

**Bec McCoan**

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**From:** Jennifer.M.Grace@tmr.qld.gov.au on behalf of Neil.Z.Scales@tmr.qld.gov.au  
**Sent:** Thursday, 13 December 2012 2:27 PM  
**To:** Campbell Newman  
**Cc:** Steve Minnikin; Tony Meredith  
**Subject:** TMR Brief\_Regional Air Services  
**Attachments:** Briefing note\_Regional Air Services.doc; Attachment 1\_MBN16181.pdf

Good afternoon Premier

Attached is the Transport and Main Roads briefing on Regional Air Services

*(See attached file: Briefing note\_Regional Air Services.doc)(See attached file: Attachment 1\_MBN16181.pdf)*

*sent by Jennifer Grace, Office of the Director-General*

Kind regards,

**Neil Scales**  
A/Director-General (Transport and Main Roads) | Executive Directorate  
**Office Of The Director-General** | Department of Transport and Main Roads

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Floor 13 | Capital Hill | 85 George Street | Brisbane Qld 4000  
GPO Box 1549 | Brisbane Qld 4001  
P: (07) 30667316 | F: (07) 30667122  
E: [neil.z.scales@tmr.qld.gov.au](mailto:neil.z.scales@tmr.qld.gov.au)  
W: [www.tmr.qld.gov.au](http://www.tmr.qld.gov.au)

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## Briefing Note

Date 13 December 2012

**To** Assistant Minister for Transport and Main Roads

**Copy to**

**Subject** Regional Air Services

### Background

- Queensland currently has 10 regulated routes operated by QantasLink, SkyTrans and Regional Express (REX). Five of these air services are also subsidised by the Queensland Government.

Route	Current Contract Holder	Regulated	Subsidised
Central 1: Brisbane-Roma-Charleville	QantasLink	Yes	No
Central 2: Brisbane-Blackall/Barcaldine-Longreach	QantasLink	Yes	No
Horn Island: Carins-Horn Island	QantasLink	Yes	No
Weipa: Cairns-Weipa	QantasLink	Yes	No
Northern 3: Townsville-Cloncurry-Mt Isa	QantasLink	Yes	No
Gulf: Cairns-Normanton-Mornington Island-Burketown-Doomadgee-Mt Isa	SkyTrans	Yes	Yes
Western 1: Brisbane-Toowoomba-St George-Cunnamulla-Thargominda	SkyTrans	Yes	Yes
Western 2: Brisbane-Toowoomba-Charleville-Quilpie-Windorah-Birdsville-Bedourie-Boulia-Mt Isa	SkyTrans	Yes	Yes
Northern 1: Townsville-Winton-Longreach	Regional Express	Yes	Yes
Northern 2: Townsville—Hughenden-Richmond-Julia Creek-Mt Isa	Regional Express	Yes	Yes

**Department of Transport and Main Roads**  
Office of the Director General  
Level 13  
85 George Street  
Brisbane 4000

Enquiries Enquiries  
**Telephone** +61 7 3066 7112 Phone  
**Facsimile** +61 7 3066 7122 Fax

- Current contracts with regulated air service providers are due to expire in March 2013. These contracts commenced in April 2008, following a competitive tender process. It is understood that Virgin did not tender for services at this time.
- Regulation of air services is required to guarantee a minimum service level for rural and remote communities, which are included in the relevant contracts.
- The Department of Transport and Main Roads (TMR) has commenced a review of the government supported long distance passenger transport (all modes) network to identify potential efficiency savings and examine whether regulation of routes is still required.
- The scope of this review includes air services, long distance coach services and long distance passenger rail services, to determine the most effective way to service regional and rural communities throughout Queensland.
- A briefing note was provided to the Minister for Transport (MBN16181) in August 2012, including a number of options to extend current air service contracts to allow for the regional network analysis to be undertaken. This is included as Attachment 1.
- The recommendation to extend current air service contracts to December 2014 was approved, to allow sufficient time for a comprehensive review to be undertaken.
- TMR wrote to the three current regulated air service providers (QantasLink, SkyTrans and Regional Express) in October 2012, with an offer to extend the current contracts to December 2014.
- A briefing on the regional network analysis, including aviation contracts, was provided on 28 November 2012, to a range of affected government members. The briefing was attended by the Member for Gregory, Member for Cook, Member for Warrego and Office of the Deputy Premier (all attended Members were invited to the briefing).
- QantasLink and Regional Express have both responded to TMR and accepted the extension to December 2014. SkyTrans has not yet accepted the offer of an extension and has sought to renegotiate the current subsidy for their services.

#### **Comment**

- Virgin Australia has raised concerns about the current regulatory restrictions which prevent entry to some air services in Queensland now that these services are mature, particularly the service from Cairns to Weipa, and Brisbane to Roma. Both of these services are currently provided by QantasLink.
- Virgin Australia claims that regulation of these routes is no longer required due to growth in patronage and current economic activity in these regions.
- While patronage on these routes has grown in recent times, the current regulatory regime needs to be carefully assessed to determine whether competition can be sustained on these routes and minimum service levels provided to these communities.
- The failure of critical community air services was experienced in January 2009, when MacAir went into receivership. This affected services to the Gulf, Longreach, Mt Isa, Thargominda, Toowoomba, Charleville and a number of other communities on these routes.
- The extension of current regulated contracts to December 2014 is required to allow sufficient time to undertake economic analysis and coordinate a tender process in the circumstances where the state will be required to continue regulation, which is expected to be the case for many of these services.
- Economic analysis will be undertaken on regulated air routes to determine current market structures, market boundaries and socio-economic profiling of towns and cities to determine the potential impacts of competition.

- TMR has requested legal advice in relation to an offer made by the department to extend the Brisbane-Roma-Charleville route to QantasLink. As QantasLink has accepted that offer, the advice indicated that TMR is unlikely to be able to unilaterally withdraw its offer without this conduct being perceived as a repudiation of TMR's obligations under the service contract. If the contract were terminated, then the unexpired term would be paid out by TMR.
- If TMR no longer wishes to extend the QantasLink service contract, or portions of that contract, legal advice has recommended that this should be achieved by way of a negotiated outcome with QantasLink.
- While Virgin has expressed a desire to compete on a number of regulated air routes, it is expected that the establishment of services may take some time, due to the mobilisation of aircraft, terminal facilities and regulatory approval with Commonwealth aviation authorities.

#### **Recommendation**

- That you note the basis for extension of regulated air service contracts to December 2014.
- That you note the risk to minimum service levels for rural and remote communities in the event that regulation is removed without the necessary community impact assessments.

Enc (1)

RTI RELEASED

**Department of Transport and Main Roads  
Decision Brief  
MBN16181**

**To:** Minister for Transport and Main Roads

**Date:** 30 July 2012

<b>SUBJECT:</b> Review of contracted long distance passenger transport services	
<b>REQUESTED BY:</b> Departmentally generated	<b>Due date</b>

Approved / Not Approved

Minister 

Date 31/8/12

**Recommendations**

- That you approve that the Department of Transport and Main Roads (TMR) extends the current air and long distance coach contracts until December 2014 to allow a review of existing long distance services (Option 1).

**Background**

- TMR regulates and/or subsidises certain rail, air and long distance coach services.
- In 2011-12, TMR provided over \$176m in subsidies for these long distance passenger services - around \$8.7m (excluding GST) for air services, around \$3.4m (excluding GST) for long distance coach services and around \$164m (excluding GST) for long distance passenger rail services.
- All of the current long distance coach contracts will expire on 31 December 2012. The current air service contracts all expire on 31 March 2013 and the current long distance rail contract expires on 30 June 2013.

Action Officer:	Endorsed by:	Endorsed by:	Endorsed by:	Endorsed by:
Chris Basche Director (Contract Management & Service Delivery) Passenger Transport Division Tel: 3167 4672 (w) CTPI Date: 19 July 2012 MBN16181	Rose Kent Executive Director (Regulations & Contracts) Passenger Transport Division Tel: 3167 4380 CTPI Date: 20 July 2012	Ryan Huelin General Manager (Passenger Transport) Passenger Transport Division Tel: 3167 4634 (w) CTPI Date: 30 July 2012	Mark Cridland Deputy Director-General (Policy and Planning) Department of Transport and Main Roads Tel: 3306 7920 (w) CTPI Date: 6/8/12	Michael Callabiano Director-General Department of Transport and Main Roads Tel: 3306 1121 (w) Date:

### Issues

- Queensland Treasury has provisionally requested a review of the government supported long distance passenger transport network to identify potential efficiency savings and examine whether regulation and all contracts are still required.
- The rollingstock used on western rail services is currently scheduled to be retired at the end of 2014 unless a major refurbishment is undertaken. Queensland Rail is not yet able to confirm to TMR if the current retirement date can be extended. If the retirement date is unable to be extended, a decision will be required on refurbishment prior to this proposed review being completed as it is possible that the review may provide options recommending changes to western rail services.
- TMR intends for these contracts to align with other bus contracts across the state.

### Future Steps

- Please refer to Attachment 1 for further detail on the options.

#### Option 1 (preferred option)

- Extend the current air and long distance coach contracts to 31 December 2014 to allow sufficient time for a comprehensive review to be undertaken. This review will:
  - assess the potential to optimise efficiency and to achieve better use of government's investment in long distance services
  - consider a range of existing long distance rail issues, including concession funding, rolling stock renewal and opportunities for rationalisation.

#### Option 2

- Commence a tender process for the existing air and long distance coach network, without undertaking a review of the network. Existing air and long distance coach contracts will need to be extended until 30 June 2013 to allow sufficient time to undertake a full tender process.
- Rollingstock replacement issues for long distance rail will be addressed in a separate submission.

#### Option 3

- This is the same as Option 2, except that there would be a modification to the current air and coach network based on performance during the current contract. Air routes that have high patronage and are not subsidised would be deregulated. Long distance coach routes that have low patronage would no longer be subsidised.
- If you require further detail about the review and its potential outcomes, TMR can provide a presentation to you.

#### Grow a Four Pillar Economy

- The current long distance network ensures rural and remote communities have year-round access to essential services in larger centres at a reasonable fare level, reducing their social and economic isolation and cost of living burden.

**Consultation with Stakeholders**

- TMR is developing a consultation plan to further refine consultation activities.

**Financial Implications**

- Financial implications are included under each option in Attachment 1.

**Employment Impacts**

- Nil

**Election Commitments**

- Nil

**Minister's comments:**



**FYI - Fw: MBN16181 - Review of PT services**

Correspondence Management Unit to: Doctrak.PTS.BusFarr  
CoachAir, Peter J McCullough

11/09/2012 02:28 PM

Sent by: Marion R Bell  
Cc: Correspondence Management Unit

Hi  
Please see below emails.  
Marion

----- Forwarded by Marion R Bell/cp1/QMR/Au on 11/09/2012 02:26 PM -----

From: Ryan E Huelln/cp1/qdot/au  
To: Correspondence Management Unit@Qdot  
Date: 11/09/2012 01:21 PM  
Subject: Fw: MBN16181 - Review of PT services  
Sent by: Justin C Bucholz

Hello

Please update DocTrak to reflect the below decision, and attach a copy of the email advice. Chris Basche has been advised via email.

Thank you.

Kind regards,

Justin for

**Ryan Huelln**  
General Manager (Passenger Transport Integration Branch) | Office Of The General Manager  
TransLink Division | Department of Transport and Main Roads

Floor 6 | George Street (420) | 420 George Street | Brisbane Qld 4000  
PO Box 673 | Fortitude Valley Qld 4006  
P: (07) 31674634 | F: (07) 32363159

CTPI  
E: [ryan.e.huelln@tmr.qld.gov.au](mailto:ryan.e.huelln@tmr.qld.gov.au)  
W: [www.tmr.qld.gov.au](http://www.tmr.qld.gov.au)

----- Forwarded by Justin C Bucholz/cp1/qdot/au on 11/09/2012 01:19 PM -----

From: Tony Meredith <Tony.Meredith@ministerial.qld.gov.au>  
To: "Ryan.E.Huelln@tmr.qld.gov.au" <Ryan.E.Huelln@tmr.qld.gov.au>  
Date: 11/09/2012 01:01 PM  
Subject: RE: MBN16181 - Review of PT services

Sorry for the delay in getting back to you on this one. The Minister approved the decision.

Tony

From: Justin.C.Bucholz@tmr.qld.gov.au [mailto:Justin.C.Bucholz@tmr.qld.gov.au] On Behalf Of  
Ryan.E.Huelln@tmr.qld.gov.au  
Sent: Friday, 7 September 2012 8:45 AM  
To: Tony Meredith  
Cc: Ryan.E.Huelln@tmr.qld.gov.au  
Subject: MBN16181 - Review of PT services