

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT KUNUNURRA
MONDAY, 21 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 7.59 am

Mr CARL ASKEW

Chief Executive Officer, Shire of Wyndham–East Kimberley, examined:

Mr PAUL REGINALD BAWDEN

Manager, East Kimberley Regional Airport, examined:

The CHAIR: I would like to begin by acknowledging the traditional owners of the land on which we meet this morning and pay my respects to their leaders—past, present and emerging. On behalf of the committee, I thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am the Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee to my right: deputy chairman, Sean L'Estrange, the member for Churchlands—Yaz Mubarakai, the member for Jandakot, is not with us, but he will be joining us in Broome—Stephen Price, the member for Forrestfield; and Terry Redman, the 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 thank you both for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance here today?

The WITNESSES: No.

The CHAIR: Do you wish to make a short opening statement at all about your submission?

Mr ASKEW: I am happy to make some opening comments but I would prefer, probably, just to respond to questions and comments from the panel. I have a couple of examples for you, if you are interested—some more personal than others—that I think will make the point fairly well in terms of why you are here. Can I just start by welcoming you to Kununurra and the East Kimberley. Hopefully, you are finding the weather good. I spoke to my wife this morning, who is in Perth where it is freezing cold, wet and rainy; so, hopefully, you will appreciate some lovely East Kimberley weather while you are here. Thank you for the opportunity. As you are aware, having flown in, we are extremely remote—probably the most remote community. Those nearest to us will be Darwin and Broome, in terms of regional centres, and they are both, respectively, 850 and 1 100 kilometres in either direction, and they are our next nearest airports, so we are remote. Other than drive in, drive out, the airport is our major connection resource and I can certainly tell you that we have two seasons in Kununurra: one is wet and one is dry; and in that wet season the potential for those roads to lock up is significant and occurs on a regular basis, so the airport becomes our major point of communication and transport in and out of the region. It is extremely important for us that we have an airport that functions and operates well, and operates efficiently. Certainly, I am sure you will have heard, there is a lot of anecdotal comment and certainly some factual comment in terms of what is happening with airport costs and fees of airfares. We are happy to respond to questions from the panel as we go.

The CHAIR: Great, thank you very much. We have a fairly broad-ranging set of terms of reference. The first and probably the most significant one is with respect to the impact that high-cost regional

airfares have on communities from a business, tourism and social perspective. Are you able to give us your thoughts on how that is affecting the community here in Kununurra?

Mr ASKEW: Certainly, maybe some general comments to start with. You are right, as a community, we are very fortunate to have a number of pillars, I suppose, to our economy and tourism is but one of them, but it is a significant one for us. It is the one that is growing the fastest. It is the one that has the most potential to grow, to the point where we very much rely—especially during the dry season, but we are trying to extend the shoulders of those seasons especially to have people come in and out of Kununurra. We know that even a small increase will be significant for us in terms of potential economic benefit, to the point where council is now underwriting, if you like, a proposal through our East Kimberley Marketing Group to try to increase traffic direct out of the eastern states and into Kununurra. At the moment, there is a lot of discussion taking place behind closed doors in terms of having an airline underwrite a direct flight out of Melbourne and into Kununurra during the dry season. The council has put up in excess of \$200 000, if you like, as a form of underwriting of that to prove up the viability of that flight so that the airline, we think, will then be able to take that on as a live business concern for them. We are trying to de-risk the process. We are trying to prove up what we already know, which is that there is a significant tourism market for us in the eastern states, and in Melbourne in particular, and we believe that will extend to Sydney.

We would like to see significant flights come in and out of there on a fairly regular basis. At the moment, we are looking at two flights per week, and that is what we will start with as a trial and then, hopefully, from an economic point of view, it will stand up and the airport will increase it from there. Council is taking a risk, but I think it sees the value in it in terms of the economics to the region and also, potentially, for the benefit of tourism. What we have, in effect, is a tourism product that is perhaps not as well known as we would like it to be, so we are actively now working on the marketing and the promotion of that side, recognising that that is the other half of the equation in terms of when people get here we have a product, but we need to encourage them to come here.

One of the most significant things that I think will sit behind that in terms of whether it is successful or not is in the price and cost of airfares in and out. At the moment, if you were to come from Melbourne to Kununurra, you would in all likelihood have to go via Perth or via Darwin. It would involve at least an overnight stay somewhere along the way on that trip. Potentially, for a week's trip from Melbourne to Kununurra, you would probably lose the best part of three days in travel, and we do not think that is particularly helpful or valuable to anyone. What we would like to see is a direct flight out of Melbourne and into Kununurra, which will give people the maximum amount of time here in the region to actually enjoy what we have to offer. From a tourism point of view, it is extremely significant.

From a social point of view, I can certainly talk on behalf of my own organisation, and that is probably fairly reflective of our community. We have a fair number of people who live and work in this community who come from somewhere else, and that either is Perth or the eastern states. A significant number of them try to go back and visit their families on a fairly regular basis. The gentleman on my right will be one example in case. We find that there are some fairly pressing personal needs, I suppose, why people would want to make those sorts of journeys. Anecdotally, what my staff will tell me is that the cost of doing so is what prohibits them from actually doing it. It prohibits people from flying both ways, whether family visit here or whether my staff go home and visit. I will give you a couple of examples, if I can, along the way, just to prove that point.

From a business and from a government point of view, while the government clearly has work to do in the region—we are very much a strong government town; we have all government agencies and services here—to actually visit and service is extremely expensive, and I imagine the cost to the

state is quite significant, and it would be interesting, if someone were to ask that question, to find out exactly how much it was over the course of a financial year. Certainly the PAT scheme is one that does operate in and out of Kununurra, for obvious reasons. Quite often the medical needs of certain things need to occur somewhere else. Certainly from my personal perspective, we have had need, I suppose, to make use of the PATS service to Broome, to Perth and to Darwin. So, it is a significant impost. Partly that reflects the nature, quality and amount of service that we are able to provide here locally on the ground and, obviously, it then reflects from there onwards.

I said I was going to give a couple of examples and perhaps this might make the point, and then I will let Paul have a say, too, given he assisted in the authoring of the submission that has come to you. About two weeks ago, my PA came to me and said that her parents were on a cruise—they were in Singapore—and her mum had taken ill to the point where they had taken her off the ship and they had left her in a hospital in Singapore. On one hand, I was relieved she was probably in one of the places with the best medical care in the world; on the other hand, she had a mum who was extremely unwell. She basically said to me, “I think I need to go and see my mum.” She made inquiries. She had to make inquiries about a flight within 24 hours. The cost to go from Darwin, which is our nearest exit point to Singapore, was approximately \$250. The cost from Kununurra to Darwin was \$1 300—that was a one-way ticket. It was extremely difficult for her to actually try to weigh up where she would find that sort of money to make that sort of trip, and the emotional pressure of needing to go, for obvious reasons. In the end, she rang her brother, who was in Perth, and basically said, “You’re going to have to go.” He could do the same trip for about \$500. A significant impost on her; significant emotional trauma for her.

Perhaps a more personal one from my point of view: my wife is in Perth at the moment undergoing medical treatment. She has actually gone down under the PAT scheme, because it is medical treatment that she cannot actually access here at the moment. I am obviously back here at work at the moment. We talked about me going down. She has got some significant tests that will occur on Friday, so I made some inquiries late last week about maybe flying down. A return flight for me, if I wanted to travel this Thursday, was \$1 697. The tests were on Friday, so we weighed up whether I could change that trip to a Friday and still make it in time for the tests.

[8.10 am]

I think, unfortunately, the timing is such that I probably will not, but the cost to me would still be \$1 206 return—a significant amount of money for a trip that I am concerned does not necessarily need to meet that cost. I actually looked this morning before I came in to meet with you and that \$1 697 cost has already gone up to \$1 774 and my \$1 206 cost has now gone up to \$1 266. It varies, obviously, every day; the later you leave it, the more expensive it is, but even if you plan ahead, those costs are still significant to us—and I mean significantly plan ahead. I think in our submission we gave an example of three months ahead. A lot of people cannot book three months ahead; it just does not work that way. In my case, and probably in Kourtney’s case, we simply did not know of those issues three months ahead, so we could not legitimately plan for those.

They are couple of personal examples that might bring across to you, certainly, the personal impacts and social impacts of living in the north west. It is already, as I say, a remote location. Living here is expensive—more expensive than across the metropolitan area. These sorts of costs then add to the difficulty, I suppose, of living in such a region.

Mr D.T. REDMAN: Do those prices follow a predictable pattern? In other words, as you get closer to the time of flight, they literally keep going up? Is it that predictable?

Mr ASKEW: Yes, generally, they do. I am not sure it is as even as that, in terms of it does not go up by a certain amount per day. But, generally, the later you leave it, the more expensive it is, for some reason. I am not sure why.

The CHAIR: Thank you very much for sharing those anecdotes, because they are certainly very helpful for us to get an understanding of what the impacts are on the community, and I do hope that your PA's mum is on the road to recovery.

Mr ASKEW: She is; she is home and well, thankfully—pneumonia at worst, if that is a good sign.

The CHAIR: That is good. I want to explore in a little more detail the program you have initiated to encourage more tourism into the area, without obviously doing anything that is going to compromise any commercial-in-confidence obligations that you have. Are you able to give us a bit more of an idea of how that is being set up? How did you select the partner airline that you are working with? Are you working with any state government agencies or any national agencies or with the Tourism Council? How is that working, and did you initiate that yourself? If you could give us a bit more detail on that, that would be fantastic.

Mr ASKEW: I certainly can. It started, I suppose, as a conversation—I am not sure whether they are presenting to you, the East Kimberley Marketing Group, but certainly members of them probably are in other guises. That group has been set up to look at promoting and increasing visitor and tourist attendance across our region. So, we started with an idea and we knew that there were some untapped markets, I suppose, in the eastern states in terms of tourism. Tourism is a major issue for us in terms of the East Kimberley; it has a lot of potential.

The CHAIR: Roughly, what sort of contribution does it make to the local economy? Do you have a sense of scale of how much tourism brings in?

Mr ASKEW: No, I do not in a dollar sense. I am looking at Jeff, who might be able to assist, but I cannot tell you off the top of my head exactly what that impact is. We certainly know, and we have used an anecdotal example on a fairly regular basis in terms of people who visit, one of the significant assets—we have a fair number of natural assets—is the Bungle Bungles. We have done some work around the Bungle Bungles and we know that somewhere between 15 000 and 20 000 visitors probably come to the Bungle Bungles each and every year. We compared that with what happens at Uluru, and we know that they probably get in the order of 300 000 to 350 000 visitors per year, so we know that there is significant interest in rock monoliths and other significant cultural icons within our country—natural beauties—and we know that the Bungle Bungles is probably a significant one and there will probably be a dozen that we have within the East Kimberley that are perhaps less known and probably just as beautiful.

Our intent, I suppose, was to try to look at how we can increase that presence of visitors across the East Kimberley. We know that once they are here there is a significant benefit to the local economy, and obviously the longer we can encourage someone to stay, the better for us. Even one night's additional stay for most of our visitors would make a significant impact across the community. From our perspective, we looked at that and we tried to work out what was feasible. We did some initial studies, and those studies are on our website. They were basically to test the Melbourne market just to see where the interest was, and that is why we landed on Melbourne being our first destination point. We looked at the number of people who we thought would come and what sort of disposable income they would have et cetera.

Mr S.K. L'ESTRANGE: I am just curious on that, because I have heard it mentioned. We had a community group last night and Melbourne was mentioned a couple of times, so I am just curious.

You have made a conscious effort as a shire to focus on Melbourne. Can you step me through why not Sydney or Brisbane, for example, or why not Perth?

Mr ASKEW: We have a significant number of tourists who come out of Perth already. What we were trying to tap into was new markets. Melbourne came up in our study as being probably the one that we would start with. Sydney is equally another market that we would look at. The difficulty is we did not want to spread ourselves too wide, too thinly, too quickly. We wanted to prove something up on an initial pilot case, if you like, first, and then with a view that if that proves up and works out, we would then look to extend that into other things. We have already discussed how we might make that happen now. We would love to think that the underwriting that we have put against this project does not need to occur, and if that was the case, then we would use it for the next project.

I think Sydney would be the next logical project for us. We have gone to locations that obviously have significant populations, significant people who, during the wintertime, probably would love to get away from weather and climate that they do not enjoy, and we do. There are a number of logical reasons why we looked at the number of people who we think had the appropriate disposable incomes et cetera to enjoy that sort of a holiday, and we did some marketing; testing has already been done. We have a couple of studies and I am happy to provide those to the committee, if you want to have a look at those.

The CHAIR: That would be great.

Mr ASKEW: They were our initial background to say, yes, we think we have a market that we can access. We then started to look at how we would actually get them here. We had initial conversations with the existing providers that are in town. We approached Qantas, we approached Virgin and we approached Airnorth. Airnorth, obviously, is a smaller regional service and predominantly operates across the top of northern Australia, so probably was not going to be interested in things coming out of Melbourne, but we certainly thought that Qantas and Virgin perhaps would, and we certainly hoped that they would. In the end, I think both of those airlines decided that it was not for them at this point in time.

We then approached a regional air service provider and we have asked them for their interest, and they have indicated an interest and a capacity and a capability to actually deliver what we wanted. Those negotiations are still ongoing. Unfortunately, we have not been able to secure a signature on a piece of paper as yet, but we are fairly confident that, with the discussions we have had to date, we have the willingness, if you like, of that agency. I think they would prefer to be the carrier of the agency, not necessarily the initiator of the market or of the project, so we are looking at a third party who might also be able to then assist with the other side of it—the ticketing, the marketing, the promotion side of it. Those conversations are still progressing well, and I still like to think that we would have something signed off fairly soon, although we have been promising that to our community for quite some time, who are extremely positive.

Mr D.T. REDMAN: Busselton Regional Airport is also going through an upgrade now and a substantial part of the business case, and therefore the funds put aside to upgrade the infrastructure, also was to kick in to a marketing support plan for an airline. I will not give the number attached to it, but it was a fairly substantial amount of money towards the airline, first, to market and, second, I am assuming getting some cheap fares to get it profiled a bit. Is that a component of the Melbourne scenario coming into here; and, if so, is the intent to look at government to support a starting fund, if you like, to get that to happen?

Mr ASKEW: The short answer is probably no at this point in time. What we would like, and certainly what Paul will talk more about, is an extension to our runway. I think there are other reasons why we are currently looking for an extension to the runway and it does not necessarily impact on this

particular study. We have done sufficient work to prove up that the existing planes that can be used can fly in on the existing runway and therefore we do not need changes. I think long term, and I think we all know and our studies tried to show you, there is an economy of scale which produces a cheaper ticket price when you have a slightly larger plane flying. I think there is no doubt that with a slightly larger plane it will be more positive, I suppose, for those larger airlines to fly in and out of Kununurra. I am happy to talk more about the runway and the infrastructure side of it, but at the moment the infrastructure we have is sufficient to meet the need of this particular project. The underwriting is very much on the basis of an express concern from the provider that they will not get the numbers that they want to make it a financially viable arrangement.

[8.20 am]

Mr D.T. REDMAN: But the underwriting is on working up the business case, to demonstrate it; it is not giving anyone any money to, say, take some money from us and start flying.

Mr ASKEW: I am not sure.

Mr D.T. REDMAN: Is that right?

Mr ASKEW: No; the underwriting would be on a sliding scale based on numbers of people coming in on flights each and every week. Whereby if a particular number of seats are filled, then no underwriting would be required.

Mr D.T. REDMAN: I see, so it is underwriting.

Mr ASKEW: Then there will be a sliding scale thereafter. Yes, there is very much a risk from our perspective, but we think a reasonably strong risk to support what we believe will be a viable service.

Mr S.J. PRICE: Just on that then, obviously we are here to talk about the price of airfares. In the conversations, where have you pitched the cost to fly from Melbourne to Kununurra under this? I suppose my concern is your underwriting is not to subsidise the cost of the ticket, but you just actually said that your underwriting is to guarantee minimum seat sales.

Mr ASKEW: It is to bring the service. It is to prove up the service and to prove the case. Can I say as well that it is not just council's money that is here. The East Kimberley Marketing Group, I guess, is the proponent for this and you probably should speak to it, but they have also been to the community and specifically said: is this a service you would like us to do? The community has said overwhelmingly yes, to the point where the community has now put in at least \$100 000 of their own money as well, so a part of that underwriting, if you like. Council's contribution is only a part of what will be an underwriting process. The community has also personally got behind this—local businesses as well as local individuals—and put money in to say, yes, we need this and we are prepared to support this and support it in a financial way. The issue, I suppose, is we believe that the service will prove viable. We think it might take a while to get up and running, so the pilot project will only be during the dry season. The dry season is clearly our busier time, and it is the obvious time, so it would start in May when the muster starts, and that is a great event to kick things off with, and it would run through until about September. That is the plan at this point in time. We are aiming for this next year, 2018, as being the trial for that.

The CHAIR: What sort of visitor numbers are you aiming for?

Mr S.J. PRICE: Sorry, Jess. The price of the ticket, what are you pitching?

Mr ASKEW: We have not, if you like, put that into it. There is an agreement that needs to sit underneath this, and we have not signed that agreement, which is why I am a bit sort of nervous about necessarily going through all of the details because it is yet to be worked out. We have indicated to the airline concerned that we think, if they are going to charge us out of the ballpark,

then people will not take it up and it will simply be a self-defeating process. We have already indicated that they need to be very sensible with their pricing, but we have left pricing to the airline to do. We do not think that it is our case to jump in and necessarily dictate to them what we think the prices should be.

Most of the airlines seem to operate on a three-tier process. There are some cheap seats that get offered upfront, then there is a middle band of seats, then there are those at the end of the process that tend to be more expensive. That seems to be the way, from what I can tell, that most of the airlines seem to operate. We have certainly given some indicative costs of what we would like to think that tickets would retail for. I suppose, at the moment, some of the flights in and out of Perth you can probably get for \$400 perhaps, if you jump in early. We would certainly like to think that was a starting point coming out of the eastern states as well.

Mr D.T. REDMAN: That is \$400 one way?

Mr ASKEW: Yes, it would have to be one way.

Mr S.K. L'ESTRANGE: Picking up on Stephen's question, what you are trying to put together, you are competing against other tourism options for people, say, a five-day visit or a seven-day visit somewhere. In putting together a five-day experience, have you modelled different prices which build in all of the costs—accommodation, transport, aircraft?

Mr ASKEW: That is part of a marketing plan that is currently underway. Again, we have actually selected an eastern states Melbourne-based company that would undertake that work for us. We work on the theory that they probably understand the market better than most, being in Melbourne. They are currently putting that together for us and they are actually here this week. They are doing their initial reconnaissance and they are looking around and building those packages and information at the moment. They are going through how we might market that and how we might hit our targets. That is work that is currently underway as we speak, and we are fairly positive, I suppose.

The CHAIR: So the \$200 000 support that you are providing, does that go directly to the ticketing price or is it in the form of reduced landing fees? I am assuming that you levy landing fees through your airport.

Mr ASKEW: Yes, we do.

The CHAIR: And there are charges or taxes that apply. So the \$200 000 is —

Mr ASKEW: It is separate from that. The initial request from the airline was to reduce or take away all of those fees, and I think we strongly opposed that at the time and basically said that the fees are there for a slightly different purpose and they are there to protect the infrastructure et cetera, so those service fees remained. I think the airline would still like them to be removed, but we have suggested they remain, however. The other money that council has set aside is then, basically, I suppose, to support the basis of the service, and a viable service at that.

Mr D.T. REDMAN: Is that \$200 000 one-off or \$200 000 per year?

Mr ASKEW: It is just for the pilot, so it will run from May to October; so one season.

Mr D.T. REDMAN: On top of that, you said you had community funds.

Mr ASKEW: Yes, in excess of \$100 000 has already been raised.

Mr D.T. REDMAN: So potentially \$300 000 to underwrite the one season pilot.

Mr ASKEW: Yes. And I think the aim is to get closer to \$400 000 if possible. Obviously the expectation is we will not need it, but clearly you need to have it there and I think the airline needs to know it is

there in case it is called upon. It certainly is not going to be a direct payment to them on a once-off basis. It will only be paid as and when it is needed.

Mr D.T. REDMAN: And for how many flights a week?

Mr ASKEW: We are talking two flights in and out per week. Our expectation is that they will be Friday and Tuesday, and that is what we are aiming for. That gives people, obviously, a long weekend option, but also then gives people the opportunity to come from week to week as well.

The CHAIR: And passenger numbers, coming back to my point earlier: what do you think it is going to take to have the service wipe its own nose?

Mr ASKEW: I think the initial estimate that we worked on was 2 400 across the 20-week trial. I think we were working on 60 as a minimum per flight each time, in and out. Obviously, once it goes above that it starts to become then much more of a viable concern thereafter. Most of the planes flying in and out would still be the Fokker F100s. I think they have a capacity of about 100, but obviously, depending on exactly where and when in the season. In case you were not aware, the weather and the climate play a significant impact on us here, and sometimes that 100 is not achievable at certain times, simply because we either have to carry more fuel or certainly less weight in order to take off and land and make that trip all in one go. Can I say that quite often the planes will not be able to make it, even back to Perth, in one go. I certainly have had opportunities where I have flown to Perth and had to land in Newman or somewhere to refuel just to get back to Perth. It is a significant issue for us in terms of the climate, and obviously that has an impact on the cost for the airline as well and the cost of the ticket.

No, the expectation is, as I say, we will certainly hit those minimum numbers. Obviously, as those numbers increase, so our need to support it financially does not need to occur because obviously it has a financial viability in and of itself.

[8.30 am]

Mr D.T. REDMAN: Just recently in the paper, Virgin made some comments about the likelihood, because of the reduced amount of traffic, they will have to put their fares up. There are a number of things happening up here. The Argyle mine is sort of changing, and there is commentary that runs both ways on the impact that has on airline tickets. You have got your landing charges as far as the shire is concerned. What do you think are the big drivers in their cost structure and, therefore, likely actions or areas that can be focused on to get change?

Mr ASKEW: I think the difficulty is they are a significant multinational company, so sometimes their costs and their impacts on it can affect it in all sorts of ways; we would not necessarily be totally across all of the reasoning behind why they change certain routes to impact on others. From my perspective, yes, we are certainly aware that things like Argyle will have an impact. By the same token, we are hoping that there will be other growth in other areas which will hopefully compensate for that sort of soft withdrawal of Argyle through the process. Argyle has flagged its situation for some time now, so we have known and will continue to know that there are another five or six years, at least we think, and then it will gradually wind down there, but it will not be a sudden stop.

What we would like to think is that over that period we will start to see an increase in other activity. Certainly projects like Sea Dragon will obviously be a significant benefit for us and that potentially will bring significant numbers of workers and people here. It may well be that one will be able to compensate for the other, but we would certainly like to see an increase in tourism activity. We would like to see an increase in certainly the pastoral activity. As we know, agriculture is one of our prime mainstays here; we would certainly love to see agriculture grow and increase. Obviously that

then generates its own set of economics and that brings more people to the region, and that is clearly what we are trying to achieve here.

Mr D.T. REDMAN: Is there any internal discussion suggesting the route should be re-regulated?

Mr ASKEW: No, not that we are aware of, and we certainly have not heard of anything. I certainly was not aware of the news report you referred to in terms of Virgin and that makes it a little bit more difficult, I suppose, to comment. Certainly, the shire is well aware of the impacts and perhaps an example to demonstrate that—it has been fairly quiet economically for the last couple of years—is in last year's budget, the one we have just completed. In terms of costs and flights and the shire's costs in particular, the council made a decision they would basically hold all RPT costs, and had no increase at all last year. They significantly reduced GA flight costs and they also reduced helicopter flight costs by 50 per cent, so a significant reduction in GA costs, a significant reduction in helicopter costs.

Mr D.T. REDMAN: GA costs?

Mr ASKEW: General aviation, so all of the other small planes that fly in and out. General aviation is a significant part of what we do—Aviatrix and the other small companies that are out there doing small charter trips in and around the region. We reduced costs, basically, on considering when they approached council at the time when we were putting our fees and charges together. All other fees and charges that year went up approximately 1.5 per cent and I think all of the others in terms of airfares were either held or reduced. This year our fees and charges, I think, have gone up one per cent; so, again, the council has tried to minimise the impact across all of our fees and charges, and that will also include aviation.

Mr D.T. REDMAN: Does the airport run at a profit or do you effectively have to subsidise its activity?

Mr ASKEW: Operationally?

Mr D.T. REDMAN: Yes.

Mr BAWDEN: We break even. Very few regional airports actually can break even in terms of the capital, and that is to an extent why there has been a reliance over time on things like RADs and other funding to give to the federal government to meet, or at least support, in effect, a portion of the major capital investment such as runway extensions and other infrastructure of that nature.

Mr D.T. REDMAN: Do you have any analysis as to what proportion your airport charges go into someone's ticket?

Mr BAWDEN: I can tell you what the amounts are. The landing fee is \$29 a tonne for the plane to land. The passengers are subject to two fees. There is a screening fee, which is basically a regulatory requirement that people have their baggage screened, and that is around about \$21.

The CHAIR: Do you get any support from the commonwealth government for that operational cost on the screening fee?

Mr BAWDEN: No, and you probably know the government areas; there were subsidies when the equipment first came in, but at the moment there is not a subsidy or a contribution for its replacement. For example, the federal government's Office of Transport Security determined earlier this year that certain types of screening equipment no longer met their default approval, and that was particularly the stuff that takes the body one and the explosives one. They decreed, at six months' notice, that we had to replace all of our equipment.

The CHAIR: And then gave you no financial support for that?

Mr BAWDEN: No. That is costing us. We have to have it in by 31 December. We have assumed about \$150 000 of anticipated costs in that.

Mr D.T. REDMAN: Is the screening fee per tonne?

Mr BAWDEN: No; the screening fee is per person. Sorry, you asked what were the fees we charged clients. So, for the aeroplane to land, \$29 a tonne. For passengers, there are two fees they pay: one is the screening fee, obviously just outward bound, which is around about \$21 per person; and then there is a terminal usage fee for landing and for taking off, so it is the terminal, the maintenance, the management of it and all the amenities and so forth that are there. That comes in also at about \$21 each direction.

Mr D.T. REDMAN: That is per person.

Mr BAWDEN: Yes. It would be \$62 or \$63 per person for a return fare now. Obviously, our challenge, for an airport, with limited number of passengers and flights—we get, basically, three or four flights a day—we multiskill our staff to minimise our costs. Our screeners are also our cleaners, our security people; the people who manage the runway, the wildlife, also do all the maintenance of the grounds, all the maintenance of the gardens and all those sorts of areas. We only have two sets of tasks to try to minimise the costs, but obviously some of those costs might be a little cheaper at a larger airport where you have people ticking through all the time. Our costs are not out of step with other airports and, as Carl has raised, we have kept increases in those costs to a minimum over the last couple of years.

Mr S.K. L'ESTRANGE: Just a quick bit of bush maths: you are not looking at more than seven per cent on the total ticket price in terms of airport costs?

Mr BAWDEN: It depends on the ticket price totally.

Mr S.K. L'ESTRANGE: If it was \$1 000 a ticket, you are not looking at more than seven per cent.

Mr ASKEW: But we certainly expect all of those \$60 or \$70 to be part of whatever ticket price was offered; but, you are right, it is not a significant amount or component of it.

The CHAIR: It certainly sounds to me as though it is not exactly a cash cow for you, your airport operations?

Mr BAWDEN: No.

The CHAIR: It has been suggested to us in some submissions that the taxes and airport landing fees that are being levied by local government are a revenue source and are being used to subsidise other operations of local governments, but it does not sound to me like that is going on in this part of the world.

Mr ASKEW: At this particular time, we run a separate reserve, so it is part of our financial reporting, if you like, but the money is held separately. Whatever we raise at the airport goes into the airport and stays at the airport. Obviously, as Paul has indicated, we have got significant capital costs as well as significant operational costs. Whilst we can break even on the operational side, I guess the most recent example of capital cost is the airport runway upgrade that we did the year before last; approximate cost is probably \$5 million to \$6 million. Council would have put in from its reserve at least —

Mr BAWDEN: Sixty per cent.

Mr ASKEW: — 60 per cent of that. We got grants for the remainder, if you like, and it was the state that assisted us to actually do that. That is why the runway is as good as it is at this point in time. Obviously, when we enter the discussions about the extension of the runway that will also be

something where we will need to physically contribute as well and we will obviously approach the state and the federal government too.

The CHAIR: Would you like to expand on that? We have only got 10 minutes left of our time this morning with you. It was something that you raised in your opening statement and obviously is a point that you went to some lengths to make in your submission. Would you like to talk a little more about the runway extension?

Mr BAWDEN: Okay, thank you. The runway extension initiative is really reflecting the ability for the airport to provide and accommodate flights that will be cheaper for passengers. Basically, we are looking to extend the runway by 600 metres; it is about 1 800 metres at the moment. That will allow the accommodation of the A320s and the Boeing 737–800s, which are essentially the standard planes that go between capitals; they have about 160–170 passengers on them. The benefit of that is we can get direct flights to everywhere in Australia, including down to Tasmania, and we will also get direct non-stop flights to South-East Asia, which will then open up direct flights to places like Singapore, Kuala Lumpur and those sorts of destinations. The anecdotal evidence is that those planes have economies of scale so, basically, they are a whole lot cheaper to operate. They are standard fleet aircraft for the airlines, so they are very easy to swap between routes and so forth.

At the moment, we get what are called Embraers and Fokker 100s, which are smaller aircraft; they are not as common and they get difficulties when one goes out of action. We commissioned a major engineering company to do a pre-feasibility study, and that went to council in September last year. The total cost, which sounds an awful lot, is \$19 million. About half of that is the runway extension itself. The remainder of that is things like taxiway apron strengthening and also replacing navigational aids and also lighting of the runways.

[8.40 am]

At this stage we have made representations to the state and federal governments to provide us with some support. We believe that once the infrastructure is in place, we will get sufficient money to maintain those assets into the future. Certainly, that is a major issue with many regional airports that they do not take on board. We have \$75 million worth of assets at the airport. The runway extension will add about another \$20 million of assets, but we believe that that will lift the opportunity for airlines to have greater destinations, particularly the east coast, particularly into South-East Asia.

Particularly, also, which we should not forget, our airport is also looking to take produce from agriculture from the Ord scheme that is up here as well, which we believe is a significantly untapped market, and also links in with things like the prawn farm proposal as well to potentially get fresh produce. You would be aware that milk even goes from Perth to certain parts of South-East Asia now. We believe that prawns are a much higher value commodity, and we are almost halfway from Perth to the markets of Singapore and Malaysia. Our plans have been tested and, basically, at this stage, it is really a costing issue. The shire has put in, I suppose, about 10 per cent of the cost, but it is very hard for us to get that amount to put into a single one-off capital project.

The CHAIR: Do you have a sense of the impact that freight has on cost and how much freight is being transported at the moment via airplanes through Kununurra?

Mr BAWDEN: Kununurra, it is very little. The planes that can land here are not freight planes per se. Once you get to this next step up, the A320-type, you get freight versions of the plane. Obviously, there are greater economies of scale if you can get twice as much out as a single plane. At this stage, there are limited amounts. We certainly have the capacity and the ability to accommodate freight

facilities adjoining airside. At this point, certainly the economies are not there for the planes that are needed to get that sort of freight out.

Mr S.J. PRICE: Paul, has any sort of study been done on return on investment or a business case built to support that \$20 million investment? If they are going to invest \$20 million in the airport, you would want to get at least that back plus a fair bit. You are talking about potential areas of growth, but has there actually been some work done on it?

Mr BAWDEN: The company we used to do the design of it, GHD in Perth, who are one of the experts in this area, certainly gave us an overview through a business study that they did of what they believe its viability was. They compared us to airports that had or have a connection into South-East Asia in particular and into the wider markets such as Karratha and Broome, and they certainly referenced the work that was being done at Busselton, which you have mentioned already, as being airports that either had business cases that would be similar to our own or actually had services and infrastructure in place.

The CHAIR: Have you looked at all into partnering with the private sector to invest in the airport expansion and perhaps provide you with a bit of financing under some sort of partnership arrangement or delivering a potential private sector partner a reasonable rate of return on their investment in partnering with the shire?

Mr BAWDEN: To a minor extent, the challenge is that the biggest user is going to be the airlines. The airlines do not actually invest in the airports per se, so you will not find Virgin or Qantas or Airnorth actually investing in the airports themselves.

The CHAIR: There are investment companies that look to invest in infrastructure and then, as long as they are earning a reasonable rate of return on their investment, they are happy to provide the infrastructure that then the airlines would not use. Basically, they are developing some assets, they get a rate of return on that asset and it is sort of used by other companies. Is that something you have had a look at any point in developing a business case?

Mr BAWDEN: We have not gone into detail with it. The advice we have got is that this is seen as a government investment area because of the fact that we are starting off from a fairly low base and it is certainly not as attractive as a Sydney or a capital city airport in terms of getting that investment in.

Mr ASKEW: I think from a council point of view, they were keen to retain ownership and control of the airport at this point in time, given we are managing it, and managing it well. I think the concern was with private parties potentially coming in that that also has an impact on the fees and charges that then get charged and passed on, I suppose. We know they will get passed on directly through the flight process and the cost of flights.

Mr BAWDEN: We are looking at things. The council will be looking at adopting a new master plan for the airport tomorrow. In that, we are setting aside a significant amount of land for commercial development at the airport, which is not uncommon with other airports. One of the drivers of that is economic development, but the other driver is to provide support or cross-subsidies for other development at the airport. We see that as a slower process; it will take probably 20 years to get there, but we have the land and, again, we have had independent assistance in terms of developing up those master plans. We have something like 40 or 50 hectares of land for commercial development out there to get it started, and the shire has about another 80 hectares of land at the airport, which can also be developed. We are looking at those sort of cross-subsidies that can come across.

The CHAIR: What is the approximate value of the airport as an asset at the moment? Do you have any indication?

Mr BAWDEN: The total value of assets, as replacement value, is \$75 million at the moment. What that basically means is, based on rule of thumb, we need to generate around about four per cent of the capital value for renewal and about two per cent for maintenance. Of that \$75 million, \$50 million is quite quickly creating asset renewal requirements. That is one of the things that many regional airports do not take on board—the fact that there are significant costs just to keep going. Obviously, if you extend the runway, we are aware that that will then also create asset maintenance and asset renewal requirements on us, but we believe that we can meet those. It is just the capital up-front is where most regional areas have great difficulty.

The CHAIR: Is it just the cost of the runway extension, though, because presumably if you have increased passenger numbers, there will be a need to upgrade your terminal facilities? It is not just about tarmac, right? There would be other infrastructure that you would need to enhance the airport's capacity.

Mr BAWDEN: The \$19 million is basically for the airside stuff, so the lights, the aprons, the runways and so forth. Based on the number of flights we have at the moment, up to three or four flights a day, we believe that the additional flights that would be generated could be accommodated to a very large extent, certainly for the first 10 years, within the current terminal. Our current terminal has almost doubled in size since 2011 and we can accommodate two Fokkers at the moment without difficulty. As I say, the worst-case scenario would be a bit of demand management, as they call it. To get those flights through now, we do not believe that you should basically create something for the worst-case scenario—that is, if three large planes suddenly arrived at the same time. We would need to work with the airlines on how that is managed, but it has not been an issue to date.

Mr D.T. REDMAN: What would you like to see as a recommendation coming out of the committee, Carl, as it applies to Kununurra?

The CHAIR: Here is your chance!

Mr ASKEW: I am not sure what influence you will have directly over ticket prices, and I think that is the issue we are experiencing, too, in terms of the project that we are trying to look at out of Melbourne—how we directly influence those ticket prices. I think we would certainly like to see the current cost of ticket pricing reduced. I think that will be a standard across the community. There will be a lot of people who will tell you that they travel by road and they do other alternatives or they simply do not go because they cannot afford it. It is a hard one. Clearly, there is a business imperative there in terms of making money. It just seems that at the moment some of our costs are significantly out of balance, I suppose, out of kilter, with other prices that we see.

I have people here who will clearly holiday somewhere else and go overseas and do other things because the cost of the ticket is significantly different from an internal trip, which should not be the case. We are keen for pressure to be, I suppose, put on to those providers to keep those prices to a minimum. We are certainly doing our bit in terms of council's own budget and its fees and charges. As I say, a one per cent increase is probably as low as we can go, I would imagine, in terms of fees and charges, and that applies to rates as well. Council is very aware of the cost and is trying to keep things as low as possible. As I say, we are doing work significantly now, both on the structure and on the infrastructure and on the capital that we have got there. We have a good facility. It works well. It functions well. We do not need to increase the size of the terminal or other things at this point in time. Certainly, the benefit of an increased runway extension will be significant.

Mr D.T. REDMAN: There is no suggestion of subsidising tickets, even in segments—for example, the local residential segment or the tourism segment or any other?

Mr ASKEW: Not at this point in time, no, I do not think so. I suppose, if you could differentiate those, it might be interesting to see how they would differentiate it, and that might be the difficult one for us; but not at this point in time.

[8.50 am]

Mr BAWDEN: One of the issues here is that we also have a significant community with some social issues here who cannot ever afford to fly. Now, for us to start subsidising perhaps the people in the middle bank above them out of rates, it becomes an equity issue as well in terms of saying, “Some parts can never afford it, so basically your rates will go towards potentially subsidising those who perhaps can marginally afford it versus those who can easily afford it or those who get subsidised by their employer or something similar.”

Mr D.T. REDMAN: Really, as a shire, you are chasing commercial pressures, whether it be transparency, reducing costs or whatever it may be.

Mr ASKEW: And certainly on Paul’s comment about, at the moment, we have limited planes and limited capacity in terms of who can fly in and out of our airport at the moment, if that changes, then the competition changes and not only does the unit price drop, but also the competition to compete for those routes then becomes more effective and hopefully that has a logical downward pressure on unit prices.

Mr BAWDEN: I might raise this one: in our submission on page 2, you will see we did a comparison of flights between Cairns and Melbourne, us and Perth, and then us and a lot of other routes. You will see there that basically, either because there is competition or because those airports take larger planes, a week out and three months out, totally objectively on a particular day, all via web offers, those on the east coast were half the price per kilometre versus those coming out of Kununurra. There is a simple table there that compares them.

Mr D.T. REDMAN: There is nothing confusing about the messages coming out of the community in terms of the cost and people being quite concerned about that, but there is no little list of actions or solutions coming out either.

Mr S.K. L’ESTRANGE: I suppose the extension of the runway is one attempt that you talk about; keep your costs down, extend your runway, increase your aircraft frames, increase your volume, market in Melbourne. So there is fair bit of effort on your part to try to encourage increased demand and, through that, lower costs.

Mr ASKEW: Yes, absolutely.

Mr BAWDEN: We have also raised in the submission that one of the key things that does not make sense is the fact that in the wet season we are getting flights often with 50 per cent or 60 per cent occupancy, yet at this stage there is very limited what used to be called “standby” rates, which people do not like as much now because of risks that people rush on and there is not enough security checking; perhaps there is on the planes. Certainly, at the community level, there is a major concern that often in that four or five-month wet season, the planes are coming in two-thirds or 50 per cent empty and there is no mechanism for even locals to get any preferential access to those seats.

The CHAIR: We are going to have to draw things to a close I am afraid. Gentlemen, thank you so much for your evidence today. We really do appreciate it. It has been very informative. A transcript of this hearing will be emailed to you for correction of minor errors. Any such corrections must be made and the transcript returned within seven days of the date of the letter attached to the

transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you very much.

Mr ASKEW: Thank you for the opportunity; we have appreciated it.

Hearing concluded at 8.52 am
