



# **Towards a National Aviation Policy Statement**

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## **Submission by Mission Aviation Fellowship**

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### **INTRODUCTION**

**Mission Aviation Fellowship (MAF)** is a not for profit faith based charity operating aircraft in developing regions of over 30 countries using 140 aircraft. MAF has served the remote communities of Arnhem Land for 33 years with a combination of charter and RPT services. We currently operate 14 aircraft in Arnhem Land, flying 10 000 hours and carrying some 50 000 passengers each year.

MAF, and remote aviation operators throughout Australia, are currently facing many difficult issues. This has recently been highlighted in the departments own report, indicating the decline of rural and remote aviation services between 1984 and 2005. Had the report included 2006 and 2007 data, the picture would have been worse still, with the impact of the collapse of Aboriginal Air Services in the Northern Territory and subsequent loss of dozens of scheduled services.

MAF, through this submission, wishes to highlight the grave need for **regulatory reform** of the small aircraft commercial aviation sector. This regulatory reform should be given priority by the Government if it has any desire to promote the well being of remote aircraft operations and the communities they serve. The introduction of CASR Part 135 is currently slated for 2010. It has a long history of debate and consultation to get it to the current status, which all fell silent in 2004. It was recently included in the review led by Dr Allan Hawke, with a new proposed timetable of 2010 introduction, and will be amongst the last pieces of the Aviation regulations to be introduced.

### **Section 1.3 Regional and General Aviation**

**Towards an appropriate business model for small aircraft operations:  
(How can general aviation operators, particularly small businesses, establish viable business models....?)**

Communities and homelands/outstations in Arnhem Land range in population from 10 to 2000 people. There is a concentration of 40 regularly used airstrips in the region of North East Arnhem Land alone, only 8 of these airstrips are licenced, serving the major communities. The density of airstrips is quite high, particularly in the coastal region, distances from one to another can be as little as 5 nm, but are generally spaced every 15 to 30 nm apart. There are perhaps similarities in other remote regions such as the Torres Straight and Central Australia, even if the density is not so great.

It is not uncommon to have one or two people wanting to travel to one location, and a different one or two people wanting to travel to the same, or a nearby location. In Arnhem Land, demand for travel between communities is as low as 1 person per day, to as high as 15 people per day, the numbers are very small. Any community needs a regular service for small, but often critical items of freight. (Mail, Pathology, Courier items, Medical Supplies, Banking). We hear from communities everywhere about the high cost of chartering aircraft, particularly so when only one or two people need to travel. The bottom line is, when the community needs to travel by air, they don't want to charter a whole aircraft, they just want to buy a seat on an aircraft.

Under the current regulations, communities can either be served by an RPT service, or by a charter service. An RPT service is dependant on a number of things, including the licencing of the airstrip, and stringent licencing requirements for the aircraft, aircrew, facilities and maintenance. Because of these 'dual regulations', an operator is forced to split his operations between charter and RPT. Even though the same aircraft, using the same flight crew, may be able to conduct both types of operation, they cannot be conducted together or at the same time. (i.e an RPT flight cannot divert to an unapproved/unlicenced aerodrome-even if charter operations can be conducted safely into that aerodrome) This splits the entire remote and small community market, preventing any gain that can be made from coordinating flights for the entire market.

An appropriate business model that makes the best use of the aircraft resource is neither a charter *nor* an RPT service, but something in between. A service that is based on a **pay by seat (or kg for freight)** rate that *may or may not* operate on a particular day or at a particular time, but is entirely dependant on the demand.

Such a model will:

- Maximise the use of the resources available viz Aircraft, Pilot, Engineering, Fuel and Oil. Reducing the waste of multiple charters, with ridiculously small loads, all going the same way at the same time.
- Reduce costs to the travelling public.
- Improve utilisation and profitability to the operator.
- Maintain critical, time sensitive services to even the smallest of communities.

This model is however not possible under the current regulations. This model is *completely dependant* on removing the distinction between RPT and Charter operations as described in the proposed CASR Part 135. CASR Part 135 achieves a higher standard of safety than current charter regulations, benefitting all concerned, and provides the operational flexibility, and benefits of a pay for seat type service to the community, and improves the viability of the operator.

This proposal has already been accepted by CASA since the initial move to review the regulations some ten years ago, and simply **needs the implantation of Part 135** to put into effect for the benefit of regional and remote aviation services.

## **Aircraft Renewal:**

### **(How can the industry provide the necessary investment to renew the ageing aircraft fleet?)**

For a long time in general aviation it has been more economic to 'maintain the old' than it has been to 'buy the new'. That scenario is changing, but many operators are slow to catch on.

The supply of LAME's is declining, and therefore their cost is increasing. LAME wages in the market place far exceed award conditions, there is a strong level of competition between employers to recruit and retain them.

The capital cost of a new aircraft is high, (\$800k for a new single engine 6-8 seat aircraft, \$2-3 mil for a single engine turbine aircraft) and real depreciation losses in the first 3-5 years are also high (30-40%). On the other hand, old aircraft are cheap (\$100k to \$150k for a single engine 6 seater, \$200k to \$400k for a 9 seat twin). Old aircraft tend to hold their value over time, generally reflecting the value of their separate parts depending on the level of maintenance they have had.

The decision all owners and operators must come to, is at what point is the higher capital cost of new aircraft offset by the higher maintenance costs and higher down time losses of the old aircraft.

As an organisation involved in a fleet renewal programme of our light single engine aircraft for a number of years, we have benefitted greatly from new aircraft through:

- Higher utilisation
- Lower engineering manhour requirements
- Higher engineering job satisfaction
- Higher customer satisfaction
- New safety standards incorporated in newer aircraft.
- Improved reliability.

Market forces will eventually prevail on the issue of aircraft renewal. Financial institutions have all sorts of creative ways of funding new aircraft, these things are not out of reach of most operators. A sensible business case can be made to justify new aircraft, even with only minimal equity, **for the vast majority of operators in Australia.**

### **Is there a role for governments?**

There is a role for government to play in aircraft renewal as a **safety net to the most remote and disadvantaged communities.** Some areas or communities may never be able to adequately show a return on the large investment required for an aircraft given the small population over which to amortise the cost. Where the will of the government to support such places is sufficient, there is a need for some level of assistance.

For example, in North East Arnhem Land, our experience shows that a functioning air service covering the needs of 5 of the larger communities, would carry 17,000 passengers p.a. (This data from our own records prior to withdrawing from RPT

services in 2005). The capital investment required to adequately setup an RPT service in those communities today, including just **one** aircraft such as a Cessna Caravan (14 place single engine turbine), maintenance facilities to Class A (RPT) standards, spares, and adequate operational and passenger facilities would be in excess of \$5m. In Arnhem Land, we add to that the cost of providing housing for the 8-10 staff required to run such a service, and the investment required runs closer to \$12m. Native Title issues further complicate commercial funding in a place like Arnhem Land, where bankers require much higher equity to mitigate their risk. In aboriginal communities subject to the 5 year lease, it may be impossible to commercially finance buildings, but that is yet to be established. In any case carrying 17,000 passengers p.a. with that much investment is not a sound business case i.e. under the current regulations which separate RPT and charter type operations.

However without significant investment by community and government to upgrade more remote airstrips to licenced status, there is no way that any more than 5 communities in Arnhem Land with their 17000 passengers p.a. will support the investment required for a commercial RPT type service.

**Four ways the government could exercise a positive role in aircraft fleet renewal for the benefit of regional and remote communities are set out below.**

- The RASS scheme, is a reasonable means of providing a safety net to communities, and assisting operators in their business case. We have no experience with the RASS scheme in our organisation, as there are currently no RASS routes in Arnhem Land. We are aware that two communities, Ramingining and Numbulwar, have had their RASS applications declined. (This may have been prior to the recent increase in funds available.) This in itself must indicate that there is a misalignment between the intended purpose of the fund, and the way in which it is administered. Both of these communities, and more besides in this region, are dependant on Air Transport for basic essential services, and yet have been denied access to this basic subsidy. **The RASS scheme should be reviewed**, in light of the proposed part 135 removing the RPT/Charter distinction.
- The **direct capital funding** of an air service may be necessary in special circumstances, in order to fill the gap between the old and the new aircraft. The high capital funds required, native title issues, unviable passenger and freight volumes of small, remote communities should be considered. I have observed many commercial operations come and go from the Northern Territory, some with spectacular financial collapse (Executive Air, Air Ngukurr, Aboriginal Air Services).
- The **introduction of Part 135**, with the removal of the RPT/Charter distinction, will be of some benefit to aircraft replacement, with the improved business model described in section 1.3 being possible.
- The development of new aviation products in Australia have been significantly slowed by the **certification process**. For example the certification of the Gippsland Aeronautics GA8 Turbo Charged variant has been extraordinarily slow.

## **CONCLUSION**

Rural and remote aviation throughout Australia is suffering, and this is having a further impact on these many small communities. Operators and communities alike have proven to be extremely resilient and resourceful in meeting their own needs. MAF as an organization has shifted towards greater levels of donor support in the last few years to ensure that basic services continue to be delivered to the most remote of places in a safe and efficient manner. This year alone, MAF is investing some \$1.5 million into remote aviation services in Arnhem Land, all of it provided by donors. Aviation in this region should be moving towards commercial viability, MAF would be happy to see that occur, yet it has been our experience over the last decade or more that the reverse is occurring.

Accelerating the introduction of CASR Part 135 will go a long way towards putting this sector of the aviation industry back on a stronger footing. It is not the complete answer, but it is the one thing that communities and operators cannot do for themselves. It is the one thing that only government can do.

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