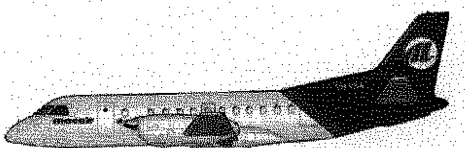
Submission by Macair Airlines Pty. Ltd.

# Inquiry into commercial regional aviation services in Australia and transport links to major populated islands



House of Representatives
Standing Committee on Transport and Regional Services
Parliament House
CANBERRA ACT 2600
AUSTRALIA

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**MACAIR - COMPANY PROFILE**

Since its inception in 1992, Macair Airlines has grown to become one of regional Australia's most substantial airline operators, and plays a crucial role in both passenger and freight transportation throughout regional Queensland and northern New South Wales

Macair operates two Saab 340B aircraft in a fleet that also includes eight Fairchild Metros and two Twin Otters and combines a mixture of RPT and contracted charter operations from its Townsville, Cairns and Brisbane bases in Queensland.

Macair originally commenced operations flying charters for the mining developments taking place in western Queensland and, as the mines grew, so to did Macair. Most of the mines operate under a "fly in – fly out" staffing arrangement whereby the management and crew live elsewhere (mainly in the coastal cities) and fly in to the mine to complete their working roster.

Today, most of the mines use Macair and appreciate the amazing efficiency of the Macair fleet which has produced an enviable dispatch reliability since introduction.

In 1998, Macair introduced regular passenger services on regional routes in north Queensland.

One of the busiest routes on Macair's RPT network of 34 routes throughout regional Queensland and NSW is the link between Townsville and Mt. Isa. Macair services this route 32 times each week with most of the flights being Saab 340B services. Macair offers full cabin service on this 2-hour sector.

As a valued Qantas commercial partner, Macair has worldwide distribution through a hosting in the Qantas reservations system. The introduction of the Saab 340B has lead to the signing of Qantas first domestic code share agreement. This enables Qantas to offer its customers seats on selected Saab 340B flights.

Macair has achieved a reputation for delivering safe, efficient, friendly and cost effective air services to its clients through its focus on customer service and its ability to identify and meet its customers' needs in a timely manner.

**MACAIR PERFORMANCE**

| | |
|---|---|
| Commenced Queensland operations | 1992 |
| Number of flights operated (Approximate) | 48,650 |
| Number of passengers carried (Approximate) | 750,000 |
| Distance travelled (Approximate) | 35,390,000kms |
| Current Queensland and NSW routes (Includes mine sites) | 39 |
| Current on time departure record | 98.4% |
| Staff numbers (Includes contracted Route Agents) | 239 |
| | |
| Present fleet | |
| SAAB 340 | 2 |
| Metro 3/23 | 8 |
| Twin Otter | 2 |

Major contracted customers

- P&O Australia
- QLD Government
- BHP
- MIM
- Selwyn Mining
- WMC Fertilizers
- Pasminco
- Ernest Henry Mine
- Eloise Mine
- Australia Post
- Australian Air Express
- QLD Rail

## REGIONAL AIRLINES IN QUEENSLAND– A POOR TRACK RECORD

As it has been proven in numerous instances, most start up airlines have failed. Unless a new entrant has an association with a major airline, can attract significant funding, demonstrate a business plan that is cognicent of the needs of its intended market, has the ability to quickly gain market confidence, and operates in an environment that has adequate passenger numbers, it is unlikely to remain in business for an extended period.

Since 1990 the following airlines have ceased operating RPT services (for a range of reasons) in Queensland:

- Sunbird airlines
- Australian Regional Airlines (Queensland)
- Majestic Airlines
- Flight West Airlines (twice)
- Kendell Airlines
- Sungold Airlines
- Southern Pacific Regional Airlines
- Queensland Pacific Airlines
- Transtate Airlines
- Norfolk Airlines
- Sabair
- Piccolo Airlines
- Eastland Air
- Countryair
- Uzu Air
- Lloyd Air
- Air Cairns
- Air Swift

The continued loss of air services to small towns and rural communities is inevitable. This in turn will discourage new investment and prompt established businesses and rural residents to relocate. As a result, tax revenues will shrink and rural and regional populations will continue to decline.

## THE CHARACTERISTICS OF REGIONAL AIRLINE ROUTES

- Declining populations.
- High taxes and charges on tickets.
- Diminished discretionary travel.
- Centralisation of business and government leading to smaller business markets.
- Impact of rural economy.
- Competition from Improved roads and more efficient rail services.
- Local airport upgrades and maintenance amortised over few infrastructure users.
- Competition from larger nearby regional airports.

## WHY SO MANY REGIONAL AIRLINES HAVE FAILED

- Undercapitalised.
- Lack of expertise at management level.
- Operating in thin markets.
- Competing with existing well funded competitors.
- Incorrect aircraft types.
- Lack of back up aircraft leading to schedule inconsistency, cancellations and delays.
- Poor customer perception.
- No access to major airport terminals in larger cities.
- Lack of oncarriage with a major domestic airline.
- Low fares with costs exceeding revenues.
- Excessive CASA regulations.

**WHY THE EXISTING PLAYERS HAVE SURVIVED**

- Purchased by a major airline and operating as a subsidiary.
- A commercial association with a major domestic airline.
- Underpinned by strong contract work.
- Passenger access to loyalty programmes and club member lounges.
- Oncarriage to and from trunk services.
- Global reservations systems.
- Through fares to intercity services.
- Terminal access in major airports and check in facilities.
- Technical and IT support, ground and ramp handling.
- Operate aircraft types suited to the operating conditions and of a size appropriate to the applicable passenger market.
- Reliable operator with market confidence.
- A business plan built around the market in which the regional airline is operating and having tight control over costs whilst maximising yields and revenues.
- Having excellent knowledge and demonstrating consistency and reliability in the operation, together with excellent customer service.
- Code share with a major domestic airline.
- Adequate funding and cash flow.

**WHY SO MANY REGIONAL AIRLINES WILL CONTINUE TO FAIL**

- High cost of doing business equates to high airfares with a resultant loss of patronage.
- Regional populations continuing to decline.
- One dominant domestic airline means little interest in competing for regional oncarriage from independent regional airlines.
- Smaller routes passed on by majors to smaller airlines whose entire network is eventually made up of marginal routes.
- Smaller airlines seldom operate over the larger more lucrative routes without competition from a major airline or one of its subsidiaries.
- Major airlines have the infrastructure and distribution in place to secure market share.
- Major airlines are able to finance expansion – start up airlines will find this difficult.
- Public confidence in start up regional airlines shaken by past performance
- Smaller regional airlines intensively operationally focussed with lesser market understanding.
- Lack of back up fleet units leads to an inconsistency of schedule and delays in service.
- No oncarriage arrangements with a major airline.
- Most travel agents Qantas aligned.
- Lack of access to club lounges / frequent flyer opportunities.
- No commercial or government agreements.
- Onerous CASA regulations and requirements.
- Ongoing need to recruit and train aircrew lost as a result of major airline recruiting programmes.

## THE DEVELOPMENT OF FUTURE REGIONAL SERVICES

**Regional hub services**
The costs in air travel are mainly incurred in the "flagfall" rather than the mileage. Regional hubbing has proven by experience to be very costly to the operator on the "spoke" and could only be considered if the same airline operated both the "hub" and the "spoke". This is unlikely as the dominant regional airlines have moved or have aspirations to move to a 30 seat plus aircraft type which are unsuitable for the "spoke" routes.

**Small scale owner operator services**
Nineteen-seat turboprops and nine seat piston aircraft once formed the backbone of regional airlines in Australia, particularly NSW. In those days, independent entrepreneurs ran regional airlines. This has largely changed as most have been swallowed up to become major airline subsidiaries. With the rise in prominence of the 30 seat plus aircraft, and the cost burdens imposed on the industry, 19-seaters have depreciated in value and in market presence, as airlines shift their attention from marginally profitable destinations to those capable of sustaining larger aircraft services.

The exception to this is Macair Airlines, still privately owned and successfully mixing a 19 and 34 seat fleet and operating in 2 states on diverse RPT and charter activities.

**Deployment of suitable aircraft types**
The fleet types selected by Macair are tried and proven under the arduous outback conditions, and were selected specifically to complete a range of tasks in Queensland conditions.

The SAAB 340B aircraft is the premier 34 seat aircraft operating in Australia and has proven to be the ideal aircraft for north Queensland conditions. The Saab 340B offers leather seating, full cabin service, pressurisation, and air conditioning. The aircraft is fast, economical, comfortable and has a dispatch reliability of 98.4% in our network.

The Metro 3/23 has proven to be the workhorse of regional and remote Queensland, living up to its worldwide reputation for economy and reliability on routes servicing smaller towns and communities. A pressurised, air-conditioned true 19 seat aircraft, the Metro is popular for its speed, and reliability.

Prior to settling on the Metro 3/23 and the Saab 340B as our fleet types, we evaluated a number of aircraft including the Brasilia B120 and the Jetstream 32.
These types were considered by Macair but rejected on the grounds of poor reliability, high cost of operation, inability to carry adequate payloads in hot weather, and the fact that there are very few other aircraft of the same type operating in Australia. Parts and technical support is therefore limited.

## THE ROLE OF ALL LEVELS OF GOVERNMENT

### Regional airlines need relief from the effects of:

**Local body airport ownership**
Local airport operators with low rating bases use the passenger as a means to generate revenue to carry our all activities including the ongoing funding capital raised for major capital works. Revenue is generated in the form of head taxes and landing charges.

Council owned airports need to look at forgoing full cost recovery in return for a continuation of local air services.

**CASA impositions**
CASA imposes at will and without adequate consultation or impact assessment, a range of compliance charges on regional airlines. A recent example of this is the requirement for the installation of GPWS.

There are also the hidden costs of compliance – specialist staff employed, documentation required, and cumbersome CASA systems and processes.

**Federal Government charges**
The Federal Government adds to the load of regional airlines with the imposition of charges at regular intervals including Air navigation charges and Airport service charges.

**Federal and State Government travel discount policy**
Pressure from federal and state travel purchasing places an onus on regional airlines to offer a discount on air fares on already marginal routes.

**Dependency on business travel and subsequent annual downturn**
Regional airlines rely heavily on business and government travel for the bulk of its revenue. This travel dries up between mid December and late February, however airlines must continue to operate and even on reduced schedules invariably report losses over this period. A form of subsidy to enable adequate services to continue over this period would ease the financial strain on regional airlines

### Regional airlines require assistance with:

**Acknowledged responsibility by local government**
Recognition by local body councils of the value of continued air services to the future of their city or town. Provide a positive contribution to their local airline operator through realistic charging.

**Route protection by state government on recognised one operator routes**
Smaller regional routes should be individually assessed and categorised. If suitable for one operator, route protection for a set period should be established

**State and federal government subsidy on marginal routes**
This already applies in Queensland on a limited number of routes and should be expanded with federal government assistance.

**Taxes imposed on regional airlines operating in remote and regional centres**
Payroll tax concessions, ticket tax concessions including the waiving of Ansett and security charges

**Access to bulk fuel purchasing at government rates**
The relatively small size of independent regional airlines offers little basis for a negotiated fuel price. Add to this the cost of purchasing fuel in regional and remote communities and the ever-increasing fuel price burden grows.

**Realistic expectations from CASA**
CASA recognising the cost of compliance on a per seat basis for the ongoing and additional requirements of operators. A process of consultation with affected parties

**The USA experience**
In the United States, the country's largest operator of 19-seat aircraft, Mesa Air Group–has cut the size of its Beech 1900 fleet from 122 aircraft to 50. Another major user of 19-seaters Atlantic Coast Airlines has shed the last of its 29 Jetstream 32s. Numerous other operators have abandoned their 19-seat fleet as the cost of operation has proves too high, and as a result, services have ceased to some regional centres.

Mesa Air CEO, Jonathan Ornstein is reported as saying, "the only place 19-seaters work is in the subsidised markets". These subsidised markets are part of the US Department of Transportation's Essential Air Service programme.

The Essential Air Service (EAS) program was put into place to guarantee that small communities that were served by certificated air carriers before USA deregulation maintain a minimal level of scheduled air service. The Department currently subsidises regional airlines to serve approximately 100 rural communities across the country that otherwise would not receive any scheduled air service.

Late last year the Senate appropriated USD57 million in its defence bill for Essential Air Service funding, adding to the USD63 million already listed for the programme in this year's transportation budget.