than the maintenance of a continued provision of services on regional routes. So that has been the challenge.¹²

- 6.17 The evidence indicated to the committee that state and territory government policies address the shortcomings of the Commonwealth's aviation policy as it affects marginal and unsustainable regional routes within state and territory boundaries. For example:
- New South Wales, South Australia and Victoria regulate marginal routes but do not subsidise them;
 - Queensland subsidises the provision of services on marginal routes and it ensures that everyone is within 200 kilometres of an air service; and
 - Northern Territory maintains a number of strategic aerodromes.
- 6.18 The governments of Western Australia, New South Wales and Queensland told the committee that they regulated certain rural and regional routes for public benefit to achieve economic and social outcomes. They also said that their route regulation was not entirely within the framework of national competition principles.¹³

National Competition Policy issues

- 6.19 The committee noted that National Competition Policy (NCP) is intended to improve the economic well-being of Australians and it is not an end in itself. The major benefits of NCP are lower prices, and better choice and service quality for consumers. However, competition is one policy option in a range of policy measures that can be used to improve the well-being of Australians.¹⁴

12 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 650.

13 Western Australian Government, transcript of evidence, Canberra, 10 September 2003, p. 740; Queensland Government, transcript of evidence, Brisbane, 12 June 2003, p. 673; New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 521.

14 Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

- 6.20 The Commonwealth recognises that where competition is not effective in delivering consumer benefits because of a market failure, government intervention is justified to achieve economic and social objectives. This is given effect by the public interest test in the Competition Principles Agreements (clause 1(3)) that states and territories have signed with the Commonwealth.¹⁵
- 6.21 When states and territories propose new legislation that restricts competition, such as is occurring with some regional routes, they are required to provide evidence of a net benefit to the community from the legislation, under clause 5 of their Competition Principles Agreements. Governments must demonstrate in their periodic NCP compliance assessments that the restriction of competition is in the public interest and that it provides a net community benefit. Governments must also review their restrictive legislation every 10 years.¹⁶
- 6.22 The factors that state and territory governments might use to argue their case for restricting competition are social welfare and equity, and economic and regional development.¹⁷
- 6.23 Following the August 2001 Regional Statement, the Commonwealth announced that it proposed to strengthen the public interest test of the NCP by specifically requiring policies to be assessed against the interests of rural and regional communities.¹⁸
- 6.24 At the time of writing, the Commonwealth had not strengthened the public interest test.¹⁹ However, states and territories have arrangements for the scrutiny of restrictive legislation.²⁰

15 National Competition Council, '*Legislation Review: Public Interest Test*', <http://www.ncc.gov.au>, last accessed 15 September 2003; Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

16 National Competition Council, '*Assessments: Publications, 2002 Assessments of governments*' progress in implementing the National Competition Policy and related reforms – Volume One: Assessment', pp. 2.1-2.2, 2.6-2.13, <http://www.ncc.gov.au>, last accessed 16 September 2003.

17 National Competition Council, '*Legislation Review: Public Interest Test*', <http://www.ncc.gov.au>, last accessed 15 September 2003.

18 Commonwealth National Competition Policy Annual Report 2000-2001, <http://www.treasury.gov.au>, last accessed 12 September 2003.

19 National Competition Council, communication with secretariat, 15 September 2003.

20 National Competition Council, '*Assessments: Publications, 2002 Assessments of governments*' progress in implementing the National Competition Policy and related reforms – Volume One: Assessment', pp. 2.11-2.13, 5.93-5.94, <http://www.ncc.gov.au>, last accessed 16 September 2003.

- 6.25 While the committee recognises that the current measures in place enable states and territories to regulate regional aviation markets in the public interest, the committee is concerned that the Commonwealth recognises that exceptional circumstances exist in certain regional aviation markets in its review of state and territory compliance with NCP.
- 6.26 The committee notes that competition policy is not about the pursuit of competition for its own sake. Rather, it seeks to achieve efficient resource use and maximum community benefit.²¹ In the context of regional aviation, community benefit can be measured in terms of the community's ability to maintain access to regional aviation services on reasonable terms. This access, in turn, provides regional and rural communities access to services that satisfy a range of social and economic requirements.

Recommendation 15

- 6.27 **The committee recommends that the Commonwealth:**
- **Recognise the exceptional circumstances that exist in regional aviation markets in its review of state and territory compliance with National Competition Policy, and agree to states and territories regulating intra-state regional aviation markets where such exceptional circumstances exist; and**
 - **Strengthen the public interest test of the National Competition Policy by specifically requiring regional aviation and island transport policies to be assessed against the interests of rural and regional communities.**

21 Department of Treasury, 'Commonwealth National Competition Policy Annual Report 2000-2001', pp. 6-7, <http://www.treasury.gov.au>, last accessed 10 October 2003.

Other policy issues

- 6.28 Some stakeholders have suggested that Commonwealth policies can contribute to increased costs. Such policies are the deregulation of the domestic aviation industry, safety regulations, taxation arrangements, competition policy, the privatisation of airports, and the transfer of local airports to local government. The cost of additional security at regional airports has yet to be fully realised.
- 6.29 While the costs arising from each government policy are relatively small, when combined they can add up to 50 per cent of a regional airfare.²²
- 6.30 Rex told the committee that many of its regional passengers are paying up to 11 taxes from the three levels of government as part of airfares. The taxes range from departure head tax, payroll tax and stamp duty to fuel tax.²³
- 6.31 For its part, Commonwealth-imposed costs are as follows:
- Airservices costs are about 4.3 per cent;
 - Airport landing and terminal charges are about 6.2 per cent;
 - GST is nine per cent;
 - A noise levy of about \$3.60 also applies at Sydney and Adelaide airports; and
 - The terrorism insurance levy ranges from \$2.50 to \$10.²⁴
- 6.32 The committee found that the cost to industry of complying with aviation safety regulations administered by CASA is significant.

22 New South Wales Government, transcript of evidence, Sydney, 8 May 2003, p. 528.

23 Regional Express, transcript of evidence, Sydney, 8 May 2003, pp. 555, 559.

24 Queensland Government, submission no. 151, p. 5; Regional Express, submission no. 116, p. 9; Australian Airports Association, submission no. 70, p. 9; Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, pp. 233-234; National Farmers Federation, submission no. 139, pp. 6-8; Regional Aviation Association of Australia, submission no. 3, p. 3; Macair, transcript of evidence, Brisbane, 11 June 2003, pp. 597-598; Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, pp. 707-708; Paul Bredereck, transcript of evidence, Brisbane, p. 640; Airservices Australia, submission no. 119, p. 6; New South Wales Government, submission no. 151, p. 5; Department of Transport and Regional Services, correspondence with secretariat, 30 June 2003.

- 6.33 In addition to these significant costs, the committee found costs imposed at the local level that also add to the cost of a ticket, such as:
- Passenger head taxes;
 - Landing charges; and
 - Ground support charges.
- 6.34 In short, the committee formed the opinion that certain aspects of the ‘user pays’ policy require attention, particularly where it imposes significant costs on regional operators and their passengers.

Government coordination of aviation policy

Concerns about national aviation policy

- 6.35 Coordination of policies by the different levels of government in Australia was a general theme in the evidence. The concerns appear to arise from a lack of satisfaction with the Commonwealth’s aviation policy and responses to regional aviation issues by the different levels of government.
- 6.36 However, industry and community concerns appear to stem from an incomplete understanding of what mechanisms are in place and how they work.²⁵ Also, government policies are often reactive rather than proactive.
- 6.37 Commonwealth, state, territory and local governments share responsibility for aviation policy and the delivery of some aviation services. The aviation policies of states and territories address market failures within their boundaries.
- 6.38 Under the Australian Constitution (section 51), the Commonwealth has responsibility for trade and commerce among the states. The states and self-governing territories are responsible for intra-state trade.

²⁵ Latrobe City Council, submission no. 25, p. 10; East Gippsland Shire Council, submission no. 92, p. 7; Shire of Derby / West Kimberley, submission no. 24.

- 6.39 The current national aviation policy is deregulation to encourage efficient operators and innovation. Each state and territory has its own aviation policy (see Appendix F). At the local level, councils own and operate airports and set their pricing and access policies.²⁶
- 6.40 The AAA, Mildura City Council, Adelaide Airport, Dubbo City Council, Paul Bredereck and the Western Australia Government called for a national policy for the aviation industry.
- 6.41 The AAA, Mildura City Council and Adelaide Airport (the latter two stakeholders are members of AAA) put the onus on the Commonwealth to lead the formulation of a national aviation policy that is inclusive of all stakeholders²⁷:
- ... it is clearly the responsibility of the Commonwealth Government to initiate a consultative process and to play a leadership role in policy formulation.²⁸
- 6.42 The AAA went on to say that state and territory initiatives should complement Commonwealth initiatives. The state and territory initiatives should be tailored to the needs of communities. This might include financial assistance to some routes and legislation to restrict competition in certain routes to fulfil community service obligations.²⁹
- 6.43 State and territory aviation policies address community needs as those jurisdictions see fit, as described earlier.
- 6.44 Paul Bredereck said the Commonwealth should have greater proactive involvement in aviation policy formulation, and indicated that policy should recognise the needs of small regional communities and involve them in policy formulation³⁰:
- ... there is a need for a greater level of Commonwealth involvement, probably even to the level of a national aviation policy that incorporates the smaller regional communities.³¹

26 Department of Transport and Regional Services, submission no. 81, p. 3.

27 Australian Airports Association, submission no. 70, p. 7; Mildura City Council, submission no. 91, p. 3; Adelaide Airport, submission no. 8, p. 1.

28 Australian Airports Association, submission no. 70, p. 7.

29 Australian Airports Association, submission no. 70, p. 7.

30 Paul Bredereck, submission no. 42, p. 5.

31 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640.

- 6.45 Evidence from the Queensland and the Northern Territory governments called for a national aviation strategy and for the Commonwealth to better coordinate the delivery of aviation services and the industry's development. It was claimed that the Commonwealth's 'leave it to the market' policy is insufficient.³²
- 6.46 In contrast, the Queensland Government took the view that the policy framework and machinery were suitable. However, obtaining agreement amongst the various parties at Commonwealth, state and territory levels was an issue.³³
- 6.47 The RAAA accepted that there was a national aviation policy of deregulation, while the policy of the states and territories was to address market failures:
- We already have a national aviation policy, which is a federal policy, which is a totally deregulated, free market system. However, that is not the states policy. So we have a system whereby from a federal perspective we have an open skies policy, from a states perspective we have in most cases a protected environment and from a local government perspective we have local organisations that own the airports and are responsible for the provision and upkeep of those services and are, of course, looking to recover the cost of those.³⁴
- 6.48 Qantas was broadly satisfied with the current Commonwealth aviation policy arrangements.³⁵

Machinery of government arrangements for aviation policy

- 6.49 The government 'machinery' for addressing aviation policy issues is:
- The Australian Transport Council (ATC), a forum for Commonwealth, state, territory and New Zealand Ministers to consult and provide advice to governments on the coordination and integration of all transport policy issues at a national level;³⁶

32 Queensland Government, submission no. 153, p. 3; Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 10; Western Australia Government, submission no. 150, p. 22.

33 Queensland Government, transcript of evidence, Brisbane, 12 June 2003, pp. 679-680.

34 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

35 Qantas Airways Limited, submission no. 146, p. 9; Paul Bredereck, submission no. 42.

36 Australian Transport Council, <http://www.atcouncil.gov.au>, last accessed 2 July 2003.

- The Standing Committee on Transport (SCOT), which comprises the relevant government agency heads from the Commonwealth, states and territories.³⁷ The National Aviation Working Group deals with aviation issues for SCOT; and
- The network of 56 Area Consultative Committees across rural and metropolitan Australia that provide advice on regional issues to the Commonwealth.³⁸

6.50 The committee considered that Australia has a national aviation policy and that the machinery for aviation policy formulation is appropriate. The machinery has a forum for the political leaders from the Commonwealth, state and territory levels of government – the ATC. It has a forum for the administration leaders – SCOT. The community has input to policy formulation through the Area Consultative Committees.

Attention to regional aviation issues

6.51 In September 2001, SCOT had proposed that the ATC consider nine key policy recommendations aimed at improving regional aviation services. The ATC did not consider these issues due to the Federal election.³⁹

6.52 Since September 2001, the industry has been dealing with the aftermath of the 11 September 2001 terrorist attacks, the collapse of Ansett, and a major drought. These events sent significant shocks through the industry and fundamentally changed the environment in which regional aviation operates. Government has responded to these issues with targeted assistance packages and there are indications that the industry is recovering. These assistance measures are delivered under the RASS Scheme, the Aerodrome Inspection Program, and the waiver of Airservices Australia enroute charges. Chapter 4 provides further details of these Commonwealth assistance measures.

37 Australian Transport Council Substructure, <http://www.atcouncil.gov.au>, last accessed 12 August 2003.

38 Department of Transport and Regional Services, submission no. 81, p. 6; <http://www.acc.gov.au>, last accessed 2 July 2003.

39 Tasmanian Government, submission no. 155, p. 8.

6.53 DOTARS summarised the aims of regional aviation policy as follows:

The Commonwealth is after safe, secure and sustainable aviation price and service competition where possible, but the nature of regional routes in Australia to a large extent is that they are almost inevitably going to be single-operator routes. Competition is not going to give the answers on those routes. The Commonwealth, to the extent that it is possible, aims to maintain the access of regional communities to services such as aviation.

6.54 DOTARS told the committee that it is conducting a policy review of the aviation industry and that it intends to put proposals to the Commonwealth in due course:

We are currently undertaking an overall policy review, which is trying to look at the different segments of the aviation industry and come to a view on the overall policies that should apply. That is obviously something that will have to be considered by the government in due course. In addition, the government is providing a range of support to elements of the regional aviation industry—for instance, subsidised tower control services. ... [The] passenger ticket levy for small aircraft will now be stopped from the end of this month. Even though the protection of regional aviation's regional passenger transport slots—for example, at Sydney airport—is not the best economic outcome, it is the best economic outcome for regional New South Wales.⁴⁰

6.55 DOTARS told the committee that it was progressing regional aviation issues with state colleagues in the following way:

We are working with our state colleagues on aviation issues in particular. We have an aviation working group with our state colleagues and we are starting to try and get into those infrastructure and service delivery issues and the question of re-regulation of routes and so on.⁴¹

40 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 650-651.

41 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 654.

Conflicts with transport policies

6.56 Some evidence argued that transport policies conflict with one another and may result in detrimental impacts to particular transport industries.⁴² For example, government road funding encourages greater use of roads, at the expense of air routes.

6.57 The RAAA expressed its concerns about the Commonwealth's policy of user pays for aviation and the subsidisation of roads:

Aviation is a totally user pays system, and it cannot compete with road funding—and road funding can, in some circumstances, lead to the removal of an aviation route. When you look at the AusLink green paper, there is very little mention in there of the needs of regional aviation.⁴³

6.58 The Northern Territory argued that air services cannot be looked at in isolation from roads as roads are sometimes the most efficient means of transport.⁴⁴

6.59 DOTARS told the committee that one of the elements of the Commonwealth's AusLink Program is to focus on good connections between the different modes of transport. The department said that its policy review would consider the balance between investments in road, rail and aviation infrastructure to meet community expectations of the convenience that the different transport means provide.⁴⁵

6.60 In formulating policy responses, the committee recognised that government has regard to the needs and wants of the travelling public and that people make judgements about the most suitable means of transport, depending on their circumstances. The issue that follows is the extent to which each mode is entitled to be assisted by government.

42 Department of Transport and Regional Services, submission no. 81, p. 7.

43 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

44 Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 4.

45 Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, pp. 651-653.

Possible solutions

- 6.61 The committee was concerned at the cumulative nature of costs to regional airlines, and the impact of deregulation, privatisation and user pays policies.
- 6.62 The committee noted that DOTARS was conducting a review of the costs carried by regional aviation.⁴⁶ It also noted that subsidies can be a blunt instrument and that competitive access to a route subsidy may be an appropriate approach.
- 6.63 While the Commonwealth had reduced some of its costs imposed on regional aviation, the committee considered that the cost structures of regional aviation services needed thorough review. The review should include an analysis of the relative impact of all taxes and charges from all levels of government, and the impact of subsidies to alternative means of transport such as roads. The review should consider community wants and needs.
- 6.64 The committee recommends that the Commonwealth reduce imposed costs on regional aviation, or provide appropriate incentives for the provision of essential regional aviation services. This should be done in collaboration with states and territories to ensure policy coordination. Specific recommendations for reducing taxes and charges on regional aviation are given below.

Improving data for policy formulation

- 6.65 Monitoring the impacts of interrelated events and national policy changes requires accurate and ongoing data. BTRE stated that there are major gaps in the current availability of data and information on the aviation industry. Future government and industry efforts to develop better aviation policy and provide better services to consumers rely on quality data and information. Gaps currently exist in the areas of:
- Consumers services and prices;
 - Congestion in the aviation system and interfaces;
 - Regional services activity;

⁴⁶ Department of Transport and Regional Services, transcript of evidence, Brisbane, 12 June 2003, p. 654.

- Share of the domestic market held by each operator;
 - The origin and destination of domestic and regional trips;
 - Airport charges; and
 - Air freight.⁴⁷
- 6.66 The committee considered that gaps in the data and information on regional aviation were an issue. Closure of these gaps is essential for providing quality and timely policy advice to government and industry itself. Knowledge of the value of all the government taxes and charges and how these had changed over time is also necessary.
- 6.67 Accordingly, the committee considered that the Commonwealth should provide the resources necessary to address the shortcomings in the data and information available on the regional aviation industry. This would enable better aviation policy formulation and program delivery to improve services to consumers.
- 6.68 To ensure that aviation policies are achieving their objectives, the committee considered that the Commonwealth should report on the health of the regional aviation industry at least biannually. This report would include information on trends and emerging issues, as well as the success of existing policies.
- 6.69 Regular reporting would inform all stakeholders in the industry, including regional communities, all levels of government and airline operators. Discussion later in the chapter refers to the requirement for public information on the prices charged by regional airports for aviation services.

47 Bureau of Transport and Regional Economics, 'Avline', Issue One, January 2003, <http://www.btre.gov.au>, last accessed 6 August 2003.

Recommendation 16

6.70 The committee recommends that the Commonwealth:

- **Provide the resources necessary to the Bureau of Transport and Regional Economics for the timely collection, interpretation and public provision of data and information, particularly though not exclusively, in regard to:**
 - ⇒ **consumers services and prices;**
 - ⇒ **congestion in the aviation system and interfaces;**
 - ⇒ **connectivity available to regional passengers from regional airlines;**
 - ⇒ **regional services activity;**
 - ⇒ **share of the domestic market held by each operator;**
 - ⇒ **the origin and destination of domestic and regional trips;**
 - ⇒ **airport charges, including charges levied by regional airports; and**
 - ⇒ **air freight; and**
- **Through the Department of Transport and Regional Services, publicly report on the health of the regional aviation industry at least once every two years.**

Airservices Australia

6.71 Airservices Australia provides air traffic management services, and aviation rescue and fire fighting services. Air traffic management services comprise air traffic services, an information service, a radio navigation service and a telecommunications service. Airservices Australia is legally obliged to comply with CASA regulations.⁴⁸

6.72 The committee received a significant amount of evidence that expressed concern at the cost of services provided by Airservices Australia.

48 Airservices Australia, submission no. 119, pp. 1, 4.

- 6.73 The New South Wales Government told the committee that in July 2001, Airservices Australia's charges were about 4.3 per cent of the costs carried by regional airlines.
- 6.74 DOTARS said that the contribution of Airservices Australia's charges to a one-way flight from Ballina to Sydney in July 2002 would be 2.8 per cent.⁴⁹
- 6.75 The committee noted that Airservices Australia increased its charges by five per cent in 2002-03 following 11 September 2001 and Ansett's collapse and has proposed to increase its charges again.⁵⁰ However, Airservices Australia told the committee that its location specific prices had remained unchanged since 1998 and that its enroute charges had fallen by 20 per cent relative to other costs that had risen such as fuel, labour and maintenance.⁵¹
- 6.76 Airservices Australia showed the committee how its real prices had declined by some 25 per cent since 1997-98. It achieved these reductions by investing \$400 million in a world-class air traffic management system called 'The Australian Advanced Air Traffic System'. Airservices Australia argued that continuous improvement in its operations save the industry an estimated \$130 million in fuel costs per annum.⁵²
- 6.77 On 26 November 2002, the Commonwealth announced that Airservices Australia's enroute charges would be reduced by 3.6 per cent from January 2003.⁵³

49 Queensland Government, submission no. 153, p. 18; Department of Transport and Regional Services, correspondence to the secretariat, 30 June 2003.

50 National Farmers Federation, submission no. 139, p. 7; Alliance Airlines, briefing to the committee, Canberra, 28 May 2003.

51 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, pp. 661-662; Airservices Australia, exhibit no. 27.

52 Airservices Australia, exhibit no. 24, 'Cumulative Real Price Savings'; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, pp. 658-660.

53 Bureau of Transport and Regional Economics, 'Working Paper 54 Regional Public Transport: Economic Regulation and Assistance Measures', <http://www.btre.gov.au>, last accessed 30 June 2003.

- 6.78 Certain thresholds apply to service pricing. Control tower charges are capped at certain locations. The Commonwealth subsidises control tower services at regional airports and exempts small regional airlines and aeromedical operators from enroute navigation charges. The Commonwealth provides \$7 million to the Airservices Australia program.⁵⁴
- 6.79 There is a wider issue of what is an appropriate amount for industry to pay for services delivered by government, and how much should the community subsidise these services.
- 6.80 On the one hand, the industry argues that its cost structure is too high for many operators to remain viable. Airservices charges contribute to those costs.
- 6.81 On the other hand, a government commercial enterprise is charging for its services and those charges are approved by the ACCC.
- 6.82 To demonstrate the effectiveness of the ACCC, in June 2003 it made a ruling against Airservices Australia's proposal to increase prices for control tower services until 30 June 2004.⁵⁵
- 6.83 In addition, the Australian community benefits from the dividend of \$20-25 million per annum that Airservices Australia provides to the Commonwealth.⁵⁶ The dividend is the community's return on its investment in the services.
- 6.84 The committee considered that, in light of the facts outlined above, the likely impacts of Airservices Australia's charges for air traffic management on regional air services were in themselves relatively small overall.
- 6.85 In coming to this view, the committee noted that as a commercial enterprise, Airservices Australia is subject to the ACCC's oversight of its prices, and the ACCC has made a ruling against Airservices Australia increasing its control tower charges. The committee noted that control tower service charges are capped at certain locations. The Commonwealth also subsidises control tower services at regional

54 Airservices Australia, submission no. 119, pp. 3-5; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 670; Department of Transport and Regional Services, submission no. 81, p. 7.

55 ACCC Aviation Group, <http://www.accc.gov.au>, last accessed 4 July 2003; Airservices Australia, submission no. 119, p. 2, 4; ACCC current projects, Airservices Australia 2003-04 Price Notification, <http://www.accc.gov.au>, last accessed 10 July 2003.

56 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 669; Airservices Australia 2001-02 Annual Report, p. 19.

airports and exempts small regional airlines and aeromedical operators from enroute charges. The committee also noted the benefits that Airservices Australia's services provide to the industry and the community.

Aviation rescue and fire fighting services

- 6.86 The industry was particularly concerned about the cost of aviation rescue and fire fighting services, and the conditions under which these services are provided.

Cost of rescue and fire fighting services

- 6.87 The cost of aviation rescue and fire fighting services is different in different locations because of the 'user pays' policy of Location Specific Pricing (LSP).⁵⁷
- 6.88 Airport owners and operators carry the cost of these services and charge airport users. Local communities do not wish to pay these costs, so this cost is passed on to passengers and freight by levying air movements. While the higher charges tend to discourage use of the airport⁵⁸, LSP is intended to encourage investment in the services when the Commonwealth allows private companies to provide these services.⁵⁹
- 6.89 At regional locations such as Cairns and Mackay the cost of providing services could be higher than at capital city locations. Therefore, each passenger and kilogram of freight would have to pay a relatively higher price at the regional location than at a capital city.
- 6.90 The Queensland Government said that total air service charges (rescue and fire fighting and control tower) for Cairns are almost twice the cost at Brisbane airport, three times the cost at Melbourne airport, and twice the cost at Sydney airport.⁶⁰

57 Airservices Australia, submission no. 119, p. 3; Department of Transport and Regional Services, exhibit no. 23, '*A Measured Approach to Aviation Safety Reform*', 1999.

58 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 662; Airservices Australia, submission no. 119.

59 Airservices Australia, submission no. 119; Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 662.

60 Queensland Government, submission no. 153, p. 18.

Mackay Port Authority, the operator of Mackay airport, said it had disproportionately high Airservices charges. The rescue and fire fighting charge is some 13 times the charge at Sydney airport. The tower service charge is \$2 per tonne higher than the weighted average charge.⁶¹

- 6.91 Airservices Australia acknowledged that regional airports may be disadvantaged because of their relatively low throughput of aircraft tonnage and the type of aircraft used by airlines. Some larger carriers argued that LSP disadvantages them and that they cross-subsidise regional airlines.⁶²
- 6.92 Airservices Australia paid for rescue and fire fighting services at the remote locations of Karratha and Port Hedland under its community service activities.⁶³
- 6.93 Airservices Australia provided the committee with recent comparisons that show that its rescue and fire fighting pricing compares very favourably with elsewhere in the world. However, Airservices Australia also received international recognition in 1999 for its LSP model.⁶⁴
- 6.94 The committee noted that international comparisons may not be relevant for a service that is not traded internationally and is not subject to market forces.
- 6.95 Airservices Australia is the monopoly service provider and the ACCC monitors its activities and prices.

61 Mackay Port Authority, submission no. 5, p. 3; Mackay Port Authority, transcript of evidence, Brisbane, 11 June 2003, pp 625-626.

62 Airservices Australia, submission no. 119, p. 5.

63 Airservices Australia 2001-02 annual report, p. 20, <http://www.airservicesaustralia.com>, last accessed 4 July 2003.

64 Airservices Australia, submission no. 119, pp. 3-5, Airservices Australia, exhibit no. 22, 'Performance Benchmarking'; Airservices Australia, exhibit no. 25, 'Aviation Rescue and Fire Fighting Benchmarking'.

- 6.96 The ACCC investigated Airservices Australia's proposed price increases in early 2003.⁶⁵ The ACCC's decision of 26 June 2003 was to object to Airservices Australia temporarily increasing its prices for control tower services and its aviation rescue and fire fighting services for 2003-04. Further, the decision states that prices should remain at their current levels for a further 12 months until 30 June 2004.⁶⁶
- 6.97 The committee considers that while the ACCC provides sufficient monitoring of Airservices Australia's prices for aviation rescue and fire fighting services, it disagrees with the method the Airservices Australia uses for allocating those charges to individual airport locations, as discussed below.

Conditions for providing rescue and fire fighting services

- 6.98 There was some disagreement in the evidence about the justification for fire fighting and rescue services being provided at airports. Virgin Blue argued that global statistical evidence shows that the majority of aviation incidents do not occur on an airfield. Whereas, Airservices argued that despite Australia having an excellent safety record, studies in the US showed that up to 80 per cent of accidents occur at or near aerodromes and within the jurisdiction of the airport fire fighters.⁶⁷
- 6.99 The committee's investigations, as discussed later in this chapter, indicate that 70 per cent of air crashes occur at aerodromes.
- 6.100 Virgin Blue argued for a risk management approach to be used for the provision of fire fighting and rescue services. This would involve considering the likelihood that an incident, such as an aircraft undercarriage not extending before landing will occur and providing appropriate services.⁶⁸

65 ACCC Aviation Group, <http://www.accc.gov.au>, last accessed 4 July 2003; Airservices Australia, submission no. 119, pp. 2, 4.

66 ACCC current projects, Airservices Australia 2003-04 Price Notification, <http://www.accc.gov.au>, last accessed 10 July 2003.

67 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 660.

68 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, p. 735.

6.101 Virgin Blue and others argued that the thresholds for rescue and fire fighting services are arbitrary:

There seem to be these cut-offs that are contrived for reasons that have nothing to do with the actual aviation outcome, sometimes.⁶⁹

6.102 The Australian Civil Aviation Safety Regulations require airports with annual passenger numbers exceeding 350 000, and that accept international passengers, to have rescue and fire fighting services.⁷⁰ This standard aims at minimising risk to the greatest number of passengers.⁷¹

6.103 Australia is signatory to the Convention on International Civil Aviation - the ICAO's Chicago Convention. This agreement sets out international standards for signatory states. The ICAO standard for aviation rescue and fire fighting services is based on the following statistics and parameters:

- About 70 per cent of aircraft crashes occur on aerodromes;
- Of those that occur on aerodromes, 90 per cent are survivable;
- People on board a major aircraft that is involved in fire can survive up to four minutes; and
- Intervention of an aviation rescue and fire fighting service within the four minutes can extend that time limit allowing people on board to be rescued.⁷²

6.104 ICAO standards do allow a degree of flexibility regarding the provision of services. However, Australia's standards for these services are very high. CASA's regulations endeavour to provide rescue and fire fighting services for 90 per cent of people on RPT services. To achieve this coverage, 16 of Australia's 600 airports have rescue and fire fighting services.⁷³ However, as explained below, the services to two airports, Port Hedland and Karratha, were withdrawn in mid-2003.

69 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, p. 735.

70 Civil Aviation Safety Regulations 1998, regulation 139.755 (2) (b), <http://scaletext.law.gov.au>, last accessed 4 July 2003.

71 Airservices Australia, communication with secretariat, 15 August 2003.

72 Airservices Australia, communication with secretariat, 15 August 2003.

73 Airservices Australia, communication with secretariat, 15 August 2003.

- 6.105 The cost of providing the service is determined by the equipment needed to meet the standards for delivering water and foam to the remotest part of the airport within three minutes of a call-out.⁷⁴
- 6.106 Virgin Blue said it was hard to justify the continuous provision of rescue and fire fighting services at locations such as Rockhampton that had only a few international flights per year. It said that there were many locations around the world where the local fire brigade provided services to the town and the airport. This represented better use of resources.⁷⁵
- 6.107 Airservices Australia told the committee that rescue and fire fighting services may be withdrawn if they are not needed for safety reasons. To show that this does occur, Airservices Australia withdrew the rescue and fire fighting service at Port Hedland and Karratha in 2003. The reason given was that the number of passengers using the airports did not meet the threshold of 350 000 passengers per annum.⁷⁶ Trained local volunteer crews will provide the service in the future.⁷⁷
- 6.108 An independent survey, conducted by the University of NSW in 2001, showed that more than three-quarters of respondents were prepared to pay an extra \$5 in their airfare to ensure that aviation rescue and fire fighting services were available at airports.⁷⁸
- 6.109 Airservices Australia said that regional communities are divided on the withdrawal of rescue and fire fighting services. On the one hand, it is argued that if there are no rescue and fire fighting services, the increased risk will discourage RPT services. On the other hand, provided that minimum safety standards continue to be met, the reduced cost will attract RPT services.⁷⁹

74 Airservices Australia, transcript of evidence, Brisbane, 12 June 2003, p. 660.

75 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 735-736.

76 Airservices Australia, correspondence with secretariat, 4 July 2003; Civil Aviation Safety Regulations 1998, Part 139.755 (2) (b) <http://scaleplus.law.gov.au>, last accessed 4 July 2003.

77 Airservices Australia, correspondence with secretariat, 4 July 2003.

78 Airservices Australia, exhibit no. 26, '*ARFF facts and figures*'.

79 Airservices Australia, submission no. 119, p. 4.

- 6.110 There are two issues to be considered:
- The provision of rescue and fire fighting services to airports with limited numbers of passenger landings; and
 - Whether these services are provided by Airservices Australia or by local fire services.
- 6.111 The committee considered that to the extent possible, all Australians should be entitled to aviation rescue and fire fighting services. It considered that location specific pricing was a blunt instrument. Furthermore, location specific pricing was inequitable and it put a different price on safety depending on location, rather than need.
- 6.112 The committee considered that the price of aviation safety should be a matter of equity and universality.
- 6.113 The committee considered that the wide disparity in the cost of providing rescue and fire fighting services at regional airports required further investigation with the view of lessening its impact.
- 6.114 The committee did not wish to see the cost of these services met by an increase in costs elsewhere in the cost structures of regional aviation such as an increase in fuel excise.
- 6.115 The committee considered that the introduction of a universal service charge for aviation rescue and fire fighting services could be underpinned by lowering the cost of providing the services. This could be achieved by town fire brigade delivering the services.
- 6.116 The committee considered that this could be achieved if town planning policies were changed, where appropriate, to provide an optimal service to the town and the airport, by co-locating aviation rescue and fire fighting services and town fire services between the town and the local airport, so that mandatory response times can be met. It is conceded that this may not be practical in many instances.
- 6.117 Accordingly, the committee recommends that DOTARS and Airservices Australia form a working group to investigate and make recommendations on the strategic co-location of aviation rescue and fire fighting services with town fire services. The working group would comprise key stakeholders such as the relevant local government associations, town planning and standards bodies.

- 6.118 Where the town and airport rescue and fire services become co-located, the committee recommends that Airservices Australia provides the initial aviation fire fighting equipment and crew training at no cost to the local community.
- 6.119 The committee considered that while this town planning recommendation may not have an immediate impact on costs, over time the necessity of having a fire service at the airport as well as the nearby town may be obviated.

Recommendation 17

- 6.120 **The committee recommends that the Department of Transport and Regional Services and Airservices Australia introduce a universal service charge for aviation rescue and fire fighting services at regional airports to reduce the wide disparity in the charges for those services and to reduce the overall impact of the charges on regional aviation costs.**

Recommendation 18

- 6.121 **The committee recommends that:**
- **The Department of Transport and Regional Services and Airservices Australia form a working group with key stakeholders (such as the relevant local government associations, town planning and standards bodies) to advise on the strategic and optimal co-location of fire fighting services; and**
 - **Airservices Australia provide the initial aviation rescue and fire fighting equipment and crew training, at no cost, to communities where fire fighting services become co-located.**

Impact of taxation on aircraft replacement

Ageing aircraft

- 6.122 A number of submissions and witnesses expressed concern about the ageing fleet of small aircraft. It was a matter of prime concern to the committee.
- 6.123 Small aircraft are the backbone of RPT and charter services in regional Australia. Small aircraft are those that seat about nine passengers. Many of these aircraft are more than 20 years old and some are 30 to 40 years old.
- 6.124 The small aircraft affected in this category are mainly the Piper Chieftain and Cessna 400 series. In addition, there are some smaller aircraft, such as the Raytheon (formerly Beechcraft) Baron and the Piper Seneca, and single engined aircraft such as the Cessna 206 used by charter operators in the northern Australia.⁸⁰
- 6.125 In contrast to small regional operators, the aircraft used by the large domestic airlines Qantas and Virgin Blue, are two to eight years old. These operators aim to keep their fleet age under 10 years.⁸¹ The reason for this could be partly due to the life of an aircraft being 10 years for taxation purposes.
- 6.126 The real issue affecting ageing fleets of small aircraft is their fatigue life. The fatigue life of an aircraft is determined by its inherent design, service use, the number of cycles (defined as one takeoff and landing) and maintenance standards.⁸²
- 6.127 The Chieftain is approaching the end of its fatigue life of about 25 000 flying hours. Under Australian Civil Aviation Safety Regulations, Chieftains must be completely refurbished or taken out of service. These aircraft are currently valued at between \$220 000 and \$300 000

80 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, p. 1.

81 Rod Bencke, submission no. 6, p. 4.

82 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, pp. 1-2.

plus GST, and refurbishment costs are around \$250 000.⁸³ At most these aircraft will have about 10 years of service remaining.⁸⁴

- 6.128 Australia has many regional aviation markets that justify nine or 19-seat aircraft, but cannot justify larger aircraft. In the US, economics and deregulation have led to 19-seat aircraft replacing nine-seat aircraft.⁸⁵
- 6.129 In Australia, for reasons of economics and deregulation, the smallest aircraft used by Qantas have 30 to 36-seats. Rex operates the 34-seat SAAB and the 19-seat Metroliner. Where route economics do not justify these medium sized aircraft, third level operators use the smaller nine and 19-seat aircraft.⁸⁶
- 6.130 There are more than 100 nine-seat aircraft used predominantly by low capacity RPT and charter operators. These aircraft are aged between 18 to 27 years.⁸⁷ Appendix G provides further details on the age and usage of relevant aircraft.
- 6.131 The New South Wales Government also gave evidence that CASA is putting pressure on small regional airlines to introduce new turbine aircraft. Furthermore, the New South Wales Government told the committee that the production of aviation gasoline used by piston-engines is expected to cease in the foreseeable future. This will force small operators to upgrade to turbine aircraft.⁸⁸
- 6.132 Mr Bruce Gemmell, the Acting Director of CASA, strenuously refuted the claim that it is planning to ground old twin piston-engine aircraft in the near future, saying:

Some of what you have been told is quite simply inaccurate. For example, you have been told that CASA is planning to ground old twin-engine piston aircraft in a few years time.

83 Civil Aviation Safety Authority, '*Ageing Aircraft*', 30 January 2001, document provided to the secretariat, p. 4.

84 Edge Aviation, submission no. 65; Tasmania Department of Infrastructure, Energy and Resources, submission no. 155, pp. 11, 16; Tasmania Department of Infrastructure, Energy and Resources, transcript of evidence, Launceston, 24 February 2003, pp. 67-71; New South Wales Government, submission no. 151, p. 8; Rod Bencke, submission no. 6, p. 4.

85 Air Link Pty Ltd, submission no. 94, p. 4.

86 Qantas Airways Limited, submission no. 146, p. 10; Regional Express, submission no. 116.

87 Civil Aviation Safety Authority, '*Ageing Aircraft*', 30 January 2001, document provided to the secretariat, p. 1.

88 New South Wales Government, submission no. 151, p. 5.

We are not. I simply have no idea how this rumour started and why it keeps running around industry, but we are doing nothing of the sort.⁸⁹

- 6.133 Other evidence indicates that a new low-octane unleaded aviation gasoline could replace the existing fuel. This fuel could be suitable for more than 50 per cent of existing piston-engined aircraft. The specification for a high octane replacement for the remaining aircraft is also available. Together, these substitutes would be suitable for up to 90 per cent of small piston-engined aircraft.⁹⁰
- 6.134 The question remains however, of whether there would be sufficient critical demand in smaller centres to justify oil companies and their agents carrying tanks and infrastructure for both types of fuel replacements.
- 6.135 The older piston-engined Piper Chieftain aircraft are relatively cheap to purchase at around \$350 000. Newer turboprop aircraft are more expensive at four to ten times the price of piston-engined aircraft.⁹¹ Operating costs of turboprop aircraft are generally higher than piston-engined aircraft.⁹²
- 6.136 The limited financial resources of small operators means they delay investing in new or newer aircraft that would provide a higher level of service to their clients. Consequently the fleet of smaller aircraft is ageing.
- 6.137 The committee noted that over the next 10 years a number of smaller aircraft will have to be replaced as they reach the end of their life. It appears that refurbishment of aircraft like the Chieftain will not be an option.
- 6.138 CASA has identified a number of possible replacement aircraft. Prices are in the order of \$550 000 for the Gippsland Aeronautics GA8 to \$650 000 for the Cessna 208 Caravan. These aircraft have eight seats.

89 CASA, transcript of evidence, Canberra, 10 September 2003, p. 752.

90 CRC Unleaded AVGAS Development Group (2003), <http://www.crcao.com>, last accessed 12 August 2003; EAA Aviation Centre (2001), 'A Future Without 100LL', <http://members.rogers.com/sproatr>, last accessed 12 August 2003; Aircraft Owners and Pilots Association, 'New Unleaded Aviation Gasoline Approved Following A Decade of Effort by Industry and AOPA', July 28, 1998, <http://www.avweb.com/other/aopa9831.html>, last accessed 12 August 2003.

91 Tasmania Department of Infrastructure, Energy and Resources, submission no. 155, pp. 11, 16; transcript of evidence, 24 February 2003, pp 67-71.

92 Rod Bencke, submission no. 6, p. 4.

- 6.139 Larger single-engined turboprop replacement aircraft are the Pilatus PC12 and the Cessna 208 Caravan. The PC12 is an executive style aircraft used by the Royal Flying Doctor Service. It costs about \$6 million. The Caravan is an unpressurised aircraft with fixed undercarriage ideally suited for the outback. These aircraft cost about \$1.5 million secondhand, and around \$2.8 million new.⁹³ (Note: it is an industry convention that new aircraft are valued in US dollars. The prices of new aircraft in this paragraph have been converted to Australian dollars for ease of comparison. The prices are drawn from a CASA paper dated in 2001. The value of the Australian dollar used for the conversion is US\$0.54.)
- 6.140 Integrity Aircraft told the committee that it will manufacture an 18-seat single-engined turboprop aircraft that sells for US\$1.5 million. The aircraft is very cheap to operate.⁹⁴
- 6.141 Some possible replacement aircraft for the ageing fleet are given in Appendix G.
- 6.142 The committee considered a number of options for the Commonwealth to assist with the replacement of ageing aircraft. These options are outlined in the following sections.

Impact of taxation arrangements

- 6.143 The taxation issues of particular concern to operators are aircraft depreciation and capital gains tax. The evidence indicates that The New Tax System introduced by the Commonwealth in 2001, has increased the cost for operators to upgrade their fleet. The increased cost discourages small operators from investing in new or newer aircraft that may be more capable.⁹⁵

93 Civil Aviation Safety Authority, 'Ageing Aircraft', 30 January 2001, document provided to the secretariat, p. 4.

94 Integrity Aircraft, submission no. 19; Integrity Aircraft, transcript of evidence, Sydney, 8 May 2003, pp. 484-493.

95 Regional Aviation Association of Australia, submission no. 93, pp. 4-6; Tasmania Department of Infrastructure, Energy and Resource, submission no. 155, pp. 11, 16; Tasmania Department of Infrastructure, Energy and Resources, transcript of evidence, Launceston, 24 February 2003, pp. 67-71; Airnorth Regional, submission no. 102, pp. 6-7; Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 593; National Farmers Federation, submission no. 139, p. 6.

6.144 The RAAA said that the biggest impact from the Commonwealth is their national policy and taxation decisions.⁹⁶

6.145 The RAAA went on to explain that:

One of the impediments to changing the ageing aircraft system is the depreciation system that we currently have. Prior to the Ralph report in 1999 and the change to the taxation system, the regional operator could roll over the depreciation issues from the sale of aircraft. They are no longer able to do that, and as well as that they have to pay capital gains tax on the capital gain between the written down value and the value at sale of the aeroplane.⁹⁷

6.146 Under the old tax system, the effective life of an aircraft was a shorter period. When the aircraft was sold before the end of this period, the owner had a larger deposit because there was no tax liability. This was called balancing charge rollover.⁹⁸

6.147 Under the new arrangements, called the uniform capital allowance system⁹⁹, the effective life of an aircraft used by a regional operator is increased to 10 years.¹⁰⁰ This effectively reduces the depreciation rate. If, after five years, the owner sells the aircraft for more than the depreciated value calculated under the legislation, the owner has to pay tax on the difference between the selling price and its depreciated value. The effect is that the owner has a smaller deposit for the new aircraft.¹⁰¹

96 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 707.

97 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 708.

98 Regional Aviation Association of Australia, submission no. 93, pp. 4-6; Airnorth Regional, submission no. 102, pp. 6-7.

99 Australian Taxation Office, 'The New Uniform Capital Allowance System', <http://www.taxreform.ato.gov.au>, last accessed 30 July 2003.

100 Australian Taxation Office, 'The New Uniform Capital Allowance System: effective life of aeroplanes and helicopters – fact sheet', <http://www.taxreform.ato.gov.au>, last accessed 30 July 2003.

101 Regional Aviation Association of Australia, submission no. 93, pp. 4-6.

6.148 Champions of the Bush told the committee:

... tax policy is another area [of] encouragement. [Previously] the ... balancing charge ... meant that as you turned aircraft over the loss or gain on the capital cost could be rolled into the next aircraft. Aircraft ... have very long lifespans and they tend to appreciate in value. So, frequently, after depreciation the changeover to a new aircraft resulted in a capital profit. That was changed in 1999. Many operators ... are now faced with such a tax liability if they upgrade again that it is a strong disincentive to do so.¹⁰²

6.149 The RAAA explained the impact of the new tax arrangements by comparing Australian changes to New Zealand. A member company claimed that before the changes to the tax system, it imported 18 turboprop aircraft into Australia for lease purposes between 1985 and 1998. After the taxation changes, the company imported just one turboprop aircraft. The same company imported four aircraft into New Zealand before 1999 and after 1999 it imported nine aircraft into New Zealand. New Zealand does not have the same depreciation arrangements as Australia.¹⁰³

6.150 The committee noted that the decision to purchase an aircraft involves a number of factors and considerations, and that factors other than taxation may also have influenced the purchase of new aircraft in Australia and in New Zealand.

6.151 Champions of the Bush suggested that the Commonwealth consider a capital allowance as an incentive for small operators investing in new aircraft:

In the past ... when the government perceived that industry needed to invest more money in capital assets such as machinery, manufacturing equipment and so on, capital allowances have been used ... quite effectively, to encourage the upgrade of equipment ... the government might like to look at ... whether in a regional setting when it comes to RPT services it is possible to have some sort of capital allowance.¹⁰⁴

102 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 215.

103 Regional Aviation Association of Australia, transcript of evidence, Canberra, 18 June 2003, p. 708.

104 Champions of the Bush, transcript of evidence, Tullamarine, 26 February 2003, p. 215.

- 6.152 The AAA agreed with other evidence that pointed to the need for the Commonwealth to provide tax relief to regional air service operators:

We believe that tax and depreciation matters need to be looked at to make it simpler and easier for services to be started and maintained.¹⁰⁵

- 6.153 The King Island Council told the committee that remote island communities should be served by better aircraft and that the Commonwealth should encourage the replacement of ageing aircraft:

The second [recommendation] is that the government offer appropriate tax or other incentives to encourage RPT air operators to upgrade and modernise their fleet in order to meet both the demand and the essential service requirements of remote populated islands.¹⁰⁶

- 6.154 The taxation issue needs to be seen in the context of other costs imposed by government policy and the cost structure of regional airlines.

- 6.155 Island Airlines Tasmania Pty Ltd said that profitability, not the taxation arrangements, is the primary issue driving the replacement of aircraft. The company said by way of example that cash flow is needed to service a loan or lease (e.g. \$84 000 per month), pay for maintenance (e.g. \$120 000 per annum for labour only) and wages. The running costs could tend to heavily outweigh lump sum payments such as the tax that may be payable to upgrade an aircraft.¹⁰⁷

- 6.156 Macair Airlines Pty Ltd suggested a different priority list of business costs:

If you look at our overall cost make-up—we have a list—it is finance, fuel, maintenance and staffing. You then come to air navigation charges and landing charges and all of the other operational stuff.¹⁰⁸

105 Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, p. 214.

106 King Island Council, transcript of evidence, Tullamarine, 26 February 2003, p. 261.

107 Island Airlines Tasmania Pty Ltd, transcript of evidence, Tullamarine, 26 February 2003, pp. 291-294.

108 Macair Airlines Pty Ltd, transcript of evidence, Brisbane, 11 June 2003, p. 597.

- 6.157 The committee noted that the Commonwealth introduced the changes to taxation to remove inequities in the former arrangements.¹⁰⁹ However, the issue of improving the adequacy of regional aviation services remains.
- 6.158 In a number of cases, the aircraft that third level operators use are approaching the end of their economic life. These small operators should have some respite from high and increasing costs that are causing them to go out of business. The Commonwealth should consider, as part of a package of possible assistance measures to these operators, providing assistance that encourages small operators to upgrade their aircraft. This assistance could be in the form of taxation relief when they upgrade their aircraft, or an incentive that offsets the effects of the new taxation arrangements.

Recommendation 19

- 6.159 **The committee recommends that the Department of the Treasury:**
- **Review the taxation arrangements relating to the replacement of small ageing aircraft by the end of 2004;**
 - **Publicly report the findings of the review by the end of 2004; and**
 - **If justified, introduce provisions in the taxation legislation that assist the owners of small ageing aircraft to replace these aircraft; or**
 - **Introduce incentives to assist in the replacement of aged aircraft.**

109 Australian Taxation Office, <http://www.taxreform.ato.gov.au>, last accessed 30 July 2003.

Impact of fuel costs

- 6.160 A number of submissions expressed concern at the cost of fuel and its impact on the viability of regional airlines.¹¹⁰ Two aspects to this were raised. Firstly, the rising fuel prices. Secondly, the Commonwealth's fuel excise.
- 6.161 Small operators in particular were concerned at the high price of aviation gasoline that is used in the smaller piston-engined aircraft. For operators using this type of aircraft, the margins are tight and they lack the buying power of larger competitors. Larger competitors are able to use a different fuel, called aviation kerosene, which is suitable for turboprop aircraft and jets.¹¹¹
- 6.162 Paul Bredereck told the committee how significant the price of fuel was:
- ... in 1995 my business was purchasing about \$40,000 a week in jet fuel. The bowser price at that stage, I recall, was about 63c a litre. I was buying fuel for 42c and I understand that my competitor, which was a Qantas owned subsidiary, was purchasing fuel for at least 12c a litre cheaper again. That is a massive difference, particularly when those charges have to be passed on to the communities.¹¹²
- 6.163 The New South Wales Government told the committee that fuel costs had increased more than 80 per cent over the past two years. It also said that the production of aviation gasoline would cease in the foreseeable future.¹¹³

110 Paul Bredereck, submission no. 42, p.2; Local Government Association of NSW, submission no. 109, p. 1; Northern Territory Department of Infrastructure, Planning and Environment, submission no. 101, p. 7; South Grampians Shire, transcript of evidence, Tullamarine, 26 February 2003, p. 248; Edge Aviation, transcript of evidence, Tullamarine, 26 February 2003, p. 214; Australian Airports Association, transcript of evidence, Tullamarine, 26 February 2003, p. 232.

111 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640; District Council of Grant, transcript of evidence, Adelaide, 14 April 2003, p. 323.

112 Paul Bredereck, transcript of evidence, Brisbane, 12 June 2003, p. 640.

113 New South Wales Government, submission no. 151, p. 5.

- 6.164 In regard to the second concern relating to the impact of fuel excise on fuel prices, the committee notes that in recent years, the Commonwealth has reduced substantially the excise used by small aircraft. The excise on aviation gasoline has fallen from 18.5 cents per litre in 1996 to 2.8 cents per litre since 2000 – a reduction of 85 per cent.¹¹⁴ This suggested that increases in fuel prices were due to factors other than excise.
- 6.165 The committee noted that the Commonwealth uses the revenue from the fuel excise to fund CASA. With the reductions in excise per litre of fuel, the Commonwealth has provided CASA a special appropriation valued at \$59 million in the 2002-03 Budget.¹¹⁵
- 6.166 The committee noted that in mid-1998 the Commonwealth removed the component of fuel excise on aviation gasoline related to the provision of control tower services when Airservices Australia introduced location specific pricing.¹¹⁶ Airservices Australia now receives income from other sources such as international contract work, and the Commonwealth. The Commonwealth provides Airservices Australia with a \$7 million subsidy for control tower services in certain locations.
- 6.167 The committee considered that under the circumstances the level of excise of 2.8 cents per litre was not unreasonable.
- 6.168 Discounts for bulk purchases of fuel could reduce the cost of fuel to small operators. Evidence suggested a regional airline that had an interline agreement with a larger airline could potentially benefit from purchasing cheaper fuel whose price is negotiated by the larger airline.¹¹⁷

114 Bureau of Transport and Regional Economics, Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 23; Anderson, J., (Minister for Transport and Regional Services) 2000, *Government reduces aviation fuel taxes by 85 percent*, media release, Parliament House, Canberra, 4 April; Department of Transport and Regional Services, submission no. 81, p. 7; Anderson, J (Minister for Transport and Regional Services) 2000, *Government reduces aviation fuel taxes by 85 percent*, media release, Parliament House, Canberra, 4 April.

115 Bureau of Transport and Regional Economics (2003) Working Paper 54, '*Regional Public Transport in Australia: Economic Regulation and Assistance Measures*', p. 23.

116 Bureau of Transport and Regional Economics (2003) Working Paper 54 '*Regional Public Transport: Economic Regulation and Assistance Measures*', pp. 22-23.

117 Sydney Airports Corporation Limited, submission no. 158, enclosure Centre for Asia Pacific Aviation, '*Airport Charges for Regional Airlines at Sydney Airport*', p. 10.

- 6.169 Paul Bredereck suggested that smaller operators could form a buying group to enable them to purchase aviation fuel in bulk at reduced prices.¹¹⁸
- 6.170 The committee strongly urges the industry to investigate options for purchasing fuel in bulk and to take a proactive approach to collaboratively assisting small operators.

Government travel contracts

- 6.171 Commonwealth business travel contracts are estimated to total hundreds of millions of dollars per annum.
- 6.172 The regional carriers Virgin Blue and Rex raised concerns about their access to the government business travel market. These airlines indicated that the purchasing mechanism for the Commonwealth was flawed, and the 'best fare of the day' policy was not being enforced. They were seeking greater equity in the awarding of government travel contracts.¹¹⁹
- 6.173 Virgin Blue told the committee that the Commonwealth does not use its services on the Canberra-Sydney route because it does not provide them with sufficient frequency. However, on the Sydney-Melbourne route, where Virgin Blue provides 18 services per day and has one-quarter of the business market, it has less than one per cent of the Commonwealth's travel in dollar terms.¹²⁰
- 6.174 Virgin Blue said that on the Sydney-Canberra route its 'walk up' fare was \$49. The ticket was fully changeable in terms of when the purchaser chooses to fly, and the purchaser can cancel at any time. This ticket price was on average 30 to 40 per cent below the competition. Virgin Blue had plans to make even better ticket offers from July 2003.¹²¹

118 Paul Bredereck, submission no. 42, p. 7; Paul Bredereck, correspondence with secretariat, 12 June 2003.

119 Virgin Blue, submission no. 182, p. 2; Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 728-733; Regional Express, submission no. 11; Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

120 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 728-729.

121 Virgin Blue, transcript of evidence, Canberra, 25 June 2003, pp. 729, 731.

- 6.175 Rex told the committee that the total Commonwealth demand for air travel on the Canberra-Sydney route was more than 19 000 passengers per week. Rex provided 14 per cent capacity on that route and its fare price was on average 30 per cent lower than Qantas. However, Rex only received 0.4 per cent of Commonwealth travel, and its peak load was 121 Commonwealth travellers per week.¹²²
- 6.176 Rex also said the situation was similar regarding New South Wales Government travel. Rex had evidence that where it provided 50 per cent of the capacity, it received only single-digit percentage of the government travel.¹²³
- 6.177 Rex told the committee that it had difficulty competing with Qantas in the corporate and government markets. Qantas can offer government a more complete range of services at a more attractive overall price that covers regional, domestic and international travel than many regional airlines are able to do. Rex expressed it in the following way:
- So we are competing against three airlines and not one, and they can spread their competitive rebate and/or discount across a larger segment of travel ... Of course in the United States that practice is outlawed, but here it is common practice.¹²⁴
- 6.178 While a bilateral interline agreement between a larger carrier like Qantas and the smaller Rex can provide Rex greater advantages than might otherwise exist, this is not the case with the unilateral interline agreement that Rex has with Qantas.
- 6.179 Rex explained the competitive disadvantage it faces with its unilateral interline agreement with Qantas. Under this arrangement, Qantas provides all the services that it can, and allows Rex to provide those services that do not disadvantage Qantas.
- 6.180 To demonstrate the competitive disadvantage Rex experienced from a unilateral interline agreement with Qantas, Rex provide the following examples:
- A passenger who purchases a Qantas ticket to travel from Brisbane to Orange, would fly with Qantas on the Brisbane-Sydney leg and Rex on the Sydney-Orange leg. Qantas would pay Rex for its service.

122 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

123 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

124 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

- However, a passenger who purchases a Qantas ticket to travel from Wagga Wagga to Brisbane would fly with Qantas all the way. If they wished to fly with Rex on the Wagga Wagga-Sydney leg they would need two tickets. Also, at Sydney they would have to collect their baggage and recheck-in with Qantas.¹²⁵
- 6.181 The Commonwealth's travel policy is that its travel agent must offer it the 'best fare on the day'. This is given effect in the travel contracts of Commonwealth departments and agencies. Under the *Commonwealth Procurement Guidelines*, departments and agencies are obliged to achieve 'value for money' in all aspects of their procurement.
- 6.182 'Value for money' does not necessarily mean best price alone. It can entail consideration of a range of qualitative, risk and timeliness factors according to the circumstances of each procurement. For example, in the case of air travel services, factors such as reliability, timeliness, refund arrangements and ancillary services may need to be weighed in determining best value.¹²⁶
- 6.183 Underpinning the assessment of value, the *Commonwealth Procurement Guidelines* are the principles of efficiency and effectiveness and industry development. To ensure accountability for Commonwealth spending, departments and agencies are obliged to have records that show that they have considered the benefits and capabilities of all reasonable suppliers. Accountability can be tested by an Australian National Audit Office performance audit and a series of business support process audits.¹²⁷
- 6.184 DOTARS claimed that it had strengthened its travel procedures and that this had resulted in a threefold increase in the use of smaller airlines.¹²⁸

125 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 558.

126 Department of Finance, Commonwealth Procurement Circular, CPC01/1, 'Reasonable Access for Smaller Airlines to the Government Business Travel Market', <http://www.finance.gov.au>, last accessed 2 August 2003.

127 Department of Finance, Commonwealth Procurement Circular, CPC01/1, 'Reasonable Access for Smaller Airlines to the Government Business Travel Market', <http://www.finance.gov.au>, last accessed 2 August 2003.

128 Department of Finance, Commonwealth Procurement Circular, CPC01/1, 'Reasonable Access for Smaller Airlines to the Government Business Travel Market', <http://www.finance.gov.au>, last accessed 2 August 2003.

- 6.185 Qantas Business Travel, a Qantas subsidiary, was the travel agent for many Commonwealth departments and agencies. The regional airlines questioned the impartiality of Qantas Business Travel in awarding work to airlines other than Qantas according to the Commonwealth's travel policy.
- 6.186 At the time, it was reported that Virgin Blue claimed that the booking system used by Qantas Business Travel could not readily access Virgin Blue's internet booking system. Virgin Blue explained that it was able to keep its costs low by not being a member of the various international booking systems. It was also claimed that the Commonwealth Department of Finance had said that Qantas Business Travel would charge the Commonwealth a fee to examine Virgin Blue's internet site.¹²⁹
- 6.187 A potential impediment to Commonwealth staff using an airline other than Qantas was that many staff were members of the Qantas frequent flyer and its airport departure lounge programs. They were not entitled to use these facilities if they flew with an airline other than Qantas.
- 6.188 The Commonwealth took the following action to address the issue in mid-2003:
- The Department of Finance issued a Commonwealth Procurement Circular reminding departments and agencies of their purchasing obligations;
 - The Minister for Finance and the Minister for Transport and Regional Services set an objective of 10 per cent of government travel on the Canberra-Sydney route going to smaller airlines;
 - Commonwealth departments and agencies reported their performance against the objective regularly to the Department of Prime Minister and Cabinet;
 - Qantas Business Travel guaranteed to offer the best fare of the day, or the best logical fare of the day;

129 Tingle, L., 'Dogfight over government travel deals', Australian Financial Review, 28 July 2003.

- The Commonwealth appointed an independent assessor from mid-August 2003 to examine procedures for travel bookings in agencies, and review the efforts of Qantas Business Travel to provide the best fare. The assessor examined agencies' management of travel contracts, the extent to which smaller airlines are used, and the reasons given by public servants who are offered the best fare but choose not to take it; and
- Department of Prime Minister and Cabinet took action to ensure that no department or agency would sign any further contracts until the Commonwealth had considered the issues further.¹³⁰

- 6.189 The Department of Finance and Administration advised the committee that since these measures had been introduced by the Commonwealth in July 2003, the Commonwealth's use of smaller airlines on the Canberra-Sydney route has increased by some three per cent from 11.9 per cent in July to 15.3 per cent in August 2003. By comparison, the Commonwealth's use of smaller airlines nationally had declined by one per cent from 7.9 per cent in July to 6.9 per cent in August.¹³¹
- 6.190 The committee considered that the actions taken by the Commonwealth have improved access to the Commonwealth's business travel market for smaller regional airlines. This action could promote competitiveness in the market and improve the diversity of services.
- 6.191 The committee noted that Qantas is affiliated with many small airlines, and consequently, admitted that any measures taken by the Commonwealth would not automatically mean that Virgin Blue and Rex would receive a greater share of the Commonwealth's air travel market.
- 6.192 The committee also noted that the 'best fare of the day' criterion would not necessarily provide Virgin, Rex or other smaller airlines with additional Commonwealth business. Qantas' dominant position in the market enabled it to match or better any fare that Virgin or Rex could offer, in the knowledge that it could carry any loss better than the other two airlines.¹³²

130 Minchin, N., and Anderson, J., Joint Media Release, 23/2003, '*Government air travel: use of smaller airlines*', 24 July 2003.

131 Department of Finance and Administration, communication with secretariat, 14 October 2003.

132 Regional Express, transcript of evidence, Sydney, 8 May 2003, p. 557.

- 6.193 The ‘value for money’ criterion was also in Qantas’ favour because the company’s product bundling practices enabled it to offer the Commonwealth a more complete service.
- 6.194 Consequently, the committee considered that the Commonwealth should put in place longer term arrangements to ensure that there is greater equity in the awarding of its business travel to regional airlines. This would require the Commonwealth to give closer scrutiny to who benefits from Commonwealth business, and to use its buying power to ensure equitable outcomes are achieved.

Recommendation 20

- 6.195 **The committee recommends that the Department of Finance and Administration and the Department of Transport and Regional Services ensure that regional airlines have an equitable share of the Commonwealth’s travel market by:**
- **Setting an objective share of key routes used by the Commonwealth and an overall share of the Commonwealth travel market, consistent with ‘best fare of the day’ and ‘value for money’;**
 - **Auditing the compliance of Commonwealth departments and agencies with criteria based on ‘objective share of key routes used by the Commonwealth’, ‘best fare of the day’ and ‘value for money’; and**
 - **Publishing the results of the compliance audit.**
- 6.196 The committee noted that Qantas Business Travel has a near monopoly on the Commonwealth’s travel market, and that this could enable it to offer a Qantas airfare that would at least match any airfare offered by a smaller regional airline.
- 6.197 The committee considered that there should be greater transparency in the way in which Commonwealth departments and agencies make their decisions regarding ‘best fare of the day’.

- 6.198 Accordingly, the committee recommends that the Department of Finance and Administration monitor the 'best fare of the day' offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, by conducting periodic, random and anonymous spot checks. These checks would determine the fare offered by Qantas Business Travel, and how the fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel.
- 6.199 The committee further recommends that the findings from the spot checks be reported to the Minister for Finance and the Minister for Transport and Regional Services.

Recommendation 21

- 6.200 **The committee recommends that the Department of Finance and Administration monitor and report on the effectiveness of the 'best fare of the day' policy by:**
- **Conducting periodic, random and anonymous spot checks to determine the fare offered to the Commonwealth by Qantas Business Travel, Virgin Blue and regional operators, and how this fare compares with the corresponding fare available from smaller regional airlines, and the 'best fare of the day' offered by Qantas Business Travel; and**
 - **Reporting the results of these spot checks to the Minister for Finance and the Minister for Transport and Regional Services.**

Airport costs

- 6.201 Many airlines and representatives of users of air services expressed concern to the committee at the impact of airport charges on ticket prices, because of their influence on a potential passenger's decision to fly or drive. Fewer passengers using a route reduces its viability and the quality of services.¹³³

133 Regional Express, submission no. 116, pp. 8-9; Launceston Chamber of Commerce, submission no. 82, p. 2; NSW transcripts and submissions.

- 6.202 The ACCC monitors prices, costs and profits related to the supply of aeronautical services and aeronautical related services at Australia's capital city airports, with the exception of Hobart. The services only relate to aircraft movement facilities and activities, and passenger processing facilities and activities. The *Prices Surveillance Act 1983* covers these issues.¹³⁴ The Productivity Commission has investigated the price regulation of airport services. The Commonwealth released the most recent review of airport prices in May 2002.¹³⁵
- 6.203 Some witnesses argued that there is the potential for a local council or owner / operator of a regional airport to have an airport monopoly, particularly where the demand for airport services at the location is relatively strong.
- 6.204 There is no formal prices oversight of the charges that local governments levy for the use of their airports. It is left up to market forces between individual councils and air service operators.¹³⁶
- 6.205 The issue remains of whether there is a need for some form of monitoring of the prices charged by councils for airport services.
- 6.206 On the one hand, the arguments for no Commonwealth monitoring of prices charged by councils for airport services are based on jurisdiction and competition.
- 6.207 The jurisdictional argument says that the trade practices of regional airports are the responsibility of the state or territory in which the airport is located.
- 6.208 The jurisdictional argument does not apply to airports of national significance, such as capital city airports, which are a Commonwealth responsibility. As mentioned elsewhere in the report, the ACCC monitors the prices of aeronautical and airport related services of these airports.

134 ACCC, 'Airport Pricing', <http://www.accc.gov.au>, last accessed 29 July 2003.

135 Productivity Commission's Inquiry Report on Price Regulation of Airport Services, <http://www.pc.gov.au>, last accessed 29 July 2003.

136 Australian Competition and Consumer Commission, communication with secretariat, 19 September 2003; Australian Airports Association, correspondence with secretariat, 13 August 2003.

- 6.209 Where a party took issue with the prices charged at a regional airport it could seek to resolve the matter with the owner or operator of the airport concerned. If the outcome of this was unsatisfactory, the complainant could resort to the relevant state or territory trade practices body. Alternatively, the complainant could resort to seeking the assistance of the local member.
- 6.210 The competition argument says that local councils have an interest in keeping their airport prices reasonable. The committee found that many local councils have a great interest in encouraging the use of their airport facilities because of their contribution to economic and social development. This has some influence in capping the prices that individual councils charged for airport services.
- 6.211 Despite the self interest of regional airports to keep their prices reasonable, the committee found that regional airlines such as Rex remain concerned at the prices charged by some regional airports. In addition to raising its concerns with local members and governments, Rex has called on regional airports to reduce their prices.¹³⁷
- 6.212 On the other hand, the arguments for the Commonwealth monitoring prices charged by councils for airport services are based on overcoming a market failure such as a lack of information or the market power of an airport.
- 6.213 Knowledge of airport prices is essential for a regional airline to make sound business decisions on which airports to use. Gathering this information can be expensive for smaller airlines.
- 6.214 Another counter argument to the Commonwealth monitoring prices charged by local councils says that the cost of maintaining airports in communities of under 30 000 people was not properly taken into account by the Commonwealth at the time of local ownership. This, coupled with other Commonwealth charges, are major influences on the level of costs the councils must recoup.
- 6.215 The Commonwealth's prices monitoring agency, the ACCC, can hardly rule on the fairness of regional airport charges where the principal driver of those charges is the inability of a council's rate base to provide sufficient funds to adequately maintain a facility inherited from the Commonwealth.

137 Regional Express, '*Charges crippling regional air services, Rex warns*', <http://www.travelbiz.com.au>, last accessed 19 September 2003.

- 6.216 The committee considered that there was a strong argument for the prices charged by regional airports to be readily and publicly available. BTRE is ideally placed to provide this information to the marketplace.
- 6.217 Accordingly, as stated in the second recommendation in this chapter, the committee recommends that BTRE provide publicly, information on the prices charged by regional airports for aviation services. The Bureau's *Avline* publication would be the appropriate publication to make this information available publicly.
- 6.218 In respect of council-owned airports, BTRE should arrange, in conjunction with the Australian Local Government Association, for this data to be updated following the annual round of council budget tablings.

Airport landing and takeoff slots

- 6.219 Regional communities and small regional air services asked the committee that landing and takeoff slots continue to be available at peak times at capital city airports. This enables passengers from regional Australia to enter and leave capital cities at convenient times.
- 6.220 Many regional business and private passengers want to attend to business, medical or other appointments and return home in the one day. Off-peak departure times are often inconvenient. They increase the cost and time to regional travellers by necessitating them to stay overnight at the capital city. This issue was of particular concern in New South Wales where Sydney Airport has certain capacity constraints.¹³⁸
- 6.221 At capital city airports with capacity constraints at peak times and under private ownership have an incentive to maximise the return from landings. At peak times in particular, the small regional air services compete with larger domestic and international airlines for landing and takeoff slots. However, they are at a disadvantage compared with the larger airlines that have greater financial resources and bargaining power.
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138 National Framers Federation, submission no. 139, p. 5; Macair Airlines Pty Ltd, submission no. 76, p. 4; Tasmania Government, submission no. 155, p. 15; Country Womens Association, submission no. 51, p. 2; City of Albury, submission no. 37, p. 2; Riverina Eastern Regional Organisation of Councils, submission no. 152, p. 1; New South Wales Government, submission no. 151, pp. 4-5.

- 6.222 The Commonwealth has ensured that regional airlines have access to major airports through its lease arrangements and legislation.
- 6.223 A particular feature of the slot system at Sydney Airport is that slots for regional airlines are effectively protected by the 'regional ring-fence' covered by the *Sydney Airport Demand Management Act 1997*. A private company called Airport Co-ordination Australia manages the allocation of slots to users.¹³⁹
- 6.224 Under this arrangement, slots inherited from long-standing usage patterns ('grandfathered') by regional airlines can only be swapped for slots for domestic and international airlines within 30 minutes of their originally scheduled time. Regional slots are capped at the December 2000 levels during peak times. Outside peak times, regional airlines would be free to bid for new slots, but would be subject to new rules about aircraft size. This is intended to encourage the use of larger aircraft.¹⁴⁰
- 6.225 The committee noted that one measure of the needs of regional communities for connectivity with major centres is given by regional travellers making up about 20 per cent of passengers using domestic airlines.¹⁴¹
- 6.226 The committee considers that it is the absolute right of regional communities to have connectivity of air services. The connectivity of air services is an essential amenity for travellers from and to regional centres to meet their business, health, educational and social needs. The Commonwealth's regional statement *Stronger Regions, a Stronger Australia* and the Regional Business Development Analysis Action Plan, sponsored by the Commonwealth, endorse these rights.¹⁴²
- 6.227 An essential aspect of this connectivity is access to Sydney airport and other capital city airports at times convenient to travellers from regional communities.

139 Sydney Airport, exhibit no. , p. 1.

140 Kain, J., and Webb, R., '*Turbulent Times: Australian Airline Industry Issues 2003*', Department of the Parliamentary Library, Research Paper No. 10 2002-03; Anderson, J., '*Regional access to Sydney Airport guaranteed*', Media Release A198/2000, 13 December 2000, <http://www.ministers.dotars.gov.au>, last accessed 1 August 2003.

141 Air Link Pty Ltd, submission no. 94, p. 4.

142 Department of Transport and Regional Services, '*Stronger Regions, a Stronger Australia*', <http://www.dotars.gov.au>, last accessed 19 September 2003; Regional Business Development Analysis Action Plan, <http://www.rbda.gov.au>, last accessed 19 September 2003.

- 6.228 Accordingly, the committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney and other capital city airports. The committee also recommends that this be monitored as part of the task assigned to BTRE in the earlier recommendation in this chapter (referring to the regular monitoring and regular reporting of the connectivity available to passengers from regional airlines).

Recommendation 22

- 6.229 **The committee recommends that the Commonwealth retain the current measures to ensure that regional airlines have access to Sydney airport and other capital city airports.**
- 6.230 The committee received evidence that the slower aircraft of small regional airlines do not mix with high density jet operations at Tullamarine. This means that regional flights entering Melbourne are encouraged to use Moorabbin and Essendon with lower landing fees.¹⁴³
- 6.231 However, the use of Melbourne's regional airports creates difficulties for passengers transferring to and from domestic and international flights. These passengers must pay the taxi fare to Tullamarine from Moorabbin or Essendon. Furthermore, they have the inconvenience of transferring themselves and their baggage. In the case of a transfer from Moorabbin to Tullamarine, the fare is expensive.
- 6.232 The committee did not receive evidence on how many people and how much freight is affected by this arrangement. The committee considered that this issue warranted further investigation. However, the committee noted that, with the exception of a limited number of Tasmanian services, the issue was potentially an intrastate issue and should be dealt with by the Victorian Government.

143 Southern Grampians Shire Council and Shire of Moyne, submission no. 112, p. 16; King Island Council, submission no. 132, pp. 7-9; East Gippsland Shire Council, submission no. 92, pp. 5-6; Flinders Island Tourism Association, submission no. 127, p. 4; Furneaux Enterprise Centre, submission no. 136, p. 2; Walker, G., submission no. 40, p. 2; Wheatley, A & M., submission no. 55, p. 5; Witten, Rev. R, submission no. 23, p. 2; Cradle Coast Authority, submission no. 149, p. 19.