



Our Ref: **DK:DK**

13 November 2020

Director, Strategic and Economic Policy Projects
Data, Analytics and Policy Division
GPO BOX 594
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To whom it may concern

Re: Future of Australia's Aviation Sector Issues Paper

Mount Isa City Council welcomes the opportunity to provide feedback on the "Future of Australia's Aviation Sector Issues Paper." In 2018, Mount Isa City Council made a submission to a Senate Committee's Inquiry into Regional and Remote Aviation (1 February 2018). The submission prepared and submitted by Council was comprehensive and covered a number of the key issues that are referred to in the current Issues Paper. Council would welcome the Department once again reviewing these issues as it considers the future of the aviation sector in regional Australia. Key issues that were submitted as part of the original submission related to affordability, infrastructure upgrades, scheduling of flights, training and competition.

The previous submission did not anticipate the emergence and impact of COVID-19. Whilst the global pandemic has caused major issues in other parts of Australia and the world, the impact of the virus has not been as significant in regional parts of Australia, such as Mount Isa. It is noted that additional costs have been incurred by airport operators and the airlines to effectively manage and contain the virus, with most of these costs being passed on to the passengers and businesses. It is also noted that the number of flights between Mount Isa and Brisbane was reduced in the early stages of the pandemic, but the scheduling has slowly returned to pre-pandemic levels recently, although there now appears to be issues with the reliability of services, with cancellations not being uncommon.

Mount Isa City Council believes that regional airports have a role to play in supporting the existing community of Mount Isa and the future community of Mount Isa. Having transport nodes that allow for affordable travel are an important factor in keeping the community connected with other parts of Australia and allowing businesses to attract skilled and experienced people to the region. Council commends the previous report submitted to the Senate Review for consideration by the Department.

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Yours faithfully



Cr Danielle Slade
Her Worship Mayor of Mount Isa

att: Mount Isa City Council Submission to Australian Senate Inquiry into Regional Air Services

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Un-Fare, Un-Australian - Why is it so?

Submission from the Mount Isa City Council

Australian Senate Inquiry into Regional Air Services

1 February 2018





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Executive summary

The City of Mount Isa welcomes the Senate Committee's Inquiry into regional and remote aviation.

Mount Isa is a significant regional centre in Northern Australia at the heart of the North-West Minerals Province, the largest of its kind in the world. The region generates billions of dollars annually for the Australian economy and one billion dollars annually in tax revenues for state and federal treasuries.

The aviation reforms of the 1990s have benefitted passengers on the major Australian aviation routes with lower airfares generating significant increases in passenger numbers. But, like other regional and remote centres around Australia, these benefits have by-passed air services to Mount Isa:

- Discount airfares do not exist for airline services to and from Mount Isa
- Passenger numbers at Mount Isa airport are now at the same level as 30 years ago.

Airfares to and from Mount Isa are between two to three times higher than east coast Australian routes. Indeed, our research shows Mount Isa's airfares are even regularly higher (on a \$/kilometre basis) than airfares for other comparable regional and remote locations across Australia.

These relatively higher airfares do not come with a premium service. Mount Isa is increasingly being serviced by ageing aircraft with poorer on-time and cancellation performance.

These high airfares have a crippling impact on the lives of the residents of our city and surrounding districts, for example:

- It is difficult for young families to move to, and remain in, Mount Isa as it is so expensive to fly and keep in contact with family and friends outside Mount Isa
- A family of four will save over \$2000 by driving 903 kilometres to Townsville and then catching a flight to Brisbane, rather than catching a direct flight to Brisbane
- Medical emergencies and funerals provide people with no opportunity to pre-book flights in advance, meaning they easily face a one-way fare to Brisbane in excess of \$1000 per person.

These high airfares act as a significant brake on business in Mount Isa and limit the ability of the local economy to expand and diversify.

The Australian and Queensland Governments provide some nominal support for regional and remote aviation. However, this is limited to the smallest and most remote settlements.

All these factors make it difficult for Mount Isa to attract and retain people, especially those who require personal and professional mobility.

This cannot continue. Our community is suffering.

The Mount Isa City Council views aviation as an essential service to regional and remote Australia. It is ironic that Mount Isa was at the fore of the birth of aviation in Australia. The Mount Isa City Council is firmly of the view there should be pricing parity across Queensland so Mount Isa residents pay the same price for air services available to residents of coastal and south-east Queensland and other metropolitan centres around Australia.

The Australian Government must reinsert itself as a central player in implementing policy reforms to reduce the costs of operating airlines in regional and remote Australia. The Queensland Government must look at how its transport budget and subsidies heavily favour south-east Queensland and coastal settlements rather than important regional economic centres like Mount Isa.

With strong guidance from the Senate Committee, the Australian Government must work with the aviation industry and state governments to effectively implement appropriate reforms. We provide five sets of workable recommendations in this submission.

These reforms need to be comprehensive and far reaching — fiddling at the margins will not work.



Recommended actions

The Mount Isa City Council recommends:

1. **Airfare parity:** that the Australian and Queensland governments introduce a scheme to ensure airfares in regional and remote Queensland are price-equivalent to comparable air services between the major metropolitan centres in Australia and along coastal Queensland as is the case with, for example, electricity prices.
2. **Price monitoring:** that the Australian/ Government:
 - (a) directs the ACCC to initiate a price monitoring regime to monitor regional and remote airfares to identify and report any profiteering by the airlines
 - (b) establishes and manages a standing public information system dedicated to regional and remote Australia through which passengers in regional Australia can adopt strategies to take advantage of any airfare discounts
 - (c) provides funding to 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.
3. **Cost reductions:** that the Australian Government reduces the operating cost of regional and remote airlines, by:
 - (a) introducing an access regime, or other appropriate measures, to ensure there is effective competition in the supply of aviation fuels at Australia's major airports
 - (b) removing excise taxes on aviation fuels used by regional and remote airlines
 - (c) removing impediments (e.g. insufficient visas) for qualified foreign pilots and other key airline staff to work in Australia
 - (d) directing the ACCC to monitor prices at Australia's regional airports and to approve the prices at the major airports for regional air services
 - (e) exempting regional airlines from paying Airservices Australia's charges.
4. **Competition enhancements:** that the Australian Government:
 - (a) establishes an ongoing, formalised program of cooperation with the regional airlines to identify further opportunities to reduce airline costs
 - (b) allows overseas airlines to operate in regional areas, in particular, to remove the requirement that regular public transport airlines operating in Australia need to be an Australian company.
5. **Subsidies:** 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.



Introduction

The Mount Isa City Council (MICC) welcomes the Australian Senate inquiry into rural and remote aviation in Australia. The MICC and its residents have been concerned for some time about the high prices and low service standards of air services to and from Mount Isa.

In June 2017 the Australian Local Government Association passed the MICC's motion to act "to ensure the cost of airfares and transport in remote and rural areas provides economic and affordable access to all residents". This reflects the significance of this matter to the MICC and its community. Our concerns about air services are shared by rural and remote regions all over Australia. We lose jobs every day because of the airfares we pay.

This submission has been prepared with input from the businesses and residents of Mount Isa. The Senate Committee has already received submissions directly from the city's residents. The MICC has also canvassed the views of local businesses and residents and included many of their concerns and suggestions in this submission.

About Mount Isa

Mount Isa is in North West Queensland on the Leichhardt River, 905 kilometres west of Townsville and 180 kilometres east of the Northern Territory border. Mount Isa has a population of around 20,000 people¹ and is one of the largest remote cities in Australia.

Figure 1: Map of the Mount Isa region



Note: Population estimates are to the nearest 1000; distances are from Mount Isa to destination by road as measured by Google Maps.

¹ Based on ABS statistics as at 30 June 2015 available at:

http://stat.abs.gov.au/itt/r.jsp?RegionSummary®ion=315021405&dataset=ABS_REGIONAL_ASGS&geoconcept=REGION&datasetASGS=ABS_REGIONAL_ASGS&datasetLGA=ABS_NRP9_LGA®ionLGA=REGION®ionASGS=REGION. Accessed on 19 January 2017.



Mount Isa was founded in 1923 with the discovery of one of the world's largest deposits of lead, silver, copper and zinc. Mining remains the region's largest economic activity, accounting for over half of the region's value-added, driving the economy, and employing about one-third of the work force.

Mount Isa is a significant regional hub for health, education, agriculture, tourism, government administration and services such as the Flying Doctor and School of the Air.

Mount Isa is also a significant contributor to the Queensland and Australian economies. The output (value added) of the Mount Isa economy was estimated to be \$2.4 billion in 2014–15, which represents around 0.8 per cent of the Queensland economy. In 2015–16, Mount Isa contributed around \$213 million in taxes to the Queensland Government and \$808 million to the Australian Government.

Table 1: Mount Isa employment by main industry sector

Industry	%
Mining	31.1
Manufacturing	4.7
Wholesale and retail trade	10.9
Health care	9.4
Administration	8.0
Education	7.0
Construction	5.7
Accommodation and food	5.1

Note: As at 30 June 2016.

Source: Mount Isa (SA2) (315021405) ABS 2017².

The Mount Isa economy also contributes significantly to the north Queensland regional economy.

Output from the region's mines is processed in Townsville and exported through the Port of Townsville.

It is estimated 200 jobs in the Townsville region are directly related to mining activity in Mount Isa and the North-West Minerals Province, with a further 800 jobs being indirectly related. Brisbane supplies many 'head office' functions for the Queensland mining industry and around 800 of those jobs are attributable to Mount Isa's mining activities.

The MICC is committed to developing the economy and opportunities for the people of the Mount Isa region. It has developed an economic development strategy to address uncertainty around future levels of investment in mining operations, while taking advantage of future opportunities. This is a critical task for Mount Isa. Mines have closed, and many other projects are on hold due to falling commodity prices and risks associated with operating in a remote and expensive environment and other factors.

The MICC has developed a range of initiatives to build on the strengths of the mining industry and diversify the economy beyond mining to better weather changes in markets and commodity prices.

The MICC's economic development strategy is consistent with the Australian Government's own vision for Northern Australia. In its 2015 White Paper on Developing Northern Australia, the Australian Government committed to growing and broadening the economy of Northern Australia, in part by taking advantage of Northern Australia's proximity to the growing Asian market.

The Australian Government's vision was to develop a partnership with industry — where the government facilitates growth by creating a successful business environment where agile and

² Mount Isa (SA2) (315021405) ABS 2017. Available at:

http://stat.abs.gov.au/ttt/r.jsp?RegionSummary®ion=315021405&dataset=ABS_REGIONAL_ASGS&geoconcept=REGION&datasetASGS=ABS_REGIONAL_ASGS&datasetLGA=ABS_NRP9_LGA®ionLGA=REGION®ionASGS=REGION. Accessed on 19 January 2018.



innovative businesses can flourish. The White Paper recognised the importance of road and rail infrastructure in taking our produce to world markets.

But aviation, along with telecommunications, breaks down the barriers created by the vast distances typical of regional and remote Australia. A competitive and efficient aviation industry will allow us to participate in the economy of the 21st century.

The Australian Government's White Paper spoke of tackling the biggest barriers first so that:

... the cost of doing business and living in the north will more closely match that across the rest of Australia.

The Mount Isa region requires competitive airfares to respond to this and to position us for the future.

Impacts of high airfares

In preparing this submission, the MICC sought the views of local residents to inform the Senate Committee of the impact airline services have on the lives of people living in remote Australia.

No one had a compliment to make about Mount Isa's air services. The most common complaints are the high cost of airfares and unreliable services.

The high cost of airfares to and from Mount Isa make it difficult for families to keep in contact with family outside the region or to take a family on a holiday. One resident noted:

I have never been able to get a flight for under \$250 one way for one person. As a family of four that is \$2000 return, and this is only if we have planned this in advance. Forget flying short notice as it is unaffordable.

Attractive wages may be enticing for people looking to come to Mount Isa to work in the mines. But the high cost of air travel can create a heightened sense of social isolation and remoteness.

Many will spend days driving to go on a holiday or to visit family when other Australians will fly. This can involve a 900-kilometre trip to Townsville, an arduous journey at the best of times which should not be attempted around the Christmas holiday period by people not familiar with the temperatures and road conditions.

Grandparents will often choose not to travel, and many people are forced to regularly miss important family gatherings.

This makes it particularly difficult for a young family to relocate to, or remain in, Mount Isa. A resident commented:

We had to move here because we couldn't get jobs in Brisbane. Not everyone who lives in Mount Isa works at the mines or is on \$100k/year. Hello! There is a town here. A town needs day-care workers, labourers, students, cleaners & retail workers. Does that mean we should have to pay triple the cost to get proper health care or see family?! It's cheaper to fly to Japan!!! Something needs to be done.

The worst excesses, however, confront people facing emergency circumstances such as medical emergencies and funerals. These occur at short notice and when people are at their most vulnerable. It is also the time when airfares are at their most excessive and when the airlines are so implacably arrogant in rejecting reasonable requests for discounts on compassionate grounds. One resident said:

A dear friend of mine was rushed to Townsville for emergency surgery in October 2015. It didn't go to plan and she was put in a coma. I put off flying to see her as the flights were well over a thousand dollars. A decision I regret to this day as she passed away just a day later.

People react to these circumstances. Some become so disconsolate and frustrated and just leave town, as reflected in a resident's comments:

... if people living here are not able to fly home to visit friends and relatives, they will eventually end up leaving town. I have seen this happen frequently in the past six



years, including a work colleague who was unable to fly to Townsville when her father-in-law was dying because the airfares were going to be over \$1000 one way for each of her and her two children to fly.

The excessive cost of air travel also has a significant adverse impact on the broader economy of the Mount Isa region. At a very basic level, high aviation costs act as a tax on local businesses. The region is less competitive on international markets for our export mineral and meat products, and less competitive against other Australian locations for tourism options.

It also adds significantly to the cost of providing government services to remote western Queensland.

A clear example of the adverse impact of high airfares relates to tourism. In April 2017, Triple J hosted its *One Night Stand* in Mount Isa. This was a wonderful opportunity to show case Mount Isa and our region to a young audience. We advertised it as a weekend long outback experience that could be combined with local tours and the Battle in the Bush in Cloncurry on the Friday night.

However, many prospective attendees booked accommodation but then cancelled once they had started to book an airfare because of the high air ticket prices. We could have attracted twice as many people to Mount Isa that weekend if it was not for the high airfares.

Poor service standards

In early December 2017, Qantas subcontracted Alliance airlines to operate its services. One of our residents noted their family had previously bought tickets to fly to Brisbane. They noted that, as economy class fares were already sold out, they were forced to purchase a business class fare. They complained as Alliance airlines do not offer a business class service, thus they paid for a service they did not receive. Qantas has since refused their requests for a partial refund to reflect the actual quality of service they received. This resident added:

The Alliance planes also used were very old, with glued ash tray holders on each armrest (to give you a picture of how old these planes were). There was also no entertainment and very limited food for a 2.5-hour flight. This may be overlooked if we were paying reasonable prices for our flights, but we are not. How can Qantas charge the prices they do with such a limited service offered?

The unreliability of service is more insidious. The Senate Committee will already be aware from a separate submission (#3) from a Mount Isa resident that service cancellations have become increasingly more regular. People react to this by travelling days in advance to be confident they can make connecting flights or attend appointments. This resident outlined in some detail how this results in additional overnight accommodation costs. It means a Mount Isa to Brisbane trip (plus overnight accommodation) is equivalent in cost to a flight from Brisbane to Europe.

Unfortunately, this is not an uncommon experience as our Mayor adopts similar risk-averse booking arrangements when she needs to attend meetings in Brisbane or interstate. It is also probable many Mount Isa residents adopt similar strategies when they make their own time-constrained bookings, whether it be for personal or business purposes.

It is incomprehensible and indefensible that there are significant penalties on passengers when they cancel or seek to modify their flight schedules but that there is limited liability on airlines when airlines cancel their services.

Airfares

As outlined above, and as already included in submissions to the Senate Committee, Mount Isa's residents know it is expensive to fly into and out of our city.

The recent Western Australian Legislative Council inquiry also highlighted community angst about the high regional airfares in that state. While the Western Australian inquiry had some evidence that state regulation resulted in lower and less volatile airfares they:

... 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.³

The MICC is concerned that, if the airlines repeat this approach with the Australian Senate Committee's inquiry, airlines servicing rural and regional areas will seek to dismiss the anecdotal evidence of high regional airfares. They may seek to dismiss the concerns of their own customers without providing a sufficient explanation of their pricing practices.

The MICC wants to reinforce our residents' anecdotal evidence in the context of already published national information and our own research on Mount Isa's airfares.

National trends in Australian aviation

Aviation in Australia has experienced unprecedented change since deregulation in 1990 (see Box 1).

Box 1: Deregulation of aviation in Australia

Aviation in Australia has changed significantly since it was deregulated in 1990 which ended the two airlines policy on interstate aviation. This was a turbulent period that saw: the 1989 pilots dispute; the demise of the new entrant airline Compass, Mark I and II (1991 and 1993); the amalgamation of the government-owned domestic airline (Australian Airlines) and its international airline (Qantas) in 1992; the privatisation of Qantas (1993 & 1995); the entry of Virgin (2000); and the demise of Ansett (2001).

A key feature of the two airlines policy was the limitation on aircraft imports to ensure both airlines operated similar fleets and had similar cost structures. The economics of duopolies then explained why each airline operated similar schedules at similar prices — that is, they copied the successful, and discarded the unsuccessful, strategies of the rival airline.

In this deregulated market, rivalry between Qantas and Ansett then focused on product differentiation and price differentiation. Qantas was successful in retaining its high yield business customers, largely through its loyalty programs and airport lounges. Both airlines competed for the more price sensitive travellers (i.e. tourists and visiting family and friend's travellers) through increasingly sophisticated pricing policies that sought to maximise seat utilisation (i.e. seats sold occupied relative to seats flown). Ansett ended with a diverse fleet from a range of airline manufacturers resulting in high maintenance costs.

A key issue throughout this period was a new airline's ability to enter the market and create competitive pressures on the incumbent airlines. Access to passenger terminal infrastructure at the major city airports was a key early battleground. As it turns out, and maybe fortuitously, Ansett's demise freed up a large part of this terminal capacity that facilitated the growth of the new entrant airlines.

Airlines have worked hard to improve productivity by becoming more efficient in the way they conduct their activities. Two key aspects of this productivity improvement are that airlines have been working to:

- *reduce the cost of flying a plane* — this includes making appropriate aircraft choices⁴, managing maintenance and back office administration costs, as well as reducing staff required for passenger

³ Legislative Assembly's Economics and Industry Standing Committee, Parliament of Western Australia, Inquiry into regional airfares in Western Australia (2017), Chair's Forward, p. i. Available at: <http://www.parliament.wa.gov.au/parliament/commit.nsf/all/98B6EB12AD164EBD4825812A002BBF0E?opendocument&tab=tab3>. Accessed on 19 January 2018.

⁴ Cost efficiency requires matching aircraft choices to route characteristics (e.g. long/short haul and high/low demand) while recognising that a fleet supplied by a single manufacturer will reduce crew training and maintenance costs (e.g. spare parts inventory).



interface (e.g. internet booking and self-service check-in). These cost reductions have often taken place in circumstances where an airline's input costs are increasing, for example the price of aviation jet fuel has almost trebled over the last 20 years⁵.

- *improve aircraft utilisation* — this is a combination of maximising the number of flights per year by each aircraft and maximising the number of passengers (and amount of freight) carried by each flight⁶. In this context, it is noted average Australian load factors (percentage of seats occupied by a passenger) have increased from 69.6 per cent in 1990–91 to 78.4 per cent in 2016–17⁷.

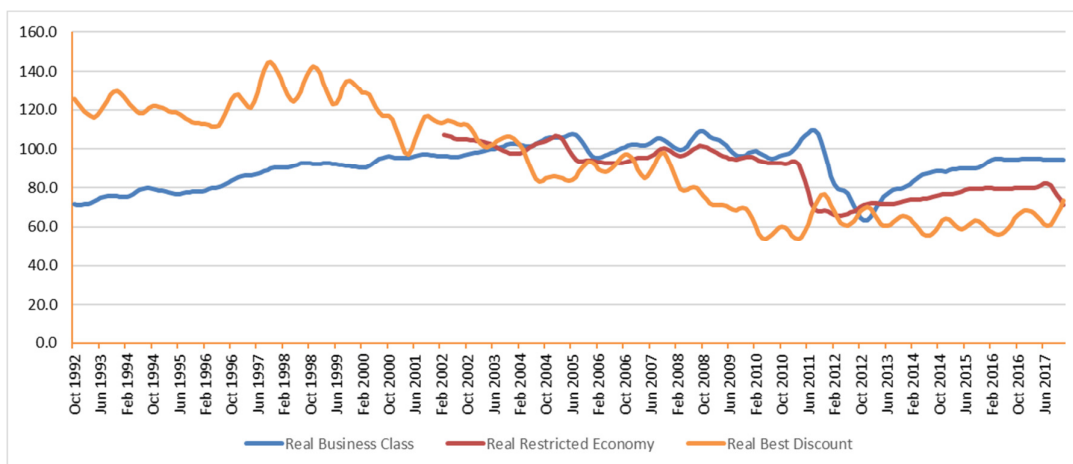
Today, we see airlines compete across a range of service characteristics, resulting in a very flexible fare structure that reflects:

- *costs of service* (e.g. business/economy class, baggage allowances and cancellation term and conditions)
- *price discrimination* between categories of passengers whose flight choices were not particularly affected by price movements (e.g. business) and those very sensitive to price (e.g. tourists and passengers who were visiting family and friends)
- *time* — where fares for bookings made closer to departure time increase to reflect the increasing scarcity of available seats.

Airlines have used this increased pricing flexibility to drive increased load factors, realising an empty seat flown is a lost opportunity and the marginal cost of filling that seat can be quite low. However, the airlines are careful to not offer a discount to a passenger that might otherwise pay a full price fare.

The combined effect of these reforms has produced productivity gains and pricing flexibility. Nationally, economy and discount airfares have fallen, and there has been a significant increase in passenger numbers (see Figures 2 & 3).

Figure 2: Index of real airfares, 1992 to 2017



Source: BITRE 2017, Domestic airfares indexes. Available at: https://bitre.gov.au/statistics/aviation/air_fares.aspx as accessed on 13 December 2017

⁵ This increase largely occurred between 1997 and 2008 after which aviation fuel prices dropped sharply with the global financial crisis and then in 2013 around the time of the end of the mining boom. See: <https://www.indexmundi.com/commodities/?commodity=jet-fuel&months=240¤cy=aud>. Accessed on 20 January 2013.

⁶ Utilisation rates approaching 100 per cent would be inefficient as it would not allow for necessary maintenance, refuelling, cleaning, passenger embarkation/disembarkation activities. Also, 100 per cent load factors would probably entail over booking flights and regularly turning passengers away.

⁷ Bureau of Infrastructure, Transport, and Regional Economics (BITRE) 2017, Domestic airline industry annual summaries 1984 to 2016 and 1984–85 to 2016–17. Available at: https://bitre.gov.au/publications/ongoing/domestic_airline_activity-time_series.aspx. Accessed on 13 December 2017.

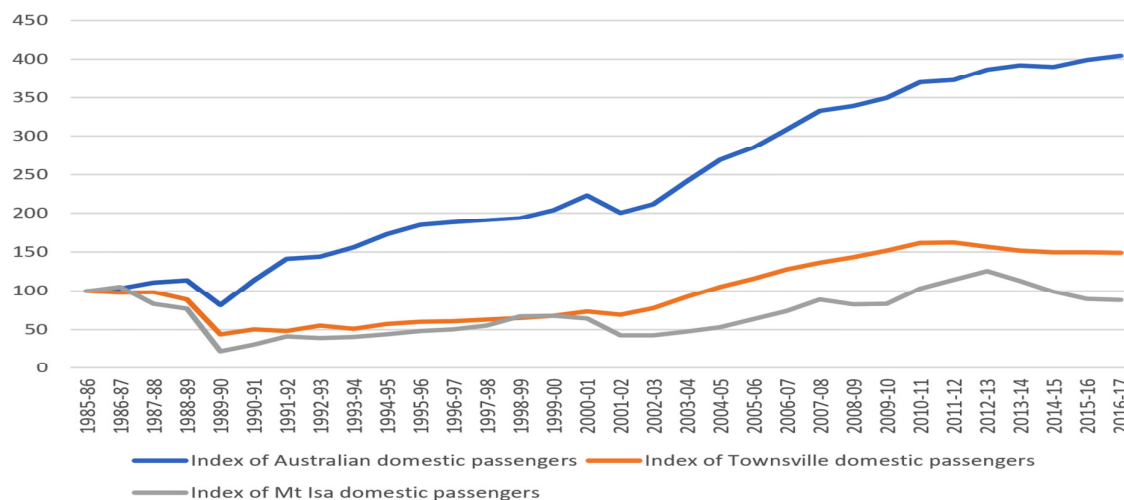


Figure 3: Index of domestic passengers, 1985-86 to 2016-17

Source: BITRE 2017, Airport Traffic Data⁸.

Trends at Mount Isa

There can be no doubt these national statistics indicate aviation reforms of the 1990s benefited most of Australia's airline passengers. However, they also suggest many of these benefits may not have been passed on to residents of more remote communities like Mount Isa.

Airline passenger numbers have quadrupled across Australia. Townsville has seen a 50 per cent increase in passenger numbers, which is well short of the growth experienced at the nearby Cairns and Mackay airports which have benefited from the growth in tourism and coal mining.

In contrast, passenger traffic through Mount Isa's airport has largely remained static over this period, leading to Mount Isa airport slipping from the 18th to the 36th largest airport in Australia.

Particularly concerning is the 30 per cent decline in passenger numbers through Mount Isa airport since the end of the mining boom in 2012–13.

The decline in real economy and discount airfares is well known. Less well known has been the trend increase in real airfares for business class passengers. This indicates airlines have been able to at least maintain the price of airfares for their higher yielding passengers.

This is relevant as two-thirds of passenger movements through Mount Isa airport are business related, with people travelling to and from Mount Isa for business activities at the mines or for the public administrative functions undertaken in the city.^{9 10} While they may not be business class passengers, they will have many of the characteristics of a business traveller who are not flexible on travel dates and their fares are paid by their employer. As a result, airlines know they can maintain full fares for these business travellers and do not need to offer discounts to induce extra passengers.

⁸ BITRE 2017, Airport Traffic Data. Available at:

<https://bitre.gov.au/publications/publications.aspx?query=s:%22airport%20traffic%20data%22&link-search=true>. Accessed on 13 December 2017.

⁹ Unpublished survey data by Mount Isa's airport shows the passenger mix is predominately business based, accounting for about two thirds of all travel. The visiting friends and relatives market (VFR) accounts for about 15 per cent, leisure about 8 per cent and medical about 6 per cent of travellers.

¹⁰ There are some fly-in fly-out miners but not to the same extent as for smaller communities in Queensland's coal fields or in Western Australia. The 2015 Queensland Government review of fly-in fly-out (FIFO) mining noted limited data on FIFO miners in the Mount Isa region but found the existing mines are largely staffed by residents while there is a trend towards FIFO miners for new operations. See Zussino, L. 2015 FIFO Review Report, pp. 38-9. Available at: <https://cabinet.qld.gov.au/documents/2015/Sep/FIFOReview/Attachments/Report.pdf>. Accessed on 20 January 2018.



The MICC believes airlines are focusing on these high yield passengers and have little incentive to actively market lower fares for non-business class travellers.

It is noted the load factor (ratio of seats occupied to seats flown) for the Brisbane–Mount Isa route was 69.8 per cent in 2016–17. This is low by current Australian standards and more akin to those of the 1980s prior to the ending of the two airlines policy.

These low load factors appear to provide an opportunity for the airlines to discount fares to improve utilisation. It is not clear why the airlines have chosen not to do so.

Comparison of Mount Isa airfares

As mentioned earlier, Mount Isa is a centre for surrounding districts. This is reflected in air routes operating into and out of Mount Isa (see Figure 4). Mount Isa has regular daily services to Brisbane, Cairns and Townsville, in addition to other services to remote outback communities in western Queensland. The primary airlines that service Mount Isa and district are: Qantas/QantasLink, Virgin Australia and Regional Express (Rex).



Figure 4: Mount Isa aviation network

Source: Mount Isa Airport, 2017¹¹

The first point to note is that the anecdotal evidence from our residents that Mount Isa has high airfares can be verified. Fares from Mount Isa to Cairns on Boxing Day 2017 were all approximately \$1000 for a single one-way ticket — noting, that with a week to go, only one operator had seats still for sale (Figure 5).

However, this is only a single observation and on a known busy day. The claims of high airfares to and from Mount Isa deserve further scrutiny.

¹¹ Mount Isa Airport, 2017, Where can I fly. Available at: <http://www.mountisairport.com.au/travelling/choose-a-destination/>. Accessed on 13 December 2017.



Figure 5: Boxing Day airfares, Mount Isa to Cairns¹²

Select Departing Flight: Mount Isa to Cairns

◀ Previous Day Mon 25 **Tue 26 Dec 2017** Wed 27 Next Day ▶

Show Filters New

One Way Prices From: \$884 \$957

DEPART	ARRIVE	STOPS	DURATION	Elevate	Freedom
9:20 AM	3:55 PM	1	6h 35m	<u>\$1,040</u>	<u>\$1,113</u>
9:20 AM	7:15 PM	1	9h 55m	<u>\$970</u>	<u>\$1,043</u>
9:20 AM	9:20 PM	2	12h 00m	<u>\$1,330</u>	<u>\$1,340</u>
9:20 AM	9:20 PM	2	12h 00m	<u>\$1,330</u>	<u>\$1,340</u>
9:20 AM	9:20 PM	2	12h 00m	<u>\$1,330</u>	<u>\$1,340</u>
9:20 AM	9:20 PM	2	12h 00m	<u>\$1,330</u>	<u>\$1,340</u>
9:20 AM	9:20 PM	2	12h 00m	<u>\$1,330</u>	<u>\$1,340</u>
9:20 AM	10:30 PM	1	13h 10m	<u>\$884</u>	<u>\$957</u>

Fares with carry-on baggage only

Methodology for selecting comparator airline routes

We chose to examine the three largest Mount Isa routes for further examination, namely the inbound and outbound journeys from Mount Isa to Brisbane, Cairns and Townsville.

There are two aspects of this comparison.

First, the intent is to systematically test the anecdotal evidence that flights to and from Mount Isa are expensive relative to east coast routes. Irrespective of why Mount Isa airfares are excessive, high airfares adversely affect the competitiveness of Mount Isa businesses and the lives of local residents.

Second, the intent is to examine whether airfares on Mount Isa routes are higher than comparable fares on comparable routes (i.e. similar distance and passenger numbers). This can give some indication on possible policy responses — is it an airline cost issue and/or is it an airline profit issue?

The choice of comparable routes was based on two key drivers of airline cost structures, namely route length and passenger density¹³. See Box 2 for more details on the comparator routes and characteristics of those routes.

¹² Source: www.webjet.com.au/flights/. Accessed on 19 December 2017.

¹³ This approach is consistent with a previous benchmarking study of Australian airfares, see Bureau of Industry Economics (BIE) 1994, International Performance Indicators: Aviation, Research Report 59.



Box 2: Airline route characteristics

Airline costs have a fixed component that does not vary with time in the air (e.g. aircraft purchase costs and terminal facilities) and variable costs related to time in the air (e.g. fuel). And then there are some costs that reflect both, given the additional idle time for aircraft operating on short-haul routes because of lead times for landing and take-off, crew rostering, and refuelling/catering and cleaning.

Airfares will tend to reflect these costs with a: flag fall component reflecting the fixed costs; and a distance component reflecting the in-flight costs. An airfare comparison should seek to compare fares on routes of a similar distance.

Airlines can also take advantage of economies of scale so their capital costs can be spread across more passengers on routes with large passenger numbers or when operating a large passenger network.

There are no routes in Australia that exactly replicate the attributes of the Mount Isa–Brisbane/Cairns/Townsville routes. But a number are close, and these can be divided into the long-haul routes (light orange) and medium-haul routes (dark orange) as shown in Table 2.

Table 2: Key characteristics of the comparator routes

Route	Distance (km)	Route passengers ('000)	Load factors (%)	Airport passengers ('000) ^a
Brisbane – Launceston	1664	n.a.	n.a.	1 335.1 ^b
Brisbane – Mount Isa	1573	121.2	59.8	185.3
Brisbane – Cairns	1391	1 359.6	83.2	4 898.2
Darwin – Alice Springs	1305	116.4	54.9	617.2
Perth – Karratha	1250	461.5	60.6	464.0
Perth – Learmonth	1094	n.a.	n.a.	80.6
Perth – Paraburdoo	990	n.a.	n.a.	166.5
Sydney – Broken Hill	932	n.a.	n.a.	56.7
Perth – Carnarvon	816	n.a.	n.a.	20.8
Cairns – Mount Isa	782	n.a.	n.a.	185.3
Townsville – Mount Isa	778	n.a.	n.a.	185.3

Notes:

(a) Passenger numbers are for the second mentioned airport.

(b) Of Launceston's 1.3 million passengers, 1.2 million were on the Melbourne and Sydney routes. The remaining 131,600 travelled on the Brisbane route and the smaller routes to King and Flinders Islands.

n.a. Not available, to preserve confidentiality of airline data on thin routes.

Source: BITRE 2017, Domestic aviation activity, 2016-17.



One of the key features of the deregulated aviation market in Australia has been the product differentiation and price discrimination so it is quite possible no-one on an aircraft pays the same price.

In undertaking the price comparison, the study sought to avoid the extremes of high prices for emergency bookings, early morning and late afternoon flights, or flights around weekends or public holidays. It also sought to avoid the lower prices for the well-organised traveller able to book a month or two in advance.

The comparison is based, wherever possible, on the lowest priced economy fare, booked one week in advance, a direct flight, checked baggage and limited recourse for a cancellation. The survey was repeated for different days of the week, over the course of the Senate Committee's public consultation period. Information was sourced from publicly available website information.

Results of airfare comparison survey

The survey showed the east coast tourist routes have significantly lower airfares than their comparator long-haul routes in Queensland, Northern Territory and Western Australia (see Table 3).

The average airfare for the Brisbane–Cairns route is around \$155 for a one-way fare, in both directions. We have also observed airfares to and from Townsville to nearby Cairns, as well as the more distant cities of Brisbane and Melbourne, are all about \$140. The Brisbane–Launceston airfare is around \$265 and is a particularly good comparator given route kilometres and passenger numbers.

In contrast, the Brisbane–Mount Isa airfare is about \$435 (one way), more than 50 per cent higher than the Launceston fare and well over two and a half times more than the Cairns airfare.

Table 3: Airfare comparison, long haul

Route	Airfare	\$/km	Route	Airfare	\$/km
Brisbane–Mount Isa	\$418	0.27	Mount Isa–Brisbane	\$450	0.29
Brisbane–Launceston	\$253	0.15	Launceston–Brisbane	\$272	0.16
Brisbane–Cairns	\$157	0.11	Cairns–Brisbane	\$151	0.11
Darwin–Alice Springs	\$335	0.26	Alice Springs–Darwin	\$331	0.25
Perth–Karratha	\$367	0.29	Karratha–Perth	\$361	0.29

Source: www.webjet.com.au/flights/australia/. Accessed on 11, 14, 17, 20, 23, 26 & 29 December 2017 and 1, 4, 7, 10 13, 16 & 19 January 2018.

Airfares for the three long-haul routes to regional centres (i.e. Brisbane–Mount Isa, Darwin–Alice Springs; and Perth–Karratha) are all broadly comparable on a \$/kilometre basis.

A similar story exists with airfares on some of the medium-haul routes (see Table 4). Airfares on the Mount Isa routes to Cairns and Townsville are broadly comparable (also on a \$/kilometre basis) to airfares on the Sydney–Broken Hill and Perth–Carnarvon routes. Indeed, the airfares on the shorter and more thinly travelled routes of Mount Isa to/from Cairns/Townsville are higher in absolute terms in comparison with the Mount Isa–Brisbane route.

Airfares on the two slightly longer Western Australian routes from Perth to Learmonth and to Paraburdoo are significantly lower than the comparable Mount Isa routes.



Table 4: Airfare comparison, medium-haul routes

Route	Airfare	\$/km	Route	Airfare	\$/km
Townsville–Mount Isa	\$436	0.56	Mount Isa–Townsville	\$399	0.51
Cairns–Mount Isa	\$455	0.58	Mount Isa–Cairns	\$422	0.54
Perth–Learmonth	\$252	0.23	Learmonth–Perth	\$264	0.24
Perth–Paraburdoo	\$332	0.34	Paraburdoo–Perth	\$324	0.33
Sydney–Broken Hill	\$458	0.49	Broken Hill–Sydney	\$403	0.43
Perth–Carnarvon	\$447	0.55	Carnarvon–Perth	\$421	0.52

Source: www.webjet.com.au/flights/australia/ and <http://www.skippers.com.au/book-a-flight/> for the Perth Carnarvon route
Accessed on 11, 14, 17, 20, 23, 26 & 29 December 2017 and 1, 4, 7, 10 13, 16 & 19 January 2018.

Community discount airfares

In recent weeks, two airlines have introduced discount airfares for Mount Isa residents.

Qantas' scheme commenced on 14 November, shortly before the Senate Committee's inquiry started. It offers discounts of between 10 and 30 per cent off economy airfares, with the lower discount applied to the cheaper airfare (e.g. red e-deal) and 30 per cent to the more expensive economy airfares. The discount does not apply to the entirety of the airfare but only to those costs within Qantas' control (e.g. it excludes airport charges, security charges and GST). It applies to local residents undertaking personal travel (limited to four trips per year per person) on the return journey for Mount Isa–Brisbane–Mount Isa and Mount Isa–Townsville–Mount Isa routes. Residents obtain a free frequent flyer membership to assist to establish they are a Mount Isa resident.¹⁴

On 23 January 2017, Regional Express airlines announced a discount airfare of \$198 for a direct flight between Mount Isa and Cairns. This airfare is supported by a discount on airport charges at Mount Isa, but not Cairns. The fare will be made available for 30 per cent of the seats on a direct flight and must be booked at least 30 days in advance or on the day before take-off, depending on availability. This community airfare is an extension of what Regional Express airlines has introduced to other regional communities across Australia.¹⁵

These community airfares would not have a significant impact on the results of the airfare survey we undertook in preparing this submission. The Mount Isa–Brisbane airfares cited were often a Qantas red e-deal but were sometimes a cheaper fare than offered by Virgin. These fares would attract a discount of under 10 per cent for a Mount Isa resident, which would be insufficient to alter Mount Isa's position of having some of Australia's most expensive airfares. The Regional Express community airfare is available either one month or a day in advance, meaning it would not be picked up in a survey of a bookings made a week in advance.

Comparison survey conclusions

The survey of airfares shows Mount Isa has some of the most expensive airfares in Australia, up to three times higher than on more popular east coast routes.

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.

¹⁴ For detail see: www.qantas.com/au/en/frequent-flyer/member-specials/discounted-fares-for-residents.html.

¹⁵ For more details see: http://www.rex.com.au/MediaRelease/Files/532_MR20180123-RexAnnouncesCommunityFareforMountIsa-CairnsRoute.pdf.



Airlines acknowledge airfares to regional and remote centres are high and they attribute this to the cost of servicing low volume routes. They suggest the most effective way to avoid high prices is to book early and be flexible on departure days/times. This might well be sound advice when planning vacations, but it is not advice that can be taken for medical or family emergencies.

We acknowledge the Regional Express' community airfare is a significant discount on the standard Mount Isa to Cairns airfare. It goes some way to alleviate the worst of the excessive prices on that route and is a step in the right direction. However, it is not the full answer as it is available to a significant proportion, but not all the passengers on this route. Mount Isa to Cairns is also the smallest, by far, of the main Mount Isa routes.

The Qantas discount falls well short of our expectations.

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.

And then there is the frequent flyer membership which is an inducement for passengers to keep travelling with Qantas beyond Brisbane and beyond the end of the potential 12-month life of this scheme.

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.

It is apparent that Qantas' CEO, Alan Joyce, does have a vision for Qantas that encapsulates a social conscience:

Aviation can be such a force for good because it's ultimately about connecting people, and that encourages a diversity of ideas that makes Australia the kind of place it is today

...

The notion of a 'fair go' has to be one of the most important Australian values, and it's been a big driver behind my work¹⁶

And:

It has gone long past the basic financials of the P&L and the balance sheet. Shareholders are looking for sustainable companies, socially responsible companies and that is becoming a bigger issue in the investment community¹⁷

But it is not evident that Mr Joyce's social conscience and notions of social responsibility extend to the Mount Isa community and his company's pricing policies.

Mount Isa has some of the highest airfares in Australia. These prices have a significant negative impact on the Mount Isa economy and those who choose the city to work and raise their families in.

The MICC does not accept the airlines' claims that this is all due to higher costs. It is the view of the MICC that profiteering by the airlines is the bigger issue.

It is logical to propose that a competition regulator monitor regional airfares to identify any profiteering by the airlines. This could be conducted by the ACCC for all regional and remote airfares or by the Queensland Competition Authority for airfares in Queensland.

¹⁶ See: <http://www.news.com.au/national/order-of-australia-for-irishborn-champion-of-a-fair-go/news-story/505f122e3213e8e15799ec52e547e63d>. As accessed on 24 January 2018.

¹⁷ See: <http://www.afr.com/business/transport/aviation/alan-joyce-named-afrs-business-person-of-the-year-for-2017-20171213-h049wz>.



The MICC notes the ACCC's petrol price monitoring in the past was able to identify patterns in price movements and provide advice to consumers on the best way to take advantage of available discount price (e.g. buy petrol mid-week and not over weekends).

On balance, the MICC believes the Senate Committee should recommend the ACCC monitor regional and remote airfares with a view to identifying any profiteering and the strategies passengers can take to take advantage of any discounts.

Airline costs

Airline costs are dominated by the efficiencies associated with operating on busy routes. Operating within a busy interconnected network, with a hub and spoke arrangement, also offers further efficiencies.

The benefits of operating a network are also under the competitive pressures of low-cost carriers that operate between two 'spoke' locations and avoid the hub (e.g. the Jetstar direct flights between Brisbane and Launceston that avoid interconnections at either Sydney or Melbourne).

Regional and remote air services tend to be a 'spoke' within a larger network, with relatively low passenger numbers. The Regional Express submission to the Western Australian Parliament's airfares inquiry noted the logistical and cost issues associated with seeking to provide a day-return option with early morning flights and late evening return flights. Qantas' submission to the same inquiry also highlighted the directionality of the traffic, where an in-bound flight might be 85 per cent full, but only 30 per cent full on that aircraft's return journey.

Governments need to work with the aviation industry to manage costs if Mount Isa, and regional and remote Australia more generally, are to ever face reasonable airfares. Fuel and salaries are the largest components of airline costs (see Figure 4) and are therefore the most obvious targets.

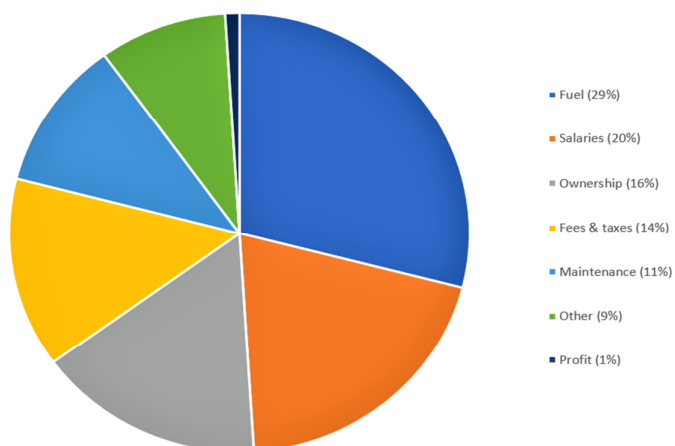


Figure 6: Airline cost structure

Source: The Geography of Transport Systems, also Pearce, B. 2014 Key features of air transport markets, OECD discussion of airline competition¹⁸.

¹⁸ Available at: https://people.hofstra.edu/geotrans/eng/ch3en/conc3en/cost_structure_domestic_flight.html. Accessed on 6 January 2018. See also Pearce, B. 2014 Key features of air transport markets, OECD discussion of airline competition. Available at: www.slideshare.net/OECD-DAF/some-key-features-of-air-transport-markets-brian-pearce-iata-june-2014-oecd-discussion-on-airline-competition. Accessed on 6 January 2018.



Fuel

The price of aviation fuel in Australia has almost trebled over the last 20 years, but there have been significant declines following the global financial crisis in 2008 and the more general softening of energy prices since 2013¹⁹.

In general, there is very little a government can do about the vagaries of international fuel markets, but there are things the Australian Government can do to ensure fuel prices for regional airlines are as low as they can be.

In its submission to the Harper Review of Competition Policy, the Board of Airline Representatives of Australia (BARA) showed Australia had some of the highest aviation fuel prices in the world. BARA attributed this to the lack of competition in fuel supplies at airports and urged the fuel supply chain between the wharf and the airport be subject to open access regime²⁰.

The Harper Review concluded that competition in jet fuel supply should be the subject of further reform efforts²¹. However, this conclusion was not formally included in the review's recommendations, so it was not formally addressed when the Australian Government released its decision in November 2015²².

The MICC is worried that BARA's concerns, recognised by the Harper Review, will be swept under the carpet and ignored.

The MICC urges the Senate Committee to make clear recommendations to improve the competitive supply of aviation fuels at Australia's airports.

Like most businesses, the regional airlines pay GST, but they are also required to pay excise tax on aviation fuel. The MICC believes regional airlines should be exempted from paying those fuel excises.

Staff and training

The MICC understands there is a shortage of pilots in Australia and this was a contributing factor to increased service unreliability late last year. Recent media reports indicate the Australian Government is likely to include pilots in the list of professions able to apply for the new visa category Temporary Skill Shortage Visa program²³. The MICC welcomes this as a stop-gap measure, provided of course that foreign pilots have the necessary technical and language skills to safely fly planes in Australia.

But this is only a stop-gap measure as it is a temporary (two-year) visa. Australian pilots move overseas to work for foreign airlines. This flow of pilots should not be a one-way street. Foreign pilots should also be able to move to Australia and to do so on a long-term basis with Australian residency as part of the inducement. The government also needs to ensure training facilities continue to produce enough new pilots each year for Australia's long-term needs.

Aviation infrastructure

Airports and air navigation systems have natural monopoly and public good characteristics. Both involve large fixed costs and one additional aircraft imposes very few additional costs on the facility operator (e.g. wear and tear on a runway due to an aircraft landing). The economics of these facilities generally dictate it is more cost efficient for a single facility to cater for a community's requirements. However, this allows operators of these monopoly facilities to earn profits well above their efficient costs.

Australia's airports and air navigation systems have traditionally been a responsibility of the Australian Government. In the last 20 years, the Australian Government divested itself of its airports with very little

¹⁹ See: <https://www.indexmundi.com/commodities/?commodity=jet-fuel&months=240¤cy=aud>. Accessed on 20 January 2013.

²⁰ BARA 2014, Submission to the Competition Policy Review, pp. 5-16. Available at: <http://competitionpolicyreview.gov.au/files/2014/06/BARA.pdf>. Accessed on 8 January 2018.

²¹ Competition Policy Review 2015, Final Report, March, p. 206. Available at: http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf. Accessed on 8 January 2018.

²² See: https://static.treasury.gov.au/uploads/sites/1/2017/06/Govt_response_CPR.pdf

²³ Australian Associated Press 2017 Pilot shortage: Australia to relax visa laws to attract foreign flyers, The Guardian, 28 December. Available at: www.theguardian.com/australia-news/2017/dec/28/pilot-shortage-australia-to-relax-visa-laws-to-attract-foreign-flyers. Accessed on 9 January 2018.



regulatory oversight and a very light-handed approach to regulating air navigation investments and charges.

Airports

In the past, airports were largely owned and operated by government and were generally run at a loss. In the 1980s, the Australian Government had a program to transfer the ownership of the smaller airports to local government through the Aerodrome Local Ownership Plan (ALOP), which was sometimes accompanied by a payment to reflect the cost under-recovery or capitalisation of future maintenance costs.

The Australian Government also operated 23 airports through its statutory authority, the Federal Airports Corporation (FAC). These airports included:

- larger international airports (e.g. Sydney, Melbourne, and Brisbane)
- regional airports (e.g. Gold Coast, Townsville, and Mount Isa)
- general aviation airports (e.g. Archerfield).

Other airports (e.g. Cairns and Mackay) were operated by state government statutory authorities.

Many of these airports have now been privatised, often through long-term leases: 50 years with an option for a further 49 years.

The Mount Isa airport was privatised in 1998 as part of the Phase 2 sale of 15 FAC airports. It was acquired by Australian Airports (Mount Isa) Pty Ltd for \$1.43 million, as part of a joint bid that also included Townsville airport (\$14.82 million)²⁴. On 15 March 2005 Mount Isa and Townsville airports were acquired by its current owner, Queensland Airports Ltd, for \$75.1 million²⁵. Queensland Airports Ltd is in turn owned by The Infrastructure Fund (TIF).

Airports can be attractive investments because they can be bundled with other infrastructure assets and thereby offer investment and superannuation funds with a greater coverage of the economy and with assets that provide a steady income stream. The TIF is a wholesale investment fund that invests in a portfolio of unlisted infrastructure assets that operates a range of infrastructure facilities across Australia and overseas. Its Queensland airports are Mount Isa, Cairns, Gold Coast, Mackay and Townsville.

Airport activities are traditionally separated between air-side and land-side activities.

The air-side activities deal with aircraft landing and take-off, parking, refuelling and cleaning. The airport operator generally constructs, operates, and maintains the runways and aprons and provides land for the airlines to organise refuelling and cleaning activities. Airports use aeronautical charges to recoup the costs of providing these air-side activities.

The land-side activities largely consist of passenger and freight terminals, access roads and car parking facilities. The airport operator may operate these facilities themselves or lease land and contract out the operation of these facilities.

Where an airline has a significant presence at an airport it will often choose to operate the terminal itself to better manage the flight experience of its customers. The airport will seek to recoup the costs through its land leases. The airline will recoup these fees and the costs of operating the terminal through its airfares. For large airports with many passengers the terminals provide significant commercial retail opportunities which can defray the large set-up costs of the airport itself (e.g. access roads) or can even become a significant profit centre.

Alternatively, the airport may choose to operate the terminal itself as a common-user facility catering for a number of airlines. Some airlines might be provided dedicated gates, but the baggage handling and

²⁴ Australian National Audit Office 1999, Phase 2 sale of the Federal airports, Audit Report No. 48, Performance Audit, p. & 28. Available at: www.anao.gov.au/sites/g/files/net616/f/anao_report_1998-99_48.pdf. Accessed on: 2 January 2018.

²⁵ Queensland Airports Ltd 2005, Media Release, QAL Acquires Townsville and Mount Isa, 14 February. Available at: <http://www.qldairports.com.au/wp-content/uploads/2010/11/QALtakeover.pdf>. Accessed on: 2 January 2018.



security operations will be undertaken by the airport. The airport will recoup the costs of operating the terminal through charges on the airline. This operating model is most common for regional airports and international terminals.

These different approaches to how airport activities are distributed between the airport operator and others makes it difficult to compare airport charges, as charges for aeronautical services might be transparent, but fees for land-side services may be opaque. It may also not be readily discernible how all airport costs are allocated between air-side or land-side activities.

Despite these difficulties, the MICC has compiled a list of airport charges for a small sample of airports. Aeronautical charges at Mount Isa do appear high in comparison with these other airports, being at least double those at Townsville (see Table 5). Moreover, for a flight taking off from Mount Isa and landing at Cairns, the airport charges of \$47.70 represent over 10 per cent of the \$435 airfare.

Table 5: Aeronautical and terminal charges for regular public transport airlines, by airport

	Mount Isa	Townsville	Cairns ³	Mackay	Brisbane ⁴	Darwin
Aeronautical services (per pax)²	\$16.89	\$7.36	\$13.85		\$4.00	\$8.86
Aeronautical services (\$/tonne MTOW)²				\$10.30		
Peak load charge (per landing/departure)					\$250.00	
Noise surcharge					50%	
Common user terminal charge (per pax)	\$11.15	\$5.85		\$10.50		\$10.34
Security charge (per departing pax)			\$2.60	\$4.31	\$2.60	\$11.03
Passenger screening charge (per pax)	\$2.90	\$2.15				
Checked bag screening (per pax)	\$2.90			\$2.02		
Common user check-in (per departing pax)						\$0.23

1. Mount Isa, Townsville, Brisbane, and Darwin charges apply from 1 July 2017; Cairns' charges from 1 January 2017; and Mackay's from 1 October 2016. All charges are exclusive of GST.
2. Pax means passenger and MTOW means aircraft Maximum Take Off Weight.
3. There is a minimum charge of \$94.00.
4. Peak periods are 7am–10am EST and 4pm–7pm Eastern Standard Time. This charge will have ceased to apply from 1 July 2021 when the new parallel runway is expected to be completed and operating.

Sources: Mount Isa Airport 2017²⁶, Townsville Airport 2017²⁷, Cairns Airport 2017²⁸, Mackay Airport 2016²⁹, Brisbane Airport Corporation 2012³⁰, Northern Territory Airports 2017³¹

It is hard to know whether smaller airports such as Mount Isa justify regulatory intervention. The drop-off in passenger numbers since 2012–13 is probably creating enough headaches for the current owner.

It is also hard to know whether the initial sale of Mount Isa and Townsville airports for \$14.8 million in 1998 and then their resale for \$75.1 million reflect reasonable capital expenditure over the intervening seven-year period.

²⁶ Mount Isa Airport 2017, Airport Charges. Available at: <http://www.mountisairport.com.au/regulatory/charges/>. Accessed on 30 December 2017.

²⁷ Townsville Airport 2017, Airport Charges. Available at: <http://www.townsvilleairport.com.au/regulatory/airport-charges/>. Accessed on 30 December 2017.

²⁸ Cairns Airport 2017, Conditions of Use, 23 June 2017, schedule 3, p. 44. Available at: www.cairnsairport.com.au/assets/Uploads/7015-FIN-Cairns-Airport-Conditions-of-Use-V5-website-copy.pdf. Accessed on 30 December 2017

²⁹ Mackay Airport 2016, Conditions of Use, 27 October 2016, schedule 5, p. 51. Available at: Accessed on 30 December 2017.

³⁰ Brisbane Airport Corporation 2012, Brisbane Airport Aviation Services, and Charges Agreement – Runway System, schedule 5, pp. 48-9. Available at: http://www.bne.com.au/sites/all/files/content/files/170426_Aviation%20Services%20Charges%20Agreement_RUNWAY_Publishes_d.pdf. Accessed on 30 December 2017.

³¹ Northern Territory Airports 2017, Conditions of Use, 30 October 2017, schedule 2, pp. 35-9. Available at: [file:///C:/Users/Paul/Downloads/conditions_of_use_2017-18_mark_up-v1.4-kmc-gp%20\(1\).pdf](file:///C:/Users/Paul/Downloads/conditions_of_use_2017-18_mark_up-v1.4-kmc-gp%20(1).pdf). Accessed on 30 December 2017.



Or does it reflect that:

- the Australian Government did not have sufficient regard on how airport privatisation would impact regional Australia and have not subsequently provided proper regulatory oversight; and
- the original purchaser of the airports underpaid for its purchase?

Whatever the case may be, Mount Isa's airport charges are high, and they need to be part of a strategy to reduce Mount Isa's airfares. It is also important when airline costs are reduced that they be passed on to passengers through lower airfares and not consumed by other elements in the supply chain that have market power and the ability to increase their charges (e.g. airports).

Airport charges are a more general issue overall, as Mount Isa's airfares are affected not just by charges at Mount Isa's airport but also at destination airports. Indeed, Qantas' submission to the Western Australia Legislative Council's inquiry said the airlines' very low profitability (about \$7 per passenger) is being eroded by airport charges. Qantas pointed to the ACCC's 2015–16 monitoring report that noted airports now collect more revenue per passenger than they did a decade ago.

Given this continued increase in airport charges, the MICC questions the effectiveness of the ACCC's performance monitoring regime (which is limited to just four airports: Brisbane, Melbourne, Perth and Sydney).

The MICC believes the Australian Government needs to cease its laissez-faire approach to airport pricing. Australia's airports are monopolies and need to be operated not just for the narrow interests of the airport owners but for the wider community as well. The Australian Government needs to effectively re-insert itself into the regulation of airport prices.

The MICC believes regional airports should be subject to price monitoring, and the monopoly services at major airports should be subject to price approvals.

The MICC is also aware the Australian Government is reviewing security screening arrangements for smaller aircraft³². The MICC is not aware of the nature of the security concerns the review is addressing but is concerned the cost of additional security measures may be imposed on regional and remote aviation.

Passenger and baggage security systems are already in place at Mount Isa airport, as most of the regular public transport (RPT) flights to and from Mount Isa are smaller jets above 20 tonne maximum take-off weight (MTOW). However, changes in arrangements are likely to most affect passengers on the Saab 340 boarding at the intermediate stops on the smaller outback routes from Mount Isa to Cairns, Townsville and Brisbane.

The MICC believes any additional security charges would be a tax on remote passengers and would further erode the viability, not only of all air services to smaller communities, but the viability of air services across the interconnected network of communities.

The MICC believes it would be a tax and not a user charge as it is unlikely to confer a benefit on regional Australia. If the Australia Government is concerned a small regional aircraft may be used in a 911 style attack, then it is unlikely the terrorists' target would be a remote community.

Regional Australians should not be asked to pay for these additional security measures as they are unlikely to be the beneficiaries. Rather, the costs of additional security measures should be borne either by the Australian Government or by airline passengers travelling between the major capital cities.

The MICC notes additional security measures were recently placed around Parliament House and are being considered for the High Court. It is unlikely the government has asked the citizens of Canberra to pay for those additional security measures. Rather, they were paid for by the Australian Government. The MICC considers this is a reasonable outcome — that is, while the additional security costs were incurred in Canberra, the beneficiaries are all Australians by having more secure national institutions.

³² Higgins, E (2017, August 4). Security review ordered for regional airports, The Australian. Available at: <http://www.theaustralian.com.au/national-affairs/national-security/security-review-ordered-for-regional-airports/news-story/fbbe9aa63847e36311b96b2a140b5c55>. Sited on 12 January 2018.



Air traffic controls services³³

Airservices Australia is an Australian Government owned corporation whose services include:

- air navigation services in Australian airspace provided by two facilities, one in Brisbane and the other in Melbourne
- air traffic control services at major airports (e.g. Brisbane, Cairns and Townsville)
- rescue and fire-fighting services also at major airports (e.g. Brisbane, Cairns and Townsville).

Costs of providing these services are recouped through a set of charges on the airlines, such as enroute charges for air navigation services and terminal navigation charges for air traffic control services. These charges are regulated by the Australian Competition and Consumer Commission (ACCC) under the price notification arrangements of s. 95Z (5) of the *Competition and Consumer Act 2010* (CCA), with the most recent decision being in 2015³⁴.

The Australian Government operates a rebate scheme for enroute charges for aeromedical and remote regular public transport (RPT) air services. The scheme was first introduced in January 2002 to ensure air services continued to be provided to regional Australia after the collapse of Ansett Airlines. Rebates are paid to airlines by application and are for RPT services between remote locations, served by a single airline, for routes with less than 15,000 passengers per year and operated by smaller aircraft with MTOW of less than 15 tonnes (e.g. Saab 340)³⁵.

The MICC has reviewed the structure of Airservices Australia's charges for typical aircraft operating on the three major Mount Isa air routes (see Attachment 2 for details of these estimates).

It estimates Airservices Australia's charges are around \$13 per passenger for the Mount Isa–Brisbane route, around \$14 for Mount Isa–Cairns and around \$7 per passenger for the Mount Isa–Townsville route.

Like airport charges, these Airservices Australia charges are not a key driver for Mount Isa's high airfares. However, lowering these charges must be part of a strategy to reduce regional airfares.

Airservices Australia's enroute charges are levied on all aircraft and are based on distance travelled and aircraft weight. In effect, it is a simple allocation rule whereby the costs of providing enroute services are collected from aircraft flying in Australian airspace, whereby larger aircraft on longer routes pay more per trip than a smaller aircraft on a short route.

However, there is little consideration of economics in this pricing rule³⁶. Economically efficient pricing requires prices to reflect marginal costs, which are very low for enroute services, and implies a significant under-recovery of costs.

So, the next step is to ask what is a price structure that causes least distortions? One such price structure is known as 'Ramsey Pricing' where customers most sensitive to prices should face the lowest prices and the least sensitive should face higher prices.

Regional airlines' costs are already high as they cannot take advantage of the economies of scale available on the most popular metropolitan or international routes. The MICC believes passengers of regional airlines, especially private travellers, are least able to pay for enroute services.

Indeed, it is probable Airservices Australia's provision of enroute services, and air traffic control and fire and rescue services would largely be driven by aircraft on Australia's top 30 routes as well as by the 39 million international passengers.

³³ Responsibilities for aviation safety are divided between two separate Australian Government statutory authorities. The Civil Aviation Safety Authority is responsible for setting and enforcing aviation safety rules. The Australian Transport Safety Bureau investigates aircraft accidents.

³⁴ ACCC 2015, Airservices Australia price notification, as cited on 28 December 2017, <https://www.accc.gov.au/system/files/Airservices%20price%20notification%202015%20-%20ACCC%20decision.pdf>

³⁵ Department of Infrastructure, Regional Development and Cities 2017, The Airservices Australia Enroute Charges Payment Scheme. Available at: https://infrastructure.gov.au/aviation/regional/payment_scheme/index.aspx. As cited on 8 January 2018.

³⁶ See for instance Brown S.J. and Sibley D.S. 2003 *The Theory of Public Utility Pricing*, Cambridge University Press.



Thus, the MICC believes regional airlines should be exempted from paying Airservices Australia's charges.

Competition in regional aviation

In a perfectly competitive market there are many suppliers and consumers of a product. However, if there are economies of scale in producing a product or service then it is efficient for there to be only a handful of suppliers. Where markets are particularly small, there may only be enough room for a single or monopoly supplier of a product or service.

Even on Australia's busiest air routes there are only a small number of airlines competing against each other. A number of state governments, including the Queensland Government, have formed a view that some of their smallest intra-state routes should be regulated. It is not always clear why they have formed this view, but it seems to revolve around providing stable services whereby entry restrictions provide the operating airline with certainty about future operations. The Western Australian inquiry found regulation produced lower and less volatile prices.

The Queensland Government limits the number of airlines can operate to 23 locations on seven of Queensland's smaller routes. This includes the Mount Isa routes (see Figure 4) to and from³⁷:

- Mount Isa–Cairns, via Doomadgee and Normanton
- Mount Isa–Townsville, via Julia Creek and Hughenden
- Mount Isa–Brisbane, via Bedourie, Birdsville, Quilpie, and Charleville.

These routes are operated by Regional Express (Rex) airlines, with QantasLink operating some of the other routes.

The government can choose to regulate airline competition to a location if the relevant Minister is of the opinion that doing so will improve the level of service and access to public transport.³⁸

Unfortunately, little is publicly known about the rationale, implementation (e.g. route and airline selection) and effectiveness of the government intervention as many of the details of this arrangement are considered commercial-in-confidence.

It is understood the government used a competitive tender process in accordance with its purchasing policy guidelines. Airlines were asked to provide a proposal where they may have been required to meet certain service standards (e.g. specified minimum number of services per week) and may have been required to report on certain operating characteristics (e.g. costs). This scheme may also involve government subsidies to the airlines on some routes.

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.

Competition should remain the backbone of any strategy for generating lower prices and introducing innovation into regional aviation. The earlier section of this submission identified ways to reduce airline costs. However, in the absence of competition between regional airlines there can be no guarantee these cost savings will be passed on to passengers in the form of lower airfares and improved service standards. For example, the reform of work practices on the Australian waterfront took far too long to be passed on to shipping lines and Australian consumers because the stevedore industry was dominated

³⁷ The four other regulated routes are: Brisbane–Roma and Charleville; Brisbane–Barcaldine/Blackall and Longreach; Brisbane–Toowoomba, St George, Cunnamulla, and Thargomindah; Townsville–Winton and Longreach. See Queensland Department of Transport and Main Roads, Long distance air services, as cited on 28 December 2017, <https://www.tmr.qld.gov.au/regionalconnect>

³⁸ This is provided for in s. 36 of the *Transport Operations (Passenger Transport) Act 1994* and where the regulated locations are specified in schedule 1 of the *Transport Operations (Passenger Transport) Regulations 2005*.



by just two companies. It took the entry of new companies for the stevedores' charges to start to fall (see Box 3 for more details).

Only a small number of airlines will ever actively compete on a regional airline route. The smallest routes will be served by one or two operators with small aircraft. A slightly larger route will still be served by one or two operators but with a slightly larger aircraft. Improving competition in regional aviation will not result in three or four airlines operating on a route.

A major driving force for competition in aviation, regional aviation in particular, is the entry or threat of entry from new airlines. Improving competition in regional aviation should focus on removing entry barriers so it is easier for new airlines to enter a market. It does not necessarily mean these new airlines actually have to enter the market, but that the threat of entry is credible.

In the past, key barriers to entry have been limitations of foreign airlines to operate in Australia, access to passenger terminals and loyalty schemes.

The demise of Ansett released significant capacity at terminals which was taken up by other airlines that entered the Australian market. The Senate Committee should treat seriously any material indicating terminal capacity constraints has re-emerged as an issue for possible new entrant airlines.

Box 3: Lessons from reform of stevedoring

The ACCC monitors the performance of Australian stevedores, the companies responsible for loading and unloading ships at our sea ports. The stevedoring industry has been dominated by two companies, each of which were for a long time the only two stevedores at each of Australia's main sea ports.

For a long time, the ACCC reported there had been trend improvements in stevedoring productivity but that the resulting benefits were captured by the two incumbent stevedores. The ACCC observed that if the stevedoring industry was more competitive than some of the benefits of the productivity gains would be shared with the stevedores' customers through lower prices.

Over time, new stevedores entered the Australian market and 2017 was the first year when there were more than two stevedores at each of Australia's major sea ports. This entry of new stevedores coincides with a recent period of declines in 'prices' (i.e. revenue per container handled). These price falls cannot be solely attributed to increased competition as other factors have also been at play (e.g. increased capacity at the Australian ports and amalgamations in the shipping industry which acts as increased countervailing power in negotiations with the Australian stevedores).

Conversely, there have been increases in infrastructure charges on rail and trucking companies. Ostensibly, these higher charges are to recoup increased investment which should improve the efficiency of the land-side delivering and collecting of containers. But it might also be that the stevedores are rebalancing their revenues from ship-side (where there is increased concentration of shipping lines) to land-side where there are multiple rail and truck companies.

This increased competition is a necessary precondition for cost improvements to be passed on to customers in the way of price falls or improved service standards.

The MICC believes governments need to consider competition when negotiating airline contracts for parliamentarians and public servants. A sole supplier arrangement may, in the short term, offer low airfares. However, governments are such large purchasers of airline services that a sole supplier contract could move the competitive dynamic in the market towards the contracted airline. This could have a detrimental effect on competition in the market with poorer price outcomes in the future.

An allied issue is that airlines have introduced loyalty schemes as part of their service package. There is nothing sinister in this, even though it does create customer inertia to remain with an incumbent airline and not to switch to a new entrant airline. In evidence presented to the Western Australia Legislative Assembly inquiry, Regional Express airlines encouraged strict adherence to a Best Fare of the Day



Scheme and to stop government officials choosing airlines based on frequent flyer points or reward programs rather than the airfare price.

The MICC believes the Senate Committee should ensure the Australian Government's contracts for air transport focus not only short-term, low-price outcomes but also long-term outcomes that encourage a diverse and competitive airline industry in Australia. In particular, the Australian and state and territory governments should engage at least two airlines, rather than one, to encourage a diverse and competitive airline industry in Australia

The ability of a foreign airline to operate in Australia is a key piece of unfinished business of aviation reform in Australia.

The Harper Inquiry recommended removing some of the restrictions on overseas airlines from carrying passengers on Australian domestic routes. The Australian Government's 2015 decision on the Harper Inquiry noted this recommendation and sent it for further review by a consultative committee (formed as part of the White Paper on Developing Northern Australia). The Western Australia parliamentary review also considered this proposal but was unable to form a unanimous view on an appropriate way forward.

The MICC is hopeful airlines operating on international routes may operate through Mount Isa and provide additional competition on Mount Isa airline routes. We think fundamental reforms like this need to be considered as part of a package of reforms to regional aviation. Measures to remove requirements that airlines operating in Australia must be operated by an Australian company might make it less expensive for new airlines to enter the Australian market.

While removing entry barriers is important, equally important can be the response of existing airlines to a new entrant airline. A response strategy from an incumbent airline may include flooding the market with additional capacity to temporarily depress airfares at a time when the new entrant airline is most financially vulnerable — such activity could amount to predatory pricing and be a breach of s. 46 of the *Competition and Consumer Act 2010*.

The Harper Inquiry has recently concluded its review of competition law in Australia including s. 46 of the *Competition and Consumer Act 2010*. The MICC does not want to re-open any of these issues but wants the Senate Committee to note the ACCC should vigorously pursue any complaints of predatory pricing, especially in smaller markets such as regional and remote aviation.

The MICC urges the Senate Committee to adopt all options to reduce the costs and limitations of new airlines from entering the Australian market and from operating in regional Australia. The Senate Committee should recommend removing requirements that regular public transport airlines operating in Australia need to be an Australian company.

Government support needed

Queensland is a vast state. Its population is concentrated in the south east and then dotted up the coast in major regional centres. The non-coastal and tropical north Queensland largely consists of remote farming, mining and indigenous communities.

The Queensland Government supports the provision of public transport across the state and underwrites Brisbane's urban rail, bus and ferry services. It also underwrites an 8000-kilometre rail network connecting remote inland communities (e.g. Charleville, Forsyth, Longreach, and Mount Isa) to the coast and linking coastal communities from Brisbane to Cairns. This support for public transport in Queensland does not come cheaply, with the Queensland Government spending just over \$2.5 billion in 2016–17 for publicly and privately provided transport³⁹.

Aviation forms a relatively small part of the Queensland Government's transport activities. The government's focus is on Queensland's most remote communities, providing \$14.2 million to regional airlines.

The Queensland Government also provides an airfare subsidy scheme for residents of remote communities. This scheme is limited to personal travel between largely indigenous communities in the Torres Strait, Cape York, and Gulf of Carpentaria. Residents can apply for a \$400 government rebate

³⁹ Queensland Department of Transport and Main Roads 2017, Annual Report 2016–17, Appendix 4, pp. 228–9.



for a return airfare, where each resident is limited to 12 applications per year⁴⁰. These rebates are not available to Mount Isa residents, but are available for travel between Doomadgee and Mornington Island, which are two small Gulf of Carpentaria communities on the Mount Isa to Cairns route.

The Australian Government's White Paper for Developing Northern Australia speaks of Northern Australia grasping its potential to become a powerhouse within Australia. The paper spoke of fixing roads and telecommunications, building dams and delivering certainty to landholders and water users.⁴¹

The Australian Government also operates two aviation schemes as part of its commitments under the White Paper. The Remote Air Services Subsidy Scheme supports weekly air services to around 370 of Australia's most remote communities (typically cattle stations and indigenous communities) of up to around 200 people including communities in the channel country (16), Cape York (67) and the Gulf Country (18)⁴².

The Remote Airstrip Upgrade Program seeks to enhance the safety and accessibility of aerodromes in remote areas of Australia and facilitate improved delivery of essential goods and services including health care. The program provides funds to improve runway surfaces, stormwater drainage and navigational aids. The Australian Government committed to spend about \$40 million over four years. For example, in 2015, \$11.8 million was provided for upgrades at 52 aerodromes and a further \$11.6 million was committed in 2017.⁴³

This assistance by the Australian and Queensland governments is for the smallest and the most remote communities in Australia and provides no assistance to most of the residents of regional Australia.

As mentioned above, the Queensland Government provides considerable support to subsidise public transport. An examination of the Queensland Government's expenditure on public transport shows it is concentrated in south-east Queensland, especially on the city rail network. The result is the government supports public transport to the extent of \$568 per person in the south east. This is almost two times (85 per cent) more than the \$308 per person the government spends on public transport in the remainder of Queensland⁴⁴.

The MICC is disappointed to see both the Australian and Queensland governments provide so little effective assistance to aviation in the Mount Isa region and to regional and remote Australia more generally. The MICC believes affordable air services are a key factor in improving the lives of its residents and in developing Mount Isa's economy. If the Australian Government is serious in developing the Northern Australia economy, then it must be serious in making regional airfares affordable.

We think the cost cutting and competition remedies mentioned in previous sections of this submission will go some way to reducing Mount Isa's airfares.

But we think the Australian and Queensland governments also need to do much more in terms of providing financial assistance to reduce the disparity between airfares in regional Australia and those on the east coast, and in terms of the relative level of subsidy provided in south-east Queensland and regional Queensland.

The MICC notes the Queensland Government already operates a scheme whereby electricity prices are levelled across the state using a uniform tariff policy. The MICC believes the Queensland Government should introduce a similar arrangement for airfares.

The MICC views aviation as an essential service to regional and remote Australia. It is firmly of the view that there should be pricing parity across Queensland so that the residents of Mount Isa pay the same price for air services that are available to residents of coastal Queensland.

⁴⁰ For more details see <https://www.tmr.qld.gov.au/localfarescheme>.

⁴¹ Australian Government 2015, Our North, Our Future: White Paper on developing Northern Australia, p. iv. See: <http://northernaustralia.gov.au/files/files/NAWP-FullReport.pdf>.

⁴² See <https://infrastructure.gov.au/aviation/regional/rass.aspx>.

⁴³ For more details see: <https://infrastructure.gov.au/aviation/regional/raug.aspx>.

⁴⁴ Queensland Government Statistician's Office 2017, Estimated resident population by local government area (LGA), Queensland, 2006 to 2016pr, as cited on 28 December 2017, see <http://www.qgso.qld.gov.au/products/tables/erp-lga-qld/index.php?region=all-regions>, where south-east Queensland population estimate is based on the population of the 11 LGAs of Brisbane, Gold Coast, Ipswich, Lockyer Valley, Logan, Moreton Bay, Noosa, Redland, Scenic Rim, Somerset, and Sunshine Coast.



The MICC accepts this would involve a radical reform to the way air services are provided in Queensland, but we believe desperate times call for desperate measures. This scheme could involve a levelling of costs such that passengers on the busiest routes pay a little more to subsidise much lower prices on the smaller routes.

At a minimum, we believe the Queensland Government should increase its assistance to regular public transport air services so that per capita expenditure on public transport should be evenly split between regional and south-east Queensland. This is necessary to ensure regional and remote Queensland is treated equitably and has affordable access to the transport services it needs.

The MICC recognises this would involve a significant adjustment to the status quo. Accordingly, the Queensland Government may want to undertake a fundamental review of transport priorities in the state, including whether continued support of passenger train services is the most effective way of providing public transport services to regional and remote Queensland.

The MICC also believes the Australian Government should provide additional funding to Queensland and other jurisdictions to reduce the most expensive airfares across Australia. The Australian Government has a vision of a prosperous and booming economy in Northern Australia. To achieve this vision, the Australian Government needs to ensure airfares in Northern Australia are on a par with airfares elsewhere in the country.



Attachment 1: Senate Inquiry Terms of Reference

On 16 November 2017, the Senate referred the following matters to the Rural and Regional Affairs and Transport References 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 reference to:

1. social and economic impacts of air route supply and airfare pricing;
2. different legal, regulatory, policy and pricing frameworks and practices across the Commonwealth, states, and territories;
3. how airlines determine fare pricing;
4. the determination of airport charges for landing and security fees, aircraft type and customer demand;
5. pricing determination, subsidisation, and equity of airfares;
6. determination of regulated routes and distribution of residents' fares across regulated routes;
7. airline competition within rural and regional routes;
8. consistency of aircraft supply and retrieval of passengers by airlines during aircraft maintenance and breakdown;
9. all related costs and charges imposed by the Civil Aviation Safety Authority; and
10. any related matters.



Attachment 2: Calculation of Airservices Australia charges

The costs of Airservices Australia are recouped through a range of charges, all based on an aircraft's maximum take-off weight (MTOW)⁴⁵:

- 1) enroute charges
 - a) for large aircraft (MTOW 20 tonnes and above):

$$ENROUTE\ CHARGE = \$4.03 \times \frac{DISTANCE}{100} \times \sqrt{MTOW}$$

- b) for small aircraft (MTOW below 20 tonnes)

$$ENROUTE\ CHARGE = \$0.90 \times \frac{DISTANCE}{100} \times MTOW$$

- 2) terminal navigation charge

$$TERMINAL\ NAVIGATION\ CHARGE = PRICE_{location} \times MTOW$$

where: PRICE_{Brisbane} is \$6.18

PRICE_{Cairns} is \$12.20

PRICE_{Townsville} is \$2.27

- 3) aviation rescue and firefighting charge

$$RESCUE\ AND\ FIRE\ FIGHTING\ CHARGE = PRICE_{category,location} \times MTOW$$

where: PRICE_{category,location} is set out in Table A1

Table A1: Aviation rescue and firefighting services charges, by airport and aircraft category

Queensland airport	Category 6 aircraft and below	Category 7 aircraft	Category 8 aircraft	Category 9 aircraft
Brisbane	\$2.32	\$2.57	\$3.41	\$6.09
Cairns	\$2.32	\$3.69	\$7.67	\$7.67
Townsville	\$2.32	\$13.64	\$13.64	\$13.64

Fokker 100 and Dash 8 – 400 are both Category 6 aircraft and the Saab 340 is a Category 4 aircraft.

⁴⁵ Unless noted otherwise, the equations and information in this attachment are sourced from Airservices Australia 2016, Contract for the provision of aviation facilities and services: Effective from 01 April 2017, as sited on 20 December 2017, see <http://www.airservicesaustralia.com/wp-content/uploads/20170110-2017-01-03-Contract-for-Aviation-Facilities-and-Services-publ....pdf>



Table A2: Physical characteristics of aircraft by selected Mount Isa routes

Route	Distance (km) ^a	Aircraft ^b	MTOW (tonnes)	Seats
Mount Isa–Brisbane	1573	Fokker 100	43.24	100 ^d
Mount Isa–Townsville	778	Dash 8 - 400	28.15	74 ^e
Mount Isa–Cairns	782	Saab 340	13.155 ^c	34 ^c

Note: (a) BITRE 2017, Australian air distances, as cited on: https://bitre.gov.au/statistics/aviation/australian_air_distances.aspx; (b) Commonly used aircraft on the route. (c) <http://www.rex.com.au/AboutRex/OurCompany/fleet.aspx>; (d) www.qantas.com/au/en/qantas-experience/onboard/seat-maps/fokker-100.html; (e) www.qantas.com/content/dam/qantas/pdfs/qantas-experience/at-the-airport/seat-maps/qantas-dash8Q400-seat-map.pdf

Table A2: Estimates of Airservices Australia charges

Route	Enroute charge (\$)	Terminal navigation charge (\$)	Rescue and fire fighting charge (\$)	Total charge per passenger ^a
Mount Isa–Brisbane	429.06	283.11	100.32	\$13.12
Mount Isa–Townsville	168.84	65.83	65.31	\$6.68
Mount Isa–Cairns	414.57	160.49	30.52	\$13.95

(a) Based on a passenger load factor of 59.8 per cent for the Brisbane to Mount Isa route as published by the BITRE for 2016–17.