

# **ECONOMICS AND INDUSTRY STANDING COMMITTEE**

## **INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA**



**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 18 SEPTEMBER 2017**

### **SESSION THREE**

#### **Members**

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

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**Hearing commenced at 11.36 am****Mr BOB DAVIS****Director, City of Greater Geraldton, 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 to my left, Terry Redman, the member for Warren–Blackwood; Yaz Mubarakai, the member for Jandakot; and Stephen Price, the member for Forrestfield. Sean L'Estrange, the deputy chair, is an apology today. 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 for your very comprehensive submission to the inquiry. It really was a great submission.

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

**Mr DAVIS:** No; I have appeared before Parliaments in other places.

**The CHAIR:** We will be gentle with you! Do you wish to make a short opening statement about your submission? Sorry. Before you proceed, I should also advise you that this hearing is being televised both within Parliament House and also on the internet.

**Mr DAVIS:** Okay. I do not want to make an opening statement so much about my submission; I am assuming you have read it?

**The CHAIR:** Yes.

**Mr DAVIS:** I have watched with great interest the submissions from others and seen some of the transcripts of hearings that you have had. I confess to some surprise at some of the hysteria around the issue, and I confess to some astonishment at some of the statements made by both Virgin and Rex in relation to regional airfares and regional aviation in Western Australia. If the opportunity arises after you have had a conversation with me about my submission, I would like to make some commentary about some of those things because I think some of those require a response.

**The CHAIR:** The floor is yours, Mr Davis. We would be very happy to hear from you.

**Mr DAVIS:** Rex is a new entrant into Western Australia, very much entering the market when Virgin retired its F50s from Western Australia and its fleet and withdrew from Esperance and Albany. So, they are a new player in the game. It is very obvious from their submission to this committee that they have had very, very little interaction with regional councils in Western Australia. In discussing our regional councils in terms of having myopic mindsets, it really did not do a lot for their future in terms of relationships with councils other than the councils they are currently dealing with. I was a little surprised that they went off on a flood of fancy like that. I was also astonished that they have such little understanding of Western Australia that they think things like it costs \$600 000 or \$700 000 a year to run a regional airport. I do not know what kind of airports they are describing. For example, to illustrate the point of scale and difference, it cost me something like \$850 000 a year just to do security screening. So, they are talking about a scale of bush aerodromes, I am assuming, that do not have a lot of relevance to the major regional airports in Western Australia, and I was a bit disappointed that they came out with that kind of a conversation. It did little; I do

not think it added any value to your process. Then their conversation about how they would regulate—naming Geraldton, for example, in dispatches, saying they would love us to run to tender again. Our council would not invite that. We do not want re-regulation. We are very comfortable with high-speed jets. We do not want 34-seat turboprop aircraft serving our Perth route. In terms of how Rex has approached this as an issue to this council, I am disappointed.

[11.40 am]

In relation to Virgin's submission, you may have had the opportunity, I think, to have seen previous hearings on aviation in Australia with the Productivity Commission and with the ACCC; and, if you have not, it is worth a look, because there are some echoes in submissions to you on the issue of aviation and regional airfares. The ACCC, for example, I think had a hearing where some of the airlines complained vigorously about abuse of market power, and the commission found, to our delight, that the airlines actually have more than enough countervailing market power to beat the heck out of small councils in the bush. But there are some echoes in Virgin's submission to this committee looking at the issue of imposing a cost and price-cutting regime and so on on councils.

In response to a conversation that I had with another airline, which has a less vigorous view and does not want to see regulatory imposition, I made the point that I would love to be able to price to get an eight per cent return on investment like the capital city. I would be delighted, but it would kill aviation in the regions if we priced at that level. In our particular case, if I can get one per cent return on investment at Geraldton, I think I am doing very well. For example, we are very conscious of the price sensitivity of the Perth–Geraldton route, and it is highly sensitive. We have dropped away from nearly 140 000 passenger movements a year to 108 000, I think, with RPT this year. It has been significant. That reflects the fall away that we have seen also with Pilbara Ports as the resource sector has shifted away from huge investment in new mining to a production base. We have seen a slowdown, for example, in the magnetite mines in the midwest with their activity. We have dropped away significantly. We have noticed this since 2013. We were highly conscious of it. We were very protective of having Virgin and Qantas operating through our port with high-speed jets. We wanted to protect that; we do not want to lose that.

Sure, entering competition did not reduce airfares into Geraldton, but it did not increase them either; whereas, before, Skywest was operating solo and had a free hand in terms of pricing of services all through the midwest. The competition we see as being good, we want to sustain that, so we have frozen passenger service fees and landing fees for three years in a row; the council has done that again for this current financial year. Whereas I think some of the airlines have a cynical view about regional councils having a myopic view of aviation; our council is progressive and I would defend our council very strongly on this. They have been progressive in developing the airport. We have been progressive in planning it. We have been progressive in terms of protecting aviation services into Geraldton, and that serves also, with Geraldton as a hub, the smaller charter carriers that operate out of Geraldton and do business throughout the midwest. We have two resident at Geraldton: we have Geraldton Air Charter and Shine Aviation. Their business has fluctuated, but we see growing business in terms of what they do. We would like to see growing business in relation to what all the airlines—the one thing that I do agree with them all on is that we need to do investment in tourism packaging. Geraldton is not a tourism destination airport. We get a very, very small number of fly-in tourists. Geraldton is very like the capes region—most people prefer to drive because when they get there, they need a car. It is really that simple. It is a couple of hours' drive, and now we have got the coastal route going to Geraldton, it is a four-hour drive. It is a pleasant drive up there, provided you do not get killed on the Lancelin section of the highway. But that particular issue aside, it is a comfortable drive.

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For families, we do note that some regional councils are subsidising child fares. Geraldton does not have that benefit at the moment. For families, flying is not an option.

We do get special prices. Today, for example, it cost me \$200 each way to fly here. For me, with what I am worth an hour to my council, that is good value for money. I do not think that is excessive. When you go to the upper end of the scale of pricing into Geraldton, yes, it is expensive, but because you can buy specials all the time, it becomes tolerable for businesses. The development of tourism —

**The CHAIR:** How far in advance did you book?

**Mr DAVIS:** A week.

**The CHAIR:** A week in advance?

**Mr DAVIS:** Yes. I mean, everyone has waxed very eloquent about how wonderful it is, the big specials Qantas is offering. Well, they have always offered those. They always offer those. All they have done for the FIFO ports, and not for anyone else, is they have said, “The FIFO guys are buying all the advance sale specials, let’s reserve a few. If you have a frequent flyers card, we will reserve a few for domestics.” We do not have that problem; we have the opposite problem. They are the only people who fly, so we know our people are getting the benefit of those specials all the time, which is why we were not included in the list. But, obviously, we were included in the Great Western Australia sale list, announced just a week or so back.

The development of tourism is something we are putting a lot of energy into.

The interaction with the airlines that we have varies. We have a really close relationship with Qantas. They came new into the market. When they went through their great capacity war, all power was withdrawn to Sydney pretty much for both of the majors, and we lost that direct interaction that we had with the two airlines, which was Perth based. A lot of the power went to Sydney. A lot of it has not come back. It seems more of it has come back with Qantas than the others. During that period of time when they were being very, very aggressive with regional airports all over Australia, and they were being aggressive—threatening to withdraw services if we did not reduce fees and all of this sort of stuff—Qantas was kind enough subsequent to that to apologise. We said, “We’re tired of this. We’ve never seen you.” So Qantas sent a group of its senior managers to Geraldton. Qantas took the time and effort to do that. We have never seen anyone senior from Virgin, pretty much. The nature of the relationship varies. I do not know what relationship other regional airports have with Virgin. Ours, I would have to say, deserves some attention. We are keen to have the conversation.

For us, the attitude of Qantas is a little bit refreshing. They are open to conversations with us about would we be prepared to not impose our airport fees and charges if they trial new services on route development and so on, and of course we do. We have those kinds of conversations. We do not have difficulty in conversations with them on things as simple as lease of their terminal space.

**The CHAIR:** Are you talking to them over east, to their Sydney-based staff?

**Mr DAVIS:** We do both. For both carriers, most of their lease and commercial-related work is not done in Perth anymore; it is actually down out of their east coast offices. We have those conversations. The difference is we have very frequent conversations, and they are not just simply episodic or incident-based conversations; they are frequent and ongoing. One of the things that I think the public servants in Perth have difficulty understanding is that we have a day-to-day commercial relationship with these major carriers. We do not have episodic meetings once a quarter to find out what Virgin are doing; we deal with them every day. We run a 24/7 airport that operates

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365 days a year, and we have aircraft of both carriers coming through, so we deal with these people day to day.

The nature of our understanding of how regional airports operate is very different from the distance-based view of people in Perth, with due respect to the committee. Parliamentary members from the regions, they understand this. It is out there with the people who are doing it to understand this better than anyone and who understand the fundamental issues. Developing the relationship so we can do route development—there is no question that unless we start to do route development, then Coral Coast tourism, for example, as a major issue for Western Australia, will not develop. We have the circumstance at the moment where you cannot go anywhere except through Perth, in terms of changing the way that aviation works.

One of the advantages we did have with Skywest was we had milk runs. Carnarvon and Shark Bay and all those little places were subsidised by the services that went through Geraldton and the Pilbara ports and so on. Meekatharra and Wiluna had servicing with larger aircraft. But with that change in the nature of regional air services delivery in Western Australia, what you have seen is a slip away of 50-seat turbos being able to go in occasionally to the smaller ports and the inland ports, and down to 19-seaters, or in the case of Esperance and Albany and what has happened with them with 34-seaters. There is a hell of a lot of difference in the quality of a service between a small turboprop and a 100-seat jet.

[11.50 am]

**The CHAIR:** We noticed.

**Mr DAVIS:** Yes, you will notice. When people say, “Let’s go to the market based on airfare price only”, they need to ask the question: why not ask the people who fly in these little aeroplanes—in the small Skippers aircraft—how comfortable it is on a really stinking hot summer’s day or through a thunderstorm or a winter storm versus flying in the 75-seat turbo? When Qantas had their Q400s here, they were as fast as the jets and they were almost as comfortable as the jets relative to the F50s. When the Geraldton people were exposed to even the shift to 75-seat aircraft, and they were new ones, they took 50 per cent of the Geraldton market within weeks. People went to the Qantas brand and they went to the new aeroplane. They went to the comfort of the larger aircraft. Quality of service is not trivial. In particular, what you will find in an ageing population in the regions is that a lot of the people who get onto these aeroplanes are older folk, like me. The last thing you want is to be bounced around in a Tiger Moth going through a summer storm coming into Perth or going back out from Perth. The notions that have been argued, say by Rex, are just silly. There is no way we would want 34-seat aircraft doing Perth–Geraldton; we just would not want it. Could we afford to drop back to Q400s? Yes, that would be comfortable and they are almost as quick as the F100s. They are new, they are nice—their nose wheels wreck your pavement. This is an airport operational issue: it would be nice if they stopped doing that with the Q400s, but that is an issue all over Australia with the quality of pavements and the poor quality of asphalt because they take too much benefit out of the oil now and you get rubbish bitumen.

It is understanding those sorts of issues that some of the airlines do not put a lot of attention and effort into. Qantas, from our perspective—they have about half of our market—are putting more effort into us. I am happy to commend them for that effort; it is worth noting. People think that they are just Big Brother and beat us up, but they do not. They may have less calm relationships with a number of other regional airports—Qantas does not hesitate to challenge you on price setting. Our approach to that was really simple. When they offered to come and bring their senior people—their airport planning people, their fleet management people, their senior contracts people; they all

came—we said, “When you come, our books are open. If you are concerned that regional airports are price gouging, here’s our books.”

**The CHAIR:** That has been an issue that has come up an incredible amount. Does Geraldton Airport cover its costs? Are you sustainable?

**Mr DAVIS:** I am one of the few small airports in Australia that actually operates at a surplus. But because I have frozen my landing fees for the past three years that is marginal. The Greenough council, when they ran the airport, had a very strong policy position—much to their credit, I think—that every cent of the surplus that they made went back into the airport. Since the merger of Greenough and Geraldton, that has been maintained as a policy. The arguments of Rex of hypothecating—sensibly, if you are going to have a standalone thing, if you are running at a surplus, is that you put your money back in. We do that; we have always done it. Now I am starting to run a little bit short. Your capacity to finance asset renewal is the big bit, and this is where we have hit the brick wall. Not so much because we have not made provision for renewal, but because of the way the market changed. There are implications if you shift from running small turbo aircraft to suddenly two major airlines running 100-seat jets parallel scheduling. What does that mean in terms of what you have to do for your sterile secure areas and your departures lounges? You need to have a departures lounge that can have 200 people in it, so we had to build a new departures lounge. Our arrivals area was fine and the capacity of the baggage handling facilities and everything was really not a problem, but we did have to grow our security screening area. In the period since the commonwealth introduced mandatory screening, we have done two extensions of our terminal, and I had to borrow money to do that.

We worked down our reserves and that did not leave me a lot of money to begin to look at the major problem we have with airport pavements. This seems to me to be one of the elephants in the room for regional airports. When you look at the migration of regional airports to councils, mostly, across Australia, which was about 40 years ago, at that time, the commonwealth handed over those assets in fit-for-purpose state. And they did do that. Contrary to what Rex has said, that they gave everyone cash as an offset to manage it, that is not what happened, and you can reference any number of ALOP deeds for the transfers from the commonwealth. What they did was they jointly inspected the asset bases and for the airside assets, particularly the pavements, they agreed on work to be done to get them into fit-for-purpose state, so they were handed over fit for purpose. Some years after that happened, say in the case of Geraldton, in 1999, they upgraded the capacity of that airport by putting a significant asphalt overlay on the runway. Generally, back in those days, back towards the turn of the millennium, you would have thought that an asphalt overlay on a runway would have a working life of about 15 years. Ours is now about 18 years, and it is suffering; it is at end of working life. Asphalt is expensive and when you have a 2 000 metre-class runway, like we have—our runway is about the same as what you have at Kalgoorlie—2 000 by 45 metres. They are wide; they are not the 30-metre narrow ones. We can allow, if we had the pavements strength, unrestricted ops on that runway size of A320s and Boeing 737s, but because our pavement strength—Kalgoorlie has the same problem I have.

I do not know whether you know that aircraft are all classified with a weight rating. Pilots look at what is called the aircraft classification number of their aircraft and they look at the pavement classification number of the runway to see if they can operate there. Kalgoorlie and Geraldton both have pavement classification numbers of 34–35. You need to be well over 45 if you are going to operate A320s and 737s without landing weight concessions. I have an 18-year-old or 19-year-old pavement that is beginning to show signs of structural weakness as distinct from surface wear and tear. I think Kal has the same problem we have. You need to renew the pavement, so you can either enhance the capacity of your runways or you can just simply do a renewal overlay. This is not to be

referred to as a reseal. A reseal is what you do when you spray bitumen and gravel; this is asphalt and there is a significant difference. Kalgoorlie has the same problem as us, and they are confronted with this issue of how do you come up with multiple millions of dollars to put a new asphalt working surface on a 2 000 metre-class runway.

**The CHAIR:** I guess your point is that you are not seeking to do that through arbitrarily hiking your fees that has the impact regional airfares, which is obviously what we are concerned to talk about.

**Mr DAVIS:** No, but it will. The state government has given us \$6.5 million to go 50–50 on the cost of doing the renewal work for our airside pavements. You are looking at a \$13 million or \$14 million project. I cannot do \$13 million or \$14 million worth of capital expense without depreciating it and recovering it. I am likely to go through a period, particularly until we get a bit of an upturn in the economy, where technically I will operate an accounting loss. The critical issue is: do I have sufficient cash flow to manage the business? It may astonish some people—some of the airlines do not think that councils run commercial businesses as commercial businesses—that when you are running something like a commercial airport, you have to run the balance sheet, your cash flow statement and your P&L. We actually do have to do that. I need cash flow, for example, so that I can service the borrowings that I have made on the airport. We have a policy at our council, and it is a perfectly legitimate policy, of not subsidising operations of the airport from rates. Rex seems to think that that is myopic; we seem to think it is perfectly reasonable, because a user-pays base for these things means that your ratepayers are not subsidising the few that fly from the most that do not fly. It is a perfectly reasonable proposition. We disagree entirely with Rex's view on that as an issue.

[12 noon]

**The CHAIR:** It seems to vary between LGAs—the position that they take with respect to that. I am conscious that we do not have much time with you today. I want to talk about the factors affecting regional airfares. You discussed your interest in packaging as a way of increasing customer throughput through your airport and into Geraldton. Could you give us an overview of what the council has been doing to engage with the airlines on packaging and also what are you doing with your local community and your local chambers to try and drive that sort of packaging outcome?

**Mr DAVIS:** The previous government gave us money under the regional capitals development program. We were one of the few in the early group to be given funding from the state to develop regional growth plans. After the Mid West Development Commission did their blueprint, we were then given funding to do a growth plan. I happily say that Geraldton's growth plan is better than any of the others.

**The CHAIR:** No bias there whatsoever!

**Mr DAVIS:** It was a good piece of work; it really was. Everyone sat there and said, "How do you do this?"

**The CHAIR:** What differentiated your approach?

**Mr DAVIS:** We talked to everyone and said, "If we're going to do this, what's the best way to do it?" We got an international guru on how clustering works in terms of regional economic development. He came and spent time with us. We adopted early the notion of going with the clustering model where what you focus on first is growing your existing traded sectors in your local economy. We said, "Let's build what we've got first. What are we really good at?" Geraldton is good at a couple of things, surprisingly enough. We focused on that and we developed a growth plan where there was incredible closeness across all industry sectors in how to build this.

We came up with a couple of initial clusters. Tourism was one. Agriculture and horticulture was another. We were looking at the marine sector but we have taken a little bit of a setback with

someone leaving Geraldton, so that cluster is not one of our major traded ones anymore. We are running still with the first couple of trial clusters to learn how to do this really well, applying the cluster methodology. Importantly, and relevant to this, is that we did a lot of work in tourism. We very recently completed another destination management plan and we have established a tourism task force, which is collectively a task force with —

**The CHAIR:** When did you start this process?

**Mr DAVIS:** Eighteen months ago.

**The CHAIR:** Eighteen months ago?

**Mr DAVIS:** Yes.

**The CHAIR:** Have you seen a difference? Have you started to see the results of your work?

**Mr DAVIS:** Yes, we have. We now have a tourism task force that is not led by the development commission or the city. We have created an entity called Progress Midwest, which is an entity made up of the development commission, the chamber, the city and, increasingly, people from the private sector—from the clusters as they grow. We have created it as a not-for-profit entity; now it is incorporated. We were rather hopeful the state government would give it some seed funding as one of the early things following on from the RCDP process. Then we had an election and a change of government and different funding priorities. Notwithstanding that, the work itself stands as being excellent work. We have a foundation to start with, we have a cluster group working in agriculture and horticulture, which is really good, and we have the tourism cluster working now. As we speak, we have a delegation in China. Geraldton has spent the last five or six years developing very strong sister city and strategic partnership relationships in China. Has that borne fruit? Yes. If you ask Wendy Mann, who runs Geraldton Air Charter, she will tell you that this year she has had 1 000 mainland Chinese tourists that we have flown to the Abrolhos Islands—from zero. That took two years to build.

We are getting some results already. In fact, we are having the opposite problem. Now they are saying they want to bring a group of 400. If you have ever been to Geraldton, can you name me where there is 400 hotel rooms? This is the problem. Exactly as the airlines have been discussing in some of their public work and in some of their submissions, the fundamental problem you have is that you have to build tourism infrastructure. We know that the state intends, and I think the Labor government intends just as much but maybe in a different way, to open the Abrolhos Islands. We know that is already a tourist drawcard, but we know as well that the Chinese love to come and stargaze. When people from Shanghai come to Geraldton, they want to go to the Chapman Valley Fish Farm. They love catching the yabbies and they catch a fish and it gets cooked at the little restaurant; they love this. Packaging all this stuff into sellable things is what the Chinese tourists want. The first thing the delegation that is in China now went to was the Zhoushan Islands tourism conference. We have been there a couple of times now. They are one of our strategic partner cities. They are also important to us for agriculture because Zhoushan has the relationship with the federal government in development of the food development centre in Zhoushan, which is right next to the port of Ningbo. We already sell wheat, cattle and so on into that port. They want all the stuff that goes into all the other ports and they are pressing us to steer it all through their port.

We have that kind of relationship, but it has taken six or seven years to build that. We have done all that hard work and now we are focusing that a lot on tourism. Now we have the private sector involved; for example, the owner of one of the hotels in Geraldton is with our group in China today. We have the mayor, another councillor, our international affairs officer and someone who owns a

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hotel. It is the new Geraldton hotel, which has recently been developed. It was the daggy old tower building that was downtown in Geraldton. It is now magnificent.

**The CHAIR:** What about the airfares component of this initiative?

**Mr DAVIS:** The airfares component works when you package. If you understand how international travellers work, if a person gets on a Qantas plane in London and they want to go from London to Geraldton, from Perth to Geraldton will cost them \$40 or \$50 because it is packaged. That does not exist with the services that are coming out of China, but it could. Packaging that with your tourism events—all the places you can go and so on—is what everybody wants. What we have found from our international tourism fairs is that the tourism wholesalers and their retailers—it is a combination of both of those things—want a packaged suite of stuff at a price.

I have to tell you that for international tourism, I do not think anyone on the Coral Coast actually knows how you price for international tourists. The good thing is that Qantas does know about that. Virgin knows about that as well. The kinds of conversations that are developing is what can we package and how do we package that with the airlines. You have close relationships between people in the hospitality industry in Geraldton—they are old, long-life work relationships—and the Broadwater and the current senior management of Qantas in Perth. They are working very closely together, quite separate from the council, because this needs to be private sector led. We facilitate bringing the tourism sector together. We have created this task force and I have to say that when we first started this, in a region where most of the tourism operators are littlies—none of the biggies turned up to the first one—we got 80 or 90 tourism operators from the near region turning up for our very first cluster meeting. We have maintained that. We have grown that through the visitor centre and the visitor centre network, not just in Geraldton—we are trying to build this straight through the whole of the Coral Coast.

While we have a Geraldton focus, it is the whole region focus that has to be built if you are going to do tourism. We sell Pink Lake and Mt Augustus and we do all of that, because Shine Aviation and Geraldton Air Charter operating out of our airport take tourists there. A lot of them are not flying into Geraldton because they cannot package their flights yet. We are working on how we change that. Where a lot of them are coming in with China Eastern and China Southern and so on into Perth, the connections are not immediately there to Qantas and Virgin. There is a little bit of work to be done in massaging some of those international relationships and doing code sharing. They know that; they are trying to figure out what is the smartest way to do that.

This will be the same for Pilbara and Kimberley tourism. Broome has the advantage that they have been operating for a while, but Broome has the disadvantage of scale. They are like us. If I get 140 000 total passenger movements, it is not the same as Cairns. One of the airlines cited Cairns and said, “There’s a huge difference. It costs me twice as much to fly into Broome as it does into Cairns.” That is not really surprising. If Cairns has 4.5 million passenger movements a year and Broome has 350 000, the scale and the capacity—it is simple arithmetic—to deploy fixed costs is purely a question of numbers. It is really that simple. You are always going to expect there will be a difference. Comparing Cairns and Broome is just a silly thing to do, whichever airline did that in their submission. I just looked at it and, I have to say, I shook my head.

[12.10 pm]

**Mr D.T. REDMAN:** Just in terms of your airport, what proportion of the traffic you are talking about is the inelastic demands such as business and commercial?

**Mr DAVIS:** Most of it. We get very, very low leisure travel. What you are trying to do is to get leisure travellers. Most of it is government and business.

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**Mr D.T. REDMAN:** And the resources sector as a proportion?

**Mr DAVIS:** That is really hard to say. We are not a FIFO destination port; we are a FIFO resource port. Rio, for example, employs 200 or 300 people from our near region. There is one and sometimes two F100 charter services that go through Geraldton each week in terms of taking people out. Shine, I think, is still flying people out to Golden Grove and we are starting to get some pickup in exploration. Our local charter operators, as distinct from the RPT operators, are picking up a little bit more work. We are starting to see some good signs, I have to say, in the midwest in terms of exploration and interest. Some of the companies are really looking at mines that they have mothballed, which is a really good sign; we are really pleased with that. But the proportion is mainly fixed, and this is the difficulty. We are a four-hour drive, and substitution to vehicles is so easy, so we are highly sensitive in terms of pricing. The biggest issue, as I said in my submission, is for the business community. It is not so much the airfare that is the issue; it is scheduling. They cannot do a day of business. They, quite literally, get up at five o'clock, drive to Perth, do a day's business and drive back because they cannot afford two overnight stays. They just cannot afford that in terms of time from their business. Time cost with our inelastic-type stuff is a crucial issue for the business community.

**The CHAIR:** We have travelled to a number of regional communities.

**Mr DAVIS:** We note you did not travel to ours.

**The CHAIR:** I was just going to say I do apologise. I did a radio interview and someone from Geraldton called and gave me a bit of a tune-up for not coming to Geraldton, so I do apologise for that, but we really are trying to get some outcomes and deliver some results fairly quickly. I am very keen to hear about the Geraldton community's views on this and the impact it is having from a social perspective. We really are very keen to hear from all the local government authorities that we visited, but also others, and I say thank you for coming down to us. Could you give us a bit of a sense of the social impacts that high airfares have and the elasticity of the demand, particularly this point around driving distance and time?

**Mr DAVIS:** For people who live in Geraldton, we have daily coach services and they are really cheap—30 bucks. It is really cheap and it is a really good coach service and it takes five hours. The risk of road death and road injury goes away for people. It would be fair to say that the lower socio-economic groups use the coach service. It is a strongly supported service. There is an alternative available, and it is a very low cost. When you look at social impact, we do not have all specialist medical services and the cancer treatment services in Geraldton yet. Sooner or later, a state government will fund the expansion of the hospital—just to drop that into the conversation! Sooner or later it will happen.

**The CHAIR:** You have a captive audience.

**Mr DAVIS:** But at the moment, most people on medical specialist services have to come to Perth. In terms of a social impact, the state government, much to their credit, and I think the Labor government is sustaining the same program, pays for the people to fly to Perth. With the social impact that the state picks up, access to specialist medical services is an issue but it must hit the state's budget. That, from my perspective, is a crucial social impact. The Royal Flying Doctor Service deals with all emergency treatments and so on, so that is less of a social issue. Our airport can handle the biggest RFDS aircraft for emergencies. But the social impact of high airfares for Geraldton is actually not a die-in-the-ditch issue, because it is so easy to substitute to cars and because you have a very well-supported, state-provided coach service, which is a five-hour trip and it is really cheap. You would have to say that if you are looking at the issue of east coast families and friends and that element of social connectivity, that is an issue.

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If you look at regional social connectivity and, to a similar extent, the issue of regional economic connectivity, what has happened with the airlines shifting to single-leg services and everything going through Perth is that once upon a time, people from the Pilbara would come to Geraldton and people from the Murchison and the Gascoyne would come to Geraldton for accountants, lawyers, doctors, dentists and so on. That does not happen anymore.

**The CHAIR:** Do you think there is a sufficient demand there?

**Mr DAVIS:** There used to be. People from Carnarvon would come to Geraldton for a range of services and businesses, so architects and a few services like that built and developed in Geraldton. Some of that has fallen away since we got deregulated and since the commonwealth introduced mandatory security screening. Some elements of connectivity have been lost. The milk run service that sometimes would see Wiluna and Meekatharra coming in and flying out via Geraldton has all gone. The Shark Bay and Kalbarri connections have all gone.

**Mr D.T. REDMAN:** Just to pick up on that point, you talked about connectivity in terms of business interests and so on within a catchment circle around Geraldton—I am not talking about the inland milk run but up the Coral Coast up to the Ningaloo coast. What is the level of connectivity between the City of Greater Geraldton and that Ningaloo coast—your Carnarvon, Exmouth?

**Mr DAVIS:** Zero.

**Mr D.T. REDMAN:** But you have not got an airline servicing it, so I guess the next question is: is that something that you are seeking to have?

**Mr DAVIS:** Absolutely.

**Mr D.T. REDMAN:** How do you manage that from a recommendation perspective, because you are currently deregulated? You do not want to go into the regulated space, yet in the old days Geraldton was probably arguably subsidising the rest of it because it was packaged up.

**Mr DAVIS:** There are different ways. If Rex is so great at doing regional services, and they obviously deal with a lot of bush councils, they could base aircraft in Geraldton. You would have to review the issue of how Skippers has its current licences. For them, I think the Meekatharra and Wiluna services are marginal. Kalbarri simply dropped out of the game. We need to look at Shark Bay and Carnarvon specifically. We would like to see connections with Onslow and Exmouth. But when you look at the Coral Coast as a tourism area, it starts with the islands out of Onslow, now that Onslow has a good airport, and then you have Ningaloo and the reef, and that almost comes down to us anyway. If you look at all the places where we have got iconic things that you could package—if you had an airline that in a packaged service was able to, for example, do Geraldton and the Abrolhos, do Shark Bay and all of its beautiful things, and could do Carnarvon and maybe go across to the islands from Carnarvon, with them packaging with small charter services doing that, and get all the way to Onslow or Exmouth—you would have to adjust how you have exclusive licensing in there somehow if it was packaged.

It could be that one of the majors could get into bed and do some code sharing with one of the minors—whether that is Rex or Skippers, it does not really matter in the end from our perspective, so long as someone does it. We would love to reconnect Kalbarri—even just Kalbarri. We do that with small charter services. Geraldton Air Charter and Shine do that. GAC has only eight-seaters, and Shine has a 19 seater, but they can do them. They can do Mt Augustus. You need to look at it as a tourism province. You cannot look at it by itself, and in that whole Coral Coast there are a number of globally iconic attractions—there really are. From the Mackerel Islands all the way down to the Abrolhos is just stunning, and you could extend that a little bit further. I would not go as far south as Lancelin, but you can extend that. You have some drive stuff with the coastal highway,

which needs fixing, but you have all the nice little nodes being developed there for the people who want to do that. They could then get onto aircraft services to the Coral Coast ports out of Geraldton.

**Mr S.J. PRICE:** Mr Davis, are you suggesting that you still fly the jets into Geraldton and then you catch a prop plane out of Geraldton and do what you just said?

**Mr DAVIS:** You could do that.

**Mr S.J. PRICE:** Not from Perth, though? So you would have to maintain the service you have got to Geraldton.

[12.20 pm]

**Mr DAVIS:** No. Why does everything have to go through Perth? Anyone wanting to do Coral Coast tourism might do the Abrolhos first and they fly back to Perth and they fly to Shark Bay. If they then want to go to Exmouth or Onslow—if they want to do Ningaloo or any of those other things—again, they have got to go back. You either take internationals coming in from Broome and coming down through the Pilbara as far as, say, Exmouth and Onslow—you could do that, because the Mackerel Islands are pretty stunning, and so Ningaloo and the Mackerel Islands would be a nice little semi-cluster—but if you are going to sell the whole coast like Queensland does, and the Great Barrier Reef is a big piece of stuff, so is ours. Globally, it is a packageable thing.

I think Karratha or someone talked about the issue of hubs, and I do not know if anyone has spoken to you. The year before last, when Brendon Grylls was still the member for Pilbara, he put a little bit of energy into an effort that happened with Kununurra and all the Pilbara airports and us at the south end. We did major, major work to try to do a survey of what level of business connectivity would the business community really support. It was astonishing that there was just simply not enough support from the business community for us to reconnect. At one stage, for example, we had flights going from Geraldton to Paraburdoo, so we had connection. We have been talking to Karratha about the idea of how we can reconnect. Hedland might be irritated, but that is too bad. Karratha has the nicest airport, and they want to go international as well. I am longing to see those two compete. It is up to them—it is purely a commercial issue. We would love a Karratha connection but how you do that—whether someone could base using Geraldton as a hub. They could do it the other way; they could use Karratha as a hub. We have no regional hub airport. A couple of years back when they were looking at the State Aviation Strategy, in the discussion paper, I think, on that there was this issue of the sense in exploring the establishment of two hubs. I think Geraldton was probably one and then one in the Pilbara. In looking at how aviation works in the regions in Western Australia, I still think that has great merit.

**The CHAIR:** And you think that would put downward pressure on airfares?

**Mr DAVIS:** I think what it would do is change the demand profile. People will not do Coral Coast tourism because they can only go to one place and back via Perth. At the minute they cannot do that. When you look at tourism as a way to increase numbers, that is what you have got to do. When there is packaged tourism, you can package Shark Bay, you can package Kalbarri, and you can package Learmonth and Ningaloo. You can do that, but at the moment they are isolated, standalone, point-to-point services. I think you need to dismantle that a little bit and ask how hubs would break that down.

Increase traffic—it certainly would increase traffic—and get numbers up and you are going to get that spread of capacity to spread fixed costs. The usefulness of the hubs is that if you do operate aircraft in the up to 35-seat class, you are avoiding the cost of security screening. But for the long legs, you still want the big jets. Qantas will still continue to put their 717s into Learmonth. I think Virgin is now running some RPT into Onslow. You have the long-leg bits. It would be nice if they

could then travel back down the Coral Coast from the north or up from the south from two hubs. I think the throughput through those would certainly help Carnarvon airport, for example, and give them some throughput so that their fixed costs can drop away.

It is just a question of numbers. Regional aviation is about scale; it is about the number of people you can put through. Fixed costs are as simple as security. Albany, with 50 000 passenger numbers a year, had exactly the same security screening cost as I had when I had 140 000. That is the problem and that is why their unit rate was so high. It is purely a numbers game.

**The CHAIR:** In the initiatives that the City of Greater Geraldton has pursued, have you had any support from the Department of Transport or do you have any views on their capabilities around the aviation industry and their support in terms of policy on aviation?

**Mr DAVIS:** Peter Ryan's team in the Department of Transport is a good team, but the problem is that it is tiny. There is Peter, Michael and Mark, I think. It is just tiny. If you say, "Hang on; is aviation important in this state?", we have a million square miles—it is 900 and something; nearly a million square miles.

**The CHAIR:** It is 2.3 million square kilometres!

**Mr DAVIS:** Yes. It is a million square miles—I am an old bloke!

You have got a million square miles. When you look at our population settlement pattern, we have the smallest and most dispersed regional population of anywhere probably on the planet. It is incredibly dispersed. For economic and social connectivity, it is a fundamental thing. You have essential infrastructure, and the regional airports are essential infrastructure—they really are. Sometimes it is essential simply because we want firefighters and the RFDS and the remote communities, where the commonwealth needs to be encouraged to put more money because they are going to run out of their assets as well. Then you have got the mining resource industry, the gas and iron ore mines, and their special needs—and they are different. Then you have the midwest, which is different from the goldfields in terms of the inner population centres. Then you have the south coast, so it is dispersed. There is no question that the work that the DOT team did in framing the first aviation strategy was essential. That team commissioned another study, which the airport group is doing for them. We are dying to see that report on regional airports. Have a look at this issue. If the state is obliged to start to do some investment, what would you do and what would you do it for? Tourism and trade are the two things that are of interest.

Freight is becoming an increasingly interesting issue out of the regions for various reasons different from Perth. The regions will never compete, for example, on the scale economies of outbound freight from Perth, in belly freight in passenger aeroplanes. But Perth does not have graphite mines. When the Chinese and Taiwanese want graphite going direct to their graphene factory, which is next to the Apple factory in China, they send in a chartered jet and they pick up just enough for that production run and off they go. The ability to be able to do that kind of direct trade is really significant.

A major cattle producer in the Gascoyne–Murchison area has a take-off agreement for live cattle into Guangzhou. He has got the take-off agreement; he needs to develop his stock to do that sort of thing. To do that, I need to have 2 400 metres of runway and I have 2 000.

**The CHAIR:** But the Department of Transport's capability —

**Mr DAVIS:** We are having those conversations. I do not know the relationship that other regional councils have with Peter Ryan's group and DOT. I do know that I have a good relationship with them. They are very helpful and very supportive of us and they are prepared to talk about all sorts of

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things, but my view would be, in the current downsizing of the state public sector, to protect that team.

If you look at things like the Oxford Economics study on the catalytic benefits of airports, and they only did the capital city airports—I do not know whether you have seen this; I will send it to you—and see what aviation is worth, most of the benefits of aviation are external to the aviation sector, by huge orders of magnitude. The airlines get a bit and the airport operators get a bit—particularly if they are Sydney airport; they get more than a bit—but most of the real benefits, the economic benefits, by orders of magnitude flow to tourism and trade. It is huge. When you look at that and you look at the Western Australian economy and the potential significance of growing tourism, particularly as one of our growth areas, and you look at the issue of how you do the evaluation of the catalytic benefits as opposed to what most of the economic studies do, and that is confined to direct and indirect, you would go to the catalytic benefit assessment. There is massive justification for investment, but who should do it and who should pay? If the state gives me money, like they are giving me some money to do runway renewal, what does that do for airfares? I am still going to have to depreciate the asset across a 15-year life. I cannot avoid that because I have to renew it again in 15 years. But that is \$6.5 million I do not have to borrow. What it does is help airfares by helping me to avoid a significant interest expense with me borrowing money. Even borrowing money through Treasury Corp, which is what we do, and I get the benefit of whatever the state's credit rating is, it is still expensive.

**The CHAIR:** Of course.

[12.30 pm]

**Mr DAVIS:** An ability to get long money is, as you know, really hard. I am never having to refinance debt for the airport, but most of the money we get is relatively short money. This brings my attention to a point I raised in my submission: the issue of regional subsidiaries with the amendment that was made to the Local Government Act. It would be lovely for regional airports, and I do not care if Parliament only lets us do it for regional airports and does not give a general power to local government to do it for other trading entities. Even if they did it just for regional airports, the ability for us to be able to borrow using airports as security for borrowings, and to borrow independent of the council without those borrowings being guaranteed by rates, would make a huge difference. We need a way to let private capital participate. At the moment, we have no vehicle. We have people that want to do it, but the only thing I can do at the moment to keep ratepayers happy and to keep airport costs down is to lease someone a piece of land under section 3.58 of the Local Government Act; that is the only way I can do anything to let any private capital —

**Mr D.T. REDMAN:** That legislation did not get through. That was —

**Mr DAVIS:** What they did with regional subsidiaries was okay if you wanted to do shared services—shared rubbish—but what it did not do was anticipate the needs of trading entities borrowing in their own right, those sorts of things. We actually need a proper corporation's power. It makes no difference to me if the minister for something still wanted to approve the business plans and everything. We just need a vehicle. I made the point in my submission that one of the downsides that, say, Hedland has right now is you had a local government-run commercial airport that was tax-free. People are not getting this. You can privatise an airport and immediately they are paying state land tax. I can tell you, on an airport estate, it is not trivial, because I have priced ours; they are paying rates, they are paying GST and they are paying federal income tax. What do you think that will do to airfares in the regions?

**The CHAIR:** It is a shame that we are out of time, so looking at alternative financing structures and how to facilitate investment into these essential infrastructure assets is something that I am really,

really interested in. It is a shame that we have only hit upon it at the very end of our discussion. If you would like to put something to us by way of a supplementary submission, that would be greatly appreciated.

**Mr DAVIS:** I am happy to do that.

**The CHAIR:** I have just one final question for you and then we will need to wrap up. You have very clearly communicated through your submission that you are not interested in re-regulation.

**Mr DAVIS:** No.

**The CHAIR:** But regulation is a continuum, if you like, and there are all sorts of interventions that governments could potentially undertake into markets. Do you see any benefits from even just increased information transparency from the airlines in particular around passenger numbers, fare prices and that sort of thing, rather than re-regulating an entire route?

**Mr DAVIS:** When you look at the operations of airlines, the jurisdiction of this state is very confined. It is really confined to intrastate services and when you go back to the history of why it evolved the way it did under the federal Constitution, you expose the state, I think, to the risk of constraints of trade. If Victoria, Queensland, South Australia and all those others and, say, Victoria, I think, is completely deregulated and the Northern Territory is completely, and the ACT—you have some completely deregulated intrastate aviation. Then you get this issue of trade and what is fair in one state and what is not fair in the other state, and the capacity for the airlines, which are big beasts, to challenge that through the Productivity Commission or the ACCC, and then you start to run into things. If you are going to do anything, the issue came through the State Aviation Strategy where I think DOT persuaded the airlines, via BITRE, to get airlines to be required to look at the split between FIFO, non-FIFO, charter and RPT in the BITRE stats. You can do that at a national level and you can do that through the transport ministers' forum. I think that is the best way to deal with that.

A conversation with Queensland, which is still doing some regulation, might be useful. The Northern Territory has gone and deregulated, but if you look at the places like inland NSW, Queensland and Western Australia, Western Australia is unique. Driving people to see it is as important to contrast as it is to compare, and making sure that people understand apples and apples and actually understand the differences—like the silly statement that could persuade an uninformed person that there is something wrong with Broome because Cairns is so much cheaper —

**The CHAIR:** But obviously gathering information is key to being able to make both comparisons and contrasts.

**Mr DAVIS:** Yes, it is. It is a question of what more, and what information is not already available.

**The CHAIR:** Yes, but there is very little from the airlines, that is for sure!

**Mr DAVIS:** No, but that is not true; it is actually not true. We have a charging regime, right? I know every aircraft and every passenger number that comes through. They have to go through my gates. There is an incredible amount of information already. For things as simple as being able to compare rates and fees and charges, you just google "Avdata" and you can compare every airport that they do the data for. You can do comparison quickly. BITRE already publishes the information.

**The CHAIR:** It is just really interesting that you say that because even in the Department of Transport's own submission, they suggested that this committee compel the production of a range of different information types, because the Department of Transport says there is not enough information out there.

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**Mr DAVIS:** There is not enough information to the Department of Transport because it has no relationship with the airlines. I have a commercial relationship with them. I invoice them. Now, the smarter thing, I think, for DOT would have been, “Could we share the data?” We give it to BITRE anyway—hello? So the information is available; it is just that nobody currently is obliged to give it to DOT and why should they be?

**The CHAIR:** Well, there are licensing conditions that require —

**Mr DAVIS:** For regulated routes, yes.

**The CHAIR:** — airlines to provide the Department of Transport with information and good quality public policy depends on the provision of information. You cannot make policy in a vacuum—or you should try not to, anyway.

**Mr DAVIS:** I agree entirely. But the data is available.

**The CHAIR:** I am conscious that we are running over time. But, as I say, if you were willing to provide us with a supplementary submission, that would be fantastic.

**Mr DAVIS:** I am happy to do that, yes.

**The CHAIR:** Mr Davis, I will proceed to close today’s hearing. Thank you for your evidence before the committee today. A transcript of this hearing will be emailed to you for 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. Thanks very much for coming along today. We really appreciate it.

**Hearing concluded at 12.37 pm**

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