

# **ECONOMICS AND INDUSTRY STANDING COMMITTEE**

**INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA**



**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 9 MAY 2018**

**SESSION THREE**

## **Members**

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

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**Hearing commenced at 11.07 am**

**Ms NINA LYHNE**

**Acting Director General, Department of Transport, examined:**

**Mr STEVE BEYER**

**Acting Managing Director, Department of Transport, examined:**

**Dr BRETT HUGHES**

**Executive Director, Transport Strategy and Reform, Department of Transport, examined:**

**Mr PETER RYAN**

**Director, Aviation Policy and Programs, Department of Transport, examined:**

**The CHAIR:** On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee: to my right, Yaz Mubarakai; and, to my left, Stephen Price. There is a chance that Terry Redman and Sean L'Estrange will join us but they have had to duck out. 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.

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

**The WITNESSES:** No.

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

**Ms LYHNE:** No, thank you. I do not think that is necessary.

**The CHAIR:** We will launch straight into questions. We obviously read with interest the Government's response to the inquiry's report and the recommendations that we have made. Particularly, it was very pleasing for us as a committee to see that the Government has adopted all our recommendations, either in principle or are moving into implementation. The first and probably most significant recommendation we made was around a refresh to the State Aviation Strategy. Could you give us an idea of how you are going to attack that, some anticipated time frames and any views you might have on the sorts of issues that may arise as part of that process?

**Ms LYHNE:** Perhaps I could briefly introduce and then we will go to more detail.

**The CHAIR:** Sure.

**Ms LYHNE:** Clearly, since the Government's decision, we have put together an implementation plan and we have started to work on implementing the various recommendations. The new strategy will require a lot of consultation with the community and with the airlines. We have put a plan of work together to do that, so there will be a lot of consultation. We would imagine that it will take some time to prepare the strategy because in many ways the process is almost more important than the end result—so the process is very important to us and that we get that right. Brett, do you want to talk to some of the more specific detail and just what you are chasing?

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**Dr HUGHES:** What we have been doing so far is engaging with some of the stakeholders in a preliminary way and planning for the processes that need to occur, the update of the State Aviation Strategy and the complementary actions which go to achieving that. We are in the planning phase, if you like, but at the same time, we have already been discussing with certain stakeholders. We have taken very close note of the committee's issues that have been raised, the issues that have been raised by the stakeholders, and the positions that the committee has come to with respect to those issues and the decisions of the Government, which as you say are very much in alignment, so that we can plan the development of the strategy to meet those particular objectives rather than just doing a general update of everything. The plan, which is still being mapped out, is to commence development of the strategy from July this year. It will take about two years to do that, but we are not waiting until the end of that time in order to achieve the results, because we are going to be getting information and starting the processes of sharing information in order for the final conclusion, being the strategy itself, by which stage a lot of the practices and processes will be put into place.

**The CHAIR:** When you talk about getting information, that means requesting the datasets that we discussed as part of the inquiry process?

**Dr HUGHES:** Correct.

**The CHAIR:** So you will be using your existing legislative or statutory powers to obtain that information?

**Dr HUGHES:** Yes.

**The CHAIR:** Have you engaged already with the airlines about the form and the timing through which they will provide that information? Is that already underway?

**Dr HUGHES:** We have engaged with the airlines to indicate the sorts of things that will be expected. We note the committee's understanding that airfares on the regulated routes are less of an issue than on the unregulated routes. That is not to say that they are not an issue, because we continue to work on many aspects of service quality and price on the regulated routes. The initial approach is to start off with the success, if you like, and good management of the regulated routes and replicate it for the unregulated routes, and then see how we go in terms of the information, the communication mechanisms and the engagement with the stakeholders through our community consultative groups and our direct engagement with stakeholders and airlines.

**The CHAIR:** How have the airlines reacted to that? We have, as you say, distinct differences between the information provision obligations between regulated and unregulated routes. We observed as a committee a very different approach from the operators to disclosing information that was useful and could be interpreted, even though some of those unregulated operators do provide these classes of information on other regulated routes. How had that gone—engaging with them and saying that they really do need to start to disclosing these datasets to us?

**Dr HUGHES:** I think the conversations—Peter might tell me some detail if necessary—vary and are progressing if you like. There is not an antagonism to say, “We’re going to ask for legal advice because we don’t want to do it.” But people have got to come along on the journey a bit, and some are a bit further down the journey than others. They recognise the importance of the information and the Government’s intentions in this area, and some of them just naturally are more willing, if you like, or it is easier for them to provide than others. But they also recognise that is information that either they might have provided in the past or they are providing in some ways, like the committee noted, to BITRE. We are on that journey, and it is a positive journey.

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**The CHAIR:** That is good to hear. What we tried to get to as a committee was to suggest a graduated level of interventions to try to encourage the behaviours that we would like to see. The reason we called it “perceptions and realities” was that we perceived that something was going wrong in these markets but we could not actually get to the reality of that situation. We did say that it is totally open to industry to voluntarily disclose the information, to get everybody comfortable that market forces are operating to exercise sufficient downward pressure on price. It will be really interesting to see.

At the end of the day, if it turns out that these airfares really are sitting appropriately where they should be, that they are cost reflective, with a reasonable margin, and no gouging is going on, that is a conversation to be had with regional communities, to say, “Genuinely, these businesses are not charities.” The frustration, I suppose, is that this could also easily have been prevented with a little more community engagement and the operators themselves being a little more forthcoming to demonstrate that they were doing the right thing. It is disappointing that that was not something that we saw.

**Mr BEYER:** The issue we have got is that the airlines have accepted the findings and the Government’s position and they know they are going to have to provide data. You would expect, though, if you were in Qantas head office, that they are going to want to know, “Once we give you this data, we are revealing stuff to our competitor, potentially”, and hence how do they ring-fence so that they can have confidence as to how we are going to manage the data and how we are going to release the data and things like that. It is an unusual situation for a competitive marketplace to have to provide information about where they sit and hence we then become privy to how Qantas and Virgin are pricing.

The airlines, as you would expect, would want to be pretty confident that that information is going to be kept in a fairly tight ring-fence and not being potentially released into the wider market. That is the nature of the conversation we are working through, to get to a point in the next month or two that we can then formally be in a position to say, “Righto; it is now a condition of your licence that you start giving us the information.” We are also prepared within the department to be able to manage the data we have got.

The model we are using is actually the sort of data we get on the regulated routes, like with Rex. We will just work it out. We do not want basically someone coming along with a great big file of data and we are just bombarded. We really need to be able to set ourselves up to be able to delve into this data quite quickly.

**The CHAIR:** What are the sort of resourcing implications of these changes for the department?

**Mr BEYER:** There are resourcing implications, but we are managing them within the department from the point of view of our FTE resources. We do need several additional people just to manage the intensity of the workload and getting out there in the regional communities, dealing with the negotiations with the shires and the development commissions and with the airlines involved, and then some backroom data processing. Long term, we will actually see whether that is another matter. We have also got some financial issues—some reallocation of some funding internally within our budget if we need to engage some consultants for this and more discrete analysis on our behalf. It is an internal thing. We will not require a budget decision by the Government to decide whether they give us more resources or not.

**Ms LYHNE:** It is like any project that we take on. We need to find the resources to do the project.

**Mr Y. MUBARAKAI:** You talk about stakeholders. Where does the Department of Tourism fit into all of this?

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**Ms LYHNE:** One of the actions that we are taking is to bring together a—is it a steering committee we are calling it?

**Dr HUGHES:** I think that is what it is called.

**Ms LYHNE:** The steering committee. Yes, so that is across-government, and on that committee we will have Tourism people, ourselves—and Brett might be able to articulate. We will chair the committee ourselves, but we will bring that into it as well.

**Dr HUGHES:** In the Government's response it is called an interdepartmental working group, but whatever title you use. So, that has been decided to be DOT as the chair; the Department of Jobs, Tourism, Science and Innovation, which includes Tourism; the Department of Primary Industries and Regional Development; and Premier and Cabinet. The committee recommended the re-establishment of the aviation ministerial council. I am sure you have read the Government's response to say ministerial oversight can be valuable and the way that that is to be handled is through the jobs and economic diversification committee—through the JED committee—the existing structure, rather than a new committee.

**The CHAIR:** Obviously, a whole heap of work is underway. One of the areas, though, that we were really concerned about, or one of the routes in particular, was Kununurra. There seems to be some really significant problems around that route. Are there any immediate actions or anything in the nearer—I mean, two and a half to three years for the State Aviation Strategy to run its course is a long time when there is a real problem in a community that needs to be looked at and addressed. Are there any steps that can be taken in the nearer term to address some of those more immediate and pressing concerns?

**Dr HUGHES:** Let me just start by saying that we are not going to wait until the end of the two years before doing something in the field with the stakeholders to achieve results. The intention is to work on everything that we can so that at the point that we conclude the State Aviation Strategy review, there are already many things in place. I am going to pass to Peter on Kununurra as to what has happened so far, because I know there has been engagement and so forth. But all of the routes you recognise are individual. They have specific contexts, specific markets, specific demands and so forth.

So, we are not going to take the cookie-cutter approach to Kununurra or anywhere else, so we need to look at the particular circumstances of Kununurra and find out why that was a particular issue. I would not like to try to talk it away by saying maybe it is a point in time or anything. We would really want to know what is going on because otherwise we are going to take the wrong stick and get the wrong result. But perhaps Peter can update us on what has been happening in regard to liaison with Perth–Kununurra.

**Mr RYAN:** We have a whole range of unregulated routes which we are going to need to understand. I suppose the focus of government, as you understood through your process, has been on the regulated routes. I think we understood that fairly well and I think the community feedback on those is good. But with regard to the unregulated routes, we need to build a similar understanding of what is going on, on each of those routes. A bit like Brett said, we will need to do that on a route-by-route basis. The issues are quite different for each route.

Certainly, the committee has highlighted where they think there are some particular problems in terms of the process we go through of community engagement, where you have identified you think there are particular problems, that will go to the top of the list in terms of our stepped engagement process. So, that is how we intend to operate. I suppose one of the things we have to be aware of with Kununurra is it is quite an unusual route because a lot of people in Kununurra often will see

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themselves as linking more to Darwin than they do to Perth in terms of both economic ties and international travel; they will often go Kununurra–Darwin–international, rather than coming back through Perth.

We are very aware through engagement that we have had with Kununurra that, again, given its distance from Perth, you probably want a direct route into the eastern states. That is certainly a priority for that community. They have indicated that to us. That will be something that I think will be part of the response to understand how that particular eastern states linkage could improve aviation connections to the community of Kununurra. I think with the Darwin aspect, the distance from Perth and the need in the minds of people in Kununurra, the direct eastern states linkage, particularly to build tourism demand, is really important.

The other thing about Kununurra that is a bit unusual—not unusual, but different to the Pilbara routes, Karratha, Port Hedland—is you have hundreds and hundreds of thousands of pax a year. With Kununurra, it is 80,000, 90,000, so it is a lot smaller. The level of frequency of service and just the number of seats available means that you have a different market dynamic on that route. You also have Air North operating through to Darwin but you have just Virgin operating through back to Perth. But you obviously have Qantas with a link with Air North going Perth–Broome, Broome–Kununurra if you want to take advantage of that QantasLink.

So, it is sort of an unusual route in as far as if you just look at the Perth–Kununurra leg, it is a monopoly route and traditionally the state has regulated those routes. All those matters that I have sort of talked through there, they will have to be considered in our assessment of Kununurra and, as I say, Kununurra will be at the top of the list, given the high number of complaints and concerns that were represented to you.

**Dr BEYER:** We have taken note of Kununurra because it had some prominence during the inquiry was part of our resourcing. We have the cluster of airports in the Pilbara on the coast and in the central eastern Pilbara. There is obviously the two parts of the Kimberley and you have Kalgoorlie and Geraldton, of course. So, we will look at how we can prioritise where we start to do work early, including with, basically, the part that is going to be informed by the data. Part of it is how we engage with the airlines, but we certainly note the community's concerns and of the development commission.

There is no point in us trying to tackle every airport and every route straightaway; we are just going to spread ourselves too thin. So prioritising where we can put our effort into it and trying to get some early successes and maybe the model, which is around the single operator routes of which there is a small handful—if we can actually sort of start to focus on outcomes there and try to move down a model like we have got with the regulated routes, like with Rex and Skippers, where we have that more formal community airfare that Rex has in place, if we can try to use that as a bit of a tease out with the operators and see whether we can get some early wins.

**The CHAIR:** I know if he was here, Terry would want to ask about the milk run. It was something he pursued quite a lengthy line of questioning on with various different communities and stakeholders. What are your thoughts on the viability of some sort of interregional milk run up the coast and have you progressed any discussions around the milk run concept?

**Dr HUGHES:** I will get Peter to talk about what is happening in the Pilbara.

**Mr RYAN:** Look, I suppose often where the milk run is talked about is Perth–Geraldton, Geraldton–Carnarvon—those sorts of linkages. In our most recent tender for the Carnarvon–Monkey Mia route, which was just recently announced—Rex was announced by the minister as the successful tenderer for that route and they will commence on 2 July. That tender process did specifically allow for

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tenderers to provide alternate tenders which included them having linkages other than the direct Monkey Mia–Carnarvon route. So they could have gone Perth–Geraldton, Geraldton–Carnarvon and such things. As it turned out, that was not how the market responded to that tender. So I suppose we are aware of the issues that the committee raised, and obviously the committee has been going for some months, and the tender did allow for a market response that included those milk run–type responses. But as I say, the market did not respond with such a proposal.

Looking to the Pilbara, and even the Kimberley, I think in those cases what people are looking for is more intraregional services. We are very much involved with the Pilbara regional councils and Aviair, who have put a business case together and that business case has gone to Broome, Port Hedland, Karratha and Newman councils, or east Pilbara in the case of Newman. There has been some support for that. Karratha has publicly supported that Aviair proposal, which is encouraging, and we are continuing to engage with the Pilbara Regional Council, which represents all those shires, to see what is possible to assist in terms of making that intraregional route come to pass.

Equally, in the Kimberley we have had again engagement with Aviair to put in place or have Aviair put in place the first ever RPT service to Kalumburu. So you can go online now and buy a ticket to Kalumburu, the Aboriginal community there. We are currently reviewing the air route between Kununurra and Halls Creek to see if that can be expanded to include other connections within the Kimberley. We are hopeful that we will have a decision on those matters within the next month.

So I suppose what I am saying is that in the case of the Carnarvon coastal route, we provided some opportunity for the market to respond. In the Pilbara we are engaged and in the Kimberley we are engaged on intraregional routes. So we are certainly very aware of what committee had to say in respect of those matters and we would love to see greater connectivity and greater innovation in those areas. We will be working with stakeholders and engaging with people to see what is possible.

**The CHAIR:** It is interesting that you mentioned Carnarvon, because we were recently up there for the other inquiry that we are progressing at the moment on microgrids. We took the opportunity, while we were speaking with the council and the local chamber, to ask them what their views were, because we did not have the opportunity to take evidence from them as part of this inquiry. We did talk about tender process for the award to Rex, and asked them how they felt about the community engagement process and their involvement in the tender design process—some of the issues that we explored as part of tender design and community engagement to make sure that services meet with the needs of the community. We got a very lukewarm response. They indicated that there had been no community engagement in the design of what a service to Carnarvon would look like. So could you maybe take us through what you did when you were designing that tender process to ensure that you understood what the community needed and bring them in to the design of the service for their community?

**Mr RYAN:** Sure. I think as we talked about before, as part of those regulated air routes we have a community consultation group or a CCG, and as part of the deed of agreement that we have with the appointed airline they are required to meet twice a year.

**The CHAIR:** Post-tender, though?

**Mr RYAN:** Well, post-tender, but also in the lead-up to the tender process we obviously said to the CCG, look, we are now a year and a half out—or whatever it is—from the end of this deed agreement. This is the expectation in terms of how we are going to proceed with the tender process. These are the tender criteria broadly that we are expecting to use. Last time we went through the tender process we did go through quite a detailed process of engaging the community about those tender criteria, and indeed there were two additional tender criteria that were added as a result of that engagement.

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**The CHAIR:** Last time?

**Mr RYAN:** Last time, yes.

**The CHAIR:** But this time?

**Mr RYAN:** This time we just represented and said, “The tender process is coming up, these are the tender criteria we are going to use, this is our expectation about how we are going to run the process.” So we did go through that with them. We did not run a separate process to —

**The CHAIR:** Let me clarify, sorry. So you went through that process with prospective tenderers?

**Mr RYAN:** No, with the CCG.

**The CHAIR:** The CCG? Right; sorry.

**Mr RYAN:** The shire was there, the business community as represented by the CCI was there, so they certainly heard about what we were intending to do—the criteria we were intending to use. Did we go through a separate process where we said, “Guys, we’re going to workshop all these tender criteria and we’d like you to review them us”? Look, we might have if they had said, “No, we’re not happy with those tender criteria”, but that was not the response we were getting. The response we were getting was, “Yes, okay, you’ve outlined how you are going to go about it, what the criteria are”, and people generally seemed pretty happy with that. The time before they were not happy, and that is why we went through that process and we added criteria. But I do see in your recommendation 8 that you have highlighted a review of our tender process. So we can give particular consideration to that, but certainly, Jessica, I hear exactly what you are saying but that is not the feedback that we received.

**The CHAIR:** No, and that is why I thought I would test it with you, because it was put to us and it is interesting.

**Mr BEYER:** I will take it up with the shire when we next have a CCG meeting. The CCG has been in place throughout the Skippers contract, and they have had plenty of time to think about what they want as a community and how we are going to actually work that when we go through a formal process with that. So we will tease that out with the shire and say, “Hang on; you have had a representative on the CCG. Have we got the wrong person on the CCG? Has the information not flowed back up to the council”, or whatever. But I think it is trying to just close that out and saying how might we in fact improve on that through the CCG model the next time around.

**The CHAIR:** That is a good idea.

**Mr RYAN:** We will do that. It is not as though we only talk to them twice a year. In fact, for a whole range of reasons we deal with the Carnarvon shire on a very, very regular basis. So it is not as though was not ongoing engagement where if that message was needed to be given to us they did not have that opportunity in addition to the CCG. We know them very well.

**The CHAIR:** Just remind me again: How are the CCGs composed? How do you become a member of a CCG and how frequently does membership turn over?

**Mr RYAN:** The CCG is meant to represent the community interests to the airline through the term of the deed so we are —

**The CHAIR:** So who convenes it?

**Mr RYAN:** We reconvene it, as the Department of Transport.

**The CHAIR:** You convene it—right.

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**Mr RYAN:** But then the airline and all the community representatives turn up and they engage with the airline. There is no fixed arrangement in terms of who can be on the CCG, so, for example, if the shire says, “We want A, B, C, D, E to come along”, we would go, “Fine; that’s great. Let’s invite those people along.” Generally in terms of the CCG, you have the shire, the CCI representing business and industry, tourism groups, health groups and the development commissions. That pretty much covers it.

**The CHAIR:** Actually, on recollection, I think it might have been the CCI that was a bit lukewarm. It was the CCI. I have one final question. There have been some new international routes to destinations other than Perth. What has been the department’s involvement in the development of the new Silk routes? How has that gone and how do you see that impacting on regional airfare dynamics?

**Mr RYAN:** Are you talking about that route through Karratha?

**The CHAIR:** Yes.

**Mr RYAN:** That links Karratha with Singapore and also with Brisbane?

**The CHAIR:** Yes.

**Mr RYAN:** I think Karratha can be seen as a leader in trying to do different things for their community. Karratha airport, in terms of passenger numbers, is the second biggest in WA after Perth, so they do have some financial capacity to put in place these arrangements. The arrangement is a two-year commitment where the shire will basically underwrite the route. We have been engaged —

**Mr BEYER:** Sorry, Peter; Karratha airport, is that local government-owned or —

**Mr RYAN:** It is local government-owned.

**Mr BEYER:** Still? Okay.

**Mr RYAN:** We are very much engaged with them. We talk to them about what they are doing. We have met separately with JETGO, who initially looked to engage with SilkAir on that route. That did not go ahead. The airline they have now contracted to put in the two-year arrangement is JETGO. We have met with the shire of Karratha. We have met separately with JETGO. We have actually put JETGO in touch with the Shire of Busselton and with the City of Kalgoorlie because there are other opportunities that JETGO wanted to explore within regional WA. They were very pleased to have the opportunity to be introduced to the CEOs of both those shires. We are very aware of that.

The other thing that JETGO was keen to promote or keen to talk about was just building little pieces of demand to make this route survive. They basically see they have two years to build demand to a point whereby the route can be sustainable into the future. They can give you one example: on the intra-regional Pilbara route that would run between Karratha and Newman, one of the legs will basically take you from Karratha down to Newman, which picks up the Karijini National Park. They saw that little aviation aspects like that could provide little pieces of demand that would help add to its sustainability.

I suppose we are trying to make sure JETGO are well informed about how the aviation world in WA works and trying to support them to help that route work. So obviously Busselton, when they developed their airport, the international destination they were looking at was Singapore, so that was the reason to put JETGO in touch with the shire of Busselton. Indeed the shire and JETGO are close to—if not, they have put in place—a memorandum of understanding. So I suppose one of the roles were playing there is a facilitator role and an engagement role to make sure that new entrants

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into the WA aviation market understand the aviation market, and that is what we have done with JETGO.

**Dr HUGHES:** I will say, too, that the primary role—I would not want to say responsibility—for Tourism in the air services is with JTSI, so we liaise very closely with JTSI and they obviously take the lead on a lot of the dialogue that happens with the airlines on those sorts of routes because the primary responsibility of the Department of Transport is internal to Western Australia and we have to be careful about where our ability to talk outside that border can be because sometimes it can be restrictive. The Department of Jobs, Tourism, Science and Innovation is obviously taking the lead on a lot of those negotiations; it has done in the past and will do in the future.

**The CHAIR:** Great. I just want to put on the record how much the committee appreciated the way that you have engaged with us. The Department of Transport was so forthcoming and helpful through the course of the inquiry and we really appreciated both the work that you put into your submissions to us and then how forthcoming and open you were with us during evidence. Thank you again. We will no doubt keep an eye on what goes on over the next couple of years and leave you alone for a little while to get on and do the State Aviation Strategy, but we are obviously really interested in and looking forward to seeing what the outputs of that program and work are. Thank you again, very much; we really do appreciate it.

**Mr BEYER:** Jessica, do I take it that the committee is going to be a passive observer or will you want to actively engage with us on a six-monthly or 12-monthly or whatever basis?

**The CHAIR:** It depends how you are going! You better do a good job and we might leave you alone for good!

**Mr BEYER:** We will get some good new stories out of it.

**The CHAIR:** That's it; we could leave you alone for two years! It is entirely in your power.

**Mr BEYER:** Okay.

**The CHAIR:** To close today's hearing, thank you for your evidence before the committee. 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. Thank you very much.

**Hearing concluded at 11.43 am**

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