REGIONAL AIRPORT USERS' ACTION GROUP AND G J BREUST SUBMISSION TO THE PRODUCTIVITY COMMISSION'S INQUIRY INTO THE ECONOMIC REGULATION OF AIRPORTS

About the Respondent

Regional Airport Users' Action Group is an ad hoc social media group of some 300 members with interests associated with airports as aircraft owners, operators, pilots, engineers and as citizens. The group was established in early 2018 to assist with exchanging information and to lobby airport owners.

Geoff Breust is a retired regional airline senior executive, currently private aircraft and hangar owner and private pilot with over 30 years direct involvement in aviation from Australian Government senior aviation industry regulator to large regional airline Managing Director / Chief Executive. He is convenor of the Regional Airport Users Action Group and chaired the recent General Aviation Summit attended by delegates of 34 Australian General Aviation associations held in Wagga Wagga on 8 – 10 July 2018.

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Focus of this Submission

This submission focuses on issues associated with the economics and management of regional and local airports (ie; those which are not Capital City or significant other International Airports like Cairns and Coolangatta). It also makes limited comment regarding the financial performance the major capital city airports and certain activities of the capital city secondary airports.

It further comments and makes recommendations concerning security at regional and local airports and the regulatory burden imposed on general aviation.

Principal Submission

Regional and local airports are unviable on a fully commercial basis.

The high cost of infrastructure development, heavy repair and maintenance, compliance and general operating costs cannot be covered from the charging levels needed to maintain Australia's regional and local air transport system.

A new approach to the funding of major refurbishment and development of Australia's regional and local airports is required.

Background

Up until the 1980s and 90's almost all airports were owned, operated and funded by the Commonwealth Government. At this time a concerted effort was made to privatise the major capital city international and secondary airports. Long term leases were eagerly acquired by Australian and multi-national corporations. Some have changed hands since initial privatisation, including investment now by major institutional and superannuation groups.

Since privatisation the significant expansion in domestic and international air travel has provided the major privatised airports with substantial increases in throughput (flight movements and passengers) and the accompanying increase in aeronautical revenue, but more particularly, massive increases in non-aeronautical revenue from retail activities, car parking, land side leasing, advertising and other sources. Major airports in Australia are almost the equivalent of small cities including large retail food and shopping facilities and associated services, hotels and conference facilities, automotive dealerships and direct factory outlets.

This traffic expansion and the significant move to non-aeronautical activities have provided these airport corporations with major increases in revenues and profits – far exceeding profit levels experienced in the general economy.

For example, Sydney Airport Corporation's annual passenger throughput has increased from 12m in 1990 to 44m in 2017. Its aeronautical derived revenue was $671m for FY 2017 (an increase of 9.2 percent on the previous FY) while its non-aeronautical revenue for the same period was $812m, also showing a substantial increase.

Sydney Airport's EBITDA was $1,198.9m representing an 80% return on revenue. Its Net Operating Profit of $789.8m is a 53% return on revenue.

Dividends paid by Sydney Airport have risen from 21 cents in the five years from 2012 to 2017 to 34.5 cents – an increase of 64%. For FY 2018 the dividend return is forecast at 37.5 cents representing a 78% increase over the six years. (Source: Sydney Airport Corporation Annual General Meeting Report 2017.)

Even given the airport's large asset base, these returns are considered exceptional, if not outrageous.

Similarly, Melbourne Airport's annual passenger throughput for FY 2017 was 25.2m with total revenue of $953.4m of which $391.1m was aeronautical revenue and $562.3m non-aeronautical revenue. It had an EBITDA of $702m (73.6% return on revenue) and a Net Profit of $297.5m (31.2% return on revenue). (Source: APAC Annual Report 2017.)

Brisbane Airport in FY 2017 had annual passenger throughput of 22.8m (involving substantial increases in recent years) annual revenue of $680m of which $272m was aeronautical revenue and $418m non-aeronautical revenue. EBITDA was $504.1m (74% return on revenue) and a Net Profit of $180m (26.4% return on revenue).

Brisbane's Annual Report for 2017 states:

"BACH has demonstrated a strong operating performance as it focuses on maximising profitability."

Given its wide cross section of institutional shareholders, Brisbane is required and is directly focussed on achieving high financial returns. One suspects the same vision and mission applies at the other major capital city airports.

Air service operators now provide the major capital city airports with large numbers of captive consumers for retailers, other leasehold businesses and the airport owners themselves.

Aeronautical charges levied on airlines by the major capital city airports vary significantly. For regional airline services, the range is from around $7.00 per passenger to $13.00 per passenger including charges for security screening. Some airports, such as Brisbane and Perth levy a large peak period charge per landing – in the realm of several hundreds of dollars. For regional operators conducting services with smaller capacity aircraft in the 30 to 50 seat range, which are required to operate at peak times to provide the schedule demanded by their regional community customers, the peak period additional charge can be as much as $15.00 per passenger.

Given the throughput at these airports, the ability to generate large revenues from aeronautical charges is clear.

Major domestic and international air transport is forecast to expand at an even greater rate, especially international air travel in the Asian and sub -continental markets. This is expected to flow through to even greater revenue streams and returns for these airports as higher throughput reduces unit costs and provides greater return on investment.

Capital city airports are highly lucrative enterprises and are considered relatively low risk with high rates of return. On the other hand, the general consensus in the investor community is that airlines are high risk perhaps a reflection of how airline costs are difficult to manage given the market power of airports (and the low unit returns available to airlines given the high level of competition and low fares).

Regional and local airports present a different story. The larger regional centre airports have enjoyed growth but not to the same extent as the major capital city airports. Local airports have seen little or negative growth.

Alongside privatisation of the major airports, regional and local airports were subject to the Aerodrome Local Ownership Program which handed over the ownership and ongoing funding of airports to local government across the country. As a carrot for such transfer, some not insubstantial grant funding was provided initially to undertake upgrading works and major maintenance as part of the deal.

Local government was encouraged to accept the transfers and in so doing thought they would be able to determine the future of their airport and operate it without it being a burden on ratepayers. Over time, however, local government has found the reality has been an effective cost shift from the Commonwealth and they now face an ongoing substantial cost burden.

While larger regional airports such as Wagga Wagga, Albury, Tamworth, Mount Isa, Mildura, Port Hedland, Port Lincoln etc have seen increases in throughput, they have also been subject to substantial increases in infrastructure and operating costs flowing from greater operational compliance requirements, introduction of larger regional aircraft including jet aircraft and 70 seat turbo-props in some cases, substantial increases in security requirements both infrastructure and operating and, of course, ongoing time based wear and tear on their critical assets – runways, taxiways and hard-standings.

Charging regimes at regional airports vary considerably but generally involve a fee per passenger (head tax) for regional airline services as well as weight based landing charges for other aircraft movements. Lease rentals and rates are also charged.

Passenger charges at such airports range from around $7 per head to around $13 per head depending upon security requirements. The larger regional ports in Queensland and Western Australia are conspicuous for their significantly higher charges – perhaps as a reflection of the mining boom. Mildura Airport charges over $15 per head plus security screening probably reflecting the high overhead of its corporate structure and over capitalisation in infrastructure both terminal and runway.

Local airports (those without a Regular Public Transport (RPT) air service) are in an even worse situation. They have little ability to generate any real revenue. Most consider their airport as a mandatory community facility and fund it from ratepayers. While a few impose aircraft landing charges most do not because they wish to attract visitors. Local leases provide minimal revenue.

Accordingly, many local government authorities are extremely concerned about the future of their airports because they are unable to adequately fund them. Some are seeking to sell them. There are recent reports of airports being sold off for industrial and residential development. Others are being offered to overseas flight training organisations. Yarrawonga Airport is a recent example of a Council pursuing such an option.

Airports as Commercial Businesses

The major capital city international, capital city secondary and a number of other major airports (eg: Cairns, Coolangatta and Launceston) given their privatised basis are operated on a fully commercial basis. As highlighted above, these airports have shown they have sufficient throughput to enable the costs of infrastructure development and day to day operations to be covered from a range of aeronautical and non-aeronautical sources of revenue. Experience has shown that they are profitable or indeed lucrative and provide better than average returns to investors.

Regional and local airports do not enjoy the same position.

These airports have far lower activity and throughput with the resultant inability to generate aeronautical revenue. They also have very limited ability to generate other, non-aeronautical revenue.

Regional and smaller airports which receive RPT (airline) services can have annual passenger traffic from as low as 3,000 passengers (in outback Queensland, for example) to 500,000 passengers or more (some of the major coastal centres). In most cases the critical infrastructure (runways, taxiways, tarmac and lighting) is the virtually same for an airport with 3,000 annual passengers as one receiving 200,000 passengers – for example Quilpie in outback Queensland and Wagga Wagga in south west New South Wales both receiving regional airline services with the same aircraft type.

Local Councils operating airports with airline services in most cases have taken the approach of running them as commercial enterprises. The catalyst for this approach is unclear, but in some cases it appears to have emanated from State Government policies or Council's own policy. In many respects they have no other option. Adopting a fully commercial approach requires the relevant accounting standard treatment of depreciation and decisions relating to return on capital.

There is basically no published specific financial performance data on local government airports – most annual financial reports have consolidated data only. However, I am aware at one larger regional airport with an annual passenger throughput of around 220,000, annual revenue from all sources is around $4m, operating costs are around $3.8m giving a small operating surplus, less depreciation of $3m giving an annual loss of some $2.8m. Making a return on capital has proved impossible.

Aeronautical and other charges at this airport are average to above average.

Clearly this airport, on a truly commercial basis, is not viable. Most regional airports would be in the same position.

At two other smaller regional airports (with RPT services) with annual passenger throughput around 20 – 25,000 passengers, both have revenues from all sources of around $350,000 pa, operational costs of around $400,000 plus interest and depreciation of around $200,000.

King Island Airport which has annual passenger throughput of less than 20,000 has recently reported an annual loss of $470,000 when depreciation and some revaluations are taken in to account. While currently operated on a non-commercial, community facility basis, Council's recently updated Airport Master Plan seeks to make it commercial while examining plans for a major runway extension and development works presumably with the aim of attracting aircraft larger than the current 34 seat turbo-prop. While absolutely vital to the local community (only travel option on and off the island is by air) the level of charging required to meet all costs would simply mean wildly unaffordable fares or no air service. (See https://www.theadvocate.com.au/sport/local-sport/5606566/ki-airport-upgrades-outlined-but-unfunded/)

Neither the larger nor smaller regional airports are viable on a commercial basis and would reflect the situation right across Australia.

These airports, like many, have been successful in attracting grant funding from State and Federal agencies under various programs for development and refurbishment works. While grant money has been made available for critical infrastructure such as runway, taxiway and tarmac upgrades, much of this funding has been directed to passenger terminal upgrades. On completion of such works, the value is added to the asset base and, of course, depreciation is applied. This additional depreciation value then drives the need for higher revenue and hence higher charges, especially passenger head tax and aircraft landing charges.

Where grant funding is not available or where they are required to provide matching funding, local councils are required to borrow for major works. This adds borrowing costs and imposes requirements for repayment out of generated cash impacting further on the airport's viability.

Councils, as is there want, adopt a cost plus approach to their charging regime which, of course, is directly at odds with any commercial enterprise's position in a market, except of course, where it is a monopoly. By their nature, regional and local airports are natural monopolies and are able to exercise monopolistic strategies. This is particularly the case where there is competition in air services as one carrier is unable to apply its only countervailing power – reduce or threaten to withdraw services. However, the real competition for regional airline services is land transport, particularly the private motor vehicle. This results in a highly elastic demand regime, especially for discretionary travel and is why regional airlines react so strongly to increases in airport charges added to fares.

Over the years most Council airport owners have adopted an authoritarian approach to commercial practices, especially charging, lease terms, access and investment decisions in particular. In some respects they are forced to because of their difficult financial position.

However, often investment in additional or upgraded infrastructure is made based on the availability of grant funding rather than on appropriate business case / cost-benefit principles in consultation with users. This has led to poor decision making resulting in higher costs and charges leading to outright conflict between the airport and its users.

Airport passenger terminal upgrades and critical infrastructure upgrades for larger capacity and jet aircraft on a "…build it and they will come basis.." without effective consultation with users and proper business case development reflect the authoritarian approach. Upgrades at Dubbo, Orange, Kingscote and Mildura are examples. Proposed upgrades at Mount Gambier, Merimbula, Port Lincoln and Kingscote (the latter two for direct interstate operations) are also examples.

One suggests such upgrade decisions are the result of local politics or empire building on the part of the local bureaucracy rather than effective investment decisions. The engagement of consultants to prepare improbable Master Plans has not assisted the process.

There are also examples of poor decisions because of the lack of knowledge, experience and capability of local authorities in airport management and development. (See further comments below.)

This is occurring at a time when regional and local airports are facing greater losses due to their inability to cover operating costs, depreciation and loan servicing pressing the need to further substantially increase charges. Increased charges means higher fares which impact on the viability of the very air services involved. At the same time communities are calling for lower fares and improved services (reference: Senate Standing Committee on Rural and Regional Affairs and Transport Inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities.)

General aviation services at such airports are also experiencing higher charges which, along with increasing regulatory costs and compliance burden, are forcing businesses supplying these services out of the industry. Flying training, commercial charter and aircraft maintenance businesses are closing down.

This establishes a downward spiral effect with the real potential for loss of air services and the local community left with a very expensive, unused asset.

Local airports without regular airline services in most cases have lower standard but still substantial critical infrastructure with even less ability to generate either aeronautical or other revenue. For example, West Wyalong and Deniliquin have airports with the capability to take up to 19 seat regional airliners and are obliged to maintain them at that standard or risk losing the facility completely. Loss of the airport facility would mean the loss of vital community services including aero medical, freight, fire fighting and aerial agriculture and charter services as well as aircraft maintenance, flight training and recreational operations where established.

For these airports, there is virtually no ability to generate revenue of any magnitude. In many cases the local Council adopts the approach of fully covering the airport's costs from ratepayers because of its essential community facility / service needs.

Clearly, the commercial business enterprise approach to regional and local airports is not a viable strategy. Another approach is needed.

Regional and Local Airports as National Infrastructure – Proposed National Airport Infrastructure Fund (NAIF)

Air transport infrastructure, like road, rail and sea infrastructure is vital for Australia's economic and social future.

Access to air travel (be it airline, freight, other commercial or private / business) must be considered as part of our national strategy, even more so given the vast distances involved.

Even in the United States, the bastion of free enterprise in the world, airport infrastructure right across the country is part of a national strategy to ensure access, promote development and safeguard national defence. It is clear Australia has no such strategy.

Given the current commercial business enterprise and cost shift to local government approach is not viable, a wider government, national strategy is necessary.

Through co-operative arrangements between the Commonwealth and State /Territory Governments, a recommended solution is the establishment of an airport infrastructure program where funding is made available for major refurbishment and development at regional and local airports. With the availability of this fund, local councils would not be required to make the huge contributions to depreciation reserve accounts and service substantial debt thereby reducing cost and charging pressures and placing commercial operations at risk.

This would further lead to more appropriate investment / refurbishment decision making, especially if the regime required the airport to have in place an effective Airport Advisory Committee made up of the local council and airport users. Such a committee would be empowered with over-viewing the operation and financial performance of the airport and to sign off on any funding application.

To offset some of the taxpayer funding required for the program, it is proposed a levy be imposed on the non aviation activities of the major privatised Capital City Airports. A percentage of their non-aeronautical revenue streams could be diverted to funding part of the program.

Major Capital City Airports benefit significantly from the investment in infrastructure and air services at regional and local airports and it is only fitting they make a contribution to that investment. Almost $1.8 bn was earned by the three top capital city airports (Sydney, Melbourne and Brisbane) in FY 2017 from non-aeronautical activities. All three made a combined Net Profit of almost $1.26 bn. A small levy, of say 2.5% on their non-aeronautical revenue would provide the fund with $45m per annum. Add contributions from the other major airports and the contribution would exceed $50m per annum. This, combined with relevant contributions from State and Federal Government grant programs, would enable regional and local airports to survive and develop appropriately while maintaining a charging regime under which the aviation industry servicing those communities could manage.

One believes the community at large would agree it is appropriate for the Commonwealth and State/Territory Governments to make contributions to this infrastructure on national interest as well as economic and social benefit / development grounds.

Under this proposal, local government would be responsible for ongoing operational and minor maintenance / upgrade activities under the guidance of its Airport Advisory Committee, funded from its own revenue streams.

A major benefit of this approach is the achievement of stability and certainty in airport funding. The current ad hoc, specific grant process relies on variable factors and variable availability. Under NAIF, effective long term planning and budgeting can be achieved along with appropriate and standardised infrastructure development projects. (No more Taj Mahal terminal buildings, no more over specified runways and taxiways.)

Attached is an Advisory Committee model, based on that applying currently at Wagga Wagga.

Management Performance at Regional and Local Airports

My comments here are based on personal experience over many years of dealing with regional and local airports, the majority of which have been local government authorities.

In the main, while good intentioned, the managements of most airports in this category have lacked knowledge, capability and experience not only in effectively managing an airport, but also in commercial management. The transfer of ownership to local government generally resulted in the airport being placed under the supervision of the engineering department with previous experience in road and related infrastructure management and development. The approach to runway, taxiway, tarmac and associated infrastructure relied heavily on experience in these areas, not the specialist requirements of aviation and airport operations.

As a consequence I have witnessed first hand new and refurbishment works which have fallen well short of the required strength and capability. This has resulted in subsequent cost blow outs far in excess of what the cost should have been had the works been done properly in the first place.

There has also been a lack of available proper expertise in this space. Once the transfer from the Commonwealth was completed, the expertise also vanished in this area. Unfortunately, the use of consultants to local government in many cases did not provide the desired outcome.

While local government was encouraged to establish Airport Advisory Committees of users during the initial transfer, most committees subsequently disappeared. My observation during this early period was that they served a very useful purpose in ensuring work was controlled and costs remained in focus, but they were not accepted by many council bureaucrats and elected representatives as they saw them as unnecessary interference.

Even with the airport being transferred from the engineering department to the “business enterprise” divisions of local government, the overall level of experience, knowledge and capability in effective commercial management is considered sub optimal. My observation of local government involvement in airports confirms weaknesses in their business / commercial approach as well as issues flowing from political interference and shortcomings in airport expertise.

As indicated above, numerous passenger terminal upgrade decisions have been pushed by elected members and staff because they are easily identifiable as something achieved – a legacy of a particular Councillor or staff member. It gives the ability to have an opening ceremony, the unveiling of a plaque to celebrate and the involvement of the ever needed media.

In reality, the average air traveller wants to spend the least possible time in an airport terminal building.

However, decisions on runway and taxiway refurbishments are less visual and do not have the same sexy media outcome. Such investments in proper maintenance and refurbishment are vital for the continued viability of the airport and its services.

Effective Airport Advisory Committees, with attendant appropriate terms of reference, ensures a higher level of governance and rational input to such decisions – certainly as a brake to some of the politically aspired proposals I have observed.

As indicated above, it is recommended all airports which have access to the recommended NAIF or indeed any access to Federal or State Government funding, be required to have an effective Airport Advisory Committee with the Terms of Reference as proposed in the attachment.

Further, it is understood neither the Commonwealth nor State Governments undertake independent audits of projects undertaken with grant funding. While grant receivers are required to provide a final report, there is no independent validation of the project scope, completion and funding acquittal. Such action would be a further efficiency driver for airport infrastructure relevance and actual facilitation.

I turn now to the management of charging arrangements.

Regional airports generally use two methods of processing charges. For the regional airlines' head tax, the airlines normally provide an RCTI based on the actual passengers carried (or landing if applicable) for the period and pay accordingly. This system works well.

However, administration of the charging regime for other operators, commercial and private, is much more complex. Generally these charges are based on an aircraft weight/landing fee.

A company established in Canberra some years ago, Avdata Pty Limited, has been successful in providing a billing and collection service based on the interrogation of the aviation radio frequency for the airport concerned. Aircraft landing at most regional and local airports are required to broadcast their registration and arrival and landing intentions on a radio frequency – Common Traffic Advisory Frequency for a specific airport or Multi Traffic Advisory Frequency covering a number of generally smaller airports. Avdata monitors these frequencies using appropriate software , establishes the billing based on the aircraft registration, weight and charging data, prepares the invoice, distributes to the aircraft registered operator (from the CASA Aircraft Register database), collects the funds and remits to the airport, less fees.

This relieves the Council of the administrative burden involved, although Avdata's fees are in the order of 30 percent of the gross charges levied. This is a significant reduction to their revenue stream. It is unfortunate the airports have not been innovative in reducing this collection cost by analysing what they can do locally to identify movements, use technology such as video and photographic evidence and charge through their own system. (For example, Wagga Wagga City Council uses such technology to manage city parking. Police forces use similar technology relating to vehicle registration.)

Another significant disadvantage with the current Avdata system is the non access to the aircraft owner / operator data base of Recreation Aviation Australia (RA Aus) – the non-government regulatory authority for light sport recreational aircraft which have a different registration system. These smaller aircraft are becoming more popular and use regional and local airports at an increasing rate. For so called privacy reasons RA Aus refuses to provide registration and ownership details to councils and Avdata and as a consequence, most of these aircraft do not pay airport charges.

These aircraft operations should be subject to airport charges.

In an attempt to capture details of such aircraft operations, a number of airports are now requiring all operators to seek prior permission (24 – 72 hours notice) to land at their airports. This requires all operators to incur extra cost and inconvenience to overcome the approach of a few. It is also being done to circumvent the need to use Avdata's services and reduce costs. (I'm not sure what happens if permission has not been requested or given – does the airport block the aircraft from landing?)

The Avdata system also has a safety flaw. There is evidence to support that some pilots are not making positional and intentional radio calls at airports to evade the payment of the airport charge. While it is incredible a pilot would put both himself and others at risk to save a fee, the use of other technology to eliminate the reliance on radio calls is worth serious consideration.

Some airports are now charging aircraft overflying and not landing. The basis for this is highly questionable as there is no cost to the airport and the airport does not own or control the air space above it.

All of the above points to the stress imposed on regional and local airports in trying to meet their total costs. It supports the need for a new approach to regional and local airport funding.

Impact of Security Requirements at Regional / Local Airports

There is no question the imposition of security screening of passengers and baggage in some cases has involved substantial cost increases for airport owners, airlines and passengers.

The annual operating cost of passenger screening at an airport with 150 - 200,000 passengers is $1m. Capital works to introduce such screening has varied but $3-4m in building works plus a further $0.5m for equipment is not out of the ball park. Introduction of baggage screening and full body scanning involve further significant costs.

While Commonwealth funding of much initial airport security fencing relieved the burden from local government, its ongoing maintenance and replacement remains a substantial funding imposition.

Further, the requirements for Aviation Security Identification Cards (ASIC) at regional / local airports imposes additional costs on the airport, operators and local users. In my own case I am required to hold an ASIC for use at my home base airport, Wagga Wagga and for operations at other security airports as a pilot, involving the same application, assessment and approval process as a person working on the international tarmac area of Sydney Airport, only in their case the issuing process is easier. (Note: I have no need nor do I enter the RPT tarmac area at Wagga, I am not allowed to operate my aircraft to Sydney Airport and when I do operate to some of the other major airports, I am not allowed near the major domestic and international operational areas.)

I have to arrange original birth certificate and related documentation at my cost, have copies certified, send the application and supporting documentation at my cost to an issuing agency (in Merimbula NSW), pay at least $260.00 for the application, report to an issuing agency in person (Wagga Airport) with original documentation for issue and then renew every two years via the same process.

In addition, because my hangar facility is located fully airside at Wagga Wagga and I am allowed to drive my vehicle via airside roads to the facility, I must hold an Airside Driving Authority which is not only aligned to a requirement to hold a valid ASIC, it too is valid for only two years and must be renewed at ASIC renewal time at a cost of $33.00. It also requires me to attend the airport in person.

My passport, on the other hand, is valid for ten years, can be renewed easily at any Post Office and costs $282.00.

While everyone is aware of potential terrorism attacks, it is unclear as to why such significant security measures are necessary at regional airports (where an RPT airline service is provided – some involving a service only once a week).

There has been no definitive public justification, publicly released risk assessment or cost benefit analysis of the security requirements. They have been released at various times as a fait accompli. The move of the Office of Transport Security from the Department of Infrastructure and Transport to the behemoth Department of Home Affairs is likely to make risk transparency even more unlikely.

It was interesting to note the last variation in requirements lifted the passenger screening requirement by reducing the seating capacity (through a reduction in weight) from seventy seats to fifty. No risk justification was included in the announcement during the last budget. This change will involve substantial increases in costs at smaller regional airports.

The question has to be asked why Australian regional / local airports and regional air services are subjected to such high levels of security when such operations in the United States are not. Why is regional aviation such a high risk when no similar counter measures are involved with land transport, especially major urban rail and ferry services. It seems aviation is an easy target for government to be seen to be doing something and for passing the cost to users.

Aviation is the only sector where the industry is required to meet a substantial component of the costs involved. While the Commonwealth has provided significant funding for infrastructure – fencing and screening equipment in particular, funding for building works to house security equipment has often been borne by the airport (and subsequently passed on through higher passenger charges). Labour to provide the screening has generally been borne by the airport or airline and passed on through charges and in fares. These additional costs and burden of supplying the service leading to higher fares is making regional air travel less competitive with its main rival, the private motor vehicle or other land based services, which involve no security counter measures.

The question is – are the security measures in place supported by the risks involved? Why isn't the Commonwealth providing a transparent risk assessment? If it believes there is a substantial national interest risk requiring the sorts of measures required, then in the national interest, those counter measures should be funded by the taxpayer – in the same way our national defence is funded.

Measures to counter the potential carriage of dangerous goods on board aircraft (which is often also used to justify screening measures) can be achieved without the high levels of surveillance and physical barriers required for security purposes.

It is recommended aviation security requirements for regional and local airports be reviewed with the public release of a proper risk and cost benefit analysis.

Aviation Regulatory Cost and Burden

Aviation in Australia is highly regulated. It is doubtful there is another industry which is so highly regulated in safety terms via a huge set of very prescriptive regulations, orders, standards, directions and policies.

Australia's safety based regulation is vastly more costly and burdensome than that of the United States and Europe.

The aviation industry has been pressing for over 30 years for less burdensome and costly regulation. It is argued Australia's prescriptive and criminal liability based approach to safety regulation is far less effective and efficient than the outcome based approach adopted in the US and elsewhere in the world.

Ever increasing costs and compliance burden incurred by airports, air operators, aircraft owners, pilots, engineers – indeed everyone and every organisation within the industry, is placing Australia at a major disadvantage in achieving the benefits from the forecast explosion in air travel. Much of this benefit will come to Australia via training for pilots and engineers as well as aircraft maintenance and refurbishment. Rather than gearing up for this expansion, many general aviation operators, flying schools and aircraft maintenance businesses are closing down. The reason given in almost every case is regulatory cost and burden. Some of these businesses have been operating for more than 30 years and are not being replaced because the establishment costs and regulatory compliance burden is just too high. Why is this the case when Australia's overall safety record is being maintained and improving, especially in terms of hours flown and passengers carried.

The General Aviation industry is particularly frustrated in trying to achieve effective change, so much so that a General Aviation Summit was held in Wagga Wagga in early July 2018 with the principal aim of gaining industry consensus on an amendment to the Civil Aviation Act to require CASA to have regard to the sustainability of the industry and consider the impact of costs and regulatory burden in addition to purely safety. Thirty four industry associations attended the Summit - the first time the full cross section of General Aviation has not only come together but also reached a consensus. The Summit findings and recommendations have been sent to the Government and Opposition – with both the Minister and Shadow indicating consideration of a bi-partisan approach to change. The industry awaits with great anticipation.

The main recommendation with regard to the Act amendment is set out below.

1. Amend Section 3A Main Object of the Act to include a subsection (1) as follows:
"3A The main objective of the Act is to establish a regulatory framework for maintaining, enhancing and promoting the safety of civil aviation with particular emphasis on preventing aviation accidents and incidents.

(1) In addition the objective must include;
(a) a strong, efficient and sustainable aviation industry;
(b) enabling more people to benefit from aviation; and
(c) emphasis on substantially reducing the administrative and financial burden of regulatory compliance."

2. Repeal Section 9A(1) and replace with:
"9A (1) In exercising its powers and performing its functions, CASA must seek to achieve the highest level of safety in air navigation as well as:
(a) maintaining an efficient and sustainable Australian aviation industry, including a viable general aviation and training sector; and
(b) the need for more people to benefit from civil aviation.

3. Include in Section 98 relating to the making of Regulations, specific reference to the Australian Government's focus on its Deregulation Agenda to pursue reforms that remove barriers to competition, innovation and growth, building on the ongoing commitment to cut red tape, improve regulator performance, and strengthen Regulatory Impact Analysis processes.

In many ways it is appropriate for a Productivity Commission Inquiry in to CASA, its capability and effectiveness along with the effectiveness of the prescriptive, criminal liability approach to safety regulation in Australia.

Submission Findings and Recommendations

Findings

1. The major, privatised capital city airports operate on a highly commercial basis and are very lucrative businesses. They make exceptional profits and have expanded their non-aeronautical businesses to generate their majority of revenue and profit. This is a considerable benefit not envisaged when the airports were privatised some forty years ago.

2. Capital city secondary airports which serve General Aviation in the main, have not developed to the same extent as their major colleagues. Aeronautical activity at these airports is generally in decline with a steady closure of flight training and aircraft maintenance businesses, along with private and recreational aviation. Non-aeronautical activities at these airports have grown as the owners, given their expertise in property development and management in many cases, have endeavoured to maximise their potential in this area.

3. Regional airports (those larger centres with an RPT service) have generally seen growth in both passenger throughput and movements. However, the vast majority are unable to fully fund their operations, maintenance, depreciation, borrowing costs and make a commercial return from charging levels which the industry is able to afford. (Given the lack of available data I have not been able to determine the passenger and

throughput break even level – perhaps the Commission could arrange a study across a wide cross section of regional and local airports to ascertain the position across the board.) While many have received grant funding for major refurbishment and development works, the added depreciation burden has prevented positive results.

4. Local airports (those without an RPT service) are even worse off with virtually no revenue stream large enough to fund the airport. Local government in these circumstances fund the day to day operation and on going maintenance from residential rates and other revenue sources on the basis the airport is a vital piece of community infrastructure. Major maintenance and refurbishment can only be undertaken with grant funds.

5. There are many examples of authoritarian and monopoly style management approaches by airports. Air service operators, lease holders and private users have little countervailing power, apart from threatening to move out.

6. There are many examples of poor planning and investment decisions by regional and local airports. Flash and oversize terminal buildings, developments in excess of the needs of operators especially the "build it and they will come" approach, lack of knowledge, experience and capability when it comes to airside works have contributed to high costs and unviability.

7. Security requirements at regional and local airports have led to substantial increases in costs and regulatory burden without transparent risk assessments.

8. Aviation safety regulation changes are adding substantial additional costs to General Aviation and increasing regulatory and administrative burden. Various general aviation businesses are closing under the weight of regulation – regulation which has dubious benefits in actual safety. Amendment to the Civil Aviation Act and subordinate legislation is necessary.

9. While the world airline industry is on the verge of a substantial increase in activity, Australia's General Aviation industry is in decline because of the cost and regulatory burden when it should be in a position to expand and take up the opportunities available especially for the ab initio training of pilots and training of aircraft engineers.

Recommendations

1. A National Airport Infrastructure Fund (NAIF) be established to provide grant funding to regional and local airports for approved major refurbishment and airport development works. The fund to be administered by the Commonwealth and receive part funding from the Commonwealth and States on national interest grounds. Part funding also to be provided from a levy of say, 2.5%, on the non-aeronautical revenue received by the large privatised capital city airports in recognition of the benefits those commercial enterprises receive from the air transport network as a whole and regional and local airports.

2. Make it a requirement that any airport seeking to apply for funding from the NAIF, have an effective Airport Advisory Committee as recommended in the Attachment.

3. The Commonwealth and States undertake audits of projects undertaken by airports from grant funding received and for those audit reports to be made public.

4. Regular audits of the privatised Capital City Secondary Airports be undertaken by the airport owner (Commonwealth) to ensure the airport is compliant with its lease terms and conditions and that its performance in actually delivering an airport to the community within the spirit and scope of the lease. These airports also be required to establish and maintain an Airport Advisory Committee to effectively consult with aviation users on relevant matters covering operations, changes to facilities, lease arrangements, access and restrictions, charges, developments and planning.

5. That Recreational Aviation Australia, the governing body of light sport aircraft operation, be required to provide aircraft registration and ownership details to airports and Avdata to ensure operators of these aircraft pay their applicable airport charges.

6. Undertake an independent and transparent review of the security requirements at regional and local airports including a risk assessment and cost benefit analysis with the review recommendations implemented.

7. Urge the Commonwealth to revise the approach to aviation safety regulation by passing the recommended amendment to the Civil Aviation Act and follow on changes to subordinate legislation to support an outcome based approach to safety regulation.

8. The Commonwealth consider making a reference to the Productivity Commission to undertake a review in to the capability, effectiveness and performance of the Civil Aviation Authority to meet its base requirements under the Act and the Minister’s Direction to the Authority.

29 August 2018

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AIRPORT ADVISORY / AIRPORT MANAGEMENT COMMITTEE
TERMS OF REFERENCE

1. Establishment, Status and Name

The Committee is a Committee of the (Name) Council pursuant to and in accordance with the provisions of the (Act) and (Regulations). It shall be known as the (Name) Airport Advisory / Airport Management Committee.

The Committee is established by Council Resolution (details).

2. Purpose and Objectives

The Committee's purpose and objective is to overview, review, investigate, report and make recommendations to Council on the effective operation, management, planning and development of the airport and airport services by:

a) facilitating effective communication and consultation between Airport users and Airport stakeholders with Council;

b) contributing directly to the ongoing planning and future development of the Airport via the Airport Master Plan and other long term financial planning activities;

c) achieving high standards of ongoing financial and operational performance of the Airport in the context of relevant budgets, good practice and safety requirements;

d) making recommendations to Council on annual financial and operational budgets including capital investment and recurrent expenditure proposals in concert with recommendations on charging regimes and proposed fees and charges;

e) providing advice and recommendations on the care, protection / security, management, operation and improvement of the Airport's services and facilities;

f) signing off on any recommendations for State and Federal Government funding for any expenditure on the Airport;

g) encouraging public interest and support for the Airport and its contribution to the economic, social and cultural needs of the community; and

h) carrying out such other tasks and activities as required or directed in furtherance of the broad aims and objectives of the Committee.

3. Function and Role

The function and role of the Committee is to undertake all appropriate action in pursuance of the Committee's purpose and objectives. Such action shall include, but is not limited to, the following:

a) to consider any research, investigation, survey, inquiry or suggestion with regard to any existing or proposed facilities, services, amenities or activities involved with the Airport;

b) to consider the requirements of all users of the Airport;

c) to consider the draft budget and proposed fees and charges for each forthcoming year and make recommendations as such to Council for public exhibition and adoption;

d) to consider and make recommendations on improving the financial performance of the Airport especially through improvements in efficiency, cost management, waste reduction and resource effectiveness, including new methods of operation and the use of new technologies;

e) to consider and make recommendations on increasing demand for Airport use and services;

f) to regularly and effectively consult with all relevant persons, organisations and groups on all matters affecting the Airport;

g) to establish effective sub-committees where appropriate to investigate and report as required or directed on matters such as operations, safety, security and for special investigations and projects;

h) to report to and consult with Council regularly on the Committee's performance and matters relating to the Airport; and

i) to consider and undertake such acts incidental to or conducive to the achievement of the aim and objectives of the Committee.

4. Membership and Terms of Office

The membership of the Committee, which will be drawn from nominations received from the public and appointed by the Council, shall comprise:

a) two Councillor representatives;

b) one representative from each Regular Public Transport operator with an established operation at the Airport;

c) one representative from commercial passenger charter/ freight / flying training/ aerial agriculture/ emergency services/ maintenance organisations based on the Airport;

d) one representative of the private operators, private leaseholders and other Airport users (eg, the local Aero Club, hangar lessor, hire car operator etc); and

e) one representative from the local community with an interest in the airport (eg, Business Chamber, Regional Development Organisation or an appropriately qualified citizen).

Attending the Committee without voting rights are the Council's General Manager, senior staff responsible for the Airport, advisers, and secretarial service staff. Other specialist advisers may be invited to attend as required.

Committee Members shall be appointed for a period of three years where on retirement are eligible for re-appointment. Councillor members shall be subject to re-appointment after a General Election of Council.

5. Chairperson, Deputy Chairperson, Voting and Quorum

The Chairperson and Deputy Chairperson are to be elected by the Committee. The Deputy Chairperson shall act in the absence of the Chairperson.

Each Committee Member shall have one vote. Voting shall be by show of hands. Any decision will be decided on a majority of votes. In the event of an equality of votes, the Chairperson shall have a casting vote in addition to his or her original, deliberative vote.

A quorum shall comprise half the number plus one of the appointed voting Members of the Committee.

6. Meetings

The Committee shall meet quarterly or as determined by the Committee.

A meeting agenda along with relevant minutes of previous meetings and business papers shall be circulated to all Members five working days before the meeting.

Minutes of each meeting containing details of all matters considered and decided upon are to be made and circulated to all Members.

Recommendations made by the Committee to Council shall take the form of the Resolution from the Committee. All such recommendations are to be included on the next available Council Meeting agenda.

7. Operational Support

The Committee shall be a fully serviced Committee of Council meaning that Council will supply all required services for the conduct of the Committee and its activities including the provision of meeting rooms and refreshments, minute taking, business paper and report preparation, electronic services and specialist advice services.

Council shall provide insurance coverage for the Committee as appropriate.

August 2018

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