

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT ESPERANCE
WEDNESDAY, 30 AUGUST 2017**

SESSION ONE

Members

**Ms J.J. Shaw (Chair)
Mr S.K. L'Estrange (Deputy Chairman)
Mr Y. Mubarakai
Mr S.J. Price
Mr D.T. Redman**

Hearing commenced at 10.59 am

Cr VICTORIA BROWN

President, Shire of Esperance, examined:

Cr NATALIE BOWMAN

Deputy President, Shire of Esperance, examined:

Mr MATTHEW SCOTT

Chief Executive Officer, Shire of Esperance, examined:

The CHAIR: I would like to begin this morning by acknowledging the traditional owners of the land on which we meet and pay my respects to their elders, past, present and emerging. On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional air fares. My name is Jessica Shaw, and I am Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee to my left: Yaz Mubarakai, the member for Jandakot; deputy chair Sean L'Estrange, the member for Churchlands; Terry Redman, the member for Warren-Blackwood; and Stephen Price, the member for Forrestfield. It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege. However, this privilege does not apply to anything you might say outside of today's proceedings.

I would like to thank you particularly for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance here today?

The WITNESSES: No.

The CHAIR: Do you wish to make a short opening statement?

Councillor BROWN: Yes, thank you. Just on behalf of the Shire of Esperance, I would like to welcome you all as parliamentarians to our shire, to our town, and thank you very much for your interest in regard to what is very important to our shire when it comes to transport and airfares. Thank you.

The CHAIR: Our pleasure. As I said, thank you very much for your submission. One of the key terms of reference that the committee is looking into is the impact that the high cost of regional airfares has on communities from a business, tourism and social perspective. I wondered if you might be able to cast some light on that for us—all those dynamics here in Esperance?

Mr SCOTT: If I may refer to our submission, we did talk about probably the impact on business, tourism and social in the shire. Business is probably the least affected because businesses have the ability to on-charge their costs to their clients, and it is probably the easiest way to work out what is the most economical way of coming to Esperance from a business perspective. It is obviously the businesses' time, which is normally at an hourly rate and can be calculated on whether or not there is a benefit in flying rather than driving et cetera.

That being said, air travel is important, particularly from an air freight perspective for business, and the cost of that. We have certainly seen some changes in regard to the impact of air freight on local businesses, particularly the farming community, where previously the larger aircraft that used to come to Esperance were able to provide a larger capacity for freight. We are aware that a number of businesses have chosen not to use air freight since the smaller craft have come to Esperance,

simply because they cannot rely on having the freight delivered in time. So that has had an impact on businesses having to change the way that they work here in Esperance.

Tourism is probably the bigger issue in regard to airline prices. As per our submission, we proposed, I suppose, the concept that when people are considering flying to Esperance, when you take into account having to be at the airport an hour before the flight, and hour and a bit for the flight et cetera, that is almost equivalent to driving to Margaret River, and saying how does that compare with driving to Margaret River and having your own car et cetera versus flying to Esperance for a weekend. I suppose that is probably the biggest discretionary choice people have in coming from Perth to Esperance or to another tourism destination in WA. It is, “How quickly can I get there before I start enjoying the environment of that destination?” versus the cost. It is very hard for people to come to Esperance for, say, a weekend if they have got to drive for eight hours or have to pay fairly large expenses for air travel and then fly back.

Obviously, lower airfare prices would make that choice a lot easier for some people to make in regards to seeing Esperance as a tourism destination for that short-stay period rather than long stays, because even if you do fly to Esperance, you still have to look at how you are going to travel around Esperance once you arrive there in a plane. That also adds to the cost, with hiring vehicles and things like that; whereas if you do drive to Esperance, you have got that vehicle that you have driven to also go and see the sights and then drive back, but you are probably losing a day each way for that convenience.

From a social perspective, obviously a lot of people have relatives outside of Esperance et cetera. If there is a family occasion or even a family emergency, depending on what notice you have, it can make a big choice in whether you fly or not. We are fortunate that we do now have the community fare, which is \$128 if you book within 24 hours of flight, but there are only limited seats for that. That probably does take into account emergency trips and things like that, but again, if you have a large family and you need to go to Perth, even that can be very expensive once you start multiplying that by a family of four or a family of five versus driving eight hours to Perth with your family.

From a social perspective, it probably stops a lot of people from going and enjoying particular events in Perth—the weekend football or a particular show or entertainment or something like that. If there were lower airfare prices, possibly that would show a bit more discretionary travel on that social side. From a medical perspective, obviously we are taken care of in regard to the PAT scheme, but then again there are some restrictions to that as well in regard to flying. Some people who do not quite qualify for the PAT scheme would obviously prefer to fly than drive, because they are having to drive eight hours and eight hours back, and sometimes that is just not economically viable in a lot of people’s situations.

The CHAIR: So on the tourism angle, some shires have given evidence to this inquiry that they have partnered with both local tourism—accommodation providers, local events or local attractions, and the airlines to package up very cheap airfares with destination-based activities at the other end. Is that something that your shire has looked into doing at all?

Mr SCOTT: We are sort of developing that. We have certainly been looking at what Albany has done with Rex airlines and the package tours afforded in Albany. The information that we received from the City of Albany is that they have not actually been well taken up and that there is a fair bit of work that needs to be done in regard to organising the package. The package is both the shire, the airline and the accommodation providers. We have discussed it briefly with Tourism Esperance, which is the local tourism industry organisation in town, and they are certainly eager to progress that, but we have not actually got anything organised to have packages available.

I have had direct conversations with Albany about potentially having packages where people could fly to either Albany or Esperance, drive from Albany or Esperance to the other town and then fly back, to try to create that whole tourism route for a week or so. There are a few complications when you are having to deal with franchised car hire organisations and the questions about how does a car get back from one town to another and things like that. It is a work in progress but we would certainly see that as a good way to try to bring people here, particularly from Perth.

The Amazing Albany campaign that has been created is definitely targeted at trying to get people from Perth to Albany. We are also probably at the doorway to the state border in regard to people driving across from the eastern states. I think there are some really good synergies that we could develop with our two communities in regard to developing that tourism product.

Mr Y. MUBARAKAI: First of all, I have got to congratulate this particular shire on taking the initiative on your social responsibility. Could you just explain to this committee a bit more about how you achieved capping the fares for your community members on the cheaper airfares? Could you just tell us a bit more about this?

[11.10 am]

Mr SCOTT: Yes. We are obviously one of the destination airports for the regulated route with the agreement between Rex airlines and the state, and we have been trying to work very closely with Rex on minimising the cost of airfares for our community. Through those discussions, Rex would certainly like to have certainty of cost, and apparently one of their big costs is airport fees. So we entered into discussions about how could we fix those airport fees for them, which gives them certainty of cost on the basis that that would then look at reducing our airline fees. We managed to cap them for three years. We were the first out of the three airports to do that with Rex airlines, and that helped to secure the community fare.

Now the community fare is either if you book 60 days in advance or within 24 hours of the flight. There are only a limited number of seats, I understand from Rex, in regard to what are available for that fee, but certainly our community has benefited a lot from having access to that community fare. For someone to be able to fly for \$128 is pretty amazing. It is certainly something the council has been dealing with for the past four years in trying to minimise the cost of flying for our community.

Mr S.K. L'ESTRANGE: Linked to that, Mr Scott, I see the community benefits. I think it is a similar story in Albany; they have a similar setup. With regards to your leisure–tourism aspect, have you done any analysis of the number of people who use these airfares to come to visit Esperance as a holiday destination?

Mr SCOTT: We have not got any direct evidence. We understand that most of our air travel is actually business-related, but we do know anecdotally within the community that a lot of community members are using these community fares—even the shire. If we know that we have got to be in Perth for a particular meeting on a particular day, we can apply and use the 60 days in advance to book the flight and save money to the ratepayers via that. I would expect that a lot of other businesses and individuals are doing the same. There are obviously issues associated with booking so far in advance, and you do not know what might crop up. They are necessarily non-refundable, so you cannot just change a date like a fully flexible fare, which is something like \$360 to fly, but it does give that convenience. Some people are prepared to take the gamble 24 hours before the meeting to be in Perth to access the \$128 fare.

Mr D.T. REDMAN: Just a follow up to that, can you just reconcile this for us. In your opening address you talked about the impact of airfares on a whole range of things from people making other

decisions in and around the opportunity cost, I am assuming, for travelling in a vehicle, and hire cars and all the other things that come with it, yet the community fare has been tremendously successful—\$128 is more than a fair price. The airlines have to make money, so they will want to profile a fare across the seats that are available, and the yield is measured against that as well.

When you say that there is an impact of airfares, are there any decisions that you think should be recommendations out of this committee in respect to what Rex applies to you now, which I would have thought offers a choice of a fully flex fare at that price, if you want to choose that, or indeed a pretty competitive fare at a much lower price if it fits your schedule of flights?

Mr SCOTT: I think the airfare prices that are available to Esperance at the moment really depend on how much risk the individual passenger is prepared to take in regard to actually either using the fare on the day or having to change their fare during the course. At the moment the lowest fare available is the community fare, which is \$128, but there are very tight restrictions on what that means, so you have to book 60 days in advance or 24 hours and hope that there is a seat available, so it is almost a layover. A fully flex fare, which means that if you are not able to use that fare, you can use it at another time at no extra cost et cetera, is \$361.

The difference from what I can see is really the transfer of risk in regard to that seat not being used between the passenger versus the airline. Somewhere between that range of fares I am sure Rex is making some money, because very few airlines fly at a loss. We are not necessarily aware of Rex's operating costs other than our costs, which is our airport fees. Our airport fees are the cheapest out of the three airports that are used by Rex in the regulated route, but it is a cost that we have to do to have an airport.

We do not make any money out of our airport fees. Any money that is generated from the airport is actually put back into the airport. It is not used to go to ratepayer funds or to general income or anything like that. I am sure that Rex has a cost structure and they have a pricing structure to make sure that their planes are as filled as possible. I understand, and my experience has been—this is coming from being involved in airports such as Port Hedland and Kununurra in the past as well—that most airlines probably break-even at about 70 per cent capacity occupancy of the flight. My understanding at the moment with Rex is that we are getting about 85 per cent.

Just recently—I think two days ago—Rex announced in a media release that they had quadrupled their profit in the past 12 months compared to the previous. I hope that is because of them coming to Esperance and Albany.

Mr D.T. REDMAN: If we look across the state where the committee has sought feedback and submissions from groups as far as the Kimberley, Pilbara and down here to Albany and Esperance—almost chalk and cheese in terms of how much community interest there was. Without divulging what has happened in terms of our submissions—very, very low out of Esperance and Albany, which would suggest that there is not a high level of community sensitivity to the prices and opportunities in terms of flights down here. If you were to look at what Esperance shire's advice is to us as to what recommendation you would like to see out of this committee as a product of your submission, what would it be?

Mr SCOTT: Definitely to have, I suppose—I am probably talking beyond my means in regard to the actual council itself—but I think there needs to be a mechanism somehow that prices are being reviewed to ensure particularly that there is not price gouging happening. It is very easy for communities to become distrustful in any service provider, be it an airline, shire—you name it. I suppose the lack of submissions from Esperance probably indicates at the moment that the Esperance community is actually very happy with the service. There was a lot of doubt, I would say, when it first came to Esperance. There were concerns about the size of the aircraft and there were

some teething problems and issues in regard to passengers, luggage and fuel—which was more important. There were some bad experiences to start with. A lot of those have been sorted out by Rex.

There are probably still some underlying concerns, particularly about the amount of luggage that you can use. It is 15 kilos, and for a big family that is not a lot. I suppose if there was a feeling out there that prices were not just being determined by the airlines, who do not have to disclose what their costs are or how much profit they are making out of one seat—because you presume that, particularly with our service, there is no business class. If you are sitting in the front seat or in the back seat you are having exactly the same experience as any other passenger. You are not getting any benefit, but there is still a range of prices that you are being asked to pay, depending on what I assume is the level of risk you are prepared to take to actually get to your destination.

If there was some sort of oversight to ensure that people were not feeling that the airlines were charging too much, as long as they were still being profitable, and somehow there was some reassurance to the community with these fares. Because, unfortunately, all the community sees is what is in the paper in regard to \$99 fares from Perth to Bali versus \$300 to \$400 fares from Kalgoorlie to Perth, and they are saying that they are almost the same-sized aircraft and they are the same services that are being delivered, so why is there a vast difference.

Mr D.T. REDMAN: The route is a regulated route, and that has a level of oversight in itself at some point in time. It goes to market and the Department of Transport has a chance to scrutinise and see some transparency in how those structures work, including the notion of having a basic service provision to a regional community. Is that a sufficient enough level of oversight or are you asking for a higher level of regulatory control over what happens?

[11.20 am]

Mr SCOTT: I do not think that there necessarily needs to be more regulatory control, but I think there needs to be at least some flow-on in information. The Shire of Esperance was not involved in the tender for the regulated route. We were basically told, “This is the airline that is coming to Esperance. You need to now work with them in regards to your airport fees.” I suppose that put the shire a little bit offside initially, because how do people in Perth determine what the service is required for in Esperance.

The CHAIR: Had you been involved —

Mr SCOTT: No.

The CHAIR: No, but had you been involved, what would you have liked to have fed into that process? What would have been the key negotiation issues, if you like?

Mr SCOTT: I suppose to bring to the table what we believe would be the requirements for our community for the air service, so that we would not still have the same concerns that are being expressed at the moment about things like air freight—the needs of the farming community to be able to get within 24 hours a particular part for a harvester in the middle of harvest, and to find out that after an agreement has been decided with the state and an airline that that service is no longer available, but also for it to be seen by the community that we have had some involvement in what is actually going to impact directly on our community. One of the essential roles of local government surely is to speak for its community, and I suppose that was not really taken up. Definitely we offered to be part of the discussions.

Getting back to Mr Redman’s comments, it does not necessarily mean that we are going to go out there and publish it, but if we were getting information that, say, the Department Transport was getting about the review or the annual review of the agreement, to ensure that we can actually put

our hand on heart to our community and say, “Well, community, actually you’re not getting ripped off by Rex.” We cannot do that because we do not see that information. We are not going to go out and disclose the nitty-gritty, but just to be able to say on behalf of the Esperance community that we think we are getting a good deal, I think would be an important role for the shire to play.

Mr D.T. REDMAN: That is also a challenge for the Department of Transport to the people of Western Australia, let alone Esperance.

The CHAIR: I just have a quick follow-up question and then I will hand over to you, Stephen. In Albany we saw that Rex engages with the shire very proactively and they have an aviation stakeholder group. The people who appeared in front of the committee yesterday were waving around PowerPoints where there were passenger numbers and fare classes. It would seem that there is a very regular level of interaction between Rex—and indeed Rex and the City of Albany seemed to have worked together around timetabling and frequency of routes, and there seemed to be a high level of engagement even though Albany had not participated in the negotiation of the contract for the group. Have you had a similar experience in Esperance?

Mr SCOTT: We definitely have regular what we call CCG meetings, which include representatives from both Rex and the Department of Transport. The chamber of commerce comes to that, as does the Goldfields-Esperance Development Commission as a representative. Previously Ravensthorpe was coming to those, but given that Ravensthorpe is no longer part of the regulated group, they no longer attend. We also talk directly with Rex on a regular basis. So should there be any issues with a particular flight or something like that, we will get correspondence either from Rex directly straight up or we will ask whether they have heard about such and such happening on this particular flight. So we have a fairly direct flow of information between us and Rex.

The CHAIR: And have you found them to be quite responsive to you?

Mr SCOTT: Definitely. I have got direct contact to Rex’s CEO if I need to if there is a major issue. Like most things, there has been some negotiation on leases at the airport and things like that. There is always a bit of normal negotiation happening. I would say that our relationship is pretty good at this stage and we are hoping that will continue. I suppose that is what led to us being able to work with them in regards to fixing our airport fees with them over the last 12 months. Previous to that we had no agreement with the previous provider, Virgin, and I would probably say that our relationship with Virgin was very different to what we have with Rex. We see that as a partnership and we see that if Rex does well, then our community should do well as well in regard to access to airlines, so we have certainly got the hand out and are trying to work very closely with them. The councillors might have a comment.

Councillor BROWN: One of the advantages of having Rex—although initially there was, as Mr Scott says, a lot of angst in the community, and when those negotiations were going on with the tenderers, I can recall our input was, “This community does not want a lesser service than one that it currently has.” That was the biggest fear. Yes, as Mr Scott has said, it largely initially revolved around the reliability of those early flights. Given that it is a huge long route, extra fuel has to be taken on those Rex flights in case of inclement weather. That is to the detriment of passenger kilos, as Mr Scott has already said.

Initially there was a lot of angst in the community. People were not getting to appointments and people were not getting to Perth on time. Those were teething problems and I think that as a regional airline Rex worked very hard with our shire to ensure that those were ironed out. They recognised that there were significant issues. I think that over time things have settled down. There are still issues occasionally when flights do not get up off the ground, but you just have to fit that into your schedule. If you have an appointment at 10 o’clock in the morning in Perth, you have got

to make sure that potentially you are booked on the flight the evening before. If it is that important that you attend that meeting, you cannot really run the risk of trying to get on the plane at half past six in the morning to arrive in Perth at eight o'clock. I think that has generally settled down. The 60-day advance fee is fantastic when you know that you have to be in Perth. That has worked very, very well. And we have found Rex very responsive, too.

If you are going overseas and you have got your 22-kilo overseas allowance for an international flight, they have always encouraged the community to ring ahead: "Give us a ring. Let us know you will be travelling with 22 kilos." We have found them accommodating. There is always the exception to the rule, but generally those are people who have lobbied up at the airport, they have not done their homework properly and they get angry because they cannot get on the flight. Well, if they had spoken to the operators beforehand, they would find that they try to do their best to be flexible.

I would just like to reiterate what Mr Scott was saying: we are geographically, as you would be aware, very isolated. From a social perspective, we have a lot of university students and kids who work away from Esperance who need to get back for granny's 80th birthday. A case in point for our family is that our daughter has two days off—a Thursday and Friday—in a couple of weeks' time. She wants to come down. Now, she cannot afford to pay the full fare. She cannot run the risk of not getting the \$128 fare, so she will have to drive because she cannot reliably access that \$128 fee. That will be two days' travel, so in effect she will spend her two days off travelling.

If we want to increase numbers through our airport—we are currently sitting on about 50 000; we would like to get to that 70 000 mark—that is going to be very attractive for Rex because we are going to see the prices for our airfares come down. If we are going to get there, we have got to get more—pardon the phrase—bums on seats, and the only way we are going to be able to do that is to encourage people to access a fare that means, "Bang, I can get on cheaply. I can get down and I can get back again." I think that, generally speaking, it is working very well. We have more flights now that we had with the previous carrier. It is not as big a plane but it does give you a lot more options, and a lot more options on that \$128 fare, because you have got three flights a day that you can look at to see whether you can access.

[11.30 am]

Mr S.K. L'ESTRANGE: Was your daughter paying the \$360? Was that why she said no?

Councillor BROWN: She had looked at it and could not run the risk of leaving it.

Mr S.K. L'ESTRANGE: But it was a \$360 fare?

Councillor BROWN: It was a more expensive fare. I cannot comment on that, not having been online to see what flights were available. But it was just not an option for her to fly; she has to drive.

Mr S.J. PRICE: In regard to your comments about air freight, do you think that an air freight service is more required by the community than cheap airfares?

Mr SCOTT: Depending on the time and the circumstance. So take, for example, harvest—we have two farmers sitting at the table here—if you are harvesting and your harvester goes down and you need a particular part —

Mr S.J. PRICE: I get that, but there is obviously a point here where you go could go for a bigger plane to carry more freight, which is going to cost more. What do you think the community values the most?

Mr SCOTT: Personally I would say cheap airfares to start with. Business is business and people accept that they sometimes have to pay more to get business done but for—excuse the phrase—the general punter in town it would be reasonably good prices that they can use, but probably use more

for discretionary travel. At the moment we have cheap airfares if you know about something 60 days in advance or you want to run the risk with the 24 hours. I do not know. If you see something on TV next week that says there is a show in Perth that you really want to go to, what are your options—either drive a day, see the event and then drive back, which is effectively three days, or fly and possibly you are paying \$300 to \$400 to do that.

What is not available for our community is that discretion in regard to that almost impulse decision: “There is something on or there is an event somewhere else that I could go to. It would be really good, but do I have to lose three days’ work to do that as the alternative to drive?”

Mr S.J. PRICE: Just going back to the airport now, what are the actual fees that you charge? In your submission you say that you run it as a standalone business unit of the shire. What fees do you actually charge for landing? Does it cover its own costs, including money put away for depreciation and that sort of stuff?

Mr SCOTT: With the RPT flights, prior to the agreement with Rex the fee was about \$22, and that covered both landing and head tax. We particularly did not charge. We only charged one fee. The arrangement we have with Rex is that fee or that income that we were generating up to 50 000 passengers is now fixed. So any additional passengers over 50 000, that passenger is actually coming to Esperance free of charge of any airport charges whatsoever.

Mr S.J. PRICE: So up to 50 000 is that \$22?

Mr SCOTT: After 50 000 there is no additional —

Mr S.J. PRICE: No, but up to 50 000.

Mr SCOTT: Yes, and that covers an individual’s entry through the airport. The airport is self-sustaining. We do obviously cover our operating costs. For capital, though, we are still reliant on grants in regard to expanding the runway and things like that. That is normally 50–50. So we have to contribute 50 per cent and the state and federal government contribute the balance through the RAD scheme. Other than that, we had a reasonably healthy reserve in place to cover us in regard to the airport itself. It is self-sufficient. It requires no ratepayer funds to subsidise.

I think we provide a reasonably decent and good service at the airport for our customers. There are certainly no lounges or anything like that. It is a fairly basic airport, but I think it is reasonably contemporary. We have previously had screening that we obviously do not need to do with the current size planes that we receive. However, there obviously is a bit of discussion at the moment about whether or not screening should be brought back into regional airports.

Mr S.J. PRICE: What was the cost of the screening when you used to do it? Can you remember?

Mr SCOTT: It was, I think, off the top of my head, about \$15. We have now disposed of the screening equipment that we had previously, and our option, if it does come back in, is that we will simply lease the equipment and the service, and in that way we would know exactly what the price per passenger would be.

Mr S.J. PRICE: What is the capacity of the airport? If you go from 50 000 to 70 000, is it still able to handle that?

Mr SCOTT: The airport itself, I believe, the terminal et cetera, could handle that quite easily. The issue we have with our airport is the runway. We can take larger planes, with exceptions, from CASA. We would have to expand the shoulders of our airport, particularly for those planes that have their engines under their wings—the larger jets. It is difficult to land here in Esperance because our shoulders are not wide enough. I suppose we are in a bit of a catch 22 at the moment in that we know the size of plane that is going to be flying here during the course of the current agreement,

which means less impact on our runway. The question is: do you expand the runway in the future when you do not know what sort of sized planes you are going to get? Do you put that investment in now, not knowing what sized planes there will be? We could be running with the same aircraft for the next 10 years, which our runway is quite able to handle. But if we go from the 33 seaters to, say, 110—an F-100 or something like that—then we would need to look at modifying the runway so that we do not have to apply for exceptions for those charters.

But at the moment the airport makes a small surplus, which is transferred into our reserve, but certainly the reserve is not large enough to do a massive upgrade, which would be required to expand the runway, and we would still be dependent on the RADS funding to assist in that.

Councillor BROWN: I would just like to make an additional comment to Hon Stephen Price's question on cheap airfares versus the air freight. Speaking as a farmer, I think the answer to your question would be that it would depend on which member of the community you were asking that question to. Given that agriculture is probably the backbone industry for 12 months of the year in this community, there is no doubt that when the service changed and through those initial teething problems, it still came back to weight restrictions. If given through harvest, there are significant weather events and they have to put weight restrictions on.

Cases in point are where very important parts for machinery that had broken down in the paddock had come ex eastern states and had got to Perth, and not only could not then be loaded on the plane to come down but was then locked in the airport, so there was no option for those farmers to then get into the airport to get that piece of equipment off and out and then freighted down through truck, car, road, whatever. That was a significant issue because suddenly you could not get your part in 24 to 48 hours; you might be looking at three days. So I do see that as an issue.

Councillor BOWMAN: I would totally agree, yes. I think some of the parts businesses in Esperance now choose to travel by road because they know they can get it on, and they are not prepared to take the risk, so they will say to the customer, "It's going to take another day because we are going by road."

Mr Y. MUBARAKAI: Mr Scott, would you know what capacity the airlines are actually running their routes? Are they running at 80 per cent capacity; are they running at 100 per cent capacity?

Mr SCOTT: Obviously I can only speak for the route to Esperance. It is my understanding that at the last CCG meeting we were talking around about 80 per cent. We do actually have numbers and I can forward those actual numbers to the committee if you wish.

The CHAIR: We would appreciate that.

Mr Y. MUBARAKAI: Yes, that would be great. With that could you also provide—I do not mind if you do not have the figures with you—the breakdown of people who actually use the airlines: that is, tourist, business versus the community as the three components?

[11.40 am]

Mr SCOTT: I am not too sure. Our data primarily comes from, I think, Tourism WA, and in the past it has definitely been more weighted towards the business travel to Esperance. I can certainly see what we have and I am more than happy to forward it to the committee to review—the latest data we have in regards to the reasons for people's travel.

Mr D.T. REDMAN: There was some stuff in the paper recently about the resource-sector companies looking at a stronger FIFO market out of regional Western Australia. Currently planes drop into Albany and drop into Busselton, amongst others, and Esperance might have been in the discussion. Are you engaged with any of the companies about Esperance perhaps being part of the milk run

that picks up FIFO market; and, if so, is that an opportunity to assist with your charges and hence the broader transport objective?

Mr SCOTT: We would obviously love people to live in Esperance. We think we have a lifestyle to offer, and if that is attractive to FIFO employees, then we would certainly appreciate people coming and living here. We actually do feel that we are a bit of a town that supports the local mining industry. We do not have any active mines here in Esperance itself, so a lot of people who live in Esperance actually do work already in Ravensthorpe and in Dundas in regard to the active mines there, so it is probably more of a drive in, drive out scenario rather than a fly in, fly out scenario.

Certainly there is always interest for a route, be it a milk run, between Perth, Albany, Esperance, Kalgoorlie and back. But even occasionally there have actually been flights that land in Esperance and then go to Adelaide. Rex often ferries their aircraft via the Esperance airport here and occasionally there has been the odd opportunity, and we have certainly had some discussions with Rex to see if that could be a plausible alternative, because again a lot of people in Esperance also do go across the border to South Australia because we are so close.

Mr D.T. REDMAN: So that would put people on that flight —

Mr SCOTT: Sorry, I probably misled you then. We know that they do fly and stopover at Esperance and we have had discussions. I do not know if they have actually picked up anyone directly. It may have been via charters. But we would certainly be interested. If they were stopping in Esperance to refuel to go the next leg, why not pick up a few?

Mr D.T. REDMAN: We were aware that when the planes come up for re-servicing they get themselves back over there, so there is a flight when the plane comes up on its hours. We were not aware that there might have been potential, albeit for a traffic, to take a bunch of people over there and back —

Mr SCOTT: Why not.

Mr D.T. REDMAN: — if there is a good game of footy on.

Mr SCOTT: Yes, who knows. But yes, certainly there has been talk in the past about a potential milk run between Perth Airport, Albany, Esperance, Kalgoorlie and back or vice versa, whichever the route. There has been obviously some talk about potentially a flight from Esperance to Kalgoorlie. That is four hours' drive for a lot of people and there is a lot of business connection between Esperance and Kalgoorlie. But again, it has to be economically viable for any airline, and maybe there is some opportunity for a smaller airline to take up that opportunity. I am not too sure how that would impact on the current regulated flights to Esperance.

I suppose we are looking at our airport. We need our regulated flights, because with 50 000 people flying we cannot guarantee that if it was deregulated that we would actually have a service. So to us, a regulated flight is extremely important. If we can grow it to 80 000 to 100 000, our understanding is that is when it becomes competitive in regard to a service that then may attract someone to actually come and stay in a deregulated market. For our community we cannot run that risk of not having a service. So we are actually very appreciative that there is a regulated service to Esperance, because we know that there are flights.

Mr D.T. REDMAN: The Esperance shire was also part of the Regional Capitals Alliance in presenting a submission—vastly different issues when you go across the membership of this group. In fact, we found it in the Albany presentations yesterday. Did you find it challenging to put an Esperance component into this given the different issues? Perhaps you would like to make some comments about that?

Mr SCOTT: Yes. We have recently joined the Western Australian Regional Capitals Alliance, and there are vast differences between, say, Esperance and Albany versus some of our other capitals to the north. But again, there are very different issues as well. When you take into account Karratha and Port Hedland et cetera, you are dealing with a range of issues with regard to mining and things like that, and where you have got larger planes but you have also got bulk bookings from mining companies and things like that.

Having worked at the Town of Port Hedland for five years, I have seen half-empty planes come to Port Hedland airport but fully booked out simply because of arrangements made with mining companies. I think the group itself feels that air transport is very important to all our communities, to grow our communities and to maintain being a regional capital. Obviously we are all very interested in growing our tourism potential, and for someone to be in Perth and to fly from Perth to any of the regional capitals within a few hours is always going to be a lot more attractive than someone driving.

So there are some similarities but there are also some differences that we do acknowledge and respect. But at the end of the day we do see air travel as a major component for growing our communities across the state. It is very important.

Mr D.T. REDMAN: It is a regulated route here between Albany and Esperance. So that gets put out to market at points in time. This may go beyond the scope of what you are talking about down here, but there have been some views that that will be somewhat limiting for an airline like Rex because there are certain fixed costs they have—maintenance, crews and all the things to maintain a fleet—to be able to service that.

If you had rather than Esperance, Albany as just one route that was put out to market, and it was Esperance, Albany and maybe Learmonth and/or Monkey Mia or some of those—Carnarvon—do you have any views about if that was a package as one package that went out a market, whether that would be advantageous to securing a better competitive outcome?

Mr SCOTT: I think for any business what they charge is somewhat associated with the risk they take—the risks and rewards of private enterprise. If any business can see that they can share that risk or share their costs over a greater base, then surely that would be attractive and hopefully give them the ability to reduce their overall price to the individual, because then you obviously have economies of scale that come into play. Typically, we have been advised that the smaller the aircraft, the less efficient the service is. You cannot put as many people on the aircraft and therefore the overall cost, particularly the fixed costs, are shared over a smaller base and the price has to reflect that.

But again, we do have an anomaly now with Kalgoorlie, which does have large aircraft flying in and out and still the same flights from Esperance, literally, with the same amount of time et cetera, and we have got smaller aircraft. There have to be some other factors that come into play that are causing the prices not to change. I do not have the answers for that, I am sorry. Any regulated route, particularly if Carnarvon and Exmouth and all that have to be regulated routes to provide that service to that community, then surely a bigger base for any tenderer is going to be more attractive to tender for rather than a smaller one. I suppose personally I think it probably would be attractive and therefore, hopefully, it would mean better pricing across the board.

Mr S.J. PRICE: Just going back to tourists, do you know what the number of tourists coming to Esperance are each year and do you know what the percentage of them is that come via air?

[11.50 am]

Mr SCOTT: The overnight tourism numbers at the moment for September 2015 to September 2016, according to Tourism Research Australia, were 204 000 tourists and they contributed something in the order of \$90 million to \$92 million to our local economy. I would estimate that a very small percentage of them used air travel. I do not have that specific number but I would probably expect that to be less than 20 per cent. Just anecdotal, a lot of our tourism market comes either from the goldfields, eastern states or via the eastern states, and most of that is by road. We do have a growing cruise ship market. I think next year it is estimated to be 12 or 13 cruise ships. Tourism Esperance, who I think might be coming to this hearing, might be able to expand on that but, as I said, the majority of people using the airlines are probably business-related.

The CHAIR: Thank you very much. I will proceed to close today's hearing and thank you for your evidence before the committee today. A transcript of this hearing will be emailed to you for the correction of minor errors. Any such corrections must be made and the transcript returned within seven days of the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you.

The WITNESSES: Thank you.

Hearing concluded at 11.51 am
