The Senate

Rural and Regional Affairs and Transport References Committee

---

Operation, regulation and funding of air route service delivery to rural, regional and remote communities

June 2019

Membership of the committee

Members

Senator Glenn Sterle, Chair — Western Australia, ALP
Senator Barry O'Sullivan, Deputy Chair — Queensland, NATS
Senator Slade Brockman — Western Australia, LP
Senator Anthony Chisholm — Queensland, ALP
Senator Malarndirri McCarthy (to prorogation of Parliament) — Northern Territory, ALP
Senator Janet Rice — Victoria, AG

Substitute members for this inquiry

Senator Amanda Stoker — Queensland, LP
    to replace Senator Barry O'Sullivan (24 July 2018 only)
Senator Peter Whish-Wilson — Tasmania, AG
    to replace Senator Janet Rice

Other Senators participating in this inquiry

Senator the Hon Richard Colbeck — Tasmania, LP
Senator Patrick Dodson — Western Australia, ALP
Senator Rex Patrick — South Australia, CA

Secretariat

Dr Jane Thomson, Secretary
Ms Sarah Redden, Principal Research Officer
Ms Trish Carling, Senior Research Officer
Ms Fiona Allen, Senior Research Officer
Mr Michael Fisher, Administrative Officer

PO Box 6100
Parliament House
Canberra ACT 2600
Ph: 02 6277 3511
Fax: 02 6277 5811
E-mail: rrat.sen@aph.gov.au
Internet: www.aph.gov.au/senate_rrat

Table of contents

Abbreviations and Acronyms

A4ANZ	Airlines for Australia and New Zealand
AAA	Australian Airports Association
ACCC	Australian Competition and Consumer Commission
AHANT	Australian Hotels Association – Northern Territory Branch
Airservices	Airservices Australia
ALC	Anindilyakwa Land Council
ALGA	Australian Local Government Association
ALOP	Airport/Aerodrome Local Ownership Plan
ALPA	Arnhem Land Progress Aboriginal Corporation
BIAG	Broome International Airport Group
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CASA	Civil Aviation Safety Authority
CASR	Civil Aviation Safety Regulations 1998
CBA	Cost benefit analysis
CCA	*Competition and Consumer Act 2010*
CCNT	Chamber of Commerce NT
CEO	Chief Executive Officer
CITA	Christmas Island Tourism Association
Committee	Senate Rural and Regional Affairs and Transport References Committee
DIRDC	Department of Infrastructure, Regional Development and Cities
DOT	Western Australia Department of Transport
EAREDC	East Arnhem Regional Economic Development Committee
EISC	Western Australian Legislative Assembly Economics and Industry Standing Committee

FIFO	Fly-in fly-out
Framework	Strategic Airport Asset and Financial Management Framework (WA)
Fund	Regional Airport Security Screening Fund
GA	General Aviation
GLC	General Landing Charge
Home Affairs	Department of Home Affairs
ICPA	Isolated Children's Parents' Association
IOTs	Indian Ocean Territories
ITS	Inspector of Transport Security
KAMS	Kimberley Aboriginal Medical Services Ltd.
KIC	King Island Council
LFS	Local Fare Scheme
LGANT	Local Government Association of the Northern Territory
LGAQ	Local Government Association of Queensland
LRC	Longreach Regional Council
LRE	Longreach Regional Enterprise
MICC	Mount Isa City Council
MITEZ	Mount Isa to Townsville Economic Development Zone Inc.
MIV	McKell Institute Victoria
MTOW	Maximum Take-Off Weight
NSWLC	NSW Legislative Council Standing Committee on State Development
NTA	Northern Territory Airports
OQTA	Outback Queensland Tourism Association
PC	Productivity Commission
QAL	Queensland Airports Limited
RAAA	Regional Aviation Association of Australia

RAAP	Regional Aviation Access Programme
RADS	Regional Airports Development Scheme (WA)
RAIP	Remote Aerodrome Inspection Programme
RASS	Remote Air Services Subsidy
RAUP	Remote Airstrip Upgrade Programme
RDAG	Regional Development Australia Mid West Gascoyne
RDALC	Regional Development Australia Limestone Coast
Rex	Regional Express
RFDS	Royal Flying Doctor Service
RPT	Regular Public Transport
RRC	Rockhampton Regional Council
Security Act	*Aviation Transport Security Act 2004*
Security Regulations	Aviation Transport Security Regulations 2005
TCA	Tourism Central Australia
TEL	Townsville Enterprise Limited
TMR	Queensland Department of Transport and Main Roads
TRS Committee	House of Representatives Standing Committee on Transport and Regional Services (2003)
TTE	Tourism Top End
WRC	Whitsunday Regional Council

List of recommendations

Recommendation 1

10.36 The committee recommends that the Australian Government direct the Productivity Commission to undertake a standalone, public inquiry into the determinants of domestic airfares on routes to and between regional centres in Australia. The inquiry should, via a detailed economic analysis, investigate the feasibility of increasing operational subsidies and introducing other price control alternatives to address the high cost of regional airfares. The inquiry should consult with regional communities to determine whether additional routes should be subject to regulation. The Productivity Commission should use its compulsory information-gathering powers to inform its investigations.

Recommendation 2

10.37 The committee recommends that the Australian Government direct the Productivity Commission to expand its terms of reference in all future reports into the economic regulation of airports, to include investigations into the social and economic impacts of air route supply and airfare pricing on rural, regional and remote Australia.

Recommendation 3

10.63 The committee recommends that the Australian Government, through the Council of Australian Governments, review the efficacy of Western Australia's Strategic Airport Asset and Financial Management Framework in 2022, in accordance with the suggestion of the Productivity Commission. The Government should assess the efficacy of the Framework and determine its suitability for application across all jurisdictions.

Recommendation 4

10.74 The committee recommends that the Australian Government complete, as a matter of priority, a financial analysis to determine the ongoing operational, maintenance and staffing costs of proposed passenger security screening enhancements at regional airports, as announced in the 2018–19 Budget. The analysis should further consider ongoing security costs at regional airports more broadly.

Recommendation 5

10.75 The committee recommends that following a financial analysis into the ongoing costs of the provision of security screening at regional airports, the Australian Government consider providing ongoing financial assistance to those regional airports which have been identified as requiring passenger security screening enhancements as part of the 2018–19 Budget, where required.

Recommendation 6

10.86   The committee recommends that over the forward estimates, the Australian Government ensure the ongoing operation and funding of the Regional Aviation Access Programme and its component programs (the Remote Airstrip Upgrade Programme, Remote Air Services Subsidy Scheme and the Remote Aerodrome Inspection Programme).

Recommendation 7

10.87   The committee recommends that the Australian Government undertake a review into the funding of regional and remote aerodrome infrastructure and maintenance, to ascertain whether financial support to such aerodromes should be increased, and whether the current grants programs are the best means of financial assistance. Local councils, as airport operators, should be consulted as part of the review to determine the annual financial impact on councils of aerodrome operation and maintenance.

Recommendation 8

10.96   The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework for the tender process, implementation, operation and review of regulated routes in each jurisdiction. The framework should have a particular focus on improving the overall transparency of the operation of regulated routes. In developing the framework, affected communities should be consulted, particularly in jurisdictions where regulated routes are identified as being beneficial to the provision of regional air services.

Recommendation 9

10.105   The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework which, by leveraging each state's purchasing power, aims to expand access for regional communities to initiatives such as community and compassionate fares, particularly for 'last minute' flights. The framework, which should be developed in consultation with airlines, should encourage greater transparency around the operation of such fares, and consider the feasibility of allowing residents in regional, rural and remote areas to access subsidised airfares through online purchasing.

Chapter 1
Introduction and background

Referral

1.1   On 16 November 2017, the following matters were referred to the Senate Rural and Regional Affairs and Transport References Committee (committee) for inquiry and report by 30 March 2018:

> The operation, regulation and funding of air route service delivery to rural, regional and remote communities, with particular reference to:
>
> (a)   social and economic impacts of air route supply and airfare pricing;
>
> (b)   different legal, regulatory, policy and pricing frameworks and practices across the Commonwealth, states and territories;
>
> (c)   how airlines determine fare pricing;
>
> (d)   the determination of airport charges for landing and security fees, aircraft type and customer demand;
>
> (e)   pricing determination, subsidisation and equity of airfares;
>
> (f)   determination of regulated routes and distribution of residents' fares across regulated routes;
>
> (g)   airline competition within rural and regional routes;
>
> (h)   consistency of aircraft supply and retrieval of passengers by airlines during aircraft maintenance and breakdown;
>
> (i)   all related costs and charges imposed by the Civil Aviation Safety Authority; and
>
> (j)   any related matters.[1]

1.2   On 8 February 2018, the Senate granted the committee an extension of the reporting date, to 20 September 2018.[2]

1.3   On 16 August 2018, the Senate granted a further extension, to 4 December 2018.[3] A further extension to the reporting date was granted on 18 October 2018, to 27 June 2019.[4]

Conduct of the inquiry

1.4   Information about the inquiry was made available on the committee's webpage. The committee also wrote to government departments, airlines and aviation

---

1   *Journals of the Senate*, No. 71, 16 November 2017, pp. 2256-2257.

2   *Journals of the Senate*, No. 83, 8 February 2018, p. 2636.

3   *Journals of the Senate,* No. 109, 16 August 2018, p. 3493.

4   *Journals of the Senate,* No. 125, 18 October 2018, p. 3999.

stakeholder groups, and individuals to invite submissions. Details regarding the inquiry and associated documents are available on the committee's webpage.[5]

1.5   The committee received 180 public submissions which are listed at Appendix 1. Public submissions to the inquiry are also published on the committee webpage.

1.6   The committee held a number of public hearings in relation to the inquiry, as follows:

- Broome, Western Australia on 3 April 2018;
- Alice Springs, Northern Territory on 4 April 2018;
- Darwin, Northern Territory on 5 April 2018;
- Longreach, Queensland on 10 April 2018;
- Cloncurry, Queensland on 12 April 2018;
- Mount Gambier, South Australia on 24 July 2018;
- Brisbane, Queensland, on 15 February 2019;
- Darwin, Northern Territory on 15 March 2019; and
- Canberra, ACT on 1 April 2019.

1.7   Further, on 11 April 2018, the committee travelled to Winton, Queensland and heard community statements from members of the Winton community as to their experiences with regional air services.

Acknowledgements

1.8   The committee thanks all those individuals and organisations who made submissions to the inquiry, including the airlines which offered their ongoing cooperation with the committee over the course of the inquiry. The committee also thanks those individuals who shared their personal experiences about regional air services and the cost of airfares in rural, regional and remote communities. These personal accounts very much helped the committee in guiding its deliberations.[6]

1.9   The committee thanks the various communities across Australia that hosted public hearings for the inquiry. It was of great benefit for the committee to travel to regional areas to hear first-hand people's experiences with regional air service delivery.

1.10   The committee also extends many thanks to specialists who assisted the committee with information on the economics of air services, who were generous with both their time and expertise, and greatly assisted the committee in progressing its understanding of airline pricing and the operating pressures faced by the aviation industry.

---

5   See https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport

6   Chapter 3 discusses these experiences in greater detail.

Structure of report

1.11   This chapter clarifies airport ownership and management structures in Australia, and provides the context of regional air services. This chapter also examines some of the issues facing the regional aviation sector.

1.12   Chapter 2 examines a number of reports that have been presented in recent years, which considered the ongoing viability of regional air services and made recommendations for improvement to the sector, to ensure its ongoing viability.

1.13   Chapter 3 summarises and provides examples of the extensive evidence received by the committee as to the experience of residents, organisations and other stakeholders in accessing air services from rural, regional and remote areas, across various jurisdictions.

1.14   Chapter 4 presents an overview of airport and aviation taxes and charges. These charges are examined in conjunction with the broader financial impacts of operating an airport in a regional or remote area.

1.15   Chapter 5 draws attention to concerns about the implementation and operational costs of security screening at smaller regional and rural airports. In particular, the chapter considers the impact of recently announced security screening upgrades at a number of regional airports.

1.16   Chapter 6 examines the evidence that was provided by airlines, regarding how they determine airfares and highlighting the particular factors that influence regional airfare pricing and price calculations.

1.17   Chapter 7 considers a number of other factors that were raised throughout evidence which may influence the price of airfares, including the role of competition, market forces and economies of scale. This chapter also considers aviation cabotage in the Australian context, and the role of charter flights.

1.18   Chapter 8 provides an overview and analysis of regulated routes, and looks at the operation of and access to resident's fare schemes offered by a number of airlines.

1.19   Chapter 9 examines the financial and other support available for the provision of air services to regional areas, provided by the government. The chapter considers the aviation strategies adopted by various jurisdictions, and presents some of the proposals put forward to help reduce airfare prices.

1.20   The final chapter, Chapter 10, summarises the evidence presented, and provides the committee's views and recommendations.

Context of the inquiry

1.21   The committee is aware of the fact that the provision of efficient and affordable air services forms part of a much broader discussion on the connectivity and liveability of Australia's regions. The committee is very much alive to the issues regarding the liveability of Australia's regional, rural and remote areas, but in this instance the committee has found it necessary to confine itself to its more narrow terms of reference regarding air pricing and services.

1.22   Further, the committee notes that the role of the Australian Government in determining airfares is limited, due to both constitutional restraints (discussed later in this chapter), and the independence of commercial operations from government intervention. It does not have a role to play in determining airfares, or in directing commercial entities how to operate their business. The government can, however, examine the oversight and regulatory frameworks which support businesses operating in Australia and connecting Australia's regions, and suggest areas for improvement within these frameworks.

1.23   The committee is conscious that there were certain views held by a number of submitters and witnesses, regarding the ability of the federal government to intervene in the setting of airfares. It was the expectation of some stakeholders that this inquiry could play a direct role in the determination of airfares. However, as noted above, the government is constrained from doing so, both constitutionally and on the grounds of commercial independence.

Australians and air travel

1.24   Air travel is vital in connecting people across a country as immense as Australia. An effective aviation industry not only connects regional communities to families, friends and essential services, but contributes positively to local economic growth, to improving social cohesion and to increasing productivity and commercial benefits such as tourism.

1.25   Australians have a love for air travel, and fly in vast numbers. In the month of February 2019 alone, there were 4.7 million passengers carried on Australian domestic commercial flights. Of these, 1.78 million domestic passengers moved through regional airports. All told, there were 61.04 million domestic passengers carried in the year ending February 2019, a growth of 1.3 per cent from the prior year.[7]

1.26   The 11 largest airports in Australia (including all capital city airports, and the Gold Coast, Cairns and Alice Springs airports) account for 87 per cent of overall passenger traffic and make the most substantial contribution to the Australian economy. The remaining airports, including regional and remote airports, play a significant role in serving their local community and the Australian economy more broadly.[8]

Cost of air travel

1.27   Despite the volume of passengers in the Australian aviation market, and the importance of commercial air travel in connecting Australians from rural and remote

---

7   Bureau of Infrastructure, Transport and Regional Economics, *Domestic aviation activity*, https://www.bitre.gov.au/statistics/aviation/domestic.aspx#anc_summary (accessed 16 May 2019).

8   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. 5, https://acilallen.com.au/uploads/files/projects/186/ACILAllen_RegionalAirports.pdf (accessed 1 March 2019).

areas to essential services, Australia remains one of the most expensive countries in which to fly.

1.28   In its Travel & Tourism Competitiveness Report 2017, the World Economic Forum ranked Australia as seventh overall in competitiveness out of 136 countries. However, despite the volume of passengers travelling in Australia, the same Report ranked Australia's price competitiveness as 128th, or the twelfth most expensive country in which to fly.[9]

1.29   A further study in 2017, which developed a Flight Price Index, considered the average ticket cost per 100 kilometres of travel, across 80 countries. This study found that Australia was the twelfth most expensive country for flights, at US$29.39 per 100 kilometres. This was contrasted with the cheapest country in which to fly, which was Malaysia at US$4.18 per 100 kilometres.[10]

Deregulation and privatisation

1.30   Despite the significant and increasing volume of passengers travelling by air in Australia, and the associated cost of doing so, federal government participation in Australia's aviation sector had decreased significantly in recent decades. It has, however, retained oversight of aviation safety and air navigation control.

1.31   This decrease in participation was a result of a number of significant events, namely:

- the deregulation of inter-state aviation in 1990, which saw the removal of price regulation, aircraft import restrictions, and capacity sharing arrangements on inter-state routes;

- privatisation of Australia's major airports between 1997 and 2003;

- the sale of Federal Airports Corporation airports in 1997 and 1998; and

- divestment of regional and remote airports through the Airport Local Ownership Program (ALOP).[11]

1.32   Successive federal governments have since maintained a deregulated approach to the commercial aviation sector. In 2007, the then Government noted that government policy since 1990 had been one of liberalisation, encouraging market-based outcomes. It summarised the reasons as to why a deregulated approach was preferred:

---

9   World Economic Forum, *Travel & Tourism Competitiveness Report 2017*, pp. 9, 41; https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017 (accessed 7 September 2018).

10   Kiwi.com, *Flight Price Index 2017*, https://www.kiwi.com/stories/flight-price-index-2017/usd/ (accessed 1 March 2019).

11   Bureau of Transport Economics, *Working Paper 41: Regional Aviation Competitiveness*, 2000, p. 35, https://bitre.gov.au/publications/2000/files/wp_041.pdf (accessed 14 January 2019). The ALOP is also referred to as the Aerodrome Local Ownership Program.

> It is the Government's view that by opening up the market, operators have the opportunity and flexibility to react to market opportunities and changes quickly. Experience continues to show that government interventions distort the aviation market, inhibit industry innovation, and are detrimental to more efficient operators.[12]

Role of government in airport ownership

1.33   As with aviation regulation, the federal government has a limited role to play in the ownership and management of Australian airports. For example, the Department of Infrastructure, Regional Development and Cities (DIRDC) submitted that it was primarily responsible for implementing Australian Government aviation policy frameworks, in order to 'help the aviation industry grow in an environment that is safe, competitive and productive'.[13]

1.34   DIRDC noted that under the Constitution, state and territory governments are given power over regional aviation, as it is 'largely an issue of intra-state trade'.[14]

1.35   DIRDC further clarified that the Australian Government does not have a direct role in the daily operation, maintenance or development of local aerodromes, which are generally managed by local governments and other organisations. As such, DIRDC recognised that the managing bodies for local aerodromes were able to set their own prices, subject to council governance arrangements, and compliance with the *Competition and Consumer Act 2010* administered by the Australian Competition and Consumer Commission (ACCC).[15]

1.36   Additionally, DIRDC observed that airlines in Australia were privately owned and operated. Therefore, the Australian Government did not involve itself in the regulation of domestic airline routes, or in the commercial and operational decisions of airlines, such as decisions as to costs and routes.[16]

---

12   Government Response to the Report of the House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, 10 May 2007, p. 3, https://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=trs/reports.htm (accessed 30 January 2019). The *Making Ends Meet* report is discussed in detail in Chapter 2.

13   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 3.

14   Licencing of intra-state aviation services is administered by state departments in NSW, Queensland, SA and WA. Intra-state services are deregulated in the ACT, NT, Victoria and Tasmania. Department of Infrastructure, Regional Development and Cities, *Regional and Remote Aviation,* 2 November 2018, https://infrastructure.gov.au/aviation/regional/ (accessed 13 November 2018).

15   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 5.

16   DIRDC noted that some intra-state routes may be subject to state government regulation. Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 5. See Chapter 8 for more detailed discussion on regulated routes.

Economic regulation of airports

1.37   In privatising Australia's major airports between 1997 and 2003, it was recognised by government that some of the privatised airports had significant market power. Therefore, price regulation was introduced and has continued since 1997, however the number of airports covered and the nature of the regulation has changed over time.[17]

1.38   Currently, only the four largest leased federal airports of Sydney, Brisbane, Perth and Melbourne, are subject to regulation and oversight with regard to the prices of aeronautical services and facilities, car parking, ground transport and quality of service. Annual monitoring is conducted by the ACCC.[18]

1.39   In 2009, a second tier of economic regulation was introduced, whereby the Darwin, Canberra, Gold Coast, Hobart and Adelaide airports self-report on various issues such as pricing, quality of service and complaints handing procedures and outcomes.

1.40   On 22 June 2018, it was announced that the Productivity Commission (PC) would examine the economic regulation of airports. It was tasked with assessing whether regulation promoted the efficient operation of airports and the provision of passenger and freight services at the main passenger airports in major cities. A final report is due to government in June 2019.[19]

1.41   While the oversight and examination roles of the ACCC and the PC are considered later in this report, it is noted that the ACCC and PC focus on Australia's major airports. Therefore, their scope to consider the effective operation of airports and air services in regional and remote areas is limited.

Regular Public Transport (RPT) and regional airports

1.42   Regular Public Transport (RPT) operations are defined as flight operations:

- performed for remuneration;
- conducted to fixed schedules over specific routes; and
- on which seats and/or cargo space is available to the general public.[20]

1.43   Some states, such as Western Australia, define RPT services more broadly. For example, the WA Transport Co-ordination Regulations 1985 define RPT services as air services 'that operate according to a published schedule'.[21]

---

17   Department of Infrastructure, Regional Development and Cities, *Economic Regulation*, 13 July 2018, https://infrastructure.gov.au/aviation/airport/airport_economic_regulation/economic_regulation.aspx (accessed 14 January 2019).

18   Department of Infrastructure, Regional Development and Cities, *Economic Regulation*, 13 July 2018.

19   Productivity Commission, *Economic Regulation of Airports*, https://www.pc.gov.au/inquiries/current/airports-2019#report (accessed 20 May 2019).

20   Civil Aviation Safety Authority, *Glossary of Terms*, https://www.casa.gov.au/standard-page/glossary-terms (accessed 10 December 2018).

1.44   However, under the Civil Aviation Safety Regulations 1998 (CASR), an RPT service is defined more narrowly, as:

> …the purpose of transporting persons generally, or transporting cargo for persons generally, for hire or reward, in accordance with fixed schedules to and from fixed terminals over specific routes with or without intermediate stopping places between terminals.[22]

1.45   As of 2016, there were around 250 airports in Australia which received RPT services.[23] A number of these airports are considered regional airports, engaging with regional aviation and RPT services. According to DIRDC, regional aviation specifically refers to:

> …that part of the aviation industry that engages in scheduled commercial airline activity between regional areas or between regional areas and capital cities. Traditionally, regional aviation services have been identified as those airlines performing regular public transport services and whose fleets contain exclusively low capacity aircraft (38 seats or less or with a payload of 4,200 kilograms or less). However, Australia's regional airlines now commonly use larger aircraft. Some regional areas are also serviced by jet aircraft operated by major domestic airlines.[24]

Operating environment for regional air services

1.46   A regional airline is one performing RPT services and primarily servicing regional centres.[25] Seventy per cent of regional and remote airports are serviced by a single airline.[26]

1.47   Despite the importance of regional and rural airlines, airports and aerodromes to local communities and economies, many of these institutions face serious financial and other operational concerns that jeopardise their ongoing viability.

---

21   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 6, http://www.parliament.wa.gov.au/parliament/commit.nsf/(Report+Lookup+by+Com+ID)/78D D9B9C2483008A482581E60028FF31/$file/EISC+RAF+Inquiry-+Report+2-+FINAL.pdf (accessed 4 December 2017).

22   Civil Aviation Safety Regulations 1998, s. 206(1)(c).

23   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. 3.

24   Department of Infrastructure, Regional Development and Cities, *Regional and Remote Aviation,* 22 March 2019, https://infrastructure.gov.au/aviation/regional/ (accessed 24 April 2019).

25   Department of Infrastructure, Regional Development and Cities, *Regional and Remote Aviation,* 2 November 2018, https://infrastructure.gov.au/aviation/regional/ (accessed 13 November 2018).

26   Australian Airports Association, *Australia's Regional Airports: Facts, Myths & Challenges*, November 2012, p. 7.

Reduction in regional air providers

1.48   Notwithstanding the importance of regional aviation to communities across Australia, the industry has experienced a high attrition rate in recent decades.

1.49   During the 1980s and 1990s, more than 73 domestic airlines went into demise through liquidation, bankruptcy, receivership, merger, or were subject to a takeover. In the state of Queensland, as a case in point, 18 regional airlines ceased operating RPT services from the 1990s to 2003.[27] Similarly, in Western Australia 48 airlines have been acquired or become bankrupt since 1960.[28]

1.50   A NSW Legislative Council report of 2014 noted that in 2005, 11 airlines were providing services to 35 regional airports in NSW. However, between 2005 and 2014, the number of airlines providing RPT services in regional NSW alone decreased by 54 per cent. By 2014, there were five airlines providing services across ten regulated routes and twelve unregulated routes across NSW.[29]

1.51   The Western Australia Department of Transport (DOT) observed that between 1984 and 2015, the number of WA public air operators declined from 53 to 21, thus placing significant pressure on local governments to subsidise air routes and airport infrastructure, to ensure the maintenance of services.[30]

1.52   Regional Express (Rex) noted that while in the past 16 years, it had doubled its passenger numbers to 1.2 million annually, over the same period 20 other regional airline operators had gone into administration and ceased operations. The Hon John Sharp, Deputy Chairman of Rex, advised the committee in July 2018 that:

> In the last couple of months, we had three go: Rossair, based in South Australia; JETGO and Free Spirt Airlines, both based in Victoria. They've shut down their operations. Being in this game is a tough business and not everybody survives.[31]

1.53   In a 2003 report, the House of Representatives Standing Committee on Transport and Regional Services (TRS Committee) considered reasons for the decline in the provision of regional air services. The TRS Committee found that:

---

27   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, pp. 8, 17.

28   Trevor Paddenburg, 'Regional flight prices in WA are likely to rise, according to Virgin Australia', *Perth Now*, 20 August 2017, https://www.perthnow.com.au/news/wa/regional-flight-prices-in-wa-are-likely-to-rise-according-to-virgin-australia-ng-ac0ac7e3f7cad683504117ed33171902 (accessed 11 December 2018).

29   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. ix, 13, 16; https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryReport/ReportAcrobat/5586/Report%2038%20-%20Regional%20aviation%20services%20-%2023%20Octobe.pdf (accessed 11 December 2018).

30   Government of Western Australia, *Submission 75*, p. 3.

31   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 25.

> The accelerated rate of regional airline failures and route withdrawals appears to be a result of escalating cost pressures on regional operators together with declining patronage caused by regional population changes, improved road conditions and vehicle efficiency, uncertainty generally in regional aviation markets following Ansett's collapse and other factors.[32]

1.54   The 2003 TRS Committee report also identified some of the key issues affecting regional aviation services, many of which remain pertinent in the present-day regional aviation environment. The report summarised these issues as:

> …rising costs, falling returns, declining service levels, poor interconnectivity between services, difficulty maintaining country airports, the processes for regulating aviation safety, the need for policy coordination and the challenge of providing small aircraft to service country areas.[33]

1.55   Additionally, in undertaking a national review of aerodromes, the NT Government received advice from air operators, advising that the main barriers to providing air transport to remote centres were regulatory pressures; inconsistent aerodrome charges; ageing aircraft fleets with limited options for replacement, and the need for improvements to aerodrome infrastructure.[34]

Regional air service providers

1.56   In submissions to the inquiry, airlines acknowledged the importance of air services to regional and remote communities, in supporting the economic and social wellbeing of these communities, and in providing 'access to essential services and contributing to economic growth by connecting regionally-based businesses to domestic and international markets'.[35]

1.57   Regional air services in Australia are currently provided by a number of larger operators, including QantasLink, Virgin Australia, Rex, Alliance and Airnorth. A number of smaller regional air operators are located across Australia, including Fly Tiwi, King Island Airlines and FlyPelican.

QantasLink

1.58   QantasLink is the regional airline for the Qantas Group, offering over 2000 flights a week in a network of 56 metropolitan and regional destinations. As of December 2018, QantasLink operated 68 aircraft, being a mix of Boeing 717-200s, and Dash-8 Q200, Q300 and Q400 turboprop aircraft.[36]

---

32   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 11.

33   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. xii.

34   Northern Territory Government, *Submission 121*, p. 8.

35   See, for example, Qantas Group, *Submission 126*, p. 1.

36   Qantas, *QantasLink: Regional Airline for the Qantas Group*, https://www.qantas.com/travel/airlines/qantaslink/global/en (accessed 14 December 2018).

Virgin Australia

1.59   Virgin Australia operates flights to 33 regional (non-capital city) ports across Australia. Virgin advised that of its 75 domestic RPT services, 53 include at least one regional destination. Virgin's regional operations are serviced by Boeing 737-700/800s, Airbus 320s, Fokker 70/100 jets and ATR72-600 turboprop aircraft.[37]

1.60   A subsidiary of Virgin, Virgin Australia Regional Airlines principally meets charter service requirements for corporate clients, 'in addition to operating RPT flights on routes to the Indian Ocean Territories'.[38]

Regional Express

1.61   As the country's largest independent regional airline, Rex operates a fleet of 57 Saab 340 turboprop aircraft, with 75 000 flights per year carrying 1.2 million passengers. Rex services 60 destinations across NSW, Victoria, Tasmania, South Australia, Western Australia and Queensland. Its operations out of Sydney, Melbourne and Adelaide adhere to the hub and spoke model.[39]

1.62   Rex observed that it services a number of sparsely populated centres, with most of the regional centres on its network comprising a population of fewer than 30 000 people. The largest regional centre on its service had a population of 60 000.[40]

Alliance

1.63   Alliance Airlines is Australia's major fly-in fly-out (FIFO) air charter operator, with a fleet of Fokker aircraft offering regular and ad hoc charter services.[41] Alliance also offers aircraft sales and leasing, and offer to crew and operate an aircraft if required.[42] Alliance operates the Fokker 100, the Fokker 70, and the Fokker 50, and, as a charter operator, only operates four services across Australia where it is responsible for pricing on a per ticket basis.[43]

1.64   An agreement in 2017 saw Alliance enter a wet lease arrangement with Virgin, for the three Virgin routes of Brisbane to Cloncurry, Mount Isa and

---

37   Virgin Australia, *Submission 109*, p. 1.

38   Virgin Australia, *Submission 109*, p. 1.

39   Regional Express, *Submission 135*, pp. 4, 6; the Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 25.

40   Regional Express, *Submission 135*, p. 4.

41   Alliance Airlines, *About Us*, http://www.allianceairlines.com.au/about-us (accessed 14 December 2018).

42   Alliance Airlines, *Aircraft Sales & Leasing*, http://www.allianceairlines.com.au/aircraft-sales-leasing (accessed 14 December 2018).

43   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 1. The four services are Adelaide to Olympic Dam, and Brisbane to Gladstone, Port Macquarie and Bundaberg.

Rockhampton. This was in addition to other regional services already provided under wet lease by Alliance for Virgin, such as services to Emerald.[44]

Airnorth

1.65   Airnorth, headquartered in Darwin, services 20 destinations across two countries, with over 220 scheduled weekly departures in addition to chartered flights. Airnorth offers contract and ad hoc charter services for mining, defence and government activities, and shares a corporate alliance with Qantas.[45]

1.66   Airnorth's fleet consists of the Embraer 170 jet, the Embraer 120 Brasilia turboprop and Metroliner 23 turboprop.[46] A codeshare with Qantas is offered on the majority of Airnorth flights operated by the E170 jet, including Perth, Kununurra, Broome, Townsville, Gove/Nhulunbuy, Toowoomba, Melbourne and Cairns flights.[47]

Airports and airfields

1.67   There are over 2000 landing sites for aircraft in Australia, many of which are not generally available for public use.[48] The 2000 airports and airfields fall into four major categories:

- 'privatised airports' or leased federal airports on Commonwealth land;
- state, and more predominantly, local government owned regional airports;
- Defence-owned airports; and
- privately-owned airports and airstrips.[49]

1.68   A number of airports are owned or operated by the private sector. The Australian Airports Association (AAA) provided information on some of these

---

44   *Australian Aviation,* 'Alliance Airlines adds new routes in Queensland as Virgin prepares to close Brisbane ATR base', 11 May 2017, http://australianaviation.com.au/2017/05/alliance-airlines-adds-new-routes-in-queensland-as-virgin-prepares-to-close-brisbane-atr-base/ (accessed 14 December 2018).

A wet lease agreement is where an aircraft owner (lessor) provides an aircraft, crew, maintenance and insurance to another airline; the lessee is responsible for fuel costs, airport charges and other charges. In a wet lease, the lessor maintains operational control of all flights as it is the lessor providing both the aircraft and the crew. The lessee has commercial control of the flights.

45   Airnorth, *Airnorth history,* https://www.airnorth.com.au/about-airnorth (accessed 14 December 2018).

46   Airnorth, *Our fleet*, https://www.airnorth.com.au/flying-with-us/on-board/our-fleet (accessed 14 December 2018).

47   Airnorth, *Partners*, https://www.airnorth.com.au/about-airnorth/partners (accessed 14 December 2018).

48   Australian Airports Association, *Australia's Regional Airports: Facts, Myths and Challenges*, November 2012, p. 10.

49   Australian Airports Association, *Australia's Regional Airports: Facts, Myths and Challenges*, November 2012, p. 10.

airports, including the Broome International Airport, the Toowoomba Wellcamp Airport and the Gove Airport, all of which are owned under various private ownership arrangements (including with resource companies).[50]

1.69   In relation to privately owned airports and airstrips, many of them are owned by, or principally operated to serve, resource companies. They are generally located to serve their mining or other extraction operations. There are other airports that are owned by aero clubs, while there are some that are largely private sector commercial enterprises offering services to the public at large.[51]

1.70   There are 21 leased federal airports on Commonwealth land. These airports are regulated under the Commonwealth *Airports Act 1996* and include the following:

- Australian Capital Territory – Canberra;

- New South Wales – Sydney, Bankstown and Camden;

- Queensland – Brisbane, Gold Coast, Townsville, Archerfield and Mount Isa;

- Northern Territory – Darwin, Alice Springs and Tennant Creek;

- Victoria – Melbourne, Essendon and Moorabbin;

- Tasmania – Hobart and Launceston;

- South Australia – Adelaide and Parafield; and

- Western Australia – Perth and Jandakot.[52]

Regional aerodromes

1.71   The Civil Aviation Safety Authority (CASA) is responsible for the registration and classification of aerodromes under CASR Part 139. Part 139 prescribes the requirements for aerodromes used in air transport operations. Under Part 139, operators of aerodromes used by aircraft of more than 30 passenger seats conducting air transport operations must be certified. As an alternative, operators of non-certified aerodromes used by aircraft of no more than 30 passenger seats may apply to have their aerodrome registered by CASA.

1.72   As of May 2019, there were 197 certified aerodromes.[53] Aerodromes need to be certified if they have a runway that is suitable for use by aircraft which have:

- more than 30 passenger seats engaged in RPT or charter services; or

---

50   Australian Airports Association, *Submission 122*, pp. 15-16.

51   Australian Airports Association, *Australia's Regional Airports: Facts, Myths and Challenges*, November 2012, p. 10.

52   Department of Infrastructure and Regional Development, *Airports: Leased Federal Airports*, https://infrastructure.gov.au/aviation/airport/index.aspx (accessed 5 December 2018).

53   A list of certified aerodromes can be found at: https://www.casa.gov.au/aerodromes/standard-page/certified-aerodromes-register (accessed 21 May 2019). At the time of its submission to the inquiry, in December 2017, CASA advised that there were approximately 180 certified aerodromes.

- a maximum carrying capacity of more than 3400 kg.[54]

1.73   Aerodromes which do not meet these certification triggers can choose to become registered aerodromes, of which there are approximately 126. Registration allows these aerodromes to be within the regulatory system and receive the associated benefits, such as regulatory surveillance. While CASA does not maintain a list of aerodrome operators by location, it does maintain lists on certified and registered aerodromes.[55]

1.74   The regulatory framework for aerodromes differs in accordance with the scale and extent of usage of the aerodrome. Therefore, the regulations for isolated aerodromes that are used infrequently are far less complex than those for large, high use aerodromes.

Airports owned and operated by local government

1.75   According to the Australian Local Government Association (ALGA), over 200 regional airports and aerodromes throughout regional and rural Australia are owned and operated by local government.[56]

1.76   From 1958 to 1993, the federal government funded the transfer of ownership of regional airports and aerodromes to local council authorities under the ALOP. As part of the transfer arrangements, one-off funding was provided to these councils for both maintenance and approved development, with local governments having a direct role in funding and managing airports since 1993.[57]

1.77   The ALOP came with the caveat that the councils were not permitted to sell, lease or dispose of the aerodromes without the written consent of the secretary of the Department of Transport. The ALOP prescribed other obligations on local councils including:

- operating and maintaining the airport in compliance with civil aviation regulations;
- developing, operating and maintaining the aerodrome—including visual aids and associated equipment—to CASA standards; and

---

54   Civil Aviation Safety Authority, *Submission 24*, p. 3.

55   Civil Aviation Safety Authority, *Submission 24*, p. 3. At the time of its submission to the inquiry, in December 2017, CASA advised that there were approximately 135 certified aerodromes.

56   Australian Local Government Association, *2019 Local Government Roads and Transport Agenda*, p. 3, https://cdn.alga.asn.au/wp-content/uploads/ALGA-2019-Local-Government-Roads-and-Transport-Agenda.pdf (accessed 21 May 2019).

57   NSW Government, *Submission 166*, p. 5.

- providing open, unrestricted and non-discriminatory access to the aerodrome by airline and aircraft operators on reasonable terms and conditions.[58]

1.78   While some local councils have since sold their airports to private operators, the majority remain under local council ownership.

Passenger movements at regional airports

1.79   Patronage at Australia's regional and rural airports and aerodromes is varied, with travellers utilising services for a number of purposes. Highlighting the variability in regional airports, they not only provide for regular passenger transport, but also facilitate 'medical evacuations, collection and delivery of organ donations and search and rescue'. By enabling firefighting in areas where road transport is difficult or simply too late, regional airports also assist in protecting Australia's physical assets.[59]

1.80   According to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), in the year ending December 2018 the number of domestic aviation passengers travelling through regional airports was 24.92 million. This was an increase of 1.9 per cent from the year ending December 2017. According to BITRE, Cairns was the top regional airport in 2018 in terms of passenger movements, with 4.309 million such movements, followed by Hobart and Darwin.[60]

1.81   In 2013, BITRE observed that most of the growth in passenger numbers on regional air routes resulted from an increase of revenue passengers travelling on air routes between major cities and regional areas. In fact, air travel between major cities and regional areas accounted for more than 90 per cent of the entire regional aviation market at that time.[61]

1.82   Just as there is some variation in relation to the ownership arrangements of regional airports, there is also considerable variation in terms of the size and capacity of regional and rural airports. This variation ranges from the Cairns Airport with over 4 million passenger movements in 2018, to Broken Hill which, as the 50th busiest

---

58   Australian Airports Association, *Australia's Regional Airports: Facts, Myths and Challenges*, November 2012, p. 32.

59   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. ii.

60   Bureau of Infrastructure, Transport and Regional Economics, *Statistical Report: Domestic Aviation Activity 2018*, 2019, pp. 1, 23, https://bitre.gov.au/publications/ongoing/files/Domestic_airline_activity_2018.pdf (accessed 26 April 2019).

        The BITRE recognises passenger movements at regional airports as including passengers travelling between airports in major cities and regional areas, as well as passengers travelling between airports in regional areas. Bureau of Infrastructure, Transport and Regional Economies, *Air transport service trends in regional Australia (2013 Update)*, Information sheet 47, Department of Infrastructure and Transport, 2013.

61   Bureau of Infrastructure, Transport and Regional Economies, *Air transport service trends in regional Australia (2013 Update)*, Information sheet 47, Department of Infrastructure and Transport, 2013, https://bitre.gov.au/publications/2013/files/is_047.pdf (accessed 16 November 2017).

regional airport, had 70 000 passenger movements over the same period.[62] Bourke Airport had only 100 passenger movements in 2014–15.[63]

1.83   The AAA found that the number of airports receiving RPT services had declined markedly over the years. This factor, coupled with trends in airline operations, threaten to reduce this number even further. From 2005 to 2010, total RPT passenger movements at Australia's regional airports grew at a faster average than at airports in the major cities, when measured on a national average basis. However, according to the AAA, these figures 'disguise the volatility and unevenness that is apparent when airport-by-airport figures are examined'. It noted that while some regional airports—and particularly those serving mining sites—did experience a high growth rate, at the same time a significant number experienced 'low, no or negative growth over the same period'.[64]

Challenges faced by regional airports

1.84   Australia's regional airports are faced with numerous challenges in maintaining the service they provide to local communities. Many are operating at a loss and depend upon cross-subsidisation by their local government owners who in turn face multiple and competing demands on their limited financial resources.

1.85   The costs of maintaining and expanding regional airport infrastructure can be up to three times higher in some remote locations compared to airports in major population centres.[65] In addition, it has been suggested that, on average, the regulatory imposts are higher for regional and remote airports, comprising 12 per cent of total expenditure, compared to about 4 per cent for major airports and major regional airports.[66]

1.86   The AAA noted that while in many cases, funding was provided to local governments for upgrades or essential refurbishments, the ALOP arrangements 'failed to recognise the need for an ongoing funding source for maintenance, operation and renewal'.[67]

1.87   In 2017, the AAA reported that 60 per cent of Australian regional airports were operating at a loss, with many struggling to fund infrastructure maintenance and

---

62   Bureau of Infrastructure, Transport and Regional Economics, *Statistical Report: Domestic Aviation Activity 2018*, 2019, p. 23.

63   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. 4.

64   Australian Airports Association, *Australia's Regional Airports: Facts, Myths & Challenges*, November 2012, p. 4.

65   Australian Airports Association, *Australia's Regional Airports: Facts, Myths & Challenges*, November 2012, p. 5.

66   Australian Airports Association, *Australia's Regional Airports: Facts, Myths & Challenges*, November 2012, p. 7.

67   Australian Airports Association, *Submission 122*, p. 16.

ongoing operations.[68] This position was supported by a 2018 report by Deloitte, which found that regional airports were typically operating at break even or a loss.[69]

1.88   The 2018 report by Deloitte also put forward concerns raised by regional airports as to staffing and capital expenditure. Regional airports indicated that attracting staff to regional areas was difficult, and increased labour costs. Regional airports were further concerned with a lack of funds for capital works and an insufficient availability of grant funding.[70]

Costs and losses at regional airports

1.89   In a 2016 report to the AAA, ACIL Allen Consulting found that regional airports invested $185 million in 2014–15 to maintain and improve operations. The same report found that in 2014–15, 61 per cent of regional airports had budget deficits.[71]

1.90   The ACIL Allen report suggested that on average, regional airports had a 6 per cent funding gap in 2014–15 between the expenditure required to operate the airport and subsequent revenue collected from its operations. The funding gap was detailed as follows:

- a gap of 3.4 per cent for RPT airports; and
- a gap of 45.6 per cent for non-RPT airports.[72]

1.91   However, at the same time, expenditure at regional airports was expected to rise by 38 per cent over the next decade. The ACIL Allen report revealed that:

> Across Australia's regional airport network, it is expected that the annual budget deficit will be $17 million per year, equating to a $170 million shortfall in essential infrastructure and maintenance funding at regional airports over the next 10 years.[73]

---

68   Australian Airports Association cited in Steve Creedy, 'Regional airports struggle to cope with rising costs, *AirlineRatings*, October 2018, https://www.airlineratings.com/news/regional-airports-struggle-cope-rising-costs/ (accessed 10 May 2019).

69   Deloitte Access Economics, *Connecting Australia: The economic and social contribution of Australia's airports*, 2018, p. 28, https://www2.deloitte.com/au/en/pages/economics/articles/contribution-australian-airports.html#download (accessed 26 April 2019).

70   Deloitte Access Economics, *Connecting Australia: The economic and social contribution of Australia's airports*, 2018, p. 52.

71   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia,* September 2016, p. i.

72   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. iii.

73   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. i.

Key issues considered by the inquiry

1.92   It is clear that there are substantial and unique challenges to be considered and addressed as the country grapples with how to best deliver effective and affordable aviation services to rural, regional and remote communities. Through the tyranny of distance, regional Australia faces unique challenges, not least of which is the provision of reliable and affordable transport options.

1.93   As detailed in this chapter, there are numerous issues which interact to create a difficult environment for aviation operations in regional Australia. These can be summarised as:

- the remoteness of rural and regional communities, and the lack of access to key infrastructure and support services;

- a deregulated and privatised aviation sector, with decreased participation of airlines in regional markets;

- a lack of funding to regional airports in the face of ongoing, increasing operational, regulatory and maintenance costs (including security costs); and

- a lack of economic viability for airlines operating in remote areas, due to economies of scale and market forces.

1.94   Overall, the significant difficulties in the regional aviation sector have resulted in increased costs for the travelling public. The factors listed above—and many others—were raised with the committee throughout the inquiry by various witnesses, and are considered throughout this report.

Chapter 2
Previous inquiries into regional air services

2.1   The matter of regional aviation and the unique challenges this sector faces has been given considerable attention in recent years, through a number of detailed reports presented at both the federal and state level. Some reports have also considered the transport needs of rural and regional communities in the broader context of supporting the development and expansion of regional Australia.

2.2   Accordingly, this report should not be considered in isolation, and the committee draws attention to the various other investigations and inquiries that greatly complement the findings of the committee in this instance.

2.3   Some of these reports and their key findings are summarised in this chapter.[1]

House of Representatives report, November 2003

2.4   In November 2003, the House of Representatives Standing Committee on Transport and Regional Services (TRS Committee) presented a report examining commercial regional aviation services in Australia, and alternative transport links to major populated islands around Australia. The TRS Committee considered a number of matters similar to those which the committee is considering as part of its current inquiry.

2.5   The TRS Committee found that 'local councils of smaller regional and island communities are having difficulties making ends meet in providing airport infrastructure for regional aviation services'. It was further observed that 'regional airlines are having difficulties making ends meet as their costs rise and their markets erode', and that smaller aviation operators would struggle to continue providing services.[2]

2.6   Similar to concerns raised in this inquiry, the TRS Committee concluded that the key issues affecting regional air services were:

> …rising costs, falling returns, declining service levels, poor interconnectivity between services, difficulty maintaining country airports, the processes for regulating aviation safety, the need for policy coordination and the challenge of providing small aircraft to service country areas.[3]

---

1   The Productivity Commission has also considered the economic regulation of airports in a number of reports; these are considered in Chapter 4.

2   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. xi, https://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Com mittees?url=trs/aviation/report/contents.htm (accessed 29 January 2019).

3   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. xii.

2.7   The TRS Committee made a number of important observations, which are worth repeating to highlight the long-standing and consistent issues around regional aviation:

> The economics of regional aviation services are posing a threat to their existence. The costs of providing air services to many regional locations have increased. Some of these added costs are due to increases in taxes, levies and the cost recovery activities of the three levels of government. At the same time revenues are static or declining. The resulting thin margins mean that as costs increase, operators have little alternative other than to increase the price of their tickets.

> However, potential patrons of regional air services are either unwilling or unable to pay the higher airfares. Aggravating this situation are inconvenient schedules and delays at capital city airports. Travellers want affordable and efficient transport, and are increasingly turning to the motor vehicle or simply travelling less.[4]

2.8   The TRS Committee drew attention to a number of issues that were taking a toll on the regional aviation industry, including economies of scale, competition from other means of transport, long-term demographic changes in regional Australia, and the collapse of airlines such as Ansett Australia. All these factors presented an impediment to competition in the sector.[5]

2.9   The report further acknowledged that regional airlines faced 'very high capital costs and high operating costs'. Due to these costs, the price per kilometre of regional flights increased, and profit margins were reduced. Further, the report concluded that many regional routes could only offer a small number of passengers, resulting in inadequate load factors.[6]

2.10   The TRS Committee made 28 recommendations for addressing the issues then facing regional aviation services and island and remote communities. The recommendations included that:

- the ACCC investigate anti-competitive behaviour within the computerised reservation systems of regional airlines, and take action as necessary against any operators abusing their market position with regard to the reservation systems;

- the relevant government agency investigate the issue of pilot shortages in regional airlines, and, after reporting, develop a program to expand pilot training in regional Australia if required;

---

4   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. xii.

5   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 2.

6   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, pp. 40-41.

- depending on the population size of the community, airport owners receive some financial assistance for capital works and essential maintenance (via an airport ownership subsidy scheme);

- funding for the Remote Air Services Subsidy (RASS) scheme be maintained; and

- for communities with populations below 30 000, the Australian Government provide assistance with the provision of airport security measures, where the need for security upgrades had been identified.[7]

2.11   The TRS Committee further recommended that the costs around regional air services be subject to a thorough review, including an analysis of the impact of taxes and charges from all levels of government, and the impact of subsidies to alternative means of transport, such as roads. The TRS Committee was of the view that:

> the Commonwealth reduce imposed costs on regional aviation, or provide appropriate incentives for the provision of essential regional aviation services. This should be done in collaboration with states and territories to ensure policy coordination.[8]

2.12   To address issues with transparency around the airport charges imposed by regional councils, the TRS Committee suggested that BITRE[9] was ideally placed to provide this information to the public. The Committee therefore recommended that BITRE provide information on a number of aspects of regional aviation operation, including the prices charged by regional airports for aviation services (with the data to be 'updated following the annual round of council budget tablings').[10]

Australian Government response

2.13   The Government took some time to respond to the TRS Committee's 2003 report, presenting its response on 10 May 2007. Noting that the government had no legislative basis on which to intervene in the economic regulation of the regional aviation market, the response indicated that a number of the recommendations would require implementation at a state or territory level. The response did acknowledge that at a Commonwealth level and since the time of the report, the RASS had been extended and funded, and more than $80 million had been provided for regional airport security upgrades.[11]

---

7   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, pp. xxi-xxiii.

8   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 147.

9   In 2003, BITRE was known as the Bureau of Transport and Regional Economics (BTRE).

10   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, pp. 147-149; 178.

11   Government Response to the Report of the House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services*: *Making Ends Meet*, 10 May 2007, pp. 2-3, 6.

2.14   In its response, the Government expressed the view that the expectations of regional communities for air services were not in line with what regional air operators could deliver. The Government observed that:

> Many communities outlined criteria to the Committee they believed defined adequate air services, including regular daily services, cheap and direct flights to main ports and seats available at short notice. Market experience suggests that there is a gap between community expectations and what the industry can viably deliver. On many marginal rural and regional routes a regional airline could not satisfy such criteria and remain viable.[12]

2.15   The Government's support for local governments taking steps to 'better utilise their aviation infrastructure, including the further rationalisation of airports' was highlighted, particularly when a number of airports were servicing nearby districts. Alternatively, communities could consider 'broader transport solutions' not involving RPT aviation services, such as commuter bus services.[13]

2.16   The Government response also expressed caution over the recommendation that BITRE collect further information with regard to regional aviation operations. The response noted that while making such information available may be of benefit to the public and the industry, collating such information could place a considerable burden on small operations. Further, disclosure of such information could present issues with regard to commercial confidentiality. The Government nonetheless encouraged ongoing and open dialogue between the airlines and BITRE.[14]

New South Wales Legislative Council report, October 2014

2.17   In October 2014, the NSW Legislative Council Standing Committee on State Development (NSWLC) tabled its report titled *Regional aviation services*. As part of its inquiry, the State Development Committee considered—among other things—the provision of RPT services to NSW regional centres, including airport costs, financial and other viability measures impacting on RPT operators, and the economic impact on regional communities of gaining or losing RPT services.[15]

2.18   Evidence to the NSWLC suggested that the main concerns of airlines were increasing regulatory and compliance costs (including those imposed by CASA),

---

12   Government Response to the Report of the House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet,* 10 May 2007, p. 5.

13   Government Response to the Report of the House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, 10 May 2007, pp. 13-14.

14   Government Response to the Report of the House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, 10 May 2007, p. 25.

15   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. iv, https://www.parliament.nsw.gov.au/lcdocs/inquiries/2063/Report%2038%20-%20Regional%20aviation%20services%20-%2023%20Octobe.pdf (accessed 30 January 2019).

airport charges, such as landing fees and security screening charges, and airport infrastructure and facilities. Airlines were particularly concerned about a decline in the standards of facilities at some regional airports, and about what they perceived as the 'over development' of airport facilities.[16]

2.19   Conversely, airports advised the NSWLC that in recent years they had seen fluctuations in service levels, passenger numbers and airline providers, in conjunction with changes to regulations and increased costs of providing security screening, all of which presented challenges to the ongoing viability of airports. Airports also raised concerns about the timely payment of fees and charges by airport users, especially when airlines ceased trading (for example, if they went into receivership).[17]

2.20   The NSWLC expressed its considerable concern that some NSW local councils were considering deregistering their aerodromes due to the financial burden of ongoing operation, noting the significant negative impact this would have on communities.[18]

2.21   The NSWLC found that regions in NSW where the mining industry was present were experiencing a greater demand for charter services, but that this was having a detrimental impact on the patronage of RPT services.[19] The risk of reduced RPT services was also considered in relation to infrastructure upgrades, with the NSWLC advising that:

> The trend toward larger aircraft is also adding to the cost of infrastructure for regional airports. Lengthening runways, extending terminal and apron space, and other infrastructure enhancements need to be planned to accommodate larger aircraft. Airport operators who invest in this infrastructure can run the risk of overcapitalising if the planned service never eventuates.[20]

2.22   Evidence to the NSWLC indicated that the composition of the aircraft fleet used on regional air routes would change over coming years, 'with the manufacture of smaller aircraft ceasing, and the gradual replacement of these aircraft with larger models'. The shift to larger aircraft was expected to impact on the provision of regional air services, with airport infrastructure unsuited to receive these aircraft and insufficient passenger numbers to support their use.[21]

---

16   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. 24-26; 31.

17   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. 59; 61; 69.

18   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 63.

19   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 19.

20   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 65.

21   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. 97-98.

2.23   The NSWLC concluded that:

> It is evident that the availability of air services is determined by the viability of routes and not on the needs of regional and remote communities. The committee acknowledges that continuation of the current model of service provision without additional government assistance will not result in the re-establishment of air services where they have been withdrawn. It may lead to a further decline of services as air service providers direct their interests to routes that are profitable.[22]

2.24   The NSWLC made 21 recommendations, a number of which sought to address specific issues with the provision of regional air services to and from Sydney Airport, and the costs of services at that airport. The NSWLC further recommended that, among other things, the NSW Government:

- establish a stakeholder roundtable to develop an on-going funding arrangement for the continued maintenance of the network of essential airfields across NSW, in acknowledgement of the costs being incurred by local councils;

- express the concerns of regional airports to the Federal Minister for Transport and Infrastructure, regarding the fact that those airports are 'overburdened and overwhelmed by the frequent changes to civil aviation safety legislation and regulations';

- encourage the Federal Minister to adopt a risk management approach to security and safety regulations imposed on regional airports, and provide financial assistance to airports requiring upgrades to security infrastructure; and

- work with industry and local government to develop a workable model to facilitate the timely payment of airport fees to operators (including via regulation if necessary).[23]

2.25   The NSWLC also recommended that Transport for NSW consult with those local councils which have a regulated route, to determine whether deregulation was preferable. Further, the NSWLC recommended that Transport for NSW consult with local governments transparently and openly during the licence tender process for regulated routes and on the appointment of an airline to a service.[24]

---

22   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. 124-125.

23   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. xiii-xv. In its response, the NSW Government noted that this was a matter best dealt with between airport owners and airlines; see *NSW Government response to Parliamentary Inquiry into Regional Aviation*, 5 March 2015, p. 3, https://www.parliament.nsw.gov.au/lcdocs/inquiries/2063/Government%20response%20-%20Regional%20Aviation%20Services%20-.pdf (accessed 31 January 2019).

24   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. xiv.

Western Australian Legislative Assembly report, November 2017

2.26   On 30 November 2017, the Western Australian Legislative Assembly Economics and Industry Standing Committee (EISC) tabled its inquiry report into regional airfares in Western Australia. Titled *Perceptions and Realities of Regional Airfare Prices in Western Australia*, the EISC sought to establish whether community perceptions about the price of airfares matched the realities of the market.[25]

2.27   The EISC inquiry received a significant volume of submissions and held numerous public hearings. The final report made 48 findings and presented 13 recommendations.

Factors impacting airfare prices

2.28   The EISC 'broadly accepted' that there were relatively high costs associated with airline operations in WA, but observed that there was a general resistance from airlines to publicly disclose pricing information that 'would have enabled it to draw conclusions regarding the reasonableness of fares on unregulated routes'. The EISC was therefore of the view that it was difficult for it to determine whether airlines were setting fair prices.[26]

2.29   The EISC concluded, based on the evidence provided to it, that the 'construction of airfare prices is remarkably complex', with a number of variables that could influence the cost of airfares offered and the profitability of individual routes, networks and airlines. The EISC considered that there were a number of key factors contributing to high airfares in WA. These factors included:

- thin routes with low passenger numbers and low load factors, serving small population centres—meaning the fixed costs of operation were shared over a smaller passenger base;

- the impact of the resource and energy sectors on price, and the proximity of airstrips to RPT airports (used, for example, by charter operators and therefore undermining RPT services); and

- a duopolistic market structure that might prevent the effective operation of market forces, 'leading to parallel schedules and similar pricing', a lack of a competition and therefore no downward pressure on airfares.[27]

---

25   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, http://www.parliament.wa.gov.au/parliament/commit.nsf/(Report+Lookup+by+Com+ID)/78D D9B9C2483008A482581E60028FF31/$file/EISC+RAF+Inquiry-+Report+2-+FINAL.pdf (accessed 4 December 2017).

26   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; p. 19.

27   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; p. 49.

2.30   With regard to airport charges, the EISC received conflicting evidence, with the airlines suggesting that airport charges were a major factor in the determination of regional airfares, and local governments and airport operators contending that airport charges formed only a small part of total airfare costs.[28]

2.31   Based on the evidence it received, the EISC concluded that airport charges varied but generally constituted a small component of the total cost of airfares. The WA inquiry did not receive any evidence that airports were charging unreasonably, and considered that local councils and other airport operators were transparent as to the calculation of their charges.[29]

2.32   However, the EISC drew attention to the impact of security screening charges on airport operations, particularly in instances of low passenger numbers and smaller passenger movements. The EISC concluded that providing and maintaining security services on unregulated RPT routes was a significant cost on each passenger fare.[30]

2.33   The WA committee suggested a number of steps that airlines could take to address community concerns with the costs of air travel, including reducing fares, offering compassionate fares, offering residents fares at more reasonable prices, and actively engaging with local communities to 'explain cost drivers, route dynamics and service requirements'. It was the view of the EISC that community sentiment was far more positive when airlines undertook this sort of consultation; it was preferable that the industry take steps to engage with communities to improve the situation, rather than require government intervention.[31]

2.34   By way of example, the EISC considered Rex's engagement with the WA communities in which it operated regulated routes, being Albany and Esperance. The EISC stated that:

> The Committee did not receive any submissions expressing discontent with prices on regulated routes...the Committee did not schedule a community meeting in Esperance and then was forced to cancel a community meeting in Albany due to the lack of public response.
>
> There are two potential factors explaining this.

---

28   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; pp. 71-78.

29   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword.

30   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, pp. 85-87.

31   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword.

Firstly, Regional Express (Rex) has undertaken a very proactive community engagement model. On the evidence presented to the Committee, Rex exceeds the requirements in its Deed of Agreement. Moreover, in its stakeholder forums, Rex presents information to the community regarding costs, pricing and passenger numbers, enabling the community to assess the operator's conduct with respect to pricing. The DoT [Department of Transport] observed that Rex had been very forthcoming about its airfares with the residents of these two towns in the six-monthly Community Consultative Group meetings, and that this had changed the attitude of these communities to the level of the airfares.[32]

Regulated and unregulated routes

2.35   The EISC received a considerable amount of evidence suggesting that airfares on unregulated routes in WA were unreasonably priced, and found that airfares on regulated routes were lower and less volatile than on unregulated routes. Airline operators put it to the EISC that airfare prices were subject to market forces and were developed on the basis of supply and demand. However, an 'abundance of evidence' provided to the EISC questioned the extent to which market forces were operating to reduce airfares.[33]

2.36   The WA committee noted that in the absence of any obligation to provide information, 'public visibility of airlines' cost structures and pricing mechanisms on these routes is extremely limited'. It found that community sentiment in WA was more positive in relation to regulated routes where 'airlines proactively engage with local communities regarding price and service operation'.[34]

2.37   The EISC called on the WA Minister for Transport to require the production of information from airlines, providing the details on the operation of unregulated routes (with the information treated under strict confidentiality protocols). It was suggested that this information could help with policy development and understanding intrastate market dynamics, and could place downward pressure on airfare prices. It would further allow the state government to form a view on whether there was market failure or anti-competitive conduct at play. The EISC concluded that:

> A requirement to provide greater information on unregulated routes represents an intermediate step between the current 'light handed' policy approach, and route reregulation. It provides the State Government with the ability to conduct its policy function more effectively, observe the operation of the intrastate aviation market, consider whether the market is operating

---

32   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 20.

33   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; pp. 20-21; 29-30.

34   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword.

to produce fair pricing outcomes on regional unregulated routes and determine whether more interventionist market steps are warranted.[35]

2.38   The WA DOT summarised the findings of the EISC, and advised that:

> The unprecedented response to the inquiry demonstrates that high airfares are a vital issue for Western Australians and particularly for those living, working and touring in the regions. The inquiry found substantial concerns within the community about the cost of airfares but that there were significant differences in viewpoints, particularly regarding regulated and unregulated air services. The report acknowledges that the current regulation of certain air routes in WA has produced good outcomes but has also highlighted the concerns and deep level of public unhappiness over regional airfares on the unregulated air routes in WA which contributes to the high cost of airfares.[36]

WA Government response

2.39   In responding to the recommendations of the EISC report, the WA Government supported the use of legislated powers to require airlines operating unregulated routes in WA to provide various records to government. The WA Government noted that:

> Obtaining appropriate prescribed records on the unregulated routes from the operating airlines can be implemented relatively quickly by amending conditions on airlines' licences administered by [the Department of Transport].[37]

2.40   The WA Government also agreed to the preparation of a biannual report by the DOT and other agencies, for government consideration, assessing the prevailing market dynamics and airfares, and focusing on unregulated RPT routes. The WA Government would also consider whether any additional routes in WA required regulation, giving particularly priority to the Perth-Kununurra route, and would review its tender design process when regulating RPT routes.[38]

House of Representatives report, June 2018

2.41   In June 2018, the House of Representative Select Committee on Regional Development and Decentralisation tabled its report, *Regions at the Ready: Investing in*

---

35   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; pp. 120-121.

36   Government of Western Australia, *Submission 75*, p. 5. Regulated routes are considered further in Chapter 8.

37   WA Government, *Response to Report 2 of the Economics and Industry Standing Committee* 'Perceptions and Realities of Regional Airfare Prices in WA', pp. 2-3, http://www.parliament.wa.gov.au/parliament/commit.nsf/(Report+Lookup+by+Com+ID)/78D D9B9C2483008A482581E60028FF31/$file/81303454.pdf (accessed 29 January 2019).

38   WA Government, *Response to Report 2 of the Economics and Industry Standing Committee* 'Perceptions and Realities of Regional Airfare Prices in WA', p. 3.

Australia's Future. This report considered the best approaches to the development of regional Australia, and decentralisation policies for Commonwealth entities or functions. While the report did not directly consider the regional aviation sector, it put forward suggestions that would improve the living environment in regional areas.

2.42   The Select Committee received considerable evidence as to the importance of connectivity for regional areas, including physical connectivity via airports. It was suggested that upgrades to airports in regional areas—alongside upgrades to other transport modes such as rail—would 'improve connectivity and provide social and economic opportunities for regional towns'.[39]

2.43   The Select Committee recommended that the Federal Government increase investment in infrastructure that would increase connectivity, via coordinated regional plans. Further, as part of a broader White Paper process, it suggested that consideration be given to the need for strong and reliable transport infrastructure, to support passenger and freight movements.[40]

---

39   House of Representatives, Select Committee on Regional Development and Decentralisation, *Regions at the Ready: Investing in Australia's Future*, June 2018, pp. 46-47, https://parlinfo.aph.gov.au/parlInfo/download/committees/reportrep/024136/toc_pdf/Regionsatt heReadyInvestinginAustralia'sFuture.pdf;fileType=application/pdf (accessed 29 January 2019).

40   House of Representatives, Select Committee on Regional Development and Decentralisation, *Regions at the Ready: Investing in Australia's Future*, June 2018, pp. 130; 137-138.

Chapter 3

Social and economic importance of regional aviation services

3.1   This chapter details the adverse social and economic impacts that high airfares can have on the residents of rural, regional and remote communities, as raised in evidence by submitters and witnesses.

3.2   The chapter draws attention to the often very personal implications of high airfares on rural and regional communities and their residents, which were brought to the attention of the committee by a number of submissions. Evidence to the committee detailed the unique and individual experiences of people living in regional and remote Australia with regard to air travel.

Aviation services in regional and remote communities

3.3   Regional air services play a significant role in sustaining regional economies and communities, enabling access to specialised health, education, commercial and recreational facilities, and by facilitating social connections. Air services to the regions are often considered an essential service, rather than a luxury.

3.4   The TRS Committee report of November 2003 found that many communities require reliable air services to support the economic and social wellbeing of regional and remote areas. It noted that in remote and regional communities, basic services such as public transport and the delivery of medical supplies, fresh food and mail rely on the use of airport infrastructure.[1]

3.5   In its 2009 Aviation White Paper, the Australian Government recognised the importance of air services and airport infrastructure in regional and remote communities:

> Airports and aerodromes are a critical part of the transport infrastructure of regional and remote Australia, often providing the only means of reliable year round transport to other centres and cities. Without them, many Australians and local economies, already disadvantaged by distances from major markets, would be denied access to essential goods and services.[2]

3.6   In its November 2017 report, the WA EISC noted that air travel was not a luxury in the regions but rather an 'essential service, akin to buses or trains in the

---

1   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 27.

2   Australian Government, *National Aviation Policy White Paper*, December 2009, p. 24, https://infrastructure.gov.au/aviation/publications/files/Aviation_White_Paper_final.pdf (accessed 16 November 2017).

metropolitan areas'. The WA committee found that regional air travel 'sustains communities, provides links to families and friends, facilitates economic activity and affects people's perceptions about the 'liveability' of regional centres'.[3]

Evidence to the committee

3.7   A considerable amount of evidence provided to the committee came from private individuals living in regional and remote communities, who had experienced first-hand the negative impact of high airfares and intermittent flight schedules. Residents of Western Australia, Queensland and the Northern Territory were particularly affected by these issues.[4]

3.8   This evidence provided a firsthand account to the committee of the difficulties emanating from high airfares and the impact these have on people's lives. A number of submitters recounted experiences whereby they were unable to attend important events such as funerals, medical appointments, sporting events, weddings and the school functions of their children.

3.9   The committee wishes to express its thanks to everyone who shared their experiences of high airfares, cancelled flights, and missed opportunities. The committee was particularly moved by and appreciative of a number of very personal stories that people came forward to tell.

3.10   While the committee cannot reproduce all these statements here, it assures all those who provided evidence to the committee about their experiences that their accounts helped inform the committee in its deliberations, and to gain a greater understanding of the experiences of rural, regional and remote communities in dealing with regional air services and airfare pricing.

3.11   The committee also notes that many of the arguments put forward in evidence were similar across different jurisdictions. Arguments put forward, for example, by local councils in Queensland were similar to those concerns raised in the Northern Territory, Western Australia or South Australia. In drawing on specific examples from a variety of locations across the country, the committee acknowledges and appreciates that similar arguments may have been presented by a range of submitters across the country.

The impacts of high airfares

3.12   It became apparent to the committee throughout the inquiry that there were a number of recurrent issues with regional air services, regardless of jurisdiction. Along

---

3   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword.

4   In particular, the committee received considerable evidence from the residents of Mount Isa and other regional Queensland centres.

with the perceived excessive cost of regional airfares and negative comparisons with international fares, other key concerns included:

- lost connectivity with family and friends, and social isolation;

- missed or limited business opportunities;

- additional cost burdens when the cost of living in remote and regional areas was already significant;

- a necessary dependency on expensive air travel during flooding and other environmental events which lead to road closures;

- a lack of access to personal development opportunities, including employment training;

- an inability for small towns to retain residents and employees;

- reduced tourism opportunities;

- lack of access to important medical care;

- impacts on families with children in boarding schools;

- limited opportunities for participation in sporting and other social events;

- lack of reliability and availability of air services, and the use of older aircraft on regional routes;

- displeasure with poor services offered by partner/subsidiary airlines;

- lost productivity and additional accommodation and other travel costs due to irregular or inappropriate flight schedules; and

- confusion around the availability of discount fares for residents.

3.13   In this chapter, the committee explores some of the social and economic issues with air services listed above in greater detail.

Cost of flights

3.14   The committee was provided with numerous examples of airfares that were argued to be excessive and unattainable for residents of regional and remote communities.

3.15   Mr Hamish Griffin, a resident of Cloncurry, Queensland, presented a number of examples of the cost of airfares. Mr Griffin observed that for him to travel with his wife and son to Townsville would cost nearly $4800 return. In another example, Mr Griffin contended that return flights between Mount Isa to Alice Springs for his family would cost over $8000, and required two days of travel.[5]

---

5   Mr Hamish Griffin, *Submission 12*, pp. 1-2.

3.16   In the Northern Territory, the Nhulunbuy Corporation advised that the flights for a family of four from Nhulunbuy to a city in the south of Australia could be up to $8000, thus restricting the frequency of family visits.[6]

3.17   The Mount Isa City Council (MICC) conducted a comparison survey of airfares over December 2017 and January 2018, and formed the view that 'Mount Isa has some of the most expensive airfares in Australia'. The MICC put forward a case study highlighting its concerns:

> It would cost a family of four around $3500 for return airfares from Mount Isa to Brisbane. Yet it would cost a similar family in Townsville just over $1150 for return airfares to fly to either Brisbane or Melbourne. Indeed, a Mount Isa family would save around $2000 if they drove the 903 kilometres to Townsville and commenced their air journey from there.[7]

International flight costs

3.18   The committee heard extensive evidence comparing the high cost of domestic flights with the lower costs of international flights, with many examples of both domestic and international flight costs provided. In providing these examples, many witnesses pointed to the fact that domestic flights, both inter- and intra-state, were more expensive than a number of overseas flights on offer at the same time.[8]

3.19   Some families from remote areas or regional cities had determined that it was cheaper for family gatherings to occur overseas, for example in Bali, rather than within Australia. Mr Chris Hayward, of the Arnhem Land Progress Aboriginal Corporation (ALPA), Darwin, advised the committee that it would cost $6000 return for his family of four to travel to Melbourne. However, return flights for the family to Bali were only $800.[9]

3.20   Mrs Allyson Sanewski explained that in order to get an international flight from Brisbane, she and her husband were required to leave their home in Mount Isa

---

6   Nhulunbuy Corporation, *Submission 136*, p. 2.

7   Mount Isa City Council, *Submission 35*, p. 17.

8   See for example: Mr James Cameron, *Submission 6*; Mr Hamish Griffin, *Submission 12*; Mrs Milynda Rogers, *Submission 19*, p. 1; Mrs Renee Hanrahan, *Submission 22*, p. 2; Isolated Children's Parents' Association Queensland, *Submission 43*, p. 1; Christmas Island Women's Association, *Submission 46*, p. 4; Mr Bradley Rix, *Submission 53*, p. 1; Mrs Abbi Wylie, *Submission 55*, p. 1; Ms Renee Matthew, *Submission 58*; Mr Campbell Purdie, *Submission 60*, p. 1; Ms Tessa Purdie, *Submission 61*; Mr Chansey Paech, *Submission 66*, p. 1; King Island Council, *Submission 88*, p. 2; Ms Glennis Ford, *Submission 94*; Local Government Association of the Northern Territory, *Submission 99*, p. 8; Ms Robyn Lambley MLA, *Submission 100*, p. 1; Ms Kate Busch, *Submission 118*; Ms Ingrid Miller, *Submission 131*, p. 1; Mr Robbie Katter MP, *Submission 144*, p. 1; Mr Sheldon Johnson, *Submission 154*; the Hon Mr Keith Pitt MP, *Submission 155*, p. 1; Christmas Island Tourism Association, *Submission 167*, p. 2.

9   Mr Chris Hayward, Manager, Strategy, Stakeholder Engagement and Business Development, Arnhem Land Progress Aboriginal Corporation, *Committee Hansard,* 5 April 2018, pp. 5-6.

two days earlier given the fact that local flights were regularly cancelled. They were required to pay $1981 return for the domestic flights as well as two nights' accommodation in Brisbane at a total cost of nearly $2500. By way of comparison, their international fare to Europe cost $3600.[10]

Last-minute airfares

3.21   There was considerable concern expressed to the committee over the high cost of airfares when flights had to be booked at short notice, particularly in the case of medical emergencies, to receive medical treatment, or for people to attend the funerals of loved ones. A number of submitters encouraged airlines to introduce or extend schemes for compassionate fares to people in such circumstances.[11]

3.22   Mr Benjamin Quilliam, a bush chaplain based in Alice Springs, spoke to the issue of emergency travel, stating that:

> By nature last-minute, it is tragic that when families are faced with unexpected and devastating news that they must also put themselves in financial hardship. Oftentimes a single family member flies out, with others joining by road when they can.[12]

3.23   Evidence was received supporting this view. For example, in December 2017 Ms Ingrid Miller and her two sons flew from Longreach to Adelaide at short notice, in order to visit a family member with a serious illness. Ms Miller informed the committee that the flights for the three passengers cost $2600 return, and her husband was unable to accompany them due to the cost.[13]

3.24   In another example, Mr Keith Cox of Mount Isa advised the committee that:

> My wife and I had to make an emergency rush to Bundaberg late last March after being advised by the Doctor in ICU that her father was in a critical condition, possibly unlikely to last the next day or so. We were fortunate that there were seats available to get us to Bundaberg by that evening but at the cost of $2200 one way for the pair of us.[14]

---

10   Mrs Allyson Sanewski, *Submission 3*.

11   See for example: Miss Jenelle Robartson, *Submission 8*, p. 2; McKinlay Shire Council, *Submission 34*, p. 3; Mount Isa City Council, *Submission 35*, p. 8; Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 5; Alice Springs Town Council, *Submission 51*, p. 2; Mr Yingiya Mark Guyula MLA, *Submission 101*, p. 2; AgForce Queensland, *Submission 107*, p. 3; Ms Vivienne Rosemary Champion, *Submission 108*, p. 2; Ms Bev Hourn, *Submission 113*; Mrs Aileen Gabbert, *Submission 132*, p. 1; Anindilyakwa Land Council, *Submission 169*, p. 3.

12   Mr Benjamin Quilliam, *Submission 104*, p. 2.

13   Ms Ingrid Miller, *Submission 131*, p. 1.

14   Mr Keith Cox, *Submission 16*.

3.25 Mrs Leisa Fraser, Winton, described the impact of high airfares on families who have recently had a loved one pass away. Mrs Fraser said that:

> In Winton we have an ageing population and younger families move away for schooling and leave their elderly family here. If they want to visit family in the Central West or get sick or pass away and their family needs to get out here fast, the financial impact is huge. During these times of crisis and tragedy, when all families want to do is be together, their situation is further marred by these exuberant costs. These occasions can sometimes see people paying from $800 to $1,000 return to go to regional centres. Larger families of 10 people can pay, collectively, $10,000 for return airfares to go to a funeral.[15]

Social impacts of high airfares

3.26 The committee heard extensive evidence from submitters and witnesses as to the general social impacts of high airfares and limited aviation services in regional and rural communities. In particular, the issue of disconnection and isolation from family was strongly expressed throughout evidence to the inquiry.

3.27 The Exmouth Chamber of Commerce and Industry, in Western Australia, noted that the social and economic impacts of airfare pricing and service delivery were areas of concern for all regional areas. The Chamber argued that the tyranny of distance increased the cost of 'living, construction, education, training, sporting activities and a myriad of other activities'.[16]

Evidence from the Northern Territory

3.28 The Northern Territory Government highlighted the importance of air services to the Territory, with these services enabling the 'delivery of and access to education, health, justice, welfare, employment, recreation, cultural and other services for residents of the Territory's regional and remote areas'. The NT Government continued that:

> While many of the larger Northern Territory communities have limited health facilities and other essential social support services, some have no facilities. The Northern Territory's air services are relied on to provide remote and regional areas with access to critical medical emergency care and child protection activities; emergency flood or cyclone evacuations and support, including welfare recovery activities; and police and emergency services response.[17]

---

15   Mrs Leisa Fraser, *Committee Hansard,* 11 April 2018, p. 12.

16   Exmouth Chamber of Commerce and Industry, *Submission 29*, p. 1. Similar views were put forward by Miss Hilary Simmons; see *Submission 64*, p. 1.

17   Northern Territory Government, *Submission 121*, p. 2. See also Mr Yingiya Mark Guyula MLA, *Submission 101*, p. 1; Ms Diane Hood, Central Desert Regional Council, *Committee Hansard*, 4 April 2018, p. 2.

3.29   The East Arnhem Regional Economic Development Committee (EAREDC) highlighted a number of challenges with air service delivery to remote regions of the NT, including a lack of competition on RPT routes leading to 'some of the most expensive air travel in Australia for one of the most disadvantaged populations'. The EAREDC noted that high airfares: increased the cost of services and the cost of living in East Arnhem Land; resulted in poor intra-regional connectivity; and limited air freight opportunities.[18]

3.30   The ALPA drew attention to the issues faced by remote communities with air travel. The ALPA observed that:

> In regards to remote services the considerable challenge has been, and remains, economies of scale in relation to volume. Any service must be viable for the operator to continue the service. Arnhem Land has seen operators cease on short notice causing disruption to business and government services. Whilst we point out that services are expensive, it drives costs even higher when regular passenger transport services are withdrawn as residents, businesses and Government are forced to use charters.[19]

Mortuary services

3.31   The committee was troubled to hear evidence relating to the lack of mortuary services in remote areas of the NT, and the subsequent need for air transport to undertake the movement of bodies at considerable cost to local communities and support organisations.

3.32   Mr Hayward, of the ALPA, advised that while remote communities sometimes had basic mortuary services available, these were often rudimentary or inadequate, and did not meet local capacity and needs. Therefore, bodies were flown frequently to Darwin in small aircraft. The ALPA also provides support for funerals, with the ALPA paying for charters to transport bodies. By April 2018, ALPA had spent $200,000 for the year already, on transportation and storage of bodies. Mr Hayward noted that there were a number of issues with this approach, and concluded that:

> …the bodies go in regular planes with the seats taken out. There's no refrigeration; there's no specialised transport. I went and talked to some funeral operators down south, and when I described to them what happens they were horrified because of biohazards and all this sort of stuff. We literally have bodies going in planes and flying around. That's the situation. It is a major issue and something that probably needs to be addressed in some way.[20]

---

18   East Arnhem Regional Economic Development Committee, *Submission 84*, p. 3.

19   The Arnhem Land Progress Aboriginal Corporation, *Submission 90*, p. 1.

20   Mr Chris Hayward, Manager, Strategy, Stakeholder Engagement and Business Development, Arnhem Land Progress Aboriginal Corporation, *Committee Hansard,* 5 April 2018, p. 9.

Evidence from Queensland

3.33   The committee received significant evidence from residents of regional and remote Queensland, and in particular from Mount Isa, as to the social impacts of high airfares on residents and visitors travelling to and from rural Queensland.

3.34   As a resident of Mount Isa, Mrs Amanda Howie expressed her disappointment that her and her husband had missed many important family events due to the excessive cost of airfares, including weddings, funerals and milestone birthdays. Mrs Howie continued that:

> My daughter is currently missing out on quality time with her grandparents, cousins & extended family, we would love to be able to access more affordable flights to see them every few months which is not possible at the moment.[21]

3.35   Mrs Renee Hanrahan expressed a similar view, and told the committee that her family was unable to visit each other regularly due to the price of regional airfares. Mrs Hanrahan continued that high airfares create:

> …a disconnect between families, particularly between our children and their grandparents. Again, I acknowledge the personal choice [of moving to a regional centre], but it is the disproportionate nature of current cost structures, which makes it feel regional, rural and remote residents are unfairly penalised.[22]

3.36   The Cloncurry Shire Council drew attention to the impact of high airfares on the opportunities afforded to children living in remote and regional areas. The Council suggested that:

> Children of our community love sport and their parents and caregivers do everything they can to afford their children the same opportunities as those in metropolitan areas. Parents within our Shire will often travel over six hours by car so that their children can participate in different sporting activities like Junior Rugby League, Cricket and Rodeo. Unfortunately the prohibitive cost of airfares means that young rural sport enthusiasts lack access to elite competition and coaching which impedes their development, whereas metropolitan families have easy access to development camps and competitions.[23]

---

21   Mrs Amanda Howie, *Submission 50*.

22   Mrs Renee Hanrahan, *Submission 22*, p. 1.

23   Cloncurry Shire Council, *Submission 146*, pp. 8-9. See also Mr Russell Lowry, Longreach Regional Council, *Committee Hansard*, 10 April 2018, p. 3.

Health and emergency services

3.37   The committee heard concerning evidence as to the impact of expensive and unreliable air services on the provision of and access to health services for people living in remote areas.

3.38   The committee was particularly moved by the evidence given by Ms Ingrid Stonhill, Deputy Chief Executive Officer (CEO) of the Bawinanga Aboriginal Corporation. Ms Stonhill detailed the level of remoteness and economic disadvantage experienced by the residents of Maningrida and the surrounding homelands, and the direct impact this had on residents seeking to book commercial airline travel. In a particularly stark example of this impact, Ms Stonhill described the circumstances of women due to give birth who were living in Maningrida:

> Women are obliged to give birth in Darwin as they are not permitted to do so in Maningrida due to current regulations. This is a challenging situation for women who culturally, as well as emotionally and socially, would understandably prefer to give birth near their traditional country as well as near their family. Previously, this has caused women to hide pregnancy from health workers entirely and give birth secretly in risky situations at home in Maningrida. The high cost of last-minute, 'not booked weeks in advance' flights has a hugely negative impact for young mothers who have to travel on their own to give birth. Young mothers often report feeling lonely, scared and homesick during their birthing period without natural family and community support. Anecdotally, these women suffer from increased postnatal depressive tendencies because of this.[24]

3.39   The Royal Flying Doctor Service (RFDS) undertakes, among other things, patient evacuations from remote areas, patient transfers between hospitals or to patient residences, and provides regular fly-in fly-out GP and nursing clinics, dental health and mental health services to remote and rural areas. Given its breadth of experience, the RFDS made a number of observations regarding regional air services, including that:

- patients in remote areas are a significant distance from specialist and more comprehensive health services, and thus incur significant travel costs, including high airfares, when accessing these services;

- it can be challenging and fiscally prohibitive for critically ill or injured patients evacuated by the RFDS to make arrangements to travel home— the RFDS is 'generally not funded to provide repatriation flights' to return patients home;

- RFDS staff on occasion need to use commercial air services (for example, with dental outreach programs), and given the high cost of airfares, the overall cost of delivering these services is very high and

---

24   Ms Ingrid Stonhill, Deputy Chief Executive Officer, Bawinanga Aboriginal Corporation, *Committee Hansard*, 5 April 2018, p. 38.

such resources could be put to better use in the provision of more services; and

- general aviation activity in regional, remote and rural areas encouraged the maintenance of airstrips and the engagement and training of aviation staff, which makes the 'operation of the RFDS easier by ensuring there are safe airstrips to land on and a qualified aviation workforce to draw from'.[25]

3.40   The Kimberley Aboriginal Medical Services Ltd (KAMS) advised that in the 2016–17 financial year, it spent $1.7 million on airfares and charters across the Kimberley, and for flights to Kununurra and between Kununurra and Perth. Of the $1.7 million, $1.2 million was spent on charters alone. Mr Rob McPhee, Deputy CEO, advised that KAMS found that, rather than negotiating directly with an airline on a full economy fare—often costing around $1000 return—it was cheaper to book the fare of the day online, costing around $300 if on special. However, KAMS could not book ahead in all cases.[26]

3.41   Further, Mrs Vicki O'Donnell, CEO of KAMS advised that in 2016–17, KAMS had spent $160,000 on Airnorth services, only for these to be cancelled at short notice. Mrs O'Donnell described an instance where:

> …there was a young chap out of Kununurra who was on a flight that was flying his daughter to see a paediatrician here in Broome. The plane was cancelled and he had to drive his baby to Broome to see the paediatrician. I've had nurses and doctors who were due to fly out being stranded in Kununurra, so we've had to house them.[27]

3.42   Similar to the RFDS, Mrs O'Donnell noted that while the Patient Assisted Travel Scheme paid for the travel of someone who was unwell, it did not pay for family or partners to travel, or for repatriation flights. KAMS therefore often had to provide funding for a partner to travel with a patient.[28]

3.43   The Anindilyakwa Land Council (ALC) advised that Groote Eylandt had the highest prevalence in the world of sufferers of Machodo Joseph Disease, with at least 5 per cent of the population currently symptomatic or at risk. ALC indicated that alongside the many costs associated with managing the illness, one of the most

---

25   Royal Flying Doctor Service, *Submission 98*, pp. 1-2.

26   Mrs Vicki O'Donnell, Chief Executive Officer , and Mr Rob McPhee, Deputy Chief Officer, Kimberley Aboriginal Medical Services Ltd, *Committee Hansard*, 3 April 2018, pp. 33-34.

27   Mrs Vicki O'Donnell, Chief Executive Officer, Kimberley Aboriginal Medical Services Ltd, *Committee Hansard*, 3 April 2018, p. 28.

28   Mrs Vicki O'Donnell, Chief Executive Officer, Kimberley Aboriginal Medical Services Ltd, *Committee Hansard*, 3 April 2018, p. 30. See also Ms Simone Thomason, *Submission 38*, p. 1.

significant costs was airfares to and from Groote Eylandt for dialysis treatment. This was causing 'enormous financial strain for families'.[29]

3.44   Mr Chansey Paech MLA noted that health organisations around Alice Springs, and those using their services, were negatively impacted by high airfares. Mr Paech contended that the high airfares made it difficult to recruit and retain health workers, and for health organisations to send staff elsewhere for training and professional development. Mr Paech continued that:

> Expensive airfares also impact the lives of those out bush who utilise these health services. Although individuals who need to travel to Darwin or Adelaide for specialist medical services are covered by the Northern Territory Government's Patient Assisted Travel Scheme, their families are not. These patients can often be stuck away from home for prolonged periods of time, getting increasingly homesick, missing both family and country.
>
> Wanting to travel to provide emotional and cultural support to the family member stuck in hospital in an unfamiliar place, families try to get the money together to visit them. This puts significant pressure on both families and social support and health organisations. If they are unsuccessful, significant emotional distress is suffered.[30]

3.45   Miss Christine Foley identified that health care professionals, such as psychologists, were disinclined to accept positions in Mount Isa and other regional areas, due to the cost of travel. This was despite the fact that mental health care services were much needed in rural and remote regions. Miss Foley continued that travel costs often prevented health care workers from attending professional development and training courses in capital cities, and also discouraged health workers from establishing themselves in a regional area.[31]

3.46   Dr Richard Try of Mount Gambier, South Australia, provided extensive evidence as to the negative consequences of intermittent and costly air services in that region. Dr Try suggested that specialists were less likely to travel to Mount Gambier as they could not fly in and out easily, and noted that the cost of airfares meant consultants remained in cities to reduce out of pocket costs.[32]

3.47   Dr Try observed that a five to six hour car journey for ill patients could be onerous, and he had some patients decline treatment and medical referrals to avoid the trip from Mount Gambier to either Melbourne or Adelaide to see specialists. Dr Try noted that elderly patients in particular with certain conditions would refuse to travel to Adelaide as they 'just cannot face the journey or cannot afford it'. In one instance, in

---

29   Anindilyakwa Land Council, *Submission 169*, p. 3.

30   Mr Chansey Paech MLA, *Submission 66*, p. 2.

31   Miss Christine Foley, *Submission 95*.

32   Dr Richard Try, *Submission 173*, pp. 1-2.

light of a cancelled flight, a patient was forced to drive to Adelaide at 4 a.m. with what later turned out to be an undiagnosed life-threatening condition.[33]

Access to education

3.48   Evidence was received from residents of Western Australia, the Northern Territory and Queensland about the impact of high airfares on students travelling via air to attend boarding school.[34]

3.49   Considerable evidence on this issue was provided to the committee from the federal and jurisdictional bodies of the Isolated Children's Parents' Association (ICPA). This organisation advocates for equity in educational opportunities for children living in remote and rural areas, 'thus ensuring they have access to a continuing and appropriate education determined by their aspirations and abilities rather than the location of their home'.[35]

3.50   The ICPA advised that in many instances, the only option for secondary students living in rural and isolated areas was attendance at boarding school, situated at significant distances from the family home, in order that the students could access specific and preferred learning opportunities. This resulted in students travelling via air, repeatedly throughout the school year. This imposed 'a real financial strain to families', particularly when more than one child needed to travel via air for school. There were eight shires in Queensland with no high school.[36]

3.51   The Northern Territory branch of the ICPA voiced similar concerns. The NT ICPA observed that:

> The impact of airfares goes well beyond education and also impedes the ability for a family to be involved in their child's interests, achievements and celebrations. Even though air travel from the Territory is not affordable, it is often the only conceivable option because of the length of time it takes to travel by road from anywhere in remote Northern Territory. For this reason, special functions, sports days and award ceremonies for these students are often not attended by their isolated families.[37]

---

33   Dr Richard Try, *Submission 173*, pp. 1-2. See also Mount Gambier and Districts Health Advisory Council Inc., *Submission 174*, pp. 1-2.

34   See for example: Outback Queensland Tourism Association, *Submission 56*, p. 13; Mrs Aileen Gabbert, *Submission 132*; Shire of Broome, *Submission 10*, p. 3; The King Island Council also noted that its students attending Years 11 and 12 were required to travel to Tasmania or mainland Australia to attend school, adding to tuition and boarding costs; see *Submission 88*, p. 2.

35   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 1. The Queensland Teachers' Union observed that there were 151 Queensland state schools classified as remote, with a further 455 classified as rural; see *Submission 91*, p. 2.

36   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 1; Isolated Children's Parents' Association Queensland, *Submission 43*, p. 2.

37   Northern Territory Isolated Children's Parents' Association, *Submission 70*, p. 3.

3.52   The ICPA further observed that expensive airfares often coincide with school holidays. As school holidays were a peak travel time across the country, such periods saw 'peak bookings and prices', despite this being when rural and regional students living away from home must travel.[38]

3.53   Some examples were provided to the committee as to the impact of the high cost of air travel for school children from rural and remote areas. The Queensland branch of the ICPA noted that families may spend days—up to four days in some instances—transporting children to education facilities far from their home. Flying was considered the most effective way for school children to travel long distances, especially given the safety and logistical concerns associated with unaccompanied minors undertaking extended travel on commercial bus transport. The Queensland ICPA estimated that a family with three children at boarding school could spend up to $3000 on airfares per term (departing from Mount Isa), which was $12 000 annually.[39]

3.54   Ms Sarah Cook, as a member of the NT ICPA, made the point that rural and remote families had made a choice about education, in the same way 'as any other metropolitan family would make one', but that their choice was not subsidised by student fares. Further, with travel at peak time, such families 'actually pay a penalty'. Ms Cook called for concessions for regional students using air travel to access education, similar to those received by students in city areas.[40]

Road safety

3.55   It was put to the committee by numerous submitters that the high cost of airfares and infrequency of air services in rural areas resulted in people travelling great distances by car, in an effort to reduce travel costs. Some submitters further

---

38   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 3. This submission also provided case studies from members as to the time and cost issues with student travel; see pp. 4, 9-11. This view was supported by the Queensland Teachers' Union, *Submission 91,* pp. 3-4.

39   Isolated Children's Parents' Association Queensland, *Submission 43*, pp. 1-2. This submission also provided case studies from members as to the time and cost issues with student travel; see Appendix 1, p. 4. See also Mrs Katrina Paine, *Committee Hansard,* 11 April 2018, p. 6.

40   Ms Sarah Cook, Member, Northern Territory Isolated Children's Parents' Association of Australia, *Committee Hansard*, 4 April 2018, pp. 19-20, 24.

suggested that making the choice to drive could result in increased risks of driver fatigue, road accidents and fatalities, due to the great distances involved.[41]

3.56   The long distances involved in road travel in lieu of flying were highlighted by Mrs Haylee Scanlan, of Cloncurry. She explained that driving from Cloncurry to Mackay to visit family was a three-day round trip of approximately 2400 kilometres, with a trip to Brisbane a four-day round trip of approximately 3400 kilometres. Mrs Scanlan advised that the option to drive was made due to the 'unrealistic airline prices (generally four thousand dollars return)'.[42]

3.57   Mr Bradley Rix stated that he often makes the decision to drive his family from Cloncurry to Longreach or Townsville, in order to access cheaper airfares. However, Mr Rix drew attention to the downsides of such a choice:

> With two small children, the drive to Townsville can average 10 hours. This adds two extra and wasted days on to any time off. Given the large scale shift from rail to road transport on the Flinders Highway the numbers of road trains has increased significantly. To be forced to drive this route with the family simply to access reasonable airfares is insanity, and laughable if it weren't true. Unfortunately when the family can fly Townsville to Brisbane for well under $1000, and with the only additional cost being a couple of tacks [sic] of fuel, the saving of $2000 makes it an unsafe but necessary and unavoidable option.[43]

3.58   In Western Australia, it was observed by the Shire of Ashburton that many of its residents found it significantly cheaper to drive the 17 hours to Perth, to save $800 per person on return airfares. The Shire noted that this was particularly dangerous given the travel was on 'unsafe country roads', with some travelling at night, and 'putting their own lives at risk'.[44]

---

41   See, for example: Mrs Renee Hanrahan, *Submission 22,* p. 1; Mrs Jane Jenkins, *Submission 27*; Mount Isa City Council, *Submission 35*, p. 8; Banana Shire Council, *Submission 36*, p. 2; Ms Simone Thomason, *Submission 38*; Mr Adam King*, Submission 40*; Longreach Regional Council, *Submission 54*, p. 4; Mr Jeff Constable, *Submission 62*; Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 7; Miss Hilary Simmons, *Submission 64*, p. 2; Mrs Kylie Camp, *Submission 93*, p. 1; Mr Benjamin Quilliam, *Submission 104*; AgForce Queensland, *Submission 107*, p. 3; Ms Vivienne Rosemary Champion, *Submission 108*, p. 1; Ms Dolores Adams, *Submission 124*; Ms Vicki Ainsworth, *Submission 125*; Ms Danielle Slade, *Submission 133*, p. 5; Mr Robbie Katter MP, *Submission 144*, p. 1; Cloncurry Shire Council, *Submission 146,* p. 8; Mr Ian Von Stanke, Councillor, City of Mount Gambier, *Committee Hansard*, 24 July 2018, p. 12.

42   Mrs Haylee Scanlan, *Submission 96*, p. 1.

43   Mr Bradley Rix, *Submission 53*, p. 1.

44   Shire of Ashburton, *Submission 158*, p. 2. A similar view was put forward by the WA Labor South Hedland Branch, *Submission 103*.

3.59   From a Northern Territory perspective, the ALPA noted that while driving was an option instead of flying, both time and accessibility to transport often made this option impossible or uneconomical. The ALPA made the important point that:

> It is statistical fact that more and more fatal accidents are occurring amongst Indigenous travellers on remote roads. If we cannot bring down the cost of air travel we need to invest on driver education and vastly improve the quality of road infrastructure to remote communities.[45]

Impact of road travel on RPT services

3.60   The District Council of Grant, in South Australia, noted that people choosing to drive rather than fly not only increased traffic and risks of accidents, but had the compounding effect of reducing the apparent demand for air travel, and thus 'reducing the viability for airline operations'.[46]

3.61   A similar view was put forward by Queensland's Banana Shire Council. The Council operates the Thangool Aerodrome, operating RPT services between Thangool and Brisbane. The proximity of the Thangool Aerodrome to Gladstone and Rockhampton had resulted in some residents driving to these centres for cheaper flights. The Council argued that this can lead to a perceived lack of demand for Thangool air services, placing pressure on the local air operator to increase prices, thus 'making travel from Thangool even less attractive'.[47]

Cancellations and quality of service

3.62   A number of submitters highlighted the impact of flight changes and cancellations in rural and remote areas. This was of particular concern given the intermittent nature of air services to some regions and therefore the absence of ready alternatives and stand-by aircraft following cancellations or breakdowns. It was also felt by some submitters that regional routes were serviced by older, and therefore less reliable, aircraft.[48]

---

45   The Arnhem Land Progress Aboriginal Corporation, *Submission 90*, p. 1.

46   District Council of Grant, *Submission 11*, pp. 1-2.

47   Banana Shire Council, *Submission 36*, p. 1.

48   See, for example: Mr James Cameron, *Submission 6*, pp. 3-4; Miss Jenelle Robartson, *Submission 8*, pp. 2-3; Ms Julie Colthup, *Submission 31*; Mrs Carol Schefe, *Submission 33*; Mount Isa City Council, *Submission 35*, p. 9; The Smith family, *Submission 39*; Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 13; Longreach Regional Council, *Submission 54*, p. 7; Outback Queensland Tourism Association, *Submission 56*, p. 12; Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 9; Mr John Seccombe, *Submission 65*, p. 4; Longreach Regional Enterprise Inc., *Submission 68*, pp. 5-6; Griffith Business Chamber, *Submission 76*; Boulia Shire Council, *Submission 83*, p. 6; Chamber of Commerce NT, *Submission 89*, p. 3; Queensland Teachers' Union, *Submission 91*, p. 4; Ms Danielle Slade, *Submission 133*, p. 5; Ms Ann Leahy MP, *Submission 142*, p. 5; The Hon Keith Pitt MP, *Submission 155*, p. 1; Anindilyakwa Land Council, *Submission 169*, p. 6.

3.63   Mr Chris Neck, of the Alice Springs Regional Economic Development Committee, drew attention to the various issues associated with older aircraft operating on regional routes, among other concerns. Mr Neck advised that:

> A large number of ageing aircraft are used on regional routes, and this creates a high demand for servicing of that aircraft. The cost of transporting aviation fuel to regional and remote locations and maintaining and securing aviation fuel on site is difficult. There is a shortage of pilots and a lack of pilot and maintenance personnel training on offer in the NT. There is the inability of smaller airlines to retain trained pilots and maintenance personnel. There is the ageing of remote aerodromes and their ability to meet operational and maintenance requirements.[49]

3.64   The Murweh Shire Council in Queensland summarised the concerns it had received from constituents regarding flight cancellations and delays which occurred during 2017, at the Charleville Airport. Concerns included delays in the provision of information, a lack of information, lack of suitable alternative transport options, delays in the provision of refunds, and poor customer service. The Council noted that with reduced reliability of air services, residents were using alternative travel options, which could have the unwanted result of cancelled air services due to lack of patronage.[50]

3.65   The Christmas Island Tourism Association (CITA) described the impacts of flights cancellations in the Indian Ocean Territories of Cocos and Christmas Islands (IOTs), particularly given the remoteness of the area. CITA stated that:

> …significant delays or flight cancellations caused by technical issues or weather can have severe impacts on social well-being, the economy and tourism. Passengers have no option, other than to wait for the next flight or cancel travel. With twice weekly flights and delays in scheduling recovery flights the impacts and costs are significant and include missed business opportunities, missed family events, missed medical appointments, loss of income for tourism business and loss of confidence in the airline and the destination.[51]

3.66   More broadly, submitters voiced their concerns with the quality of the services being provided by airlines to regional areas, where it was perceived that there were decreased levels of customer services. Ms Marion Eaton summarised these views when considering the route between Mount Isa and Brisbane:

> In recent months I have noticed that the service delivery of air travel to Brisbane has diminished in quality. The aircraft is older and less equipped.

---

49   Mr Chris Neck, Member, Alice Springs Regional Economic Development Committee, *Committee Hansard*, 4 April 2018, p. 14.

50   Murweh Shire Council, *Submission 141*, pp. 4-5.

51   Christmas Island Tourism Association, *Submission 167*, p. 2.

There is no in-flight entertainment and there have been a number of cancelled flights.[52]

3.67   Concerns were also raised about the practicalities of flight scheduling in remote areas. This was highlighted by the Boulia Shire Council of west Queensland, which observed that to travel the 1700 kilometres from Boulia to Brisbane required an eight-hour flight with 'seven stops, seven take offs and seven landings'.[53]

3.68   The Mount Isa to Townsville Economic Development Zone Inc. (MITEZ) drew attention to issues with aircraft maintenance in light of aircraft breakdowns in remote areas. MITEZ observed that to address technical problems with aircraft in regional areas it required a qualified technician to be flown in from a larger centre, such as Brisbane. MITEZ suggested that a better approach may be the engagement of locally trained and qualified technicians to 'assess problems, conduct a test and report the situation to the operator, and where possible rectify the issue without compromising any safety'.[54]

Tourism

3.69   It was put forward in evidence that affordable airfares were vital to sustaining successful tourist markets in rural, regional and remote areas. The committee received detailed evidence from a number of tourism organisations and other stakeholders, including local councils, expressing concern over the detrimental effect of high airfares and intermittent services on their tourism industry.[55]

3.70   For example, the Longreach Regional Council (LRC) observed that tourism was particularly important for the region in light of a significant period of drought, which had led to decreased incomes and a reduction in the population, and threatened the sustainability of the region. However, the LRC noted that 'tourism growth is being adversely affected because the current cost of [air] services and flight schedules are expensive and inflexible'.[56]

3.71   MITEZ summarised the issue of high airfares and its impact on tourism, noting that:

---

52   Ms Marion Eaton, *Submission 79*. See also McKinlay Shire Council, *Submission 34*, p. 2.

53   Boulia Shire Council, *Submission 83*, p. 3.

54   Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 16. See also Mr Lachlan Millar MP, *Submission 17*, p. 2. The Rockhampton Regional Council suggested that basing engineers at regional airports was not financially viable; see *Submission 159*, p. 5.

55   See for example: Flinders Island Tourism and Business Inc., *Submission 37*; Tourism Top End, *Submission 44*, p. 1; Australian Hotels Association Northern Territory Branch, *Submission 82*, p. 4; Mount Isa Tourism Association, *Submission 114*; Regional Development Australia Limestone Coast, *Submission 172*, p. 2.

56   Longreach Regional Council, *Submission 54*, p. 4.

> Over the years there have been numerous attempts by tour operators to develop packages for domestic interstate, intrastate and international visitors which include air travel; however the cost of flights built into the package is often a major negative factor when marketing Outback product in comparison with destinations elsewhere.[57]

3.72   The Outback Queensland Tourism Association (OQTA) presented evidence to the committee that outback Queensland was not attracting international visitors who were entering the state. OQTA argued that these lower visitation rates were directly related to prohibitive airfares, a lack of well-connected and regular air routes and schedules in Queensland, and a 'lack of strategic and direct air routes from international airports to major outback centres'. OQTA called for direct routes from the international airports of Cairns and Darwin into outback centres, thus allowing better access to the international market.[58]

3.73   The Shire of Broome in Western Australia argued that the high cost of airfares resulted in Broome being deemed unaffordable by tourists, and an inaccessible tourist destination. Further, the Shire noted that tourism was the biggest employer in the town, and therefore reductions to the number of tourists had a broader economic flow-on effect throughout the community.[59]

Economic opportunities

3.74   The cost of airfares, flight scheduling and the infrequency of flights to certain regions were considered by some submitters to be direct contributing factors to a lack of business investment, low employee retention rates, and a lack of employee training and other economic opportunities. It was further argued that the scheduling of flights from regional areas was not conducive to business meetings, resulting in several days travel for short meetings in metropolitan centres.[60]

3.75   Mr James Cameron detailed the economic impacts on the IOTs of limited air services. Mr Cameron put it to the committee that air services to the IOTs were the

---

57   Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 14.

58   Outback Queensland Tourism Association, *Submission 56*, p. 6. The views of OQTA were supported and echoed by a number of submitters; see Visit Roma Inc, *Submission 116,* pp. 1-2, and Central Western Queensland Remote Area Planning and Development Board, *Submission 137*, p. 6. Matters relating to cabotage are discussed further in Chapter 7.

59   Shire of Broome, *Submission 10*, p. 3.

60   See for example: Ms Brooke Ottley, *Submission 5*; McKinlay Shire Council, *Submission 34*, p. 3; Banana Shire Council, *Submission 36*, pp. 1-2; Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, pp. 15-16; Outback Queensland Tourism Association, *Submission 56*, pp. 7-8; Boulia Shire Council, *Submission 83*, p. 3; Isaac Regional Council, *Submission 85*, p. 9; Mount Isa Branch of the Australian Labor Party, *Submission 105*, p. 1; Central Western Queensland Remote Area Planning and Development Board, *Submission 137*, p. 7; Murweh Shire Council, *Submission 141*, pp. 1-2; Mr Russell Lowry, Longreach Regional Council, *Committee Hansard*, 10 April 2018, p. 4.

'major limiting factor on economic development in both locations'. Mr Cameron contended that:

> Increased and improved access to the IOT's by airlines will increase the number of tourists and therefore create service industry needs such as on island transport, accommodation, food and entertainment and related activities such as bird watching, diving and fishing. The standard of these experiences on the IOT's is world class but the unreliability, requirements to transfer through Perth, confusion and access difficulties mean they are usually overlooked as a destination by tourists resident outside Australia.[61]

3.76   Tourism Central Australia (TCA) presented a number of case studies highlighting the concerns of NT businesses over the impact of high airfares on business opportunities. Issues raised with TCA included a lack of access to staff training, loss of business, lost productivity due to driving rather than flying, and the inability to promote a business interstate.[62]

3.77   Similar issues were also put forward by the Chamber of Commerce NT (CCNT) with regard to the impact on NT businesses of prohibitive travel costs. The CCNT argued that businesses in the NT:

> find the cost of air travel both necessary and cost prohibitive. Over 95% of businesses in the Northern Territory employ less than 20 staff but…more than half have an annual budget for domestic air travel over $10,000. Given that an average fare from Alice Springs to another capital city is generally well in excess of $300, this places business at a disadvantage when competing with interstate counterparts. Within the Northern Territory we have businesses that have set up their own aircraft to enable them to service remote area contracts in a cost effective manner.[63]

3.78   Longreach Regional Enterprise (LRE) observed that the scheduling of flights in and out of Longreach was not conducive to business meetings, with residents required to depart the day prior to the meeting and, in most cases, returning the day after the meeting, thus incurring the additional cost of two nights' accommodation. Similarly, it was cost-prohibitive to bring in training personnel, or to send local residents to training in larger centres.[64]

3.79   The roll-on effect of flight cancellations to business was put forward by Regional Development Australia Limestone Coast (RDALC), which noted that cancellations and delays impeded an organisation's ability to do business in metropolitan centres, or increased the risk of doing so. The RDALC summarised the issue by stating that:

---

61   Mr James Cameron, *Submission 6*, p. 1.

62   Tourism Central Australia, *Submission 86*, p. 5.

63   Chamber of Commerce NT, *Submission 89*, p. 2.

64   Longreach Regional Enterprise, *Submission 68*, p. 1. See also Longreach Regional Council, *Submission 54*, pp. 4-5 and Boulia Shire Council, *Submission 83*, p. 4.

With the perception that flights often don't go as scheduled businesses either risk missing important meetings or incur additional costs and fly in early resulting in large costs towards accommodation and meals/incidentals. Businesses in the region often engage costly consultant services that are not available in the region and then run the risk that these consultants are delayed or unable to make meetings. This is a trend that drives inequity between the regions and metropolitan centres.[65]

3.80   The Mount Gambier Chamber of Commerce conducted a survey of its members, and found that price, reliability and scheduling were the key factors for businesses making decisions about travelling by air, with businesses also calling for upgraded terminal facilities. The Chamber suggested that local businesses needed to be connected to Adelaide and the eastern seaboard in order to conduct business.[66]

3.81   It was put forward by Townsville Enterprise Limited (TEL) that high air transport costs, as well as unreliable and infrequent access to suppliers and markets created bottlenecks, increased production and supply costs, and diverted business away from local operators. TEL summarised the economic issues in stating that:

> Business opportunities for local operators outside of the local area are also significantly impeded because of limited connectivity. It follows that an increase in the connectivity of regional areas will help to facilitate the maintenance and potential enhancement of regional economic activity.

> The combined effect of limited connectivity and isolation to major capitals forms a considerable barrier to regional economies attempting to diversify their economic base and attract new business/investment.[67]

---

65   Regional Development Australia Limestone Coast, *Submission 172*, p. 5.

66   Ms Lynette Martin, President, Mount Gambier Chamber of Commerce, *Committee Hansard*, 24 July 2018, p. 17.

67   Townsville Enterprise Limited, *Submission 153*, p. 5.

Chapter 4

Airport taxes and charges

4.1   Throughout the inquiry, and as has been observed in numerous other forums and inquiries, there remains an ongoing debate as to the role of airport charges in driving the high cost of regional airfares. It was the view of the airports that their charges constitute only a small portion of airfares, whereas airlines took the opposite view, arguing that airport charges were in some instances excessive and directly responsible for high airfares. This chapter considers these differing viewpoints.

4.2   This chapter also considers the various taxes and charges, including regulatory charges, applied to regional air services. It considers the various charges applied by regional airports to airlines, and the challenges currently faced by regional airports in remaining economically viable.

4.3   The chapter details various methods for how airports can determine infrastructure costs, and the commercial negotiations which take place between airlines and airports as to aeronautical charges. It further notes the considerable ongoing operational costs incurred by regional airport operators, such as local councils.

Regulatory and compliance costs

4.4   Regulatory costs and other charges in the aviation sector are one of the many components which contribute to the final cost of an airfare. Airports impose a number of specific charges. Further, both CASA, as the body responsible for aviation safety, and Airservices Australia (Airservices), which provides air navigation and aviation firefighting services, impose a number of charges.

Specific airport charges and taxes

4.5   There are a number of charges imposed by airports, some of which are detailed below. A number of submitters—including the airlines—indicated their concerns with these charges, and their impacts on airfares.

General Landing Charges

4.6   General Landing Charges (GLC) are an airport cost borne by airlines. GLCs are charged by airports, and can often be charged on a per tonne rate based on the maximum take-off weight (MTOW) of an aircraft.[1]

Passenger service charges

4.7   Passenger service charges, however named, are charges imposed by an airport to an RPT operator, in recognition that an operator's passengers will be using an airport terminal, and the airport needs to recover the costs for that terminal use.

---

1   Australian Airports Association, *Submission 122*, p. 26.

Passenger security charges

4.8   Security charges at airports are one of the more contentious charges imposed on travellers, airlines and airports, and are considered later in this report. Passenger security screening seeks to prevent prohibited items from being carried onto an aircraft, via the use of specialised security equipment and screening personnel. Security screening is required at those airports declared as 'security controlled airports' across Australia.[2] Such airports are regulated by the *Aviation Transport Security Act 2004*, which seeks to prevent unlawful interference with aviation.[3]

Civil Aviation Safety Authority fees and charges

4.9   CASA has argued that the cost of regulation comprises two components: regulatory changes (reviewing changes to operations and for the issue of licences, certificates and aircraft registrations), and compliance costs.[4]

4.10   CASA advised that it was required to enter into cost recovery arrangements, with all fees and charges contained in the Civil Aviation (Fees) Regulation 1995. These fees apply to all regional airlines and aerodromes, with some minor exceptions. CASA further stated that:

> There is no cost/price differentiation for the fees based on locality of the applicant. Rather the applicable price or hourly rate is determined by the complexity of the service being sought by the applicant. There has been no price increase in CASA's charges or the hourly rates since July 2007.[5]

4.11   As of April 2019, CASA applied fees to regulatory services, including 'licences and ratings, examinations, medicals, aircraft registration, certificates, permits, exemptions, approvals and authorities'. The fees were charged on an hourly-rate basis, ranging from $100 to $190 per hour, or as a fixed fee starting from $25.[6]

4.12   CASA noted that there are around 360 different regulatory service fees, and that the organisation was aiming to reduce this number to around 100. This would be achieved through a 'rationalisation' of the way fees were charged for services, and by moving to a fixed-fee structure rather than hourly rates system. Mr Shane Carmody,

---

2   A list of security controlled airports can be found at: https://www.homeaffairs.gov.au/transport-security/files/airport-categorisation-list.pdf (accessed 21 May 2019).

3   Available at: https://www.legislation.gov.au/Details/C2018C00491 (accessed 29 May 2019).

        The issue of passenger security screening charges is discussed in detail in Chapter 5.

4   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 25.

5   Civil Aviation Safety Authority, *Submission 24*, p. 1.

6   Civil Aviation Safety Authority, *Fees*, https://www.casa.gov.au/about-us/standard-page/fees (accessed 29 April 2019). The CASR indicates that the highest fixed fee amount is $390.

CEO of CASA, noted that fees could not be abolished, as CASA was required to undertake cost recovery as part of delivering services.[7]

4.13   CASA has previously stated that it 'plans to recover $15 [million] per financial year until otherwise advised by Government'.[8]

Airservices Australia fees and charges

4.14   Airservices manages aircraft movements and air navigation services for Australian airspace, with services provided from two major operating centres in Melbourne and Brisbane. Airservices operates 29 air traffic control towers at international and regional airports, and provides Aviation Rescue Fire Fighting services at 26 airports.[9]

4.15   Airservices advised that its customer charges, applied to major domestic, international and regional airlines, charter operators, flight training schools and general aviation operators, provide funding for its services and for supporting infrastructure. The charges are regulated by the ACCC, with the earnt 'modest return' reinvested, used to support capital works, and to pay dividends back to government. Airservices stated that its charges, established through consultation with its customer base, are intended to recover the 'cost of our services from the users that consume them'. The pricing arrangements are established in five-year terms.[10]

4.16   There are a number of Airservices charges imposed on aircraft operators which may include fees applied or collected on behalf of other Australian government agencies, and which provide for aviation rescue firefighting services at selected aerodromes.

4.17   At a 2019 Budget Estimates hearing, Airservices advised that its three main charges were:

- a terminal charge, based on the tonnage of an aircraft;

- an en route charge determined by the weight and distance flown by an aircraft; and

- the aviation rescue and firefighting charge, determined by the type of aircraft, and its weight.

4.18   Mr Jason Harfield, CEO of Airservices, acknowledged that the costs imposed on regional centres were 'usually cross-subsidised by our capital cities'.[11]

---

7   Civil Aviation Safety Authority, *The CASA Briefing – May 2018*, 25 May 2018, https://www.casa.gov.au/publications-and-resources/publication/casa-briefing-may-2018 (accessed 21 June 2018).

8   Civil Aviation Safety Authority, *Cost Recovery Implementation Statement, 2014-15*, p. 2.

9   Airservices Australia, *Submission 73*, p. 1.

10   Airservices Australia, *Submission 73*, p. 1.

11   Mr Jason Harfield, Chief Executive Officer, Airservices Australia, *Proof Estimates Hansard*, Rural and Regional Affairs and Transport Legislation Committee, 8 April 2019, pp. 10, 14.

4.19   Airservices confirmed that due to the distant location of some regional communities, the en route charge, being based on distance flown, would be larger than that charged on shorter routes. However, it was noted that the en route charge was not a significant cost impost—for aircraft weighing up to 20 tonnes, the charge was 90c per 100 kilometres per tonne.[12]

4.20   Airservices advised that for an average regional service of 800 kilometres in total distance travelled, it charged 'less than $200 (or $7 per passenger)'. Longer regional flights on larger aircraft, of 1300 kilometres, attracted charges of approximately $800, or $10 per passenger.[13]

4.21   In acknowledging that the 'cost of meeting safety regulatory requirements' at low traffic airports may be an 'undue burden', Airservices stated that it was aiming to recover costs while avoiding any distortions to airport usage. To that end, Airservices applied cross subsidies 'whereby charges are levied below the cost of services provision in a number of price sensitive locations including the regions'. For example, network enroute subsidies were provided to most regional airports, and aviation rescue subsidies were provided at low traffic regional airports. Further, aircraft under five tonnes were not charged aviation rescue and firefighting charges, and if the same aircraft incurred less than $500 in charges per annum, those fees were waived.[14]

4.22   Airservices concluded that:

> Our operating environment is strictly governed by legislation and decisions made by the Civil Aviation Safety Authority (CASA). These constraints limit our ability to choose the level of service we supply at each airport and, also, how we achieve that level of service, which in turn, has a financial and operational impact on our customers. Working closely with CASA, we strive to improve the economic outcomes for our regional customers through regulatory reform.[15]

Airservices Australia Enroute Charges Payment Scheme

4.23   The Airservices Australia Enroute Charges Payment Scheme supports air operators providing commercial passenger and aeromedical services to regional and

---

12   Mr Paul Logan, Chief Financial Officer, Airservices Australia, *Proof Estimates Hansard*, Senate Rural and Regional Affairs and Transport Legislation Committee, 8 April 2019, p. 11. A full list of Airservices charges can be found in its standard *Contract for the provision of aviation facilities and services Effective from 01 April 2017*, http://www.airservicesaustralia. com/wp-content/uploads/20170110-2017-01-03-Contract-for-Aviation-Facilities-and-Services-publ....pdf (accessed 21 May 2019).

13   Airservices Australia, *Submission 73*, p. 2. The committee notes that no information was provided to ascertain how these figures were determined, such as the type of aircraft, route or load factors used in the calculations.

14   Airservices Australia, *Submission 73*, p. 2.

15   Airservices Australia, *Submission 73*, p. 2.

remote locations. It does this by providing a subsidy to those air operators through the reimbursement of en route air navigation charges levied by Airservices.[16]

4.24   DIRDC advised that the Scheme aims to support low-volume or new routes to regional and remote communities, with eligible airlines flying commercial passenger routes obtaining assistance of up to 60 per cent of the en route charges incurred. For new routes, assistance of up to 100 per cent of the en route charges is available, for up to three years. There seemed to be some success with this Scheme, with DIRDC noting that, since 2014:

> 14 new commercial services have been established between Taree and Newcastle, Mt Isa and Cairns, Newcastle and Canberra, Sydney and Cooma, Mudgee and Sydney, Dubbo and Cobar, Perth and Onslow, Newcastle and Dubbo, Dubbo and Cobar [sic], Armidale and Brisbane, Coffs Harbour and Brisbane, Narrarbi – Moree – Brisbane, Newcastle and Coffs Harbour, and Canberra and Dubbo. Some 94 routes are currently eligible for assistance under the Scheme.[17]

Views on regulatory charges

4.25   Some submitters put forward their views as to the negative impacts of the CASA and Airservices regulatory charges.

4.26   In presenting its views about CASA, the Whitsunday Regional Council (WRC) stated that the regulation of airports had been too prescriptive. It argued that this placed a large cost burden on airports for a minimal reduction in risk. The WRC suggested that 'airports should be given more scope to perform risk-based assessments rather than follow rules that may not be fit for purpose for a particular aerodrome'.[18]

4.27   Flinders Council observed that while CASA costs were standard for all airports, these costs 'invariably have a greater impact on operations for smaller airports with smaller usage'. Flinders Council suggested that:

> …it would seem appropriate that operation funding be introduced to subsidise CASA costs for those regional and remote airports, that through no fault of their own, are not in a financial position or have difficulty in meeting CASA related costs as part of their operations.[19]

4.28   Similarly, the WRC was of the view that Airservices charges were 'becoming too high and limiting aviation growth'. The WRC observed that:

---

16   Department of Infrastructure, Regional Development and Cities, *Regional and Remote Aviation*, https://infrastructure.gov.au/aviation/regional/

17   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 6. As of April 2019, the number of eligible routes had increased to 100; see *Approved Commercial Routes under the Airservices Australia Enroute Charges Payment Scheme—Eligible Routes*, 19 March 2019, https://infrastructure.gov.au/aviation/regional/payment_scheme/approved_routes.aspx (accessed 29 April 2019).

18   Whitsunday Regional Council, *Submission 160*, p. 6.

19   Flinders Council, *Submission 111*, p. 11.

Airservices will install fire stations (prescriptive thresholds) and Air Traffic Control facilities (determined by airspace studies) and then charge at levels that are not sustainable at smaller airports. A determination is needed as to whether the thresholds are appropriate in the Australian environment and whether competition should be allowed for the provision of services outside of the major radar control centres.[20]

4.29   It was proposed by the MICC that regional airlines be exempt from charges imposed by Airservices, given the MICC's view that provision of en route services, air traffic control and fire and rescue services would be more significant on 'Australia's top 30 routes' and on routes involving international travellers.[21]

History of airport charges

4.30   Airport charges include passenger head fees, aircraft landing fees, and security screening charges. However, there are a range of charges that can be imposed by airport operators and these may vary depending on the facilities offered and the location of the airport. At the same time, the amount of charges levied varies and there does not appear to be a consistent approach to fee setting. Some regional airports levy their charges based on the volume of arriving and departing passengers. Others charge a rate based on the weight of an aircraft. The role of airport charges in raising the price of airfares has been an ongoing dispute between airports and airlines for some time.

4.31   Airport charges and the price regulation of airport services have been examined by the Productivity Commission (PC) approximately every five years since 2002, to ensure that the regulatory regime remains fit for purpose. The PC has issued a number of reports, including the following:

- Price Regulation of Airport Services (2002);[22]
- Review of Price Regulation of Airports Services (2006);[23] and
- Economic Regulation of Airport Services (2011).[24]

4.32   The PC is currently undertaking a further inquiry into the economic regulation of airport services, due to be released after the final report is provided to government in June 2019. A draft of the report was released on 6 February 2019.[25]

---

20   Whitsunday Regional Council, *Submission 160*, p. 6.

21   Mount Isa City Council, *Submission 35*, pp. 24-25.

22   Report No. 19, 23 January 2002; see https://www.pc.gov.au/__data/assets/pdf_file/0004/19714/airports.pdf (accessed 22 January 2019).

23   Report No. 40, 14 December 2006; see https://www.pc.gov.au/__data/assets/pdf_file/0019/20638/airportservices.pdf (accessed 22 January 2019).

24   Report No. 57, 14 December 2011; see https://www.pc.gov.au/inquiries/completed/airport-regulation/report/airport-regulation.pdf (accessed 22 January 2019).

25   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, https://www.pc.gov.au/inquiries/current/airports-2019/draft (accessed 12 February 2019).

4.33   The *Productivity Commission Act 1998* provides for the functions of the PC, which includes—among other things—holding inquiries about matters relating to industry, undertaking research about matters relating to industry, and promoting public understanding of matters relating to industry.

4.34   In order to support these functions, the *Productivity Commission Act 1998* provides the PC with a number of enforcement mechanisms, and details a number of offences. For example, under section 48 of the Act, the PC is able to give notice to a person to provide specified information and documents, if the PC has reason to believe that a person is capable of giving information or producing documents relevant to its inquiry.[26]

Productivity Commission reports

4.35   As detailed by the PC, privatisation of airports in 1997 was accompanied by transitional price-regulation measures. These measures, in place until 2002, were 'designed to allow all parties to adjust to the new operating environment for airports'. The price regulation measures placed a cap on prices for aeronautical services for the largest 11 privatised airports in Australia.[27]

4.36   In 2002, regulatory involvement in price setting and the price cap was removed for most (but not all) airports, to allow commercial negotiations to determine the provision of aeronautical services. In 2006, the PC found that this 'light handed' regulatory approach had made it easier for airports and airlines to agree on new investments, and the charges necessary to pay for them; it recommended that this approach be continued. However, due to the market power of the largest airports, the ACCC continues to monitor the prices, costs and financial returns at the Brisbane, Melbourne, Perth and Sydney Airports.[28]

4.37   The PC has stated that the light handed regulatory approach intended to achieve outcomes that would be consistent with those found in markets with effective competition. However, this would be only be achieved if there was transparency as to how an airport operator was performing over time, and if there was a credible threat of further regulatory intervention if an airport was exercising its market power to the detriment of the community. The PC stressed that it 'would not hesitate' to recommend

---

26   *Productivity Commission Act 1998*, s. 48(1).

27   Productivity Commission, *Inquiry Report: Price Regulation of Airport Services*, No. 19, 23 January 2002, p. XIX, https://www.pc.gov.au/__data/assets/pdf_file/0004/19714/airports.pdf (accessed 22 January 2019).

28   Darwin and Canberra were removed from the ACCC monitoring regime in 2006, as per recommendations of the Productivity Commission. Adelaide Airport was removed in 2012.

     Productivity Commission, *Productivity Commission Inquiry Report: Review of Price Regulation of Airports Services*, No. 40, 14 December 2006, pp. XIV- XV, https://www.pc.gov.au/__data/assets/pdf_file/0019/20638/airportservices.pdf (accessed 22 January 2019).

regulatory changes for any airport 'found to have systematically exercised its market power'.[29]

December 2011 report

4.38   The 2011 report of the PC found that 'Australian airports' aeronautical charges, revenues, costs, profits and investment look reasonable compared with (the mostly non-commercial) overseas airports', and that commercial agreements between airports and airlines were becoming more sophisticated. Further, the PC concluded that 'aeronautical charges do not point to the inappropriate exercise of market power'. The PC suggested that neither airports nor airlines wished to return to a regulatory price setting arrangement, given its associated costs.[30]

4.39   The 2011 report further suggested that airfares were not impacted by airport charges. The PC indicated that:

> Where an airport has the ability and incentive to misuse market power and chooses to do so, the primary concern is that airlines will pass on inflated aeronautical charges increasing the costs faced by passengers and dampening demand for air travel. If significant, such outcomes would be adverse for the community. In practice, aeronautical charges typically have only a minor effect on airfares.[31]

February 2019 draft report – Economic Regulation of Airports

4.40   In February 2019, the PC released its latest draft report into the economic regulation of airports. The PC was tasked with examining the current regulatory regime for airports, including the economic efficiency of airports, compliance costs, and the commercial negotiation outcomes between airport operators and users.[32]

4.41   The 2019 report noted the ongoing debate between airports and airport users as to the exercise of airport market power, with airport users arguing that some airports were earning excessively high profits and rates of return, while making inefficient investments. However, the PC observed that despite these views, there were no calls for a return to price caps, with airports and airlines stating their preference for commercial negotiations to determine price.[33]

---

29   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, pp. 5, 7.

30   Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, p. XX, https://www.pc.gov.au/inquiries/completed/airport-regulation/report/airport-regulation.pdf (accessed 22 January 2019).

31   Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, p. XXVI.

32   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 4.

33   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 7.

4.42   The PC suggested that if an airport had market power, its ability to exercise that power could be limited. Further, the PC stated that airlines 'can, and do, exert countervailing power on airport operators when they control a significant proportion of the market'. By way of example, the PC noted that an airline could threaten to withdraw some or all of its services at a particular airport if it was unsatisfied with access conditions—with complete withdrawal of services most likely to occur at regional airports where a single airline could be the airport's main or only customer.[34]

4.43   The PC drew attention to the particular issues for regional airports and the exercise of market power. The PC stated that:

> Many regional airports do not have sufficient demand to cover the costs of running the airport, which means the efficient charge for aeronautical services is *more* than passengers are prepared to pay. Regional airports that face these circumstances do not (and cannot) possess market power. Countervailing power from airlines generally constitutes an additional constraint—of the 103 airports for which the Commission has data, 51 are serviced by a single airline.[35]

4.44   Concerns were raised to the PC about the infrastructure decisions, aeronautical charges and asset management practices of some regional airports. It was argued to the PC that decisions were being driven by 'politics and regional development objectives', which could result in adverse outcomes like runway upgrades for aircraft types which were not flying to a particular airport. The PC continued that:

> Participants noted that Australian, State and Territory Governments support many infrastructure improvements at regional airports and that the assessment criteria used to assess projects can lack rigour and lead to unwarranted infrastructure investments. The Commission shares these concerns—unnecessary or unjustified infrastructure upgrades could lead to the perverse outcome of a loss of air services to communities if they result in increased aeronautical charges that airlines (and by extension, passengers) are not willing to pay.[36]

4.45   In addition, concerns were raised to the PC about the financial asset management practices of some council-operated airports. These concerns included a lack of relevant expertise and experience in managing airport infrastructure, and 'arbitrary revaluations of airport assets that result in increases in aeronautical charges'.

---

34   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 9.

35   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 11.

36   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 31.

The PC suggested that 'more could be done' to assist some local councils in the financial management of airport assets.[37]

4.46   To this end, the PC put forward a recommendation that Australian, state and territory governments conduct an independent analysis of proposed government funding of regional airport infrastructure, before funding was committed. The analysis should assess the economic and financial viability of the proposed infrastructure, quantify the economic benefits delivered and assess airline and community willingness to pay for the infrastructure. Further, investments should be considered within the context of an economic region, and not individual local councils.[38]

Role of the ACCC

4.47   Pricing regulation of airport services stems from provisions in the *Competition and Consumer Act 2010* (CCA) and the *Airports Act 1996*. Under the legislation, the ACCC is empowered to monitor and publish information relating to the price, cost, profits and service quality of aeronautical services and facilities. The ACCC's responsibilities extend to assessing notifications of price increases for regional air services.

4.48   The four major airports are required to provide the ACCC with information annually on their prices, costs and profits for aeronautical services, and car parking. Further, the ACCC:

> …monitors the quality of service of some aeronautical services, such as terminal and aircraft services and facilities, and non-aeronautical services, such as car parking and landside access. At its own discretion, the ACCC collects financial information relating to landside access, including revenue and access charges for selected landside services, such as taxis, hire cars and buses. Airports comply with the ACCC's request voluntarily. The ACCC compiles these data into a monitoring report each year and outlines general trends and developments across the industry.[39]

4.49   Mr Matthew Schroder of the ACCC provided advice as to what may be considered anticompetitive behaviour in the aviation sector. He indicated that 'just that Qantas responds to an increase in demand and increases its prices would not of itself be anticompetitive and in breach' of the CCA. At the same time, 'extremely high'

---

37   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, pp. 31-32.

38   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 40.

39   Second-tier airports, consisting of Adelaide, Canberra, Darwin, Gold Coast and Hobart operate under a self-administered monitoring regime and voluntarily publish information on aeronautical charges and car parking, among other things. In its 2019 report, the PC called for the second-tier monitoring regime to be discontinued, being of the view that it serves no policy purpose (pg. 11).

Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 6.

airfares may be unfair to communities, but do not breach the law as it currently stands. Mr Schroder went on to advise that:

> …the fact that an operator sets a price that the market bears, doesn't act collusively and doesn't act in a cartel and the like, generally doesn't give rise to a breach of our act… there isn't a particular provision that says that a particular monopoly can't use its power to increase prices. It's why the ACCC has advocated for appropriate regulation where there have been monopolies.[40]

4.50   Mr Schroder further observed that while some monopolies were regulated due to the impact they could have on consumer welfare, there was no specific regulation for airlines on airfare pricing, including when airlines served as the sole operator on a route.[41]

4.51   The ACCC had put it to the PC that there should be regulation of major airports, where ACCC monitoring in itself was not sufficient to curtail market power. Mr Schroder advised that the ACCC was 'concerned about the degree of market power that the airports have, given that they're regional monopolies'.[42]

4.52   As to whether the process for setting airfares could be considered unconscionable conduct, the ACCC advised that this would depend on the circumstances of each individual case. Despite this, the ACCC noted that businesses pricing their products 'excessively' would not necessarily amount to unconscionable conduct under section 21 of the Australian Consumer Law, and all circumstances of a particular transaction would need to be considered.[43]

'Building block' model

4.53   In its 2011 report, the PC considered the 'building block' approach to pricing infrastructure assets—which, while in place during the pre-2002 price cap arrangements, continues to be utilised during negotiations between airports and airlines.[44] The PC drew attention to the fact that airports were unique in their financial needs and therefore required a methodology to determine the cost of services. The PC stated that:

> …an airport with large capital expenditures that occur over rolling financial periods (such as five to eight years to build a runway) can earn revenue over the total life of the asset (a runway has a potential life of several

---

40   Mr Matthew Schroder, General Manager, Australian Competition and Consumer Commission, *Committee Hansard*, 1 April 2019, pp. 2-3.

41   Mr Matthew Schroder, General Manager, Australian Competition and Consumer Commission, *Committee Hansard*, 1 April 2019, p. 3.

42   Mr Matthew Schroder, General Manager, Australian Competition and Consumer Commission, *Committee Hansard*, 1 April 2019, p. 5.

43   Australian Competition and Consumer Commission, answer to question taken on notice, 1 April 2019 (received 29 April 2019).

44   According to the PC, the 'building blocks' approach was a feature of the aeronautical price-cap era, which ceased in 2002. See Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, p. 124.

decades). In such cases, a methodology is needed to calculate the price of services that depend on that capital over the life of the asset.[45]

4.54   The PC continued and explained how the building blocks model applied to airports, given the size of the infrastructure investment required by these sites:

> The goal of a business undertaking large infrastructure investments is to ensure that the present value of the revenue earned from its investment is at least equal to the present value of the costs of the investment. The so-called 'building blocks' approach attempts to 'build up' the expected costs of the business to determine the total revenue requirement.

> … Under this model, an estimation is made of the business' operating costs and tax liabilities over the relevant period. However, the majority of the revenue requirement derives from capital costs—the nominal value of the capital returned each year ('return of capital') and the profit earned on the investment ('rate of return' on capital).[46]

4.55   Queensland Airports Limited (QAL) summarised the building block approach, with Mr Adam Rowe, General Manager of Business Development and Marketing, stating that:

> The accepted model for airport infrastructure is the building block model. The life of the asset is a key component of that, the upfront capital costs to provide the assets, the operating costs to run and maintain the asset as well as for an airport specifically, and the forecast passenger numbers over an extended period of time. For terminal buildings, aprons, runways, you are talking a 20- to 30-year life of asset. So those projections are incorporated back into how that might affect pricing.[47]

4.56   However, it was put to the PC by the airlines that the building block method applied by airports presented a number of problems. Virgin Blue Airlines suggested to the PC that airports could manipulate the inputs into the model, in order to maximise revenue and thereby increase aeronautical prices. Both Virgin Blue and Qantas took the view that airports consistently applied low passenger forecasts during negotiations. Qantas summarised its position by stating:

> If the demand forecasts are too low, relative to actual passenger numbers, the prices charged to airlines are higher than necessary. Similarly, over estimation of costs would also lead to prices charged to airlines being too high.

---

45   Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, p. 124.

46   Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, pp. 124-125.

47   Mr Adam Rowe, General Manager, Business Development and Marketing, Queensland Airports Limited, *Committee Hansard*, 10 April 2018, p. 14. For examples of airports using the building block model, see Brisbane Airport Corporation Pty Ltd, *Submission 87*, p. 2; Launceston Airport, *Submission 150*, p. 10.

> Within the current regulatory framework, there is no mechanism which adjusts for the over or under recovery of revenue. Therefore, airports have the incentive to pass the risks inherent in preparing forecasts on to airlines through under estimation of passenger forecasts and overestimation of costs.[48]

4.57　The PC concluded that while the building block model may help to guide negotiations, the parties 'agree on price, not the underlying variables', and therefore a final agreement between airports and airlines was likely to reflect a balance of issues determined through negotiation. The PC pointed out that the needs of airports and airlines differed at each location. Further, the PC made a finding that:

> Despite instances of delays to aeronautical investment, it does not appear that such delays have been unreasonable. Moreover, airport operators appear to consult with airlines and other airport users about the nature and timing of individual investments at the airports for which they are responsible—although not always to the satisfaction of airlines—and the degree of consultation varies between airports.[49]

4.58　The AAA indicated that regional airports often took a simpler approach to determining their charges than the building block model, through the use of existing council processes to set and publish airport charges. In surveying its members, the AAA found that about 50 per cent of airports indexed their charges to inflation, with more than 25 per cent not increasing charges for five years and a small number of airports reducing charges under pressure from airlines to maintain existing services.[50]

Consultation between airports and airlines

4.59　Commercial negotiations are typically entered into by airlines and airports, to reach agreement on access to airfields and terminals and the price of that access, along with the types of services provided, service quality and future capital investments. Agreements typically outline service charges, and charges to recover security screening costs, among other things.[51]

4.60　The PC highlighted a number of issues with the negotiation process, stating that:

> There is no doubt that negotiating agreements for airport services is challenging—it is time consuming, resource intensive and costly, and the argy bargy between airports and airlines sometimes plays out in the media. While threats and colourful language are commonplace between some parties, ultimately the negotiating parties have commercial and operational

---

48　Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, pp. 128-129.

49　Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, pp. 122, 129.

50　Australian Airports Association, *Submission 122*, p. 29.

51　Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 11.

incentives to reach an agreement, especially given the need for new investments to meet demand growth and passengers' expectations of service quality.[52]

4.61   The AAA advised that along with all major airports, many regional airports entered into long-term agreements with airlines regarding prices and terms and conditions of airport access. While these agreements provided certainty to both parties and helped constrain airport market power, the AAA noted that they did not guarantee the number of passengers who would use an airport. Therefore, if passenger numbers were lower than expected, 'airlines do not experience an increase in price, but airport revenues are reduced'.[53]

4.62   The AAA suggested that regional airports had very little bargaining power against the airlines, noting that, on occasion, airlines have refused to pay airports charge increases for significant periods of time. The AAA concluded that airlines had been able to 'obstruct investment by refusing to pay a modest increase in charges', and stated that:

> It is the AAA's view that airlines possess significant countervailing power over most, if not all, regional airports in Australia.[54]

4.63   Conversely, in noting the limitations of the ACCC to intervene in the setting of airport terms and conditions, Airlines for Australia and New Zealand (A4ANZ) saw the need for government intervention to 'force the airports to shift from their monopoly position'. A4ANZ was of the view that airports could be forced, where required, to enter into 'constructive, commercial engagement' with airlines to reduce the negative impact of their perceived monopoly powers. A4ANZ argued that such an approach would 'result in a genuine commercial negotiation, greater investment by airlines and improved efficiency in the allocation of resources'.[55]

Operational costs at regional airports

4.64   Evidence throughout the inquiry indicated that due to a lack of demand, ageing facilities and low population densities, a number of regional airports were struggling to maintain their ongoing economic viability. In particular, a number of local councils voiced their concerns to the committee as to the significant costs required to operate and maintain their airport, to the point where the rates base was required to subsidise airport operations.

4.65   The AAA noted that a number of regional airports were privately financed businesses. The operation and development of aviation activities occurred through the collection of charges on airlines to generate investment returns. Additionally, the AAA observed that:

---

52   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 12.

53   Australian Airports Association, *Submission 122*, p. 23.

54   Australian Airports Association, *Submission 122*, pp. 35-36.

55   Airlines for Australia and New Zealand, *Submission 129*, pp. 4-5.

Income generated from other business activities such as retailing, car parking and property development diversify their revenues and reduce their funding risk and cost of capital.

However most regional airports are owned and operated by local councils…whilst many manage to cover their operating costs, for many periodic maintenance and compliance investment cannot be funded from airport charges alone, leaving ratepayers to divert funds from other purposes.[56]

4.66   The AAA went on to state that:

In many cases, the council is both the chief promoter of regional tourism and the operator of the airport. This means councils developing often sophisticated operational business cases based on aircraft types, expected patronage and yields which airlines can expect. The decision by an airline to commit services to an airport has often been years in the making, with airports front and centre in helping make the case successfully.[57]

4.67   The 2016 report by ACIL Allen found that on average, for 2014–15, the operators of RPT regional airports received $2.28 million in revenue, compared with $2.36 million in average expenditure, resulting in a 3.4 per cent funding gap. The report found that approximately three-quarters of the revenue collected by regional airports was aeronautical-related, including landing fees and passenger head taxes.[58]

4.68   The ACIL Allen report found that many regional airports were operating at a loss each year. Further, these airports were 'heavily dependent upon cross-subsidisation by their local government owners who face multiple and competing demands on their limited financial services'.[59] This claim was supported by evidence given to the inquiry.

4.69   The AAA was of the view that the financial position of regional airports could be even worse than that projected by ACIL Allen, given that upgrades to meet future aviation, infrastructure or security needs could present additional financial challenges.[60]

Transfer of ownership to local councils

4.70   As discussed in Chapter 1, regional airport ownership was transferred from the Commonwealth to local council authorities under the Aerodrome Local Ownership Plan (ALOP). The ALGA commented that this imposed a considerable financial burden on local councils. This view was supported throughout evidence to the inquiry.

---

56   Australian Airports Association, *Submission 122*, p. 19. See also Professor Rico Merkert, *Submission 97*, pp. 2-3, 5.

57   Australian Airports Association, *Submission 122,* p. 6.

58   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, pp. 20-21.

59   ACIL Allen Consulting, *Regional Airport Infrastructure Study: Economic Contribution and Challenges of Regional Airports in Australia*, September 2016, p. iii.

60   Australian Airports Association, *Submission 122*, p. 20.

4.71   The ALGA further noted that:

> Local government continues to seek some support for their continuing maintenance. Regular air services provide remote and isolated communities with access to essential goods and services, including emergency and medical supplies, and need ongoing funding support from the Federal Government.[61]

4.72   These views were supported by Flinders Council, which stated that while the decision to transfer airport ownership to local councils was 'excellent from a local operation perspective', the transfers 'effectively transferred most of the Commonwealth's costs to Local Government'.[62]

4.73   As part of its 2010–2020 National Local Roads and Transport Policy Agenda, the ALGA called for leadership and financial support from the federal government to 'establish a proper hierarchy of regional airports' in light of the 'high cost of maintaining regional airports'.[63]

Evidence from regional councils

4.74   A number of councils provided information highlighting the significant ongoing costs to them in operating and maintaining their airports and the associated infrastructure. It was made clear that a number of regional airports were operating at a loss, or were having to rely on their rates base in order to fund the upkeep of their aerodromes—partially due to the ALOP, and also due to changes and improvements to operating aircraft.

4.75   For instance, the District Council of Grant in South Australia advised that the depreciation costs for Mount Gambier Airport were approximately $600 000 per annum, from an annual income of about $1 million. These costs were recovered from airport tenants and aircraft operators, with surpluses held in reserve for airport maintenance and upgrades, as required.[64]

4.76   The Banana Shire Council, owner and operator of five aerodromes in Queensland, observed that its Thangool Aerodrome was operating at a 51 per cent loss for the 2017–18 financial year, which it attributed to:

> declining passenger numbers, the mining downturn, undesirable RPT flight times, subsidised fees for the RPT provider and competitively priced & scheduled flights by competitors at neighbouring airports.[65]

---

61   Australian Local Government Association, *The National Local Roads and Transport Policy Agenda 2010–20*, p. 9.

62   Flinders Council, *Submission 111*, p. 12. See also Mr Geoff Breust, *Submission 139*, p. 2.

63   Australian Local Government Association, *The National Local Roads and Transport Policy Agenda 2010–20*, p. 9.

64   District Council of Grant, *Submission 11*, p. 2.

65   Banana Shire Council, *Submission 36*, p. 2.

4.77   The King Island Council (KIC), owner and operator of the King Island Airport, advised that the airport had run at a loss over the last few years, with a net loss of $210,000 in 2016–17, despite an increase of RPT passengers of over 20 per cent arriving at the airport over the same period. Given its small rates base, the KIC noted that it was 'near impossible' for the Council to maintain the airport without financial assistance from state and federal governments.[66]

4.78   The Flinders Island Airport, owned by the Flinders Council, has had a number of concerns arise in recent years over the quality of its runway pavement, due to changes in the type of RPT aircraft being operated at the airport. With RPT passenger movements of approximately 21 400 per annum, the Flinders Council observed that:

> The Flinders Island Airport operates at a loss and is capital hungry. The Flinders Council recognises that should it try and recoup all operating costs from the current small number of users the cost of landing would be inhibiting to the use of the facility. The Council's overall financial performance is also masked by this operating loss, with Council's Financial Statements and overall financial indicators not being able to adequately reflect this nuance.[67]

4.79   The Flinders Council also reported that it owns, operates and maintains the Whitemark Airport, at a loss of approximately $200,000 per annum. Given that only one RPT operator uses the airport, with few charter operators, 'Council is unable to pass on the full operational costs to the airlines'. As a result, the Council advised that, in effect, its rates base was 'subsidising passengers and freight to the value of this operating deficit every year', with funding for capital works at the airport drawn from the Council's overall revenue.[68]

4.80   The Maranoa Regional Council, Queensland, submitted that it aimed to impose fees on users of its aerodrome facilities 'in an effort to minimize the need for rate payer and grant supplementation of asset lifecycle costs'. The Council estimated that the cost of infrastructure renewal and maintenance over the next five years for its four aerodromes, which includes the Roma Aerodrome, would exceed $20 million.[69]

Use of the rates base

4.81   The Mayor of the Winton Shire Council, Mr Gavin Baskett, advised that the council spends approximately $100,000 to $150,000 per annum most years on maintenance of its airport, and in 2017 spent $537,000 on the airstrip. Mr Baskett

---

66   King Island Council, *Submission 88*, pp. 1, 4.

67   Flinders Council, *Submission 111*, p. 3. Flinders Island Tourism and Business Inc. also suggested that due to the Flinders Island Airport running at a loss, local ratepayers were subsidising passengers 'to the value of approximately $200,000 per year'; see *Submission 37*, pp. 2-3.

68   Flinders Council, *Submission 111*, p. 6.

69   Maranoa Regional Council, *Submission 92*, p. 6. Visit Roma Inc. also drew attention to the issue of maintenance costs at the airports owned by Maranoa Regional Council, and suggested state and federal government financial support to help reduce costs; see *Submission 116*, p. 3.

noted that as the council does not collect any landing or terminal fees, it is a direct cost to council to support the airport—the 2017 work on the airstrip was funded significantly from the rates base.[70]

4.82   Councillor Bruce Scott, as the Mayor of the Barcoo Shire Council, noted that as a result of the shift from the Commonwealth to local councils under the ALOP, it now costs Barcoo in excess of $400,000 a year to maintain its three airstrips, when the rates base was only a little over $1 million.[71]

The impact of regional airport charges

4.83   There was ongoing debate and discussion throughout the inquiry about the impact of airport and aerodrome charges on the price of regional airfares. It was contended that either airport charges were substantial enough to be directly responsible for higher-priced airfares, or that airport charges were such a small percentage of a total airfare that they could not be responsible for expensive airfares.[72]

4.84   A number of airport operators submitted details of their airport charges and described some of the issues they faced in ensuring the cost-effective operation of their airports. To this end, some operators saw the benefit of entering long-term costing arrangements with airlines—in line with ACCC requirements—in order to better manage the imposition of fees and charges, and therefore provide more certainty around the cost of airfares. A number of airports also commented that fees and charges did not significantly contribute to airfares.

4.85   Some examples from airports which were provided during the inquiry are detailed below.

Broome International Airport – Western Australia

4.86   The Broome International Airport Group (BIAG) observed that it had 'worked hard to establish long term airport pricing agreements with all airlines who fly to Broome'. At the time of submitting to the inquiry, BIAG imposed a security fee of $13.24 for departing passengers, a landing fee of $6.00 and terminal fees of $20.37 per arriving and departing passenger. BIAG contended that:

> Based on an $800 return fare between Perth and Broome, this represents 7.5% of the ticket price, or based on a $1,000 return fare, 6%. This clearly

---

70   Mr Gavin Baskett, *Committee Hansard,* 11 April 2018, p. 4.

71   Councillor Bruce Scott, Mayor, Barcoo Shire Council, *Committee Hansard*, 10 April 2018, p. 19. Councillor Geoff Morton, Mayor of Diamantina Shire Council, also noted his council's small rate base of $600,000 per annum while having to maintain two airstrips; see *Committee Hansard*, 10 April 2018, p. 20.

72   By way of example, the committee received a number of submissions regarding airport charges at Mount Isa Airport, with some submitters suggesting the charges made up only a fraction of the airfare (see, for example, Miss Jenelle Robartson, *Submission 8*, p. 2; Mr Robbie Katter MP, *Submission 144*, p. 2), while others suggested the charges were excessively high (see, for example, Ms Danielle Slade, *Submission 133*, p. 3; Mount Isa City Council, *Submission 35*, p. 23).

shows that our airport charges are not material to the price of regional airfares to Broome.[73]

4.87   Representatives of the BIAG advised the committee that the long-term pricing agreements 'didn't happen by accident', and were a result of competitive fees—to this end, BIAG noted that, when compared with 11 other airport fees in WA and the NT, Broome's were the fourth cheapest. The CEO of Broome International Airport, Mr Paul McSweeney, stated that 'Broome airport has a very firm view that airport fees do not play a significant role in airfares in regional areas'.[74]

4.88   BIAG went on to note that its analysis of airfares into Broome showed little change in the cost over the past ten to fifteen years. However, during this period BIAG observed that an increase of low cost carriers operating in Australia had grown considerably, 'delivering much cheaper airfares on other higher volume routes around the nation'. BIAG noted that the volume of passengers and the population of Broome meant that a low cost carrier was not viable for the area, as the 'volume is simply not there'. BIAG went on to state that:

> The Perth—Broome route has around 300,000 passengers per year, and differing economies of scale. This makes it difficult to compare the price of fares to other routes of a similar distance when they have a much higher number of passengers.[75]

4.89   Similarly, Mr McSweeney noted that it was difficult to make the comparison—as airlines had—between the airport charges for regional airports and those in more metropolitan areas. Mr McSweeney observed that Cairns, for example, had 4.5 million annual passengers, compared to Broome's 400 000, yet the utilisation of runways and terminals, and the costs to build them, remained the same.[76]

Darwin International Airport and Alice Springs Airport – Northern Territory

4.90   Northern Territory Airports (NTA) advised that its airside and landside charges to airlines were 'arrived at through commercial negotiation of a Long Term Pricing Agreement based on the ACCC building block model'. The NTA noted that this ACCC model is 'generally formulaic with standard inputs', resulting in a 'regulated asset type return to the asset owner'. The NTA was of the view that its airlines were fully involved in determining airport charges, and that this full pricing model:

> …forms the basis of informed negotiations with airlines. The airlines hence are totally informed about the costs forming the basis of airport charges and, as part of the pricing negotiations, need to approve any capital

---

73   Broome International Airport Group, *Submission 23*, p. 2.

74   Mr Paul McSweeney, Chief Executive Officer, Broome International Airport, *Committee Hansard*, 3 April 2018, p. 9.

75   Broome International Airport Group, *Submission 23*, p. 2.

76   Mr Paul McSweeney, Chief Executive Officer, Broome International Airport, *Committee Hansard*, 3 April 2018, p. 10.

expenditure and agree on forward looking operational and maintenance cost. This is full airline involvement in anyone's language.[77]

4.91   The NTA observed that airports took on all the risks associated with demand, noting that larger airports with millions of passengers and a significant number of airlines had minimal risk, when compared with low volume airports like Darwin and Alice Springs. As evidence of this demand risk being realised, the NTA noted that a recent $70 million terminal expansion at Darwin had doubled capacity, but that there had been virtually no passenger growth for the last five years.[78]

4.92   Further, the NTA contended that under the building block model, the airports assumed the demand risk and, unlike airlines, airports were unable to deploy their assets elsewhere—resulting in stranded assets.[79]

4.93   Mr Tom Ganley, as Acting Chief Executive of the NTA, put it to the committee that airport charges did not contribute to high airfares. Mr Ganley noted that at the Alice Springs and Darwin airports, the airport charges were around $50; even if this were reduced by 10 per cent, it would not make a large difference to an $800 fare. Mr Ganley concluded that while airport landing fees can vary, they were generally only a 'very small component of the total cost of regional airfares'.[80]

4.94   In order to help promote new routes, and for the routes to increase volume and become sustainable, the NTA offered discounts to carriers on its airport charges. A discount of 60 per cent was provided in the first year, decreasing over the following years to 40 per cent in the second year, and 20 per cent in the third year.[81]

Queensland Airports Limited – Gold Coast, Townsville, Mount Isa and Longreach

4.95   QAL raised similar concerns to the NTA with regard to the risks associated with airport upgrades, noting that it was necessary to finalise airport charge agreements with airlines operating at airports, prior to airports undertaking large capital works. This would help to secure proper funding for the upgrades. As an example, QAL stated that:

> The redevelopment of Townsville Airport is a high priority for QAL and the Townsville community, with widespread support about the need to provide a facility that can accommodate increased passenger volumes and improved efficiency. These plans have been unable to progress because of a lack of commitment from one airline, despite the fact the project would

---

77   Northern Territory Airports, *Submission 145*, p. 2.

78   Northern Territory Airports, *Submission 145*, p. 3.

79   Mr Tom Ganley, Acting Chief Executive, Northern Territory Airports Pty Ltd, *Committee Hansard*, 5 April 2018, p. 12.

80   Mr Tom Ganley, Acting Chief Executive, Northern Territory Airports Pty Ltd, *Committee Hansard*, 5 April 2018, p. 12.

81   Mr Tom Ganley, Acting Chief Executive, Northern Territory Airports Pty Ltd, *Committee Hansard*, 5 April 2018, p. 19.

require a modest increase in airport charges after many years of minimal or no increase.[82]

4.96   QAL thought it important to note that:

> …for the larger airlines, separate commercial-in-confidence negotiations about airport charges are typically undertaken and charges are generally lower than published rates as a result of these discussions. In addition, airport fees are often heavily discounted for the provision of new or expanded capacity, and are often locked in for several years to support the introduction of these services and provide airlines with an element of 'risk sharing'.[83]

4.97   QAL pointed out that airport charges were calculated on the basis of the capital and operating costs involved in airport infrastructure, and were determined on these capital and operating costs divided by forecast passenger numbers. QAL stated that as many airports are privately financed businesses, they are also required to generate fair returns for investors. QAL suggested that airport charges formed five to ten per cent of the average airfare, and that charges could be higher in remote locations due to lack of scale and high operating costs.[84]

Airport views on airport charges

4.98   Airports did not agree with the views put forward by the airlines as to the negative impact of airport charges on fare prices, instead arguing that the charges made only a minor contribution to the cost of aviation services and airfares.

4.99   The AAA was of the view that the airport charges imposed by local councils were not a contributing factor to high airfares. In fact, the AAA suggested the opposite was true and stated that:

> …it is likely that for the majority of council owned airports, airlines are effectively receiving a subsidy from councils (and through them their regional ratepayers). Many councils have not increased prices in real terms for many years, and are diverting general revenues to support the operation and maintenance of their airports. Further, there is evidence that some airlines use their market power to obstruct investments at airports that would facilitate greater competition and generate other benefits for regional communities.[85]

4.100   The AAA further contended that airports had not benefitted from improvements in aviation technology as airlines had, observing that airstrips were essential the same as they were 70 years ago. The AAA noted that while large aircraft on regional routes could provide cost reductions to airlines, and improved experiences for travellers, the use of such aircraft required more costly airport infrastructure. There

---

82   Queensland Airports Limited, *Submission 151*, p. 2.

83   Queensland Airports Limited, *Submission 151*, p. 6.

84   Queensland Airports Limited, *Submission 151*, pp. 5-6.

85   Australian Airports Association, *Submission 122*, p. 2.

was a risk for regional airports which invested in improved infrastructure, which subsequently became 'stranded' due to reduced or withdrawn airline services before costs could be recovered by the airport operator.[86]

4.101   The AAA noted that no two airports face the same costs, and suggested that the share of airfares accounted for by airport charges on any route varied considerably, depending on:

> …the charges themselves, the length of the route, the level of competition on the route and the business model of the airlines involved. That said, research currently being conducted for the AAA suggests that, on average across Australia, airport charges account for less than 10 per cent of fares. As such, even significant movement in charges, to say 20 per cent, would not materially affect fares and the volume of services provided in the unlikely event they were passed on in full to passengers.[87]

4.102   A number of local councils expressed the view that airport charges played a minor role in contributing to airfares. For example, the Cloncurry Shire Council argued that its charges for the Cloncurry Airport, of approximately $37.50 per passenger (constituting passenger taxes and landing fees), did not constitute a major part of the fare price. On the basis of an $800 return fare, the Council noted that its charges would equate to less than 5 per cent of the fare. The Council was of the view that the argument by airlines that taxes and charges were a major component of airfares was flawed, and failed to acknowledge that 'every cent collected at Cloncurry Airport through these fees is injected back into the local community'.[88]

4.103   Similar arguments were presented by the WRC, which contended that airport-related charges rarely make up more than 10 per cent of the standard cost of an airfare, and that lower volume airports tended to have higher charges in order to recover fixed operating costs. The WRC concluded that 'most airports primarily rely on aircraft and passenger revenues to support their operations, maintenance and development'.[89]

4.104   Likewise, the Rockhampton Regional Council (RRC) stated that it was transparent about the charges imposed at the Rockhampton Airport, and, with its charges based on cost recovery only, there was 'very little leverage to increase charges to meet future costs'. The RRC disputed claims that airport charges increased airfares, arguing that its airport receives no additional revenue whether the airfares are $99 or $570. The RRC suggested that greater transparency on the operational costs for aircraft would help to increase understanding of how airfares were determined.[90]

---

86   Australian Airports Association, *Submission 122*, p. 22.

87   Australian Airports Association, *Submission 122*, p. 24.

88   Cloncurry Shire Council, *Submission 146*, p. 9. See also Mr Bradley Rix, *Submission 53*, p. 1.

89   Whitsunday Regional Council, *Submission 160*, pp. 4-5.

90   Rockhampton Regional Council, *Submission 159*, p. 2.

4.105   Despite these views, the Local Government Association of the Northern Territory (LGANT) asserted that airport charges, such as landing fees and rental agreements, were significant in regional areas, thus adding to the cost of airfares. Some aerodrome operators in the NT had decided not to impose landing fees to 'guard against the likelihood of costs flowing onto passenger airfares and freight costs' and against services becoming unviable and ceasing operation. LGANT observed that larger aircraft accessing aerodromes led to yet more costs, through necessary infrastructure improvements, increased regulatory compliance and increases to operational costs.[91]

4.106   The EISC report in WA acknowledged the views of airlines that questioned whether it was appropriate for airport owners to use airport charges to address depreciation. However, the EISC noted that:

> While the airlines may criticise those local governments seeking to recover depreciation through airport charges, the Committee notes that it is normal commercial practice. Moreover, it is essential to fund the replacement of assets as they reach the end of their useful lives. Indeed, the airlines themselves depreciate their own asset base.[92]

Airline views on airport charges

4.107   Despite the sentiments expressed by many airport operators as to the impact of airport charges on airfares, it was the consistent view of the airlines that airport charges imposed by local councils and other airport owners were excessive, thus directly impacting airline viability in regional areas, and the price of airfares. The airlines suggested that increases to airport charges, whether agreed to or not, had a direct negative impact on their ability to operate in regional areas where margins were thin.

4.108   These views have been made clear by the airlines before, for example, to the PC in its 2011 report on the economic regulation of airports. The views submitted to the PC exemplified the tension between airports and airlines as to the role of airport charges in increasing RPT service costs. Similar views were put to the committee in this inquiry.

4.109   A4ANZ was of the view that airport charges represented a significant portion of airfares, in some cases adding more than 30 per cent to the base ticket price. A4ANZ stated that high airport charges were an impediment to introducing new routes or growing existing routes, and claimed that 'Australia airports are now collecting more revenue per passenger and generating significantly higher profits than their international benchmarks'. A4ANZ also raised its concerns with what it saw as an overinvestment in airport infrastructure by some regional councils, and argued for

---

91   Local Government Association of the Northern Territory, *Submission 99*, p. 8.

92   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 80.

investment in infrastructure upgrades that were 'aligned with the needs of passengers using the facilities and demand for air services'.[93]

4.110   The tensions between airports and airlines on this issue were highlighted by reports in December 2018 that the Qantas Group was being sued by the Perth Airport in the West Australian Supreme Court for the alleged underpayment of $11.3 million in aeronautical fees. In response to the legal action, Qantas argued that it had paid the fees imposed by the airport during negotiation of a new agreement, but were not willing to pay the 'unjustified rates' proposed.[94]

4.111   The views of the airlines as to the role of airport charges are presented below.

Regional Express

4.112   Rex claimed that its single biggest cost item was airport charges, and they therefore had a large impact on its operations. Rex expressed strong concerns over the imposition of airport charges and, while noting the importance of regional airports, raised concerns over the approaches to funding such airports:

> Regional airports are a vital piece of community infrastructure and form a valuable community asset and should be treated no differently than local roads and bridges as critical local infrastructure that has broad ranging benefits across the entire council municipalities. Yet, most regional airports adopt a user pays approach that requires the 'airport business' to stand-alone at no cost to the council (ratepayer) and in many cases generate a healthy surplus back to council.[95]

4.113   Rex indicated that across its network, there was a great variety in the administrative approaches adopted by regional airports. Rex outlined its three main concerns with regard to the behaviour of regional airports, being:

- the generation of excessive revenue via passenger taxes, to fund council losses elsewhere;

- the building of airport terminals that exceed current and forecast requirements, resulting in 'high annual depreciation overheads'; and

- the expansion of runways, taxiways and aprons to cater for larger aircraft, exceeding the current and future requirements of an airport, resulting in depreciation.[96]

4.114   Rex argued that the 'build it and they will come' approach was 'extremely high risk', resulting in excessive infrastructure spending and therefore increases in airport

---

93   Airlines for Australia and New Zealand, *Submission 129*, p. 2.

94   Jenny Wiggins, 'Qantas sued by Perth Airport over $11m underpayment of aeronautical fees', *Financial Review*, 17 December 2018, https://www.afr.com/business/qantas-sued-by-perth-airport-over-11m-underpayment-of-aeronautical-fees-20181217-h197qd (accessed 18 December 2018).

95   Regional Express, *Submission 135*, p. 10; the Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 46.

96   Regional Express, *Submission 135*, p. 11.

charges, a result which was detrimental to both regional airlines and passengers. Rex suggested that with airport revenues growing incrementally—and 'in many cases at much higher rates than CPI'—regional airports should:

> …share the improved airport efficiencies and economies of scale by reducing the airport unit rate charges in order to assist with air service viability and affordability of fares to the benefit of their local community.[97]

4.115   Rex questioned the monopoly position of airports, and argued that monopolies allowed airports to achieve a better financial outcome than in a competitive market or under regulated pricing. Rex argued for improved oversight of the conduct of airports in order for them to better substantiate their claims about operational requirements. Rex also cautioned against government funding for 'non-essential airport expenditure', arguing that government funding could lead to airport upgrades which result in ongoing airport costs—such as operating and maintenance costs—'spiralling out of control'.[98]

4.116   Rex called on local councils, as owners of regional airports, to reduce airport charges and passenger taxes. Rex contended that doing so would reduce ticket prices and stimulate passenger numbers, with a net gain to the community that 'far outweighs, in our opinion, the drop of airport revenue'.[99]

4.117   The Hon John Sharp, Deputy Chairman of Rex, noted that on a return fare, airlines had to pay head taxes four times—twice at the airports of departure, and twice at the airports of arrival—on top of GST and the Airservices en route charge. However, Mr Sharp did note that Rex had entered into partnership agreements with some local councils, in order to invest together to increase passenger numbers. Mr Sharp advised that some airport owners had reduced head taxes, and, in turn, Rex had reduced its ticket price—often resulting in the introduction of Rex's community fares.[100]

Qantas

4.118   The sentiments expressed by Rex were echoed by Qantas, which suggested that airports exercise monopolistic power over airport charges, thus having a direct impact on the price of travel and presenting a challenge to the ongoing commercial viability of regional air services.[101] Qantas suggested that airport charges and security costs make up 17 per cent of its operational costs.[102]

---

97   Regional Express, *Submission 135*, p. 11.

98   Regional Express, *Submission 135*, pp 16-17; 21.

99   Regional Express, *Submission 135*, p. 23.

100   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, pp. 26, 30. Community fares are discussed further in Chapter 8.

101   Qantas Group, *Submission 126*, pp. 4, 9.

102   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 9.

4.119   Qantas advised that across the regional airports at which it operated, there was considerable variation to the passenger, landing and security charges imposed, and it was unclear to Qantas as to why there was such variation. Qantas pointed out that:

> When comparing regional airports in Australia with fewer than 500,000 passengers per year, the average cost per passenger (excluding security) is **$16** for airports in the southern regions of Australia (NSW, VIC, SA, TAS) and **$25** for airports in Queensland, Northern Territory and Western Australia – **over 50 per cent higher.** Moreover, 13 of the top 15 most expensive airports in Australia that Qantas flies to fall within Queensland and Western Australia.[103] [emphasis in original]

4.120   Qantas stated that as airlines make on average $7 per passenger per flight, the impact of airport charges could be profound. For example, Qantas stated that the differences in charges between the Gold Coast ($9.19), compared with charges at Broome ($32.05), 'dramatically influences the ability of an airlines to maintain frequency and capacity, while offering low fares' and being able to stimulate travel. When combined with other operational costs—such as fuel, staffing and maintenance—Qantas argued that airport charges had a direct and significant impact on the commercial viability of its services.[104]

4.121   Qantas provided a detailed example as to the impact of airport charges:

> If a 74-seater aircraft is operating a return sector with a seat factor of 65 per cent and an average fare of ~$320 (consisting of a mix of fares sold for $200-$600 and some outlier fares above $800) for both outbound and inbound sectors (ignoring the unidirectional demand dynamics of regional routes) it could generate revenue of ~$31,000.

> Once all of the variable cost inputs have been taken into account (such as fuel, pilot and cabin crew labour, maintenance, air navigation charges, catering, GST) and the fixed costs (such as marketing, distribution, depreciation, corporate overheads), a margin for the operator may remain.

> Within this remaining margin, the biggest differentiator between operations to regional ports is to be considered - airport charges. If the regional airport is charging ~$16 per passenger, the airport charge expenses would be ~$1,500 for return operations. But if the airport is charging $35, this expense may be over ~$3,300. **The difference between ~$1,500 and ~$3,300 of airport charges is enough to turn a marginal operation into an unprofitable operation.**[105] [emphasis in original]

Virgin

4.122   In accordance with the views of other airlines, Virgin argued that airport charges had an 'indisputable impact' on airfare pricing and competitiveness. Virgin suggested that regional airports use their market power to 'unilaterally impose

---

103   Qantas Group, *Submission 126*, p. 9.

104   Qantas Group, *Submission 126*, p. 9.

105   Qantas Group, answers to questions taken on notice, 15 March 2019 (received 5 April 2019).

unreasonably high airport charges, which are above efficient levels'. Virgin further noted a lack of transparency around airport operating costs and capital investments, meaning airlines could not ascertain whether charges were 'commensurate with the level of service provided'.[106]

4.123   Mr Robert Sharp, Group Executive at Virgin, expressed concern over the charges imposed by some regional airports. Mr Sharp stated that:

> …charges imposed by some regional airports are prohibitively high and have an indisputable impact on the commercial viability of services to these locations. Our submission to the Productivity Commission's recent review of the economic regulation of airports called for changes to the current regulatory framework, including the introduction of a negotiate-arbitrate model as a means of constraining the market power of airports as monopoly service providers.[107]

4.124   Virgin shared the view of Qantas that the airport charges in Western Australia were, on average and on a per-passenger basis, double those of NSW and Victorian regional airports, with charges at Queensland airports sometimes higher but more variable than in WA.[108]

4.125   Virgin drew attention to an emerging trend of local councils granting airport management rights to third-party operators under long-term lease agreements. Virgin suggested that such arrangements resulted in:

> …private operators seeking to earn a commercial return on their investment in the airport lease (rather than the value of the airport's physical assets), without regard to the broader economic benefits airlines and their passengers deliver to the community. Higher airport charges will either be reflected in higher airfares or absorbed into an airline's cost base. In either case, this has the potential to threaten the viability of air services to such ports over the longer term. Assertions that small increases in airport fees are not material for airlines are incorrect.[109]

4.126   By way of example, Virgin noted that the Port Hedland Council sold a 50-year lease for the Port Hedland Airport to AMP Capital and Infrastructure Capital Group for $205 million, in August 2015. As part of this transaction, the Group would invest $40 million to redevelop the airport, over five years. Virgin voiced its concerns about this, stating that it:

> …queries whether the expenditure of $40 million is necessary to support the operational and passenger experience requirements of airlines, based on current and projected levels of demand. Unnecessary investment will drive up aeronautical charges for airlines, which will be reflected in higher

---

106   Virgin Australia, *Submission 109*, p. 8.

107   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 29.

108   Virgin Australia, *Submission 109*, p. 8.

109   Virgin Australia, *Submission 109*, p. 9.

airfares on routes to/from Port Hedland. Instead of being managed by the local council as an essential piece of infrastructure for the local community, the airport is now an asset of the consortium, which views the investment as providing it with stable cash flows from the provision of a service with extremely limited air transport alternatives.[110]

4.127   In addition, Virgin noted that investments in airport infrastructure and upgrades should reflect the operational requirements of airlines and demand for services, rather than the 'future aspirations of the airport operator'. Virgin argued that airlines 'should not be expected to fund infrastructure upgrades which deliver no commercial or operational benefit'.[111]

4.128   In order to address these issues, Virgin called for an arbitrate-negotiate model, where, if airports and airlines could not agree on charges, an independent arbitrator would consider the charges in terms of reasonableness.[112]

Alliance

4.129   Alliance was of the view that many airports were operating as monopolies and that regardless of the fare on offer, the passenger and airports taxes remained the same. Mr Scott McMillan, Managing Director at Alliance, suggested that 'the lower the fare, the higher the proportion of money that goes to the local government'. Mr McMillan concluded that with a lack of regulation, 'the unfettered nature by which airports are charging is a major concern and a major detriment'.[113]

4.130   Alliance made the claim that a combination of landing fees, head taxes, and 'incredibly high parking fees' made Cloncurry Airport the most expensive airport in Australia to which it operated.[114]

---

110   Virgin Australia, answers to questions taken on notice, 15 February 2019 (received 7 March 2019).

111   Virgin Australia, *Submission 109*, p. 9.

112   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 50.

113   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, pp. 10-11.

114   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 16. The Cloncurry Shire Council advised that its airport generated a profit, based on its charges which cover operating costs and offer 'a decent return on the asset'; see Mr Greg Campbell, Mayor, Cloncurry Shire Council, *Committee Hansard*, 12 April 2018, p. 3.

Chapter 5
Security screening charges

5.1 Included amongst aviation taxes and charges are costs relating to the implementation, operation and maintenance of passenger security screening services. It became apparent over the course of the inquiry that airport security infrastructure and associated fees and charges imposed significant cost burdens on airports, which—via cost recovery—had a direct impact on the cost of airfares.

5.2 This chapter considers the security charges imposed at regional airports, and the impact of security infrastructure on the operational costs of airports of all sizes. It also considers the impact of recently announced changes to the airport security screening framework on the ongoing viability of regional airports.

Security obligations at regional airports

5.3 Aviation security is regulated under the *Aviation Transport Security Act 2004* (Security Act) and the Aviation Transport Security Regulations 2005 (Security Regulations). These instruments embody Australia's international obligations under the Convention on International Civil Aviation.

5.4 The Department of Home Affairs (Home Affairs) administers the Security Act and Security Regulations; however it is the responsibility of airports and airlines to manage security operations on a day-to-day basis, in accordance with regulatory requirements. Home Affairs advised that, as of 1 February 2018:

> the Department regulates 174 international and domestic airports across Australia and its external territories, and a range of major and regional air operators. Of those, the Australian Bureau of Statistics considers only 15 airports to be located in major cities, with the remaining 159 airports located in regional (58) or remote (101) locations. Of the 159 airports in regional or remote locations, 52 possess permanent security screening infrastructure, while the remaining 107 regional or remote airports operate as unscreened airports.[1]

5.5 Regulatory changes to the national aviation security regime were first introduced in 2009. These changes were implemented gradually with the first enhancement to security becoming effective on 1 July 2010, when passenger and baggage screening for all RPT aircraft greater than 30 000kg (30 tonne) MTOW was required. On 1 July 2012, security screening was extended to all RPT aircraft with a greater than 20 000kg (20 tonne) MTOW weight.

5.6 Home Affairs was of the view that the 20 000kg MTOW threshold:

> balances security requirements without placing an undue financial burden (including security screening equipment and ongoing staffing costs) on lower risk, smaller aviation operations, that often are located in regional areas. If an airport conducts screening, the equipment, methods and

---

1 Department of Home Affairs, *Submission 168*, pp. 2-3.

techniques used must meet the Department's requirements and all screening staff must be trained to regulated standards.[2]

5.7   DIRDC advised that while it does not have responsibility for aviation security, it continued to work with government agencies on security issues, 'ensuring the potential impact of increasing costs in the aviation industry; particularly in regional Australia; is taken into account' in the event of any changes to the aviation security framework.[3]

Cost of security at regional airports

5.8   It was understood throughout the inquiry that security costs imposed on airports were passed on to passengers. QAL clarified how this occurred. Mr Rowe advised that:

> With security pricing, the accepted model is a pass through of charges, so what security costs to implement in terms of capital and operating expenditure is simply divided by the passenger numbers and passed straight through to the airlines and then on to the passenger. So any moves to increase the level of security in any airport around Australia would have a direct impact on pricing that is eventually passed to the passenger.

> …the impact on airports with smaller passenger throughout is certainly more acute.[4]

5.9   The costs of airport security screening equipment, its installation and ongoing operational costs were raised consistently throughout evidence as a serious concern to many airport stakeholders, particularly regional councils.

5.10   Submitters were aware that such security considerations were considerable drivers of high airfares and airport charges as security costs were passed on to passengers through higher airfares. Further, some submitters were of the view that, should the federal government implement a mandatory screening regime at regional and smaller airports, it should also offer financial assistance to those airports to cover respective implementation and maintenance costs.[5]

Department of Home Affairs

5.11   In its submission, Home Affairs acknowledged that passenger and baggage screening was the 'most significant security cost for aviation industry participants'. However, Home Affairs argued that security costs were influenced by regulatory

---

2   Department of Home Affairs, *Submission 168*, p. 3.

3   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 9.

4   Mr Adam Rowe, General Manager, Business Development and Marketing, Queensland Airports Limited, *Committee Hansard*, 10 April 2018, p. 15.

5   See for example: Flinders Island Tourism and Business Inc., *Submission 37*, p. 3; Tasmanian Government, *Submission 69*, p. 19; Government of Western Australia, *Submission 75*, p. 7; King Island Council, *Submission 88*, p. 4; Regional Development Australia Mid West Gascoyne, *Submission 117*, p. 2; Sharp Airlines, *Submission 127*, p. 3.

settings and the commercial decisions of the industry, such as purchasing decisions and labour choices. Home Affairs estimated the cost of screening equipment as:

- $530 000 for the stand-up cost of two multi-view x-ray units, an explosive trace detection unit and a walk-through metal detector; and

- between $530 000 and $760 000 annually for equipment maintenance and screening staff costs.[6]

5.12   Home Affairs drew attention to the Strengthening Aviation Security Initiative of 2010, which assisted industry with the cost of security equipment. This initiative supported a Regional and Domestic Aviation Security measure, providing $32 million over four years to develop screening capabilities at regional airports. However, Home Affairs noted that industry continued to be responsible for establishment and ongoing support costs. In 2017, a further security initiative for regional airports was introduced:

> To help smaller airports cost-effectively deliver security outcomes, in February 2017, the Government distributed a Regional Aviation Security Awareness Training Package to 158 regional and remote airports. The package supports staff and security managers at these airports to understand the current risk environment, identify potential threats, embed security awareness into day-to-day airport operations and ensure that staff are prepared for a security or emergency incident. [7]

Review of security regulated airports

5.13   On 8 August 2017, then Transport Minister the Hon Darren Chester MP directed the Inspector of Transport Security (ITS) to conduct a review of security at Australian security regulated airports.   The review terms of reference included consideration of whether Australia's aviation security network as it applies to major, regional and remote airports is proportionate to the aviation security threat environment known today.[8]

5.14   A number of state governments expressed their concern over the ITS airport security review, noting the adverse impact any regulatory changes could have on the viability of regional air operations.

5.15   For example, the WA DOT noted that any legislative changes to regional aviation security arrangements could have an adverse impact on regional airfares in that state. Regarding the security review, the DOT stated that:

---

6   Department of Home Affairs, *Submission 168*, p. 3.

7   Department of Home Affairs, *Submission 168*, pp. 3-4.

8   Department of Infrastructure and Regional Development, Review into security at Australian security regulated airports, 11 October 2017, https://infrastructure.gov.au/security/its/ airport_security.aspx (airport security matters have since transferred to the Department of Home Affairs, and as such information from DIRDC regarding the ITS has been removed from its webpages).

…the consultation process of this project has not engaged with users of the aviation system (the passengers), nor has it engaged with state governments as representatives of the community in WA. Engagement only with airlines and airports is clearly insufficient. The Commonwealth has not communicated any proposed changes to regional aviation security requirements. As a result, the possible impact on regional air services cannot be assessed.[9]

5.16   The DOT called on the Federal Government to consult with the community on the costs and benefits of any security changes it intended to implement at regional airports. It highlighted that a rollout of more stringent security controls at airports currently receiving services under 20 tonnes would likely result in the discontinuation of some air services in WA, with major detrimental impacts on regional communities.[10]

5.17   Likewise, the NT Government argued that in the event additional security regulatory requirements were imposed on remote or very remote aerodromes, there would be a number of substantial effects, including significantly increased costs due to both security personnel and infrastructure; higher airfares, and a loss of services where providing security renders marginally sustainable services uneconomical.[11]

5.18   Despite these concerns, the ITS report, which was finalised in November 2017, was not made public due to 'the sensitive matters covered in the review'. The government instead considered the report and its recommendations, and developed new aviation security measures which were announced as part of the 2018–19 Budget.[12]

Upgrades to regional airport security

5.19   The *Aviation, Air Cargo and International Mail Security Package* was announced as part of the 2018–19 Budget. As part of this Package, $50.1 million over four years (commencing 2018–19) would be allocated to enhance security arrangements at 64 regional airports, with new and upgraded security screening technology and associated infrastructure.[13]

5.20   As part of the security enhancements, it was announced that all persons and staff on RPT flights with 40 or more seats would require security screening. Furthermore, the new security initiatives would commence 'immediately', and some of the measures would include the use of 'body scanners and advanced x-ray equipment at major and regional Australian airports'. Home Affairs acknowledged that such

---

9   Government of Western Australia, *Submission 75*, p. 6.

10   Government of Western Australia, *Submission 75*, p. 6.

11   Northern Territory Government, *Submission 121*, p. 7.

12   Department of Home Affairs, *Review into security at Australian security regulated airports*, https://archive.homeaffairs.gov.au/about/transport-security/inspector-of-transport-security/review-security-australian-security-regulated-airports (accessed 30 April 2019).

13   Budget Paper No. 2, Budget Measures 2018–19 – Part 2: Expense Measures (Home Affairs), p. 128.

changes could increase the time taken by passengers to undergo security screening, but that this was 'a small trade off to ensure that air travel and the aviation sector remains safe and secure'.[14]

5.21   The committee notes that to date, Home Affairs has not released any information publically as to which 64 airports will require these upgrades, on the grounds of national security.

5.22   However, at the 2019 Budget Estimates, Home Affairs advised that there were two categories of airports under the announced package—those which were already required to provide security screening, and a second group which will be required to implement security screening, via an amendment to the Security Regulations.[15]

5.23   Ms Anita Langford, First Assistant Secretary with Home Affairs, clarified the difference between the two classes of airports:

> There's a class of airports that is already captured by screening arrangements. That's most of them. Those airports are already captured by the legislation, and they will be upgrading equipment. Then there's a smaller class…of more provincial airports where they will need a change to the regulations to be captured as what we call screening airports.[16]

5.24   Ms Langford confirmed that the change to the regulations will be achieved by way of a disallowable instrument.[17]

5.25   Home Affairs was asked by the committee about the reasoning behind the 40-seat threshold for the introduction of security screening. Ms Langford stated that:

> There are three main areas which we looked at. One was to ask, 'What do our like-minded partners do?' While they don't like their security settings being discussed in public any more than we do, I can say that some of them are below the 40 seats and some of them are above the 40 seats. And that 40-seat threshold operates in concert with other thresholds like the number of passengers that might go through an airport in a year, what their local intelligence agencies think is a local threat, just as we also take that into

---

14   Department of Home Affairs, *Air cargo and aviation*, 21 November 2018, https://www.homeaffairs.gov.au/about-us/our-portfolios/transport-security/air-cargo-and-aviation/aviation (accessed 30 April 2019).

15   Mr Paul Grigson, Deputy Secretary, Department of Home Affairs, and Senator the Hon Linda Reynolds, Minister for Defence Industry, *Proof Estimates Hansard*, Legal and Constitutional Affairs Legislation Committee, 4 April 2019, pp. 53-54.

16   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, p. 7.

17   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, p. 7. At the public hearing on 1 April 2019, Senator Patrick indicated his intention to move a disallowance against the instrument; see p. 17.

account, and, finally, we took expert advice from the Inspector of Transport Security on the threshold.[18]

Regional Airport Security Screening Fund

5.26   The Regional Airport Security Screening Fund (the Fund) was established to support eligible regional airports in moving to implement the announced new aviation security screening requirements. $50.1 million was made available over four years for the program, including $49.195 million for grants.[19]

5.27   The program was restricted to pre-identified eligible regional airports which were invited to apply. The committee understands that Home Affairs consulted with eligible airports prior to the program opening for applications. During the consultation process, Home Affairs determined the individual security screening equipment requirements and maximum grant amount for each airport.[20]

5.28   The grant amount will be up to 100 per cent of eligible project costs. Grant amounts for individual airports were pre-determined by Home Affairs based on a set cost to replace existing or purchase new aviation security screening equipment where necessary, to meet requirements that apply to that airport. Project activities could include the acquisition of new equipment, or capital works to accommodate new equipment.[21] However, no funding has been allocated for the ongoing operation, maintenance and staffing costs associated with the new equipment.

Funding arrangements

5.29   Home Affairs was provided with the authority to allocate grant funding under the Fund via the Financial Framework (Supplementary Powers) Amendment (Home Affairs Measures No. 2) Regulations 2018.

5.30   This amended Part 4 of Section 1AB of the Financial Framework (Supplementary Powers) Regulations 1997 and provided for funding to be allocated to regional airports to meet security screening requirements. The amendment was registered on 17 August 2018 (and was tabled in the House of Representatives on 20 August 2018, and in the Senate on 21 August 2018).

5.31   The Fund accepted applications until 21 March 2019, with the program restricted to 'pre-identified eligible regional airports' (identified by Home Affairs).

---

18   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, p. 16. Qantas Group has raised its concerns with Home Affairs over the 40-seat threshold; see Mr Trent Mumford, Head of Government and Public Affairs, Qantas Group, *Committee Hansard*, 15 March 2019, p. 23.

19   Australian Government – Business; Grants, assistance and other support, *Regional Airport Security Screening Fund*, https://www.business.gov.au/assistance/regional-airport-security-screening-fund (accessed 30 April 2019).

20   Australian Government – Business; Grants, assistance and other support, *Regional Airport Security Screening Fund*.

21   Australian Government – Business; Grants, assistance and other support, *Regional Airport Security Screening Fund*. The Department of Home Affairs contacted those airports that are eligible to undertake capital works prior to the round for applications opening.

However, no funding decisions under the Fund were to be made until after the 2019 Federal Election, by the incoming government.[22]

Economic analysis of the proposed security upgrades

5.32   The committee sought to ascertain whether any economic analysis had been completed by government, as to the ongoing operational costs and economic impact on regional airports of the security screening enhancements.

5.33   Home Affairs advised that, as of April 2019, it was still working to understand the impact of the infrastructure investment in screening equipment that would be required by airports. However, Ms Langford confirmed that, while Home Affairs would provide some funding support for capital, it was expected that the operational costs of the new security equipment was to be met by industry—operational funding was considered outside of the Home Affairs policy framework. As Home Affairs would not provide ongoing operational support, it had not completed an economic analysis as to the ongoing operating costs.[23]

5.34   When asked about whether Home Affairs had considered ways in which to reduce the cost burdens on regional airports resulting from the upgrades—including via government subsidisation—Ms Langford advised that:

> Around the world, you've got a number of different models and some of those include governments covering operating costs, but, as far as I'm aware, there's no consideration of moving to one of those models where governments would cover operating costs.[24]

5.35   It was later suggested by Home Affairs, at the 2019 Budget Estimates, that DIRDC would be best placed to consider the 'broader aspect of the sustainability of regional airports'. However, Senator the Hon Linda Reynolds stated that there was 'significant interagency and interdepartmental consultation' between Home Affairs and DIRDC, and that Home Affairs had contributed to an analysis of the ongoing impact of the security upgrades by way of security assessments and similar advice.[25]

5.36   Yet at Budget Estimates, Dr Steven Kennedy, Secretary, and Ms Pip Spence, Deputy Secretary of DIRDC, confirmed that no formal economic analysis or modelling had been completed as to the cost impact of the security upgrades, nor had DIRDC examined the economic viability of the impacted airports. However, Ms Spence advised that DIRDC was 'working very closely with both the airports and the airlines to see how the new cost will actually be implemented'. Dr Kennedy

---

22   Australian Government – Business; Grants, assistance and other support, *Regional Airport Security Screening Fund*.

23   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, pp. 8-9; 14.

24   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, p. 13.

25   Mr Paul Grigson, Deputy Secretary, Department of Home Affairs, and Senator the Hon Linda Reynolds, Minister for Defence Industry, *Proof Estimates Hansard*, Legal and Constitutional Affairs Legislation Committee, 4 April 2019, pp. 53-54.

confirmed that the department was 'very aware' of the potential impact of the new screening measures and was watching the matter closely.[26]

Concerns regarding airport security costs

5.37   Concerns over the costs of security screening have been raised consistently over the years. Even back in 2003, the TRS Committee called for funding assistance to regional communities where the need for security screening upgrades had been identified, noting the considerable burden such upgrades would have on regional airports.

5.38   Many submitters were of the view that such significant financial burdens would greatly jeopardise the ongoing viability of smaller airlines and airports, and could act to increase airfares even further. Submitters also expressed caution over additional changes to the regulatory framework for regional airport security. The sentiments expressed about security charges were shared by both airports and airlines, demonstrating the level of concern amongst stakeholders as to the impost of security screening.

5.39   The AAA pointed out that while airports could cover the costs of security screening services via screening charges, there was 'no specific revenue stream that can be applied to support the cost of aviation security'. Given that many regional airports were operating at a loss, the AAA was of the view that such a significant cost impost could result in the 'cessation of air services linking regional centres'. The AAA called for any new screening requirements at regional airports to be supported by significant financial assistance, and argued that airlines would use their market power to prevent airports from recovering these additional costs.[27]

5.40   The Tasmanian Government submitted that increased security screening requirements at smaller airports would risk placing further significant implementation and ongoing financial burdens on already vulnerable infrastructure. The Tasmanian Government argued that:

> Increasing landing charges to fund enhanced security procedures may jeopardise continued services to the airport, or, if airlines choose to pass this cost on the [sic] passengers, the costs of essential travel for local residents may become prohibitive and tourists may choose to go elsewhere. Additionally, these airports would need to consider screening arriving passengers from smaller feeder airports unless those feeder airports match the security standards. The Tasmanian Government supports a proportionate risk-based approach to security rather than a one-size fits all approach.[28]

---

26   Dr Steven Kennedy, Secretary, and Ms Pip Spence, Deputy Secretary, Department of Infrastructure, Regional Development and Cities, *Proof Estimates Hansard*, Senate Rural and Regional Affairs and Transport Legislation Committee, 8 April 2019, pp. 75, 77-78.

27   Australian Airports Association, *Submission 122*, p. 22.

28   Tasmanian Government, *Submission 69*, p. 19. This position was supported by the Flinders Council; see *Submission 111*, p. 7.

5.41   The Launceston Airport raised similar concerns, noting that any decisions to change to the security arrangements at mid-sized regional airports should consider the increased costs of doing so, relative to the risk that a regional airport presents to aviation security. The issue was well summarised by the Airport, when it stated that:

> Providing security services requires minimum staffing levels to meet regulations, which with relatively low volumes equates to relatively high unit costs per passenger. Larger airports can leverage their volumes over longer periods to make the process efficient. Large airports that have international and domestic security can also move staff between international and domestic to maximise efficiency, including covering breaks and allocating overheads. On top of these challenges, other costs of security upgrades can include the purchase of the required equipment (subject to technical obsolesce), the capital expenditure associated with equipment installation, and the ongoing delivery of security screening services to mandated standards.[29]

5.42   The West Australian Government also provided evidence that mandatory security upgrades had a detrimental impact on airfares. It advised that in 2012, the Shire of Esperance was required to spend approximately $3 million to redesign its passenger terminal and purchase security equipment. As a result, a 'cost of $40 per passenger flight between Esperance and Perth was included in airfares to recover the ongoing operational and maintenance costs for airport security equipment'. This was considered an increase of over 30 per cent from the lowest airfare to Esperance then on offer.[30]

5.43   NTA made the comparison between large, metropolitan airports, and smaller regional airports to highlight the impact of security costs on smaller-volume airports. Mr Ganley of the NTA stated that:

> …if I'm an airport with 20 million passengers, I have a large volume to wash those costs over to get them to a level that is digestible. But if I've got 300,000 departing passengers at Alice Springs and I'm required to have the same security infrastructure as a major capital city, washing the costs of a $1 million or $2 million machine over 300,000 passengers has a significant impact on the security cost at that port.[31]

5.44   Mr Dominic Testoni, Executive Officer of the Limestone Coast Local Government Association, provided a case study regarding the cost implications of security upgrades, from his previous work with the Griffith Airport. Mr Testoni said that an upgrade to the terminal at that airport was to include security infrastructure. However, Mr Testoni advised that:

> We had the people crunch the numbers and they said that, if we had to introduce security into the airport, it would increase the price per head by

---

29   Launceston Airport, *Submission 150*, pp. 10-11.

30   Government of Western Australia, *Submission 75*, p. 6.

31   Mr Tom Ganley, Acting Chief Executive, Northern Territory Airports Pty Ltd, *Committee Hansard*, 5 April 2018, p. 13.

$40 to $45. We made the decision that the community wouldn't wear that, because that would be passed on directly. When they crunched the numbers, I think the additional cost at a regional airport was about $750,000 per year, which would add an additional $26 million to the regional travellers. Yes, security is still very important—people still regard it very highly—but the travelling community just might not wear an extra $40 or $45...[32]

5.45   Councillor Robert Chandler, the Mayor at Barcaldine Regional Council, also provided an example as to the cost implications for security staff at regional airports. Councillor Chandler observed that the security services at Barcaldine were 'extremely expensive', a lot of which was related to the short time in which such services were required. By way of example, Councillor Chandler advised that when a plane landed at the Barcaldine Airport:

…it might be a 1½-hour turnaround for that aircraft. We pay a minimum three hours. If it happens to be on a public holiday, that three hours can turn into nine hours just for a 1½- to two-hour turnaround, so we have to pass those costs on.[33]

Airline views

5.46   With regard to the proposed changes to security screening, Mr Sharp, of Virgin, argued that they had the 'potential to dramatically increase the cost of screening passengers and cargo and regional airports, and that will be reflected in higher airfares'.[34]

5.47   Virgin considered rising aviation security costs to be an ongoing challenge to the sustainability of regional air services, given the disproportionate impact of these charges in regional areas. Virgin made a number of suggestions aimed at minimising security costs, such as allowing staff at security screening points to perform multiple tasks, and adoption of advanced technologies.[35]

5.48   Qantas was very clear as to its views on the impact of security charges on its operational viability into some areas. Mr Andrew David, CEO of Qantas Domestic and Freight, noted that depending on the market, Qantas had to determine whether that market could absorb higher security costs by way of higher fares. Mr David expressed concern that some markets could not in fact absorb the cost, and 'therefore the viability of that market is at risk'.[36]

---

32   Mr Dominic Testoni, Executive Officer, Limestone Coast Local Government Association, *Committee Hansard*, 24 July 2018, pp. 13-14.

33   Councillor Robert Chandler, Mayor, Barcaldine Regional Council, *Committee Hansard*, 10 April 2018, p. 18.

34   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 29.

35   Virgin Australia, *Submission 109*, pp. 11-12.

36   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, Qantas Group, *Committee Hansard*, 15 March 2019, p. 23.

5.49   By way of example, Mr John Gissing, CEO of QantasLink, advised that Qantas operated two Q300s from Adelaide to Port Lincoln, Whyalla, and Kangaroo Island. Mr Gissing contented that in the event of changes to security screening:

> All three markets would be then subject to security costs of, we estimate, between $700,000 to a million dollars a year of ongoing operating costs, and we've been very clear with the government that would put in jeopardy those services entirely.[37]

5.50   Rex considered the impact of security charges on its network, noting that it operated at 45 regional airports where passenger and baggage screening was not required. Should these regional airports be required to implement screening at a cost of $750 000 per year, Rex argued that:

> …regional air travellers will have to absorb an additional $34M per annum in costs. The Rex Group's full year results (for the FY 16) only showed a $4M operational profit, so it would be easy to see what would happen if screening were made mandatory—most regional centres would be left without an air service. Even [Rex's] much improved FY 17 results only showed a statutory profit before tax of $17.8M which would not be enough to keep operations going if Rex had to pay for the security charges.[38]

5.51   Rex also considered the impact of security costs on some of its smaller routes. Rex calculated that for routes where it operates with 10 000 passengers a year, a yearly operating expense for security equipment of $750,000 would equate to $75 per passenger, an expense passed on by airports to airlines, and ultimately onto fares. Mr Sharp of Rex concluded that:

> …if all regional airports were required to provide security and the airport operator had to fund the operation of that airport security, check bags and passenger screening, probably half of our routes in the country would become unviable overnight.[39]

Provision of federal funding

5.52   It was observed by a number of submitters that should regional airports and aerodromes be required to implement security upgrades, that the upfront and ongoing costs of doing so should be met by the federal government.

5.53   The District Council of Grant, in South Australia, contended that any consideration of mandatory security screening of all passengers at regional airports had the potential to 'considerably increase the cost to airport operators', with regard to both installation of equipment and ongoing operational costs, and could thus reduce the viability of services. The Council therefore called for significant federal funding to be provided for security infrastructure and ongoing costs, if security upgrades were

---

37   Mr John Gissing, Chief Executive Officer, QantasLink, *Committee Hansard*, 15 March 2019, p. 16.

38   Regional Express, *Submission 135*, p. 19.

39   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, pp. 35-36.

mandated at regional airports, as well as a dedicated infrastructure fund for essential runway upgrades.[40]

5.54   A similar view was put forward by the Banana Shire Council in Queensland, which noted that mandatory screening of all passengers at its Thangool Aerodrome would require a major extension to its terminal building, as well as the purchase and installation of screening equipment and its ongoing operation. The Council argued that this would not be viable without significant financial assistance from the federal government, and recommended that funding be provided to all rural, regional and remote airports should security upgrades become mandatory and ongoing.[41]

5.55   The Regional Aviation Association of Australia (RAAA) also indicated its support for government funding of any costs incurred due to security upgrades, noting that such costs would incorporate upfront capital expenditure, significant structural alterations, installation, and ongoing operational costs. The RAAA therefore felt it appropriate that the costs either 'be shared equally by every Australian domestic air traveller, or the public purse', with its preference that the funding come from government.[42]

5.56   In the event that extra security measures were imposed, the MICC argued that regional Australians should not be asked to pay for them, given they were unlikely to be the beneficiaries of such measures. The MICC instead suggested that any additional costs be borne by either 'the Australian Government or by airline passengers travelling between the major capital cities'.[43]

5.57   Some submitters suggested that airport security be provided by a centralised federal agency, similar to overseas models. For example, the Exmouth Chamber of Commerce and Industry argued that, in order to reduce ticket costs in regional areas by 10 to 20 per cent:

> ..all regional airports should have federal employees controlled and funded through a federal agency to handle the security processes that have been instituted by federal regulations.
>
> …the federal government [could] expand on the Office of Transport Security and put a $3.00 tariff on all tickets sold to fund such an agency and

---

40   District Council of Grant, *Submission 11*, pp. 2-3. Representative of the District Council of Grant also observed that, given these matters relate to national security, it would be appropriate for the federal government to assist with costs. Otherwise, if costs were passed on to regional Australia, it could be unsustainable and a 'great destroyer of services'; see Councillor Richard Sage, Mayor, and Mr Ian Fritsch, Airport Manager, District Council of Grant, *Committee Hansard,* 24 July 2018, pp. 2-3.

41   Banana Shire Council, *Submission 36*, pp. 2-3.

42   Regional Aviation Association of Australia, *Submission 164*, p. 5.

43   Mount Isa City Council, *Submission 35*, p. 23.

they would then handle all security at every airport Australia wide releasing the burden from local government.[44]

5.58   This view was supported by Askew & Associates, which suggested that:

> The introduction of a centralised screening authority and the establishment of a network pricing model are both features of an integrated aviation security screening strategy that would better deliver on both the economic and protection outcomes necessary to maintain sustainable regional aviation capability in Australia.[45]

Where's the balance?

5.59   The committee acknowledges that there needs to be a balance between addressing the risks to safety of Australia's travelling public, and the imposts placed on airports—of all sizes—to implement and maintain effective security arrangements. A number of submitters commented on the need for this balance.

5.60   In its submission, Home Affairs observed that it 'continues to review security settings in the context of evolving threats and, if required, adjusts security settings accordingly'. Home Affairs noted that while large aircraft and major airports remain 'attractive targets' for harm, a risk-based and proportional response at regional airports was critical. Noting the finite resources of the government, Home Affairs argued that:

> …the challenge is to maintain the security of the entire network while recognising the differences in threat, capability and practical limitations of regional and remote airports and freight operations in comparison to international and major domestic aviation operations.[46]

5.61   The NT Government stressed that the need for safe and secure services had to be balanced against ensuring that the regulatory framework was tailored to take into account the level of risk in varying operational environments. The NT Government continued that 'without considering the remote and regional environment and a level of regulation which is fit for purpose, the cost burden can cripple the sustainability of already marginally viable air services'.[47]

5.62   The RAAA also spoke to the issue of risk, and indicated that in years past the approach to regional airport security was intelligence-driven and risk-based. Regarding security upgrades, the RAAA was of the view that should regional airport security move away from an assessment of risk to screening, that the costs of doing so should be very carefully considered.[48]

5.63   The AAA has previously made the point that avoiding safety, security and environmental regulation that is unnecessarily complex or sufficiently sensitive to the

---

44   Exmouth Chamber of Commerce and Industry, *Submission 29*, pp. 1-2. This proposal was supported by Mr Benjamin Quilliam, *Submission 104*.

45   Askew & Associates, *Submission 130*, p. 2.

46   Department of Home Affairs, *Submission 168*, p. 2.

47   Northern Territory Government, *Submission 121*, p. 6.

48   Regional Aviation Association of Australia, *Submission 164*, pp. 4-5.

circumstances of an individual airport was important. Further, achieving consistency in the application of regulation across like airports was a major challenge 'not just for airport operators but also for Australia's many regulators who impact airports'.[49]

5.64   The WA DOT questioned the focus on air travel security measures, highlighting the fact that there were no security requirements for travellers on trains during peak hours, 'on which an equivalent or greater number of people travel on than even the largest of planes'. The DOT concluded that 'the rationale for higher levels of security in one mode of transport compared to another needs to be established, and justified'.[50]

5.65   A similar view was put forward by Rex, which agreed that the response to security threats should be balanced and risk-based. To this end, Rex argued that:

> …smaller regional aircraft carry fewer passengers than most buses and it would be senseless to enforce screening on the former while leaving 'vulnerable' the tens of thousands of buses plying the streets each day. This example can easily be extended to trains, cinemas, shopping malls, restaurants, and the list goes on.[51]

---

49   Australian Airports Association, *Australia's Regional Airports. Facts, Myths & Challenges*, November 2012, p. 5. See also Professor Rico Merkert, *Submission 97*, p. 9.

50   Government of Western Australia, *Submission 75*, p. 6.

51   Regional Express, *Submission 135*, p. 19.

Chapter 6
Regional airfare pricing by airlines

6.1   One of the most contentious issues with regard to regional air services is not just the price of airfares, but how these airfares are determined. Many residents of regional Australia are of the view that airfares to regional communities are excessive, and that airlines are making considerable profit from these fares—an argument disputed by airlines. Much of the concern around high airfares results from a lack of public information as to how the fares are calculated.

6.2   It was put to the committee throughout the inquiry that there was insufficient transparency around how airfares were determined—it was at one point called the 'cone of silence'.[1] Many stakeholders were of the view that greater transparency around airfare determination would be of considerable public benefit.

6.3   This chapter considers regional airfare prices and matters influencing price determination. It presents the information provided by the airlines as to how they determine airfares, and the factors that influence these determinations.

Regional airfare pricing

6.4   During the course of the inquiry, the committee set out to establish the various factors that make up a regional airfare and to consider the various ways in which airfares could possibly be reduced for routes operating outside of major centres.

6.5   When an airfare is purchased, the cost of the ticket is made up of a number of different components. Airfare pricing is driven by a range of market, consumer, commercial and regulatory factors including demand, competition, operating costs, aircraft type, airport and security charges, landing and navigation fees, fuel, human resources and other operating costs and taxes. However, the question of what each component comprises is often difficult to establish.

6.6   It was further noted by the committee that there are differences between revenues and costs for airlines. Senator Patrick put it to the airlines that:

> in some sense there is no connection in setting airline prices and the cost. In the long-term there is, but they are two separate activities. You try and operate to reduce costs right across your fleet. The pricing is about maximising revenue. It's almost disconnected.[2]

Cost of airfares in real terms

6.7   It was put to the committee that the cost of airfares, in real terms, had not increased in recent decades. In fact, it was suggested by the airlines that airfares were currently lower now than in years prior.

---

1   Nhulunbuy Corporation, *Submission 136*, p. 2.

2   Senator Rex Patrick, *Committee Hansard*, 15 March 2019, p. 12.

6.8   Qantas drew attention to BITRE statistics suggesting that, in real terms, all airfare categories were lower now than they were in 2003, with the Best Discount Economy fares 38.5 per cent lower and Restricted Economy Class 19.1 per cent lower (as of June 2017).[3]

6.9   In line with the findings of BITRE, Rex contended that since 2002–03, its average ticket price had only increased by 1.1 per cent per annum.[4]

6.10   Virgin also drew attention to the fact that BITRE statistics showed a downward trend for domestic airfares for more than 20 years, and concluded that the statistics showed that in real terms, 'the best discounted fares on these [70 routes] in January 2018 are around half the price of those available in January 1998'.[5]

6.11   A4ANZ likewise commented on the BITRE statistics showing that airfares were lower in real terms than a decade ago. A4ANZ was of the view that there was no evidence to support the proposition that airlines were 'ripping off' regional and rural consumers.[6]

6.12   Overall, the airlines defended the price of airfares and indicated that the examples of very high airfares which were provided in various submissions to the committee were more often the exception, rather than the rule.

6.13   For example, Airnorth observed that 35 per cent of its airfares were sold at under $200, with 48 per cent of airfares sold between $200 and $400. A further 17 per cent were over $400, with only two per cent sold over $600.[7]

6.14   Similarly, Qantas suggested that airfares at the top of the tariff represented only one to two per cent of all retail fares sold. Conversely, up to 70 per cent of fares paid were below the average fare, with 30 per cent of customers paying above the average fare. The majority of regional travellers accessed Qantas's Red e-Deals.[8]

6.15   Using Mount Gambier as an example, Rex also noted that on Mount Gambier to Melbourne flights, 44 percent of passengers accessed the lowest fare available, and 36 per cent accessed the second lowest fare, meaning nearly 80 per cent purchased in the two lowest price categories. The highest Rex fare on the route, of $498, was purchased by '0.6 of 1 per cent of passengers'—which Mr Sharp noted was very few people.[9]

---

3   Qantas Group, *Submission 126*, pp. 2, 6.

4   Regional Express, *Submission 135*, p. 4.

5   Virgin Australia, *Submission 109*, p. 3.

6   Airlines for Australia and New Zealand, *Submission 129*, p. 1.

7   Airnorth, *Submission 180*, p. 2.

8   Qantas Group, answers to questions taken on notice, 15 March 2019 (received 5 April 2019).

9   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 30.

Transparency in airfare determination

6.16   There was a strong interest shown throughout the inquiry in airlines providing greater transparency as to how they determine airfares. It was also noted throughout evidence that the limited transparency on this process directly correlated to the level of anger in some communities towards airlines.[10]

6.17   The committee notes that airlines have traditionally been reluctant to provide detailed information as to how airfares are determined. While this is understandable on the grounds of commercial confidentiality and competitive advantage, it leaves the travelling public without answers. This can, in turn, result in misinformation and angst amongst communities—particularly in rural and regional areas—who do not understand the reasons as to why their airfare costs may be so high.

6.18   In highlighting the issues with the airlines providing information on how they determine airfares, the EISC in WA made the following statement in its inquiry report:

> Unfortunately, the Committee encountered a general resistance from airlines to provide information that would have enabled it to draw conclusions regarding the reasonableness of fares on unregulated routes. In the absence of clear information regarding costs and fare construction, it is difficult for the Committee to conclude that airlines are genuinely setting fair prices. And without proactive community engagement to explain their position, it is impossible for industry operators to change community perceptions or allay concerns.[11]

6.19   A number of submitters expressed their frustration over the lack of transparency. TEL observed that, while there was a general lack of information on the cost to provide air services to regional areas, it was also appropriate that commercial confidentiality was maintained in a competitive environment. Despite this, TEL argued that:

> …community perception can often be that airlines take advantage of 'captured markets' given the relative price inelasticity of passengers on regional routes and the general lack of effective competition in the provision of regional services.[12]

6.20   Mr Robbie Katter MP was of a similar view, arguing that airfare pricing was opaque. Mr Katter stated that:

> …it is difficult to ascertain how prices are determined and whether current practices are appropriate and reflect well-functioning competitive markets. There is anecdotal evidence to suggest that there is a lack of competitive

---

10   See for example: Shire of Broome, *Submission 10*, p. 4; Mrs Renee Hanrahan, *Submission 22*, p. 2; Ms Prue Button, *Submission 143*, p. 2.

11   WA Legislative Assembly Economics and Industry Standing Committee*, Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword.

12   Townsville Enterprise Limited, *Submission 153*, p. 8. See also Anindilyakwa Land Council, *Submission 169*, p. 4.

tension in some unregulated markets enabling airlines to exploit opportunities to charge excessively high prices.

Due to the lack of available data it is impossible to tell whether price determination is reasonable and it is recommended that major airlines are compelled to provide evidence of the appropriateness of their pricing practices.[13]

The determination of airfares by airlines

6.21   The committee received some evidence from a number of airlines as to how they determine airfares, including reasons as to why regional airfares may appear to be higher than those for more metropolitan routes. This evidence is explored below.

Qantas

6.22   Qantas acknowledged the questions from regional communities about why it was more expensive to travel on regional routes, rather than major trunk routes between capital cities. Mr David said that the 'frustrations that locals feel about this are genuine'. Mr David offered a detailed explanation for this, stating:

> The committee would be familiar with economies of scale. The cost of flights to regional towns are often higher because costs in remote places are higher and in turn these costs must be spread across a smaller number of passengers. The cost of regional operations on a per-seat basis is about 50 per cent higher than a capital city operation and 125 per cent higher than international operations. To cover these higher costs and the lack of scale, fares are naturally higher. The major costs are labour, fuel, maintenance and airport charges. Airport charges make up a significant and growing portion of the price of airfares. Airport and security charges make up 17 per cent of the average fare for QantasLink on a 74-seat turboprop on a bucket of intra-Queensland routes. For illustrative purposes, if you picture that 74-seat flight, the different between profit and loss for QantasLink is eight passengers per flight.[14]

6.23   Qantas explained that, together with the costs of operating air services, the 'fundamentals of supply and demand are ultimately the primary factors in determining the pricing structure of any given market'. Qantas advised that its pricing principles for regional routes were the same as those used across the Qantas network.[15]

6.24   Qantas observed that demand was ultimately determined by the size of the market and the propensity to fly, and, 'pending this, an airline will need to generate sufficient revenue from a market in order to cover the high costs of aircraft and airline operations'. Further, the costs of operation would vary substantially for each route, depending on airport charges, aircraft type, route length and frequency of service. It

---

13   Mr Robbie Katter MP, *Submission 144*, p. 2.

14   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, pp. 1-2.

15   Qantas Group, *Submission 126*, p. 3.

was the objective of airline pricing to cover the high costs of airline operation and to generate a reasonable return on investment.[16]

6.25   The costs of operation for Qantas were described as either variable or fixed, as shown in Table 6.1 below:

Table 6.1 – *Qantas variable and fixed costs*[17]

Variable costs	Fixed costs
Fuel Personnel, including pilots, cabin and ground crew Airport charges Air navigation charges Security charges Catering	Aircraft ownership or leasing charges Maintenance Administrative overheads, including sales and marketing

6.26   In order to cover costs and generate a return, Qantas advised that it utilised:

> …priced products that align with customer segments in the market and providing availability for each priced product according to demand. The lower priced, more restrictive products are typically aligned with price sensitive customer segments…while the higher priced more flexible products…are typically aligned with less price sensitive customer segments seeking additional features from the fare purchased (e.g. last minute flexibility).[18]

6.27   Qantas stated that each domestic city-pair in Australia had a pricing structure, over a range of price points. The fare made available at a specific price point at any given time was a result of the seats sold and the remaining forecast demand for each of the price points in that pricing structure. By offering a range of fares, Qantas suggested that customers would have access to a variety of fares—including lead-in and sale fares—while giving airlines the ability to generate a commercial return on services. Without a range of fares, Qantas argued that average fares would need to be higher to cover operational costs, 'a perverse outcome for consumers—particularly local residents'.[19]

6.28   Mr David expanded on this point when considering last-minute fares, explaining that airlines around the world utilise dynamic pricing, with the first seats sold typically the cheapest, and the last fares the most expensive. However, Mr David noted that there were benefits to this approach as most customers—70 per cent—paid below the average fare price. Mr David explained:

---

16   Qantas Group, *Submission 126*, p. 3.

17   Qantas Group, *Submission 126*, p. 3.

18   Qantas Group, *Submission 126*, p. 3.

19   Qantas Group, *Submission 126*, pp. 3-4.

> The fact is that without dynamic pricing the customers who can afford to travel the least would pay more and the customers who can afford to travel more would pay less. It is the most efficient pricing model out there. It's good for the customers, the airlines and the economy. Without dynamic pricing on regional routes, close to 70 per cent of people would pay more and 30 per cent would pay less. Around 80 per cent of Qantas regional customers buy the cheaper fares, whilst less than two per cent buy the most expensive flexible fares.[20]

6.29   With regard to forecasting and the development of price points in the pricing structure, Qantas explained that it optimised for 'a sustainable profit through the economic cycle', through a team of 21 people who 'optimise our revenue management system in the domestic market'. Qantas said that:

> Airlines use widely accepted statistical methods to forecast demand for the available price points, taking into account historical data and other market factors to determine how many of each price point to make available on each individual market at any given time. Revenue managers consider factors beyond historical demand, including expected economic conditions, seasonal demand, special events, schedule changes, and own/market capacity changes to realise the optimal mix of fares that results in the highest revenue for the market. A feature of the revenue management process includes the deployment of sale fares from time to time where it is understood that provision of these fares will stimulate demand and deliver net revenue growth. Peak travel periods are also met with additional capacity to provide sufficient flights to meet customer expected demand.

> Complexity for some rural, regional or remote destinations is not due to any pricing methodology variations, rather, due to other supply and demand factors unique to regional ports.[21]

6.30   Mr David went on to explain that travellers from regional areas formed a 'very small percentage of total group domestic travel'. Further, Mr David advised that some of Qantas's regional routes were running at a loss, while others 'pretty much break even', and concluded that 'busy flights and higher last-minute fares do not necessarily equate to deeper profit pools'.[22]

6.31   Mr David described how Qantas allocated costs across its business and said that:

> …allocating costs, as you would appreciate, in a business of our size is not a perfect science, but we allocate it as accurately as we possibly can, because it's very important for us to know which routes are making money and which routes aren't, because then we adjust capacity accordingly. We

---

20   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 2.

21   Qantas Group, *Submission 126*, p. 4; Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 4.

22   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 2.

do that over the long term…but we do need to know where we're making the money and where we're not. That's very important. We couldn't run the business otherwise. The idea that we're allocating costs incorrectly or one part of the business is subsidising the other is not correct, because we wouldn't be able to run the business like we do if that was the way we were doing it.[23]

6.32   Qantas also advised of the actions it took following events which may distort demand for flights, such as natural disasters—for example during flood events whereby roads were inaccessible. Mr Guy Waddell, Head of Revenue Management for Qantas, advised that:

> …it is our intent, and through defined commercial policy, that we will have people intervene in these cases. If it happens that prices spike in these unfortunate events, it's more by omission than by design. We have documented commercial policy with my team and with our 24-hour operations team that they have the ability and instructions to intervene to protect against these things.[24]

6.33   By way of example, Mr David noted that after the recent flooding events in Townsville, Qantas 'proactively capped fares to ensure they stayed low'. During a pilot shortage in 2018, which impacted on the number of regional flights on offer and impacted on fares, Qantas suspended from sale its 'most expensive fares in key regional markets to reduce the cost of last-minute travel', until such time as more flights were available. Mr David said that while these actions were not publicised, Qantas did it 'because it was the right thing to do'.[25]

Virgin

6.34   Virgin submitted that the key factors underpinning airfare pricing were sufficient demand, the airline's ability to recoup costs, and competitor dynamics and pricing. Its airfares were priced 'in accordance with the economic principles of supply and demand, consistent with the revenue management practices employed by all commercial enterprises engaged in the sale of perishable inventory'.[26]

6.35   Mr Sharp noted that airlines, like any business selling perishable inventory, had to manage the pricing and sale of seats on a flight 'in accordance with the basic economic principles of supply and demand'. Mr Sharp further explained that:

> For each flight, we aim to sell a seat at the right price in light of the prevailing competitive dynamic in the market at the time and to cover the costs of the operation and make a reasonable return. This is important to ensure that we can operate services on a commercially sustainable basis and

---

23   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 12.

24   Mr Guy Waddell, Head of Revenue Management, *Committee Hansard*, 15 March 2019, p. 5.

25   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, pp. 3-4.

26   Virgin Australia, *Submission 109*, pp. 3, 6.

are therefore capable of supporting growth in tourism jobs and economic growth into the future in regions.

We encourage our passengers to book as early as possible to secure the best fares and take advantage of the discounted advance purchase fares and special sales that we regularly offer across the network.[27]

6.36   Mr Russell Shaw, General Manager of Network and Revenue Management, continued that Virgin had a set range of 'fare buckets', which have certain fares and conditions attached to them. Virgin would try to 'segment the demand in the market', depending on what customers may value in a fare—flexibility, or a price point. The price points in every fare bucket were regularly reviewed based on the performance of particular markets. Overall, the aim was for Virgin to maximise the revenue on any flights, by balancing demand across a market, 'so that in totality the average fare that we achieve exceeds the average cost of those seats'.[28]

6.37   As with other airlines, Virgin undertook forecasting to help it determine the price of airfares, via a revenue management team. Mr Shaw advised with regard to forecasting at Virgin that:

> …essentially within our domestic team we'll have a team of around 15 who are specifically allocated to demand forecasting who will look across our various range of routes and services. They are assisted by some IT systems which help use previous performance of those markets, and of those flights, in forecasting going forwards. So there is a machine element and there is a human element, and the human element is to essentially influence what the system recommends based on their knowledge of particular special events or changes in those market dynamics.[29]

6.38   Mr Shaw confirmed that the fundamentals of forecasting across all its routes were 'identical'. For example, a Sydney—Melbourne market was treated the same way as a Brisbane—Cloncurry market. The forecasting attempted to understand the make-up of the demand (for example, business versus leisure travellers), determine when people were looking to travel, and Virgin would then 'cater to each of those travellers to the best of our ability and in doing so maximise our revenue per flight'.[30]

6.39   While observing that the cost of operation for any flight was largely fixed, Virgin noted that airfares could change in the lead-up to departure. Virgin determined its airfares as follows:

---

27   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, pp. 29-30.

28   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, pp. 30-31.

29   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 31.

30   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 31.

> …the airfares available for purchase on any flight are a combination of pricing (individual price points) and inventory management (availability of seats on the aircraft at individual price points). Our airfares are distributed to the public at an all-inclusive level and are based on one-way pricing. This method allows for the greatest transparency and flexibility to build itineraries. The individual components of an airfare comprise a base level, to which airport and security fees are added, with the Goods and Services Tax then applied to the sum of these elements.

> …Airfare pricing and inventory management is a dynamic and complex process, which involves strategic, competitive and risk management considerations. The airfare pricing and inventory availability for each route and flight is managed separately. If a flight is building a strong forward load and yield profile in the lead-up to departure, there will be fewer seats available in the lowest-priced fare classes. Conversely, if the forward load and yield on a flight is weak, it is likely that there will be seats available in all booking classes across all [fare] families. Accordingly, our pricing and inventory practices will see airfares and their availability typically change during the period leading up to departure. While it is the case that the costs of operation for a flight do not change in the lead-up to departure, the risk of not earning sufficient revenue to cover those costs does. We seek to mitigate this risk through our revenue management strategies.[31]

6.40   Virgin advised of its costs of operations, drawing particular attention to the cost of fuel in regional locations. Virgin's costs included:

> …fuel, airport fees, labour, air navigation charges, aircraft leasing fees, catering costs and general administrative overhead expenditure. Such costs will vary for each route depending on fees charged by the relevant airports, aircraft type used, sector length and frequency of service. The cost of fuel at regional airports is often higher than capital city airports, and while Virgin Australia seeks to minimise the need to uplift fuel at regional airports, there is a need to do so for some flights. The carriage of extra fuel adds weight to an aircraft, increasing fuel burned on such flights.[32]

6.41   Virgin additionally noted that each route had particular characteristics which would influence airfares, such as seasonality, direction of travel, and product offerings by competitors. Further, pricing could vary from flight to flight based on 'demand, the need to cover costs and competitive dynamics'.[33]

6.42   Mr Sharp detailed to the committee how route profitability was determined, given these costs. Mr Sharp advised that there were three costs categories: direct costs, fixed costs, and 'the bucket of overheads'. Mr Sharp advised that:

> The way route profitability…is structured is that you have direct operating costs that are initially allocated. They are your fuel, airport charges; all the direct costs. Lounges don't sit in there. That then gives you a contribution to

---

31   Virgin Australia, *Submission 109*, p. 7.

32   Virgin Australia, *Submission 109*, p. 6.

33   Virgin Australia, *Submission 109*, p. 12.

covering those direct operating costs to fly that aircraft. You then have other fixed costs, so the actual aircrafts themselves. You pay a fixed lease cost. That fixed cost then gets allocated typically on an ASK basis—the number of kilometres we fly on a particular route. If you follow one particular tail, it'll actually fly around three or four or five different routes in a given day. So that fixed cost effectively gets allocated on the number of kilometres it flies between those cities. That gives you another level of visibility, if you like, in terms of the costs associated with a particular route.

…The reality is 30 per cent of our flying is regional. That's quite substantial. It's not just one small route. Sales and marketing costs are as relevant to regionals as to the city, the reason being that we're a full service carrier; we carry corporates, and very much part of our operation is to provide a network...[34]

6.43   Similar to Qantas, Virgin observed that to achieve yields and load factors that underpin a commercially viable operation, a combination of leisure and corporate passenger traffic was required. Virgin acknowledged that airfares and passenger loads would 'vary depending on the day of the week, time of day and whether the relevant flight is scheduled during a period of peak demand, such as school holidays or a special event'.[35]

6.44   As with Qantas, Virgin addressed claims made by some regional communities that airfares rose very quickly following natural disasters. Mr Sharp pointed out that there was no human intervention in such circumstances which would increase fares; rather, prices rise during these events as the automated systems detect an increase in demand, resulting in fares moving up through the fare buckets. Virgin also had policies for flood events, whereby ground staff can allocate passengers to different flights. Mr Sharp advised that:

…we don't have those 15 people looking at little moves that occur. That's all driven by algorithms, and literally moving up the bucket is based on history and what the demand is doing. It is the same with AFL matches. Yes, we'll put a personal overview on it, but generally the system's already picking it up…I understand the perception. The interesting thing was that everyone was trying to look at the fares, and the more people that went on and looked at them, the more our machine was saying, 'Look, there are a lot of people interested in flying.'

…typically we'll see an anomaly where, over the next day or two, demand drops off, because no-one's going to book them at that price, or we'll end up with some complaints, and that's where we would typically start to put a human intervention in, to say, 'Why did that occur?'.[36]

34   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 33.

35   Virgin Australia, *Submission 109*, p. 6.

36   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, pp. 35-36.

6.45   Mr Shaw further clarified that as seats were sold, the online systems would default to a higher price point as fewer seats became available—sometimes, this could occur quite quickly. In this case, the system may put prices up anticipating a surge in demand, before human intervention could take place.[37]

Alliance

6.46   Alliance, as mainly a charter operator, was able to provide different evidence to the committee regarding the determination of its costs and airfares. Alliance, being a smaller operator, took a 'fairly simplistic view to setting fares and like to have a fairly simple fare structure that's sustainable all year round'. Alliance undertook long-term and short-term forecasting, with flights divided into inventory 'buckets'.[38]

6.47   Mr Scott McMillan, Managing Director of Alliance Airlines, suggested that:

> …ultimately the raw economics of operating an aircraft are not much different between operators. They might vary 20 per cent. So there's no operator out there that's going to come in that's so much more efficient and so much cheaper at operating their aircraft that's going to solve this problem. I just don't think that exists and if it did I'd be a bit concerned. Ultimately, and I'm sorry to harp on it, I think the monopolistic behaviour of a lot of airports has got to be brought to heel. I think that's a huge impost.[39]

6.48   Mr McMillan explained Alliance's charter operations to the committee. When contracts became available via tender, to a mining company, an operating schedule was provided to Alliance by that company, which Alliance priced and submitted. If Alliance was selected as the air service provider, timetables were then set between Alliance and the mining operator months in advance and rarely changed. Further, the contract operated for a number of years—meaning that Alliance generates 'a constant dollar margin throughout contracts'. Mr McMillan noted that as all Alliance's FIFO services were sold by the flight, it was 'agnostic' as to how many people were on board—this was a different circumstance to its Queensland routes.[40]

6.49   Mr McMillan went on to describe how Alliance would cost an ad hoc charter, by way of an example:

> Say we're doing a charter for the North Queensland Cowboys to take the Cowboys to the 2019 grand final. We'll allocate an aircraft to it. We know the fixed costs for that aircraft for the day. We know what the fuel burn is going to be to Sydney. We know what the air navigation charges are going

37   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 36.

38   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, pp. 3-4.

39   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 18.

40   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, pp. 4-6.

to be as well as the ground handling and all of the other ancillary costs. Add all that on and then put a margin on top.[41]

Factors affecting air services in regional areas

6.50   The airlines put to the committee that operating in regional and remote areas presented unique difficulties, which often had a direct impact on the price of airfares and the ongoing viability of services to those regions.

Regional Express

6.51   Rex explained to the committee that its model was to 'keep fares as affordable as possible'. Rex suggested that doing so results in increased passenger numbers as they can afford the service, which in turn leads to more passengers, increased frequency and therefore more convenience for regional travellers.[42]

6.52   Despite this, Rex put forward a number of reasons as to why 'the dynamics of regional air travel inevitably results in higher ticket prices'. Rex suggested that thin passenger numbers (less than 40 000 per annum), combined with the need for day return capabilities[43] resulted in:

> Extremely high inefficiencies with load factors typically in the 55-60% range when typical jet operators need at least 75% load factor to break even and even over 80% for the low cost carriers.[44]

6.53   Rex suggested that poor economies of scale in responding to regional dynamics made regional aviation inherently more expensive, and argued that the operating costs of a regional carrier were approximately three times higher on a per seat basis than larger carriers operating larger aircraft on routes with significantly higher passenger volumes.[45]

6.54   Rex advised in its submission that for the 2016 financial year, its operational profit before tax was '$4 per passenger per flight hour of over 400km'. Rex therefore argued that on a ticket price of around $200, a $5 reduction in the average fare would 'put Rex out of business'. Rex further contended that in light of revenue made per passenger, even slight increases to airport head taxes were 'extremely significant'.[46]

6.55   Mr Sharp echoed the views of the submission, stating that:

---

41   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 9.

42   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, pp. 25-26.

43   For example, capabilities for passengers originating from both the regional centre and the capital city, meaning that aircraft need to overnight in regional centres for early morning departures. Regional Express, *Submission 135*, p. 9.

44   Regional Express, *Submission 135*, p. 9.

45   Regional Express, *Submission 135*, p. 10.

46   Regional Express, *Submission 135*, p. 10.

…we operate on very thin margins. In the 2016-17 financial year, for example, we made a paper loss. We made an operating profit of $4 million. We carry roughly a million passengers. That means we made a profit of $4 a passenger. If you put up a charge at an airport by $4, which some of them do, that takes away all the gain that we had from doing all these things, taking the risks and making the investment. It takes away all the incentive for doing it.[47]

Qantas

6.56   In noting the importance of regional aviation services, Qantas explained that there were a number of challenges to providing such services, such as large distances, high input costs, small populations and irregular demand patterns. Additionally, Qantas contended that the cost of fuel was higher in regional Australia, as were airport charges and security charges, which were increasing.[48]

6.57   Mr John Gissing, Chief Executive Officer of QantasLink, remarked that:

> The nature of the economics is that the input costs of aircraft, fuel and airport charges have had a more than dramatic effect on the ability to economically provide air services in regional Australia.[49]

6.58   Qantas additionally noted that a number of supply and demand factors had an impact on regional airfares, and observed that 'While airfares in regional Australia may be higher than between major metropolitan centres, due to the confluence of supply and demand challenges, these services are not significant profit centres for the Group'.[50]

Supply factors

6.59   Qantas explained the impact of a number of supply factors on airfares. The airline suggested that airport charges had a direct impact on the price of airfares and on commercial viability of regional air services.[51] Further, Qantas contended that the cost of fuel at regional airports was higher than at major metropolitan airports, and, while Qantas tried to minimise its use of fuel from regional airports, it was 'a necessity for some flights'.[52]

6.60   The costs associated with maintenance was also a supply issue, with Qantas noting that these costs were higher in regional areas due to:

- limited labour and maintenance facilities in these areas;

---

47   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 32.

48   Qantas Group, *Submission 126*, p. 6; Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 10.

49   Mr John Gissing, Chief Executive Officer, QantasLink, *Committee Hansard*, 15 March 2019, p. 8.

50   Qantas Group, *Submission 126*, p. 5.

51   Airport charges are considered further in Chapter 4.

52   Qantas Group, *Submission 126*, p. 4.

- the costs associated with travel distances and transportation of engineering staff and parts to these regions; and

- the limited availability of aircraft type operating on regional routes and associated high maintenance and parts costs.[53]

6.61   Qantas further noted that the 'time and distance to dispatch engineering support to aircraft in remote locations poses a challenge'. Qantas observed that due to the low frequency of RPT services on some regional routes, 'a single cancellation can have a proportionally significant impact on the overall rate of cancellations for a specific route'. Further, there were significant difficulties in recovering disrupted passengers in the event of cancellations, due to a lack of readily available aircraft and restrictions on aircraft size at some regional airports.[54]

Demand factors

6.62   Economies of scale impacted on demand, and Qantas also noted that 'demand unidirectionality' was a significant issue, whereby flights had imbalanced outbound versus inbound demand profiles. Qantas stated that this imbalance was:

> …unavoidable in markets that have tidal traffic flows due to large government and corporate traffic combined with rostered FIFO workforces—as seen in regional Queensland and Western Australia— where demand is heavily skewed at peak times. Due to smaller populations in these towns, economically sustainable demand often does not exist to support the capacity deployed across a week, frequently resulting in only small percentages of capacity being met (e.g. 20 to 30 per cent). This makes it difficult to cover the cost of the return flight, warranting prices proportionally higher overall, particularly on the higher demand leg.[55]

6.63   Qantas acknowledged calls from regional communities that it introduce its Jetstar services into regional routes, to offer residents lower airfares. However, Qantas argued that Jetstar's low fares were a result of its lower variable and fixed costs; these costs, including fuel and airport charges, would considerably increase should Jetstar fly to regional markets, and thus its low fares could not be offered. Additionally, Qantas advised that the Jetstar business model required a high load factor operating all day in order to generate ancillary revenue, and traffic flows and passenger numbers in regional areas could not support this model.[56]

53   Qantas Group, *Submission 126*, p. 5.

54   Qantas Group, *Submission 126*, p. 14.

55   Qantas Group, *Submission 126*, p. 5. Virgin also noted issues with passenger loads, depending on the direction of travel, for example on the Perth-Kalgoorlie-Perth routes; see Virgin Australia, *Submission 109*, p. 7.

56   Qantas Group, *Submission 126*, p. 8.

Virgin

6.64   Mr Sharp noted the concerns of regional communities which considered the airlines were making unacceptable returns on airfares in regional markets. Mr Sharp disputed this view, arguing that this was 'not an accurate perception' as many of the regional routes on which Virgin operated were at 'marginal levels of profitability'.[57]

6.65   Virgin observed that it was unable to sustain services in some regional markets, due to 'poor commercial performance over an extended period'. Thus, between August and September 2017, Virgin withdrew from four regional routes (with three of these routes taken up by Alliance under a commercial arrangement, which saw Alliance bear all the commercial risk associated with these services).[58]

6.66   As with the other airlines, Virgin pointed out that operations on regional routes were more challenging than on routes between capital cities, 'principally due to difficulties in achieving economies of scale in regional markets'. Virgin continued that the 'sustainability of our regional services relies heavily on our ability to match the capacity we deploy with the demand for our flights, as well as the effective management of costs'. Virgin concluded that where costs outweighed revenue on a particular route for an extended period:

> …an airline will inevitably look to withdraw its services and redeploy aircraft to higher-yielding routes. For the impacted route, the result will be fewer air services, and depending on the prevailing circumstances, potentially reduced competition, higher airfares and the loss of RPT services altogether. In this regard, we would highlight that many of the regional markets we serve do not deliver acceptable commercial returns to Virgin Australia at current pricing levels.[59]

6.67   Virgin indicated that on most of its regional routes in WA, and for some in Queensland, the corporate sector—and particularly the mining and resource sectors—were its predominant source of demand, with the revenue on these routes crucial to the viability of its services. Without this corporate demand, Virgin considered it 'highly probable that capacity and frequency on many regional routes would be lower, and it is also possible that airfares would be higher', and even that some regional routes would be unviable.[60]

6.68   Virgin addressed community concerns that airlines operating in regional areas were looking to earn unreasonable returns on regional routes, or that regional routes were 'cross-subsidising pricing on trunk routes'. The airline contended that these views were inaccurate, given many of the regional routes operated by Virgin did not deliver acceptable commercial returns at current pricing levels, and were therefore 'essentially cross-subsidised by our non-regional routes'. However, Virgin suggested this approach

---

57   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 29.

58   Virgin Australia, *Submission 109*, p. 2.

59   Virgin Australia, *Submission 109*, p. 2.

60   Virgin Australia, *Submission 109*, p. 5.

could not be sustained indefinitely, and it was likely that it would result in reduced services or market withdrawal.[61]

6.69   Virgin also noted that offering discounted airfares was not effective in increasing passenger loads, while also reducing revenue—in turn 'diminishing our ability to cover our costs of operation and therefore jeopardising the viability of such flights over time'.[62]

Airnorth

6.70   Airnorth drew attention to a number of factors which it considered to be major operational cost drivers. Airnorth contended that its major cost drivers were 'all controlled by either National or Multi-national corporations who are all making excessive…profits'. Airnorth suggested that financial institutions, fuel companies, airports and insurance companies would fall within this category. Airnorth remarked that the money paid by travellers for higher airfares in regional areas was not 'ending up with any of the airlines, let alone Airnorth', and was instead going to the corporations it had identified.[63]

6.71   Airnorth put forward a number of other factors which presented challenges to operating in a regional context. These factors included:

- aircrew retention, with a 55 per cent staff attrition rate for the 18 months prior to June 2018;

- pilot shortages, with Airnorth not operating at a size that would allow it to establish its own aircrew training academy, and with the training and re-training of replacement crew costing over $3 million per annum for the airline;[64]

- the seasonality of operations in Australia's north, where Airnorth's revenue can drop by over 40 per cent per month during the wet season; and

- Airnorth servicing long, thin routes, probably 'more so than any other airline in Australia', which comes with 'significant barriers to efficiency and greater costs' to customers and the business in the event of schedule disruptions.[65]

---

61   Virgin Australia, *Submission 109*, pp. 3, 12.

62   Virgin Australia, *Submission 109*, p. 6.

63   Airnorth, *Submission 180*, p. 2.

64   A number of witnesses had raised concerns about the reliability of Airnorth's operations, and advised that Airnorth's response indicated that this was due to pilot and staff shortages; see for example, Mrs Vicki O'Donnell, Kimberley Aboriginal Medical Services Ltd, *Committee Hansard*, 3 April 2018, p. 35; Mr Chris Hayward, Arnhem Land Progress Aboriginal Corporation, *Committee Hansard*, 5 April 2018, p. 3; Ms Ingrid Stonhill, Bawinanga Aboriginal Corporation, *Committee Hansard*, 5 April 2018, p. 38.

65   Airnorth, *Submission 180*, p. 3.

6.72   Airnorth noted that it operated in an 'incredibly challenging environment', and further, that it was the entity that ended up 'charging the end user' and as a result, 'bear the brunt of our passengers and our communities frustrations'. Airnorth concluded that the only way to address the decline in the number of regional air operators and serviced communities was to:

> …either subsidise the airlines who operate services into those destinations (as various levels of Government already do for other essential services such as Telecommunications, Health, Housing and Education) or try to reduce each airline's cost bases. Neither option is easy, and possibly in fact, impossible. We are also not convinced that any level of government has the appetite for either.[66]

Analysis from BITRE

6.73   In September 2018, BITRE undertook an analysis for the committee examining the factors which affect movements in Australian domestic commercial airfares. BITRE examined the top 70 routes by passenger volume, comprising of large trunk commercial domestic routes, and next tier regional routes. BITRE compared actual fares from July 2018 with an estimate of fares predicted by statistical analysis. However, fares on lower-volume regional routes are 'less complete in the BITRE fares data set, and hence few such routes feature in the statistical analysis'.[67]

6.74   BITRE noted that since deregulation, full economy and business class fares had increased slightly in real terms, but that real discount airfares had 'fallen almost 50 per cent below equivalent fares in 1993'.[68]

6.75   BITRE's independent analysis of the top 70 routes made a number of findings, namely that regional airfares responded largely as expected in a competitive market. Specifically, BITRE found that:

- average fares declined with increasing route distance, implying the presence of scale economies in air operations with respect to route distance and the ability to defray costs across a longer distance;[69]

- average fares strongly decline with increasing market size, suggesting significant route-based scale economies (for every one per cent increase

---

66   Airnorth, *Submission 180*, p. 4.

67   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 1. Available on the committee's webpage at: https://www.aph.gov.au/ Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Regi onalAirRoutes/Additional_Documents

68   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 3.

69   BITRE found that the average fare declined by about 6 per cent for every 10 per cent increase in route distance. See Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 12.

in route passenger volume, average fares decline by around 1.75 per cent);

- competition has a statistically significant effect in reducing air fares (however, the BIRTE analysis did not analyse the impact of one operator increasing to two, but rather two operators increasing to three, or four operators instead of three, reflecting the fact that its data was on the 70 largest routes in the country where there are multiple operators);

- average fares increased as the number of flights on a route increased, presumably reflecting a combined effect of the increased costs of additional flights and some dilution of economies of scale;

- fuel expenditures were about 20 per cent of total operating costs for major airlines, and oil prices had a small but statistically significant impact on the best discount average airfares;[70]

- load factors had a small but statistically significant impact on average fares;[71] and

- there were clear seasonal patterns in fares, with fares on average higher in months including school or seasonal holiday periods—in March, June, September and December.[72]

6.76   Overall, BITRE suggested that increased effective competition, increased competition from other transport modes, and increased passenger volumes through airports would be the factors most likely to put downward pressure on regional airfares.[73]

6.77   BITRE summarised its findings to the committee. Dr Gary Dolman, Head of Bureau, confirmed that BITRE found that:

> …95 per cent of the airfares that are charged on regional routes can be explained, in descending order, by factors such as route length, market size, competition on those routes, the number of flights that are provided per week, the load factor and oil prices.[74]

---

70   BITRE found that the average ai fares broadly increased on average with increases in world oil prices. See Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 13.

71   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, pp. 1-2; 12.

72   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 17.

73   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 30.

74   Dr Gary Dolman, Head of Bureau, Bureau of Infrastructure, Transport and Regional Economics, *Committee Hansard*, 1 April 2019, p. 20.

6.78   BITRE considered that there were three broad groups into which average airfares fall, being:

- High mark-up (above average) routes – predominantly longer-distance trunk routes such as those to and from Perth, and several routes servicing mining areas;

- Mid-tier mark-up routes – most of the higher volume domestic commercial routes and several smaller distance routes; and

- Low mark-up (below average) routes – being shorter distance regional routes, or longer distance tourist routes (e.g. Brisbane-Proserpine), where alternative transport options such as cars or ferries are significant competitors.[75]

6.79   However, BITRE noted that data was not available for many smaller-volume, regional routes. As such, it was not possible to draw any direct conclusions about relative fares for many smaller regional routes.[76]

6.80   Instead, in order for BITRE to assess fares on lower regional routes for the purpose of its analysis for the committee, it collected a wider sample of fares for its July 2018 collection, with usable fare data obtained for approximately 245 routes. Using this expanded analysis, BITRE found that while there were some apparent systematic differences in average fares for some routes, or groups of routes, for the 'broad majority of routes, including lower-volume regional routes, estimated differences between actual and modelled fares are within the range of variation of that for major routes'.[77] That is, there was similarity between the major trunk routes and the lower-volume regional routes.

BITRE analysis - determining airfares

6.81   BITRE observed that most airlines utilise yield management techniques to optimise revenue. This typically involved utilising historical data and real-time booking information to 'vary the menu of available fares, by fare class, for each flight up until the time bookings close'. BITRE continued that:

> It is in the airlines' interests to sell as many seats as possible at as high a price as possible to maximise revenue…The corollary to this is that as passenger bookings on any single flight increase, capacity diminishes and seats are likely to become more valuable and hence price can rise. Hence,

---

75   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, pp. 1-2; 16.

76   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 17.

77   BITRE urged caution in treating this analysis of conclusive evidence of systematic differences in pricing across route, as they are based on a one-month snapshot of fares. Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, pp. 3, 26.

any unanticipated increase in demand on a route can cause fares to increase significantly.[78]

6.82   BITRE detailed the major input costs for airlines, being capital—including aircraft and terminal leasing costs; maintenance and parts, labour—including pilots, crew, engineers and administrative staff; fuel—with airlines forward hedging fuel purchases to protect against volatile movements in fuel prices; and air navigation and airport charges. BITRE noted that input costs and other factors will vary across routes, resulting in some systemic differences in fares across routes. Based on the 2016–17 financial statements of both Virgin and Qantas, BITRE determined the following general percentages for costs:

- fuel: 17 to 21 per cent of total costs;

- labour: 23.6 to 27.5 per cent of costs;

- capital-related costs: 34 to 35 per cent; and

- other costs around 17 per cent for Qantas and 26 per cent for Virgin.[79]

New BITRE dashboard

6.83   Since the inquiry commenced, BITRE added a dashboard to its website illustrating domestic airfares on top routes since 2010, which:

> …allows people to put in two airports and see the history of airfares between those two airports. It also does a summary of year-by-year variations and month-by-month variations.[80]

---

78   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, p. 4.

79   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, pp. 5, 8.

80   Dr Gary Dolman, Head of Bureau, Bureau of Infrastructure, Transport and Regional Economics, *Committee Hansard*, 1 April 2019, p. 20. The dashboard can be found at: https://www.bitre.gov.au/dashboards/

Chapter 7

Other factors influencing airfares

7.1   The previous chapter considered the evidence presented by the airlines as to the factors that drive the cost of regional airfares. However, evidence received throughout the inquiry indicated that there were a number of other factors playing a key role in determining the operational costs, reliability and frequency of regional aviation services.

7.2   This chapter considers these factors, including economies of scale, the role that competition and demand may play in reducing airfares, the impact of charter flight operations on RPT services, and the impact of commercial pilot shortages on the industry.

Economies of scale and market forces

7.3   One of the consistent issues put forward in discussions of the price of regional airfares, and throughout this inquiry, was economies of scale. This was of particular relevance when considered against the operating costs incurred by airports and airlines in regional and remote areas and in light of small population centres.

7.4   In discussing this issue as it relates to regional air services, Rex contended that:

> Regional aviation is inherently more expensive than domestic or international aviation due to the poor economies of scale associated with needing to respond to regional dynamics…The operating costs for a regional carrier are around 3 times higher on a per seat basis than a larger carrier operating larger jet aircraft on significantly higher volume passenger routes.[1]

7.5   This view was supported by Qantas, which noted that economies of scale had a direct impact on demand. Qantas noted that as a market increased in size:

> …fixed costs are divided among more passengers, becoming a smaller proportion of the airfare for each passenger. With fewer passengers and frequencies to distribute costs, it is difficult to achieve efficiencies on regional routes. Larger markets can sustain higher capacity aircraft which have significantly lower unit costs per passenger.[2]

7.6   Likewise, Virgin noted that due to a lack of scale, the costs of operation on a per passenger basis were higher on regional routes, rather than on trunk routes between capitals, with greater difficulties in achieving cost efficiencies. Its

---

1   Regional Express, *Submission 135*, p. 10.

2   Qantas Group, *Submission 126*, p. 5.

sustainability of services therefore relied on the maximisation of revenue generation during peak periods of high demand, to offset against revenue shortfalls in non-peak periods.[3]

7.7   A number of other submitters acknowledged that economies of scale were of concern for the viability of regional air services. For example, the NT Government observed that the small resident population of the Territory resulted in 'limited demand for services, reduced economies of scale and less competition on routes'. This, in combination with other factors such as ageing aircraft, high infrastructure costs and long distances—which added to fuel and operating costs—led to issues with the supply, sustainability and cost of NT air services.[4]

7.8   The issues with economies of scale were also recognised by Regional Development Australia Mid West Gascoyne (RDAG). The RDAG observed that, for WA, the high cost of airfares was a result of a bigger issue, namely that there were 'simply not enough people living in the regional areas' of that state, resulting in a lower demand volume. Importantly, the RDAG further noted that where there was demand, it could be unidirectional (for example, flights to the Pilbara, rather than from it).[5]

7.9   It was recognised by the Tasmanian Government that the provision of essential services could be challenging in low density population centres, due to the economies of scale. Likewise, the Limestone Coast Local Government Association observed that many rural and remote centres have difficulty in generating sufficient levels of income to pay for airport operations, due to population size.[6]

7.10   The EAREDC was of the view that market forces tended to fail on smaller air routes, where there were fewer passenger numbers and smaller servicing aircraft. The EAREDC summarised one of the key issues, stating that:

> The economics of operating small aircraft come into play and restrict the supply of air services. This is because as the size of aircraft declines the cost per passenger-kilometre increases. Where aircraft are carrying few passengers the costs begin to outstrip revenue.[7]

7.11   NTA acknowledged that a 'fundamental aspect to lowering airfares and providing communities with choice of services is to achieve greater scale', as this would encourage greater passenger volumes and improved services. In order to enhance passenger volumes, NTA suggested a number of policy measures, including

---

3   Virgin Australia, *Submission 109*, pp. 6-7.

4   Northern Territory Government, *Submission 121*, p. 4.

5   Regional Development Australia Mid West Gascoyne, *Submission 117*, pp. 1, 5.

6   Tasmanian Government, *Submission 69*, p. 3; Limestone Coast Local Government Association, *Submission 119*, p. 7.

7   East Arnhem Regional Economic Development Committee, *Submission 84*, pp. 5-6.

investment in visitor attractions and a greater emphasis on regional tourism; funding for the start-up of new routes and air services; increased immigration settlement in the NT to grow its population, and a lowering of visa entry costs.[8]

The role of demand in driving airfare prices

7.12   The committee observed a particular point of tension throughout the inquiry between residents of regional areas, and airlines. While the airlines suggested that increased demand for flights would help to reduce the cost of regional airfares, many rural and regional residents and organisations took the opposite view. Submitters argued that if the airlines first reduced the cost of airfares, and if competition was increased, then more people would fly, and more often. A number of witnesses acknowledged that this was a 'chicken and egg' situation with no clear-cut solution.[9]

7.13   The Local Government Association of Queensland (LGAQ) summarised the issue well, and observed that there were differences in the ability to pay for airfares between the passenger markets in regional and rural areas, and those in metropolitan areas, due to issues with price elasticity. Such issues would have a direct impact on demand. The LGAQ argued that:

> Rural, regional and remote destinations generally feature a low degree of price elasticity given the low proportion of visitor and discretionary travel, the relatively high costs incurred in providing air services and the relatively low passenger volumes able to be accessed at least at one port. Such an actual and potential customer structure does not provide for a robust, competitive environment, given that the potential for reduced airfares to attract greater revenue from price elastic passengers is unlikely to outweigh the lost revenue from price inelastic passengers.[10]

7.14   The McKell Institute Victoria (MIV) observed that additional, consistent passenger volumes and 'directionally balanced' flights (that is, similar volumes of passengers both in and out of a destination), would be 'critical to bringing down airfares for residents in regional areas'. The MIV understood that this would require

---

8   Northern Territory Airports, *Submission 145*, pp. 1-2.

9   See for example: Ms Victoria Corner, *Submission 9*; Ms Lisa Cunningham, *Submission 13*; Miss Kaelem Ewins, *Submission 14*; Ms Julie Colthup, *Submission 31*; Mrs Janessa Bidgood, *Submission 32*; Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 15; Mr Bradley Rix, *Submission 53*, p. 1; Mrs Abbi Wylie, *Submission 55*, p. 2; Mr David Fletcher, *Submission 102*; WA Labor South Hedland Branch, *Submission 103*; Mr Benjamin Quilliam, *Submission 104*, p. 1; Mr Jeremy Young, *Submission 112*; Ms Prue Button, *Submission 143*, p. 2; Townsville Enterprise Limited, *Submission 153*, p. 7; Mr Peter Homan, *Committee Hansard*, 10 April 2018, p. 33; Ms Jael Napper, *Committee Hansard*, 3 April 2018, p. 49; Mr Brian O'Gallagher, Chamber of Commerce Northern Territory, *Committee Hansard*, 5 April 2018, p. 23.

10   Local Government Association of Queensland, *Submission 149*, Attachment 1: AEC Group Ltd, *Environmental scan of air route service delivery to rural, regional and remote communities*, February 2018, p. 13.

either a boost to local populations, or the promotion of industries that generate travel, such as tourism, which would lead to an increase in demand.[11]

Operational costs per kilometre

7.15   The cost of aircraft operation per kilometre travelled on a particular route, compared with routes of similar distances, was often put forward as a way to analyse and question whether airfares were equitable across routes. Some submitters provided such an analysis, arguing that some regional flights were of a higher cost when compared to flights of similar distances.[12]

7.16   The EISC report in WA received complaints which 'frequently pointed to cost-per-kilometre comparators with similar-length routes in the eastern states when commenting on the relative high cost of WA regional airfares', with WA airfares found to be 'significantly more expensive' when such comparisons were undertaken.[13]

7.17   The Shire of Broome similarly argued that there were 'significantly higher' costs per kilometre for west coast flight routes when compared with east coast flights of similar distances. The Shire was of the view that such differences could not be justified by operating costs alone.[14]

7.18   Drawing on BITRE statistics, DIRDC noted that routes involving the resources sector seemed to have a higher cost per kilometre than other routes of similar distances. DIRDC went on to state that:

> On some regional routes, the cost per kilometre of travel is similar to routes between major cities of a similar distance, however there is considerable variability in the data…It should be noted that distance is only one of many factors that affect the economics of operating a service on a route—passenger volumes and airport charges are some other factors.[15]

The role of competition in airfares

7.19   A number of suggestions were put forward during the inquiry for ways to reduce the high costs associated with regional air travel. Increased competition in particular was often raised as way to drive down prices.

---

11   The McKell Institute Victoria, *Submission 67*, p. 3.

12   See for example: Mount Isa City Council, *Submission 35*, p. 4; Ms Hilary Simmons, *Submission 64*, p. 2; Flinders Council, *Submission 111*, p. 7.

13   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, pp. 25-26.

14   Shire of Broome, *Submission 10*, p. 4.

15   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 4.

7.20   However, there were disparate views throughout the inquiry as to the benefits of increased competition in reducing the price of airfares in regional areas. While some were of the view that increased competition would indeed drive airfare prices down, others took a more cautious position that competition was not necessarily the best way to address the issue. There were case studies presented by submitters in support of both points of view.

Views of the airlines on competition

7.21   There was general consensus among the airlines that increasing competition on regional routes would not assist in reducing airfares, given the significant challenges of operating in regional areas.

7.22   Rex was of the strong view that competition in regional aviation could be 'particularly detrimental for all the smaller routes of less than 100 000 passengers a year'. It was Rex's experience that competition did not result in lowering airfare prices, and could instead 'destroy efficiencies and result in higher airfares and lower profits (or bigger losses)', while reducing flight frequencies.[16]

7.23   Mr Warrick Lodge, General Manager of Network Strategy and Sales at Rex, suggested that having a 'good, viable sustainable single operator that's got more certainty in the marketplace can deliver better outcomes than a competitive air service'.[17]

7.24   Mr Sharp of Rex suggested that even in markets where Rex was a monopoly provider of air transport, it was still competing against the motor car, and considered this to be the airline's major competitor. Mr Sharp was of the view that 'consumers have a tipping point where they will or will not buy a product based on the price', and once that point is passed with the price of an air ticket, they would travel via car instead.[18]

7.25   Conversely, Virgin argued that increasing competition via additional services on unregulated regional routes would place downward pressure on airfares. However, Virgin noted that the ability of a route to sustain competition would depend largely on demand, with some regional routes having such low passenger numbers that competition was unsuitable, and regulation was therefore a better way to ensure RPT services.[19] Mr Sharp of Virgin further noted that in many regional areas, demand

---

16   Regional Express, *Submission 135*, p. 9. See also WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 126.

17   Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Committee Hansard*, 24 July 2018, p. 37.

18   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 26.

19   Virgin Australia, *Submission 109*, pp. 2, 13-14.

could be stimulated, for example by price discounts, but it had been shown historically that this had not been sustainable or profitable.[20]

7.26   Virgin also considered the role that corporate travel arrangements could have on competition, suggesting that:

> On low-volume regional routes dominated by passengers travelling for business purposes, if one airline has secured all the traffic under exclusive arrangements with the companies from whom the majority of demand for travel derives, there is unlikely to be sufficient residual demand from those travelling for leisure or non-business purposes to support commercially viable services by another operator. In this situation, airfare price discounting will not be capable of boosting demand in a material way, as the proportion of price-elastic passengers travelling on the route is simply too low.[21]

7.27   Qantas questioned the role of low cost carriers in delivering more competition on regional routes. Qantas observed that while its low cost carrier Jetstar could offer lower fares, its 'ability to do so is driven by its lower variable and fixed costs'. Further, the low cost carrier operating model was considered 'problematic on regional markets due to high input costs such as airport charges, fuel, inefficient operating patterns, regional maintenance costs and accessibility', as well as 'inelastic demand profiles' and insufficient passenger traffic.[22]

7.28   A4ANZ also commented on the role of low cost carriers in reducing airfares. A4ANZ contended that all carriers faced issues with viability when operating in regional and rural Australia, with variability in passenger loads, airport charges and fuel charges. These factors, combined with high operating costs, were argued by A4ANZ to limit the opportunity for low cost carriers to enter the regional market and operate sustainably.[23]

Views presented in evidence

For competition

7.29   A number of submitters were in favour of increased competition on regional routes and saw a number of positive benefits arising from that competition—but some submitters did note the unique challenges of introducing competition on regional routes, such as the ongoing, sustainable commercial viability for airlines. However,

---

20   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 47.

21   Virgin Australia, *Submission 109*, p. 14.

22   Qantas Group, *Submission 126*, p. 8.

23   Airlines for Australia and New Zealand, *Submission 129*, pp. 1-2.

submitters in support of competition took the view that its absence had reduced the availability of cheaper fares.[24]

7.30   The Nhulunbuy Corporation in the NT contended that competition between airlines resulted in cheaper and more flexible airfares, which in turn increased passenger numbers. In support of this view, the Corporation provided information suggesting that when both Ansett and Qantas were providing services to Nhulunbuy in 1999–2000, there were 186,292 passengers, far more than in 2016–17 when there were 58,429 passengers.[25]

7.31   The District Council of Grant in South Australia provided an example of what may occur in the absence of competition. The Council noted that the Mount Gambier Airport, between 2005 and 2007, had annual passenger growth of 12.9 per cent each year, with two airlines offering RPT services from the airport—Rex and O'Connor Airlines. However, 'extremely competitive pricing ultimately saw the demise of O'Connor Airlines in 2007 and a monopoly situation created'. The Council continued that:

> At the peak, just prior to the cessation of service by O'Connor Airlines, the airport had a healthy 117,000 passengers annually. After the collapse of O'Connor Airlines, the market suffered from pricing increases and a rationing of services. These factors contributed to an average market decline of 6.5% per annum and in the 2016/17 financial year, passenger numbers stabilised at 78,204 persons. Currently, the travelling public has no choice other than what is offered by the remaining airline in relation to fares or flight availability, when needing to travel by air to Adelaide or Melbourne.[26]

7.32   In Broome, where both Virgin and Qantas operate, it was suggested that a third airline was required to lower fares and to 'get that competition factor'. Mr Chris Mitchell of the Shire of Broome argued that while two airlines was 'better than nothing', flights were 'still too expensive' with only two operators.[27] Ms Jael Napper, of the Broome Chamber of Commerce and Industry, was of a similar view, suggesting that 'there is an enormous business case…for a third carrier'.[28]

---

24   See for example: Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 8; East Arnhem Regional Economic Development Committee, *Submission 84*, p. 6; Professor Rico Merkert, *Submission 97*, p. 11; Mount Isa Branch of the Australian Labor Party, *Submission 105*, p. 2; Mr Robbie Katter MP, *Submission 144*, p. 4; Councillor Damien Ryan, Mayor, Alice Springs Town Council, *Committee Hansard*, 4 April 2018, p. 31; Mrs Katrina Paine, *Committee Hansard,* 11 April 2018, p. 6.

25   Nhulunbuy Corporation, *Submission 136*, p. 4.

26   District Council of Grant, *Submission 11*, p. 1.

27   Mr Chris Mitchell, Councillor, Shire of Broome, *Committee Hansard*, 3 April 2018, p. 6.

28   Ms Jael Napper, Member, Broome Chamber of Commerce and Industry, *Committee Hansard*, 3 April 2018, p. 40.

7.33   In the NT, Ms Dale McIver of TCA made the connection between a lack of competition of airlines travelling to central Australia, and business opportunities. Ms McIver noted that companies and business were not bringing conferences and delegations to Alice Springs, as there was only one operator on a particular route; therefore, businesses 'would not put all their senior staff and directors on that one single flight, as it's too major a risk for their companies'. TCA was supportive of increased competition on the Alice Springs route.[29]

Against competition

7.34   A number of submitters voiced their concerns as to whether competition would be of any benefit in reducing airfares in regional Australia, and noted that increased competition could in fact destabilise existing RPT services.

7.35   For example, the RRC expressed caution with regards to too much competition, noting that 'over supplying the market and creating an unsustainable environment of extreme airfare reductions' would not be in the best interests of airport and airline stakeholders. It was RRC's view that the low cost carriers and associated low airfares had 'skewed the passenger and the public's perception as to the cost of aviation and travelling via aircraft'.[30]

7.36   A similar view was shared by the Broome International Airport as to the viability of low-cost carriers into regional markets. Mr Paul McSweeney, CEO of the Airport, noted that:

> Broome doesn't have the volume to make a low-cost carrier work. It's very difficult. A low-cost carrier is what it says: it's high volume, low margin. But a number of airlines have said to me that the model for a low-cost carrier to work is really two-pronged. You've got to have a centre on either end of their airline route that has at least a hundred thousand people living in it, or you've got to have an airport that's pumping a million passengers through it every year. They're the two critical masses. You've got to at least have one for it to work…It's not a mistake that none of these areas or regional centres have a low-cost carrier. That's not by accident. It's because the model just doesn't work.[31]

7.37   Flinders Council made the point that while an additional RPT carrier may be welcome when considering price and choice, its passenger numbers made competition unlikely, and another operator would have the potential to undermine the viability of the existing RPT service.[32]

---

29   Ms Dale McIver, Chairperson, Tourism Central Australia, *Committee Hansard*, 4 April 2018, p. 33.

30   Rockhampton Regional Council, *Submission 159*, p. 1.

31   Mr Paul McSweeney, Chief Executive Officer, Broome International Airport, *Committee Hansard*, 3 April 2018, p. 16.

32   Flinders Council, *Submission 111*, p. 11.

7.38   The Maranoa Regional Council observed that competition between airlines providing RPT services to regional communities 'appears to provide benefits when the annual number of passengers to an airport is at least 150 000', or potentially within a range of 100 000 to 200 000. If under this threshold, the Council saw benefit in instead regulating the route under a monopoly operation, as opposed to increasing competition.[33]

7.39   McKinlay Shire Council, Queensland, provided an example of competition not reducing prices, advising that Qantas was the main airline servicing the Mount Isa region for many years, with Virgin entering the market in that region in 2014. The Council argued that this introduction of competition had 'nil effect on providing anywhere near reasonable airfares and relatively no difference in pricing'.[34]

7.40   OQTA was of a similar view, arguing that the introduction of a second major airline service into Mount Isa, Cloncurry and Emerald in 2012 was 'heralded as providing a range of benefits including more competitive pricing, enhanced flight connections to the outback and a higher quality overall travel experience'. However, OQTA observed that this did not occur.[35]

Aviation cabotage

7.41   Aviation cabotage refers to the transport of goods or passengers between two places in the same country by a transport operator from another country. Cabotage rights refer to the rights of an operator to operate within the domestic borders of another country. Most countries do not permit aviation cabotage. However, the European Union is a notable exception as its member states all grant cabotage rights to each other.

Convention on International Civil Aviation

7.42   The Convention on International Civil Aviation, also known as the Chicago Convention, provides the legal foundation for the regulation of world civil aviation. Countries have exclusive sovereignty over the airspace above their territory and as set out in the Chicago Convention whereby states can grant 'special permission' or authorisation to other states to operate scheduled international air services.

7.43   Article 7 of the Chicago Convention concerning cabotage states the following:

> Each contracting State shall have the right to refuse permission to the aircraft of other contracting States to take on in its territory passengers, mail and cargo carried for remuneration or hire and destined for another point within its territory. Each contracting State undertakes not to enter into any arrangements which specifically grant any such privilege on an exclusive

---

33   Maranoa Regional Council, *Submission 92*, pp. 4, 7.

34   McKinlay Shire Council, *Submission 34*, p. 1.

35   Outback Queensland Tourism Association, *Submission 56*, p. 12.

basis to any other State or an airline of any other State, and not to obtain any such exclusive privilege from any other State.[36]

Cabotage in Australia

7.44   In Australia, cabotage is only allowed for New Zealand airlines, under the Single Aviation Market arrangements between Australia and New Zealand, which also provide mutual recognition for safety certificates. Despite the cabotage limitations, DIRDC advised that:

> Australia has one of the most liberal domestic aviation markets in the world. Australian Government policy allows for 'investment cabotage'— this means that a foreign airline or investor is able to establish an Australian-based subsidiary to operate domestic services. Providing the subsidiary meets the requirements of the Foreign Investment Review Board and all applicable Australian regulations governing the operation of domestic flights, it can be 100 per cent foreign owned, and can enjoy unrestricted access to the domestic aviation market.[37]

2015 Harper Review

7.45   The Competition Policy Review of 2015, known as the Harper Review, argued that air services agreements should not be used to protect Australian carriers and that a proactive approach in relation to such agreements should be taken to ensure 'sufficient capacity on all routes to allow for demand growth, including by pursuing bilateral open skies policies with other countries'. It argued that such an approach would ensure that agreements do not act as barriers to entry in the provision of services to and from Australia. The Harper Review concluded that governments should only create 'exclusive rights for regional services where it is clear that the air route will only support a single operator'.[38]

7.46   The Harper Review made the following recommendation in relation to aviation cabotage:

> The current air cabotage restrictions should be removed for all air cargo as well as passenger services to specific geographical areas, such as island territories and on poorly serviced routes, unless it can be demonstrated that the benefits of the restrictions to the community as a whole outweigh the costs, and the objectives of the restrictions can only be achieved by restricting competition.

---

36   Convention on International Civil Aviation, 1944, pp 4–5, https://www.icao.int/mwg-internal/de5fs23hu73ds/progress?id=PYFsWxsY95RVYYkDpUGMGuHthMAVgAxSKIWJOKIbF9k (accessed 6 February 2018).

37   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 5.

38   Competition Policy Review, Final Report, 31 March 2015, p. 156, http://competitionpolicyreview.gov.au/final-report/

Introducing an air cabotage permit system would be one way of regulating air cabotage services more effectively where necessary.[39]

7.47   The Australian Government noted the recommendation in its response to the Harper Review and stated that it had 'no immediate plans to ease aviation cabotage rules'.[40] Thereafter, in April 2017, then Transport Minister the Hon Darren Chester MP reaffirmed the government's position not to relax cabotage restrictions, and emphasised that it would instead consider other mechanisms to cut costs for consumers and to remove roadblocks to increased services.[41]

7.48   In its submission to the inquiry, DIRDC acknowledged more recent discussions about removing cabotage restrictions on routes to regional and remote destinations. However, DIRDC advised that:

The Australian Government does not have immediate plans to ease aviation cabotage arrangements. Proposals for a cabotage arrangement will be considered on a case-by-case basis, taking into account the broader national interest.[42]

Evidence regarding cabotage

7.49   It was suggested by a number of submitters and witnesses that the easing of cabotage restrictions in Australia—in certain circumstances—would be an effective mechanism for reducing the cost of airfares in regional Australia. The committee received a significant number of submissions, particularly from local councils in the north of Australia, in support of allowing foreign airlines to pick up domestic passengers in regional Australia.

7.50   Despite these views, others defended cabotage restrictions and argued that they should be maintained. Evidence provided from airlines such as Virgin and Qantas set out arguments against any relaxation to the current cabotage rules.

Easing cabotage restrictions

7.51   Submitters in support of easing cabotage restrictions, particularly from Australia's north, were of the view that doing so would help to reduce flying costs,

---

39   Competition Policy Review, Final Report, 31 March 2015, p. 211.

40   Australian Government response to the Competition Policy Review (Harper Review), Treasury, 2015, p. 7, https://static.treasury.gov.au/uploads/sites/1/2017/06/Govt_response_CPR.pdf

41   Annabel Hepworth, 'Limits on foreign-flagged carriers 'to stay': Darren Chester, *The Australian*, 28 April 2017, https://www.theaustralian.com.au/business/aviation/limits-on-foreignflagged-carriers-to-stay-darren-chester/news-story/f85278333ac492a6f6c2fe69d912ac4d?login=1 (accessed 22 November 2017).

42   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 5.

increase tourist markets and offer a greater choice of flights and carriers to the travelling public.[43]

7.52   For example, Mr Benjamin Quilliam of Alice Springs saw the lifting of cabotage to be of benefit to Central Australia, particularly if international airlines could fly to Alice Springs, then on to Uluru or another Australian capital. Mr Quilliam argued that such a measure would increase tourist numbers to central Australia, while introducing competition to the market which could drive down fares for local residents.[44]

7.53   The Northern Territory Branch of the Australian Hotels Association (AHANT) suggested that sectors of the NT hospitality and tourism industries, alongside the NT Government, has been advocating for cabotage rights for 'many decades', particularly given the proximity of south-east Asia to the NT. AHANT found it disappointing that 'despite bipartisan support to develop Northern Australia, the politics of aviation remains to a large degree stuck in the South East of the nation'.[45]

7.54   Tourism Top End (TTE), in the NT, was likewise supportive of relaxing cabotage restriction in northern Australia, noting that 'we need to look at things a bit differently, to take northern Australia forward'. Mr Trevor Cox, General Manager of TTE, thought that if there was opportunities for airlines to operate into regions which domestic airlines did not currently feel were profitable, that this should be explored.[46]

7.55   Considerable evidence was received concerning the removal of cabotage restrictions for the IOTs. For example, the Shire of Christmas Island supported the removal of cabotage restrictions on the IOTs—although only between the IOT islands and not from the islands to the Australian mainland. It noted that this would allow Asian international carriers to fly to one island, then the next, before returning to Asia, and would significantly boost tourism development on both islands.[47]

7.56   DIRDC acknowledged the calls for easing cabotage restrictions in the IOTs, including that such an approach would allow an airline to carry domestic traffic between Christmas Island and the Cocos (Keeling) Islands, thus improving the commercial viability of air services from South-East Asia, while boosting tourism. DIRDC however expressed caution over this proposal, noting that any easing of

---

43   See for example: Mount Isa City Council, *Submission 35*, p. 5; Tourism Top End, *Submission 44*, p. 2; Mr Brian O'Gallagher, Chamber of Commerce Northern Territory, *Committee Hansard*, 5 April 2018, p. 23.

44   Mr Benjamin Quilliam, *Submission 104*, p. 3.

45   Australian Hotels Association Northern Territory Branch, *Submission 82*, pp. 5-6.

46   Mr Trevor Cox, General Manager, Tourism Top End, *Committee Hansard*, 5 April 2018, p. 30.

47   Shire of Christmas Island, *Submission 72*, pp. 4-6. See also Mr James Cameron, *Submission 6*, p. 3; Christmas Island Women's Association, *Submission 46*, p. 6; Christmas Island Tourism Association, *Submission 167*, p. 4.

cabotage restrictions would require 'careful consideration of the impact on aviation safety, and limitations under migration and industrial relations legislation' for foreign crews employed on domestic flights.[48]

7.57   The Shire of Broome called for further analysis into the benefits of limited changes to cabotage restrictions. The Shire saw an opportunity for investigation into the positive impact of such a move on ticket pricing and tourist visitation, resulting from international airline services arriving in Broome from South East Asia and Hong Kong. Representatives of the Shire noted that Broome was closer to Asia than to Perth, opening up opportunities to liaise more with Asian markets. The Shire further recommended the development of an international route from Melbourne or Sydney to Broome, and on to South East Asia. It further recommended cabotage be allowed only:

> …between Australian regional international airports (including Broome, Darwin and Cairns) and the four primary international airports in Australia (being Perth, Brisbane, Melbourne and Sydney).[49]

Retaining cabotage

7.58   A number of submitters were against any changes to cabotage restrictions. For example, Qantas stated that it was strongly 'opposed to aviation cabotage in all circumstances', on the grounds that it would result in adverse consequences for Australia's workforce and economic interests. Qantas objected to cabotage on the grounds that it would destabilise the local aviation market, with 'no data or credible evidence demonstrating aviation market failure on regional routes that warrants moves towards cabotage'.[50]

7.59   Qantas also suggested that:

> …with cabotage you'll see people cherrypicking certain routes, so you damage the route network and the economics of Australia's competitive aviation sector with foreign carriers. As we also said in our submission, it eliminates significant numbers of Australian jobs, particularly in the regions, as well as the long-term investment in the market. It forfeits Australia's strategic assets and erodes our negotiating position, if there were ever a future single market in Asia. It also dismantles our regulatory and safety regimes.[51]

---

48   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 8.

49   Shire of Broome, *Submission 10*, pp. 4-5; Mr Chris Mitchell, Councillor, Shire of Broom, *Committee Hansard*, 3 April 2018, p. 2.

50   Qantas Group, *Submission 126*, p. 15. See also Professor Rico Merkert, *Submission 97*, pp. 6-7; Virgin Australia, *Submission 109*, p. 15.

51   Mr Trent Mumford, Head of Government and Public Affairs, Qantas Group, *Committee Hansard*, 15 March 2019, p. 20.

7.60   Likewise, A4ANZ saw no need for making changes to the current cabotage restrictions, and 'no international precedent for doing so'. In raising its concerns, the organisation stated that:

> A4ANZ's members have cautioned that implementing a varied policy for one region, could create the opportunity to expand this to other regions and cause material damage to domestic airlines. A4ANZ would like to reiterate that it is unequivocally opposed to any changes to the current cabotage restrictions in place in Australia.[52]

7.61   The Transport Workers Union was likewise opposed to any relaxation of the cabotage restrictions, arguing that doing so would risk jobs and current working standards, undermine training, safety and maintenance standards, and that applying cabotage to northern Australia would only 'exacerbate and accelerate the industry's problems'.[53]

7.62   The MIV took a more cautious approach to the issue of cabotage. MIV noted that to boost passenger demand to improve route and network economics, it would first be 'important for Australian aviation to have the right network structure in place', to provide growth in the right areas of the country. For example, MIV suggested that Darwin could provide a suitable transit point between international markets and the Australian east coast and other domestic markets, and would present a 'single gateway rather than spreading traffic across multiple individual stop-over points'.[54]

7.63   While MIV highlighted that a loosening of cabotage restrictions could benefit some towns, it could also 'undermine the already limited economies of scale and potentially even the viability for multiple competitors to operate networks beyond the major capital city routes'. MIV went on to state that with regards to cabotage:

> If we take a step back, the strategy itself of combining domestic passengers with international tourists to boost demand on a domestic sector has merit. But rather than seeking to push domestic passengers on to flights operated by international carriers, we should be looking at how to feed more international tourists into services operated domestic carriers thus boosting their scale and viability, and even the potential for increased competition.[55]

Charter flights and FIFO

7.64   There was discussion throughout the inquiry as to the impact of charter flight operations on the cost and availability of RPT services, particular in areas where a FIFO workforce or other travellers, such as medical patients or residents of very

---

52   Airlines for Australia and New Zealand, *Submission 129*, pp. 3-4.

53   Transport Workers Union of Australia, *Submission 161*, p. 4.

54   The McKell Institute Victoria, *Submission 67*, pp. 1, 4.

55   The McKell Institute Victoria, *Submission 67*, p. 1.

remote areas, were transported via charter flights. There was some evidence to suggest that corporate travellers provided stability to an airline's operations more broadly.

7.65   Mr Chris Hayward, of the ALPA, advised that it was often cheaper for the ALPA to use charter flights rather than RPT services. Mr Hayward said that a charter for eight people cost around $5000, whereas RPT costs for the same amount of people was $8000—ALPA spent a third of its $1.5 million air travel expenditure on charters. Therefore, the ALPA could 'get economies of scale' if they had enough people to move via charter. Mr Hayward observed that due to the volume of charter operators in the NT, the cost of chartering was lower and was therefore a viable option for government and for business. Mr Hayward explained the benefits of using a charter service and how cost efficiencies could be achieved using such a service:

> If we need to get something out urgently, we would have to go to a charter, simply because of necessity. You may alter staff movements to yield the value of that charter. A lot of operational things hinge upon getting people around efficiently and getting the most out of the charter costs. Sometimes you simply can't put a piece of freight onto a regular transport service. It becomes very complex. It's a business need and, in order for us to operate sustainably and commercially, these are the sorts of things that we have to take into account.[56]

7.66   In noting the lack of aviation competition on regional WA routes, the Town of Port Hedland observed that large corporate customers had more market power than other consumers, by buying seats in advance and in significant volumes, and thus negotiating lower fares. The Town of Port Hedland also argued that:

> …corporate travel contracts provide a small profit margin to operators and the balance of the small business and community sector incur substantially higher prices to increase route margins because there is no other option available. Community and small business are unable to forecast demand for flights to the extent resources companies do, so capacity to negotiate for a better fare is lost to the larger market user of corporate travelling.[57]

7.67   Concerns over the impact of FIFO transport in WA were also expressed by the Pilbara Regional Council, which argued that travel costs for FIFO workers being paid for by resource companies had a distorting effect on airfares, particularly in light of Fringe Benefit Tax benefits available to resource companies through the transport of their FIFO workers. The Pilbara Regional Council contended that:

> The effect of artificially high flight costs renders these half-empty regional flights economically viable for the airlines, despite being inaccessible to residents, tourists and small businesses.

> If free market forces were at play, demand and supply for seats would dictate that the price would either fall to fill additional seats, or that the

---

56   Mr Chris Hayward, Manager, Strategy, Stakeholder Engagement and Business Development, Arnhem Land Progress Aboriginal Corporation, *Committee Hansard*, 5 April 2018, pp. 2-3, 5.

57   Town of Port Hedland, *Submission 81*, p. 2.

number of flights would fall to remove excess capacity. However regular half empty flights serve the interests of the major resource companies, who given the overall cost-benefit analysis of flying their workforce into the region, have determined paying higher fares is acceptable as long as they have access to regular flights.[58]

7.68   The EAREDC noted that airlines operating RPT services had previously expressed concern that the heavy reliance on charter flights in the East Arnhem region did not allow space for an RPT service to operate. The EAREDC put forward the opposite view, arguing that the 'heavy reliance on charter services proves that there is a need for RPT services that will be greatly utilised'.[59]

7.69   The Mayor of the Cloncurry Shire Council, Mr Greg Campbell, advised that in 2016–17, 54 000 passengers travelled through the Cloncurry Airport, which was projected to rise to 60 000 in 2017–18. Of these passengers, around 40 per cent arrived on commercial RPT services, with 60 per cent on FIFO charters. It was suggested by Mrs Joanne Morris, Acting CEO of the Council, that most of the seats on the RPT services were filled via a commercial arrangement between a mine and an airline, 'leaving very few flights available for the local public'.[60]

7.70   Mr Campbell was of the view that airlines could provide a block of seats to a mining company, the price of which would cover the costs of the aircraft's operation. Then, 'if the airline then has the appetite, it could offer the remaining seats at a good price, but we don't see that happening'. Rather, Mr Campbell suggested that the price of airfares had increased for non-FIFO workers on such flights.[61]

7.71   Conversely, Mr Glendon Graham, CEO of the Mount Isa to Townsville Economic Development Zone Inc. acknowledged that the presence of the FIFO market could be advantageous to residents of regional areas. Mr Graham said that:

> The commercial reality could be that if it weren't for the added loading from those FIFO workers then there may not be two services a day; they may be able to accomplish it with one flight. That could very well be the case. The community is benefiting by having more flights to service the loadings. Take away the FIFO workers and there may be fewer flights and that's a reality. I don't know if you were alluding to that.[62]

---

58   Pilbara Regional Council, *Submission 157*, pp. 1-2.

59   East Arnhem Regional Economic Development Committee, *Submission 84*, p. 7.

60   Mr Greg Campbell, Mayor, and Mrs Joanne Morris, Acting Chief Executive Officer, Cloncurry Shire Council, *Committee Hansard*, 12 April 2018, p. 2.

61   Mr Greg Campbell, Mayor, Cloncurry Shire Council, *Committee Hansard*, 12 April 2018, pp. 3, 5-6.

62   Mr Glendon Graham, Chief Executive Officer, Mount Isa to Townsville Economic Development Zone Inc., *Committee Hansard*, 12 April 2018, p. 23.

Response from airlines

7.72   In response to the concerns raised by Cloncurry residents and others, Virgin explained the process for it offering corporate flights to mining companies. Mr Sharp advised that the mining companies would typically go out for tender. As a result, airlines would examine their costs, timeframes and required aircraft to meet the tender, and the length of the contract. All these factors would be considered to determine the price, and corporates could either book whole planes via a charter arrangement, or block a certain number of seats on RPT services. Corporate entities could access the full fare bucket range, and 'specific prices are agreed with those corporates against each of those fare buckets, depending on the volume that is anticipated to be sold'. Mr Sharp detailed the benefits of FIFO arrangements for airlines:

> …what they're doing is bringing volume into the business. They bring stability and a base load that's spread over the year. It helps fills those peaks and troughs we've talked about and derisk the business. There's a price point that we would be comfortable to put into the market to satisfy that corporate.[63]

7.73   However, Virgin did note that there was a balancing act in determining the right pricing for markets with corporate travellers. Mr Shaw acknowledged that the pricing mechanism for flights did not change if there were a high percentage of corporate travellers flying, and depending on demand the seats available at each price point could vary. Mr Shaw continued that:

> Generally, the average fare that would be seen in the market for that return flight that is not being used by the corporate would be cheaper and would have lower fare buckets available than the fuller one, given that those corporates—although they are most likely to travel on that day—might only book quite late. From an airline standpoint, the challenge is, when the system and our analysts know that those corporates are going to make their bookings, if we just discount those flights to try and open them up to everybody you end up diluting a lot of the volume that you would have got in the first place. And that's the balancing act between trying to get the pricing right as you get closer to departure.[64]

7.74   Virgin confirmed that its corporate customers were generally paying a much higher average price for fares when compared with leisure travellers. Mr Shaw therefore concluded that without these corporate travellers, Virgin would not 'necessarily be able to sustain some of these markets without the requisite volume of corporate contracts'. Mr Sharp reiterated this view, stating that a large portion of the fixed costs of operations to regional areas were recovered through corporate contracts,

---

63   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, pp. 38-39.

64   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 42.

and therefore 'residents benefit from that because otherwise those services wouldn't be there at all'.[65]

7.75   Qantas likewise made the point that the presence of resource-related traffic in a region had a direct impact on increasing airline frequency into those markets, and that, 'without that resource traffic, there would be a lot fewer flights'.[66]

7.76   Such views were supported by the submission of INPEX Operations Australia. Personnel of INPEX, operators of the Ichthys LNG Project, utilised a combination of RPT services and heliport services at the Broome International Airport, to access offshore facilities. INPEX submitted that its staff and contractors utilised both Virgin and Qantas RPT services, but that it had no exclusivity arrangements with any operator. INPEX further advised that:

> All RPT reservations are booked through third party travel agencies and INPEX engages with both airlines to provide regular updates of future travel demands of the Project to enable carriers to manage capacity on the route.
>
> INPEX and our contractors currently book full economy class fares due to the short notice routine of reservations on the route. We do not purchase restricted economy class fares such as Red e-Deal or Getaway fares.[67]

7.77   As of February 2018, INPEX had chartered aircraft on 14 occasions, during periods of increased general demand on the Perth to Broome route, or when large numbers of personnel had to be mobilised. INPEX advised that it took steps to avoid negative economic impacts on the Broome community and its tourism industry as a result of its staff movements, facilitated by regular communication with airlines, business, government and the community. For example, during 2017 and 2018 it had consulted with Broome tourism and business sectors, in order to 'better understand and manage the businesses [sic] impact on capacity during the 2017 tourist season'.[68]

7.78   Similarly, regarding the operations of Alliance at Olympic Dam and its interactions with BHP and the FIFO market, Mr McMillan advised that:

> We have a long-term contract with Olympic Dam. We've been operating there since 2007. BHP operate on the basis that they feel they've got a community service obligation to the residents of Roxby Downs. Services that would ordinarily be closed charters—our normal FIFO operations, which the general public cannot get on— they've made that available to the general public so that the people in Roxby Downs can use it. On any given

---

65   Mr Robert Sharp, Group Executive, and Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 39.

66   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 13.

67   INPEX Operations Australia, *Submission 148*, p. 3.

68   INPEX Operations Australia, *Submission 148*, pp. 4-5.

flight, BHP may well have taken a block of say 40 seats, and there are 10 left over. We know that a few weeks in advance, and those seats are put on sale for local residents.[69]

Pilot shortages

7.79   The committee is aware that long before the instigation of this inquiry, the issue of pilot shortages had been extensively debated, in relation to the provision of RPT services and for General Aviation (GA) more broadly. A lack of pilots has often been considered as a cause of disruption to scheduled flight services, through cancellations. Such cancellations lead to increased costs and inconvenience for travellers, and for airlines.

7.80   Rex suggested that a recent decline in GA operations in Australia had contributed to a pilot shortage, given that GA was a source of airline pilots. Further, Rex suggested that changes to Australia's immigration program in 2017 had resulted in an inability to recruit pilots and aviation engineers from overseas, leading to a cancellation of regional services. In 2007, Rex established the Australian Airline Pilot Academy, and since that time has invested more than \$35 million into the facility. Despite this, Rex argued that pilot shortages remained one of the most challenging issues for its business.[70]

7.81   Mr John Sharp of Rex observed that the pilot shortage issue had to be addressed. Mr Sharp said that:

> We need to have a formalised understanding that pilot training is an important part of our economy and that governments should be engaging with industry to ensure that we can cater for our needs in the future, because passenger numbers grow, flight numbers grow, and all the evidence is there that it's going to continue for a long time to come.[71]

7.82   Alliance suggested the issue was not simply pilot shortages, but a 'pilot training blockage', with Australia now having far fewer pilot training centres—some of which were training pilots for overseas operations—and excessive regulatory requirements, particularly in general aviation.[72]

7.83   The NT Government advised that air operators had raised with it concerns that a shortage of appropriately licensed pilots was having a direct impact on the sustainability and cost of air services in remote areas. Likewise, concerns were raised

---

69   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 4.

70   Regional Express, *Submission 135*, pp. 18, 20.

71   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, p. 41.

72   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 23.

concerning the time and cost associated with pilot training; a lack of pilot and maintenance personnel training and facilities, and the ability to retain trained pilots at smaller airlines.[73]

---

73   Northern Territory Government, *Submission 121*, p. 8.

Chapter 8

Regulated routes and residents fares

8.1   A number of state jurisdictions have introduced policies aimed at supporting aviation services into regional areas, noting the unique challenges these services face. These challenges include sustaining regional routes that may not be commercially viable, and therefore require government assistance to continue operation.

8.2   This chapter considers the evidence received regarding the regulation of routes across jurisdictions and the views of stakeholders as to the success, or otherwise, of this approach.

8.3   In addition to regulation, a number of airlines have introduced community or resident's fares, or other travel assistance schemes, which aim to reduce the cost of airfares in regional Australia. This chapter also considers these schemes, and their reception by local communities and other stakeholders.

Regulated routes

8.4   In order to address the unique difficulties presented by regional aviation, a number of jurisdictions have introduced government regulation of certain routes. RPT services are provided on regulated routes where a monopoly is granted to a single operator. Regulation of a route limits competition on low volume routes, 'that aren't always robust and may need protection to provide stability and encourage market development'.[1]

8.5   The AAA indicated that while arrangements between jurisdictions may differ, the process for regulating routes was similar, with states calling for interested airlines to 'bid on a fare and subsidy basis to provide capacity on a certain route…in exchange for a monopoly on the route'.[2]

8.6   The EISC observed that:

> Route regulation does not guarantee profitability for the monopoly operator—airlines must still manage their operations to realise their internal business case. But nor does regulation automatically mean that routes are unviable or unprofitable.[3]

---

1   NSW Government, Transport for NSW, *Regional air operators*, https://www.transport.nsw.gov.au/operations/regional-air-operators (accessed 10 December 2018).

2   Australian Airports Association, *Submission 122*, p. 11.

3   WA Legislative Assembly Economics and Industry Standing Committee*, Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 16.

8.7   NSW, WA and Queensland have introduced regulated services, in order to better ensure the ongoing provision of aviation services to regional and remote communities. Each jurisdiction approaches the issue of regulation differently, in recognition of the unique population and geographical circumstances of each state.

New South Wales

8.8   Regulation of routes in NSW is provided for by the *Passenger Transport Act 2014*, under which the relevant NSW Minister can declare that an air service route is regulated, requiring the air service provider to apply for a licence to operate the route. A route licence is not required if the route is unregulated. In determining whether a route in NSW should be regulated, the Minister considers:

- the needs of the public;

- the fostering of competition between airlines;

- the economic development of an area; and

- the effect on the maintenance and development of adequate and reasonable public air transport services within NSW.[4]

8.9   A route may become regulated and limited to one operator if the route attracts a passenger threshold of 50 000 passengers or less per annum, with a licence to operate a regulated route granted for five years. In the event that passenger numbers exceed the annual passenger threshold during the licence term, 'the five-year commitment takes precedence over deregulating the routes'.[5]

8.10   The NSW Government advised that during 2017 and 2018, it was progressing with the deregulation of a number of routes across the state. The NSW Government observed that there were benefits to deregulating certain NSW routes:

> Deregulation removes the red tape associated with the licence application process, which may act as a disincentive for airlines seeking to establish new services. Deregulating routes also makes it easier for airlines to consider establishing new services and gives local councils the freedom to work with airlines directly to meet the demands of their communities.
>
> A number of routes have been deregulated in recent years, including all intrastate routes not passing through Sydney. In 2015, the NSW Government deregulated regional air routes connecting Sydney with Cobar, Cooma, Mudgee and Narrabri. All four have established new services.[6]

---

4   *Passenger Transport Act 2014,* Part 1, s. 7(3) as cited in NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, pp. 8-9.

5   NSW Government, Transport for NSW, *Regional air operators*, https://www.transport.nsw.gov.au/operations/regional-air-operators (accessed 29 January 2019).

6   NSW Government, *Submission 166*, p. 8.

Western Australia

8.11   The WA Government has introduced policies including regulation of routes to encourage low-cost carriers into the market and to increase competition between existing airlines.

8.12   Services in WA are regulated by the DOT issuing an aircraft licence under the *Transport Co-ordination Act 1966*, with DOT also responsible for managing deeds of agreements between the state and an airline for the 'provision of regulated marginal monopoly RPT air services'. A policy has also been implemented in WA that government and other public sector agencies travel via RPT services to remote and regional communities wherever possible. This approach aims to 'assist in increasing the level of demand on marginal routes, contributing to service viability and continued social and economic wellbeing'.[7]

8.13   The DOT advised that it currently regulates routes which are 'deemed marginal due to low passenger demand and which cannot sustain airline competition'. However, most RPT routes in WA were operating successfully without subsidies. As of May 2019, there were seven regulated and 13 unregulated routes in WA.[8]

8.14   A deed of agreement between the WA Government and the selected operator for a regulated route provides that the airline:

- does not charge more than the maximum airfare as set out in the agreement;

- participates in biannual meetings with stakeholders;

- meets on-time performance indicators; and

- provides monthly reports to the DOT on passenger numbers, load factors, airfares and on-time performance.[9]

8.15   The EISC observed that it received no submission expressing discontent with airfare prices on regulated routes. It nonetheless made a number of suggestions to the WA Government regarding the tender processes around the regulation of routes. The EISC proposed that the WA Government:

> …consider the design of tender packages on regulated routes, to bundle 'like' destinations, attract market interest and deliver scale efficiencies. We also considered the opportunity for additional regional centres to be incorporated into a regulated coastal 'milk run', noting that there is

---

7   Government of Western Australia, *Submission 75*, p. 4.

8   Government of Western Australia, *Submission 75*, p. 4; WA Department of Transport, *Air services in Western Australia*, 23 April 2019, https://www.transport.wa.gov.au/aviation/air-services-in-western-australia.asp (accessed 1 May 2019).

9   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 15; WA Department of Transport, *Air services in Western Australia*, 23 April 2019.

currently no framework within which this type of initiative can be examined. There may be considerable public benefit to communities on the 'milk run', and interest from market operators.[10]

8.16   On 28 February 2016, Rex commenced the Perth-Albany and Perth-Esperance routes under a Deed of Agreement with the WA Government. This agreement conferred onto Rex the sole right to operate on these routes for a five year term beginning 28 February 2016 and ceasing 27 February 2021. Rex was also selected to provide services on the Perth-Carnarvon and Monkey Mia (Shark Bay) route, effective from July 2018 until 30 June 2026.[11]

Queensland

8.17   It has been acknowledged by the Queensland Government that due to its geographical size and dispersed population, that aviation is essential to the state. To that end, the Government's provision of regulated routes in western and northern Queensland aimed to provide residents of remote communities access to the services available in larger centres, and thus were aimed at helping reduce social and economic isolation.[12]

8.18   The Queensland Department of Transport and Main Roads (TMR) advised that there were seven regulated air service contracts operating in Queensland, under that state's *Transport Operations (Passenger Transport) Act 1994*. These contracts facilitate services to communities where a commercial air service would not otherwise be viable, with 27 communities in the state currently receiving regulated services.[13]

8.19   The regulated routes were introduced following a Review of Long Distance Passenger Services conducted in 2013, which—among other things—sought to determine whether government intervention continued to be warranted via regulation or subsidies, and to ensure regional communities continued to receive reasonable access to essential services in major centres.[14]

8.20   The Queensland regulated contracts, awarded in 2014 under a competitive open tender process, commenced on 1 January 2015 for a five-year period, with an

---

10   WA Legislative Assembly Economics and Industry Standing Committee*, Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, Chair's Foreword; p. 20.

11   Regional Express, *Submission 135*, pp. 8-9.

12   Queensland Government, *Business Queensland: Aviation services*, 24 November 2016, https://www.business.qld.gov.au/industries/transport/aviation (accessed 10 December 2018).

13   Queensland Department of Transport and Main Roads, *Submission 134*, pp. 2-3. Some submitters called for regulation of main routes servicing Mount Isa; see for example McKinlay Shire Council, *Submission 34*, p. 5; Mrs Kylie Camp, *Submission 93*, p. 2; Townsville Enterprise Limited, *Submission 153*, p. 9.

14   Queensland Department of Transport and Main Roads, *Submission 134*, p. 3.

optional two-year period. TMR stated that the contracts are performance-based, and advised that:

> Part of the performance regime is to ensure air fare pricing and service levels are monitored and reviewed annually or more regularly if required. The Air Service Contracts ensure commercial viability for each operator and the State, by setting Maximum Fares on all fully flexible fares. Operators manage all other fare type price structures below the Maximum Fare.[15]

8.21   On 1 January 2015, three routes in Queensland were deregulated, allowing other operators to enter the market. These routes were Cairns-Weipa, Cairns-Horn Island, and Townsville-Cloncurry-Mount Isa. The regulated services provided in Queensland from 1 January 2015 are provided below in Table 8.1.

Table 8.1 – Queensland regulated air services from 1 January 2015[16]

Route name	Route details	Operator from 1 Jan. 2015
Central 1	Brisbane-Roma-Charleville	QantasLink
Central 2	Brisbane-Barcaldine/Blackall-Longreach	QantasLink
Western 1	Brisbane-Toowoomba-St George-Cunnamulla-Thargomindah	Regional Express
Western 2	Brisbane-Toowoomba-Charleville-Quilpie-Windorah-Birdsville-Bedourie-Boulia-Mount Isa	Regional Express
Northern 1	Townsville-Winton-Longreach	Regional Express
Northern 2	Townsville-Hughenden-Richmond-Julia Creek-Mount Isa	Regional Express
Gulf	Cairns-Normanton-Mornington Island-Burketown-Doomadgee-Mount Isa	Regional Express

8.22   The TMR advised that the maximum fare price under a regulated route contract was determined via a cost benefit analysis (CBA), creating a price ceiling. However, the TMR stated that the 'process and categories for the CBA remain commercial in confidence with the Queensland Government'. According to the TMR, operators determine the price structure for regulated routes 'in accordance with their

---

15   Queensland Department of Transport and Main Roads, *Submission 134*, pp. 2-3.

16   Queensland Department of Transport and Main Roads, *Long distance air services,* https://www.tmr.qld.gov.au/regionalconnect (accessed 7 September 2018).

procedures', but the final price paid by a customer—including GST—must not exceed the set maximum fare price in the contract.[17]

8.23   The TMR informed the committee that the regulated routes were reviewed, and that the contracts allow for services to be increased with the approval of the state on routes where demand and seasonal trends warrant it. The TMR further advised that, to ensure the state was receiving value from its investment in long distance transport services, it undertook a review of the contracts and services at least once in every contract period:

> This includes an analysis of current and future customer demand over the next five - seven years. The review process helps identify if current service levels are meeting the requirements for each community and whether regulation of a service is required, or, in the case of a significant increase in demand, whether market conditions could support deregulation and open competition. If demand exceeds the requirements for regulation it may be deregulated at the Minister's request.[18]

Queensland Government Local Fare Scheme

8.24   In Queensland, the Local Fare Scheme (LFS) is provided by the Queensland Government to eligible residents of Cape York, Torres Strait Islands and some Gulf communities, and offers a discount airfare in an open competitive market. TMR advised that the LFS was in a trial phase until 30 June 2019 to determine the efficacy of the scheme and viability of services. The LFS aimed to 'improve the standard of living of local residents in regional and remote Queensland communities' by making travel to neighbouring communities more affordable.[19]

8.25   TMR advised that residents were required to meet certain eligibility criteria before receiving the return airfare discount, with the airfare pricing on eligible LFS routes determined by the airlines. The LFS provides a discount of up to $400 per return passenger, with the customer to pay a minimum of $99 plus GST, charges and booking fees.[20]

8.26   The Torres Strait Island Regional Council commented that the LFS was beneficial to residents of the Central, top Western and top Eastern Islands of the Torres Strait, who accessed the Scheme on a regular basis. For example, between September 2015 and June 2016, 2178 residents used the LFS, in an area with a

---

17   Queensland Department of Transport and Main Roads, *Submission 134*, p. 4. Qantas advised that QantasLink was the contracted provided for the Central 1 and Central 2 regulated routes; see Qantas Group, *Submission 126*, p. 11.

18   Queensland Department of Transport and Main Roads, *Submission 134*, p. 5.

19   Queensland Department of Transport and Main Roads, *Submission 134*, pp. 2, 3. Qantas advised that it participated in the Local Fare Scheme; see Qantas Group, *Submission 126*, p. 11.

20   Queensland Department of Transport and Main Roads, *Submission 134*, p. 3.

population of 4200 people. Each participant was saving an average $368.55 per flight. The LFS was thus considered by the Council to be essential to the region.[21]

8.27   The Council did, however, raise some concerns with the LFS, noting it was inconsistent, with only a limited number of seats available on each flight open to the LFS, and not available for bookings made at short notice.[22]

BITRE analysis on regulated routes

8.28   BITRE examined the actual and modelled fares for a number of routes where state governments had offered some form of aviation support schemes—while noting that this analysis was based only on a one-month snapshot of fares and thus may not reflect long-term trends and should not be treated as conclusive. BITRE suggested that its analysis found below-average fares on subsidised routes, with higher-than-average fares on some regulated routes. Specifically, BITRE found that:

- the routes on the Queensland LFS tended to be among the lowest fare mark-up group, with NT regional routes also among the lower-end fare mark-up routes;

- Queensland regulated routes included 'some of the highest apparent fare mark-up routes across Australia' (for example Brisbane-Barcaldine), but this group also included some apparent low fare mark-up routes (for example Brisbane-Roma); and

- fares in NSW and WA for both regulated and unregulated routes tended to have average fares that were broadly similar across route type.[23]

8.29   BITRE confirmed that there were many costs relating to air transport which it was not able to obtain. BITRE did not have access to detailed information from airlines, or details on individual costs. However, in late April 2019 BITRE advised that it was 'currently investigating the feasibility of compiling financial statistics for all sectors of civil aviation, including airlines'.[24]

Views on regulated routes

8.30   There was general support expressed for the regulation of routes, where commercial viability would not otherwise be likely. For example, while not operating on any regulated routes, Virgin nonetheless considered regulation to be sensible and

---

21   Torres Strait Island Regional Council, *Submission 138*, p. 3.

22   Torres Strait Island Regional Council, *Submission 138*, p. 4.

23   Bureau of Infrastructure, Transport and Regional Economics, *Information Sheet: An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares*, September 2018, pp. 26-27.

24   Dr Gary Dolman, Head of Bureau, Bureau of Infrastructure, Transport and Regional Economics, *Committee Hansard*, 1 April 2019, p. 20; Bureau of Infrastructure, Transport and Regional Economics, answer to question taken on notice, 1 April 2019 (received 29 April 2019).

appropriate when government intervention was needed to 'ensure the continuity of access to vital services by regional communities'.[25]

8.31   The AAA raised some concerns with the regulation of routes, but saw the benefits of such arrangements. The AAA argued that:

> …growth has been stronger on unregulated routes where more airlines are operating than regulated routes where there is arguably less incentive to innovate and compete in terms of price and scheduling. This has been one driver behind the NSW Government's move to deregulate. Airfares also tend to be higher on regulated routes. That said, where there is no prospect of a commercially viable service, regulation and subsidisation of routes may be an appropriate policy response.[26]

Queensland

8.32   Rex expressed its strong support for the Queensland regulated route framework, stating that the Queensland Government had an 'enlightened approach' to regulation, with 'the most successful, innovative and progressive programme that Rex has been involved with to date'.[27]

8.33   Rex noted that its regulated routes in Queensland were a mix of those which were profitable and unprofitable, and therefore it 'risk-sharing with the Queensland government'—on profitable routes, the profits were shared between Rex and the government, but the converse was also true. To secure the tender on the routes, Rex provided the Queensland Government with five years of cost and revenue projections, which the 'Queensland government then had to assess to work out what the most effective outcome was for the Queensland taxpayer to service all these regional communities'.[28]

8.34   Rex further observed that while state governments had little control over airport charges, better operational efficiencies and load factors could be achieved via state governments regulating more routes. Rex suggested that if states did so through a tender process, it would:

> …ensure that the efficiency gains are passed on to the passenger by ensuring the carrier only makes a fair economic return on the route. By doing so, the added efficiency would automatically translate into a lower ticket price.[29]

---

25   Virgin Australia, *Submission 109*, p. 4.

26   Australian Airports Association, *Submission 122*, p. 11.

27   Regional Express, *Submission 135*, p. 6.

28   Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Committee Hansard*, 24 July 2018, p. 34.

29   Regional Express, *Submission 135*, p. 23.

8.35   In reflecting on western Queensland, Alliance argued that the government needed to 'step up' and play a role, via regulation, in ensuring 'long-term, sustainable and affordable airfares'.[30] Virgin also saw the benefit of government intervention. Mr Sharp of Virgin suggested that:

> …if you're talking about a government role, growing competition and volume is the answer for very small routes. There needs to be a definition of what that small route is. You regulate them. And that's where you do end up with the consistency of price and, effectively, you're providing that essential service for that smaller community.[31]

8.36   QAL put forward its view that an unregulated system works well for airfare pricing on most routes in the country, with 'the market delivering the best long-term outcomes for the industry and its customers'. However, QAL did acknowledge its support for the Queensland regulated route scheme, as it delivered necessary, affordable and sustainable air services to remote areas, where passenger demand was not high enough to create healthy competition amongst airlines or to attract a single service to a route.[32]

8.37   The RRC suggested that government regulation and subsidisation would be required to specific destinations in future, in order for regional communities to grow and remain an attractive proposition to potential residents. The RRC suggested that regulated route networks be developed by taking communities with common interests into consideration.[33]

8.38   Mr Bruce Collins of Winton made the point with regard to regulated routes that:

> …governments have a responsibility to ensure that neither companies nor individuals have an opportunity to make excessive profits arising as a result of government regulation or policy. Consequently, an operator of an air service on a regulated route has a right to profitability but also has a responsibility to operate on reasonably modest profit levels...That's because they are sheltered from competition on that regulated route.[34]

---

30   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 21.

31   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 38.

32   Queensland Airports Limited, *Submission 151*, pp. 2-3. As an example of the necessity and effectiveness of regulated routes, QAL drew attention to the Western 2 route (see Table 3.1), and advised that in 2017 the Boulia to Mount Isa leg of that route had an extremely low load factor of just seven per cent; see Queensland Airports Limited, *Submission 151*, p. 4.

33   Rockhampton Regional Council, *Submission 159*, p. 5. These views were supported by the Winton Shire Council; see attachment to Rockhampton Regional Council, *Submission 159*, p. 6.

34   Mr Bruce Collins, *Committee Hansard,* 11 April 2018, p. 16.

8.39   Conversely, Councillor Ed Warren, Mayor of the Longreach Regional Council, argued that 'regulated contracts are not working on a number of fronts'. Councillor Warren suggested that for regulated routes the pricing matrix for the airfares was very complex, the flight scheduling was inappropriate, and, given the contracts run for five years, the program was inflexible and could not be adjusted during that time. Councillor Warren confirmed that as part of the tender process and review of regulated routes, the Council had not been consulted.[35]

8.40   In an attachment to its submission, the LGAQ put forward a considered view of regulated routes in Queensland, observing that while there are a number of regulated routes in the state:

> …many unregulated routes also effectively operate as monopolies with passenger numbers insufficient to support more than one airline. On these routes, a barrier to entry exists in that the risk for an airline to enter the route and be successful against the incumbent may be too great when considering the profit-generating potential of the route if it were to be successful. While the regulated routes come at a cost, at least they introduce some form of periodic competition through an open tender process with considerably reduced financial risk for the successful airline. The existence of guaranteed funding also opens the market to the smaller operators without the threat of short-term price discounting that may threaten their viability to remain on a route.[36]

Western Australia

8.41   The EISC found that in operating on WA's regulated routes, Rex exceeded the requirements of the deed of agreement and provided information to the community 'regarding costs, pricing and passenger numbers, enabling the community to assess the operator's conduct with respect to pricing'. As a result, community attitudes to the price of airfares had changed. Rex had also worked collaboratively with local communities in the development of its community fare. The EISC concluded that:

> The collaborative development model for this fare, the engagement with the local community and joint contribution to costs management (the local governments have also chosen to cap their landing fees), has considerably removed the 'heat' from the airfare issue in these regulated destinations.[37]

8.42   The RDAG, expressed its view that intrastate air services should be deregulated, allowing market forces to instead determine the provision of RPT

---

35   Councillor Ed Warren, Mayor, Longreach Regional Council, *Committee Hansard*, 10 April 2018, pp. 3, 5.

36   Local Government Association of Queensland, *Submission 149*, Attachment 1: AEC Group Ltd, *Environmental scan of air route service delivery to rural, regional and remote communities*, February 2018, p. 12.

37   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 20.

services. RDAG stated that state interference in 'aviation commerce should be minimised with regulation of RPT routes only in response to demonstrated market failure'. RDAG submitted that deregulation could stimulate competition, increase choice, lower airfares and introduce more flights, and questioned whether competition resulted in benefits, or whether this would be better achieved through improved economies of scale with a single operator.[38]

Transparency

8.43   Concerns were raised regarding a lack of transparency around the awarding of regulated routes through the tender process, particularly in Queensland. Further, a number of submitters suggested that there was little information publically available regarding the regulation of routes—and conversely, little information about why a route was deregulated.

8.44   The Queensland TMR advised that all regulated route contracts in that state required the airline operator to conduct and administer a minimum of one meeting with 'key community stakeholders' every 12 months, in the form of a Consultative Forum. The Forums were to seek feedback from the community about performance (including on time performance), communication, customer services and potential service enhancements. Major contract changes required the operator to consult with affected stakeholders at the Forum, prior to submitting an operational change request to TMR.[39]

8.45   Despite these processes, it was felt by some submitters that the specifics of the contracts on regulated and subsidised routes were not available to the public, and that there was insufficient consultation with local communities, thus leaving many unknowns with regard to pricing determinations, airline operations, and the key performance indicators that successful tenderers had to meet.[40]

8.46   For example, Alliance was of the view that greater information could be provided to airlines who were looking to tender for a regulated route in Queensland. Mr McMillan stated that:

> If you're tendering the whole of western Queensland at once, you'd want to know what the airfares are, what the variations are, what the schedules are, what aircraft type you're going to use, how you're going to react when there's a broken aircraft or bad weather conditions, the systems you're going to have in place, how you're going to sell the tickets, and the residents' fares

38   Regional Development Australia Mid West Gascoyne, *Submission 117*, pp. 3-4.

39   Queensland Department of Transport and Main Roads, *Submission 134*, p. 7. The submission provides information on which Consultative Forums have taken place since January 2015; see pp. 7-8.

40   See for example: Mr James Cameron*, Submission 6*, p. 2; Mr Lachlan Millar MP, *Submission 17*, p. 1; Mrs Milynda Rogers, *Submission 19*, p. 2; Mr Danny Sheehan, *Submission 30*, p. 3; Councillor Bruce Scott, *Committee Hansard*, 10 April 2018, p. 23.

and so on so you don't get scammed. There's an enormous scope of work to get that.[41]

8.47   The MICC voiced concerns with transparency over regulated routes, arguing that there was little publicly known about the 'rationale, implementation…and effectiveness of the government intervention', given that many details of the arrangements were considered commercial-in-confidence and not released. The MICC concluded that:

> It is not evident whether this regulatory arrangement is effective as there is so little information publicly available. Airlines that have been successful in gaining the right to operate on a small route have been supportive of these arrangements, whereas the disenfranchised airlines have criticised the regulatory arrangement. The MICC considers more information should be made publicly available so the success or otherwise of these arrangements can be assessed.[42]

8.48   Mrs Katrina Paine of Winton summarised well the concerns held by communities over a lack of transparency in the awarding of regulating routes, asking:

> …why are some routes regulated and others unregulated? What is the process for appointing the sole carrier to regulated routes, and what obligations are attached to that appointment? If the travelling public better understood the conditions under which the airlines operate in our communities, this may lead to more constructive discussion and eventual solutions for the problems we experience.[43]

Residents fares

8.49   In recent years, a number of airlines have implemented resident or community airfares, offering discounted fares to residents or the general flying population. However, the availability of the discounted fares, and the restrictions to their use, vary between airlines and between jurisdictions.

Qantas – residents fare scheme

8.50   Qantas has introduced a residents fare scheme, offering discounted airfares to residents of various locations across Queensland, WA and the NT, should they travel on specified return trips between set locations. Table 8.2 shows the locations where the scheme was available to residents, as of May 2019:

---

41   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 17.

42   Mount Isa City Council, *Submission 35*, p. 25.

43   Mrs Katrina Paine, *Committee Hansard,* 11 April 2018, p. 7

Table 8.2 – Access to Qantas discount residents fares[44]

Jurisdiction	Location
Queensland – travel to Brisbane	Mount Isa, Cloncurry, Moranbah, Boulia, McKinlay Shire, Longreach, Barcaldine, Blackall
Western Australia – travel to Perth	Broome, Kalgoorlie, Karratha, Newman, Paraburdoo, Port Hedland
Northern Territory – travel to Darwin	Alice Springs

8.51   The Qantas residents' fares scheme offers a 'variable discount of up to 30 per cent off the Qantas-controlled component of all-inclusive airfares (which excludes airport charges, security fees and GST)'. Qantas advised that:

> The discount is available on all economy retail fares with the exception of sale fares, for purchase up to and including the day of travel. This means that last minute trips during peak travel periods are more accessible for residents. Discounts vary from 10 to 30 per cent off the Qantas-controlled component of airfares, depending on the fare purchased. The more flexible the fare, the greater the percentage discount.[45]

8.52   In order to access the scheme, residents must be members of the Qantas Frequent Flyer Program, to which the sign-up fee is waived. By booking flights via the Frequent Flyer Program, a passenger's residential address is automatically linked to the booking (the passenger details entered as part of the booking must match that of the Frequent Flyer profile). The scheme is limited to a maximum of 12 return trips per year (with one-way flights and flights to any other regional ports excluded from the scheme).[46]

8.53   Qantas acknowledged that the locations selected for the residents' fare scheme were 'destinations where high volumes of fly-in fly-out (FIFO) traffic uniquely impacts the demand profiles and pricing of flights'. Additionally, the routes were selected as they were considered remote, with less frequency of services and fewer operators.[47]

---

44   Qantas, *Discounted fares for residents*, https://www.qantas.com/au/en/frequent-flyer/member-specials/discounted-fares-for-residents.html (accessed 2 May 2019).

45   Qantas Group*, Submission 126*, p. 12. Since making its submission, Qantas has increased the minimum discount available from 10 to 20 per cent; see Qantas, *Discounted fares for residents.*

46   Qantas, *Discounted fares for residents*.

47   Qantas Group*, Submission 126*, pp. 1, 13; Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 April 2019, p. 16.

8.54   Mr David advised that since its inception, and in response to community feedback, Qantas had tripled the number of trips that residents could booked each year—from four to 12. As of April 2019, more than 12 000 return trips had been booked under the scheme, with estimates that the total number would reach 36 000 by the end of 2019. Mr David described the residents fares program as 'transparent' and 'user friendly', which was promoted through local media, the Frequent Flyer Program and other email channels.[48]

8.55   QAL advised the committee that it matched the discounts offered by Qantas under the scheme, providing a discount of between 10 to 30 per cent of its airport charges, which was then passed on to the passenger. QAL noted that doing so assisted in incentivising the volume of passengers at its airports.[49]

8.56   In considering the discount fares offered by Qantas, the EISC in WA concluded that while it was a welcome development, it held concerns about:

> …the nature of the community engagement undertaken when introducing the fare; its ability to provide a long-term, sustainable solution for community access to reasonably priced fares; and whether these fares represent the best price that could be offered to community members travelling under 'compassionate' circumstances.[50]

Regional Express – Rex Community Fare

8.57   Rex advised of the introduction of its Community Fare Scheme firstly in Western Australia, on the Albany-Perth and Esperance-Perth routes. Following this, the Community Fare was introduced to Broken Hill, Burnie, Moruya and Parkes, 'under mutually beneficial partnership agreements between Rex and the local councils'.[51]

8.58   Rex advised that in January 2018, it introduced its Community Fare on the Mount Isa to Cairns route. The Community Fare provides $198 airfares on up to 30 per cent of seats on direct flights between the two locations, if booked at least 30 days prior to departure. All unsold seats one day prior to departure were also offered at the Community Fare price.[52]

---

48   Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 April 2019, pp. 2, 7, 14.

49   Mr Adam Rowe, General Manager, Business Development and Marketing, Queensland Airports Limited, *Committee Hansard*, 10 April 2018, p. 15. At the time of the hearing, the residents fare discount started at 10 per cent, not 20 per cent.

50   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 99.

51   Regional Express, *Submission 135*, p. 8.

52   Regional Express, *Submission 135*, p. 8.

8.59   Since making its submission to the inquiry, Rex has entered into a number of five-year agreements with various local councils, to offer the Community Fare. The agreements provide $129 tickets to a quarter of the seats available on various routes, and under the same booking conditions of the Mount Isa to Cairns route. The Community Fares are now offered on the following routes:

- Mount Gambier to Melbourne and Adelaide (in partnership with the District Council of Grant, and with the Council concurrently lowering the airport head tax);[53]

- between Griffith and Sydney (in partnership with the Griffith City Council);[54]

- between Narrendara-Leeton and Sydney (in partnership with the Narrandera and Leeton Shire Councils);[55] and

- between Mildura and Adelaide (in partnership with the Mildura Airport).[56]

8.60   With regard to evidentiary requirements, Rex advised that its Community Fares were available to anyone, with Rex noting that such an approach 'does not come with the administrative burden associated with providing proof of residence'. Rex was of the view that the Community Fare scheme was able to provide regional and remote communities with more affordable air travel.[57]

8.61   Rex suggested that the Community Fare Scheme had demonstrated its success by 'providing regional and remote communities with more affordable air travel'. Rex continued that it was:

> …willing to deliver such benefits to regional communities when the local councils take a longer term approach and are willing to create the necessary framework to make such initiatives possible to the longer term mutual benefit of the operator and the local community.[58]

---

53   Regional Express, 'Breakthrough partnership with the District Council of Grant', *Media Release*, 4 September 2018, http://www.rex.com.au/MediaRelease/Files/548_MR04092018-RexAnnouncesCommunityFareforMountGambier.pdf (accessed 3 December 2018).

54   Regional Express, 'Rex announces Community Fare and more flights for Griffith', *Media Release*, 12 September 2018, http://www.rex.com.au/MediaRelease/Files/551_MR20180912-RexAnnouncesCommunityFareandMoreFlightsforGriffith.pdf (accessed 3 December 2018).

55   Regional Express, 'Rex announces Community Fare for Narrandera/Leeton to Sydney, *Media Release*, 4 October 2018, http://www.rex.com.au/MediaRelease/Files/556_MR04102018-RexAnnouncesCommunityFareforNarranderaLeeton.pdf (accessed 3 December 2018).

56   Regional Express, 'Rex announces community fare for Mildura to Adelaide', *Media Release*, 8 January 2019, http://www.rex.com.au/MediaRelease/Files/563_MR08012019-RexAnnouncesCommunityFareforMilduratoAdelaide.pdf (accessed 30 May 2019).

57   Regional Express, *Submission 135*, p. 8.

58   Regional Express, *Submission 135*, p. 25.

8.62   Mr Lodge at Rex noted that the partnerships with councils under the Community Fare Scheme needed co-investment between the airline and the airport, because if passenger numbers did not grow sufficiently, and current passengers paid less, 'our revenue will go backwards'. Mr Lodge acknowledged that this risk also existed for airport operators and councils, because:

> …if the passengers don't increase by the right amount the airport's revenue will go backwards. The reason that we do this is that we want to enter into a five-year agreement, because it does take a couple of years to start building the passenger numbers, which is what we've seen in other ports. It's really about getting to a point where Rex's revenue goes up and the airport's revenue goes up—on a more incremental basis than it would if we were charging the higher rate—while at the same time delivering benefits to the local community, which is where the investment from the regional airport comes into it.[59]

Virgin

8.63   While Virgin does not currently offer a residents fare program, it advised that it had trialled such programs in the past and found the take-up to be 'fairly low'. Instead, Virgin encouraged price-sensitive customers in regional markets to book well in advance.[60]

8.64   Virgin confirmed that it did have a compassionate fare policy available on all its routes, but it did not make this policy public. Mr Shaw detailed the operation of the compassionate fare policy:

> It is very much down to the empowerment of our particular team members, whether it be in our guest contact centre or at the airports, to exercise their discretion, and we give them that empowerment. However, we don't make a blanket policy for the simple reason that it is subject to abuse. If we were to publish that policy, it would be fair to say that we would have a lot more special cases approaching us.[61]

Access to resident's fares

8.65   There was significant frustration expressed throughout the inquiry by residents of regional communities—particularly in Queensland—about access to resident's fares. Evidence was put to the committee that airlines did not provide sufficient information on how local residents could access these fares, how many of

---

59   Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Committee Hansard*, 24 July 2018, p. 33.

60   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 31.

61   Mr Russell Shaw, General Manager, Network and Revenue Management, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 32.

the fares were available per flight, or what identification documents were required to prove residency in the local area.

8.66   Many submitters also observed that if access to a resident fare was possible, it had negligible impact when the price of airfares was so high to begin with (this was particularly argued in relation to the Qantas scheme, where the reduction in price does not apply to sale fares).

8.67   Mr Mark Davis of the Shire of Broome, argued that—while the idea of the scheme had merit—the discount provided by the residents' fare program on a last-minute fare were 'very negligible'. Mr Davis continued that the scheme 'may not have a great impact on reducing the costs for community members or businesses who have to fly at the last minute'.[62]

8.68   The Winton community expressed frustration over the residents fares scheme. It was suggested that there was little visibility—online and elsewhere—as to the availability of the fares, with bookings required through a travel agent or over the phone, and with little information about how best to book the fares on offer as part of the scheme. There was also concern expressed about how identity was verified as part of the scheme.[63]

8.69   Mr Lachlan Millar MP contended that his constituents had consistently raised concerns over the provision of resident's fares, and that this was an ongoing problem. Constituents had advised Mr Millar that they 'never seem able to access this fare', and that when available, the allocation of seats to resident's fares was so small that only a few residents could access them.[64]

8.70   McKinlay Shire Council also raised concerns over the Qantas resident's fares program. The Council was concerned that while residents could currently join the Frequent Flyer program at no charge, there was no guarantee that the joining fee would not be reintroduced at a later date. The Council also took the view that residents were 'forced' to book a return ticket to get a resident's fare, which did not necessarily accommodate unforeseen or emergency travel where return dates were unknown.[65]

8.71   The ICPA observed that many families continue to be ineligible for Qantas's resident's fares, despite expansion to the catchment areas. The ICPA contended that many rural families did not qualify for the scheme as they did not live in a designated area, despite this being the closest or only airport available to them. Further, the fare reduction was only available on return tickets, and often people in regional areas will

---

62   Mr Mark Davis, Manager, Community and Economic Development, Shire of Broome, *Committee Hansard*, 3 April 2018, p. 4.

63   *Committee Hansard,* 11 April 2018, pp. 3; 6; 7; 9-10; 13; 17; 20.

64   Mr Lachlan Millar MP, *Submission 17*, p. 1.

65   McKinlay Shire Council, *Submission 34*, p. 2. See also Mrs Milynda Rogers, *Submission 19*, p. 2.

not know their return date—for example, if they are attending appointments or picking up machinery.[66]

8.72   The MICC was of the view that while the Rex community fare was a significant discount on the airfare between Mount Isa and Cairns, it was 'not the full answer as it is available to a significant proportion, but not all the passengers on this route'. With regard to the Qantas resident's fare scheme, the MICC stated that this scheme 'falls well short of our expectations'. MICC contended that:

> Residents who have sought to take advantage of the scheme indicate it has made little difference and that it is simply a marketing ploy introduced in response to negative publicity.

> The 12-month trial is based on headline discount rates and applies only to the small fraction of airfare costs that Qantas directly controls.

> It also only applies to return airfares, so passengers may have to pass over a cheaper airfare from Virgin on one leg of the journey.

> …The MICC does not have a problem with Qantas being clever in marketing its services. But we do object to Qantas citing the promotion as an exercise of its social conscience.[67]

Clarification on the Qantas program

8.73   Mr Waddell of Qantas provided some clarity as to the availability of residents fares, noting the concerns expressed—namely in Queensland—about the limited availability of the fare. It appears that there is some confusion arising from the fact that there are two resident fare schemes in operation. Mr Waddell explained that the discount under the new residents' fare scheme:

> …is a discount off every piece of our inventory. In the Qantas program we don't have a fixed pool of 10, 20 or X number of seats; the discount applies to every piece of our inventory at all times.

> …In the case of Longreach, there are two programs operating in parallel…one that we have put in place as part of the regulated route conditions with the Queensland government. The Qantas discount program sits alongside and in parallel to that, and in Longreach provides access to every seat in our inventory, all the way through the tariff from 20 to 30 per cent off depending on the class.[68]

8.74   Mr Waddell continued that, as part of its agreement with the Queensland Government, it offers special fares for residents of regulated markets, for example,

---

66   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 5; Mrs Wendy Hick, Federal President, Isolated Children's Parents' Association of Australia Inc., *Committee Hansard*, 12 April 2018, p. 31.

67   Mount Isa City Council, *Submission 35*, p. 18.

68   Mr Guy Waddell, Head of Revenue Management, Qantas Domestic, *Committee Hansard*, 15 April 2019, p. 17.

residents of Longreach. The fare is accessed via local travel agents, and limited to residents. This scheme runs in parallel to the residents' fares program.[69]

8.75   Qantas acknowledged that more work needed to be done and that it needed to do better in educating residents about the residents' fares program, 'highlighting the significant discounts available and the ease of which they are obtained'.[70]

Student travel assistance schemes

8.76   Evidence was received that in some jurisdictions, government or airline financial support was provided to eligible families with children travelling from regional and rural areas to attend school. Some of the schemes currently on offer were described as 'very helpful to families and their loss would be detrimental to children's compulsory education'.[71]

8.77   However, there were limitations noted with such schemes, with the ICPA contending that there was no consistency between jurisdictions or airlines as to the provision of these assistance packages. Further, some students had to travel interstate to access air travel (for example, from the Northern Territory to Queensland), making them ineligible for some state-based schemes. The ICPA called for state-funded travel assistance that was nationally consistent, to help retain families in rural and remote areas.[72]

8.78   The Queensland ICPA also brought attention to the fact that while airfare assistance schemes were welcome, many children did not reside within the shire where their airport of departure was located, due to the vast distances involved. It was therefore important to ensure 'students who utilise regional airlines are included in future offers and discounts, even though they may not necessarily live within the shire the airport is based'.[73]

8.79   The NT ICPA suggested that enrolled students could be given a code with which to discount a fare to an 'average cost' for school-related travel (using, for example, a student ID card as proof of enrolment), with fares kept within a price ceiling and airlines retaining a certain number of seats for students.[74]

---

69   Mr Guy Waddell, Head of Revenue Management, Qantas Domestic, *Committee Hansard*, 15 April 2019, p. 24.

70   Qantas Group, response to questions taken on notice, 15 March 2019 (received 5 April 2019).

71   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* p. 5. The Outback Queensland Tourism Association was supportive of capped or concessional school holiday fares; see *Submission 56*, p. 13.

72   Isolated Children's Parents' Association of Australia Inc., *Submission 63,* pp. 5-6.

73   Isolated Children's Parents' Association Queensland, *Submission 43*, p. 3. A similar view was put forward by the federal ICPA; see *Submission 63*, p. 3.

74   Northern Territory Isolated Children's Parents' Association, *Submission 70*, p. 4.

Assistance by airlines

8.80   The Queensland ICPA advised that Rex offered a Bush to Boarding program for students departing from and travelling to a number of regional centres in Queensland, which offers concessional airfares for students. The Queensland ICPA believed that approximately 50 seats per year were booked across Queensland under this scheme. However, the organisation drew attention to a number of issues with the program:

> Whilst this scheme is valued, it should be noted that these 'concessional fares' must be booked through designated parties (two individuals who volunteer their time to do so), and the discounted rate is only a 'middle range value' ticket. ie: not actually 'discounted', but rather discounted off an 'expensive' ticket. Furthermore, REX Airlines has little or no information readily available on this scheme directly, making the process flawed in its implementation.[75]

8.81   Qantas advised that it did not offer any discount schemes specifically for travelling students, as it was 'challenging to offer special fares for every type of travel purpose', and encouraged families to take advantage of the lower fares on offer earlier in the booking cycle. Qantas noted that it would continue to engage with the ICPA to discuss the most challenging routes and student flows.[76]

---

75   Isolated Children's Parents' Association Queensland, *Submission 43*, p. 2.

76   Qantas Group, response to questions taken on notice, 15 March 2019 (received 5 April 2019).

Chapter 9

Support for regional aviation services

9.1   In light of the various difficulties and significant cost imposts of delivering aviation services to regional and remote Australia, a number of initiatives have been implemented to help support airport operators and passengers to better deliver and access regional flights.

9.2   This chapter discusses a number of initiatives offered by government to help ensure the ongoing sustainability of regional aviation. This chapter also puts forward some of the views presented in evidence as to how airfares could be reduced for regional Australia.

Government support for remote and regional aviation

9.3   The Australian Government provides some financial support for aerodrome infrastructure and air services in remote areas. This funding is provided through the Regional Aviation Access Programme (RAAP). However, the role of the federal government in providing financial assistance for aviation services is otherwise limited.

9.4   DIRDC confirmed with the committee that the federal government did not have a 'direct regulatory lever that we can pull', with regard to the regulation or subsidisation of air routes and to address other issues with regional aviation. Mr Stephen Borthwick, General Manager, DIRDC, further advised that the Department was 'extremely limited' in terms of possible interventions to address the concerns raised during this inquiry. Mr Borthwick confirmed that the Commonwealth does not make a financial contribution to support regional airport operations—rather, the funding under schemes such as the RAAP goes towards infrastructure upgrades, and not operational or maintenance costs. Mr Borthwick concluded that:

> …there's a sense that you have more cost certainty control over an infrastructure upgrade than you do over funding ongoing operational and maintenance costs.[1]

Regional Aviation Access Programme

9.5   The Program Guidelines for the RAAP acknowledge that its objective is to support remote aviation services which are not commercially viable, but are 'essential for the social and economic wellbeing of the communities they serve'.[2]

9.6   Funding for the RAAP is allocated across a number of components, including the Remote Air Services Subsidy (RASS), the Remote Airstrip Upgrade Programme (RAUP) and the Remote Aerodrome Inspection Programme (RAIP).

---

1   Mr Stephen Borthwick, General Manager, Department of Infrastructure, Regional Development and Cities, *Committee Hansard*, 1 April 2019, pp. 18-19.

2   Department of Infrastructure and Regional Development, *Regional Aviation Access Program: Consolidated Program Guidelines*, July 2015, p. 2, https://www.infrastructure.gov.au/aviation/regional/files/RAAP_Consolidated_Program_Guidelines_2015.pdf (accessed 1 May 2019).

9.7   The RAIP provides 'identified remote indigenous communities with annual inspections and related services to assist those communities to meet their aviation safety obligations'. The RAIP, however, does not provide funding for the operating costs or remedial works on airstrips.[3]

Remote Air Services Subsidy Scheme

9.8   The RASS subsidises a regular weekly air transport service for the carriage of passengers and goods including educational material, food, medicines and other urgent supplies to communities in remote and isolated parts of the country. Communities serviced by the RASS are 'typically a cattle station or an Indigenous community with a population ranging from six people to approximately 200 people'.[4]

9.9   The RASS provides some 372 communities in remote and isolated areas of the country with improved access through the subsidy of a regular air transport service. This includes 266 directly serviced locations, including 86 Indigenous communities, and a further 106 neighbouring communities that receive mail through RASS ports. There are currently seven air operators providing air transport services to the 266 remote communities throughout Queensland, the Northern Territory, South Australia, Western Australia and Tasmania. Communities can apply to DIRDC for admission to the scheme at any time.[5]

9.10   Under the RASS, flights are operated on a commercial basis, with fares and charges subsidised to make services accessible for residents of remote communities.[6] The RASS subsidy is paid directly to the air operator, which is contracted with the Australian Government for a fixed term, and selected in accordance with the Government Procurement Rules.[7]

Remote Airstrip Upgrade Programme

9.11   The RAUP provides funding for upgrades to remote airstrips in isolated communities. The aim of the RAUP is to enhance the safety and accessibility of aerodromes in remote areas, via various projects. Projects include upgrades to runway surfaces, stormwater drainage and provision of safety equipment, and other

---

3   Department of Infrastructure, Regional Development and Cities, *Regional and Remote Aviation,* 27 July 2015, https://www.infrastructure.gov.au/aviation/regional/rai.aspx (accessed 1 May 2019).

4   Department of Infrastructure, Regional Development and Cities, *Remote Air Services Subsidy Scheme,* 17 October 2017, https://www.infrastructure.gov.au/aviation/regional/rass.aspx (accessed 1 May 2019).

5   Department of Infrastructure, Regional Development and Cities, *Remote Air Services Subsidy Scheme*, 17 October 2017.

6   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 6.

7   Department of Infrastructure, Regional Development and Cities, *Remote Air Services Subsidy Scheme*, 17 October 2017.

infrastructure projects such as animal-proof fencing (but do not provide assistance for landside works such as terminals or hangars).[8]

9.12   On 10 February 2017, funding of $11.8 million was announced for 91 remote aerodrome upgrade projects around the country, as part of the fourth round of funding for the program. On 23 March 2018, $7 million funding was allocated to 31 access and safety upgrade projects across Australia, as the fifth round of funding.[9]

9.13   Funding for the RAUP was extended in the 2018–19 Budget, with $28.3 million allocated over the forward estimates for an additional three funding rounds, up to 2021–22. As a result, round 6 of the RAUP was finalised on 22 March 2019, when $10.1 million in funding was announced for a further 34 access and safety projects.[10]

Regional Airports Program

9.14   As part of the 2019–20 Budget, the Regional Airports Program was established, providing $100 million over the forward estimates, to 'provide grants to upgrade infrastructure and deliver improved aviation safety and access at regional airports'. $10 million was allocated to 2019–20, with $35 million budgeted for both 2020–21 and 2021–22, with a further $20 million allocated to 2022–23.[11]

9.15   The Minister for Infrastructure, Transport and Regional Development, the Hon Michael McCormack MP, announced that the funded works would 'range from runway and taxiway works, to animal fencing and safety equipment'. The process for funding applications and assessments would be released 'later in 2019, with funding available from 1 July 2019'.[12]

Views on the RAAP and its components

9.16   A number of submitters expressed their support for the RAAP, given the benefits it provided for remote communities, and called for funding to the RAAP to be continued, if not increased.

---

8   Department of Infrastructure, Regional Development and Cities, *Remote Airstrip Upgrade Programme,* 22 March 2019, https://infrastructure.gov.au/aviation/regional/raug.aspx (accessed 1 May 2019).

9   Department of Infrastructure, Regional Development and Cities, *Submission 140*, p. 6. A list of approved Round 4 projects and allocated funding can be found at: https://infrastructure.gov.au/aviation/regional/rau-round-4.aspx, with Round 5 projects listed at: https://infrastructure.gov.au/aviation/regional/rau-round-5.aspx

10   Budget Paper No. 2, Budget Measures 2018–19 – Part 2: Expense Measures, p. 148. Round 6 projects are listed at: https://www.infrastructure.gov.au/aviation/regional/rau-round-6.aspx

11   Budget Paper No. 2, Budget Measures 2019–20 – Part 2: Expense Measures, p. 146.

12   The Hon Michael McCormack MP, Minister for Infrastructure, Transport and Regional Development, 'Australian Government $100 million boost for Regional Airports', *Media release MM099/2019*, 30 March 2019, https://minister.infrastructure.gov.au/mccormack/releases/2019/march/mm099_2019.aspx (accessed 1 May 2019).

9.17   For example, LGANT argued that the RAAP was helping to keep airline services in remote areas viable, with investments in both services and aviation infrastructure. LGANT called for RAAP funding to be 'increased markedly for many years to come to improve air services in regional and remote areas'. LGANT was of the view that no regional airport in the NT, outside of the major centres, had the passenger numbers to be viable, and would thus always need government support.[13]

9.18   Flinders Council was likewise supportive of the RAAP, noting that it provided funding to support capital works at its airport. The Council stated that it was essential for the RAAP to continue, with funding allocations ideally based on relative disadvantage (similar to other government funding programs).[14]

9.19   The Tasmanian Government supported the current targeted federal government assistance provided to regional airports, noting that this support assisted such airports in complying with national safety obligations, which 'often have a costly impost'.[15]

9.20   The Tasmanian Government called for the RAAP to continue to receive ongoing federal funding, noting that it had provided essential assistance to regional airports in Tasmania, and also 'valuable assistance in ensuring aviation infrastructure is safe'. The Tasmanian Government welcomed 'more permanent and on-going' solutions to the management and funding of airports.[16]

Views on the RAUP

9.21   The NT Government was supportive of the RAUP, noting that funding from this program has supported important capital works at remote Territory aerodromes, 'to ensure they are safe and meet [CASA] regulatory requirements and guidelines'. However, the NT Government also observed that the amount of funding available under the RAUP was limited, with great competition for funding across the nation and no funding assistance provided for equipment, maintenance and operational costs which operators struggle to provide. The NT Government called for the eligibility criteria for RAUP to be expanded and program funding increased.[17]

9.22   The Shire of Wiluna was also supportive of the Program, without which it would not be able to upgrade its aerodrome facilities to meet the demands of larger charter aircraft. The Shire supported continued funding of the RAUP.[18]

---

13   Local Government Association of the Northern Territory, *Submission 99*, pp. 6, 9.

14   Flinders Council, *Submission 111*, p. 1.

15   Tasmanian Government, *Submission 69*, p. 4.

16   Tasmanian Government, *Submission 69*, p. 19. The Government of Western Australia was also very supportive of the RAUP and RASS programs; see *Submission 75*, pp. 7-8.

17   Northern Territory Government, *Submission 121*, pp. 3, 12.

18   Shire of Wiluna, *Submission 162*, p. 10.

Views on the RASS

9.23   In the NT, 91 remote communities and locations receive freight services supported by the RASS, with 17 of these locations receiving RASS passenger services. The NT Government recommended that the RASS population threshold be reviewed, to include remote Aboriginal communities with a population of more than 200 people, and be expanded to enable small remote air operators and Aboriginal communities to access funding for establishing, expanding or sustaining operations.[19]

Aviation strategies across jurisdictions

9.24   In light of the difficulties facing regional aviation, jurisdictions across Australia have adopted various policies in support of effective regional aviation industries. Each jurisdiction faces unique challenges in the provision of air services, given the variety of both location and population size of regional centres across Australia. The approaches of different jurisdictions are detailed below.

Northern Territory

9.25   In the NT, there are over 400 aerodromes of various sizes. The NT Government advised that these aerodromes include the certified airports of Darwin, Gove and Alice Springs, and also include registered aerodromes, airplane landing areas and airstrips. Only a small portion of the NT airports receive RPT services, with 20 aerodromes serviced by intrastate RPT services, four receiving interstate RPT services, with only Darwin receiving international RPT services.[20]

9.26   The NT Government does not regulate aviation services, air routes or aerodromes, with the Government observing that since deregulation, air services and associated costs in the NT have been 'largely determined by market forces and commercial factors'. However, the NT Government does provide funding assistance for 70 regional and remote aerodromes, mainly to facilitate medical services and emergency aeromedical evacuations. Less than 10 per cent of the NT's 400 aerodromes charge usage fees.[21]

New South Wales

9.27   In NSW, the *Passenger Transport Act 2014* provides the regulatory framework for intrastate air transport, including the requirement for a licence to operate RPT services over an intrastate route, unless that route has been deregulated or is a charter service. The Act stipulates that a number of factors need to be considered when issuing a licence, including the needs of the NSW public, and the allocation of routes that promote competition and discourage monopolies.[22]

---

19   Northern Territory Government, *Submission 121,* pp. 2, 10.

20   Northern Territory Government, *Submission 121*, p. 2.

21   Northern Territory Government, *Submission 121,* pp. 2-3, 11.

22   NSW Government, *Submission 166*, pp. 5-6. The submission refers to the *Air Transport Act 1964*, which was repealed with the enactment of s. 179 of the *Passenger Transport Act 2014*.

9.28   Transport for NSW advised the NSWLC that, as part of due diligence measures and for any new aviation licence, an airline must provide Transport for NSW with the 'operator's annual audited financial statements within three months of the end of the relevant reporting period of that financial year'. It was suggested that this process allowed for an assessment of the operator's financial viability, both at the time of application and at the end of each financial year during the licence term.[23]

Western Australia

9.29   Air services in regional WA have been largely underpinned by the mining industry. According to the DOT, some of the key factors that contribute to high airfares on at least some of the regional regular public transport air services air routes in WA include:

- relatively high level of business demand;
- relatively high level of airport fees and charges;
- relatively low load factors and the unidirectional nature of demand; and
- other local factors such as fuel costs and staff availability.[24]

9.30   In recognition of the economic and social contribution of the aviation industry, in 2015 the DOT in WA implemented a State Aviation Strategy. The Strategy aims to 'support the economic and social development of Western Australia through the provision of safe, affordable, efficient and effective aviation services and infrastructure'. However, the DOT acknowledged that regional aviation in Western Australia was 'highly complex', particularly given WA RPT services were predominantly accessed by business passengers and supply and demand was 'particularly affected by the volatility of the resources and energy sectors'.[25]

Strategic Airport Asset and Financial Management Framework

9.31   The DOT was further developing a Strategic Airport Asset and Financial Management Framework (Framework) for regional airports. The DOT observed that the airlines held a general view that the taxes and fees charged by regional airports in WA were significantly higher than those in other jurisdictions, thus contributing to the high cost of airfares. The Framework would therefore provide a standardised template for asset management at regional airports.[26]

---

23   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 121.

24   Western Australia Department of Transport, Submission to WA Legislative Assembly Economics and Industry Standing Committee*, Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 3.

25   Government of Western Australia, *Submission 75*, p. 3. In its submission, the Town of Port Hedland called for the urgent review of the Strategy, stating that in light of changes to government and the WA economy, the Strategy was no longer achieving its key objectives; see *Submission 81*, p. 3.

26   Government of Western Australia, *Submission 75*, p. 5.

9.32   The DOT submitted to the EISC that the Framework would:

> …aim to develop a standardised template for asset management at regional public airports including the determination of fees and charges required to maintain and replace assets. The development of a standardised template provides the potential for greater transparency of setting of fees and charges at regional airports.[27]

9.33   The Framework would aim to 'enable the prudent financial management of airport assets and setting of airport charges that are supported by relevant stakeholders'. The Framework will be mandatory as of 1 July 2019, for those regional RPT airports wanting to secure funding under WA's Regional Airports Development Scheme (RADS).[28]

9.34   The RADS provides financial assistance to airport owners for regional airport projects. The DOT observed that it was the first state to provide funding for regional airport infrastructure, noting the difficulties faced by regional airports. The projects under the RADS must aim at improving regional air services and safety, and promote regional development for the benefit of communities. Funding of $3.8 million was provided for projects between 2019 and 2021.[29]

9.35   In its February 2019 report, the PC offered its support for the Framework, suggesting it would help local councils to build the capability to better manage airport infrastructure. The PC encouraged the Australian Government to review the efficacy of the Framework in 2022, in consultation with all jurisdictions and with a view to rolling out the Framework across governments in other jurisdictions.[30]

9.36   Rex likewise offered its support for the WA Framework, arguing that it fosters an 'open and transparent approach', and recommended that other jurisdictions adopt the same approach. Rex further suggested that the Framework would:

> …ensure that the WA Government allocates regional airport funding to airports that are in the most need or has the best economic justification. The process will provide the WA Government with invaluable information about regional airports from throughout the State and this information can

---

27   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 82.

28   Western Australia Department of Transport, *Strategic Airport Asset and Financial Management Framework (Framework) Overview*, https://www.transport.wa.gov.au/mediaFiles/aviation/AV_P_RADS_StrategicAirportAssetFinMgmtFrameworkRPT.pdf (accessed 29 January 2019).

29   Western Australia Department of Transport, *Regional Airports Development Scheme, 2019–21 Grant Guidelines*, p. 3, https://www.transport.wa.gov.au/mediaFiles/aviation/AV_P_RADS_Grant_Guidelines.pdf (accessed 29 January 2019).

30   Productivity Commission, *Economic Regulation of Airports*, Draft report overview, 6 February 2019, p. 32.

be used to better understand the challenges faced by regional airports and in turn how the State Government can best assist.[31]

9.37   Qantas also supported the Framework, in its response to the PC's February 2019 draft report on the economic regulation of airports. Qantas suggested the Australian Government should review the Framework now, rather than in 2022, as it was 'in the interests of rate payers and air travellers for local governments to have sound asset management practices and greater transparency when determining airport charges'. Qantas called for the Framework to be applied to all jurisdictions, and tied to federal funding for local governments.[32]

Federal government subsidisation as a community service obligation

9.38   The 2003 TRS Committee report on regional air services received a number of submissions suggesting the need for government to provide or support regional air services, as part of a community service obligation. It was argued that:

> …people in regional and remote areas should be able to access the same level of service that metropolitan communities enjoy, and that regional and remote people should be able to engage with other Australians.[33]

9.39   In NSW, the 2014 report of the Legislative Council noted that 'many inquiry participants strongly believed that the government has a responsibility to regional communities to provide similar levels of support to that available in metropolitan areas'.[34]

9.40   Similarly, a number of submitters to the EISC inquiry in WA suggested that airlines had a social responsibility to provide affordable airfares, given air travel was an essential form of travel in that state.[35]

9.41   These arguments were likewise put forward to the committee during this inquiry. Calls were made for more government assistance for regional flyers, through

---

31   Regional Express, *Submission 135*, p. 14. Support for the RADS was also put to the NSWLC; see NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 112.

32   Qantas Group, *Qantas Group Submission to the Productivity Commission Draft Report: Unfair Airport Monopolies – A Case for Reform*, 2019, p. 27, https://www.pc.gov.au/__data/assets/pdf_file/0003/238719/subdr115-airports.pdf (accessed 6 May 2019).

33   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 29.

34   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 105.

35   WA Legislative Assembly Economics and Industry Standing Committee, *Perceptions and Realities of Regional Airfare Prices in Western Australia*, Report No. 2, November 2017, p. 89.

subsidies on regional aviation operations, and other financial assistance. It was suggested that subsidies would assist in making low-volume air routes more viable.[36]

9.42   For instance, LGANT was strongly supportive of the Federal Government subsidising regional and remote airports, as a 'community service obligation'. While noting the social and economic importance of aerodromes to regional and remote communities, LGANT contended that local councils were not prepared to take on more responsibilities due to a lack of revenue and high costs.[37]

9.43   The LGAQ took a similar view, noting that its 2016 Policy Statement called for the Federal Government to:

> …adequately subsidise regional and sub-regional airports and associated services as a community service obligation, with an emphasis on rural and remote areas.[38]

9.44   In a report by the AEC Group Ltd, supplied by LGAQ, it was suggested that regional RPT services be considered as an essential service, similar to metropolitan public transport initiatives, and priced accordingly. It was further argued that targeted subsidies should be provided by the Federal Government to some air services and airports, to 'ensure regular and consistent flight services are available at a reasonable cost'.[39]

9.45   The NSWLC likewise agreed with the expectations of regional communities that they have access to essential services, but noted the challenges faced by governments in providing equivalent services to these regions, when considering the low population densities and remoteness of these communities, and fiscal restraints.[40]

9.46   The 2003 TRS Committee considered the matter and noted that there was some difficulty with government support of regional aviation, but overall saw that it had benefit. The TRS Committee concluded that:

---

36   See for example: Mount Isa City Council, *Submission 35*, p. 28; Mount Isa to Townsville Economic Development Zone Inc., *Submission 45*, p. 17; Isolated Children's Parents' Association of Australia Inc., *Submission 63,* pp. 3, 8; Boulia Shire Council, *Submission 83*, p. 5. Some submitters expressed caution over subsidisation; see for example: Longreach Regional Council, *Submission 54*, pp. 6-7; Mr John Seccombe, *Submission 65*, p. 2; Mr Jamie De Brenni, Alice Springs Regional Economic Development Committee, *Committee Hansard*, 4 April 2018, p. 14.

37   Local Government Association of the Northern Territory, *Submission 99*, p. 4.

38   Local Government Association of Queensland, *Submission 149*, p. 1.

39   Local Government Association of Queensland, *Submission 149*, Attachment 1: AEC Group Ltd, *Environmental scan of air route service delivery to rural, regional and remote communities*, February 2018, p. 17. This view was supported by Townsville Enterprise Limited, which drew on the same AEC Group report; see *Submission 153*, p. 9, and by the Queensland Tourism Industry Council; see *Submission 152*, p. 2.

40   NSW Legislative Council Standing Committee on State Development, *Regional aviation services*, Report 38, October 2014, p. 106.

The issue of government support in meeting community service obligations is complex. Regional aviation is a very uncertain and difficult business as history has shown. Instability and the withdrawal of services has adversely affected regional communities and their local economies. Therefore the committee considers that there is a need for the Commonwealth to review its approach and consider the possible role of community service obligation standards, and the extent to which the Commonwealth should provide support.[41]

Remedies suggested to reduce airfares

9.47   A number of actions were put forward during the inquiry as possible ways to reduce airfares, and improve transparency and the quality of services wherever possible.

State and Territory governments

9.48   The ACT Government encouraged the Federal Government to consider mechanisms that would 'better regulate route pricing', as well as 'options to ensure price transparency'. The ACT Government concluded that:

…policies which limit the availability of low cost airfares catering to leisure markets in favour of higher yield through the business markets will result in significant disadvantage for regional communities.[42]

9.49   The Tasmanian Government called for the Australian Government to investigate ways to 'encourage regulatory consistency, price parity and price transparency for flights to remote regions of Australia, including issues relating to airport ownership and the impact of regulations'.[43]

9.50   The matter was well articulated by the Government of Western Australia, which argued for a collaborative approach moving forward to identify opportunities for improvements in regional aviation. The WA Government suggested that:

Greater transparency of airline and airport costs will assist to build a shared understanding of how airfares are determined. This in turn will build the foundation for identifying potentially innovative solutions for expansion of aviation demand and lower airfares where possible. A more holistic and collaborative approach by airlines, airport operators, Commonwealth, State and Local Government organisations and relevant tourism, mining and other stakeholders is more likely to identify opportunities that can address current issues and concerns in a positive, constructive, proactive and innovative manner and alleviate some of the challenges in the aviation industry.[44]

---

41   House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, November 2003, p. 33.

42   ACT Government, *Submission 47*, pp. 3-4.

43   Tasmanian Government, *Submission 69*, p. 20.

44   Government of Western Australia, *Submission 75*, p. 7.

Airlines

9.51   A4ANZ acknowledged that there was no simple way forward on this issue for the airlines operating in regional areas, a fact borne out by the evidence before the committee. A4ANZ suggested that:

> A multifaceted approach that involves genuine industry engagement and consultation is required to ensure that both the community needs of regional Australia and those of the broader economy are met, through sensible policy and a regulatory environment that encourages innovation and efficiency.[45]

9.52   Virgin put forward a similar view, suggesting that collaboration between all stakeholders was required to 'implement regional economic development initiatives to drive increased demand and passenger volumes', and to:

> …drive policy and regulatory initiatives that have the potential to lift the competitiveness and productivity of Australian aviation in the regional area. Such collaboration is the key, we believe, to the long term success and viability of aviation in the regional areas.[46]

Local councils and regional organisations

9.53   The MICC recommended that the ACCC be directed to commence a 'price monitoring regime', which would monitor airfares in regional and remote areas to 'identify and report any profiteering by the airlines'. It also called for a 'standing public information system' on regional airfares, which would allow passengers to take advantage of discounts. MICC further called for funding for a:

> …small group of local governments across Australia, perhaps one or two from each state and territory, to form a collective local government mechanism to maintain an ongoing policy dialogue and monitoring role on this topic, for an initial five-year period.[47]

9.54   The MICC went on to suggest that the Australian and Queensland governments 'expand their direct financial support for regular public transport aviation in regional and remote Australia, in line with other forms of public transport in metropolitan areas'. To further reduce costs, the MICC also proposed that the Australian Government:

- introduce an access regime (or similar) to ensure there is effective competition in the supply of aviation fuels at major airports;
- remove excise taxes on aviation fuels used in regional areas;
- remove impediments to qualified foreign pilots and other airline staff working in Australia;

---

45   Airlines for Australia and New Zealand, *Submission 129*, p. 5.

46   Mr Robert Sharp, Group Executive, Virgin Australia, *Committee Hansard*, 15 February 2019, p. 30.

47   Mount Isa City Council, *Submission 35*, p. 5. The Gladstone Regional Council also called for pricing oversight of airfares through consumer competition regulation; see *Submission 80*, p. 3.

- direct the ACCC to monitor regional airport pricing and to 'approve the prices at the major airports for regional air services'; and

- exempt regional airlines from charges imposed by Airservices Australia.[48]

9.55   The Bland Shire Council similarly suggested that there were a number of policy levers open to government which could positively influence rural and regional airfares, airports and airline operators. These levers included:

- providing new and additional funding to subsidise airport infrastructure investment and maintenance;

- ensuring government compliance requirements remained reasonable and affordable; and

- providing pricing oversight of airfares through consumer competition regulation.[49]

9.56   The EAREDC put forward a holistic approach for addressing high airfares for remote NT communities. The EAREDC stated that it:

> …strongly believes that a combination of regulatory reform to support industry growth (without compromising safety standards), regulated air routes supported by industry subsidisation, targeted infrastructure investment in remote aerodromes and targeted industry support for air operators in workforce development and aircraft maintenance will have a dramatic effect on driving down the cost of living and establishing and running business. This will promote significant employment, investment across all industry sectors but in particular in highly prospective areas including tourism, human services, construction, fisheries and aquaculture, resources (mining and energy) and education (including international education).[50]

9.57   There was general consensus that solutions to this issue must be considered on a long-term basis, and with effective stakeholder engagement. The Queensland Tourism Industry Council argued that:

> A long term strategy and sustainable plan must be developed to ensure the longevity of these routes. Short term fixes and rigid control mechanisms will not support the long term growth of the sector and regional Australia. Consideration should be given to evolving sectors, changing consumer demands and new technologies that will assist in activating regional Australia and supporting the viability of air routes.[51]

---

48   Mount Isa City Council, *Submission 35*, p. 5. Monitoring by the ACCC of operators with a monopoly on a regional route was also suggested by the Isaac Regional Council; see *Submission 85*, p. 10. The Anindilyakwa Land Council was also supportive of the ACCC being able to investigate complaints or conduct inquiries; see *Submission 169*, p. 4.

49   Bland Shire Council, *Submission 165*, p. 10.

50   East Arnhem Regional Economic Development Committee, *Submission 84*, p. 3.

51   Queensland Tourism Industry Council, *Submission 152*, p. 2.

Tourism

9.58   Significant evidence was received during the inquiry as to the important role that tourism could play in reducing airfares. It was suggested by a number of submitters and witnesses that effective tourism campaigns for Australia's regional and remote areas could drive increased demand for flights, leading to cheaper airfares for all travellers. Submitters also noted the importance of governments, airlines, airports and tourism bodies and similar stakeholders, working together to promote and implement effective tourism campaigns and initiatives.[52]

9.59   Qantas was of the view that governments, tourism operators, airlines and airports had to work together to increase demand to regional areas. Qantas suggested that regional centres could achieve greater economies of scale through stimulating tourism, and that 'tourism development builds destination attractiveness and propensity to travel'.[53]

9.60   Likewise, Alliance indicated that increases in demand would result from airlines working with local and state tourism bodies, noting that it would take some time for that demand to be realised, given long lead times.[54]

9.61   A number of tourism bodies, regional councils and similar stakeholders submitted to the inquiry, suggesting that increased air passenger numbers would result from better regional tourism initiatives. The committee was also informed of a number of tourism initiatives being instigated to drive tourists to regional and remote Australia.

9.62   Councillor Tony Martin of the LRC noted the importance of tourism to the Longreach region, as it provided employment and economic sustainability to the community, but noted that the major inhibitor to tourism was connectivity. In support of increased tourism programs, Mr Russell Lowry, Economic Development and Tourism Manager with the LRC, advised that the Council had:

> …been working on a long-term strategic plan to bring people to the central-western Queensland region. Longreach Regional Council is currently developing a cooperative tourism strategy with a neighbouring council to increase the number of travellers into the region. However, one

---

52   See for example: Outback Queensland Tourism Association, *Submission 56;* Mount Isa Tourism Inc., *Submission 114*; Mr Mark Davis, Shire of Broome, *Committee Hansard*, 3 April 2018, p. 6; Mr Chris Mitchell, Regional Development Australia Kimberley, *Committee Hansard*, 3 April 2018, p. 22; Councillor Robert Chandler, Barcaldine Regional Council, *Committee Hansard*, 10 April 2018, p. 18; Mrs Helen Barrett, Longreach Regional Enterprise, *Committee Hansard*, 10 April 2018, p. 43; Mr Chris Neck, Alice Springs Regional Economic Development Committee, *Committee Hansard*, 4 April 2018, p. 14.

53   Qantas Group, *Submission 126*, p. 7; Mr Andrew David, Chief Executive Officer, Qantas Domestic and Freight, *Committee Hansard*, 15 March 2019, p. 3.

54   Mr Scott McMillan, Managing Director, Alliance Airlines, *Committee Hansard*, 15 February 2019, p. 21.

of the major restrictions to the successful implementation of this strategy is the current pricing of air services.[55]

9.63   Councillor Martin indicated that the airlines were open to discussing tourism initiatives with the Longreach Council, including packaging and the right price points. But Councillor Martin acknowledged that an agreement had to be built with consistency, and a long-term strategy that could be three, five or potentially ten years in duration.[56]

9.64   Mr Peter Homan of the OQTA made a similar point and noted that 'better access, better scheduling and better pricing' would assist in improving tourism packages, as would access to data that would help determine the pent-up demand for regional air services. Mr Homan also observed that while price was one factor, tourism packages needed to be coupled with accommodation, 'attractions on the ground and tours on the ground'.[57]

9.65   TCA, in the NT, took the view that the high cost of flights in and out of Alice Springs was detrimental to tourism in the area. Ms Dale McIver of the TCA observed that airline capacity and the cost of travel were both 'very vital aspects of a successful tourism destination', allowing the successful marketing of a destination to visitors. Ms McIver continued that 'tourism is everybody's business; therefore, we see the cost of flights as being everybody's business, because it affects everybody's businesses'.[58]

9.66   The General Manager of TTE, Mr Trevor Cox, likewise indicated that a number of tourism organisations across Australia had found that airfare pricing into regional areas was having a detrimental effect on the tourism industry. Mr Cox suggested that airlines had called on tourism bodies to boost tourist experiences, yet the airlines had not lowered their airfare prices. Mr Cox concluded that all stakeholders needed to come together as a group to address the issue. Mr Cox noted that the airlines were great contributors—financially and otherwise—to the tourism industry across Australia, and that they will be a key partner for the tourism industry moving forward.[59]

9.67   In an example of NT stakeholder working together, Mr Ganley of the NTA advised that the NTA was working with the NT Government to help promote the NT

55   Councillor Tony Martin, and Mr Russell Lowry, Economic Development and Tourism Manager, Longreach Regional Council, *Committee Hansard*, 10 April 2018, pp. 1-2.

56   Councillor Tony Martin, Longreach Regional Council, *Committee Hansard*, 10 April 2018, p. 8.

57   Mr Peter Homan, General Manager, Outback Queensland Tourism Association, *Committee Hansard*, 10 April 2018, pp. 33, 36, 41.

58   Ms Dale McIver, Chairperson, Tourism Central Australia, *Committee Hansard*, 4 April 2018, pp. 33-34.

59   Mr Trevor Cox, General Manager, Tourism Top End, *Committee Hansard*, 5 April 2018, pp. 30, 33.

as a destination, to bring more passengers into the market to increase scale and volume. Mr Ganley was of the view that:

> There's an opportunity, but we need to invest in our national parks and promote the beautiful attractions we have here. That requires investment. Unfortunately, some of that is beyond the scale of private enterprise. So an issue is that it initially needs some seed funding from the government to get it going, much the same as Ayers Rock did, which is now a highly successful operation.[60]

9.68   The Queensland Tourism Industry Council summarised the benefits of cost-effective aviation on tourism, observing that:

> Convenient connectivity by air is now seen as a requirement for a destination to be competitive. As such, aviation policies that foster strong and vibrant local industries will support the development of tourism across the country. Positive impacts derived from appropriate accessibility include growth in local economies, resulting from increased employment, more visitor spend locally and due to air services acting as an attractor to businesses that value frequency and cost-effective air travel when deciding on locations.[61]

---

60   Mr Tom Ganley, Acting Chief Executive, Northern Territory Airports Pty Ltd, *Committee Hansard*, 5 April 2018, p. 14.

61   Queensland Tourism Industry Council, *Submission 152*, pp. 3-4.

Chapter 10

Committee views and recommendations

10.1   The importance of affordable, efficient and timely air services to rural, regional and remote Australian communities is not disputed. Domestic air services that operate across the country provide vital access for regional and remote communities to essential health, education, employment, business and other economic opportunities.

10.2   Further, affordable air services play a key role in supporting social cohesion and family relationships and networks, particularly during times of personal hardship. Effective RPT services help to reduce social isolation, and enhance the benefits of increased connectivity within a community.

10.3   This inquiry has highlighted that despite the benefits of air travel in regional areas, there remain many barriers to ensuring affordable air services are provided to these regions. These barriers are particularly significant for airlines and airports, whose ongoing viability is challenged by numerous issues including high operating costs, low population densities and the need for investment in infrastructure upgrades and maintenance.

10.4   This chapter draws together the evidence received by the inquiry and considers some of the suggestions put forward in evidence to address the issues associated with high airfares in rural, regional and remote areas. This chapter also summarises the committee's views and presents its recommendations.

Impact of high airfares

10.5   The committee received overwhelming evidence that the high price of airfares in rural, regional and remote areas has a direct and detrimental effect on the lived experience of residents of these areas. A lack of access to affordable airfares reduces the opportunities for residents to, among other things, attend family events, medical appointments, sporting events or explore and develop business opportunities. The high price of airfares also sees many families completing long journeys via car, with the associated risks of road accidents and fatalities.

10.6   The scheduling of flights on regional routes presents further difficulties, with many residents required to undertake several days of travel in order to attend a short appointment in a more metropolitan centre. The ramifications of this challenge are particularly apparent when flights are rescheduled or cancelled, with a lack of any ready alternative flights or aircraft, or aircraft engineers, available in regional centres.

10.7   Remote communities, particularly indigenous communities, are already at an economic disadvantage, and a lack of affordable and regular air services exacerbates this disadvantage.

How airlines determine airfares

10.8   A great deal of evidence presented to this inquiry echoed that provided to the EISC inquiry in WA, the NSWLC and earlier inquiries. It is apparent that the concerns around the costs and ongoing viability of regional air services are not new, nor are

they changing. The arguments made by stakeholders on both sides of the divide remain consistent.

10.9   It is evident that there is very little agreement amongst stakeholders on what constitutes a 'fair' airfare. Many residents of regional, rural and remote communities view airfares as prohibitively expensive, and suggest that this is due to airlines attempting to increase their profits outside of major trunk routes.

10.10   Despite these views, the airlines presented information to the committee detailing how airfares were determined, suggesting that the fixed and other costs of operation to regional areas are high, and that airport charges are in some instances excessive—thus leading to higher regional airfares in order to cover operational costs.

10.11   Overall, the general agreement was that airfares were driven by supply and demand factors, many of which were unvarying in regional areas. Evidence to the inquiry indicates that airlines utilised the following techniques to set airfares, and to offer airfares for sale:

- short-term and long-term forecasting, using a combination of automated systems and human intervention;

- using forecasting to understand and anticipate demand in each market, to ensure appropriate revenue streams to cover fixed and other operational costs;

- the allocation of fares across a number of 'fare buckets' and catering to a range of passenger traffic (such as leisure or corporate travellers); and

- dynamic pricing, which—in conjunction with the fare buckets—offers cheaper fares well in advance of the scheduled departure for a flight.

10.12   In particular, the airlines presented consistent evidence as to the main drivers of higher airfares on regional routes, particularly around supply and demand. The evidence from the airlines regarding price drivers can be summarised as:

- insufficient demand resulting in fewer flights and passengers, and therefore an amortisation of fixed and other costs across a smaller base;

- inadequate economies of scale, with operational costs imposed across fewer passengers on fewer flights, and inadequate financial returns for airlines;

- the price of fuel being higher in regional areas (with airlines therefore taking steps to reduce their reliance on fuel from regional airports), with other input costs—such as maintenance—also higher in regional areas; and

- high airport charges and increasing security costs at regional airports (as discussed in Chapters 4 and 5).

Committee view

10.13   The views of all the airlines providing evidence to this inquiry were consistent regarding the fixed cost drivers of operating in regional areas. A variety of factors including low load factors and low density population centres, a lack of demand and

appropriate market forces, a lack of economies of scale, and high costs such as fuel and maintenance, all contributed to increasing operational costs, and therefore increased the costs to the end user—the travelling public.

10.14   The airlines were also consistent with their evidence that the most expensive airfares on offer were purchased by very few people—generally two per cent of tickets or less were sold at the highest price category. The committee notes, however, that this does not address the concerns of those people who need to access fares at the last minute.

10.15   Based on the evidence before it, the committee could not form the view that there was 'price gouging' or other market manipulation taking place by airlines operating in regional areas. While the committee notes that such a finding may frustrate residents who consider that regional airfares are unnecessarily excessive, the extensive evidence put before the committee in this inquiry does not allow such a conclusion to be reached. Unfortunately, there are immutable costs associated with the operation of an aircraft, and these cannot be reduced simply because a route is not between major metropolitan centres.

10.16   Rather, as was noted by a number of submitters and based on the evidence put forward, it appears to the committee that the main driver of airfares—in any region—are genuine market forces and economies of scale. There are a number of fixed costs attached to the operation of an aircraft, such as fuel, staffing, and passenger and security charges, along with maintenance costs for aircraft, runways and other airport infrastructure. These costs, combined with low population numbers and therefore low load factors, leads to higher airfares in order for airlines to recover their operational expenses.

Economies of scale and increased passenger numbers

10.17   It appears to the committee that economies of scale are one of the primary factors—if not the primary factor—driving higher regional airfares. The evidence presented by the airlines was clear that economies of scale in regional and remote areas directly impact on the costs of operation in those areas.

10.18   In regional and remote areas, there are lower passenger volumes on smaller aircraft, operating with less frequency, which results in higher per passenger costs than in larger aircraft on busier, trunk routes. Without increases in demand and therefore an increase in passenger numbers, it remains that the costs of aircraft operation will be distributed across fewer people, unfortunately resulting in higher airfares.

10.19   A full plane in a regional area represents something different to a full plane on a metropolitan or international route. On the major routes, the planes are often larger—with up to 450 seats—and the flights occur with more frequency; therefore the costs are defrayed across a large passenger base. However, given the type of aircraft in operation on regional routes, a full flight may represent 70 to 100 passengers, with infrequent flight services, resulting in higher per passenger costs.

10.20   Without a thorough financial analysis of the airline's operations, they must be taken at their word that airfares are determined in a way that reflects these economies of scale, and are not greatly in excess of operational costs.

10.21   The committee further points out that while reduced airfares may result in increased passenger numbers, there is a significant degree of risk that must be assumed by both airports and airlines in doing so. Should fares be reduced to the point where fixed operational costs cannot be recovered, there is a possibility that the routes would become untenable from a commercial point of view, leading airlines to cease operations entirely. This would have devastating consequences for regional Australia.

10.22   Further, while increased passenger numbers may lead to better fares, there are many barriers to achieving this, not least of which is increasing the population of Australia's regional and remote areas. An increase in demand will also only go so far in helping to reduce costs—overheads such as fuel and security screening will remain disproportionality high in regional areas, while other costs such as staffing and maintenance will remain unchanged unless there is a significant increase in patronage on air travel.

Factors influencing airfares

Competition and market forces

10.23   There was little agreement during the inquiry as to the benefits or otherwise of increased competition on regional air routes. There was also conflicting evidence provided via case studies to show the impacts of increased or reduced competition on airfares.

10.24   The committee suggests that increased competition might not necessarily be the most effective way to reduce travel costs, in light of the fact that the population base and load factors are not present in regional Australia to support the addition of extra airlines on already thin routes.

10.25   It remains a commercial decision for airlines as to whether they wish to enter new markets, or increase the frequency of scheduled RPT services to established markets. Given this is a matter for the airlines, the committee is not in a position to suggest what approach the airlines may wish to take.

10.26   Despite this, the committee strongly encourages the airlines to consult with local councils, tourism operators and other stakeholders as much as is possible to better understand the possible unmet demand in regional markets, and to better tailor services to the needs of local communities. Both approaches, if fruitful, would serve to increase passenger volumes and therefore help drive down prices.

Transparency

10.27   The committee concurs with the consensus view put forward throughout the inquiry that greater transparency in how airfare pricing is determined would be of great benefit to consumers and to the general public. Increased transparency would assist in reducing some of the intensity of the public debate around this issue, and would allow the general public to have a better understanding of the reasons as to why airfares may be high.

10.28   The committee accepts that as commercial entities, airlines must make a profit, and must maintain commercial confidentiality around many aspects of their operation, as appropriate. However, the committee is of the view that there is information that could be made public by airlines, without raising issues of commercial confidentiality.

10.29   Even in the event that the airlines do not make such information public, as was noted in Chapter 4 the PC has powers under the *Productivity Commission Act 1998* by which it can compel the provision of specified information to it, when undertaking an inquiry.

10.30   Similar powers were not open to the committee in this inquiry, where a legitimate claim could be made by commercial entities not to provide information to the committee, on the grounds that doing so could harm its commercial interests should the information be made public.

10.31   Noting the considerable angst that remains within the regional community as to the high price of airfares, the committee suggests that the PC, which has the appropriate powers to compel documentation from airlines, would be best placed to undertake an inquiry. Such an inquiry would also allow the PC to consider whether an increased regulatory environment for airports may be required.

10.32   The committee therefore recommends that the government give consideration to whether it should direct the PC to undertake an inquiry into the determinants of airfares in Australia, with a particular focus on airfares on regional routes. As part of this inquiry, the PC should undertake a detailed economic analysis to consider whether operational subsidies should be increased, and whether there are any other price control mechanisms which could be implemented to decrease the cost of regional airfares.

10.33   In undertaking the inquiry, the PC should consult with regional communities to determine whether additional routes would benefit from being subject to regulation.

10.34   The PC should use its powers under section 48 of the *Productivity Commission Act 1998* to acquire detailed route costing and revenue information from airlines.

10.35   The committee further considers that there would be benefit in the PC being given expanded terms of references for its inquiries into the economic regulation of airports, so that—for future inquiries—the PC can consider the social and economic impacts of airfare pricing and air routes on rural, regional and remote Australia.

Recommendation 1

10.36   The committee recommends that the Australian Government direct the Productivity Commission to undertake a standalone, public inquiry into the determinants of domestic airfares on routes to and between regional centres in Australia. The inquiry should, via a detailed economic analysis, investigate the feasibility of increasing operational subsidies and introducing other price control alternatives to address the high cost of regional airfares. The inquiry should consult with regional communities to determine whether additional routes should

be subject to regulation. The Productivity Commission should use its compulsory information-gathering powers to inform its investigations.

Recommendation 2

10.37   The committee recommends that the Australian Government direct the Productivity Commission to expand its terms of reference in all future reports into the economic regulation of airports, to include investigations into the social and economic impacts of air route supply and airfare pricing on rural, regional and remote Australia.

Cabotage

10.38   The easing of cabotage restrictions, particularly in northern Australia and for the IOTs, has been repeatedly suggested in both this inquiry and in others in recent years as a way of increasing passenger numbers and making air travel in Australia more affordable and accessible.

10.39   While the committee does not support removing cabotage in Australia more broadly, it sees merit in the arguments put forward that northern Australia could benefit from improved access to international tourist markets. However, there are numerous difficulties to this approach, including the need for adequate infrastructure and appropriate security screening and immigration facilities at regional airports. Airlines would also need sufficient passenger numbers to make such a venture viable.

10.40   Should the government have any appetite to do so, the committee suggests that an appropriate route would have to be selected to trial the easing of cabotage restrictions, where suitable infrastructure already exists and where government underwriting of costs would not be required. The proximity of Darwin to Asian markets and the fact that Darwin Airport already receives international arrivals may make this location suitable for cabotage trials.

Tourism

10.41   The committee received evidence from various councils and tourism bodies regarding the positive impact tourism campaigns or other marketing endeavours could have for regional Australia, in particular by boosting passenger numbers to particular regions and thus driving demand and increasing market pressure on airfares. Likewise, the airlines suggested that effective tourism campaigns and therefore increased patronage on regional air services would be of direct benefit to reducing the cost of air travel.

10.42   The committee is not in a position to involve itself in tourism campaigns for specific jurisdictions or local areas. These are matters best considered by state and local governments, involving ongoing discussions with relevant stakeholders.

10.43   However, the federal government should play an ongoing role in creating a national regulatory environment that supports tourism and other business initiatives, thus helping to ensure the ongoing viability of Australia's essential regional air service network and boost resident and visitor numbers to regional areas.

10.44   Despite the limitations of the committee's role, it acknowledges the near-universal view presented throughout the inquiry of the importance of tourism in

increasing passenger numbers to regional areas, and therefore placing downward pressure on the price of airfares. The committee also draws attention to the various submissions it received presenting proposals and suggestions on new and improved regional air routes. The committee encourages airlines, states and regional administrators to work together wherever possible to implement new and improve on existing tourism campaigns and facilities. The evidence brought forward as part of this inquiry may be a useful starting point on which discussions between relevant stakeholders within jurisdictions can be based.

Airport charges

10.45   It became readily apparent to the committee that the disparate views on the role of airport charges in airfares were unlikely to be reconciled. Indeed, other reports, such as those presented by the EISC in WA, and the PC, have reached a similar conclusion.

10.46   The PC noted that complaints put to it by airport users (like airlines), were refuted by airport operators—resulting in the evidence before it consisting of 'claims and counterclaims'.[1] The reports by the PC over recent years show clearly that the issue of ascertaining whether airport charges are too high has been a matter of ongoing debate and contention.

10.47   The airports, and local councils operating airports, maintain that their charges are minimal, and, as a percentage of an airfare, have a negligible impact on price. Airlines, however, have maintained that airport charges have a direct and significant impact on their operating expenses, particularly in regional Australia, and therefore directly threaten their viability on regional routes.

10.48   The committee notes the PC, as part of its most recent inquiry into the economic regulation of airport services, is considering submissions from both airlines and airports about this issue. The committee is of the view that the PC is best placed to consider the matter, and looks forward to reviewing the findings of the PC when its final report is presented later in the year.

10.49   Having said that, and without discounting the role of airport charges in airfares, evidence presented during this inquiry suggested that airport charges constitute a reasonably small portion of airfares. This echoes the findings of the PC in 2011. However, when combined with the other higher costs of operation into regional and remote areas, it may be that airport charges become more significant as a contribution to the total airfare.

10.50   On the evidence before it, the committee was not able to agree with some assertions made—particularly by airlines—that local councils are using airport usage charges as a way to generate excessive revenue. Despite being a user-pays approach, it would appear that this approach does little more than go some way to addressing the

---

1   Productivity Commission, *Productivity Commission Inquiry Report: Economic Regulation of Airport Services*, No. 57, 14 December 2011, p. 118.

shortfall in funds required by local councils to maintain and operate their aerodrome facilities.

10.51   This certainly seemed to be the case for most councils which provided evidence to this inquiry, even to the extent that some councils were required to utilise the rates base and other council finances in order to support the ongoing operation of local airports and aerodromes. This fact reflects the importance of rural, regional and remote air services to such communities, where local councils are willing to bear the cost of aerodrome operation in order to maintain the vital social and economic support that air services provide.

10.52   Yet again, economies of scale come into play, with airport operators likely imposing more significant charges at smaller airports, due to fewer passengers utilising the facilities and therefore operators having a smaller passenger base over which to recover costs.

10.53   The committee also considers that the charges imposed by CASA and Airservices were relatively small, and did not materially impact on the price of airfares. Indeed, the committee received little evidence which questioned the impact of the charges imposed by these agencies.

10.54   It does not appear to be in the interest of any stakeholders to charge such exorbitant fees as to make the provision of services unviable. Nevertheless, the committee is mindful that both asset upgrades and depreciation have a direct impact on the charges imposed by councils and airport owners on airport users and airlines.

10.55   For example, the increasing use of larger aircraft will continue to place greater pressure on airport operators to upgrade their runways and associated infrastructure, at significant cost. The risk of stranded and depreciated assets is real and therefore infrastructure upgrades should be carefully considered prior to proceeding.

Consultation between airports and airlines

10.56   The committee suggests that ongoing and open dialogue between airports and airlines will go some way to reducing the disputes between these parties about changes to airport charges and their overall impact on operating costs for airlines.

10.57   The committee notes that some airport owners and operators have managed to undertake productive engagement with airlines, to ensure a stable and long-term approach to the imposition of airport charges. Broome International Airport and Northern Territory Airports in particular appeared to approach this issue in a way that was amenable to all parties, while ensuring effective cost recovery.

10.58   It became apparent to the committee during the inquiry that there needs to be individualised discussions between airlines and airports—there is such diversity in airport infrastructure and passenger numbers that a blanket approach does not seem appropriate. The committee suggests that the building block model could be an appropriate place for communities to commence negotiations, if formal procedures are not yet in place.

10.59   The benefits of long-term funding agreements between airport operators and airlines are apparent. Provided that no sudden changes are made to the agreements by

either party, such long-term agreements allow for airlines to better forecast airfares and reduce airfare volatility, while allowing airport operators to better consider expenditure on airport infrastructure.

10.60   There was considerable support for WA's Strategic Airport Asset and Financial Management Framework offered by the PC, by Rex and other stakeholders. In providing a standardised template for managing regional airport assets and determining the costs of maintenance and replacement, the Framework would allow for greater transparency in setting airport charges in WA. The PC further noted that the Framework would help local councils to manage airport infrastructure.

10.61   Earlier in 2019, the PC suggested that the Australian Government review the efficacy of this Framework in 2022, in consultation with jurisdictions, with a view to its adoption across the country if found successful. The committee notes calls for the review to take place sooner; however, it is a relatively new policy, and the committee's view is that it should be given sufficient time to operate prior to being reviewed.

10.62   The committee therefore offers its support for the Framework and for the PC recommendation that it be reviewed in the future. The committee recommends that the government review the Framework in 2022 as suggested, and assess its applicability to the rest of the country.

Recommendation 3

10.63   The committee recommends that the Australian Government, through the Council of Australian Governments, review the efficacy of Western Australia's Strategic Airport Asset and Financial Management Framework in 2022, in accordance with the suggestion of the Productivity Commission. The Government should assess the efficacy of the Framework and determine its suitability for application across all jurisdictions.

Security screening

10.64   While there may have been disparate views from stakeholders about a number of costs driving airfares, there was agreement from all parties as to the negative impact of security screening costs on the viability of regional airports and the price of airfares.

10.65   In the event that security enhancements are required at airports across Australia, with the associated necessity for upgrades and maintenance, there is real risk that the cost of doing so will be passed directly on to the travelling public through their ticket prices.

10.66   The committee also considers that there is considerable danger of regional airports ceasing operations due to the cost burdens imposed on them through enhanced security screening requirements. In most cases, the only way for airports to recover the costs of security services would be to impose higher airport charges on airlines, and therefore on the travelling public.

10.67   Should smaller regional airports be required to implement new security technology, and ensure the ongoing operation of such technology, it seems likely to

the committee that these airports will incur considerable and ongoing financial costs. Indeed, Home Affairs advised that the ongoing maintenance and staffing costs for airport security screening services could reach $760 000 annually.

10.68   Such costs present a direct threat to the ongoing viability of regional airports, through either reduced services, or services which cease altogether.

Regional Airport Security Screening

10.69   The committee holds significant concerns about the security enhancements announced for 64 regional airports in the 2018–19 Budget. The committee questions why regional airports are being asked to take on a considerable security and cost burden, despite the fact that no financial analysis has been undertaken, by any department, as to the ongoing operational, maintenance and staffing costs of these security screening requirements.

10.70   Evidence put to the committee was clear about the disproportionally negative impact these screening services would have on regional airport operational costs and ongoing viability. This included, but was not limited to, the fact that smaller airports would be required to provide and maintain security screening staff and services for only a small volume of flights accessing the airport.

10.71   Despite this, both Home Affairs and DIRDC confirmed that no financial analysis or economic modelling had been undertaken to determine the ongoing financial impact of enhanced security measures at regional airports.

10.72   The committee is therefore of the view that the Australian Government should, as a matter of priority, undertake a financial analysis which examines the ongoing operational costs of the proposed upgrades to the 64 identified airports, with a view to expanding this analysis to all regional airports so that any future regulatory changes relating to airport security can be properly considered with regard to costs.

10.73   At the conclusion of the analysis, the government should consider providing adequate and ongoing financial support to regional airports to implement and maintain security screening equipment, where necessary to ensure their ongoing viability. This is particularly pertinent if these security services are mandated by government and regional councils have no financial means by which to provide them.

Recommendation 4

10.74   The committee recommends that the Australian Government complete, as a matter of priority, a financial analysis to determine the ongoing operational, maintenance and staffing costs of proposed passenger security screening enhancements at regional airports, as announced in the 2018–19 Budget. The analysis should further consider ongoing security costs at regional airports more broadly.

Recommendation 5

10.75   The committee recommends that following a financial analysis into the ongoing costs of the provision of security screening at regional airports, the Australian Government consider providing ongoing financial assistance to those

regional airports which have been identified as requiring passenger security screening enhancements as part of the 2018–19 Budget, where required.

Government support

10.76   The committee notes that there are a number of Australian Government financial support programs that aim to assist with the operation and maintenance of regional and remote aerodromes and routes. The committee acknowledges, however, that airlines in Australia are owned and operated privately, and operate in a deregulated environment, thus limiting the scope by which the federal government can intervene in the provision of aviation services (where and when it may be appropriate to do so). Further, as was noted earlier in this report, under the Constitution state and territory governments are given power over regional aviation, thereby limiting the role of the federal government in such matters.

10.77   Despite this, a number of submitters suggested that government intervention was perhaps the only way to address the issues with the access to and cost of regional airfares, while others proposed that government intervention—at either a state or federal level—could complement a suite of measures aimed at addressing the issue. There were additional suggestions that government support be offered as a form of community service obligation.

10.78   Beyond the support the Federal Government can offer to regional aerodrome operators, there is limited to no scope for it to offer financial assistance that would directly go to the price of an airfare. These are matters of commercial operation, with state governments best placed to develop effective aviation policies, which may be in the form of financial assistance, regulated routes, local fare schemes or other assistance programs.

10.79   Likewise, subsidies in the aviation sector may present difficulties with implementation. While metropolitan public transport services may attract some form of government subsidisation, these modes of transport have different operational costs and overheads, operate at a different scale, and with different demand factors, making it difficult to compare with aviation. In additional, significant policy consideration would need to be given to who receives a subsidy—it could be the passenger, the airline or the airport operator.

Regional aviation funding

10.80   The committee welcomes the recent announcement in this year's Budget of the Regional Airports Program, acknowledging that any financial assistance that can be provided to regional airports helps to ensure their ongoing viability. However, the committee suggests that the money allocated under this program may not be sufficient for regional airports across the country to undertake the considerable infrastructure maintenance and upgrade works required now and into the future.

10.81   The committee also notes the apparent similarities between the new Regional Airports Program, and the existing RAUP program which already provides funding for upgrades to runways and other works. The RAUP has been operating successfully for a number of years now. The committee hopes that the new program will not add

additional red tape to regional airport operators who may wish to apply for funding, by duplicating the application process for what appear to be similar schemes.

Committee view

10.82   The provision of funding for infrastructure works to regional airports is one of the most direct ways the government can assist such airports, noting the constitutional limitations on federal government involvement in aviation, and the fact that regional aerodromes operate in a deregulated and privatised environment.

10.83   In light of this, and given the positive impact it has thus had on regional aerodromes, the committee recommends that the RAAP and its component programs be continued and appropriately funded.

10.84   Further, sufficient funding should be allocated to the RAAP and its programs over the forward estimates—and ideally beyond. The committee notes with serious concern the fact that many regional and remote councils are having to utilise their rates base in order to maintain their local aerodromes.

10.85   To that end, the committee recommends that the government undertake a review into whether current funding support for infrastructure at regional aerodromes is sufficient, under the RAAP and any other grant programs, and give consideration to whether additional funding should be provided—or whether a grants program is the best means of assistance. The review should engage with local councils, as airport operators, to determine the annual financial impact that operation and maintenance of aerodromes imposes on the community.

Recommendation 6

10.86   The committee recommends that over the forward estimates, the Australian Government ensure the ongoing operation and funding of the Regional Aviation Access Programme and its component programs (the Remote Airstrip Upgrade Programme, Remote Air Services Subsidy Scheme and the Remote Aerodrome Inspection Programme).

Recommendation 7

10.87   The committee recommends that the Australian Government undertake a review into the funding of regional and remote aerodrome infrastructure and maintenance, to ascertain whether financial support to such aerodromes should be increased, and whether the current grants programs are the best means of financial assistance. Local councils, as airport operators, should be consulted as part of the review to determine the annual financial impact on councils of aerodrome operation and maintenance.

Regulated routes

10.88   Given the constitutional limitations, aviation strategies aimed at supporting regional, remote and rural communities are best considered by individual jurisdictions. To this end, it was acknowledged that the regulation of regional routes presented a sensible way forward for ensuring the ongoing provision of those routes which would not otherwise be commercially viable. However, other evidence to the inquiry

indicated a preference for unregulated routes, in order to allow market forces to determine the provision of RPT services.

10.89   The committee suggests that there is a clear tension around this issue, between free market forces, and government intervention, and the committee therefore expresses some caution over the implementation of regulated routes. If government intervention is too intrusive, it could have the unintended consequence of distorting the market. While it appears to the committee that the regulation of routes offers a sensible solution, it recognises that regulation will not be appropriate for all regional areas.

10.90   As with airfare pricing, there was some frustration expressed as to a lack of knowledge about how regulated routes were awarded by state governments through the tender process, and the reporting requirements of airlines once they were successful in tendering for and operating on a route. To avoid this, the committee suggests greater transparency as to how regulated routes are awarded by state governments, with ongoing and annual reporting by airlines as to its operations on the route.

Committee view

10.91   The evidence presented to the EISC indicated that Rex's operation of regulated routes in WA had met with some success, in part due to the ongoing consultation that Rex undertook with local communities. This mechanism enabled the communities to better understand airfare pricing and allowed for a more collaborative approach between stakeholders to determine fares. As noted by the EISC, this took the 'heat' out of the issue for these communities.

10.92   The committee encourages all airlines to emulate this approach and engage with local communities as far is as practicable. It appears to the committee that providing residents with information about how airfares are determined would greatly assist in increasing transparency and thus reducing frustrations over the perception of high airfares.

10.93   Recognising that regulated routes are a state-level initiative, the committee nonetheless observes that there has been some success in the implementation of regulated routes. The committee therefore sees great benefit in ensuring all jurisdictions can implement an effective regulated route policy, which could assist the travelling public in regional Australia to access more affordable airfares.

10.94   The committee therefore recommends that COAG transport ministers draw on the evidence provided to this and other inquiries to develop a nationally consistent framework for the implementation and operation of regulated routes in each jurisdiction, as appropriate or required. The framework should consider the tender process for regulated routes, and promote transparency around the overall operation of regulated routes as much as possible.

10.95   In developing the framework, regional communities which are impacted by regulated routes should be consulted, particularly in areas where regulated routes have been identified as being of benefit to the provision of regional air services.

Recommendation 8

10.96 The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework for the tender process, implementation, operation and review of regulated routes in each jurisdiction. The framework should have a particular focus on improving the overall transparency of the operation of regulated routes. In developing the framework, affected communities should be consulted, particularly in jurisdictions where regulated routes are identified as being beneficial to the provision of regional air services.

Residents fares

10.97 The committee commends those airlines which have taken steps to introduce programs to assist with the upfront cost of airfares. These programs appear to have met with some success and have allowed regional Australians to access air travel for a better price.

10.98 Despite this, the committee acknowledges the concerns expressed by submitters and witnesses regarding access to residents' fares, and the difficulties experienced in trying to determine the eligibility criteria for such fares. These concerns were particularly directed to the Qantas program, with residents expressing frustration over a lack of clarity about how the program operates, and the fact that the discounts on offer did not make a considerable difference to the airfare paid, given the fares were so high to begin with.

10.99 The committee notes that the Community Fare Scheme offered by Rex does not apply any restrictions on access with regard to residency, with no proof of residency required, and with a flat discounted rate made available for all applicants. The only criteria to access the discounted fare remains the time the booking is made (within a certain number of days in advance of the flight, or within 24 hours of the flight).

10.100 The committee views this approach as sensible, as it offers a reduced administrative burden to both the air operator and to passengers. It is also an approach established in collaboration with local councils as the airport operators, and thus has broad support from key stakeholders.

10.101 The committee would encourage other operators to consider how such an approach—including the removal of residency requirements—may be applied within their business, to reduce the frustration and difficulties experienced by passengers. Simplification of access to discounted fares may also result in passenger growth in the areas where such fares are offered.

10.102 The committee is further of the view that airlines should consider the implementation or reintroduction of compassionate fare schemes for those who need to travel via air at short notice, in the event of a family tragedy or health concern.

10.103 The committee sees benefit in having a nationally consistent framework, which would leverage each state's purchasing power and aim to expand access for residents of regional communities to community and compassionate fares, and to enable access to more affordable last-minute fares.

10.104 The committee recommends development of such a framework, in consultation with the airlines as appropriate. The framework should provide greater transparency around the operation of community and compassionate fares, and consider the feasibility of allowing residents in regional, rural and remote areas to access subsidised airfares via online bookings.

Recommendation 9

10.105 The committee recommends the Transport Ministers of the Council of Australian Governments develop a nationally consistent framework which, by leveraging each state's purchasing power, aims to expand access for regional communities to initiatives such as community and compassionate fares, particularly for 'last minute' flights. The framework, which should be developed in consultation with airlines, should encourage greater transparency around the operation of such fares, and consider the feasibility of allowing residents in regional, rural and remote areas to access subsidised airfares through online purchasing.

Senator Glenn Sterle

Chair

Additional Comments by Senator Rex Patrick

Wings Stalling on Regional Flights

The work of the Committee

1.1   I thank the Committee for the work it has done in relation to this inquiry. I also thank the secretariat for their background work in organising the committee activities and hearings, and assisting in the preparation of a very comprehensive report.

1.2   It is noted that the Committee (and secretariat) travelled to almost every corner of our very large country gathering the evidence that it did.

1.3   I largely support the findings in this report. However, the recommendations fall short in the following two areas.

Regional Airport Security Screening

1.4   The Committee has identified in its report that $50.1 million has been allocated, via a Regional Airport Security Screening Fund, to pay for security screening equipment that the Department of Home Affairs has determined needs to be deployed at certain regional airports. This funding will be allocated to airports through grant funding appropriated by way of the Financial Framework (Supplementary Powers) Amendment (Home Affairs Measures No. 2) Regulations 2018.

1.5   Oddly, the disallowable instrument to oblige security screening at smaller airports has not been tabled in the Parliament.[1] That means that the Department of Home Affairs is seeking to and will likely spend taxpayer's money on airport security equipment for which there is no legal requirement (and may not be if the regulation is disallowed).

Recommendation 1

1.6   Until such time as the disallowable instrument that mandates a new airport security equipment requirement is passed through the Parliament, no taxpayer money should be spent on security screening equipment.

1.7   The equipment that is being installed will cost regional airport operators (typically local councils) between $530,000 and $760,000[2] annually for equipment

---

[1]   Ms Anita Langford, First Assistant Secretary, Department of Home Affairs, *Committee Hansard*, 1 April 2019, p. 7.

[2]   Department of Home Affairs, *Submission 168*, p. 3.

maintenance and screening staff costs. No money has been offered by the Australian Government to regional airport operators to cover this cost. This means that the cost will have to be covered by the airport operators who will pass the cost onto the passengers through increased ticket prices.

1.8   Relevantly, Rex said of this:

> …if all regional airports were required to provide security and the airport operator had to fund the operation of that airport security, check bags and passenger screening, probably half of our routes in the country would become unviable overnight.[3]

1.9   Qantas expressed similar concerns:

> A very good example is in South Australia where we have two Q300s based in Adelaide operating to Port Lincoln, Whyalla and Kangaroo Island. All three markets would be then subject to security costs of, we estimate, between $700,000 to a million dollars a year of ongoing operating costs, and we've been very clear with the government that would put in jeopardy those services entirely.[4]

1.10   Unbelievably, in act of gross policy formation negligence, neither the Department of Home Affairs or the Department of Infrastructure, Regional Development and Cities conducted formal economic analysis or modelling as to the cost impact of the security upgrades, nor examined the economic viability of the impacted airports.

1.11   The Committee has made two recommendation in that regard:

> The committee recommends that the Australian Government complete, as a matter of priority, a financial analysis to determine the ongoing operational, maintenance and staffing costs of proposed passenger security screening enhancements at regional airports, as announced in the 2018-19 Budget. The analysis should further consider ongoing security costs at regional airports more broadly.

1.12   And:

> The committee recommends that following a financial analysis into the ongoing costs of the provision of security screening at regional airports, the Australian Government consider providing ongoing financial assistance to those regional airports which have been identified as requiring passenger security screening enhancements as part of the 2018-19 Budget, where required.

---

[3]   The Hon John Sharp, Deputy Chairman, Regional Express, *Committee Hansard*, 24 July 2018, pp. 35-36.

[4]   Mr John Gissing, Chief Executive Officer, QantasLink, Qantas Group, *Committee Hansard*, 15 March 2019, p. 16.

1.13   Expecting local councils to cover the costs of implementing the required security measures is unreasonable. National security is exactly that—national. It is unreasonable to expect local councils to bear national security costs.

1.14   The Committee is well aware of the detrimental effect that imposing ongoing security costs upon regional airport operators will have on communities. As such, the following recommendations should be adopted.

Recommendation 2

1.15   Consistent with the recommendations of former Senator Nick Xenophon, in the Rural and Regional Affairs and Transport References Committee inquiry report into airport and aviation security, the Australian Government should adopt a US Transport Security Administration-like agency approach to airport and aviation security at all airports.

Recommendation 3

1.16   Failing the acceptance of Recommendation 2, the Australian Government should cover the full cost of ongoing security equipment maintenance and security screening staff costs at regional airports.

Recommendation 4

1.17   Failing the implementation of either Recommendation 2 or 3, the instrument to oblige security screening at smaller airports should be disallowed.

Pilot Shortages

1.18   The Committee heard from a number of entities that suggested that a shortage of pilots made a contribution to high regional airfares.

1.19   The Committee has, over a number of hearings, many not directly related to this particular inquiry, been advised that pilot shortages stem from the fact that General Aviation (the traditional breeding ground for young pilots) is in serious decline. It is in decline because the Civil Aviation Safety Authority has suffocated the industry with regulation.

1.20   For reasons not just relating to pilot shortages, the following recommendation should be adopted.

Recommendation 5

1.21   In recognition that the current Civil Aviation Safety Regulations have stalled the wings of General Aviation, the Australian Government must initiate a major rewrite of the Regulations, such that they are significantly simplified.

Senator Rex Patrick

Senator for South Australia

Appendix 1
Submissions received

Submission Number	Submitter
1	Mr David McCrindle
2	Ms Mandy Godwin
3	Mrs Allyson Sanewski
4	Miss Alisha Kidner
5	Ms Brooke Ottley
6	Mr James Cameron
7	Western Meat Exporters Pty Ltd
8	Miss Jenelle Robartson
9	Ms Victoria Corner
10	Shire of Broome
11	District Council of Grant
12	Mr Hamish Griffin
13	Ms Lisa Cunningham
14	Miss Kaelem Ewins
15	Mr Stephen Swift
16	Mr Keith Cox
17	Mr Lachlan Millar MP
18	Mr Joachim Schroeter
19	Mrs Milynda Rogers
20	Ms Monica Joseph
21	Mr Jeff Magnus
22	Mrs Renee Hanrahan
23	Broome International Airport Group
24	Civil Aviation Safety Authority
25	Ms Janine Emmerson
26	Mrs Gabriele Jones
27	Mrs Jane Jenkins
28	Miss Jenna Burke
29	Mr Barry Sullivan, Exmouth Chamber of Commerce and Industry
30	Mr Sheehan Danny
31	Ms Julie Colthup
32	Mrs Janessa Bidgood
33	Mrs Carol Schefe
34	McKinlay Shire Council
35	Mount Isa City Council
36	Banana Shire Council
37	Flinders Island Tourism and Business Inc.
38	Ms Simone Thomason
39	The Smith Family
40	Mr Adam King
41	Ms Ellen Bos

42	Mrs Rowena Hardiker
43	Isolated Children's Parents' Association QLD
44	Tourism Top End
45	Mount Isa to Townsville Economic Development Zone Inc
46	Christmas Island Women's Association
47	ACT Government
48	Ms Deborah Purdie
49	The Mt Larcom District Progress Association Inc
50	Mrs Amanda Howie
51	Alice Springs Town Council
52	Mr Kurt Dunlop
53	Mr Bradley Rix
54	Longreach Regional Council
55	Mrs Abbi Wylie
56	Outback Queensland Tourism Association
57	Mr Ben Bright
58	Ms Renee Matthew
59	Dr Ken Robilliard
60	Mr Campbell Purdie
61	Ms Tessa Purdie
62	Mr Jeff Constable
63	Isolated Children's Parents' Association of Australia, ICPA (Aust)
64	Miss Hilary Simmons
65	Mr John Seccombe
66	Mr Chansey Paech MLA
67	The McKell Institute Victoria
68	Longreach Regional Enterprise Inc
69	Tasmanian Government
70	Northern Territory Isolated Children's Parents' Association
71	Ms Sarah Cook
72	Shire of Christmas Island
73	Airservices Australia
74	Ms Sue Morey
75	Western Australian Government
76	Griffith Business Chamber
77	Mr Keith Page
78	Mr Neil King
79	Ms Marion Eaton
80	Gladstone Regional Council
81	Town of Port Hedland
82	Australian Hotels Association (NT Branch)
83	Boulia Shire Council
84	East Arnhem Regional Economic Development Committee
85	Isaac Regional Council
86	Tourism Central Australia
87	Brisbane Airport Corporation PTY Limited
88	King Island Council
89	Northern Territory Chamber of Commerce and Industry
90	The Arnhem Land Progress Aboriginal Corporation
91	Queensland Teachers' Union of Employees

92	Maranoa Regional Council
93	Mrs Kylie Camp
94	Ms Glennis Ford
95	Miss Christine Foley
96	Mrs Haylee Scanlan
97	Professor Rico Merkert
98	Royal Flying Doctor Service
99	Local Government Association of the Northern Territory
100	Mrs Robyn Lambley MLA
101	Mr Yingiya Mark Guyula MLA
102	Mr David Fletcher
103	WA Labor South Hedland Branch
104	Mr Benjamin Quilliam
105	Mount Isa Branch of the Australian Labor Party
106	Ms Gayle Steed
107	AgForce Queensland
108	Ms Vivienne Rosemary Champion
109	Virgin Australia
110	Callide Dawson Chamber of Commerce and Biloela Enterprise
111	Flinders Council
112	Mr Jeremy Young
113	Ms Bev Hourn
114	Mount Isa Tourism Association
115	Mr Luke Gosling OAM MP
116	Visit Roma Inc.
117	Regional Development Australia Mid West Gascoyne
118	Ms Kate Busch
119	Limestone Coast Local Government Association
120	Ms Selena Uibo MLA
121	Northern Territory Government
122	Australian Airports Association
123	Mr Terry Corcoran
124	Ms Dolores Adams
125	Ms Vicki Ainsworth
126	Qantas Airways
127	Sharp Airlines
128	Sydney Airport
129	Airlines for Australia & New Zealand
130	Askew & Associates
131	Ms Ingrid Miller
132	Mrs Aileen Gabbert
133	Ms Danielle Slade
134	Queensland Department of Transport and Main Roads
135	Regional Express Group (REX)
136	Nhulunbuy Corporation
137	Central Western Queensland Remote Area Planning and Development Board
138	Torres Strait Island Regional Council
139	Mr Geoff Breust
140	Department of Infrastructure, Regional Development and Cities

141	Murweh Shire Council
142	Ms Ann Leahy MP
143	Ms Prue Button
144	Mr Robbie Katter MP
145	Northern Territory Airports
146	Cloncurry Shire Council
147	Mr Alex Nelson
148	INPEX Operations Australia
149	Local Government Association of Queensland
150	Launceston Airport
151	Queensland Airports Limited
152	Queensland Tourism Industry Council
153	Townsville Enterprise Limited
154	Mr Sheldon Johnson
155	Mr Keith Pitt MP
156	Shire of Mount Magnet
157	Pilbara Regional Council
158	Shire of Ashburton
159	Rockhampton Regional Council/Rockhampton Airport
160	Whitsunday Regional Council
161	Transport Workers Union of Australia
162	Shire of Wiluna
163	Confidential
164	Regional Aviation Association of Australia (RAAA)
165	Bland Shire Council
166	NSW Government
167	Christmas Island Tourism Association
168	Department of Home Affairs
169	Anindilyakwa Land Council
170	Mr Kenny Wu
171	Mount Gambier Chamber of Commerce
172	Regional Development Australia Limestone Coast
173	Dr Richard Try
174	Mount Gambier and District Health Advisory Council
175	Mr Peter Brohier
176	Ms Christine Phillis
177	Queensland Consumers Association
178	Mr Stephen Ashby
179	Mr Eric Baker
180	Airnorth

Additional information received

Additional information

- Received on 8 December 2017, from the Western Australian Local Government Association (WALGA). Submission in response to the inquiry into regional airfares in Western Australia;

- Received on 14 December 2017, from Wildlife Management International. Report to the committee regarding airlines services to Darwin in relation to the demand for services by tourists;
- Received on 21 February 2017, from Mr Tim Smith. Thesis project titled 'Is the Last Plane Out of Sydney Almost Gone?';
- From Ms Jael Napper of the Broome Chamber of Commerce and Industry. Presentation titled 'Identity & Perceptions of Broome and the Kimberley';
- Answers to questions taken on notice on 3 April 2018 by the Broome Shire Council. Answer received 5 April 2018;
- Answers to questions taken on notice on 4 April 2018 by Ms Diane Hood, Central Desert Regional Council. Answer received 3 May 2018;
- Answers to questions taken on notice on 4 April 2018 by Ms Sarah Cook, Isolated Children's Parents' Association. Answer received 4 May 2018;
- Answers to questions taken on notice on 5 April 2018 by Professor Grahame Webb, Wildlife Management International. Answer received 1 May 2018;
- Received on 8 April 2018, from Mr Mark Davis of the Broome Shire Council. Portion of report titled 'Broome and the Kimberley: Current perceptions and future direction';
- Received on 11 April 2018, from Mr Chris Blanch, Chief Executive Officer, Blackall-Tambo Regional Council. Landing fee information for Blackall Airport;
- Answers to questions taken on notice on 10 April 2018 by Councillor Geoffrey Morton, Diamantina Shire Council. Answer received 30 April 2018;
- Answers to questions taken on notice on 12 April 2018 by the Isolated Children's Parents' Association Queensland. Answers received 23 April 2018;
- Answers to questions taken on notice on 12 April 2018 by the Mount Isa to Townsville Economic Development Zone Inc (MITEZ). Answers received 23 April 2018;
- Received on 4 May 2018, from Tourism Central Australia and Alice Springs Town Council. A report titled 'Airfares and Flight Routes in Regional Australia: Case of Central Australia', by Dr Benxiang Zeng (May 2018);
- Received on 9 May 2018, from Mr Hamish Griffin. Examples of fares and other information;
- Received on 27 May 2018, from Mr Travis Blood. Report titled 'Regional Flights: Novel Ways to Share Broader Market Competition';
- Received on 24 July 2018, from Regional Express. Mount Gambier Airport head taxes;
- Received on 24 July 2018, from Regional Express. Overview of the Rex Group;
- Answers to questions taken on notice on 24 July 2018 by Councillor Richard Sage, District Council of Grant. Answer received 9 August 2018;
- Answers to questions taken on notice on 15 February 2019 by Norton White. Answer received 18 February 2019;

- Answers to questions taken on notice on 15 February 2019 by Alliance Airlines. Answer received 4 March 2019;
- Answers to questions taken on notice on 15 February 2019 by Virgin Australia. Answer received 7 March 2019;
- Answers to questions taken on notice on 15 March 2019 by Qantas. Answer received Friday, 5 April 2019;
- Received on 29 March 2019, from Regional Express. Correspondence to the Rural and Regional Affairs and Transport References Committee;
- Answers to questions taken on notice on 1 April 2019 by the Australian Competition and Consumer Commission. Answer received Monday, 15 April 2019.
- Answers to questions taken on notice on 1 April 2019 by the Bureau of Infrastructure, Transport and Regional Economics. Answer received 29 April 2019.
- Received on 8 April 2019, from the Rural and Regional Affairs and Transport References Committee. Correspondence to Regional Express;
- Received on 9 April 2019, from Regional Express. Correspondence to the Rural and Regional Affairs and Transport References Committee;
- Received on 1 May 2019, from the Bureau of Infrastructure, Transport and Regional Economics. Information Sheet titled 'An empirical analysis of route-based differences in Australian scheduled domestic passenger air fares', September 2018.

Tabled documents

- Tabled on 3 April 2018 in Broome, WA. Written submission of Ms Susan Bradley, member, Regional Development Australia – Kimberley;
- Tabled by Ms Dale McIver, Tourism Central Australia on 4 April 2018 in Alice Springs, NT. Screenshot from Facebook (April 2018) regarding flights to Alice Springs;
- Tabled by Ms Diane Hood, Chief Executive Officer, Central Desert Regional Council on 4 April 2018 in Alice Springs, NT. Profile and statistics in relation to the Central Desert Regional Council;
- Tabled by Ms Ingrid Stonhill, Deputy Chief Executive Officer, Bawinanga Aboriginal Corporation on 5 April 2018 in Darwin, NT. Opening statement;
- Tabled by Professor Grahame Webb, Wildlife Management International Pty Ltd on 5 April 2018 in Darwin, NT. Opening statement;
- Tabled by Queensland Airports Limited on 10 April 2018 in Longreach, QLD. Opening statement;
- Tabled by Senator Rex Patrick on 10 April 2018 in Longreach, QLD. Qantas advertisement, 'Longreach, we are listening';

- Tabled by the Isolated Children's Parents' Association Queensland on 12 April 2018 in Cloncurry, QLD. Availability of Secondary Schooling in Queensland Shires;
- Tabled by the Cloncurry Shire Council on 12 April 2018 in Cloncurry, QLD. Qantas advertisement, 'Mount Isa and Cloncurry, we are listening';
- Tabled by Mrs Danielle Doyle, Isolated Children's Parents' Association on 12 April 2018 in Cloncurry, QLD. Opening statement;
- Tabled by Mr Glen Graham, Mount Isa to Townsville Economic Development Zone Inc (MITEZ) on 12 April 2018 in Cloncurry, QLD. Opening statement and supporting information;
- Tabled by Regional Express on 24 July 2018 in Mount Gambier, SA. Opening statement;
- Tabled by Virgin Australia on 15 February 2019 in Brisbane, QLD. Opening statement;
- Tabled by Qantas Group on 15 March 2019 in Darwin, NT. Operational information of Qantas Group.

Appendix 2
Public hearings and witnesses

Tuesday, 3 April 2018, Broome, Western Australia

- DAVIS, Mr Mark, Manager Community and Economic Development, Shire of Broome
- KRENZ, Ms Kimberley, Commercial Manager, Broome International Airport
- LEAKE, Mr Michael, Member, Broome Chamber of Commerce and Industry
- McPHEE, Mr Rob, Deputy Chief Executive Officer, Kimberley Aboriginal Medical Services Ltd
- McSWEENEY, Mr Paul, Chief Executive Officer, Broome International Airport
- MITCHELL, Mr Chris, Councillor, Shire of Broome
- MITCHELL, Mr Chris, Executive Officer, Regional Development Australia Kimberley
- NAPPER, Ms Jael, Member, Broome Chamber of Commerce and Industry
- O'DONNELL, Mrs Vicki, Chief Executive Officer, Kimberley Aboriginal Medical Services Ltd
- TAYLOR, Mr Peter, President, Broome Chamber of Commerce and Industry

Wednesday, 4 April 2018, Alice Springs, Northern Territory

- COOK, Ms Sarah, Member, Northern Territory Isolated Children's Parents' Association; and
  Private capacity
- De BRENNI, Mr Jamie, Chair, Alice Springs Regional Economic Development Committee
- HOOD, Ms Diane, Chief Executive Officer, Central Desert Regional Council
- MacLEOD, Mr Jeff, Chief Executive Officer, MacDonnell Regional Council
- McIVER, Ms Dale, Chairperson, Tourism Central Australia
- MELKY, Mr Eli, Private capacity
- NECK, Mr Chris, Member, Alice Springs Regional Economic Development Committee
- QUILLIAM, Pastor Benjamin, Member,
  Northern Territory Isolated Children's Parents' Association; and Private capacity
- RYAN, Councillor Damien John, Mayor, Alice Springs Town Council
- SPENCER, Ms Merrilyn, Vice Chair, Tourism Central Australia

Thursday, 5 April 2018, Darwin, Northern Territory

- CAMPION, Mr Wesley, Chairman, Bawinanga Aboriginal Corporation
- COX, Mr Trevor, General Manager, Tourism Top End

- CROWE, Mr Desmond, Chief Executive Officer, Australian Hotels Association (NT Branch)
- GANLEY, Mr Tom, Acting Chief Executive, Northern Territory Airports Pty Ltd
- GANLEY, Mr Tom, Acting Chief Executive, Northern Territory Airports Pty Ltd
- HAYWARD, Mr Chris, Manager, Strategy, Stakeholder Engagement and Business Development,
  Arnhem Land Progress Aboriginal Corporation
- LEWIS, Mr Graeme, Treasurer, Tourism Top End
- O'GALLAGHER, Mr Brian, Deputy Chief Executive Officer,
  Chamber of Commerce Northern Territory
- STONHILL, Ms Ingrid, Deputy Chief Executive Officer, Bawinanga Aboriginal Corporation
- TAPSELL, Tony Francis, Chief Executive Officer, Local Government Association of the
  Northern Territory
- TURNER, Ms Debbie, Spokesperson, FairFares NT
- WEBB, Professor Grahame, Wildlife Management International Pty Ltd
- WUNUNGMURRA, Mr Micky, Deputy Chairperson,
  Arnhem Land Progress Aboriginal Corporation

Tuesday, 10 April 2018, Longreach, Queensland

- ARDERN, Ms Lucy, General Manager, Corporate Relations, Queensland Airports Ltd
- BARRETT, Mrs Helen, Treasurer, Longreach Regional Enterprise
- BAXTER, Ms Tracey, Manager, Airport, Rockhampton Regional Council
- CHANDLER, Councillor Robert, Mayor, Barcaldine Regional Council
- FISHER, Mr Neil, Councillor, Rockhampton Regional Council
- HOMAN, Mr Peter, General Manager, Outback Queensland Tourism Association
- LOWRY, Mr Russell, Economic Development and Tourism Manager, Longreach Regional Council
- LOWRY, Mr Russell, Economic Development and Tourism Manager, Longreach Regional Council
- LOWRY, Mr Russell, Economic Development and Tourism Manager, Longreach Regional Council
- MARTIN, Councillor Tony, Longreach Regional Council
- MORTON, Councillor Geoff, Mayor, Diamantina Shire Council
- ROWE, Mr Adam, General Manager, Business Development and Marketing, Queensland Airports Ltd
- RUSSELL, Councillor Lindsay, Deputy Mayor, Blackall-Tambo Regional Council
- SCOTT, Councillor Bruce, Mayor, Barcoo Shire Council
- WARREN, Councillor Ed, Mayor, Longreach Regional Council

- WARREN, Councillor Ed, Mayor, Longreach Regional Council

Wednesday, 11 April 2018, Winton, Queensland

- BASKETT, Mr Gavin, Mayor, Winton Shire Council
- COLLINS, Mr Bruce, Private capacity
- ELLIOT, Ms Jenny, Private capacity
- FRASER, Mrs Leisa, Private capacity
- FRASER, Ms Lyn, Private capacity
- GILLIES, Mr Rowan, Private capacity
- PAINE, Mrs Katrina, Private capacity
- STEPHENS, Ms Robyn, Private Capacity

Thursday, 12 April 2018, Cloncurry, Queensland

- BARWICK, Councillor Philip, Deputy Mayor, Mount Isa City Council
- BIRD, Mr Ronald, Private capacity
- CAMPBELL, Mr Gregory (Greg), Mayor, Cloncurry Shire Council
- CRAWLEY, Mr Mark, Acting Deputy Chief Executive Officer, Mount Isa City Council
- DOYLE, Ms Danielle, Member, Mount Isa Branch of the Air, Isolated Children's Parents' Association
- FITCHAT, Mr Peter, Chief Executive Officer, McKinlay Shire Council
- GRAHAM, Mr Glendon, Chief Executive Officer, Mount Isa to Townsville Economic Development Zone Inc
- GRIFFIN, Mr Hamish, Private capacity
- HICK, Mrs Wendy, Federal President, Isolated Children's Parents' Association
- HUGHES, Mrs Kim Elizabeth, President, Isolated Children's Parents' Association Queensland Inc
- IBARDOLAZA, Mrs Sharon, Private capacity
- MacRAE, Councillor Peta, Mount Isa City Council
- McCULLOCH, Councillor Joyce, Mayor, Mount Isa City Council
- MORRIS, Mrs Joanne, Acting Chief Executive Officer, Cloncurry Shire Council
- WALKER, Mr Neil, Deputy Mayor, McKinlay Shire Council

Tuesday, 24 July 2018, Mount Gambier, South Australia

- BROOKSBY, Mr David, National Airports Manager, Regional Express (Rex)
- CERNOVSKIS, Ms Barbara, General Manager, Community Wellbeing, City of Mount Gambier
- FRITSCH, Mr Ian, Airport Manager, District Council of Grant
- GANDOLFI, Mr Peter, Chair, Regional Development Australia Limestone Coast
- HOOD, Mr Ben, Vice President, Mount Gambier Chamber of Commerce
- LODGE, Mr Warrick, General Manager, Network Strategy and Sales, Regional Express (Rex)
- MARTIN, Ms Lynette, President, Mount Gambier Chamber of Commerce

- SAGE, Councillor Richard, Mayor, District Council of Grant
- SHARP, The Hon. John, Deputy Chairman, Regional Express (Rex)
- SINGE, Mr David, Chief Executive Officer, District Council of Grant
- TESTONI, Mr Dominic, Executive Officer, Limestone Coast Local Government Association
- VICKERY, Mrs Erika, President, Limestone Coast Local Government Association
- VON STANKE, Mr Ian David, Councillor, City of Mount Gambier
- WHEATON, Mr David, Chief Executive Officer, Regional Development Australia Limestone Coast

Friday, 15 February 2019, Brisbane, Queensland

- GRIFFIN, Mr Hamish, Private capacity
- HEATLEY, Ms Jayne, Partner, Norton White Lawyers
- MARTIN, Mr Ben, Partner, Norton White Lawyers
- McMILLAN, Mr Scott, Managing Director, Alliance Airlines
- McMILLAN, Mr Scott, Managing Director, Alliance Airlines
- SCHOFIELD, Mr Lee, Chief Executive Officer, Alliance Airlines
- SCHOFIELD, Mr Lee, Chief Executive Officer, Alliance Airlines
- SHARP, Mr Robert, Group Executive, Virgin Australia
- SHAW, Mr Russell, General Manager, Network and Revenue Management, Virgin Australia
- TOMKINS, Ms Lee-Anne, Head of Government and International Relations, Virgin Australia

Friday, 15 March 2019, Darwin, Northern Territory

- DAVID, Mr Andrew, Chief Executive Officer, Qantas Domestic and Freight, Qantas Group
- GISSING, Mr John, Chief Executive Officer, QantasLink, Qantas Group
- MUMFORD, Mr Trent, Head of Government and Public Affairs, Qantas Group
- WADDELL, Mr Guy, Head of Revenue Management, Qantas Domestic, Qantas Group

Monday, 1 April 2019, Canberra, Australian Capital Territory

- BORTHWICK, Mr Stephen, General Manager, Aviation Industry Policy, Department of Infrastructure, Regional Development and Cities
- BRUFORD, Mr Aidan, Director, Trade and Market Policy, Department of Infrastructure,
  Regional Development and Cities
- CRANSTON, Mr David, Director, Airports, Ports, Post and Road Reform, Australian Competition and Consumer Commission
- DOLMAN, Dr Gary, Head of Bureau, Bureau of Infrastructure, Transport and Regional Economics, Department of Infrastructure, Regional Development and Cities

- LANGFORD, Ms Anita, Acting First Assistant Secretary, Aviation & Maritime Security Division, Department of Home Affairs
- MALAM, Mr Glen, Director, Aviation Statistics, Department of Infrastructure, Regional Development and Cities
- PEDLER, Mr Matthew, Assistant Secretary, Air Cargo Security, Department of Home Affairs
- SCHRODER, Mr Matthew, General Manager, Infrastructure and Transport Access and Pricing, Australian Competition and Consumer Commission
- STANLEY, Ms Alice, Acting Assistant Secretary, Aviation Security, Department of Home Affairs