



RAAA SUBMISSION

Inquiry into regional airfares in Western Australia

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Serving regional aviation, and through it, the people and businesses of regional Australia

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12 July 2017

Ms. Jessica Jane Shaw MLA
Chair
Economics and Industry Standing Committee
Legislative Assembly

Dear Ms. Shaw,

RAAA SUBMISSION

Inquiry into Regional Airfares in Western Australia

The RAAA is pleased to provide this submission to the Economics and Industry Standing Committee Legislative Assembly in the Inquiry into Regional Airfares in Western Australia.

I. The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) is a not-for-profit organisation formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia (RAAA) and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 28 Ordinary Members (AOC holders) and 72 Associate/Affiliate Members. The RAAA's AOC members directly employ over 2,500 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$1.5b, carry well in excess of 2million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, freight companies, engineering and flight training companies, finance and insurance companies and government entities. Many of RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional and remote areas of Australia.

II The RAAA Charter

The RAAA's Charter is to promote a safe and viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members to have input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry by direct lobbying of Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

III RAAA Response to Inquiry into Regional Airfares in Western Australia

Background

A little over a decade ago, the Commonwealth House of Representatives Standing Committee on Transport & Regional Services Inquiry into Regional Aviation ("the Neville Committee") described the regional aviation environment thus –

- 1.1 Regional aviation services are vital to the economic and social wellbeing and development of Australia's regional and remote communities. To most communities, the local aerodrome is a symbol of their prosperity, and a generator of business in the surrounding region.
- 1.2 Nearly all communities wish to retain their local airport despite the cost of having them sometimes exceeding their direct income.
- 1.3 However, the economics of regional air services are posing a threat to their existence, and creating a pressure for their rationalisation.
- 1.4 The business costs of regional air services have been rising due to a number of factors. Some of the costs have come from the deregulation of the industry and increases in taxes. In combination with rising costs has been a general decline in demand for some air services.

Against this background -

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

- The costs of operating regional air services are high and rising;
- The returns to regional operators are often low and declining, because their passenger numbers can be small and variable;
- Because of high costs and low returns, the levels of service are often poor in terms of the size of the operating aircraft, the frequency of services and the schedule of services;
- Poor interconnectivity between services exists because of a lack of interline agreements between regional and domestic service operators. The schedules some regional airlines fly do not arrive at appropriate times for passengers;
- The owners of some country airports are unable to sustain the cost of maintaining their airports, relying on rate payers to meet the shortfall;
- Aviation safety regulations and the way they are administered impose significant costs on small operators in particular. This is contributing to the decline in the number of regional operators and the level of air services in regional areas. However, to achieve aviation safety outcomes a strong, effective and credible regulator is essential, and there is a need for the Civil Aviation Safety Authority (CASA) to strike the right balance between fostering a culture of safety in the industry and policing the regulations; and
- A lack of coordination of government policies is creating potentially difficult business environment conditions. For example, all levels of government imposed many taxes on regional aviation services with little regard for the cumulative effect. The Commonwealth's aviation policy, and its other transport and regional policies appeared to be largely independent of one another.

In the decade since that environment has not changed significantly and the consolidation into larger aircraft on regional routes, with the consequent loss of services to smaller centres, forecast by the Neville Committee has continued.

As the Chair of this Inquiry said in December 2013 “too many towns have lost their air services and the economic impact on those communities has been unacceptable”.

In the view of the RAAA to achieve the Chair's stated aim for this Inquiry “to secure more reliable and comprehensive services to and from regional centres, particularly the smaller regional centres” certain fundamentals must be recognised.

1. Factors contributing to the current high cost of regional airfares;

The perception surrounding the high cost of regional airfares may have arisen from the disproportionate comparison between the low cost carrier market providing high load factor yields and reduced operational cost bases at metropolitan hubs. An airfare price structure is influenced by a combination of airport fees and taxes, fuel costs, aircraft and crew costs, as well as levels of demand and the volume of traffic on any route. Airlines are faced with significant challenges when operating from airports with limited access and a monopoly on local services required for day to day operation.

One of the major contributing factors to perceived high cost of regional airfares is airport pricing and taxes. Generally speaking, per-kilometre cost for smaller aircraft over greater distances to regional and remote centres in Australia and in particular Western Australia contribute to the higher fares, however, both Regional Express (REX) and Virgin Australia Regional Airlines (VARA), members of the RAAA, have on many occasions raised the significant and substantial impact of airport charges on their fare price calculations.

For example, REX has illustrated that on a ticket price of about \$150 (excluding airport charges), the airport charges are about 30% of the fare. Similarly, VARA who use to compete with REX on the Albany and Esperance route at similar price points reported making losses on these routes and subsequently ceased these operations.

There are also significant inconsistencies between metropolitan and regional head tax surcharges with RAAA members reporting some as low as \$5 and some councils charging upwards of \$50 with no consultation or notice.

The reduction of demand post the mining boom where FI-FO operations were willing to “pay the premium”, has also impacted on the viability and commercial return on already marginal routes across WA. On flights already competing with thin utilisation, the pressure on airlines to further reduce airfares is impractical when operational costs are fixed, if not increasing.

2. Impacts that high-cost regional airfares have on regional centres- from a business, tourism and social perspective;

Over 4 million regional Australians rely on regional air services. Without these services the social and economic existence of regional and remote communities and many regional industries would be in jeopardy. Servicing this need are the regional operators who service more communities in Australia than the major domestic operators and provide:

- Essential access to markets and services at both major Australian ports and international destinations;
- Vital aero-medical assistance and health services;
- Transport & freight services to the resource industry;
- Bushfire and Search & Rescue operations;
- Exploration via airborne surveying;
- Pipeline and other infrastructure inspections;
- Law enforcement & border patrols; and
- Business & recreational travel;
-

Whether it is FIFO operations, RPT, medi-vac, charter or tourism, regional aviation is an essential partner in the growth, prosperity and amenity of our regions. One third of our population lives in regional Australia and contributes well above its numbers in growing Australia's wealth.

Without a reliable and sustainable aviation network some of Australia's vital extractive and agricultural industries could not function, and regional communities would be dislocated and disconnected from basic services. The importance of regional aviation to a country with a relatively small population and a large geographic expanse with important agriculture and mining industries has been recognised by successive Governments in the past.

3. Impact of State Government regulatory processes on the cost and efficiency of regional air services;

From the experience of RAAA members it is clear that the major airports may have excessive market power and in many instances are able to exercise it. It is also clear that the existence of market power and preparedness to exercise it is not limited to the major regulated or city airports.

With privatisation an irreversible fact, Government and the aviation industry must now focus on how the generally commercially based airport monopolies are managed and whether the current regulatory regime is adequate.

The current regulatory controls are substantively inadequate and fail to achieve economically efficient outcomes because they:

- Do not extend to airports other than the five major regulated airports;
- Do not protect aviation infrastructure from being negatively impacted by commercial developments; do not ensure fair pricing, access, service provision or transparency for all industry providers who require access to the airport;
- Do not have adequate regard for the need to encourage investment in the whole aviation sector; are too expensive for small operators and are open to tactical abuse such that outcomes can be delayed and other commercial pressures can be brought to bear to impede fair outcomes;
- Do not address the imbalance of bargaining power between large airline operators and small airlines operators with the effect that small operators (typically regional operators) may eventually be driven out of the market.

4. Actions that the State and local government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services;

The RAAA has consistently argued these cost pressures can only be reduced by –

1. Preventing the monopolistic practices of those regional airports operators, most often local government authorities, who see their airports as profit centres rather than as cost centres, which should be managed in the public interest as other cost centres (e.g.: roads) for the overall benefit of the community. In this regard, the RAAA is concerned by the number of local authorities who build airport infrastructures than cannot be justified on any reasonable projection of passenger numbers and then expect to pass those costs onto aircraft operators and therefore passenger fares;

2. Ensuring the costs of aviation security measures is commensurate with the actual security risks and the prescribed requirements of the Commonwealth transport security legislation. It is simply not appropriate or sensible to impose security costs for large aircraft on small regional aircraft. The RAAA notes and welcomes the review of proportionate security measures at regional airport which will aid in reducing overall costs on airport security equipment and additional staff; and
3. Government policies that recognise that in this area a totally unregulated market simply does not provide the desired outcome. The RAAA does not advocate subsidies per se and is ambivalent about route regulation. It does, however, consider that directed subsidies are appropriate where particular government charges impact adversely on smaller operators (e.g. Airservices Australia's enroute navigation charges) and the government authorities should use their purchasing power to aid, rather than disadvantage, regional operators. It is, also, appropriate that where a need for a particular air service is identified (e.g.: a community for which an air service is the only viable means of transport due to location or terrain) that cannot be provided profitably (or profitability cannot be demonstrated in advance), the service be purchased (or subsidise until profitability can be demonstrated).

5. Actions that airlines can take to limit increases to airfares without undermining the commercial viability of RPT services; and

RAAA encourages regional airlines to explore community funding initiatives whereby airfare prices are to be subsidised by local community through rates and council funding. This would allow communities to contribute to the vital services and ensure these services are reliable and consistent with community needs from the airlines perspective.

As an example, this type of scheme has been implemented by REX as the Community Fare scheme that has brought fares levels that have never been seen in WA. In the first year of launch there were already over 10,000 trips that benefited from the net \$129 airfare for travel between Perth and Albany or Esperance. The scheme was so successful that all the major stakeholders signed on for a 3-year extension of the scheme.

6. Recent actions taken by other Australian governments to limit regional RPT airfare increases.

In reference to the 2014 parliamentary inquiry into regional aviation the following are some recommendations that were supported by the NSW government:

- That the NSW Government explicitly acknowledge that regular passenger transport service in regional NSW are an essential service
- That Transport NSW consult with local government in a transparent and open way throughout the licence tender process and on the appointment of an airline and to continue to make improvements to consultation processes
- That Transport NSW develops a guide for local government that clearly explains the department's role, and the responsibilities of council in relation to managing the relationship with the airline.

The Queensland government has acknowledged that competition in regional aviation for smaller routes can be a detriment, as illustrated through REX's experience. Hence the unique QLD model allows carriers to bid as the monopoly provider on a particular route. This comes with safeguards and the successful tenderer is then obliged to operate the route according to the schedule and fare prices in the bid as well as share a percentage of the excess profits with the State Government.

IV Conclusion

The RAAA hopes this submission is of assistance to the Legislative Assembly. If we can be of further assistance or you require additional information please feel free to contact us on Ph: 02 6162 0305 or email ceo@raaa.com.au.

Regards,

A handwritten signature in dark ink, appearing to be 'MH' followed by a stylized flourish.

Mike Higgins
Chief Executive Officer