

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 1 NOVEMBER 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 9.36 am

Mr STEVE BEYER

Acting Managing Director, Policy, Planning and Investment, Department of Transport, examined:

Mr BRETT HUGHES

Executive Director, Transport Strategy and Reform, Department of Transport, examined:

Mr PETER JAMES RYAN

Director, Aviation, Department of Transport, examined:

The CHAIR: 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 airfares. My name is Jessica Shaw and I am the Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee: Deputy Chairman Sean L'Estrange, Terry Redman and Stephen Price; and Yaz Mubarakai will join us at about 10 o'clock. I advise that the proceedings of the committee's hearing will be broadcast live within Parliament House and via the internet. The broadcast may include documentation provided by you to assist the committee in its investigations. 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.

Before we begin with our questions, do you have any questions about your attendance today?

Mr BEYER: No, thank you. We have your letter; we are prepared.

The CHAIR: Would you like to make a short opening statement?

Mr BEYER: Yes, I am happy to do that. Firstly, Jessica, I understand that you called Peter yesterday. We had sent a letter to you in the past couple of days about wanting to correct some of the information that had been submitted in other hearings. I understand there has been a conversation about that. You would prefer to keep this as an open hearing?

The CHAIR: Yes. What we would like to do is get as much content as we can onto the public record. However, I do appreciate that there are some commercially sensitive matters that the DoT would like to correct and that its preference is to do that in closed session. Certainly if we are straying into that territory, please do advise us and then at the end of the hearing today, we will go into closed session and you will be provided the opportunity to correct the information.

Mr BEYER: I think there are two perspectives: one is that it is perhaps less commercially sensitive than it is about our need to protect the tender processes and keep that confidential. Secondly, more particularly, there are opinions that have been made that perhaps impugn the department in relation to some of the previous works. I would like to correct that because some facts that have been presented to the committee are wrong, and to the extent that the committee might form an opinion about the capacity or capability of the department in managing regulated aviation routes, it is important to correct those points.

The CHAIR: Sure. As much of that information that can be put onto the public record, we would like to make as much information available as we can.

Mr BEYER: Secondly, there are a couple of questions that you have sought information on. One is about the powers of the minister and the second is some detail about the normal tender process. We have prepared a one-page handout for each of those that I am happy to give you. We can talk to that in detail as well.

The CHAIR: Great. Thank you; that is very helpful. You might as part of your opening statement, given that we have not had an opportunity to review that, give us a bit of an overview of the contents so we can inform our questions.

Mr BEYER: Yes, okay. The first is in relation to the powers of the minister. That is simply a cutting and pasting of the relevant provisions in the Transport Co-ordination Act. The minister has a lot more powers in that act than we have summarised there, but we have chosen to focus on those particular aspects of the questions; for instance, what is the power of the minister to put conditions on licences and hence obtain information? Sorry, Peter, what was our second point?

[9.40 am]

Mr RYAN: Largely the focus has been around the information that the minister can get and the routes for which she can get it.

Mr BEYER: So the power in relation to licences and then in relation to keeping records and getting information. That is pertinent to the committee's taking down a pathway of saying, "How can we get more information in the marketplace?" because that seems to be part of the problem about reaching a good conclusion. The second handout is a summary of our tender process. It is consistent with the tender processes that occurred in 2011, 2015 and then most recently this year. It is a normal process of how we go through a tender for the market.

The CHAIR: Thank you. I assume there are other matters that you would like to address in response to our letter as part of your statement?

Mr BEYER: Absolutely. Yes, we have a response to each of those five questions that the committee has put to the department and which we are seeking more information about, so we can work our way through it or we can take questions. I am not quite sure how you would like to proceed.

The CHAIR: How about we work our way through it, because the questions were designed to give you an overview of the sorts of topics that we would like to discuss, and we may have other questions that fall out of the comments that you offer. So let us work our way through and see how we go.

Mr BEYER: Okay, I am happy to do that. I understand we now have 50 minutes?

The CHAIR: Yes, but if we run over time, it is important that we get it right, so I am not going to cut you off mid-sentence as soon as we hit 10.00 am.

Mr BEYER: The first question was about the department's resourcing and capacity to provide policy advice in relation to aviation. There have been some comments about whether we have a big enough team, whether we are focusing on the right things and whether we have the right capability in the team as well. As we mentioned at our last hearing, the department has a relatively small team, but it is a very focused team on aviation, particularly in the work we have done in recent years, starting with the State Aviation Strategy, which was a very comprehensive piece of work across all matters of aviation for the state, and then another piece of work to say what should our approach be to the regulated air routes, and hence which routes should we be regulating. That has really framed subsequent work and the focus of the current team and the capability and resourcing for that team. There was more resourcing put into the team when we were doing that work, particularly for the State Aviation Strategy—we had a couple of experts to supplement the team to come in and

do that sort of work. That sort of stuff takes on a life of its own in terms of research, analysis, consultation and the like, but those resources have come into the team, and then now as we have a mainstream position.

The CHAIR: Were they contracted in on a consultancy basis?

Mr BEYER: Yes. I guess the focus of the team has really come out more particularly in the sense that the State Aviation Strategy has framed a broad discussion around what issues we should be addressing. Yes, the consultation process then did highlight that regional airfares were a problem or an issue. But more particularly, the department has really focused its resources more around what parts of the market we consider are suffering market failure or are very, very thin markets and hence warrant some sort of regulatory protection.

I guess the process that we went through with the previous government, and with an open discussion with the general community, was to say that the conclusion coming out of that is that the Albany–Esperance, Carnarvon–Monkey Mia, northern goldfields and Derby routes are the ones that we should be regulating as either a monopoly route or just through a normal regulatory process, because they are the ones that will sustain only one operator and they are essentially what we call thin markets. Without that level of support from government and control, there is risk that you would have a poor level of service to the community or perhaps no service at all and you would have some volatility in there.

The CHAIR: We are jumping about a little because I do want to understand some specifics about how you are structured and resourced. The process that you went through to determine the appropriateness of regulation or otherwise, how do you do that? What do you do to make that determination? What are the key methodologies that you employ? How do you make that call?

Mr BEYER: I think the department's focus has traditionally been in the space of economic regulation, as I mentioned previously at our first hearing. CASA does all the safety; we do not even worry about that. Our economic regulation is on the basis that the government is there to provide a minimum level of service to regional communities that have some distance from towns. So the community and others need a minimum level of service, and then from that the decision around what parts of that market are what we call, essentially, thin markets or thin routes, which require some level of protection.

The CHAIR: So do you have a list of criteria against which you measure particular routes and where there is a problem highlighted that sort of flags that? Do you adopt a consistent methodology and a consistent set of criteria against which these routes are assessed; and, if so, what are those criteria?

Mr BEYER: Firstly, I think our benchmark is at a national level. We are saying that about 100 000 passengers per route is at a point when a route would be able to sustain competition or not.

The CHAIR: Why that number? Why that number, because —

Mr BEYER: Because, nationally, we are not able to find any evidence that there is a route from a capital city to a regional centre, or between regional centres, that has less than 100 000 people and which sustains a competition between two operators. The 100 000 is about the cut-off point. So below that, we are then getting into the space of saying it looks like it is probably only going to be 100 000 passengers. The market sort of self-organises itself around that. They are not going to try and get in there, unless there is an opportunity through separate contracts with the mining industry or other parties. The industry itself organises itself around that 100 000 as a threshold. Then we are saying: At what point below 100 000 passengers? Are we getting to a point where you need to be

able to have a direct control over the marketplace to guarantee a minimum level of service to a community?

The CHAIR: I want to really test this, because it is a very material issue, because something that has come through consistently through the evidence—which I am sure you have been following—is the adequacy of information available upon which you can make those assessments. On the evidence that you originally presented to us, one of the key things was that there is a lot of or a lack of information, particularly on unregulated routes at the moment, around the sorts of fare classes that are offered, the sorts of passenger numbers that are travelling on those particular fare classes. In the absence of that information, 100 000 seems to be a pretty arbitrary number to then dictate whether we have regulated or unregulated routes or the licensing arrangements that then apply. So I am just trying to get to the bottom of: how do you make those assessments, because it would seem to me you make it without much information?

Mr BEYER: Breaking down a number of 100 000 and saying: is it 97 per cent business and mining industry and three per cent community, and hence would there be a different way of regulating a route to enable the overall patronage to go up? In other words, the three per cent of the community would actually have a better deal and hence you would have more people travelling. That is a whole different space we are in and I think that is what you are actually delving into with the inquiry here.

We took a position through the State Aviation Strategy, more particularly the regulated air routes, that the role of government is to basically intervene where there is either market failure, or to avoid market failure and hence shore up low-performing routes, not necessarily poor performing, because poor performing invariably probably requires—it is a bit of a subjective point—a subsidy. A low-performing route is one which simply has need to actually have some certainty to the community and hence we are then differentiating. Do we simply protect a route like Exmouth and say it is less than 100 000 passengers, it only warrants one operator, so we will guarantee that as a monopoly route, as distinct from routes like Albany and Esperance where not only do we actually regulate it to one operator but we then seek a lot of information from that operator and say, “You have to tell us what your maximum fares are; we need all this regular information from you about passenger loadings”—all that, so we are much better informed to actually understand how well the operator is serving those particular routes.

The CHAIR: And that is what we really need to get to the bottom of, because the State Aviation Strategy was undertaken under a different government, under a different administration, and this government is very concerned about the impact that high regional airfares are having on regional communities. It is not necessarily about the FIFO industry or even tourism industry; it is about the lived experience of people in regional Western Australia that are exposed to high airfares when they need to travel for emergency situations. On so many of these routes what we have seen is a very low level of community concern in Albany and Esperance, where the licensing arrangements are in place, the information is disclosed, and there seems to be some sort of sanitising effect of sunlight. We are not seeing that —

Mr BEYER: There is also a negotiated position with the community about coming up with a community airfare as well, which I think helps to make the air service accessible to the average community member.

The CHAIR: Let us park that.

Mr D.T. REDMAN: The economic environment has changed as well.

Mr BEYER: No question. From when we were doing the State Aviation Strategy—it came out several years ago but the work had preceded that by one or two years—yes, the world has changed. We acknowledge that.

The CHAIR: And the data is very dated. I mean, the data from the period from which you began your data-gathering exercise to then releasing the report, the market had changed, and it has changed even further since then.

Mr BEYER: We acknowledge that the circumstances change, the government has to respond to that, and that is what you are trying to delve into, to say: in what areas does the market respond to change; and is there a case for government to do something different now?

[9.50 am]

The CHAIR: So I come back to the key question, which is around the information upon which you base these decisions. I am really interested to understand, in an ideal world where the powers that are available to a minister exist to compel the production of different classes of information, what classes of information would be useful for you to acquire; and how are you resourced to then undertake the sort of exercises to determine whether other forms of intervention are appropriate?

Mr BEYER: Firstly, we will wait for the outcomes of the inquiry and then for the government to consider that and to respond to that, to see whether the government makes a decision that it is appropriate for the department to take a more active role in the marketplace, and we would then need to look at what the resourcing implications of that are. My advice is, as the team currently stands, we would need more capacity in the team if we were to take on a greater market focus in terms of particularly trying to glean and process lots of information. In the handout that I have provided to you, which is the summary of the scope of the minister's regulatory powers, there is a lot of information that the minister can condition on licences both in terms of people and in relation to freight. I think the pertinent one here is that we have a range of airfares that are advertised. We do not know what the profile of those airfares other than the advice—I think, Peter—that Qantas provided to the inquiry that only about two per cent of people pay the maximum airfare across the state, but what the average is below that, I have no idea.

The CHAIR: Right. So that is what we are trying to get to, but I will hand over to Terry.

Mr D.T. REDMAN: You made the comment then that you are going to wait for government to make a call on whether you should be seeking or not seeking other information. We are inviting you, as the experts in government before the committee here, to tell us what all the issues are out there, to interrogate the whole sort of parameters around how airfares are set and how services are provided. Even in your comments already you have made statements that suggest that there are a whole range of things that are different to what they were not that long ago. You used the threshold of 100 000 passengers as saying we hit that point and we reach a level of commerciality where something works better commercially than it did before. In a comparison to eastern states, I think you used that as a comparison as to where 100 000 comes from. All the evidence that we have been presented with suggests that in Western Australia you have got a very, very different market, a very, very different market, for a range of reasons which cannot be comparable to that.

Therefore, I would have thought that, as the experts, you would have been interrogating all the sorts of things that would be valid information for looking at the new environment and indeed the very different environment Western Australia has, the engagement with the resources sector, the interaction with the resources sector, the fact that you have people living in those regional locations that are self-describing as, "This is an essential public service for us." There is nothing in my quick glance at the tender process which talks about an essential public service to the people that actually

live in those communities. Fares and charges, sure, but that is fares and charges for all users, not just those. So I would have liked a little more about the sort of information that you will be seeking from airlines, albeit through a regulatory process with licensing, that would give you the knowledge and understanding to make sure that the positions and decisions of government are valid to the Western Australian environment.

Mr HUGHES: Can I just make a comment on data? Data has no value in itself; it is only when it is used for a purpose. That is the obvious. Before we go and collect vast amounts of data, we need to understand what is the purpose that we are using it for. If it is to foster the tourism market, to improve jobs in regional areas, to foster economic development or to provide access to communities, it might require different datasets. If it is for regulation purposes, to attract new entrants to the markets or to influence competition or whatever it might be that are the policy levers, that might require different data. I think we had reasonable data available for the conditions at the time and given the policy settings that we had to work with at the time.

The argument that you have made, and that has been made through this inquiry, is that some things have changed, including the level of difficulty that people have out there and therefore we need to go back to that exercise across government because it is not just a Department of Transport issue, as others have acknowledged, including the other departments and including the committee of course, that we need to take this holistic view of the complex system and not just, for instance, the Department of Transport going out and saying, “Okay, now we want to know the fare classes” or whatever it might be, and in the context of commercial sensitivity as to what they are going to give us as well. I do not disagree with the argument, but we have to be targeted as to what we are trying to achieve and how in order to collect that information.

The CHAIR: I struggle with that when the statement that was previously made was about incorporating concepts around economic regulation, because economic regulation of any form of monopolistic industry, asset, always requires certain hallmark pieces of information upon which you can make determinations or you can reach a view around whether or not there is market failure around a particular asset class or service. I really challenge that you need to understand what the objectives are. The objectives are to place downward pressure on prices, increase transparency and make sure that there is no misbehaviour or gauging going on. I would argue that there are some classes of information that it would seem to me are not being collected at the moment that could be, and we are just trying to understand what they are.

Mr BEYER: You are correct, Jessica. Let us be precise: when I am talking about economic regulation, I am not talking about an ERA model, which is getting into price regulation.

The CHAIR: I understand that.

Mr BEYER: Our whole position—I will perhaps respond to Terry’s point also—is that we had a previous government up until 11 March. That government said that it wanted the Department of Transport to take a light-handed approach to regulation, not a heavy-handed or a more active role. That light-handed approach simply meant that we provide a minimum level of service to those communities that were risking—in terms of low patronage routes they need some sort of protection around that. Whether the protection was simply as I mentioned with Onslow–Exmouth, for instance, which was about saying that we would allow only one operator to serve that route, or with Albany–Esperance and the other routes that we are providing, where we not only provide one operator, but we then seek a lot of information from that operator about how they are performing—load factors, patronage, average airfares, maximum airfares and all those sorts of things. It is clearly a position that a previous government took; we cannot take a contrary position to a previous government. Since 11 March, the inquiry has been set up under the new government

and I think that rather than us pre-empting the inquiry's findings, we are simply now saying that we have a position; we are set up to take a certain approach to aviation regulation in the state. We will wait for the inquiry to complete its findings, then draw conclusions and make recommendations to the Parliament, and then government can respond and we can work from there.

The CHAIR: As Terry just said —

Mr D.T. REDMAN: There are not many routes in regional Western Australia that do not have a significant interaction with the resources sector. One of the things that came out strongly, certainly in local views, was that the resources sector was running significant contracts with airlines for a number of seats, or different arrangements for how they might secure patronage for their commercial use. The local user sitting alongside those was paying a significantly higher price than they were. But for the airline to make a profit, it has to reach some sort of threshold of yield to be able to achieve that. I would have thought that at the very basic level, there is information that is uniform across all policy settings, whether it be tourism or whatever, to understand what is actually going on behind the scenes.

Mr BEYER: Your proposition is reasonable. We are not in a position to do that at the moment.

Mr D.T. REDMAN: What is the reason that you are not in a position to do that?

Mr BEYER: Because we are waiting for the inquiry to complete its work.

The CHAIR: But you are an expert agency with the depth of knowledge and the ability to say that for a whole range of purposes, here are some following datasets that would be useful for us to have access to in order to perform our function effectively. What are they? It is a very simple question.

Mr BEYER: What are they? The datasets as I mentioned, the ones that we could require as a condition of licence, are listed on one of the sheets that I provided to you, which is a summary of the minister's powers. The data is basically down to the point of saying that the prescribed records include for each calendar month, for each route flown by the aircraft, and each class of fare sold in the month, the number of seats sold, the average price and the average discount applied to calculate the price. There is a lot of information that we can request, but it requires a condition of licence. Likewise, we could ask: what is the actual passenger revenue the airline is earning? What is the cost of operating that particular route? How much freight is carried? What is the weight? What is the revenue? What is the number of flying hours? There is a lot of information we can request.

[10.00 am]

Mr D.T. REDMAN: Do you seek the profile of users on those flights?

Mr BEYER: That can be broken down as well.

Mr D.T. REDMAN: You have the information in order to get that?

Mr RYAN: You would have to survey on that basis to get that information.

The CHAIR: Passenger survey?

Mr RYAN: Yes, if you wanted to know what was the split between mining and people resident in the area and people going for leisure reasons, you would have to survey. We have done that on our regulated routes to understand the nature of the route, and that has been quite useful.

Mr D.T. REDMAN: The issue is not so much the regulated routes but the unregulated routes. You have used the words "market failure" three or four times in the presentation so far.

Mr BEYER: Or thin markets.

Mr D.T. REDMAN: Or thin markets. I would be interested in your assessment of what is market failure because there are a lot of people living in those communities who would suggest that there is, and that is a price-based market failure because they are choosing not to take the flight on the basis of price. Yet there are airlines running significant dead legs on the back of the resources cycle of FIFO workforces and the contracts that come in behind that. I thought that was a very basic bit of information that would be significant to your tender process for what I am assuming you would support as being an essential public service for the people who live in those communities.

Mr RYAN: If I could just give a bit of history of government involvement in regional air routes in WA. I am not saying that the decisions taken back through history were correct, but I think it is useful just to have that bit of history. The history has been of a slowly but surely reduced regulation by government. I think you have heard through the course of your inquiry that Geraldton used to be a regulated port. It got to a point where government said that the level of passenger numbers into that port was sufficient to sustain competition and it would no longer regulate it. That was in the 2010 review.

In the 2015 review government got to a point and said, with regard to Exmouth, we can have a lighter form of regulation. Basically, I suppose that if you were trying to really simply sum up what government is regulating and what it is not, where there is a monopoly operator, the government is regulating; where there is not a monopoly, the government is not regulating. Whether that is the right thing to do—that is the debate that is occurring through the committee—that is something that we need to grapple with. I think that the government through its election commitments has clearly put that front and centre on its consideration of aviation policy into the future.

I think the stories you heard when you went out to the regions have not really changed that much from when we went out through the regions with the State Aviation Strategy. As soon as you get off the plane, the number one complaint is that it is very expensive to travel by air in regional WA. The government at the time took a decision that it was going to continue the existing model of regulating monopoly routes. That obviously is open to the new government to say that that approach of just regulating monopoly routes is no longer appropriate. If it is no longer appropriate then a new model, both of policy and resourcing, will be required.

What Steve has just indicated to you is that the Transport Co-ordination Act does allow the minister to get a very wide-ranging set of data that would enable the minister to know exactly on every route the average airfare that is charged. We do not know that at the moment. How has that changed over the past 12, 24 or 36 months? What are the buckets of fares that are charged? What is the exact arrangement between the mining industry and the fares they are charged compared with people resident in WA? There is clearly some tension there, as demonstrated by a number of the stories that have been represented to the committee. I think we are at a tipping point where it appears that government had chosen to slowly reduce its regulatory footprint in terms of aviation. Government, through yourselves and through the election commitment, was clearly saying that it has been out to regional WA. There is an issue. We want to have a good look at this issue and there is a new way that we want to proceed that obviously is different from times gone by.

Mr S.K. L'ESTRANGE: Mr Ryan, just on your comment there, clearly the minister of the day will take advice from the department as to the changing market situation and whether the regulated routes are working or not. Do you update the minister as part of your normal course of work with regard to where markets sit on the regulated and unregulated routes? Do you make recommendations to the minister for the need to change, based on consumer needs?

Mr RYAN: I think the simple answer is yes, but I think, rightly or wrongly, the focus of the department has been around those regulated air routes. The history is that we have not sort of jumped into the

space of the unregulated routes to monitor them in any way, beyond engaging with local government and what have you. It has not been active monitoring; maybe that is the best way of putting it. There has not been active monitoring of the unregulated air routes.

Mr S.K. L'ESTRANGE: A follow-on question to the question I just asked would be: are you in a position with the data that you have collected to date to be able to make a recommendation of what changes should be made to regulated or unregulated routes?

Mr RYAN: Look, I think the first step that is necessary in terms of the unregulated routes—there is some commentary, again through the transcripts and previously, around the department's approach to regulated air routes. In certain regulated air routes, things seem to be going pretty well, with Albany and Esperance being examples. It is interesting, though, that if you had run this committee process three or four years ago and you had gone to Albany and Esperance, I think you would have had a very large hall full of people.

The CHAIR: We had no-one turn up in Albany!

Mr RYAN: I know. I think one of the things that Rex has done very well, and it has been a theme of your committee, is that it has been very upfront with the community. Day one when it got down there it said, "Right. Let's be really clear about every airfare and what we get, what Albany airport gets and what Perth Airport gets and you can see that's how the fare is split up." I suppose they went through, if you like, quite a good education process, and that increased transparency in my experience, having been there with Virgin and then with Rex. It took the heat out of the room—it really did. It changed the dynamic quite significantly. It is interesting to say, but the average airfare with Rex is not lower than it was with Virgin, but what it has done, I think, is just to be really upfront about what the story is as far as it, as a company, is concerned. It needs to make a commercial return, yes, but it also wants to be upfront with the community that it is trying to serve. I think it has been very innovative as well in the approach it has taken. To discount fares 24 hours out is very unusual in an aviation context worldwide, let alone in Australia. It has been transparent and innovative. I think the community has recognised that and there has been a positive response to that. Also, what happens on those regulated air routes is that you do get two opportunities when very senior people from Rex turn up and there is engagement with the community. That changes the dynamic as well. Yes, there are matters of fact that need to be understood.

Mr S.K. L'ESTRANGE: But this is the market sorting itself out. I am asking what the department is doing to try to identify where weaknesses exist and what the department is doing to lead the minister to enact change, or does the department—this is a simple question—simply wait for the politics of the day to tell the department what to do before it decides to actually action change?

Mr RYAN: To answer your question, in order to provide guidance to the minister, as Brett has indicated, you need a range of data. We can go and collect that data, but it would be a fundamental change for the government to start putting licence conditions on airlines on unregulated routes. If we want to make that fundamental change, that is fine. That would be essential to understand what is going on in those routes. You cannot give good policy guidance to the government of the day without that fundamental data. That is step one.

[10.10 am]

Mr S.K. L'ESTRANGE: So you have got to wait for the minister to ask you to find that data before you go and look for it?

Mr RYAN: No.

Mr HUGHES: I do not think that is the case. We went through the aviation strategy and the review of regulated air routes, and our focus most recently has been on implementing those policy

positions which have been developed and decided. At the same time, the criteria that underlie those policy positions are things like: what is a minimum level of service or an acceptable level of service? There will be a range of views on that. What is the level of regulation? A light-handed approach was deemed acceptable, and moving in certain directions—no subsidies on the routes, whatever those policy decisions of government are.

The activities that the department has done to date have been consistent with those general policy positions of government and the results of the review of regulated air routes. The position we have had for the past few years is that we have been operating consistently with government decisions and intentions, so we are kind of ticking the box to say we are doing what the government wants. At the same time, we do not stick our head in the sand and not see what is going on. We have been very active with the airlines in particular and with the airports to some degree as well to put downward pressure on prices. That is more of an influential function by dialogue and transparency, rather than a regulatory function, because we are meeting a minimum level of requirement as a regulatory function.

You know that governments have a lot to do. They have a lot of priorities. We could do any number of other things to put towards the government, but when the government considers that there are more important priorities, the things which could be done attract a lower level of priority and therefore a lower level of activity. Could we do more? Sure, we could. Is it a priority for government? That is a dialogue that needs to occur.

The CHAIR: This is part of that process.

Mr S.K. L'ESTRANGE: Ministers are reliant upon frank advice from the public servants. I suppose the minister is going to be taking guidance from the executives of the department on where there are faults with the system. I suppose my question comes back to: how frank, fearless and proactive has that advice been to date?

Mr BEYER: Sean, the whole focus of this inquiry is about price; it is not about whether a community gets three or four services a week or whether it gets a 20Z aircraft or a 30Z aircraft.

The CHAIR: Let us just be clear: the terms of reference for this inquiry are actually much broader than price. Let us be very clear about that.

Mr BEYER: Yes, there have been a lot of discussions about price. The issues around the cost of airfares for regional communities were obvious three years ago under a previous government. The government chose not to want to intervene in that for whatever reasons. We are now in a different circumstance. Yes, the market has slightly changed. We were dealing three or four years ago with pretty well most of the airports in the Pilbara and the Kimberley running at probably 500 000 passengers and supporting competitive air services. On the face of it, that looked like a competitive market.

Mr S.K. L'ESTRANGE: Three years ago was the start of the demise of the mining and construction phase.

Mr BEYER: Whether you conclude that a two-airline position is competition or a duopoly is another matter; hence, that influences how you might respond to that. The previous government took a position. We have the same issue now in 2017 and nearly 2018. I have briefed the minister on where the inquiry is up to and some of the key issues that are coming out of it. The minister has said that she looks forward to the inquiry being completed and will take the department's advice around the conclusions you reach and what conclusions we reach, but fundamentally we are at a point where we will need to advise the government and the government will need to make a decision about whether or not we want to get into the space of greater scrutiny of price as distinct from leaping to

getting into the game of price regulation with greater scrutiny. I think the discussion is really about what information we can get from the airlines and what are the resource implications to process that information. As Brett said, do we just do a scattergun approach or do we do a more focused approach?

Mr D.T. REDMAN: Your response suggests that the minister is of the view that you should be stumping up with information on what the options should be for government to make choices on, as distinct from waiting for policy settings to give guidance to that.

Mr BEYER: We will need to provide the minister with the implications, from a resource point of view, on if we wanted to go and get more information, so we start conditioning licences, which at the moment the road we have gone down is really a red tape reduction process. I think most of the airlines only operate with a five-year licence and it has got no conditions on it. If we want to go back and say, "Sorry, but we are changing the rules. We are going to start putting conditions on those licences to seek information A, B and C", then we have got to say to the government, focus on what information do we want to get and what are the implications for us in terms of trying to process that information. Once we have got that information and processed it, where to from there? Have we just simply collected information and informed ourselves better, or might we want to actually pull some different levers to influence price?

The CHAIR: Could you take on notice for us, please, if things are working on a five-year licensing cycle, what the terms are that are remaining for those licensing arrangements on the routes?

Mr RYAN: We can indicate that now. There is no restriction on government adding a condition tomorrow on a licence. You do not have to get to the end of a five-year term and then say, "Okay, we will now relook at the terms and conditions of those licences". It is available to the government to add conditions on licences when it chooses to.

The CHAIR: Thank you. Stephen?

Mr S.J. PRICE: Probably to you, Mr Beyer: the department did the State Aviation Strategy in 2015, I think?

Mr BEYER: It was released in 2015, yes.

Mr S.J. PRICE: And the review of the regulated routes was undertaken by the department as well?

Mr BEYER: Yes.

Mr S.J. PRICE: From those two pieces of work then the current policies that we have in regards for aviation were developed, and that is what you are currently implementing? I would like to blame the previous government for a lot of things but I am not sure this is one of them. It sounds like the department has developed these policies and is sticking to these policies because they are the policies you developed, based on your own activities. So how do we change that? It is this circular question we have been going around on.

You just made the comment that you would need to advise the minister on future policy changes. What are you going to base that on, considering the current approach where everyone has said regulated routes seem to be working well? There is a significant degree of transparency to them because essentially everything you have listed here is what they provide. So going forward, without implementing something like that, is there any other way that you think you will be able to get the appropriate information that you need to advise the minister that she needs to change, or tell you to change the policies that you are undertaking?

Mr BEYER: Let us not separate the department from the government. The State Aviation Strategy and the position about regulated air routes was a cabinet decision, not a departmental decision. So

it went to cabinet of the previous government, through the minister to cabinet, and cabinet endorsed that position.

Mr S.J. PRICE: Endorsed your recommendations, yes.

Mr BEYER: Well, cabinet can overturn recommendations and take a different view, and in some cases ministers will choose to —

Mr S.J. PRICE: I wouldn't know but, yes, sure.

Mr BEYER: — pull some stronger levers or they might say, “No, you are going too far, guys, you bunch of bureaucrats are just sort of empire building, we want you to take a more light-handed approach”. I have seen that plenty of times, but the fact of the matter is the current position about what routes we regulate, either by simply the monopoly route or where we want more information like Albany and Esperance and what parts of the market are open competition, was a cabinet decision. As Brett said, we have been implementing that cabinet decision over time and working to—that is the focus of our regulatory involvement with the market. Look, as we have discussed, clearly there is more information we can now seek from that part of the market which is operating in open competition, and I think there is clearly a *prima facie* case, both what was evident through the consultation leading up to 2015 and more particularly now through the inquiry: there is an obvious problem out there.

The conundrum is that we are in fact often getting a worse outcome when we have got so-called competition into the Pilbara and the Kimberley than where we have got a monopoly route running to Exmouth and Onslow, for instance, where the community has gone to those operators and said, “Well, look, you guys are operating a monopoly route, you have got a bunch of mining contracts or resource contracts, we want a bit of a community dividend here and we want to do something equivalent to what has been done like with Rex at Albany and Esperance”. Now, as I say, I am presenting that as a conundrum. I am not an interventionist and a regulator as such. The market does what the market does best but clearly the market does not always work in terms of that competition, and we have got to understand why is that conundrum that we are getting, on the face of it, a worse outcome in terms of the high airfares to the Pilbara, albeit with Qantas saying, “Well, only two per cent of people pay that airfare, the maximum airfare.” What the average person is paying for the average airfare we do not know, and we need to actually try to draw that out in some way, and that would be the advice we would provide to the government.

[10.20 am]

Mr D.T. REDMAN: What is your definition of “market failure”? We have had that term used on a number of occasions by people presenting to us in community forums. We have asked the question, “Do you think there is market failure?” They say, “Yes.” What do you see as market failure, and what are the signals that suggest that you would therefore make a recommendation to a minister about some sort of intervention?

Mr BEYER: We have a KPI, which we have in our annual report, that basically says what is the benchmark in terms of whether a community should get some level of air service or not? The indicator measures the percentage of local governments in WA with populations of more than 500 and that are located within 250 kilometres of an airport accessible by a sealed road and provide two or more regular services in each direction. The maximum target is 93.5. Peter, you might explain a bit more. I think the assumption is that the KPI can never reach 100 per cent. There are six of the local government authorities—Augusta—Margaret River, Kondinin, Kulin, Nannup, Narembene and Ngaanyatjaraku. They are not within 250 kms from the start of the KPI measurement. We are

currently at 93.5, and our measure is 93.5. So that is our benchmark: two or more services a week within 250 kays of an airport.

Mr D.T. REDMAN: So that is market failure on a service basis; it is not market failure on a price basis. Can you make a distinction in that?

Mr BEYER: That is right; it is market failure in the context of providing a minimum level of service.

Mr D.T. REDMAN: So there is a plane there but it is just too bloody expensive to get on.

Mr BEYER: Yes. Market failure might also be a Derby situation; they sustain jet services, albeit on the back of several mining companies in the region actually putting their workforce onto those jet services, the RPT services. The market changes, the mining companies go out of business, and all of a sudden Derby not only in fact does not even get a jet service at all, you have got to go via Broome, and hence the government says, “Well, look, we think that is market failure” on the basis that the only way to get service back into Derby is to probably subsidise it. That is a pretty rare situation.

Mr D.T. REDMAN: Do I take it that price is not a criteria in your assessment of market failure on an air route in Western Australia?

Mr BEYER: No. Except it is a factor that we require information of when we do regulate routes, because we want to make sure the community is not getting a bum deal from a monopoly regulated operator.

Mr D.T. REDMAN: Can I dial that question forward a bit? Obviously one of the reasons for the current government, and I would argue that there has been some pretty significant cyclical changes that have put us in the situation at this point in time, is the servicing of the people that actually live in those communities, right? So their capacity, in many cases a short-term decision, to get to family funerals, whatever it might be, there is a whole range of evidence that has been put to us that there is a pretty significant issue out there on price—not worried about the service but price is a pretty significant factor. Can the department provide to us as a committee a range of regulatory tools that we can use in our deliberations for having some sort of intervention on price for the local residents?

The policy that was put out in the 2015 review suggests that you want to take a light-touch approach and from experience in other states in terms of what the thresholds might be for regulatory intervention, but there is this issue out there of price being a significant factor for a number of players. So you might say, “We take a light-touch approach. We expect some competition. That competition is expected to reduce prices.” I do not think we have seen much evidence of that and I think what you said a second ago was that there is not much evidence in that, even the duopolies and where there are multiple airlines travelling to one port have not got evidence of low air prices compared to some of the heavily regulated routes. Right from a light-touch approach right the way through to effectively what might be a subsidy based on someone living in a local community, are you able to give us some options and choices there that we might consider in our deliberations as a committee on this issue? I would argue that the people who live in those communities, if we describe and you describe that airline flights are an essential public service, then price is actually a factor in that.

Mr HUGHES: I understand that. I think we can do that. I think we can provide a range of options and regulation is only one option as well, but just park that thought. We will respond to you on that.

Mr BEYER: Terry, are you looking for us to provide some supplementary information, like a two-pager, to explain it?

Mr D.T. REDMAN: I would like something such as a continuum from your suggested light-touch approach, which is probably what you are suggesting, and you are working under previous

government policy, right up to effectively giving someone a subsidy who happens to live in a local community that is serviced by these routes.

Mr HUGHES: With respect to the market failure, it also depends, as I said before, on what your objective is. Clearly, there is serious concern in the community about things like last-minute airfares.

Mr BEYER: Where we are coming from is that you have had a range of representations to the inquiry, whether it be from the tourism sector, the community sector, the business sector and obviously from the airlines and government departments. Rather than saying that there is a range of tools but we do not necessarily think that all those tools are applicable in a blanket way across the routes, what we would be looking for is to start to, firstly, be better informed. I think that is part of the direction you are going. That is putting conditions on licences to get certain information, especially in the price space, and then supplement that with some passenger survey so that we can get a better idea of who is travelling.

We are taking evidence from various sectors that there is only three per cent of the community, or five per cent of tourists, and 95 per cent of businesspeople, who may be government or mining sector people, I think being better informed on a route-by-route area or a sector-by-sector—maybe Pilbara, Kimberley, east and west—and then asking with that information about price and about who is travelling, and other information, what is the best way. If there is a plane that is going to Mt Newman and it is 95 per cent full going up and 95 per cent empty going back, why can the community not get access to a better deal? And does that return air service actually meet the community's needs? There is no point in the community saying that they travel to Perth and then have to pay a \$750 return fare, so we can negotiate a \$500 return fare which might on the face of it look good, but the only way they can get to Perth and back is to stay overnight in Perth and spend 300 bucks on a hotel, so there is no net gain. It is trying to get down to some of the detail on a sector-by-sector or route-by-route area and asking what are the best tools for that rather than saying, "Here is the answer across the whole state."

Mr D.T. REDMAN: I agree with that. I do not think you can apply one size fits all. But I think there are tiers of routes. You have the biggest—the Kalgoorlies, Geraldtons, Karrathas and Broomes—and then you have your Monkey Mias and the smaller Albany—Esperance, and probably add another tier. That means that if you have tools that can apply over those tiers, I would be happy with that description. There are some strategies that can apply with that. I do not want you to be having the lens of the last review that you are putting everything through before it comes to our table. I would like some genuine government options.

Mr BEYER: That is fair enough.

Mr HUGHES: Also I would like to get back to the concept of market failure, which is a valid issue to tease out, because it is different for different people. The tourism operators, for instance, will say that there is a market failure because there is no GDS on some routes; or there is a market failure because the average prices are too high for tourists for whatever reason; or the local communities are saying that they cannot afford a last-minute airfare. It depends on what objective we are trying to identify as to what the market value is. There is always the issue of how big is this world that we are trying to solve and what are the real issues?

The CHAIR: Mr Beyer, can I come back to your comments about communities getting a better deal? Literally the day we left Kalgoorlie, Qantas came up with a deal for certain regional centres and a discount off their fully flexible fare. Was the Department of Transport engaged at any point prior to that announcement or subsequent to, and what has the nature of those engagements been?

[10.30 am]

Mr RYAN: A bit like Brett was saying, while our focus has very much been regulated air routes, we obviously are not blind to the discussions going on in the public realm around aviation issues. We meet regularly with Qantas, Virgin, Rex and Skippers et cetera. Qantas has the biggest footprint in WA in terms of the number of routes. When we sat with Qantas 12 or 18 months ago, we explored with them the idea of the resident airfare. We looked at what options they could develop to address that. They came up with a range of things. Clearly, the work they did was not—that had been a work in progress; it was not something that was knocked up after the committee was announced or when the committee started its public hearings. These processes of engaging with airlines continues. In that particular case, yes, we had been talking to Qantas on a resident airfare and they had been exploring options. Once they got close to the decision point of going forward, there was a range of engagement with us, talking about what they were looking at doing, why they were intending to go in certain directions in the weeks leading up to the public announcement.

The CHAIR: Did they talk to you at all about their engagement with the local governments or the local airport operators as they cooked up this idea about a community fare?

Mr RYAN: Clearly they are engaged with the local communities. They obviously deal with the airports because they are paying landing fees and head taxes—those sorts of things, so that dialogue they have is ongoing.

The CHAIR: And they have told you that? Have they told you that they specifically engaged with the airport operators prior to making that announcement in Kalgoorlie?

Mr RYAN: We did not specifically touch on that. In our discussions with them on the resident airfare we talked about what the resident airfare was all about. We did not so much focus on what process of consultation they had gone through.

Mr BEYER: We were briefed by Qantas before they made their public announcement.

The CHAIR: How far in advance?

Mr BEYER: Very close to the public announcement. In other words, it was not a consultative process to say, “What do you think? Can we do anything better?” Let me go back a little further—I do not want to go back 18 months. Within the time frame of this inquiry, Peter has been in active discussion with Qantas, and not just their local guys who are more schedules and operational people, but saying, “You need to get your eastern states people serious on this one because there is a real problem here. You knew about it several years ago. It works now. It’s got a parliamentary inquiry. Don’t do a patsy on this one. You’d better get your act together.” So they started to think at head office level in the eastern states and, hence, that has led to Qantas being active and saying partly around what they can do better in offering that resident airfare. That range is influenced, as you say, by Qantas in the Kalgoorlie case being able to provide a better discount because they have been able to do a deal with the local authority in relation to landing charges. Clearly, that is a point of difference between some of the examples over east where some local authorities choose to cross-subsidise their airports, whereas mostly in WA we understand that it is not cross-subsidised. They see it as a cost centre and it has to pay its own way.

Qantas has obviously been able to achieve a better outcome for Kalgoorlie because they have done a direct deal with the local authority, and the local community, essentially, as has Exmouth and Onslow, where the same operators are operating there and providing a better deal. I think it gets back to our point that this is going to be influenced by local communities and their elected representatives working and exerting some pressure on the airlines to come up with a case-by-case result.

The CHAIR: Do you think that really local communities—small towns—have the sort of bargaining power where they can exercise some sort of leverage over the airlines?

Mr BEYER: I think they do to the extent that they also have partners with the big mining industry also utilising their airports as well.

The CHAIR: Where the big miners operate, but that is not necessarily the case across the state.

Mr BEYER: I agree with that; it is not necessarily the case. A lot of the mines have their own airstrips, for instance. It is not a generic comment, but it requires you to utilise leverage or influence where you can as distinct from mandating outcomes. If you cannot influence or get leverage, you have to make the call to say what powers you can do to achieve a different outcome.

The CHAIR: What about the nature of your engagement with Virgin on these types of issues on community fares? Is there any difference in the approach? Obviously, there has been a process that you have been involved in with Qantas. Is it similar with Virgin?

Mr RYAN: We sit with all of the airlines on a regular basis, both the people who are local and also the government relations people particularly who operate out of the east coast. It is a similar process that goes on with both. You would have heard from Virgin through the process of the inquiry that it has put in place resident discounts in previous times. They were not convinced, given their experience of them, that that worked.

The CHAIR: Who did it not work for?

Mr RYAN: Well, that could be explored more.

The CHAIR: That is very diplomatic!

Mr RYAN: All commercial decisions need to work for both parties; they need to work for the airline as a commercial entity and they need to work for the community as a community outcome. I suppose that is one role that I think the department has played in trying to balance off those two needs. The community airfare that exists in Albany and Esperance, we have been front and centre in facilitating that agreement. That was a very new thing for a council to say that it was going to change dramatically its fees and charges approach and sufficiently educate its councillors, its council. To say, "We want to take a brand-new approach to how we do fees and charges" requires quite a few steps, both at an officer level and at a council level. We were very much involved in talking that through with the councils, particularly in the case of Albany.

The CHAIR: I would like to pursue a line of questioning that is a segue from that comment around tendering. But does anyone want to pursue any further questions along the lines we have been?

Mr D.T. REDMAN: I have a new line. On your list here of what comes under the Minister for Transport's regulatory powers are certain airports that require an aircraft licence. I notice that the list does not contain a number of mining companies, as we have discussed before, such as the CITIC mine south of Karratha. Just remind me what the regulatory controls are over such airports and aircraft that land on those airstrips.

Mr RYAN: CITIC Pacific has its own airport. It is about 80 to 100 kilometres distant from the Karratha Airport. The state does not have control over an airline taking a decision to fly for a mining company between Perth and a mining airstrip, if you like.

Mr D.T. REDMAN: Are they essentially unregulated strips?

Mr RYAN: There is the capacity. If we wanted to add to that list of ports, we could choose to do that, but the focus of the state has been on ports that have an airport attached to a town. Again, if the state wanted to change tack and have a broader role in terms of conditioning licences associated

with flying to mining airstrips—when I say “mining airstrips”, some of these are very substantial facilities taking very large planes—we could do that, but we currently do not have that regulatory capacity.

Mr HUGHES: Can I just add to that. Those airstrips are approved in some cases at least as part of the state agreements, which then involves a different process and a different level of restriction if that agreement is in place.

Mr D.T. REDMAN: So the state agreement takes superiority over other regulatory tools?

Mr RYAN: It could do. The other thing is that, interestingly, it is actually the Minister for Mines and Petroleum in Western Australia who approves mining airstrips.

Mr D.T. REDMAN: My next question is, I have heard on the ground that CITIC Pacific is potentially asking other mining companies if they would want to use their strip as a landing point for traffic in and out of that region, rather than going through Karratha as a state-regulated port. What regulatory tools would be appropriately utilised if you were to seek an objective to stop that happening?

[10.40 am]

Mr RYAN: You would have to add to the list of airports listed on that sheet there.

Mr D.T. REDMAN: That is just a regulatory process.

Mr RYAN: Yes. If you were to do that in a uniform way, you would have to add all mining airstrips —

Mr D.T. REDMAN: So you cannot pick just one strip?

Mr RYAN: You could. From a viewpoint of trying to have a policy that was consistent across all mining operations, I think CITIC Pacific might feel they were being a little targeted if they were the only mining airstrip to be added to that list of RPT ports that we regulate. But you certainly could add just one or two if that was the choice of the government. We are very aware of that general debate that goes on, whereby councils are saying, “Look, we are investing significant dollars in these airports in terms of the infrastructure cost.” There is an argument to be made that, therefore, we should concentrate aviation activity through those airports, so that is certainly the argument the local council has put. The mining industry on the other hand has said, “Hang on, we’re competing in an international market here. We need to have the best, most efficient logistics chains we can. If our decision is to go direct to mine site to improve the efficiency of our operation so that we can best compete in a world market, surely that is up to us.” They are your two arguments in respect of that matter, but both arguments have their merits.

Mr D.T. REDMAN: So if you made a regulatory change, the Minister for Transport could pick up jurisdiction of that.

Mr RYAN: If that is what she so determined, yes, she could. One of the things I might just touch on very briefly is that Brett often talks about unintended consequences, but one of the things that actually works well in the Pilbara is that most of the mining traffic is on RPT flights. That is good, because if they are on RPT flights, that means more RPT flights that are available to the community. A comparison to the Pilbara is the northern goldfields, where the vast majority of flights into the northern goldfields are actually charter, so the community cannot access those flights. The government would have to be mindful in intervening in the RPT air routes in terms of regulation that it did not create a circumstance whereby mining companies started to say, “Hang on, we’d prefer to operate charter into the Pilbara.” Some do operate charter into the Pilbara, but the majority of access into the main Pilbara RPT ports is by RPT, which I think is really great.

Mr D.T. REDMAN: Hence the importance of factual information about what the behaviours are out there. I guess a strong point that the Chair has made to yourself is about what you see as the appropriate information to make those decisions given your expert knowledge and the sensitivities that sit around it.

Mr RYAN: Just one point if I could: I suppose this is a slight point to the side, but hopefully it is useful to make. Five to seven years ago the New South Wales Parliament had a parliamentary inquiry as well into regional aviation. The focus of that inquiry was that the regional towns across New South Wales were losing their air service. The recent history of Australian regional aviation is a history whereby the number of regional towns across Australia serviced by RPT has been steadily declining. There is a slight change in the past couple of years when it has jumped up a little. But the broad trend has been a loss of RPT air services into regional Australia. Indeed, it was so extensive that the New South Wales government said that it wanted an inquiry into that. We just have to be aware that there is a whole range of things that we are trying to do in regional aviation. Obviously, you have highlighted price, but if the people from Derby were sitting at this table, they would say that first and foremost they want a service.

The CHAIR: A service —

Mr RYAN: A service.

The CHAIR: — recognising that it is essential.

Mr RYAN: Yes. Again, going back to what Brett says, the objectives are important. The first thing for most regional communities is: let us have a service. The second thing is: let us make that service appropriate to the community need.

The CHAIR: I am really conscious that we are already a quarter of an hour over time, but I really want to talk about tenders. So I will ask some pretty direct questions.

We have spoken, and there has been a heap of evidence to suggest, that the arrangements that have been entered into in Albany and Esperance are working pretty well. There was very little controversy when we visited the area. The one bit of feedback that we did get was about the tender process itself, the degree to which local government was engaged; indeed, when tendering is discussed throughout regional communities, one of the pieces of feedback we have had is that in preparing tenders for routes, actually engaging with the local community ahead of time to understand what their service requirements are is a pretty important part of the tender design process. Then to the degree that it is possible, because I understand the constraints around tender processes, the degree to which there is some opportunity for local communities, airline providers, to enter into discussions about things like landing fees and how can we optimise the landing fee arrangements and the fares to deliver the best outcome to the community. That has come through to us. So I just wanted to get an understanding of your tender design process, your tender construction process, and then the degree to which there is some opportunity for a more iterative process to go on through tendering for routes.

Mr RYAN: Yes, okay. So when we tendered in 2015, all the regulated air routes were tendered. So Albany, Esperance, Carnarvon, Monkey Mia, along with the northern goldfields—there are five ports in the northern goldfields. We had not tendered those routes for five years, so through that period obviously a lot of change in personnel, council members et cetera. We had the community consultation groups that were continuing through that time period of around just before 2015 as part of all the regulated air routes. So, we used the community consultation groups to set out with them what the key criteria for the air routes were intended to be. We were, I think, quite upfront with saying to the community, “Look, you obviously want the best outcome for your community,

we want the best outcome for your community, part of getting that best outcome is designing the tender process appropriately.”

The CCG is the community consultation group; that is a requirement of every regulated air route. The requirement is that the community consultation group meets twice a year with the airline. Steve was just asking who is on that community consultation group. You have all the key representative organisations, so you have the local council, the chamber of commerce, local tourism groups, health organisations and development commissions. So that gives you some sense that hopefully it is a fairly wideranging group. In some cases where the local member —

Mr HUGHES: And the airlines.

Mr RYAN: Of course—and the airlines, yes. So they are part of it.

In some cases where the local member has been very active, they have actually represented that they want to be a part of the community consultation group and they are members of the community consultation group. Peter Watson being, I suppose, a very strong example where he attended and was part of that group. So we went to the community consultation groups and we said that this is the structure of the tender in terms of the criteria that we are going to use, and we had quite a lot of dialogue with them around that.

[10.50 am]

Just to give you an example, if you can go to the information that was handed out to you on the regulated air route tender. There are three basic criteria: 50 per cent was on the air service and the subcomponents are listed there. The infrastructure capability: well, what aircraft are flying? Then the route development and community engagement plan. Now, this last criteria was specifically added in response to community concern. They said, “How is the airline expected to engage with us? What are you going to do to make sure the airline appropriately engages with this community?” So we said—this was after a range of discussions with airlines as well as with the community—we will have a requirement within the tender for a stakeholder engagement plan. So they said, “Good, fantastic; but we don’t just want the airline to think, ‘Ah, we’ve got this route, we’ve tied it up now for five years, we’ll sit back and relax’, we want this airline to be actively involved with our community in growing the route, building the route in terms of the economics of our local community.” I suppose that is another theme. Yes, people want reasonable fares, but I think once you drill down a bit and have more time with the local community, they see, very often, aviation as a driver of economic development within their region. So they said, “How is the airline going to demonstrate to you that it’s not going to be set and forget? The main headquarters are on the east coast, how are you going to ensure that it’s not set and forget?” And so we said, back and forth, back and forth, that we are going to come up with a route development plan, and that again will be a specific component of the tender process. So I suppose that was the process we went through.

I think in terms of the criteria that ended up appearing within the tender, people might have had concerns about other aspects—and we can talk about that—but certainly in terms of engaging with them about the criteria used, we can mount a reasonable case that we had this very strong and very transparent engagement with them.

The CHAIR: Thank you for that. You mentioned that all the routes individually went out to tender. It has been suggested to us that it makes sense to package the whole of regional Western Australia up as one tender and put that out, or that it is appropriate to identify packages, if you like, of routes of a similar nature to achieve scale and put those out to tender rather than just going route by route, potentially on sort of cliff-face termination periods. Has the department had a look at the way in

which it tenders for routes collectively, bundles up to achieve scale, and how you might achieve efficiencies or get some of the benefits of transparency by doing that?

Mr RYAN: I suppose in terms of that airlines, when they make decisions, have to make decisions for the long-term; the aircraft themselves are very expensive pieces of equipment, decisions cannot be made quickly, moving aircraft around the country. When we tendered in 2015, yes, we did go with every regulated air route in one go so that the airlines could consider all routes as a whole so that they could examine Western Australian regulated air routes, “How do I want to respond to the offering of government in terms of regulated air routes?” So it is not as though we —

Mr BEYER: But it was not done as a job lot. In other words, we are not putting this whole package out saying the package goes to one operator.

Mr RYAN: No.

Mr D.T. REDMAN: It was a market sounding, was it?

Mr RYAN: What was that, sorry?

Mr D.T. REDMAN: It was a market sounding?

Mr BEYER: No, no, it was a tender.

Mr RYAN: No, it was a tender process.

Mr D.T. REDMAN: A proper tender.

Mr RYAN: All the routes were put out as one. I suppose in some ways what we were doing was giving the airline the visibility, all air routes in one go, and then they could start making decisions around—given the fleet of aircraft they have got, because some aircraft are more suitable to some routes than other routes—how best they can present to government what options through the tender process they wanted to put forward. But as Steve is saying, we did not say that this is one single job lot we are going to put—if you win it, you win the lot; if you do not win it, you get nothing. We did not take that approach.

Mr D.T. REDMAN: Have the airlines —

Mr BEYER: Perhaps a point behind that, there is a material point about the 2011 and 2015 tender processes which we would like to make but which we cannot make in the public environment.

The CHAIR: Okay.

Mr BEYER: And I think it does influence part of that answer.

The CHAIR: Okay.

Mr RYAN: Yes.

Mr HUGHES: The other part of that answer is that those routes were packaged to a minor degree, with Albany and Esperance going together, the northern goldfields going together, and Carnarvon–Monkey Mia going together. The rationale behind that, without it being very explicit, is there was an expectation that certain airlines were more likely to run those sorts of services as opposed to being able to run them all. That is, it was unlikely that there was an airline that was going to be able to run a jet service to Derby at the same time there being an airline to run small aircraft to the northern goldfields.

Mr D.T. REDMAN: Yes. That comes to my earlier point about tiers. I think there are tiers where you have got turboprops versus jet services, which will be a different scale. Have you had airlines come to you with suggestions of how this might be packaged, to give them some efficiencies—for

example, that tier 2 bid, if you were to bid the Esperance–Albany, the goldfields runs and the Carnarvon–Monkey Mia as one package? Have they come with those sort of proposals?

Mr RYAN: I think in the same way as we went to the community, we also sat with the airlines prior to the tender process. We did not want a tender process where we put the tender out and the airlines go, “My gosh, how did they ever come up with this arrangement in terms of tendering? This is going to make it really difficult for us to put our best foot forward and put the best offer forward to the state government.” We did sit with them to try to understand how best to present the tender to get the best result. Again, like the community, I think we want no surprises. We tried to operate on a no-surprises basis. By the time the tender went out, the community did not have any surprises in terms of how it was going to be put out. Equally, the airlines—we have been engaging with them—did not have any surprises as to how it was going to be put out in order to reach that objective of the best outcome for the state.

Mr D.T. REDMAN: We talk about a thin market in many of the routes. Do we have a thin supply in terms of how many bidders come to the table and, therefore, is that one of your challenges to couch a tender because effectively they have only two players? Correct me if I am wrong there.

Mr HUGHES: Without going into the specifics of who tendered or whatever, the structure of the airline industry around Australia has been contracting in terms of the range of airlines that are available and the routes on which they fly. For instance, Qantas has contracted to the extent that it does not run turboprops in Western Australia at all and, therefore, it does not have a business model that suits some of the routes that perhaps some people would like them to fly on.

Mr BEYER: So yes, the market is thin.

Mr D.T. REDMAN: So that is a factor in your play when you tender?

Mr BEYER: It is a reality, and I think there is a cost to any airline taking on the licensing as an RPT operator as distinct from a charter. I think that probably reflects that we have actually got a thin supply in WA and we have to be mindful of that. Equally, we have to be mindful that individual communities do not want to be played off against one another. A reason why Geraldton was liberalised was that Geraldton was seen to be the honeypot to enable airlines to service other parts of the south west land division.

Mr RYAN: There was a dramatic change in the past couple of years in WA that is not true of the other states: Qantas and Virgin do not operate any prop services in WA any longer. They both were involved in that market. They have now said that WA is a jet market so that is a very important factor, I think, in the future regulation of this state.

The CHAIR: I apologise for going over time but this is our last opportunity to have a good talk to you. I think it was very important that we explored the issues. Thank you for being so forthcoming with your evidence. We will very briefly address the issues in closed session that you would like to raise with us. Apologies to everyone who is hanging around. We will try to be as quick as we can and then we will invite everyone to come back into the room.

[The committee took evidence in closed session]
