

# **ECONOMICS AND INDUSTRY STANDING COMMITTEE**

## **INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA**



**TRANSCRIPT OF EVIDENCE  
TAKEN AT ALBANY  
TUESDAY, 29 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**

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**Hearing commenced at 10.46 am**

**Mr DENNIS WELLINGTON**

**Mayor, City of Albany, examined:**

**Mr ANDREW SHARPE**

**Chief Executive Officer, City of Albany, examined:**

**Mr MICHAEL COLE**

**Executive Director, Corporate Services, City of Albany, examined:**

**Mr PAUL ROSAIR**

**Executive Officer, Western Australian Regional Capitals Alliance, examined:**

**The CHAIR:** I begin this morning by acknowledging the traditional owners of the land on which we meet and pay my respects to their elders, past, present and emerging. On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am the Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee. To my left, Yaz Mubarakai, member for Jandakot; deputy chair, Sean L'Estrange, member for Churchlands; Terry Redman, member for Warren-Blackwood; and Stephen Price, member for Forrestfield. It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything that you might say outside of today's proceedings.

I would like to thank you for the submission from the Western Australian Regional Capitals Alliance. I understand that the City of Albany has not put in a submission in its own right. Before we begin with our questions, do you have any questions about your attendance today?

**The WITNESSES:** No.

**The CHAIR:** Would any of you like to make a short opening statement about your submission or to kick us off?

**Mr ROSAIR:** Just briefly, the Western Australian Regional Capitals Alliance comprises 10 regional capitals and represents some 250 000 people in Western Australia, which is more than half the regional population. Those capitals were growing in the 2016 census at a faster rate than Western Australia overall and Australia overall. So, we see it as a great opportunity for this inquiry to identify growth within regional capitals throughout Western Australia. Twenty-five per cent of their workers travel to and from these communities for work, particularly in the resources sector, so it comprises a significant component of regional WA. Collectively, the capitals are the most significant concentration of employment in non-metropolitan Western Australia, adding more than 23 000 direct jobs to Western Australia's economy over the last decade, producing \$5.2 billion of assets. So, the alliance has got together and believes that collectively they can make a significant submission to this review, but, more importantly, a significant contribution to the growth of regional WA, and sees this review as key to it. They are also putting forward proposals to the Productivity Commission for transforming regional WA, and to the review of public sector delivery of services,

so we see that this is an opportunity. The submission comprises sub-submissions of all those 10 capitals, bar two, but the collation that we put together at the front is a summation of all of those 10 submissions, so that probably captures it in the first four or five pages of our submission. I am happy to take questions in any of that regard.

**The CHAIR:** Thank you, Mr Rosair. Would any of you like to make a submission on behalf of the city?  
[10.50 am]

**Mr WELLINGTON:** Not so much a submission. It varies quite extensively in terms of the effect that it has on varying towns, and it basically comes down to a numbers game, as far as we are concerned. We have some 56 000 passengers through Albany, Kalgoorlie has some 300 000, Kununurra and Broome et cetera have much more than that, so it is back down to dollars and cents. I think the fact is that at the end of the day we own the airport; we run it as a business unit. The airline runs theirs as a business unit. I just got a media release from Regional Express saying they have quadrupled their profits in the last year, but we still run at a loss. So, the basic problem is that people are talking about the taxes that are charged and it does not cover your costs, and you are not going to be Father Christmas in terms of doing that.

**The CHAIR:** Mr Wellington, thank you for raising that issue, because certainly it has been one that has been suggested to the committee; that is, the local government charges are a significant cost impact on the airline operators. Could you expand a little more on how you put your charges together and the degree to which you treat it as a business unit? There have been criticisms aimed at local governments in some submissions to say that essentially they make big profits out of airports and that is used to cross-subsidise other parts of their operations. I am interested to understand what the situation is here.

**Mr WELLINGTON:** I will pass over to the CEO shortly for the nuts and bolts of it, but the fact is we do not make a profit, and if we had 300 000 people coming through our airport like Kalgoorlie does, we would. It is a straight-out numbers game. With 56 000 people we generate a bit over \$2 million. It costs us over \$1 million in actual costs, and by the time you take superannuation and upgrades into it, we run at a loss, so we actually subsidise already. The fact that people have made those statements does not mean they are correct, because they are obviously wrong. It is a straight-out numbers game. If we could get our numbers up to 300 000—we have actually subsidised and offered incentives to Rex airlines to increase. We have signed a contract with them that we will fix their contribution at their current level, so if they grow their market, for instance, at 10 per cent over the next two years et cetera, they will not pay a zack more than they are paying now. We have already offered that as an incentive, even in the situation in which we are not making a profit as well.

We are trying to get them to grow the tourism market. They now offer a \$99 fare, as long as you buy two nights' accommodation, and we do not charge any landing fees for that, so that is outside the agreement. The normal passengers, if they grow the agreement, they are outside what they are going to pay as well. So, we have already offered the incentives to do that. The fact is that they run at 6.33 per cent in their profit margin over turnover; we run at less than zero. It is a fact of life.

**Mr SHARPE:** Thank you, Mr Mayor. Just to put some context around your question, the high-level numbers are—we have entered into a three-year agreement with Rex Airlines. I think there is some good news coming out of Albany and Esperance around Rex coming into WA, so they have expanded their business model by coming into WA by about 10 per cent, and we can talk a bit more about that today. But just to put some context around our airport, we have an operating income in the order of \$2.147 million. Just to keep the airport operating, it is costing us about \$1.008 million, so that leaves us a surplus, if you like, before depreciation of about \$1.13 million.

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We have got an asset that is valued at over \$30 million, with the runway, the terminal and all the infrastructure to actually run that airport. The depreciation amount on that \$30 million asset annually is \$1.4 million, so it would not be good government if we were not actually providing for the replacement of that asset, so that money is going back into a reserve fund. Essentially, we are running at a loss of about \$300 000, if you take into account depreciation. The airport has the capacity to handle more passengers; it has been future proofed for Albany. I think we could easily put another 50 000 people through that existing airport if the volumes were there.

The real challenge for regional WA is that we do not have the volumes, but it is considered to be an essential service for our community. If the local government did not provide that service, the community would be looking to the state government to either run the airport or you would not be able to necessarily lease it out to a commercial operator because they are not going to get a rate of return.

**The CHAIR:** One of the key terms of reference for this inquiry is understanding the impacts that high regional airfares have on communities from a tourism, a business and a social perspective. Could you elaborate a little on your sense of how the community here in Albany feels, the sorts of impacts that high airfares have and how the settlement of the arrangements with Rex has affected the community sentiment?

**Mr WELLINGTON:** Certainly, the community fares that they have put in, the lowest when Rex took over was \$172; it is now down at \$129. I know you do not want to look at slides or anything like that, but that is the number of community fares that have risen over the past few years, so they have certainly climbed in terms of people using them and finding out when they are available. So, they are available at \$129 long term; they are available at \$129 at very short term, which is overnight. So, there is only a certain percentage of seats available to that. But in terms of the community fare, that is very affordable and very reasonable, so you can get \$258 return. Previous to that, the average was about \$220 one way, so it is a substantial decrease in that, and that is something that we have negotiated with the company. I do not know whether you have ever dealt with an airline company, but they are the hardest things on earth to deal with.

**The CHAIR:** We are about to.

**Mr WELLINGTON:** When your margin is six per cent, they are giving you absolutely zip—that is fine. It is just that the fact is that we run a business as well and we are limited in what we can do in terms of the good governance of looking after the city. We cannot afford to go to that length to give away funds. Having said that, we are prepared to do it to a certain extent to increase the number of tourists who are coming down here, because the number of tourists has increased. We get about 900 000 a year as it is, and about 93 per cent of them come by car, but if we can increase that number, the number of jobs will go up and the amount of dollar return and all that sort of thing—there is a heap with it. So, it is one of the things we are looking at.

**Mr D.T. REDMAN:** Just back to your numbers on the low price fare, is that the fare that, as you approach the day of the flight, gets offered so the person taking it up risks not getting a seat?

**Mr WELLINGTON:** Yes, sure. There is that point, unless they have booked more than two months in advance.

**Mr SHARPE:** So 60 days out. At the moment, they are running at about 70 per cent load factor. Even with that community fare in the marketplace, roughly one in five people at the moment are picking up that community fare with roughly 1 000 community —

**Mr D.T. REDMAN:** Which is booking within a day of the flight?

**Mr SHARPE:** A day of flight or 60 days.

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**Mr D.T. REDMAN:** So before 60 days, so long-term planning or very short-term planning.

**Mr SHARPE:** That is correct. But the majority of people are only picking up—there are probably only around about 12 per cent that are picking up the 60 days and out, and the majority of people are waiting for that last-minute opportunity.

**Mr WELLINGTON:** With the load factor of 74 per cent, which is our average, you can virtually guarantee there will be some empty seats, probably not on the flight that you came down on.

**Mr D.T. REDMAN:** So that is the community fare offered commercially by Rex. You have also got the \$99 fare, which I understand the city subsidises. Who does the auditing of the two days' accommodation? Is that done through the city?

**Mr WELLINGTON:** You cannot buy the fare unless you buy it through a travel agent and the accommodation goes with it, so it is a product out in the marketplace. You have to buy that as a package before you get it.

**Mr D.T. REDMAN:** Can you give us quick understanding of how that is going as a strategy by the city to encourage traffic?

**Mr S.K. L'ESTRANGE:** Terry knows probably a bit more about it than me. Can you step me through how it is packaged from the beginning?

**The CHAIR:** I would find that helpful. How did you get there? How did you get it up?

**Mr WELLINGTON:** How long have you got?

**The CHAIR:** We are all ears!

**Mr SHARPE:** There is some good news coming out of here. We approached it from the point of view that we wanted to be open for business. We went to Rex and said, "We want to grow our leisure market. We see a real opportunity for us to enter into a long-term arrangement with Rex on the basis that we get a win-win." So, there is the community fare that has been locked in now for three years—that is a certainty—and that was on the basis that we do not take any profit. All we get for every passenger is \$30.48 and that comes in at about \$1.2 million. If they have upside in growing that 56 000 passengers, we do not share in that; there is no profit-sharing arrangement. It is basically a fixed fee per annum that Rex will pay to the City of Albany for three years, irrespective of how many passengers go through the airport.

[11.00 am]

**Mr S.K. L'ESTRANGE:** So that \$30.48 —

**Mr WELLINGTON:** Basically, we waive that fee—the \$30 of that—from the \$129 fare down to \$99, as long as you buy an accommodation package with it. That was the offer we made to them. They pay a landing fee if they come in on the weekends et cetera and the people are staying two days. So it is bringing business into our hotels, motels, cafes, restaurants et cetera. We were prepared to waive that to get down to \$99.

**Mr SHARPE:** That is wrapped up in the whole contractual arrangement that we have entered into with Rex. Our ask, if you like, was to grow leisure and they came to the table and offered that. If you are in Perth, for example, or on the east coast, you can go through a travel agent and book. We have got a number of aligned providers here in the accommodation side that can package up, but you have got to go through the travel booking agent. I think there are two providers now. It is early days for us. We are about to go into a major marketing campaign into metropolitan Perth in early 2018 that will really see us and our partners being—we are calling this region "the amazing south coast". As you would know, Terry, it is a great new story to partner with our neighbours, being Plantagenet,

Denmark and also Jerramungup, and we are looking to go head-to-head with other tourism destinations right across the nation. We are approaching it from an opportunity point of view and we see a long-term relationship with our airline provider.

**Mr D.T. REDMAN:** What has been the performance so far? Have you got a period of time that you can give some sort of feel for what it has done to the market?

**Mr SHARPE:** In terms of the \$129 fare, that is growing rapidly, and I think the mayor gave you some data and some metrics on that. That is exceeding 1 000 passengers per month into the community fare. So roughly one in five passengers now are going through the community fare arrangement and growing. Rex have given a commitment that if there are spare seats, they will be provided to the community through that arrangement. In terms of the \$99 fee, it is still early days; we are not getting a large amount of take-up. We will use our marketing campaign in early 2018 to bring Rex into that arrangement and really give it a strong promotion into the metropolitan market.

**The CHAIR:** How did you herd the cats to make that happen? You have obviously engaged with two travel agencies to do that. Are only some accommodation providers part of that? How did you build the coalition to make this happen?

**Mr SHARPE:** We have a private consulting firm that is working with the city around—there is a terminology that you use to package up those deals in the holiday market, so they have to be packaged arrangements. You can book that if you are coming from the east coast and it is basically a total package deal. Rex had to form those alliances and the city has been entering into that conversation for 12 months now. We would see it as basically we are on the ground floor at the moment and in the next two to three years, we would like to see enormous growth in that area. But it is really a part of the jigsaw to our bigger tourism promotion. The other key component for us is getting hotel developments happening here in the great southern.

**Mr WELLINGTON:** Basically, the wholesaler went and handpicked a couple of operators and said, “Do you want to be part of it?” and they offered the package. So we went to the proactive operators, and there are some good and there are some bad in all businesses. The good ones said, “Yes, we will provide a package in that.” They offered a discount on their accommodation. We got the discount on the fares et cetera, so it could be put out there as a package. As we grow it, we hope the rest of the market will follow through. One of the problems we have here in our tourism market is that there is no definitive leader of the tourism industry down here other than the local authority, which is not our core business, but we are doing it because no-one else is, so we are providing that. But we are also saying that within the next three years, we want the industry to have taken it over. We will continue to help fund their marketing exercise, and our marketing this year will be \$520 000 to the Perth area, which is our main market, and that is subsidised at \$250 000 from the election promise from the government and \$270 000 from the local authority, so we are putting in as well. We will try to increase the market. The \$99 fare and the two nights’ accommodation is a very, very low end part of it at the moment, but in 10 years’ time, possibly, it will be a substantial amount, but we are only just starting it at this stage. To get into the marketplace, you get it into basically a wholesaler who wholesales it through to the travel agent, “This is a product you can sell. Here is a brochure you can sell it off. You can make a quid out of it for \$99.”

**Mr S.J. PRICE:** Can we go back to essentially that \$30 subsidy? Can you explain, I suppose, the cost of a person landing at the airport and what the arrangement is? You mentioned that figure of \$30.48.

**Mr WELLINGTON:** That is our landing fee per passenger.

**Mr S.J. PRICE:** Does that include a service fee and everything else associated with it?

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**Mr SHARPE:** That is everything that is included in landing at the airport. It does not include the Perth Airport, which is \$23.80 for their share. That is one of the problems.

**Mr S.J. PRICE:** Just before you go on, the charge to land a person for Rex at Albany airport is \$30.48. Under the \$99 arrangement, you do not charge that all.

**Mr WELLINGTON:** No. That is an incentive for them to try to grow the market, and they take the whole airfare cost.

**Mr D.T. REDMAN:** When they pay full fare, they are not paying that; they are paying a bigger landing fee to the city.

**Mr WELLINGTON:** It is \$30.48. That is our landing fee; it does not matter what fare you pay. There is no differentiation in that.

**Mr S.K. L'ESTRANGE:** What was that Perth landing fee you mentioned?

**Mr WELLINGTON:** Perth is \$23.80.

**Mr SHARPE:** Just for context, we were charging \$30.48 for every passenger. The arrangement now for the next three years is that we get in the order of \$1.2 million—56 000 passengers times \$30.48, which is in the order of about \$1.2 million. Part of the contractual arrangement is that the win for the city was that we have the opportunity to grow the leisure market, which is the \$99 fare. The \$129 fare, just to put some context around that, Rex charges their base airline fare of \$63, then on top of that GST is \$11.72, Albany is \$30.48 and Perth is approximately \$23.

**Mr D.T. REDMAN:** Just as a bit of a theme, John Sharp, I think was one of the guys on the board of Rex, and when he first came over to look at establishing Rex airlines here, they said their biggest competition was road traffic. My first question is: have they been effective, do you think, in being a fair competitor against someone driving? Secondly, from the city's perspective and local opportunities perspective, have they been a pretty good airline to deal with in terms of trying to negotiate pathways?

**Mr WELLINGTON:** Have they been a pretty good airline? We got to an agreement with them. It was not easy, and you would not expect it to be when your margin is six per cent before tax and 4.48 per cent afterwards. They have got to be pretty much hardball. We accept that fact. We have also got to accept the fact that we run an airport that potentially costs us money, so were in the same game. Has it made a difference in terms of our leisure market, in terms of holiday people coming down? No.

**Mr S.K. L'ESTRANGE:** Just on the leisure market side of it, I know this is about regional airfares, but regarding the link to building the leisure market that might help with regional airfares, what has been your arrangement with the car rental companies? Has that been an inhibitor for people using your cheaper airfares?

**Mr WELLINGTON:** It is not so much if you fly down here and use the car and then fly back. If you fly down here and then drive to the south west and go back, your relocation fee is about 320 bucks for the car; it is more than the airfare. So, you have got to get someone to transport the car down for you; it is not a cost incentive in any way, shape or form. All of the agencies that run the car market down here do pretty well in that regard, but having the fly-drive market is not an option for us. There is too much distance and too much cost.

**Mr D.T. REDMAN:** When the Rio planes land to pick up, what do you charge them for the landing fee? Are they charged at a per-head basis?

**Mr SHARPE:** They are under the old fee arrangement. Each year we set our fees and charges, so they pay a landing fee and then they pay a tax per head arrangement. That was under the old

arrangement that we were charging. There is a significant incentive that the city has now provided to keep Rex airlines and the community fare being provided to the City of Albany.

**Mr D.T. REDMAN:** So, essentially, Rio is putting up commercial rates?

**Mr SHARPE:** More of a commercial rate, yes, that is correct.

**Mr WELLINGTON:** They pay quite a substantial amount of money during the course of the year, and they are looking at increasing the size of Brockman and Silvergrass.

**Mr D.T. REDMAN:** There was something in today's paper, I think, or yesterday's paper.

**Mr WELLINGTON:** Yes. We did a pitch to them last Friday in Busselton about trying to locate most of those fly in, fly outs either in Busselton and/or Albany. The fact for them is that their fly in, fly outs stay with them longer if they are based in regional areas rather than based in the city, so we would like them to be based here.

**Mr D.T. REDMAN:** Do you have any visibility of what proportion of the Rex flights would carry a FIFO worker?

**Mr WELLINGTON:** Minimal.

**Mr D.T. REDMAN:** I think you made some comment at the start, but that was probably the global figure, I guess.

**Mr WELLINGTON:** Most of them drive, and that is one of the problems. A lot of them drive. If they are catching a flight at four o'clock in the morning and five o'clock out of Perth, they will leave here at 12 o'clock at night.

**Mr D.T. REDMAN:** They want to avoid overnighing?

**Mr WELLINGTON:** Avoid overnighing. They get onto the plane and go on to their shift and then they are knackered, so the first day is a dangerous exercise for them. Rio said to us that they do not talk to FMG and they do not talk to BHP et cetera, but if we wanted to go and talk to them about sharing planes, they would be quite open to starting a discussion, which is what we will do in the next few months. We will start going to these other companies and saying, "Listen, relocate your workers back here and you can share planes up north", which will mitigate their costs.

**Mr D.T. REDMAN:** How significant is that? I know the FIFO market means you are picking up a workforce for people living in the regions; that is significant. In terms of the airport business case, how significant to your airport business unit are the Virgin planes that are coming?

**Mr SHARPE:** In terms of revenue?

**Mr WELLINGTON:** It is about 12 per cent.

**Mr SHARPE:** That is right. It is approximately \$250 000.

**Mr D.T. REDMAN:** Out of the two point something?

**Mr SHARPE:** That is right.

**Mr D.T. REDMAN:** Okay, 10 per cent.

**Mr WELLINGTON:** Yes, 10 per cent, so it is substantial. Again, we would offer an incentive to them to say, "Look, maybe we might cap that if you increase the number of people working down here." We have got 173 at the moment who fly out of here on a weekly basis. Busselton has 735, I think—more than double that still drive to Perth and fly out of there. If we can get the other companies involved as well, then we maybe have increase the numbers.

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**Mr D.T. REDMAN:** So you are now in this regional alliance that has Busselton and Bunbury written on the other part of it—good discussions with them?

**Mr WELLINGTON:** Terrific.

**Mr D.T. REDMAN:** To grow the collective pie, is that the goal?

**Mr WELLINGTON:** Yes. The reality is that there are no boundaries; it is what they call “coopetition”. We can cooperate in competition. They still want their market out of Perth, but from the eastern states market, we are all in the same boat. They are going to drive here, most of them, or if they fly to Perth and then get a hire car, they can go down via Busselton to here to Esperance or whatever. Esperance are saying to us that they are possibly looking at a situation where they leave the goldfields, which is their joint operation, because they have much more affinity with us on the coast than they do have with the goldfields. So, we want to talk to them; we will go to Esperance shortly. We have been to Busselton twice now to talk to them, and we will do these joint exercises all the way down the line.

**The CHAIR:** This is just a little bit of a segue into the differences in the regional centres. I am really heartened to hear that the south west councils and local governments are working together and it sounds like you are onto a great thing.

**Mr WELLINGTON:** Can I just stop you there? We ain’t the south west!

**The CHAIR:** Sorry!

**Mr WELLINGTON:** Can you give me 100 lines, please!

**The CHAIR:** It is my first time down to Albany, so you know!

**Mr WELLINGTON:** We are the amazing south coast.

**The CHAIR:** Mr Rosair, maybe you can shed some light on the question that I have. We are here in Albany today and we are hearing about some airfares that are pretty well priced, the community seems relatively happy and they are providing the springboard from which a reasonably priced air route-based tourism industry can develop, but I am interested in the Regional Capitals Alliance’s views on the differences between dynamics on the regulated routes and dynamics on the unregulated routes, and the Regional Capitals Alliance’s views in paragraph 1.4 of your submission where you talk about the lack of competition due to a duopoly market. Could you expand a little from the Regional Capitals Alliance’s perspective on regulated routes versus unregulated routes, your sense on how the different local governments are experiencing the regional airfare expenses and how the issues affecting the different constituencies?

**Mr ROSAIR:** It is a very difficult question, but I will endeavour to talk —

**The CHAIR:** It sounds to me like you are up to the task!

**Mr ROSAIR:** Not quite! We have collated a lot of the responses in trying to get some commonality in the submission. There are differences, obviously. We know Karratha Airport actually makes quite a considerable amount of money on that, with the turnover of FIFO workers, the parking arrangements and the ownership, and they have a different fee structure altogether. Trying to compare one with another was very difficult in our submission. It was trying to get an overarching assessment on common factors that come into the equation—largely things like passenger volume in the tourism and leisure market is one of those factors.

Other nuances that came about were the way that the duopoly, and particularly Qantas in Broome—you would have probably found in Broome that the charging rate of Qantas and the way that they deal with Cable Beach accommodation is unique, in a sense, across the state, and Qantas has a fairly

tight arrangement with Cable Beach and they have incorporated their fares and the accommodation. That means it is difficult to reduce the cost because of those arrangements. Having said that, flying from Broome to Los Angeles might cost you \$1 800 and flying from Perth to Los Angeles might cost you \$1 650, so how does that \$150 differential happen? Qantas can make that arrangement. To try to summarise it across the state is very difficult, because all of these fees and landing charges are different.

But one of the commonalities that has come through, and I do not know whether it is one you have struck yet, is the end-of-trip cost in Perth, where there could be, we believe, some opportunities. We talk about a passenger fee of \$99 and a fee of \$30 for landing costs and then \$129. When you get to Perth, and particularly here in terminals 2 and 3, you are probably looking at an \$80 or \$90 taxi return fee. When you look at that, a lot of people factor that in and that is a disincentive. You can equally get a \$4.50 bus on the 380 service from terminals 1 and 2. At terminal 3 and 4 you can get the 40 and the 935 service for the same \$3.80 to \$4; seniors can get it free. The promotion of that end-of-travel cost is something that is common to all of these people.

Then, as Terry would know—we discussed this in government, Terry—the fuel card. We talked about the fuel card—I do not know whether it has come up in the conversation—but the regional fuel card, utilising that subsidy as well for airfares. We never quite got there; we only used it for fuel. Then there is the patient assisted travel. So there are existing schemes and processes that could reduce end-of-line costs, which would make it even more attractive. That is one of the common themes in answering —

**The CHAIR:** I want to home in on the issue that this inquiry has been constituted to examine—specifically, regional airfares. On regional air fares, do your members see a difference between the regulated and the unregulated routes with respect to competition and outcomes for their communities?

**Mr ROSAIR:** Yes; in the regulated routes, obviously that puts a spanner in the works for competition. That is the bottom line.

**The CHAIR:** Just give me a moment. On the regulated routes, though, there is information disclosure obligations and price certainty. On the unregulated routes, have your members given you any feedback as to their observations of what is going on in the unregulated routes given that your submission very clearly states, “Lack of competition often due to a duopoly market.” Could you expand a little on what your members have been saying with respect to that point?

**Mr ROSAIR:** I have all of their individual submissions here and my role is to collate them into summarising them to this committee. Differences probably are spelt out within the detailed submissions, which you may have well already received from places like Broome and Karratha. Have you been to Karratha?

**The CHAIR:** Yes; we were in Karratha last week.

**Mr ROSAIR:** I do not think it has come through in any great detail as to the difference between regulated and non-regulated routes and the impacts on the cost of airfares as such.

**The CHAIR:** So none of your members have given you feedback in the collation of your submission about their experiences on unregulated routes with respect to competition?

**Mr ROSAIR:** Yes, they have. I talked about the Broome one, for instance, where they talk about some of the nuances around the relationships Qantas has with Cable Beach and some of the situations there where it seems to mean that prices of airfares are maintained high as a result. But I have not analysed it in that much detail across the 10 submissions. My exercise was a collation exercise, primarily, and to try and summarise it for the regional capitals. We could possibly provide

more information if you want to forward another question to that effect. Maybe we could take that on notice and we can ask the capitals; if you can give us a direct question.

[11.20 am]

**The CHAIR:** That would be wonderful. The question is, for the benefit of your members —

**Mr ROSAIR:** Yes; it will be noted here and no doubt by David.

**The CHAIR:** —have your member councils noticed a difference on regulated and unregulated routes and do they have any views specifically on this item 1. 4 on the lack of competition often due to a duopoly market?

**Mr ROSAIR:** Yes. We will provide it.

**Mr D.T. REDMAN:** I suspect the challenge that you have got is that there are very, very different circumstances from each of those sites. We have seen that when we have done the rounds of our inquiry—some regulated; some unregulated; some have duopolies whereby there seems to be—it might not be explicit—some sort of a remit to hold a higher price structure, which is not getting the benefit down on the ground. There is also a Curtin study that suggests that regulated routes on general are holding prices lower. That has actually been a bit of a debate that has happened down here where I know that at one stage the Albany chamber was advocating for deregulating the route here in the interest of bringing competition and the suggestion that that might bring down prices. On that aspect of the decision and in the context of Albany, has that discussion emerged at all or is your view that we should hold the regulations given, Denis, your first points about the level of traffic that has come in —

**Mr ROSAIR:** Passenger numbers.

**Mr D.T. REDMAN:** — hence the volumes of which might be challenging to get any sort of competition to market if you deregulated it?

**Mr WELLINGTON:** We would probably drop our services by 20 per cent if we had to deregulate the market because it is just not cost effective for them to fly in. The fact is we have four flights a day. You would not get that in a fit if you had a deregulated market and I reckon we would drop our turnover in the number of flights by 20 per cent and probably our overall number of passengers by 10 to 15 per cent.

**Mr D.T. REDMAN:** Can I just extend that? One of the suggestions from some of the submissions is that, right now the route that is regulated is the Esperance–Albany route. Rex was successful in winning that. As you well know, none of the big players put in a bid for that. From your perspective and your workings with Rex, would it be advantageous to have a bigger package of regulated routes to offer to the market and therefore test? In other words, not just Albany–Esperance as one piece but Albany–Esperance and may be, I do not know —

**Mr WELLINGTON:** Carnarvon.

**Mr D.T. REDMAN:** Yes, Carnarvon. Pick some other sites as a package that has a bit of scale to it and therefore might generate a level of those fixed cost opportunities —

**Mr WELLINGTON:** Passenger numbers as well

**Mr D.T. REDMAN:** — that might not come from a smaller package like this.

**Mr WELLINGTON:** Would it mean that they would make a profit out of going to another place as well and expand their base here? Yes, probably it would do. We would see that it is worthwhile picking up because you have got two going into Geraldton and they have got a fly in, fly out market trade as well. Do you know the passenger numbers out of Geraldton?

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**Mr ROSAIR:** Not offhand.

**Mr WELLINGTON:** it is substantially more than ours. It would not do a blind bit of good for Busselton, I would not think, because they are only about 12 000. How are they going to substantiate the \$37 million?

**Mr D.T. REDMAN:** Well they had that little hybrid package for a long time that dropped into Busselton. It just dropped in for two people and moved on. It was horrible.

**Mr WELLINGTON:** They have a problem there, but I do not think there are too many other markets you could pick up that would really be advantageous to it because the majors—if you dropped in a third one, for instance, in going to Kalgoorlie and/or Geraldton, I think you would see a marked decrease in the amount of airfares because they would price them out of the market. Do what everybody else does: run it at a loss until the other one folds up and disappears up the road and backside and go back to where you were before. I do not see that as feasible; not at a six per cent margin before tax.

**Mr SHARPE:** There are opportunities to talk to Rex about expanding their business model. I think they are flying into about 58 destinations, but mainly on the east coast, so their load factors across the board, they are servicing about 1.2 million passengers I understand per annum and have a 56 per cent load factor across the board, so there is capacity. Their business model, I think they have got in the order of about 55 Saab 340 aircraft that are in their fleet. We have talked to them about potentially doing a presentation to the regional capitals group and seeing whether there are opportunities to expand their business model in WA.

**Mr WELLINGTON:** Are you taking the one-off where the propeller fell off?

**Mr SHARPE:** I think they put it back on. They have found it!

That is a conversation worth continuing. If they are able to—particularly some of the smaller passenger routes in WA—bring about that competition, particularly if they are able to replicate what is happening in Albany and Esperance, it would be certainly a good community outcome for regional WA.

**Mr D.T. REDMAN:** When do you think you will get the modelling done?

**Mr SHARPE:** The ball is in Rex's court, really. They have expanded their business by 10 per cent coming into WA with Albany and Esperance. I think once they have got some of the teething issues resolved here, if you were to talk to them directly, there might be opportunities that they would extend that service delivery out to additional destinations here. What we mentioned earlier about talking to the mining companies, if people are open to working in more of a collaborative arrangement, particularly getting those flights full, whether they are FIFO workers, or whether they are Rex airlines and flying out of Albany and you give incentives, I think it really means that everybody just has to approach it from the point of view that if there is spare capacity, let us try to fill the planes up. At the moment, we are running at 72 per cent but what about the additional 30 per cent? Surely, there are opportunities to do further cost sharing arrangements, and the city would be open to those ongoing conversations.

**Mr D.T. REDMAN:** The Busselton regional airport was getting upgraded to potentially take traffic in from the east coast. In your alliance, are you having the discussions about how there might be a south west—great southern shindig there, given that they are now three hours closer to the south west—great southern and in that way and out here or something along those lines?

**Mr WELLINGTON:** Not yet, but we will do in the future. We certainly have not done it at this stage. I would like to see them get their actual flights in from the east before we talk to them about it.

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**Mr D.T. REDMAN:** And my next question: in the airline's submission, you talked about support with capital cost and in your opening presentation, Andrew, you talked about the high replacement cost of an over \$30 million facility, of which depreciation of a million dollars a year goes into that. Government grants to support infrastructure upgrades—how would that play through in terms of your business model and can that play through in such a way as it can assist with an airline fare?

**Mr WELLINGTON:** I will just jump in to start with. If you want to go back to council and make it a policy, we offered incentives to the airline. If the capital cost was taken out of our consideration for operating the airport, we would be all over it like a rash. We would have that many incentives out there for them to grow their business if the capital cost—to my mind, I would not be asking you to subsidise airfares. I would be asking you to subsidise capital costs for regional airports and then put it on the basis that, "If you blokes get off your arse and try to increase your business, then you will get that ongoing subsidy; if you don't, you get zip." Make it an incentive for us. We would be in Rex's office the next day, saying, "What can we do", et cetera. If you take out our \$ 1.4 million capital cost that we have to have to upgrade it, we have already bought the land to extend the runway so we can increase the size of the planes. We have Fokker 100s that can land here now. If we go to a 737, which can land under licence but not general aviation, we do not have enough land to do that. If we had the capital cost to increase the run way to do that, we would be into —

**Mr ROSAIR:** It would be \$14 million.

**Mr WELLINGTON:** Some \$14 million is our —

**Mr ROSAIR:** Just on that particular topic, it has been a topic for the alliance, more broadly, about the differential between regional capitals and regional cities and metropolitan capitals and metropolitan cities in not only airports but general infrastructure costs, like Busselton, for instance, is responsible for their sporting facilities; whereas, Victoria Park gets a brand-new stadium and can rate it for the cost of a state government investment. There is an anomaly generally between regional capital cities not only in airports but all infrastructure. Regional cities and capitals are responsible for normally the capital outlay for maintenance and the asset management of a lot more facilities than metropolitan cities and that goes to airports. You do not have this problem with Armadale or you do not have this problem with Victoria Park. So there is an expectation of these 10 capitals to provide airports in a lot of cases, to provide the sporting facilities, to provide the stadiums and the performing arts centres. All of this stuff in Perth, you know, half a dozen cities would be revolving around the arena saving and not have to do that.

**Mr S.K. L'ESTRANGE:** That is probably a good argument for getting rid of a number of local metropolitan councils!

**Mr WELLINGTON:** We aspire to be like Belmont. They put not a cracker into the Perth Airport and get \$ 9million worth of rates out of it.

**Mr S.K. L'ESTRANGE:** I think that is the point I am making. You are a regional centre which has to do everything itself.

**Mr WELLINGTON:** Yes; and that is the anomaly.

**Mr S.K. L'ESTRANGE:** To compare yourself to a suburban town council or city council is apples and oranges.

**Mr ROSAIR:** As we said at the start, there are 10 regional capitals. We are talking on behalf of them that represent half the regional population. We do compare ourselves to the Armadales, the Belmonts and the Victoria Parks in some sense. We do not to the Subiacos and the Peppermint Groves and that. No; I totally agree. They are the equivalent of the Tambellups and Woodanillings.

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**Mr SHARPE:** Mr Mayor, if I may. Terry, you have raised a very important point that, at the moment we are sustainable. We are sustainable with our current fleet. We have got a good arrangement with Rex that has capacity to grow. I think if you look to futureproof the City of Albany, it is quite likely that bigger planes will be required to land here at some point in the future. We cannot land 737s. The maximum we can take out of here at the moment is an F100 which carries only 100 passengers. We are talking to people like Rio and BHP and we are collaborating with other local governments. It is quite likely they would do a milk run picking up people from Albany, then flying to Busselton and then possibly going up to Geraldton and getting maximum efficiency out of load factors. We would see that if that “coopertition” opportunity to say if you are flying out of the southern part of WA and you are going to the north of the state, does it really matter if you are going to work on a mine, whether it is a Rio mine, a BHP mine or a Fortescue Metals mine?

Our view is that we should be getting the best outcomes for our communities and working with key stakeholders to do that. Often that does not happen because people are quite protective of those positions. I think our biggest challenge here is that our unemployment rate is rising. We have hit seven per cent now. Job opportunities are critical and government keeps talking about growth and job opportunities. We are no different. We are very much a micro economy here that represents the state. We do not have an influence of mining here. We are quite stable in that point of view but there will come a time that through changes in technology, people will be looking to go on bigger airlines coming into regional WA.

**Mr COLE:** If I could just add to the question about capital working grants and things like that. Just to give an indication, in the last 12 months \$ 1.4 million in capital works has been spent at the airport, of which we got \$575 000 from the state, so the balance made by —

**Mr D.T. REDMAN:** Was that RADS?

**Mr COLE:** That is RADS. Yes, so the balance was paid from our reserve, which is the process of the surplus that was put aside. It is a \$38 million asset. The main one is the \$30 million runway. Part of this year’s budget was to do a reseal. That has extended the life of that, but it will be \$12 million to overlay that in the future, of which we will probably have to come up with \$6.5 million or nearly \$7 million under the current formula, unless that was gifted, of course.

**Mr D.T. REDMAN:** Under the current formula? So there is —

**Mr COLE:** It is about 50–50 under RADS.

**Mr D.T. REDMAN:** The expectation is when you do tarmac upgrades, for example it is 50–50, so —

**Mr COLE:** That is the expectation as of now but who knows what the situation will be in 12 years’ time.

**Mr D.T. REDMAN:** You have not had any signals about where that is at?

**Mr COLE:** No.

**Mr D.T. REDMAN:** Okay.

**Mr COLE:** That is all air side stuff. All the land side stuff like the car park end, the terminal itself is a different kettle of fish, of course, and is not covered. Just as an indication.

**Mr D.T. REDMAN:** In terms of charter flights, there are a couple of charter flights operating out of here. Are charter flights being picked up—traffic—in other words, people load up a plane to try to reduce fares?

**Mr SHARPE:** Closed charters are fairly minimal. The only major closed charter operator is Virgin that is flying our FIFO workers on a weekly basis to Brockman, but outside of that we may have the odd charter plane that comes in but it is very minimal.

**The CHAIR:** I have, I guess, a pretty general question: over and above the various suggestions you have made about what state governments can do, are there any particular courses of action you think would help from a state government perspective, or any impacts, indeed from a commonwealth government perspective that you think would help people down here in Albany around the regional air fares issue? Any other suggestions for us? Now is your chance.

**Mr COLE:** I think it is just the generation of the volume. The volume is the key because the cost of running that airport is going to be fixed, basically, whether it is 56 000 or 100 000 going through, so I think it can cope with that capacity. Through that marketing campaign that we are about to embark on from January next year, I think if that tourism market can grow, you will see that per unit cost come down, which airlines like Rex will benefit from. I think probably the increase in the volume is the key, because at the moment if you are down in Perth for a couple of days, you might as well drive up and save yourself two or three people passenger fares to go up. But if you are on business, it is quite convenient to fly up and fly back in the one day.

**Mr WELLINGTON:** Flying up and flying back in the one day is fantastic. If you are going up for the football or something for the weekend or anything like that, you would not fly up, you would drive because by the time you have got the airfare and got a taxi here and taxi there and back again, you are going to pay the same sort of money as paying a normal airfare. If you really wanted—I have been in sales all my life—people to get out and work, offer them an incentive to do it. The incentive, for me, would be to offer local governments the incentive to upgrading your airports if you upgrade your numbers and do the work responsible for it. That would be where, from a personal point of view, we would benefit far more from it and we will work our backsides off to get our numbers up to 100 000 and work with the airline as well.

But in terms of coming back to good governance, we are responsible for not wasting the ratepayers' money, so you cannot go out and spend it willy-nilly on a wing and a prayer. That is the problem we are restrained with. We are limited to what we can do in terms of increasing our business to a certain level, but we probably would not go much further without an incentive. That is where I would be looking for government intervention at this stage.

**Mr ROSAIR:** With the tourism question and the model that is down here in Albany, it is something that maybe Tourism WA and tourism could look at more broadly across the state. I mean, I work with tourism quite a bit. Given how overseas tourism is being a target market for Tourism WA—Singapore, Malaysia and other places—maybe a more domestic approach to look at those packages and incentives, even working with the commonwealth government similarly on the landing fees at Perth Airport to negotiate packages as well to and from Perth. Tourism WA has always been very much destination Perth, and then trying to work out how to get people out in the regions, whereas their focus could change, and using the model in Albany provide a similar incentive statewide and focus on that.

**Mr SHARPE:** One further comment: if you look at Albany, the missing piece and the big game changer for us is having a four-star hotel here. We talked about the package deals. If we have got something to go head to head with, say, destinations such as the Gold Coast, Broome, the south west, being Margaret River—we miss that quality accommodation offering in Albany at the moment. The state government has been very good in terms of compulsorily acquiring the old Esplanade Hotel site. That still has not got the green light to go ahead with the development. We are working with LandCorp very closely but that is one significant piece of infrastructure

development that if it was here tomorrow, then our packaging and more people coming on that airline, and making our community more viable—and population growth. It is about volumes. Whichever way you look at it, we need to at least keep our population growing here. We need to create jobs and this is just a piece of the overall jigsaw. It is essential that transport services are provided to Albany. But if we are going to grow this economy, we are really banking on the investment that we are putting into our tourism project. That tourism project does need a hotel here. Perhaps that is a takeaway for your group to do some further homework on.

**Mr S.K. L'ESTRANGE:** Just on that population comment you made, have you done any assessment of what your goal is for population and then how it would translate?

**Mr SHARPE:** The economies of scale really kick in at 50 000 people. This city can support a population of 50 000 tomorrow in terms of our health services, our education. I do not need to sell this to you, Terry, because you know it very well. To futureproof this city, what we need now is to create opportunities for our young people. It is fine for them to go away and be educated, but they need a career pathway and we would like to work with government around at least retaining our existing state government employees in the region and not having an exodus back to metropolitan Perth or a reduction in numbers.

One family leaves is even—and if that trend continues, it is challenging. I think if we can get to a population of 50 000 as quickly as possible, we can really start to kick goals going forward. That is the magic number. Our population growth is only sitting at about less than two per cent. We are averaging about one and a half per cent per annum. Some of the other regions are growing at a lot more rapid rate. I think Busselton has the second largest growth in WA at the moment behind Serpentine–Jarrahdale.

[11.40 am]

**The CHAIR:** Do you see that growth stemming from your tourism industry? Are there other opportunities for economic diversification?

**Mr WELLINGTON:** Certainly tourism in the initial instance—that is why we have targeted that first—and then the diversification into agriculture as well. At the end of the day, we would like to be in the next, say, 10 years flying produce directly from our airport straight into Asia. We can see us doing that. We have a group of farmers down here, for instance, that call themselves Stirlings to Coast Farmers. There are 80 farmers there controlling 335 000 hectares of land. They now employ four researchers in their own right, all paid for from the farmers, no government support or anything, and a CEO to diversify their markets. One of the things they are talking to us about is diversifying and flying straight into Asia. That is something to do with our airport; it is something to do with increasing our tourism market, 900 000 now. We have 2.2 million visitor nights a year. We aim to get that to three million visitor nights by 2020. It is only a short time away but we have to average about 10 per cent growth per year in doing that and we see that as an achievable aim, bearing in mind that we have never run really any major marketing streams into our main market, which is the metropolitan area, but we have got that in a program for the next four years. Starting off, yes, with tourism and then agriculture.

**The CHAIR:** I will be banging the drum for Albany. I have loved my time down here, so I will be spreading the good word in the metropolitan area.

**Mr WELLINGTON:** I will not be as vitriolic as I normally am to people that have never been here, but basically you are a heathen for not being here!

**The CHAIR:** Do not worry; I will be back!

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I will proceed to close today's hearing. Thank you for your evidence before the committee today. 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 supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you.

**The WITNESSES:** Thank you.

**Hearing concluded at 11.43 am**

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