

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 11 SEPTEMBER 2017**

SESSION FOUR

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 1.04 pm

Mr DALE STEWART

Acting Chief Executive Officer, Shire of Ashburton, examined:

Mr TROY DAVIS

Airport Manager, Shire of Ashburton, 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 Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee. To my left, deputy chair Sean L'Estrange, member for Churchlands; Yaz Mubarakai, member for Jandakot; Stephen Price, member for Forrestfield; and Terry Redman, member for Warren–Blackwood. 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 also advise that today's proceedings of the committee's hearing will be broadcast live within Parliament House and via the internet. This broadcast may include documentation provided by you to assist the committee in its investigations.

Do you have any questions about your attendance here today?

The WITNESSES: No.

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

Mr STEWART: Thank you for the opportunity first and foremost. Obviously, our facility really only exists in Onslow. It is a new facility that opened in the last few years. We have air services out of Paraburdoo that are owned and operated by Rio Tinto as a private facility that the public do access. We cannot make a great deal of comment in relation to the Paraburdoo airstrip. We appreciate obviously that Qantas have recently made some announcements in relation to discounts of up to 30 per cent for residents who can prove that they actually reside within the communities they service to the Pilbara, in particular. That is certainly something that we appreciate from a private operator—in particular, Qantas.

Our comments predominantly relate to the facility that we own—being the Onslow airport. It is slightly unusual compared with most airports operated by local governments in that it is effectively a charter facility. One that has effectively Virgin flights chartered solely by, or predominantly by, Chevron as a client. The public can access many of the flights—not all—and certainly we have lots of, I guess, conversations with Chevron from time to time about how they communicate with us, how Virgin communicates with us, in terms of our people getting access to those flights.

Only in recent weeks has Chevron confirmed an extension of contract with Virgin for another two years that guarantees a certain number of flights at less than what they are worth, with fixed pricing at \$299 per person one way, which is quite reasonable on the face of it for the flight from Perth to Onslow or return. Our concern mostly stems from the fact that we have limited access to availability of the data that Virgin reports to the operators and licence holders, such that in terms of occupancy levels. Typically, they are around 50 to 55 per cent occupancy, and yet our community does not necessarily have the available number of seats that would equate to being 45 per cent vacant, for example. Often Virgin and Chevron and the operator Bechtel limit the availability to certain

flights, sometimes to the 6.00 am flights, for example, rather than the more traditional flights at nine or 10 o'clock, which means people with children or medical appointments or the like need to get up earlier at four or so to attend those flights in time. Also, often we are restricted to availability, only knowing whether there are vacant seats available 24 hours prior. Most people obviously need to have access to knowledge of those services well before 24 hours. Certainly for medical appointments and children and also for their own leisure activities.

It is very much restricted usage. It is, as I say, a charter flight service predominantly. The council more recently has been limited via state development agreements in relation to not charging certain flights from Chevron because of agreements with the former state government. With first gas coming in the coming months, we are currently negotiating regarding our availability to charge for all landing fees for those activities. We hope to be successful—time will tell. As a pretty large airport worth \$50 million construction value, we have annual depreciation in the order of \$2 million. We have very limited opportunity to discount our own fees to subsidise regional air travel or tourism travel, because with \$2 million of annual depreciation in what we might class as “cyclone alley”, in a very extreme environment, our infrastructure requirements are probably some of the highest in the state to maintain those assets and equipment. We also have quite exorbitant costs in terms of staffing and labour costs because of the remoteness and small nature of the town.

[1.10 pm]

We have a community of 5 000 Chevron workers some 15 kilometres from the town site of Onslow, but the residential population of Onslow is only down 800 or 900, so giving access to qualified staff with the requirements to send people away for qualifications. The itinerant nature is very much a concern for us in terms of maintaining services when we have very limited volumes and predicted lower volumes in time. I think an opportunity presents for whether it be via regulation in terms of subsidisation of services to actually provide a greater surety and continuity of service for residential and tourism opportunities to the region.

We recently considered a proposition by Aviair on behalf of a number of local governments, not just in the Pilbara, but linking the Gascoyne and Kimberley. The council are considering whether they can work with Aviair as one operator only to provide a re-continuation of what you might class as the milk run up the state from Carnarvon to Learmonth to Onslow to Paraburdoo to Exmouth to Broome to Kununurra. I do not think any of our residents claim that they used to enjoy such services in the good old days. Obviously with FIFO activities in the past decade being what they were, the dynamics of the industry have changed significantly. There still presents an opportunity, in our view, for the state to provide some level of subsidy to recognise the opportunity for whether it be PATS—patient assisted travel—as there is some subsidy now, but also for children attending school, parents going down to see their children at school and also tourism opportunities with the Mackerel Islands and Karijini, for example, to activate the region and to provide greater connectivity to the region.

Troy, did you want to pick up on anything in addition to that?

Mr DAVIS: I think you covered it all pretty well, Dale.

The CHAIR: Thank you, gentlemen. We have been travelling to a number of regional centres and apologies that we were not able to make it to Onslow, but we really are trying to deliver outcomes as quickly as we can. What we have asked each of the local government authorities when we visited or heard from them is for them to give us an overview of specifically how expensive regional airfares impact on their local community. The terms of reference talk about a business, a tourism and a social community aspect. I wonder if you might be able to speak to that for the Shire of Ashburton?

Mr STEWART: I think Paraburdoo is predominantly the only airstrip that could service Karijini. Karijini, with in the order of 250 000 visitors per year, but the state having a desire to increase that markedly in time. The Mackerel Islands, for example, and Onslow as a seaside fishing community, do struggle in terms of people doing packages and the like. I know the Mackerel Island resort facility, for example, would very much like to work with airlines and the council and tourism operators to provide packages to further allow people to access the region.

It is very much more so in terms of families that are associated with Rio, BHP or Chevron that have greater access to commercial flights through their operations. But it is the mums and dads with kids more so and particularly when there is urgent treatment needed, for example for dental or medical appointments, that they have to go to and they have to go in this week or tomorrow. That is when they find that they cannot get the long lead time—the discount fares. Rarely is the \$199 one way available to them because they take that flight requirement next week or this week and have to go. Sometimes they are paying in the order of \$1 300 return, for example. That is a big hit when you have to take a child or two parents or the like. Obviously you are leaving work, but more importantly it is the cost of that airfare that is a huge issue that I know the elected members of Ashburton in particular advocate on for the local community and not the FIFO workers who choose to be either self-funded FIFO or are FIFO, indeed.

The CHAIR: Thank you. We have had some evidence presented to us with regard to the recent arrangements that have been entered into with Chevron and Virgin, could you give us an overview of how that process developed for you, what your engagement was like through the course of it and give us a bit of a flavour? This is a pretty interesting and new model that the committee is certainly very interested to hear more about. We are very keen to hear about your experiences.

Mr DAVIS: I can properly take that question. I have been on the shire for four years, so I have actually been through the whole construction process with the airport and then into what we call the steady state operations. The initial contract that Chevron had was to engage Bechtel to construct the plant. Bechtel engaged Virgin initially. This is a new model; Chevron have finished off that arrangement with Bechtel and Virgin and now have their own for their workforce to operate the facility. Since we knew that that was coming online a couple of years ago, we have been talking to Chevron consistently and trying to get buy-in as the principal or as the owner of the airport, somewhat unsuccessfully, I have to say. Chevron tend to keep their cards pretty close to their chest and a lot of their information was commercial-in-confidence. They basically said, “We’ll let you know when we’ve worked it out.” We have been left pretty well in the dark as the airport operator.

From our perspective, we are moving from at the moment 20 flights a week—we were up to around 30 about 18 months ago—down to about five a week. When you look at resourcing from a screening perspective, we operate a category 3 security controlled airport, so we have to have six to seven screeners on-site for every flight. The baggage handling, which is currently subcontracted by Virgin, but, again, as flights decrease the opportunity to engage full-time staff becomes a lot less, and with a population of 800, you do not have a lot of depth in your talent pool or resource pool. Then just managing and facilitating the airport over a seven-day operation when you have a manager and an ARO, basically, makes it very difficult. Trying to entertain negotiations with Chevron into how these flights would operate and the resourcing requirements has been problematic and difficult to say the least.

Mr STEWART: I would just add to that. Quite literally to the extent that the public was advised of the announcements prior to the shire being informed, which we were not that happy about. That is depth of the engagement that we were involved with; we were literally told the result. One spin-off from that is that with those reductions in flights we have been advised that they will be utilising

one flight on a Sunday. One flight on a Sunday means that we still have to resource the airport seven days a week for the very limited number of employees that, quite frankly to some extent, come to places like Onslow [inaudible]. We do not have the available pool or locum services that we can just fly in to cover rosters. Rostering over seven days on such a small volume of flights, being instructed by an operator that they would be using our airstrip, as they will at their beck and call notwithstanding the fact that they were a major contributor and that contribution has been invested and is now in the facility, but they now do not operate the facility; they do not own the facility, yet they are very much treating the shire as if they did still. That is certainly something that we are taking up with Chevron as we speak in terms of negotiating fees for landing post first gas where they are mixing their construction crews with their residential and operations. We have not concluded those conversations and negotiations yet, but it is fair to say that Chevron's negotiation tactics are not normally considered to be win-win at first glance. We hope that we will achieve a successful outcome, but we have certainly advised them that we may consider some of their flights; we also may choose as the operator to actually deny them access to the airport for some of their flights if we cannot resource and demonstrate adequate rostering for our employees.

[1.20 pm]

The CHAIR: There are two ideas I would like to explore about what you have just said. In terms of delivering a service to the local community, which seems to be part of the intent of this arrangement that Chevron has entered into, what level of consultation was undertaken with the community to make sure that the service actually met their needs in terms of flight frequency and timetabling? How much consultation or engagement was there before this community service was delivered into Onslow?

Mr DAVIS: In the initial phases, we are probably talking three years ago, as the airport became operational, there was a fair bit of consultation undertaken to make sure that there was a need and what sort of need there was. Virgin and I actually undertook quite a bit—the chamber of commerce, businesses and the public. Since the opening of the charters, because they were originally going to run closed charters and we negotiated the opening of charters and the provision of anywhere from five to 15 seats per flight on a few flights a week, since that time, to the best of my knowledge, there has not been any other public consultation, but as Dale alluded to they tend to do this stuff and tell us maybe afterwards. I am not aware of any that has happened in probably in the last two years at least.

The CHAIR: So nobody has come back to you and said, "How's it working for people in Onslow? Is anything we could do better? Is this working for you? Nobody has actually come back to you to test that?"

Mr STEWART: Probably the opposite, it is fair to say. We have had numerous meetings with them informing them that it is not working and joint meetings facilitated by DSD or DJTSI from time to time, where we come to the table, advise them of our concerns and pretty much the outcome is the same, that it is obviously first and foremost servicing their construction activities, which is fair and reasonable because they are paying the bill, but in terms of having access to public infrastructure such as a regional airport that the state and the shire contributed to as well at Chevron, very much we do not have a great deal bargaining power and are the recipients of the advice of when and where and how.

The CHAIR: You have suggested that you are in a process at the moment to negotiate your landing fees. How can you understand what those fees are going to look like if you do not have much visibility of how many flights you are going to be requiring to be served? How is that negotiation process even possible?

Mr STEWART: We have advice about the number of flights—that is a given now. Tying this to a question in terms of the detail of commencement of the reduced number, we have confirmation of pricing—that is fixed and beneficial—for, I gather, 12 months, with another option in terms of what that means to the community in terms of promises regarding pricing. But we do not have transparency, again, of volumes or of occupancy, which would be really useful in terms of us being able to test them on their advice to us that on certain flights they do not have capacity to provide seats available. That would be really useful. Our preference would be, in a perfect world, from our perspective, at least seven days' notice when our community would be advised of the available number of seats. We have let it be known that we think that their operations are as well-heelled and oiled as they should be; they would know their availability of occupancy of their flights to a margin that was acceptable.

It is fair and reasonable that they might have some flexibility—choose a number between 10 and 15 per cent that they might select for other reasons—but when you are having, as far as we can tell, occupancy around 55 per cent, that is a large number of opportunities that present to the community to subsidise their operations and provide a valuable service to a community that is already extremely isolated.

Mr D.T. REDMAN: In terms of security screening for the local residents that fly on the bigger planes, are they required to be security screened on the way onto the plane?

Mr DAVIS: Absolutely. Every passenger needs to be screened. That is why we negotiated the opening of the charters rather than closed. There have been some open and some closed when we only have to screen some and not others. From a purely high-risk security perspective, we said we will screen all flights and all passengers.

Mr D.T. REDMAN: You talked about the price of the fares in the negotiations with the mining company being sort of reasonable fares. What is your view about the community's sensitivity to pricing as distinct from service—for example, the time of those flights and the fact that they might miss out? Would they carry a price as being more significant than service or does it cut both ways?

Mr STEWART: We probably do not have any real data to validate that other than that it is anecdotal. The \$299, in my view, from my limited knowledge of talking to, for example, the shire president who is resident in Onslow and others, is that the perception is that the price is a quite reasonable price to pay. In terms of whether there is a stretch point, if it was, for example, \$350 or \$400 or \$450 and there was a premium to pay for flights at short notice, for example, I am sure there is an opportunity around that, but at the end of the day, when people need to fly, they need to fly or they need to drive and make other arrangements. I think there is an opportunity around that. As to how to measure it; we have not done any real testing on that at this point in time.

Mr D.T. REDMAN: I guess, by extension, if you are looking at a recommendation, or you would like the committee to recommend some sort of milk run that provides a more highly government regulated, heavier hand on regulation service through there, you may pick up the service angle, but you might lose the price angle if you make a comparison with what you have now. Is that something that is considered in your views around how we might recommend outcomes of this inquiry?

Mr STEWART: I think to some extent, Terry, we can answer that. In the past month, we have, as alluded to earlier, considered a commercial-in-confidence pricing structure with Aviair, with us and with other regional councils. Without divulging the exact numbers that were talked about, the council took the view that the pricing, even though it was subsidised—and the requested subsidy by the local government was in the order of \$250 000 per annum for a set term to try to get the service operating—our shire, 250K per annum, plus reduced or waived landing fees, so effectively it

could have been close to 300K per annum, to provide a more regular route between Learmonth and Onslow, Onslow to Karratha, and Paraburdoo to either Port Hedland or Karratha.

The numbers that we generated as indicative of pricing available for our community to access that, suffice to say, the council took the view, without consulting with the community, it is fair to say, that they believed that the average community member—the mums, the dads and the children—would not be able to afford, therefore would not take advantage of, that service. Because it would generally be mum and dad plus a child or two, for example, and the cost of those three full airfares—let us choose a number; let us say it is \$450 per person to do a milk run service, not to go to Perth—the council took the view that that would not be viable in the long term with the subsidy providing that indicative level of fare. We can, I guess, validate to some extent, Terry, that there is a maximum that people could afford [inaudible] reach that maximum.

Mr D.T. REDMAN: How much do you lose in linkage off to Learmonth of your domestic traffic?

Mr DAVIS: Again, that is very hard to say. Anecdotally, once the airfares go over that \$300, people would rather drive to Exmouth or to Karratha. In the Pilbara, a three-hour drive is not a great lot. I think people would rather do that than pay the extra \$50 or \$100. I guess with a bit more evidence prior to us getting the security screening up and running and getting our category 3 security control measures, we had Skippers come on board to do RPT services, and they flew 20, 30 seaters, so under 20 000 kilos, so we could get away with not having to screen them. It was almost a milk run that stopped at Carnarvon on the way to Perth. It was just over \$300 a flight and people were bailing on that because they did not want to do the milk run; they did not want to take three and a half hours when they could drive for something like three hours to Karratha and jump on a plane. It is obvious that the money side of it is an issue, and the timing side of it and the frequency of flights probably is not.

[1.30 pm]

Mr S.J. PRICE: Mr Davis, can I just ask a question about the costs associated with the Onslow airport. What are the landing fees, services fees and screening charges, so we can get an understanding about the costs associated with landing at Onslow? Also, on top of that, does the airport cover its own operating costs? My third part to the question is: does the council endure any costs associated with the Paraburdoo airport?

Mr DAVIS: I will probably answer these questions in a roundabout way. Paraburdoo Airport is fully owned and operated by Rio Tinto. That is the first question. As far as the financial sustainability of Onslow Airport goes, we financially modelled that and put in place a long-term financial plan, asset management plan, right at the start of the operations because Chevron were very keen to understand what we were charging them or their client Bechtel to utilise the airport that they believed they paid for to make a reality. That realises reasonable money is going into a reserve to allow the sustainability of the airport long term. So at the moment, yes, we are putting money away. We are not wasting it on other infrastructure, you could say, so it is an airport reserve. When we get down to the five flights a week, we are looking at probably an \$800 000 loss per year, so we are hoping there will be more trains getting built in the 10 to 12-year time frame I have to expend all that reserve money. That is where that is at.

As far as our screening goes, we are on cost recovery for that at the moment. We pay about \$75 000 to \$80 000 a month for our screening operators. We recover that on a cost-recovery basis. Our landing fees and our passenger head tax are comparable, maybe marginally higher, than the likes of Karratha or Newman, but with lower flight numbers and pax numbers. Basically we have to run the operations no matter what, so we try to amortise those costs. We have kept them static for the last year and only marginally raised a couple by one per cent just to cover the CPI. We were mindful of

that and sat down with a group of accountants from Chevron at the time and all the figures were validated with our long-term financial plan, so they are comparable—the cost recovery—and also look out for reserves for future sustainability.

Mr S.J. PRICE: Can you give us a per person charge?

Mr DAVIS: I do not have that information in front of me. I think it is a \$20 or \$21 a head passenger tax and \$36 per tonne for the landing fees.

The CHAIR: Would you mind taking that on notice for us and confirming those figures?

Mr DAVIS: We can take it on notice and provide the fees and charges to you, yes.

The CHAIR: Thank you very much.

I will ask one last question of you, gentlemen. One of the terms of reference is the potential actions the state government could take to address the high cost of regional airfares. Do you have any recommendations that you might like to suggest to us about what the state government might usefully do?

Mr STEWART: Obviously, we talked about the opportunity for an inter-regional RPT service. Obviously there are risks associated with that, but there are certain things we would like to explore with the state. I guess the other is the transparency of passenger numbers. I believe that DSD have access to them, but there is a question about confidentiality and the like currently being explored, I gather. But certainly if we had a greater understanding of the operators' numbers, we could then more collaboratively work together in terms of being able to sort of package up availability. For example, the Mackerel Islands resort would love to package up availability if they had some appreciation of availability, for example, and also the seasonality associated with that. I think they would be two of the key things that we would be looking for.

Mr D.T. REDMAN: Obviously, there is a lot of construction work on the ANSIA site. That is something that has a bit of a short-term skew on activities through the airport. How long until first gas? If it is not there now, it is pretty soon. When do they get to a full operational basis? Are there any fundamentals in terms of the activities of the airport that you think will shift once you get to that operational workforce as a standard?

Mr DAVIS: We are looking at possibly a two to three flight drop per month over the next six to nine months. Chevron have been telling us that probably around June–July we will be down to about five flights. As I said, we have ramped down from 20. We have gone up to about 19-ish at the moment. It can fluctuate on a weekly basis. We have looked at a bit of diversification of the airport as far as moving into running the screening ourselves, rotary wing operations as well; trying to diversify that side of things, which should then impact the RPT flights and the ability to leverage off those. Given that Virgin/Chevron control the passengers who use the flights and can say that they do not want BHPs and Rios using their flights, that can skew the way we can actually sell our airport operations.

Mr D.T. REDMAN: It is a bit of a catch 22, isn't it? There are a number of moving parts on this.

Mr DAVIS: Absolutely, and if we look at rotary wing as well, that could be stepping on the toes of the Learmonths and Karrathas of the world, even though we are closer to Barrow Island than they are. We are all one big happy family in the aviation industry, so we are mindful of that but also the diversification of our economy, because we cannot rely on Chevron building another couple of trains.

The CHAIR: You are the first one to say that aviation is one big happy family! I like the analogy.

Mr DAVIS: Up here it is!

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

Hearing concluded at 1.38 pm
