

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT KARRATHA
WEDNESDAY, 23 AUGUST 2017**

SESSION ONE

Members

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

Hearing commenced at 10.43 am

Mr SIMON KOT

Director, Strategic Projects and Infrastructure Services, City of Karratha, examined:

The CHAIR: I begin this morning by acknowledging the traditional owners of the land on which we meet and pay my respects to their leaders, past, present and emerging. On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional 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 my committee. To my left, Yaz Mubarakai, member for Jandakot; Terry Redman, member for Warren-Blackwood; Deputy Chair, Sean L'Estrange, member for Churchlands; and Stephen Price, member for Forrestfield.

It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything that you might say outside of today's proceedings.

Thank you for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance today?

Mr KOT: No, none at all.

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

Mr KOT: Yes. On behalf of the City of Karratha, we welcome the inquiry. Obviously, the city owns and operates the second busiest airport within Western Australia. I think we have received a lot of press more recently around landing fees, charges and so forth and what the city's philosophy and approach is in terms of how it manages its airport operation. I guess we welcome the opportunity to share information about how we operate the business of the Karratha airport and hopefully we can also proffer some ideas and suggestions that the panel can take away that ultimately may impact or influence some recommendations coming out of this inquiry.

The CHAIR: Fantastic. Thank you very much, Mr Kot. One of the key things that we are trying to get a sense of in each of the regional centres that we are visiting is the impact that high airfares are having on the community. Obviously, local governments are right at the very heart. Are you able to give us a bit of an overview from a business, tourism and social perspective? What sort of impact is being felt here in Karratha?

Mr KOT: One of our opening statements in our submission was that we are well aware that significant community sentiment has come forward about the impact of high airfares. I think it significantly impacts on that family and relative travel market. Because we are remote, the ability to have family and friends visit on a regular basis becomes a little cost prohibitive. I think there is evidence to suggest that. I do not want to steal too much of the thunder of some of the other speakers who are coming today, including the local chamber of commerce, who may speak more on the economic impact and so forth, but it is fair to say that the city has a strong focus in trying to develop further tourism product and market. Clearly, airfares are going to be a significant issue as we try to attract more people into the region to experience the region. I think there is evidence to suggest that inter-regional transport is an issue. There is currently no other destination effectively

out of Karratha through RPT travel, apart from direct to Perth. That adds time and cost and it is no doubt a hindrance to the ability for local small business to be able to work within the region.

The CHAIR: In your submission you address the terms of reference and under your paragraph titled “Factors contributing to the current high cost of airfares”, you talk about the route suffering a lack of competition. I wonder if you could elaborate a little on that.

Mr KOT: In terms of the submission itself, it is clear that, from a public perspective, they compare the cost of airfares out of Perth to what they see on the east coast. Part of our submission was looking at doing a comparison on a similar distance or segment in the east coast—what were the average airfares on any given day? We did that analysis. Clearly, there is evidence to suggest that the cost of a Canberra–Brisbane, Melbourne–Brisbane type flight, which is a similar segment to Perth–Karratha, is significantly higher in the Western Australian case in this market. We are not dissimilar to other airports within the Pilbara in terms of what the airfare charge basically is. I think the issue and what we were able to demonstrate as part of our submission is that where there is more than a duopoly operating—that is, other low-cost carriers that can come into the marketplace to operate—there is clear evidence to suggest that the price is, on average, lower. For a series of factors, it has been difficult in the Western Australian sense and I think it is probably due to population centres, and the lack of population in some regional centres, to be able to prop up third and fourth airlines to be able to operate regular passenger transport services. We see that as an issue. We see that as an opportunity as well. If there were greater market forces in play, there is the potential to drive prices down.

The CHAIR: I do not want to put words in your mouth, so even though there are two operators on this route, there is market failure, do you think?

Mr KOT: I think there is some evidence to suggest that. Clearly, the operators on this route at the moment do provide sales and do provide prices that are arguably competitive with a similar route on the east coast and also an east coast to west coast route. The issue with it is that they are typically on low peak times and they are typically well in advance. I think the challenge that local residents have is basically finding the right price at the right time. One of the issues we have with that is although there seems to be a sufficient spread of prices within the marketplace, the challenge is that if the majority of them are booked up in the first instance a long way in advance, it leaves very few competitive prices for local residents to be able to access.

The CHAIR: Do you have a view on the FIFO market’s contribution to that issue?

[10.50 am]

Mr KOT: It is difficult for the city to comment on that. I think that the city clearly understands and has a position in support of FIFO for construction purposes and has been working very closely with industry around that model. We understand it is required. We also understand that it is about moving a large number of people for short periods of time, typically into various regions. Hence, being organised as a company and therefore taking advantage of pre-booking makes sense from a business perspective. I have no doubt that that would have some flow-on effects in terms of what prices are available for the balance of residents and business to be able to access.

Mr D.T. REDMAN: There are two trains of thought there. A lot of Western Australian intrastate traffic has a lot of resource sector as a backbone to that traffic. Therefore, if you did not have the resource sector, you probably would not have the airline or you would not have the route. Therefore, there is a benefit for that. We have heard some evidence to suggest, and you suggested here, that the resource sector traffic is not very elastic to pricing. In other words, they will take the flights and the airlines will set a floor, if you like. Therefore, the final impact upon the domestic

traffic from here—the local traffic and/or tourism traffic—is a negative impact. Would your view be that the resource sector sets some of the floor and therefore it is negative? We need the area to run too, which means you need that resource sector traffic.

Mr KOT: I think there are two trains of thought. I think there are two ways to go. That is a model that could be tested. I am aware of the submission that the Pilbara Regional Council has put forward in relation to FBT and what that may or may not do in terms of being able to impact on the price. Obviously business, including big business, has to operate and needs to operate profitably. The city here has a large sector of employment that is based around two major companies, particularly within the City of Karratha. We need them to be successful. It is a difficult balance that needs to be struck. Yes, both of those models can work. The challenge is how and who sets what those prices should be for companies to be able to access on commercial airlines.

Mr D.T. REDMAN: Can you give us some idea of the profile of traffic that goes through the airport; that is, how much business resources are local versus tourism?

Mr KOT: I do not have those statistics to hand. I can say that clearly our numbers are significantly impacted by construction programs and significantly impacted by shutdown workforces, which are required. Our regular passenger transport numbers through to Karratha, for example, in the past 12 months have decreased by 110 000 passengers, which is a significant drop. To put it into context, the majority of the movements that occur at Karratha are actually heli movements, so 55 per cent of our movements are heli movements. There are considerable operational works still going on. We are not seeing a significant decrease in our heli movements.

Mr D.T. REDMAN: Is that number 55 per cent of the planes or people?

Mr KOT: No, total movements, so per flight—take-off and landing. So clearly as a percentage of the total people, our RPT numbers would make up 95 per cent of the total people but in terms of movements, the majority of our movements are actually heli movements.

Mr S.K. L'ESTRANGE: The 110 000 drop-off you just mentioned, is that the construction phase slowing or is it economic?

Mr KOT: There are elements of that. One of the critical issues that the city has put forward as part of its submission has also been based around the ability for state government through various state agreements to enable other mine operators to construct their own airports. We have seen a significant decrease in passenger movements as a consequence of the CITIC Pacific mine and airport that has been created. That is 25 000 movements a year effectively that has come out of the City of Karratha through the Karratha airport, and that creates issues. That means that our operating costs do not diminish as a consequence of a reduction of that many passengers.

Mr S.K. L'ESTRANGE: What about the other 75 000 that are dropped? What would you attribute that to?

Mr KOT: I think there has generally been a tightening up. You have also seen that the number of flights from Perth to Karratha a week has reduced from 70 to 61 during the same time. The other issue that you have is that we regularly have flights that are operating primarily in one direction. That creates issues for airlines. As a consequence, particularly in the last 12 months, what you have seen here is airlines react and effectively reduce the size of aircraft. For example, in 2015, where you would have seen 67 737s, 717s or A320s operating out of the 70-odd flights between Karratha and Perth, you now have 61 flights where 45 of those flights are F100s.

Mr S.K. L'ESTRANGE: I get that. I am trying to get back to the cause. So 25 000 movements of CITIC Pacific were lost from Karratha airport. That is a 75 000 drop.

Mr KOT: That is also major construction programs coming to an end, but we are still seeing a proliferation of shutdown crews that are coming through—periodic crews that are coming through.

Mr S.J. PRICE: Simon, you say in your submission —

The State Government has failed to act on the growth in mine airports that are within close proximity to existing facilities. This has led to the proliferation of inefficient airfield infrastructure ...

What other ones, apart from Sino, are having an impact on this airport?

Mr KOT: That is the major one in the City of Karratha.

Mr S.J. PRICE: I refer to something you said earlier in your opening statement in regard to inter-regional transport. If people from Karratha did not want to fly to Perth, where would they want to fly to?

Mr KOT: Our analysis suggests that there is a reasonable demand to get to the east coast. Obviously, there is a saving in time in doing so. If prices were competitive, effectively, there is a suggestion that that could work. I think there is evidence to suggest that there is a market to move within the region between the areas of Exmouth and ports within the Shire of Ashburton, Newman and Port Hedland. We have had previous services which have been between Broome and Karratha as well and also services that went to Darwin. The Darwin one in particular was underpinned by industry at the time. I guess without that support of industry, those flights did not simply occur. It has meant that the balance of the tourist market and the small business market that may have accessed those services at the time no longer have that opportunity to do so.

Mr S.K. L'ESTRANGE: From what you are saying, am I to conclude from that there were flights coming out of other capital cities based on the construction phase of the mining boom?

Mr KOT: That is correct. The City of Karratha in 2011–12 had a direct flight to Brisbane, Melbourne and Sydney.

Mr Y. MUBARAKAI: Simon, your report says that the city —

has been working with operators in an attempt to commence services to other areas within the region, interstate and overseas.

Further on, it says that work on these projects is well advanced. Could you give an indication of what approach the city has taken and how advanced are these approaches to create a better audience?

Mr KOT: In the international space, the City of Karratha ran a public expression of interest and tender process in order to attempt to secure an airline to commence operations directly between Singapore and Karratha on a once-weekly service. We ran that process because we saw it as a major transaction, effectively, and hence it was a tender. We were unable to convince any airline prior to that to establish an RPT service. The advice from airlines directly was that they perceived there was risk in terms of its longevity so we started to focus on a charter operation that may be supported. It had strong support through our analysis with the local community and also with the regional community. We were also mindful that Port Hedland operated a service once a week to Denpasar and we were not looking to compete necessarily in that market. We ran that process and were able to short list a preferred company. We were able to negotiate with that company but, unfortunately, at the eleventh hour, those negotiations concluded. We are now working with other airlines on a similar model.

Mr S.K. L'ESTRANGE: Is this for a tourism market?

Mr KOT: It is for an outbound tourism market and it has the potential for an inbound tourism market as well as for a business market.

[11.00 am]

Mr S.K. L'ESTRANGE: Some of the submissions we have had to our inquiry from different areas other than Karratha, but I am sure the concerns would be the same, relate to in and around emergency flights required to get to Perth for funerals, medical reasons, illnesses and things like that, and the high prices of airfares make it inhibitive for some families to be able to commute. Your effort in trying to find additional air routes is for your people of Karratha to go to Singapore. Has there been any effort to try to get airfares down for community members who need to get those emergency-type flights to Perth?

Mr KOT: Not from the City of Karratha's perspective, no.

Mr S.J. PRICE: When did that work get done that you were just talking about?

Mr KOT: It has been ongoing for four or five years now. We commissioned some studies in 2013. The City of Karratha presented and was involved in a series of network meetings at the Air Asia routes conference in China in 2015 where we were pitching to various airlines on opportunities, and there have been ongoing discussions since.

Mr D.T. REDMAN: We had an interesting scenario in the public forum up in Broome whereby they could book a very cost-effective fare to get to Malaysia or KL or somewhere, which flies through Perth and then out of there and gets home again, for considerably cheaper than a one-way fare to Perth. Does that exist here?

Mr KOT: Correct. There is clear evidence to suggest that, and we have been very conscious within the modelling to look at Singapore about what the cost is to get to Perth. There are clear advantages in time but you still have the ability to secure very, very competitive prices out of Karratha to get overseas at very low peak times, which is well in advance of the price to get between Karratha and Perth.

Mr Y. MUBARAKAI: Simon, you may have answered this but I want to ask this question again. The city is the landlord of the airport. Is that correct?

Mr KOT: That is not entirely correct. The state government owns the land. It is a crown reserve. It is vested to the city for the purpose of airport and we operate the airport. If I may just further add, it is a very large reserve. Although it consists of all the city's infrastructure, it also consists of the major heliport operations, fuelling operations and so forth. It is further leased to those operators. It is probably unique in the nature that, as a reserve, the city provides and distributes power, water and sewerage services to all the tenants. That is not provided by the state government within the airport reserve. It is effectively its own subdivision as such.

Mr Y. MUBARAKAI: Could you tell us what the city charges the airlines per passenger inbound and outbound?

Mr KOT: Clearly, we charge landing fees to airlines based on MTOW—maximum take-off weight. That is charged on a per tonne basis. Our fees and charges are currently around \$42, including GST. They are clearly high.

Mr S.K. L'ESTRANGE: When you say \$42, does that encompass screening or just landing?

Mr KOT: No, just landing. I think this is the issue that the city has been very keen to put forward. We obviously also charge passenger service charges, which is to effectively come through the facilities, and then a security charge is charged in addition to that. The city became responsible for security

screening when Qantas handed that back in 2013, so we are responsible for the management of that service, the provision of the equipment and so forth.

Mr S.K. L'ESTRANGE: On a \$1 000 fare, what would be the price per person?

Mr KOT: Our passenger service charge currently at the City of Karratha is \$13.10 per passenger, arriving and departing.

Mr S.K. L'ESTRANGE: Is that flat year round?

Mr KOT: Yes. Council sets these fees and charges on an annual basis. We communicate the draft fees and charges to airlines three months in advance of them formally being adopted. We charge for security screening, appreciating we operate two lanes at various times throughout the week due to the number. Our security charge is \$15.50. In terms of what it costs per person, we have always looked at what we charge the airline. That is the comparative analysis that the city regularly considers when it is setting its fees and charges.

Having regard for the type of planes that we are experiencing at the moment, if I can use a Fokker 100 as an example, which in essence is a 43-tonne plane, our fees and charges are the equivalent of about \$1 900 in terms of our landing fees. To provide a real comparison, you need to have regard for how many people are on a flight, how many people go through security and how many people go through your facility. If we extrapolate out a Fokker 100 with 100 seats that are available, arriving in Karratha from Perth, at full occupancy our charge to the airline is \$5 482. Perth would be charging \$5 811; Alice Springs, \$5 676; and, if I could use Darwin as an example, \$5 922.

The city, unfortunately, gets criticised for its high landing fees as such, but its landing fees are set based around effectively recovering a cost associated with its infrastructure provision and maintaining its infrastructure provision over the life of the asset. Our security charges are very much an open book. We share the exact costs of what our security costs are with the airlines and it is effectively done on a reimbursement basis. At the end of the financial year, if we have overcharged, we repay the airlines based on our security charge.

Mr S.K. L'ESTRANGE: Based on those fares you gave us in your submission, where you took a spot day, Qantas was \$403, Karratha to Perth, and Virgin was \$319. I just did a quick calculation. Your fees are about \$83.42 per person based on that Fokker 100 with your security fee and service fee et cetera.

Mr KOT: No, that is not correct. It is \$54.

Mr S.K. L'ESTRANGE: If it is full.

Mr KOT: If it is full.

Mr S.K. L'ESTRANGE: Yes, but then you add the security screen to that.

Mr KOT: No. For the security screening, the passenger service charge and the landing fees, the total cost on a full 100-seat plane is \$5 400. So it is \$54 per person.

The CHAIR: One of the things that has been put to us in evidence in submissions made to this inquiry is a general point that local governments are using the revenues acquired through passenger landing fees or from airport fees to cross-subsidise other areas of local government operations. Is that the case in this instance or is all the revenue derived tipped backed into operating, maintaining and investing in the future capital requirements of the airport? Does it just apply to the airport?

Mr KOT: It is both. The City of Karratha operates Karratha airport as a business. The City of Karratha does take a return on asset. That return on asset goes into an infrastructure reserve fund, which is invested in other infrastructure across the city. Additionally, the city sets aside what it requires for

reserves for the airport itself. Having regard for the \$100 million that the city spent over the last seven years, that has been funded through airport revenue. We also have a \$40 million capital program still to go just to maintain compliance and to maintain our asset in the next 10 years. We will still be looking to take any net profit and return we can to put to the airport reserve to fund those works.

The CHAIR: Can I then put to you perhaps that this is one of the upsides of a lot of FIFO traffic into and out of Karratha and, at the very least, given that there is infrastructure and it impacts on the local community, you are at least able to generate some revenue to improve the local community's amenity?

Mr KOT: Correct.

The CHAIR: Has that been a hotly debated issue here? Has it been raised by the airlines in particular when you are levying these charges?

Mr KOT: Not specifically that I can recall from airlines. Clearly, the council has been able to realise some significant benefits through that revenue. I think the one thing from the City of Karratha's perspective is that it has reinvested all those funds back into infrastructure. It has not banked those funds. It has basically invested. In part, it has also been able to finance that program, whilst loans were required at the time based on cash flow to get those projects securing—I refer to \$20 million runway expansions et cetera, underwriting \$35 million terminal redevelopments—at the time that the revenues were sufficient, they were able to repay those loan funds and that investment that had been made by the city.

[11.10 am]

The CHAIR: Basically, the revenue, the value you generate, has been directly invested into improving conditions for the people of Karratha.

Mr KOT: Correct.

Mr S.J. PRICE: Part of what we are trying to establish is the economic impact of the cost of fares in regional towns. A lot of the information and submissions we have heard so far have been around the negative impact it has on the tourist market. You also mentioned in your opening statement that you are looking to develop the tourist market here and you even made reference to it in your own submission, when you said that tourists do not find the area attractive. What is planned to help that? We hear quite often it is a chicken and egg thing—if you reduce the price, you will get the traffic, but the traffic is still going to want to have to come here if it is an optional spend.

Mr KOT: I think there are enough studies and evidence to suggest, and I think government departments have also made it quite clear, that we are struggling for product within the Pilbara. Product and the opening up of new markets and opportunities is a challenge and an issue. We think we have significant untapped markets here that require investment within them. There appears to be a significant groundswell of effort that is occurring between state, local and federal government as well, with a variety of different other organisations, to try to get product developed. I think that we do not have a significant amount of bankable product specifically within the City of Karratha but we do see ourselves as a bit of a gateway to other opportunities that may exist with some of our neighbours further down the coast and inland. A significant investment in time and effort is required to develop that.

The city is working in partnership with multiple players to try to improve product, particularly in and around some Indigenous business opportunities at present. We are heavily involved in the Living Knowledge Centre project on the Burrup with the Murujuga Aboriginal Corporation about trying to create opportunities there. We see that as a real untapped market that we have something that is

unique within the city that has huge opportunity to attract people to the region. We are very focused around trying to support those types of operators to get those types of projects off the ground.

Mr S.K. L'ESTRANGE: Simon, on page 3 of your submission you did a comparison of Karratha–Perth and Cairns–Brisbane. I am just looking at that Tiger price Cairns–Brisbane. The distance roughly, Karratha–Perth, is 1 500 kays, and Cairns–Brisbane 1 600 kays or thereabouts.

Mr KOT: Yes.

Mr S.K. L'ESTRANGE: If Tiger is running an airfare at \$85 and if airport fees and charges were around the same as here, it means they are really only charging \$30 plus land charges. What is your analysis? How is that viable for an airline to be able to offer tickets at that price?

Mr KOT: I think there would be clear evidence to suggest that that is probably not viable in the long term. Whilst it is listed here for a similar route, it is by no means necessarily all of the charges that would be there. There would definitely be some low cost charges but there would be some that are probably a lot higher as well to justify that service.

Mr S.K. L'ESTRANGE: Did you do some analysis of the airport charges for those routes?

Mr KOT: We have done some analysis of what is occurring in the eastern states. I think there is some evidence to suggest that the costs within the major centres are probably lower than what they are in the north west but in saying that, for example, fees and charges in more remote areas and larger population centres—for example Mt Isa—are very comparable to what they are in the Northern Territory, the Kimberley and the Pilbara.

Mr Y. MUBARAKAI: From the city perspective, could you give us some specific indicators on the city's approach regarding having these expensive airfares and how the city is trying to mitigate that through its strategies with their approach with the Department of Transport, the Department of Tourism and the department of industrial and regional development? These are key bodies that could have basically assisted the city. The city has taken some approach. Could you give me examples on whether or not that has been the case in the past?

Mr KOT: The city regularly meets with those departments and has ongoing dialogue and conversation around the attraction and retention of people within the Pilbara. Clearly, the investment that has been made within the city has been substantial and it is about attracting and retaining people. That is clearly the city's focus. The vision of the city is to make the City of Karratha Australia's most liveable regional city. That is a clear and stated objective. In terms of the specifics around airfare pricing and discussions with those bodies, we have had conversations with Tourism WA around marketing incentives and support that may be able to be afforded for domestic and international travel.

Mr Y. MUBARAKAI: When did that happen?

Mr KOT: They are ongoing. Those conversations have occurred over many years now. We are looking to try to support that development of product, which is the groundswell of effort that is going in at the moment, but also they are trying to promote the region and promote the opportunity that exists here. We do have those conversations.

Mr Y. MUBARAKAI: I am not sure how well you can answer this question. Just going back to a question Sean asked before about the comparison, you indicated in your report that when there is a third or fourth airline, it clearly has an effect on pricing. Has the city ever approached other airlines such as Jetstar and Tiger to become a third competitor? If that dialogue has taken place, could you give us an indicator of what was discussed?

Mr KOT: We have made approaches to many airlines and we have had other airlines who have operated here previously. The service that Alliance provided more recently through the city was a charter service. There was a point in time three to four years ago when they were also offering RPT services. At the time there is evidence to suggest that the prices were lower, having a third competitor in the marketplace at that time. I think the issue and the challenge is that you still have the duopoly existing, which has contracts in place and is supported by major industry. I think getting a third or fourth operator in without some level of support is going to be a challenge.

Mr D.T. REDMAN: What sort of effort has there been by the city to engage with existing players now to change some of their ticket-selling strategies or whatever to try to offer a cheaper fare for the locals? The same thing happened in Broome and the closer you get to the shut-off or the flight, prices seem to rise, despite there being an empty plane. Other traffic—for example, from Perth to Esperance—has gone the other way. As you get close, they offer cheap flights but you take the risk of not getting a seat. Have you engaged in that discussion and how has it gone, if you have?

Mr KOT: Not specifically in terms of influencing the strategy of how the airline prices—no. We have been speaking to airlines about whether we need to be considering longer term pricing structures, longer term arrangements around fees and so forth that gives a bit more certainty around how they may operate their business to and from Karratha, which we would hope to be able to then influence and see the outcome as potentially better prices being provided.

Mr D.T. REDMAN: So you are using the relationship with the airport as the tool to negotiate better outcomes for the people?

Mr KOT: Correct.

The CHAIR: I just come back to one of the statements you made in response to a question from Yaz about making Karratha the most liveable regional city. How significant an impact do you think high airfares have on that liveability?

Mr KOT: I think it is a significant factor. I think that the family—visitor—relative market with high airfares is a challenge. We are a remote location. Clearly, our demographic does not have a significant senior population. The extended family is an issue. Unlike other metropolitan areas where you have friends and family who are close by, the ability to travel at a low cost is a challenge, particularly for families. I think that is an issue. We then do not get the benefit of those further flow-on economic benefits of having more people come through the region, more people visiting, staying longer, supporting family et cetera. I think that is one of the reasons why arguably people could use as the reason why they leave, because of that lack of support.

[11.20 am]

The CHAIR: I would like to move on to things that, potentially, the state government can do. There are various forms of interventions that the state government can make into markets, ranging from full-scale regulation, setting or negotiating or putting routes out to tender and negotiating prices for contracts through to just greater visibility of the passenger numbers coming through, the types of fares being offered and the types of fares being taken up. Do you have a view on whether, first, you think a sort of more fulsome, regulated regime might be appropriate; and, if not, your views on greater transparency into the market?

Mr KOT: Look, I think that the city's submission is based around trying to prop up and support those regional hubs to make them viable and to make them, I guess, more efficient and more effective. Pushing more through-traffic through those regions, I think, is going to have some advantages. I think that clearly the cost of operations, for example, for the city at the moment is the same as if

we were having 800 000 passengers move through our terminal, and we may only have 520 000 effectively moving through at the moment.

The CHAIR: Yes.

Mr KOT: So there are some economies of scale, I think, that need to be found, and support and work with those operators to try and make them profitable. At the end of the day, not all airports are profitable, and therein lies the challenge. I think one of the issues as well is that that movement through the region—I guess I come back to that point that there is an inability for cost-effective movement within the region, and particularly from a time perspective as well. Arguably, that is public transport—arguably—but it does not receive any level of support. It is left to market forces to dictate and to determine. So there is possibly a role there.

But, again, I come back to the key issue that the city has, which is that if airports are allowed to be continually approved and developed which specifically divert people away from those regional ports, that is going to consistently provide challenges for airport operators because the economies of scale will not be there. The regulation that is put in place for these types of airports as well is not subject to screening. They are not subject to the same rigours. But the way that the City of Karratha has to operate the airport is the same as the way Perth operates its airport. We are subject to the same rigours, the same OTS compliance requirements, CASA compliance et cetera. So therein lies, I think, a challenge in that space: how do we try to work with companies and work with government to be able to try to prop up those major regional ports to make them successful, because ultimately making them successful is in everyone's benefit?

I think the other comment I would make is that airlines need to make money; they need to work. I think we have been very fortunate, and I pick up on what Hon Mr Redman said before about our numbers. Our community has enjoyed a significant amount of flights that they have been able to access. Sixty-one flights per week coming through Karratha currently at the moment gives you choice. It gives you choice. The issue is the cost. We have choice, but we just do not have the cost.

Mr D.T. REDMAN: How far is the CITIC airstrip from here?

Mr KOT: Eighty kilometres.

Mr D.T. REDMAN: What distance do you think is a fair distance outside of which it becomes logistically challenging for those companies to transport traffic?

Mr S.J. PRICE: Can I just add to that? The second point to that, though, is what is that exclusion zone you are talking about distance-wise? So, what do you think is acceptable? The other thing going the other way is what is a safe distance for people to travel. They have to get in and out.

Mr KOT: Yes. Prior to them operating their airport themselves, they were bussing people to and from the airport. So I would argue that from a safety perspective, safety is relatively well covered by a local charter operator—a bus operator—effectively transporting people to and from a port, which is arguably within a one-hour trip.

Mr S.J. PRICE: It is an hour, yes.

Mr KOT: I guess the city has countered the argument regularly that it felt that it was a safety issue for the employees to be able to go to and from the Karratha airport.

Mr S.J. PRICE: Yes, that hour. Is that pretty much the radius you are talking about as an exclusion zone?

Mr KOT: Possibly. I do not have an exact science around what is reasonable and what is not in terms of the amount of distance that people are prepared to travel from a safety perspective. That is possibly more of a question for the companies themselves.

Mr S.J. PRICE: But you are proposing to ask that we somehow restrict the development of these airstrips close to the airport. So what are you suggesting is the radius that we look at doing that?

Mr KOT: I think the city's boundary, for example—I can only speak on behalf of the city—is one hour east, one hour south and one hour west. So we would say not within the city.

Mr S.J. PRICE: I find the conflicting language interesting, where you say Karratha is a remote city but you want to be the most livable regional city. We have had this conversation sort of all up and down the top end. "Regional" does not do justice to the remoteness of the locality.

Mr KOT: Yes.

Mr S.J. PRICE: Do you have any views in regard to how we refer to things, because if we look at doing something for people who live remotely, it is different from what people want regionally, if that makes sense? Regionally is viewed as being a lot closer to the main city, as opposed to being so remote as you are up here.

Mr KOT: Yes. I think the level of investment and effort that has gone in to create a regional city has been significant, and we do use the terminology "regional city". I think we are aiming to provide a level of amenity and service that is commensurate with a regional city. I think there is evidence to suggest that we provide pretty good facilities for a population of some 21 000-odd people. We are remote, I guess, in the sense that it is just simply distance. It is distance to the capital. But everything that is basically within our city—I mean, we are focused around not using the term "remote" within our city. We are aiming for regional, but clearly from a capital city perspective, we are remote. So that is probably the best answer I can give you in terms of our definition.

Mr S.J. PRICE: No; that was perfect.

Mr Y. MUBARAKAI: Simon, can you give us an understanding—what I would like to ask is: we have 61 flights coming in each week into Karratha.

Mr KOT: Yes.

Mr Y. MUBARAKAI: Could you give us an indicator of what the distribution is? From the 61 flights that come in, how many of these flights in terms of percentage-wise would be FIFO workers coming in, what percentage of the community would be using the services, and what percentage of businesses would be using these facilities? So what I am trying to gauge from this is that in the 61 flights, on each flight or as a wholesome, what percentage would be FIFO, what percentage would be the residents of Karratha using the services and other small businesses?

Mr KOT: I am not in a position to be able to answer that adequately to be able to give an exact number.

The CHAIR: Do you know who would be? Do you know who might be? Is that data, to your knowledge, gathered in any —

Mr KOT: Possibly questions around the operations of some of the major companies would be a starting point to be able to collate that data.

The CHAIR: Yes.

Mr KOT: I mean, some survey work could be done in that space to start to test that, but, generally speaking, the city does not have a specific dataset around what the break-up would be.

Mr Y. MUBARAKAI: Could I ask an additional question to that? Can you please tell me at what capacity fills the flights that come in? The flight that I came in on, or we came in one, was pretty much chockers.

Mr KOT: Yes.

Mr Y. MUBARAKAI: I would like to understand is the average of the 61 flights, at what capacity would be the average of most of these flights?

Mr KOT: Our capacity has increased recently. I think we are currently tracking at, I think, 64 per cent; that might be the average load factor that we are seeing on flights.

The CHAIR: Do the local government authorities ever sort of swap notes on how you efficiently operate your airports? How do you sort of measure your efficiency and improve your operations overtime?

[11.30 am]

Mr KOT: Yes, within the Pilbara and the major airport operators—Shire of East Pilbara, AMP Capital now on behalf of, I guess, the Town of Port Hedland—there are regular communications that occur and forums that occur between the airport management groups. We have good evidence where we found some efficiencies. We have previously collectively tendered for security equipment and for services and been able to roll those out regionally and negotiate contracts on a regional basis. So there is a good level of dialogue that occurs there. The airline market is fairly transparent. There is ability to access a fair amount of data, so people are well aware of what is happening within each other's backyard. There is sharing of information around compliance. There is sharing of information around standards of infrastructure and support that is provided on various projects. So I think particularly within the Pilbara, there is a good level of dialogue and support that is afforded between each. I guess at the same time they are all operating independently. They are all owned and operated independently, but from a professional network perspective, there is a very proactive approach.

The CHAIR: Sure. Anyone else got any other questions? Terry, you look like you are cooking something up there.

Mr D.T. REDMAN: Yes, I was going to say—no.

Mr S.J. PRICE: Finally, in your conclusion of your submission you say —

... a permanent solution requires some policy settings to be adopted by Government.

You discussed some of them. Do you have any other suggestions that we have not yet spoken about?

Mr KOT: Not specifically.

Mr D.T. REDMAN: I am just trying to do some sums. This notion of the airport charges is one that has been raised, and largely it has been raised in a fact-less framework, so putting some facts around it, I am just using your numbers. If I use these assumptions, so if the flight was full, you are paying \$5 482 for a Fokker F100?

Mr KOT: Yes.

Mr D.T. REDMAN: If that is on average 64 per cent full—I am just taking 64 per cent of that as 64 passengers out of 100—is \$85 a head. So your landing charges for a 64 per cent—full Fokker 100 would be \$85 a head?

Mr KOT: On a per head basis, yes.

Mr D.T. REDMAN: Yes. I am using the Perth numbers now, so for landing in Perth, the same plane is \$5 811. If that is 64 per cent full, then it is about \$90 a head.

Mr KOT: I would need to qualify that and state that the passenger number, however, is on a per head basis and the security charge is on a per head basis, so it is not a direct calculation as such.

Mr D.T. REDMAN: Okay. You have to drop that down, too.

Mr KOT: What we have done, however, is modelling based around 100 per cent, 50 per cent, 75—whatever number, effectively, is required to demonstrate where we sit within the marketplace comparatively. So if you were to ask me what would be the comparison on a 50 per cent full, I could give that to you. If you want it on a 75 per cent, I could give that to you.

Mr D.T. REDMAN: Let us go to 75 per cent.

Mr KOT: Yes. On 75 per cent on a Fokker 100, Karratha's charges to the airline would be \$4 481; Perth's charges would be \$4 460. Is there a further destination? I have other locations.

Mr D.T. REDMAN: So you are looking at \$60 for Karratha's 75 per cent, did you say?

Mr KOT: Yes.

Mr D.T. REDMAN: So at 75 per cent load, you are looking at \$60 a head?

Mr KOT: Correct.

Mr D.T. REDMAN: And Perth is roughly the same. So straightaway there is a \$120 fixed cost before the plane —

Mr KOT: Yes.

Mr D.T. REDMAN: That is comparable to what we have got.

The CHAIR: I will proceed to close today's hearing. Thank you for your evidence before the committee today. A transcript of his 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. Thank you.

Mr KOT: Thank you.

Hearing concluded at 11.34 am
