

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 9 AUGUST 2017**

Members

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

Hearing commenced at 10.27 am

Mr STEVE BEYER

Acting Managing Director, Policy, Planning and Investment, Department of Transport, examined:

Mr PETER RYAN

Director, Aviation, Department of Transport, examined:

Mr BRETT HUGHES

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

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today and to provide evidence in relation to the committee's inquiry into regional airfares. I am Jessica Shaw, the Chair of the Economics and Industry Standing Committee. I would like to introduce my colleagues, the other members of the committee. To my left is the deputy chairman, Sean L'Estrange, the member for Churchlands; Yaz Mubarakai, the member for Jandakot; Stephen Price, the member for Forrestfield; and Hon 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.

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

Mr BEYER: No. We have the information from the Committee and we are quite clear on what is expected of us and the information we are giving to you.

The CHAIR: Excellent. Do you wish to make a short opening statement?

Mr BEYER: I do have a prepared introductory statement. We have hard copies that we can circulate to you as well for the record. It is fairly evident from our submission and probably from the work that you will be venturing into that this is a complex issue. It is easy to present simple facts and comparisons but there is a lot of detail behind the story of regional airfares across the state and how we compare to elsewhere. Obviously regional air services are servicing a range of needs from community needs and business needs to FIFO requirements and the like, and that means that the airlines have some primary customers and secondary customers and some large contracts in place that underpin all of that. We are suggesting that it may be of some benefit for the committee to get some independent technical assessment of this. It is up to the committee as to how that might be explored, but there are some good consultants in the marketplace who can provide that analysis of the aviation sector and start to unpick WA on a route-by-route basis and understand what that actually means and why airfares are at a certain level.

The DOT has a regulatory capacity for aviation in the state. It is based on what we call economic regulation, as distinct from safety regulation, which is a prerogative of the federal government through CASA. We do regulate routes but with a very what we call a light-handed approach; in other words, those that are very marginal and that require some level of certainty for the community and hence some control of the marketplace in terms of who is providing those services. For the regulatory services that we do provide—the committee has details of that—we work under deeds

of agreement with the airlines in question; at the moment that is Skippers Aviation and Rex airlines in particular. Those deeds of agreement have a number of provisions where the airlines are providing information to us that give us a fairly good exposure to what is going on in those particular routes, but which also sets information we expect back from the airlines as well. Those deeds do set maximum airfares and set some mechanisms to negotiate other lower than maximum airfares on those particular routes as well.

Part of the way we have been working is in a fairly cooperative way. For a long time we have well and truly moved away from the old-style regulation in which we set some rules and expect the market to respond to that. We are fairly active in the marketplace with the airlines and the communities and local governments and that has borne some good results that you would have seen in our submission in terms of community airfares for Albany and Esperance, and some other good results elsewhere across the state. So it is a fairly collaborative model that we have got, rather than traditionally setting the rules and waiting and pointing the finger afterwards.

Just to let the committee know, we are currently in a tender process for two of the regulated routes; that is, Carnarvon–Monkey Mia and north east Goldfields. We are not in a position to reveal any of the information that is occurring in our due process with that tender process but clearly we have already provided you with the tender documents and some of the historical information on those routes, which are probably particularly interesting for you.

Perhaps lastly, we do provide some route data that is not in the marketplace or in public knowledge as part of our submission and to help the committee with its terms of reference, so we ask the committee that that information not be made public given that the airlines may want to provide that information to you and they may be prepared to release that publicly to you as well.

That is probably the gist of it. We are obviously here to help the inquiry and the committee and give as much information as we know, but clearly your inquiry will be helped by some active engagement with the airlines. They are all keen, from big to small airlines, to make submissions to you to help to inform you of the local conditions with airfares and air services, and likewise the community will likely have a fairly active role as well.

The CHAIR: Thank you very much for that. Just to quickly address the final issue you raised about commercially sensitive information, next week the committee will be considering the publication of your submission and we will certainly take note of the request you have made to us today, and we will advise you of the outcomes of the committee's decision next week, but we do note your concerns.

Mr BEYER: Lastly, in terms of how we take questions, these two gentlemen here are the experts in the aviation area, particularly Peter, who has a long history with this one. So rather than perhaps directing all the questions to me and my deferring to one of these guys, we will work in a more flexible way in how we respond to you.

The CHAIR: Absolutely; that suits me just fine. I will ask a few opening questions and then turn over to my colleagues. Thank you again for your submission, which is very comprehensive in terms of where we have come from and a number of the issues that the industry encounters, with some very helpful suggestions as to what the committee might look at and then how we, and, indeed, the state government, might take matters forward.

I note that on page 8 of your submission you talk about strategic policy objectives, and I would like to make a start there. The previous state government adopted the state aviation strategy and the final report of the review of the RPT routes in 2015. Those documents listed a series of objectives, including ensuring an adequate level of RPT services and fostering competition to reduce airfares.

What monitoring has subsequently been undertaken on the implementation of those documents or initiatives? Is there any evidence to indicate whether so far they have been successful or otherwise?

Mr HUGHES: I think the answer to that is in the implementation plan of the State Aviation Strategy and in the development and application of the review of regulated air routes, which is a separate document. But in terms of the implementation of the state aviation strategy, I will ask Peter to talk about the monitoring activities, at the high level of the strategy but then at the specific level of the air routes.

Mr RYAN: Just to be clear, Chair, were you interested particularly from an airfare viewpoint?

The CHAIR: Particularly from airfares. I appreciate that the state aviation strategy is a comprehensive document, but I am interested specifically in air routes.

Mr RYAN: Sure. In terms of air routes and airfares and the role of the Department of Transport, it is worth separating the role of the Department of Transport into two components. The first component, as Steve indicated, is that there are certain air routes in WA that are regarded as marginal, and we have a very close and intense involvement in those air routes. They are the routes to Carnarvon, Monkey Mia, Leonora, Laverton, Wiluna, Meekatharra and Mount Magnet, along with Albany and Esperance. On each of those routes the state has determined that the level of patronage is relatively low. All those routes are well under 100,000 passengers a year.

In the case of Mount Magnet, Meekatharra and Wiluna, you are looking at 3,000 to 4,000 passengers a year. There are bus routes in Perth that would take more in a day. They are very low patronage marginal air routes. What the state basically does is say that maintaining those air routes is critical for those communities, and in order to maintain those air routes the state tenders the route and awards a monopoly right to a single airline to operate on that route, usually up to a period of five years. As part of that tender process, coming back to the airfares, the process is that the applicant, the airline, is required to indicate a range of information in respect of airfares in their tender proposal. That range of information includes a maximum airfare. It also includes an indicative average airfare and what we call "buckets", if you like, of different airfares.

Obviously for each air route every airline has a maximum what they call a "Y" fare and then there are buckets of airfares down to their lowest airfare. So they indicate maximum airfares, indicative average airfares and the buckets of airfares. We then enter into a deed of agreement with the successful airline and those airfares are incorporated into the deed of agreement with the airline. The state, as part of its management of the deed, does monitor the airfares to make sure they are in line with the original tender proposal of the airlines.

The other thing the state does, and it is a very important part of what we do, is that we have established what we call community consultation groups with each of those regulated air routes. On those community consultation groups we have chambers of commerce, the local government, tourism bodies and the like. They meet every six months with us and the airline. At those meetings, the department provides a fact sheet—I think we gave an example of that in our submission—that identifies the airfares over the preceding six months and includes within that information the average airfare. It also includes changes in airfare over that period.

There is some capacity for airlines to increase those airfares if extraordinary circumstances occur. You can get very large changes in fuel prices, for example. You can also get changes in other prices that are outside the control of the airline, such as airport fees and charges. They do have the capacity to make application to us to increase the airfares to take account of those matters. Otherwise they are in a position whereby they can only increase airfares according to the CPI.

I suppose what I am trying to say is that our focus as a state, consistent with the state aviation strategy, has been on the marginal air routes, and I have described how we manage airfares on those marginal air routes. For the non-regulated air routes, we have a much lesser role. That is not to say that we do not have any role, but we have a much lesser role.

To give you another couple of case examples—please stop me if this is not quite meeting what your needs are—the Exmouth route has, say, 80,000 to 90,000 passengers a year. The state government at the time decided that it did not want to continue to regulate that particular route. At 80,000 to 90,000 passengers a year, there is little chance that route will stop operation, unlike some of the other routes I mentioned. However, the community said, “Hang on, we’re a bit concerned here. We have one operator, being Qantas, operating on that route. How are you as a state government going to assure us that that monopoly operator is not going to operate in a way that is inconsistent with the business needs of Exmouth and the community needs of Exmouth?”

We engaged with the community and said, “Let’s look at options.” The final agreed position of the state was to say that the licence that we give to all RPT airlines would have specific conditions, and those specific conditions require Qantas to report to us and give us average airfare information and we report that back to the community so the community can see what is going on through the key stakeholder groups. I suppose from that point of view the community gets some confidence that there is transparency from the airline around what they are doing. One of the problems the general community faces in respect of airlines is, sure, they can see what the price is on the website, but what they cannot see is the actual movement in the average price paid.

The advantage of placing these conditions on someone like Qantas is to say that we want all that data, and we are going to report on it, and the community gets to see the movement in the average price. Therefore, despite Qantas being a monopoly operator, there is some capacity there for the community to have oversight of what they are doing. I think with that transparency Qantas is very mindful of what it does in terms of pricing, and I think that transparency enables the community to participate in a debate, if needed, on where airfares are moving on that particular route in a direction that the community is not happy with.

The CHAIR: You raise a very interesting point, and it comes to a question that I have around one of the comments that you make in your submission. You say on page 16 that the Department of Transport does not have sufficient quantifiable flight data and other information to determine whether any or all of the RPT air routes in the state are under or overpriced, and you recommend that the committee gather this data. However, I understand that under the *Transport Co-ordination Act* the minister actually has the ability as a licence condition to compel the production of information and to compile statistical information. So, why would you suggest we do it if the power exists for the minister to do this?

Mr RYAN: There are probably two parts to that. You are absolutely correct, as per the Exmouth example, that the minister and the government have the capacity to place conditions on licences of RPT airlines to give us whatever price or fare data we require. So, we can do that. The second part of the answer is that I am aware that you guys have a six-month window in which to report. One of the things that we are very aware of in this debate is that no doubt when you go to the regions you will hear from a range of stakeholders.

You will also hear from the airlines, and no doubt they will indicate that they think their position on airfares is quite defensible, for a range of reasons. You will also hear from the community, who will be outraged by the high level of airfares. The spectrum of views is very wide. Our view is that it would be very difficult, just by hearing the various viewpoints, to come to a considered position on whether airfares are indeed high or not. So in order for the committee to have appropriate

deliberations within the time period you have set for your review, I think some technical input into your deliberations would be appropriate.

Mr BEYER: Chair, I think we have fundamentally adopted a policy position that outside of routes that are essentially regulated to a monopoly operator or licensed just for a single monopoly operator like to Exmouth and Onslow, the rest of the market—the larger ports like Karratha, Port Hedland, Broome and what have you—have competition, and the policy position of the State Aviation Strategy is that market forces will prevail. If you have contestability in the market, particularly between Virgin and Qantas, then there is pressure on those in terms of maximum airfares and also average airfares, as well as seasonality of those airfares. So we have simply said let us leave it to the market to work out how they best can respond rather than us trying to compel them to provide information and make sense of that information from our own point of view.

The CHAIR: I want to test that, because your opening set of statements would suggest that transparency and having some sort of line of sight to the levels of patronage, the general classes of airfares and the numbers of those airfares would seem, on your evidence, to indicate that that does place downward pressure on prices. I note that in your submission you state that the absence of regulation has the potential to significantly reduce the cost of airfares without government interference, and, further, that market forces should drive prices without unnecessary and potentially costly government intervention.

But elsewhere you talk about light-handed regulatory approaches, noting the high cost of unregulated Pilbara routes. You also refer to a piece of work that has been commissioned to demonstrate that on these unregulated routes, where there is not a lot of information disclosure, there tends to be much higher airfares. How does that position hold true, when a research project undertaken by Curtin University would suggest otherwise, and when, where information is being disclosed, prices are lower?

Mr HUGHES: I will respond to that. As we know, airfares are a complex issue, and regulation is one of the levers that the government has in order to help the community and business. But regulation is only one of those levers and we generally rely on the commercial market as the fundamental basis of the operation of commercial business.

The CHAIR: Except where there is market failure, though.

Mr HUGHES: Exactly; that is exactly the right point. The question is: is there a significant market failure, and is a government intervention going to produce a greater benefit than allowing the market to operate, imperfectly as it does, because all markets are imperfect? We have taken the policy position to be very active in the regulated part of the market and less active in the unregulated part of the market, in the same way as the government is inactive in many other markets and allows the market to operate.

So we need to understand whether a government intervention would actually add value or whether it would either confuse things or introduce its own undesirable consequences. It is appropriate for Curtin University to investigate that. That is not a process we are controlling; it is a process we are facilitating and enabling, and we are not managing the details of that—it is independent research. That is producing some interesting outcomes; for instance, that regulation does not necessarily have the undesirable consequences that some people fear, but at the same time competition does not necessarily produce the best outcomes; therefore, it is not clear whether any form of regulation is going to be better than no regulation at all.

We have also taken the approach to be light-handed and reduce red tape wherever possible and not introduce imposts to resource companies for charter flights or for regulation of flights in airfares.

Yes, it is possible. It is not clear—the market, in terms of the buyers and the sellers, the community and business are not saying to us that we need to regulate this or we need to publish the airfares. You will recognise that, for instance, airfares are publicly available on all of the websites, so people can find the airfares.

The CHAIR: The people of regional Western Australia would argue that there is a significant problem here. They are being exposed to incredibly expensive airfares. The information that we have available to us would indicate that where there is disclosure of information and where there is some sort of requirement to provide ongoing disclosure, not necessarily just a parliamentary committee blowing into town and over a six-month period asking for disclosure of information, but where there is some sort of ongoing monitoring, it would appear on the face of it to lead to downward pressure on prices.

I am just not sure that I completely accept the argument that on the regional airfare routes that we are examining, letting the market forces operate in a pretty light-handed way is delivering the best outcome to regional Western Australians.

Mr BEYER: Perhaps if I can add to that, there are layers of detail behind the story of airfares. The Pilbara is an interesting case example, where there are a lot cheaper flights to Broome compared to parts of the Pilbara for a longer flight distance, but you also have significantly higher load factors on both Virgin and Qantas, in the range of 70% going to Broome compared with Newman, for instance, which is down to about 50%. The way the airlines are responding, particularly to the big resource companies, in serving the Pilbara is obviously very much to meet their fly in, fly out requirements, which then provides services both to the industry as well as to the community.

But I guess it is the FIFO requirements and the type of aircraft that the industry is providing here, such as the Fokker 100—style aircraft jets, which is actually dictating the flight frequency as well as the load factors, and where you have low load factors, like 50%, that has a material influence on the course of servicing a particular port like that. I am all for levels of transparency, but I think there are different ways of getting transparency of information, and one of those can be provided by the airlines. Others can be provided by the Pilbara Regional Council putting a spotlight on this and saying, “There is something not particularly comparable going on here. Let us actually find a way of getting more information out there, but let us get the airlines to work with the community and particularly with the resource companies to ask how they can deliver a better deal for regional communities.”

The CHAIR: Given that the government, presumably, formulates the policy and provides advice to the minister, and through the relevant legislation has the power to compel the production of information that would shine a light and potentially put downward pressure on prices, do you not see a greater—I am not saying that you would go out there and publish that information at a very granular level of detail that would be commercially inappropriate, but surely there must be some opportunity for the state government to potentially exercise a function in this area?

Is that something that the department has given consideration to on these unregulated routes?

Mr BEYER: It is always an option, but probably what comes out as the flavour in our submission is that we think that rather than trying to display information on our website or through the newspaper, or whatever, a better model is to work in a much more collaborative and cooperative way with the airlines and the local community and say how can we in fact start to recognise the unique circumstances of a Paraburdoo, a Newman or a Karratha, recognising also that they have had fairly significant reductions in airline numbers, in the order of 30% in recent years, and that has put pressure on the airlines to maintain quality of service for the resource companies and to also keep up a reasonable level of service, but obviously then dealing with how do they pay for these

things, and that is obviously an airfare cost. That cooperative model is probably a better way, rather than simply trying to broadcast some information hoping that that is going to lead to some desired result.

The CHAIR: One final question, and I will then turn over to Terry. Have you trialled the cooperative model that you are speaking about, and what have the results been? Have you seen a demonstrated downward pressure on airfares since this cooperative model has been rolled out?

Mr BEYER: Peter might comment on Albany and Esperance with the Rex model.

The CHAIR: They are both regulated routes?

Mr BEYER: They are both regulated routes.

The CHAIR: So, on unregulated routes?

Mr BEYER: Yes, and likewise perhaps the Chevron experience with Onslow.

Mr RYAN: Sure.

Mr HUGHES: Can I just circumvent that to some degree? Section 8 of our submission contains three or four examples of different types of collaboration and cooperation in different ways for different routes that we think suits the circumstances. The department could have taken a much more stand-offish view to that to say that is the market; we will let them go. In fact, we have been very proactive in different circumstances in different places. So there are the Albany and Esperance routes, and with the extension that has been recently announced of the community airfare, the engagement with Virgin and Chevron for the Onslow route, our tender process and deeds, which we take an active involvement with, and reducing the administrative burden for red tape reduction and so forth.

So without going into the details, and you are welcome to go into the details, I think it demonstrates that a proactive and innovative cooperative approach, but to suit the circumstances.

The CHAIR: But these are regulated routes, though?

Mr HUGHES: No, not all of them.

The CHAIR: Not all of them? Okay.

Mr HUGHES: Onslow is not a regulated route, no.

The CHAIR: Aside from Onslow, though, has this model been applied elsewhere?

Mr HUGHES: We have had ongoing active engagement with all of the airlines on a continuing basis to discuss and encourage a range of improvements to services, which has been low key in dialogue, as opposed to official, formal, regulatory and so forth.

The CHAIR: Because that Onslow model looks great. It really does look like it has been delivering. But anyway, I will turn over to Terry.

Mr D.T. REDMAN: The reason I was chasing a question was to be supplementary to what you were talking about. There seems to be some conflict here. The tenet of Jess's questioning is in saying that some good information out there produces good recommendations, and therefore as a government you work out what touch you have over the airline sector in terms of making changes. In your submission, you talk about a lack of data on some of the stuff. So here we are making calls on something that in your own submission you are saying we have a lack of data on in terms of our knowledge of what some airlines are doing and how they are behaving; that the minister has the capacity to do it; and, indeed, a parliamentary committee has the capacity to do it. Even in your

opening comment, you talk about how there are consultants out there who can get some of this information.

Here we have a government agency with a bucket load of resource that can do exactly that. We are in a scenario where the recognition is that it is a sensitive issue out there. Comments were made here that everyone knows that there are high airfares in regional Western Australia. We have a lack of information from the agency that is chartered with the task of making recommendations to ministers and government about what changes you might make. Indeed, in the opening statements made to the parliamentary committee, there is a suggestion that the committee can go and get a consultant to find out some of its information to then feed back into the system. Why is not this happening beforehand to make judgements about whether we should actually regulate a route or not? We have had a very changing landscape out there in the past three or four years—a massively changing landscape.

The interaction with the resources sector is complex and different in all those different locations. We even have new gas, INPEX and others, coming on in the north where they are going to have an impact on our sectors. Yet we do not have the basic information that we probably need in order to make an informed decision about what you do with those routes. Why are we in that situation?

Mr BEYER: Can I just respond to that. I think we are in that situation because we, as all public servants and all government departments, have to make the call as to where we put our resources. We are working on a policy from the previous government, through the state aviation strategy, which says that, firstly, there are some markets out there that are very, very thin. As Peter mentioned, we are serving places with 3,000 or 4,000 people. I think, Peter, the north east Goldfields has had a 30% reduction or more in airline numbers, so it has really pulled it down to a low number.

So we are saying, we have to protect certain markets in terms of providing minimum levels of service and then controlling the price. We have stepped in and dealt with changing circumstances with Exmouth and Onslow. Exmouth used to be contestable between Virgin and Qantas. I think Virgin lost one or two of its contracts. It has become a single airline operation, so we then deal with a different version of regulation where we are saying, “You will be a monopoly operator but we expect certain information from you.” We are not giving a monopoly a five-year contract.

If someone else can come in and do a better deal than Qantas for Exmouth, then we would look at that. It is not restricted to five years. It is another level. I guess for the rest of the marketplace we are simply saying, as we were when we put the strategy together, that there is high demand. We have places like Karratha with 500,000 people a year going through, and other airports with 350,000. They are fairly big volume airports with high FIFO and business requirements and they dominate the patronage on the aircraft. We are saying that the market is best placed to work that out.

I guess the work done by the Pilbara Regional Council last year spotlighted that some anomalies are going on there, in part because of the requirements of the airlines to provide certain levels of service and certain types of service with jets, and at a time when there have been major drops in patronage. I guess that obviously led to the inquiry and is putting a spotlight on the fact that there are some of those anomalies out there.

What our response might be and what the committee’s response might be is that there is a range of ways of dealing with that one. But it is an area that we have not needed or wanted to give the focus to because we started with a presumption that the marketplace will be contestable. Where we did respond to the Pilbara Regional Council’s spotlight last year, we did some of our own homework, with the airlines, and I think we concluded, Peter, that on every day of the week there are airfares available, particularly in the off-peak period, that are significantly lower than the actual either average or maximum airfares. So the choices are there to the travelling public.

The airfare still might be higher than people think it should be. They think, "Hey, I went to Bali last week and I am paying twice as much to get to Newman or back to Perth. What is going on there?" Bali is a wholly different story. But the choices are there for the travelling public if they want to travel off peak. I guess that possibly requires them to do an overnight stay in Perth rather than being able to go back and forth to Perth in one day, but the choices are there. Again, it is just a question of how people want to compare airfares and ask whether it meets their travelling requirements.

Mr D.T. REDMAN: Just by extension, you acknowledged at the start of your presentation a tender that is out now for the Monkey Mia run and also the northern Goldfields. I do not want to talk about the tender so much as the decision to retender that in the context of the changing landscape that has happened at Exmouth, and also the heat that has come out of the resources sector, and also previous decisions, for example, to take Geraldton out of the regulated routes. So we have the experience of what has happened with decisions four or five years ago in a very different economic landscape.

Were there deliberations about whether we should reregulate some routes that have been deregulated in the past, so that first decision? Secondly, is the package of putting regulated routes out rather than just seeing the old packages of the milk run up the west coast to Carnarvon and Monkey Mia, and/or the northern goldfields package, and maybe packaging those with Esperance–Albany and having a bigger perhaps more attractive package to a player that might get a serious footprint? Rex has got only five planes, or whatever it is, that run the two routes. Has that been a deliberation that happened before the retender for these?

Mr BEYER: We have a deed of agreement with Rex for the services to Albany and Esperance. I think they are three year deeds.

Mr RYAN: Five.

Mr BEYER: Yes, five year deeds. There is nothing stopping Rex from submitting a tender for Carnarvon, Monkey Mia or the north east Goldfields. The only restriction in terms of how some airlines might respond is that some of the airstrips take only certain sized aircraft. But we are providing the flexibility in the tender process to come back with a non-conforming tender that says you could do something else but it would require you to reveal that the airstrip would need to be upgraded, so there is nothing restricting that, and likewise with the north east Goldfields we have come through that five-year period and we are going through that renewal of tender. Skippers Aviation have been in the marketplace for quite some time and will likewise I am sure be interested and they will make their own decisions.

Mr D.T. REDMAN: I would not have thought that was a linear relationship. If you have three packaged regulatory routes that get opened up separately, as distinct from putting together one regulated package that cover the whole lot, I would have thought that given there are fixed costs to some of the air services and something has to be in place for managing those routes, that might be more appealable and put some downward pressure on that pricing.

Mr RYAN: There are a couple of points there. In terms of Geraldton, it was previously a regulated air route. It went over 100,000 passengers. It got to about 138,000 or 139,000 going back a couple of years. At over 100,000 passengers you usually can get two operators in and competing, so at that point in time, Geraldton was taken away as a regulated air route. The general view in Geraldton is that they do not want to be a regulated air route. I think some people have said package Geraldton with some of the less attractive routes.

But what people say in Geraldton about that is, "Hang on; we do not want to cross subsidise other routes. If your idea is to put us into a package of routes so that our attractiveness means that they

can offer lower prices on the other routes, we do not want that. We want to maintain the fares that we are getting.” The sale fares for Qantas for Perth–Geraldton are around \$125 to \$149, depending on what period you choose to travel. I suppose what I am trying to say is that there is a range of views and quite different views about the packaging of air routes.

The CHAIR: Where is the feedback from Geraldton that you are referring to coming from? Who is giving you that feedback?

Mr RYAN: That is mainly through the Shire that runs the airport.

Mr HUGHES: Can I also say with packaging, we have discussed certain airports and air routes. Those can be very different in terms of the type of airport, the needs of the users, the route characteristics and so forth. So we are running jets to Geraldton, and that is a high-quality service for such a short route or a relatively low-volume route, and we are running tiny little planes out to the northern goldfields. Trying to package those very disparate context circumstances into one package is likely to result in inefficiencies in operations.

Mr D.T. REDMAN: I was not necessarily thinking of reregulating Geraldton back into it, but a package of the milk run up the west coast with the northern Goldfields and Esperance–Albany may have been an attractive package to a player that is quite different to having individual bidding for individual groups.

Mr BEYER: I think part of the attractiveness of the package to individual airlines is partly around what sort of aircraft they have. Rex runs a single type of aircraft. Skippers runs a range an aircraft, and that suits patronage demands on certain days and so they can respond to busier load days and smaller load days for a very, very thin market out there, and Carnarvon–Monkey Mia has its own unique circumstances as well, particularly with Monkey Mia. There is nothing stopping a Rex from saying they have a fairly small presence in WA compared with a very large presence on the east coast. I think Rex has indicated—I am sure they will come and express their views to you in submissions—that they would probably want to build their presence in WA. That will depend on whether or not they can actually get into some of these towns with smaller airstrips.

I am sure the communities in some parts would love to have Saab 340 aircraft going to their communities rather than smaller 18-seat aircraft. But as much as we have an argument about airfares and comparable airfares across the state, every community hates to go from a jet service down to a 50 seater or a 34 seater, let alone down to a Cessna or something like that. I guess it is the nature of how you serve thin markets and how the market and the airlines can actually respond to the circumstances, but also provide reasonable price certainty.

The CHAIR: But you would need the information that you have suggested we acquire as a committee to do the analysis to work out how to optimise a packaging proposition.

Mr BEYER: We have the information for the regulated routes, as Peter explained, and we have very detailed information on that because of the deeds of agreement that we have. What we are referring to in the submission where we do not have the level of information that you might otherwise want is really for the competitive routes, which is based on the presumption that you have two big carriers out there that can best position themselves to suit resource companies and the local communities with jet services, and they will provide a range of fares off peak and during the peak seasonality and things like that. That is our starting point to say that the market is best placed to respond to that and the community can put their own pressure on the marketplace, and parts of government as well.

Mr D.T. REDMAN: Was there a deliberative decision about the notion of having a different packaging arrangement than what there is now before this tender went out?

Mr BEYER: No. It is a timing issue in terms of the rollover of contracts.

Mr D.T. REDMAN: Obviously the timing of the contracts did not match, so therefore it was just done.

Mr HUGHES: No; let me explain it. When those routes were tendered in 2015, all of the routes were available for the regulated routes at the same time. A decision was made to not include Exmouth in that package, mainly because, without going through specific information, Exmouth is a fundamentally different route. It operates jets for largely a tourism sector, and it is split with business. So a decision was made not to package Exmouth in that. At the same time, the people in Carnarvon did not particularly want to package Monkey Mia with that route because that becomes a milk run and they want a direct service. They want jets. They wanted Qantas. So depending on how that gets packaged up, that might produce attractive results for some sector and unattractive results for the other sector in terms of either the users or the providers.

So in 2015, all the routes were tendered at the same time. But because of the tender process, the results were that the Albany–Esperance route was to be serviced by Rex, and the other northern goldfields, Carnarvon, Monkey Mia routes would be serviced by Skippers for a two-year period. We are now at the end of that two-year period so we are retendering the northern Goldfields, Carnarvon and Monkey Mia routes. At that stage, there was the opportunity of packaging routes. For an airline, there is still the opportunity of packaging routes. If they were successful on the Carnarvon and Monkey Mia service, they could easily package an Exmouth service, or further north.

If they wanted to run a milk run service, as the Pilbara region would like—the Pilbara region would like a service that is Port Hedland, Karratha, Newman and perhaps Paraburdoo—that is available for a commercial operator to operate. There could be a milk run service that is commercially available at the moment because we are not restricting the market from providing that service, and if they want to use the Carnarvon–Monkey Mia regulated group as the basis of that, then that is a commercial decision that they can make during the tender process.

Mr S.K. L'ESTRANGE: The answers with regard to the lack of data and with regard to whether airfares are over or under price seems to be premised around market forces—supply and demand. Has there been any effort from the Department of Transport to look at this with other agencies from an Infrastructure Western Australia perspective, and that is agencies or departments such as planning, state development and mines—which predominantly looks after itself in the north, as you know—health and regional development? Is there any attempt to get together with these other agencies to try to look at the infrastructure requirements for air routes for these regional centres?

Mr HUGHES: We have had several discussions on a range of issues, which are very relevant to that question. We have had engagement with what was the Department of Mines and Petroleum regarding new airstrips, which are for individual mines. There has been some concern amongst the regional airports that new mines were opening up, running jets into those mines and therefore not being able to contribute to provision of community services. We now have an agreement, or the Department of Mines and Petroleum at that time changed its approval processes so that that was a more open, collaborative information, if you like, so that they were not just approving mine sites in isolation and considering other factors.

In terms of the infrastructure, infrastructure is a very interesting issue and we have described how the setting of airport fees is the tension between a community service and a commercial operation, but, at the same time, we are currently in the process of developing an infrastructure management framework for airports so that they can do quality assessment as to their infrastructure requirements for the long term. It is an issue which exists around Australia because airports around Australia are mostly in regional areas and not commercially viable. We have been working closely with the AAA—Australian Airports Association—and they support our move in this area to have

quality asset management because that will help identify the best use of the resources and the appropriate pricing of the asset infrastructure.

Mr S.K. L'ESTRANGE: I suppose where I am going in the context is that I am using infrastructure widely here. I am talking about the air routes themselves, not necessarily the bricks and mortar of the airports. What I am suggesting is has there been any collaboration between different departments and agencies both on the needs of regional centres to be better connected to Perth, for example, for health purposes or for economic purposes?

Mr HUGHES: We have continuing engagement most closely with the department of tourism and we collaborate with the department of tourism and then the Department of Regional Development on the tender of the air routes in order to understand and include and respond positively to the different needs of different sectors in the market. There is one group that we are not so closely involved with and that is the health department. We have had engagement with the Health Department on the services they require as well. I do not know whether you want to comment, Peter, on any of those individual types of collaborations that we have had with all of those agencies.

Mr RYAN: I suppose the one case example we put in our submission was in respect of Onslow, which was very specific to airfares. There was concern in the Onslow community about the high price of airfares, and Chevron equally had concern about the high price of airfares, so as part of their process of tendering for air services post-construction, so in the operation phase, they did place a requirement on the airline to have a specified lower fare of \$299, and that will be a fixed fare ongoing. So that is there now and that process has been a facilitated process between the Department of State Development, the Department of Transport, Chevron and the Shire of Ashburton. I suppose that is an example whereby there is a guaranteed price now for the people travelling in and out of Onslow who are residents up there.

Mr BEYER: I was going to ask Brett if he could perhaps just comment on the process we used to develop the state aviation strategy, which culminated in a cabinet decision. It was engaging across the sector and public and private as well as within government.

Mr HUGHES: You will see in the introduction to the State Aviation Strategy that that was a very strong collaborative process with the commercial sector and with all of the interest groups. The main interest groups are the commercial airlines, the airports and the different types of users. We have had a very strong engagement with the Chamber of Minerals and Energy where they engaged across their stakeholder group to provide the estimates of the future and include air demand in a way that had not been done before.

I think we are fairly comfortable with the level of engagement and an understanding across all of the different sectors and an understanding that there is a tension that might be a conflict; it might be a freedom for all of these different players to have their voice and act in their own ways because we do not want to unnecessarily interfere, as we talked about. There has been a strong collaboration and we continue that dialogue. As part of that, we did collect a significant amount of information as part of the State Aviation Strategy and the review of regulated air routes, which occurred subsequently, including surveys that we did on the routes to understand levels of patronage and type of patronage and so forth. But I want to comment about data as well.

I think we are comfortable with the level of information that we have that is not always data related but it is information related from the stakeholders that we talk to. I think the difference for the committee is if the committee would like to delve into the details as to what is driving some of these factors, then that is a level of information that the committee might like to achieve for its own understanding as opposed to the less data-driven needs that we might have at this point in time

that we have seen to be necessary. What I am saying is the committee might decide that the level of data it needs for its deliberations are at a greater level than what we have needed in order to —

The CHAIR: Develop policy and design a framework. We come back to the sort of first principles of the State Aviation Strategy, and your submission is pretty clear saying that its objectives are to ensure an adequate level of RPT services, foster competition and reduce airfares. We are initiating an inquiry designed to look at that, but it is your job to actually do that and you are saying we should have a higher level of information available to us than you do in order to actually do this on a day-to-day basis.

Mr HUGHES: As a researcher, I would love more data and I would love to do more research. But there is only a certain level which you decide to do for a whole range of respects, including resources and timing, the quality of data and the management of data. You might be interested in the ABC Fact Check that they did when somebody said that it is cheaper to fly to Europe than it is to fly from Alice Springs to Adelaide. They found that that was largely true. However, that statement by a casual observer noted that the data was complex; it was only a snapshot, it changes over time and therefore it is not a simple case of just collecting information and then making a decision on that when the data changes, the context changes or the circumstances change, for instance, with things like Virgin pulling out of the Albany and Esperance routes two years ago.

The CHAIR: But your department has a budget of \$77 million and a whole series of analysts and presumably a responsibility on an ongoing basis to provide advice in this policy area.

Mr BEYER: Chair, look, you are correct. As market circumstances change when you have a material reduction in the number of people flying and a lot to do with the state economy, yes, policy has to respond to changing markets. Where a few years ago we concluded that we were only going to have a handful of routes that were very thin markets that required a clear regulated response from government or a monopoly response like Onslow and Exmouth, we may conclude and you may conclude that there is actually a role for a stronger government level of intervention in here.

Can I just perhaps clarify that point about the objectives of the state aviation strategy, because I think your focus is about competition leading to cheaper airfares? The precise wording is, as you have read —

foster competition on RPT routes, where possible, potentially leading to reduced airfares, more frequent services and greater choice ...

The CHAIR: Hits the nail on the head does it not, potentially?

Mr BEYER: And there is a tension with all of those ones there. You might find that you actually can reduce cost of air services by reducing your frequency and so people get a better fare but they do not get the choice; they are only down to three days a week rather than five. There are a number of factors at play here. Can I clarify that from our point of view we are not adverse about collecting and utilising the licensing powers under the *Transport Co-ordination Act* to collect more information if that is both desirable and if that is the best way to go ahead. I think, given the information we have provided in our submission and what we are discussing today, it is probably a good line of inquiry for the committee to explore with the airlines to say if you are able to deliver a significantly better deal for people of Onslow and Exmouth through a single operator route, and through a negotiated process with the community and bringing the big resource companies into that discussion to say how do they get a deal but also the community gets a deal, then why can we not get a similar deal for some of the other routes into the Pilbara.

That might be an inquiry you push with the airlines and they will come back with their reasons why you cannot achieve that or yes, we will explore that. As I say, within all of that, more information,

more transparency using our licensing powers may be one way of dealing with that one, but, equally, some of that line of inquiry with the airlines and the community may well explore other ways that you can achieve the same thing.

The CHAIR: Sure. Stephen, do you have a burning question or can Terry ask his?

Mr D.T. REDMAN: Mine is burning hot! I think you have touched on it. You talk about the interaction with the resource sector, which is a really important player in Western Australia. I am assuming that you carry authority and therefore licensing requirements over airstrips and airports —

Mr HUGHES: No.

Mr D.T. REDMAN: So the circumstances with a specific strip south of Karratha—Cape Preston is the development there, the processing facility. They have a strip that is 60 or 70 kilometres from Karratha. Someone signed off under the State Agreement, presumably—maybe that is why. So you interact with the Department of State Development on state agreements because there is an interaction here. The word on the ground is that Civic is considering whether there are other companies there that are able to land there and help them with their base cost, which totally goes against what Karratha is trying to achieve in setting up its activity base there. That is my first question: what controls do you have over that?

If none, what are you discussing with State Development in order to have an influence over what I would see as a negative decision supporting regional airfares and traffic, and therefore pricing? That is the first one, and the other one that is in play with the resources sector is INPEX out of Broome and the fact that they have to land the plane in Broome, I think, and then take a helicopter up to Djarindjin to then go out to the platforms. If in the decisions of government they make the call that they can put their jets down at Djarindjin rather than Broome, it will be a significant reduction in the backbone airfares of the resources sector in Broome, and that will be a big play, I would have thought, on the Broome area's commerciality and, therefore, other tourist and local traffic that run on the back of that.

I guess there are two examples in play where government probably could have a role, even if it is through state development and state agreements—not so much the Broome decision—but they do impact traffic and pricing and our public too.

Mr BEYER: Peter might want to comment on the licensing requirements for closed-charter operations compared with RPT.

Mr RYAN: I hear exactly what you are saying about that new mining airstrip about 70 or 80 kilometres out from the Karratha airstrip. Certainly the City of Karratha is very concerned that that takes away passengers and throughput from their airport and will have a negative economic impact on their airport for that reason so that is clear. Outside of state agreements, the process of how they get approved is that the mining company will apply to the department of mines to have a mine, and as part of that mine application they will have an application for an airstrip at the mine. What it comes down to for the mining companies is really just a simple decision: is it cheaper for us to fly into Karratha or to fly directly to a mine site airstrip?

I suppose it is open to the state whether the state wants to dictate in that circumstance again, intervene and say—at the moment the current position is the mining company essentially, not entirely, makes that decision around do they want a mine site airstrip or do they want to go through one of the existing local government-owned airports. The state could intervene into that process and have a more regulatory role there if it chose to.

Mr D.T. REDMAN: So that decision has been made and the airport is there and they are using it for their construction and production?

Mr RYAN: That was actually made some years ago, that approval.

Mr D.T. REDMAN: But the notion of then having third parties using their airport —

Mr RYAN: They are allowed to do that.

Mr D.T. REDMAN: Straight out: if the strip is there, they can do it.

Mr RYAN: Yes.

Mr D.T. REDMAN: There is no state authority over that?

Mr RYAN: No. One example where there are state approvals required—I think we have had Qube looking at trying to set up a transport logistics hub on Koolan Island and things like that. There are state approvals required for that. We have had engagement with state development on that. The general view of the state is that is bad news for the state because we want to see those passengers going through an existing town airport as opposed to just an island off the coast of the Pilbara. The position when we have engaged with the Department of State Development, our shared position on that is that the approvals necessary for the state in that case should not be given because of the negative aspect that that has —

Mr S.K. L'ESTRANGE: But this is essentially a logistics decision of that company, which I believe should be kept separate to the Department of Transport's need to look at the regional requirements of the airfares throughout Western Australia. What we have is a unique situation in which this company has gone and built an airstrip 70 kilometres from a town or a city. If that particular mine was 400 kilometres from the town, it would not be an issue, so I do not want the—I would want to see the Department of Transport looking for market forces of another industry to try to solve its transport problems for a regional centre.

What I am interested in is this: is there a holistic look at the regional centres, full stop, and the infrastructure, air route and airline requirements in and around objectives of government or Infrastructure Western Australia or whatever. We need to look at what are the needs of developing Geraldton, what are the needs of developing Albany or other centres like Kununurra et cetera, and what is the economic impact of not having a holistic look at the data and trying to work out the best way of getting the air routes in and out of Perth.

Mr BEYER: On the point about Cape Preston, under the *Transport Co-ordination Act*, the government licences aircraft for aircraft operations, RPT and charter. I am not aware of the specific details within that in relation to controls over closed charters. I cannot imagine that with Cape Preston, if they actually had jet services running into their airstrip and they had some spare seats, that they would offer them to somebody else. I think they are probably more likely to say how can we get more aircraft landing on that site and servicing other business companies.

Peter, I am not sure if you know the answer to whether or not we can control a closed-charter licence for another company flying into Cape Preston.

Mr RYAN: I would have to take that on notice and get some advice.

Mr BEYER: Can we take that on notice and provide advice back to you on if the government were to want to control where closed-charter operations are flying to—I am not saying we want to control Cape Preston, we are talking about third-party operations—is there provision under the *Transport Co-ordination Act* to do that.

Mr HUGHES: Can I also say when we have been talking with the previous Department of State Development about individual state agreements in the resources industry in general, and with the Chamber of Minerals and Energy and with the charter clients who operate services for the resource industry, they appreciate the needs of the local community, but at the same time they strongly tell

us that they do not want unnecessary restrictions on charter flights because it runs a risk to the efficient operation of the mines.

There is an interesting balance there to the extent that you would think that a mine site operating 50 to 60 kilometres outside a major town would be an appropriate use of bus services and so forth until you find that there is a creek in the middle and that creek can flood during the wet season and then they cannot get their workforce in and out. For reliability, they are willing to pay for a whole airstrip, sealed, for 737s.

Mr S.K. L'ESTRANGE: I certainly do not want the Cape Preston example to be a red herring to this inquiry. The focus of this inquiry is regional airfares, mainly in and out of Perth, and so really we should be looking at Karratha as Karratha to Perth and not worrying about what is happening at Cape Preston.

Mr BEYER: You do not want to dilute Karratha because of Cape Preston.

Mr S.K. L'ESTRANGE: I am saying that if Cape Preston did not exist, there would not be an airstrip there. Therefore, think of it in that context and then look at the airfares in that context.

Mr RYAN: That debate did occur during the state aviation strategy: should the state intervene and say mines within a certain distance of major RPT airports should be restricted. That debate did occur. Strong views were put by local council and there were strong views put by the mining companies. In the end, the state, while noting the issue, decided not to intervene in that particular case. There has been a different view taken with regard to that specific issue on Koolan Island.

Mr D.T. REDMAN: No-one would accept an airport being built 70 kilometres from Perth Airport; they would not wear it at all.

Mr S.J. PRICE: My question was more in regards to the state aviation strategy. A significant amount of it is referenced back to the information provided by the CME [Chamber of Minerals and Energy] about future forecasts within the industry. It was conducted during 2013–14 and came out during 2015, I think, and it has a five-year review on it. It appears that a lot of the predictions by CME would be inaccurate to what we have seen happening within the industry. The strategy and the policies you are developing are based on that information. Is there any review mechanism prior to that five-year review to have a look at —

Mr BEYER: The CME is in the process of going through their next state growth outlook, which will actually survey those same numbers again in more detail, and they are certainly wanting to delve a lot into the transport and the infrastructure side of things as well in a bit more detail. We are working with them on a number of different aspects, but the aviation one has always been a core product coming out of that one. That will reveal some interesting information.

A lot of that is really about predictions they could have around how the resource companies transition from the construction phase, which is a very heavy workload, through to more of an operational phase. As that information becomes available—they have the best holistic perspective and access to all the resource companies. That is probably the best source of information we would have.

Mr HUGHES: Absolutely. One of the issues with the resource companies is because of commercial confidentiality they will not release any information about future workforces and therefore airport patronage. It was very useful for the CME to engage an external consultant to do it anonymously, so even the CME does not know specifically what the aircraft or the aviation demands are. In the last week or two I went back to the CME 2012 estimates. They were not entirely accurate but they did forecast a downturn in the aviation patronage for their users. They probably did not estimate that the downturn would be quite as much as it was and they were probably a couple of years out,

but there was certainly a flattening and a decline, which for 2012 was a much better guess than most of the economists and the other commentators we have had on the resource industry and the economy in general.

The CHAIR: Can I ask, just sort of slightly changing the topic but not too far, did you look to other jurisdictions in terms of what they do? Obviously, Queensland is a very active resource centre and with regional routes. Do you have a look at what is going on in other jurisdictions and how they deal with these issues, and what do you observe as particularly good practice that we could potentially learn from?

Mr HUGHES: Can I just give you the high-level version. A couple of years ago, we took the initiative to engage with all of the other jurisdictions in a collaborative forum. We actually arranged that by video conference, so we did not spend the money on the airfares to go to the other states. We got quite a lot out of that, which was quite interesting. For example, Victoria is not interested in aviation as an operation. They are interested in aviation as a business. The government activity in aviation is about skills development and economic development of aviation-related industries.

Tasmania is not interested in aviation except from a tourism perspective and they do not deal with the same sorts of issues that we do. South Australia has some similar interests and very little activity. They are just not putting any resources into investigating developing policy, addressing the infrastructure issues or the airfares issues. The ABC example is a highlight. They have a Coober Pedy example, which is another highlight, and the government has almost no involvement in that activity.

The closest example, as you rightly identified, is Queensland, which is very active. We have had ongoing dialogue with Queensland. Queensland is very interesting from the perspective that the major policy difference is they have put a lot of effort into subsidising a lot of their regional air routes. We do not have clear information about how much it costs them to do that, but they have indicated that it is a lot of money compared with the amount of money that we are saving or limiting in terms of government expenditure for subsidised air routes. I do not know whether Peter wanted to comment on any other detail, but that is a snapshot that we do engage across the country, and more than other agencies as well, we also engage with the commonwealth.

We have been active with the Bureau of Infrastructure, Transport and Regional Economics on their models and their airfares, patronage information and so forth. Their focus is on the high-volume routes, their Cairns and Karrathas and those sorts of routes, as opposed to the small routes that they do not have any activity in investigating.

The CHAIR: But jurisdiction over?

Mr HUGHES: Sorry?

The CHAIR: The commonwealth.

Mr HUGHES: The Bureau of Infrastructure, Transport and Regional Economics is the research and data-gathering part of the Department of Infrastructure and Regional Development—DIRD. They do not have any regulatory oversight. They are an informational organisation.

Mr BEYER: Section 6.2 of our submission also talks about airport taxes and fees and charges. There is a bit of an interstate comparison. Clearly, Queensland or New South Wales, some of the local councils, choose to essentially cross-subsidise their airport costs. WA's model prevailing largely is that they are operating as a separate business unit. The airport landing charges and airport taxes and charges are quite a significant impost. Peter, are they about 50% of Rex's fares for the community airfare?

Mr RYAN: Yes, community airfare.

The CHAIR: What about security screening as well? Some security screening obligations have been put on some pretty small airports and that presumably has an impact. Would you care to comment on that at all?

Mr HUGHES: Sure. The security screening requirements kick in at the moment at 20,000 kilograms of aircraft weight for an aircraft. So, for instance, the Virgin flights to Albany were required to have security screening, and the Rex flights do not. The way the security screening works is the commonwealth requires security screening to occur under certain circumstances, so it is 20,000 kilograms. The commonwealth initially paid for the infrastructure for security screening in the airports but the airports are responsible for the ongoing operational cost and there is therefore a cost that is included on the airfares, which is paid by the passenger. It is all bundled up when the passenger pays for the fare as opposed to rolling up at an airport and having to pay another security screening charge.

The CHAIR: So the commonwealth imposes an ongoing operational requirement but then contributes absolutely nothing towards the ongoing operational costs associated with that requirement.

Mr HUGHES: That is correct.

The CHAIR: Just a quick question as well. Do any of the airline flying routes in WA receive payments from the Federal Government's Airservices Australia Enroute Charges Payment Scheme—just while we are on commonwealth topics—or do you want to take that on notice?

Mr BEYER: Yes, I do not know that scheme.

The CHAIR: Is there anything that you would see happening at a commonwealth government level that could potentially reduce costs?

Mr BEYER: Chair, there is one example where the commonwealth does contribute to a subsidy and that is the Halls Creek–Kununurra service. Do you want to explain that one, Peter?

Mr RYAN: Yes, so the commonwealth has what they call RASS services, which operate to Aboriginal communities. Basically, it provides both passenger and mail-type services. We have worked jointly with the commonwealth to co-fund the subsidised Halls Creek–Kununurra service. Actually, Steve might have an important point. Just coming back to Sean's statement, we are actually doing a consultant review, Sean, just to look at what role aviation can play in the development of regional WA. That looks across all the RPT airports. It is trying to take a strategic snapshot of what is going on across regional WA in terms of aviation, so we are doing work in that space.

Just coming back to your question around other states, I suppose it goes back to your original line of questioning. I think the focus of government has been maintaining air services into regional ports, and I think that has been true across Australia. The New South Wales inquiry took place about five years ago, a parliamentary inquiry, because small regional communities were losing their air service, as Derby did in recent times in WA.

I think that Queensland, in terms of the work that they do up there, have put a significant subsidy, as Brett indicated, into small regional routes to maintain those air routes. That has been the focus of government. The focus of government has not been quite so much in the prices space historically. It is obviously, as Steve indicated, open to government to move into that space to try to perhaps have transparency. Transparency is one thing; getting prices to move down is another thing.

Mr D.T. REDMAN: On the interaction with the resources sector, there are obviously particular decisions and particular sites where there is a construction or labour-type fee that is going to have an impact. If you were to take away the resources sector out of Western Australia, there are a whole

heap of groups that would shut, so you are inextricably linked to the resources sector in terms of those decisions. What is the engagement front with the sector, either privately or through state development or through other government agencies like mines and petroleum, to sort of ensure that we are strategic about that interaction as it applies to the air routes in regional WA?

Mr RYAN: You are absolutely correct. Take away the mining industry and a lot of the routes would not exist in WA. In terms of the smaller marginal air routes, in the northern Goldfields, for example, the mining companies sit on the community consultation group. We are aware of what issues are going on for them, what changes in the marketplace are going on for them and what impact that may have to the route. I suppose one aspect of engagement with them is to have them at our stakeholder forums and hear their understanding of the market and what is happening in that market. The second thing the state does through its charter policy is that, in certain circumstances, it requires the placement of a condition on the airline that operates charter services for the mining company to purchase seats on the RPT in order to sustain the RPT. There are only small examples of that occurring, but we do, in certain circumstances, require that to occur.

Where you have a small RPT operating into, say, Wiluna, and a mining company has got a significant charter operation operating at a similar time to the RPT, we say and the community says, "Hang on, this charter service is undermining the RPT." So the state government, through its charter policy, as referenced in the review of regulated air routes, does play an interventionist role in requiring the airline operating the charter service to purchase seats on the RPT service in order to help sustain the RPT service.

Mr D.T. REDMAN: Because the state makes an investment in strips, maintenance and activity of all the ports, which is a give from the state. Therefore, the resource companies are getting the benefit from that. To me, in some cases, there is probably not enough tension in that market to ensure that with the high level of activity that happens in the resources sector, that in fact some of these thin market issues are emerging, when in fact there might be innovative strategies to navigate through it in that discussion with the resource sector.

Mr BEYER: Our RADS investments are a fairly modest investment in some smaller strips. Some of the bigger airstrips or airports mostly run on very much a commercial operation. Occasionally, there is a case for a strategic investment, but that is a matter that gets discussed across government and reported and that requires a cabinet decision on that one. I think the point you are making about what is the level of engagement that we have and how do we keep real-time information, as Peter mentioned, there are some good examples of those community consultative forums in regional WA, but community consultative forums do not exist everywhere.

I think, again, there is probably an area for that where you said examples of the Onslows, the Exmouths and Broome, for instance, where there is a fairly active dialogue between the airlines, local government, development commissions and other players out there. I think it is possibly a model that might be encouraged. An equivalent one we have with the *Port Authorities Act* for the ports. They basically have a central presence in town. They are required to have community consultative forums as a condition of legislation. We obviously do not have that as a condition here. As good practice, I would have thought, particularly at a time when there is a lot of exposure to airfares and trying to maintain some reasonable level of service to those communities, that the CCG model is probably a good one to have in place.

Mr HUGHES: I think the concept of the government taking a more active role in planning and management of the whole network is an interesting concept. As a transport planner, I used to work with Main Roads and I worked with the railways, but Main Roads and the railways have a much greater level of control than we have with the air services because of the airstrips, the airports and

the air traffic control and so forth. Without saying that we cannot do anything, the limited control does make it more difficult, but, at the same time, it is likely, perhaps, to produce some really difficult results to deal with.

Most of the players we talk to have, at different times, thought about the concept of the state being involved in network management and most of them seem to want us to do it where it benefits them. The likely outcome would be that it would benefit some and not benefit others, and then we still end up playing Solomon, which is fine because that is our job, but, at the same time, we have already described the complexity of the market. I will give you this example. Qantas is flying now from London to Perth and they have an additional ticket availability which is a £75 ticket, is it not?

Mr BEYER: No, I think it is a £35 ticket to Exmouth.

Mr HUGHES: That is a great advantage to the tourism industry that they can do that for their own operational and commercial benefits and because they control that route.

Mr BEYER: Basically they have to live in London or the UK to get access to it. You cannot get it from here.

Mr S.J. PRICE: It costs twice as much to get back though.

Mr HUGHES: We are talking networking control perspective on that route. What would we say about that? Would we be packaging up, as Terry rightly offered, the possibility with the Carnarvon, Monkey Mia and the northern goldfields routes or a Geraldton route, only to find out that the operator cannot provide that because they are not Qantas and therefore we might be interfering in a market? Here we have a fantastic result for tourism for Exmouth on the back of the new service. It is very, very complex.

The CHAIR: We are going to have to draw this to a close because we will get firmly thrashed if we are not across the road in 10 minutes! Thank you very much for your evidence today and I would like to proceed to close the hearing. 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.

I will just also say we would like to be able to send you some questions on notice. We may invite you back once we have done the rounds, and there are a couple of documents that we would not mind requesting from you. New material, however, cannot be added to your corrections to your transcript 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 again very much.

Hearing concluded at 11.52 am
