SURVIVAL OF THE FITTEST? CHALLENGES TO REGIONAL AVIATION AND REGIONAL COMMUNITIES FROM THE PRIVATISATION OF AUSTRALIA'S AIRPORTS

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ABSTRACT: The privatisation of airports was intended to be positive for rural and regional Australia. Yet airlines and other airport users have expressed concern that airport operators are privately controlled monopolies (local councils) with little regard for the welfare of airport users and communities, taking a profit perspective in contrast to the provision of community services. This position is imposing greater challenges on regional aviation. There is evidence that government departments accept that there are significant economic benefits associated with development of regional areas; that accessibility for regional and remote communities is a matter of general equity and that they could assist airport operators to be more accountable and responsible for reducing their costs by efficiency gains. It is argued that government intervention is necessary to control the dominance of privatised airport operators, provide equity of opportunities, and safeguard the rights of least-advantaged citizens.

KEY WORDS: Regional aviation, monopolies, Aerodrome Local Ownership Program (ALOP), community welfare, privitisation

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1. INTRODUCTION

Airlines providing regional aviation services face many challenges, including new regulations, high unavoidable fuel and engineering costs, changes in the economic circumstances of regional communities such as those arising from drought, and major industries relocating or closing. Airports became natural monopolies through the Federal Government's decisions to privatise major hub airports from 1996 to 2002, and to gift regional airports to local councils from 1986 to 1991 under the Aerodrome Local Ownership Program (ALOP) thus reducing the Federal Government fiscal burden for maintaining the nation's aviation infrastructure (BITRE, 2008). The transfer of ownership came with prescribed obligations on local councils and one-off funding for maintenance and approved development: "…the ALOP agreements under which these transfers took place impose obligations on the recipient local government to maintain and operate the airport as an airport" (AAA, 2012, p. 32).

On welfare and social equity grounds, governments and the Australian community at large accept that remote communities are entitled to access infrastructure and services readily available in large population centres (Freebairn, 2003; Stimson *et al*., 2003). The main differences in government policy relate to fundamental beliefs about the ability of market forces to deliver optimal welfare outcomes and to what extent users should pay for services that are not subject to competitive supply and demand, and which services governments should provide. Where monopoly, or limited providers existed, or where the service related to health and health services, there have been increased calls for government control (Mahoney *et al*., 2005).

Given the vast geographic nature of Australia and its population distribution, many communities depend on air services. Airports were first established with an objective of serving the public interest (Doganis, 1992) and play an important role in unifying Australian society by providing the infrastructure needed for air services. However, as with aviation regulation generally, it was recognised in submissions to the Productivity Commissions 2012 and 2018 as well as by the Senate Standing Committee on Rural and Regional Affairs and Transport report (2019, p. 6) that "the federal government has a limited role to play in the ownership and management of Australian airports".

This paper proposes that the privatisation and gifting of airports has compromised the previous symbiotic relationship and mutually aligned objectives of local councils, hub airport operators and airlines in providing regional air services resulting in the creation of additional challenges for air service providers (airline operators). Traditionally, airports have been seen as publicly owned utilities, operated and subsidised by the government with the primary objective of facilitating the movement of passengers to serve the public good (DeNeufville, 1999; Humphreys, 1999) rather than engaging in profitable, customer-orientated commercial activities (Humphreys and Francis, 2000; 2002; Graham, 2003; Zakrzewski 2009). It is suggested that air service providers and airport operators' relationships need to be strengthened, so that together, the regional community benefits. This paper responds to the call for more research to be undertaken that was expressed by Baker and Donnett (2012) in their research on the regional air transport industry in Australia.

Airports in Australia were viewed, post the de-regulation of the air transport industry, as major tourism and trading gateways to large economic regions with a constant need for capital investment to meet growing domestic and international demand (Zakrzewski and Juchau, 2006; Zakrzewski, 2009). The commercial orientation and push for profit maximisation (Bowyer and Chapman, 2014) as well as the increased usage of the infrastructure asset requiring maintenance, appropriate management and funding applicable to (in particular) some regional aviation facilities (AAA, 2016) has led to a shift in the dynamics of the reciprocal relationship between the air service provider and the airport operators. Freestone and Baker (2010) determined that differences in planning goals between privatised airports and surrounding jurisdictions have created tensions and engendered controversy about airport operators engaging in 'middle of the market' aviation related uses. It is acknowledged that the presence of an airport can lead to prosperity for regional towns resulting in social and economic growth (Baker *et al*., 2015). The House of Representatives, Select Committee on Regional Development and Decentralisation (2018, p. 18) stated "all Australians have a universal right to basic services. Ensuring that regional Australia enjoys equitable access to services and amenities will encourage both regional growth and increased mobility to regional centres".

Nevertheless regional airports face challenges in maintaining and managing the infrastructure asset and are heavily dependent upon cross-subsidisation by local governments, that themselves face competing demands and limited financial resources (AAA, 2016, p.10). Recognised by the Senate Standing Committee on Rural and Regional Affairs and Transport (2019) "the Australian Government does not have a direct role in the daily operation, maintenance or development of local aerodromes, which are generally managed by local governments and other organisations” (para 1.35 p.6). This enables local airports to set their own prices, subject to council governance arrangements, in compliance with the *Competition and Consumer Act 2010*.

There is a discordant and unequal power relationship between the airport operator and air service provider as both key stakeholders face competitive operating pressures. This leads to the air service provider passing on the costs to the end consumers, and with it the regional communities, having to bear the burden of increased airfares, lower quality of service and reduced service availability.

The above brings into question the prime objective and traditional paradigm of operating and maintaining airports to serve the public interest while maintaining the necessary infrastructure for air service providers to engage in passenger facilitation.

2. BACKGROUND

Scholars (Hooper *et al*., 2000; Forsyth, 2003; Stevens *et al*., 2007; Bowyer and Chapman 2014; Graham, 2011, Littlechild 2018) have argued that free markets, privatisation and user-pays principles have resulted in increased efficiencies and improved services for consumers in metropolitan and regional areas within the air transport industry. Airports have been privatised on a global scale and particularly in Australia, as a means to provide capital to foster airport growth as airport management in the public sector has been dependent upon limited sources of federal government funding (Graham, 2011). Public sector funds became scarce for airport expansion due to the government focus on more politically advantageous targets such as education and health (Sharp, 1996; Murphy, 1996; McGhee, 1996; Hooper *et al*, 2000). Globalisation and deregulation of the air transport industry have prompted changes in the aviation sector due to the increasing demand for air transport. This resulted in the need for new infrastructure and also the adoption of a more business-oriented philosophy of airport operation (Graham, 2003).

The gifting of the smaller aerodromes under the Appropriate Level of Protection scheme in Australia supported the pre-privatisation objectives identified by Vasigh and Haririan (1996), Graham (2003, p.13) and Humphreys and Francis (2002). This included disposal of assets to lower the government’s budget deficit and to promote investment into other sectors, with the stated aims of fostering economic growth and development. It was believed that airlines and the general public would profit from a wide range of commercial services. The airport operator (once in the private sector) was expected to generate more return on investment, dependent on their long-term plans and expansion strategies and assuming the overall airport business was to run as a profitable business (Sharp, 1996).

Infrastructure Australia (2019) referred to regional airports holding a social license over social infrastructure assets to help support and grow the regional economic stimulus for regional Australia. Baker *et al*. (2015) provided evidence on the value of regional aviation and found that airports have an impact on regional economic growth. Hence, regional communities in Australia not having access to types of services, such as inbound and outbound tourism, fly-in fly-out services for aeromedical transport, aerial firefighting and freight (AAA, 2016) is disadvantageous for communities from an economic and social perspective.

Due to the interdependent symbiotic relationship between stakeholders at regional airports, one would expect to see consistency in meeting the expectations and demands of stakeholders, as an airport cannot co-exist without airlines. Nevertheless in respect to regional air transport in Australia the Regional Aviation Association of Australia (RAAA) members' experience of "airports since privatisation has been largely negative, with some exceptions" (p.5). It is therefore vital to investigate regional air service providers' ability to serve regional communities in Australia. This is explored in this paper with a focus on a) predicaments that regional air service providers face when dealing with regional council-operated airports (i.e., under the ALOP scheme 1984 gifted Australian regional airports); and b) other regulatory challenges affecting the operational efficiencies to provide service to regional Australia. The regional air service providers' relationship with larger scale regional and capital city privatised airports is likewise addressed, singling out causes of the diminishing rapport between the air service providers' dealings with airport operators. Capital city and hub airports are mentioned in the discussion, as it is these airports that link regional commuters to services and desired destination goals in metropolitan cities.

3. METHOD

The challenges that the Australian regional air transport industry faces were identified from publicly available documents relating to regional aviation, including submissions to the Productivity Commission on the economic regulation of airport services in Australia in 2006, 2012 and 2018.

Secondary data in the form of submissions made by key regional air-service stakeholders was grouped and analysed using a thematic and interpretative approach. The data mining software package Leximancer assisted the textual data analysis. Regional air-service stakeholders were collated into two types as tabulated below (Table 1) and their submissions analysed using conceptual and thematic analysis.

Table 1. Grouping of Regional Aviation Stakeholder Submissions to the Productivity Commission Inquiry 2006-2018.

Group A: **Submissions made by regional airport operators (government), hub airports (capital city and other major airports) and industry groups**	Year of Productivity CommissionInquiry	2006	2012	2018
	# of submissions	11	24	18
Group B: **Regional Air-Service Providers and Industry Groups**	Year of Productivity Commission Inquiry	2006	2012	2018
	# of submissions	10	8	9

Source: the Authors.

First, a conceptual analysis was undertaken to discover the presence, frequency, strength and definition of key concepts from all data sets. The data sets consisted of Group A submissions made in 2006, 2012 and 2018 by regional airport operators and hub airports (which consist of capital city airports and other major airports) and their industry groups to the government inquiry led by the Productivity Commission on the economic regulation of the air transport industry. Group B submissions were made by the key air service providers in Australia. The 2019 Senate Standing Committee on Rural and Regional Affairs and Transport report (p. 10), following air-service provider submissions, were considered as regional air services in Australia are provided by a number of larger operators, including QantasLink, Virgin Australia, Rex Airlines, Alliance and Airnorth. A number of smaller regional air operators are also located across Australia, including Fly Tiwi, King Island Airlines and FlyPelican.

First, submissions were analysed and examined separately by group. Second, relational analysis was used to assess the prevailing challenges and the impact that deregulation of the air transport industry has had on the airlines especially those servicing regional communities.

4. RESULTS AND DISCUSSION

Australians in regional and remote communities require reasonable access to air services to major cities and other key centres. There has been a high attrition rate in the regional aviation industry. Over the period 1980s to 1990s more than 73 domestic airlines went into demise through liquidation, bankruptcy, receivership, or merger, or were subject to takeover (House of Representatives Standing Committee on Transport and Regional Services, Regional Aviation and Island Transport Services 2003, pp. 8, 17). Between 1984 and 2008, regional airports served by scheduled airlines fell from 278 to 138 (BITRE, 2009, p. 5) and again to 24 in 2011 (RAAA, 2011).

Discussed in this analysis is the viability of regional air services. The well-being of regional and remote communities is threatened by the difficult relationship between the airport operators and air service providers. This is evidenced by increased airfares due to increased taxes and charges imposed on air service providers by council operated and hub airports. The findings point to a criticism on the management and maintenance of local airports.

The analysis proceeds by examining the submissions of Group A and B to draw conclusions about the extent of, and reasons for power plays between the air service providers and airport operators, be it regional or hub, and the consequences on regional communities. The findings are broken up into two sections.

First, the challenges that regional air service providers face are highlighted regarding enabling passenger facilitation from regional communities to metropolitan areas. Second, the complex rapport between Australian airport operators and air services providers is discussed. Thereafter, recommendations about how the present challenges for regional aviation in Australia could be mitigated and overcome are stated.

The Challenges that Air Service Providers Face in Servicing Regional Communities

According to the Australian Local Government Association (ALGA, 2019, p.3), there are over 200 regional and rural airports and aerodromes throughout Australia, owned and operated by local governments. A recurring theme in the submissions from 2006-2018 was the air service providers (Group B) questioning the regulatory framework and proposing that there was a lack of effective independent oversight (monitoring) of regional council run airport operators' as well as hub airports operational and commercial orientation.

In July 2002 a 'light-handed' regulation regime was introduced to avoid unwarranted price increases for aeronautical services at seven major Australian airports to encourage mutually acceptable commercial agreements between airports and airlines (Productivity Commission, 2011). These consisted of price monitoring of the charges for aeronautical and related services at Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney airports by the Australian Consumer and Competition Commission (ACCC). However, post the Productivity Commission Inquiries into airport economic regulation in 2006 and 2012, only four airports (Sydney, Melbourne, Brisbane and Perth) remained and are still monitored annually by the ACCC in accordance with the *Airports Act 1996* and *Competition and Consumer Act 2010.* The light-handed price-monitoring regime means that regional, local and other larger scale airports are excluded from price monitoring. Having only four of the seven major capital airports being monitored questions the role of the government, and the policies to ensure adequate regulation of the Australian air transport industry. The aftermath of this regime on regional aviation has a negative effect on regional airlines negotiating power for all facilities and services at non-monitored airports. Respondents in Group B perceived that regional and local airports have become natural monopolies, adopting authoritarian approaches to commercial practices of charging lease terms, access and investment decisions (Regional Airport Users Action Group, 2018, p.6). Air service providers have been subject to excessive airport charges, particularly in areas not captured by the definition of aeronautical (versus non aeronautical) charges; claiming that monopolistic airport operators have no intention of engaging in commercially constructive ways with airport users. This was supported by the Airlines for Australia and New Zealand group (A4ANZ, 2018b, p. 14) who observed that: "monopoly airports are exerting market power – including both capital city and regional airports". A4ANZ (2018b, p. 13) also provided examples where some regional airports had given airlines less than three months' notice when increasing head taxes (charges) arguing that it is not only large capital city airports that exercise market power.

Other submissions implied that local council-operated airports have adopted a cost-plus approach to their charging regime with limited financial transparency of how aeronautical revenue streams are recorded.

It was acknowledged by Group A and B that the capital city and other major airports (hub airports) have benefited from increased throughput from domestic and international air travel, which in turn has led to increased aeronautical revenue streams (flight movements as well as passengers) and with it the accompanying non-aeronautical revenues from retail activities and car parking. However, regional airports have also experienced a growth in passenger numbers. According to the Bureau of Infrastructure, Transport and Regional Economics (BITRE, 2019, pp. 1; 23) the number of domestic aviation passengers travelling through regional airports was 24.92 million in the year ending December 2018. However, as the following example shows, market trends cause volatility within the aviation sector. The Department of Infrastructure, Transport, Regional Development and Communications (2020, p. 19) stated that the Australian tourism and regional aviation sector is currently facing its biggest challenge in living memory. Reference was made to the 2019 bushfire crisis and coronavirus outbreak as two of the biggest blows the aviation industry has ever faced.

This confirms the airport operators' pursuit of the Bowyer and Chapman (2014) 'airport-as-an-enterprise' paradigm, accentuating airport operators functioning as entrepreneurial businesses meeting the needs of diverse clientele, consisting of airlines, passengers, staff, neighbourhood communities, airport tenants and others. It also demonstrates the volatility and vulnerability of the industry in recent times. The analysis of the submissions demonstrated that the capital city airport operators were referred to in various public comment submissions in 2018 which highlighted 'excessive' profits, with some of the major airports more than doubling their profits over the past decade. This was paid for in real terms by the travelling public as indicated in the Australian Competitionn and Consumer Commission (ACCC) Airport Monitoring Report 2017-2018 (ACCC, 2019).

Major Australian air service providers (Group B) emphasised that the airport operators' investment in infrastructure and passing on the costs is evidence of airport operators exercising their market power. Increased charges mean higher airfares, which impacts the viability of the air service providers. This contradicts the provision of such services to regional and remote Australia; the Senate Standing Committee on Rural and Regional Affairs and Transport (2019) asserted that "regional communities are calling for lower fares and improved services". Regional commuters often have no choice but to access, via airports, services such as health or education. Individuals from regional communities often must fly into and out of a hub airport. This Leads to questions related to the impact that ALOP and the privatisation of the capital city airports has had on the provision of air services to regional communities and the role that the government plays in effective monitoring and regulation of the air transport industry.

Chapman and Zakrzewski (2008) support Jones and Fleming's (2003, p. 435) view that "stakeholders (in the air transport industry) often do not have equal power due to differentials in resource control, ownership, ability to voice interests and so forth". This power relationship allows discrimination of particular sectors of the community. The A4ANZ (2018a) submission, on behalf of the air service providers, acknowledged that it is predominantly the capital city airports but also certain regional air operators that are accused of acting as monopolies with little regulation and no transparency as they fix landing charges and increase airport charges as they choose. This leads to conflicts and tensions in their symbiotic relationship.

Figure 1 presents a graphical representation of the challenges that regional aviation is confronted with as identified in the public comment submissions from 2006-2018. Airlines that serve regional routes have strong incentives to reach agreements with airport operators (regional and hub) as they often have no choice and are captive due to their interdependent relationship. These include the ongoing debate between the two stakeholder groups regarding the lack of financial transparency and uneven stakeholder power distribution when it comes to negotiations and the hidden costs borne by air service providers.

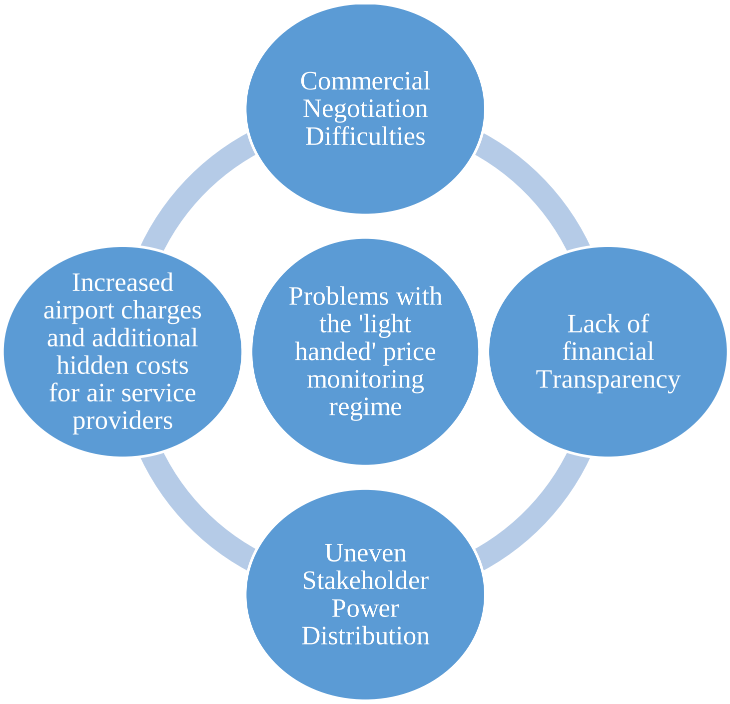

Figure 1. Challenges for Regional Aviation at Hub and Regional Airports. Source: the Authors.

The Complex Relationship of Australian Airport Operators and Air Service Providers

The complexity of the affiliation between air transport stakeholder groups (Group A and B) was derived using a relational conceptual analysis of the submissions. Leximancer conceptual maps illustrate the connectedness of the themes: Figure 2 shows the key findings as related to Group A (airport operators); Figure 3, illustrates the connectedness of concepts and thematic display for the air service providers (Group B).

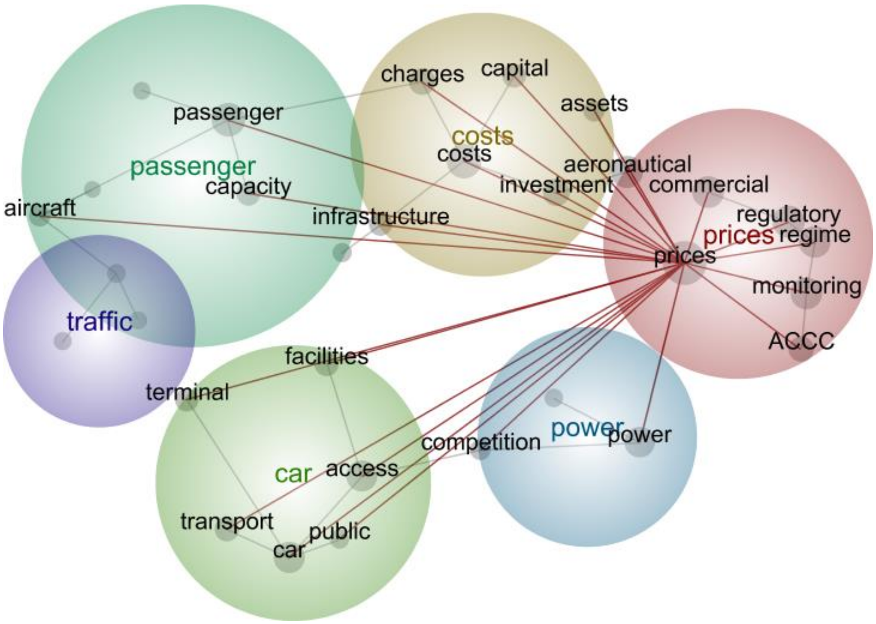

Figure 2. Airport Operators (Group A). Source: the Authors.

As shown in Figure 2, the airport operators' (Group A) submissions focused predominantly on their commercial investment pursuits and expansion strategies. These were exemplified in the submissions as infrastructure development, facilities and land expansion to improve passenger experience. Growth in non-aviation activities was highlighted by the development of retail outlet centres and by ongoing expansion of extra office space; new retail and accommodation facilities as well as enlargement of car parks at Australia's hub airports. Airports have adapted a cost-plus model, meaning the airport sets prices for landings and terminal space that are passed on to the airlines and in the end airport costs are passed on to the passenger if the airline is to survive. O'Sullivan and Hatch (2018) reported that the ACCC identified that passengers are paying higher airfares than they should because of the high fees the country's four largest airports impose on the airlines. It is thus air service providers (airlines) and the watchdog (the ACCC) asserting that airport operators have become monopolies controlled by private interests with little regard for the welfare of airport users and communities. The stated aims of deregulating the Australian domestic aviation industry in the late 1980s were to encourage increased responsiveness to consumer needs by airlines; a wider range of fares and types of services to provide greater opportunities to travel; increased competition and flexible pricing, leading to greater economic efficiency in the industry; and the continuation of Australia's world-renowned safety record. These privatisation objectives were aligned with the original Australian government privatisation objectives as specified by The Hon. John Sharp MP Minister for Transport and Regional Development (Sharp,1996). Changes in Australian airport ownership have had an impact on the operations of airport stakeholders, as highlighted by Bowyer and Chapman (2014) changing from focusing on passenger facilitation towards a commercially driven 'bottom line' approach.

Sydney Airport has been named in multiple circumstances by airlines and other infrastructure providers. These stakeholders have described a "frustrating experience in trying to negotiate any contract and/or new price" (Bowyer and Chapman, 2014). This is further illustrated in submissions made to the Productivity Commissions (2012 and 2018) reviews on airport pricing and economic regulation of the air transport industry in Australia. This paper argues that the interests of key stakeholders (airlines) are secondary to the profit motive of airport operators.

Airports are a vital component of a nation's air transport system. The findings from the analysis have shown that airport developments over the years were essential to meet the dynamics of the global air transport industry, particularly as traffic was expected to double between 2002-2020 according to the Airport Council international (2005). This supports claims by Francis, *et al*. (2006) and Thomson (2005) that the pressures for change in the air transport sector were driven by the large cost of infrastructure to accommodate the forecasted long-term growth of traffic. It is this conflicting view regarding non-aeronautical developments at airports that caused tension and power conflicts between airport operators and air service providers, with the passengers having to bear the cost.

The air service providers (Group B) believe airport operators (regional or hub) as having market power. Other factors that affect the relationship with the operators, as depicted in Figure 3, relate to the airport operators focus on capital investment in assets and access to various services controlled by operators for the air service providers to be able to pursue their primary operating activities. The findings highlighted increasing costs related to passenger-movement and are passed on based on the user-pays principle. Hence, the effectiveness of the 'light-handed' regulatory regime and the independent but diminishing role of the ACCC is questioned by this stakeholder group.

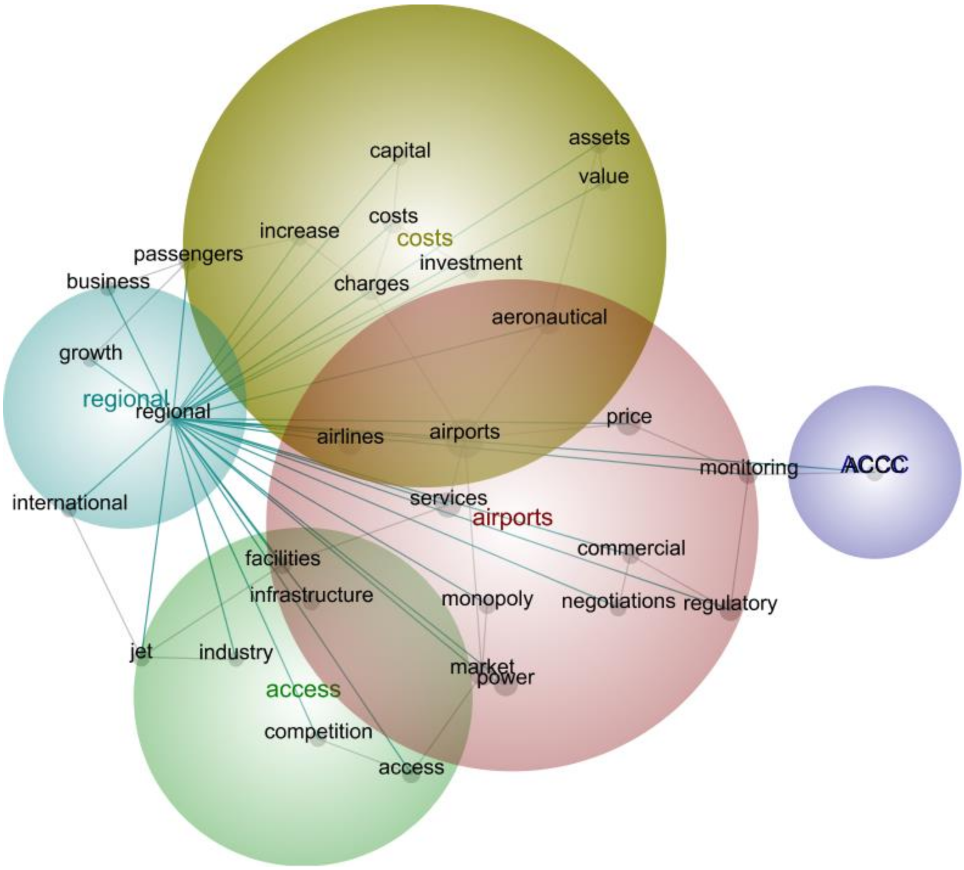

Figure 3. Air Service Providers (Group B).). Source: the Authors?

The Australian government recognised the potential and possibility of monopolistic behaviour by private airport operators and introduced the ‘light-handed’ regulation regime in Australia prior to the privatisation of Sydney airport. Gerber (2002) also claimed that privatisation must be undertaken as a politically active process, with government to set up a regulatory framework which balances the interests of the various stakeholders, protects the users and creates a basis for partnership to enable growth (p. 33). Nevertheless, the ‘Iight-handed’ regulatory regime did not constrain airport operators from increasing charges as they desired. Lohman and Trischler (2017) found that despite airports possessing significant domestic market power, the ‘light-handed’ approach is applicable when there is competition and an airline duopoly. In July 2002 (post-Sydney Airport privatisation) the 'light-handed' regulation regime was introduced to prevent unwarranted price increases for aeronautical services at the seven major Australian airports. This price monitoring regime handed the responsibility of monitoring prices at these airports to the ACCC. The intention was to encourage mutually acceptable commercial agreements between airports and airlines. Yet the experiences of airlines suggest that this objective is not being met by price monitoring.

The 'light-handed' price monitoring regime has been considerably watered down by successive Productivity Commission inquiries and in the opinion of the ACCC failed to stop the abuse of monopoly power. The ACCC highlighted, in its Airport monitoring report 2015-2016 (ACCC 2017, p. 1), the failures of the regime, noting that price monitoring is unable to "restrict the airports from increasing prices and allowing service quality to decline"; flagging concerns about the demonstration of market power by the monitored airports. The ACCC was charged with providing reports on the price monitoring regime and has made recommendations over the years which seem to have been ignored by government. Hence, the ACCC jurisdiction has been questioned by the air service providers. As an example, Rex Airlines took the case of discriminatory charges levied against it by a regional airport to the ACCC, but was told that they had no jurisdiction as the airport was not in competition against them (RAAA, 2018). This raises the question of whether airport operators have become monopolies and are protected by the very fact that there is no competition.

The ACCC reports aeronautical and non-aeronautical revenues, costs and assets separately; referred to as the 'dual till' approach for the price monitored airports (Productivity Commission, 2019). Privatisation has reduced the number of airports in Australia being monitored to only four; giving the remaining airports flexibility in their reporting practices with no mandated oversight. Airport operators do profit from both aeronautical (operation related) and non-aeronautical (commercial related) revenues. Revenues from price monitored airports have grown since 2002 with more than half of revenues generated from the provision of non–aeronautical services (ACCC, 2009). There is transparency for the monitored airports (Sydney, Melbourne, Brisbane and Perth) requiring them to produce 'dual till' accounts, seperating aviation and non-aviation revenues. Being public companies, all airport operators publish a full set of accounts disclosing their revenue collection. Air service providers have questioned the acceptance and tolerance of the monopoly profits by government and why it is sanctioned by regulators and the Productivity Commission. Moreover, a further problem identified in submissions of Group B since 2006 is the reluctance of the non-monitored and council operated airports to engage in financial transparency. The role of the government post-ALOP and privatisation should have ensured a continuing presence in monitoring of the commercially driven approach and operational outcomes of private interests whilst undertaking the role of 'watchdog' over public and social interests (Zakrzewski, 2009).

Airport users (i.e. petroleum providers (BP and Shell); Qantas; Rex Airlines ; VirginBlue—just to name a few) over the years have emphasised in their submissions that airport operators (that are not price monitored) fail to negotiate reasonable terms and conditions in terms of slots, hubs, fuel throughput charges relating to their day to day business operations. The RAAA (2018, p. 15) on behalf of its members pointed out that despite the provision of the *Competition and Consumer Act 2010* in theory providing some protection, in practice it does not as regional air service providers do not have the financial resources or time to carry out any legal proceedings. The Virgin Australia group submission (Virgin Australia, 2018, p. 19) highlighted that "airports will in some cases seek to impose other non-price terms of access which are particularly onerous on airlines and out of proportion with the legitimate commercial interests of the airport."

Airlines such as Rex Airlines, Virgin Airlines and Qantas see airport operators as monopoly providers undermining cost cutting efforts. Virgin Blue's (2006) negative experience of unwillingness by capital city airports to negotiate take-off and landing charges emphasises that independent dispute resolution is required to ensure efficient commercial negotiations between airlines and airports. For example, in public disputes between Virgin Blue and the Sydney Airport Corporation Limited (SACL), the Tribunal found that SACL's move from weight base charges to per passenger charges for take-off and landing was an abuse of market power (VirginBlue 2006, p. 20). Alternatively, airport operators argue that the existing flexible pricing regime assists in dealing with resource constraints and enhances commercial relationships with airlines (SACL, 2006).

Findings from the Productivity Comission submissions emphasise that the lack of space at some airports has created post-privatisation predicaments relating to stakeholder location on airport premises and the conflicting views of aeronautical versus non aeronautical expansion of airport land. Limited capacity on the airport site restricts development, whether it be commercial or aeronautical, to support traffic growth and increased passenger volumes. The longitudinal analysis of the submissions revealed a conflict between airport users and operators over how a privatised airport should be developed and monitored and how Australian airport operators pursue excessive non-aeronautical expansion (use) of airport land and development. For instance, Rex Airlines (2006, p. 14) expressed a belief that Sydney Airport was adopting the approach of a real estate developer rather than behaving as an airport. VirginBlue (2006, p. 9) also argued that it has been "forced to absorb increased airport charges due to competitive constraints in markets for air travel, and has had to find productivity improvements and/or forego investment elsewhere in order to offset these cost increases".

The argument thus prevails that if the government shifts from the role of regulator to watchdog (post-privatisation), enabling private enterprises to manage and account for their own productivity and growth, the government demonstrates its belief in the efficiency of private enterprise and that market forces can reduce the need for government control through privatisation programs. This contradicts the public welfare argument raised in this paper and that cannot be ignored in the privatisation of state-owned assets, in particular airports. There is public interest in airport operations (service offerings, price and accessibility of the service) and full airport privatisation, or the gifting of airports to local governments inexperienced in managing such assets is questionable.

The airlines (Qantas, Rex Airlines and Virgin Australia) in their submission in 2018, together with their industry lobbying groups (RAAA, 2018; A4ANZ, 2018a), have stipulated that the current monitoring regime is limited to the four largest airports, and therefore ignores abuses of market power at other capital city and regional airports. VirginBlue (2006, p. 11) and others consider that monitoring should be extended to all Australian Capital City Airports; and regional airports that have more than 1 000 000 regular public transport passengers per year. The AAA (2018, p.7) "believes much of the friction that occurs from time to time in the negotiating process is because there is a misalignment of expectations of negotiating parties". The A4ANZ, established in 2017 to represent airlines based in Australia and New Zealand (including Air New Zealand, QANTAS, Virgin Australia, Rex Airlines , Jetstar and Tigerair) and wanting to ensure fair-play between the stakeholders, proposed "the introduction of an airports-specific regulatory framework [that] could be approached by amendments to the *Airports Act 1996* and Airport Regulations 1997" (p.20) and that final offer arbitration (FAO) be put in place to resolve disputes between airports and airport users (A4ANZ, 2018b, p. 21). Yet this proposal has not been welcomed by airport operators (AAA, 2018, p. 6). This again questions the relationship between the stakeholders and also the role of the government in advocating a public inquiry on the economic regulation of the Air Transport Industry.

Schneiderbauer and Feldman (1998) have pointed out that only a few observers believe airports could be privatised and even fewer predicted their success. Accountability and public welfare were, according to Vasigh and Haririan (1996) and DeNeufville (1999), the pre-privatisation prime concerns. Other concerns related to the acceptability of public utilities, with public service obligations being profit driven; private operators not improving infrastructure and services, and the commercial orientation of airports. Further doubts related to airport security, incentives of the private sector for long-term investments and corporate strategy driven by the bottom line rather than the prime focus being on passenger facilitation. Government should have remained as a major stakeholder through regulation and participated in the control of an airport to ensure accountability to the public. One negative example was illustrated in Melbourne's Tullamarine Airport (APAM) having been cited in submissions (2018) made by air service providers as "a cheat and a fraud as it accepts 61 movements an hour on a runway that could take only 50 movements. It not only cheats the new entrant by promising a service it knows it cannot deliver, it is also cheating the other 60 existing customers by increasing the delays that they will have to bear. Rex Airlines stated strongly that the actions of APAM is an extreme abuse of its market power and both morally and ethically reprehensible" (Rex Airlines, 2018, p.16).

Thus, competition is vital in the air transport industry and signifies that air service providers that have viable alternatives and countervailing power may have greater commercial negotiation success. This then questions the power regional airlines hold when servicing regional routes and communities. Rex Airlines emphasised in their submission (Rex Airlines, 2018, p. 18) that the continued access "by regional airlines to Capital City Airports remains critical to the sustainable provision of regional air services due to the essential nature of regional air travel".

Regional airlines experience problems of pricing and access when negotiating with Council-operated regional airports. Regional airlines headquartered at (for example) Sydney Airport enjoy some advantages as a regional operator. Regional slots at Sydney Airport have been ring-fenced and guaranteed for regional flights (RAAA, 2011; 2018). However, regional airlines and in particular Rex Airlines has experienced major problems to do with access to and pricing of facilities that do not fall under the narrow definition of aeronautical services (Rex Airlines, 2006; Rex Airlines, 2018). These facilities include passenger lounges, hanger space, car parking and office space, which even though defined as non-aeronautical are still necessary to run an airline at major hub airports.

It is apparent that regional aviation operators are concerned about government decisions impacting their cost structures and from their viewpoint are uncontrollable, potentially devastating their own cost-cutting and sustainability efforts. The availability and retention of engineers and pilots has become a major challenge in Australia. To maintain and retain proficiency of skilled staff, training costs can be significant. Pilots especially must be endorsed on aircraft types and are subject to ongoing proficiency checks in equipment that is expensive to use. The situation is exacerbated for regional airlines because existing employees may tend to move to bigger airlines as airlines in Australia are competing for labour. Additionally Civil Aviation Safety Authority (CASA), and the charging structure of Airservices Australia, particularly for Aviation Rescue and Fire Fighting (ARFF) services, presents particular challenges for regional aviation. This calls for further research addressing impact and price volatility of government departments on sustainable regional aviation.

5. RECOMMENDATION AND CONCLUSION

The provision of regional airports and associated aviation services provides a significant development impetus and helps to encourage development and business investment. Current regulatory arrangements, as evidenced by Productivity Commission (PC) inquiry submissions, strongly suggest that it cannot be presumed that airports are investing the right amount in the right things, as airports face incentives to invest inefficiently (A4ANZ 2018a, p. 23). Rural and regional airports are seen as regional entry gates for business and industries supporting ongoing economic development (DITCRD, 2017). Baker *et al*. (2015) report airport operators' impact on regional economic growth, confirming the importance of airports for regional councils. Philosophical differences regarding the provision of aviation services, apparent in government policies at Commonwealth, state and local levels, potentially impact on the supply of regional services (AAA, 2016; ALGA, 2019).

The industry has experienced a high attrition rate in recent decades as highlighted by the Senate Standing Committee on Rural and Regional Affairs and Transport (2019), many regional air service providers have ceased operations and Regional Express (Rex Airlines) (Section 1.52, p.9)) acknowledged that in the past 16 years, passenger numbers doubled to 1.2

million annually, while over the same period 20 other regional airline operators ceased operations. The RAAA (2018, p. 14) stated "the Commonwealth Government's ongoing ownership of the major privatised airports, as owner and lessor, should ensure that the airport network continues to operate efficiently and effective mechanisms are in place to guarantee regional access into the future."

The viable provision and long term survival of regional air services, despite the economic realities of regional Australia, depends on passenger volume which impacts on affordability of airfares. Australia has many marginal routes because of low population densities and passenger numbers are often insufficient to sustain profitable services to many regional destinations.

However, the regional airport operators often perpetuate uncertainty with little or no notification, or consultation with airlines when landing charges (head taxes) are raised. Baker and Donnet (2012), AAA (2016), and the Regional Airport Users Action Group submission (2018, p.6) highlighted "there are examples of poor decisions because of the lack of knowledge, experience and capability of local authorities in airport management and development". Local governments often lack the skills and knowledge for efficient airport management. Lack of transparency and consistency in the disclosure of aeronautical revenues by local government is hence of concern.

The recommendations are thus twofold and address a) changes needed in policy and government support to help mitigate the issues that regional air service provider's face and b) suggestions to support and strengthen the relationship between regional air service providers with regional airport operators that together benefit regional communities.

Recommendation A:

The viability and long-term survival of regional airlines in Australia is threatened not only by thin populations and marginal routes but by challenges arising out of conflicting political philosophy. Government at all levels and persuasions in Australia accept that there are significant economic benefits associated with development of regional areas and that accessibility for regional and remote communities is a matter of general equity. The costs of regulation however impose challenges on regional airline performance and profitability.

Australian air transport policy is primarily focused on the large market players (airlines and airports) disregarding to an extent the smaller players and the support needed in terms of air transport infrastructure in regional

Australia. It is therefore suggested that a more integrated and consultative approach between federal, state and local government, the air service providers and their industry representatives is promoted to ensure that policy changes reflect the fast paced changes in the Australian air transport industry.

Recommendation B:

The privatisation and gifting of airports has created business monopolies and an inequality of bargaining power between airports and airlines, which are completely dependent on airport infrastructure. It is in the interest of regional air service providers to strengthen their relationships with regional airport operators and communities whilst pursuing acceptable returns. Such partnerships would enhance profitability for air service providers while adding community value. It is recommended that local government has a consistent and transparent approach in reporting and accounting for aeronautical revenues. Benchmarking exercises should be conducted to determine best practice, how regional airport operators account for revenues and expenditure of airport operations under their control.

Future research investigating various strategic management frameworks that would assist in building sustainable partnerships and cooperation between a commercial entity and local government is required. Further research prospects are evident in areas including customer profiling, port profitability, and assessment of benefits to communities by building sustainable regional air services in partnership with Councils.

This paper argues that airports and airport providers should consider communities needs and particularly, the needs of the disadvantaged. Local council operated airports should evaluate the needs of their communities when setting prices. Government intervention may be required to provide additional financial support, but without action sections of the community will be negatively impacted by inequitable pricing, highlighting the need to support regional communities and provide greater access to services.

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