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## Turbulent Times: Australian Airline Industry Issues 2003

The Australian airline industry has experienced major changes to its policy and operating environment over the past decade, culminating in very turbulent economic conditions over the past two years. This paper analyses these upheavals and some of the threshold issues arising, particularly in relation to the sustainability of effective competition in the industry over the longer term.

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## **Executive Summary**

These have been turbulent times for the Australian airline industry. It has been confronted with a marked decline in international tourism in the aftermath of the September 2001 terrorist attacks in the United States and, more recently, traffic loss attributable to the war in Iraq and severe acute respiratory syndrome (SARS) outbreaks in parts of Asia and Canada.

In addition to these upheavals, the industry has undergone major structural change since the late 1990s. On the major routes - the so-called 'domestic trunk routes', where there were four airlines in 2000, there are now only two. In 2000, the domestic trunk routes were dominated by Qantas Airways and Ansett Australia—with new entrants Virgin Blue and Impulse Airlines emerging in niche markets. Nowadays the industry has a lopsided two airline structure, with Qantas dominant since its takeover of Impulse Airlines in 2001 and the Ansett group's subsequent collapse in September 2001. Although Virgin Blue has rapidly built up its market share, it still has less than a third of the market.

The upheavals in the trunk airline sector have carried over to the regional airline sector. This is the part of the domestic airline industry which services centres in rural and remote Australia. At the time of the Ansett group's collapse, most regional operators had equity or close operational relationships with either Qantas or Ansett.

While the domestic airline industry is largely deregulated, Australia's international airline industry remains quite regulated at the Commonwealth level, as it is subject to the detailed capacity controls that are part of the long-established system of bilateral air service agreements (ASAs) that underpin the industry. ASA's provide the international legal framework enabling the operation of scheduled international air services between countries. These agreements control the amount of airline seat capacity which may be deployed on scheduled services over individual country to country routes; they are generally of treaty status and are enforceable in international law.

The Howard Government has had a long term commitment to a system of liberalised air services and this goal was supported by the 1999 Productivity Commission inquiry into liberalising the economic framework of the industry. To date, only the Trans-Tasman routes have benefited substantially from the Government's 'open skies' objective.

In another move to free up the international side of the industry, the Commonwealth adopted a policy of allowing more than one Australian owned international airline to operate scheduled services to and from Australia. However the September 2001 failure of the Ansett Airlines group brought an end to Ansett International's short-lived operations. Although Qantas is once again the only Australian flag carrier, Virgin Blue has signalled its interest in operating in some international markets in Australia's immediate region, such as the trans-Tasman market.

A significant worldwide trend that is starting to be felt in Australia is the rapid emergence of low-cost international carriers. Irish airline, Ryanair, is a high-profile European example, while SouthWest Airlines is a long-established American example. These are sometimes referred to as 'value-based airlines', reflecting their emphasis on aggressive containment of costs to sustain highly competitive fare levels. Two Australasian carriers have been established in recent times to cater for this growing market: Australian Airlines and Freedom Air. Unlike some of the new low-cost international airlines in Europe, these carriers are not independent but are fully-owned, stand-alone divisions of Qantas and Air New Zealand (Air NZ) respectively.

Levels of competition vary widely within each sector. In the domestic trunk airline sector, the fairly robust competition that previously existed between Qantas, Ansett and the new airlines has come and gone since the industry's 'deregulation' in 1989. This has given way to a more restrained form of competition between Qantas and Virgin Blue because Qantas is the only provider of nationwide, 'full-service' scheduled services. Qantas has the advantage of comprehensive regional and international networks and extensive feeder traffic links to other overseas airlines' networks through its membership of the One World Alliance.

In contrast, Virgin Blue is not a member of an alliance, its service frequencies are modest in comparison with those of Qantas, and its domestic network is nowhere near as extensive as that of Qantas. But in the low-cost, budget travel niche that Virgin Blue helped establish, competition with Qantas is vigorous. In response to Virgin Blue's success, Qantas is taking steps to expand its share of the budget travel market, while Virgin is now seeking to expand beyond its leisure traveller niche by developing its business travel market.

The Ansett collapse has decreased competition in many parts of the regional airline industry (of which the Ansett group owned a large portion). The Qantas-owned regional airline, QantasLink, dominates many routes and is the sole airline on some routes. Most of the former Ansett group regional airlines are not linked with an international alliance network. Nonetheless, Virgin Blue, Regional Express—formed by the amalgamation of former Ansett group airlines, Kendell and Hazelton—and other regional airlines such as Alliance Airlines in Queensland, compete to varying degrees with Qantas services. Because regional airlines operate mainly intra-state services, the states have sole responsibility for their economic regulation; most states have liberalised or deregulated operations.

Putting aside the current slump in domestic tourism, the potential for increased competition in the domestic airline industry through the emergence of new carriers is generally more favourable now than in the past. Although Qantas is likely to remain the dominant player in the domestic passenger and freight markets, some of the factors that led to the failure of previous new trunk route entrants are now less of a barrier.

In particular, airport terminal facilities are more readily available to new entrants now that some former Ansett terminals have been freed up as common-user facilities. The current relatively low cost of obtaining aircraft due to the depressed state of the aircraft market also favours potential new entrants. The liberal policy environment—including freedom of entry to domestic trunk routes by domestic airlines, and guidelines that allow foreign airlines to acquire up to 100 per cent of the equity in an Australian airline or to start a new domestic airline unless this is contrary to the national interest—also favours new entrants.

What of the future for the Australian airline industry? The apparent existence of economies of scale—the gains by way of reduced costs from the increasing size of operations—in the domestic airline industry suggests that there may be an on-going need for regulation to prevent monopolisation over the long term. In the absence of effective economic regulatory oversight of the industry, it has the potential to evolve into a Qantas monopoly. High capital and set-up costs have traditionally contributed to high entry costs and have increased the market power of the incumbent airlines, impeding competition. Should such circumstances continue to prevail over the longer term, it raises the issue of whether Australia's domestic market is really big enough to sustain competitive supply and whether a lightly regulated oligopoly is still appropriate.

Although the former two airline policy was not replaced with an industry-specific economic regulatory regime for airlines, the industry is subject to the general competition policy provisions of the *Trade Practices Act 1974*, which is administered by the Australian Competition and Consumer Commission.

The *Trade Practices Act* is intended to inhibit unfair competition throughout industry generally, but the recent *Boral case* in the High Court has led some observers to question its effectiveness in protecting smaller businesses from what might be termed predatory pricing by dominant companies. This is particularly relevant in today's domestic airline industry, with its 'David and Goliath' structure in the form of an emerging, relatively modestly sized and resourced Virgin Blue versus a dominant and well 'cached-up' Qantas.

The future of the regional airline sector is far from clear; it seems likely that Qantas's regional operations will continue to be a major force. However, the role and sustainability of the non-aligned, newly restructured carriers such as Regional Express and [Alliance Airlines](#) have yet to be established. As the state governments are primarily responsible for the economic regulation of this sector, state policies could have a major influence on its long-term structure and outlook.

Competition in Australia's international airline industry will continue to be tempered by the bilateral air service agreements unless there are successful multilateral moves towards a more liberal regime over the longer term. Consequently, Qantas is effectively 'guaranteed' a major role in its international markets, although the intensity of competition with Qantas varies between markets and could increase if new Australian flag carriers gain access to Qantas routes. Australia's 'multiple-designation' policy means that more than one

Australian-owned carrier can potentially operate scheduled air passenger services to and from this country.

The development of low-cost international carriers such as Australian Airlines will assist in nurturing financially viable traffic growth. Their potential to encourage increased traffic through highly attractive fares is particularly important in the current worldwide climate. Heightened security concerns and political uncertainty have caused global tourism to stagnate, with huge financial losses being reported by major, long-established 'full-cost' airlines, particularly in North America. The further expansion of low-cost international airlines will assist in counteracting this trend and in sustaining Australia's vital tourism industry.

Another facet of the changing airline industry over the past decade has been the Commonwealth's withdrawal from the operation of airports; all major airports are now operated by private 'owners' under very long-term leases from the Commonwealth. This has led to a new framework of economic regulatory arrangements for such airports. On 'privatising' the major airports, the Government imposed price caps on airport company charges for the aeronautical services which they supply to the airlines, but subsequently replaced the caps with a price monitoring regime. Airport companies attracted industry criticism for increasing aeronautical charges after the caps were lifted, but justified the increases on the grounds that they will be used to finance major airport investments, including upgrades to accommodate the new generation, very large capacity, international aircraft type—the A380 Airbus—which Qantas and other international carriers will introduce to their Australian routes over the next decade.

Continued traffic growth over the medium term will mean that airports will face pressure to utilise existing infrastructure more efficiently and it appears the Commonwealth will continue to involve itself in addressing these challenges. There are important competition policy issues at stake and these are closely associated with problems of airport congestion. Slot systems—permission for aircraft movements—are effective in rationing scarce airport and airspace capacity but can restrain competition. Sydney (Kingsford-Smith) Airport (KSA) is the only Australian airport to have a slot system to ration airport capacity among competing airline users. Sydney KSA's life could be extended if its operations were changed because its technical capacity far exceeds its actual (regulation-constrained) capacity.

The Government has to date shown a preference for administrative solutions—such as a guaranteed number of regional airline slots at peak times, a cap on the number of hourly movements, and the noise curfew—to 'economic' solutions such as peak-load pricing and the sale of slots by auction. The main regional airlines are major beneficiaries of administrative regulation. Arguably, they are subsidised by passengers of non-regional services. Sydney KSA remains the pivotal airport facility for the Australian airline industry despite the growth in new air service links that by-pass Sydney; increasing the operating capacity of the existing Sydney KSA will delay the need for a second major airport in Sydney.



## Introduction

The Australasian airline and aviation infrastructure industries have experienced major changes to their policy and operating environments in the past decade. The upheavals have included the collapse of the Ansett group, the absorption of Impulse Airlines into Qantas, the entry and rapid growth of Virgin Blue and the establishment of Australian Airlines, Freedom Air and Jetconnect. The 1990s trend towards the liberalisation of Australasian air services has continued with the establishment of an Open Skies agreement between Australia and New Zealand in late 2000. The 2001 terrorist attacks in the United States and the 2003 Iraq and SARS crises led to significant downturns in the international and domestic aviation markets, resulting in further change.

In the aviation infrastructure industry, the past decade has witnessed the transfer of all of Australia's major airports from the Commonwealth to private companies under long-term leases, changes to the regulation of cost recovery at airports and the restructuring of charges for aviation services.

Upheavals in the domestic airline industry are nothing new and they have invariably developed a strong political flavour, as most recently witnessed during the 2001 Federal Election campaign when the Federal Opposition and the Victorian Labor Government became closely aligned with the Ansett—Tesna interests. Reflecting on the industry in the early post-Second World War decades, former Liberal Party leader, Sir Billy Snedden observed in 1981 that:

'The aviation industry is politically volatile and always capable of arousing public interest, discussion and controversy. From the mid-1940s to the mid-1960s, it [*civil aviation*] was one of the most debated topics in the Federal Parliament, attracting attention beyond its economic significance. To many people civil aviation became a battleground for conflicting political philosophies.'<sup>1</sup>

The industry's inherent instability and disproportionate political significance were key factors influencing the genesis of the two airline policy as set out in the *Civil Aviation Agreement 1952*<sup>2</sup>. The industry's turbulent tendencies have returned in the 13 years that have elapsed since the termination of the two airline policy in 1990. Unsustainable growth has occurred in the domestic airline industry marked by a cycle of the entry of new players, the collapse of some players and the emergence of others. High capital costs have contributed to high entry costs and have increased the market power of the incumbent airlines, impeding competition. This raises the issue of whether Australia's domestic market is really big enough to sustain competitive supply and whether a lightly regulated oligopoly is still appropriate.

This research paper describes the current state of the Australian domestic and international airline industries, tracing the main changes since domestic airline deregulation and commenting on associated policy issues. It includes an analysis of the consequences of the

Ansett collapse, changes in the airports industry and emerging competition and economic regulatory issues affecting both the airline and airports industries.

An earlier version of the paper is available as an audio brief, *After Ansett—Airline Industry Trends and Issues*, by John Kain and Richard Webb, recorded in 2002. A [chronology](#) of the events leading up to Ansett Australia's last commercial flight on 5 March 2002 and covering the aftermath of the airline group's collapse is also available on the Department of the Parliamentary Library website.

## **A: Airline Industry Overview**

Australia's airline industry can be classified into three broad categories:

- domestic trunk route airlines
- regional airlines
- international airlines.

### **Domestic Trunk Airline Industry: Services, Structure and Prospects**

A domestic airline is:

An airline performing regular public transport services and whose fleet contains exclusively high capacity aircraft, defined as aircraft with more than 38 seats, or with a payload of more than 4 200 kg.<sup>3</sup>

The domestic trunk airline industry encompasses the mainline domestic scheduled air passenger service network. It is composed predominantly, but not exclusively, of inter-capital routes.

Since the 1960s, the trunk route airlines have operated mainly jet aircraft capable of carrying 100 to 250 passengers and between two tonnes and ten tonnes of freight. While Boeing 727s and McDonnell Douglas DC 9s were the dominant first generation aircraft types in Australia, these aircraft types are now retired; the current day fleet relies heavily on various models of the Boeing 737 and Boeing 767 jet aircraft types.

The industry was nominally 'deregulated' at the federal level with the end of the two airline policy in 1990. However, some state governments maintain economic regulation of intra-state routes, while at the national level, the Australian Competition and Consumer Commission (ACCC) monitors the state of competition in the industry in accordance with its generic trade practices responsibilities. Appendix 1 contains a listing and brief description of the larger regional and trunk route operators in Australia's domestic airline industry as at May 2003.

## **Players**

In the past two years, the trunk airline industry has changed from a four-airline structure—[Qantas](#) Airways, [Ansett](#) Australia, [Virgin Blue](#) and [Impulse Airlines](#)—to a lopsided two airline system.

### **Qantas**

The Qantas Airways Group has extensive commercial and ownership links with a number of regional carriers. Qantas also has code-sharing<sup>4</sup> and alliance arrangements with international carriers through the [One World Alliance](#). This is the second largest of the five 'airline alliances', or the groupings of allied airlines that underpin the globalisation of the airline industry. (The Ansett group was a member of the largest alliance, the [Star Alliance](#).) Qantas also has strong international equity links with British Airways, which owns over 21.4 per cent of the airline. Qantas has a 46.2 per cent interest in Fiji's Air Pacific.

Qantas Domestic is now the only provider of nationwide, 'full-service' scheduled air services. Qantas has expanded its fleet rapidly since the Ansett group collapsed, when Qantas's domestic market share was 55 per cent; it now has around 70 per cent of the travel market on the domestic trunk route network. Qantas's extensive domestic and international route network can be seen by clicking [here](#) to view an interactive electronic route map.

In response to the growing popularity of discount air travel in recent years, and to meet the competitive challenge from Virgin Blue at the 'low fare' end of the market, Qantas has built on the low-cost operating arrangements it inherited in its May 2001 acquisition of Impulse Airlines. It has retained Impulse as a stand-alone unit within Qantas, so deriving savings from utilising Impulse's low-operating cost, all-economy class Boeing 717 aircraft and streamlined staffing/work practice arrangements. Qantas has also further built on Impulse's value-based marketing approach by expanding its range of 'all-economy', leisure-oriented services and buying more Boeing 717s.

### **Virgin Blue**

Virgin Blue Airlines is the Brisbane-based subsidiary of the Virgin group of companies and began operation in 2000. Its original owner and founder was British businessman, Sir Richard Branson. The Virgin Group owns 46 per cent of the equity in Virgin Blue company while Patrick Corporation—the large, diversified Australian transport and logistics company—acquired 50 per cent of the airline in 2001–02. Senior staff of Virgin Blue hold the remaining four per cent.

As a member of the Virgin group, Virgin Blue has loose links with Virgin Atlantic—which operates international services out of London—and Virgin Express, the group's low-fare European airline based in Brussels. Virgin Blue is not a member of any of the

international airline alliances. In October 2002, however, Virgin Blue began to code-share with a Star Alliance member, United Airlines, somewhat compensating the latter for the loss of its Australian Star Alliance partner, the Ansett group.

Since the winding-up of the Ansett group in early 2002, Virgin Blue has provided the main trunk route competition for Qantas. Virgin Blue operates mainly on the busiest portions of the trunk network, offering single-class, no-frills, low-cost air travel, mainly between selected capital cities and other centres. To contain costs, Virgin Blue operates only one aircraft type, a Boeing 737 jet fleet, while crew costs are minimised through work arrangements which require crew to have a relatively wide range of skills and to perform a relatively broad array of work tasks. In this respect, Virgin Blue has many of the characteristics of the new breed of low cost airlines emerging worldwide known as 'value-based airlines'.<sup>5</sup>

At the start of this year, Virgin Blue estimated that it had 24 per cent of the domestic aviation market and established plans to increase this share to 30 per cent over the remainder of 2003.<sup>6</sup> When established several years ago, Virgin Blue focussed its marketing efforts on passengers whose travel inclinations were relatively sensitive to fare levels but were not so concerned with travel times and service frequency consideration, such as leisure travellers. However, as its route network and service frequencies have expanded, it has shown an increasing marketing orientation towards travellers who are more concerned about travel times and service frequencies and less concerned about fare levels, such as business travellers.

Although initially reporting trading losses, the modestly capitalised airline's trading position has turned around, bolstered partly by the Ansett group's collapse. In its second year of operation (to 28 March 2002), Virgin Blue recorded a net profit of \$35 million and it has been reported that its 2002–03 net profit result could be between \$100 million and \$120 million.<sup>7</sup> The airline is planning a partial public float sometime over the next 12 months.

Virgin Blue has taken over much of the domestic terminal space that the Ansett group occupied at the major airports. For example, on 6 November 2002, Virgin Blue announced that it had entered an agreement with [Sydney Airports Corporation Limited](#) to move into the former Ansett group's Sydney KSA domestic terminal—now known as T2—thus overcoming the problems of Virgin Blue's original, congested facilities at Sydney KSA.

### **Industry Finance**

Revenue for domestic operators derives chiefly from the business sector and domestic and inbound tourism. It has been estimated that domestic tourism (which includes visiting relatives and friends) contributes 40 per cent of revenue, with the business sector contributing 35 per cent and inbound tourism 25 per cent.<sup>8</sup>

The Australian airline industry traditionally has been relatively profitable by world standards, although this varies among airlines and sectors, reflecting the on-going consequences of the two airline policy and airport leasing agreements. These gave the incumbents decided advantages over potential entrants in terms of long term contractual access to terminals and landing and take-off slots.

Since the Ansett group's collapse, the industry's profitability has held up well by world standards, despite the 2001–2003 inbound tourism slump. Qantas increased its profitability partly by picking up much of the 'high yield end' of the market (eg business travel) which Ansett Australia formerly filled. That the recent steep escalations in fuel prices do not appear to have had significant adverse consequences for the Australian airline industry's profitability is partly because airline operators hedge against large, short-term cost increases of this nature through forward purchase contract arrangements. In addition, Virgin Blue operates mainly new generation aircraft that are very fuel efficient, while Qantas has progressively withdrawn those aircraft types that are less fuel efficient.

Aviation war-risk insurance has become a significant issue since the September 11 terrorist events in the United States in 2001. War-risk insurance covers losses arising from acts of war, including acts of terrorism, strikes, riots and sabotage. Because existing aviation third-party war-risk insurance was withdrawn from the global marketplace after the September 11 attacks, the Australian Government, like those of many countries, agreed to provide third-party war, terrorist and hijacking indemnity cover for damage on the ground to airlines, airports and other service and facilities providers.

The Commonwealth indemnity covers the gap between the insurance available in the market and the level of insurance held prior before the September 11 attacks, and recipients of the Commonwealth indemnity are required to hold commercial war-risk insurance to the extent it is available. The Commonwealth indemnity is currently being extended at three monthly intervals until such time as a more permanent solution is found. The Government has recently announced its intention to charge for this cover, although details of the charging are still to be finalised.

## **Regional Airline Industry: Services, Structure and Prospects**

A regional airline has traditionally been defined as:

An airline performing regular public transport services and whose fleet contains exclusively low capacity aircraft, defined as aircraft with 38 seats or less, or with a payload of 4 200 kg or less.<sup>9</sup>

However, in recent years there has been a trend towards regional airlines operating much larger aircraft. The Bureau of Transport and Regional Economics therefore defines a regional airline as:

An airline performing regular public transport services and primarily servicing regional centres.<sup>10</sup>

Regional airlines mainly operate intra-state services. The aircraft used vary in size from those seating eight to ten passengers to small jets or turboprop aircraft seating 40–80 and with capacity for up to two tonnes of cargo. Regional airline services are widely regarded in regional communities as economic lifelines to major markets and service centres, allowing the swift transport of residents, tourists and regional produce across Australia's vast distances. The accompanying map depicts some of the main regional air service routes.

**Map: Regional Airline Services in Australia 2000–01**



Note: This figure displays all routes with an average of three or more return services per week over 2000–01.

Source: BTRE, *Working Paper 51*, March 2003.

A Bureau of Transport and Regional Economics study found that regional airlines served 206 centres in 1997. They used about 286 aircraft and employed about 2700 people directly. Despite Australia's large size, more than half the flight sectors offered covered distances of less than 300 kilometres. About 80 per cent of these shorter routes were also serviced by land-based transport.<sup>11</sup>

The rate of growth of regional services has been rapid. Over the ten years to 2001–02, regional airline passenger movements grew at an average annual rate of 12.1 per cent compared with 6.2 per cent for domestic services and 7.4 per cent for international services. Still, regional services account for about only 7 per cent of all domestic passengers.<sup>12</sup>

Over recent years there has been some blurring between regional and trunk airline services, in part because of the passing of the old two airline policy regulatory framework, which defined strict regulatory compartments for the respective sectors. Constitutionally, the states have implicit sole responsibility for the economic regulation of intra-state air services. Over the past decade, most states have deregulated airline operations to varying degrees. However, it is noteworthy that in Western Australia, there has been a recent move back to regulating the state's air services in order to 'protect vulnerable air routes'.<sup>13</sup>

QantasLink—which includes the former Qantas subsidiaries of Airlink, Sunstate, Eastern and Southern Airlines—dominates regional routes, serving 55 cities and towns. QantasLink is operated by Impulse Airlines which, since May 2001, has been a wholly owned subsidiary of Qantas Airways Limited. Impulse operates a fleet of Boeing 717 aircraft in the QantasLink livery and these are used on major regional routes as well as leisure-oriented trunk routes.

As part of its more recent network expansion initiatives, Virgin Blue now provides links between the state capitals and regional centres such as Alice Springs, Cairns, Townsville, Launceston, Mackay, Rockhampton and Coffs Harbour.

[Regional Express](#) or Rex is one of the newest regional airlines. Regional Express is the operating name of Australiawide Airlines Limited, which was formed through the acquisition of former Ansett subsidiaries, Hazelton and Kendell Airlines, by a consortium including a group of Canberra-based businesses and former Ansett group-employee interests. The airline operates routes in New South Wales, Victoria, South Australia, Tasmania and the ACT with a focus on regional markets. South Australia and western New South Wales are important markets. Rex's route network can be seen by clicking [here](#) to view an interactive electronic route map. Rex is presently seeking official support for a greater share of Government travel business on its services to and from the National Capital; Qantas has dominated this market since the collapse of the Ansett group.<sup>14</sup>

The current operating environment of the regional airline industry is unusual in that a relatively large proportion of carriers operate in a stand-alone fashion, fairly independently of the trunk route airline companies and outside the global airline alliance system.<sup>15</sup> This is in marked contrast with the trend up until the time of the Ansett group collapse, when regional airlines were increasingly being integrated with the trunk carriers, either through operational links such as ticketing and baggage handling, but also through equity links. This trend culminated only months before Ansett's collapse, when a Qantas—Ansett tussle for ownership control of the NSW regional carrier, Hazelton Airlines, was resolved in the Ansett group's favour.

Since the Ansett group's collapse and the re-establishment of some of the major regional airlines as independent companies, the industry has expressed concerns about the sustainability of the current arrangements and there have been calls for the Government to establish a coherent national strategic framework for the airline industry that defines the role of the regional sector.<sup>16</sup>

Responding to such concerns, a House of Representatives Transport and Regional Services Committee inquiry was established in July 2002 to review commercial regional aviation services in Australia as well as transport links to major populated islands. The inquiry is chaired by Paul Neville, MP, and is still in progress as at June 2003. The Neville committee's terms of reference require it to examine:

- the adequacy of regional and rural air services in Australia
- the role of major air transport carriers in providing regional services
- policies and measures required to assist the development of regional air services
- the role of all three levels of government in assisting the development of regional air services and assisting regional hub services
- the deployment of the most suitable aircraft types
- interconnectivity between regional air transport systems, major national air services and international services, including on-carriage, through ticketing, freight handling, timetabling and airport slotting.<sup>17</sup>

Government responses to the Neville Committee's recommendations could have a significant influence on the structure and financial outlook of the regional airline sector in years to come.

### **Australian International Airline Industry: Services, Structure and Prospects**

During 2001–02, 50 international airlines (including dedicated freight operators) operated scheduled services to and from Australia.<sup>18</sup> Qantas is the only international airline based in



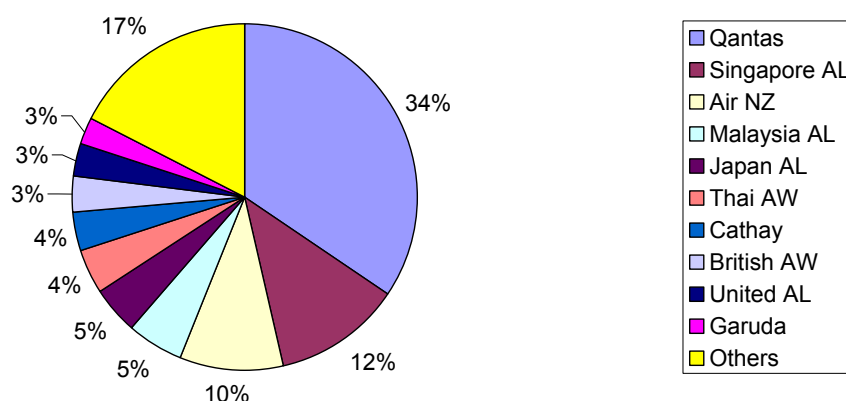
Australia; there is a legal requirement for Qantas to have its head office in Australia under the [Qantas Sale Act 1992](#). The Australian airlines' market share fell from 37.5 per cent in 2000–01 to 35.2 per cent in 2001–02, partly because Ansett International ceased operations with the collapse of the Ansett group. Ansett International was a majority (51 per cent) Australian-owned company. In 2001–02, Qantas's market share of passenger routes to and from Australia was 34.5 per cent (in terms of passengers carried).<sup>19</sup> This is considerably less than the 50 per cent share it had in the mid-1970s.

The concentration of companies in this segment of the aviation industry in 2000–01 can be described as medium. In 2001–02, the top ten airlines accounted for 83 per cent of international passenger trips and the top four for 61 per cent. The remaining passenger trips are served by a multitude of airlines using Australia's comparatively large number of international gateways. The relative importance of each of the main international airlines serving Australia is illustrated in the accompanying pie chart depicting relative market shares as measured by international passenger numbers by airline (inbound to Australia and outbound from Australia) for the year ended June 2002.<sup>20</sup>

The Commonwealth Government effectively controls competition in the Australian international airline industry because of bilateral arrangements and associated landing rights provisions at designated locations. A consequence is that Qantas is effectively 'guaranteed' a major role in servicing the market. Qantas operates international services to 75 destinations (including code-share flights by other airlines on behalf of Qantas) in 32 countries.<sup>21</sup> However, the intensity of competition varies between markets. On some routes, Qantas is the dominant operator, while on other routes, it faces strong competition. Competitive pressures have led Air NZ to withdraw from direct trans-Pacific flights and the future of United Airlines' services is uncertain.

Figure 1: Inbound and outbound passenger market shares by airline

**International Passengers by Major Airlines  
(year ended June 2002)**



(measured by passenger numbers by airline) year ended June 2002.

Qantas's new wholly owned, low-cost international subsidiary, [Australian Airlines](#), began operations in October 2002. The airline was established to serve markets from which Qantas and other airlines had withdrawn and to service inbound tourists from Asia. Australian Airlines provides all-economy, full-service flights and reportedly has operating costs some 30 per cent lower than Qantas's international operations. Australian Airlines provides services between Cairns and Nagoya, Osaka, Fukuoka, Singapore, Taipei and Hong Kong and offers a daily connecting flight between Cairns and the Gold Coast for international passengers. Australian Airlines began with a fleet of four Boeing 767-300 aircraft, but proposes to increase this to 12 aircraft within the next two years. The airline also plans to provide outbound services, with flights from a second base in a southern Australian capital city to a number of ports in Asia late in 2003.

On 28 October 2002, Qantas initiated Jetconnect, a wholly owned subsidiary which commenced operations on domestic services in New Zealand, effectively taking over the role of the former franchised Qantas New Zealand operation.<sup>22</sup> Jetconnect flies Boeing 737-300 aircraft in Qantas livery, but without the *Spirit of Australia* caption. It has a New Zealand Airline Operators Certificate and its aircraft are registered in New Zealand.

Virgin Blue is considering providing international services from Australia to New Zealand, south-east Asia and the South Pacific.

Sydney KSA is the main hub for international air transport to and from Australia. In 2001–02, it accounted for 48 per cent of international passenger traffic and 49 per cent of

international freight traffic. Melbourne was the next busiest airport with 20 per cent of international passenger traffic and 28 per cent of freight traffic.<sup>23</sup>

## **B: Australian Airline Policies: Overview**

### **Domestic Airline Policies**

There are two main elements to the Commonwealth's economic policy framework governing domestic airlines. First, Commonwealth policy is that there are no restrictions on freedom of entry to domestic trunk routes by domestic airlines. However, federal cabotage restrictions—i.e. the government policy instruments which ensure that only Australian-based airlines carry domestic passengers and freight and that foreign-owned airlines do not carry domestic passengers on domestic sectors of their international services—are in force.<sup>24</sup> In the aftermath of the Ansett collapse, the Government temporarily eased cabotage restrictions.

Individual States impose some restrictions on entry to intra-state routes. Some state governments control route entry (for example Western Australia and New South Wales) with a view to ensuring financial viability and stability in service provision, but in other states (for example South Australia), there is freedom of entry and exit. The former Ansett group subsidiary, Perth-based regional airline, Skywest, has been granted a monopoly on some of its internal Western Australia routes subject to it securing finance to upgrade its aircraft fleet.<sup>25</sup> This is consistent with the recommendations of a recent Review and Assessment of the Effectiveness of Air Services in Western Australia. The review was undertaken by the Centre for Asia-Pacific Aviation and Tourism Futures International; it recommended that the WA Government not allow more competition because it risked the loss of regular air services to many towns in the State<sup>26</sup>.

Second, Commonwealth policy is that there is no industry-specific economic regulation. In the area of competition policy, for example, despite calls for industry-specific legislation, the ACCC is responsible for the regulatory oversight and enforcement of competition. For example, the ACCC (and its New Zealand counterpart) are examining Qantas's proposal to take a 22.5 per cent equity stake in Air NZ.<sup>27</sup>

### **Fares and Subsidies**

There is no federal regulation of fares other than indirectly through the generic business conduct provisions of the [Trade Practices Act 1974](#). This raises the question of what effect deregulation has had on fare levels. The Bureau of Transport and Regional Economics found the following:

Compared to domestic fare levels in 1992 when the BTRE [Bureau of Transport and Regional Economics] started reporting on domestic air fares, real discount fares in the September quarter 2002 were almost 18 per cent below the December quarter 1992. However, in real terms the fully flexible full economy and business fare series were

almost 9 per cent and 34.5 per cent respectively above December quarter 1992 levels. The BTRE notes that the business and full economy fare series diverged significantly in the mid-1990s with the change from three classes to two classes on domestic services.<sup>28</sup>

The significant growth in the real average incomes of Australians over the past decade combined with the fall in real air fares, means that air fare affordability has improved quite markedly. Today, more Australians can afford to fly because incomes are higher relative to the level of fares. However, this does not necessarily mean that the competitiveness of air travel has improved relative to other transport modes; the continued rapid improvement in inter-capital and inter-regional road links, the trend decline in real motoring costs and improvements in regional rail services in some areas have served to make inter-modal competition more vigorous.

The viability of some regional air services is dependent on Commonwealth and state government subsidies. The Commonwealth subsidises parts of the regional and general aviation sectors. In 2002–03, the cost of the combined subsidies to both sectors is estimated to be \$16.2 million:

- the Government subsidises some services in remote areas under the [Remote Air Service Subsidy Scheme](#) (\$3.2 million)
- the Commonwealth subsidises some airports—as part of the move to location-specific pricing—and en route charges for small airlines. This will be discussed below. The cost of the subsidy for the transition to location-specific pricing for airport control towers is estimated at \$7 million, while the cost of the subsidy for en route charges is \$6 million.

The Commonwealth also provided ad hoc subsidies to regional airlines in the aftermath of the Ansett group collapse under the Rapid Route Recovery Scheme; this cost \$11.3 million.

### **Taxes and Charges**

The fare analysis undertaken by the Bureau of Transport and Regional Economics did not include the various taxes on air fares which the Commonwealth imposes nor did it include charges that the airports levy on airlines which they, in turn, add on to passenger air fares. Federal taxes are:

- the passenger movement charge—commonly called the departure tax—of \$38 on passengers departing on international flights
- the air passenger ticket levy—usually called the Ansett levy—levied at the rate of \$5 per sector (previously \$10 per ticket)
- the aircraft noise levy imposed at Sydney KSA and Adelaide airports. The Board of Airline Representatives of Australia claims that the levy adds \$3.58 to the cost of some airline tickets.<sup>29</sup>

The passenger movement charge—which replaced the departure tax—was introduced to recover the cost of customs, immigration and quarantine processing at Australia's borders and the issue of short-term visitor visas.<sup>30</sup> The charge (legally a tax) is levied under the [Passenger Movement Charge Act 1978](#) and the [Passenger Movement Charge Collection Act 1978](#).

However, the charge has moved beyond cost recovery and is contributing to consolidated revenue. Evidence given to the Senate Legal and Constitutional Committee (Australian Customs Service program) on 28 May 2001 revealed that the amount collected exceeded the costs of customs, immigration and quarantine services by \$80 million.

The Ansett and noise levies are discussed below under the Air Passenger Ticket Levy and Airport Noise Amelioration Programs respectively.

### **Foreign Investment**

Foreign investment guidelines allow foreign airlines to acquire up to 100 per cent of the equity in an Australian domestic airline or to start a new domestic airline, unless this is contrary to the national interest. Under this policy, Air NZ acquired its initial 50 per cent stake in Ansett Australia in 1996 and full ownership of the airline in 2000. However, it had to confine its equity in Ansett International to 50 per cent in order for the international entity to retain its Australian nationality status under the bilateral air service system.<sup>31</sup>

A noteworthy exception to this policy relates to Qantas. Under the *Qantas Sale Act 1992*, the Commonwealth Government restricts foreign investment in Qantas through the following provisions:

- a cap of 49 per cent on aggregate foreign equity holdings to ensure Qantas remains under Australian control
- a cap of 35 per cent on aggregate foreign airline equity holdings, and
- a cap of 25 per cent on any one foreign person owning share capital.

Qantas has argued that the 49 per cent foreign ownership restriction should be lifted so that it can fund expansion.<sup>32</sup> However, on 13 August 2002, the Government decided to retain the restriction, apparently seeing Qantas as a special case.

### **Australia's International Airline Policies**

There are a number of elements to the international policy framework.

- First, there is the bilateral air services agreements system.<sup>33</sup> This consists of a set of arrangements (which have the status of treaties) that regulate the operation of international air services, particularly capacity, between Australia and other countries.

These arrangements usually comprise an Air Services Agreement and there are some 3000 registered treaties within this framework. The Howard Government has taken the stance that, for efficiency reasons, it is essential to move away from the bilateral system of international air services agreements towards a free world in aviation.<sup>34</sup>

- Second, as noted, cabotage prevents foreign-owned airlines carrying domestic passengers over domestic sectors of their international services into and out of Australia.
- Third, the Australia-New Zealand 'open skies' agreement allows Australian and New Zealand international airlines to operate across the Tasman and then to third countries without restriction. Previously, 'beyond services' of this kind were restricted in terms of allowable capacity (12 Boeing 747s per week) and third-country destinations (a maximum of 11 countries). In addition, the international airlines of both countries can operate dedicated freight operations from any international airport in Australia and New Zealand to third countries. Australia and New Zealand endorsed the agreement in August 2002 thus formalising the memorandum of understanding in place since November 2000.
- Fourth, under 'regional open skies agreements', Australia allows foreign international carriers unrestricted access to all international airports except Sydney, Melbourne, Brisbane and Perth. Regional open skies policies incorporated into air services agreements enable regional gateways—such as Cairns, Darwin and Adelaide—to market themselves as attractive destinations without concern about bilateral restrictions on local market access.<sup>35</sup>

Since 1992, a key element of Australia's international aviation policy has been 'multiple designation'. This allows more than one Australian carrier to operate international air services. So far, Ansett has been the only passenger carrier to have taken advantage of this liberalisation. Although there have been proposals for other new Australian flag international airlines, these have never materialised.

### **Proposed Qantas-Air NZ Strategic Agreement**

In 2002, Air NZ and Qantas announced their plans to establish a joint strategic relationship entailing:

- Qantas taking a 22.5 per cent shareholding in Air NZ
- Qantas and Air NZ forming a group, made up of an equal number of representatives from each airline, that would co-ordinate the entire Air NZ domestic and international network and Qantas flights to, from and within New Zealand
- Air NZ and Qantas code-sharing on all New Zealand domestic and trans-Tasman flights and on flights between New Zealand and the Americas

- Air NZ code-sharing on Qantas Australian domestic and Qantas international flights that connect with Air NZ flights.

Qantas has argued that the strategic partnership would assist both airlines to retain their independence in an industry facing considerable and continuing difficulties. It would also allow both airlines to compete more effectively in an increasingly tough global aviation market.<sup>36</sup>

The proposed strategic alliance requires the approval of the New Zealand Minister of Transport (in his role as New Zealand shareholder), Air NZ shareholders, the New Zealand Commerce Commission and the ACCC. Virgin Blue has expressed strong concerns over the proposal arguing that:

... its [Virgin Blue's] path into the New Zealand and Trans Tasman markets is now littered with barriers to entry in the form of airport access, monopolies on ground handling, and the ease with which AIR NZ and Qantas could use their own low-cost carriers to suppress Virgin Blue's growth.<sup>37</sup>

Virgin Blue's formal response to the application for the authorisation of the agreement calls for the authorisation to be provided only if Virgin Blue (or another carrier) has actually entered the trans-Tasman and New Zealand networks on a substantial scale prior to the Qantas—Air NZ alliance coming into effect. It argues that, to enable a new entrant to establish on this scale in a meaningful timeframe, 'a number of structural and other market changes' would be required:

- Air NZ would need to divest itself of its low-cost carrier, Freedom Air
- to ensure that this outcome is not undermined through the establishment by the alliance parties of a new low-cost operator or the redeployment of an existing low-cost operator, Air NZ and Qantas should not be allowed to establish another low-fare airline
- this would ensure that new entrants do not face competition from the establishment by the Air NZ-Qantas alliance of a new, low cost operator
- Qantas should be restrained from flying Australian Airlines in addition to Impulse and Jetconnect aircraft on the trans-Tasman, New Zealand and Pacific routes for a period of three years
- new entrants must be provided access to terminal facilities on a level equivalent to that enjoyed by Qantas and Air NZ, particularly during peak times
- Air NZ must enter satisfactory commercial arrangements for maintenance services, spares and parts, ground handling services and equipment at all major airports as Air NZ is currently the monopoly supplier of many of these services

- Qantas and Air NZ should provide an undertaking that they will not increase capacity on any route for a period of two years after a new entrant enters the market.<sup>38</sup>

On 10 April 2003, the ACCC issued a draft decision proposing to deny approval to an alliance between Qantas and Air NZ on the grounds that the alliance was 'very anti-competitive and not in the public interest'; that is, the alliance's anti-competitive effects outweighed any public interest benefits from the proposal.

Air NZ's fragile financial condition in the aftermath of the Ansett collapse, its limited market size and the lack of significant prospects for improvement in its finances were, and will continue to be, important factors driving the proposed agreement. In the circumstances, it is likely that Air NZ and Qantas will make renewed applications to the Australian regulatory authorities, including the Australian Competition Tribunal, possibly with proposals for more generous concessions to third-party airlines such as Virgin Blue.<sup>39</sup> There is strong 'nationalist' support in New Zealand for the retention of Air NZ as a separate, identifiable national carrier supported by predominantly local equity; in these circumstances, it seems unlikely that Air NZ will be subsumed within the Qantas group in the foreseeable future. The New Zealand regulatory authority is not due to make an announcement on its decision in the case until September 2003.

The proposed Air NZ alliance is not the first of this kind; eight years ago the ACCC approved a profit-sharing agreement between Qantas and its 19 per cent shareholder, British Airways, relating to their services on the Australia—UK 'kangaroo route'. This is due to expire in July 2003 and it has been reported that the airlines will seek a renewal of the approval.

## **C: Aftermath of the Ansett Group Collapse**

### **Capacity and Fares**

An immediate consequence of the collapse of the Ansett group was the reduction of capacity in terms of seats available and the number of flights. This was inevitable as Ansett held 39 per cent of the domestic air travel market. The Bureau of Transport and Regional Economics has found that the immediate impact of Ansett ceasing flights was a reduction of 21 per cent in domestic airline capacity and 28.4 per cent reduction in the number of domestic flights for October 2001, compared to October 2000.<sup>40</sup>

With respect to the effect on fares, the bureau found:

Despite a widespread perception that domestic discount air fares increased following the demise of Ansett, this is not evident in the BTRE's [Bureau of Transport and Regional Economics] published domestic real airfare series ... It is more likely that the large reduction in flights and capacity reduced the availability of discount seats.<sup>41</sup>



## **Impact on Ansett group Operations**

The Ansett administrators have maintained the Ansett Australia web site to record details of the company's progress under administration including the asset disposal process. Details of asset disposals can be found on the [timeline](#) that the administrators maintain.

Following the termination of Ansett's mainline operations in March 2002 after the collapse of the Tesna bid<sup>42</sup> for the airline, the Ansett administrators decided to continue the operations of the airline's subsidiaries pending their sale to third parties. In addition, aircraft maintenance personnel and facilities were retained to keep those parts of the fleet that Ansett owned in a fit condition for sale. Ansett's terminals were largely mothballed, although a 'trickle' of passengers from former Ansett regional airlines continued to use them. The respective airport companies subsequently bought a number of the terminals and leased them to Virgin Blue and Qantas.

The administrators have retained Ansett's airline operator's certificate; any prospective new domestic airline entrant could buy it and save a reported six months on the time it would take to process an application for its own certificate. Some industry observers see Singapore Airlines as the most likely new entrant to the domestic market, especially as it is suffering from the lack of a Star Alliance domestic partner in Australia. Dubai-based Emirates Airline is also considered to be a possible contender.

## **Air Passenger Ticket Levy (the 'Ansett Levy')**

In September 2001, federal legislation was passed that introduced a levy on air passenger tickets, bought on or after 1 October 2001, for flights originating in Australia. Funds collected from the levy are being directed towards the costs associated with the Special Employee Entitlement Scheme for the former employees of companies in the Ansett group. The Department of Employment and Workplace Relations was charged with administering the entitlements scheme. The scheme's 'safety net' was designed to ensure that the 15 000-plus former Ansett group employees would be paid unpaid wages and leave, and pay in lieu of notice. It was also to meet workers' redundancy entitlements up to the community standard of eight weeks.

On 17 December 2001, a private sector entity, SEES Pty Ltd, was contracted by the Commonwealth to secure a loan for the purpose of advancing funds to the Ansett administrators in respect of unpaid Ansett group employee entitlements. This approach was necessary so that an estimated \$350 million for employee entitlements could be paid as quickly as possible, given that the revenue forecast was only \$8 million to \$10 million per month.

As of 31 March 2003, the levy had raised \$225.6 million.<sup>43</sup> The levy raised \$113 million in 2001–02 and was projected to raise \$138 million in 2002–03.<sup>44</sup> Some 12 983 former Ansett group employees had been paid \$335.6 million as at 31 March 2003.<sup>45</sup>

The Government's stance on the levy has been that it would be collected until all money paid under the entitlements scheme has been recovered. On 21 December 2002, a spokesman for the Minister for Transport and Regional Services said that the Government would like to drop the tax but it could do so until the exhaustion of all legal avenues stemming from a Victorian Supreme Court ruling in favour of Ansett administrators. That decision would ensure that \$200 million of entitlements from airline assets would not go to a superannuation fund.<sup>46</sup> A union superannuation fund has since exercised a right to appeal to gain access to funds that the administrators have recouped.<sup>47</sup>

On 1 April 2003, the Government reiterated announced that while it wanted to remove the levy as soon as possible, it was necessary to retain the levy 'in order to protect taxpayers interests' following a decision by a union superannuation fund to exercise a right of appeal to gain access to funds recouped by Ansett's administrators.<sup>48</sup> However on 10 June 2003, the Government announced that it had decided to withdraw the Air Passenger Ticket Levy at the end of June 2003, even though the legal position in relation to the Ansett Ground Staff Superannuation action was yet to be resolved as was also the precise amount and timing of payments expected to be received by the Government from the Ansett Administrators.

In announcing the decision, the Minister for Transport and Regional Services, the Hon. John Anderson MP stated that:-

the Government has received advice that irrespective of the outcome of legal proceedings, there is likely to be sufficient funding available from the Ansett administration to repay the \$335.5 million in taxpayer's money advanced from December 2001.<sup>49</sup>

The Federal Opposition had previously argued that the asset sale process and the Court superannuation decision showed that the Government would get back from the administrators the original loan. Consequently, the levy was seen as redundant and merely another form of taxation.<sup>50</sup>

## **Impact on Qantas Domestic Operations**

As noted, the collapse of Ansett left a large gap in services. Lacking capacity and operating on a very limited number of routes, Virgin Blue was unable to 'fill Ansett's shoes'. Nor was Virgin Blue willing to provide full in-flight service, given its low-cost model. In the absence of competitors, Qantas's market share on domestic trunk routes rose to a peak of 84 per cent. Qantas also met the cost of ferrying 50 000 stranded Ansett group passengers free and providing reduced fares to another 65 000.

Qantas responded to the sudden upsurge in demand by scheduling more flights and by substituting larger for smaller aircraft. Further, as the initial Ansett group collapse coincided with the sharp decline in international air travel after the terrorist attacks in the United States in September 2001, Qantas diverted aircraft from its international fleet to

domestic routes. As a longer-term response, Qantas is building up the capacity and cost effectiveness of its domestic fleet by acquiring new, fuel efficient Boeing 737-800 aircraft.

Qantas is also responding to Virgin Blue's 'no frills' approach by retaining and expanding no-frills, low-cost, all-economy class operations. Qantas inherited similar operations from Impulse Airlines and has added to them by expanding its fleet of the low operating cost Boeing 717 aircraft that Impulse used on trunk routes.

Qantas has also acquired additional terminal space to cope with its rapid growth in market share since Ansett's collapse. For example, in September 2002, Qantas commenced operations from Sydney KSA's Terminal 2 Domestic, the former Ansett domestic terminal.<sup>51</sup>

### **Impact on Virgin Blue**

Following the withdrawal of the Tesna consortium's bid for Ansett, Virgin Blue, having low capitalisation, found itself short of capital needed for expansion. Virgin Blue entered into a joint venture with Chris Corrigan, representing the Patrick Corporation, who paid \$260 million for a half-share of the company. The additional capital is assisting in the expansion of the airline's fleet and the leasing of former Ansett terminal capacity to service its growing market. As noted, Virgin Blue has also extended its route network, which now includes a number of regional centres such as Coffs Harbour and Alice Springs.

### **Impact on the Regional Airline Industry**

Ansett owned a major proportion of the regional airline industry, including Kendell Airlines, Hazelton Airlines, Aeropelican, Sunstate and SkyWest. All survived as going concerns after the Ansett collapse, albeit under administration for lengthy periods and after receiving considerable federal and state government financial support. The most important purchase of former Ansett regional airlines was the acquisition of Kendell and Hazelton by Australiawide Airlines Limited, operating as Regional Express (Rex).

Most of the former Ansett regional airline operations do not have partnership arrangements with Qantas or Virgin Blue. Before Ansett collapsed, around 80 per cent of routes were operated *only* by airlines with partnerships with Ansett or Qantas; Ansett's regional subsidiaries were all tied in with the Star Alliance. Consequently, the former Ansett regional airlines are outside the international alliance network.

The future of regional services is unclear. Qantas's highly developed corporate links—across the regional, domestic and international sectors—and scheduling to its non-regional services gives it a considerable advantage over potential competitors. This suggests that competitive initiatives by Qantas's regional carriers will be closely monitored by the competition authorities to ensure that Qantas does not take unfair advantage of its dominance in the market. One proposal to reduce this dominance is that Qantas should be

made to divest itself of its regional operations and other regional operators should be encouraged to merge into larger, more viable entities.<sup>52</sup>

## **D: The Domestic Airline Industry—Economics and Competition**

### **Economic Characteristics of the Airline Industry**

#### **Economies of Scale**

Parts of the airline industry are characterised by economies of scale.<sup>53</sup> Economies of scale occur when expanding the production of a service results in a lowering of the average cost of its production. The implication of this is that a larger service provider will achieve lower costs than his smaller competitors, making the latter vulnerable to takeover. In the long run, the implication is that in the absence of government intervention, the industry will gravitate towards a single provider (i.e. a 'natural monopoly'), a concern that underpinned the economic rationale for the two airline policy from its outset.

The policy was based on the premise that if Australia wanted two competing airlines in the domestic market, government intervention was necessary to ensure that both airlines were 'guaranteed' sufficient market share so that each could remain commercially viable over the long term. If economies of scale persist in the industry to this day, this could suggest that there is a need for on-going regulation of the airline industry to monitor and prevent any tendencies towards its monopolisation.

The airline industry is subject to economic regulation by the ACCC under the generic business conduct and competition policy provisions of the *Trade Practices Act 1974*. The High Court has, in the recent Boral case, addressed these provisions in detail in the context of claims of predatory pricing. The court's conclusions on predatory pricing could have significant longer-term implications for the Australian domestic airline industry; there is a widespread view in the small business sector that the Boral decision 'proved the Trade Practices Act did not protect small business from big-business predatory pricing'.<sup>54</sup>

In the Boral case, the High Court undertook detailed consideration of the concept of 'predatory pricing' as a form of business conduct 'taking advantage' of market power. It has been suggested that:

'as a consequence of the decision, it is unlikely that price cutting would breach section 46 unless a firm has the ability to charge prices above a competitive level and recoup its losses after it has driven its competitors out of the market'.<sup>55</sup>

This could be relevant in today's airline industry, with its 'David and Goliath' structure in the form of an emerging, relatively modestly sized and resourced Virgin Blue versus a dominant and well 'cashed-up' Qantas.

Unlike the two airline policy, the *Trade Practices Act* has no specific provisions regulating 'cut throat' air fare competition. Nor does it have provisions to ensure the maintenance of market shares and thus supporting the financial viability of smaller industry players.

### **Import Dependence**

The Australian airline industry is heavily import-dependent, especially, in relation to purchases of fuel, aircraft and spare parts. The depreciation of the Australian dollar over the past two to three years increased costs in the aviation industry. However, the more recent appreciation of the Australian dollar, especially against the US dollar will ease these pressures.

Qantas is able to offset the cost of import-dependence to an extent because some of its earnings are in foreign currencies. In contrast, the market of Virgin Blue and the regional airlines is entirely domestic so all of their revenues are in Australian dollars.

### **End of the Trunk Airline Duopoly**

The implicit model in the post-deregulation era—namely two airlines of roughly equal size constrained by the actual or potential entry of new competitors—no longer exists. Competition between Qantas and Virgin Blue is arguably more limited than between Qantas and the Ansett group under the former industry structure. Virgin Blue focuses mainly on leisure travel over major trunk routes rather than an integrated trunk and regional network and it offers only one-class service and relatively infrequent flights. In this sense, it is not a comprehensive replacement for the former full-service Ansett operation. Professor John Quiggin has summed up the new environment in the following terms:

It now seems that the best we can hope for is a one-and-a half airlines policy, similar to the pre-1997 telecommunications regime, with Qantas playing Telstra and Virgin or Singapore playing Optus.<sup>56</sup>

Although Qantas is the dominant player in the domestic passenger and freight markets, some of the factors that led to the failure of previous new trunk route entrants—such as EastWest Airlines, Compass Airlines and Southern Cross Airlines ('Compass Mark 2')—are less of a barrier now. In particular, airport terminal facilities are more readily available to new entrants, particularly now that some former Ansett terminals have been freed up as 'common-user' facilities. These are terminals and associated infrastructure that airports manage that are used (potentially) by a number of different airlines. Still, this is becoming less true over time as Qantas and Virgin Blue lease space that previously Ansett occupied.

The relatively low cost of obtaining aircraft is another factor favouring potential new entrants. Industry observers have identified a number of factors which make the present a good time for Australian airlines to obtain imported civil aircraft, namely:-

- the weak international demand for new aircraft stemming from subdued world travel after the 11 September 2001 terrorist attacks in the United States and the adverse effects on airline travel of the Iraq and SARS crises
- this weak demand gives increased bargaining power to aircraft purchasers over aircraft suppliers
- the appreciation of the Australian dollar over 2002-03 means that imports generally, including aircraft, now tend to cost less in Australian dollar terms.

It has been suggested that lifting the cabotage constraints on foreign airlines serving Australia and allowing them to carry freight and domestic passengers within Australia could increase competition. Ideally, liberalisation would be achieved on a reciprocal basis with other countries. If this proved unfeasible, a unilateral move to enhance competition in domestic aviation could be considered.<sup>57</sup> However, it is questionable to what extent easing cabotage would increase competition. The schedules of international airlines are generally not well suited to meeting domestic flight requirements, and complicated procedures would be necessary to allow domestic passengers to embark and disembark at international terminals bearing in mind customs, quarantine and security considerations.

### **Airlines' Competitive Strategies**

Qantas is trying to defend its market share through service upgrades and innovations such as the CityFlyer services on key trunk routes. It is reportedly considering investing about \$1.5 billion to expand its fleet of Boeing 737-800s to around 30 aircraft. These can be readily converted to an all-economy configuration, helping Qantas to compete with Virgin Blue.<sup>58</sup>

Virgin Blue's strategy seems to be one of 'cherry picking'—that is focusing on a limited number of high-density routes and not operating a more traditional route system of a nationwide network that cross-subsidises less profitable routes. Virgin Blue has also sought to minimise costs through more flexible working arrangements including multi-skilling (relative to past standards and to Qantas), and low overheads (for example not having lounges or catering).

A key element of Virgin Blue's competitive strategy is expansion: Virgin Blue aims to gain 50 per cent of the trunk route market by 2007. Like Qantas, Virgin Blue is increasing its fleet capacity very quickly. Virgin Blue has been a private company for much of its existence, but media reports suggest it is 'cash poor' and is moving to sell equity on the British stock market. The Virgin group is considering a public float of Virgin Blue to assist its expansion although Patrick Corporation reportedly has reservations about a float at this time. It has also been reported that Patrick would prefer a lesser degree of its own equity dilution as a result of the float than that which the Virgin Group has envisaged.<sup>59</sup>

The development of international routes would enhance Virgin Blue's competitive appeal. With Patrick Corporation acquiring 50 per cent of Virgin Blue, the airline has the potential to become an international carrier in its own right, as it is now deemed to be an 'Australian' company. Virgin Blue has announced its desire to expand into overseas operations; a linkage with Virgin Atlantic flights from Europe to Hong Kong would be one way it could establish a presence on the Australia—UK 'kangaroo route'. Expansion into trans-Tasman markets is another possibility although Qantas, Air NZ and a no-frills operator, Freedom Air, which is part of the Air NZ group, already service this route. Virgin Blue has said that it will proceed with trans-Tasman services regardless of whether the proposed alliance between Qantas and Air NZ proceeds.<sup>60</sup>

Some factors may limit Virgin Blue's ability to compete. Over the longer term, there may be doubts about Virgin Blue's financial viability. It does not participate in an international airline alliance and its market positioning excludes it from the higher-yield business travel market. If Qantas reduces operating costs to levels comparable with Virgin Blue, Virgin Blue would be at a disadvantage in light of its relatively small market share.

With respect to freight, Air Cargo Partners (ACP)—operating as Virgin Blue Freight Management—is the designated freight group for Virgin Blue Airlines. Through ACP's association with Air Cargo Partners Worldwide, ACP can offer air cargo services across Virgin Blue's entire national network as well as international cargo services. In addition, Virgin Blue's half owner, Patrick Corporation, acquired the Ansett International Cargo Handling business during the first half of 2002.

### **Adequacy of Competition Law in its Application to the Airline Industry**

With the overall level of competition in the industry less effective than before the Ansett group's collapse, it might be argued that it is only the threats of new entry and ACCC monitoring that keep Qantas competitive. Ansett's collapse has focused attention on the adequacy of competition law in its application to the airline industry. Fulfilling a 2001 election pledge, the Treasurer, Mr Costello announced in May 2002 the terms of reference for a review of the competition provisions (Part IV) of the *Trade Practices Act 1974*. Former High Court judge, Sir Daryl Dawson headed the review, which released its report on 16 April 2003.<sup>61</sup>

A key issue in this review is the operation of section 46 of the *Trade Practices Act*, which states that a firm with a substantial degree of market power must not take advantage of that power for the *purpose* of:

- eliminating or substantially damaging a competitor (in the market in which it is powerful or any other market)
- preventing entry of a person to any market
- deterring or preventing competitive conduct in that or any other market.

In its submission to the Dawson Committee, the ACCC advocated an 'effects' test under which a breach of section 46 could be established if a firm with substantial market power had taken advantage of that power and this had resulted in an anti-competitive outcome. In this case, it would no longer be necessary to establish that the firm had an anti-competitive purpose.

The ACCC has suggested that such an amendment would assist in dealing with the aviation industry in the wake of the collapse of the Ansett group. Qantas criticised this proposal arguing that the measure would effectively prevent it from competing against Virgin Blue. While debate is continuing, the ACCC has begun litigation against Qantas alleging that it misused its market power by substantially increasing the number of seats on the Brisbane–Adelaide route after Virgin Blue entered the market in December 2000—a behaviour sometimes referred to as predatory 'capacity dumping'

As has been noted, there is considerable debate in the Australian business community about the effectiveness of the *Trade Practices Act's* market conduct provisions in the light of the High Court's decision in favour of the dominant player in the recent Boral case. Small business interests and others believe the decision reduces the effectiveness of section 46 of the Act in curtailing predatory pricing. Although, The Dawson Committee addressed this issue, the committee's recommendations do not appear to envisage the type of changes in these provisions of the Act that might ease the concerns of smaller businesses confronted by a dominant competitor.

## **E: Airports and Air Services**

### **Background on the Structure of the Airports Industry**

The Commonwealth has, over time, divested itself of ownership of regional and local airports, while almost all capital city airports have been transferred to private operators on long-term lease arrangements. All international, domestic trunk and regional airports are now owned or controlled by private lessee companies and consortiums or local governments. This includes joint-use defence—civil airports such as Canberra and Townsville.<sup>62</sup>

From the 1950s to the 1980s, the Commonwealth funded the transfer of local and regional airfields and aerodromes to local government authorities under the Aerodrome Local Ownership Plan. These smaller aerodromes have not been privatised and generally remain the responsibility of local government agencies such as port corporations.

Before 1997, the Commonwealth-owned Federal Airports Corporation operated most major trunk route airports. The Hawke Government established the corporation in the 1980s when responsibility for running major airports was separated from the Department of Transport. Although commercially-oriented, the corporation set landing and terminal charges on a network-wide, 'single-till' basis.<sup>63</sup> Consequently, profitable airports



subsidised unprofitable or less-profitable ones, and revenues from non-aeronautical activities—such as car parking and retailing—subsidised the cost of providing aeronautical services such as the use of runways, taxiways and terminals.

## **Airport Privatisation**

In 1997 and 1998, the Howard Government implemented the Keating government's plan to sell leases for 17 major Australian airports (excluding Sydney) to private operators. In June 1997, the Government privatised Brisbane, Melbourne and Perth airports (the so-called Phase 1 airports) under 99-year leases. On 1 July 1998, the Government privatised a number of other major airports within the so-called Phase 2 group of airports.<sup>64</sup>

The stated rationale was to improve the efficiency of airport investment and operations in the interests of users and the general community, and to facilitate innovative management. In the aftermath of the Ansett group's collapse, the Government delayed the sale of the three 'Sydney Basin' airports at Bankstown, Camden and Hoxton Park because of adverse sale conditions, but on 9 April 2003 announced that all three would be sold this year.<sup>65</sup>

The Government considered that competition between privatised airports could be encouraged by restricting cross-ownership of certain airport pairs and by limiting airline ownership to 5 per cent. These policies were implemented under the [Airports Act 1996](#).

## **Reform of Airport Pricing**

The Government, in the airport industry reform package that accompanied privatisation, noted that the single-till pricing that the federal airports corporation followed would not be mandated for the privatised airports. Individual airport operators could retain profits, at their discretion, from non-aeronautical activities.

Concern that privatised airports might abuse their market power with respect to aeronautical services led the Government to introduce *transitional* price regulation designed to allow all parties to adjust to the new environment. Price regulation comprised a five-year, consumer price index minus X annual cap on prices for aeronautical services at 11 of the largest privatised airports, where X was a pre-determined amount specific to each airport. These arrangements extended—for the first five years of privatisation—the aeronautical charges in place before privatisation. Given the nature of the price cap, airport operator charges fell in real terms between 1997 and 2001.<sup>66</sup> Sydney KSA was subject to price surveillance by the ACCC.

The Productivity Commission reviewed the application of price regulation in its report, [Price Regulation of Airport Services](#). In its submissions to the commission's inquiry, the airport lessees argued that the price caps and the methods that the ACCC used to implement them were preventing airports from securing adequate rates of return on their investment. Despite airports being a monopoly business, the commission recommended that commercial constraints impeded the ability of airport operators to extract a higher-

than-reasonable profit. The Bureau of Transport and Regional Economics has found that the return on assets of ACCC-regulated airports ranged from 2.4 per cent at Adelaide to 7.5 per cent at Melbourne.<sup>67</sup>

On 13 May 2002, the Government announced that it had accepted the Productivity Commission's recommendation that the pricing regimes at Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra and Darwin airports be liberalised and subjected only to ACCC price monitoring (rather than price capping) for five years from 1 July 2002.<sup>68</sup> The new framework comprises a package of measures under the *Airports Act 1996* and the *Trade Practices Act 1974*. From 1 July 2002, the ACCC's responsibilities include:

- monitoring the prices, costs and profits relating to the supply of aeronautical and aeronautical-related services at Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports
- monitoring service quality at Adelaide, Alice Springs, Brisbane, Canberra, Coolangatta, Darwin, Hobart, Launceston, Melbourne, Perth, Sydney and Townsville airports
- collecting and publishing information on the financial performance of airports.

### **The Scope of Airport Charges**

The airport corporations charge airlines for the services they provide. These charges are to cover the cost of providing:

- government-mandated security services: the Board of Airline Representatives of Australia claims that the charge—which varies by airport—ranges from \$3.50 to \$5.50 per passenger, and that additional measures add \$1.20 per passenger on international flights<sup>69</sup>
- terrorism insurance: charges vary from airline to airline. According to the Board of Airline Representatives of Australia, the charges can be as high as \$12 per passenger. Sydney Airports Corporation Limited is seeking to recover the increased cost of terrorism insurance, effective 1 April 2003. The airport company estimates that the increase cost is about \$4 per return trip for international passengers and about \$2 for domestic passengers<sup>70</sup>
- aeronautical services: charges range from \$38 at Sydney KSA to between \$22 and \$26 per passenger at other airports.<sup>71</sup>

Following the end of the price caps, some airports increased aeronautical charges considerably. For example, Melbourne airport increased charges by 35 per cent, which translated to an increase of around \$1 for domestic passengers and \$3 for international passengers.<sup>72</sup> The increases were criticised at the time. However Productivity Commission chairman, Gary Banks, has stated:

Some have interpreted recent hikes in aeronautical charges at particular airports as evidence of the damaging exercise of market power. However, that largely misses the point of the increases.

The price agreements which have been reached set prices for several years (for example, for 5 years at Melbourne and Brisbane airports) and importantly will cover major investment programs. For example, Melbourne Airport is committed to a \$150 million upgrade including modification of its runways to accommodate the A380 Airbus ...

As for the magnitude of the rises in aeronautical charges—which, by the way, might equate to \$1 to \$2 per domestic passenger—these need to be seen in the context of the desirable shift from single-till cross subsidisation to dual-till pricing. It is also worth noting that the new investment would have led to increased charges under the old price cap regime. Big increases can be called for. The ACCC itself did not object to a 97 per cent increase in aeronautical charges at Sydney KSA in 2001 under the previous regulatory regime. In sum, price increases that generate appropriate investment levels at airports without excessive returns accruing to airports are to be encouraged, not condemned.<sup>73</sup>

### **Airways Services**

Airways services comprise:

- airspace management
- en route and airport terminal-related air traffic control
- aviation environment services
- rescue and fire fighting services.

These services remain a Commonwealth responsibility; the [Airservices Act 1995](#) established [Airservices Australia](#) to discharge these services and to charge users of capital city and major regional airports to recover their cost.

Airservices Australia has moved from network to location-specific pricing for its airport-related charges. Under network pricing, the cost of providing services differed among airports, but charges did not reflect these differences. As a result, some airports cross-subsidised others. Airservices Australia first introduced location-specific pricing for airport rescue and fire fighting services on 1 July 1997. It also charges for en route air navigation services on a user-pays basis.

The move to location-specific pricing meant that airways charges at some airports—those previously subsidised under network pricing—rose considerably. To ease the transition, the Government's 1998–99 Budget introduced a subsidy for the transition to location-specific pricing for some regional and general aviation airports. To a large extent, it is a

subsidy to regional and rural Australia as it is mainly regional airports such as Tamworth that benefit. The estimated cost of the subsidy in 2002–03 is \$7 million.

The Department of Transport and Regional Services administers the Payment Scheme for Airservices Australia's En Route Charges— which subsidises Airservices Australia en route air traffic control charges incurred by around 30 small scheduled service airlines and operators of aero-medical services such as the Royal Flying Doctor Service. Regional airlines that operate small aircraft will also be exempt from en route charges from 1 January 2002 to June 2005. The subsidy will cost \$6 million in 2002–03.

The Government is committed to retaining ownership of Airservices Australia, but its corporatisation and the outsourcing of some of its services, such as fire fighting, are on the agenda. The Government is introducing the Air Services Legislation Amendment Bill 2003 that would, among other things, convert Airservices Australia into a company registered under the corporations law. This would distance it from the current level of parliamentary scrutiny.

### **Airport Infrastructure Needs**

The pattern of long-term investment in upgrading facilities at the major airports has tended to be—'lumpy'—with concentrated, large-scale infrastructure investments being undertaken every few decades in response to changing aircraft technology and spurts in demand for flights. For example, large scale upgrading of Australia's capital city airports occurred in the late 1950s and early 1960s to facilitate the transition to the large jet aircraft that replaced prop and turbo-prop trunk route aircraft. Likewise, the introduction of the Boeing 747 jumbo jets in the late 1960s and early 1970s required large investments in longer, wider and stronger runways and new, larger terminals.

A similar leap in infrastructure investment at Australia's international airports will be required in preparation for the introduction from March 2006 of the [Airbus A380](#) double-decker 'mega jets'. It has been estimated that Sydney, Melbourne and Brisbane airports will have to spend around \$250 million each in order to accommodate the new aircraft.<sup>74</sup>

### **Slots Systems**

In view of the strong long-term growth in Australian air traffic, efficient allocation of airport capacity, especially of runway capacity, is increasingly urgent. This is particular the case at airports like Sydney, where the opportunities to expand capacity are limited by severe space and environmental constraints.

There are several approaches to dealing with this challenge. One is the use of administratively based airport slot systems. A 'slot' is the concession or the entitlement to use runway capacity at a certain airport on a specific date and at a specific time. Slots are typically allocated to airlines by administrative direction. An alternative approach that

many economists now advocate is the use of market mechanisms, such as auctioning slots to the highest bidders.

While slot systems are highly effective in rationing scarce airport and airspace capacity, they can restrain competition among incumbent airlines and between incumbents and new entrants. Slot systems thus have the potential to negate the gains of aviation liberalisation if national governments misuse them or allow airport owners to use them to pursue parochial interests. To promote competition, slot systems should ensure that new entrants have a fair chance of establishing viable operations. Market based solutions such as the sale of slots by tender would ensure that slots go to airlines whose passengers place the highest value on the slots (see discussion below under 'Rationalisation of Sydney KSA Operations').

Sydney KSA is the only Australian airport that has a slot management scheme. The system was introduced in 1998 to facilitate the movement 'cap' authorised under the [Sydney Airport Demand Management Act 1997](#). Under the Act, the number of aircraft movements is capped at 80 an hour (although the Minister for Transport may determine a different limit). Slots were allocated to airlines primarily on the basis of the services that the airline operated in 1997.

A particular feature of the slot system at Sydney KSA is that slots for regional airlines are effectively protected—the 'regional ring fence'—because slots 'grandfathered' by regional airlines (that is, those inherited from long-standing usage patterns) can only be swapped for slots for interstate and international airlines within 30 minutes of their originally scheduled time. In December 2000, the Government announced that regional slots would be capped at current levels during peak periods. Outside peak hours, regional airlines would be free to bid for new slots, but would be subject to new rules about aircraft size. The intention is to encourage the use of larger aircraft.<sup>75</sup>

## **Airport Noise Amelioration Programs**

There are two noise amelioration programs: one at Sydney KSA and the other at Adelaide airport.

The Department of Transport and Regional Services administers the Sydney Airport Noise Amelioration Programme, which began in 1994 when the third runway was opened. Since then, buildings have been bought or sound-insulated at a cost of more than \$400 million. Costs are recovered through a levy on jet aircraft landings. This raises between \$37 million and \$38 million annually; the total collected, as at 31 December 2002, was around \$267 million.<sup>76</sup> The enabling legislation is the [Aircraft Noise Levy Act 1995](#) and the [Aircraft Noise Levy Collection Act 1995](#). These allow the Minister for Transport to declare an airport to be the subject of an aircraft noise levy (a leviable airport). The Collection Act specifies qualifying airports as those having a public building within a 25 Australian Noise Exposure (ANEF) contour or a residence within a 30 ANEF contour.<sup>77</sup> In the 1996–97 Budget, the Government announced that it would extend the

period of the levy at Sydney KSA from 10 years to 12 years to recover the additional compensation costs associated with the reopening of the east-west runway.

The Government announced the Adelaide airport program in May 2000 and applied the levy in the 2000–01 Budget. The program involves the sound-insulation of around 600 residences and five public buildings.

At the end of June 2002, about \$395 million had been spent on noise reduction measures at both airports.

## **Sydney (Kingsford-Smith) Airport**

### **Privatisation**

The Government announced the lease sale, by tender, of Sydney KSA on 25 June 2002. A Macquarie Bank-led consortium known as Southern Cross was the successful bidder and paid \$5.6 billion for the 99-year lease<sup>78</sup> and trades as Sydney Airports Corporation Limited. Net proceeds are estimated at \$4.23 billion and have been used to pay off government debt. The Labor Opposition has argued that proceeds should have been spent on transport infrastructure rather than just retiring government debt.<sup>79</sup>

The Government has emphasised that the sale would not change the Government's full regulatory control over the airport, including the noise abatement measures and guaranteed slots for regional airlines. The Government further pledged that the pricing regime for regional airlines would be maintained after privatisation: '... so that they cannot be forced out by an underhand policy of the landlord upping the rent'.<sup>80</sup>

Provisions of the Airports Act require that:

- Sydney KSA must remain majority Australian-owned
- airline ownership in the airport is limited to 5 per cent
- cross-ownership restrictions apply to investors with a stake in Melbourne, Brisbane or Perth airports.

These restrictions are designed to safeguard competition in the Australian aviation industry.

### **Rationalisation of Sydney KSA Operations**

The airport's new owners have indicated that there is no need for a second Sydney airport as there is still considerable potential to expand Sydney KSA's capacity. The airport's life could be extended if its operations were changed because its technical capacity far exceeds its actual (regulation-constrained) capacity. In 2000, Sydney KSA averaged 77 passengers

per aircraft movement compared with 94 at Melbourne, 155 at Singapore, 169 at Hong Kong and 204 at Narita airport near Tokyo.<sup>81</sup>

Two key constraints are the regional slots at peak times and the (noise-related) cap on the number of hourly movements. The Government-guaranteed regional slots are, in effect, a quota system. If a market were to operate whereby rights to land or take off in peak times were auctioned, or if there were peak-load pricing to discourage marginal flights, the outcome would be different. In all likelihood, regional flights would be confined to non-peak times and/or relocated to sites such as Bankstown Aerodrome in peak times. The Government has indicated that it wants the lessee of Bankstown to develop it as an 'overflow' airport to take excess traffic from Sydney KSA, with an extended runway and new terminal facilities.<sup>82</sup>

The [Sydney Airport Curfew Act 1995](#) provides for a curfew on most operations between 11pm and 6am. During the curfew, only certain categories of operations are permitted. They relate principally to small aircraft and 'low-noise' jets. The curfew also provides for runway use restrictions between 10pm and 11pm and between 6am and 7am. The Act imposes a fine of \$110 000 on operators who breach the curfew.

The curfew, which contributes to a classic peak-load problem, affects mainly long-haul international airlines. They arrive when the curfew is lifted, leading to a peak in demand for international terminal services between 7am and 10am. This coincides with peak demand for domestic services, which begins at 7am and continues to 9:30am. Consequently, facilities such as the international terminal and runways have considerable surplus capacity at non-peak times. The curfew thus has considerable economic and financial costs.

In short, regulation of the operations at Sydney KSA shows that the Government prefers administrative rather than 'economic' solutions such as peak-load pricing and the sale of slots by auction. Regional airlines are major beneficiaries of regulation. They are probably effectively subsidised by passengers of non-regional services.

## **Future of a Second Sydney Airport**

Since the 1940s, federal and state governments formed from both Coalition and Labor parties, have grappled with the need to build a second Sydney airport. A [chronology](#) of policies and developments associated with second Sydney airport issues since 1946 is available on the Department of the Parliamentary Library website.

Of the 19 sites that have been considered, two remained under discussion in the 1990s, namely Badgery's Creek and Holsworthy, although the latter was subsequently rejected. As campaigns against both sites were mounted, discussion continued on a 'Sydney West second airport and the possibility of using the Richmond RAAF base.

However, the sale of Sydney KSA reinforced its status as the primary airport in the region, something that is unlikely to change over the next two decades. In any event, current policy is that a future federal government will decide if development of the Badgery's Creek site should proceed. Specifically, under the sale arrangements for Sydney KSA, Southern Cross will have the first right of refusal to build and operate any second major airport within 100km of the Sydney central business district if the Federal government of the day decided that it was needed.

The Government has stated that any decision by a federal government to build a second airport would be subject to a review of Sydney's airport needs in 2005, although it does not believe that a second airport will be necessary before the end of this decade.<sup>83</sup> As at 16 June 2003, the Commonwealth had spent more than \$144 million buying land at the proposed Sydney West airport site at Badgery's Creek.

Furthermore, while the Howard Government had indicated that Bankstown Airport, the largest of the three general aviation airports in the Sydney Basin, would be expanded to cope with overflow from the recently privatised Sydney KSA, it has recently retracted this strategy. In announcing the sale of Bankstown Airport in April 2003, Acting Transport Minister Wilson Tuckey indicated that the 'overflow' role for Bankstown was no longer necessary because of a decline in air traffic after the terrorist attacks of September 11 2001, the collapse of Ansett and the trend to larger aircraft on regional routes. He indicated that the sale would proceed without development obligations.<sup>84</sup>

## Endnotes

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3. Bureau of Transport and Regional Economics, *Avline*, Issue One, January 2003, p. 6. <http://www.bte.gov.au/recent.htm>
4. Code sharing is a commercial agreement between two airlines that allows an airline to put its two-letter identification code on the flights of another airline as they appear in computerised reservations systems. Airlines that share coders typically coordinate schedules to minimise connection times as well as provide additional customer services, such as one-stop check-in and checking baggage right through to the final destination.
5. Value-based airlines are typified by business models based on high frequency direct flights using a very limited set of aircraft types, with a single rather than basic class of service, no or extremely little interlining, a strong regional focus and very low marketing, ticketing and revenue management costs. See Network Economics Consulting Group, *Report on the competitive effects and public benefits arising from the proposed alliance between Qantas and Air New Zealand*, Network Economics Consulting Group Pty Ltd, Canberra, 8 December 2002, p. 9.



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13. 'Skywest: Regulation means certainty', *Traveltrade*, 26 March 2003, p. 6.
14. 'Anderson backs Rex, Virgin push', *Australian Financial Review*, 11 June 2003, p. 2.
15. The recent agreement between Rex and Virgin Blue allowing passengers to book flights on both airlines and to book luggage across both operators is significant in that it is a step back towards the more typical integration of regional and trunk airline services. See 'Virgin and Rex become fellow travellers', *Australian Financial Review*, 11 June 2003, p. 1.
16. Thomas, Ian, *After Ansett—Emerging Public Policy Issues in the Australian Airline Industry*. Department of the Parliamentary Library, Vital Issues Seminar series, 19 March 2002.
17. One of the submissions to the inquiry gives some useful insights into the sectors in the regional aviation industry. See <http://www.aph.gov.au/house/committee/trs/aviation/sub94.pdf>
18. Bureau of Transport and Regional Economics, *Aviation Statistics and Analysis*, International Airlines, <http://www.btre.gov.au/avstats/intpage.htm#Annual>, p.1.
19. *Ibid.*
20. *ibid.*
21. Qantas, <http://www.qantas.com.au/infodetail/about/FactFilesNov2002.pdf>
22. Qantas New Zealand had a very short history. It was owned and operated by Tasman Pacific Airlines in New Zealand, and operated under a Qantas franchise using the Qantas logo and copyrights. The Airline had Dash 8 and Bae 146 aircraft of the former Ansett New Zealand, and operated until Tasman Pacific was placed into receivership. With the collapse of Qantas New Zealand, Qantas assisted the stranded New Zealand public using its own 737 aircraft for internal New Zealand flights. This led to the establishment of Jetconnect.
23. Bureau of Transport and Regional Economics, *Aviation Statistics and Analysis*, International Airlines, op. cit.
24. The removal of cabotage restrictions has long been advocated by proponents of complete airline deregulation who point out that it could encourage foreign and Australian international carriers who operate international flights over domestic routes to offer cheap, marginally

costed fares to domestic passengers, thereby stimulating domestic tourism and travel. The opposing argument is that removal of cabotage would result in domestic route 'cream skimming' and capacity dumping by foreign carriers and that this would represent a net welfare loss to Australia as well as endangering the financial viability of the domestic airline industry.

25. 'Skywest seeks cash to buy Fokkers', *Australian Financial Review*, 13 June 2003, p. 62.
26. 'Air review urges competition curb' and 'State to protect struggling airlines', *The West Australian*, 25 January 2003.
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29. Board of Airline Representatives of Australia submission to the Tourism Strategy Group, 3 July 2002, [http://www.industry.gov.au/library/content\\_library/T10Board\\_of\\_Airline\\_Representatives\\_of\\_Australia.pdf](http://www.industry.gov.au/library/content_library/T10Board_of_Airline_Representatives_of_Australia.pdf)
30. House of Representatives, *Debates*, 21 September 1994, p. 1295.
31. On 18 September 1996, Treasurer Peter Costello announced that approval, with conditions, had been given under the Government's foreign investment policy to the proposal by Air NZ Limited to acquire a 50 per cent interest in Ansett. This decision was taken following consultations between the Treasurer and the Minister for Transport. The proposal was seen as consistent with the requirements of the *Air Navigation Act 1920* and the Government's air navigation policy. The other 50 per cent of Ansett continued to be held by The News Corporation Limited (NewsCorp).

In order to ensure that Air NZ's proposed acquisition complied with the Government's air navigation policy and the *Air Navigation Act 1920*, the foreign investment approval is subject to certain conditions. These conditions, in particular, required Ansett's internationally operating entity, Ansett International Limited (AIL), to be substantially owned and effectively controlled by Australians, which was necessary for AIL to retain its status as a designated Australian international carrier airline. Included in the conditions was the requirements that AIL's head office and operational base remain in Australia and at least two thirds of AIL's Board, including the chair, are Australian citizens. Source: Treasurer's Press Release, 'Foreign Investment Case', 18 September 1996.

32. Qantas, 'Statement on Qantas Sale Act', Press Release, 6 August 2002, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2002/aug02/2748>.
33. The Independent Air Services Commission, a division of the Department of Transport and Regional Services, undertakes part of the administration of the bilateral air service agreements system. Its role is to determine the outcomes of applications by existing and prospective Australian airlines for capacity and route entitlements available under air services arrangements. These determinations allocate the available capacity on a route to one or more

carriers and set conditions. The Government, through the Department of Transport and Regional Services, has responsibility for administering and negotiating Australia's air services arrangements. In this role, the department is responsible for maintaining a Register of Available Capacity for use by the commission and applicants.

34. John Anderson, Minister for Transport and Regional Services, 'Australia Calls for a Free World in Aviation', Media Release A86/2000, 5 June 2000, [http://www.ministers.dotars.gov.au/ja/releases/2000/june/a86\\_2000.htm](http://www.ministers.dotars.gov.au/ja/releases/2000/june/a86_2000.htm)
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38. Virgin Blue submission in response to applications for authorisation of the proposed Qantas—Air New Zealand—Air Pacific Alliance, 12 February 2003.
39. 'Airlines aim to bypass Fels', *Australian Financial Review*, 28 April 2003, p. 64.
40. Bureau of Transport and Regional Economics, *Avline*, op. cit, p. 10.
41. *ibid.*, p. 8.
42. The Tesna consortium was registered as a company in October 2001. It was established to recapitalise and revitalise the mainline operations of Ansett Australia and consisted of two prominent Australian business people, Messrs L. Fox and S. Lew. In withdrawing its bid for Ansett on February 27 2002, the consortium attributed the bid's collapse to its inability to reach agreement with third parties on issues principally related to the transfer of domestic airport terminal leases. Contract requirements for the transfer of leases at Sydney, Brisbane, Melbourne, Adelaide and Perth to Tesna could not be finalised in time. It also said that serious issues remained unresolved including those relating to environmental risk and the use of Ansett's International Air Transport Association designator code.
43. Senate Rural and Regional Affairs and Transport Legislation Committee, Answers to Questions on Notice, Supplementary Estimates 20–22 November 2002, p. 124.
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60. Jane Boyle, 'Virgin vows to cross Tasman', *Australian Financial Review*, 13 February 2003, p. 17.
61. Commonwealth of Australia, *Review of the Competition Provisions of the Trade Practices Act*, Canberra, 31 January 2003.
62. On 17 December 2002, the Transport and Regional Services Minister John Anderson and Defence Minister Robert Hill, announced that the Government would examine whether merging military and civil air-traffic management systems could cut duplication and costs. See 'Australia to examine unified air traffic management system', Joint Media Statement 12 February 2002, [http://www.ministers.dotars.gov.au/ja/releases/2002/december/Joint12\\_2002.htm](http://www.ministers.dotars.gov.au/ja/releases/2002/december/Joint12_2002.htm)
63. A single till is an arrangement for setting airport charges whereby all airport revenues and costs are taken into account in setting aeronautical prices. Allowable aeronautical prices are set on a 'residual basis', after subtracting from total airport costs the revenue derived from non-aeronautical activities. In contrast, a dual till is an arrangement for setting airport charges whereby the costs and revenues of providing aeronautical services are included in the assessment of allowable aeronautical prices. In other words, aeronautical services are priced on a 'stand-alone' basis, without regard to any net revenues from non-aeronautical services.
64. The Phase 2 airports comprised Adelaide, Alice Springs, Canberra, Coolangatta, Darwin, Hobart, Launceston, Townsville, Mount Isa, Tennant Creek, Archerfield, Jandakot, Moorabbin and Parafield.
65. 'Last call for sale of Sydney airports', *Australian Financial Review*, 10 April 2003, p. 6.

66. Bureau of Transport and Regional Economics, *Avline*, op. cit, p. 2.
67. *ibid*.
68. John Anderson and Peter Costello, 'Productivity Commission Report on Airport Price Regulation', Joint Media Statement, 13 May 2002, [http://www.ministers.dotars.gov.au/ja/releases/2002/may/airport\\_price\\_regulation.htm](http://www.ministers.dotars.gov.au/ja/releases/2002/may/airport_price_regulation.htm)
69. Board of Airline Representatives of Australia, op. cit. p 3.
70. Sydney Airport Corporation Limited, 'Insurance Costs Recovery', Media Release, 28 February 2003.
71. Board of Airline Representatives of Australia, op. cit. p. 3.
72. '*Airport & Airline: Asia Pacific*', No. 187, 19 July 2002.
73. Gary Banks, 'Regulating Australia's Infrastructure: Looking Forward', speech to the National Infrastructure Summit, Melbourne, 14 August 2002, at <http://www.pc.gov.au/research/speeches/cs20020814/index.html>
74. 'Mega jets force airports upgrade', *Australian Financial Review*, 4 July 2002, p. 1.
75. John Anderson, 'Regional access to Sydney Airport guaranteed', Media Release A198/2000, 13 December 2000, [http://www.ministers.dotars.gov.au/ja/releases/2000/december/a198\\_2000.htm](http://www.ministers.dotars.gov.au/ja/releases/2000/december/a198_2000.htm)
76. Senate Rural and Regional Affairs and Transport Legislation Committee, Answers to Questions on Notice, Supplementary Estimates 20–22 November 2002, p. 125.
77. The Noise Exposure Forecast system is a scientific measure of the aircraft noise exposure levels around aerodromes. It can be used for assessing average community response to aircraft noise and for land-use planning around aerodromes. In the Australian system, noise exposure levels are calculated in Australian Noise Exposure Forecast units, which take into account various factors concerned with aircraft noise such as the intensity, duration, tonal content and spectrum of audible frequencies of the noise of aircraft take-offs, approaches to landing and reverse thrust after landing. The Department of Transport and Regional Services has developed transparent noise information software which can be customised to enable aircraft noise disclosure information to be rapidly produced for individual airports
78. John Anderson, 'Sale of Sydney Airport', Media Release, 25 June 2002.
79. Martin Ferguson, Press Release 'Sale of Sydney Airport', 25 June 2002. Ferguson's press release noted that:

Labor supports the sale of Kingsford Smith Airport. The sale of Sydney airport completes a process of airport sales commenced by Labor in government. The real difference between the Government and the Opposition is that, in addition to retiring debt, the Opposition believes that there is a requirement on this generation to actually invest in our future infrastructure needs. In the past, previous generations did that. That sale of Sydney airport, after retiring debt, represents a return to Government of about \$4.2 billion.
80. John Anderson, 'Regional access to Sydney Airport guaranteed', op. cit.
81. *Aviation Analyst-Asia Pacific*, No. 32, September 2001, p. 15.

82. John Anderson, 'regional access to Sydney Airport guaranteed', op. cit.
83. John Anderson, 'Sale of Sydney Airport', op. cit.
84. 'Last call for sale of Sydney airports', op. cit.

## **Appendix 1: Principal Regional Airlines, Australia, May 2003**

### **Aeropelican**

*Description:* Is now a subsidiary of Horizon Airlines, after being purchased from the Ansett Administrators.

*Aircraft:* DHC-6-300 Twin Otter (4)

*Routes:* Newcastle/ Belmont and Newcastle/ Williamstown to Sydney

### **Airlink**

*Description:* airlink has been involved in charter operations out of Dubbo for about 31 years and commenced regional airline services in 1991 on routes vacated by Hazelton Airlines. In late 2001 Air Link moved its on-carriage to QantasLink/ Eastern flights after Hazelton had temporarily suspended operations. Air Link introduced in March 2003 a Beech 1900D, used exclusively for the Dubbo-Sydney route.

*Routes:* Dubbo to Sydney, the Mudgee; Dubbo-Coonamble, Walgett and Lightning Ridge; Dubbo to Cobar; and Dubbo to Bourke.

*Aircraft:* Beechcraft 1900D (1), PA-31-350 (5), Cessna 310R (4)

### **Airlines of South Australia**

*Description:* founded in 1998, Airlines of South Australia currently operate flights from Adelaide to Port Augusta and Port Lincoln and from Port Augusta to Leigh Creek, Innamincka, Birdsville and Boulia.

*Aircraft:* Embraer 110-P1 (2), Embraer 110-P2 (1), PA-31-350 (4), Commander 500S (1).

### **Alliance Airlines**

*Description:* Founded in mid-2001, alliance Airlines in March ceased all operations from Rockhampton and Gladstone. The company cited financial reasons for the decision.

*Routes:* Alliance operates services from Brisbane to Norfolk Island and Townsville; and a weekly Sydney to Norfolk Island service.

*Aircraft:* Fokker F100 (2), Embraer EMB 120ER (2).

### **Australian Air Express**

*Description:* Established in 1992 as a joint venture between Qantas (the Australian Airlines) and Australia Post, Australian Air Express currently wet leases seven Boeing 727F freighters from Trans Australian Air and three BAe 146s from National Jet Systems.

*Aircraft and Routes:* The airline has Boeing 727F's based in Perth, Melbourne, Hobart and Cairns, BAe 146's based in Brisbane and Adelaide, Hawker Siddley's based in Sydney and Metro 3's based in MacKay, Sydney, Canberra and Melbourne. Australian Air Express's fleet of 727's service the following routes: Perth/ Melbourne/ Brisbane/ Townsville/ Cairns; Perth/ Sydney/ Melbourne/ Perth; Perth/ Melbourne/ Perth; Cairns/ Townsville/ Brisbane/ Melbourne/ Perth; Hobart/ Launceston/ Melbourne/ Launceston/ Melbourne; Melbourne/ Brisbane/ Melbourne/ Hobart. The 146's operate Brisbane/ Sydney/ Melbourne/ Sydney/ Brisbane; Adelaide/ Sydney/ Brisbane/ Sydney/ Adelaide and Adelaide/ Melbourne/ Sydney/ Melbourne/ Adelaide.

### **Australian Airlines**

*Description:* is wholly owned by Qantas but operated independently and managed separately. Set up as a low cost international airline in October 2002, Australian

*Routes:* Airlines currently operates four Boeing 767-300s but plans to increase its fleet in the near future. Operating from Cairns, the airline offers daily services to Osaka, Nagoya and the Gold Coast; with three services every week to Fukuoka, Hong Kong, Singapore and Taipei.

*Aircraft:* Boeing 767-300ER (4)

### **Cape York Air**

*Description:* Cairns-based Cape York Airlines provides air services to 67 airports on Cape York and throughout Far North Queensland. Additionally the company has a base located on Badu Island in the Torres Straits. The company is a contractor to Australian post and receives as Australian Federal Government subsidy under the Rural Air Service Scheme (RASS). The company's air mail delivery service is the longest service of its type in the world.

*Routes:* Horn Island to Boigu, Badu, Kubin, Mabuiag and Saibai.

*Aircraft:* Cessna 208A (1), BN Islander (1), PA-31-310 (2), Partenavia P.68B (1).

### **Emu Airways**

*Routes:* Adelaide to Kingscote; Adelaide to Wudinna.

*Aircraft:* Beech 1900C (2), PA-31-350 (2), Cessna 402B (1).

### **Golden Eagle Aviation**

*Description:* are agents for Australian air Express and the company have a comprehensive delivery and pick up service.

*Routes:* Port Hedland, South Hedland, Wedgefield, Derby, Karratha, Dampier, Karratha's light industrial area, Wickham and the surrounding areas.

*Aircraft:* The airlines current fleet are located over three bases throughout the Kimberly and Pilbara. These bases have the following aircraft: Port Hedland – Piper Chieftain (1), Piper Seneca (1); Derby – Cessna 206 (3), Britten Norman Islander (2), Piper Navajo (2), Cessna 310 (1); Kununurra: Cessna 206 (1), Piper Chieftain (1), Piper Seneca (1).

### **Horizon Airlines**

*Description:* provides a wide range of aviation services to the Australian public and industry. Operations vary from Regular Passenger Services (RPT) with Metro 23 aircraft, to charter operations in Metro 2's, through to ad hoc charters in the 44-seat turbo prop BAe-748.

Additionally Horizon Airlines operate three, BAe-748 freighters Australia wide.

*Routes:* Horizon services Sydney to Taree, Newcastle (Williamstown), and Cooma.

*Aircraft:* BAe-748 (5), metro 23 (2, soon to be 3), Metro II (1)

### **King Island Airlines**

*Routes:* operate two daily flights Monday to Friday between Melbourne / Moorabbin and King Island; and one daily service on Saturday and Sunday.

*Aircraft:* EMB-110P1 Bandeirante (1), PA-31-350 Chieftain (4).



**Macair Airlines**

*Routes:* The Macair network connects the following ports: Bedourie, Boulia, Brisbane, Birdsville, Burketown, Cairns, Charleville, Cloncurry, Cunnamulla, Doomadgee Mission, Dunk Island, Edward River (Pormpuraaw), Hughenden, Julia Creek, Kowanyama, Lizard Island, Longreach, Mornington Island, Mount Isa, Normanton, Oakey, Quilpie, Richmond, Thargomindah, Toowoomba, Townsville, St George, Windorah and Winton.

*Aircraft:* Saab 340B (2), DHC-6-300 (2), Fairchild Metro 23 (4), Fairchild Metro III (4).

**National Jet Systems**

*Description:* provides aviation services such as wet leasing, scheduled airlines operations, charter and resource industry air services for major corporate and government organisations.

*Routes:* Darwin to McArthur River, Perth to Christmas Island and Cocos Islands.

*Aircraft:* BAe 146-100 / RJ70 and Dash 8-200.

**Norfolk Jet Express**

*Routes:* Norfolk Island to Brisbane, Melbourne and Sydney.

*Aircraft:* Boeing 737-4L7 (1).

**Northwest Regional Airlines**

*Routes:* Broome to Port Hedland, Karratha and Exmouth, Broome to Fitzroy Crossing and Halls Creek.

*Aircraft:* Cessna 404 (3), Cessna 310R (1)

**O'Connor Airlines**

*Description:* carries around 80 000 people each year.

*Routes:* currently provides daily flights to and from Mount Gambier, Melbourne, Adelaide, Whyalla and Mildura.

*Aircraft:* BAe Jetstream 32EP (3), Cessna 441 (1).

**Qantas Airways**

*Description:* Founded in the Queensland outback in 1920, Qantas is the world's oldest continually operating airline and is Australia's largest domestic and international carrier. Qantas is also one of the world's leading long distance airlines, having pioneered services from Australia to North America and Europe. Qantas operates a fleet of 185 aircraft, *Routes:* Serves 67 domestic destinations including a number of major regional ports and 75 international destinations in 32 countries.

*Aircraft:* Boeing 747-400 (29), Boeing 747-338 (6), Boeing 767-300ER (25), Boeing 767-238ER (7), Boeing 737-838 (15), Boeing 737-400 (22), Boeing 737-300 (17), A330-200 (3).

**Qantaslink**

*Description and Aircraft:* Qantas' regional airline, QantasLink regional airlines are wholly owned subsidiaries of Qantas and operate in excess of 2700 flights each week to 55 destinations across Australia. QantasLink flies more frequently and to more destinations than Qantas domestic. QantasLink comprises four separate

regional airline entities - Airconnex (Impulse Airlines), Airlink, Eastern Australia Airlines and Sunstate Airlines. With 61 aircraft in the QantasLink fleet, three aircraft types are used: Boeing 717 jets (14) BAe 146 jets (15) and De Havilland Dash 8 turboprops (32).

**Qantaslink / Airconnex (Impulse Airlines)**

*Routes:* Airconnex currently serves 14 ports throughout Australia: Adelaide, Brisbane, Coolangatta (Gold Coast), Hamilton Island, Hobart, Launceston Mackay Maroochydore (Sunshine Coast), Melbourne, Newcastle, Proserpine (Whitsunday Airport), Rockhampton, Sydney and Townsville.

*Aircraft:* Boeing 717-200 (14)

**Qantaslink / Eastern Australia Airlines**

*Routes:* Eastern operates from Sydney to Albury, Armidale, Ballina, Canberra, Coffs Harbour, Dubbo, Grafton, Lord Howe Island, Moree, Mount Hotham, Narrabri, Newcastle/William town, Port Macquarie, Tamworth and Wagga Wagga and from Melbourne to Burnie/Wynyard, Canberra, Devonport, Mildura, Mount Hotham and Newcastle/William town.

*Aircraft:* Dash 8Q300 (5), Dash 8200 (3), Dash 8-100 (13)

**Qantaslink / Sunstate Airlines**

*Routes:* Sunstate operates a network of services from Brisbane to the following ports: Barcaldine, Blackall, Blackwater, Bundaberg, Cairns, Charleville, Coffs Harbour, Coolangatta, Emerald, Gladstone, Hamilton Island, Longreach, Lord Howe Island, Mackay, Melbourne, Newcastle/Williamtown, Rockhampton, Roma, Thursday Island, Townsville and Weipa.

*Aircraft:* Dash 8-300 (4), Dash 8200 (2), and Dash 8-100 (5)

**Regional Express (Rex)**

*Description:* Rex is one of Australia's newest regional airlines and was formed through the merger of Hazelton and Kendell Airlines. Its headquarters are in Sydney with its main operational, engineering and maintenance base in Wagga Wagga. Rex is about to commence an interlining agreement with Virgin Blue.

*Routes:* Rex services the capital cities of Adelaide, Canberra, Melbourne, and Sydney and the regional centres of Ceduna, Port Lincoln, Coober Pedv, Kangaroo Island (Kingscote), Whyalla, Olympic Dam, Broken Hill, Mt Gambier, Portland, King Island, Burnie, Devonport, Wagga Wagga, Albury, Merimbula, Dubbo, Bathurst, Griffith NSW, Lismore, Mildura, Moruya, Narrandera, Orange, Parkes and Ballina.

*Aircraft:* Saab 340 (21), Fairchild Metro 23(7)

Rex recently announced a major upgrade of its Saab aircraft fleet, replacing 10 34-seat Saab aircraft with 10 updated and 'as new' versions of the Saab 340B starting March 2003

**Skytrans**

*Description:* Skytrans Airlines is a Queensland-based airline and air charter business with bases in Cairns and the Torres Strait.

*Routes:* With a fleet of 17 aircraft, the company operates scheduled services from Cairns to Aurukun, Coen, Cooktown, Karumba, Lockhart River, and Yorke Island with a connection to Horn Island. The company also flies charter operations throughout Australia, Papua New Guinea and the south western Pacific.

*Aircraft:* King Air 200 (1), BN Islander (2), Cessna 404 Titan (7), Cessna 402C (2), Cessna 310R(6)

**Skywest Airlines**

*Routes:* Skywest operates a network of services from Perth to Albany, Carnarvon, Esperance, Exmouth, Geraldton, Kalgoorlie, Laverton, Leinster, Leonora, Meekatharra, Mt Keith, Shark Bay/Monke Mia and Wiluna.

*Aircraft:* Fokker 50 (5) Fokker 100

**Sunshines Express**

*Routes:* Sunshine Express operates services from Brisbane to Biloela/Thangool, Hervey Bay, Maroochydore and Maryborough and also offers charter services. *Aircraft:* Shorts 360-300 (1), Metro III (2)

**Tasair**

*Routes:* Tas Air operate RPT services on the following routes: Hobart/Wynyard; Devonport/Wynyard/King Island

*Aircraft:* PA-31-350 (4), Commander 500S (3)

**TransAustralian Air Express**

*Routes:* Trans Australian Express regularly services the following cities: Melbourne, Perth, Sydney, Cairns, Townsville, Hobart and Launceston.

*Aircraft:* Boeing 727-200 (4), Boeing 727-77C (1)

**Virgin Blue Airlines**

*Routes:* Virgin Blue's network includes links to a number of larger regional centres including Broome, Cairns, Coffs Harbour, the Gold Coast, Launceston, Mackay, Rockhampton, the Sunshine Coast, Townsville and the Whitsunday Coast. Virgin Blue is about to commence an interlining agreement with Regional Express (Rex).

*Aircraft:* 737-800 (9), 737-700 (14), 737-400 (1), 737-300 (1)

Source: Aircraft and Aerospace magazine, May 2003 edition, p. 16.