

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



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

SESSION SIX

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 3.01 pm

Mr WILLIAM WATERS TOWNSEND

General Manager, External Affairs and Joint Venture, INPEX, examined:

Mr JOHN TYLER WILLIAMS

External Affairs Manager, INPEX, examined:

Mr NICOLAS WIRTZ

Senior External Affairs Officer, INPEX, examined:

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence into 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 is Yaz Mubarakai, the member for Jandakot; Stephen Price, the member for Forrestfield; and Terry Redman, the member for Warren–Blackwood. The deputy chair, Sean L'Estrange, unfortunately has had to leave, so he will not be joining us this afternoon. 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 advise you that the proceedings of the committee's hearing will be broadcast live within Parliament House and via the internet today. This broadcast may include documentation provided by you to assist the committee in its investigation.

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

Mr TOWNSEND: No, I do not.

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

Mr TOWNSEND: Yes. Thank you for the opportunity. On behalf of Inpex, I would like to thank the Economics and Industry Standing Committee for the invitation to appear today at this inquiry into regional airfares in Western Australia. Inpex welcomes the inquiry that has been established to evaluate the high cost of regional airfares in Western Australia. With your permission I propose to read a brief opening statement to provide the committee with an overview of Inpex and the Ichthys LNG project and our activities as they relate to regional airfares on the Perth to Broome route specifically.

The CHAIR: Please do.

Mr TOWNSEND: Inpex's interests lie in the fact that Broome is a vital logistic support hub for the Inpex-operated Ichthys LNG project. Inpex itself is headquartered in Tokyo. It is Japan's largest oil and gas exploration and production company, currently involved in 70 projects across 20 countries. Inpex has been a proud member of the Australian business community for more than 30 years and its presence in Australia has expanded significantly over the years due principally to our operatorship of the Ichthys LNG project. Today, our Australian headquarters in Perth employ around 1 400 people. This represents Inpex's largest office globally and is even bigger than our Tokyo head office.

The Ichthys LNG project represents the largest overseas investment by a Japanese company and, by definition, the largest ever Japanese investment in Australia. Ichthys is one of the world's largest and complex oil and gas developments, and it is being run from Perth. The Ichthys LNG project achieved a final investment decision in January 2012 and is making steady progress. It is now more than 90 per cent complete, and the first LNG production is targeted for in the first quarter of 2018. The Ichthys gas condensate field is located in the Browse Basin, some 220 kilometres off the Kimberley coast of Western Australia and approximately 475 kilometres to the north-east of Broome. We recently welcomed our two massive offshore facilities to the Ichthys field, including our central processing facility, named the Ichthys Explorer, which is the world's largest semi-submersible. We also welcomed the floating production storage and off-loading facility, the Ichthys Venture, to the field recently. With the arrival of these two massive facilities, the offshore scope of the project is now progressing with what we call the "IHUC" phase—the installation, hook-up and commissioning phase of the project—which is expected to be completed later this year when we will be ready for start-up. We are also currently in the midst of development drilling, which is being supported by the ENSCO 5006 mobile drilling unit, or drill rig. This phase of the project represents the most intensive period of offshore activity, which will peak later this year when we expect to see close to 2 000 people working offshore across approximately 20 vessels in the field.

Broome is a vital marine and aviation logistics hub for the Ichthys project. It serves as a transit point for our workforce going offshore and a supply base for drilling supplies and other cargo to support our offshore operations. Broome is the closest regional centre to the Ichthys field and offers a deepwater port and airport with regular passenger transport—or RPT—connections to Perth and facilities to support heavy helicopter operations. Inpex is at present the largest user of Broome International Airport, heliport, and also Broome port. Two helicopter contractors based in Broome operate a total of eight state-of-the-art helicopters in support of the Ichthys project. The flight time from Broome to the Ichthys field is approximately 2.5 hours with a refuelling stop at Djarindjin airport on the Dampier Peninsula.

Broome is the staging point for Ichthys project workers heading offshore. This means that our contractors make their own arrangements for their workforce to travel to and from Broome. The majority of project workers travelling offshore fly to Broome the day prior to their scheduled helicopter flight. They stay overnight in local Broome hotels before catching an early morning helicopter flight offshore. To enable workers coming from offshore facilities to transfer to afternoon RPT flights to Perth, helicopter flights depart the field in the early morning to enable them to return by midday. Returning workers are then transferred to the next available RPT flights to Perth. The RPT connections provided by Qantas and Virgin between Perth and Broome are critical for the aviation logistics of the Ichthys LNG project.

The matter of perceived high fares has been an ongoing public issue on the Perth to Broome route for as long as I can recall and certainly precede the Ichthys project activities in Broome. I understand that this point has been reinforced in other submissions as well as at the hearings of this inquiry in Broome.

Over the past three years the Ichthys project daily demand for seats on the Perth to Broome route have averaged 40 seats each way. At peak, we have required up to 100 seats per day to support the project's offshore operations. Inpex and our contractors use both Virgin and Qantas and have no exclusivity arrangements with either carrier, nor do we block book seats. Inpex and our contractors book full fare economy tickets. We do not purchase restricted economy class fares such as the marketed Red e-Deal or Getaway fares. The majority of Ichthys project bookings are made via our preferred booking agent, Bristow Travel. Although Inpex and our contractors are major customers of both Qantas and Virgin on the Broome to Perth route, it should be noted that we are nevertheless

a price taker and not a price maker. We do not have any control over airline pricing and the pricing structures are set exclusively by the airlines.

The commencement of the installation hook-up and commissioning phase of the Ichthys project earlier this year coincided with the start of the tourism season in Broome. Through Bristow Travel we engage with both Virgin and Qantas to provide monthly forecasts of our projected travel demands on the Perth to Broome route. We do this to enable the carriers to manage capacity on the route. We also monitor seat availability on the route ourselves and actively consult with Broome stakeholders to understand local events that may drive tourism demand in particular on that route. When capacity appears to be constrained, we consult with the airlines directly and through our agent Bristow Travel. We do that to discuss options such as whether the airline would consider putting larger aircraft on the route or, in some cases, whether we should charter aircraft in our own right. In fact, on 11 occasions to date we have chartered the Virgin 100-seat F100 aircraft to avoid impacting the travelling public. This included during July school holidays at the height of Broome's tourism season. The introduction of charter flights to meet project requirements has not only reduced competition for seats on existing flights, but also offers the adequate benefit of making additional seats available to the general market. We have also chartered aircraft during times of unusually high travel of Ichthys project workers to minimise the impact on the availability of seats to the public. The intense offshore operations, which today includes 17 vessels offshore, require flexible logistic support; in fact, we average about 80 booking changes every day. That is why all tickets booked for the project are fully flexible, as it enables Inpex and our contractors to be able to adjust travel arrangement at short notice.

As the hook-up and commissioning phase progresses towards production and transitions to operations, there will be a steady reduction in the number of workers required offshore, and as the workforce decreases, it is forecast that the number of helicopter flights will reduce from the current peak of around 10 helicopter flights a day, Monday to Saturday, to around three flights per day in steady-state operations. The number of seats required on the Perth to Broome route is also expected to reduce between 100 and 200 return seats per week, depending on whether or not we have drilling operations underway in the field.

I would like to highlight to the committee the positive economic impacts that logistics operations for the Ichthys project bring to the Broome economy. The use of Broome as an aviation logistics hub has helped to balance the fluctuating highs and lows of the Broome economy, which is heavily reliant on tourism. The ongoing year-round demand on the Perth to Broome route, along with other Browse Basin developments should help to ensure RPT services are maintained throughout the year.

In addition to the economic contribution we are making through our operations in Broome and Djarindjin, Inpex and our Ichthys project joint venture partners also invest in a broad range of corporate social responsibility programs in the Kimberley, supporting local schools, training programs, Aboriginal communities and cultural festivals. At Inpex we believe that the logistics activities of the Ichthys LNG project are helping to grow the Broome economy and that our operations will provide a long-term and dependable driver for the local economy, not only today, but also over the 40-year projected operating life of the Ichthys project. We at Inpex have made our best efforts to reduce the impact from our operations on airfares available to the travelling public and we look forward to seeing the findings of this inquiry.

That concludes my prepared statement. I will be more than pleased to take any questions that you have.

The CHAIR: Thank you, Mr Townsend, for your submission and opening remarks. You are the missing piece of the puzzle for us. We have heard a lot from the airlines about the routes they operate on

and the contribution that the major resource and energy projects have. We have heard a lot from the communities that the airlines travel into and the impact from their perspective, but we have not had much information from the resource operators themselves. We certainly appreciate, given I am sure the significant demands on your time, the preparation and provision of this submission. It really adds value to our inquiry.

Given that you guys are the only ones who have put up your hands, there are a series of issues I am pretty keen to understand and explore with you, particularly about the reasons underpinning your choice to procure your air services in this way, the fact that—please correct me if I am wrong—it sounds to me as though you are operating as any other customer would. You understand you need X number of seats per day and you go and book them; you are not necessarily entering into a relationship with either of the major carriers to support your aviation needs. I wonder why you have chosen to operate in that way, rather than chartering a certain number of seats on a flight or using some other structure?

Mr TOWNSEND: The arrangement I have described provides us with the most flexible arrangement that we can provide to our contractors and our workforce going offshore. That is why we have chosen this particular arrangement. I can understand the gist of your question here—that is, we have chosen not to optimise on the airfare side of it and more to optimise on the flexibility that is provided to us through this arrangement. The arrangements we have in place enable us to choose from both Virgin and Qantas so we have all the flights available to our workforce going offshore, and that provides us maximum flexibility in that regard.

I think that it is probably fair to say that it is the best suited for operational needs. In my opening statement I alluded to the fact that we have approximately 80 changes every day to our flight arrangements, depending on what is happening—changes that happen offshore and just the up tempo, if you will, of things that are happening in the field. Having that ability to make last-minute changes flexibly is highly valuable to us and I think that would be the leading driver behind us making arrangements the way they are.

[3.15 pm]

The CHAIR: Do you think that is because your project is at construction phase, which typically is a little bit more variable? Do you anticipate that that need may change as you move more into an operating phase?

Mr TOWNSEND: Yes, as we go into more of an operational phase I would absolutely expect that it would have a fairly predictable cycle of flight requirements, but that said, our need will also decrease significantly. So, whereas today I described a world where we have up to 2 000 people working offshore later this year, during operations at two major offshore facilities in a steady state we would expect that each has about 150 personnel on each of the CPF and SPSOs, so that is 300 there and if we are drilling in the field, that is another 140 or so. So, somewhere between the 300 minimum to maybe a little over 500 in steady-state operation, so a significant reduction in what we are doing today.

The CHAIR: Are the patterns that your workforce is travelling in fairly stable and predictable? Are they unidirectional? We have heard that basically a lot of resource companies put a whole heap of people onto one plane, it goes up full and comes home empty or with very low load factors. Is that typical of the way that your workforce's travel is planned?

Mr TOWNSEND: On average, I would say that the answer to that is no, although there are exceptions to the rule. For example, when we did have the arrival of these large facilities, the CPF and the FPSO in the field required up-manning, if you will—I do not know if that is a politically correct term or

not—when we were mobilising personnel offshore for that in large numbers. That would have been a situation where we did have unidirectional travel requirements, and in situations like that we did charter aircraft to meet the needs.

Mr WIRTZ: It basically works on helicopters, as we change all the workers coming from onshore and offshore. Basically, 10 will come up and 10 will come down based on the helicopter flight as well.

The CHAIR: So, it is a fairly steady stream? It is not like everybody is going up on a Monday morning and coming home on Friday night.

Mr WIRTZ: That is correct. We operate currently Monday to Saturday with our flights, and that is based on the offshore requirements, but generally if you are taking the helicopter offshore, there of people coming back.

Mr TOWNSEND: An important consideration is that load that is on our helicopters.

The CHAIR: One of the issues, I guess—not an issue necessarily, but something for this committee to consider—has been on the taxation benefits potentially offered to workers for not locating in the regional communities themselves, to stick with the FIFO-type arrangement. Do you have any views on that or is there any reason that you have decided to go with the FIFO model for your workforce rather than looking to develop a permanently housed workforce in Broome?

Mr TOWNSEND: Just to be clear, Broome is our staging point for all of our personnel, so we do not discriminate against anyone living in Broome going offshore. In fact, we are happy to support people living in Broome and we have worked closely with both the local shire and the tourism and business community in Broome to make that opportunity available to our workforce, or to make them aware of the opportunity to live in Broome. That said, we do not dictate where our workforce resides. That is entirely up to the individual. So, it is really to the extent that Broome is an attractive location for the individual person. The nature of our offshore facilities means that there are FIFO, effectively. I mean, to get them 450 kilometres offshore to work means that we have to fly them there for a period of time and then fly them back to their home town.

Mr S.J. PRICE: Is there much need for people to travel from Broome to Darwin to that plant?

Mr TOWNSEND: Not overall, no. It is a different workforce.

The CHAIR: Have you found any significant differences in the schedules or pricing to Broome between Virgin or Qantas—same—same or differences between them?

Mr TOWNSEND: The pricing seems to be quite similar. With the charter aircraft that we have arranged, I note it has been exclusively Virgin that has been able to provide those.

The CHAIR: I was very interested to hear your comments about community consultation, and indeed your consultation with the airlines about what Inpex's requirements are regularly, what sort of loads you are going to have. How do you conduct that? How do you engage with the local community?

Mr TOWNSEND: For one, we have been engaging with the Broome community for many years now, so it is my team's responsibility as the external affairs general manager to do that. Recently, we appointed Nick Wirtz here and he has exclusive regional responsibility for managing our relationships with the Kimberly community, and he does that through John and his team at Inpex. I guess it all starts with relationships first and foremost. Over many years we have developed relationships with the Broome community. It is obviously not a big place. We make regular visits to Broome and in fact Nick and I were there just the last week. As an example, we catch up with the local stakeholders there, everyone from governments and the shire, the airport, the port, our helicopter operators, the chamber of commerce and some of the local schools. For example, we were at Cable Beach Primary School last week. Importantly, we also talked to the tourism operators

in town. We caught up with the visitors centre this time. We hosted an evening sundowner for our community stakeholders, if you will, to give them a bit of an update about what we are doing, but also to connect them with each other as part of that community, so they understand that. Specifically, around the aviation side of things we conducted an aviation information session, which was open to the public, where we talked about what our upcoming operations were expected to be. The instruction I always give, and we try to live by this, is that we have two ears and one mouth and we should use them in proportion, so it is really a listening exercise with the community to understand where they are coming from and what they are hearing. The community aviation information session was particularly helpful for us. It alerted to us a few concerns and one small example is the Ramsar area, which is the environmentally protected area. There were some concerns from the local community and some of our environmental stakeholders and also our Aboriginal stakeholders in the region around how close our helicopter operations would get to that Ramsar area. Through Nick we then went back and worked with our helicopter operators and the airport to change the flight patterns and plans to, first of all, make an awareness of the sensitivity and then to change our plans.

Our approach has been pretty consistent, I think, which is to let people know openly. The reason that we are here today, I think, is that we are happy to tell people what we are doing. We are proud of what we are doing. We think on balance we are providing more benefit than not, but at the same time we do recognise that some of what we are doing will have an impact. To a certain degree this year is an anomaly. We really do have an intense amount of activity happening in 2017. To that end, a little bit of it is around going out and saying, "Pardon our dust. You do not have to get used to this level of activity forever." It has a finite period that we expect. But also, if you do have a concern, we are at least willing to pick up the phone, answer an email or meet face-to-face, which, particularly in Broome, is I guess probably the preferred model. Nick gets to spend a lot of time up in Broome doing just that.

The CHAIR: Half your luck!

Mr TOWNSEND: Yes, you could think of worse places to do that. I also think some of that comes back to our corporate culture. We are a Japanese company and we take long-term relationships as a very important thing. For us, we recognise that we have a 40-year project operating life, so operating for four more decades or something, so we had better get on with our neighbours.

Mr D.T. REDMAN: One factor that the airport is obviously watching fairly closely is the notion of Inpex continuing to use the Broome airport as a hub for the FIFO staff who are coming in and then helicopter out, as distinct from maybe landing those people in Geraldton and going directly from there and/or another port offshore. Has that decision that confirms that been made; and, if not, when is it to be made? That is a fairly big factor in terms of the activity through the Broome airport and some of the economies of scale that come from it.

Mr TOWNSEND: I can answer the question, but perhaps not with the specificity that you would like in my response. What I can say is that the arrangement that we currently have in place through Broome and refuelling in Djarindjin to take our people offshore is working and serving a purpose. Broome has some, I would say, unique advantages. First of all, it has the infrastructure there. It has got the airport, it has got RPT services and a community and it is the terminus of our supply chain, I guess. That has inherent advantages for Broome. That said, in an ideal world, I suppose, we would minimise the amount of time that our personnel spend in helicopters. Given that the physical location of the field in Broome is not movable, that has in the past caused us to look at different opportunities. You may be aware that we had an investigation that we did jointly with Shell into looking at some different opportunities and potentially relocating our air base to another location

closer to the fields, again, to reduce that amount of time people spend in helicopters. That joint work has sort of come and gone, but it is something. Our logistics team is always looking at ways of optimising the outcomes. I cannot sit here hand on heart and say it will never happen, but that said I would say that the arrangement we have in place today is working and there is no immediate plan to change anything. The other thing that really strikes me is that even if we did have a desire to change, the actual realities of turning an idea into reality are quite confounding as well, particularly in the Kimberley region. The long and the short of it is that I see us staying in Broome for the foreseeable future, but that said, it will not prevent us from looking at and considering other opportunities.

Mr D.T. REDMAN: All of your commentary today is about the level of activity for your workforce that goes out to the platform and back, and construction now and then production soon. What about the supply bases and the external contractors to Inpex? Is that something that is maturing and/or is that liable to be a very big impact on airfare traffic, for example, through your suppliers—your other contractors or suppliers?

Mr TOWNSEND: I would not necessarily think it has a big driver on the airfare traffic, although with our offshore drilling operations, again, there are personnel going offshore to support that. Our drilling operations are almost exclusively supported out of Broome. We have a logistics base through Toll in Broome to support our drilling activity, and that is why we are the number one user of Broome port today. That is principally in support of our ongoing drilling operations. Over the course of the Ichthys project, just for the development drilling, we expect to drill up to 50 development wells. Our current campaign should be complete in 2019, with about 20 wells completed and after that we will still have about 30 wells to drill. To put that into a time frame, it takes approximately three months to drill a well, so four wells a year. If my maths are right, another 30 wells would take about seven and a half more years of drilling activity just to support the development drilling component of the Ichthys project. I see every reason for us to remain in Broome. We are very satisfied with the operations out of Broome. We have had very strong support from the port of Broome for that and from our Toll colleagues as well as GE, who supports our subsea infrastructure through Broome also.

That said, our main supply base for offshore is currently in Darwin and we have an offshore facility also managed by Toll. Something that we do talk quite openly about with the Broome community and the port of Broome is specifically around potential opportunities in the same way we were talking about optimising logistics for aviation. It strikes me—this is more of a personal view than an Inpex view—that Broome has the distance advantage of being twice as close, effectively, as Darwin to the field, and therefore from a logistics support standpoint it would make sense that if the facilities were expanded in Broome to support that, that could be an opportunity there. That is not to say that it would be, but it strikes me that there is certainly an opportunity for that.

Mr D.T. REDMAN: It also complements putting on charter flights during the hot times for local traffic—so well done with that.

Mr TOWNSEND: Thank you. We are sensitive to that and we take our community relations very seriously, yes. Thank you.

The CHAIR: Just very briefly, this is certainly my last question; do you guys have any other questions? You note in your submission and, indeed, in your opening remarks that Inpex is a price-taker and the pricing structures are set exclusively by the airlines, and you explained the way you go about procuring your air travel requirements. Presumably, moving forward, as your long-term requirements stabilise, do you think you will seek out the major airlines and want to have a bit of a chat and maybe negotiate a more permanent arrangement, rather than being a price-taker? Maybe

negotiate with them a little or have you done that in any sort of preliminary sense? How have you found those engagements if you have undertaken them?

Mr TOWNSEND: I guess, just for quick clarification, we do have corporate rates that we have negotiated with both Qantas and Virgin, so it is not entirely that we are not getting some advantage for the volume that we are putting onto those goods, but, that said, we are on a fully flexible fare. So on average—I think it is in our submission—from memory it is between \$400 and \$1 000 we pay each way for airfares on the arrangement that we have. Longer term, I cannot, again—I would be speculating, I suppose; it might be half, and it is also not my immediate area of responsibility, but again it would not surprise me to think that we would be looking to get—to the extent that the services provide the flexibility to meet our operational requirements, that, we, as a business, of course always seek to get the best commercial outcome that we can. I guess the point I make now and was making earlier is that our purchase of air tickets is not optimised necessarily entirely on cost but on the flexibility of service that is provided and the overall. There is a bigger cost, I suppose, in being able to run operations in the way that we want to, and that is the bigger prize, I suppose, for us.

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

Hearing concluded at 3.33 pm
