WALGA

Flying Minute - Regional Aviation Policy Issues Paper (05-003-02-0004 SD)

By Sebastian Davies-Slate, Policy Officer, Transport and Roads

That the submission to the Australian Government Department of Infrastructure, Transport, Regional Development and Communications, in response to the Draft Regional Aviation Policy Issues Paper (March 2020) be endorsed.

<u>**RESOLUTION 48.FM/2020**</u>   <u>**CARRIED**</u>

Executive Summary

- The Australian Government invited input from stakeholders regarding the existing policy framework for regional aviation, using an issues paper to guide consultation.

- Federal, State and Local Governments are involved in aviation policy and programs. Most regional airports are operated by Local Governments, making the sector a key stakeholder in provision of aviation services.

- Important areas of Federal Government policy that impact directly on the cost and viability of regional air services in Western Australia include:

    o Requirements for and costs of security screening for passengers and freight;

    o Essential public service funding support for regional airports that do not have sufficient passenger numbers to be economically sustainable; and

    o Measures to encourage and facilitate competition between airlines on routes within regional Western Australia.

- The Infrastructure Policy Team discussed the WALGA submission on 20 April and recommended that it be considered by State Council using Flying Agenda.

Attachment

Regional Aviation Issues Paper (March 2020) - WALGA Submission.

The Regional Aviation Policy Issues Paper is available at
https://www.infrastructure.gov.au/aviation/regional/aviation-policy/files/regional-aviation-issues-paper-march-2020.pdf

Policy Implications

WALGA has contributed to regional aviation policy development, most recently through:
- State Aviation Strategy 2015 (State Council resolution 275.5/2013)
- A Review of Regulated Regular Passenger Transport Routes (2014); and
- A Parliamentary Inquiry (Economics and Industry Standing Committee) into regional airfares (2017).

This submission is consistent with the policy positions previously endorsed.

Background

The Australian Government acknowledges that the major benefits arising from the deregulation of the domestic aviation industry, such as flexible and discount fares and the wider provision of services, have not been reflected in air services to regional, rural and remote communities. The benefits of

competition between airlines have not been realised in these markets. Given the importance of regional air services for economic development, service provision and connectivity this raises policy challenges. The Australian Government prepared a discussion paper as the basis for seeking input from stakeholders about changes to current policy frameworks that will result in better outcomes for all stakeholders.

The Association sought input from Local Governments through LG News (14 February) and through direct contact with Local Government officers responsible for managing Regular Passenger Transport (RPT) airports. Regional airport managers have been focused on responding to the impacts of COVID-19 during March.

Comment

The submission identifies three matters within Australian Government aviation policy that have a direct impact on the cost and viability of air services in regional Western Australia.

Security Screening
The requirements for security screening passengers and freight have increased over time in response to perceived threat levels. These requirements impact costs at both capital city airports and regional airports. However, fixed costs are spread over a small number of passengers and flights at many regional airports, resulting in relatively high per passenger costs. These costs can be a significant component of total costs on short flights. The Australian Government has at times contributed to capital costs associated with security upgrades. However, the operating and renewal costs remain high. The submission encourages on-going risk-based reviews of security requirements and funding support for Local Government airport operators.

Asset Management
Airports are capital intensive, long-life assets. The need to provide for larger aircraft in order to reduce airfares results in under-utilised airport assets in many regional centres. The submission calls for a long term commitment to support whole of life costs for critical regional airport assets.

Competition
The submission calls for developing markets and competition in regional air services including through intra-regional services, multi-stop services and generating new demand through the work of Regional Development Australia (RDA).

This submission does not take into account the effects of COVID-19 in disrupting air travel in Western Australia and nationally. It is unclear what impacts this will have on long term air services.

FLYING MINUTE OUTCOMES

Total Invited to Survey: 24
Total Finished Survey: 17

That the submission to the Australian Government Department of Infrastructure, Transport, Regional Development and Communications, in response to the Draft Regional Aviation Policy Issues Paper (March 2020) be endorsed.

First Name	Last Name	Completed Date
Phillip	Blight	22/04/2020 at 20:09
Jenna	Ledgerwood	22/04/2020 at 12:27
Paul	Kelly	27/04/2020 at 23:36
Malcolm	Cullen	21/04/2020 at 20:29
Cheryl	Cowell	23/04/2020 at 16:35
Stephen	Strange	27/04/2020 at 16:48
Chris	Mitchell JP	Not Completed
Les	Price	22/04/2020 at 18:20
Russ	Fishwick JP	22/04/2020 at 12:45
Karen	Chappel	22/04/2020 at 7:10
Michelle	Rich	Not Completed
Julie	Brown	21/04/2020 at 15:49
Doug	Thompson	25/04/2020 at 10:40
Carol	Adams OAM	24/04/2020 at 9:52
Logan	Howlett JP	22/04/2020 at 12:51
Tony	Dean	24/04/2020 at 21:13
Ken	Seymour	28/04/2020 at 16:00
Peter	Long	Not Completed
Ronnie	Fleay	22/04/2020 at 16:02
Catherine	Ehrhardt	Not Completed
Cate	McCullough	Not Completed
Mark	Irwin	24/04/2020 at 12:03
Ruth	Butterfield	Not Completed

RESPONSES

Created: 21/04/2020 at 15:37 Results Exported: 28/04/2020 at 8:50
(16) Endorse Recommendation

Phillip Blight (on: 22/04/2020 at 20:09), Jenna Ledgerwood (on: 22/04/2020 at 12:27), Paul Kelly (on: 27/04/2020 at 23:36), Malcolm Cullen (on: 21/04/2020 at 20:29), Cheryl Cowell (on: 23/04/2020 at 16:35), Stephen Strange (on: 27/04/2020 at 16:48), Les Price (on: 22/04/2020 at 18:20), Russ Fishwick JP (on: 22/04/2020 at 12:45), Karen Chappel (on: 22/04/2020 at 7:10), Julie Brown (on: 21/04/2020 at 15:49), Doug Thompson (on: 25/04/2020 at 10:40), Carol Adams OAM (on: 24/04/2020 at 9:52), Logan Howlett JP (on: 22/04/2020 at 12:51), Tony Dean (on: 24/04/2020 at 21:13), Ken Seymour (on: 28/04/2020 at 16:00), Mark Irwin (on: 24/04/2020 at 12:03)

(1) Endorse Recommendation subject to comment below

Ronnie Fleay (on: 22/04/2020 at 16:02)

(0) Oppose Recommendation

COMMENTS

Ronnie Fleay on 22/04/2020 at 16:02
Regional services must continue to be subsidised and it is vital for the towns reliant on the Tourism industry to have links, ie flights that connect such as Perth>Geraldton>Shark Bay>Carnarvon>Exmouth.

SECRETARIAT COMMENTS

The State Government subsidises some regional services, with others regulated to ensure that a basic level of service is available. The submission calls for whole of life funding support for regional airport infrastructure, informed by comprehensive Asset Management Frameworks.

Regional Aviation Issues Paper

WALGA Submission

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About WALGA

The Western Australian Local Government Association (WALGA) is the peak industry body for Local Government in Western Australia. The Association is an independent, membership-based organisation representing and supporting the work and interests of 138 Local Governments in Western Australia.

The Association provides an essential voice for over 1,200 elected members and approximately 22,000 Local Government employees as well as over 2.5 million constituents of Local Governments in Western Australia. WALGA also provides professional advice and offers services that provide financial benefits to the Local Governments and the communities they serve.

WALGA Submission on the Regional Aviation Issues Paper

WALGA welcomes and appreciates the opportunity to comment on the Australian Government's Draft Regional Aviation Policy Issues Paper, March 2020.

Introduction

Many regional airports are owned and operated by Local Government, and regional aviation policy can affect Local Government finances, in addition to the benefits to the community of quality aviation services.

Aviation is an essential service to regional and remote communities, but can also be a significant financial burden to the community through Local Government rates and the requirement to support aviation infrastructure. Australian Government aviation policy can assist with these issues by reducing pressure on operating costs and promoting airline competition.

There are three issues that WALGA would like to bring to the attention of the Australian Government:

- Security screening costs;
- Asset management and funding support; and
- Encouraging competition on regional air routes.

Security screening costs

Operating costs at small regional airports can be a significant financial burden for Local Government managers.

One component of airport operating costs is the cost of operating security screenings. At small airports, with low or strongly seasonal passenger numbers, the costs of operating security screenings for a small number of flights can be very high.

Where airports are required to introduce additional passenger screening and security infrastructure the increased costs will need to be passed through to airlines, potentially increasing fares and lowering demand, or absorbed leading to reduced airport income. Security investments compete for the limited capital available for investment at airports. Local Governments would welcome a review of the costs versus benefits of security measures at airports, with a view to taking a more risk-based approach to security screening requirements. This review might be performed by the Productivity Commission or other Australian Government agency.

Asset management and funding support

Australian Government funding support of regional airports should be based on a robust estimate of asset preservation needs and funding capacity. This should be done through a comprehensive series of asset management plans, which include an assessment of required future maintenance. The Western Australia Government has developed a series of management plans for regional airports under its State Aviation Strategy. This Strategic Airport Assets and Financial Management Framework is designed to provide a sound evidence base for allocating asset preservation funds.

At some regional airports large planes will land for a limited time during the year, and the infrastructure is under-utilised outside of this time. This seasonality in demand makes funding airport operations challenging. There is a benefit to Australia of being able to ramp up passenger numbers quickly.

A "whole of life" asset management forecast and funding assessment versus funding availability needs to be prepared for all regional airports at a State level to assess and plan for a sustainable future.

Encouraging competition on regional air routes

The Issues Paper notes on page 17 that:

> "The privatisation of airlines and airports, along with the cessation of the two airlines policy has underpinned more flights, increased innovation, discount fares and large investment in aircraft and airports.
>
> But the market-driven approach to delivering aviation infrastructure only functions where it is profitable for private investors to participate.
>
> Where this is not the case, governments have to consider whether to support infrastructure investment to help facilitate air services to regional and remote communities."

WALGA broadly supports this statement, and notes that regional airports often lack the market depth necessary to support competitive air services on large planes. This results in high fares and limited service frequency. Further to this, any government policy that discourages competitive air routes, whether directly or indirectly, should be reviewed.

Routes serving small market will always be challenging to maintain and develop. However. consideration should be given to addressing this low demand by either increased efforts to manage costs or to grow demand on that route. Some initiatives that may be considered to address this issue include:

- Encouraging multi-stop routes along within the region or n neighbouring regions. This might be done by providing temporary or permanent concessions to the normal aviation fees applied to airlines.

- Economic development strategies, to promote local activity and population growth. It is always challenging for governments to promote economic development, but there is an existing network of regional development agencies in the form of Regional Development Australia. RDA's activities can complement those of the state regional development agencies, and state and federal tourism bodies.
- There may be opportunities for government to locate some of its functions at regional centres that struggle to generate enough demand for competitive air routes.

WALGA supports the Australian Government's policy of offering rebates to the Enroute Charges Payment Scheme to support regional and commercial airlines on low volume and new routes to small and remote communities. It is recommended that this rebate scheme be expanded to remove the requirement that the route be serviced by a single operator, as enroute charges increase costs and potentially act as an impediment to airlines increasing service or competing for business on regional routes.

Conclusions

Australian Government aviation policy is important in addressing the costs of managing regional airports and in promoting quality air services, where possible. As outlined in this submission, these objectives can be achieved through:

- Reviewing costly security screening requirements, with a view to using a risk-based approach.
- Funding support for regional airport infrastructure, based on a robust assessment of asset preservation need.
- Promoting competition on regional air routes, by reviewing enroute charges, and any others that may create a disincentive to an airline opening competition for an existing air route.

Lower cost and more competitive air services are critical issues for regional communities and Local Governments.